

CCND
NBPM

AT

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 8000
DIRECT DIALLING 01-218 2111/3

MO 26/3

10th April 1984

*See below**attached*

Thank you for your letter of 9th April which we discussed last night. As you will be aware our Departments have kept very closely in touch over the matter of tendering action for Type 22 frigates 13 and 14. You refer in your letter to the need for a policy that would produce a competitive process in the form of tenders from British Shipbuilders. You will be aware that we invited tenders from British Shipbuilders in July 1983. We received replies from three yards (Swan Hunters, Vosper-Thornycroft and Cammell Laird) on 5th October. A round of re-tendering was completed on 18th January.

The competition was won at that stage by Cammell Laird by a margin of about £1M per ship. We have consistently been in favour of competition and we have in no way sought to influence the outcome. It is at this point that the complications begin.

Cammell Laird had been given the clearest undertaking by John Nott that they would be allowed to compete for this order: you will recall John Nott's statement on 14th December 1982:

The Rt Hon Norman Tebbit MP



".... the fourth and final Falklands replacement will be a further Batch III Type 22 frigate. It will be ordered by competitive tender. Cammell Laird Shipbuilders Ltd and Vosper-Thornycroft (UK)Ltd will be strong contenders for this order." (Hansard Vol 34, Col 130).

Of course we have known here of the work which you are undertaking on the privatisation of British Shipbuilders. But it would not be consistent with our undertaking that Cammell Laird would be allowed to compete on a free basis to allow a political purpose of this sort to affect the commitment which we gave to the Company. I now understand that there is talk of Cammell Laird closing and I do not need to explain the significance of this to that part of Britain. This is particularly relevant in the context of a decision to proceed with a further re-tendering exercise which could lead to another conclusion and where it might be seen that a political process had reversed the implication of John Nott's announcement.

I understand of course that, as with all industrial tendering processes, life is never simple. After the initial tendering exercise a national productivity deal was reached, the results of which were not reflected in the tendered prices from all three yards. Subsequently only Swan Hunters have concluded a pay and productivity deal with both their blue and white collar workers. Cammell Laird and Vospers have signed with their white collar workers only. Our position is that we sought to conduct a fair competition, with the result that I have outlined. But we cannot make progress on the basis of these results because the two higher tenders from Vospers and Swans have now lapsed, and the lowest tender from Cammell Laird has been withdrawn.

This is a most unsatisfactory situation. I have got to place orders for these frigates. But, before I start on a re-tendering exercise, I believe that it is important for colleagues to have a clear view on the economic, industrial and political implications of the



possible outcomes. You say in your letter that your plans for British Shipbuilders' warship building operations are not to be discussed until the week beginning 30th April. I believe that we should discuss the question of the Type 22 order well before then and I am therefore copying this letter, together with yours, to our E(NI) colleagues and to Sir Robert Armstrong.

Yours ever

A handwritten signature in black ink, consisting of several vertical strokes and a long horizontal flourish at the bottom.

Michael Heseltine



11 APR 1984



JU176

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

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GTN 215

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9 April 1984

CONFIDENTIAL

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall SW1

D Michael,

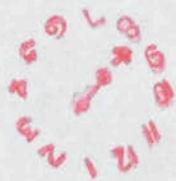
26/3/84

TYPE 22 FRIGATE ORDERS

I understand that you have been considering making arrangements to place the MOD's two Type 22 frigate orders with Cammell Laird, in advance of receiving tenders from British Shipbuilders and in advance of a discussion on privatisation of BS' warshipbuilding operations scheduled to take place in the week beginning 30 April. When Ian Stewart and Norman Lamont corresponded about this, it was agreed that you would keep in close touch with us on the placing of these orders and, as Ian Stewart said in his letter to Norman Lamont of 10 October, we are all in agreement that "there would have to be some weighty considerations to justify paying premiums above the lowest tenders". I hope that these considerations still apply, and that what I have heard is without foundation.

2 I am sending a copy of this letter to Peter Rees.

NORMAN TEBBIT



11 APR 1984



CONFIDENTIAL

am

DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

13 April 1984

Rt Hon M Heseltine MP
Secretary of State for Defence
Ministry of Defence
Whitehall
London SW1A 2HB

D Michael,

TYPE 22 FRIGATE ORDERS

We discussed my letter of 9 April and your reply of 10 April, yesterday.

2 We have indeed kept in touch with your Department over the tenders for Type 22 frigates 13 and 14, and it was clearly - and rightly - agreed in correspondence between Norman Lamont and Ian Stewart last autumn that the longer term options for the yards selected should be taken into account. Given our Manifesto commitment to privatisation, we could not do otherwise.

3 As your letter clearly indicates, it is factors other than privatisation that have caused the present complications. The tenders from Vospers and Swans lapsed because, as I understand it, they were not given an opportunity to extend them. The tender from Cammell Laird was withdrawn as soon as BS management discovered that it had been extended without the agreement of the Board of BS. This was entirely a decision of BS central management, their reasons being that the circumstances of Cammell Laird had changed since the tender had originally been submitted (the yard having lost the Sun Oil contract its overhead structure had dramatically changed) and that the three tendering yards had not been treated equally. In my view, this was very understandable; one can imagine the very strong protests if Swan Hunter learned that they had not been given an opportunity to extend their tender, and that the work had gone to a yard that had not signed the productivity deal.

4 I am, of course, aware of John Nott's statement of 14 December 1982. But I certainly do not think that it can be read, as you seem to suggest, as implying that Cammell Laird should necessarily get the order. I do not think it is at all in the spirit of John Nott's statement that you should try to avoid the next obvious steps in this matter, which is to seek re-tenders from all the three yards. Nor do I believe we should - without careful

JH3AAX



consideration - adopt a course of action which could be interpreted as over-riding the commercial judgement of the Board of British Shipbuilders.

5 Since I understand you do not wish to follow the normal competitive tendering process I would be content (as I said yesterday morning) that the decision on the allocation of these orders is taken in the context of wider consideration as you wish, but that would have to take into account all relevant considerations.

6 In advance of this discussion, however, I believe you should call for retenders from BS. The results of the retendering process should be fed into our discussions, rather than vice versa. This seems to me the logical and sensible means of proceeding. However, in order to help to reach a decision as soon as possible I am prepared not to insist upon that: but what is essential is that if normal processes are to be abandoned there should be collective discussion of the basis on which orders should be placed.

7 Copies of this letter, and my previous one to you, go to E(NI) colleagues and to Sir Robert Armstrong.


NORMAN TEBBIT

JH3AAX



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File

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Secretary of State for Trade and Industry

18 April 1984

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London SW1

D. Michael

TYPE 22 FRIGATE ORDERS

I understand from British Shipbuilders that you have changed your position on the placing of orders for the two Type 22 frigates. As I understand it, the Chairman of BS has been told that MOD would be prepared to place an order for at least one of the frigates with Cammell Laird on a non-competitive basis in the very near future.

2 Our discussions and correspondence on this matter have so far been on the agreed basis that in view of the wide issues involved the placing of these orders is something that we have to decide collectively. We are due to have this discussion at E(A) in the week beginning 30 April.

3 I assume that no announcement about this order will be made, either formally or informally, which would pre-empt this discussion.

4 Copies of this letter go to other members of E(A) and Sir Robert Armstrong.

NORMAN TEBBIT

JH1ALR

18 APR 1984



u/s



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

19 April 1984

Dear Michael,

CAMMELL LAIRD: FRIGATE ORDERS

I have seen copies of Norman Tebbit's letters of 9 and 13 April, and yours of 10 April.

What we all know is that the future of Cammell Laird at its present scale of operation is precarious. Job losses on any significant scale would have a very damaging impact on an already very difficult position as far as Liverpool and Merseyside are concerned. The decision on placing the frigate orders is obviously of particular significance.

I would therefore certainly welcome an early discussion about this issue, recognising as you do that there are a number of major considerations.

I am copying this to E(NI) colleagues and to Sir Robert Armstrong.

Yours
Patrick

PATRICK JENKIN

NBT 1ND : Shipbuilding Pt 6

24 JUL 1984

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