

SECRET 16

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PRIME MINISTER

6 May 1988

SHIPBUILDING

The economics are ineluctable: on commercial grounds there is no case for the major state-owned yards, Govan, Sunderland or Harland's. Even if the market improves, our yards will remain at the top of the world cost curve; a standard size bulk carrier costs approximately double to build in Britain compared with South Korea and its yards are currently making losses! There is no argument for continued intervention funds on the prognosis that market recovery is imminent.

Further procrastination in announcing the ending of Government subsidy on future orders in state yards will compound our problem, not reduce or resolve it. The leak in Norway last month bounced us into a half-baked announcement about Govan which raised more questions than it answered. Continued uncertainty encourages crackpot proposals, from Cuba and elsewhere, and strengthens the bandwagon to 'save the shipyards'. As more external interest is shown, with ill-thought out proposals on the back of public money, the more will our opponents argue that Government is turning away sound business.

Tom King wants to wait for Harland and Wolff to make detailed costings of the Ravi Tikkoo ship. If the Deloitte report, which castigates Harland's management from top to bottom is even half correct, these costings will not be worth the paper they cover. It is doubtful whether Harlands could build a galvanised bath tub within a hundred per cent of their estimate!

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It is important that Mr King should stick to what he has publicly declared. Properly handled, however, the inclusion of Harlands in a general statement about ending IF support for the state yards, could expedite Tikkoo's proposals if there is any substance to them and if he has any financial backing.

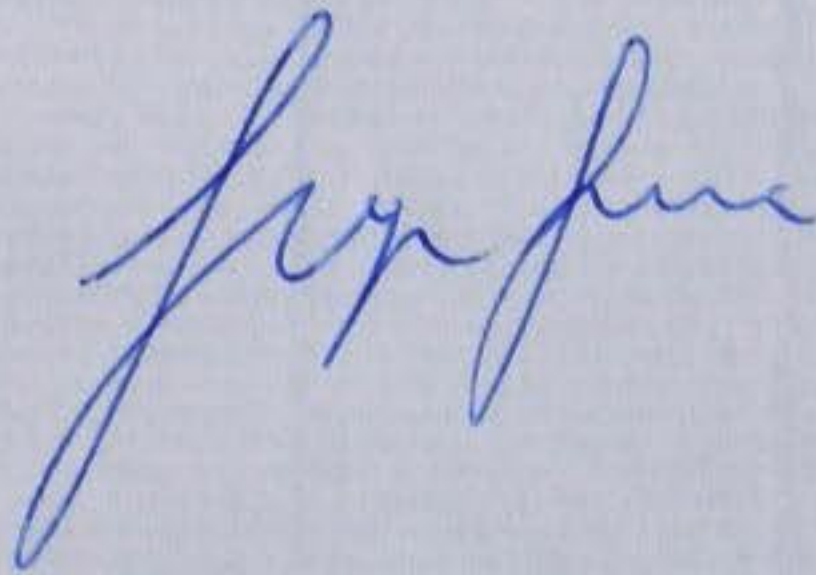
Recommendations

1. An early announcement should be made terminating Government subsidies on future orders for state-owned yards.
2. This policy should include Harlands, explicitly if possibly.
3. Any sale of Govan to Kaeverner should be on the basis of a single dowry. Whether this is presented as the present value of a sequence of notional future intervention funds or a direct grant, the total amount should not exceed closure costs currently estimated at £100m.*
4. If, because of the Commission rather than the purchasers's preference, a dowry-based solution cannot be found and continued IF is the only method of privatising, then Mr CLarke should go ahead provided there is a demonstrable financial benefit compared with closure.

* This compares with £120m at NESL and a characteristically badly documented figure of up to £300m at Harland!

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5. Provided that the total costs of any disposal are lower than closure, the DTI or the Northern Ireland budget should not suffer simply because the money goes in one hit rather than spread over time. If the total cost to the taxpayer has been reduced the individual departments should not be penalised.



GEORGE GUISE

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