



HOUSE OF COMMONS  
LONDON SW1A 0AA

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Prime Minister

To note

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Monday 17th March 1986 19/3

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

Send a copy to  
George Younger at. Release  
part

Dear Margaret,

SWAN HUNTER

I much appreciated the sympathetic way in which you listened to what I had to say when we met. I am sorry to write again at length but the matter is of extreme importance to Tyneside.

As an accountant I am afraid that I remain unconvinced that Harlands can actually build the AOR for less than Swans. This is based on over ten years of constant contact with the shipbuilding industry. My view is confirmed by discussions which I have had since we met with very senior people at British Shipbuilders.

John Lee mentioned design, delivery and contract terms as well as price. On design; there cannot be much difference in their effectiveness as the Navy have been so involved with both. On delivery; Swans have an excellent record on all their Naval deliveries, had not thought it to be a significant factor for this ship and tell me that they will have no difficulty in matching Harlands. On contract terms; only a state company with no regard for the realities of commercial life and with the whole risk and penalties underwritten by Government could forego the fixed price incentive formula which has recently applied to all first of class contracts for shipyards in the private sector. While I understand this 'clean' bid by Harlands being attractive to MOD, it just confirms my view of the unfair way in which Harlands is competing.

The main problem for Swans is of course the price bid by Harlands. I just do not believe that it is realistic and allows for full recovery of overheads even if as seems possible some future overheads have unusually already been written off. There is widespread support for my view in the industry. It must surely be a cardinal principle of any remaining state concern that they compete fairly with the private sector. Might I suggest that there is a very strong case for appointing outside and independent accountants with no previous connection with Harlands to examine their figures.

Despite John Parker, Harlands have continued with massive losses funded by interest free unsecured loans from public funds. They are probably losing much the same as the whole of the British Shipbuilders yards. Not much of a record !

The present pay at Swans is in fact not high with over 80% of the hourly paid receiving £135 or less without overtime. The figure the management have in mind for the year ahead is not more than Yarrows, for example, paid last year. The management are determined to stamp out the bad practices of the past under nationalisation and hence their current trouble with an overtime ban. Harlands point to their lack of trouble but commonsense tells one that the peace in this commercially undistinguished yard is because adequate steps have not been taken to put things right. I know that British Shipbuilders regards Harlands working practices as inferior to those at Govan, Sunderland and Smiths at Teesside. This hardly supports their present bid.

All Swans current contracts were won in open competition and their price for the type 42's was the lowest of all the warship builders. The delay in placing 23/03 after 22/13 was steered to Cammells can only have exacerbated their overhead loading.

I appreciate the pressures on the defence budget but the problem we now face stems in part from the slowing down of Naval orders. This is a very labour intensive field where additional funds would enable the Navy to speedily find additional work. Lack of funds, for example, has prevented an aviation support ship being in the programme although my Naval friends are keen to have one. Again we could now order 23/04 which at present looks like being in 87 instead of in 85/6 as originally planned.

Swans management firmly believe in privatisation and are showing a commendable determination to make it work. There is tremendous potential at Swans from which all on Tyneside can benefit. By contrast if they lose the AOR with no alternative new order redundancy would be immediate with 1000 going this year and at least as many next year. A disaster for Tyneside with the loss three times as great as the jobs gained in Nissan.

*The political consequences for us on Tyneside would be very grave.*

*Yours ever*

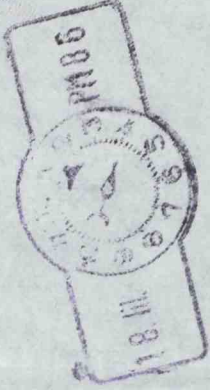
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PRIME MINISTER

MTB WITH

N. TROTTER

3/86



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10 DOWNING STREET

From the Private Secretary

18 March 1986

NAT. IND.  
shipbuilding  
A9.

copy reply on  
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I attach a letter the Prime Minister has received from Neville Trotter, M.P.

I should be grateful for the draft reply for the Prime Minister to send, to reach us as soon as possible.

I am copying this letter and enclosure to Catherine Bradley (Department of Trade and Industry).

Tim Flesher

David Woodhead Esq  
Ministry of Defence