

NBPM  
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MR TURNBULL

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c Mr Owen  
Mr Young

BRITISH SHIPBUILDERS PRIVATISATION AND DEFENCE

Michael Heseltine wrote to Norman Lamont on 18 October undertaking to perform some consultation in advance of placing Type 22 frigate orders. Some background, for your own information, could be useful.

The original plan was to bring all the BS warship yards to the market at the same time, if necessary some of the yards being grouped together for sale. The thinking now is that Brooke Marine will hopefully be sold in the immediate future, and Yarrow (possibly linked with Hall Russell) could be sold next either to the management buyout or another buyer.

This leaves Vosper Thornycroft, Swan Hunter, Cammell Laird and Vickers. Vickers is profitable and has the Trident submarine programme which will consume all of its capacity unless startling improvements in productivity are achieved. Vospers is just profitable and should sell separately. Swan Hunter and Cammell Laird are both major lossmakers.

The MOD have two Type 22 frigate orders which they expect to place before the year end. They also wish to start a second submarine facility because Vickers cannot meet the full requirement (which I doubt) and to introduce competition (although the consequence will be to double overheads and halve throughput thereby increasing prices).

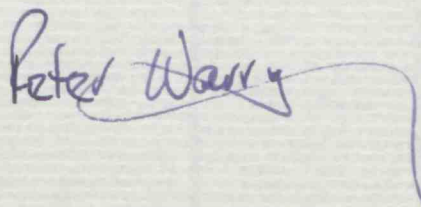
Clearly the manner of placing these orders into yards with gross shipbuilding overcapacity and on the point of privatisation is going to be critical. If MOD try to share

the work amongst all the yards (as they have in the past) all they achieve is the highest cost for the equipment and probably the worst result for privatisation.

The two weakest yards are Swan Hunter and Cammell Laird. Swan Hunter's commercial work will cease around the end of the year with the completion of the Atlantic Conveyor. It will then become solely dependent on defence work which will keep it at least partly employed until 1987. Assuming it rationalises its facilities from four yards down to say two then it could come close to making a profit. (It currently makes a profit on defence work but loses it all through overheads and commercial work). It must be the more saleable of the two yards. It also made the lowest bid for the two T22 frigates at £73.5 million each.

Cammell Laird only bid for one frigate and was marginally highest at £75.4 million. Without MOD support they run out of work by the end of the year. Industrial logic must be to help make Swan Hunter nearer a going concern and to sell Cammell Laird for whatever we can get as a redundant yard. (Trafalgar House may still be interested).

BS and DTI have canvassed the idea of trying to sell Vickers and Swan Hunter as a package. We think this is daft because the two yards have quite different products, skills, market opportunities and risks. They are in no sense complementary, and the investing market will not be fooled into thinking that they are.



PETER WARRY