



HOUSE OF COMMONS
LONDON SW1A 0AA

The Rt. Hon. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London SW1

Thursday 27th February 1986

Dear Margaret,

SWAN HUNTER

I feel that I must write to you to express my grave concern at the imminent threat to the recently privatised Swan Hunter from the State owned Harland & Wolff. Swans being no longer eligible for intervention fund payments are now effectively out of the merchant market and wholly dependant on their specialist Naval work into which field Harlands are seeking to enter and in particular to undercut Swans on the AOR order about to be placed.

The management at Swans are a good team and I know you will agree with me that they are to be congratulated in taking on the challenge of privatisation. All my naval friends regard the yard very highly and their record in the naval field is excellent. Apart from building the two recent aircraft carriers they have over many years designed and built most of the Navy's supply ships. For several years they have been working with the Navy on plans for the very complex new AORs and I might add that John Nott, when at MOD, personally assured me that they would build these ships.

As an efficient yard greatly experienced in complex warship work they have cut their price to the bone for this sophisticated ship and yet it seems that they may be undercut by Harlands who just do not have the background of expertise in this field. The contrast between the two yards is very great: Swans are a market leader in computer graphics, have an excellent design staff and project management capability; Harlands have been out of warship building for some 25 years, do not have an inhouse project management capability and would have to recruit or subcontract the necessary design team. All this at the expense of the existing facilities at Swans. This is surely absurd and could only be entered into by a State owned concern with no commercial restraints.

Whatever Harlands may say it is beyond belief that they can actually design and build this sophisticated ship for less than Swans. While MOD might benefit from a lower quote now I am sure that the taxpayer would have to pay far more at the end of the day when Harlands failed to carry out the work at this figure.

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I understand the arguments for supporting Harlands in the Northern Ireland context. Surely, however, the assistance going there should be to help them compete for merchant or offshore work with foreign yards and not with our own traditional warship builders who as you know are all short of work. Having just privatised all the traditional warship builders it surely does not make sense, and is indeed unfair, for the State sector with the taxpayer behind them to return to the Naval field through Harlands entering this activity.

When I wrote to you a year ago Swans were reducing from 7,000 men to some 4,500. Without the AOR they will be down to about 2,000 and at this level the volume of work becomes too low to support the yard's activities and they will be in terrible trouble. The situation facing them is thus crucial and I need hardly point out to you the appalling effects in every way if they were forced out of business shortly after privatisation. Apart from the political implications it would have a devastating effect on the whole of Tyneside. The North East has the highest unemployment in Britain. Over 50,000 men are out of work on Tyneside. Male unemployment in the County is now 26% and in the riverside area of my constituency next to Swans it is much higher.

With frigate design centered at Yarrows the design work on the first of class AOR is vital for the maintenance of design capacity at Swans which apart from anything else the Navy surely wishes to retain. The management believes there to be export work to be obtained in this field but not in time to enable them to keep their design staff occupied unless they are engaged on the detailed work on the AOR. Without an inhouse design capability the export market cannot be penetrated despite the many existing promising leads.

You will recall that after I wrote to you a year ago about frigate orders a Type 22 was given to Cammells despite the lower bid from Swans but they were promised the next Type 23 order. A year later this ship has still to be ordered! It certainly shouldn't be thought that it could be used to compensate them for the appalling loss of the AOR as well. Only the first of class AOR can enable Swans to keep the design staff and capacity necessary for the future.

I believe that for this order to be placed with Swans is not only vital to the North East but also fair to the private sector and in the national interest. The matter should be of wider concern than just MOD and the views of the Treasury and the Northern Ireland Office who would ultimately have to pay the bill, should be sought.

Yours ever

North

To finance their buy out the Swan's management have had to take considerable personal financial risk - lets back their courage as well as their expertise!

Briefing with
TF: 13/3



12/3

10 DOWNING STREET

From the Private Secretary

7 March 1986

As I mentioned on the telephone this morning Mr. Neville Trotter MP has an appointment to see the Prime Minister at 1615 on Thursday 13 March in Mrs. Thatcher's room at the House of Commons at which one of your Ministers would be present.

I would be grateful if you would let me know at your convenience who it would be and also supply us with a short brief to reach us by close of play on Wednesday 12 March.

I enclose a copy of Mr. Trotter's letter to the Prime Minister with all the relevant details.

I am copying this letter to Michael Gilbertson (Department of Trade and Industry) and to Philip Wynn Owen (HM Treasury).

(Mrs. Caroline Ryder)

Richard Mottram, Esq.,
Ministry of Defence.

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