

18/7/84

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CC [Signature]



Prime Minister

MO 26/3/1

DTI's minute is attached. As predicted they are opposed to the MOD line. Agree Cabinet discussion in January?

DTI will not be happy with this, and the issue may have to go back to Cabinet in January.\*

PRIME MINISTER

JR 21/12 11/12 re: navy.

Sub 19/12

TYPE 22 FRIGATES

But I agree with SNS for delivery. The damage shown

The background to the tendering exercise for two Type 22 frigates is well known to colleagues, but I set it out below for the sake of completeness.

workers in jobs through pilot

2. John Nott, when announcing the award of a contract for the replacement of three of the four warships lost in the Falklands campaign, indicated that there would be one more Type 22 to replace Falklands losses, for which tenders would be invited in due course. He indicated that Cammell Laird and Vosper Thornycroft would have the chance to compete for the contract for this ship: "... 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). I decided to add a second frigate to the forward programme and the competition for these two frigates was opened on 19th July 1983.

contract to work must be finished. no

3. I set out the results, from which it is clear that Cammell Laird won the competition:

	EM (tenders for two ships)
Cammell Laird	140.0
Vosper Thornycroft	140.7
Swan Hunter	142.5

4. There then followed a re-tendering exercise because there were technical problems with each of the tenders. The results



of this exercise are below, and it is clear that Cammell Laird again won the competition:

	£M
Cammell Laird	140.0
Vosper Thornycroft	140.5
Swan Hunter	142.7

5. At the same time, the Department of Trade and Industry had been looking to the future capacity of the warshipbuilding industry, and in particular at the packaging of the industry into units most suitable to its eventual privatisation. There was a clear potential conflict between this DTI interest and the award of a contract to Cammell Laird.

6. At our discussion in Cabinet on 19th July, it was agreed that there should be a future round of tendering to include Cammell Laird. I had intended then to argue against any further delay, and to go on to recommend that we should, as is our usual practice, award the order to the winners, Cammell Laird. Much to my regret, however, a small group of militants occupied HMS EDINBURGH, being built at Cammells, and in those particular circumstances, where to award the contract might be seen to be yielding to illegal action, I did not feel able to press the point.

7. Instead I made my position on the occupation of HMS EDINBURGH, and its potential effect on the future workload at Cammell Laird, quite clear by giving an interview to Radio Merseyside in which I said:

"The people occupying one of our ships in Cammell Lairds are doing a major disservice to their community, to the prospects of the Company itself and I would want to make it clear that, as Secretary of State for Defence, I couldn't consider placing an order with a Yard that was in a position, as it patently is today, of occupying an existing contract from this Department."



In response to a question about the MOD steering orders away from Merseyside I replied:

"The way that you steer orders away from Merseyside is to occupy ships under construction. The way you get orders in Merseyside is to put in prices that are competitive and to deliver on time."

I left the workforce in no doubt that they could not expect any further orders while the occupation of HMS EDINBURGH continued. The Courts dealt with the militants, who then, with the familiar techniques of intimidation and violence, tried to stop the majority of the workers getting into the yard. They failed. Day after day the workers of Merseyside crossed the picket lines to carry on with their work on HMS EDINBURGH. In the meantime, very substantial changes in the working practices of the yard had been agreed by the newly-elected shop stewards, including the acceptance of a management-inspired programme of selective redundancy.

8. My concern at the proposal that there should be a third round of tendering arose from my conviction that it would inevitably lead to a different result, and that it would be concluded that this was the purpose of the retendering exercise. This concern proved justified when it emerged that Cammell Laird had been ordered by British Shipbuilders to tender for only one of the two ships. The excuse given for this is that in order to build two ships, Cammells would need to re-recruit men: those men who have been laid off while we have been going through these tortuous tendering exercises! From that moment on, with all their overheads loaded onto one ship, Cammells were by definition out of the competition. The results of the third round of tendering therefore indicated precisely what I warned colleagues would be the case - that Cammells should be given neither of the two orders - although it never occurred to me that so blatant a method of fixing the result would be adopted. I will have no part in it.



9. The issue I now face is what next? I must now place these long overdue orders. It appears that Swan Hunters are marginally ahead of Vosper Thornycroft on price. I have no means of knowing what Cammells' price would be for both ships, since they have been forbidden to tender. On the assumption that Swans win the contract for one frigate, the cheapest package on offer which also includes Cammells building one ship is £145.5 million. I therefore intend to place one order with Swans and the other with Cammells. I shall have to direct the Accounting Officer to place the orders in this way, since the combined cost is some £6 million more than would be the case if both orders were placed at Swans.

10. I hope that you and Cabinet colleagues can now agree to this way forward.

11. I am sending copies of this minute to other members of the Cabinet and to Sir Robert Armstrong.

Ministry of Defence  
18th December 1984



19 DEC 1984

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COMMONWEALTH OF  
DOMINION