

CONFIDENTIAL

Not ind.
Shipbuilding

Free
A7

1 Mr Young PU
You may like to see the
Ref. No: IN(83) 11

2 Bank to me
→ AT

AT - many
thanks.
PJ
31/10.

BRIEF FOR DEBATE ON
BRITISH SHIPBUILDERS
(BORROWING POWERS) BILL

ON

Tuesday 1st NOVEMBER 1983

<u>CONTENTS</u>	<u>PAGE</u>
THE BILL	1
Background	1
Prospects	1
World Situation	2
Manpower	3
BS Finances	4
British Shipbuilders Act 1983	5
1977 Compensation Terms	5
Labour Policy	5
Appendix A	7-10
Appendix B	11

THE BILL

British Shipbuilders, like all nationalised industries, looks to the Treasury for external finance which it usually receives in the form of loans and public dividend capital. Under the 1977 Aircraft and Shipbuilding Industries Act, which created the corporation, the original limit for this finance was £200 million. This was increased, in stages, to £800 million by July of this year. This Bill will enable the Secretary of State to increase this again, initially to £1000 million and eventually, with the further consent of the Treasury and the House, to £1200 million. The Bill is necessary because of British Shipbuilders' continuing difficulties and the continued deterioration of its markets.

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 1950s and 1960s. In the UK the slide has been especially marked. Our share of the world market fell from nearly 40 per cent in 1926 to 20 per cent in 1956 and just 3 per cent today. 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 £800 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.

The Government has made clear its commitment to the industry, but it has also emphasised that the ultimate size and shape of the industry must depend on its competitiveness. Productivity is still below pre-nationalisation levels, so there is considerable room for improvement.

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 March 1983, 91 million tonnes of shipping were lying idle, up from 55.3 million tonnes nine months earlier. 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 former Chairman of BS, warned before his retirement that the corporation is "fighting for it's life". His successor is Mr Graham Day, one-time head of Harland & Woelf in Belfast. He is now preparing a new corporate plan: British Shipbuilders now faces severe competition in world markets at a time when world shipbuilding capacity is reckoned to be 40 per cent greater than is required.

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. The Navy has recently announced that it will be ordering up to 12 of the new Type 23 frigate, designed by Yarrow, over the next decade at a cost of approximately £100 million each. The first orders are expected next year. In its 1983 Manifesto the Government said it would return parts of BS to the private sector and in July Mr Norman Lamont confirmed that the warship yards, which made a profit of £54.75 million in 1982-3, are indeed the most likely candidate. (Hansard, 28th July 1983, W/A Col. 576-7).

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 bad in all the large yards, particularly Austin Pickersgill (Tyneside), Govan (Clyde) and Smiths Docks (Middlesbrough). Sunderland Shipbuilders has been on strike for a month, and as a result has lost a vital order for a barge conversion for use in the Falklands to Harland and Woolf in Belfast. Three of the small yards, Goole (Humberside), Clelands (Wallsend) and Henry Robb (Leith) will run out of work in about a month's time and face closure, and the loss of approximately 1150 jobs in total, if no more can be found.

Offshore Yards: Charter rates for rigs are declining as a result of the world oil glut and orders are scarce. The troubles of Scott Lithgow on the Clyde have recently received considerable publicity. In 1982-3 losses and provisions on its orders totaled an unprecedented £73 million. This was due largely to late delivery and delays on current work. Sir Robert Atkinson dubbed the workforce "5000 deaf men" and said that no one could remember when the yard had last delivered an order on time. Because of this the current orders are in danger of cancellation. Cammell Laird, the other main offshore yard, recently announced 650 redundancies.

Ship Repairing: The slump in world shipping has hit the ship repair yards hard. They suffered major redundancies last year. This division has now been put up for sale. Redheads, on the Tyne is being bought by its workforce, whom BS had made redundant. Tyne Ship Repair is the object of a proposed management buy-out which could save 850 out of the 1100 jobs involved. However, its workforce has recently voted against this, despite the fact that the alternative would probably be closure.

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
Italy	100	92.3	99.4
UK	29.5	35.8	47.4

(Source: European Parliament Written Answers 1/10/82)

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 Veralme is in a perilous state and 30,000 jobs are at risk.

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

Manpower

BS' workforce has been reduced from 87,500 at nationalisation in 1977 to under 60,000 today. 3967 jobs were lost during July, August and September this year and over 2000 more will go by the end of the year. The breakdown of these latest redundancies is as follows:

The Tyne

Wallsend Slipway 82

The Tees

Smith's Dock 150

The Clyde

Scott Lithgow 734
Govan 280
J G Kircard 50
Barclay Curle 56

The Mersey

Cammell Laird 650

The Solent

Vospers 68

In addition 1150 jobs are at risk at Clelands, Henry Robb and Goole if no orders are found soon (see above).

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 benefited from it to the tune of £82 million.

£m	1978	1979	1980	1981	1982	1983 -
Feb to April	-	4.7	15.5	20.1	14.4	28.0

BS Finances

- BS Financial Results:

	£m					
Year to April	1978	1979	1980	1981	1982	1983
Turnover	497	842	813	899.3	1025.6	1092.5
Trading Loss	104.5	49.4	109.9	41.4	19.8	117.5
Intervention Fund	19.3	10.6	31.2	38.9	46.1	43.8
Capital Expenditure	20.1	27.4	18.6	16.7	36.8	43.2

- Under this Government BS has received over £840 million in public support.

£582 million in public dividend capital
£177 million from the intervention fund
£82 million in special redundancy payments

- 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.

The British Shipbuilders Act 1983

The Government is committed to the promotion of private ownership in the shipbuilding industry. This Act removed the previous statutory obstacles to the introduction of private capital, and provided enabling powers for the Secretary of State for Industry to direct British Shipbuilders to dispose of particular assets or subsidiaries. BS is now no longer obliged to carry on the full range of activities specified in the 1977 Act that nationalised it; it can discontinue unprofitable work and dispose of profitable yards when appropriate. The Act gives the Secretary of State powers to restrict foreign shareholdings in any yards that are sold, and gives him other powers to safeguard assets or activities which are important to our national security. Before giving any general direction to BS the Act also requires that the Secretary of State must be satisfied that it will further the national interest. The recent move to sell the repair yards and the announcement that private investment will be sought for the warship yards, are a result of this Act.

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.

The Government believes that, however unjust the original arrangements, it would be wrong to amend the terms now because people have sold shares on the basis of the 1977 Act. Many of the companies involved have decided to settle for the compensation received, but some of the previous owners brought seven cases against the Government, concerning the amounts they received, 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.

Labour Policy

Labour said in their recent Manifesto that they intended to ensure that British Shipbuilders remained a wholly nationalised concern,

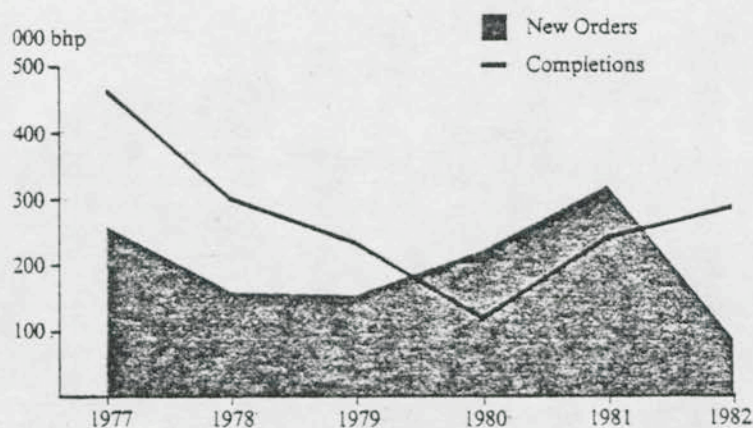
and intended to create a state owned shipping organisation to act as its customer. Labour would have introduced protectionism in shipping "to protect our shipping and jobs from unfair competition" and promised to provide BS with a "new financial basis and adequate resources for investment". In short, Labour proposed 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 would have particularly harmful effects on international trade and the viable jobs that depend on it. Labour said nothing about the fundamental problems that make our yards uncompetitive or how they would have tackled them.

/APPENDIX A

Statistics

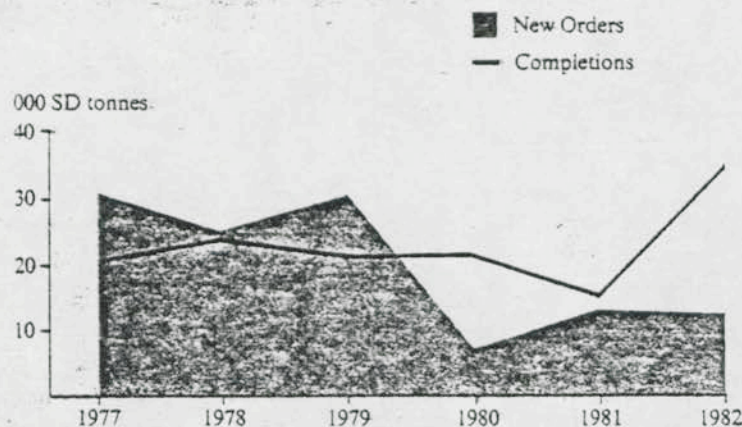
BS Production

Enginebuilding



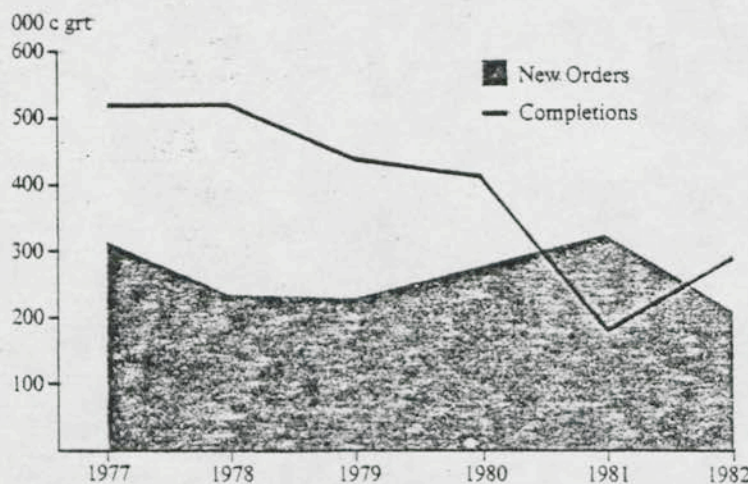
	bhp	
	New Orders	Completions
1977	271,300	462,400
1978	150,000	284,200
1979	153,200	220,300
1980	210,025	106,500
1981	311,500	233,925
1982	99,400	282,960

Warshipbuilding



	SD tonnes	
	New Orders	Completions
1977	30,525	20,221
1978	25,679	25,062
1979	31,448	22,605
1980	6,151	22,900
1981	14,641	15,379
1982	13,400	35,951

Merchant Shipbuilding

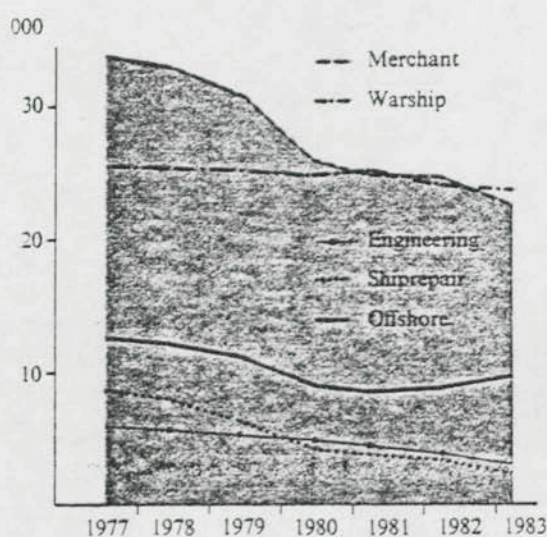


	c grt	
	New Orders	Completions
1977	320,499	532,023
1978	245,974	533,097
1979	245,878	455,141
1980	287,387	422,581
1981	335,475	188,521
1982	205,597	298,538

Statistics

BS Employment

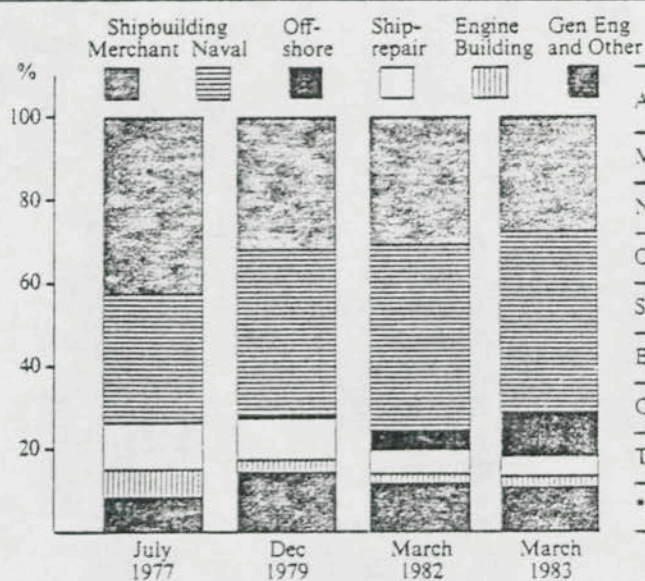
Employment by Division



Division	July 1977	June 1979	March 1981	March 1982	March 1983
Merchant	34,245	31,103	24,963	24,658	22,573
Warship	25,778	25,557	25,207	24,514	23,845
Engineering	6,027	5,670	4,560	4,123	3,192
Shiprepair	8,681	6,537	4,111	3,628	2,652
Offshore	12,703	11,377	8,794	8,918	9,421
Corporation	—	—	136	275	662
HQ	35	228	204	204	238
Total	87,469	80,472	67,975	66,320	62,583

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

Employment by Activity

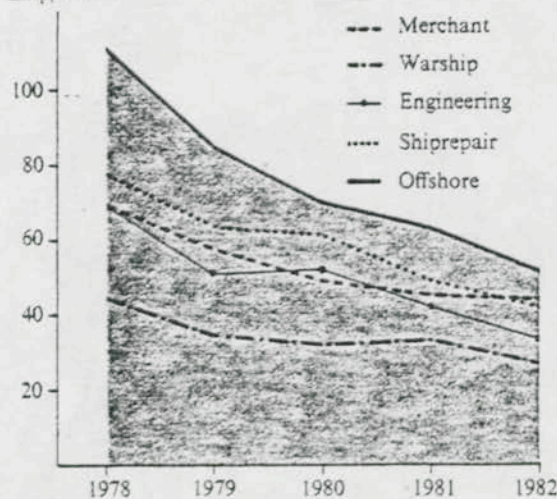


Activity	July 1977	Dec 1979	March 1982	March 1983
Merchant SB	44.3	32.5	30.2	27.8
Naval SB*	30.2	40.3	44.9	43.8
Offshore	0.3	1.1	4.8	11.2
Shiprepair	10.1	8.5	6.7	4.7
Eng Bldg	7.1	3.1	2.5	2.1
Gen Eng	8.0	14.5	10.9	10.4
Total	100%	100%	100%	100%

*Includes Naval Auxiliaries

Accidents by Division

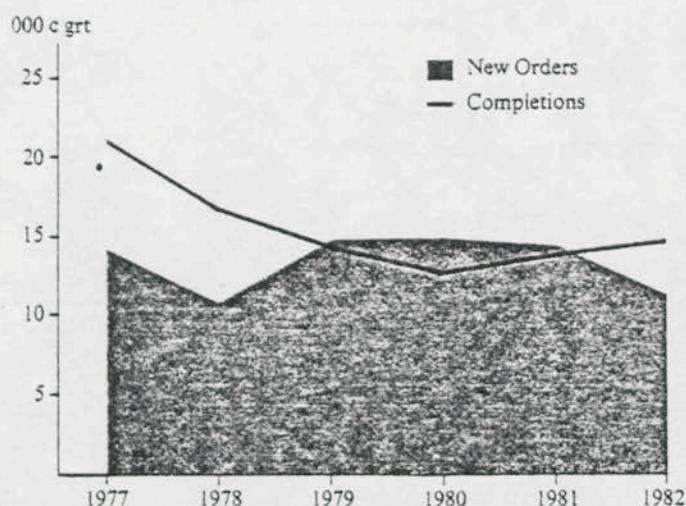
Acc/1,000
Emp/Year



Division	Incidence Rate per 1,000 Employees per year				
	1978	1979	1980	1981	1982
Merchant	69.9	58.1	49.5	48.2	44.3
Warship	45.5	35.5	32.6	33.2	27.2
Engineering	69.9	51.3	52.7	42.6	34.9
Shiprepair	77.9	64.2	62.8	49.1	42.5
Offshore	111.3	85.8	70.7	64.1	52.4
All Divisions	71.3	55.2	48.0	45.1	39.3

Statistics

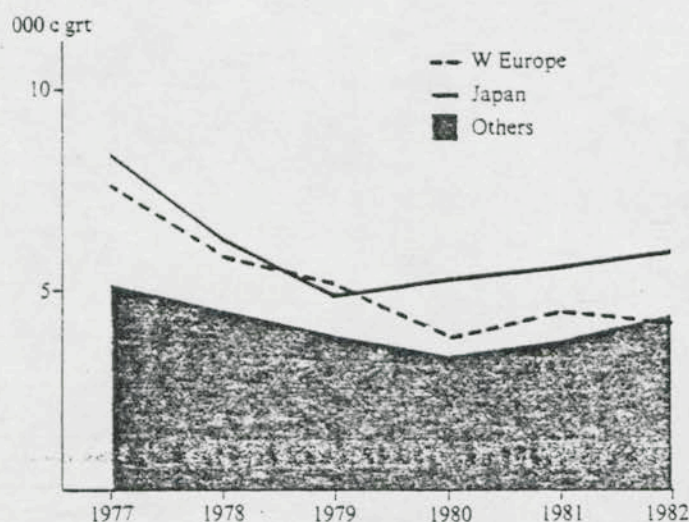
World Merchant Shipbuilding

World New Orders/
Completions

	000 c grt	
	New Orders	Completions
1977	14,040	21,181
1978	10,796	16,546
1979	14,207	14,077
1980	14,357	12,635
1981	14,053	13,840
1982	11,372	14,426

Source: Lloyds Register of Shipping—
EC Contract

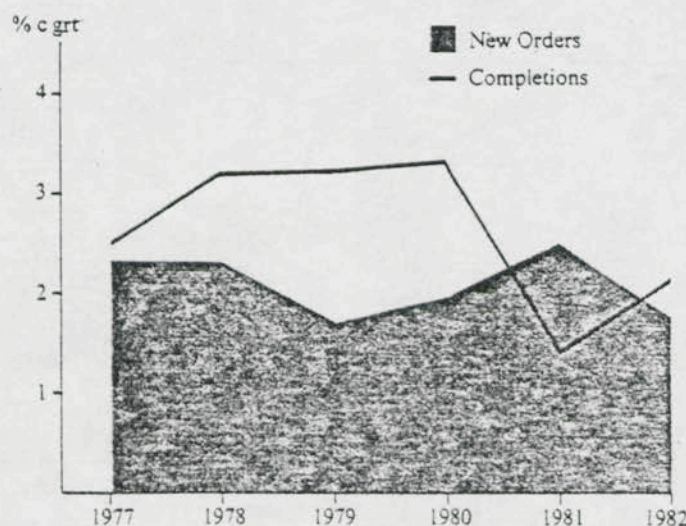
Regional Output



	000 c grt			
	W Eur	Japan	Others	Total
1977	7,654	3,358	5,169	21,181
1978	5,832	6,120	4,594	16,546
1979	5,107	4,975	3,995	14,077
1980	3,931	5,207	3,497	12,635
1981	4,451	5,580	3,809	13,840
1982	4,279	5,818	4,329	14,426

Source: Lloyds Register of Shipping—
EC Contract

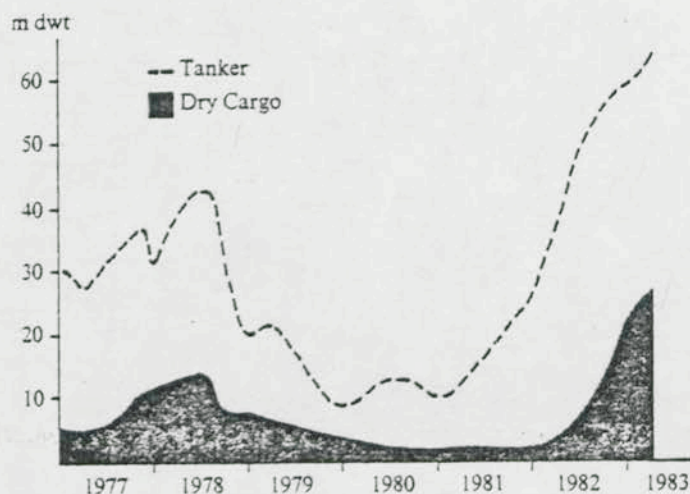
BS Market Share



	% c grt	
	New Orders	Completions
1977	2.3	2.5
1978	2.3	3.2
1979	1.7	3.2
1980	2.0	3.3
1981	2.5	1.4
1982	1.8	2.1

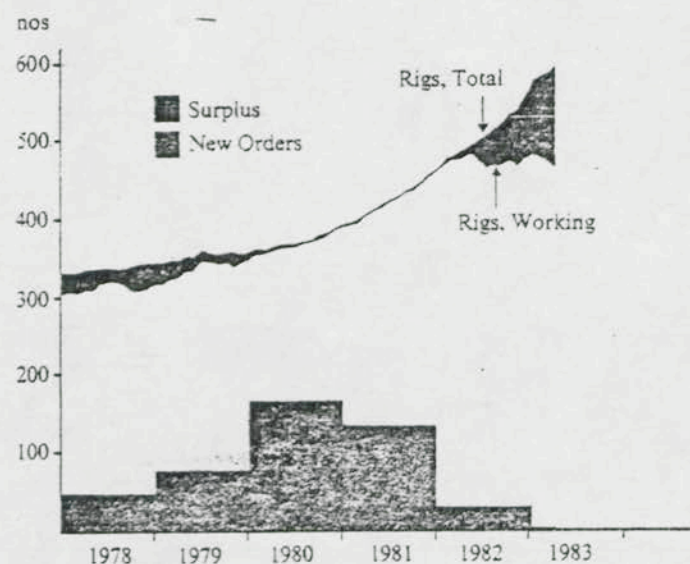
Statistics

Market Environment

World Laid-up
Tonnage

m dwt			
World Fleet laid-up due to lack of Employment			
	Tankers	Cargo	Total
June 1977	31.1	6.0	37.1
June 1978	43.5	13.5	57.0
June 1979	16.5	4.9	21.4
June 1980	12.5	2.2	14.7
June 1981	15.4	1.9	17.3
June 1982	49.2	6.1	55.3
Mar 1983	63.8	27.2	91.0

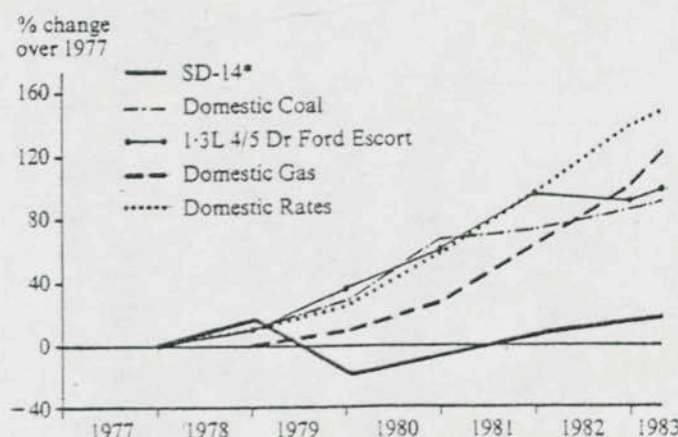
Source: GCBS

Offshore Oil Rig
Utilisation/
New Orders

NB. Utilisation figures only include Rigs customarily offered on the world charter market.

	nos		
	Rigs Total	Rigs Working	New Orders
Dec 1977	331	304	43e
Dec 1978	342	310	49e
Dec 1979	354	343	79e
Dec 1980	386	386	164
Dec 1981	452	451	133
Dec 1982	553	472	31
Mar 1983	581	468	4

Source: Offshore Rig Data Services, Shipstats.
e = estimate

Relative prices of
an SD-14 and
other UK
commodities

	% change over 1977				
	SD-14*	Coal	Escort	Gas	Rates
Dec 1978	16	10	10	0	10
Dec 1979	-18	27	36	8	25
Dec 1980	-7	66	60	26	56
Dec 1981	6	72	94	62	94
Dec 1982	15	86	90	99	137
Apr 1983	17	90	98	119	147

Source: NCB, Northern Gas, Sunderland Civic Centre, Ford Motor Co.

*The SD-14 is a standard 15,000 dwt Merchant Ship built by British Shipbuilders. The prices upon which the index is based relate to delivery dates and therefore do not reflect the major decline in contract prices during 1982/83.

APPENDIX B

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 priod 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

Conservative Research Dept
32 Smith Square LONDON SW1

RE/CR
28.10.83