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PRIME MINISTER

SHIPBUILDING

Time for Decisions

1. Mr Tebbit is right to emphasise the decisions taken and the action started within British Shipbuilders since Graham Day's appointment as Chairman. We applaud in particular the progress which BS and DTI together have made towards BS's exit from ship-repair towards warshipyard privatisation, and towards reshaping the attitudes of employees, from the BS Board downwards.

2. The problems which remain, to BS and to Harland and Wolff alike, are painful and expensive to solve, but even more expensive to defer. The two corporations' plans went to Departments last October. By now, a clear policy from Government to Graham Day and John Parker is well overdue. We cannot afford several more months for a further review of options.

3. It is entirely right that E(NI) should take BS and HW at one sitting. Inconsistency of policy across two corporations in the one industry could be presentationally very difficult and costly.

Expenditure

4. Taken singly and together, both corporations make heavy claims on the Exchequer for the next three years:

	<u>CASH REQUIREMENTS (£million)</u>			
	<u>1984/5</u>	<u>1985/6</u>	<u>1986/7</u>	<u>Total</u>
BS	228	164	110	502
HW	38	42	38	118
Total	266	206	148	620

All this is on top of roughly £1 billion sunk since nationalisation.

5. Over 60% of this expenditure is absorbed by merchant shipbuilding and offshore rig construction. Yet it yields no downstream benefit to the nation, in that:

- neither BS nor HW foresee eventual return to break-even, let alone profit

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- there is no defence-strategic case for sustaining an unprofitable UK capability in merchant ship-building or offshore construction. (Warshipbuilding and shiprepair are of course important for defence, and are financially viable. So we shall retain adequate capacity in the private sector.)
  
  - keeping shipyard employment up by subsidy is an inefficient form of regional aid. In any event, job losses in shipbuilding have been severe (27,000 since nationalisation) and further losses are inevitable.
6. Policy Unit advice on BS and HW is therefore that a much tougher expenditure line is called for. The two new chairmen were appointed to take tough decisions and make them stick.

#### Recommendations

7. For shiprepair, proceed with closure or sale as seems commercially most prudent to BS. Keep up the good progress which BS and DTI have already made.
8. For engine building, eliminate overlapping capabilities urgently (we cannot surely need more than two sites?) and consider whether BS or HW need to make engines at all. All are licence-built continental engines, which could be bought in.
9. For offshore, see through the disposal of Scott Lithgow to the private sector if it is cheaper than closure. Be prepared to countenance the closure of Cammell Laird's offshore activities if no new rig order is forthcoming and no private buyer emerges.
10. For the warshipyards, again keep up the solid progress which BS and DTI are making. We support the creation of a separate EFL for the warship business.

While warshipyard privatisation will come to E(DL) later, we should note at this early stage the contribution to excess warshipbuilding capacity of the "mixed" yards, ie Swan Hunter and Cammell Laird. We consider (a) that privatisation of the dedicated warshipyards will be much more easily accomplished if BS withdraws Swan Hunter and Cammell

/Laird

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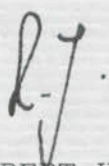
Laird from warshipbuilding and (b) that sharper attention will then be given to the performance and future of these yards in their commercial markets. We must avoid giving new warship orders to mixed yards. There is a danger that MoD might wish to do so.

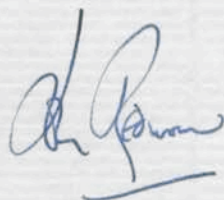
11. For BS merchant shipbuilding, we should taper the EFL down to zero by 1987/88. We suggest approximately £100 million for 1984/5, £40 million in 1985/6, £25 million in 1986/7 and zero thereafter. These sums should be adequate to cover BS' closure costs, but should be presented as a ceiling within which BS is free to cut its capacity to the point where it breaks even. Government should not dictate which yards should shrink or close, but should not flinch from consequences which are commercially right.

12. Unless Government wishes, for wider reasons, to sustain substantial shipyard employment in Belfast, Harland and Wolff should close. If Government does wish to try to sustain the employment, we might just as well treat HW as part of the core of UK merchant shipbuilding, and as the marine enginebuilder too if we want to go on building engines.

13. But we should extract a good price for keeping HW open. This might take two forms:

- Firstly, a much tighter EFL for HW. (The proposal backed by NIO amounts to a continuing subsidy of £7000 per job per annum - probably more than the average gross wage in the yard). Mr Parker should desist from getting further into shiprepair when BS is exiting and he should give up the idea of taking on more employees.
- Secondly, the closure of an equivalent amount of capacity within BS. There is no case for the taxpayer to bail out HW and indefinitely.

  
ROBERT YOUNG  
17 February 1984



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