

TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

28 April 1988

BRITISH SHIPBUILDERS

1 At your meeting on 18 April we agreed that I should proceed with a short statement that afternoon informing the House that Kvaerner was seriously interested in acquiring the Govan yard and that there were severe contractual difficulties with the Danish ferry contract at North East Shipbuilders (NESL) at Sunderland. Since then there has been considerable speculation in the Press and elsewhere on the future of the Govan and NESL yards.

Govan

2 In the case of Govan, negotiations are proceeding satisfactorily between BS and Kvaerner. There is some way to go, however, both on the detailed terms and with respect to the European Commission who wish to consider carefully the idea of a dowry rather than continuing Intervention Fund support. But there is no difficulty in our maintaining the position I announced last week.

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North East Shipbuilders

3 The situation is entirely different, however, in the case of NESL. The news of the contractual dispute has been widely interpreted as signalling the end of work for the Sunderland yards. The workforce is extremely apprehensive about the future. This makes the task doubly difficult for the BS Chairman, John Lister, and his managers. The local Labour MPs have also been trying to whip up concern. I have had meetings with them and, as might be expected, they have tried to make what capital they could out of the present uncertainty.

4 I also go back to the position we reached in our discussions last Autumn. We then anticipated the eventual rundown of work at NESL. We identified a possible package of alternative measures and agreed that we should aim for an early announcement so as to get the measures up and running as far in advance as possible of work on existing orders running out. I am convinced this is still the right approach. I therefore would like to make a statement on Tuesday 3 May announcing that NESL will not take any more subsidised orders and that we shall be introducing a package of remedial measures forthwith. I attach a draft.

5 Ideally I would have liked to have made the statement when the position on the Danish ferry contract was clear. This will, however, take some time. The existing order was for 24 ferries. The keels have so far been laid for 12. I have already told the House that failure of the Danish contractor, Mr Johansen, to pay the necessary instalments has led BS to cancel the build contract for 5 of the ferries. BS will finish these and sell them separately. There is serious doubt that Johansen is able to finance the full programme. He is technically in default on the loan agreements. I understand from ECGD, who are guaranteeing the loans, that this is not unusual for a major contract of this kind although the latest negotiations between BS and his lawyers suggest he is indeed in genuine difficulty. In any event, I go back to the point that the sooner a statement is made the better. We are at present in a position to guarantee work for the immediate future but the longer the delay the more doubtful this becomes and the less time there will be to get our agreed package of measures in place.

Alternative Measures

6 The measures I would propose to announce for Sunderland are precisely those we agreed at your meeting on 31 March. There remains an outstanding issue as to how these will be financed. I have made clear on every occasion that we have

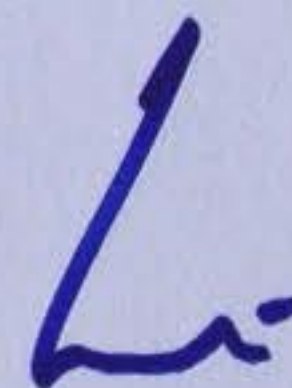
discussed the measures that these merited new expenditure as part of the price for withdrawing continued subsidies. I hope we can now proceed on this basis.

Conclusion

7 My strong preference would still have been to make the wider announcement I put to you and colleagues on 18 April, that we were ending Intervention Fund support for public sector yards in Great Britain. This would have marked a clear end to the huge losses which BS have incurred on contracts. It would have strengthened our hand in negotiations with the European Commission and would have helped to achieve our agreed aim of selling Govan to Kvaerner on a dowry basis. I accept that colleagues wish to discuss the wider policy implications further.

8 I cannot remain silent and inactive on the obvious crisis in Sunderland. I think we must now proceed with an announcement on Sunderland alone. I invite you and colleagues to agree that I should make a statement in the terms of the attached draft on 3 May.

9 I am copying this minute to Nigel Lawson, Tom King, Nicholas Ridley and Malcolm Rifkind and to Sir Robin Butler.



NORTH EAST SHIPBUILDERS

Mr Speaker, on 18 April, I told the House of the serious situation which has developed in regard to the contract for the Danish Ferry programme at North East Shipbuilders in Sunderland. I also explained that there was no firm prospect of any future orders for the yard, and that, viewed against the background of huge overcapacity in the shipbuilding industry worldwide, the outlook for NESL was bleak. I also undertook to keep the House informed and to end as soon as possible the uncertainty facing NESL and the people of Sunderland.

I very much regret to have to report that the negotiations between British Shipbuilders and their Danish customer are still proving to be very difficult. There has to be considerable doubt as to whether the programme will be completed although for the time being work will continue.

I have to say to the House that the problems confronting British Shipbuilders over the Danish contract at North East Shipbuilders are merely the latest in a long line. Since 1979, we have lost over £300 million of taxpayers' money in support of this yard. There can be no doubt as to this Government's commitment to shipbuilding at Sunderland thus far.

Turning to the broader picture, I am convinced that any general recovery in merchant shipbuilding demand is likely to be short-lived. There is, moreover, more than enough capacity worldwide to absorb any such increased demand. In those circumstances it is impossible to see any long-term future for the yards in Sunderland.

It is not just commercial commonsense which says that North East Shipbuilders has to close. I believe that it is in the long-term interests of the people of Sunderland that the Government should now invest in the future of the town rather than make further unavailing efforts to preserve the past. I am satisfied that the Government can now do more for Sunderland by spending taxpayers' money on encouraging modern jobs and a modern economy rather than by merely postponing the day that we all in our hearts know must ultimately come to shipbuilding in the town.

No one who knows the North East can be in any doubt as to the enormous problems that Sunderland will face as work in the yards finishes over the next few months. But this is not the end of the road for the area or for those who presently work in the yards. The economy of the North East is reviving fast with large new investment from companies like Nissan on the one hand, and a surge in self-employment on the other. We must now accelerate that process of growth

and change, and I am therefore announcing a £27.5m package of special measures to encourage the local economy and to help generate new jobs.

My Rt Hon Friend the Secretary of State for the Environment intends to establish an Enterprise Zone in Sunderland to promote new job opportunities through attracting new investment and stimulating the expansion of existing businesses. Subject to the approval of the European Commission, 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 £7.5m of the new public expenditure in the coming financial year for this programme of factory building in Sunderland.

To manage this activity 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 replacement 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 promotion of new enterprise and new jobs.



the department for Enterprise

SECRET

Mr Speaker, today's announcement means that the Government is facing up to reality and to our responsibilities to help build a more secure future for the area. When Consett was closed, people predicted that the town would never recover. They were wrong. It is never an easy decision to close a site that has such historical and symbolic significance, but I have to say to the House that it is the right one.