

To:

PRIME MINISTER

From:

KENNETH CLARKE

18 April 1988

SHIPBUILDING

Following your meeting on 31 March, my officials and British Shipbuilders have continued their negotiations with Kvaerner Industries, the Norwegian company interested in acquiring Govan. Negotiations have reached the point where I expect Kvaerner to present BS today with a letter of intent to purchase, subject to their reaching a satisfactory settlement with their workforce and acceptable terms of transfer, including support from us. I am very glad to say they have confirmed their willingness to negotiate on the basis of a dowry, the very strong preference expressed by colleagues at your meeting. I have congratulated my officials responsible for the face-to-face negotiations for their success in achieving this conclusion, which I strongly

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preferred, without having to fall back on the final position that we authorised.

2. Kvaerner insisted that they would not be able to sign an agreement, even with variations, without a satisfactory agreement with the workforce, including the prospect of a reduction from 1,800 to 1,300 employees to improve competitiveness, and for far less generous lay-off terms than BS agreed nationally some years ago. They are also now acutely nervous of the latest leak, which has emanated from Oslo, prejudicing the confidence of the workforce in the yard's management, which Kvaerner would take with them. Given the importance of providing other bidders with a possible chance to identify themselves, I have decided that I must make a clear announcement today (Monday) about the privatisation possibilities now facing BS and in particular about the possible disposal of Govan.

3. This will put very great pressure on us to make a clear statement about the future of the remaining yards and, in particular, NESL in Sunderland. On 31 March I reported the contractual difficulties that have arisen with Johansen, the Danish financier behind the programme of 24 small ferries now being built at Sunderland. As agreed at your meeting, BS gave notice of defaults under the building contract for a number of ships. While there are certainly technical grounds for counterclaim by the Danes, Johansen has made clear he will be amenable to suggestions of curtailment.

The upshot is that a combination of contractual strife and negotiations could bring the programme to an end later this year.

4. These kinds of difficulty, the continuing costs of BS, and the lack of economic orders explain very graphically my conviction that subsidised shipbuilding in state-owned yards should cease as soon as present orders are complete. This is underlined by the independent survey from Peat Marwick I mentioned in my minute of 29 March, which showed that there would be sufficient capacity to absorb the peak in world shipbuilding demand widely expected in the 1990's in such a way that there was no prospect of lasting viability for BS without continuing support. The BS Board have endorsed my conclusion on viability. I believe that colleagues shared my conviction at the meeting you held but the discussion proceeded on the basis that we should announce this when the Danish purchaser defaulted.

5. I therefore now propose that my statement should also say that we have decided that there should be no more support for new orders in BS yards, nor should any more loss making orders be taken. This is against the background of orders regularly running at a loss over the past few years, despite assurances from BS that they would not.

6. I attach a draft of my Statement. I could only make the full Statement if my disagreement with Nigel Lawson about

who should pay for cost-avoiding dowries and remedial measures is accepted by him. I find his arguments totally inconsistent with the basis upon which we reached agreement at your meeting.

7. I also think it is very important that Tom King should make a thoroughly uncompromising Statement about the prospects for Harland and Wolff in due course. I strongly believe shipbuilding on both sides of the Irish channel should be treated similarly whenever announcements are made. If Harlands were to stay open other than as a privatised yard, the task of the Chairman of British Shipbuilders would become much more difficult, and we might face resignations. I cannot see how I could explain a different policy in Wearside to one in Ulster on the subject of the financial treatment of shipbuilding. I fully recognise the appalling and very special difficulties that Tom King faces in Northern Ireland but I do not think that they would be accepted as an explanation in North East England.

8. I believe the arguments for an early comprehensive Statement about merchant shipbuilding in Great Britain are strong. Delay would also risk losing the initiative in Parliament, since the Shipbuilding Unions are preparing a mass lobby for the second half of May, and their friends are to press for a Debate in the expectation of decisions around June or July. Tom King is obviously facing the beginnings

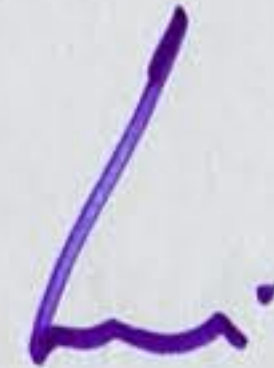
of an intensive public relations campaign in favour of the cruiseship which will build up very quickly.

9. On more technical grounds, my draft Statement refers to legislation and includes a phrase to reassure those from whom BS might borrow in the months ahead. This is because Treasury officials have advised that BS can no longer use Public Dividend Capital given the clear intent behind my proposed Statement, and that access to grant under the Consolidated Funds Act 1932 requires procedures in Parliament, possibly in July, before such monies can be made available.

10. My hopes for the disposal of Govan and Appledore by means of dowry will require EC approval. My officials have meetings arranged in Brussels for Friday and I shall be speaking today to Peter Sutherland. The more restructuring they can point to, especially in terms of an announcement withdrawing support from BS yards, the more likely is the Commission to accept whatever we need to do to achieve those disposals. The radical nature of the announcement I propose could also help David Young on Rover and to secure the Commission's agreement to our proposals for Enterprise Zones in Inverclyde and Sunderland.

11. I invite my colleagues to agree that I should make a comprehensive Statement on the lines of the attached draft text.

12. I am sending copies of this minute to Nigel Lawson, David Young, Malcolm Rifkind, Tom King, Nicholas Ridley and to Sir Robin Butler.



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DRAFT STATEMENT ON BS

British Shipbuilders have been approached about the disposal of a number of its facilities, notably at Govan on the Clyde and Appledore in Devon. (These approaches are being taken seriously, in line with our policy of returning as much of the Corporation as possible to the private sector.)

As regards Govan, BS have today received a Letter of Intent to purchase the yard from Kvaerner Industries, a Norwegian company at the forefront of international gas ship technology, which operates an important fleet of its own. Kvaerner Industries are a respected Company with expertise in gas carrying ships which they would proposed to build in future on the Clyde. I regard this as a very welcome proposal. I hope the negotiations succeed.

Should it acquire Govan, Kvaerner intends to transfer its gas ship technology to the UK via the yard by giving project support and assistance for gas ships built at Govan. Thereafter, Kvaerner plans to develop Govan into its centre for gas ship technology in support of worldwide activities in this sphere.

Kvaerner will attach certain conditions to an agreement in Govan. In particular it will ~~be~~ necessary to reach appropriate agreements with the workforce. Some restructuring will be inevitable to ensure that the yard is

fully competitive in the international market place. As an important part of the agreement Kvaerner will undertake to place an order for two medium sized LPG carriers to be built at Govan for delivery in 1990 and 1991.

I also have to tell the House that the Chairman of British Shipbuilders has told me about contractual difficulties with the ferry programme at North East Shipbuilders at Sunderland. Naturally I hope these difficulties can be overcome and I am keeping closely in touch with developments.

will keep the home office

I have to say that, for over a decade, BS has survived only through Government subsidy much of it to meet losses on contracts. Since 1979 we have lost over £1½bn of the taxpayers money in the Corporation, which today only employs less than 6,500 people.

When I came to the House last July to propose increasing BS's borrowing limit by £200m, that increase alone represented over £30,000 for each employee of the Corporation. Our backing for British Shipbuilders has clearly been strong and continuous. ~~(Our commitment to the Corporation over the last eight years cannot therefore be seriously in question.)~~ That said, in view of the continuing high cost of support for British Shipbuilders, high losses on contracts under their control, ~~and the fact that there is capacity in plenty to absorb any general recovery in merchant shipbuilding demand, and that any such recovery could well be short lived,~~ I am convinced that it makes no commercial sense for Britain to have a nationalised shipbuilding industry, ~~and no sense at all to continue to use taxpayers money to attract further orders into yards remaining in the Corporation's hands.~~

We have therefore decided that British Shipbuilders should take no more orders that require support or make losses. I expect there to be further bids from the private sector in addition to those I have mentioned to takeover some of the Corporation's facilities. Inevitably we are facing the expectation that some of the facilities will close when present work runs out. We shall continue to provide support to meet the costs of each yard until present work is completed. We shall take powers in due course to allow for the rundown of the Corporation and for the management of its outstanding affairs.

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I know of course the enormous problems that the areas affected by this outlook face. We are therefore announcing special measures, with new spending commitments by £30m, to make assistance available to encourage the modern local economy and the new jobs that people living in the North East need.

My Rt Hon Friend the Secretary of State for the Environment intends to establish an Enterprise Zone in Sunderland in order to promote new job opportunities through attracting new investment and stimulating the expansion of existing businesses. He will make an announcement on this shortly. In addition, I propose to ensure that new factories will be built, as soon as possible, on several sites to provide advance factory space for new and expanding businesses in the Sunderland area. We have allocated £7½m of new public spending in the next financial year for this factory building programme in Sunderland.

To manage this activity in the North East, and to make arrangements in Bideford in Devon should the disposal of the Appledore yard not succeed, we shall establish a new Enterprise Company under the Chairmanship of John Lister, the Chairman of British Shipbuilders. This will carry out the full range of training, counselling and placement activities previously undertaken by British Shipbuilders Enterprise Limited. In addition it will place a much stronger emphasis than British Shipbuilders Enterprise

Limited was able to do on the stimulation of new employment in the vicinity of all British Shipbuilders yards, whether in England or Scotland.

It is our firm intention to work closely with individuals and communities affected by today's announcement to build a more secure future for their areas. Today's measures backed by new spending commitments totalling £30m show how determined we are to help Sunderland and the other areas affected by make the change to more secure jobs. That change can and must be made for the sake of today's workforce and future generations of residents in those towns.

This Announcement certainly does not represent the end of shipbuilding in Britain. On the contrary, there is the excellent prospect of a further expansion of private sector merchant shipbuilding as a result of the disposals presently in hand. There are already well over 26,000 people building ships in the private sector, four times as many as presently employed by BS. It does however represent the end of a policy that no longer has any commercial justification and no sensible aim. Allowing BS to pretend to struggle on would merely slow up the development of a stronger more diversified and more soundly based economy for the towns that have no future in shipbuilding.