PREM 19/1326

PART 6.

C

CONFIDENTIAL FILIN

SHIPBUILDING POLICY.

SHIPBUILDING PAY.

NATIONALISED INDUSTRIES.

PT 1 : May 79.

PT 6 : ~~July 8~~ JANUARY 84

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~30.1.84.~~		~~9/4/84~~					
~~3.2.84~~		~~10.4.84~~					
~~7/2/84.~~		~~13.4.84~~					
~~9.2.84~~		~~18/4/84~~					
~~10.2.84~~		~~19/4/84~~					
~~15.2.84~~		~~10/5/84~~					
~~14.2.84~~		~~11/5/84.~~					
~~16.2.84~~		~~14.5.84~~					
~~17.2.84~~		~~16.5.84~~					
~~21.2.84~~		~~29.5.84.~~					
~~28.2.84~~		~~30.5.84~~					
~~29.2.84~~		PT 6 ENDS					
~~2.3.84~~							
~~12.3.84~~							
~~23.3.84~~							
~~27.3.84~~							
~~28.3.84~~							
~~29.3.84~~							
~~3/4/84~~							

PREM 19/1326

PART 6 ends:-

Sir W. Salomon to C. Ryder 30.5.84

PART 7 begins:-

CST to M/S DTI June 1984

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (A) (84) 11t Meeting	10/05/1984
E (A) (84) 24	03/05/1984
E (A) (84) 23	03/05/1984
E (NI) (84) 2nd Meeting	20/02/1984
E (NI) (84) 3	14/02/1984
E (NI) (84) 2	10/02/1984

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed _____ Date 30/09/2013

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons HANSARD, 28 March 1984, column 289 to 294: Scott Lithgow

House of Commons HANSARD, 21 February 1984, column 697 to 704: Scottish Shipping Subsidies

House of Commons HANSARD, 9 February 1984, column 1021 to 1024: Scott Lithgow Ltd

House of Commons HANSARD, 1 February 1984, column 287 to 359: Shipbuilding

Signed _____ Date 30/09/2013

PREM Records Team

File on Shipbuilding. cc ~~PUS~~ Mr

SIR WALTER SALOMON

KING'S HOUSE
36-37 KING STREET
LONDON EC2V 8DR
TEL. 01-606 4033

30th May, 1984

Dear Caroline,

I enclose herewith a copy of a letter which I have today written to the Editor of The Times. I should be most grateful if you would kindly put this before the Prime Minister at the earliest opportunity.

Yours sincerely

Walter Salomon

Mrs. Caroline Ryder

SIR WALTER SALOMON

KING'S HOUSE
36-37 KING STREET
LONDON EC2V 8DR
TEL. 01-606 4033

30th May, 1984

I had begun this letter before I read Mr. Geoffrey Rippon's letter today. I agree with every word, and wish only to add a few points my own way.

The Attorney General seems satisfied (The Times, 29th May) that he is justified and expects to be successful in using legal procedures to frustrate any redress for the gross inequities - going far towards expropriation in some cases - inflicted by the 1977 Act which nationalised ship and aircraft building.

What satisfies him as a lawyer, dismays and revolts the citizen - hence as Mr. Julian Haviland so rightly says "Every true Tory hopes Havers will lose": and that goes for anyone not a Marxist.

The shipbuilding and aircraft companies had to resort to the European Commission on Human Rights, because this Tory Government said publicly and in the House that, although the compensation terms were "grossly unfair", they would do nothing about it for stock market reasons - spurious reasoning which was promptly and publicly demolished by the Chairman of The Stock Exchange.

The European Commission found that the applicants had admissible cases, and offered their good offices in a 'friendly settlement' procedure. The Government declined even this way out of what (one hopes) they regarded as at least a dilemma. Both Commission and Government will now go to the Court for decisions purely on grounds of legal precedent. Apparently Human Rights do not include equity.

It may not be generally known that, if the ship and aircraft builders had been foreigners, international law would have required the British Government to give them "prompt adequate and effective" compensation for what was taken from them. The Attorney General does not question this, but yet is content to rely on the quirks of the Convention to deny such equitable compensation to British shareholders.

On 21st May (see Hansard) the Government dodged a question in the House about their intention to privatise the warship yards, but it is no secret that City advisers have in fact received instructions. We now seem to have the incredible prospect of the Government selling these profitable yards for what they are worth, which is many times what was paid for them, and at the same time going to the European Court to argue, to use the Attorney General's words, that it is "not in breach of its international obligations under the Convention" to pay "grossly unfair" compensation. (Sir Keith Joseph's words).

The Attorney General's excuse is that "the case is about the Convention". If his high office of State is concerned with anything other than the interpretation of statutes, he ought rather to be about getting the same equitable treatment for the dispossessed British ship and aircraft builders as if they had been foreigners; and so we must all hope he will lose at the European Court.

The Editor,
The Times,
New Printing House Square,
Gray's Inn Road,
London,
WC1

SIR WALTER SALOMON

KING'S HOUSE
36-37 KING STREET
LONDON EC2V 8DR
TEL. 01-606 4033

1st June, 1984.

Dear Sir

I was interested to read Malcolm Rutherford's article in today's edition, "A legal tug of war" on the question of shipbuilding compensation.

This is a case which I have followed with the closest interest since the Act was first passed as long ago as 1977 and I have been involved personally in some most unsatisfactory meetings with the Ministers concerned at The Department of Industry, not to mention the civil servants. In 1980 in a letter which I wrote jointly with Sir Ralph Bateman we said the following:-

> "Many think the Government has put up the excuse of avoiding retrospective legislation, in order not to have to find the money or stock necessary to give the shipbuilders fair treatment. Others (and here it is not a question of political views) think they have supinely allowed themselves to be over-persuaded by civil servants who lack the business experience and competence to find the right practical solution."

and in conclusion, we quoted Lord Hailsham who has said:-

> "there can be no constitutional authority whatever for legislation which overrides our natural sense of right and wrong".

The Attorney General takes a different view. He is satisfied that he is justified and expects to be successful in using legal procedures to frustrate any redress for the gross inequities - going far towards expropriation in some cases - inflicted by the 1977 Act which nationalised ship and aircraft building. What satisfies him as a lawyer, however, dismays and revolts the citizen - hence as The Times has so rightly said, "Every true Tory hopes Havers will lose" (25th May, 1984): and that goes for anyone not a Marxist.

The shipbuilding and aircraft companies had to resort to the European Commission on Human Rights, because this Tory Government said publicly and in the House that, although the compensation terms were "grossly unfair", they would do nothing about it for stock market reasons - spurious reasoning which was promptly and publicly demolished by the Chairman of The Stock Exchange.

The European Comission found that the applicants had admissible cases, and offered their good offices in a "friendly settlement" procedure. The Government declined even this way out of what (one hopes) they regarded as at least a dilemma. Both Commission and Government will not go to the Court for decisions purely on grounds of legal precedent. Apparently Human Rights do not include equity.

It may not be generally known that, if the ship and aircraft builders had been foreigners, international law would have required the British Government to give the "prompt, adequate and effective" compensation for what was taken from them. The Attorney General does not question this, but yet is content to rely on the quirks of the Convention to deny such equitable compensation to British shareholders.

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The Attorney General's excuse is that "the case is about the Convention". If his high office of State is concerned with anything other than the interpretation of statutes, he ought rather to be about getting the same equitable treatment for the dispossessed British ship and aircraft builders as if they had been foreigners; and so we must all hope he will lose at the European Court.

Yours faithfully

Alan Watkins

The Editor,
The Financial Times,
Bracken House,
Cannon Street,
London EC4.

c.c. Mr. Malcolm Rutherford

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From the Minister of State for Industry

NORMAN LAMONT MP

nbpm
29/5

COMMERCIAL IN CONFIDENCE

Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

29 May 1984

Dear Peter

I wrote to Alick Buchanan-Smith on 7 March about the future of the BP rig at Scott Lithgow. At that time Graham Day was - in the light of the threatened cancellation by BP - still considering the financial and other implications of the alternatives of

(i) renegotiating the contract, as BP wished, or;

(ii) accepting cancellation, completing the rig and selling it on the open market.

As you know on 28 March Scott Lithgow was sold to Trafalgar House (TH). After the sale BP's contractual relationship remained with Scott Lithgow (under its new owners), but under the terms of sale BS remained responsible for any contract renegotiations and effectively undertook to indemnify Scott Lithgow against extra costs. You will also know that BS subsequently decided to renegotiate the contract; agreement was announced on 17 April. My purpose in writing is to let you and colleagues know the full financial basis for this decision.

A comparison of the costs of renegotiation and cancellation is set out in the Annex to this letter. The bottom line shows that, on the face of it, renegotiation works out about as costly as cancellation - each course of action means £19m in extra costs, giving a total contract loss of £58m. However, rather different risks are involved. Although the revised agreement with BP incorporates a formal delivery date of 31 July 1984, the renegotiation cost calculation assumes delivery

on 30 November 1984. This is a very prudent estimate. BS' technical advisers and the new Scott Lithgow management think they might manage delivery by mid-August, in which case there would be savings of damages of £3-4m. And there is of course every incentive for Scott Lithgow to perform well on this, its first opportunity to show the market place what it can do under its new ownership.

Cancellation, however, carries opposite risks. The figures assume that, once completed, the rig could have been sold on the open market for its contract price of £78m. However, there is clearly a substantial risk of having to accept a much lower price. BS did some soundings of the market place. At worst, it was suggested that the value could be as low as £45m and the highest figure they obtained was about £60m, giving a possible additional loss of between £18m and £33m. In the circumstances Graham Day decided that renegotiation was clearly in the best commercial interests of the Corporation.

Assuming that the rig is now completed satisfactorily under the new arrangements, BS faces extra costs this year of up to £18.9m, for which no provision exists within their £137m non-warship EFL. However these extra costs will be offset by income from the sale of Scott Lithgow (£3m plus up to £6.1m in outstanding claims due in). It will be further affected (one way or the other) by any adjustments between BS and Trafalgar House which prove necessary once the completion accounts relating to the sale of Scott Lithgow are finalised in the Summer. Moreover the EFL does not take account of the proceeds of any disposal elsewhere in the non-warship part of the Corporation and we can expect some offsetting income here (eg Falmouth). At this stage I propose that we simply take note of the extra costs and of the likely offset and leave any consideration of whether adjustment of the EFL is either necessary or appropriate until the picture becomes much clearer, probably in the early Autumn.

I am copying this letter to the Prime Minister, Lord Cockfield, Alick Buchanan-Smith, Geoffrey Pattie and Alan Stewart.

Yours ever

Norman

NORMAN LAMONT

kt

COMMERCIAL IN CONFIDENCE

Annex

BP RIG - COMPARATIVE COSTS OF CANCELLATION VS RENEGOTIATION

Item	Accepting Cancellation	Renegotiation
	£m	£m
Provable damages	5.8	7.25 (i)
Liquidated damages for delay (agreed with BP)		
1.2.84-30.6.84 at £28,500 per day	-	4.3
1.8.84-31.8.84 at £28,500 per day	-	0.9
1.9.84-30.11.84 at £40,000 per day	-	3.64
Additional work (ii)	2.8	2.8
Interest on instalments	10.5	-
	19.1 (iii)	18.9

NOTES:

(i) Includes agreed extra damages of £1.45m for loss of income to BP through the rig being unavailable for the 1983 drilling season.

(ii) Extra work to bring the rig up to Norwegian specification, for which BP will not be charged. This would anyway have been needed to sell the rig on the open market.

(iii) The cancellation scenario assumes (optimistically) that the rig could be sold at the contract price of £78m. If it were not, the costs of cancellation would be increased by the difference between £78m and the actual selling price.

SBP1/DTI

17 May 1984

NBPM AT 16/5 CCNO

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~9XXXXX~~ 218 2111/3

MO 26/3/1

16th May 1984

Dear Cathum,

WARSHIPBUILDING

Your Secretary of State wrote to mine on 11th May about future Ministry of Defence orders for warships. Mr Heseltine is currently in Brussels but the terms of this response have been cleared by Mr Pattie on his behalf.

I can confirm that the Annex attached to your Secretary of State's letter represents our estimate of future ordering intentions for major steel surface ships. These average 4 per year, as reflected in Mr Tebbit's previous paper for E(A). But the total demand for warshipbuilding capacity is likely to be higher, for the following reasons;

a. Submarines. The MOD assessment is that capacity at Vickers will be fully taken up in building the Trident boats - indeed significant recruitment will be necessary at Barrow to meet this commitment. Vickers will therefore not be available for building conventional submarines between about 1986 and 1992, during which time we plan to order one Type 2400 submarine per year (SSK 03-09). This will mean that another submarine builder will be required: possibly 2 if we are to achieve the competition we seek.

b. Refits. Refits of submarines and surface warships have normally been undertaken in the Royal Dockyards. As part of Mr Heseltine's drive towards competition, two refits (one frigate and one submarine) will be put out to contract later this year, and the MOD has made financial provision accordingly. Subsequent placement of work will depend on the outcome of these two refits, and also on whatever proposals emerge from current studies of the management of the Royal Dockyards. For planning purposes we envisage 1 ship being refitted commercially at any one time.

M C McCarthy Esq

c. Other steel work for MOD. The Annex to Mr Tebbit's letter already includes the Sir Galahad replacement. A contract will also be placed later this year for the extensive repair (or the replacement) of the Sir Tristram. In addition, and as demonstrated by the Balder London case, ad hoc requirements may arise for conversion of merchant vessels for RN use. And in the longer term, the replacement of amphibious shipping (HM Ships FEARLESS and INTREPID) may be considered. Financial provision has not yet been made, but we believe it would be wrong to ignore such possibilities in our assessment of the warshipbuilding capacity we need. Clearly we would not wish to rule out in advance the option of placing extra orders.

d. Exports. We should not rule out the hope that capacity may be needed for warship exports. Vospers have good prospects of selling frigates to Pakistan and there is a prospect that Australia may order SSKs from UK yards. Similarly there is always the possibility of refit or refurbishment work for export (Vospers have secured the work on 3 Tribal class frigates sold to Indonesia).

e. Merchant work. The accepted wisdom is that merchant work cannot be profitable. Even so it is not inconveivable that, for example, Swan Hunter under private ownership may see benefit in undertaking commercial work, on a no-loss basis with Intervention Fund subsidy, as a means of keeping facilities open and skills available.

f. GRP. The original paper did not address GRP capacity, but our estimate of future orders is as follows:

Hunt class MCMV 12 and 13 1984/85

Single role minehunter 01 1984/85

02 - 05 1987/88

06 - 10 1989/90

11 - 15 1993/94

MCM rapid route surveillance craft - 1 per year from 1990/91 (could be a hovercraft)

If competition is to be achieved GRP facilities at both Vospers and Yarrows would need to be retained.

Not all the factors affecting steel warshipbuilding are individually quantifiable. But taking them together, our estimate is that the true comparison may be between capacity for 8 ships per year and demand for 5½ or 6.

I am copying this letter to the Private Secretaries of other members of E(A) and to Richard Hatfield in the Cabinet Office.

Yours ever

Nick Evans

(N H R EVANS)

Nationalised Industries Pt 6

Shipbuilding

CC NO

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(Switchboard) 215 7877

From the Minister of State for Industry

NORMAN LAMONT MP

Prime Minister
To note. This emphasizes the urgency of resolving the dispute about Type 22 Frigates and Cammell Laird.
OT 14/5

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP
Secretary of State for the
Environment
2 Marsham Street
LONDON
SW1

14 May 1984

Dear Patrick

You will wish to be aware that British Shipbuilders will be meeting the Shipbuilding Negotiating Committee on Tuesday 15 May, to continue their discussions about the future of the industry.

The main item to be taken at this meeting (which BS and the unions agreed some time ago to hold) will be Cammell Laird. You will recall that I wrote to the Prime Minister on 6 April warning of further redundancies at Cammell Laird. BS are now of the view that they cannot delay the announcement to the unions any longer.

As you and colleagues are aware, the future of Cammell Laird is somewhat bleak. We are currently discussing within E(A) various alternatives for the yard; but the common ground of all possibilities is a substantial reduction in the workforce.

BS called for 640 voluntary redundancies at Cammell Laird last October. Only 280 of these have been achieved, and BS will tell the SNC tomorrow that the balance of 360 must now be achieved by compulsory redundancies.

In addition, BS will call for 870 further voluntary redundancies but will tell the SNC that, if these are not achieved voluntarily within a certain time, the redundancies will have to be made compulsory.

After all these redundancies have been secured, the workforce will be down to 1,700, from its present level of nearly 3,000.

Finally, BS will tell the SNC that a further 450 jobs are at risk if Cammell Laird fails to secure an order in the very near future.

Copies of this letter go to other members of E(A), and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN LAMONT

NAT INDS: Shipbuilding pt 6

NBPM AT 14/5 CC NO

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JF6514
Secretary of State for Trade and Industry

11 May 1984

CONFIDENTIAL

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1

D Michael.

WARSHIPBUILDING : FUTURE MOD ORDERS

In order to prepare the paper commissioned by the Prime Minister at yesterday's meeting of E(A), I need to have a firm statement from you on the future pattern - in terms of timing, and ship type - of Ministry of Defence orders.

2 Attached is a note by your officials, which was given to my officials in March of this year, and underpinned the statistical annexes attached to my E(A) paper.

3 Could you please confirm that these remain MOD's estimates of its order intentions? If they are not, I need to know in precise terms how your present order intentions differ.

4 These estimates relate only to surface steel ships. In order to get a full picture, I need also to have a statement from you on present order intentions in respect of submarines, GRP and refit work.

5 I appreciate that later years' figures will grow increasingly uncertain; but the first three years' figures willno doubt be what you are currently using for PESC planning.

/6 I am ...

6 I am sorry to have to ask for a very rapid response on this, but I shall need to have your response no later than Tuesday, 15 May so that I can meet the tight timetable that I have been set by E(A).

7 I am sending a copy of this letter to other members of E(A) and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

Encl

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

Financial year	Vessels that may be ordered
1984/85	T22 - 13 T22 - 14 T23 - 01 1x Logistic Landing Ship (Sir Galahad replacement)
1985/86	T23 - 02 T23 - 03 Castle Class { OPV(II) - 03 OPV(II) - 04 AOR - 01
1986/87	T23 - 04 05 06 07 08 AOR - 02 AOR - 03
1987/88	T23 - 09 10 11 12
1988/89	AOR - 04 05
1989/90	T23 - 13 14 15 16
1990 /91	T23 - 17 18 19 20 AOR - 06 07
1991 /92	Nil

CONFI DENTIAL

COMMERCIAL IN CONFIDENCE

Financial year	Vessels that may be ordered
1992/93	T23 - 21 22 23 24 25 26 27 28 AOR - 08 09
1993/94	Nil
1994/95	T23 - 29 30 31 32 AOR - 10 11

NAT IND: Shipbuilding: Pt 6.

Chancellor of the Duchy of Lancaster

PS/Prime Minister
(Mr Turnbull)

cc Mr Hatfield

I attach a note from Lord Cockfield in connection with this afternoon's E(A).

In view of the timing, we have not circulated it.

SEBASTIAN BIRCH

10 May 1984

Chancellor of the Duchy of Lancaster

PRIME MINISTER

WARSHIPBUILDING

I may not be able to leave the House in time for the start of today's meeting of E(A).

I am therefore setting down my views below.

1. The indication is that if the order went to Cammell Laird we would end up with at least two unprofitable yards and possibly more. But if the order went to Swan Hunter we would have four yards, all potentially profitable. On any commercial basis therefore, and subject to the outcome of the actual tender, the order should go to Swan Hunter.

2. Because of the political aspects it is I believe essential that we should go to tender so that - assuming this is the position - Cammell Laird's inability to tender successfully would be publicly demonstrated and we would have complied with John Nott's promise. But it is very important that the tender should be genuine ie that there should be no concealed subsidy by British Shipbuilders.

3. Graham Day's fallback position of merging Cammell Laird with Vickers is the worst possible solution as it ties the millstone of a loss maker around the neck of a potentially profitable company.

4. On privatisation, I agree with the Secretary of State for Trade and Industry that the preferred course is to sell the yards individually. Where the main customer is the Government itself it is very important to maintain a competitive situation.

5. In the absence of the much-delayed corporate plan, it is neither easy nor satisfactory to take decisions in this piecemeal fashion.

P. Rice

Approved by
the Chancellor of the Duchy of Lancaster
and signed in his absence

10 May 1984

C

P.01282

PRIME MINISTER

Warship building.
E(A)(84) 23 & 24.

BACKGROUND

The Government's Election Manifesto said that it would aim at transferring a 'substantial part' of British Shipbuilders (BS) to the private sector. Given the financial and other difficulties faced by merchant shipbuilding, the most realistic way of achieving this aim is by disposing of warship building activities. The Chancellor of the Exchequer's memorandum on
FLAG A competition and privatisation (E(A)(84)3), which was endorsed in general terms by the Sub-Committee at their
FLAG B meeting on 25 January (E(A)(84)2nd Meeting) suggested that privatisation should be possible from 1985 onwards.

Privatisation

FLAG C. 2. In his memorandum E(A)(84)23 the Secretary of State for Trade and Industry says that there is substantial excess capacity in the five main warship building yards in Great Britain. Annex B to his memorandum implies that during the next eight years naval orders would not require more than 75 per cent of capacity; in some years they would require significantly less. He believes that complete closure of one yard (and apparently significant reductions in capacity at least one other) is needed:his merchant bank advisers, Schroder Wagg, have said that sale of the yards (other than Vickers, which has an assured future building Trident submarines) could take place only once a decision on the reduction of excess capacity had been taken. Although he does not explicitly say so, it is clear that Mr Tebbit believes that the yard to close should be Cammell Laird on Merseyside. It is a relatively inefficient yard; and its order book runs out in December 1984.

3. Mr Tebbit recommends that all remaining warship yards should be transferred to the private sector, preferably individually or in small groups in order to preserve competition. However, in case this should go too slowly, or realise inadequate sale proceeds, and to strengthen the Government's hand in negotiation with potential buyers, he recommends that there should be simultaneous work towards a public flotation. BS should take the lead in negotiations with potential buyers, with a deadline of March, 1985 (end-1985 for a public flotation).

Cammell Laird and orders for Type 22 frigates

4. The Ministry of Defence wants to order two Type 22 frigates. Three yards (Vosper Thorneycraft in Southampton, Swan Hunter on Tyneside, and Cammell Laird) were invited to tender. Cammell's submitted what was, though only marginally, the lowest tender; but it was prepared on assumptions, particularly concerning overheads, which BS were not willing to endorse; BS therefore instructed Cammell's to withdraw the tender, and the tenders from other yards have already expired. In his memorandum E(A)(84)24 the Secretary of State for Defence argues that it would be wrong to go to a further round of tenders. In his view, the social and other consequences of allowing Cammells to close would be prohibitive. He proposes that an order for at least one Type 22 should be directed to Cammells, subject to detailed negotiations; if Cammells demonstrated in the following six months that it could perform satisfactorily, it would receive the order for the second Type 22.

MAIN ISSUES

5. The main issues before the Sub-Committee are as follows.

(i) Do they agree with the analysis of warship building capacity and orders in E(A)(84)23, and that in consequence it is necessary to close at least one yard?

(ii) In the light of the answer to (i) above, what should be done about the order for Type 22 frigates?

(iii) In the light of the answers to questions (i) and (ii), what should be the Government's approach to privatisation of warship building? In particular -

(a) Should any yards in Great Britain be retained in the public sector?

(b) Should the Government require overt competition to be maintained by selling different yards, or groups of yards, to different owners; or is a sale to one buyer acceptable?

(c) If a sale to one buyer is acceptable, is flotation an acceptable method? Is it perhaps preferable to a negotiated sale to a corporate buyer?

(d) Who should take the lead in negotiating any sales?

(e) Should the negotiator have a deadline and/or a pre-condition regarding sale proceeds?

Capacity and orders

6. The figures in Annex B to E(A)(84)23 suggest that on present prospects there will be over-capacity in warship building for years to come. If that is a correct assessment, then maintaining existing capacity will carry a large cost. It may also be a bar to privatisation, since it will not be easy to privatise the industry on the basis of continuing Government subsidy of excess capacity; and excess capacity often leads to directed orders, which prevent

genuine competition. Even if privatisation were possible, the sale proceeds would probably be reduced by excess capacity in the industry.

7. On the other hand, the Sub-Committee will wish to consider the following.

(a) E(A)(84)23 implies strongly that Cammell Laird should close; paragraph 6 of Annex C also suggests that Vospers steel warship building capacity should close. That would leave Vickers as the only yard with a proven capacity for building modern submarines; Vospers as virtual monopolists of glass-reinforced plastic (GRP) work; and only Yarrow and Swan Hunter competing for frigates and auxiliary oiler replacements (AORs). Is this enough competition?

(b) The forecast level of warship construction in Annex B to E(A)(84)23 is historically low; and the Annex does not provide for some classes of warship which are competing for a place in the Defence Programme over the next ten years (eg enhanced Patrol Vessels and amphibious force replacements). Export prospects may also be better than allowed.

The order for Type 22s

8. In reaching a decision on the order for Type 22 frigates, the Sub-Committee will wish to consider the following.

(a) If the view is taken that the prospect is for continuing excess capacity in warship building, and that closures are therefore necessary, then giving the Type 22 order to Cammells must mean closing another yard. DTI officials consider that the natural alternative to Cammells would be Swan Hunter. The difficulties of a closure on Tyneside might be no less

severe than those of closure on Merseyside. Moreover, apart from Vospers, the other yards have orders on hand until December 1987 or later; and they could hardly be closed before then. This could lead to a significant deferment of privatisation.

(b) Directing an order to Cammells rather than asking for new tenders would run counter to normal procurement practice. It is quite possible that the Accounting Officer in the MOD would require a Ministerial direction to protect him before the PAC. If so, the fact that Ministers had decided to direct the order to Cammells, on political grounds, could be expected to become public knowledge quite quickly. Other yards could be expected to complain.

(c) The chairman of BS, Mr Graham Day, is said to be anxious to keep Cammells open. However, he recognises that doing so would require substantial redundancies (which weakens some of the arguments in E(A)(84)24) and concessions from the workforce which may well not be forthcoming. Nor is it clear whether he has plans for reducing the capacity of the warship building industry, if Ministers consider this necessary.

(d) If the Type 22 order is not to be directed to Cammells, the natural alternative will be to ask for new tenders. Cammells could hardly be excluded from the request (after all, they did submit the cheapest bids in earlier rounds). So the future structure of the industry would be in doubt until the tender process had been completed. (However, I understand that this should take no more than a few weeks).

(e) It is unlikely to be satisfactory to try to compromise by giving one order to Cammells and the other to another yard. Not only would this defer tackling the problem (if there is one) of excess capacity in the industry; it would also significantly increase the cost of the ships by preventing the yards concerned from spreading overheads.

Approach to privatisation

9. Clearly no member of the Sub-Committee is likely to suggest that privatisation of warship building is undesirable. But a number of important questions will need to be addressed in the light of the Sub-Committee's conclusions on the matters discussed above.

(a) Retention of yards in the public sector

It will not be disputed that the privatisation of all warship building yards in Great Britain is desirable. It may, however, be questioned whether it is essential, as Mr Tebbit argues. Harland and Wolff compete for naval orders and are unlikely to be either closed or privatised in the foreseeable future; it is not suggested that this is an insuperable objection to privatisation of naval yards in Great Britain.

(b) Competition

The Sub-Committee will wish to consider how important an objective competition is, and how it can be achieved. At one extreme it would be possible to argue that, as noted above, closure of yards will reduce competition; that even some sales of 'small groups' of yards would leave no effective competition (for example, if Yarrow and Swan Hunter were sold to a single buyer); and that therefore no two yards should be sold to the same buyer. At the other, it could be argued that the only effective competition is between yards in this country

and yards overseas; that for strategic reasons such competition will generally not be allowed; and that sales of the yards as one entity will probably maximise the sale price and should therefore not be ruled out.

(c) Method of sale

The Sub-Committee's views on the importance of competition will have a bearing on the proposed sale method. If they decide that sale to a single buyer should be ruled out, it would be logical to decide against flotation of warship building as a single concern (though the possibility might be kept open as a negotiating tactic).

(d) Responsibility for negotiations

It is likely to be generally accepted that BS should be made responsible for conducting negotiations with potential buyers, so long as they are given their objectives.

(e) Objectives for negotiations

Again, it is likely to be agreed that the negotiators should be given a deadline. There may be more argument about whether they should be given a target for the sale proceeds. We understand that Treasury officials are likely to brief their Ministers to suggest that an objective of at least £75 million should be set. If so, other Ministers are likely to argue that there is no harm in setting such a figure as an objective, but that it should not be a pre-condition: in other words, final decisions should be taken in the light of all circumstances, of which the prospective proceeds would be one but not to the exclusion of others. Certainly it seems reasonable to suppose

that the financial benefits of effective competition in warship building, if it could be achieved, would outweigh any difference in the sale proceeds that might be produced by one method of sale rather than another.

HANDLING

10. It will probably be convenient to divide the meeting into two main parts:

i. Capacity and orders in the warship building industry; the future of Cammell Laird; and the order for Type 22 frigates.

ii. The approach to privatisation.

The first part might be opened by the Secretaries of State for Trade and Industry and Defence speaking to their respective memoranda. The Secretary of State for the Environment will have views on the political impact of decisions on Merseyside and other parts of the country. The Chief Secretary, Treasury will have views on public procurement and public expenditure aspects.

11. The second part of the discussion might also be opened by the Secretary of State for Trade and Industry. Either the Chancellor of the Exchequer or the Chief Secretary, Treasury may have comments both on particular aspects and from the standpoint of the privatisation programme as a whole. The Secretary of State for Defence will wish to comment on the importance of effective competition among warship builders.

CONCLUSIONS

12. You will wish the Sub-Committee to reach conclusions on the following.

i. Is the view of the Secretary of State for Trade and Industry correct, that there is substantial excess capacity in warship building in prospect, and that this requires correction by one or more major closures?

ii. In the light of the answer to question (i), should the order for Type 22 frigates -

a. be directed to Cammell Laird on the basis proposed in E(A)(84)24;

b. be the subject of re-tendering by the three yards previously asked to tender (Cammell, Vospers, and Swan Hunter);

c. be dealt with in some other way?

iii. Do the Sub-Committee agree with the detailed proposals regarding privatisation in E(A)(84)23, and in particular:

a. that no warship building yard in Great Britain should be retained in the public sector;

b. that yards should be sold individually or in small groups, but that the possibility of a public flotation should be kept open;

c. that British Shipbuilders should take the lead in negotiation with potential buyers?

iv. If British Shipbuilders do take the lead in negotiations, what guidelines should they be given?

PG

P L GREGSON

9 May 1984

10 DOWNING STREET

Prime Minister

You may wish to make a start on these papers. The Cabinet Office brief will come tomorrow.

AT
8/5

CONFIDENTIAL

PRIME MINISTER

WARSHIPYARD PRIVATISATION AND TYPE 22 FRIGATE ORDERS
E(A) ON 10 MAY

We commend Mr Tebbit's determination to reduce UK warshipbuilding capacity, to proceed apace with warshipyard privatisation, and to consider the wider context of how best to use two Type 22 frigate orders which MOD must soon place.

In summary we recommend:

i. the withdrawal of Cammell Laird and Swan Hunter from warshipbuilding;

ii. placing the Type 22 frigate orders with Vosper Thornycroft;

iii. privatising the three large, dedicated warshipyards - Vickers, Vosper and Yarrow - as separate entities;

iv. placing the detailed negotiations in the hands of Graham Day, with a deadline for disposal of December 1985.

Our Annex sets out the supporting logic and suggests the sequence in which E(A) should tackle overlapping issues.

RY.

ROBERT YOUNG

CONFIDENTIAL

JMEAAN

WARSHIP BUILDING PRIVATISATION

1. WHAT ISSUES ARE AT STAKE?

There are four key issues which E(A) will have to address. We suggest the following sequence as most logical:

i. Given the available market for UK warship building, is capacity reasonably in line with demand?

ii. In the light of i. what best use should be made of the Navy's urgent requirement to place orders for two Type 22 frigates?

iii. In the light of i. and ii. how much warshipyard capacity can we hope to privatise?

iv. How should disposal take place?

2. THE MARKET, AND THE CAPACITY OF THE WARSHIPYARDS

Since the late 1960s, UK yards have won no major overseas warship orders. So, for all practical purposes, the current market for UK built warships - and certainly the only one which will determine the behaviour of investors - is the requirement of the Royal Navy.

For this finite market there will be a continuing surplus of capacity for the two main fighting surface ship types - frigates, and glass reinforced plastic (GRP) ships, ie Minehunters and Mines Countermeasures vessels. Using MOD's Long Term Costing of 1983, Schroder Wagg estimate the surplus capacity on frigates at about 50% to 1986, falling to around 20% from 1987 on. For GRP vessels, the surplus is put at 70 to 80% well into the mid-1990s. Worse, the surplus of capacity will grow if:

a. labour productivity starts to improve, as it should under the new pay deal and/or

b. Harland and Wolff start to compete more actively on naval work with GB yards.

Demand and capacity are approximately in balance for submarines and for auxiliary oil replenishment vessels (AORs).

But the over capacity problem, where it exists, is a serious one. It cannot simply be transferred to private owners.

Where Government can afford to be cavalier about asset write-off (because it is a non-cash item) the private sector cannot. And there is a problem over redundancy pay. While shipyard workers remain in the State sector they are covered by the rather generous Shipyard Redundancy Payments Scheme, which private sector owners almost certainly cannot afford. Yet shipyard workers will not give up such rights without a fight on transfer to the private sector.

So we agree with Mr Tebbit and Schroder Wagg that reducing over capacity is for BS to pay for, and therefore to identify. This is an indispensible prior condition of privatisation.

3. THE TWO TYPE 22 FRIGATES

Each ship represents about 2 years of work. The orders could be placed in a way which:

i. fulfils a largely social objective by sustaining employment in difficult areas; or

ii. aids privatisation by providing a solid 'launch' order book; or

iii. quite simply awards the orders to the lowest bidder.

These three options do not converge.

In theory, the frigates can be built at any one of four yards - Vosper Thornycroft (Southampton) or Yarrow (Glasgow), which are both dedicated warshipyards; or Cammell Laird (Merseyside) or Swan Hunter (Tyneside) which are mixed activity yards.

On employment grounds Yarrow does not have a priority claim to the T22s since it is busy until the end of 1987. Much the same is true of Swan Hunter: although the yard is short of merchant work, it has warship work into early 1988. The effective choice is between Cammell Laird and Vosper, both are desperate for work.

As to pricing, we note that no tenders are currently live. But the difference per ship between the lowest and next highest bid up to the end of March was £600,000 in a shipyard value of £70 million and a full ship cost of £140 million. We should be chary of low bids from mixed yards. It is not hard for them to juggle some warship overhead into non-warship work.

As to privatisation, we have grave reservations about the saleability of the mixed activity yards, even with the T22 orders. Investors will correctly perceive that these two yards live on MOD handouts in order to fill in the lulls between merchant orders (Swan Hunter) and offshore orders (Cammell Laird). Neither yard shines in its mainstream activity.

Since warship building capacity has to be cut, we urge the withdrawal of Cammell Laird and Swan Hunter from warship building and the placing of both T22 orders with Vosper Thornycroft. The effect is likely to be the immediate closure of Cammell Laird (or possibly its rescue, Scott Lithgow fashion) and a steady run down at Swan Hunter. But this solution provides a good package of warshipyards for privatisation, with orders and capacity broadly in line at each yard. In short, we have a broadly viable industry of the sort we would dearly like for merchant shipbuilding.

There will be vigorous counter-arguments to this proposal. Michael Heseltine has shown himself very anxious to protect employment on Merseyside. But the creation of a viable warship industry is a real and worthwhile prize. Cammell Laird is going to have to shed 1,800 jobs, nearly half its workforce, even under Graham Day's rescue plan. And, although Government's relationships with Liverpool could deteriorate if Birkenhead does not get the orders, it is not clear through this hazy logic that Government would get any credit if Cammell Laird were allowed to win. If Merseyside deserves a favour, who does not? Where does the special pleading stop.

4. THE PACKAGE OF YARDS

We envisage the following package of yards as available for disposal:

Vickers	Barrow	Submarines
Yarrow	Glasgow	Frigates and GRP vessels
Vosper Thornycroft	Southampton	Frigates and GRP vessels
Hall Russell	Aberdeen	Small craft
Brooke Marine	Lowestoft	Small craft

For every vessel type except submarines MOD will have competition available, without breaking its traditional practice of not inviting tenders from overseas.

The future behaviour of MOD will be crucial to privatisation because the stultifying relationship between monopoly customer and monopoly purchaser is so well entrenched that to disrupt it now will frustrate sale of the yards. So, for several years, although not permanently, we believe that MOD will need:

a. to continue to place orders in the UK;

b. to refrain from placing them with subsidised state-owned yards, including Harland and Wolff and

c. to continue its present funding practices. This last point is vital in the short-term. MOD finances virtually all the yards' working capital, and without it they will all collapse from shortage of cash. We do not see the need for a permanent guarantee of MOD's future behaviour. But we judge that it will have to endure for at least the remainder of this decade.

Splitting BS' warship activity into much more genuinely competitive units is a good stride forward. These conditions are an inevitable price.

5. METHODS OF DISPOSAL

Provided capacity cuts are made, grouping any or all of the large yards should be ruled out. A grouping of Yarrow and Vosper would destroy UK competition in two important ship sectors. A grouping of Vickers with either or both the others would create competitive imbalance.

We should welcome, and deal openhandedly with, competitive bidding for the yards. Prima facie, we have four sources of bid - previous owners, current management, new bidders, and public flotation.

Beyond that, we agree that the detailed negotiations should be left to Graham Day, without MOD at his elbow.

We also agree that the end of 1985 is a proper deadline.

RJ.

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

19 April 1984

Dear Michael,

CAMMELL LAIRD: FRIGATE ORDERS

I have seen copies of Norman Tebbit's letters of 9 and 13 April, and yours of 10 April.

What we all know is that the future of Cammell Laird at its present scale of operation is precarious. Job losses on any significant scale would have a very damaging impact on an already very difficult position as far as Liverpool and Merseyside are concerned. The decision on placing the frigate orders is obviously of particular significance.

I would therefore certainly welcome an early discussion about this issue, recognising as you do that there are a number of major considerations.

I am copying this to E(NI) colleagues and to Sir Robert Armstrong.

Yours ever
Patrick

PATRICK JENKIN

The Rt Hon Michael Heseltine MP

NAT IND: Shipbuilding Pt 6

CONFIDENTIAL

File cc/NO

DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

18 April 1984

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London SW1

Dear Michael.

TYPE 22 FRIGATE ORDERS

I understand from British Shipbuilders that you have changed your position on the placing of orders for the two Type 22 frigates. As I understand it, the Chairman of BS has been told that MOD would be prepared to place an order for at least one of the frigates with Cammell Laird on a non-competitive basis in the very near future.

2 Our discussions and correspondence on this matter have so far been on the agreed basis that in view of the wide issues involved the placing of these orders is something that we have to decide collectively. We are due to have this discussion at E(A) in the week beginning 30 April.

3 I assume that no announcement about this order will be made, either formally or informally, which would pre-empt this discussion.

4 Copies of this letter go to other members of E(A) and Sir Robert Armstrong.

Yours
Norman

NORMAN TEBBIT

JH1ALR

CCNO

NDPM

AT 18/4

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

18 April 1984

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

Dear Norman

BRITISH SHIPBUILDERS: OBJECTIVES

FILE WITH AT.

You attached to your minute of 29 March to the Prime Minister a set of draft strategic objectives for British Shipbuilders. I am sorry not to have commented earlier.

I have no objection to your putting these objectives to Mr Day. But my agreement is on the clear understanding that they are still subject to amendment in the light of the definitive decisions we shall be taking in June on the rate of contraction necessary in merchant shipbuilding to achieve our targets for reducing and eventually eliminating expenditure on support.

I would also endorse Arthur Cockfield's suggestion that you should impress on Mr Day how important it is that the BS Corporate Plan should arrive in time to inform these decisions.

Finally, I share Arthur's feeling that, in the light of Scott Lithgow, BS should not overlook the possibility that there may still be private sector interest in yards which they themselves consider unviable.

Copies of this letter go to the Prime Minister, the other members of E(NI) and to Sir Robert Armstrong.

Yours
Nigel

NIGEL LAWSON

Nat Ind: Shipbuilding Pt 6.

~~CC~~ NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NRPM
AT 18/4

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H OET

17 April 1984

Dear Norman

BRITISH SHIPBUILDING - OBJECTIVES

Thank you for sending me a copy of your minute of 29 March to the Prime Minister about objectives for British Shipbuilders.

I am generally content with the objectives and the approach you propose, but have some comments on the detail.

On merchant shipbuilding, I feel that the objectives would be more robust and more easily monitored if the basic aim was to break even through progressive reductions in trading losses. As currently drafted the aim to reduce trading losses and break even only in the longer term seems rather undefined. I appreciate, however, that quantified targets and a timetable for their achievement cannot be fully defined until the Corporate Plan is available. In addition, I think the draft inadvertently implies that possible privatisation is the only justification for reducing losses. Eliminating losses is essential in itself

if we are to achieve our aim of reducing financial support to those parts of British Shipbuilders remaining in the public sector.

On offshore work, I think the objectives should be strengthened to make it clear that all losses - not only potentially large ones - should be limited and to emphasise that the action to this end that British Shipbuilders have already taken should continue in the future.

I am copying this to the Prime Minister, other E(NI) colleagues and Sir Robert Armstrong.

Yours ever
Nicholas

NICHOLAS RIDLEY

File

Shipbuilding file.

PRIME MINISTER (2)

There is a dispute between Mr. Heseltine and Mr. Tebbit on how best to proceed on the Type 22 orders. The original tenders have been withdrawn because, as Mr. Tebbit explained yesterday, the basis of the original Cammell Laird tender has changed.

(i) Mr. Heseltine argues that a meeting on the economic, industrial and political implications of the various outcomes (in particular a decision not to use Cammell Laird) should be held before re-tendering starts.

(ii) Mr. Tebbit argues that new tenders should be sought first, and the results fed into wider consideration of all the factors.

Logically, Mr. Tebbit must be right, but as the customer, Mr. Heseltine holds the whip hand. Mr. Tebbit is therefore prepared to agree to Mr. Heseltine's sequence. A meeting of E(A) is likely soon after Easter, taking papers from the two Ministers.

AT

MT

13 April, 1984.

CONFIDENTIAL

cc NO

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Secretary of State for Trade and Industry

13 April 1984

Rt Hon M Heseltine MP
Secretary of State for Defence
Ministry of Defence
Whitehall
London SW1A 2HB

Dear Michael,

TYPE 22 FRIGATE ORDERS

We discussed my letter of 9 April and your reply of 10 April, yesterday.

2 We have indeed kept in touch with your Department over the tenders for Type 22 frigates 13 and 14, and it was clearly - and rightly - agreed in correspondence between Norman Lamont and Ian Stewart last autumn that the longer term options for the yards selected should be taken into account. Given our Manifesto commitment to privatisation, we could not do otherwise.

3 As your letter clearly indicates, it is factors other than privatisation that have caused the present complications. The tenders from Vospers and Swans lapsed because, as I understand it, they were not given an opportunity to extend them. The tender from Cammell Laird was withdrawn as soon as BS management discovered that it had been extended without the agreement of the Board of BS. This was entirely a decision of BS central management, their reasons being that the circumstances of Cammell Laird had changed since the tender had originally been submitted (the yard having lost the Sun Oil contract its overhead structure had dramatically changed) and that the three tendering yards had not been treated equally. In my view, this was very understandable; one can imagine the very strong protests if Swan Hunter learned that they had not been given an opportunity to extend their tender, and that the work had gone to a yard that had not signed the productivity deal.

4 I am, of course, aware of John Nott's statement of 14 December 1982. But I certainly do not think that it can be read, as you seem to suggest, as implying that Cammell Laird should necessarily get the order. I do not think it is at all in the spirit of John Nott's statement that you should try to avoid the next obvious steps in this matter, which is to seek re-tenders from all the three yards. Nor do I believe we should - without careful

JH3AAX

consideration - adopt a course of action which could be interpreted as over-riding the commercial judgement of the Board of British Shipbuilders.

5 Since I understand you do not wish to follow the normal competitive tendering process I would be content (as I said yesterday morning) that the decision on the allocation of these orders is taken in the context of wider consideration as you wish, but that would have to take into account all relevant considerations.

6 In advance of this discussion, however, I believe you should call for retenders from BS. The results of the retendering process should be fed into our discussions, rather than vice versa. This seems to me the logical and sensible means of proceeding. However, in order to help to reach a decision as soon as possible I am prepared not to insist upon that: but what is essential is that if normal processes are to be abandoned there should be collective discussion of the basis on which orders should be placed.

7 Copies of this letter, and my previous one to you, go to E(NI) colleagues and to Sir Robert Armstrong.

Yours

NORMAN TEBBIT

JH3AAX

TOP COPY on:
Regional Pol. PT4
Inner Cities.

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7022~~ 218 2111/3

MO 21/8/5

13th April 1984

Dear Andrew,

LIVERPOOL

We spoke earlier today about your letter recording the outcome of the Prime Minister's meeting yesterday on Liverpool. In your final paragraph you record the Prime Minister as saying in her summing up that "the tenders for the Type 22 frigates should be expedited and the issue should come to the relevant Committee of Ministers as soon as possible". I told you that Mr Heseltine is quite clear that it is the issue of going out for new tenders which needs to be discussed by Ministers.

Your letter quite rightly refers to the fact that all previous tenders for the Type 22 frigates have been withdrawn; but it is not correct to say that we are awaiting new tenders: none have been sought. Mr Heseltine's concern, as he explained in his letter of 10th April to the Secretary of State for Trade and Industry, is that the very act of going out to re-tender will carry implications for Merseyside since it is known that Cammell Laird submitted the lowest tender in the previous exercise. Before instructions are given for a new exercise he wishes his colleagues to consider the possible political consequences of taking this route, together with the options available, the range of outcomes and the possible social, economic and political consequences. I am told by the Cabinet Office that E(A) would be the appropriate forum for such a discussion and we will prepare a paper for the Committee to consider soon after Easter.

I am copying this letter to the Private Secretaries of those Ministers who received a copy of yours.

Yours ever

Nick Evans

(N H R EVANS)
Private Secretary

A Turnbull Esq

CCNO
NBPM
AT

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 26/3

10th April 1984

Dear Norman

Thank you for your letter of 9th April which we discussed last night. As you will be aware our Departments have kept very closely in touch over the matter of tendering action for Type 22 frigates 13 and 14. You refer in your letter to the need for a policy that would produce a competitive process in the form of tenders from British Shipbuilders. You will be aware that we invited tenders from British Shipbuilders in July 1983. We received replies from three yards (Swan Hunters, Vosper-Thornycroft and Cammell Laird) on 5th October. A round of re-tendering was completed on 18th January.

The competition was won at that stage by Cammell Laird by a margin of about £1M per ship. We have consistently been in favour of competition and we have in no way sought to influence the outcome. It is at this point that the complications begin.

Cammell Laird had been given the clearest undertaking by John Nott that they would be allowed to compete for this order: you will recall John Nott's statement on 14th December 1982:

The Rt Hon Norman Tebbit MP

".... the fourth and final Falklands replacement will be a further Batch III Type 22 frigate. It will be ordered by competitive tender. Cammell Laird Shipbuilders Ltd and Vosper-Thornycroft (UK)Ltd will be strong contenders for this order." (Hansard Vol 34, Col 130).

Of course we have known here of the work which you are undertaking on the privatisation of British Shipbuilders. But it would not be consistent with our undertaking that Cammell Laird would be allowed to compete on a free basis to allow a political purpose of this sort to affect the commitment which we gave to the Company. I now understand that there is talk of Cammell Laird closing and I do not need to explain the significance of this to that part of Britain. This is particularly relevant in the context of a decision to proceed with a further re-tendering exercise which could lead to another conclusion and where it might be seen that a political process had reversed the implication of John Nott's announcement.

I understand of course that, as with all industrial tendering processes, life is never simple. After the initial tendering exercise a national productivity deal was reached, the results of which were not reflected in the tendered prices from all three yards. Subsequently only Swan Hunters have concluded a pay and productivity deal with both their blue and white collar workers. Cammell Laird and Vospers have signed with their white collar workers only. Our position is that we sought to conduct a fair competition, with the result that I have outlined. But we cannot make progress on the basis of these results because the two higher tenders from Vospers and Swans have now lapsed, and the lowest tender from Cammell Laird has been withdrawn.

This is a most unsatisfactory situation. I have got to place orders for these frigates. But, before I start on a re-tendering exercise, I believe that it is important for colleagues to have a clear view on the economic, industrial and political implications of the

possible outcomes. You say in your letter that your plans for British Shipbuilders' warship building operations are not to be discussed until the week beginning 30th April. I believe that we should discuss the question of the Type 22 order well before then and I am therefore copying this letter, together with yours, to our E(NI) colleagues and to Sir Robert Armstrong.

Yours ever

Michael Heseltine

DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

9 April 1984

CONFIDENTIAL

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall SW1

26/3/3.

D Michael,

TYPE 22 FRIGATE ORDERS

I understand that you have been considering making arrangements to place the MOD's two Type 22 frigate orders with Cammell Laird, in advance of receiving tenders from British Shipbuilders and in advance of a discussion on privatisation of BS' warshipbuilding operations scheduled to take place in the week beginning 30 April. When Ian Stewart and Norman Lamont corresponded about this, it was agreed that you would keep in close touch with us on the placing of these orders and, as Ian Stewart said in his letter to Norman Lamont of 10 October, we are all in agreement that "there would have to be some weighty considerations to justify paying premiums above the lowest tenders". I hope that these considerations still apply, and that what I have heard is without foundation.

2 I am sending a copy of this letter to Peter Rees.

Yours
Norman

NORMAN TEBBIT

FILE
da

cc HMT D/M
DOE CDL
SO CO
DOT Bob Young
CSO
D/N

10 DOWNING STREET

From the Private Secretary

9 April 1984

British Shipbuilders : Objectives

The Prime Minister has seen your Secretary of State's minute of 29 March. She is generally content with the draft objectives (Policy Unit have some drafting suggestions to make which they will be putting to you at official level). She agrees that the objectives can now be put to Mr. Day, and subsequently to the BS Board.

I am copying this letter to Private Secretaries to members of E(NI) and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

10 DOWNING STREET

Prime Minister (2)

DTI have discussed with BS whether this announcement could be deferred until after the NUM meeting. BS believes deferment will not achieve anything. I agree. Deferment would have to be postponed until after any ballot which could be two weeks away. In any case I am not convinced that there really is a link with coal. The more likely link is with Liverpool.

AT
6/4

What does SofS think?

Note Mr Day agreed to defer announcement. Meeting will discuss position of company but PTO

not neither redundancies

AT 9/14

CONFIDENTIAL

cc PE

cc NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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From the Minister of State for Industry
Norman Lamont MP

Prime Minister
No. 10 Downing Street
LONDON SW1

6 April 1984

MT

Dear Prime Minister

BRITISH SHIPBUILDERS: JOB LOSSES AT CAMMELL LAIRD

You will want to be aware that British Shipbuilders is to meet its Unions on April 10 to discuss the serious workload situation at Cammell Laird and will be announcing prospective compulsory redundancies of around 1400, about 40% of the yard's workforce. 400 compulsory redundancy notices will go out towards the end of April, the rest at the end May/early June.

The Unions will be expecting bad news. BS had fallen around 580 short of the volunteers they wanted from the yard in previously announced redundancies. The Corporation held back from further expected redundancies in January because it wanted to keep men on to speed up work on the Morecambe Bay rig for the British Gas Corporation. Cammell Laird have, as you will know, just lost the Sun Oil contract for which they were bidding. The Corporation will be discussing the redundancies with the Unions on Tuesday afternoon and there is therefore a risk that they will become public then.

BS will be stressing to the Unions that they still see a future for the yard provided that substantial changes in working practices can be introduced. The workforce have not yet signed the Corporation's productivity deal.

Local reaction to the redundancy announcement will undoubtedly be vociferous. It will be aggravated if it becomes public knowledge that Cammell Laird have, earlier this week, been required by the Board of British Shipbuilders to withdraw their tender for two new frigates for the Navy. Cammell Laird are competing for these orders with Swan Hunter and Vosper Thornycroft, whose tenders expired at the end of March (Cammell Laird's was due to expire at the end of April). The BS Board withdrew the Cammell Laird tender in order to bring them into line with Swan Hunter and Vosper Thornycroft. I understand that all 3 yards will be invited to re-tender. But it is possible that the situation will be misunderstood on Merseyside.

JB5ARY

CONFIDENTIAL

I am copying this minute to the Chancellor and to the Secretaries of State for Defence, Energy, the Environment and Employment and to Sir Robert Armstrong.

Yours ever

Norman

NORMAN LAMONT

JB5ARY

10 DOWNING STREET

Prime Minister (1)

(i) To note Policy Unit comments. No key MS

(ii) Agree statement of objectives or strategy be sent to MDay and the BS Board? Yes

(iii) Agree I ask Policy Unit to feed in their proposed drafting changes at official level?

Yes - they are very good MS

AT 5/4

Policy Unit
5 April 1984

(2)

MR TURNBULL

cc Mr Redwood

OBJECTIVES FOR BRITISH SHIPBUILDERS

Thank you MT

1. Whether for British Shipbuilders or any other nationalised industry, the Government has three main responsibilities:

   (a) to set a policy for the business as a whole or for its major parts - preferably once only in each Parliament;

   (b) to approve and provide finance - annually, in the light of the industry's trading performance and prospects, and in the light of Government's own finances;

   (c) to hire and fire the key appointees.

Lord Cockfield has confused (a) and (b), and even Mr Tebbit might usefully draw a clearer distinction.

2. Mr Tebbit's memorandum makes a very good job of (a). It would be better to retitle the paper "Policy" or "Strategy" rather than "Objectives" for British Shipbuilders. That apart, we have only minor clarifying changes to suggest, as marked up on the attached copy of Mr Tebbit's text.

We agree that there is no need to delay the release of the paper. Its contents flow directly from E(NI)'s February discussion of Mr Day's strategy of last October.

We also agree that objectives for the corporation, which should involve much more specific financial targets, must await E(NI)'s judgement of the corporate plan in June.

3. For the moment, the question of Graham Day's performance related bonus is a red herring. The facts are that Mr Day was appointed

Chairman of BS on 1 July 1983, on the understanding that he would be eligible for a bonus of up to £15,000 on top of his base salary of £80,000. Prior to appointment, he declined a set of objectives until he had looked inside the corporation, the shipyards and above all the books. In October 1983, Graham Day delivered a strategy (not a corporate plan) which E(NI) did not review until February 1984. So by July, he will have worked for a year without a set of objectives other than the EFL determined for Sir Robert Atkinson.

In these circumstances, the only basis Norman Tebbit has for awarding Graham Day a bonus for the last 12 months work is a subjective one (and he does not need to decide for at least two more months). Performance targets for the next 12 months must await the corporate plan. The proposed statement of Government's strategy for BS, good though it is, is necessarily too imprecise to be of help in determining either year's bonus.

R.Y.

ROBERT YOUNG

CONFIDENTIAL

JU100

BRITISH SHIPBUILDERS: [OBJECTIVES] STRATEGY

The primary aims of the Government are:-

to return the constituent parts of British Shipbuilders to the private sector at the earliest opportunity; and

substantially to reduce the Corporation's call on Government financial support as quickly as possible.

To this end, subject to the provisions of the Aircraft and Shipbuilding Industries Act 1977 and the British Shipbuilders Act 1983 and any direction given by the Secretary of State by virtue of his powers under such Acts, the Corporation's aims shall be:-

1) Privatisation: The Corporation shall aim to:

a achieve privatisation of all of its warshipbuilding activities by end 1984/5* (March 31st 1985) (or by end 1985 (December 31st 1985) if a flotation proves necessary);

b ensure the sale or closure of all shiprepairing-companies and of peripheral engineering interests by end-1984 (December 31st 1984);

c dispose of any other saleable businesses of the Corporation by end 1985/6. (March 31st 1986)

2) Increased Efficiency: The Corporation shall continue to pursue, in consultation with the workforce, a vigorous programme of cost reduction, [including productivity improvements, more efficient purchasing and use of materials and equipment] (DELETE) with the

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*Draft E(DL) paper suggests this timing, subject to consultation with Mr Day.

aim of bringing BS costs [and productivity for all its activities] into line with those of the most efficient European producers and thereafter to improve BS' relative position. The Corporation shall propose relevant comparators and targets in its 1984 Corporate Plan.

3) Merchant Shipbuilding: [The loss-making Merchant shipbuilding companies are unlikely to be candidates for privatisation in the foreseeable future, although] The sale of potentially viable companies remains a longer term aim. To this end the Corporation shall aim to reduce substantially each successive year the rate of trading loss, before crediting Intervention Fund assistance; [on merchant shipbuilding. The longer term aim of the Corporation should be] to bring its merchant shipbuilding activities to break-even; and to close or sell with a 'dowry' facilities where this is judged not to be achievable. When the 1984 Corporate Plan has been received and annually thereafter, Ministers will agree with the Corporation quantified targets for reducing losses on merchant shipbuilding.

4) Offshore: The high level of losses on offshore work must be reduced quickly and exposure to such potentially large losses in the future limited. [The Corporation has already taken action on this front.] Quantified targets for reducing losses on offshore work will be agreed when BS' 1984 Corporate Plan is produced, and will be reviewed annually thereafter.

5) Enginebuilding: The Corporation shall take [early] action by March 31st 1985 to reduce over-capacity in its enginebuilding facilities. Further objectives will be set in the light of the review of enginebuilding to be continued in the 1984 Corporate Plan.

6) Finance: The Corporation shall be required to meet the financial targets set by the Secretary of State. These targets will be set after consideration of BS's annual Corporate Plan and will reflect the Government's policy of reducing financial support for BS.

This should really be No. 1

7) Fair Competition: The Corporation shall ensure that where it is in competition with UK private sector companies such competition is at all times on fair and equal terms and seen to be so.

SBP1

March 1984

CC/NO

BP with PM response

AT 4/4

Chancellor of the Duchy of Lancaster

SECRETARY OF STATE FOR TRADE AND INDUSTRY

BRITISH SHIPBUILDERS

Thank you for copying to me your minute of 29 March to the Prime Minister.

1. We are in very considerable difficulty in this matter as it is a very long time since we have had an agreed Corporate Plan for British Shipbuilders. The 1982 and 1983 plans while not rejected were regarded as unsatisfactory and the 1984 plan has not yet surfaced.

2. It is very difficult to draw up a satisfactory set of objectives in the absence of a realistic Corporate Plan. If however it is thought that a document of the kind proposed would exert pressure on Mr Day to produce a Plan then this would be an argument in its favour. But if we are to achieve that end, I would have thought that the first requirement to be imposed in the document is that a Corporate Plan should be produced, that it should be produced on time and that the objectives whether operational or financial set by Government in the light of that Plan should be adhered to.

3. On more detailed matters, the very considerable success in disposing of Scott Lithgow does not appear to be reflected in the thinking in the document. The statement that "the loss making merchant shipbuilding companies are unlikely to be candidates for privatisation" seems to strike the opposite note. And similarly the statement that the "aim .... should be to bring its merchant shipbuilding activities to break even and to close .... where this is not judged to be achievable" ignores the possibility of disposing of loss makers.

4. I doubt whether you can have "fair and equal" competition with private sector firms so long as you are subsidising heavy losses. The only way this requirement can be met would be to close all loss makers in competition with private sector companies. That might well be the right answer. But it is more likely in practice that this particular "objective" would be regarded as a pious hope.

I am copying this minute to the Prime Minister, the other members of E(NI) and Sir Robert Armstrong.

A.C.

A C

3 April 1984

NAT IND Pt 6

Shipbuilding

File

PM'S BRIEFING - THURSDAY 29 MARCH

SCOTT LITHGOW

Background

The contracts for the sale of Scott Lithgow to Trafalgar House - and that between Britoil and Trafalgar House for completion of an oil rig - were signed yesterday. The Government's approval of the deal was simultaneously announced to the House by Mr Lamont.

2 Annexed is a brief description of the (extremely complex) deal. The net cost to the taxpayer is £71. The purchase price paid by Trafalgar is £12m. There is an outstanding loan from BS to Scott Lithgow of £8m, which is repayable in three years time. Thus, while the price is £12m, total income from Trafalgar House will include repayment of an £8m loan. This has given rise to some confusion in the press.

3 The key points are:

(1) the net cost is £71m. Broadly equivalent costs would have arisen if the yard had been closed, while this deal maintains the capacity and the yard,

(2) the purchase price is £12m.

4 Trafalgar will gain some tax losses from the deal. But we estimate their value to be substantially less than the redundancy and other costs which would arise if the yard closed.

Line to take

Delighted that a solution has been found which saves the yard and the jobs of the workforce.

[COSTS] Trafalgar House is paying £12m. The full cost to the taxpayer of reconstructing the company will be £71m. This is broadly equivalent to the costs which would have arisen on closure - and it leaves the yard and its jobs in being.

[TAX LOSSES] Trafalgar will gain some tax losses. But these will cost the taxpayer significantly less than the extra redundancies needed if the yard had closed.

[SOME REPORTS OF £20m PRICE]

Deal involves some deferred loans, which will be repaid to BS by Scott Lithgow under its new owners. One of these deferred loans is £8m. Thus, while the price is £12m, total income will include this £8m. The cost to the taxpayer remains at £71m.

SBP1/DTI
March 1984

BRIEF DESCRIPTION OF SCOTT LITHGOW DEAL

The deal involves, inter alia,

(1) A complex reconstruction of Scott Lithgow's balance sheet to bring the net worth of the company up from the present excess of liabilities over current assets to a positive £12m. This will cost a gross £97.5m. £6.1m of this comes from outstanding claims which will be recovered in due course bringing the cost down to £91.4m.

(2) A value of £8m is attached to the fixed assets of the company. This is balanced by liability in the form of an £8m loan from BS to Scott Lithgow which is being left outstanding with repayment deferred for three years. This brings the cost down to £83.4m.

(3) A purchase price of £12m with £3m payable immediately and the rest over three years. This leads to a cost to the taxpayer net of the purchase consideration and loan repayments of £71m.

The problem has arisen because of a confusion between Trafalgar House's purchase price of £12m and the repayment of deferred loans to BS, specifically the loan in respect of £8m for fixed assets. Income from Trafalgar House will include the £12m consideration plus loan repayments.

CONFIDENTIAL

DTI

29 March 1984

Bf with Policy Unit note
bro 41 ff VAT

EC NO.

JF6110

PRIME MINISTER

BRITISH SHIPBUILDERS : OBJECTIVES

Pt 4.

In his minute to you of 15 March 1983 Patrick Jenkin circulated draft strategic objectives which were then being discussed with Graham Day as part of his terms of appointment. You and the then Chancellor commented that we should set quantified targets for losses on merchant shipbuilding. Since Mr Day was unlikely to agree such targets until he had had a chance to develop his own strategy we had to delay agreeing objectives with him. Patrick Jenkin undertook to consult colleagues on revised objectives before putting them to Mr Day.

2 Now that we have discussed BS strategy in E(NI), I would like to return to objectives again with Mr Day. It is important that the Corporation has a clear and agreed statement of what Government seems as its aims. Unfortunately, since Mr Day's first Corporate Plan was only a strategy document and since BS have qualified all figures they have given us as indicative only we still cannot agree quantified loss targets. But we must make it clear in the objectives themselves that detailed targets will be set and agreed when the next Plan has been discussed.

3 I thnk it is important that we press ahead with objectives now and do not wait until June when we could put in detailed targets, not least because we need to have a clear statement of the Corporation's strategy against which to measure Mr Day's performance for the purpose of assessing his salary bonus.

4 I will naturally be looking to the BS non-executives for advice on how much of the bonus (maximum of £15,000) Mr Day merits. They will therefore need to see the objectives. In fact, I see no reason why the objectives should not be available to the whole Board since the general thrust will already be clear to them.

5 I propose then that the objectives should be agreed with Mr Day and then sent to him for circulation to the BS Board in confidence.

... 6 I attach a revised set of objectives at Annex which takes in comments made last year. I would welcome your views and those of other E(NI) colleagues to whom I am copying this minute.

NT

N T

29 March 1984

Department of Trade & Industry

CONFIDENTIAL

JU100

BRITISH SHIPBUILDERS: OBJECTIVES

The primary aims of the Government are:-

to return the constituent parts of British Shipbuilders to the private sector at the earliest opportunity; and

substantially to reduce the Corporation's call on Government financial support as quickly as possible.

To this end, subject to the provisions of the Aircraft and Shipbuilding Industries Act 1977 and the British Shipbuilders Act 1983 and any direction given by the Secretary of State by virtue of his powers under such Acts, the Corporation's aims shall be:-

1) Privatisation: The Corporation shall aim to:

a achieve privatisation of all of its warshipbuilding activities by end 1984/5* (or by end 1985 if a flotation proves necessary);

b ensure the sale or closure of all shiprepairing-companies and of peripheral engineering interests by end-1984;

c dispose of any other saleable businesses of the Corporation by end 1985/6.

2) Increased Efficiency: The Corporation shall continue to pursue, in consultation with the workforce, a vigorous programme of cost reduction, including productivity improvements, more efficient purchasing and use of materials and equipment with the

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*Draft E(DL) paper suggests this timing, subject to consultation with Mr Day.

aim of bringing BS costs and productivity for all its activities into line with those of the most efficient European producers and thereafter to improve BS' relative position.

3) Merchant Shipbuilding: The loss-making Merchant shipbuilding companies are unlikely to be candidates for privatisation in the foreseeable future, although sale of potentially viable companies remains a longer term aim. To this end the Corporation shall aim to reduce substantially each successive year the rate of trading loss, before crediting Intervention Fund assistance, on merchant shipbuilding. The longer term aim of the Corporation should be to bring its merchant shipbuilding activities to break-even and to close facilities where this is judged not to be achievable. When the 1984 Corporate Plan has been received Ministers will agree with the Corporation quantified targets for reducing losses on merchant shipbuilding.

4) Offshore: The high level of losses on offshore work must be reduced quickly and exposure to such potentially large losses in the future limited. The Corporation has already taken action on this front. Quantified targets for reducing losses on offshore work will be agreed when BS' 1984 Corporate Plan is produced.

5) Enginebuilding: The Corporation shall take early action to reduce over-capacity in its enginebuilding facilities. Further objectives will be set in the light of the review of enginebuilding to be continued in the 1984 Corporate Plan.

6) Finance: The Corporation shall be required to meet the financial targets set by the Secretary of State. These targets will be set after consideration of BS's annual Corporate Plan and will reflect the Government's policy of reducing financial support for BS.

7) Fair Competition: The Corporation shall ensure that where it is in competition with UK private sector companies such competition is at all times on fair and equal terms and seen to be so.

SBP1

March 1984

NBPM
AT 28/3 cc NO.

Treasury Chambers, Parliament Street, SW1P 3AG

TS/ Norman Lamont Esq MP
Minister of State for Industry
Department of Trade & Industry
1 Victoria Street
LONDON
SW1H OET

28 March 1984

Dear Jon

SCOTT LITHGOW

The Chief Secretary is content with the terms of the proposed draft statement attached to your letter to Andrew Turnbull of 27 March.

with AT?

However the Inland Revenue have drawn his attention to certain difficulties which may arise for all the parties to the deal from the forms of words used in relation to the Britoil contract, in the first part of the draft statement.

The Chief Secretary assumes you will not wish to say anything which, however unintentional, might prevent the deal going through smoothly. He has therefore asked the Inland Revenue to get in touch urgently with your officials to sort out the wording on this part of the draft.

Yours sincerely

Jon Gieve

JOHN GIEVE
Private Secretary

Nat. Ind. : Shipbuilding PIZ

File

cc DO
Press Office

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

Andrew Turnbull Esq
Private Secretary
10 Downing Street
Whitehall
LONDON SW1

27 March 1984

Dear Andrew

You wrote to me today recording the Prime Minister's agreement to the proposals in my Minister's letter of 26 March to the Chief Secretary.

I now attach a copy of the penultimate draft of my Minister's statement. While no changes of substance are expected, the final wording will depend on the detailed negotiations between the companies which will be finalised tomorrow.

I am copying this letter to John Gieve (Chief Secretary's Office), Michael Reidy (Department of Energy), Richard Mottram (Ministry of Defence), John Graham (Scottish Office), David Heyhoe (Lord Privy Seal's Office), Alex Galloway (Chancellor of the Duchy of Lancaster's Office), David Normington (Department of Employment), Murdo Maclean (Chief Whip's Office), David Beamish (Lord Denham's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely

Stuart Gill

pp KATE RHIND
Private Secretary

CONFIDENTIAL

SCOTT LITHGOW

With permission, Mr Speaker, I should like to make a statement about the future of Scott Lithgow and the financial consequences in 1983/4 for British Shipbuilders.

Following the announcement by Britoil on 19 December 1983 of its wish to cancel its contract for a drilling rig being built at Scott Lithgow, discussions have taken place with a number of companies interested in taking over the business.

Throughout the affair the Government have been concerned to minimise any further cost to taxpayers who have already put a huge amount of cash into Scott Lithgow. On the initial cancellation of the Britoil contract, the Government accepted the advice of the Chairman of BS that it was cheaper to accept cancellation than to accept the terms for a renegotiation of the contract demanded by Britoil.

On 26 March the Government were informed by British Shipbuilders that - subject to the Government's approval and the reinstatement of the Britoil contract - they had concluded a deal with Trafalgar House for the sale of Scott Lithgow. [I understand that reinstatement of the Britoil contract will be finalised this afternoon.]

The proposal that has been put to the Government by British Shipbuilders is that the Scott Lithgow company will be reconstructed to enable it to meet its existing liabilities, part of which will be waived and the remainder written off. Substantial liabilities would of course have had to be met whether the yard was sold, closed or retained by BS.

In addition, there will be an injection of cash and share capital to leave the company with net assets of £12m. Trafalgar House will then buy the shares of the company for this amount, £3m to be paid immediately, the rest over three years, with a commercial rate of interest applied to these deferred payments.

The effect will be that Trafalgar House will buy for £12m the currently bankrupt Scott Lithgow reconstructed so as to be able to meet its existing liabilities and the costs of essential rationalisation. Scott Lithgow, under the ownership of Trafalgar House will then complete the Britoil contract, complete the other work in the yard and seek new work wherever possible. The current litigation between BS and Britoil will be dropped.

The costs of this deal for BS are almost exactly the same as those which would have arisen if the Britoil contract had been lost and the yard run down and closed. However there are wider benefits arising from the maintenance of jobs at Scott Lithgow.

Instead of the severe blow to Greenock of closure of the yard, this deal holds out a prospect of a substantial operation continuing and, I hope, expanding. It also means the acquisition of a valuable facility by an experienced UK offshore operator, which has vast financial, managerial and technical resources and the retention of hard-won and valuable experience in the forefront of offshore technology.

The financial consequences for BS in 1983/4 of both the sale of SL and the generally depressed state of the shipbuilding market are that its external finance requirement has been increased from £158m to £268m. All but £22m of their increase relates to the unavoidable costs of Scott Lithgow. The funds for this have already been voted by the House through the main and Supplementary Estimates.

My Right Honourable Friend the Secretary of State for Trade and Industry therefore this morning gave his formal consent to the sale of Scott Lithgow to Trafalgar House on the terms I have described.

I am sure that the House will join me in welcoming this transfer of Scott Lithgow to the private sector which offers a real hope for the people of Greenock and for the future of shipbuilding on the Lower Clyde.

SBP1
27 March 1984

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Lamont MP
Department of Trade & Industry
1 Victoria Street
LONDON
SW1E 6RB

27 March 1984

Dear Norman

SCOTT LITHGOW

Thank you for your letters of 23 and 26 March setting out the revised terms proposed for the disposal of Scott Lithgow to Trafalgar House (TH) and Howard Doris.

I am naturally concerned to see that the estimated cost of closure has risen by over £36 million since the provisional terms were agreed in early February. Whereas I would have thought that this should have enabled BS to improve the benefit of disposing of Scott Lithgow to TH, I note with even more concern that the cash injection to achieve this deal has risen even faster (by £45 million) so that a benefit to BS foreseen in February has now become a deficiency of £3½ million. However, I accept that there is still a significant benefit to the PSBR in the revised terms rather than closing the yard. I therefore agree that we should accept the deal on the terms now proposed.

I am copying this letter to the recipients of yours.

Yours ever

Peter

PETER REES

FIU MJ

bcc: Mr. Young

10 DOWNING STREET

From the Private Secretary

27 March 1984

Scott Lithgow

The Prime Minister has seen Mr. Lamont's letter of 26 March to the Chief Secretary. She agrees that the terms of the deal which British Shipbuilders has reached with Trafalgar House are satisfactory. She is content that a statement should be made to the House on Wednesday afternoon.

I am copying this letter to John Gieve (Chief Secretary's Office), Michael Reidy (Department of Energy), Richard Mottram (Ministry of Defence), John Graham (Scottish Office), David Heyhoe (Lord Privy Seal's Office), Alex Galloway (Chancellor of the Duchy of Lancaster's Office), David Normington (Department of Employment), Murdo Maclean (Chief Whip's Office), David Beamish (Lord Denham's Office) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Miss Kate Rhind
Department of Trade and Industry.

CONFIDENTIAL

SH

C/NO

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

Prime Minister

Closure is now £4 million cheaper than the TH deal. This is within the premium of £5 million which Policy Unit suggested was acceptable. Agree the deal should be endorsed?

AT 26/3

CONFIDENTIAL

Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

26 March 1984

Dear Peter

SCOTT LITHGOW

I wrote to you on 23 March telling you of the latest state of play in the negotiations with Trafalgar House (TH). Briefly a satisfactory deal had been reached but for one fundamental disagreement. TH were insisting that BS should accept a contingent liability for costs which might arise in the event of late delivery by TH of the Britoil rig, if the delay could be attributed to design faults occurring during BS' period of ownership. I told you that I regarded this as unacceptable and was proposing to make this clear to TH in no uncertain terms.

Eric Parker of Trafalgar House was duly informed of my position on Friday morning. In response he instructed his negotiators to reopen talks with BS immediately. BS were of course also aware of our position and the need to negotiate extremely toughly on this point. After lengthy talks on Friday, a deal was concluded under which BS would buy out the contingent liability (a maximum of £120m you will recall) for £6m in cash. The BS Board is now prepared to recommend the deal to the Government on the basis I described in my last letter plus this new arrangement on design liability. I do not expect to receive a formal request for approval until tomorrow but, in order to make rapid progress, I am informing you and colleagues now of what BS have told my Department will be involved.

I should also add that in the earlier negotiations BS have also been able to take account of the various points you and colleagues raised on the original Heads of Agreement. In particular TH are now going to buy the land outright, with payment deferred for 3 years. Moreover they have I understand reached an agreement with the SDA designed to ensure that surplus land will be made available

and at a price reflecting its value within the £8m they are paying for the assets. I also see no problems with the defence contracts currently with the yard, which will be fully honoured by the new owners.

The figures as seen from the purely BS standpoint now appear slightly less favourable, moving to £71m for the TH deal against £67m for closure. But the underlying calculations - which have been made available to your officials - inevitably rely on a number of assumptions, especially on the cancellation side. In particular the estimates of the extra costs of completing the BP rig and the SOV in the situation of a yard run-down could well be understated. In this light I think it is best to consider the costs of the two options - accepting the TH deal or closing the yard - to be broadly in balance.

From our standpoint we must of course also consider the wider PSBR implications: on the one hand, TH will gain a valuable tax shelter, while on the other closure would give rise to extra redundancy, SRPS and unemployment benefit and lost tax revenue costs to Government.

Our officials considered the tax shelter point in the context of the earlier Heads of Agreement. They agreed that SL's past tax losses, which will be useable only against future SL profits, would represent a relatively small cost to the Treasury. The important item is £60m or so losses on existing contracts likely to be incurred after completion of the deal and which TH will be able to use for group relief. We estimated before the budget that these would give rise to a PSBR cost of about £12m. Clearly they will now be less valuable, though the figure is difficult to calculate given the phased reduction of Corporation Tax.

On the other side of the equation are the extra costs arising on closure from extra redundancies. TH envisage a core workforce of about 1250. Our officials agreed that the PSBR costs of the loss of those 1250 jobs, depending upon the profile of reabsorption into the economy of the unemployed one assumes, lie between £24m and £38m.

These sort of calculations are inevitably speculative. But they strongly suggest that from the wider PSBR standpoint the balance of advantage lies clearly in the direction of the TH deal. And beyond the direct financial implications, there are of course the wider advantages of retaining a substantial number of jobs in Inverclyde and of retaining valuable offshore capacity.

My conclusion is therefore that we should accept this deal. The news that it has been reached will inevitably break very soon. Provided colleagues agree that it is acceptable, we must move very quickly to give our formal approval if we are to reap what political capital is to be had from the resurrection of the yard. Unless I hear to the contrary from colleagues by close of play tomorrow, I therefore propose that Norman Tebbit gives his formal approval on Wednesday morning. I would then propose to make a statement to the House on Wednesday afternoon, provided that this is acceptable to John Biffen.

I am copying this letter to the Prime Minister, Peter Walker, Michael Heseltine, George Younger, John Biffen, Arthur Cockfield, Tom King, John Wakeham, Lord Denham and Sir Robert Armstrong.

Yours ever

Norman

NORMAN LAMONT

Nat Ind: Shipbuilding Pt 6.

CC NO

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

26 March 1984

NBPM
AT 26/3

Dear Peter,

SCOTT LITHGOW

This is just to say that I entirely support Norman Lamont in saying - in his letter to you of 23 March - that we ought to stand out against Trafalgar House's demand that British Shipbuilders should accept responsibility for further contingent liabilities which could amount to £120 m.

My view of the deal generally is that it is unduly generous to Tragalgar House in the sense that their downside risk is very small and their potential upside gain very large. But that much we can swallow because of the employment aspects - something Trafalgar House are no doubt trading on. But there is a limit to the extent to which we should allow ourselves to be squeezed.

I am sending copies of this letter to the other recipients of Norman's letter to you.

Yours,

Arthur

COCKFIELD

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
H M Treasury
Parliament Street
London SW1

NAT IND PT 6

Shipbuilding

Shipbuilding
Sheenagh Wallace
No 10 Press Office
File

Mr Turnbull.
This attracted no attention.

PS/Secretary of State
PS/Lord Selkirk
PS/Mr Stewart

David Lambie, M.P., Chairman Select Committee on Scottish Affairs.

TT 20/3

Statement on Scott Lithgow, Embargoed till 11-00 a.m. Friday, 23 March 1984.

THE SCOTT LITHGOW REPORT

The first thing to stress is what the report does not do:

- it does not attempt to analyse what went wrong with the Britoil contract, and with other contracts undertaken by Scott Lithgow in recent years that have run over time;

- it does not attempt to express a view on the terms of a possible private takeover of the yard, for these terms were still the subject of confidential negotiation when the Committee undertook its inquiry.

The purpose of the inquiry, as stated in para. 11, is "to bring together in the time available evidence on the economic and social consequences that would follow from the closure of Scott Lithgow". The background to this is the fact that any private takeover will involve substantial sums of public expenditure in order to "wipe the slate clean" at Scott Lithgow and thereby pave the way for the takeover, and perhaps also to support future capital expenditure by the new owners of the yard. The Government have already had to get parliamentary approval for a supplementary estimate of £125 million for this purpose, and there may be more to come. The report puts the other side of the picture - the social and economic costs of not saving the yard.

Male unemployment in Inverclyde is already 21.8 per cent. The further job losses if the yard closed would be concentrated in a very small area. The report quotes estimates that, taking account of consequential unemployment in sub-contracting and service industries, job losses within the immediate Greenock/Port Glasgow area might well be about 6000, and that in particular parts of those towns one could have something like 50 per cent male unemployment. This would cost the Government money - perhaps £22 million a year (including loss of tax revenue) for the Scott Lithgow redundancies alone (para. 19).

The report also contemplates the possibility of Government money being needed for a redevelopment project in the area, and refers to experience following the closure of Linwood (where a year after closure half the workforce was out of work) and at Motherwell, where £60 million is being spent on a project to create just 3000 jobs. (para. 20).

As to the social consequences of closure, particularly telling evidence was received from the churches, which is quoted in part in para. 23.

On the other hand the report points out that the picture for Invercylde is not entirely black. The electronics industry is firmly established; and while the inquiry was under way National Semi-Conductor announced a new £100 million investment in the area, which is expected to produce some hundreds of jobs by 1986. The report states (para. 26) that this "demonstrates the fallacy of investigation inspired by the

presumption that nothing will change for the better".

It is important to stress that the report is not out of time even if it comes after a Government announcement on the future of the yard; the report is intended primarily to be of value to the House of Commons and it indicates criteria against which the House should reach a judgement on the Government's decisions (para. 38). Among the criteria to which the report draws attention are -

a) will a new deal safeguard a truly British capability in the sort of advanced offshore technology that Scott Lithgow has been engaged in (para. 27)?

b) will new owners continue the tradition of training and apprenticeship for young people (para. 22)?

c) will any part of the yard that is surplus to a new owner's requirements be made available for other employment-generating activities (para. 34)?

d) will the Government restore some submarine work to the yard (paras. 35-6)?

The report contains (para. 32) some quite strong criticism of British Shipbuilders' performance as owners and managers of Scott Lithgow; and it concludes that as it is currently owned and operated there is no future for the yard or its workforce, but under new owners and management there could be" (para. 39).

David Lambie MP.

27st March 1984

FROM: DAVID LAMBIE, MP

The Scott Lithgow Report

You may find it useful to have a few statistics and facts down on paper.

Although the first day's proceedings recorded in the Minutes is 29th February, my draft Report was in fact submitted to the Committee in time for its meeting on 22nd February; but the Committee adjourned that day without considering it. Leaving that meeting out of account, the Committee took four meetings to go through the report (29th February, and 5th, 7th and 14th March). There were 92 divisions, only two of which required my casting vote. 198 amendments were submitted in writing, and 110 amendments were actually moved.

In the whole of the last Parliament the Committee on Scottish Affairs had 30 divisions in the course of 118 meetings; and the greatest number of divisions on a single report was five (on the Youth Unemployment Training report).

I am afraid that the Clerk's Department does not keep a Guinness book of Committee Records; and so it would take a colossal amount of research to find out whether the Scott Lithgow report has broken any records; but I think it highly unlikely that there have ever been more divisions on a report of comparable length. In the Wealth Tax Committee of 1974-75, when four alternative draft reports were presented and the Committee ended by failing to agree to any of them, there were 34 divisions. The Environment Committee's Report on Council House Sales (session 1980-81) provoked 125 divisions, but that Report was over 170 paragraphs long.

2 th March 1984

MR TURNBULL

c Mr Redwood

SCOTT LITHGOW

Prime Minister (2)

To note that the Scott Lithgow deal is finely balanced. You may want to hear George Younger's response before reacting. He will undoubtedly argue for a higher figure than the £5 million suggested below.

AT 23/3

1. We fully support the tough line which DTI and BS are taking with Trafalgar House/Howard Doris over contingent liabilities (Norman Lamont's letter of 23 March to Peter Rees).

2. The history of Scott Lithgow is so discouraging that, in all prudence, we have to treat "contingent" liabilities as verging on the probable. We have no reason to accept liabilities up to £120 million. Even if Trafalgar House could be persuaded to drop their requirement for BS to cover TH's losses up to £90 million, we would still regard the balance of £30 million for damages to Britoil as right out of court.

3. Having just spoken to DTI officials to see what came out of the Gordon Manzie/Eric Parker meeting earlier today, I understand that TH are now trying to negotiate a compromise. There is very little room for compromise when the cost of closing Scott Lithgow is so close to the cost of disposing of it on the original terms which TH proposed. We judge that a small premium - less than £5 million - might be worthwhile to avoid closure. But beyond that point the deal should fall through.

ROBERT YOUNG

Policy Unit
23 March 1984

CSNO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

CONFIDENTIAL

Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

23 March 1984

Dear Peter

SCOTT LITHGOW

I wrote to you on 10 February, setting out the then state of play on BS' negotiations for the sale of Scott Lithgow. (I subsequently wrote to Arthur Cockfield (17 February) setting out in more detail the basis of the provisional figuring that BS had put to us on a proposed deal with Trafalgar House (TH).)

Since then, other potential buyers have expressed some interest but have dropped out; and Howard Doris has agreed to participate in the Trafalgar House bid.

The other main development over this period has been that BP, for whom BS are building another rig at Scott Lithgow, have threatened cancellation of their contract if it is not renegotiated (my letters of 3 and 15 February to Alick Buchanan-Smith). BS are still negotiating but their present view is that renegotiation of the BP contract will be the cheaper option: they estimate that a renegotiated delivery date, plus some other adjustments to the contract, will cost in the region of £15m. This figure is not taken into account in the figuring in the rest of this letter: I shall be reporting further on BP when the situation is clearer.

BS have negotiated hard with TH over the last few weeks, and are now almost at the stage of a final agreement - with one important issue unresolved, to which I return below. I understand that TH are in a position to sign a contract with Britoil, when negotiations with BS are complete.

On the basis that they have now reached, the comparative costs of the TH deal versus closure of SL are:

	TH	Closure
£m	65	67

Precious little difference.

The detailed figuring underlying these costings is set out in the Annex. My officials are briefing yours, and officials in Departments to whom this letter is copied, on the technical background to these figures.

The figures for closure and for the TH deal are now about £17m and £14m higher than the previous estimates respectively. This is partly because TH are driving a hard bargain on a number of points - such as the cost of meeting new safety standards - and partly because, in the event of closure, BS have now been advised that they would be liable to pay for so-called "owner-supplied equipment", which BS' advisers had previously believed to be a liability for Britoil.

The total sums involved are large, whether we approve the TH deal or allow SL to close. The balance, as things stand, is still just in favour of the TH deal. Financial provision for costs arising in 1983/4 will be met by the Supplementary Estimate recently agreed between our Departments.

However, we do not yet have a firm proposal from BS. This is because TH are insisting that BS should accept a contingent liability for costs which might arise if there was late delivery by TH which could be attributed to design faults that occurred during BS' ownership of SL. These costs, if they arose, could have two components:

- damages payable to Britoil, to a maximum of £30m;
- financial losses to TH arising from the sale value of the rig, if Britoil refused to accept it, being less than the contract price. At the most extreme, if the rig ultimately proved totally unsaleable, this figure could reach £90m.

The maximum exposure that TH want BS to accept is therefore £120m.

The BS Board are prepared to put forward a sale proposal based on the £65m figure. But they take the view that TH's demand that BS accept a contingent liability on this scale is unacceptable.

I entirely agree with this position. The TH demand is quite unacceptable. However, we have to recognise that, if both sides maintain their position, the deal may fall. I believe that, if TH refuse to shift to a more acceptable position, we should be prepared to see the proposed sale to TH fall through, rather than require BS to accept a large contingent liability.

A senior official of my Department is today speaking to Mr Eric Parker, the senior TH man involved in this negotiation, to make it clear:

- that I regard the TH position as unreasonable;

- and that the Government is prepared to see the deal fall rather than be forced into accepting a disproportionate share of TH's future liabilities.

I shall write again as soon as the position is clearer - which I hope will be very early next week. All the parties involved want to conclude a deal, if at all possible, before the end of this financial year.

I am copying this letter to the Prime Minister, Michael Heseltine, Peter Walker, George Younger, Tom King, Arthur Cockfield and Sir Robert Armstrong.

Yours ever

Norman

NORMAN LAMONT

SCOTT LITHGOW

Financial Comparison of the Trafalgar House Proposal and Closure

Position as at P~~8~~12 Accounts	Trafalgar House Proposal £m	Closure £m
Excess of Current Liabilities and Current Assets	81.7	81.7
Contingency Provision	18.6	18.6
Add Group Relief receivable included as a current asset but now to be written off	11.1	11.1
	111.4	111.4
Less BS Current Account	(83.2)	(83.2)
	28.2	28.2
Fixed Assets	-	-
Adjustments:		
Redundancies	3.0	6.0
Contingency (Current Assets)	1.0	1.0
Capital Duty	0.3	-
Plant & Equipment/Claims	7.3	-
Lease Costs:		
3 years charge	1.0	-
Termination charge	-	2.4
Current Contracts		
SOV (753/700)	-	(2.0)
BP Rig (2001)	-	3.0
Britoil	24.3	44.5
Loan re debtors	7.4	-
Capital commitments	0.8	0.3
Regional Development Grants repayable	-	1.0
Under-recovery of overheads	-	2.0
Reorganisation and retraining	7.0	-
Funding of purchase price	12.0	-
c/fwd	92.3	86.4

b/fwd	92.3	86.4
Future income		
Repayment of purchase price	12.0	-
Repayment of loan re debtors	7.4	-
Sale of Fixed Assets	8.0	4.0
OSE re sale	-	15.0
TOTAL	64.9	67.4

Note:

(i) SRPS costs are excluded from both calculations, these would be met directly by Government.

(ii) The figures do not take into account potential dilapidations on lease-hold properties.

NAT IND PT 6

Shipbuilding

CC NO

NBPM

AT 20/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP
Secretary of State for Trade & Industry
Department of Trade & Industry
1 Victoria Street
LONDON
SW1E 6RB

15 March 1984

Dear Norman

SHIPBUILDING - INTERVENTION FUND

Thank you for your letter of 6 March proposing that negotiations with the Commission should be opened with a bid for £100 million to cover the next two years.

On the clear understanding that our discussion of Mr Graham Day's corporate plan later in the year is in no way prejudiced by any figure of subsidy which the Commission may agree, I am content that you put in an initial bid for £100 million to cover two years. However, I should not like to see any higher bid lodged at this stage even as a negotiating tactic. Perhaps you could let me know if in the event you see any special need for this.

Copies of this letter go to the recipients of yours.

Yours ever

PETER REES

NAT IND. PT 6

Shipbuilding

CC/DO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5186
SWITCHBOARD 01-215 7877

From the Minister of State for Industry

Norman Lamont MP

NOPM
AT
14/3

CONFIDENTIAL

The Rt Hon Lord Cockfield
Chancellor of the Duchy of Lancaster
Privy Council Office
Whitehall
LONDON
SW1

13 March 1984

Dear Arthur

SCOTT LITHGOW AND TRAFALGAR HOUSE

Thank you for your letter of 29 February about the British Shipbuilders-Trafalgar House conditional deal.

The position is as you describe it. The initial cash cost to Government is about £76m, to be offset by £27m of future income. This income is however rather more secure than you suggest. £3m will appear immediately, as the first payment of the purchase price is due on completion of the contract. The other £9m purchase price is guaranteed under the contract. The £7.4m loan for debtors is regarded by BS as secure as they are confident the claims involved will succeed and be met. The only really contingent item is the £8m for the assets payable if Trafalgar House exercise their option to buy after 3 years. If they make a go of the business, then it is of course highly likely that they will exercise that option.

Copies go to the Prime Minister, Michael Heseltine, Peter Walker, George Younger, Peter Rees and Sir Robert Armstrong.

Yours ever

Norman

NORMAN LAMONT

NAT IND PT 6

Shipbuilding Policy

C/NO

(2) Bf with Thomas response

AT 12/3

FCS/84/78

SECRETARY OF STATE FOR TRADE AND INDUSTRY

Shipbuilding: Intervention Fund

1. I have seen a copy of your letter of 6 March to Peter Rees.

2. I agree that you should aim for a volume of £100 million in the negotiations with the Commission. I do not believe that a volume of this order of magnitude would be significantly more difficult to negotiate than the lower figures, provided of course we can demonstrate that it would be justified by the volume of orders that British Shipbuilders can reasonably expect to win. As was recognised at E(NI), however, the major hurdle will be to convince the Commission that the big increase in aid intensity we seek is justified. Such an increase goes far beyond the limited modification to the degressivity principle that the Commission are prepared to contemplate for the time being, and will certainly attract criticism from some other Member States. All this points to a difficult and, I fear, protracted negotiation, particularly given our continuing inability to identify capacity reductions as counterpart for the level of and intensity we are trying to secure.

3. Once we are agreed about volume, I hope we can finalise the notification and submit it without further delay. You may also like to consider sending your officials to Brussels at an early date for talks with the Commission.

4. Copies of this minute go to the Prime Minister, other members of E(NI), Jim Prior, and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

12 March 1984

NAT IND PT6

Shipbuilding Affairs

Press Notice

Department of Trade and Industry

1 Victoria Street, SW1H 0ET Press Office: 01-215 5068/9
Out of hours: 01-215 7877

Ref: 137

March 7, 1984

SCOTT LITHGOW

Mr Norman Lamont MP, Minister of State for Industry welcomed today's announcement by Trafalgar House and Howard Doris that they were to adopt a joint approach to the proposed acquisition of Scott Lithgow.

He noted that detailed negotiations remained to be completed and he hoped that these could be brought to a successful conclusion as rapidly as possible.

He promised that the Government will react quickly to detailed proposals as soon as they are submitted to the Secretary of State for Trade and Industry for his approval.

Trafalgar House
PUBLIC LIMITED COMPANY
1 BERKELEY STREET · LONDON W1X 6NN

Cables TRAFULGE
Telex 21341

TRAFALGAR HOUSE/HOWARD DORIS
JOINT PROPOSAL FOR THE PURCHASE OF SCOTT LITHGOW LIMITED

1. Following lengthy negotiations with British Shipbuilders, Britoil, unions and the management and workforce of Scott Lithgow, Trafalgar Hous Howard Doris have agreed that the only feasible basis on which Scott Li can be saved from closure and the Britoil Ocean Alliance contract ca completed by March 1986 is by a joint negotiation resulting in agree with all parties for the purchase of Scott Lithgow and finalisation revised contract with Britoil with the object of completing not later 16th March 1984.

Trafalgar House and Howard Doris therefore have reached an understa whereby they intend to purchase Scott Lithgow from British Shipbuilde the basis of Trafalgar 75% and Howard Doris 25%.

2. Trafalgar House and Howard Doris would use their combined resourc complete the negotiations with Britoil for the revised contract relati Britoil Ocean Alliance semi-submersible drilling rig.

3. It is intended that the resources of Scott Lithgow, Trafalgar H Howard Doris and G.V.A. would be available to ensure the completion o Britoil rig to the standard required and in accordance with the re programme resulting in delivery of the rig to Britoil not later than 1986.

4. Scott Lithgow will complete the BP rig on behalf of British Shipbu and the MOD vessel in accordance with the existing contractual requirem

5. Trafalgar and Howard Doris will issue a joint policy statement re to the level of employment, terms and conditions of employees at Lithgow as soon as possible.

6. It is the intention of Trafalgar House and Howard Doris to pursu opportunities for further work at Scott Lithgow including in particula or part of the Sun Oil contract, work from Ministry of Defence in relat refurbishment of submarines etc., except that no additional work wou undertaken which would adversely affect completion of existing commitme

7. Howard Doris are negotiating with Trafalgar for agreement to enabl company to carry out fabrication and assembly of the hulls of large fl structures at Scott Lithgow's yard.

Continued 2

NBPM AT 713 CCO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5186
SWITCHBOARD 01-215 7877

From the Minister of State for Industry

Norman Lamont MP

Rt Hon Alick Buchanan-Smith
Minister of State
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

7 March 1984

Dear Alick

Thank you for your letter of 28 February about the BP rig at Scott Lithgow.

You say that your main concern is to secure this rig for the UK drilling rig fleet. I appreciate the strategic reasoning behind your view but I can see that it might conflict with British Shipbuilders' commercial duties. If they do end up with the rig on their hands, I shall naturally expect them to sell it for the best achieveable price and that may well not be to a UK company. If this situation arose and you and colleagues took the view that a lower UK offer should be given preference, then extra funds would have to be found. Peter Rees may wish to comment on this possibility and how we might handle it if it arose.

I am copying this letter to the Prime Minister, the Chief Secretary, Geoffrey Pattie and Allan Stewart.

Yours ever

Norman

NORMAN LAMONT

West Ind. Shipbuilding Pt 6.

CONFIDENTIAL

(1) BF w/c Treasury response LCCNO

DEPARTMENT OF TRADE AND INDUSTRY
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JF5902

Secretary of State for Trade and Industry

6 March 1984

The Rt Hon Peter Rees
Chief Secretary of the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

D Peter.

SHIBUILDING - INTERVENTION FUND

File with AT

We concluded at the E(NI) Meeting on 20 February that I should discuss with you and Geoffrey Howe the volume of Intervention Fund we should aim for in the negotiations with the Commission that E(NI) agreed I should now pursue. You will recall that the options are £80m, £100m or some intermediate figure, to cover the two years 1984/85 and 1985/86.

2 The volume needed depends on the volume of orders that British Shipbuilders will require and this in turn is primarily a function of the BS merchant capacity that we are prepared to sustain over the next three to four years. As was recognised at E(NI) we can have no clear idea of what capacity levels should be supported before Mr Graham Day's detailed Corporate Plan proposals, due in May, have been received and subjected to thorough examination.

3 In these circumstances we clearly need to maintain the maximum freedom of manoeuvre. This means aiming for the higher figure - £100m - for the two years, which compares with £99m for the period from July 1981 to January 1984. Securing Commission approval for this amount does not in any way commit us to spending all of it. Thus it does not preclude the choice of a lower capacity target for BS, including the lower IF provision that implies, when we have BS's detailed Corporate Plan before us. But aiming for a lower IF volume would on the other hand narrow down now the range of options open to us.

4 A second consideration is of course the need to go for a figure which the Commission would regard as credible. My proposed approach is compatible with this, in that I do not think the Commission would have good grounds for regarding £100m for two years as unrealistic. At £50m a year it would mean only a

£10m increase over the last Intervention Fund of £40m for the twelve months July 1982 to July 1983. Moreover, as you know, there is strong evidence that because of the problems besetting EC shipbuilding industries the Commission is moderating its line on the principle that aids should be degressive. It now appears ready to modify this principle for a limited period and to allow increases in support levels during that time. My proposed approach fits in well with this.

5 I hope therefore that you, and Geoffrey Howe, to whom I am copying this letter, will agree that I should aim for a £100m volume figure. I do not rule out the possibility of pitching my initial bid a little higher than this if it looks as though that would be the right negotiating tactic.

6 Copies of this letter go to the Prime Minister, other members of E(NI), Jim Prior and Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

File

10 DOWNING STREET

From the Private Secretary

5 March 1984

SCOTT LITHGOW

The Prime Minister has seen and noted without comment the report in your letter of 2 March.

I am sending copies of this letter to John Kerr (HM Treasury), Michael Reidy (Department of Energy), John Graham (Scottish Office) and Richard Hatfield (Cabinet Office).

MR A. TURNBULL

Miss Ruth Thompson,
Department of Trade and Industry.

Prime Minister (2)
Still some way to go to settle this. KC NO
AT 2/3

DEPARTMENT OF TRADE AND INDUSTRY
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JF5879

Secretary of State for Trade and Industry

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

2 March 1984

Andrew Turnbull Esq
10 Downing Street
LONDON
SW1

Dear Andrew,

SCOTT LITHGOW

My Secretary of State has asked me to bring you up to date on the latest developments on Scott Lithgow.

2 The crisis facing the yard itself has deepened somewhat with this week's announcement by BP that they intend to cancel their nearly completed rig. They have given British Shipbuilders (BS) two weeks before cancellation becomes final. BS has so far refused BP's request to renegotiate the contract (at a likely cost of £15m) and is now considering its position in the light of the cancellation notice. Meanwhile work on the rig is continuing; if it is cancelled BS will complete it and offer it for sale. In reaching their decision the main consideration for BS is the likely value of the rig in the open market; this BS are currently assessing.

3 Given the fact that the BP rig is almost complete BP's cancellation move should not greatly affect the chances of disposing of the yard to one of the current bidders. The conditional deal with Trafalgar House (TH) insulates TH from the consequences of the cancellation, which they have all along known to be a possibility. Any deal with any other party would also have to provide such protection.

4 It now seems virtually certain that the consortium fronted by Bechtel is out of the running. They are insisting on a cost-plus contract with Britoil for the completion of their rig, the key to any takeover of the yard. Britoil have told us that this is wholly unacceptable and that they are therefore ruling Bechtel out.

5 The remaining contenders are TH and Howard Doris (HD). TH is very much further down the road than HD. They have made a conditional deal with BS and are well on the way to

negotiating a complete contract. They are also a long way down both the commercial and technical roads with Britoil. HD, on the other hand, will make their first formal acquisition proposal to BS this Friday and are considerably behind on their technical assessment and on commercial negotiations with Britoil.

6 The great problem is the attitude of the Britoil Board. TH are keen to clinch a deal, get into the yard and start work on the rig. Their conditional deal with BS ran out at the end of February. They have agreed not to withdraw yet, but are clearly getting very impatient. The Britoil Board, however, wishes to give HD sufficient time to formulate their proposals, which in practice could mean to the end of March. It seems clear that Sir Philip Shelbourne is himself having an uncomfortable time attempting to reconcile differing forces within his Board.

7 In this awkward position we have adopted a twofold strategy. First, Mr Lamont has brought as much pressure as he can on Sir Philip Shelbourne to speed up their assessment of HD. There is some doubt as to whether HD's financial backing is adequate for such a project, and he has pressed Sir Philip to assess this key aspect immediately. He has also impressed upon Sir Philip the dangers of Britoil's course - TH may withdraw and HD come up with a deal unacceptable either to British Shipbuilders or the Government, in which case Britoil would end up without their rig, the worst result from everyone's point of view.

8 Meanwhile, Mr Lamont has kept in close touch with Mr Eric Parker of TH, stressing the importance the Government attaches to TH remaining a contender and emphasising the efforts being made to speed the process up.

9 It is thus very difficult to predict the outcome. We should be slightly better placed when we see HD's initial proposals at the ebginning of the week; my Ministers will be considering their next move in the light of these.

10. Meanwhile, as you are aware, we have had to publish a Suplementary Estimate of £125m for 1983/84 to cover costs at Scott Lithgow. £44m of this represents lost income on the Britoil contract and is bound to be needed. The rest is sufficient to cover the costs either of a TH-type deal or of accepting cancellation of the Britoil contract and the consequent rundown. Some provision is also included to cover the consequences of BP's cancellation move. The amount of the total Estimate provision actually taken up in 1983/84 will of course depend on the speed with which negotiations on Scott Lithgow are brought to a conclusion.

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

11 I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, Secretary of State for Energy, Secretary of State for Scotland and Sir Robert Armstrong.

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

Not Ind Shipbuilding

8

CCNO

NBPM AT 27/2

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

29 February 1984

Dear Norman,

SCOTT LITHGOW AND TRAFALGAR HOUSE

You wrote to me on the 17 February about the financial details of this transaction.

It is not at all clear from the information in Annex A just what the financial position is.

If one starts from the proposition that the £60 m owed by Scott Lithgow to British Shipbuilders has been lost anyway so that this is just a question of writing off, just how much money in terms of cash will British Shipbuilders have to disburse either to Trafalgar House themselves or to other people to enable Trafalgar House to take Scott Lithgow over? Annex A suggests that the total disbursement is about £76 m with a contingent right which may or may not mature to recoup £27 m. Is this the true position? Or are there other substantial but as yet unquantified disbursements lurking in the background?

I am copying this to the recipients of your letter.

Yours,

Arthur

COCKFIELD

Norman Lamont Esq MP
Minister of State for Industry
Department of Trade and Industry
1 Victoria Street
London SW1

Nat Ind Shipbuilding A6

CF

NBPM AT 29/2

LCC NO

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

Direct Line 01-211 3290
Switchboard 01-211 3000

THE MINISTER OF STATE

Norman Lamont Esq MP
Minister of State
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

28 February 1984

Dear Norman,

Thank you for your letters advising of BP's moves to cancel their rig at Scott Lithgow and of Graham Day's stance on the matter. Since your most recent letter BP have now confirmed that they have cancelled.

From a Department of Energy view point our main concern is the potential loss of this rig to the UK drilling rig fleet. As you know we are trying to build up the UK capability in this important sector and this rig would be a significant new addition. The delay and possible loss of the rig to our fleet is very unwelcome news particularly at the present time when exploration and appraisal activity is running at such high levels. This is a factor which will, I hope, be given full weight when the disposal of the rig is being determined.

Regarding the financial implications, I understand Graham Day's position of principle not to renegotiate. However, crucial to any assessment of this is the open market price of the rig. I hope this can be established quickly.

I would be grateful if you would keep me informed of developments.

I am copying this letter to the Prime Minister, the Chief Secretary, Geoffrey Pattie and Allan Stewart.

Yours ever,

Alick

ALICK BUCHANAN-SMITH

Nat Ind Shipbuilding Pt 6

cc Press Questions

STATEMENT

TUESDAY 21 FEBRUARY 1984

HOUSE OF COMMONS

SCOTTISH SHIPPING SUBSIDIES

WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT ON MY PROPOSALS FOR FINANCIAL ASSISTANCE IN 1984/85 FOR SHIPPING SERVICES TO THE SCOTTISH ISLANDS, AND ALSO TO ANNOUNCE MY CONCLUSIONS ON THE FUTURE SYSTEM OF SHIPPING SUBSIDY.

I PROPOSE TO GIVE DEFICIT GRANTS OF £7.2M TO CALEDONIAN MACBRAYNE AND OF 0.9M TO THE ORKNEY ISLANDS SHIPPING COMPANY. THESE GRANTS WILL LIMIT THE NEED IN BOTH CASES FOR THE COMPANIES TO INCREASE THEIR FARES TO APPROXIMATELY 5 PER CENT OVERALL FOR THE YEAR. I PROPOSE ALSO TO INCREASE SUPPORT OFFERED TO P & O AND TO THE VARIOUS BULK SHIPPING COMPANIES WITH WHOM I HAVE UNDERTAKINGS, TO ALLOW THEM TO CONTINUE TO REBATE THE FARES AND CHARGES ON THEIR SERVICES. THE REBATES ARE ESTIMATED TO COST £3.65M IN THE CASE OF P & O AND £1.6M IN THE CASE OF THE BULK SHIPPERS.

IN TOTAL, GOVERNMENT REVENUE SUPPORT IN 1984/85 WILL AMOUNT TO SOME £13.35M, AN INCREASE OF 9.9 PER CENT OVER THE CURRENT FINANCIAL YEAR, AND MORE THAN A THREEFOLD INCREASE SINCE 1978-79. I HOPE THIS WILL BE RECOGNISED AS AN EXCELLENT DEAL FOR THE USERS OF THESE SERVICES, AND FOR THE ISLAND COMMUNITIES THEY SUPPORT.

I AM ALSO ABLE TO ANNOUNCE TODAY THAT I HAVE COMPLETED MY REVIEW OF THE FUTURE SYSTEM OF SHIPPING SUBSIDIES AND HAVE CONCLUDED THAT A CHANGE TO AN RET-BASED SYSTEM OF SUBSIDY SHOULD NOT BE PURSUED.

I HAVE TAKEN THIS DECISION AFTER DETAILED CONSIDERATION OF THE DIFFICULT PRACTICAL ISSUES THAT WOULD ARISE IF RET WERE IMPLEMENTED. IN PARTICULAR, FULL IMPLEMENTATION WOULD NOT

DISTRIBUTE THE GREATLY INCREASED SUBSIDY THAT WOULD BE REQUIRED TO WHERE SUPPORT IS MOST NEEDED. MOREOVER SINCE THE SUBSIDY SYSTEM WOULD STILL HAVE TO BE ADAPTED TO BE ACCEPTABLE TO ALL COMMUNITIES AFFECTED BY IT, THE SYSTEM WOULD NOT BE OBJECTIVE OR ABOVE DISPUTE. THE REQUIRED ADAPTATIONS WOULD ALSO INCREASE THE COST, AND THERE WOULD BE CONSIDERABLE CONFUSION DURING THE NECESSARILY LENGTHY TRANSITIONAL PERIOD.

I HAVE ALSO TAKEN INTO ACCOUNT SEVERAL OTHER DEVELOPMENTS SINCE 1979. FIRST, IT HAS BECOME CLEAR THAT A PERIOD OF MAJOR NEW CAPITAL INVESTMENT LIES AHEAD, IN NEW SHIPS AND IN THE ASSOCIATED TERMINALS, FOR BOTH CALEDONIAN MACBRAYNE SERVICES AND THOSE SERVING ORKNEY AND SHETLAND. THERE IS THEREFORE SUBSTANTIALLY MORE PUBLIC EXPENDITURE TO BE COMMITTED ON OUR SHIPPING SERVICES THAN IS INDICATED BY THE ANNUAL REVENUE GRANTS ALONE, AND IT IS VITAL FOR THE MAINTENANCE AND IMPROVEMENT OF THESE SERVICES IN THE LONGER TERM THAT RESOURCES BE MADE AVAILABLE FOR THESE CAPITAL WORKS. SECOND, I ATTACH MUCH IMPORTANCE TO THE MONOPOLIES AND MERGERS COMMISSION'S GENERAL RECOMMENDATION THAT, IN THE INTERESTS OF EFFICIENCY, CALEDONIAN MACBRAYNE'S FARES SHOULD BE RELATED TO COSTS INCURRED. THIS ADDS WEIGHT TO THE PRACTICAL OBJECTIONS TO RET. BESIDES OFFERING NO ENCOURAGEMENT TO EFFICIENT OPERATION IT WOULD , BY STIMULATING DEMAND, ITSELF INCREASE THE NEED FOR NEW INVESTMENT IN SHIPPING CAPACITY. SINCE THE SUBSIDY REQUIREMENT WOULD BE CALCULATED AUTOMATICALLY BY REFERENCE TO A FORMULA UNRELATED TO SHIPPING COSTS, THAT REQUIREMENT COULD CHANGE CONSIDERABLY FROM ONE YEAR TO THE NEXT. SUDDEN INCREASES IN SUBSIDY COULD ONLY BE ACHIEVED AT THE EXPENSE OF OTHER SERVICES FOR WHICH I AM RESPONSIBLE.

IT IS HOWEVER IMPORTANT TO HAVE A FARES SYSTEM THAT IS CLEARLY UNDERSTOOD. P & O AND THE BULK SHIPPERS ARE PRIVATE SECTOR OPERATORS WHO FIX THEIR FARES AND CHARGES ON A COMMERCIAL BASIS, THE CHARGES BEING REBATED WITH THE BENEFIT OF SUBSIDY. THESE ARRANGMENTS WILL CONTINUE. IN THE CASE OF CALEDONIAN MACBRAYNE THE MONOPOLIES AND MERGERS COMMISSION NOTED THE COMPANY'S POLICY THAT FARES ON ONE ROUTE SHOULD BE COMPARABLE WITH THOSE ON ANOTHER, AND THAT A STANDARD FARE SCALE SHOULD

BE ADOPTED CONSISTING OF THREE ELEMENTS, PIER DUES, TOLL CHARGES (REFLECTING THE COST OF LOADING) AND DISTANCE CHARGES. SUCH A SYSTEM SHOULD PRODUCE A STRUCTURE OF FARES TAPERING WITH DISTANCE. THE COMMISSION NOTED THAT NO RECENT PROGRESS HAD BEEN MADE WITH THIS SYSTEM AND THAT AS A RESULT SIGNIFICANT ANOMALIES NOW EXIST IN THE FARE STRUCTURE. THEY RECOMMENDED THAT CALEDONIAN MACBRAYNE SHOULD MAKE RENEWED PROGRESS TOWARDS SUCH A SYSTEM, STARTING WITH AN UP TO DATE EXAMINATION OF THE STRUCTURE OF COSTS. I HAVE ASKED THE COMPANY TO PROCEED ON THIS BASIS. THE NEW FARES SYSTEM WILL TAKE SOME YEARS TO IMPLEMENT FULLY, BUT A START WILL BE MADE IN FIXING THE CHARGES FOR 1984/85, WHICH THE COMPANY WILL BE ANNOUNCING SHORTLY. THE RESULT WILL BE A STANDARD FARES SYSTEM WHICH SHOULD BE MORE EQUITABLE THAN AT PRESENT.

MR SPEAKER, THE QUESTION I HAVE HAD TO ADDRESS IS HOW, IN THE LIGHT OF SOME SIGNIFICANT DEVELOPMENTS SINCE 1979, WE CAN OFFER THE BEST LONG TERM GUARANTEE OF SERVICES TO THE SCOTTISH ISLANDS. MY SUBSIDY PROPOSALS FOR 1984/85 TOGETHER WITH MY SUBSTANTIAL CAPITAL SUPPORT TO SHIPS AND TERMINALS CONFIRM THE GOVERNMENT'S CONTINUING COMMITMENT TO THE MAINTENANCE AND IMPROVEMENT OF THESE SERVICES.

SCOTTISH OFFICE

File

21 February 1984

This is just to confirm that the Prime Minister is content that your Secretary of State should make a Statement about Scottish shipping subsidies today and has approved the draft Statement enclosed with your letter of 17 February.

Timothy Flesher

E. Gowans, Esq.,
Scottish Office.

cPress 2

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Pure Martin:

To note that Mr Younger proposes to make this statement tomorrow

TF 20/2

Tim Flesher Esq
Private Secretary
10 Downing Street
LONDON SW1

17 February 1984

Dear Tim,

FINANCIAL SUPPORT FOR SHIPPING SERVICES IN 1984-85

In his letter of 14 February to David Hayhoe, not copied to all the recipients of this letter, John Graham indicated that my Secretary of State intended making a statement on subsidies in the comming year for Scottish shipping services. He would now like to make his announcement by means of an oral statement to the House and it has been provisionally agreed that this should be done on Tuesday 21 February.

I attach a final draft of the statement and would be grateful for your clearance.

I am copying this letter to John Gieve (Treasury), Murdo Maclean (Chief Whip's Office) and David Hayhoe (Leader of the House's Office), Lindsay Wilkinson (Cabinet Office) and to the No 10 Press Office. I am also sending copy to David Beamish (Lords Chief Whip's Office) who will consider whether a parallel statement should be made in the Lords.

Yours sincerely

Eddie Gowans

EDDIE GOWANS
Private Secretary

SCOTTISH SHIPPING SUBSIDES: DRAFT STATEMENT

With permission, Mr Speaker, I should like to make a statement on my proposals for financial assistance in 1984/85 for shipping services to the Scottish islands, and also to announce my conclusions on the future system of shipping subsidy.

I propose to give deficit grants of £7.2m to Caledonian MacBrayne and of £0.9m to the Orkney Islands Shipping Company. These grants will limit the need in both cases for the companies to increase their fares to approximately 5 per cent overall for the year. I propose also to increase support offered to P & O and to the various bulk shipping companies with whom I have Undertakings, to allow them to continue to rebate the fares and charges on their services. The rebates are estimated to cost £3.65m in the case of P & O and £1.6m in the case of the bulk shippers.

In total, Government revenue support in 1984/85 will amount to some £13.35m, an increase of .9 per cent over the current financial year, and more than a threefold increase since 1978-79. I hope this will be recognised as an excellent deal for the users of these services,and for the island communities they support.

I have however concluded that a change to an RET-based system of subsidy should not be pursued.

I have taken this decision after detailed consideration of the difficult practical issues that would arise if RET were implemented. In particular, full implementation would not distribute the greatly increased subsidy that would be required to where support is most needed. Moreover since the subsidy system would still have to be adapted to be acceptable to all communities affected by it, the system would not be objective or above dispute. The required adaptations would also increase the cost,and there would be considerable confusion during the necessarily lengthy transitional period.

I have also taken into account several other developments since 1979. First, it has become clear that a period of major new capital investment lies ahead, in new ships and in the associated terminals, for both Caledonian MacBrayne services and those serving Orkney and Shetland. There is therefore substantially more public expenditure to be committed on our shipping services than is indicated by the annual revenue grants alone, and it is vital for the maintenance and improvement of these services in the longer term that resources be made available for these capital works. Second, I attach much importance to the Monopolies and Mergers Commission's general recommendation that,in the interests of efficiency, Caledonian MacBrayne's fares should be related to costs incurred. This adds weight to the practical objections to RET. Besides offering no encouragement to efficient operation it would , by stimulating demand, itself increase the need for new investment in shipping capacity. Since the subsidy requirement would be calculated automatically by reference to a formula unrelated to shipping costs, that requirement could change considerably from one year to the next. Sudden increases in subsidy could only be achieved at the expense of other services for which I am responsible.

It is however important to have a fares system that is clearly understood. P & O and the bulk shippers are private sector operators who fix their fares and charges on a commercial basis, the charges being rebated with the benefit of subsidy. These arrangments will continue. In the case of Caledonian MacBrayne the Monopolies and Mergers Commission noted the company's policy that fares on one route should be comparable with those on another, and that a standard fare scale should be adopted consisting of three elements, pier dues, toll charges (reflecting the cost of loading) and distance charges. Such a system should produce a structure of fares tapering with distance. The Commission noted that no recent progress had been made with this system and that as a result significant anomalies now exist in the fare structure. They recommended that Caledonian MacBrayne should make renewed progress towards such a system, starting with an up to date

examination of the structure of costs. I have asked the Company to proceed on this basis. The new fares system will take some years to implement fully, but a start will be made in fixing the charges for 1984/85, which the Company will be announcing shortly. The result will be a standard fares system which should be more equitable than at present.

Mr Speaker, the question I have had to address is how, in the light of some significant developments since 1979, we can offer the best long term guarantee of services to the Scottish Islands. My subsidy proposals for 1984/85 together with my substantial capital support to ships and terminals confirm the Government's continuing commitment to the maintenance and improvement of these services.

P.01227

PRIME MINISTER

British Shipbuilders'
Corporate Plan 1983/84-1986-87
(E(NI)(84)3)

Flag B

BACKGROUND

Flag C

The Sub-Committee last discussed British Shipbuilders' (BS) Corporate Plan in July 1983 (E(NI)(83)7th Meeting). They rejected the Corporate Plan and invited the then Secretary of State for Trade and Industry to produce a new one early in the Autumn concentrating on merchant shipbuilding and looking realistically at all options. In that context there was to be an examination of whether there was a need to maintain particular merchant shipbuilding or ship repair facilities in the United Kingdom. The Secretary of State was to approach the European Commsssion indicating that the UK was likely later to approach the Commission for agreement to "crisis aid" as part of a contraction plan for BS. The amount was to be for decision in the light of the new Corporate Plan and aid was not to be used to attract orders to yards which ought to be closed.

Flag D

2. Mr Tebbit minuted you on 22 December saying that further time was required to work out a credible range of options with Mr Day but proposing nevertheless to notify the Commission of proposals for a new support regime. The Chancellor of the Exchequer in his minute of 9 January said that he did not favour an approach to the Commission on the lines proposed prior to strategic decisions on the future of merchant shipbuilding. You took the same view (your Private Secretary's letter of 12 January). You agreed however on 7 February to a request to the Commission (now sent) for a further interim extension for those months of the existing Intervention Fund (IF), which expired at the end of January and provided for support at a rate of up to 15 per cent.

Flag E

Flag F

Flag G

3. In E(NI)(84)3 Mr Tebbit proposes that the strategic decisions on the future size of the industry should be postponed until detailed business plans are available for each of BS's subsidiaries in May. Meanwhile he seeks a decision on the EFL for 1984-85 and has revived his proposal for an approach to the European Commission for IF assistance of up to 30 per cent intensity and £100 million volume over two years.

MAIN ISSUES

4. The main issues are:

i. should strategic decisions on the future size of BS's merchant shipbuilding activities be further postponed until after more information is available in May?

ii. should decisions nevertheless be taken now on:

a. the EFL for 1984-85;

b. the level of IF subsidy for which EC approval should be sought for the next two years?

Future of merchant shipbuilding

5. As a basis for strategic decisions about the future of BS's merchant shipbuilding activities, E(NI)(84)3 provides two pieces of evidence. Annex B demonstrates that there is no case on defence grounds for retaining more then "a minimum level of ship repair capacity and possibly some merchant shipbuilding capacity"but only at a much lower level. The economic arguments are weak. Annex A confirms E(NI)'s earlier suspicion that there may well be no viable core of merchant shipbuilding and that the cost of keeping these activities going is roughly proportionate to the volume of orders.

J221n

6. The Sub-Committee may well feel that there is not sufficient information yet to take firm strategic decisions. They may however feel that there is sufficient indication to call in question the desirability of large subsidies to encourage a substantial volume of new orders. They may also be reluctant to postpone decisions yet again until after May. Is it really necessary to await detailed business plans for each of the 24 subsidiaries? Would it not be possible for Mr Tebbit to get from Mr Day a further fuller report which would make it possible for the Sub-Committee to take broad strategic decisions before Easter?

EFL for 1984/85

7. Mr Tebbit proposes deciding now on EFLs for BS for 1984/85. The £117 million EFL proposed for merchant shipbuilding is the cash requirement related to orders of 150,000 cgrt (compensated gross registered tons) per year, the central scenario of the three illustrated in Annex A of E(NI)(84)3. There is no full explanation in the paper of this figure or the £80 million proposed in paragraph 12 for the warshipbuilding component of the EFL, which is based on figures submitted to Mr Tebbit by Mr Day in the autumn.

Merchant 117
Warships 80.
Offshore 18
Ships 6

8. It is argued that nothing would be lost by settling the EFL in this way, since the cash needs in 1984-85 are not very sensitive to decisions about future strategy and no options for the future would be closed off.

9. There is however no convincing explanation of why it is essential to settle the 1984-85 EFL now at £221 million, rather than continue with the existing provisional figure of £175 million. The Sub-Committee may feel that it would be better to defer this decision until after the strategy is settled, especially if they take the view that a strategic discussion ought not be be postponed until after May.

30%

Costs - grand with no work.
Wages choices. || March

The Intervention Fund

10. Mr Day has said that he needs increased rates of IF to win orders. Similar arguments are advanced in the separate paper on Harland and Wolff by the Secretary of State for Northern Ireland (E(NI)(84)2). The Secretary of State for Trade and Industry says that this is an urgent problem which should be taken up now with the European Commission. Your own view, consistent with that taken at E(NI) last July and supported by the Chancellor of the Exchequer, has been that strategic decisions should come before an application for increased IF.

11. It must be doubtful in any case whether the Commission will find it easy to agree to an application for doubling the intensity of aid from the present level of 15 per cent to 30 per cent, despite the requirement in the Fifth Shipbuilding Directive for aid to be degressive. They are likely to press in return for a clear strategy for the future of the UK shipbuilding industry.

12. Delay until May or later would require the negotiation of a further temporary extension of Commission agreement to existing IF arrangements, which expired on 31 January, beyond the extension to April for which application has just been made: negotiation even of the latter extension is not expected to be straightforward. The Sub-Committee may feel that this strengthens the case for trying to take strategic decisions before Easter.

13. If it is decided to approach the Commission now, the Sub-Committee will need to consider whether the intensity should be 30 per cent, and the volume £100 million over two years as proposed. The question of whether a higher intensity should be sought for Harland and Wolff would probably be more conveniently discussed on Mr Prior's paper (E(NI)(84)2).

HANDLING

14. You will wish to ask the Secretary of State for Trade and Industry to introduce his paper then to invite comments from the Chancellor of the Exchequer and the Chief Secretary, Treasury. The Minister of State, Foreign and Commonwealth Office (Lady Young) will wish to comment on the implications of IF negotiations with the Commission. The Secretary of State for Northern Ireland may wish to comment on points other than those arising on his own paper on Harland and Wolff.

CONCLUSIONS

15. You will wish to reach conclusions on the following:

i. whether strategic decisions on the future of BS's merchant shipbuilding activities

- should be deferred until after May, as proposed in E(NI)(84)3, or

- should be taken earlier (say before Easter) on the basis of a further report from the Secretary of State for Trade and Industry;

ii. whether EFLs for BS for 1984-85

- should be set now at the levels proposed in E(NI)(84)3, or

- should not be settled until after decisions are taken on the future strategy for merchant shipbuilding;

iii. whether EC approval for the future intensity and volume of Intervention Fund assistance

- should be sought now for BS at the levels proposed in E(NI)(84)3, or

- should not be sought until after decisions are taken on future strategy;

iv. whether firm proposals for UK engine building capacity should be put to the Sub-Committee in June, as suggested in paragraph 13(i) of E(NI)(84)3.

PG

P L GREGSON

17 February 1984

P. 01226

PRIME MINISTER

Harland and Wolff Limited:
Strategy and Funding
(E(NI)(84)2)

Flag A

BACKGROUND

When the Ministerial Sub-Committee on Nationalised Industries last discussed Harland and Wolff (H & W) in July 1983 they decided:

- that the company strategy should be considered later on the basis of a further analysis of the Corporate Plan;

- that future orders for H & W should not be sought on terms more generous than those available to British Shipbuilders.

2. In his memorandum E(NI)(84)2 the Secretary of State for Northern Ireland describes the strategy proposed by the H & W Chairman, Mr Parker. The main thrust is to increase the level of shipbuilding activity by winning orders for a wider range of vessels of medium size and sophistication; and to reduce both overhead and operating costs. Similar expansion and cost cutting objectives are set for the engineering and shiprepair divisions of the company. On the basis of the assumptions about costs and prices underlying the strategy, the External Financing Limits (EFLs) are projected at around £40 million per annum over the next three financial years. It is also estimated that to bridge the gap between world prices and H & W's costs, so the company can win ship orders, assistance from the Government's Intervention Fund (IF) of £20 million per annum and at rates up to 35 per cent will be required.

How?

The amount and rate of IF assistance is subject to European Community (EC) approval.

3. Following correspondence between the Chief Secretary and Mr Prior, a study by consultants of a different strategy based on a smaller yard has been set in train. This should be ready by mid-summer. The Chief Secretary sees this as a potentially desirable alternative; Mr Prior regards it as a fall-back, should the Parker strategy be blown off course.

4. Mr Prior therefore asks the Sub-Committee:

a. to note the current strategy and endorse the general thrust of internal efficiency measures;

b. to note that a smaller yard option is being examined;

c. to agree, on a provisional basis, to an EFL of £37.6 million for 1984-85;

d. to agree that EC approval should be sought for IF assistance at a rate of up to 35 per cent and a level of £20 million per annum.

MAIN ISSUES

5. The main issues are:

i. whether the Sub-Committee wishes to reach any conclusions at this stage about H & W's future strategy;

ii. whether any agreement should be reached at this stage on H & W's EFL for 1984-85;

iii. whether EC approval should be sought for Intervention Fund assistance at a rate of up to 35 per cent and at the level of £20 million a year.

Strategy

6. The Chief Secretary has challenged the current strategy of H & W as described in E(NI)(84)2 and Mr Prior has accepted that a smaller yard strategy should be explored although he says that this will not be ready until mid-summer. The Sub-Committee will not therefore wish to endorse the H & W strategy at this stage.

7. The Sub-Committee may however wish to note that the current strategy rests on some optimistic assumptions. It aims to increase activity mainly by winning orders for ships of a type and size largely outside the company's experience, in direct competition with BS yards. The gap between H & W's cost and world prices is about 40 per cent. H & W's ability to win orders appears to depend on a continuing very high level of subsidy. Mr Prior admits (paragraph 6 of E(NI)(84)2) that the case for the preservation of H & W rests on political grounds and does not think that closure can safely be considered unless job creation accelerates to a point where the political arguments begin to lose their force.

8. Whether it is tolerable to defer until mid-summer the discussion of a smaller yard strategy for H & W depends in part on the timing of decisions about the future strategy of BS. Ideally it would be better to take all the strategic decisions about the future of UK merchant shipbuilding at the same time and the Sub-Committee is likely to wish to take strategic decisions about BS much earlier than mid-summer. It may therefore be worth pressing Mr Prior to consider whether it might not be possible to put a paper on a smaller yard strategy for H & W to coincide with Mr Tebbit's further paper on BS merchant shipbuilding strategy. This should identify options for progressively reducing the cash subsidy to H & W on a broader and more realistic range of assumptions about costs and market developments than those considered in E(NI)(84)2.

External Financing Limit 1984-85

9. In his memorandum Mr Prior suggests an EFL or £37.6 million for 1984-85 but on a provisional basis and to be kept under review. The basis of the figure is not fully set out; but the timing of an expected order could have a major impact on the EFL.

10. The Sub-Committee's discussion may be influenced by their decision on whether or not to settle now the 1984-85 EFL for BS, on the timing of the strategy discussions for BS and H & W, and on whether a higher intensity of IF assistance is to be sought for H & W than BS.

11. While Treasury Ministers may prefer to postpone a decision on the 1984-85 EFL for BS, they are understood to see advantage in settling the 1984-85 EFL for H & W, and to do so on a firm rather than a provisional basis. This is because they fear that agreement on a strategy to contract H & W is less likely and more remote in time than an agreed strategy for contracting BS. A tight EFL for the next financial year is thus the only discipline available at present for restraining expenditure at H & W and in particular for maintaining the pressure on cost savings. Despite therefore any apparent logical inconsistency with what may have been decided about BS, there may be advantage in settling H & W's EFL firmly at £37.6 million in advance of settling the future strategy for H & W. A later revision in the light of the strategic discussion would always be possible.

12. If the Sub-Committee were to decide (see below) that the level of IF assistance for H & W should not be 35 per cent but 30 per cent to keep it in line with the level of assistance to BS, Mr Prior may argue that the EFL would need to be increased so that H & W could offer more soft credit, as a means of securing orders. The Chief Secretary would resist this

arguing, inter alia, that the level of IF assistance should in any case have little effect on finances in 1984-85.

Intervention Fund assistance

13. Mr Prior is proposing IF assistance of £20 million a year at a rate of 35 per cent, compared with the rate of 30 per cent which Mr Tebbit has proposed for BS. Mr Tebbit has argued (paragraph 9 of E(NI)(84)3) that "we must secure comparable treatment between BS and H & W for comparable ships". This probably implies a continuation of the present arrangement under which H & W is allowed a higher level (at present 18 per cent) for vessels of over 100,000 dwt in which BS does not compete but has the same rate (at present 15 per cent) for the smaller vessels. The Sub-Committee will recall that it agreed when it last discussed H & W on 28 July that: "future orders should not be sought or taken (by H & W) on terms more generous than those which would be available to BS" (E(NI)(83)7th Meeting, Item 2).

Flag B

Flag C

14. There are therefore two problems: the difficulty of seeking EC approval for a doubling of intensity of IF assistance without a clear statement of future strategy which applies equally to BS and will have been discussed under that item; and the question of how far a higher level of IF assistance should be allowed for H & W than for BS.

15. On the second point the Sub-Committee may well feel that, if, as is proposed, H & W is to compete to a greater extent with BS in the market for smaller vessels, it would be hard to justify a higher level of subsidy for H & W on the same range of vessels. They may however be prepared to contemplate a higher level of subsidy on the larger vessels.

HANDLING

16. You will wish to ask the Secretary of State for Northern Ireland to introduce his paper. The Chief Secretary, Treasury will wish to comment on public expenditure considerations and the Secretary of State for Trade and Industry on how the proposals for H & W fit in with the proposals for British Shipbuilders. The Minister of State, Foreign and Commonwealth Office (Lady Young) may wish to comment on the Community implications.

CONCLUSIONS

17. You will wish the Sub-Committee to reach conclusions on the following:

i. whether the future strategy for H & W should be reconsidered with the opportunity to consider a smaller yard option

- in mid-summer on the basis envisaged in E(NI)(84)2, or

- at an earlier date, possibly to coincide with the discussion of the future of BS's merchant shipbuilding activities;

ii. whether an EFL of £37.6 million for H & W for 1984-85 should be approved; and, if so, whether on a firm or provisional basis;

iii. in the light of the corresponding decisions affecting BS, when EC approval for the future level of IF assistance for H & W should be sought;

iv. whether the maximum subsidy should be set at the same rate as that decided for British Shipbuilders; or

v. whether EC authority should be sought for different levels of maximum subsidy where British Shipbuilders and Harland and Wolff were not in direct competition; and, if so, what that rate should be.

PG

P L GREGSON

17 February 1984

Chancellor of the Duchy of Lancaster

PRIME MINISTER

SHIPBUILDING

1. I am unfortunately still locked in combat on the Telecommunications Bill. I will not therefore be able to come to the meeting of E(NI) on Monday. My views on British Shipbuilders and Harland and Wolff are set out below.

British Shipbuilders

2. It is impossible to come to any informed judgment on what is said in the Secretary of State's paper on the basis of the information given. Neither the Corporate Plan nor the 1983-84 forecast accounts have been circulated. We are being asked therefore to take the figures on trust, although I imagine the Treasury will be examining them in detail. There are however a number of general points which may be made.

3. Three different "Scenarios" are set out in Annex A. Essentially these are based on different output levels - 200,000 tons, 150,000 tons and 100,000 tons. But no indication is given whether the particular proposals adopted to give effect to each scenario are the only or even the best proposals. Thus under Scenario 1 (200,000 tons) 1 small yard, out of a total of 8 yards (5 large and 3 small) is to be closed. Is this the most economic way of producing 200,000 tons? Or might it not be more cost efficient to produce this output with a smaller number of yards?

4. No information is given about the assumptions underlying the figures. For example on productivity, which is crucial in the present context. The rejected Corporate Plan envisaged that productivity would increase by 100% over the next four years, although subsequently this was watered down to 50%. The figure assumed for the purposes of Annex A is crucial - whether at one

extreme it is good enough and at the other whether it is achievable.

5. No base year figures are given in Annex A. The importance of this is illustrated by the fact that Scenario 3 involves job losses of over 10,000 compared with 1983-84. It is not possible to tell how many of these have already occurred and how many are still to come.

6. Finally it does seem odd to assume that nothing we could do now would affect the cash outturn for 1984/85.

Harland and Wolff

7. This is an employment maintenance operation rather than a shipbuilding operation. The question which arises therefore is whether the relationship between the employment created and the cost involved is at the optimum point. I entirely agree therefore with the Chief Secretary's point endorsed by the Secretary of State for Northern Ireland that a detailed assessment of this by consultants is essential.

8. I am circulating this minute to members of E(NI), James Prior, Michael Heseltine, Nicholas Edwards and Sir Robert Armstrong.

A.C.

COCKFIELD
17 February 1984

83-84 180
117 →
Loss - 102

PRIME MINISTER

SHIPBUILDING

Time for Decisions

1. Mr Tebbit is right to emphasise the decisions taken and the action started within British Shipbuilders since Graham Day's appointment as Chairman. We applaud in particular the progress which BS and DTI together have made towards BS's exit from ship-repair towards warshipyard privatisation, and towards reshaping the attitudes of employees, from the BS Board downwards.

2. The problems which remain, to BS and to Harland and Wolff alike, are painful and expensive to solve, but even more expensive to defer. The two corporations' plans went to Departments last October. By now, a clear policy from Government to Graham Day and John Parker is well overdue. We cannot afford several more months for a further review of options.

3. It is entirely right that E(NI) should take BS and HW at one sitting. Inconsistency of policy across two corporations in the one industry could be presentationally very difficult and costly.

Expenditure

4. Taken singly and together, both corporations make heavy claims on the Exchequer for the next three years:

CASH REQUIREMENTS (£million)

	1984/5	1985/6	1986/7	Total
BS	228	164	110	502
HW	38	42	38	118
Total	266	206	148	620

All this is on top of roughly £1 billion sunk since nationalisation.

5. Over 60% of this expenditure is absorbed by merchant shipbuilding and offshore rig construction. Yet it yields no downstream benefit to the nation, in that:

- neither BS nor HW foresee eventual return to break-even, let alone profit

- there is no defence-strategic case for sustaining an unprofitable UK capability in merchant shipbuilding or offshore construction. (Warshipbuilding and shiprepair are of course important for defence, and are financially viable. So we shall retain adequate capacity in the private sector.)

- keeping shipyard employment up by subsidy is an inefficient form of regional aid. In any event, job losses in shipbuilding have been severe (27,000 since nationalisation) and further losses are inevitable.

6. Policy Unit advice on BS and HW is therefore that a much tougher expenditure line is called for. The two new chairmen were appointed to take tough decisions and make them stick.

Recommendations

7. For shiprepair, proceed with closure or sale as seems commercially most prudent to BS. Keep up the good progress which BS and DTI have already made.

8. For engine building, eliminate overlapping capabilities urgently (we cannot surely need more than two sites?) and consider whether BS or HW need to make engines at all. All are licence-built continental engines, which could be bought in.

9. For offshore, see through the disposal of Scott Lithgow to the private sector if it is cheaper than closure. Be prepared to countenance the closure of Cammell Laird's offshore activities if no new rig order is forthcoming and no private buyer emerges.

10. For the warshipyards, again keep up the solid progress which BS and DTI are making. We support the creation of a separate EFL for the warship business.

While warshipyard privatisation will come to E(DL) later, we should note at this early stage the contribution to excess warshipbuilding capacity of the "mixed" yards, ie Swan Hunter and Cammell Laird. We consider (a) that privatisation of the dedicated warshipyards will be much more easily accomplished if BS withdraws Swan Hunter and Cammell

/Laird

Laird from warshipbuilding and (b) that sharper attention will then be given to the performance and future of these yards in their commercial markets. We must avoid giving new warship orders to mixed yards. There is a danger that MoD might wish to do so.

11. For BS merchant shipbuilding, we should taper the EFL down to zero by 1987/88. We suggest approximately £100 million for 1984/5, £40 million in 1985/6, £25 million in 1986/7 and zero thereafter. These sums should be adequate to cover BS' closure costs, but should be presented as a ceiling within which BS is free to cut its capacity to the point where it breaks even. Government should not dictate which yards should shrink or close, but should not flinch from consequences which are commercially right.

12. Unless Government wishes, for wider reasons, to sustain substantial shipyard employment in Belfast, Harland and Wolff should close. If Government does wish to try to sustain the employment, we might just as well treat HW as part of the core of UK merchant shipbuilding, and as the marine enginebuilder too if we want to go on building engines.

13. But we should extract a good price for keeping HW open. This might take two forms:

- Firstly, a much tighter EFL for HW. (The proposal backed by NIO amounts to a continuing subsidy of £7000 per job per annum - probably more than the average gross wage in the yard). Mr Parker should desist from getting further into shiprepair when BS is exiting and he should give up the idea of taking on more employees.

- Secondly, the closure of an equivalent amount of capacity within BS. There is no case for the taxpayer to bail out HW and indefinitely.

R.Y.

ROBERT YOUNG
17 February 1984

CONFIDENTIAL

NBPM AT 17/2 cc NO

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From the Minister of State for Industry

Norman Lamont MP

The Rt Hon Lord Cockfield
Chancellor of the Duchy of
Lancaster
Privy Council Office
Whitehall
LONDON
SW1

17 February 1984

Dear Arthur

SCOTT LITHGOW (SL) AND TRAFALGAR HOUSE (TH)

Your minute to the Prime Minister of 13 February makes the entirely fair point that my letter of 10 February, taken on its own, provides an insufficient factual base on which to judge the TH proposition.

In fact detailed background papers were circulated by my officials to their opposite numbers in relevant Departments. I hope that this letter, and its attachments, will put you fully in the picture.

The basis on which BS have negotiated the deal is that, at worst, it should leave them no worse off than the alternative of accepting cancellation of the Britoil contract and in due course closure of the yard. The deal they have meets this criterion.

At Annex A is the detailed estimate BS have made of the relative cash costs for the whole yard of the alternatives of accepting the TH deal or accepting closure. Part A shows the present balance sheet deficit after writing off loans to SL by BS. It shows liabilities of £41m which have to be discharged either to conclude the TH deal, or on closure. Part B assumes the current fixed asset value to be zero. Part C shows the various other costs incurred by each route. Part D shows the future income from the deal, mainly falling post 198374. The bottom line is the net cash cost of either route for the whole yard from end-December 1983. Officials from this Department and the Treasury have explored these figures with BS and are satisfied that they are reasonable. If anything the closure costs may be understated.

On your specific points, the £12m purchase price is effectively a working capital loan needed by TH. BS will bring the asset value up to £12m, TH will then buy it for £12m, to be paid over 4 years with interest. The breakdown of the current balance sheet position is given in note 4 of the Annex.

The tax loss value to TH is much smaller than it looks. Past losses at SL are not available for group relief, and can only be set against future SL profits. The important tax loss is that sustained after completion of the deal. This will be about £50m, the value of which to TH we and the Treasury estimate to be about £10m. From our point of view this PSBR cost has to be set against the PSBR costs of the alternative of closing the yard, (ie the extra redundancy, SRPS and unemployment benefit and lost tax revenue associated with the 1250 workers TH will keep on). These we estimate lie between £24m and £38m depending on assumptions about the rate of reabsorption into employment of those made redundant.

You are of course absolutely right that this looks a good deal for TH. But it is by no means risk-free, as underlying the figuring is the key assumption that TH can build the Britoil rig on time and complete the other work in the yard at no greater cost than BS would have incurred by closing it down. For its part BS ensures that its risk is limited to that cost, a valuable condition.

Finally I naturally agree that we must try to get the best deal available. But we must equally ensure that our pursuit of the bird in the bush does not leave us emptyhanded. That is why I am keen that we strike a careful balance between encouraging BS to pursue the deal it has got and leaving the door ajar to the latecomers.

Copies go to the Prime Minister, Michael Heseltine, Peter Walker, George Younger, Peter Rees and Sir Robert Armstrong.

Yours ever

Norman

NORMAN LAMONT

Annex A

		Trafalgar House	Closure
	Position as at P.9 Accounts		
A	Excess of Current Liabilities over Current Assets	90,192	90,192
	Add Group Relief receivable included as a current asset but to be offset against BS loan balances	11,063	11,063
		101,255	101,255
	Less BS Current Account	(60,569)	(60,569)
		40,686	40,686
B 1	Fixed Assets	Nil	Nil
	Adjustments:		
	Redundancies	3,000	6,750
	Contingency (current Assets)	1,000	1,000
	Capital Duty	300	-
	Lease costs:		
	3 years charge	1,000	-
	Termination charge	-	2,400
	Current contracts:		
C	SOV (753/700)	-	(2,000)
	BP Rig (2001)	-	3,000
	Britoil	3,100	3,100
	Loan re debtors	7,400	-
	Capital commitments	300	300
	Regional Development Grants repayable	-	1,000
	Under-recovery of overheads	-	2,000
	Reorganisation and retraining	7,000	-
	Funding of purchase price	12,000	-
	c/fwd	75,786	57,336

	b/fwd	75,786	57,336
	Future income		
D	Repayment of purchase price	(12,000)	-
	Repayment of loan for debtors	(7,400)	-
	Sale of Fixed Assets	(8,000)	(4,000)
		£48m	£53m

Note:

(1) In a closure situation, might achieve better results from settling claims, but against this could be very considerably worse off if, on negotiating settlement of cancelled Britoil contract, we were forced to compromise on any recovery of OSE's.

(2) Cancellation of BP Rig 2001 much more likely in a closure situation.

(3) SRPS costs excluded from both calculations.

(4) Stocks and work in progress	(13)
Debtors	20
Creditors	(15)
BS current account	(60)
Deferred assets	(3)
Extra contract provisions	(19)
	(90)

NBPM AT 20/2

CONFIDENTIAL

POLICY UNIT

cc BI

PRIME MINISTER

SCOTT LITHGOW

There is still considerable uncertainty in the press and the public mind about what is happening at Scott Lithgow.

Norman Lamont explained in the House this week that other bidders could try their luck with Britoil and could put forward proposals.

It is vital that the press and public are satisfied that a fair competition between rival bidders has been held in view of recent sensitivity about Trafalgar House. It is also important that the aim of the operation is clarified. It is not privatisation of the yard at any price, rather it is to see if the private sector can come up with a cheaper way out for the Government than total closure.

Would it not be helpful if the press were briefed on both these matters clearly? It seems particularly important that the rival bidders should be aware of (a) the aim and (b) the time they have available to put together proposals.

JOHN REDWOOD
17 February 1984

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JF5667

Secretary of State for Trade and Industry

COMMERCIAL IN CONFIDENCE

16 February 1984

Prime Minister (2)

While BS are being told that the TH bid would be acceptable, the door is being kept open for other bidders, though a time limit is being set

AT 16/2

MT

J G Day Esq
Chairman
British Shipbuilders
197 Knightsbridge
LONDON
SW7 1RB

Dear Graham,

I am replying to your letter of 9 February to Norman Lamont about Scott Lithgow (SL) and your conditional agreement with Trafalgar House (TH).

First let me say that I am broadly content with the terms of the conditional deal you have negotiated with TH. I congratulate you and your team for having achieved this much in such a difficult situation and in a short time.

I am content that you proceed to try to negotiate a full agreement, subject to three points.

First, in pursuit of the clean solution you, and we, desire, I would prefer it if TH could be persuaded to buy the SL assets rather than lease them, even if payment were deferred for 3 years. This of course may or may not be negotiable.

Second, the Secretary of State for Defence would like as a safeguard to see a clear statement in the full agreement of TH's responsibility for completing all existing MOD contracts.

Third, you will appreciate that I cannot give any specific assurance about the future eligibility for regional aid of an operation on the SL site. Applications for aid will, as you know, be dealt with in the light of the recent White Paper on regional policy, Cmnd 9111.

In short, I can tell you that a deal along the lines you have put to us would be acceptable, in the absence of a better proposition.

You will appreciate, however, that you will have to seek our consent formally if and when a deal is firmed up.

This broad approval does not signify consent to your confining discussions to TH alone.

My sole criterion, in giving my consent to any final agreement, with any party, will be that it is the best possible deal for BS and for the taxpayer. I of course expect you to advise me on this in the light of your commercial judgement about what is in the best interests of BS. To this end, you should facilitate all serious potential purchasers of SL, by which I mean doing the utmost that is possible, within your resources and within the time available, to provide information and anything else that is necessary for potential bidders. You should also consider which, of any actual bids that are made for SL, is the most advantageous for the taxpayer.

Further, I do not wish you even to propose any agreement, conditional or otherwise, to the Government, unless you are satisfied that this is the best deal that can be done for BS and ultimately the taxpayer, given the timing needs of the ultimate customers and any other considerations which are, in your commercial judgement, relevant.

Yours ever
Norman

NORMAN TEBBIT

CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

10 DOWNING STREET

From the Private Secretary

16 February 1984

Scott Lithgow : BP Rig

The Prime Minister has seen Mr. Lamont's letter to Mr. Buchanan-Smith. She agrees that, as with the Britoil rig, this should be treated as a matter for the commercial judgement of British Shipbuilders.

I am copying this letter to Alex Galloway (Chancellor of the Duchy of Lancaster's Office), John Gieve (Chief Secretary's Office), Ian Fitzpatrick (Minister of State's Office, Department of Energy), Stephen Douglas (Mr Pattie's Office, Ministry of Defence) and to Gerard Hetherington (Mr. Stewart's Office, Scottish Office).

ANDREW TURNBULL

Miss L.C. Rhind,
Department of Trade and Industry.

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From the Minister of State for Industry

Norman Lamont MP

cc NO

CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

Prime Minister
To note. Agree X
subject to colleagues

Rt Hon Alick Buchanan-Smith
Minister of State for Energy
Thames House South
LONDON
SW1

15 February 1984

Dear Alick

I wrote to you on 3 February recording my meeting with Roger Bexon of BP and warning colleagues that a cancellation of this rig was on the cards.

You will now have seen Peter Walker's copy of BP's letter to Graham Day of 10 February telling him that BP are setting the cancellation procedure in motion while remaining ready to renegotiate the contract. You have also, I believe, received a copy of Graham Day's reply reaffirming his position that, as with the Britoil rig, no more money is available.

Graham Day's stance is partly one of principle; he believes that to concede one renegotiation would amount to an invitation to any number of his customers to try their luck. But he has also considered the financial implications of the options available; you and other colleagues will wish to be aware of these.

If BS accepts BP's demands (which involve an extra £15m) the total contract loss will amount to £54m. If BS refuse and BP cancel, BS will complete the (nearly finished) rig and sell it. The cost of completion, plus the repayment of instalments to BP, plus interest and damages would amount to £127m. The key question is thus how much BS can get for the rig on the open market. To be no worse off than if they renegotiated they need to sell for £73m, roughly the original contract price. To inform his final decision Mr Day is seeking to establish the market price of the rig. This will take some days to complete.

In the light of that price, Mr Day will have to decide what to do, balancing the direct financial considerations with the possible wider consequences of each course of action. I propose to tell him that, as with the Britoil rig, it is a matter for his commercial judgement.

X

I should add that this turn of events should have no fundamental effect on the proposed Trafalgar House deal; under its terms TH is effectively insulated from the consequences of Scott Lithgow's past performance, and has all along been aware of the possibility of cancellation of the BP rig.

I am copying this letter to the Prime Minister, the Chief Secretary, Geoffrey Pattie and Allan Stewart. + Chancellor of the Duchy

Yours ever

Norman

NORMAN LAMONT

NBPM
AT 16/2

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL
COMMERCIAL - IN CONFIDENCE

Norman Lamont Esq MP
Minister of State for Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1

15 February 1984

Dear Norman,

SCOTT LITHGOW

Thank you for sending me a copy of your letter of 10 February to Peter Rees about the conditional agreement between British Shipbuilders and Trafalgar House for the sale to the latter of Scott Lithgow. I have since seen Arthur Cockfield's minute to the Prime Minister of 13 February.

On terms, I agree with Arthur that the papers before us are far from clear on what the proposals will cost BS and TH. Certainly, if the TH deal goes through we shall be attacked for having sold too cheaply - from the history of this affair it is likely to be the automatic reaction of our opponents in almost any circumstances. Nevertheless, I am sure that the best course is to support its terms, on the basis that our principal aim is to get a new operation going and unless a better offer emerges we will be prepared to approve the agreement. But I do hope you will elucidate some of the points raised in Arthur's letter.

One aspect of the arrangement with TH concerns me. They are going to take over SL as a going concern, including all SL's extensive land holdings at Greenock and Port Glasgow, part of which at least (the former Scott's yards at Greenock which built naval vessels) do not, from what TH told us when we met them on 13 February, figure in their plans for the development of SL as an offshore yard which would be based on the main Lithgow yard at Port Glasgow. I have already made several public references to my intention to initiate a programme of redevelopment and rehabilitation along the Firth of Clyde waterfront, and it would be a serious matter if this programme could be frustrated by lack of cooperation from TH or difficulty over price, at some point in the future, in respect of land they held but did not require for their offshore business. I suggest therefore that the option for TH to purchase the SL assets for £8m at the end of the initial lease from BS (pre-condition (d) of the TH letter of 7 February to BS) should be modified to the extent that SL's land holdings would be reviewed, if they decide to exercise their option, in the light of the company's operational needs, and any surplus to those needs would be retained by BS for disposal in accordance with the redevelopment programme.

Turning to the question of the other parties who have declared an interest in SL, it is of course going to be difficult to keep TH in play, and at the same time not frighten away the others. What you propose seems a satisfactory way of

achieving this given that our overriding interests must be to find new management for SL. But it remains important that if Howard Doris and the Bechtel-led consortium are seriously interested they should be given a full opportunity to put in an offer. We should be open to serious and legitimate criticism if that were not the case, and I hope you will impress on Mr Day the need to give these others a fair crack of the whip, above all now that Britoil have relaxed their timetable. The best way of achieving this would be to make it known that if Bechtel and Howard Doris intend to put in offers they should do so by a certain date. That date could be one settled with BS and Britoil as meeting the requirements of both.

I am sending copies of this letter to the Prime Minister, Peter Rees, Michael Heseltine, Peter Walker and to Sir Robert Armstrong.

Yours ever,

George.

NAT IND : Shipbuilding : Pt 6.

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DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
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NBPM
AT
14/2

CC NO

THE MINISTER OF STATE

Norman Lamont Esq MP
Minister of State for Industry
Department of Trade & Industry
1 Victoria Street
LONDON
SW1H OET

14 February 1984

Dear Norman

with AT?

Thank you for letting me see a copy of your letter of 10 February to Peter Rees.

So far as the Department of Energy is concerned our main preoccupation is to see re-created at Scott Lithgow a capacity to construct mobile offshore structures competitively and for the Britoil rig to be completed there and brought into service as soon as possible.

We share your view, therefore, that while all options should be kept open, not least because the key to success lies with Britoil rather than Government, we should give strong consideration to Trafalgar House who have the necessary financial and industrial muscle and who will give the venture an essentially British character. But I consider it vital that Trafalgar House - or any other successful candidate - should establish an association with a company (for example Gotaverken (GVA)) who will provide the project management and design expertise lacking in Scott Lithgow's operations so far. Trafalgar House on their own would not command customer confidence and I have no doubt that, to satisfy Britoil, a clear association with someone like GVA will be necessary. But such involvement should be on a long term basis; the new look Scott Lithgow must not become a one-order yard.

Subject to my concern about the acquisition by Trafalgar House of the necessary management skills I am content to see matters proceed in the way you describe.

I am copying this letter to the Prime Minister, Michael Heseltine, George Younger, Lord Cockfield and Sir Robert Armstrong.

Yours ever

ALICK BUCHANAN-SMITH

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

NAR INO
Bmp bewaring
Dtp

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NBPM
AT 13/2

MINISTRY OF DEFENCE
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PARLIAMENTARY UNDER-SECRETARY OF STATE
FOR DEFENCE PROCUREMENT

USofS(DP) 7/1

13 February 1984

Dear Norman.

with AT?

You sent Michael Heseltine a copy of your letter of 10th February to Peter Rees in which you sought agreement to a line to be taken with British Shipbuilders over their conditional deal with Trafalgar House on the acquisition of Scott Lithgow.

In Michael Heseltine's absence overseas, I am writing to confirm that we are content with your proposed line. I was glad to note from your letter that Scott Lithgow under new ownership would continue existing contracts (including those with MOD) on their existing basis. My officials have already proposed to yours that this should be made explicit in the agreement between British Shipbuilders and Trafalgar House, as I see from the BS letter of 8th February is now the case with the BP rig contract. Our vessel, HMS Challenger, has already suffered considerable time and financial overruns and this aspect coupled with the importance of it to us in strategic terms explains our concern.

I am copying this letter to the Prime Minister, the Secretaries of State for Energy and for Scotland, the Chief Secretary, Treasury, and to Sir Robert Armstrong.

with kind regards.
Ever
John

(JOHN LEE)

Norman Lamont Esq MP
Minister of State for Industry
Department of Trade & Industry
1-19 Victoria Street
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COMMERCIAL IN CONFIDENCE
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Shipbuilding Pt6

Chancellor of the Duchy of Lancaster

PRIME MINISTER

SCOTT LITHGOW AND TRAGALFAR HOUSE

1. It is impossible to judge the merits of this proposition without much more information than we have been given.

2. We need as a minimum a statement showing in detail what assets are being sold, what British Shipbuilders is receiving - or paying - and what liabilities it is retaining. Similarly we need to know what Trafalgar House is getting and what it is paying for it.

3. It would be valuable also to have pro-forma balance sheets showing the position on the existing basis immediately before the Completion Date - expected to be in March - and on the new basis immediately after the Completion Date.

   I would imagine that Trafalgar House have drawn up such balance sheets - the figure of £12 m quoted as the Purchase Price in paragraph 3 of the Heads of Agreement won't have been plucked out of thin air. British Shipbuilders may also have drawn up such balance sheets. If they have not they certainly ought to have done.

4. I suspect that the deal is very advantageous to Trafalgar House. For (apparently) £12 m they get all the assets, other than the fixed assets which are leased to them free of charge with an option to purchase, plus tax losses which may be as much as £150 m. The £12 m is a net figure in that it has been struck <u>after</u> deducting the expected loss to date on both the Britoil rig and the BP semi submersible. Effectively Trafalgar House's risk is limited to this £12 m: if the venture fails it would simply allow Scott Lithgow to go into liquidation. If the venture succeeds, it could make a great deal of money.

5. From British Shipbuilders' point of view the attraction of the deal is that it allows it to "get out from under" with a small net cash receipt. There will of course be massive write offs; but these would have occurred anyway if the yard were closed down. And some jobs will be saved - a card of some, if limited, value in dealing with the Unions elsewhere. I can well understand Graham Day seizing what appeared to be a lifeline where otherwise all was lost.

6. None of this however answers the question whether the Trafalgar House deal is the best available, or indeed whether better terms could not have been secured from Trafalgar House. It is claimed that the deal had to be concluded because of a time limit set by Britoil: but that time limit does not appear to be as pressing as originally alleged.

7. It is said that in cash terms the Trafalgar House deal would save £5 m compared with closing down. No evidence is produced to support this claim or the figure. Having regard to the large sums involved, a "difference" of as little as £5 m must be viewed with scepticism.

8. The more important point is that it is admitted the Bechtel have shown "serious interest". It is clear that British Shipbuilders regard themselves as morally committed to Trafalgar House. We simply cannot accept this. The Bechtel interest must be pursued. Quite apart from the money, Bechtel have a very high managerial reputation and that with their world wide operations could make their involvement of real advantage to the UK economy. They may have to be given a time limit: but I would expect them to respond very quickly if they thought any offer they made would be seriously considered.

9. The same applies to Howard-Doris and anyone else who shows a serious interest.

10. I very much doubt whether Trafalgar House would pull out in a huff if we opened up talks with other people. The deal they have

tentatively concluded is so advantageous to them that they may threaten: but they are unlikely to act. On our side, our position would be indefensible unless we had made quite certain that the present Trafalgar House deal was the best obtainable - either from Trafalgar House or anyone else.

A.C.

A C

13 February 1984

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In view of the tax loss point — I leave this decision to the Treasury and DTI. MT

PRIME MINISTER

SCOTT LITHGOW

Mr. Lamont's letter to the Chief Secretary reports on DTI's analysis of the conditional agreement reached between BS and Trafalgar House. This shows that renegotiation of the contract and completion by BS is the most expensive option; closure would cost BS around £53 million; sale to TH would cost BS around £48 million. Although the difference is not large, it indicates that the TH deal is the cheapest of the three courses.

The Policy Unit has looked at the proposal and has identified a number of points at which the terms could be tightened up in favour of BS but, while we could suggest these to DTI, we should also take note of Mr. Lamont's warning against tinkering with particular components of the agreement.

To assess the cost to the Exchequer, as opposed to BS, one needs also to take account of:

(i) use of tax losses by TH which represent a loss of revenue to the Exchequer;

(ii) savings to the Exchequer from keeping an additional 1,250 men at work.

Would the same apply to Rochdale inc the wider use referred to on p.3 of the letter?

DTI conclude that the benefit of (ii) is greater than the cost of (i).

Thus, on balance, the deal looks favourable to the Exchequer but there are two presentational points to be considered:

(i) TH are proposing to lease some of the assets, giving an appearance of lack of long-term commitment;

(ii) the fact that TH have hammered out an agreement much faster than anyone else can give the impression of a cosy deal. (An illustration of this is the thoroughly offensive letter from the STUC which I suggest should receive a Private Secretary reply

/ rebutting

rebutting the suggestions made and reiterating the assurances given in the House yesterday.)

Mr. Lamont proposes giving informal approval to the TH deal on the condition that the door is still open for other offers. He will need, however, to impose a deadline.

Agree, subject to colleagues, to the line suggested by Mr. Lamont, provided -

(i) TH are pressed to buy rather than least assets;

(ii) a reasonable time limit is specified for the submission of other offers?

AT

10 February 1984

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From the Minister of State for Industry

Norman Lamont MP

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

10 February 1984

Dear Peter

SCOTT LITHGOW

As colleagues are aware, Trafalgar House (TH) have concluded a conditional agreement with British Shipbuilders (BS) for the acquisition of Scott Lithgow (SL). I attach copies of TH's letter of 7 February, containing heads of agreement, together with BS's letter of 8 February containing some clarifications. (Officials of Departments concerned have already had copies of these documents). We need to decide urgently whether there is anything in the proposed deal that we should take exception to, and also, in the light of the political furore that the agreement has attracted, what attitude BS should be advised to take towards other potential bidders for SL.

I should make it clear that the documents as they stand have no legal effect. The agreement is conditional on the approval of BS's Board, TH's Board, and, where necessary, HMG. It will of course be essential that Britoil too are satisfied about the competence of any buyer and on the revised terms on which their contract is to be completed.

While Norman Tebbit will have to give his approval to the terms of any disposal of SL when we have a completed and agreed deal, it is important that we should let BS and TH know at once if there is anything in the proposed deal that would cause HMG difficulty.

Shorn of its complications, the proposed deal transfers the assets of SL and the existing contracts on a "clean slate" basis, writing off losses and liabilities. However the clean slate basis makes certain assumptions about the likely future losses on existing contracts, including the Britoil contract.

On the Britoil contract the yardstick adopted has been BS' potential loss if cancellation goes through. BS' exposure is limited to the equivalent of this amount. Any additional losses (which could well arise unless TH's performance is very good) will be the responsibility of TH. The deal envisages that the fixed assets of SL should be retained by BS and leased to SL for the first three years, with TH having an option to buy them for the sum of £8 million.

Continuation of the Britoil work will involve new contractual arrangements with Britoil. Under the proposed deal SL would continue the other existing contracts (with MOD and BP) on their existing basis.

My officials have discussed with BS the costs of the various options. Renegotiation of the contract and completion by BS (which the BS Board have ruled out on commercial grounds) remains clearly the most expensive. In cash terms to BS sale to TH works out marginally (perhaps £5 million) cheaper than cancellation and subsequent closure of the yard. Broadly a comparison on a PSBR cost basis of the TH sale versus closure appears to show that sale to TH would be more advantageous. The PSBR costs of redundancies following cancellation appear to outweigh the estimated PSBR costs of the utilisation of some of the tax losses included in the deal. Because of the phasing of various payments and receipts the TH deal would be more costly than cancellation in 1983/4 in EFL terms, the balance being recouped in subsequent years.

In the heads of agreement TH are seeking certain undertakings or commitments from the Government. These are contained in paragraph 1(e) of the heads of agreement. It is not entirely clear what comfort TH are expecting, but we clearly cannot give a binding commitment in advance that the various expenditures would be eligible for RDG or selective financial assistance support. Short of this we can of course provide TH with such further guidance as they may be in need of, including the effect of the changes set out in the White Paper on Regional Industrial Development (Cmnd 9111), including the important change in RDG treatment for expenditure after November 1985. As regards item 1(f), I do not imagine that this will cause any difficulty in practice and TH should be encouraged to make contact with the Office of Fair Trading to institute clearance proceedings as soon as possible.

An element of the deal that is clearly important to TH is the acquisition of SL's tax losses (paragraph 8 of the heads of agreement). Such acquisition is a normal practice, and I see no impediment in it. As I understand it tax losses arising before the takeover would be usable only against future

profits arising in SL itself. Inherent in the deal will be certain tax losses which will arise from the completion of the various contracts in train - perhaps about £50 million - and these will, I believe, be usable in the TH Group more widely.

Viewed in isolation, therefore, and subject to the points we need to make on paragraph 1(e) of the Heads of Agreement, I see nothing in the proposed deal that we should take exception to, and in the light of the comparative costs of cancellation, the preservation of employment, and the preservation of offshore rig building capability, I believe that we should look favourably upon it. If colleagues have any major points to make on the Heads of Agreement they will no doubt let me know. I believe strongly however that we should resist the temptation to tinker with this or that element if an alteration is not fundamental to the Government's attitude to the deal.

If the deal is to go ahead two major hurdles have to be surmounted by TH. The first is the renegotiation with Britoil of new contractual arrangements. The second is securing the agreement of the SL workforce to the deal and the changed terms and conditions that will stem from it. Both these hurdles may present significant difficulty, but, other things being equal, ought not to be insurmountable.

The 29 February deadline set in the Heads of Agreement was no doubt conditioned by the understanding that this was Britoil's cut-off point. Sir Phillip Shelbourne yesterday morning told me that Britoil are in fact now prepared to extend this date to the end of March.

All the above relates to the TH deal viewed in isolation. But we cannot ignore, and nor will Britoil ignore, the presence of other contenders, even though only one of these - Bechtel - has so far shown anything like serious interest. The probable next contender - Howard Doris - made contact with BS only on Wednesday. We need to balance two conflicting considerations here. Clearly in the interests of fairness and public accountability we do not want to exclude anyone with a genuine and serious interest from the field. On the other hand in pursuing the very much stronger interest shown by TH, BS have been acting entirely correctly and commercially. The TH deal has now reached an advanced stage, and it would be unfortunate indeed if it foundered and the interest expressed by the other potential contenders turned out to be nugatory. The BS Chairman, Mr Graham Day, takes the view very strongly that we should stick to the TH deal and not do anything that would put it in jeopardy. This is entirely understandable, but we have to take account of the wider considerations.

In these circumstances I believe that in responding to BS on the TH deal we should make it clear that our broad and informal approval cannot preclude the Secretary of State's consideration of, and preference for, a better deal if one should come along; that we fully recognised the importance of keeping alive the bird in the hand of the TH deal; that at least while Britoil are considering the TH proposals it would be commercially right (and certainly presentationally necessary) for BS to consider approaches by other contenders. Britoil themselves will certainly want to look at other contenders, although they do not have many weeks if they wish to have their rig by the 1986 season. BS will need to keep in close touch with my Department as the negotiations proceed. We have to satisfy both the needs of public accountability and of commercial reality. But given the advanced stage that negotiations have reached, it would be entirely right, if and when Britoil are satisfied, for BS to conclude the deal with Trafalgar House.

Unless I hear from you and other colleagues to the contrary by 3.00 pm on Monday I propose to advise BS on the lines I have set out above.

I am copying this letter to the Prime Minister, Michael Heseltine, Peter Walker, George Younger and Sir Robert Armstrong.

I have asked for a copy to be sent to Lord Cockfield

Yours ever

Norman

NORMAN LAMONT

Trafalgar House PLC
PUBLIC LIMITED COMPANY
1 BERKELEY STREET · LONDON W1X 6NN

Eric W. Parker,
Group Chief Executive

EWP/IF/SAB/TB

STRICTLY CONFIDENTIAL

SUBJECT TO CONTRACT

J.G. Day Esq.,
Chairman and Chief Executive,
British Shipbuilders,
197 Knightsbridge,
London, SW7 1RB.

7th February 1984

Dear Mr. Day,

Scott Lithgow Limited

Further to the recent meetings between representatives of this Company and of British Shipbuilders ("BS") I set out the basis upon which, subject to approval by the Board of Trafalgar House Public Limited Company, we would be prepared to purchase from BS the whole of the share capital of Scott Lithgow.

By way of background we explained to you that over the last ten years we have steadily increased our involvement in the offshore oil and gas industry. Within the Trafalgar House Group we have the largest topside manufacturing facilities in Europe in our Cleveland and Redpath Offshore operations on Teesside. Also, through Lawrence-Allison, we have worldwide involvement in engineering and project management. Recently we have acquired substantial interests in oil and gas exploration and production both in the UK and USA.

We firmly believe that technology in the North Sea and in fact around the World is moving towards production systems which could be readily manufactured by Scott Lithgow. It is for this reason we are prepared to make the very considerable management efforts and sacrifices to ensure that Scott Lithgow not only completes the Britoil contract but also becomes a credible long term construction company in the offshore market.

We believe that with our offshore construction capabilities and the experience we gained in successfully taking Redpath Dorman Long from the public sector to the private sector some two years ago, Trafalgar is uniquely qualified to cope with the problems of Scott Lithgow.

..... / Cont 2

1. Pre-Conditions

The following must be completed to our satisfaction as pre-conditions of the completion of any agreement:-

(a) agreement of a new contract or the amendment of the previous contract between, inter alia, Lloyds Leasing and Scott Lithgow for the completion of the Britoil/Ben Odeco rig by Scott Lithgow ("the New Contract"). The agreement between us will be terminated if Trafalgar and Scott Lithgow are unable to agree terms with Britoil which will enable Scott Lithgow to complete the Britoil contract at a cost not exceeding the Contract sum under the Terminated Britoil Contract plus an amount not exceeding £64m;

(b) agreement of acceptable working practices, levels of remuneration and terms of employment for all Scott Lithgow employees;

(c) agreement as to the basis of selection for redundancy and the terms of redundancy payments for employees;

(d) purchase of the fixed assets owned by Scott Lithgow by BS. Such fixed assets together with any other land, plant and equipment used by Scott Lithgow in its business shall be leased back to, or continue to be leased or used by, Scott Lithgow at a total cost to Scott Lithgow of £1 per annum for the period required to complete the contracts existing at Completion and in any event for a minimum period of three years.

Scott Lithgow shall have the option to repurchase such fixed assets as it previously owned at the end of the lease period at a price of £8m. If Scott Lithgow exercises this option it shall also acquire the benefit and the burden of all leases and licences to which it is a party which were previously covered by the payment of £1 per annum referred to above.

(e) our obtaining confirmation from the appropriate Government Department(s) that financial assistance will be provided in respect of:-

(i) capital expenditure on improvements we plan to carry out to the Scott Lithgow facilities. As indicated to you, our current estimate of such capital expenditure is £10m;

(ii) costs of retraining staff and hourly paid employees of Scott Lithgow;

(iii) purchase and installation of computer hardware and software systems in order to provide project management, material control and accounting information.

..... / Cont 3

(f) our obtaining confirmation from the Secretary of State that he does not propose to refer the acquisition to the Monopolies and Mergers Commission. In this connection I suggest that we make joint representations to the Office of Fair Trading as soon as possible.

Completion

Completion of the purchase and sale of the share capital of Scott Lithgow ("Completion") will take place within seven days of the fulfilment of the conditions referred to in 1 above. These must, in any event, be satisfied not later than the end of February 1984.

Purchase of Shares

Trafalgar (or one of its subsidiaries) will purchase the whole of the issued share capital of Scott Lithgow at a price equivalent to the aggregate value of its share capital and reserves ("the net asset value") disclosed by the accounts of Scott Lithgow to be drawn up as at Completion ("Completion Accounts").

If the net asset value revealed by the Completion Accounts is less than £12m, BS will subscribe at par in cash for shares in Scott Lithgow (which shares shall immediately be transferred to Trafalgar for no further consideration) in order to bring the net asset value upto £12m. Such subscription shall be made within seven days after the certification by the joint auditors of the Completion Accounts together with a payment of interest on the amount subscribed, calculated at a rate of 1% per annum over the National Westminster Bank base rate from the date of Completion to the date of payment, together with an amount equal to any Capital Duty payable by Scott Lithgow on the issue of such shares.

If the net asset value revealed by the Completion Accounts is more than £12m. Trafalgar will make a payment equal to the surplus to BS together with a payment of interest on that amount, calculated at a rate of 1% per annum over the National Westminster Bank base rate from the date of Completion to the date of payment. Such payment to be made within seven days after the certification by the joint auditors of the Completion Accounts.

4. Purchase Consideration

The purchase consideration will be paid on the following basis:-

At Completion	£ 3.0m
February 1985	3.0
February 1986	3.0
February 1987	3.0
	£12.0m

Interest will accrue on the deferred payments at a rate of 1% per annum over the National Westminster Bank base rate from the date of Completion to the date of payment. Trafalgar shall be entitled at any time without notice to pay the balance of the outstanding purchase price together with interest accrued (if any) to the date of such payment.

..... / Cont 4

5. Completion Accounts

Completion Accounts will be drawn up as at the date of Completion and will be jointly certified by Arthur Young McClelland Moores & Co. and Touche Ross & Co. ("the joint auditors"). The treatment in the Completion Accounts of certain items is dealt with below; otherwise the Completion Accounts will be prepared in accordance with good accounting practice and subject thereto upon the same bases as adopted by Scott Lithgow when drawing up their accounts at 31st March 1983:-

(a) the figures to be included in the Completion Accounts in respect of the contract between, inter alia, Lloyds Leasing and Scott Lithgow for the construction of the Britoil/Ben Odeco rig which has been terminated by Britoil ("the Terminated Britoil Contract") and New Contract will be agreed between us but in any event the provision in respect of the Terminated Britoil Contract shall not exceed £64m;

(b) the Completion Accounts will include:

(i) a provision in an amount to be agreed between us for redundancy costs expected to be incurred in the twelve months following Completion.

BS will use its best endeavours to obtain Government agreement for such amount to include provision for the payments equivalent to those provided under the Shipbuilding Redundancy Payments Scheme which it has been agreed will be paid to those employees of Scott Lithgow who are made redundant in the twelve months following Completion. If such agreement is not obtained then such payments will be made directly to the employees concerned by BS or the Government as and when incurred at no cost to Scott Lithgow.

(ii) a provision of £7m in respect of costs associated with the rationalisation and reorganisation of the facility and business of Scott Lithgow to be carried out after Completion.

(c) current assets (other than work-in-progress) will be included in the Completion Accounts at the lower of cost and net realisable value;

(d) (i) claims by Scott Lithgow (which have not been agreed and paid at Completion) will be included in the Completion Accounts on the same basis as was adopted in the 1983 Accounts of Scott Lithgow up to an aggregate maximum of £7.4m. An amount equivalent to the amount included in current assets in respect of such claims will be loaned by BS to Scott Lithgow interest free. Such loan will be repaid to BS as and when the claims are settled and the money received by Scott Lithgow on an item by item basis less reasonable costs incurred by Scott Lithgow in settling such claims.

..... / Cont 5

(ii) specific provisions to be agreed by the joint auditors will be included in the Completion Accounts on the same basis as was adopted in the 1983 accounts of Scott Lithgow in respect of notified claims against Scott Lithgow (other than claims covered by the provision in respect of the Terminated Britoil Contract referred to in 5(a) above). If the total amount paid by Scott Lithgow in respect of such claims (a) exceeds the aggregate of the specific provisions by more than £5m an amount equal to the excess over £5m will be paid by BS to Scott Lithgow (b) is more than £5m below the aggregate of the specific provisions an amount equal to the saving in excess of £5m shall be paid by Scott Lithgow to BS.

(e) other than in respect of (a) above work-in-progress will be included at the aggregate of the net realisable values of each of the contracts existing at Completion. In arriving at such values:-

(i) provisions shall be made in respect of claims by Scott Lithgow which have not been both agreed and paid prior to Completion in accordance with (d)(i) above;

(ii) fair and adequate provision shall be made for all known and potential claims from customers, suppliers, sub-contractors etc. in accordance with (d)(ii) above;

(iii) fair and adequate provision shall be made for future losses; in calculating the cost to complete the contracts existing at Completion (other than the Terminated Britoil Contract) a charge out rate of £14.50 per manhour shall be used to cover labour costs and overheads.

The joint auditors will employ such experts as they shall determine to assist in the certification of the Completion Accounts.

6. Warranties and Indemnities

We shall require BS to give full commercial and tax warranties and indemnities. We shall require full indemnities in respect of all claims and liabilities arising from events prior to Completion. In particular these indemnities will relate to:-

(i) all work (including design etc.) carried out prior to Completion for which Scott Lithgow is responsible save to the extent that a specific provision is made therefore in the Completion Accounts in accordance with 5(d)(ii) above;

(ii) any liabilities of Scott Lithgow to third parties other than Britoil arising out of the Terminated Britoil Contract, save to the extent that a specific provision is made therefore in the Completion Accounts;

..... / Cont 6

(iii) any losses, costs or damages which are incurred or increased as a consequence of the change in the ownership of Scott Lithgow.

Trafalgar will indemnify BS against claims by third parties against BS arising solely from the actions of Scott Lithgow after Completion in respect of the contracts in existence at Completion.

7. Bonds, Guarantees and Insurances

Any bonds or guarantees given by BS on behalf of Scott Lithgow in respect of contracts in existence at Completion will remain in force until contractual release. BS will maintain, at Scott Lithgow's cost, any existing professional indemnity insurance covering work carried out by Scott Lithgow.

We should like to explore with you the possibility of continuing other existing insurance policies after Completion.

8. Tax Losses

With regard to tax losses we shall require a warranty that Scott Lithgow will have available at Completion unutilised tax losses agreed by the Inland Revenue of not less than £77m for periods up to 31st March 1982 together with a tax loss of not less than £30m in respect of the year ended 31st March 1983, plus the tax loss to be agreed by the Inland Revenue for the period from 1st April 1983 to Completion.

BS will use their best endeavours:-

(i) to assist Trafalgar and Scott Lithgow to obtain the full benefit of the tax losses referred to above,

(ii) to ensure that such losses are not reduced under the provisions of S48 Finance Act 1981,

(iii) to ensure that the availability of such losses is not affected by the capital reorganisation referred to in 13 below.

9. Pensions

We require agreement from the relevant parties that all existing Scott Lithgow employees will be allowed to remain in the BS Pension Scheme for a period of twelve months after Completion. Thereafter, Scott Lithgow staff employees who remain would be required to join the Trafalgar House Group Pension Fund. We would like to explore the possibility of a transfer payment being made in respect of such staff employees from the BS Pension Schemes to the Trafalgar Fund as an alternative to their being granted deferred pensions under the BS Schemes. Hourly paid employees will become members of the State Scheme (with deferred pensions from the BS Schemes) as they are not eligible to join the Trafalgar Fund. Hourly paid employees will, however, participate in the Trafalgar House Group Life Assurance and Pension Plan, which provides life assurance cover on a non-contributory basis and allows members to supplement their State pension entitlement by paying additional voluntary contributions.

..... / Cont 7

Stamp Duty

We require BS to co-operate with us in a Stamp Duty saving scheme against an appropriate indemnity from us.

11. Professional Fees

Each party will bear its own costs in respect of its appointed auditors and solicitors. The cost of any experts employed by the joint auditors will be borne between us on a 50/50 basis.

12. Directors

At Completion such of the directors of Scott Lithgow as we shall require shall resign as directors without any claim for compensation etc. for loss of office. Such resignation will not affect a director's position as an employee of Scott Lithgow.

13. Loans from BS

We shall require all loans made by BS to Scott Lithgow, other than the loan referred to in 5(d)(i) above, to be eliminated from Scott Lithgow's balance sheet prior to Completion.

To the extent that the loans from BS relate to trading account items the loan will have to be repaid in cash; such cash to be raised by the subscription by BS for new shares in Scott Lithgow (the Capital Duty in respect of such new shares to be borne by BS). The balance of the loans from BS shall be waived before Completion.

14. Inter-Company Accounts

We require the inter-company accounts between BS and/or its subsidiaries and Scott Lithgow to be settled before the Completion Accounts are finalised other than in respect of current work. All disputes between BS and/or its subsidiaries and Scott Lithgow should be resolved and the results reflected in the Completion Accounts.

15. Computer Services

The central computer services of BS shall continue to be made available to Scott Lithgow for a period of upto twelve months after Completion on the existing termsagreed between Scott Lithgow and BS's computer division.

16. Scott Lithgow Name

BS will ensure that with effect from Completion the name Scott Lithgow will not be used by any companies or businesses within the BS group.

17. The Continuing Business of Scott Lithgow

From the date hereof and upto Completion the business of Scott Lithgow shall continue in the normal and proper course and we shall be consulted with regard to any material transactions prior to any commitment being made; this will include the settlement of claims, tendering for major contracts, capital commitments and any changes to employees' remuneration or other terms of service, other than in respect of the implementation at local level of the recent agreement reached at National level concerning working practices.

..... / Cont 8

In the event that the transaction is not completed we undertake that we will not make any use of any of the information which has been disclosed to us.

This letter supersedes our letter to you dated 26th January 1984.

Please indicate your agreement, subject to approval by the board of BS and any necessary Governmental approval, to the terms and conditions set out above by signing and returning the enclosed copy of this letter.

Yours sincerely,,
For TRAFALGAR HOUSE PUBLIC
LIMITED COMPANY

E.W. Parker (Date : 7th February 1984)

enc.

We confirm our agreement, subject to the approvals referred to in the final paragraph, to the terms and conditions set out above.

For BRITISH SHIPBUILDERS

Chairman & Chief Executive

7 February 1984 (Date)

British Shipbuilders

J. Graham Day
Chairman & Chief Executive

197 Knightsbridge
London England SW7 1RB
Telephone: 01-581 1393
Telex: 8814702 BSBLDR G

8 February 1984

SUBJECT TO CONTRACT

Mr Eric Parker
Managing Director
Trafalgar House Plc
1, Berkeley Street
London W1N 6XX

Dear Sir,

SCOTT LITHGOW LIMITED

British Shipbuilders agreement to the terms of your offer letter of the 7th February 1984 is subject to clarification and agreement of the following points. For ease of reference, the points are numbered as in your offer letter:

1.d the sale and lease-back and the option to purchase the fixed assets will exclude those property assets specifically listed for potential disposal to third parties and already advised to Trafalgar House by Scott Lithgow;

5. the accounts of Scott Lithgow include a provision of £2.9m being the discounted net present value of the future liability under "interest make up" agreements entered into by British Shipbuilders on behalf of Scott Lithgow. Trafalgar House will advise British Shipbuilders if they wish to take over this liability or if they wish British Shipbuilders to retain it. In the latter event, the provision will be released by Scott Lithgow and the current account with British Shipbuilders increased by a like amount;

5.a the amount of £64m includes £7m for liquidated damages, being the maximum liability for such damages under contract 2002.

5.b(i) Trafalgar House will advise British Shipbuilders, before completion, of the number of Scott Lithgow employees who will be retained by them and for whom no redundancy provision will be made in the completion accounts. It is currently estimated that this number will be approximately 1250;

5.d(ii) the accounts of Scott Lithgow include normal guarantee provisions against completed contracts. These provisions must be exhausted on a contract by contract basis before Trafalgar House may make warranty claims against British Shipbuilders in respect of these contracts.

contd....

5.d(iii) contract 2001, "the BP Rig" will be treated in the completion accounts as a contract for physical completion. In the event of cancellation by BP, the effect will be dealt with by British Shipbuilders after consultation with Trafalgar House and the financial consequences of cancellation will be for British Shipbuilder's account and Scott Lithgow will be fully indemnified.

5.e(iii) the accounts of Scott Lithgow include a provision of £2.9m for liquidated damages being the maximum liability for such damages under contract 2001.

8. this warranty does not imply that such losses can be offset against future profits from Scott Lithgow's business and, further, Trafalgar House would not be entitled to make a claim under the warranty if such losses ceased to be available solely by reason of the capital reorganisation to be carried out in accordance with para 13 of your letter.

We have sent a copy of your offer letter of the 7th February and this response to the Department of Trade & Industry. This correspondence will then be used in early discussions with officials in order to obtain HMG's views on the structure of our proposed agreement. Dependent upon the outcome of such discussions, it is proposed to use your offer letter of the 7th February and this letter as a basis for the preparation of a draft contract.

Yours faithfully,

J G DAY

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

Copy Mr. Turnbull ✓
Mr. Ridwood

Department of Industry & Trade
Ashdown House
123 Victoria Street
London SW1E 6RB
Telephone Direct Line 01-212
Switchboard 01-212 7676

D Connelly Esq
Scottish Industry Department
New St Andrew's House
St James Centre
EDINBURGH
EH1 3SZ

10 February 1984

Dear David

SCOTT LITHGOW: BS AND TRAFALGAR HOUSE (TH)

Norman Lamont will be writing round to colleagues today setting out the broad outline of the conditional BS/TH deal and recommending, in brief, that we look favourably on it and instruct Graham Day to pursue it as his prime objective, while not of course precluding other contenders from bidding.

The purpose of this note is to provide the background information you will need to brief your Minister.

At Annex A (only for those who have not yet received it) is a copy of the conditional agreement and a BS side letter registering some (fairly minor) caveats.

At Annex B is a schedule showing BS' calculation of the costs of the Trafalgar House deal and of the only current alternative, cancellation of the Britoil contract and closure of the yard.

The calculation is in four parts. Part A shows the present balance sheet deficit after writing off loans to SL by BS. It shows liabilities of £41m which have to be discharged either to conclude the TH deal or on closure. Part B assumes the current fixed asset value to be zero. Part C shows the various other costs incurred by each route. The "loan re debtors" is to cover claims from Britoil, ie the damages due on the rig contract. Part D shows the future income from the deal, falling post 1983/4. The bottom line is the net cash cost of the whole yard from end-December 1983.

We and Treasury colleagues have been through this complex arrangement in detail and we are satisfied that the figuring, some of which is of course a little speculative, is reasonable. If anything we think the closure costs may be a little understated.

We must also of course consider the wider PSBR implications. On the one hand TH will gain a valuable tax shelter from SL's losses, on the other closure would lead to extra redundancy, SRPS and unemployment benefit and lost tax revenue costs to Government. After discussion with the Treasury, we have concluded that SL's post tax losses, which will only be usable against future SL profits, will amount to an insignificant cost to the Treasury. The important item is the £50m or so losses on existing contracts likely to be incurred after the deal is struck, which TH will be able to use for group relief. We estimate that this will amount to a PSBR cost of £10m.

On the other side of the equations are the extra costs arising on closure from extra redundancies. TH intend that 1250 jobs will remain. At Annex C we have calculated the PSBR costs for the loss of these 1250, for two profiles of reabsorption of the unemployed a (slow) one over 5 years and a (fast) are over three years. The costs lie between £24m and £38m. This is clearly a speculative calculation, but it does strongly suggest that in the wider PSBR context the TH deal looks distinctly more favourable.

I hope you find this background helpful. Copies go to Bob Young (No 10), Richard Wilson and Alan Bell-Berry (Treasury), Callum Alexander (MOD), and Mr Allison (Energy).

Yours

Ewan

E P CAMERON

British Shipbuilders

J. Graham Day
Chairman & Chief Executive

197 Knightsbridge
London England SW7 1RB
Telephone: 01-581 1393
Telex: 8814702 BSBLDR G

8 February 1984

Mr Eric Parker
Managing Director
Trafalgar House Plc
1, Berkeley Street
London W1N 6XX

SUBJECT TO CONTRACT

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5.a the amount of £64m includes £7m for liquidated damages, being the maximum liability for such damages under contract 2002.

5.b(i) Trafalgar House will advise British Shipbuilders, before completion, of the number of Scott Lithgow employees who will be retained by them and for whom no redundancy provision will be made in the completion accounts. It is currently estimated that this number will be approximately 1250;

5.d(ii) the accounts of Scott Lithgow include normal guarantee provisions against completed contracts. These provisions must be exhausted on a contract by contract basis before Trafalgar House may make warranty claims against British Shipbuilders in respect of these contracts.

contd....

5.e(iii) contract 2001, "the BP Rig" will be treated in the completion accounts as a contract for physical completion. In the event of cancellation by BP, the effect will be dealt with by British Shipbuilders after consultation with Trafalgar House and the financial consequences of cancellation will be for British Shipbuilder's account and Scott Lithgow will be fully indemnified.

5.e(iii) the accounts of Scott Lithgow include a provision of £2.9m for liquidated damages being the maximum liability for such damages under contract 2001.

8. this warranty does not imply that such losses can be offset against future profits from Scott Lithgow's business and, further, Trafalgar House would not be entitled to make a claim under the warranty if such losses ceased to be available solely by reason of the capital reorganisation to be carried out in accordance with para 13 of your letter.

We have sent a copy of your offer letter of the 7th February and this response to the Department of Trade & Industry. This correspondence will then be used in early discussions with officials in order to obtain HMG's views on the structure of our proposed agreement. Dependent upon the outcome of such discussions, it is proposed to use your offer letter of the 7th February and this letter as a basis for the preparation of a draft contract.

Yours faithfully,

J G DAY

Annex B

	Trafalgar House	Closure
Position as at P.9 Accounts		
A — Excess of Current Liabilities and Current Assets	90,192	90,192
Add Group Relief receivable included as a current asset but to be offset against BS loan balances	11,063	11,063
	101,255	101,255
Less BS Current Account	(60,569)	(60,569)
	40,686	40,686
B 1 Fixed Assets	Nil	Nil
C — Adjustments:		
Redundancies	3,000	6,750
Contingency (current Assets)	1,000	1,000
Capital Duty	300	-
Lease costs:		
3 years charge	1,000	-
Termination charge	-	2,400
Current contracts:		
SOV (753/700)	-	(2,000)
BP Rig (2001)	-	3,000
Britoil	3,100	3,100
Loan re debtors	7,400	-
Capital commitments	300	300
Regional Development Grants repayable	-	1,000
Under-recovery of overheads	-	2,000
Reorganisation and retraining	7,000	-
Funding of purchase price	12,000	-
c/fwd	75,786	57,336

b/fwd	75,786	57,336
Future income		
Repayment of purchase price	(12,000)	-
Repayment of loan for debtors	(7,400)	-
Sale of Fixed Assets	(8,000)	(4,000)
	£48m	£53m

Note:

(1) In a closure situation, might achieve better results from settling claims, but against this could be very considerably worse off if, on negotiating settlement of cancelled Britoil contract, we were forced to compromise on any recovery of OSE's.

(2) Cancellation of BP Rig 2001 much more likely in a closure situation.

(3) SRPS costs excluded from both calculations.

Annex C

PSBR COSTS - 1250 REDUNDANCIES

Profile 1 (Slow)

	Year 1	Year 2	Year 3
Unemployment benefit + lost tax revenue	9.049	8.390	6.934
SRPS cost @ £3.4 kpa	4.250	4.250	4.250
EPA costs @ £410 pa	0.513	0.513	0.513
	13.812	13.153	11.697

Profile 2 (Fast)

	Year 1	Year 2	Year 3
Unemployment benefit + lost tax revenue	6.381	3.170	0
SRPS cost	4.250	4.250	4.250
EPA cost	0.513	0.513	0.513
	11.144	7.933	4.763

SBP1
9 February 1984

NBPM

AT 13/2

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon James Prior MP
Secretary of State for the Northern Ireland Office
Northern Ireland Office
Whitehall
LONDON
SW1P 3AJ

10 February 1984

Dear Jim

HARLAND AND WOLFF: CORPORATE PLAN

Thank you for your letter of 2 February. I am glad to have your agreement to set in hand a study of a cheaper alternative strategy for H&W, based on a substantially smaller yard, and note that it will take three or four months to complete.

But I am not persuaded that that study should only shape our reaction, should the Parker plan be blown off course. As I said before, I do not think we can accept the financial consequences of the Parker plan in its present form, implying it does an indefinite subsidy of around £40m per annum on clearly optimistic assumptions.

At E(NI) therefore I shall be proposing that:

i. we take a first look at the smaller yard study as a companion to the BS corporate plan, now scheduled for around midsummer;

ii. strategic decisions will be needed on H&W either then or, at latest, by March 1985, depending on the nature of our decisions about BS;

iii. at that stage, we could only continue to back the Parker plan if it offered tangible assurance of a marked and progressive decline in our cash subsidy to H&W, in particular for 1985-86;

iv. otherwise we should immediately implement either the "smaller yard", or a more drastic, option.

I am sending copies of this letter to the Prime Minister and other recipients of yours.

Yours ever Peter

PETER REES

c: Mr Redwood

MR TURNBULL

SCOTT LITHGOW

We are not entirely content with the shape of the conditional agreement reached between British Shipbuilders (BS) and Trafalgar House (TH).

Firstly, TH's wish initially to lease the assets of Scott Lithgow will appear publicly as - and indeed may be - a lack of commitment to the yard. We would urge that BS try to secure a purchase agreement.

Secondly, we would like detailed negotiations to tighten up several details:

- A provision of £7 million for retraining and reorganisation seems to us excessive on top of redundancy costs.

- There is no incentive for TH to chase debtors of £7.4million and repay to BS the equivalent loan.

- The cost of a transfer payment to cover staff employees moving from the BS pension fund to the TH pension fund could be a sizeable liability and is not quantified.

All this aside, at £5 million the gap between the cost of closing Scott Lithgow and the cost of disposing of it to TH is not very wide. We believe that Ministers will have difficulty in defending a hasty deal with TH which is thought to block other bidders.

The gap could be narrower still, because the officials' paper deals with costs to BS rather than costs to the Exchequer. Depending on TH's Advance Corporation Tax position and whether a good deal more profitable work can be channelled through Scott Lithgow, TH could gain (and the Exchequer would lose) upwards of £10 million - and possibly two or three times that amount - from Scott Lithgow's accumulated tax losses. Likewise, repayment of £1 million in Regional Development Grant is a loss to BS, but not to the Exchequer. On the other hand, the additional PSBR costs of closing Scott Lithgow tip the balance towards the deal with TH. We cannot yet know whether the eventual cost of the TH deal will be more or less than the cost of closure.

/In these circumstances

In these circumstances, we strongly support Mr Lamont's view that BS should be advised to hold the door open to other bidders while making sufficient progress to keep TH warm. TH put their proposal together with commendable speed. Other allegedly interested parties could do likewise - say by the end of next week, 17 February. Our aim should be to conclude a deal with TH which is commercially and presentationally defensible.

RJ.

ROBERT YOUNG
10 February 1984

CC RY.
NBPM
AT
CC/2

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

7 February 1984

Miss Ruth Thompson
Private Secretary to the
Secretary of State for Trade
and Industry

Dear Ruth,

SHIPBUILDING - EC NOTIFICATION OF UK SHIPBUILDING AID

The Chancellor has seen your letter to Andrew Turnbull of 31 January, with the attached revised letter to the EC Commission requesting a temporary extension of the shipbuilding intervention fund from 1 February to 30 April 1984. He is content that the Commission should be approached as is now proposed.

I am copying this to the recipients of yours.

Yours ever,

Judith Simpson

MISS J C SIMPSON
Private Secretary

cc NIO
FCO
CO
COLO
DM
DN
HMT

DOE
SO
DTrans
CS, HMT

10 DOWNING STREET

From the Private Secretary

7 February 1984

SHIPBUILDING - EC NOTIFICATION OF UK SHIP-BUILDING AID

The Prime Minister has seen your letter to me of 31 January and the draft letter which your Secretary of State proposes to send to the European Commission. She is content with the draft and with the proposal to seek a further interim extension of the Intervention Fund. She is content that there should be limited and provisional bilateral contact with the Commission on new aid proposals. She has also noted that BS's corporate plan will be brought to E(NI) in mid-February.

I am copying this letter to the Private Secretaries to the members of E(NI). Brian Fall (Foreign and Commonwealth Office), Derek Hill (Northern Ireland Office) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Miss Ruth Thompson,
Department of Trade and Industry.

10 DOWNING STREET

Prime Minister

Mr Tebbit has radically recast his approach to the Commission. He is now proposing to ask for an extension of present arrangements while the main strategic issues are settled (something he said was impossible in December). In addition contacts with the Commission will be low key and provisional.

Agree?

AT 6/2

Yes MT

COMMERCIAL-IN-CONFIDENCE

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Rt Hon A Buchanan-Smith MP
Dept of Energy

3 February 1984

Prime Minister:

BP are now threatening to cancel their rig order at Scott Lithgow, although it is 95% complete.

TT 3/2

Dear Alick

BP RIG AT SCOTT LITHGOW

You will want to know that Mr Roger Bexon, deputy Chairman of BP, called on me on 30 January, at his initiative, to warn me of problems arising on this contract.

The contractual delivery date for this rig was February 1983. Scott Lithgow (SL) are claiming force majeure extensions to this date, which BP are disputing.

SL have told BP that they are expecting to be able to deliver the rig in March of this year, but BP told me that they think mid-year is a more realistic date. The rig is, as I understand it, about 95% complete.

BP have told Mr Day, the Chairman of BS, that they now wish to renegotiate the contract at an estimated additional cost to BS of around £15m. BS have told BP that they are not prepared to renegotiate, and the purpose of Mr Bexon's visit was to enquire whether I was prepared to require Mr Day to renegotiate the contract.

I made it clear that it is not our intention to intervene in commercial negotiations of this kind, and reminded him of the stance we have taken on the Britoil/BS dispute on the other SL rig. In response to this, Mr Bexon indicated that BP may, in the next 2 weeks or so, decide at Board level to cancel the contract.

I have discussed the situation with Mr Day, who tells me that he is not persuaded that the threat of cancellation has a great deal of force at present. The rig is nearly complete, and BP need it. He believes, and I think this has to be right, that he must stand firm on this if he is not to be faced with a stream of similar costly demands from other BS customers.

I am sure that it is right for us to refuse to interfere in contractual disputes between BS and its customers, but I thought it right to warn you of the situation that may develop.

I have commissioned some detailed figuring on the financial consequences of cancellation in this contract, which will take a little time to produce. A key element will be the resale value of the rig, which will belong to BS if BP cancel. I will let you know the way the figures might look, as soon as they are

with AT

Nat Ind Pt 5
Shipbuilding

ready; but, in the meantime you and colleagues to whom this is copied may find it helpful to know, by way of background, that around 2,200 men are working on the BP rig, and on present plans they are due to leave SL in the Spring as work is completed. The contract value is £77m, and BS have so far provided for losses of £35m on this contract.

I am copying this letter to the Prime Minister, the Chief Secretary, Geoffrey Pattie and Allan Stewart.

Yours ever

Norman

NORMAN LAMONT

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1A 3AG

2 February 1984

Dear Peter

HARLAND AND WOLFF : CORPORATE PLAN

I am sorry not to have replied sooner to your letter of 7 December. However, your letter has raised issues of fundamental importance and I have wished to weigh up carefully their implications following further discussions which my officials have held with the company management.

I do agree that, for the reasons you outline, it would be sensible to develop a fully considered and worked-out assessment of the feasibility of further reducing the scale of the Harland and Wolff operation and whether in fact this would produce any cost savings. I am equally convinced that, to be of value, such a study must be thorough and necessitates what amounts to an audit of the company's facilities and manning in the light of throughput assumptions. I would expect that this will take time - perhaps 3-4 months - and will not, I am afraid, be ready for our E(NI) discussion.

John Parker takes a responsible view of this proposal and has said that he would be prepared to collaborate with management consultants, PA, in carrying out a study. Although he has expressed reservations about the scope for, and wisdom of, further contraction which could constrain the Yard's long term capability.

It is important to bear in mind that Harland and Wolff has only just completed a period of contraction and rationalisation under John Parker. I believe that we must try to give him a reasonable chance to consolidate this and to pursue the Corporate Strategy which he has initiated. If, however, the results of the smaller yard study

confirm/...

confirm that there are significant advantages in further contraction then I believe this may well shape our reaction should the present plan be blown off course. When E(NI) meets I intend to bring forward proposals along these lines on our handling of funding, the Parker plan and the further work we have now commissioned.

I am sending copies of this letter to the Prime Minister, other E(NI) colleagues and Sir Robert Armstrong.

Yours ever

Tom

ssd

Nationalised Industries
Shipbuilding Pt 6

file

c: Mr Redwood

MR TURNBULL

EC NOTIFICATION OF SHIPBUILDING AID

Mr Tebbit and his officials have retreated from their pre-Christmas intent to notify very high levels of Shipbuilding Aid to the EC. We judge it quite adequate that the unused balances from the current tranche (approximately £20 million for BS, Harland and Wolff and the private sector together) be drawn on as an interim arrangement.

In these circumstances, we see no need to say (as does para 4 of the attachment to Ruth Thompson's letter of 31 January) that "some increase in support is likely to be necessary for a time". Part of the argument which the Prime Minister used in her previous exchanges with Mr Tebbit on this point was that a needlessly high aid ceiling (a) sends the wrong signal back to the shipbuilding industry and (b) might be used.

We suggest therefore that the last sentence of para 4 be rewritten as "It is already clear, however, that the plan will involve further significant reductions in capacity."

RJ.

ROBERT YOUNG
1 February 1984

cc R.M.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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(Switchboard) 215 7877

JF5502

Secretary of State for Trade and Industry

31 January 1984

CONFIDENTIAL

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew,

SHIPBUILDING - EC NOTIFICATION OF UK SHIPBUILDING AID

P45

My Secretary of State has seen your letter of 12 January.

2 He has asked me to inform you that he will bring forward proposals on BS's Corporate Plan to E(NI) by about mid-February. He envisages that formal notification of a new support regime would follow quickly, on the terms which would be cleared with colleagues beforehand.

3 He strongly believes that in the meantime the Commission's agreement should be sought for a further interim extension of the Intervention Fund (IF), from end-January (when the current IF expires) to end- April. This would be done on the lines of the attached draft, which has been agreed among officials.

4 As Mr Tebbit's minute of 22 December 1983 suggests, it will take some time to reach agreement with the Commission on the proposals for a new aid regime. In the absence of an interim IF during the intervening period there would be no legal cover for providing UK shipbuilders with IF assistance unless the Commission's consent was obtained for each case. This would not only be time-consuming but also make it very difficult to provide the covert assistance that might be needed to secure important orders such as that for the CEGB colliers.

5 The Prime Minister noted that if necessary there might be limited and provisional bilateral contact with the Commission on our new aid proposals. We do think it is important to maintain contact on this basis, as the Commission will in any case wish to have an indication of

our proposals in agreeing to an extension of the existing Intervention Fund.

6 I am copying this letter to the Private Secretaries to Members of E(NI), to Brian Fall (Foreign and Commonwealth Office), Derek Hill (Northern Ireland Office) and Richard Hatfield (Cabinet Office).

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

Encl

DRAFT LETTER

E Noel Esq
Secretary General
Commission of the European Communities
Berlaymont
200 rue de la Loi
1044 BRUSSELS
BELGIUM

UK SHIPBUILDING AID

1. My Authorities have asked me to notify the Commission of their outline plans for the UK shipbuilding industry, and of the need for a further temporary extension of the Intervention Fund whilst these plans are finalised.

2. As the very serious crisis in world shipbuilding continues, the UK industry, as industries in other member states, has been hit hard by the sharp deterioration of the world market and the poor order situation. The industry now faces a crisis and the risk of disorderly collapse with serious social consequences. Order prospects are very poor. British Shipbuilders' order book at end-1983 was 347,000 cgrt compared to 485,000 cgrt at end-1982. Of the present (end-1983) order book only 83,000 cgrt represents orders on which work has not begun compared to 153,000 cgrt at end-1982. At the end of 1983 Harland & Wolff has already commenced work on all of their order book.

3. My Authorities have taken the view that BS needs a new strategy to cope with these very difficult conditions. This needs to take a realistic veiw of the market; to tackle the industry's

large losses and the burden they impose on the Exchequer; to take due account of the social consequences, bearing in mind the industry's concentration in areas of high unemployment; to avert the risk of a precipitate collapse of the UK industry; and finally, the strategy needs to make its proper contribution to a healthy and competitive shipbuilding industry in the Community.

4. Since his appointment, the new Chairman of BS has been engaged in a fundamental review of the Corporation within this general framework. His work, and the Government's examination of it, are well advanced, and the Government expect, within a few weeks, to be able to agree a detailed plan with BS and notify the Commission of the support regime necessary to underpin it. It is already clear however that the plan will involve further significant restructuring of the industry, and that bearing in mind particularly the present competitive pressures from Far Eastern suppliers, some increase in support is likely to be necessary for a time.

5. As the Commission will be aware, considerable restructuring has already taken place. In 1979 the UK industry embarked on a major programme of restructuring which, inter alia, resulted in a manpower contraction of 54% by end of 1982 (see Table 1) and closure by BS of 9 yards and of 36 out of 66 merchant berths. In general terms the very considerable fall in capacity that this represents is reflected in the fact that BS yards before nationalisation in 1977 were producing an average 623,000 cgrt annually, whereas BS's estimated current capacity is around 350,000 cgrt, slightly above the present order book level of 347,000 cgrt.

6. Further contraction has taken place since the previous annual regime expired in July last year. In British Shipbuilders as a whole 3,967 (including 2,677, 12% of merchant employment) redundancies were called for in July 1983 and a further 2,098 (including 430, 2% of merchant employment) in October 1983; in addition some 4,350 jobs (including 1,560, 7% of merchant employment) are at risk between October 1983 and March 1984. Taking all these prospective job reductions into account, 4,677 merchant jobs (ie 21% of the merchant division employment at June 1983) could be lost between July 1983 and March 1984.

7. For Harland & Wolff significant capacity reduction is difficult since building takes place in a single dock, but between March and July 1983 manning was reduced by a further 750. Thus there has been a total reduction in new merchant building employment of 22% from 5370 in 1982 to the present level of 4200.

Temporary Extension of the Intervention Fund

8. Pending decisions on a new strategy and support regime it is important for the whole of the UK industry, including the private as well as the public sector of the industry, that there should be no hiatus in the Intervention Fund while the new proposals are under consideration. The UK Government believe it is necessary to have a legal basis for continued Intervention Fund payments after 31 January 1984 and consider that it would be in the interests of a sound and effective Community aids policy that this continuity should be preserved. In these circumstances the Government take the view that a further temporary continuation of the present

arrangements will be necessary. The UK Government therefore propose a limited extension of the Intervention Fund from 1 February 1984 to 30 April 1984 on the same terms as for the existing tranche, pending decisions on its new proposals.

9. The UK Government propose that the amount of money allocated for this period should be the unused balance from the current tranche of the Intervention Fund. Taking account of potential as well as actual commitments, the amounts of unused balance are estimated to be in the order of £10 million for British Shipbuilders and the private sector, and £10 million for Harland & Wolff. The amounts required for BS and Harland & Wolff respectively are therefore £10 million and £10 million. In Great Britain the rate of this aid will continue to be 15%. For Northern Ireland the UK Government propose that the rate of aid for Harland & Wolff should remain at 18% of contract price for vessels of over 100,000 dwt. For smaller vessels the rate will be 15% in line with the rate for British Shipbuilders. All UK shipbuilding contracts will also continue to attract Shipbuilders' Relief at 2%.

TABLE 1

EMPLOYMENT IN NEW MERCHANT SHIPBUILDING IN THE COMMUNITY (End of year)							Percentage Contraction
	1975	1978	1979	1980	1981	1982	1975-1982
Belgium	7467	6614	6258	6523	6119	5.031	32.6
Denmark	16630	12000	9900	11400	11350	11.800	29.0
France	32500	25300	23000	22200	22200	22.000	32.3
Germany	46839	31113	27369	24784	26521	27.600	41.1
Greece	-	-	-	-	3393	3.696	-
Ireland	869	840	750	750	762	882	-
Italy	25000	20000	19000	18000	16500	13.750	45.0
Netherlands	22662	17540	14540	13100	13100	13.100	42.2
United Kingdom	54550	41050	31200	24800	25345	25.000	54.1
Sub-total less Greece	206517	154457	132017	121551	121897	119.163	
Total					125290	122.859	

Source: EC Commission Report on Shipbuilding in the Community at 1.1.83.

file

a MASTER SET

cc DA/MFS
cc SO, Mr Young, DTI, HMT

RECORD OF MEETING HELD WITH SCOTTISH TUC TO DISCUSS SCOTT LITHGOW HELD AT 10 DOWNING STREET ON TUESDAY 31 JANUARY AT 9.30 AM.

Present:

Prime Minister

Secretary of State for Scotland

Minister of State, Department of Trade and Industry

Mr Ingham

Mr Turnbull

Mr John Langan)
Mr Hugh Wyper)
Mr Tom Dougan)
Mr William Dougan) STUC
Mr John Henry)
Mr Douglas Harrison)
Mr James Milne)

Mr Ian McNie
Chairman, Clydeside District Confederation of Shipbuilding and Engineering Unions

Mr Duncan McNeil
Convenor of Shop Stewards, Scott Lithgow

Mr David Basnett
General Secretary, GMBATU

Mr George Arnold
National Executive Member, Shipbuilding AUEW

Mr Alex Ferry
General Secretary, CSEU

****

Mr Langan for the Scottish TUC said there had been an extensive debate on Scott Lithgow in Scotland. It was clear that around 9,000 jobs, in the yard and outside, were at risk which could push unemployment in the Greenock/Port Glasgow area up towards 40 per cent. Many of the original arguments put forward for allowing the cancellation to proceed had not stood up to examination; the record of the workforce at Scott Lithgow was much better than the Government had claimed and the costs of closure would be much greater than allowing the contract to be renegotiated. He hoped that, having considered the arguments more fully, the Government would change its mind.

/Mr Milne

Mr Milne, General Secretary of the STUC, said the Greenock/ Port Glasgow area was totally dependent on shipbuilding as other industrial developments in the area had failed to take root. Citing Mr Ross Belch, he rejected the description of the workforce as obstructive and inefficient. In his view Scott Lithgow had been a success story.

He explained that the two yards had been unified in 1965 and that as naval shipbuilding had declined the new company had concentrated on tankers and bulk carriers. As this market began to decline it decided, quite correctly, to move into off-shore engineering. Though it had encountered difficulties, the yard had built up substantial experience and the workforce was becoming accustomed to new techniques and methods of working. To close the yard now would be to throw all this away. He believed much of the blame lay with the management and in particular with the engineers ODECO. The latter had built a rig which had failed and they were now working extremely cautiously. This had delayed the delivery of drawings, substantially delaying the project.

He referred to estimates that it would cost five times as much to close the yard as complete the project. Professor Pickett estimated the extra cost could be £22m. Britoil was prepared to renegotiate but British Shipbuilders had been denied the freedom to do this. The Government should use its influence over the two parties, one 100 per cent owned, the other 48 per cent owned. He rejected the argument that it was wrong for the Government to intervene in the commercial decisions, claiming that the Government was quite prepared to do this when it suited it e.g. on gas and electricity prices. He said that a new operation employing only 1,000 workers was not an acceptable solution.

The Prime Minister said she had visited Scott Lithgow and was well aware of the dependence of the local community on the yard. The problems encountered were not just recent but there had been a long history of late deliveries and losses. Since nationalisation Scott Lithgow had lost £165m, 38 per cent of the total loss of British Shipbuilders. The losses amounted

to £25,000 per man, £13,000 in the last year alone. There was a severe loss of confidence in the yard which would not be put right merely by the injection of further taxpayers money. She was anxious to see the rig completed but believed the best way was to seek a fresh start. The Government was prepared to bear the past losses and the costs of closure, enabling a new operator to start with a clean slate. If the rig were completed successfully it would provide a platform for new orders. She was disappointed to hear a new operation was not acceptable and she hoped this attitude would be reconsidered.

Mr. Basnett said that wider questions of policy were raised. The relative costs of closure or completion to British Shipbuilders did not measure the full social and industrial consequences nor were they a guide to the cost to the Exchequer. He doubted whether Trafalgar House had the necessary technical expertise. British Shipbuilders had the necessary experience and this would be lost, as well as time wasted, if a new operator were brought in. He saw a growing market for offshore engineering and it was vital that British Shipbuilders should remain in this field. He therefore urged that the Government should bring British Shipbuilders and Britoil together. His union would give every assistance to the efforts to raise productivity.

Mr. McNeil, the Convenor of Shop Stewards at Scott Lithgow, accepted that the workforce there had no choice but to talk to whoever was prepared to finish the rig. He was sure the workforce would be prepared to co-operate in the adoption of new working practices. He was concerned, however, that at present the unions were not in a position to talk to potential operators.

Mr. Langan urged that calculations on the relative costs of enabling British Shipbuilders to renegotiate the contract versus the costs of bringing in a new operator should be published. The Prime Minister noted the difficulty of making such estimates and pointed out that Britoil had already cancelled the contract. They could only be induced to renegotiate through a further injection of public money. There was no sign of any other orders.

Mr. Ferry argued that the development of new technology was always costly and that was true in the offshore engineering field as in any other. The Government was abandoning Scott Lithgow at the point when it might begin to benefit from past experience. The Prime Minister pointed out that the problems of Scott Lithgow were not confined to the development of new technology; large losses had been made on a recent tanker contract. In further discussion the STUC representatives argued that Scott Lithgow was the only wholly British owned yard capable of building drilling rigs of the kind Britoil were seeking. The maintenance of a wholly British presence in this market was essential. The Prime Minister said that the fact that a yard was British did not guarantee orders; only delivery to time and to budget could do that.

Mr. Arnold argued that great strides had been made recently in improving working practices and the workforce at Scott Lithgow were taking a very constructive approach. They were keen to start afresh on a renegotiated British Shipbuilders/Britoil contract.

Summing up the discussion for the STUC, Mr. Langan thanked the Prime Minister for allowing them to express their case. He was disappointed that they had failed to persuade the Prime Minister to change course.

cc: Those present
Mr. Young
Mr. Kerr, HM Treasury.

31 January 1984

PRIME MINISTER

cc: Mr. Ingham
Mr. Redwood

SCOTT LITHGOW

You are meeting the Scottish TUC tomorrow. Their delegation will be:

Mr. John Langan	)	
Mr. Hugh Wyper	)	
Mr. Tom Dougan Mr. William Dougan	)	STUC
Mr. John Henry	)	
Mr. Douglas Harrison	)	
Mr. James Milne	)	
Mr. Ian McNie	-	Chairman, Clydeside District Confederation of Shipbuilding and Engineering Unions
Mr. Duncan McNeil	-	Convenor of Shop Stewards, Scott Lithgow
Mr. David Basnett	-	General Secretary, G.M.B.A.T.U.
Mr. George Arnold	-	National Executive Member, Shipbuilding AUEW

I attach:-

(i) A brief from DTI
(ii) A note on Scott Lithgow's track record
(iii) Mr. Younger's speech in the Debate
(iv) Selections from the Questions material
(v) The minutes from the recent meeting of Ministers
(vi) A note on other shipbuilding closures.

Line to Take

You may want to begin by allowing the trade union delegation to develop their case, which will probably be along the following lines:-

(i) The yard must be saved to prevent 4,000 redundancies directly and perhaps 8,000 in total, bringing unemployment in the area to over 30 per cent.

(ii) The Government should intervene as the two parties

/to the dispute

to the dispute are 100 per cent and 49 per cent Government owned.

(iii) Britain should not withdraw from off-shore engineering.

(iv) It is cheaper to continue than to terminate the project.

(v) Government help is needed to launch a successor operator.

(vi) Government help is needed for the Inverclyde area.

You could respond on the following lines:-

- The Government line has been made clear. There is no question of over-ruling the management of either BS or Britoil nor of providing additional money to fund further losses at Scott Lithgow as presently constituted. Confidence in the yard has been irretrievably lost. The record at the yard has been poor not simply on this contract but over many years. Not seeking to apportion blame which doubtless lies on both sides of the industry. But unions must recognise that the only way to win and keep customers is to deliver on time and to price.

Mr. Younger attaches importance to this.

- The Government shares the wish of the unions to remain in the field of off-shore engineering. The best chance for finishing the rig lies in a new start, with a new operator, recruiting a new workforce. The Government and British Shipbuilders will be bearing the costs of closure enabling a new start to be made. British Shipbuilders and Britoil are best placed to conduct the search for a new operator. If they can find a sound commercial deal, the Government will look at it urgently and sympathetically. (Although not wishing to promise money to help a new operator, Mr. Younger is anxious not to close the door on this possibility). The Secretary of State for Scotland, together with the SDA, is looking urgently at the needs of the area and the resources available.

30 January 1984

S/S Scott speech C

I BEG TO MOVE, TO LEAVE OUT FROM "HOUSE" TO THE END OF THE MOTION AND TO ADD INSTEAD THEREOF:

> "RECOGNISING THE WISDOM OF THE GOVERNMENT'S GENERAL POLICY OF DECLINING TO SEEK TO INTERFERE IN MANAGEMENT RESPONSIBILITIES IN INDUSTRY AND COMMERCE, WOULD DEPLORE ANY MOVES BY THE GOVERNMENT TO INVOLVE ITSELF IN THE RESOLUTION OF THE MATTERS IN DISPUTE BETWEEN BRITOIL AND SCOTT LITHGOW OVER THE CONTRACT TO BUILD A SEMI-SUBMERSIBLE DRILLING RIG; AND NOTES THAT SINCE THE SCOTT LITHGOW YARD WAS NATIONALISED LOSSES UNDERWRITTEN BY THE TAXPAYER TOTAL £165 MILLION."

IT IS RIGHT THAT THE HOUSE SHOULD DEBATE THE PRESENT DIFFICULT POSITION AT SCOTT LITHGOW FOLLOWING THE CANCELLATION OF THE BRITOIL CONTRACT AS THIS IS A MATTER WHICH IS OF GREAT CONCERN TO EVERYONE WHO HAS AT HEART THE WELL BEING OF THE SCOTTISH ECONOMY AND FUTURE EMPLOYMENT PROSPECTS IN THE INVERCLYDE AREA. AS SECRETARY OF STATE FOR SCOTLAND I AM AND ALWAYS HAVE BEEN DEEPLY CONCERNED ABOUT BOTH OF THESE ISSUES AND THE IMPLICATIONS OF CANCELLATION FOR THE FUTURE OF SCOTT LITHGOW. THIS IS A VERY SERIOUS SITUATION BY ANY STANDARD, BUT IT IS ALSO A MOST UNUSUAL ONE. THIS IS NOT, AS SO MANY OTHERS HAVE BEEN, A CRISIS THAT HAS COME UPON US BY SURPRISE. ON THE CONTRARY, EVERYONE CONCERNED SAW IT COMING LONG AGO AND TREMENDOUS EFFORTS HAVE BEEN MADE TO AVERT IT.

AS LONG AGO AS DECEMBER 1982, BRITOIL (THE CUSTOMERS) HAD GRAVE DOUBTS AS TO WHETHER THE CONTRACT WOULD BE COMPLETED. THEY MADE THIS CLEAR TO SCOTT LITHGOW AND ALL THROUGH 1983 INTENSIVE DISCUSSIONS CONTINUED RIGHT UP TO CHAIRMAN LEVEL, BETWEEN THE TWO PARTIES IN AN EFFORT TO SORT OUT THE DIFFICULTIES.

I AND MY COLLEAGUES IN GOVERNMENT WERE ALSO EXTREMELY CONCERNED AND WE CONTINUED TO APPROVE THE FUNDING BY BRITISH SHIPBUILDERS OF THE HUGE AND GROWING LOSSES ON THE CONTRACT IN ORDER TO GIVE ALL CONCERNED EVERY CHANCE TO GET THE CONTRACT BACK ON THE RAILS. AT THE SAME TIME REPEATED AND WELL PUBLICISED WARNINGS WERE GIVEN IN THE HOPE THAT THOSE CONCERNED AT EVERY LEVEL IN SCOTT LITHGOW WOULD UNDERSTAND THE CRISIS AND RESPOND.

AS LONG AGO AS DECEMBER 1981, I WROTE TO THE CHAIRMAN OF BRITISH SHIPBUILDERS EXPRESSING MY CONCERN ABOUT THE APPALLING ABSENTEEISM RECORD AT THAT TIME AT SCOTT LITHGOW AND LAST APRIL I WARNED, AT A MEETING WITH LOCAL REPRESENTATIVES AND SHOP STEWARDS FROM THE YARD, THAT THERE WAS A DANGER OF THE YARD CLOSING IF IT COULD NOT IMPROVE ITS PERFORMANCE. THAT WARNING WAS NOT ONE WHICH WAS DIRECTED SOLELY AT THE WORKFORCE. IT WAS INTENDED TO BE HEARD AND HEEDED BY ALL WHO HAD AN INTEREST IN THE FUTURE OF THE YARD - OWNERS, MANAGERS AND WORKERS. NOR WAS I, BY ANY MEANS THE ONLY ONE WHO GAVE SUCH WARNINGS FROM SPRING 1983 ONWARDS. THE THEN CHAIRMAN OF BRITISH SHIPBUILDERS, SIR ROBERT ATKINSON SPOKE OUT WITH SUCH BLUNTNESS THAT HE WAS CRITICISED BY SOME FOR BEING UNNECESSARILY FRANK. MY HON FRIENDS THE MEMBERS FOR EDINBURGH CENTRAL AND KINGSTON UPON THAMES AS WELL AS MY RT HON FRIENDS THE FORMER AND PRESENT SECRETARIES OF STATE FOR INDUSTRY AND MORE RECENTLY MY HON FRIEND THE MINISTER FOR INDUSTRY AND EDUCATION IN THE SCOTTISH OFFICE ARE ALL CLEARLY ON RECORD WARNING ABOUT THIS CONTRACT. AND THE PRESENT CHAIRMAN OF BS, MR GRAHAM DAY, HAS SPOKEN OUT TOO. THERE WAS HOWEVER, A DEAFENING SILENCE FROM ONE VITALLY IMPORTANT SOURCE - THE PARTY OPPOSITE AND THEIR TRADE UNION ALLIES AND IN PARTICULAR THE HON GENTLEMAN THE MEMBER FOR GARSCADDEN AND INDEED HIS PREDECESSOR. I CAN FIND NO RECORD OF ANY WARNING OR LEADERSHIP FROM THEM AT ANY POINT IN THIS SORRY TALE. INDEED THE ONLY STATEMENTS THEY DID MAKE WERE TO CRITICISE THE WARNINGS SO CORRECTLY BEING GIVEN BY SO MANY

OTHERS AND THUS WEAKENING THEIR EFFECT AND GIVING ENCOURAGEMENT TO THOSE WHO WERE DETERMINED TO RESIST CHANGES IN WORKING PRACTICES WHICH WERE CRUCIAL TO RESTORING THE CONFIDENCE OF THE CUSTOMER IN THE ABILITY OF THE YARD TO DELIVER THE CONTRACT.

NOBODY SUGGESTS THAT SUCH CHANGES COULD BE MADE OVERNIGHT, OR THAT THEY WOULD MIRACULOUSLY HAVE PRODUCED THE RIG ON TIME, BUT A COMMITMENT TO SIGN THE "SURVIVAL PACKAGE" WITH ENTHUSIASM AND CONVICTION WAS THE CRUCIAL MISSING FACTOR WHICH FINALLY DESTROYED CONFIDENCE. NOR DID THE HON MEMBER FOR GARSCADDEN UTTER A WORD EITHER TO URGE THE SCOTT LITHGOW WORKERS TO REFUSE TO STRIKE DURING DECEMBER 1983. THE OPPOSITION CLAIM TO HAVE INFLUENCE IN THESE MATTERS, AND I AM SURE THEY HAVE, BUT ON THIS OCCASION THROUGH NEGLECT OR LACK OF COURAGE OR BOTH, THEY REFUSED POINT BLANK TO USE THAT INFLUENCE AND THEY BEAR A HEAVY RESPONSIBILITY FOR AIDING AND ABETTING THE DISASTER THAT HAS FOLLOWED.

THE PRESENT CRISIS HAS BEEN BROUGHT ABOUT BY BRITOIL'S DECISION TO CANCEL ITS CONTRACT, BUT HON MEMBERS OPPOSITE MUST RECOGNISE THAT THE FUTURE OF THE YARD IS IN JEOPARDY NOT SIMPLY BECAUSE OF ITS PERFORMANCE ON THIS ONE CONTRACT BUT BECAUSE OF LATE DELIVERIES AND ENORMOUS LOSSES OVER MANY YEARS. I REALISE, OF COURSE, THE DIFFICULTIES IN THE DEVELOPMENT OF THE ADVANCED TECHNOLOGY INVOLVED IN THE BUILDING OF THIS SEMI-SUBMERSIBLE RIG FOR BRITOIL. BUT HOWEVER SOPHISTICATED THE TECHNOLOGY INVOLVED IN SUCH A CONTRACT THERE IS NO GOOD IN PROCEEDING WITH SUCH ENTERPRISES IF THEY CANNOT BE BROUGHT THROUGH INTO PROFIT: THE PRICE OF LEARNING CANNOT BE MET INDEFINITELY. SCOTT LITHGOW UNDERTOOK TO COMPLETE THIS CONTRACT AT A CERTAIN PRICE AND BY A SPECIFIED DATE. THEY HAVE FAILED TO DO SO AND THE MARKET HAS JUDGED THEM ACCORDINGLY. EVEN SO IF THE YARD HAD HAD A GOOD RECORD PREVIOUSLY, THERE MIGHT BE MORE TO THE ARGUMENT THAT THE PERFORMANCE ON THE BRITOIL CONTRACT SHOULD BE EXCUSED BECAUSE

THE RIG CONCERNED IS SO ADVANCED TECHNOLOGICALLY. BUT SADLY THE PERFORMANCE ON OTHER CONTRACTS -SOME OF WHICH, SUCH AS THE BP TANKER "BRITISH SPIRIT", WERE VERY FAR FROM BEING ON THE FRONTIER OF NEW TECHNOLOGY -HAS ALSO BEEN VERY POOR. FOR EXAMPLE, THE LOSS OF £26.6 MILLION ON THE "BRITISH SPIRIT" ACTUALLY EXCEEDED THE CONTRACT PRICE OF £23.4 MILLION. SINCE NATIONALISATION IN 1977 LOSSES HAVE TOTALLED £165 MILLION.

THE OPPOSITION DEMAND THAT, NOTWITHSTANDING THIS PAST RECORD, THE GOVERNMENT SHOULD INTERVENE IN THE CONTRACTUAL - AND NOW LEGAL - DISPUTE BETWEEN BRITISH SHIPBUILDERS AND BRITOIL AND SECURE THE RENEGOTIATION OF THE CONTRACT FOR HULL 2002. EVEN IF THE ISSUE WAS ONLY ONE OF FINANCE, THE GOVERNMENT WOULD FIND IT VERY DIFFICULT TO JUSTIFY FURTHER SUPPORT FOR A YARD WHICH HAS ALREADY BEEN SUCH A HEAVY BURDEN ON THE TAXPAYER. BUT THERE ARE OTHER CONSIDERATIONS, NOT LEAST THE ATTITUDE OF THE PARTIES TO THE CONTRACT. THE CHAIRMAN OF BRITISH SHIPBUILDERS HAS MADE IT CLEAR THAT RENEGOTIATION WOULD BE PREJUDICIAL TO THE INTERESTS OF BRITISH SHIPBUILDERS AS A WHOLE. FOR THEIR PART, BRITOIL MADE CLEAR AS LONG AGO AS DECEMBER 1982 THEIR SERIOUS DOUBTS ABOUT THE RATE OF PROGRESS ON THE CONTRACT. THEIR PRESENT POSITION IS THAT ALTHOUGH READY TO CONSIDER ANY SPECIFIC PROPOSALS FOR COMPLETION OF THE RIG THEY HAVE LOST CONFIDENCE IN THE COMMITMENT OF SCOTT LITHGOW TO DO THIS ON SATISFACTORY TERMS. THE GOVERNMENT ARE ACCORDINGLY BEING ASKED TO BRING NOT ONE, BUT TWO UNWILLING PARTIES TO THE NEGOTIATING TABLE. I HAVE HEARD THE ARGUMENT THAT DESPITE THIS, THE GOVERNMENT HAVE A RESPONSIBILITY BECAUSE THEY OWN BRITISH SHIPBUILDERS AND HAVE A SIGNIFICANT STAKE - ALBEIT A MINORITY ONE - IN BRITOIL, TO KNOCK THE HEADS OF THE TWO PARTIES TOGETHER. I REJECT THIS SUGGESTION ENTIRELY. THE FUTURE OF THE CONTRACT IS A MATTER BETWEEN THE TWO PARTIES IN WHICH IT WOULD BE QUITE WRONG FOR MINISTERS TO INTERVENE.

A FURTHER ARGUMENT IS THAT THE GOVERNMENT SHOULD INTERVENE BECAUSE IT IS CLAIMED IT WOULD BE CHEAPER TO RENEGOTIATE THE CONTRACT RATHER THAN TO CANCEL IT. VARIOUS ESTIMATES PURPORTING TO SUPPORT THIS CONCLUSION HAVE BEEN REFERRED TO IN THE PRESS. THEY VARY ENORMOUSLY. I DO, OF COURSE, RECOGNISE THE INTEREST WHICH THERE IS ON THE QUESTION OF COMPARATIVE COSTS AND I DO NOT CRITICISE THOSE WHO HAVE MADE AN HONEST ATTEMPT TO ASSESS THE POSITION. THEIR PROBLEM IS THAT THEY HAVE NO ACCESS TO THE ESSENTIAL INFORMATION. ~~WE HAVE. BUT AS HON MEMBERS KNOW FULL WELL I CANNOT SIMPLY LAY THEM BEFORE THE HOUSE. THEY ARE BOTH~~ moreover, this information is both COMMERCIALLY CONFIDENTIAL AND THE SUBJECT OF LITIGATION BETWEEN BS AND BRITOIL. IT WOULD BE QUITE WRONG OF ME TO PREJUDICE THAT LEGAL ACTION, by bandying about all sorts of figures on this matter.

BUT I HAVE BEEN KEEN TO ESTABLISH THE GENERAL POSITION AND I CAN SAY THIS TO THE HOUSE. BRITISH SHIPBUILDERS, WHICH IS THE ORGANISATION BEST PLACED TO ESTIMATE THE COST OF RENEGOTIATION HAS ASSURED ME THAT, EVEN WITHOUT TAKING INTO ACCOUNT THE POTENTIAL KNOCK-ON EFFECT ON OTHER BRITISH SHIPBUILDERS CONTRACTS, ACCEPTANCE OF CANCELLATION IS THE SIGNIFICANTLY CHEAPER AND COMMERCIALLY JUSTIFIED OPTION.

BUT LET US FOR A MOMENT SPECULATE ON WHAT WOULD HAVE HAPPENED IF THE GOVERNMENT HAD BEEN FOOLISH ENOUGH TO TAKE THE ADVICE OF THE HON MEMBERS OPPOSITE AND HAD INTERVENED AND SECURED THE RENEGOTIATION OF THE BRITOIL CONTRACT. FOR A START THIS WOULD HAVE BEEN TO FALL INTO THE TRAP OF ENCOURAGING THE BELIEF THAT THE GOVERNMENT ARE ALWAYS THERE TO BAIL OUT A NATIONALISED INDUSTRY FROM DIFFICULTIES IN WHICH IT FINDS ITSELF AS A RESULT OF FAILING TO PRODUCE THE GOODS ON A COMMERCIAL CONTRACT ENTERED INTO FREELY. THAT IS THE SEEMINGLY EASY COURSE WHICH HAS LED TO SO MANY OF THE PROBLEMS WITH WHICH WE ARE HAVING TO GRAPPLE TODAY. IT IS NOT A COURSE WHICH SEEMED TO COMMEND ITSELF TO THE PARTY OPPOSITE WHEN THEY WERE IN GOVERNMENT. THE THEN MINISTER

OF STATE AT THE DEPARTMENT OF INDUSTRY, THE RT HON MEMBER FOR GORTON SAID IN A DEBATE ON 24 FEBRUARY 1977 ON THE SHIPBUILDING INDUSTRY (ASSISTANCE) BILL "IT WOULD BE FOOLISH TO BAIL OUT YARDS THAT ARE NOT ABLE TO MEET PRICING AND DELIVERY CRITERIA". THIS COULD NOT BE MORE APT TO THE PRESENT CIRCUMSTANCES AT SCOTT LITHGOW. IN THIS CASE IT WOULD HAVE MEANT ACCEPTING A COMPLETELY OPEN-ENDED FINANCIAL COMMITMENT - VIRTUALLY WRITING A BLANK CHEQUE - AS WE WOULD HAVE NO IDEA HOW LONG THE CONTRACT WOULD HAVE TAKEN TO COMPLETE OR WHETHER THE YARD WOULD EVER HAVE WON A FURTHER ORDER. IT IS CLEAR FROM MY DISCUSSIONS WITH OIL COMPANIES THAT THE YARD AS AT PRESENT ORGANISED HAS LOST CUSTOMER CONFIDENCE SO COMPLETELY THAT THE PROSPECTS OF IT OBTAINING ANY FURTHER ORDERS ARE REMOTE TO SAY THE LEAST. I CERTAINLY KNOW OF NO OIL COMPANY WHICH WOULD BE PREPARED TO PLACE AN ORDER AT SCOTT LITHGOW AT PRESENT. IN SHORT, IT IS CLEAR THAT INTERVENTION WOULD SIMPLY HAVE LED TO THE NEED FOR STILL FURTHER SUPPORT BY THE TAXPAYER WHILE MERELY POSTPONING THE INEVITABLE.

NO, INTERVENTION IN THE COMMERCIAL AND LEGAL ISSUES CURRENTLY IN DISPUTE BETWEEN BRITISH SHIPBUILDERS AND BRITOIL IS NOT THE COURSE. THE ROLE OF GOVERNMENT IS NOT TO TRY TO CHANGE THE COMMERCIAL REALITIES. WE MUST CONCENTRATE OUR EFFORTS ON TWO TASKS. THE FIRST AND MOST IMMEDIATE IS THAT OF FINDING A NEW OPERATOR WHO CAN MAKE A NEW START AT PORT GLASGOW. THIS TASK WILL NOT BE EASY, PARTICULARLY IN VIEW OF THE PAST HISTORY OF SCOTT LITHGOW, BUT IT HAS BEEN ACHIEVED ELSEWHERE ON THE CLYDE AND I AND MY COLLEAGUES ARE DOING ALL THAT WE CAN TO ASSIST THE CHAIRMAN OF BRITISH SHIPBUILDERS IN HIS EFFORTS TO FIND A PRIVATE BUYER. IT IS A TASK ON WHICH THE CHAIRMAN OF BRITISH SHIPBUILDERS IS ALREADY EMBARKED AND WHICH BRITISH SHIPBUILDERS AS OWNERS OF THE ASSETS ARE BEST PLACED TO UNDERTAKE. MY COLLEAGUES AND I ARE DOING ALL THAT WE CAN TO ASSIST. WE ARE AGREED ON THE IMPORTANCE OF MAINTAINING OUR SKILLS AND THE

CAPACITY OF THE YARD IN THE OFFSHORE BUSINESS, BUT IT MUST BE A PROFIT MAKING OPERATION. THIS IS GOING TO REQUIRE A MAJOR CHANGE IN ATTITUDES, IN METHODS OF WORK AND MANAGEMENT. OBVIOUSLY THE ATTITUDE OF THE CUSTOMER FOR THE PARTLY COMPLETED RIG IS IMMENSELY IMPORTANT TO ANY TAKE-OVER OPERATION. IT IS TOO EARLY TO SPECULATE ON THE OUTCOME OR THE ATTITUDE OF PARTICULAR COMPANIES WHICH MIGHT BE INTERESTED IN TAKING OVER THE SCOTT LITHGOW FACILITIES AND COMPLETING THE BRITOIL CONTRACT, BUT WE RECOGNISE THE URGENCY OF THE SITUATION.

BUT I RECOGNISE THAT EVEN IF A NEW OPERATOR CAN BE FOUND THERE WILL STILL BE SIGNIFICANT JOB LOSSES. THIS BRINGS ME TO OUR SECOND TASK. AS I HAVE MADE CLEAR, I AM THEREFORE READY TO DO ALL THAT I CAN TO HELP THE LOCAL INVERCLYDE ECONOMY. I HAVE ALREADY HAD DISCUSSION WITH THE CHAIRMAN AND CHIEF EXECUTIVE OF THE SCOTTISH DEVELOPMENT AGENCY. IN RESPONSE TO AN INVITATION FROM INVERCLYDE DISTRICT COUNCIL, THE SCOTTISH DEVELOPMENT AGENCY HAS ALREADY WITH MY SUPPORT COMMISSIONED CONSULTANTS TO EXAMINE THE PROSPECTS FOR THE AREA AND, IN THE LIGHT OF THEIR REPORT, I SHALL DISCUSS WITH LOCAL INTERESTS WHAT REMEDIAL ACTION MIGHT BE TAKEN.

THE GOVERNMENT ARE NOT PREPARED TO INTERVENE IN THE DISPUTE BETWEEN BRITISH SHIPBUILDERS AND BRITOIL OVER THE FUTURE OF THE CONTRACT FOR HULL 2002, BUT WE DO ACCEPT A RESPONSIBILITY TO HELP IN THE EFFORT TO FIND A NEW OPERATOR FOR THE YARD AND TO ASSIST THE REGENERATION OF THE LOCAL INVERCLYDE ECONOMY. IRRESPECTIVE OF THAT, HOWEVER, AS LONG AS HOPE REMAINS OF PUTTING THIS RIG INTO PRODUCTION AGAIN UNDER A NEW OWNER OR NEW MANAGEMENT OR BOTH, WE WILL CERTAINLY DO ALL WE CAN TO FACILITATE SUCH A DEAL.

THE GOVERNMENT BELIEVES THAT IT IS VERY IMPORTANT FOR THE UK TO MAINTAIN AND DEVELOP FURTHER OUR CAPABILITY IN THE OFFSHORE

CONSTRUCTION INDUSTRY, AND WE CERTAINLY DO NOT BELIEVE THAT, AS A COUNTRY WITH A LARGE PRESENCE OF THE WORLD'S HIGHEST TECHNOLOGY INDUSTRIES, THERE CAN BE ANY QUESTION OF THE UNITED KINGDOM OPTING OUT OF THE WORLD MARKET FOR TECHNOLOGICALLY ADVANCED RIGS BECAUSE OF SOME BASIC DEFICIENCY IN OUR SKILLS. (THIS IS THE POINT WHICH I WAS MAKING IN MY RECENT REMARKS REGARDING KOREA FOR WHICH I HAVE BEEN CRITICISED SO HEAVILY.) I SIMPLY DO NOT ACCEPT THAT, WHEN PROPERLY MOTIVATED AND LED, WORKERS ON THE LOWER CLYDE CANNOT COMPETE SUCCESSFULLY WITH THOSE IN ANY OTHER PART OF THE WORLD.

I, AND MY COLLEAGUES IN GOVERNMENT WILL, AS I SAY, BE DOING ALL IN OUR POWER TO ASSIST, BUT THERE IS A VITAL ELEMENT OF HELP WHICH WE NEED FROM ALL CONCERNED ON THE LOWER CLYDE. WE NEED A CLEAR AND UNEQUIVOCAL COMMITMENT FROM ALL WHO WISH TO FORM THE WORKFORCE FOR THIS INDUSTRY IN THE FUTURE. WE NEED AN OPEN AGREEMENT FOR NEW WORK PRACTICES, FOR FLEXIBLE SHIFT WORKING AND TOTAL COOPERATION WITH WHAT WILL HAVE TO BE A NEW AND DYNAMIC MANAGEMENT TEAM. WE NEED TOO AN ASSURANCE OF NO DISPUTES IN ANY CIRCUMSTANCES WITHOUT FULL USE OF AGREED PROCEDURES, AND A JOINT COMMITMENT TO THE CUSTOMER BY ALL CONCERNED THAT THE WORK WILL BE DELIVERED ON TIME.

ONLY IN THIS WAY CAN THE ESSENTIAL CONFIDENCE OF CUSTOMERS BOTH PRESENT AND FUTURE BE REBUILT. I AM SURE THAT THE VAST MAJORITY OF THOSE WHO WORK IN THE LOWER CLYDE WOULD BE ONLY TOO WILLING TO GIVE SUCH UNDERTAKINGS, AND THAT THEY UNDOUBTEDLY HAVE THE SKILLS WHEN PROPERLY USED, TO OUT-PERFORM ANYONE IN THE WORLD IN THIS FIELD.

I ASK THE HOUSE TO ACCEPT THIS AMENDMENT.

D

PRIME MINISTER'S QUESTIONS: SCOTT LITHGOW

1. Q: Is the Prime Minister aware of the estimates (e.g. by Professor Pickett of Strathclyde University) that it would be cheaper to re-negotiate the contract and complete the rig than scrap it?

Brief -

A: It is very difficult to make such estimates with any precision, but what is clear is that those best placed to make this judgement, the management of British Shipbuilders, are sure that cancellation is the cheapest and hence the commercially justified option.

2. Q: The fault for this whole business lies with Scott Lithgow management who have shown incompetence in taking on a project beyond their capabilities.

A: I do not wish to allocate blame entirely to one quarter or another. There are no doubt faults on both sides of the industry. Still less do I wish to denigrate other working people in the Inverclyde area, many of whom have produced outstanding achievements in other industries

3. Q: Will the Prime Minister repudiate the offensive remarks of the Secretary of State for Scotland who said that the Koreans could do better "with people who were more-or-less taken off the paddy-fields"?

A: Whatever the precise wording, the Secretary of State's remarks contain an important truth - that the Koreans provide formidable international competition which Scott Lithgow, or any other shipyard for that matter, have to face up to.

4. Q: What options is the Government considering for a successor operation?

A: As my RHF the Secretary of State for Scotland ~~will no~~

/ ~~doubt~~

Scott Lithgow

doubt make clear in his speech in the debate which follows, the search for a new operator at Port Glasgow is being pursued with great vigour. A fresh start needs to be made, putting aside old attitudes and old methods of work and management.

5. Q: What action is the Government taking to deal with the disastrous loss of jobs in the area which cancellation will produce?

A: The Secretary of State for Scotland is actively discussing possibilities with the local authorities and the Scottish Development Agency. The latter has already commissioned consultants to examine the prospects for the area.

6. Q: Will the Prime Minister receive a delegation from the STUC?

A: I have agreed to receive such a delegation and I hope the meeting will take place in the next week or so. In agreeing to such a meeting, I must make it clear that there can be no question of the Government over-ruling the commercial decisions of British Shipbuilders, nor of the Government providing additional finance to fund losses by Scott Lithgow.

COTT LITHGOW

Shipbuilders and Scott Lithgow. £10

Cancellation of the Contract

This contract is a commercial matter between Scott Lithgow and Britoil which is now sub judice but it is right that in the interests of the UK taxpayer and UK industry as a whole, companies and nationalised industries should take decisions of this kind on a commercial basis.

Government Intervention £165m to S.L. since 1977

The Government has already intervened by funding losses by the yard of £165 million since nationalisation in 1977, and last year the subsidy to Scott Lithgow by the taxpayer amounted to £13,000 per employee. Since 1977 Scott Lithgow, with 8 per cent of the work force of British Shipbuilders has been responsible for 38 per cent of their losses. It will be quite wrong for the Government to pour in yet ~~further~~ more of the taxpayers' money into a yard which seems unable to deliver to cost and to time.

British Shipbuilders Pay Negotiations

I am relieved that the Unions have called off their suicidal strike but British Shipbuilders workforce must realise that the only way to protect jobs is to win and keep customers in a highly competitive world market rather than to rely on subsidies from the taxpayer. If British Shipbuilders are to compete and survive in the world market they must adopt modern working practices.

Unemployment

Appreciate effect cancellation of the contract would have on local community. If the contract is cancelled and jobs lost, my Rt Hon Friend, the Secretary of State for Scotland, will urgently consider how Government resources and the Scottish Development Agency can be used to help the area.

Box

file

10 DOWNING STREET

From the Private Secretary

30 January 1984

Dear John,

SCOTT LITHGOW

I attach a copy of the note which DTI have prepared for tomorrow's meeting. When I put this in to the Prime Minister I will emphasise the two points you made to me, that she should not contribute the blame excessively to the workers at Scott Lithgow, and secondly that the Government should not close the door totally to assistance for a new operator, even if it is not prepared to put more money into Scott Lithgow as at present constituted.

Two further notes should come to you direct from John Alty.

I think I have now settled the composition of the Trade Union delegation as follows:

Mr. John Langan)
Mr. Hugh Wyper)
Mr. Tom Dougan)
Mr. William Dougan) STUC
Mr. John Henry)
Mr. Douglas Harrison)
Mr. James Milne)

Mr. Ian McNie - Chairman, Clydeside District Confederation of Shipbuilding and Engineering Unions

Mr. Duncan McNeil - Convenor of Shop Stewards, Scott Lithgow

Mr. David Basnett - General Secretary, G.M.B.A.T.U.

~~Mr. Alex Ferry - General Secretary, C.S.E.U. (possibly)~~

Mr. George Arnold - National Executive Member, Shipbuilding AUEW

I am copying this letter to John Alty and Andrew Lansley (Department of Trade and Industry).

Yours sincerely
Andrew Turnbull

(Andrew Turnbull)

John Graham, Esq.,
Scottish Office

Box

File

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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From the Minister of State for Industry

Norman Lamont MP

Andrew Turnbull Esq
PS/Prime Minister
10 Downing Street
LONDON
SW1

30 January 1984

Dear Andrew

PRIME MINISTER'S MEETING WITH THE SCOTTISH TUC

Further to my letter of 27 January 1984, Mr Lamont has suggested that I send you the attached notes on:

(a) The closures and redundancies announced last week by British Shipbuilders and;

(b) Scott Lithgow's past record.

As the note on Scott Lithgow's record says, it is important to take care in the interpretation of the late delivery dates on previous orders. We are therefore also attaching a speaking note which the Prime Minister might care to use on this topic.

Finally, Mr Lamont asked me to emphasise that the Chairman of British Shipbuilders assured him before his appearance in the debate on Scott Lithgow last week that the Britoil rig is so far only one third complete, contrary to some reports in the press suggesting that the rig was two thirds complete.

I am copying this letter to John Graham.

Yours Sincerely

Stuart Gill

pp JOHN ALTY
Private Secretary

F

PRIME MINISTER'S MEETING WITH STUC

BRITISH SHIPBUILDERS: CLOSURES AND REDUNDANCIES

Last week BS announced the closure of three small shipbuilding yards (1100 jobs) and nearly 1500 further redundancies. The yards closed included Henry Robb (383 employees) in Leith.

The redundancies fell heavily on Scotland with 300 jobs lost at Govan and 800 at Scott Lithgow. The Unions have also been advised that a further 2000 plus jobs will be lost at Scott Lithgow when work on the BP rig is finished next month.

The latest redundancies will mean that BS will have shed nearly 10,000 jobs over 83/84, around 4,500 of which were in Scotland.

SBP1
30 January 1984

PRIME MINISTER'S QUESTIONS, 26 JANUARY 1984

BRITISH SHIPBUILDERS: CLOSURES AND REDUNDANCIES

Line to Take

I naturally very much regret the loss of jobs in British Shipbuilders but the Corporation cannot be insulated from its markets. It cannot keep men on when there is no work for them.

Background

BS have today (Wednesday 25th) informed the Unions of

1. Closure of 3 small merchant yards:

   Goole (Humberside, 365 jobs: MP Sir Paul Bryan C)
   Clelands (Tyneside, 405: MP Neville Trotter C)
   Henry Robb (Leith, 383, MP Mr R Brown L)

2. A further 529 redundancies up to March 1984 including Govan (Clydeside, 300), Clark Hawthorn (Tyneside, 135) and Brooke Marine (Lowestoft, 140).

3. 38 Compulsory redundancies to make up shortfall of job losses called for in last tranche of redundancies which have not been covered by voluntary redundancy.

The Unions have already been advised that there will be 800 redundancies called for immediately at Scott Lithgow and more later - 2000 plus - when work on the BP rig is complete. There will also be further redundancies later at Cammell Laird.

Department of Trade & Industry
Shipbuilding Policy Division
25 January 1984

PRIME MINISTER'S QUESTIONS, 26 JANUARY 1984

Closure of Henry Robb, Clelands and Goole Shipyards

Prospective Orders

Background

Mr Ron Brown MP has taken a particular interest in the tenders for MoD work for which Henry Robb Leith had bid several months ago. MoD announced on 23 January that the order for three mooring and salvage vessels would be placed with another BS subsidiary Hall Russell of Aberdeen. They have also decided that a further order for five twin-unit tractor tugs will be placed with the UK private sector yard of Richard Dunston of Hessle (North Humberside) and the unsuccessful yards have been informed.

Mr Neville Trotter MP has been pursuing the prospects of Clelands on Tyneside winning an MoD order for a Coastal Survey Vessel and an Ash Barge from the CEGB and was forewarned privately of the BS decision to close this yard and divert these orders to other BS yards in the interests of the Corporation as a whole. The associated company Goole Shipbuilders at the mouth of the Humber has had no orders in prospect for some time.

BS's announcement says that only in the case of Clelands have any of the three merchant yards being closed had any serious prospect of winning new orders. This one small (CEGB) order would only have provided work for one sixth of the Clelands workforce and would have resulted in heavy losses because of the under-recovery of overheads.

Line to Take

Decisions on the future of individual BS yards are a matter for the professional judgement of the Corporation's management. I understand they have explained that none of the yards being

closed had prospects of winning new work on acceptable terms.

Department of Trade & Industry

26 January 1984

B

SCOTT LITHGOW'S DELIVERY RECORD

We have repeatedly stressed that this whole problem has to be seen in the wider context of Scott Lithgow's recent performance. The losses speak for themselves. Their delivery record is I am afraid a sad story.

The Iolair, the Emergency Support Vessel for BP, was delivered 16 months late - though in fairness it has to be said that it was highly innovative vessel and the extent to which Scott Lithgow was at fault is still a matter of dispute.

Perhaps more seriously, Scott Lithgow last year delivered a tanker to BP some 15 months after the original contractual date and ended up paying 5 months worth of damages. Even more disturbingly, after the contract had been renegotiated - the course Hon Members opposite suggest for the Britoil rig - they made a loss representing 113% of the total income from the contract.

These individual instances add up to a shipyards' reputation in the market place. The sad fact is that Scott Lithgow has, over the years, simply lost all customer confidence. The Britoil rig is just the latest - and last - straw.

SBP1

24 January 1984

kt

SL'S TRACK RECORD

Employment/Losses

Scott Lithgow has typically accounted for about 8% of total BS employment since 1977. Over the same period it has accounted for 38% of total losses. (£160m to March 1983).

2. In 1982/3, Scott Lithgow lost £66m of BS' total loss of £117m - 56%

Year	Average Employment	Loss (£m)	Subsidy per head (£m)
1977/8	7730	22	3105
1978/9	7830	7	1533
1979/80	6924	34	4910
1980/81	5470	14	2559
1981/82	5063	15	2963
1982/83	5245	66	12583

3. Total loss £160m, average employment 6375, average loss per man since nationalisation - £25,000. Loss per man in 1982/3 alone - £13,000.

Strikes

4. Recent stoppages reported in the press have been:

(i) July 1983 - walk out by 250 plumbers over termination of an overtime agreement.

(ii) September 1982 - walk out by 300 platers over the sacking of a Shop Steward for doing the FT crossword during working hours. Affected work on BP tanker.

(iii) January 1982 - 3 week dispute at Port Glasgow yards. Halted work on BP ESV.

(iv) August 1980 - walk out at Kingston Glen over special allowances for difficult and dangerous work. Halted work on BS ESV.

Late Deliveries

	Originally Due	Delivered	Months Late
Britoil Rig	2.84	Not Yet	-
BP Rig	1.83	Not Yet	11
BP Tanker	12.81	3.83	15
BP ESV	4.81	8.82	16
Furness Withy Bulk Carrier	3.78	10.78	7
Furness Withy Bulk Carrier	9.77	4.78	7
Ben Odeco Drill Ship	12.75	3.77	15

[These figures should be treated with care. They do not make allowance for slippage due to delivery dates renegotiated because the customer changed or increased the specification.]

SBP1
20 January 1984

CF - your file or GR?

JR

also DTI

10 DOWNING STREET

THE PRIME MINISTER

30 January 1984

Dear Sir William,

I am grateful to you for setting out your views on the problems of Scott Lithgow in your letter of 23 January. Your distinctive insights are very helpful in setting the whole issue in a wider perspective.

I fully appreciate the points you make about criticism of the workforce of Scott Lithgow. It would be wrong to heap the blame exclusively on either unions or management. Clearly there have been serious failings on both sides. Nor, over the years, can government be exonerated, with "the disaster of nationalisation" being a major contributor to the present tragedy. Still less do I wish to denigrate the qualities of the working people of Inverclyde who can boast proud achievements with other employers in the area such as IBM and National Semiconductors.

But leaving aside the argument about blame, I think there can be no doubt that confidence in Scott Lithgow has been irreparably damaged. I agree with you, therefore, that the best hope lies in making a clean start. It would be quite wrong for the Government to overrule the commercial decisions of British Shipbuilders or to put up more money to finance further losses at Scott Lithgow. George Younger made clear in the debate in the House of Commons last Tuesday that vigorous efforts are now being made to find a new operator to finish the rig. This will require a break with the past, with old attitudes of work and of management.

/ The Government

6

The Government fully recognise the impact which closure of Scott Lithgow will have on the Inverclyde area for, even if a new operator is found, it is unlikely that it would provide employment for all the men currently employed at the yard. With the Scott Lithgow site occupying a large part of the usable land of the area, there is a considerable task of site clearance and renovation to be undertaken. George Younger, together with the SDA, is actively assessing the needs of the area and the resources available.

I appreciate that this episode must be very painful to you. I very much hope that not only will lessons be learned but that something new will be created from it all.

Yours sincerely

Margaret Thatcher

Sir William Lithgow

CONFIDENTIAL

Ref. No: T & I (84)4
Date: 27.1.84

OPPOSITION DAY

DEBATE ON

SHIPBUILDING

Tuesday 31st January 1984
House of Commons

Contents | Page

Conservative Research Department,
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RICHARD EHRMAN

Background

British Shipbuilders was established under the Aircraft and Shipbuilding Industries Act, 1977, after a prolonged Parliamentary struggle. It was formed from twenty-seven companies in shipbuilding, ship repairing and marine engineering. BS accounts now for the great bulk of Britain's shipbuilding industry.

Shipbuilding in Europe declined throughout the 1950s and 1960s. In the UK the slide has been especially marked. Our share of the world market fell from nearly 40 per cent in 1926 to 20 per cent in 1956 and just 3 per cent today. In the UK, employment in this sector fell from 130,000 in 1955 to 69,000 in 1973. From 1974 the threat of nationalisation hung over the industry, world demand continued to decline and its financial problems continued to be acute.

Since nationalisation, the industry has received approximately £1000 million in grants and loans from the Exchequer. If it had remained in the private sector it would have needed assistance, but it would also have faced up to the need for rationalisation much sooner and the cost to the Exchequer might well have been less.

The Government has made clear its commitment to the industry, but it has also emphasised that the ultimate size and shape of the industry must depend on its competitiveness. Productivity is still below pre-nationalisation levels, so there is considerable room for improvement.

In 1982-3 British Shipbuilders lost £117.5 million, an increase of 600 per cent and far in excess of its agreed loss limit.

The BS Survial Plan & the threatened national strike

Towards the end of last year the BS management offered its workforce, who have not had a pay rise since April 1982, a £7 increase in return for acceptance of its 'survival plan'. This involves a sweeping reform of restrictive practices and demarcation lines within the yards and aims to improve productivity to the level of BS competitors in Northern Europe. It would not increase productivity to the levels attained in Far Eastern yards. The unions rejected the plan, and threatened to strike on January 6th if BS insisted on implementing it. In the event the unions withdrew the strike threat at the last minute, when it became clear that BS were not prepared to back down and that some commercial yards might be closed permanently if the strike went ahead. In return BS offered to backdate the £7 pay rise to November 2nd 1983, provided the yards voted to accept the plan; and the management also accepted a minor union amendment which allows the working party set up to discuss the survival plan to also discuss the unions counter-proposals. These talks have now ended in agreement on the plan, which will be referred to the yards.

Prospects

Present prospects are gloomy. The world's shipyards have been badly hit by the recession (see below) because their customers, the shipowners are facing a glut in capacity brought about by the drop in world

trade. In March 1983, 91 million tonnes of shipping were lying idle up from 55.3 million tonnes nine months earlier. Competition from foreign, mainly Far Eastern, yards is intense. British Shipbuilders current order book at the end of November 1983 was estimated at approximately £2500 million, which included £1800 million for warships and £500 million for merchant shipping. Sir Robert Atkinson, the former Chairman of BS, warned before his retirement that the corporation is 'fighting for it's life'. His successor is Mr Graham Day, one-time head of Cammell Laird. He is now preparing a new corporate plan: British Shipbuilders now faces severe competition in world markets at a time when world shipbuilding capacity is reckoned to be 40 per cent greater than is required.

Warship Yards: Vickers, Vosper Thorneycroft and Yarrow have a consistent track record of profitability and are clearly areas with potential for private investment. In December 1982 the Government announced nearly £600 million of naval orders. BS is anxious to increase the export share of its warship order book from around 20 per cent to 30 per cent, but many current customers are rapidly becoming competitors. The Navy has recently announced that it will be ordering up to 12 of the new Type 23 frigates, designed by Yarrow, over the next decade at a cost of approximately £100 million each. The first orders are expected this year. In its 1983 Manifesto the Government said it would return parts of BS to the private sector and in July Mr Norman Lamont confirmed that the warship yards, which made a profit of £54.75 million in 1982-3, are indeed the most likely candidate, (Hansard, 28th July 1983, W/A Col. 576-7).

Merchant Yards: This market is very depressed and expected to remain so. The Merchant Yards are the division most affected by foreign competition and the situation is bad in all the alrge yards. Sunderland Shipbuilders, however, has recently won an order from the Stena Line of Sweden for two sophisticated diving support vessels with an option for a third.

Offshore Yards: Charter rates for rigs are declining as a result of the world oil glut and orders are scarce. Activity in the North Sea however, is picking up. There are several independent firms involved in offshore work in Scotland, most notably Highland Fabricators and McDermotts, which has just won a £30 million order from Britoil. (See also last week's brief on Scott Lithgow).

Ship Repairing: This slump in world shipping has hit the ship repair yards hard. They suffered major redundancies last year. This division has now been put up for sale. Redheads, on the Tyne has been bought by its work force, whom BS had made redundant. Tyne Ship Repair is being sold to a management buy-out which will save the 850 jobs involved. This has now been relunctantly accepted by the unions. Grangemouth Dockyards has also been bought by two of its former managers and reopened for business. These sales were possible under the provisions of the British Shipbuilders Act 1983.

The Times on 5th January conducted a survey of BS' major yards:

'**Austin & Pickersgill**, Sunderland, 1,800 workers. Three bulk carriers and three cargo vessels, no delays for delivery next year.

'**Govan Shipbuilders**, Clydeside, 2,500 workers. Building two bulk carriers for Norwegian firm, due to be delivered late spring. 'We are running out of work, and need new contracts'.

'**Smith's Dock**, Cleveland. 1,700 workers. Ahead of schedule on two roll-on, roll-off ships for Brazil, the second due in May next year.

'**Sunderland Shipbuilders**, 2,200 workers in three yards. On time with three years work on five bulk carriers and two diving support ships.

'**Appledore Shipbulders**, North Devon, 750 workers. New order for cargo vessel for Iceland due next year.

'**Ferguson-Ailsa**, 800 workers at Troon and Port Glasgow. 'We need orders within three months. Six tugs for Kenya and the new Arran car ferry are on time, but will be finished by the end of this year'.

'**Hall Russell**, Aberdeen, 800 workers. 'We are urgently seeking work now'. They are building four patrol craft, on time, for Hongkong.

'**Cleland Shipbuilders**, Clydeside, **Henry Robb**, Leith, and **Goole Shipbuilders**, Humber. No fresh orders and face 'serious risk of closure'.

'**Swan Hunter** the composite four-yard Tyneside company, with 7,500 workers, are building the new Ark Royal aircraft carrier, a Type 42 destroyer, and two Type 22 frigates due by late 1987.

'Three merchant vessels are underway, including a container ship for Cunard, which is delayed. 'We have been slightly behind on a couple of programmes, but we expect to catch up by delivery dates'.

'In the warshipbulding division:

'**Brooke Marine**, Lowestoft. Will run out of work in the autumn.

'**Vickers**, Barrow-in-Furness, 12,300 workers. Expect to complete the first Type 2400 submarine in November and are working on four nuclear-powered submarines, with no delays.

'**Vosper Thorneycroft**, Southampton, 4,800 workers. Have two yards working on three minehunters for the Royal Navy, and are fitting out two fast patrol boats. 'We are very anxious to get an order for a Type 22'.

'**Yarrow Shipbuilders**, Glasgow, 5,500 workers. Have work until 1987 on a £450 million order for five Type 22 frigates and one minehunter, with all ahead of schedule.

'In the offshore division:

'**Cammell Laird**, Merseyside. 3,500 workers. Slightly delayed on a semi-submersible drilling rig for Sovereign Explorer, ahead of schedule with the missile destroyer HMS Edinburgh, which is due in a year's time, and on time with a jack-up accommodation vessel for British Gas in the Spring.

'A strike last year and problems with supply of parts has caused delays, but 'future prospects of work are good'.

'**Scott Lithgow**, Glasgow, 5,00 workers. Recently lost Britoil order for a rig overdue, and a £60 million exploration rig for BP is also behind schedule.

'Falmouth Shiprepairers and Vosper at Southampton are both secure but Tyne Shiprepair will close next month unless a sale is agreed shortly.'

World Prospects

Shipbuilding is in crisis throughout the world. Some figures are given in Appendix 2.

Manpower

BS's work force has been reduced from 87,5000 at nationalisation in 1977 to under 60,000 today. 6000 jobs were lost in the second half of last year. 4,400 jobs are involved in the troubles at Scott Lithgow, of which 300 have already gone. It is expected that by the end of March only 500-800 men will remain at the yard. 1870 other redundancies were announced on 25th January. Of these 1150 are caused by the closure of Henry Robb at Leith (383 jobs), Goole on Humberside (365 jobs) and Clellands at Wallsend (400 jobs) - none of which have had any work since Christmas. In addition 300 jobs will go at Govan on the Clyde, 140 at Brooke Marine in Lowestoft, 135 at Clark Hawthorn in Wallsend, 50 at Vickers in Barrow-in-Furness, 48 at Sunderland Forge and 35 at Ferguson-Ailsa in Port Glasgow.

BS's Finances

British Shipbuilders, like all nationalised industries, looks to the Teasury for external finance which it usually receives in the form of loans and public dividend capital. Under the 1977 Aircraft and Shipbulding Industries Act, which created the corporation, the original limit for this finance was £200 million. This was increased in stages, to £800 million by July 1983. Later last year the Government introduced The British Shipbuilders (Borrowing Powers) Act 1983 to enable the Secretary of State to increase this again, initially to £1000 million and eventually, with the further consent of the Treasury and the House, to £1200 million. The Bill was necessary because of British Shipbuilders' continuing difficulties and the continued deterioration of its markets.

(The details of BS financial performance are given in Appendix I.)

The Intervention Fund exists to help BS compete with cheap Far Eastern prices. The most notable recent example of its use was when the Government provided around £10 million in order to ensure that Cunard built the replacement for the Atlantic Conveyor, lost in the Falklands, at Swan Hunter instead of at Hyundai in Korea. The Koreans had quoted £30 million against BS's £40 million and the Korean price was estimated to be the same as BS's material costs alone. BS estimate that approximately 60 per cent of the cost of a ship is accounted for by outside contractors and suppliers, so the benefits of intervention fund spending are spread widely throughout the economy.

Shipbuilding Redundancy Payments Scheme: This was introduced in 1978, the present Government extended it in July 1982 so that it will run until 30th June 1985. It was also improved in order to give more help to those under 40. The savings in manpower were estimated at that stage to be £150 million. So far over 22,000 employees have benefited from it to the tune of £82 million.

£m	1978	1979	1980	1981	1982	1983
Feb to April	-	4.7	15.5	20.1	14.4	28.0

The British Shipbuilders Act 1983

The Government is committed to the promotion of private ownership in the shipbuilding industry. This Act removed the previous statuory obstacles to the introduction of private capital, and provided enabling powers for the Secretary of State for Industry to direct British Shipbuilders to dispose of particular assets or subsidiaries. BS is now no longer obliged to carry on the full range of activities specified in the 1977 Act that nationalised it; it can discontinue unprofitable work and dispose of profitable yards when appropriate. The Act gives the Secretary of State powers to restrict foreign shareholdings in any yards that are sold, and gives him other powers to safeguard assets or activities which are important to our national security. Before giving any general direction to BS the Act also requires that the Secretary of State must be satisfied that it will further the national interest. The recent move to sell the repair yards, and the announcement that private investment will be sought for the warship yards, are a result of this Act.

The 1977 Compensation Terms

In Opposition, Conservatives were very much opposed to the terms of compensation for the owners of firms nationalised under the 1977 Act. As Secretary of State for Industry, Sir Keith Joseph, reaffirmed the view that they were 'grossly unfair' (Hansard, 7th August 1980, Col. 290). Total compensation paid for the 24 private companies vested in BS was £75.5 million.

The Government believes that it would be unjust to amend the terms now because people have sold shares on the basis of the 1977 Act. Many of the companies involved have decided to settle for the compensation received, but some of the previous owners bought their cases against the Government, concerning the amounts they received, before the European Commission of Human Rights. In January 1983 the Commission declared that seven of the cases were procedurally admissable. The Commission is still considering the merits of these cases.

Labour Policy

Labour said in their 1983 Manifesto that they intended to ensure that British Shipbuilders remained a wholly nationalised concern, and intended to create a state owned shipping organisation to act as its customer. Labour would have introduced protectionism in shipping 'to protect our shipping and jobs from unfair competition' and promised to provide BS with a 'new financial basis and adequate resources for investment'. In short, Labour proposed to apply their usual remedy of State control, subsidy and protection with the sole aim of preserving jobs. Shipping and shipbuilding are areas of intense international competition, and attempts by this country to opt out of that would have particularly harmful effects on inter-

national trade and the viable jobs that depend on it. Labour [illegible]d nothing about the fundamental problems that make our yards uncompetitive or how they would have tackled them .

/APPENDIX I

Conservative Research Dept
32 Smith Square LONDON SW1

RE/CR
27.1.84

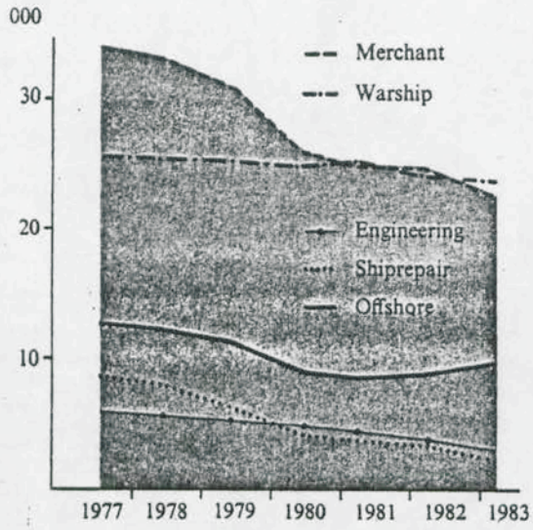
CORPORATE PERFORMANCE AND GOVERNMENT SUPPORT

PERFORMANCE (£m)	1978/79	1979/80	1980/81	1981/82	1982/83	1983/4 (year to Oct.)
Profit(Loss)	-50	-110	-41	-20	-117	na
Target	-45	-100	-90	-25	-10	not set
External Finance Requirement	117	236	170	146	120	na
Limit	83	250	185	150	122	158
Capital expenditure	27	18	17	37	43	90(plan)
GOVERNMENT SUPPORT	(£m)					
NLF & PDC	55	181	110	107	76	108
Intervention Fund Receipts	11	31	40	46	44	16
SRPS	5	16	20	14	16	16
CUMULATIVE TOTAL SUPPORT SINCE 1979		228	398	565	701	841
Home Credit	For ships - 80% of contract price at 7.5% over 8 1/2 years (OECD)					
	Offshore - 85% of contract price at 12.15% over 5 years (Consensus)					
EMPLOYMENT						
Number employed '000	87	86	78	70	65	60
Total Job Losses '000 (Cumulative)	--	1	8	17	22	27
PAY						
Pay rises %	9	12	9	7	0	0

Statistics

BS Employment

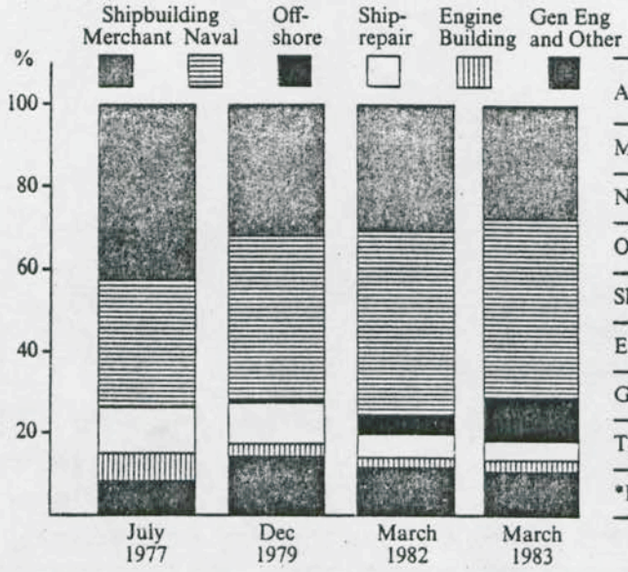
Employment by Division



Division	July 1977	June 1979	March 1981	March 1982	March 1983
Merchant	34,245	31,103	24,963	24,658	22,573
Warship	25,778	25,557	25,207	24,514	23,845
Engineering	6,027	5,670	4,560	4,123	3,192
Shiprepair	8,681	6,537	4,111	3,628	2,652
Offshore	12,703	11,377	8,794	8,918	9,421
Corporation	—	—	136	275	662
HQ	35	228	204	204	238
Total	87,469	80,472	67,975	66,320	62,583

Note: Divisions were not formed until 1980 and Statistics have been projected back to Vesting Day.

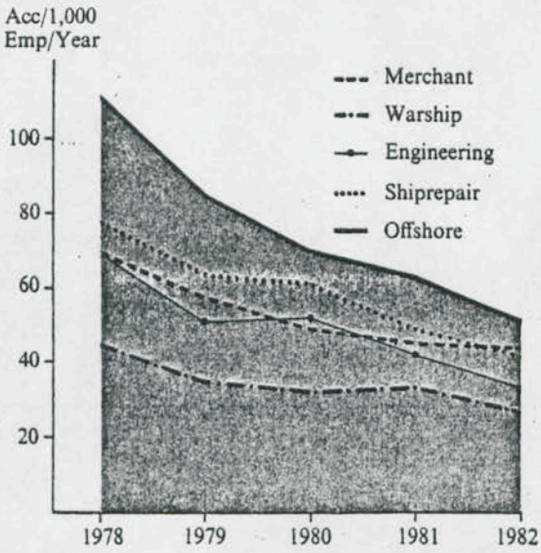
Employment by Activity



Activity	July 1977	Dec 1979	March 1982	March 1983
Merchant SB	44·3	32·5	30·2	27·8
Naval SB*	30·2	40·3	44·9	43·8
Offshore	0·3	1·1	4·8	11·2
Shiprepair	10·1	8·5	6·7	4·7
Eng Bldg	7·1	3·1	2·5	2·1
Gen Eng	8·0	14·5	10·9	10·4
Total	100%	100%	100%	100%

*Includes Naval Auxiliaries

Accidents by Division



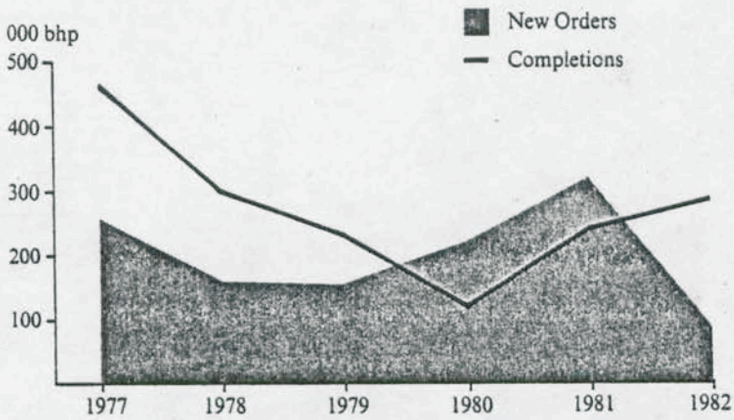
Incidence Rate per 1,000 Employees per year

Division	Manual Employees 1978	1979	1980	1981	1982
Merchant	69·9	58·1	49·5	48·2	44·3
Warship	45·5	35·5	32·6	33·2	27·2
Engineering	69·9	51·3	52·7	42·6	34·9
Shiprepair	77·9	64·2	62·8	49·1	42·5
Offshore	111·3	85·8	70·7	64·1	52·4
All Divisions	71·3	55·2	48·0	45·1	39·3

Statistics

BS Production

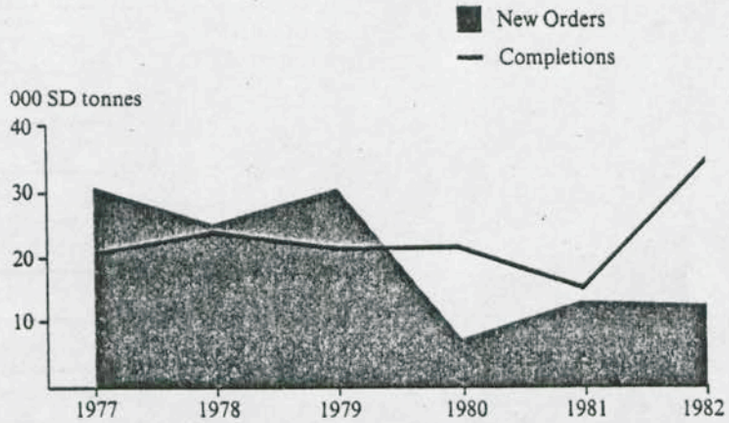
Enginebuilding



bhp

	New Orders	Completions
1977	271,300	462,400
1978	150,000	284,200
1979	153,200	220,300
1980	210,025	106,500
1981	311,500	233,925
1982	99,400	282,960

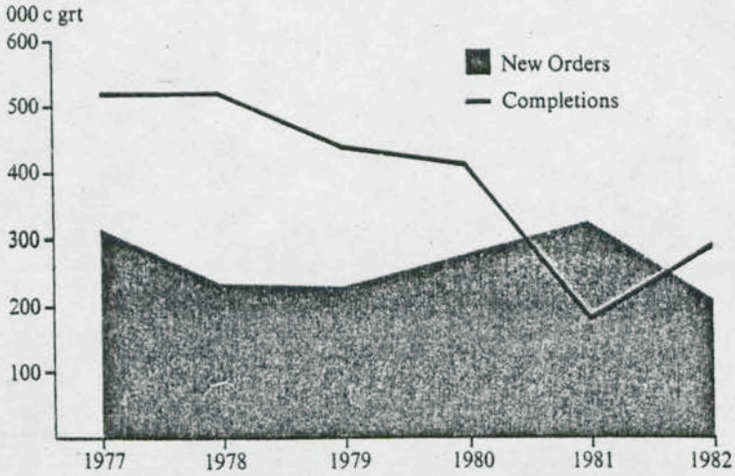
Warshipbuilding



SD tonnes

	New Orders	Completions
1977	30,525	20,221
1978	25,679	25,062
1979	31,448	22,605
1980	6,151	22,900
1981	14,641	15,379
1982	13,400	35,951

Merchant Shipbuilding



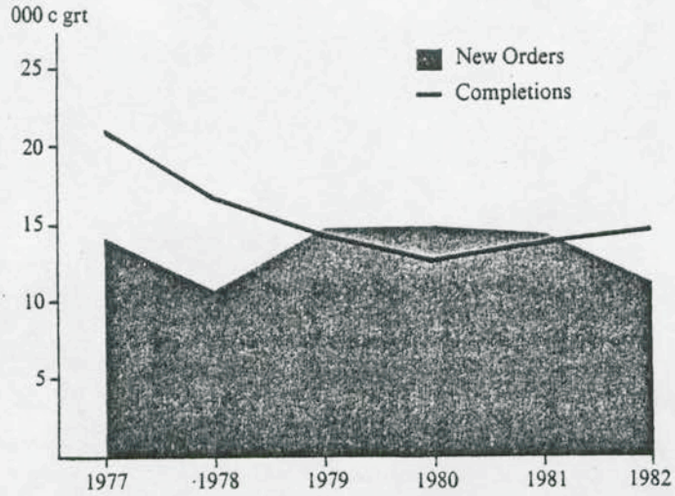
c grt

	New Orders	Completions
1977	320,499	532,023
1978	245,974	533,097
1979	245,878	455,141
1980	287,387	422,581
1981	335,475	188,521
1982	205,597	298,538

Statistics

World Merchant Shipbuilding

World New Orders/ Completions

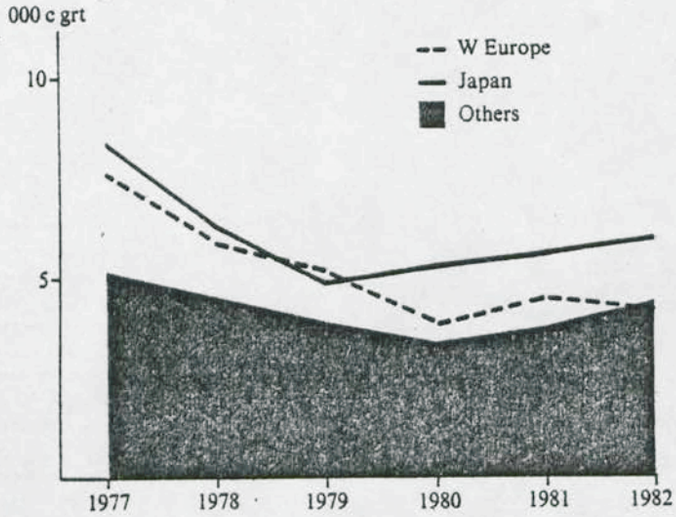


000 c grt

	New Orders	Completions
1977	14,040	21,181
1978	10,796	16,546
1979	14,207	14,077
1980	14,357	12,635
1981	14,053	13,840
1982	11,372	14,426

Source: Lloyds Register of Shipping—EC Contract

Regional Output

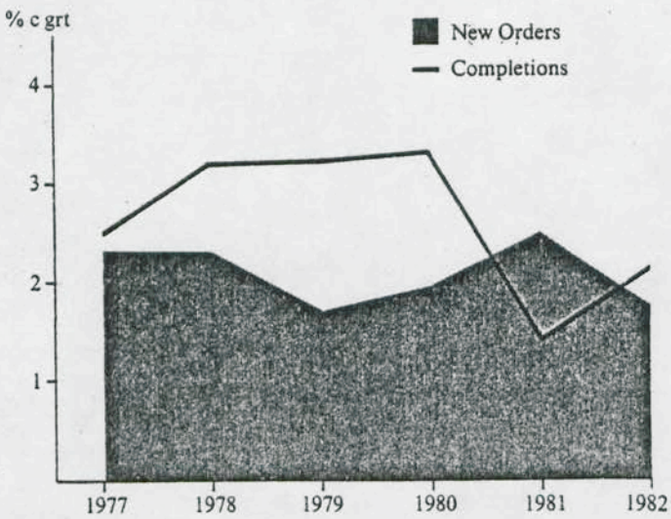


000 c grt

	W Eur	Japan	Others	Total
1977	7,654	8,358	5,169	21,181
1978	5,832	6,120	4,594	16,546
1979	5,107	4,975	3,995	14,077
1980	3,931	5,207	3,497	12,635
1981	4,451	5,580	3,809	13,840
1982	4,279	5,818	4,329	14,426

Source: Lloyds Register of Shipping—EC Contract

BS Market Share



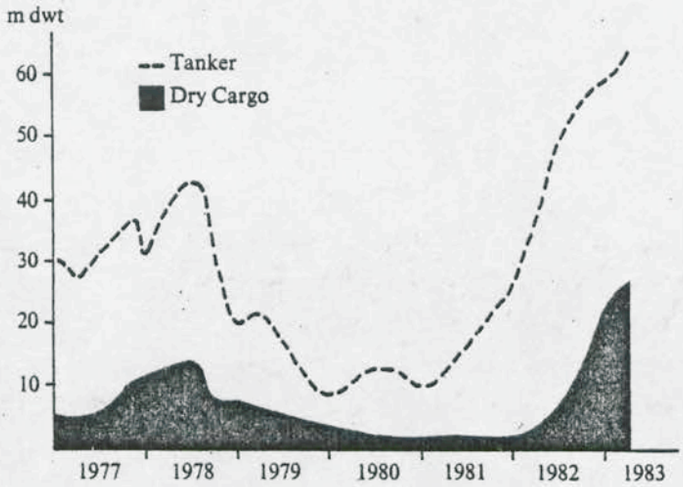
% c grt

	New Orders	Completions
1977	2·3	2·5
1978	2·3	3·2
1979	1·7	3·2
1980	2·0	3·3
1981	2·5	1·4
1982	1·8	2·1

Statistics

Market Environment

World Laid-up Tonnage

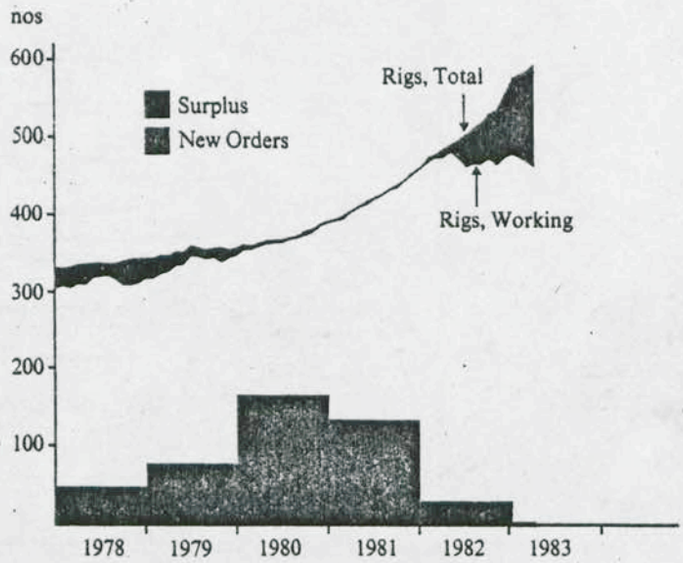


m dwt

	World Fleet laid-up due to lack of Employment		
	Tankers	Dry Cargo	Total
June 1977	31·1	6·0	37·1
June 1978	43·5	13·5	57·0
June 1979	16·5	4·9	21·4
June 1980	12·5	2·2	14·7
June 1981	15·4	1·9	17·3
June 1982	49·2	6·1	55·3
Mar 1983	63·8	27·2	91·0

Source: GCBS

Offshore Oil Rig Utilisation/ New Orders



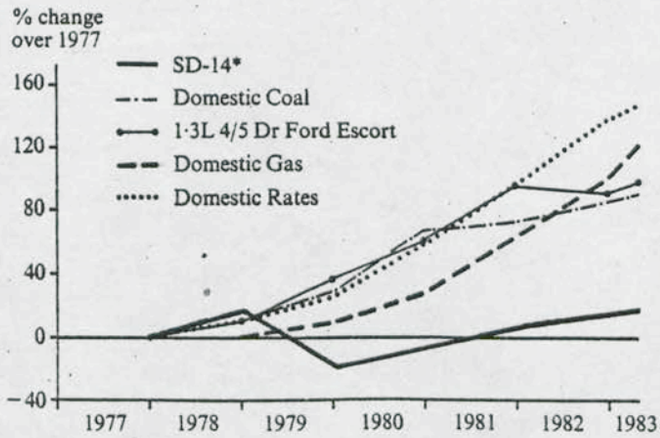
NB. Utilisation figures only include Rigs customarily offered on the world charter market.

nos

	Rigs Total	Rigs Working	New Orders
Dec 1977	331	304	43e
Dec 1978	342	310	49e
Dec 1979	354	343	79e
Dec 1980	386	386	164
Dec 1981	452	451	133
Dec 1982	553	472	31
Mar 1983	581	468	4

Source: Offshore Rig Data Services, Shipstats.
e = estimate

Relative prices of an SD-14 and other UK commodities



% change over 1977

	SD-14*	Coal	Escort	Gas	Rates
Dec 1978	16	10	10	0	10
Dec 1979	−18	27	36	8	25
Dec 1980	−7	66	60	26	56
Dec 1981	6	72	94	62	94
Dec 1982	15	86	90	99	137
Apr 1983	17	90	98	119	147

Source: NCB, Northern Gas, Sunderland Civic Centre, Ford Motor Co.

*The SD-14 is a standard 15,000 dwt Merchant Ship built by British Shipbuilders. The prices upon which the index is based relate to delivery dates and therefore do not reflect the major decline in contract prices during 1982/83.

Direct Aid to Shipbuilding	Home Credit Scheme Aid to Shipowners
United Kingdom	
Up to 17 per cent of contract price (Includes 2 per cent Shipbuilders Relief)	Home Credit Scheme 80 per cent over 8½ years at 7½ per cent. (On orders placed in United Kingdom yards only)
Belgium	
Nil	Home Credit Scheme 70 per cent over 15 years. Interest relief subsidy (maximum 3 percentage points)
Denmark	
Nil	Home Credit Scheme 80 per cent over 12 years at 8 per cent interest including 2 year grace period
France	
Up to 20 per cent of contract price (Excludes cost escalation insurance which benefit ranges from zero to 3 percentage points)	Home Credit Scheme 80 per cent over 8½ years at 7½ per cent interest.
Germany	
Nil	12½% investment grant. Interest subsidy 4% (1983) and 2.5% (1984 & 1985). The Investment Grant automatically reduces the amount of credit to which the Interest Subsidy applies). Credit Guarantees at OECD terms.
Ireland	
Old scheme expired 31 December 1980. No new formal scheme. Subsidy applications considered on a case by case basis subject to EEC approval.	Home Credit Scheme 80% over 8½ years at 7½% interest.
Italy	
Wef 1 January 1983 up to 21% of contract price. (In Mezzogiorno maximum is 26%).	1983 Interest relief scheme:- 2.75% of contract price paid six monthly for 12 years.
Netherlands	
1983/84 up to 8% of contract price. Special maxima of 15% (1983) and 14% (1984) for yards in IHC and VGM groups.	2% Interest subsidy. New investment subsidy of 12%, plus 2.3% premium for 5 years.
Finland	
Nil	Home Credit Scheme 80 per cent over period of construction (at least 2 years, normally not more than 8 years) at 11 per cent interest.
Japan	
Nil	Home Credit Scheme*. Government (Japanese Development Bank) loan of 50 or 60 per cent, Over 13 years at 7½ per cent interest including 3 year grace period. Further

Direct Aid to Shipbuilding	Home Credit Scheme Aid to Shipowners
	loan available from commercial banks, acting in conjunction with JDB, for 15 or 20 per cent of contract over 8 years at 8½ per cent interest. Supplementary provision in certain cases for interest subsidies of 2½ per cent to 3½ per cent.
Norway	
For cash contracts subsidies given in 5 annual instalments to a total value of the amount that would have been given on the same contract under home shipowners finance scheme.	80% of contract price over 8½ years at 8% interest. The scheme also applies to longer or shorter term financing, but always contains the same amount of subsidy; in the case of cash payment the subsidy is equal to that of a 5 year loan.
Spain	
Up to 9½ per cent of contract price.	Home Credit Scheme. 85 per cent over 12 years at 8 per cent interest with up to 2 years grace period. (Smaller subsidy - 60 per cent of value at 8 per cent for 5 years plus 1 year grace - available for conversions and major repair work).
Sweden	
For 1984 and 1985 a total of £40m budgetted for Government write-off loans to shipyards.	Credit Guarantees of 90% of contract price for up to 12 years on commercial loans. Interest rate subsidy about 2½% available in certain cases.

Notes

* Japanese Home Credit. The 60% and 20% loans are available only for LNG carriers. Other types of vessel attract the lower percentages.

020

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From the Minister of State for Industry

Norman Lamont MP

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

27 January 1984

Dear Andrew

PRIME MINISTER'S MEETING WITH STUC: 31 JANUARY

Attached is a brief for this meeting. Mr Lamont has not had an opportunity to see it but will do so over the weekend. I shall let you have any comments he may have on it on Monday.

As you know, Mr Lamont will be attending the meeting.

Yours

John

JOHN ALTY
Private Secretary

27.1.84

CONFIDENTIAL

SCOTT LITHGOW - MEETING WITH SCOTTISH TUC

BRIEF FOR THE PRIME MINISTER

The meeting is with the General Council of the STUC - Secretary: Jimmy Milne. The STUC wished to bring along others from the churches and local authorities, but the meeting has been restricted at your request to the STUC alone (Mr Turnbull's letter at Flag A). The main item is Scott Lithgow, but the recently announced closure of Henry Robb (Leith) may well come up.

BACKGROUND

Current Workload at Scott Lithgow

2. Britoil rig - value £88m, cancelled on 19 December 1983, all work stopped.

BP rig - value £77m, 11-12 months late, expected completion in February 1984, 2200 men.

Seabed Operations Vessel (MOD) - value £60m, expected completion in August 1984, 700 men.

Redundancies and Industrial Relations

3. 200 voluntary redundancies have taken place since September 1983. 280 were laid off on 20 January and the unions know that 800 more redundancies will be declared in the next few days in response to the Britoil cancellation. The workforce met on 20 January and decided not to accept lay-offs and not to move, as the management wished, to 3-shift working on the (very late) BP rig. Those laid off have since reported for work; they are drawing lay-off pay and are in cabins on the site.

4. If no way of reviving the Britoil contract is found, 2,200 men will go when the BP rig is finished, 700 more when the MOD vessel is completed in August.

Regional Context

5. Scott Lithgow employs about 4,000 in the Greenock (Port Glasgow) Largs travel to work area. Current unemployment is about 17.4%. Complete closure of the yard would push this to about 24% (Consett level). The area is already an SDA.

Government's Position

6. The contractual dispute: The Britoil dispute is a commercial matter to be resolved by BS and Britoil. Intervention would either undermine the commercial and financial position of one side or another, or it would mean more money to bail out Scott Lithgow. BS has already made a published provision of £44m losses on the rig and Mr Day is not prepared to ask Government for more money.

7. SL's Record: But Britoil contract is only last straw. The yard has lost all customer confidence. It has a terrible loss record (over £160m from nationalisation to March 1983). It will lose the better part of £100m this year alone.

8. Third Party Takeover: The only hope for the future lies in a new operator making a fresh start. It is widely known that several companies have expressed interest, the most serious being Trafalgar House. It is up to BS, Britoil and any interested third party to work out a sound commercial deal and to put it to the Government.

Other Issues

9. The STUC will undoubtedly attack BS' rationalisation programme, and especially the closure of Henry Robb (Leith) which will mean the loss of 400 jobs.

10. Equally topical is the agreement between BS and the unions on working practices reached on 25 January. This covers about all the extensive changes in working practices originally sought by BS. If accepted by the yards by 10 February, it is worth £7pw backdated to 1 November.

LINE TO TAKE

11. (i) Fully appreciate and share STUC's concern for the livelihood of their members. No-one wants to see redundancies or the closure of the yard. And remember extent of our support for industry - £900m since 1979.

(ii) But have to be realistic. Some welcome realism already abroad - the decision to call off the strike, the pay deal. Government is not going to intervene in the commercial dispute between BS and Britoil. Would perpetuate the old and failed policies of pouring good money after bad.

(iii) Only real hope for yard lies in a new operator making a fresh start. Know that BS and Britoil are talking to interested parties. If they can find a sound commercial deal, Government will look at it urgently and sympathetically. Hope that unions will recognise that such a deal would be in best interests of their members and will do everything they can to help.

(vi) If there are large scale redundancies, the Secretary of State for Scotland and the SDA naturally stand ready to do what they can to help.

SBP1/DTI
27 January 1984

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TELEMESSAGE
RT. HON. MARGARET THATCHER M.P.
PRIME MINISTER
10 DOWNING ST
LONDON
SW1

THE STUC ACCEPTS WITH RELUCTANCE THE PRIME MINISTERS DETERMINATION THAT THE DELEGATION SHOULD ONLY CONSIST OF STUC REPRESENTATIVES. IN DOING SO WE PLACE ON RECORD OUR CONCERN AND PUZZLEMENT AT THE PRIME MINISTERS RESTRICTIONS ON THE DELEGATION, WHICH DID NOT APPLY OVER RAVENSCRAIG 14 MONTHS AGO. THE STUC HOWEVER REITERATES ITS INSISTANCE THAT WE PRESENT OUR VIEWS ON THE POSSIBLE SOLUTIONS TO THE CRISIS WITHOUT RESTRICTION. I SEEK THE PRIME MINISTERS CONFIRMATION THAT THE MEETING IS ACCEPTABLE ON THIS BASIS.

JAMES MILNE.

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AT to J. Milne, STUC 26/1/84

PART 6 begins:-

J. Milne to PM 27.1.84.

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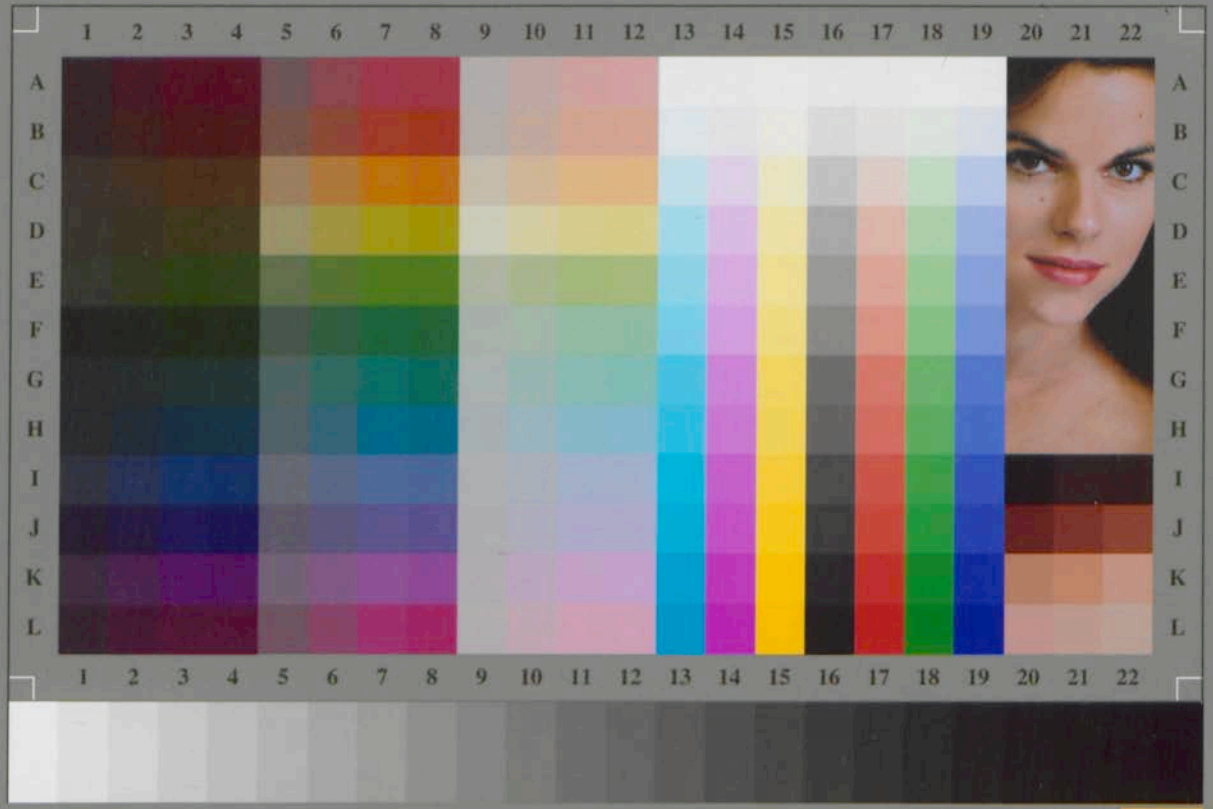

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