



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

PRIME MINISTER

HARLAND AND WOLFF LIMITED: POSSIBLE ORDER FROM BLUE STAR LINE

In your absence in the Far East, I took the chair at a meeting of the Ministerial Sub-Committee on Nationalised Industries (E(NI)) to discuss a prospective order for Harland and Wolff Limited (H&W).

2. You will recall that the Sub-Committee discussed H & W earlier this year (E(NI)(82) 2nd Meeting, Item 1); they invited the Secretary of State for Northern Ireland to seek their agreement to any proposal that H&W should accept a shipbuilding order with support on terms more generous than those generally available for shipbuilding orders in the United Kingdom.

3. Since then, the Secretary of State for Northern Ireland has been encouraging H&W to reduce its labour force and improve its productivity. Two firms of management consultants have been engaged to produce recommendations in these areas. The Secretary of State considers that good progress has been made, and he expects it to continue; but this is, in his view, dependent on H & W receiving new orders so that they can offer their workforce the prospect of continuing employment.

4. The only order currently in prospect is for four 10,000 deadweight tonne refrigerated cargo vessels to be supplied, via a leasing company, to the Blue Star Line. To secure this order H & W will have to offer financial assistance by way of assistance from the Intervention Fund, shipbuilders relief, soft credit, and losses on construction costs, currently assessed as worth £19.47 million or 31.3 per cent of the contract price of £62.13 million. This may indeed be an underestimate. It does not include the cost of normal shipbuilding credit terms, assessed as being worth some £5.28 million; and there are risks that the complicated financing arrangements envisaged between the leasing company and the shipping line could generate higher costs, and that H & W will not be able to obtain the improvements in productivity assumed in the estimates.



5. Such a level of assistance is both undesirable in itself and likely to have adverse effects on our policy for the shipbuilding industry. We shall have to resist demands from British Shipbuilders (BS) for more finance. BS have shown interest in the order, which they could probably carry out at a lower cost, and will undoubtedly complain if we are willing to subsidise H&W to a greater degree than we would BS. Some BS yards face difficulties no less serious than H & W.

6. Nevertheless, the Sub-Committee took the view that H & W should be authorised to accept the order on the terms proposed. The Secretary of State for Northern Ireland is clear that such an order is a necessary condition of achieving a continued improvement in H & W's manning levels and productivity. 600 jobs have already been shed since last February, 300 more are planned to go by February 1983 and further measures thereafter should lead to a total reduction of 1800 jobs over the two years 1982-84. It is, however, desirable to keep H & W in operation over the next two years. Without the order, closure would be virtually inevitable. The political and economic effects would be extremely serious. Northern Ireland has the highest regional unemployment rate in the United Kingdom and faces difficulties worse in both kind and degree than the rest of the country.

7. The Sub-Committee's agreement was accompanied by a number of points.

(a) The workforce will be required to give satisfactory assurances regarding manning levels and working practices.

(b) The Secretary of State for Northern Ireland will press H & W to negotiate pay increases lower than they are currently budgetting for, and preferably zero.

(c) The Secretary of State for Northern Ireland will also consider the future of H & W's business and discuss it with the Chief Secretary, Treasury, and the other Ministers concerned.

The Secretary of State for Northern Ireland will contain the cost of the assistance within his existing public expenditure programme.

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8. The Sub-Committee also decided that the European Commission should not be notified of the proposed assistance. It is true that the proposals are inconsistent with assurances we have given the Commission that merchant shipbuilding orders assisted from the Intervention Fund will be taken only on terms expected at least to breakeven on the construction cost. Although the assurances did not explicitly cover H & W, the Commission could reasonably have assumed that they did so. However, notification could expose the use of soft credit, not only in the present case but also in earlier orders for both H & W and BS; and the Commission might decide to ban future use and to unpick previous cases. So far as the Sub-Committee was able to establish, if H & W fail to secure the order it will go to the Far East: there is no prospect of it going to another Community member. It is unlikely that BS would complain to the Commission, since they would not wish it to launch an investigation into financial assistance to British shipbuilding.

9. The Minister of State, Foreign and Commonwealth Office (Lord Belstead) was present at the meeting and agreed with this assessment.

10. Nevertheless, officials will explore the possibility of restructuring the assistance so as to reduce the risks of subsequent challenge by the Commission. For example, H&W may be able to offer financing free of interest, in exchange for a higher contract price which would eliminate the prospective loss on construction costs.

11. I am sending copies of this minute to the other members of E(NI), the Secretary of State for Northern Ireland, the Minister of State, Foreign and Commonwealth Office (Lord Belstead), the Minister of State, Department of Industry (Norman Lamont), Mr Sparrow and Sir Robert Armstrong.

(G.H.)

30 September 1982



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Shipbuilding

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bc - Mr. Vaneke

10 DOWNING STREET

C80, HUNT

From the Private Secretary

4 October 1982

ON
DM

Dear Margaret,

HARLAND AND WOLFF LIMITED: POSSIBLE ORDER
FROM BLUE STAR LINE

The Prime Minister was grateful for the Chancellor's minute of 30 September, recording the conclusions of E(NI) about a possible order from the Blue Star Line for Harland and Wolff Limited.

The Prime Minister endorses these conclusions, on the understanding that a zero pay increase at Harland and Wolff should be a pre-condition of the Government's agreeing to the terms proposed.

I am sending a copy of this letter to the Private Secretaries to the other members of E(NI), the Secretary of State for Northern Ireland, the Minister of State, Foreign and Commonwealth Office (Lord Belstead), the Minister of State, Department of Industry (Mr. Lamont), and to Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Miss Margaret O'Mara,
HM Treasury.

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cc Mr. Walters
Mr. Mount

Prime Minister

MR. SCHOLAR

Please see the Chancellor's minute (attached).
Endorse E(NI)'s conclusions, subject to the slight
broadening at X? MS 1/10

HARLAND & WOLFF

As you know, in the Prime Minister's absence last week we briefed the Chancellor for the discussion in E(NI) on the special terms for the Harland & Wolff shipbuilding order. We said that it was quite wrong that a loss-making nationalised industry, receiving massive subsidies, should be allowed to assume a pay rise of 7 per cent in the coming pay round, on top of the 6.5 per cent awarded on 1 April of this year. That point is reflected in paragraph 7(b) of the Chancellor's note of 30 September reporting the outcome to the Prime Minister, and the Prime Minister will see that it was agreed that Mr. Prior is to press H & W to negotiate a lower pay increase, preferably zero.

I have discussed this further with Alan Walters. We still do not see why a zero pay increase should not be a precondition of the subsidised order agreed by E(NI). Mr. Prior has made it clear that the alternative to this order will be a loss of a large number of jobs, hastening the eventual closure of H & W. Under such circumstances, H & W's employees are in no position to argue for any pay rise this year.

Yes -

mt

J.

JOHN VEREKER
1 October 1982

CONFIDENTIAL



From the Secretary of State

Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
H M Treasury
Treasury Chambers
London SW1

27 September 1982

NBM

rw 27/9

Dear Geoffrey:

HARLAND AND WOLFF: POSSIBLE ORDER FROM BLUE STAR LINES

As I shall be unable to attend the meeting of E(NI) which you will be chairing tomorrow, 28 September, I am writing with my views on the proposal in Jim Prior's paper [E(NI)(82)28]. *— PM's Boy*

The Atlantic Conveyor case was unique. We only agreed to it on that basis. The Prime Minister supported it in Parliament on that basis. We really cannot now have it quoted as a precedent.

There are no "shipping" arguments in favour of the proposition. On the contrary this kind of subsidisation simply makes the general situation worse, not better. I do not imagine we should be considering the case at all but for the special problems of Northern Ireland. Even so, the fact that such an enormous subsidy is needed surely means that we should ask what prospects Harland and Wolff now have of taking any orders at all without exceptional Government financial assistance.

Since we last discussed Harland and Wolff's prospects in March, shipping markets - particularly for the kind of vessels Harland and Wolff is well-equipped to build (large tankers and bulk carriers) - have seriously deteriorated. I do not think therefore that we should go down the road of taking hand to mouth decisions on individual cases in the belief that each one is exceptional.

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From the Secretary of State

I agree entirely with the CPRS view that discussions on such matters must be related to whatever broader strategy we adopt for employment in Northern Ireland.

I am copying this letter to the Prime Minister and other members of E(NI).

A handwritten signature in dark ink, appearing to read 'John P. H. Cockfield', with a long, sweeping underline.

LORD COCKFIELD