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P.01317

PRIME MINISTER

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Warship Building: E(A)(84)23, 24 and 32

BACKGROUND

FLAG A  
— The Sub-Committee began their discussion of this subject at their meeting on 10 May (E(A)(84)11th Meeting). As you will recall, the Secretary of State for Defence and the Secretary of State for Trade and Industry gave rather different accounts of the views of the Chairman of British Shipbuilders (BS), Mr Graham Day, regarding the future of Cammell Laird (CL) and warship building capacity. The Sub-Committee concluded that they could not reach decisions on the basis of the information available to them. They invited the Secretary of State for Trade and Industry to obtain from Mr Day fuller and clearer information, including a statement of BS's preferred strategy for warship building capacity, the place for CL in that strategy, and the consequences for other warship building yards if CL were retained.

FLAG B .  
— 2. The latest memorandum by the Secretary of State for Trade and Industry (E(A)(84)32) fulfills this remit. We understand that it has been agreed with the Secretary of State for Defence and the Chief Secretary, Treasury. The memorandum does not, however, appear to change the decisions which Ministers need to take or to require any substantial revision of the brief which I submitted for the meeting on 10 May; for convenience, I attach a further copy. The present minute is simply supplementary comment on E(A)(84)32.

FLAG C  
— 3. Essentially, the BS position as described in E(A)(84)32 is as follows.

Annexes A & B

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(a) If CL could be closed painlessly, BS would do it.

(b) But to close CL without appearing to give the yard a fair trial would have such serious consequences in terms of industrial relations that BS think it must be ruled out.

(c) BS therefore propose to give CL a fair trial, on the basis outlined in Annex B to E(A)(84)32. This is much as previously described to the Sub-Committee. It involves, in particular, directing that at least one of the impending Type 22 frigate orders should go to CL.

(d) If CL failed at this trial BS would close the yard in the expectation of being able to avoid or reduce the consequent trouble with their work-force.

(e) If CL succeeded, then at least BS would have a better shipyard. The problem of over-capacity in warship building would remain; and BS admit that they have no ready solution to this problem. They would have to rely on export orders, sale of the yard to a private sector or overseas buyer, or something else turning up.

4. We understand that Mr Tebbit and his officials remain sceptical about all this, and in particular about point (e). Mr Tebbit appears to accept the BS analysis insofar as he does not propose the immediate closure of CL. But he proposes that the order for Type 22 frigates should be on the basis of competitive tender; no order would be directed without competition to CL. This does not meet the relevant BS condition as set out in Annex B to E(A)(84)32; and it is possible that BS might use this as a pretext for closing the yard and seeking to put the blame on the Government.


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If so, I understand that Mr Tebbit would propose to rely on the following arguments.

(a) If BS do not believe that CL can survive except on the basis of non-competitive orders, the yard does not deserve to survive.

(b) Particularly in view of the almost certain over-capacity in warship building it would be grossly unfair to other yards (particularly Vosper and Swan Hunter, the other runners in the competition for the Type 22 order) to give CL preference.

5. I understand that Treasury officials are briefing their Ministers in similar terms.

  
P L GREGSON  
Cabinet Office.

18 June 1984

Attachment: