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From the Private Secretary

13 March 1986

SWAN HUNTER

Mr. Neville Trotter M.P., met the Prime Minister today to discuss Swan Hunter. The Parliamentary Under Secretary of State for Defence Procurement was also present.

Mr. Trotter explained his concern about the prospects for Swan Hunter. The management of the company, now in the private sector, had been making great efforts to remove restrictive working practices. The present industrial action was greatly to be regretted, but on the whole the company enjoyed good labour relations. Swan Hunter management had hopes of winning orders for landing craft and stores ships from overseas. However, the yard were short of orders, and there was a risk that the company could fold. The management had backed the Government's privatisation policies and it would not be understood if the order for the first AOR went to Harland and Wolff, a public sector company.

Mr. Trotter said there was some surprise in the industry that Harland and Wolff had been designated as a constructor of warships, in view of the over-capacity in the industry. Some sub-contractors on the mainland expected that they would get no orders from Harland and Wolff. These would be likely to go to GEC because GEC would place the work in Northern Ireland. There was concern that Harland and Wolff would cross subsidise its tender for the first AOR, and that it was in a position to put in a low bid because the management would expect to receive further financial backing from the Government if the contract went awry.

The Prime Minister said that Swan Hunter had to put in competitive bids if it was going to win work from MOD. Your Minister said that a Type 23 Frigate had been virtually guaranteed to Swan Hunter, but that Swan's bid was on the high side. It was likely that only one more Type 23 Frigate would be ordered this year. Swan's bid for the first of class AOR was also high - the difference between its bid and that of Harland and Wolff could not be accounted for by cross-subsidy - and Swan Hunter were also less competitive on design, programme timing and contract conditions. (This and other information was given in confidence).

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Whilst the MOD had a high regard for the technical competence of Swans, there was a substantial surplus of warship building capacity in the UK: the Controller of the Navy had said that the Navy could meet almost all its requirements for ships at Vickers/Camell Laird. MOD believed one reason why Swan Hunter's bid for the AOR might be uncompetitive was their choice of partners, though their price for the first Type 23 Frigate suggested that this was not the only reason. Mr. Lee concluded by describing the possible future orders for which Swan Hunter might bid: these were the refits of Britannia and Illustrious (though the latter would not arise until 1989/90) and in due course replacement amphibious capability, though a decision on the requirement for that had yet to be taken. There seemed to be nothing that Swans could do now to win the first AOR, but further orders would need to be placed later for which Swans could bid.

The Prime Minister emphasised the need for Swans to make themselves fully competitive. She undertook to establish that the bid for the first AOR from Harland and Wolff involved no cross subsidies, whether through allocation of overheads or in other ways. I should be grateful if you could arrange for the preparation of a note for the Prime Minister on this point.

I am copying this letter to Michael Gilbertson (Department of Trade and Industry) and to Jim Daniell (Northern Ireland Office).

(DAVID NORRGROVE)

R. J. M. Doran, Esq.,
Ministry of Defence.