Korean Cable Laying Ship for the CEGB

Attached is the first draft of the statement that John Moore is intending to make on Monday after Kenneth Baker's statement on the liberalisation of BT.

As I mentioned this afternoon, the Opposition have made a formal request for this statement. I suggested to the Lord President's Office this morning that we should simply refuse this and let the matter come out in the Consolidated Fund Bill debate when it will be raised by Don Dixon. The Lord President felt, however, that a statement would be useful since:-

- (a) it would help him to refuse the Opposition's other requests for statements on Arms Sales to Argentina and the participation of British Banks in loans to Argentina;
- (b) it would help if the debate could be preceded by a statement in which the Government could set out its own case in its own terms;
- (c) there would be a row if we argued that the matter could be adequately dealt with in the debate when it will not be reached until the early hours of the morning.

He spoke to Nigel Lawson who reluctantly agreed that John Moore should make a statement.

As you will see from the attached, we have good arguments for saying that the Korean tender was by far and away the best on price and delivery. The nearest tender, from Harland and Wolff (which was for a conversion, not a new ship) cost about £4.5m more than the Korean bid of £9.3m, and had no guaranteed delivery date.
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There is something to be said for putting our case in a statement, but if you have doubts you might raise them with the Lord President at your Monday morning meeting.

WH

4 February, 1983.



DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

01-211 3932

Willie Rickett Esq
Private Secretary to the
Prime Minister
No 10 Downing Street
London

4 February 1983

Dear Willie

The Lord President of the Council has proposed that a statement be made on Monday 7th February, concerning the charter by CEGB of a cable-laying vessel. A draft of the statement to be made by Mr Moore is attached.

It emerged earlier this week that in connection with the cross-channel electricity link the CEGB are chartering (not buying) a cable-laying vessel, from International Transport Management (ITM) of Middlesborough. ITM are buying the vessel from Hyundai of Korea. I attach a summary of the bids.

The Board did not consult us before placing this order; Mr Lawson is taking this up with Sir Walter Marshall. We understand that the Board sent written confirmation to ITM immediately following their decision on 31 January, and that a firm contract exists between the Board and ITM.

The Chairman of British Shipbuilders wrote to Sir Walter Marshall on 14 January to seek a meeting about this order. The Board replied on 25 January that, as tenders were currently being assessed, a discussion would be difficult.

I am copying this letter to David Heyhoe, Murdo Maclean, Michael Pownall, Bernard Ingham, John Atty, John Rhodes, Brian Fall, and John Gieve.

Yours ever
Michael

M SEENEY
Private Secretary

DRAFT STATEMENT TO BE MADE BY JOHN MOORE MP, PARLIAMENTARY UNDER SECRETARY OF STATE
FOR ENERGY, ON MONDAY 7 FEBRUARY

In connection with the 2000 MW Cross Channel Electricity Cable project the CEGB sought competitive tenders from a number of British shipping firms for the hire of a vessel to lay the cables between England and France. The lowest tender was submitted by a British firm, International Transport Management of Middlesborough from which the vessel will be chartered. I would emphasise that the cable laying barge will not be purchased or owned by the CEGB, but by the British firm concerned.

I understand that when the Board first invited tenders some months ago, it became apparent that any shipbuilding work that might arise would be likely to go overseas. The Board accordingly asked the firms concerned to retender, expressing a clear preference - other things being equal - for vessels supplied by UK shipyards. In the retenders it became apparent that tenders to hire vessels based on ships supplied from UK shipyards were still not competitive. The successful tender from ITM proved to be lower than any of the other bids by more than 50%. In view of the substantial margin the Board accepted the lowest bid.

The Government does of course provide financial assistance to enable UK shipbuilding firms to gain orders, but there will always be some cases where, despite this, orders go overseas. Detailed questions on the industry, including possible assistance from the Intervention Fund are, of course matters for my RHF the Secretary of State for Industry and for his Department.

PRIME MINISTER

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Future of Pt 6

STATEMENTS ON TELECOMMUNICATIONS REGULATION AND CEGB VESSEL CHARTER

The House was fairly empty for both these statements.

Telecommunications

Stan Orme attempted to manufacture outrage on the grounds that Mr. Baker's statement directly affected Clause 3 of the Telecommunications Bill which the Standing Committee were still discussing. He called for the Bill to be suspended to allow time for discussion of the report and the Minister's statement. He said that the decision to allow competition on the prime instrument would put jobs in BT at risk, and would promote a flood of imports. He concluded that "Professor Walters' sticky fingers were all over this document". Opposition Members followed up the same theme, but also called for an assurance that rural services would not be put at risk.

Kenneth Baker had no trouble in dealing with Questions. He pointed out that the Government had always promised to publish the Littlechild Report, and that Mr. Orme had himself demanded its publication last week. There had been 80 hours of debate in Committee; the Opposition had made filibustering speeches of five hours in length; there were another 20 groups of amendments to be taken on Clause 3; and it was right that the Committee should continue to meet to discuss the Bill. The decision to allow competition on the prime instrument would extend consumer choice, and there was no evidence that it would lead to a flood of imports. It was a nonsense to say that only a public monopoly should be allowed to supply these instruments: why should the privilege of competing for jobs not be extended to the private sector? There was

/ an obligation

an obligation on British Telecom to provide telephony and telecommunications services. The access fees that BT would be able to charge competing public networks should generate enough revenue for BT to provide emergency, call box, and rural services. He felt Professor Littlechild was right to concentrate on price reductions since this was the area in which BT's monopoly power was felt most keenly by the public. The cuts in trunk rates made by BT showed the benefits of opening up the Corporation to competition.

CEGB Charter

John Moore had a slightly more difficult time. John Cunningham said that the shipbuilding industry was facing severe recession, and it was astonishing that a public Board had used public money to finance work in a Korean yard. He asserted that British Shipbuilders had not been given a chance to submit a detailed tender; that there had been no consultation with the Department of Industry; and that the CEGB were simply paying to the broker a sum equivalent to the capital cost of building a ship. He suggested that the French utilities involved in laying the cross-channel link had ensured that their cable-laying work had gone to French yards. The whole episode was a "stab in the back" for British shipyard workers.

John Moore said that there had been contacts with the Department of Industry, the Offshore Supplies Office of the Department of Energy and between the Chairman of British Shipbuilders and the CEGB; the tender had been conducted in the normal manner, and BS had been given full opportunity to make their views known; the CEGB had recognised its obligation to buy British where possible by repeating the tendering process when the first tender had failed to produce a suitable UK bid. He was not responsible for the French

Government's policy, but he understood that their utilities were chartering a Norwegian vessel for conversion in Marseilles. He emphasised that the CEGB were chartering, and not buying, this ship; that the cost of the contract was only 4 per cent of the £250 million UK share of the cross-channel cable contract; and that the Opposition should consider the effect on electricity prices of accepting a tender from a UK yard which was 50 per cent higher than the Korean tender. He quoted the MMC report which said that the CEGB generally pursued a buy-British policy where possible, and which reached the conclusion that the Board's "costs could have been lower".

The most difficult moment for Mr. Moore came when Anthony Nelson gave some support to the Opposition by questioning the Government's line on this contract.

7 February 1983



WM
7/2

CEBI

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ
01-211 3932

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

7 February 1983

Dear Willie

My letter of 5 February ^{with WR} enclosed a draft of a statement that Mr Moore is to make to the House this afternoon.

I now attach a final version of the statement which has been drawn up in consultation with other interested departments. It does not differ in tone from the earlier version but has benefitted from a weekend's reflection.

Copies to to Sir Robert Armstrong, David Heyhoe, Murdo Maclean, Michael Pownall, Bernard Ingham, John Atty, John Rhodes, Brian Fall and John Gieve.

Yours ever
Michael

M SEENEY
Private Secretary

CEGB VESSEL CHARTER.

In connection with the 2000 MW Cross Channel Electricity Cable project, the CEGB sought competitive tenders from a number of British shipping firms for the hire of a vessel to lay cables between England and France. The lowest tender was submitted by a British firm, International Transport Management of Middlesbrough from which the vessel will be chartered. I would emphasise that the cable laying barge will not be purchased or owned by the CEGB, but by the British firm concerned.

The CEGB must of course be conscious of its obligations to provide electricity as cheaply as possible. As a nationalised industry it is also conscious of the Government's wish that wherever possible it should buy British.

However, when the CEGB received the first tenders for this project some months ago, the price differences were so great it appeared inevitable that the shipbuilding work would go abroad. The Board, naturally concerned over this, then asked the firms to tender again, and expressed a clear preference - other things being equal - for vessels supplied by UK shipyards.

Regrettably, the second tenders showed such a huge price difference that the Board had no choice but to accept the bid from ITM, involving the construction of a vessel in a Korean yard. Other bids to the CEGB, I understand, were at least 50% higher.

The Government does, of course, provide financial assistance to help UK shipbuilding firms to gain orders, but even with Government assistance the difference in bids would have been unbridgeable. Honourable Members who have repeatedly stressed the importance to industry and consumers of low-cost electricity will understand this decision.

Questions on the shipbuilding industry, including matters relating to assistance from the Shipbuilding Intervention Fund are, of course, matters for my RHF the Secretary of State for Industry.

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Pa. Wh 14/2



British Shipbuilders

197 Knightsbridge, London, SW7 1RB Telephone 01-581 1393 Telex 8814702

Robert Atkinson
Chairman

Prime Minister

I am obtaining the briefing
given to John Moore today,
which should cover

With Compliments

most of these allegations WK



British Shipbuilders

Chairman
Sir Robert Atkinson DSC** RD

197 Knightsbridge
London England SW7 1RB
Telephone: 01 581 1393
Telex: 8814702 BSBLDR G

CONFIDENTIAL

The Rt Hon Patrick Jenkin PC MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London SW1

7 February 1983

Dear Patrick,

CEGB Cable Laying Ship

I note in the press that you are to make a statement in the House today concerning this order. In our view the placing of the order has been rushed through with "indecent" haste and to our exclusion. I am particularly concerned that the Prime Minister who has been consistently helpful to the Corporation did not appear to have been fully briefed regarding this matter when it was raised in the House on Thursday. I give you a few comments in an attempt to be brief.

1. I visited the previous CEGB Chairman in June 1981 to discuss current and future tonnage requirements. This particular ship had obviously not then been envisaged.
2. We recently quoted three contractors for
 - (a) a conversion;
 - (b) new tonnage.

None of these contractors was awarded the contract.

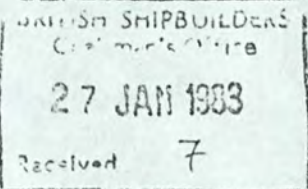
3. A fourth contractor, whose involvement was not known to us, did not send us the inquiry so we did not in fact tender at all for the successful package.
4. As a follow up to paragraph (2) I wrote to the Chairman of the CEGB to ask for an interview. This was declined and I received the enclosed evasive reply dated 25 January signed by a Mr Lomer. As Chairman to Chairman I have never previously been refused an interview nor refused to give one. We are a customer of CEGB to the extent of £11m per year. We are obliged to deal with this monopoly regardless of their competitiveness.
5. We immediately approached the DOI to seek help but, to be fair, the order was rushed through before they had time to act. We had already been in close touch with OSO who were rendering all possible help and guidance.

6. It has been said that this ship is merely part of a larger package and that the CEGB is not the owner. But the specification for the package was the responsibility of the CEGB and a British built ship could have been specified. We have built many successful ships for the CEGB.
7. (i) You will be aware that BS has discharged more than 25% of its employees and closed many facilities in the last few years from
 - (a) 15 shipyards compared with 27 in 1977;
 - (b) 28 building berths compared with 66 in 1977;
 - (c) 2 marine enginebuilding companies compared with 5 in 1977.
- (ii) We are currently involved in discharging another 3,000, and there is now the strong likelihood of a further 6,000 later in the year.
- (iii) We have kept within our cash limits for the last 3 years and during my period of office.
- (iv) You will know that I am now struggling to impose a total pay freeze on the Corporation for 1983; we are pushing ahead with improving productivity by our own design advanced computer systems admitted by IBM to be ahead of the Japanese; we are reducing numbers because of established and historical overmanning; we are reducing numbers by virtue of productivity reductions, and further numbers because of a permanent change in some of our markets.
- (v) You will know that I have advised Mr Norman Lamont that Scott Lithgow is non viable and must be dealt with; that we are about to close Tyne Shiprepair and Grangemouth Dockyard; and to put up for sale those and other non viable shiprepair assets. Additionally Goole shipyard is likely to be phased out.
- (vi) You will know that we may be obliged to mothball Austin & Pickersgill, Sunderland Shipbuilders and Clark Hawthorn unless adequate and suitable orders can be negotiated within the next few months which we consider unlikely.
- (vii) So we claim to be dealing with our problems but yet in low profile as exemplified by our good IR record and an industrial capability to respond to emergency as recently demonstrated.

- (viii) It is paradoxical to suggest that we have to become internationally competitive before we can receive orders. If we do not first receive orders we will merely die. We do not claim to be efficient any more so than are BSC or BL, but we do claim to be doing a lot about it, effectively and in low profile as befits an international trader.
8. You will, I think, agree that we chase even the "whisper" of an order to the far ends of the earth and that our image confirms our enthusiasm and dedication.
 9. How then can we accomplish all those things within a limited timescale and obtain vital orders from owners when a Government owned body places such an order overseas and under these circumstances and with such parliamentary publicity. But I assure you we will not be deterred.
 10. It is known that the Koreans are quoting absurdly low artificial prices unrelated to true costs and that even the Japanese are protesting. Since 60% of any ship is 'bought in' the cost/price gap largely reflects the competitiveness of British Industry and not only that of BS. We consistently argue this point.
 11. The history of this case can be dealt with extensively in detail and chronological sequence. In fact we would welcome an investigation. Should you require verification of facts we will be pleased to co-operate.
 12. I request you initiate action to have this important order reviewed and allow BS to negotiate a contract. It will be extremely damaging to our international marketing efforts if it is seen that not even a publically owned body is prepared to support British industry.
 13. Because of the urgency of the case and because the Prime Minister has been directly involved already I have sent a copy of this letter to the Prime Minister, Mr Nigel Lawson and Mr Norman Tebbit.

*Yours sincerely,
Robert V*

ROBERT ATKINSON



CENTRAL ELECTRICITY GENERATING BOARD

Sudbury House, 15 Newgate Street, London EC1A 7AU. Telephone 01-248 1202
From: D.R. Lomer - Board Member

Sir Robert Atkinson, DSC, RD, Chairman,
British Shipbuilders,
197 Knightsbridge,
London SW7 1RB

25 January 1983

Dear Sir Robert,

Cable Laying Support Vessel

Due to heavy commitments the Chairman has asked me to deal with your letter of 14 January, and he has asked me to thank you for your courtesy in making known the purpose of the meeting you have proposed.

The vessel to which you refer forms one part of the sea operations necessary for the construction of a DC link which will connect the electricity supply systems of EDF and CEGB via submarine cables. The responsibility for this project rests with our Transmission and Technical Services Division at Guildford who, with our marine consultants, are currently assessing the tenders from a number of ship operators for the hire of a suitable vessel into which the DC cables can be coiled and from which the cables will be laid.

I understand these tenders have included purpose built and modified vessels, but in either case the CEGB will not be the owner of the vessel used: this will remain part of the ship operator's fleet or, in the event of him purchasing a new vessel, will be an addition to his fleet.

Our concern is that the successful tenderer provides a vessel which is suitable for the task to be carried out and is competent in what is a difficult sea operation. In addition, his charges must be realistic and he must guarantee to meet a tight programme. As far as we have been able to ascertain, at the present time there is no vessel suitable for the task that has to be performed and therefore either a vessel has to be modified or a new vessel purchased. As already mentioned, we are only interested in the vessel during the hiring period and for the purpose of cable laying.

You will, I am sure, appreciate that as we have received tenders and these are currently under assessment, a discussion with the Chairman on this subject at the present time would be difficult, as also would any discussion with the Director-General of the Transmission and Technical Services Division at Guildford.

Yours sincerely,

D. R. Lomer

ra/rw/0113/4
14 January 1983

Sir Walter Marshall,
Chairman,
Central Electricity Generating Board,
15 Newgate Street,
LONDON EC1.

Cable Laying Support Vessel

Since taking up your appointment I have not had the pleasure of meeting you and I would now like to do so. The purpose of the meeting would be, please, to discuss the prospect of this ship order.

I would like to bring along to the meeting Mr. D.B. Kimber, the Chairman of our large ships sector, one of which yards has tendered for this important business. May I suggest my secretary calls yours to see if they can arrange a convenient date.

ROBERT ATKINSON

ns00 D. Kimber