



Prime Minister
To Mr AT 9/12

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon James Prior MP
Secretary of State
Northern Ireland Office
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LONDON
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7 December 1983

Alan Jim

HARLAND AND WOLFF: CORPORATE PLAN

The E(NI) meeting scheduled for December 6 to discuss British Shipbuilders and Harland and Wolff has now been postponed until some time in the New Year. Had we met, I was going to suggest that we postpone an immediate decision on Harland and Wolff's corporate plan, in order to allow time for a further option to be developed for consideration by the Committee. I believe you may wish to consider using this enforced postponement for the same purpose.

Official level discussion has shown that the Plan's assumptions, even on Mr Parker's own figuring, imply only a very modest reduction in the annual financing requirement for the yard over the next three financial years. Moreover, it is also agreed between our officials that the Plan is based on optimistic assumptions about the timing and level of orders, including the hope that Harland's will almost double its market share. Although there is little doubt that the new Chairman is making important management and productivity improvements, the fact is that however successful he is on this front, the level of subsidy is primarily determined by factors outside his control. These include world ship prices, world demand, and world over-capacity.

For example, only a three month slippage in the timing of orders results in a subsidy for 1984-85 of about the same level as the current year (£42m). A failure to meet the ambitious targets for new orders would mean that the subsidies for future years were higher still. Our experience with the Blue Star order, which took over one year and four references to E(NI) to finalise, is fresh in our minds. It is hard not to share the conclusion of PA consultants (whose review of the Parker Plan we are to consider) that, on any realistic prospect, Harland's subsidy requirement will continue at the levels of recent years.

This is, I believe, unacceptable. The earlier Officials' Report on the possible closure of the yard showed that, in direct public expenditure terms, closure (at about £88m if carried out straight away) costs about the same as the equivalent of two years of subsidy. Even when lost tax revenue and social security are taken into account, closure is much the cheaper option (with a net present value of about £200m for closure, compared with about £850m for continuing support). In terms of national resources, closure would prevent a present annual drain of £20m of lost national output.

If the yard is to remain open, we should surely insist on some prospect of a reduced call on public funds. The Parker Plan does not offer this prospect.

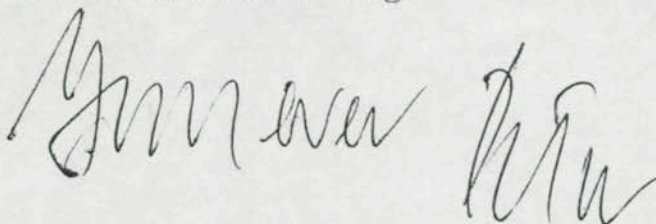
I think, therefore, that we should commission a study of the scope for a cheaper alternative strategy based on a substantially smaller yard - this study might be carried out either by management or consultants. We would need to know the overall cost of such a strategy, together with the subsidy level it would imply.

The delay helps us in another respect. As you know, we have already agreed that Harland and Wolff should not be able to secure ship orders on terms more generous than those available to British Shipbuilders. I would expect that, by the time we meet, we shall be better informed about the range of possible future subsidy levels for BS. This should allow us to see more clearly how our BS strategy impinges on Harlands. The forecast subsidy requirements for Harlands under both the Parker Plan and the revised plan I am suggesting should, of course, be modified to take account of what is then known about BS subsidy levels.

My proposal means that we should be in a position to compare, when we meet, three possible solutions for Harlands: the Parker Plan; a revised plan based on a smaller yard; and immediate closure. If the Parker Plan were then approved, I think it should be with a review point of March 1985, the date when we shall be considering the level of support for Harlands in 1985-86. We should also decide when we meet in the New Year, that if by whatever means further improvements have not been secured by March 1985 leading to subsidies, for 1985-86 and later years, lower than forecast in the Parker Plan, we should close the yard at that time.

I hope you can agree that we should so proceed, and that work on a "smaller yard" option should accordingly be put in hand meanwhile.

I am sending copies of this letter to the Prime Minister, Members of E(NI) and Sir Robert Armstrong.



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