

SECRET 7

PRIME MINISTER

SHIPBUILDING STATEMENT

You are meeting colleagues to discuss the contents of the statement to the Commons this afternoon on shipbuilding. (There will be no Lords statement - the Opposition prefer to get on with education).

I attach at Flag A the main cuttings from today's press, and at Flag B the record of the 31 March meeting.

Mr. Clarke will bring with him a draft of the statement. Given the timing of the statement at 1530 there is little time available to resolve the text. I gather Mr. Clarke will want to make a fairly broad statement; Mr. Rifkind (who is flying down from Scotland and may be a few minutes late) wants to keep it as short as possible.

The main issues are:

- a. Govan - what should be said about the terms of the negotiations? Should the possibility of a dowry rather than an Intervention Fund be mentioned?
- b. Sunderland - what should be said about the negotiations with Mr. Johanssen on the Danish ferries contract?
 - should closure when the Danish ferries are finished be announced? And if so, how much detail should be given about the package of financial assistance? (The DTI and Treasury are still arguing about where the money for the package should come from, which was not resolved at the 31 March meeting).

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- one element of the agreed package is an Enterprise Zone for Sunderland. Mr. Walker is concerned about announcing this before he announces an extended EZ for Delyn (see Flag C)

- c. Appledore and Clark-Kinkaid - should anything be said?
- d. Other yards - should anything be said about availability or otherwise of Intervention Fund support? NB. the Scottish Office letter at Flag D you saw this morning.
- e. Harland and Wolff - should anything be said given the stories in today's press (see the last cutting at Flag A) about a possible Ravi Tikoo announcement tomorrow? I think we must avoid saying anything about H&W given the interaction with Shorts and Mackies. NIO are trying to cool down the press speculation.

PLCG.

PAUL GRAY

18 April 1988

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Talks to sell off shipyard begin

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By Jeremy Warner
Business Correspondent

THE GOVERNMENT is considering the complete break-up of British Shipbuilders, the state-owned merchant shipbuilding group, by selling some yards and assets and closing others, it emerged at the weekend.

The Department of Trade and Industry confirmed yesterday that it was in discussions with Kvaerner Industrier, the Norwegian engineering, shipping and shipbuilding group, about selling the Govan yard in Glasgow.

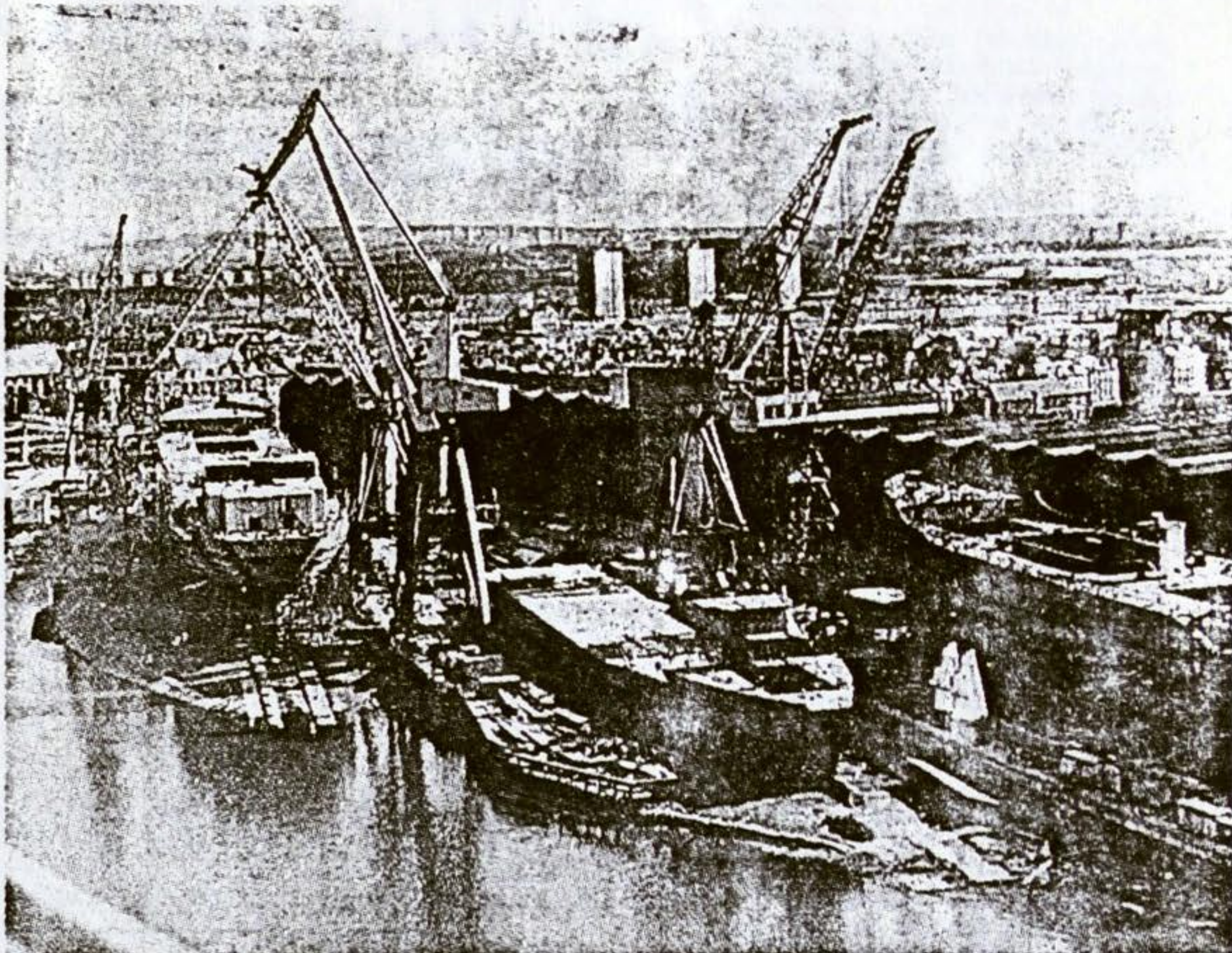
Govan, employing 2,000, accounts for about 40 per cent of British Shipbuilders' remaining capacity and its sale would almost certainly make the rest of the group too small to remain viable.

The DTI said that Kvaerner had expressed an interest in acquiring the yard, and in building four ships there, which would guarantee employment into the 1990s.

Acquiring the yard would enable the Norwegian group to get the benefit of the 28 per cent subsidy paid by the EC to yards within the community so that they can compete with low cost producers in the Far East.

It is believed that Kvaerner has asked the Government to agree to write off all Govan's existing debt and guarantee any debt on contracts in progress as a condition of buying the yard.

The DTI said that although dis-



Govan shipyard, Glasgow: Its sale would almost certainly make the rest of the group unviable

cussions have been taking place, they were of a confidential nature and no firm commitments had been made.

Ministers have made clear in past statements that the future of British Shipbuilders was being kept under constant review in the light of its continuing losses. They have made it a priority to get the company off the taxpayers' backs by whatever means.

Kenneth Clarke, the industry minister, said last month that the Government "has to keep in close touch with the trading position of British Shipbuilders because of the very large sums of money involved".

Despite a further capital injection of £118m during 1987/8, and the closure of three yards in the

past 18 months with the loss of 3,500 jobs, BS is still likely to lose more than £100m this year.

Ministers have been taking an increasingly tough line with the company in an attempt to reduce its burden on the exchequer. Over the past 10 years, British Shipbuilders has gobbled up £1.4bn of government money, while its workforce has dwindled to 6,500.

Govan is generally considered to be the most attractive of British Shipbuilders' four remaining yards, possessing the most up-to-date technology and the most flexible workforce.

Industry observers believe its sale would leave the rest of the group unable to compete and almost certainly lead to the closure of North-East Shipbuilders in

Sunderland, which faces an empty order book once its present workload of 26 small ferries is completed in the middle of next year.

The other two yards, Appledore-Ferguson in Devon and Clark-Kinkaid in Greenock, would probably be saleable, analysts believe.

News of the Government's plans to sell Govan provoked a political storm in Scotland. Donald Dewar, the shadow Scottish secretary said he was "appalled".

But Malcolm Rifkind, the Secretary of State, said that the crucial objective for the Government should be that Govan has ships to build, and a sale to Kvaerner would mean work for years to come. Govan's present workload is due to finish next year.

8/2

Govan to form part of Kvaerner's expansion

BY KAREN FOSSLI IN OSLO AND PHILIP BASSETT IN AYR

PLANS BY Kvaerner Industrier, the Norwegian engineering, shipping and shipbuilding group, to buy British Shipbuilders' Govan yard in Glasgow are part of wider moves by the group to expand internationally, it was disclosed yesterday.

Kvaerner said it had given up shipbuilding in Norway because of the high costs of materials and labour, and was seeking to secure ownership or co-operation agreements with overseas yards.

It became known on Friday that the British Government is close to agreeing to sell the Govan yard, which accounts for about 40 per cent of state-owned British Shipbuilders' remaining capacity and employs about 2,000. The move will almost certainly lead to the sale or closure of British Shipbuilders' other yards.

To complete the Govan deal, Kvaerner will have to obtain a permit from Norway's central bank, Norges Bank, to export the capital it needs for the purchase. An official from the country's Ministry of Industry said this was likely to be a formality and

he saw no reason why Norway would seek to block the deal.

He added that the Norwegian Government encouraged domestic companies to expand abroad as a means of strengthening their positions at home.

However, a vote by Kvaerner shareholders will be needed, and a storm of protests could come from Norwegian labour unions, which have fought the closure of several Norwegian shipyards and offshore oil industry construction yards as activity in recent years has tapered off.

Kvaerner's employees and unions have not yet been informed about its negotiations with yards outside Norway.

In Scotland, trade union leaders yesterday opposed any further privatisation of British Shipbuilders, but have so far made no specific move to block the likely sale of Govan.

Shop stewards from the yard, who met in Ayr yesterday before the conference there of the Scottish TUC, will today meet Govan management to discuss the negotiations which have been taking

place on the sale.

After a meeting between the stewards and the STUC, the STUC General Council said it was "deeply concerned" about the report of the negotiations, but stressed the need to win orders for the yard, to safeguard it for the future and the need to safeguard other British Shipbuilders yards.

Mr John Edmonds, general secretary of the GMB general union, which represents about two-thirds of Govan's workforce, said the unions were shutting no doors at the moment, but simply wanted more information.

However, he said the unions' concern was that "the solution of one yard's problems is that the next in line becomes more vulnerable, and the work slowly seeps away."

Mr Hans Joergen Frank, managing director of Kvaerner's shipbuilding and offshore construction yard in Stavanger, Moss Rosenberg Verft, said the company was also investigating price

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Kvaerner has 40 gas carriers used to transport gas and chemical cargoes. The firm operates as a separate unit, which its main partners include Neste, the Finnish state oil company, and the Norwegian Havtor group. About a year ago, the unit bought the gas carrier fleet of UK-based P&O.

In February, Kvaerner closed its last domestic shipyard at Fredrikstad. In 1986 it closed its Moss shipyard, but it continues to operate and maintain Moss Rosenberg Verft.

Kvaerner is considered a world specialist in the field of liquefied natural gas (LNG) technology. It has a patent for the technology which is used to transport LNG, whereby natural gas is cooled to a level of -160 deg centigrade to

take on a liquefied form for transport.

It has licensed three Japanese yards to build LNG carriers based on this technology.

Mr Frank said that the group sees a general trend in the gas carrier and chemical markets whereby rates are on the increase.

A recent report on the shipping industry issued by Norse Partners, an Oslo stockbroker, said the contracting of new gas ships showed the highest activity in the second half of 1987. The second-hand market, said Norse's report, was more active than it had been for many years, and in some cases prices had increased by 100 per cent.

In 1987 Kvaerner had a turnover of Nkr5.6bn (£483m). Income from new orders reached Nkr7.5bn, while net profits hit Nkr360m.

8/1

Future of BS unsettled by Govan sale

Andrew Cornelius
and Peter Hetherington

THE Government yesterday placed a question mark over the future of what remains of British Shipbuilders by confirming that it is discussing the sale of the Govan yard, which employs 1,750 people on the Clyde, to Kvaerner Industrier, a Norwegian engineering and shipbuilding group.

The discussions follow a ministerial review of the options for ending state subsidies to BS. Lord Young, the Trade and Industry Secretary, is adamant that they must end this year to complete his plan to transform the DTI from a sponsor of lame-duck industries into a "department of enterprise".

He is believed to have discussed the possible takeover of some parts of BS by Sumitomo Heavy Industries during a recent trade mission to Japan. Officials have also considered management buyouts.

However, any disposal of the Glasgow yard must call into question the future of other parts of British Shipbuilders, including the NESL yards in Sunderland and the Appledore yard in Devon, which employ a further 4,750 people.

Appledore has found a specialist niche building dredgers and the BS design team and the Clark Kincaid engine works on the Clyde are also highly rated. However, at NESL, work will run out for 2,400 employees by the end of the year.

The leader of the GMB general union, Mr John Edmonds, which represents a majority of the Govan workers, said yesterday that urgent talks with the Government were needed.

On the eve of the Scottish TUC's annual congress, in Ayr, shop stewards from Govan met

STUC leaders and the Labour MP for Govan, Mr Bruce Mil-lan, a former Scottish Secretary. The unions declined to condemn any Norwegian takeover, although they were deeply critical of the Government's decision to negotiate in secret only days after workers had been assured that the company was not to be taken over.

Mr Sammy Gilmore, convenor at Govan, said: "We are opposed to privatisation — everybody is — but no one is winning. At the end of the day we want work and we are prepared to work with any employers that will recognise the dignity of men and women."

Mr Edmonds said the Govan affair would be a severe test of the Government's position on an industry vital to the Scottish economy. Besides those employed at Govan, a further 5,000 workers depended on the yard.

Huge debt write-offs, similar to those for the sale of Rover to British Aerospace, would also have to be agreed for BS, which has swallowed £1.3 billion of state funds in the past decade.

The Govan chairman, Mr Eric Mackie, is to make a statement to shop stewards at the yard this morning.

A contract for the Belfast shipyard Harland and Wolff to build the world's biggest cruise liner is expected to be announced tomorrow.

The yard, one of Ulster's biggest employers, has been facing a shortage of work stemming from a lull in the shipbuilding industry. It lost £60million last year and made 500 men redundant. An order for a huge cruise liner could provide salvation for the shipyard.

Tuesday's announcement is not expected to be that a final contract has been signed — that will depend on whether the Government is prepared to provide about £100 million to enable the yard to build the liner.

8/3



CONFIDENTIAL

PRIME MINISTER

During your tour of North Wales in March 1987 you visited Breger and Gibson on the Greenfield Business Park, Holywell and while they were impressed by the case advanced by the Leader and Chief Executive of Delyn Borough Council to designate the Business Park as part of the Delyn Enterprise Zone. In subsequent correspondence with my predecessor, it was explained why Delyn's case could not be advanced until we had reached decisions on the Consultants' Review of Enterprise Zones.

We have now decided on the future policy for EZs and you will recall my letter of 21 March to Nicholas Ridley in which I expressed my doubts about an early announcement on creating an Enterprise Zone at Sunderland, given the difficulties this would present when I had yet to reach a decision on whether to pursue the extension for the Delyn Enterprise Zone.

Last week I undertook an extensive tour of the Delyn Enterprise Zone and the Greenfield Business Park. Like you, I was impressed by the vigour and commitment demonstrated by the Council in successfully marketing the Zone and Business Park and the dynamic approach to resolving the deep-seated industrial problems of the area. The outcome is that I am convinced that the only real option available is to extend the EZ regime to Greenfield. This minute is simply to advise you and colleagues that I will shortly be seeking agreement that the Business Park should be designated, irrespective of what we finally decide on Sunderland.

/ I am copying this to members of E(UP) and to Sir Robin Butler.

J. S. Martin

6 April 1988

Approved by the Secretary of State
and signed in his absence