



A

5

SECRET

P 03104

PRIME MINISTER

SHIPBUILDING

E(A)(88)26

DECISIONS

The purpose of this meeting is to review the Government's policy on British Shipbuilders (BS) and Harland and Wolff (H&W). This is the first time in the present round of discussions that the general question has come formally before E(A). Recent Ministerial meetings to discuss it have been informal.

2. The two most important and difficult questions are:

- i. Should the Government announce the end of Intervention Fund (IF) support for public sector yards in Great Britain? This will be seen as tantamount to the closure of BS. It is the course proposed by Mr Clarke, who will be supported by the Chancellor. It will probably be opposed by Mr Rifkind.
- ii. Should any such announcement also cover H&W? Mr King's paper is not yet round but he may argue that no decision can be announced about H&W until the Tikkoo order has been, and been seen to be, properly assessed. If this is accepted, the choice will be between either delaying the BS announcement until H&W can be included or making an early announcement limited to BS, leaving H&W until later.

BACKGROUND

3. At the last informal Ministerial meeting on 31 March it was agreed that:

SECRET

SECRET

- a. on Govan, negotiations with Kvaerner should continue with the objective of ending Intervention Fund (IF) support for the yard, through payment of an initial dowry of up to £75m. Continuing IF support was not however ruled out: the meeting agreed that it could be offered as a last resort if needed to reach agreement with Kvaerner.
- b. on NESL at Sunderland, the need to close the yard was recognised. The content of the package of remedial measures for the Sunderland area was agreed. After a short meeting on 18 April, Mr Clarke told Parliament that NESL's contract with Mr Johanssen was in serious difficulties. He also mentioned that negotiations were in progress to sell Govan and Appledore.

4. Mr Clarke's paper now argues that an early announcement is needed on all BS yards, to deflect a growing campaign for extra subsidies to prevent the closure of Sunderland and other yards.

ISSUES

Recent developments on BS yards

5. On Govan, Mr Clarke reports that there may be difficulty over the proposed "dowry" with the European Commission, who may insist that there should be a clawback of any excess grant if the levels of support allowed under the Sixth Directive are reduced. Mr Clarke will discuss this with Commissioner Sutherland shortly. It will be disappointing if we have to revert to the IF because of the Commission, not least because providing IF money for Govan will greatly complicate the task of dealing with H&W. You may wish to ask Mr Clarke for his assessment of the prospects of striking a deal with Kvaerners without IF money which will be acceptable to the Commission. We understand informally that DTI are reasonably confident that they can.

6. On Sunderland, you may wish to ask Mr Clarke what are the prospects for an immediate collapse of the Danish ferries contract. Mr Clarke mentions that there are remote possibilities of work from

SECRET

SECRET

Cuba and Japan for NESL. You may wish to ask him whether these possibilities are likely to become of sufficient substance to make it difficult to close Sunderland.

7. Mr Clarke and Mr Rifkind may also wish to report briefly on the prospects for privatising BS's other yards: Clark Kincaid and Fergusons on the Clyde, Marine Design Consultants in Aberdeen and Appledore in Devon. Intervention Fund money for any of these (e.g. Appledore) could again be quoted as a precedent by H&W.

Ending Intervention Fund support for public sector yards

8. Mr Clarke has argued for some time, with the Chancellor's support, that the only way to prevent the nonsense of the Exchequer funding 28 per cent of the cost of ships through Intervention support, plus usually substantial additional losses on contracts at public sector shipyards, is to withdraw Intervention Funding from publicly owned yards. He now proposes to make an announcement that it will cease.

9. Mr Rifkind will be particularly concerned that Mr Clarke's announcement will probably lead to the closure of Govan if negotiations with Kvaerner fail and will also signal the closure of the other Scottish yards. His preferred alternative may be to limit the yards to support within EC limits, with the result that if they failed to get orders on that basis - as they probably would - they would gradually run out of work. Mr Clarke notes in his paper that this policy, which has been followed up to now, has led to ever greater Exchequer subsidies: for example on the Chinese ships for Govan agreed last spring, and on the St Helena ferry order. The current proposal for the Ravi Tikkoo ship, the Ultimate Dream, and the possible Cuban order for NESL, would be highly likely to follow in this tradition if they were pursued. If Mr Rifkind stresses the special political difficulties of Scotland, you could point out that BS employs fewer workers at Govan (1,800) than at Sunderland (3,000).

SECRET

SECRET

Financial Implications

10. Mr Clarke's paper says that he has reached broad agreement with Treasury colleagues on how the costs of the £21m package of remedial measures for Sunderland are to be met. Our understanding from the Treasury is that there are in fact detailed points still to be sorted out but that Mr Major and Mr Clarke hope to reach agreement before the meeting on how the costs of closures, dowries and remedial measures should be financed. Mr Major has proposed that the Contingency Reserve will meet the costs of closures and dowries (including Govan) if Mr Clarke finds the cost of remedial measures in England in the current year out of his own provision. At present Mr Clarke is only willing to pay for advance factories in Sunderland (£7.6m) and wishes the Reserve to pay for counselling, retraining, and enterprise activities (£2.7m this year). The remaining gap appears to be small.

11. There may be more difficulty about financing a package for Govan. The current proposal is for a £13m package if the yard closes, to be reduced to £6m if the Kvaerner deal goes through and a third of the workforce are made redundant. It is not clear how far such a package has been agreed with Mr Rifkind, or whether he will be willing to pay anything towards it. You may wish to ask Mr Rifkind and the Chief Secretary to agree urgently on the content and financing of a package, perhaps following the Sunderland precedent, which would involve the Scottish Office paying most or all of the cost.

12. Mr Walker may seek to link his proposal for an extension to the Enterprise Zone at Delyn to the proposed announcement of the EZ in Sunderland. You may wish to suggest that, in the absence of any link with shipbuilding, you see no reason for departing from the usual criteria in assessing the proposal for Delyn which is in any event a separate issue.

SECRET

SECRET

Harland & Wolff

13. Mr Clarke's paper argues that H&W should be treated in broadly the same way as BS. Mr King has acknowledged this linkage in the past. It makes the task of closing BS much harder - both in gaining management co-operation and in terms of the reaction in communities like Sunderland - if no announcement about H&W is made at the same time. Mr King will argue that he has given a public commitment to consider carefully the costings for the Tikkoo ship, the Ultimate Dream. He will also point to the major political difficulties for the Government of closing H&W, since it employs a predominantly Protestant workforce and has many suppliers in Northern Ireland.

Timing and content of an announcement

14. Although Mr Rifkind may dissent, the majority of the Sub-Committee seem likely to accept the principle of an announcement that IF support for public sector yards in Great Britain should cease. The difficult question will be whether such an announcement should also say that IF support will cease at H&W. Mr King will argue that nothing can be said about the future of H&W until the assessment of the Tikkoo order is complete, perhaps in July.

15. The options are:

- to decide on an early announcement on both BS and H&W, against Mr King's opposition;
- to postpone the announcement about BS until the Tikkoo order can be properly assessed. This has the advantage of taking BS and H&W together, but a long delay would risk undermining the policy on BS, for example if there is strong pressure for loss-making orders;
- to make the announcement about BS quickly, and leave H&W until later. This has the advantage of putting the BS position beyond doubt, but involves difference of treatment between them and H&W, and perhaps makes eventual

SECRET


SECRET

closure of H&W less likely. In the last resort, however, the Chancellor will probably accept this.

If the choice is between the second and third alternatives, the balance of argument may depend on how long the announcement would have to be postponed so as to cover H&W. You might sound out opinion on a short postponement, say for a fortnight, with a preliminary assessment of the Tikkoo order completed within that time.

16. Another compromise possibility is an early announcement about BS which opened the way for, but did not announce, similar treatment for H&W. The risk is that it would simply stimulate a campaign in Northern Ireland to ward off closure. But if the idea looked promising you could ask Mr Clarke and Mr King to consider the possibility and report back to you.

Next Steps

17. If an early announcement is agreed, you may want the question to be referred to Cabinet on Thursday and could ask Mr Clarke to circulate a draft for that purpose. If for any reason the Sub-Committee decide against an early statement, the reference to Cabinet would also be postponed.

HANDLING

18. You will wish to ask the Chancellor of the Duchy of Lancaster to introduce his Memorandum. The Chancellor of the Exchequer and the Secretary of State for Scotland will wish to comment next. The Chief Secretary, Treasury may wish to comment on his discussions about the financing of closures, dowries and remedial measures. At a later stage, you will wish to ask the Secretary of State for Northern Ireland to introduce his Memorandum on Harland & Wolff.

R.T.J.

R T J WILSON
Cabinet Office
6 May 1988

SECRET