

CONFIDENTIAL

To:
PRIME MINISTER

Prime Minister ²

From:
TONY NEWTON

This is only a "situation report"
action need to await the outcome
of the DTI/Treasury P&S bilateral.

22 September 1988

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- 2/9.

BRITISH SHIPBUILDERS AND THE NORTH EAST

1. Since taking up my new responsibilities I have visited a number of inner cities to get a feel for myself of their problems and the progress that has been made in overcoming them. Yesterday, as part of this process, I visited Sunderland, including North East Shipbuilders Limited (NESL), and Newcastle. This minute reports what I saw there, brings you up to date on developments at NESL, and seeks your support and that of colleagues in preparing a number of measures for announcement in the event that I have to decide, probably before the end of October, that NESL must close.

Inner Cities

2. I visited three inner cities projects in Sunderland and Newcastle. They had all received support from our City Action Team. The projects were very impressive and included setting up a new training course at Wearside College to help provide multi-skilled technicians, the Microelectronic Applications Research Institute facility in Sunderland which brings together the polytechnic, the university, industry and the local authority in what is now a profitable organisation for high technology research and training, and a managed workspace project in the centre of Newcastle which was set up by the local Enterprise Agency using Community Programme employees and now offers accommodation for up to 17 start-up companies.

3. The private sector is playing an important part in all these projects. The CBI, through its Newcastle Initiative, is taking a key role in promoting new enterprise in the city. We have already succeeded in attracting many new industries to the area - not just big companies like Nissan but also many start-ups and service companies. I was impressed by the commitment of the private sector to regenerating the community. I am sure this owes much to our resolve to help create a new environment in which people can work and prosper. I am convinced we can build on this but there are still major problems to be tackled, one of the main ones being the future of NESL at Sunderland.



the department for Enterprise

NESL

4. I spent yesterday morning touring the yard with the British Shipbuilders Chairman, John Lister, and meeting the unions and management. I also made a point of seeing the Sunderland Chamber of Commerce and other leading businessmen in the community since, in the event of the yard having to close, we will want to look to them to play a major part in helping Sunderland build on the new industrial base that is developing there.

5. Morale is evidently very low. The last two Danish ferries are nearing completion and there is no further work. 450 of the workforce of about 2,500 have been laid off and a number of the younger and better trained employees have left to seek work elsewhere. I was urged to do all that I could to save the yard, including letting BS take the order for 10 cargo ships for Cuba. I made clear, however, that there could be no question of going back on the policy we announced in July and in particular that NESL must be sold before we will provide Intervention Fund support for further orders.

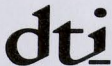
6. BS have announced that 30 September is the deadline for bids for NESL. There are four potential bidders. John Lister has told me, however, that while he expects to receive two or possibly three formal bids by the deadline, he is not hopeful that any of them will be credible. I

therefore anticipate that I may have to announce, probably towards the end of October, that the yards will have to close.

7. This will have a significant impact on the local community. BS is still one of Sunderland's main employers. Unemployment has fallen by 2.3% in the past year but still stands at 16.6%, with pockets reaching as high as 50%. The shipyards dominate the community, both physically and because of the long history of shipbuilding there. It will take a major effort to overcome this but I believe it can be done.

Package of Measures for Sunderland

8. At a meeting you chaired with the colleagues most concerned on 31 March, it was agreed that we should be ready to announce a package of measures in the event of NESL closing. My predecessor told the House on 21 July that we would introduce such a package. David Young and I are discussing with John Major in the current PES round the precise level of funding. I hope very much that, as previously agreed by colleagues, the package will include measures for counselling, retraining, advance factory facilities and other enterprise measures to stimulate alternative employment opportunities.



the department for Enterprise

9. I know that Nick Ridley has in mind to announce a new Enterprise Zone for the area. I think this will have a major beneficial effect and is an essential complement to the other measures I have in mind. During my visit yesterday, I was most impressed by the work which the UDC has already carried out. I understand that a major business park project which the UDC is currently considering may depend for its success on a marginal adjustment of the proposed EZ boundary. I hope this can be overcome.

10. I am sure there are other initiatives, some of which may already have been announced, that could be either extended to include, or specifically targeted on, the area that would be affected by the NESL closure. I should like all colleagues to whom I am copying this minute to consider what they could do that would enable further positive announcements to be made towards the end of next month. If we are to help develop Sunderland's new industrial base successfully then I think it is essential that we try to co-ordinate and bring forward as many of our activities as possible at this crucial time.

11. I am copying this minute to members of E(UP) and Paul Channon and to Sir Robin Butler.

Peter Smith

PP TN

*(Approved by the Chancellor
and signed in his absence)*

9. I know that Nick Babin has wanted to announce a new
 initiative soon for the region. I think this will have a
 major pedagogical effect and is an essential complement to
 the other measures I have in mind. During my visit
 yesterday, I was most impressed by the work which the UDC
 has already carried out. I understand that a major
 business park project which the UDC is currently considering
 may depend for its success on a marginal adjustment of the
 proposed 5% boundary. I hope this can be overcome.

10. I am sure there are other initiatives, some of which
 may already have been announced, that could be either
 extended or initiated, or specifically targeted at the area
 that would be affected by the NEEL closure. I should like
 all colleagues to whom I am copying this minute to consider
 what they could do that would enable further positive
 announcements to be made by the end of next month. It
 was also suggested that the new industrial park
 successfully that would be essential that we try to
 coordinate and bring forward as many of our activities as
 possible at this crucial time.



11. I am copying this minute to members of EDRP and
 Paul Cannon and to Sir Robin Butler.

Paul Cannon

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*(Approved by the Council
 and signed on its behalf)*

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

26 September 1988

Dear Peter

BRITISH SHIPBUILDERS AND THE
NORTH EAST

The Prime Minister was grateful for the report from the Chancellor of the Duchy about Sunderland, which she read with interest.

I am copying this letter to the Private Secretaries to members of E(UP), Roy Griffins (Department of Transport) and Trevor Woolley (Cabinet Office).

*Yours sincerely
Dominic*

DOMINIC MORRIS

Peter Smith, Esq.
Chancellor of the Duchy of Lancaster's Office

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