



SECRET AND PERSONAL

Prime Minister

A brief for E(LM)

MW 12/7

PRIME MINISTER

BRITISH SHIPBUILDERS: 1983 CORPORATE PLAN

Merchant Shipbuilding

This is the crucial area and the one I concentrate on.

1. In terms of direct costs (item 2 in Table A1) BS's 'preferred option' is by far and away the most expensive - £265M against £160M for 'complete closure'. But by the time 'other costs' (item 3 in the Table) are taken into account, the order is reversed: and 'complete closure' which was the cheapest, now becomes the most expensive - £380M against £335M for the 'preferred option'. I am always very sceptical where this sort of thing happens. The 'other costs' consist primarily of unemployment benefit and income tax which would have been paid by the workers who are now redundant. It is all very reminiscent of Mr Foot's £15 billion cost of unemployment: and of the Labour Party/Alliance claim that you can reduce unemployment by 1 or 2 million by spending vast sums of public money.
2. It is very easy to identify certain immediate costs or benefits arising from a particular course of action. But these may not represent the sum total of the costs or benefits which may ultimately emerge. This surely is the lesson we learned both from the analysis of the alleged 'cost of unemployment' and from the simulation using the Treasury model of what would happen if Government expenditure were substantially increased. I suspect that a full analysis has not been done in the present case. Thus BS's 'preferred option' costs £105M more than 'complete closure'. This additional cost would add to the borrowing requirement, would involve additional interest payments and would have repercussive effects on the private sector of the economy. Have all these matters been taken into account? I suspect not. But if they have not, it is seriously misleading to claim - as Table A1 sets out to do - that the 'preferred option' saves £150M by way of reduced payments of benefits and lower tax losses and that as a result while it starts out by being significantly more expensive than 'complete closure' it ends up by being cheaper.
3. Coming to more detailed matters, we really do need to see the productivity record to judge whether the 50 per cent improvement which is the basis of the figures in the paper is remotely achievable. The figure is not credible simply on the ground that it is less than BS proposed.
4. Quite apart from the question of productivity, how have wage costs moved in recent years? Are wage rates high in relation to other industries? Have increases been greater or less? Here as elsewhere in British industry the wage costs is likely to be a major factor in our lack of competitiveness. In the case of both the Atlantic

Conveyor and the Blue Star ships we demanded assurances on this point. How successful have we in fact been? May we not have to squeeze even harder if any of the yards are to survive?

5. Is there any element in BS's costs which represent other Nationalised Industries' losses passed through to BS? Do BS pay more for their steel than their continental or Far East competitors? Is there any element of the losses of the Coal Board being passed through into steel - or electricity - prices and thus contributing to BS's uncompetitiveness?
6. This provokes another question. Do we know - or are we in a position to guess - what is the build-up of costs in the prices quoted by our competitors? And how this compares with our own costs?
7. It would be valuable - indeed essential - to have disaggregated profit and loss figures and other relevant information for each of the yards. We cannot come to a sensible decision on partial closure unless we know what it is we are looking at.
8. One would have thought that the 'crisis aid' needed would be quite different if one concentrated on the best yards (the 'partial closure' option) than if one tried to keep all the yards open (BS's 'preferred option').
9. While it is important to clarify the points I have made above, I believe that in political terms 'partial closure' is about as far as we could go. But this decision needs to be better underpinned than it is at present. Moreover we need to present it not as 'partial closure' or as 'substantial contraction' but as creating a base for a viable industry in the longer term by building on those yards which can show a prospect for the future. If they are to have any prospect, we have to engage the co-operation of the work-force remaining in those yards. This can only be done in the context of a positive attitude by BS's management and a determination to succeed.

The Warship Yards

10. Separate accounting is essential: and I entirely agree with this recommendation.

But how far is the profitability of the warship yards due to what are essentially cost plus contracts? Overtly or covertly, most Ministry of Defence contracts fall into this category.

Are we in a position to compare our warship building costs with those of other people - as we have done with HARM and ALARM? If so has this been done and with what results?

Have there been any fixed price contracts for warships? If so, were the fixed prices adhered to?

Offshore: Repair: Engine building

11. The recommendations on the first two - to close - are undoubtedly right. So far as engine building is concerned, I do not agree that the future is necessarily tied up with the future of the Merchant yards. It may well be that, if the yards or some of them are retained, BS could buy in cheaper and better engines. Has this been fully investigated?

A.E.

COCKFIELD

11 July 1983

17 JUL 1958



condemned