10 DOWNING STREET

Prime Minister

Policy Unit strongly support the Tebbit line.

As was apparent from yesterday's E(A), BS's plans for the merchant sector will imply substantial redundancies in the North East. To direct warship work to Cammell Laird which it does not win in fair competition is to add to the redundancies in the North East.

No social case has been made for sparing Merseyside and letting the North East bear all the brunt.

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PRIME MINISTER

17 July 1984

c Mr Redwood

MERCHANT SHIPBUILDING

1. This year, BS' Corporate Plan for merchant shipbuilding is less important than the Board's covering letter. In the latter, the Chairman makes plain that UK merchant shipbuilding cannot become viable for as far ahead as the eye can see. In effect, he is asking Government to decide the future shape and size (if any) of the industry.

2. In reaching their conclusion about non-viability, BS evaluate three main capacity options. Underlying all three are:

i. the disposal of Cammell Laird whether by sale or closure;

ii. the withdrawal of Swan Hunter from merchant shipbuilding, so that the yard can be privatised in warship form.

The job losses involved (from today's levels) are about 4,000. But the capacity reduction is essential, and we fully support BS' intentions.

3. The three options provide annual capacity of 200,000 tonnes, 150,000 tonnes and 100,000 tonnes respectively. The results are:

| Capacity | Cash outflow 1985/6 to 1987/8 £ | Employment |
|---|---|---|
| 200,000 t | 220 m | 10,000 |
| 150,000 t | 197 m | 7,000 |
| 100,000 t | 190 m | 5,500 |

Since this expenditure leads nowhere, we see no point in sanctioning it. (And the lack of difference between the cash outflows suggests a surprisingly high level of yard fixed costs).

4. We judge that the right commercial response to all this is calmly to acknowledge BS' statement of non-viability and let the merchant shipbuilding industry close as it runs out of work. This does not mean that we shall stop building ships. There will still be a hefty warshipbuilding industry



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and a national capability in ship repair - both in the private sector - and there will be Harland & Wolff in Belfast.

5. Of course the location and extent of job losses will be politically sensitive. If the yards close in orderly fashion as work runs out (a rough, rather heroic assumption) the following pattern will emerge:

| Location | Job Losses | Period of Closure |
| --- | --- | --- |
| Clydeside | 3,500 | 1st Qtr 85 - 2nd Qtr 86 |
| North East | 6,000 | 1st Qtr 85 - 2nd Qtr 86 |
| North Devon | 800 | 1st Qtr 1985 |
| Miscellaneous and HQ | 300 | 1984 and 1985 |

Against these job losses should be set continuing employment in warshipbuilding:

| Location | Jobs | Yards |
| --- | --- | --- |
| Clydeside | 6,000 | Yarrow |
| North East | 6,000 | Swan Hunter |
| Cumbria | 13,000 | Vickers |
| Aberdeen | 700 | Hall Russell |
| Norfolk | 700 | Brooke Marine |
| Southampton | 2,000 | Vosper |

In addition, Scott Lithgow will sustain about 1,000 jobs; the ship repairers around 500; and Harland and Wolff 6,000.

So although we shall lose around 15,000 jobs in merchant shipbuilding between 1984 and 1986, we shall retain 35,000 in warship and other sectors.

6. Mr Tebbit argues against industry closure, and in favour of contraction to 100,000 tonnes. His underlying case rests on manageability rather than on finance, but will be portrayed publicly as the inevitable outcome of EC limits on the volume and intensity of shipbuilding aid. In other words, we will try to shift the blame onto Europe.

Although we fully agree with the need for contraction, we doubt the wisdom of both the hidden and the public case. Firstly, the volume of aid allowed by the EC will become common knowledge. It is then easily translatable into ship orders, so the size of the industry we are prepared to contemplate will pretty soon become known. Secondly, is it really simpler and cheaper to manage a clutch of 'part yards' (pipes from one, electrics from another, and so on), than to control a smaller number of 'whole yards' as we currently know them?

If yards do not close, we leave intact the fixed costs, the expectation of further subsidies and orders, and the whole psychology which has kept shipbuilding in being on a scale far bigger than the market needs. Closing yards stops the money drain once and for all.

7. If Ministers wish to reduce or spread the merchant job losses, a perfectly reasonable method might be to leave a pocket of capacity in each traditional shipbuilding area.

Since we will have warshipbuilding on Clydeside and Tyneside, there might be a case for one yard elsewhere in the North East, on Wearside or Teesside (a choice of Austin and Pickersgill, Sunderland or Smiths Dock) and possibly one in North Devon (where Appledore is the sole candidate).

With that kind of capacity reduction, it might actually be possible to return both yards to private ownership.

8. We recommend:

i. that E(NI) should be prepared to let GB merchant shipbuilding close completely;

ii. if not, that the industry should be scaled down to one yard on Wearside or Teesside plus Appledore in North Devon;

iii. that in any event BS should withdraw Swan Hunter from merchant shipbuilding and should be allowed to close Cammell Laird.

The effect of iii. in particular is to create a neat package of warshipyards for privatisation in 1985;

iv. that presentation of the policy should play up the size and strength of the warshipbuilding and other independent sectors, and play down as inevitable the contraction of merchant.

R.J.

ROBERT YOUNG



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