



MO 26/3/1

PRIME MINISTER

WARSHIPBUILDING PRIVATISATION

We are to discuss Norman Tebbit's further paper on this subject (E(A) (84)32) on 20th June. Colleagues may find it helpful to have my views in writing beforehand (since, as the Chief Secretary, Treasury has already indicated, no time was allowed for effective consultation - even at official level - before the paper was circulated). I have also had the opportunity to discuss these matters further with Graham Day.

2. The first point to be made is that the statement of British Shipbuilders' views attached to the paper was out of date by the time it was circulated in that by then the Cammell Laird work force had signed the agreement on improved working practices and productivity, and accepted selective compulsory redundancy. Thus, the major precondition of what BS refer to as their alternative strategy has been met, and with this one of the principal uncertainties before us at the earlier meeting of E(A) has been cleared up. The remaining elements of the survival strategy for Cammell Laird (Annex B to E(A) (84)32) are matters for Government and the management of British Shipbuilders.

3. Secondly, I note that BS at least do not consider that the retention of capacity at Cammell Laird would severely reduce the prospects for privatisation. This view should encourage us not to regard the reduction of capacity as an essential prerequisite of successful privatisation. Apart possibly from Vosper Thornycroft's steel yard at Woolston (if it does not succeed in winning a frigate order from Pakistan) Cammell Laird is the only yard which is a



candidate for closure in the timescale for privatisation. This indicates that we could achieve the objective of privatisation while avoiding the odium which will attend what will be seen as a Government-inspired closure of Cammell Laird.

4. Thirdly, I note also that, whilst BS consider that the proceeds from privatisation would be reduced if Cammell Laird were retained, no estimate of this is now before us. As Norman Tebbit said in his earlier paper no estimate of the likely proceeds of any disposal route is robust enough to be offered with any confidence. What is quite clear, however, is that substantial costs to the Exchequer would flow from the closure of Cammell Laird and the general increase in local unemployment which would follow. I do not believe that we should attach significance to a potential and unquantifiable loss of proceeds in the absence of a wider economic assessment of the costs and benefits of closure. I had believed that a significant reason to delay a decision at our earlier meeting was to provide a proper assessment of all the costs of the choices before us. But this has not happened.

5. These factors taken together suggest that the balance of considerations affecting the future of Cammell Laird point much more clearly to the adoption of the alternative strategy set out in British Shipbuilders' note. I fear that we should be deluding ourselves if we took the view, expressed in paragraph 6 of the paper, that the difficulties of closure may not be as great as we had feared. It was made very clear recently to one of my Ministers by a delegation from the Trades Unions at Cammell Laird, in the presence of the local MPs, that the workforce had done all it could to deliver its side of the bargain and the yard's future was entirely at the mercy of the Government. Indeed Graham Day told me last week that then he would not agree to Vospers retendering as I describe later.

6. In my discussion with Mr Day he emphasised that Cammells was not just a local problem. The ramifications of a closure would spread across the industry. A number of issues are currently in play with



the unions including the disposal of ship-fitting and ship-repair capacity, privatisation, the latest pay offer and the productivity agreements. I believe that Mr Day realises that the resolution of these difficult issues would be made harder. There are issues which might unravel the whole process and the closure of Cammell Laird is one of these. A crisis in the industry would not be helpful to our privatisation plans particularly if it were perceived that the crisis had been precipitated by decisions that could have been avoided.

6. It is relevant to our consideration of the Type 22 orders that, if we decided to invite the three yards to re-tender, Graham Day would instruct Vosper Thornycroft not to submit a bid unless they had first signed the productivity agreement. Cammells have done this. As of the end of last week Vospers had not. He has also told me that the task of building a Type 22 frigate is at the margin of that yard's capabilities, and that the yard would probably be more difficult to privatise with such an order than without. I do not entirely accept these points although the earlier tendering round showed that Vospers could not meet our delivery requirements for both frigates. In any event, we must hope that Vospers are successful in their bid to export 2 Type 21 frigates to Pakistan, the prospects for which remain good. (Vospers have built several Type 21s for the Royal Navy).

7. Lastly, on the issue of capacity, I do believe that Norman Tebbit is underplaying the potential significance of exports. We should not forget that as recently as 1970 there was more warship and conventional submarine construction work being undertaken in this country for export than for the Royal Navy. The warship export market is difficult and erratic but there are already signs of an upturn and, in the Type 23, we shall have a ship which is cheaper than the current generation of frigates and with greater sales potential. We should take care not to prune capacity to the point where such work could not be taken on.

8. There are other issues, on the approach to privatisation which we shall be discussing in E(A). But I very much hope that we shall reach



agreement to place the first of the Type 22 orders with Cammell Laird. This ship will be the final replacement for the four major warships lost in the Falklands and it is particularly important therefore that a decision on the order suffers no further delay.

9. Finally I wish to report to colleagues my own position in this matter in the context of the responsibilities I had for Merseyside. As Secretary of State for the Department of Environment I pressed the social case for placing an order with Cammells. No one could have expected me to do less. In the event John Nott was not able for commercial reasons to do so. I respected that position. But he gave the clearest commitment that Cammells and Vospers would be able to compete for the remaining Type 22 order.

10. I became Secretary of State for Defence. Although I agreed from the defence budget to add a further frigate to the total bringing the competition to two at no stage and in no way did I seek to influence the outcome of the competition between the three British Shipbuilders yards. In these circumstances not only did Cammells win the competition but they won it twice. At that stage I believed it wrong to go through a third process particularly as by this stage the issue of privatisation had entered the list of factors to be taken into account in the award of the contract. It would be indefensible if it were to be felt that in the context of capacity rationalisation as a part of a process of privatisation an area of great social deprivation had been deprived of work which it could claim to have won not once but twice in open competition.

11. I am sending copies of this minute to our E(A) colleagues and Sir Robert Armstrong.

Ministry of Defence

19th June 1984