

12/12
October 1980

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

BRITISH SHIPBUILDERS STRATEGY AND FINANCE

Memorandum by the Secretary of State for Industry

1 Colleagues invited me to look again at British Shipbuilders' (BS) strategy and finances in the light of doubts expressed at E(80)34th and to examine the scope for introducing private sector involvement with Cammell Laird and Scott Lithgow in the construction of oil rigs. The attached inter-Departmental note by officials sets out the results of this further review.

Background

2 British Shipbuilders' merchant shipbuilding employment has been contracting sharply but some of the surplus jobs have been transferred to their naval and offshore divisions as shown in the following table:

	July 1977	end June 1980
Merchant shipbuilding	38,600	17,900
Naval	26,300	30,700
Offshore supply	200	2,300
Total	65,100	50,900
Total employment in BS (including ship repair, marine engineering and general engineering)	87,400	70,000

By the end of the year employment on merchant shipbuilding will be down to 17,000. The capacity of the merchant shipbuilding industry will have been reduced from over 600,000 tons a year in 1977 to under 400,000 tons today.

3 Despite this contraction British Shipbuilders have not managed to live within their financial limits. The question is to what extent they should contract further. British Shipbuilders' cash requirements this year and next are largely set by the carry-over of previous losses, commitments of

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Intervention Fund support to contracts taken and the winding down of instalments received in advance principally at the naval shipbuilders. Further contraction would increase the cash requirement next year but would reduce the risk of exposure to a repetition of losses.

British Shipbuilders' New Strategy

4 On merchant shipbuilding British Shipbuilders' strategy is to utilise fully a reduced number of yards so as to maximise the benefits to be gained from other cost cutting exercises. To achieve this they have already taken covert action to prepare the way for a closure of Smith's Dock on Teesside while Cammell Laird and Scott Lithgow will no longer be eligible for Intervention Fund assistance. They are also determined to sell to the private sector their shiprepair activities or, if this is not possible, to contract or close them to eliminate unprofitability. British Shipbuilders have a statutory duty to carry on ship repair activities and the extent to which they can withdraw from ship repair activities under existing legislation is unclear until British Shipbuilders put forward proposals together with their justification under the Nationalisation Act. The Chairman has also said that serious deviations from the budgets set for individual establishments may result in either slimming or closure of the facility concerned.

5 Employment in merchant shipbuilding would be around 15,000 after these changes and the industry might produce around 330,000 tons a year.

Smith's Dock

6 In closing Smith's Dock, BS face a difficulty with the ship owners. Smith's Dock is close to winning an order for two ships from British and Commonwealth (B & C) and this is known to the workforce. The order cannot be switched to other BS yards because only Smith's Dock can offer early enough delivery of the first ship. BS are at present trying to persuade B & C to give them an order for two ships with later delivery to be built at Swan Hunter but the outcome is uncertain.

7 To avoid losing the B & C order altogether abroad BS might possibly ask for one to be built at Swan Hunter and the other at Smith's Dock. Much would depend on the Chairman's judgement of the situation and how he would avoid the risk of a B & C ship being locked in at Smith's Dock. If such a case arose, we should need to examine it carefully in E(EA).

Uncertainties

8 In judging whether BS's further contraction is sufficient, I suggest we need to bear in mind that there are considerable risks of a more severe contraction. The review of officials draws attention to the uncertainties which BS face, particularly on naval orders and the offshore market. If no offshore orders are won and there is a sharp reduction in naval work, then present employment on naval and offshore of 33,000

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could fall by over 10,000 in addition to the reduction in merchant shipbuilding by 2,300 to 15,000 after the closure of Smith's Dock, 1,100 jobs are also at risk at Vosper Shiprepairers. The position should become clearer by Spring 1981 when it is proposed that BS should produce a new Corporate Plan.

9 In the meantime it is essential to let BS know where they are on their finances, the support which they can expect on merchant shipbuilding, and the Government attitude to their efforts to win offshore orders so that they can set out with confidence to fill their reduced capacity.

A Greater Cut in Capacity?

10 If colleagues wish to force a greater contraction of merchant shipbuilding against BS' advice, BS could for example be asked to close Govan Shipbuilders which is the weakest of their three large merchant yards and three small yards at Ailsa, Robb Caledon Leith and Fergusons (all in Scotland). This would cost some £45 million in outturn prices and reduce merchant shipbuilding employment from 15,000 (after the closure of Smith's Dock) to 11,000 in 1982/83, producing around 250,000 - 300,000 tons a year. However such a contraction would be very severe if BS also have to close Cammell Laird or Scott Lithgow, and would virtually extinguish merchant shipbuilding in Scotland. It would also make the position of BS's Chairman very difficult since we would be asking him to dismember the industry before he had a chance to show whether he could make progress in restoring the industry as a whole to viability in 4 years.

Offshore

11 BS's plans for Cammell Laird and Scott Lithgow depend on getting contracts for semi-submersible oil rigs in the next six months. I accept that there is no possibility of private sector involvement at present in the construction of semi-submersibles because the private sector companies have no experience and do not have at present the technology. In contrast BS's expertise and facilities are well suited to semi-submersibles. There are however doubts whether BS can succeed against fierce competition overseas, but at least it has become clear that BS efforts on semi-submersibles will not harm the private sector in this country.

12 The approach recommended by officials is that we should allow BS to continue tendering for semi-submersibles but that initial orders should not be taken at less than breakeven. I agree that BS's involvement in semi-submersibles must be on the basis of future viability. However in view of the need to complete existing defence contracts in both yards which go to end-82 at Scott Lithgow, and 1984 at Cammell Laird, and the uncertainty about whether one of them might be needed eventually for additional submarine capacity, I intend asking the Chairman to report to me if, in his judgement, he cannot obtain orders at breakeven.

Privatisation

13 I support the recommendation by officials that BS should produce a new Corporate Plan. This Corporate Plan would also

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serve as a prospectus against which the possibility of privatising part or parts of BS, could be judged later in the summer.

Financial Implications

14 Interim acceptance of BS's strategy carried the financial implications set out in paragraph 28 of the Annex. We need to fix the External Financing Limits of £155 million for 1980/81 and £114 million next year in 1980 Survey prices (£185 million and £153 million in outturn prices) coupled with a loss limit of £25 million after Intervention Fund assistance. The cash limit next year incorporates the Chief Secretary's cut of 8% in the nationalised industries investment programme, and a £4 million for the closure of Smith's Dock and Vosper Shiprepairers. We shall need to approach the Commission soon to extend the Intervention Fund by a further £45 million after July 1981.

15 The financial projections however cannot take into account the uncertainties arising from the present review of defence costings, BS prospects on oil rigs, or BS's declared intention to adopt a step by step approach. In the event that further contraction beyond that assumed in the present costings becomes necessary, BS's cash requirement for 1981/82 would rise. The implications for the shipbuilding Redundancy Payments Scheme are set out in the Annex about possible job losses. I welcome the recommendation that the extraordinary costs of further closures should be regarded as a legitimate reason for increasing agreed EFLs. I am sure that is a sensible way of supporting a Chairman who has viability as his firm objective.

Conclusion.

16 BS are proposing the closure of Smith's Dock and the withdrawal of Cammell Laird and Scott Lithgow from merchant shipbuilding which could lead to their closure if they are not successful on offshore. The question whether we should seek a further contraction beyond that proposed by BS should in my view wait until present uncertainties on naval orders and offshore are clearer and we have a new Corporate Plan from BS setting out future prospects for viability.

Recommendations

17 Colleagues are invited:

- a) To endorse BS's strategy which accepts that Cammell Laird, Scott Lithgow and Smith's Dock should not receive further merchant ship orders. E(EA) should consider the position if BS wish to place one further ship at Smith's Dock to prevent British and Commonwealth putting their order abroad.
- b) To accept the remaining recommendations in paragraph 28 of the Annex, subject to reporting back to E(EA) if initial oil rig orders look as

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though they cannot be secured at breakeven and would otherwise go abroad.

- c) To note that BS will be asked to produce a new Corporate Plan in Spring 1981 taking into account prospects for naval orders. The prospects for privatisation will be reviewed again in the light of the Corporate Plan.

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Department of Industry
16 October 1980

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BRITISH SHIPBUILDERS STRATEGY AND FINANCES

Note by Officials

1 Ministers at E called for a further review of British Shipbuilders (BS) strategy and finances in the light of doubts whether their strategy is too optimistic in the face of uncertain market prospects. They also asked for an examination of the possibilities for involving the private sector with Cammell Laird and Scott Lithgow in the construction of oil rigs (E(80)34th). The Department of Industry, the CPRS, Treasury, MOD, and OSO have taken part in this further review.

BS's strategy

2 BS's strategy is to:

- a) close Smith's Dock, which employs 2,300 on Teesside; they have already prepared the way for closure (see Annex A).
- b) make no further applications for Intervention Fund assistance for Scott Lithgow and Cammell Laird and accept that their future depends on naval and offshore work. If sufficient work is not forthcoming these would also have to close. Scott Lithgow employ 4,500 on the Lower Clyde, Cammell Laird 3,500 at Birkenhead (see Annex B).
- c) double merchant ship production and merchant ship employment at Swan Hunter to compensate for the expected reduction in naval work there.
- d) approach the need for any closures on a step by step basis. The Chairman has stated that serious deviations from budget may result in either slimming or closure of the facility concerned.
- e) dispose of ship repairing to the private sector in so far as the constraints of the Nationalisation Act allow, and to undertake further restructuring or closure if disposal proves impossible.

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BS Finances

3 The cost of BS's proposed strategy in terms of Intervention Fund (part of Programme 4) and BS finance (Programme 5) at 1980 Survey prices is:

	1980/81	1981/82	1982/83	1983/84
PES Provision	104	82	38	16
BS Forecast ⁺	155	114*	[63 [±]]	[37 [±]]

+ These forecasts use a standard Government deflator for all nationalised industries and are at PES prices. They correspond with cash equivalents of £185m in 1980/81, £153m in 1981/82 and £90m in 1982/83.

* Assuming expenditure of £4m towards the closure of Smith's Dock and Vosper Shiprepair and including an 8% cut in capital expenditure.

± BS have not given a formal forecast for 1982/83 and have given no forecast at all for later years. The figures included here are estimates by officials and make no allowance for any further contraction in these years.

4 The excess over the PES provision is accounted for by the winding down of payments in advance of work done principally on naval export contracts and prior losses on merchant work, and without these items the Corporation would be within the PES provision. It should also be noted that the increase in capital investment next year from the present level of around £15m to £25m is entirely accounted for by the need to modernise Vickers in time for the construction of Trident submarines.

5 BS have forecast that they will miss their loss target^ø this year of £90m before Intervention Fund assistance by £20m but assert that they could bring their loss target down to £25m in 1981/82 after crediting Intervention Fund assistance which would amount to around £65m.

6 If BS had to put in hand a greater contraction programme either at the request of Ministers or because the orders they have assumed are not forthcoming, then the cash requirement and the losses would rise sharply. If for example it became evident that Scott Lithgow had to close, this could cost £40m at 1980 PES prices over three years, plus the cost of the special Redundancy Scheme (See Annex C).

ø Loss targets are set in cash terms for the year in question. The 1980 PES equivalents for the numbers in this paragraph are £75m, £17m, £19m and £37m.



Is BS's contraction enough?

7 The adequacy of BS's present plans for contraction turns on:

- merchant shipbuilding prospects;
- the naval programme for the specialist and mixed yards;
- their offshore plans.

8 These are discussed below but in our view provided Smith's Dock or equivalent capacity is closed, the main uncertainties lie in the future naval programme and the offshore market where BS's hopes could be optimistic and this in turn could have implications for BS's merchant shipbuilding strategy.

Merchant Shipbuilding prospects

9 The UK and other Community countries have followed a policy of reducing subsidies. BS have therefore been told to assume that the remainder of the £120m Intervention Fund approved by Ministers last year will be endorsed by the Commission under the 5th Directive, but that on the expiry of the Fund next July, support will be £45m for the next year compared with £55m this year. BS have also been told that the rate of assistance expressed as a percentage of the contract price will also be reduced by say 5 percentage points. BS say that this will be enough to enable them to achieve their forecast output of around 360,000 cgrt. This forecast was drawn up before the closure of Smith's Dock was contemplated and is not regarded as excessive in relation to the amount of Intervention Fund suggested. The concentration of merchant shipbuilding output at fewer yards reduces the risk of under-utilization.

10 The world market for new ships is still very difficult and any substantial improvement is unlikely before end 1982 at the earliest. BS orders in the first eight months of this year (240,000 cgrt) already equal those for the whole of 1979, and their total for the year could be in the range of 300 - 350,000 cgrt. They will, however, continue to be under price pressure for some time - particularly if the £ remains strong. Neither BS nor West European shipbuilders have earned profits during the recession and they have had to be



heavily subsidised to compete against Japan. If prices were to show signs of improving, more shipbuilding capacity in Japan and developing countries would be likely to be brought back into use. In their financial projections therefore BS have assumed a price rise only sufficient to keep up with UK inflation, and anything better would be a bonus. BS's assumption is dependent upon the level of Japanese prices and it would be desirable in concert with our EEC partners to endeavour to persuade the Japanese to defer bringing laid up capacity into operation.

11 BS have indicated that their most marginal yards at present apart from Cammell Laird, Scott Lithgow and Smith's Dock are Govan (3,152 employees), Ferguson (397), Robb Caledon, Leith (566) and Ailsa (400) (See Annex D). The areas most at risk if BS do not attain the orders they need are both upper and lower Clyde and Birkenhead. In all these areas male unemployment is around 15%.

Naval Programme

12 Naval prospects are being considered against the reshaped defence programme agreed by OD in July (OD(80)18th), which involved reduced rates of orders for the Royal Navy, and in the context of PES 80.

13 MOD is therefore not yet in a position to make firm predictions about future naval orders over the next few years or their distribution between yards, but it is already clear that orders will not be sufficient to sustain naval employment at BS at all yards at present levels. The position and prospects for future orders should become clearer over the next few months.

14 The naval requirement for the capacity of the mixed yards is also linked to the size and nature of possible orders beyond 1985, which include a possible need for additional capacity for conventional and nuclear-powered submarines once Vickers



become fully engaged on Trident.

15. In their plans BS have assumed that to maintain naval employment at Cammell Laird at a viable level they would need by August 1981 a contract for a type 22 frigate or equivalent and another in 1983 to compensate for the falling workload on their present type 42 Programme. Cammell Laird also need within six months either an order for an oil rig or an additional fleet tanker. At Swan Hunter BS would need a type 22 or equivalent not later than the middle of 1982 and substantial orders in 1983 if naval employment is to be held at 5,500. If these naval orders to fill the 1983 gap at Swan Hunter are not forthcoming, BS would then have to choose between slimming Swan Hunter or closing additional merchant shipbuilding capacity in order to switch merchant ships into Swan Hunter.

Offshore

16. The Offshore Supplies Office (OSO) of the Department of Energy estimate that the total market arising from the British sector of the North Sea is between 6/8 floating structures over the next 4/5 years and that there should be a continuing demand after that.

17 BS in aiming to secure up to three rigs a year, (two at Scott Lithgow and one at Cammell Laird) appear to be overestimating the size of the market and to be taking too lightly the fierceness of international competition. Both Cammell Laird and Scott Lithgow have yet to demonstrate that they are competitive. While BP are pleased with the progress being made by Scott Lithgow on the BP Safety Vessel, this order was not won in open competition.

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18. It should be known whether BS can succeed in getting orders in the next few months. Scott Lithgow needs at least one order by the end of the year and Cammell Laird need one in about six months. Both yards are currently dealing with a number of enquiries. Without these oil rig orders both yards will suffer from under-utilisation, especially at Scott Lithgow, which would threaten BS's financial projections for 1981/82, and the future of both companies would be seriously at risk. If both Cammell Laird and Scott Lithgow had to close, the closure costs could amount to £120m*. Both companies are in areas of severe unemployment.

19. Even so it would not appear to be prudent to authorise BS to enter even these initial contracts at a loss. If BS were to take contracts at a loss the oil companies would be reluctant to let BS raise prices.

Privatisation

20. BS consider that it is too early to consider privatisation or disposal of their potential offshore interest. BS's Chairman takes the view that only when BS have been proved to have been successful in the offshore area will it be right to consider privatisation, and moreover it would be best to introduce private capital into a viable BS rather than into a division.

21. In considering BS's response it should be noted that no private sector firm has any experience in building semi-submersible rigs and other similar structures and foreign yards are the main competitors. While the technology should not be beyond any of the private sector companies who have shown some interest, so far they have not thought that the potential rewards were worth the risk. The prospects for early privatisation are therefore poor. (See Annex E)

* This is a cash figure spread over several years and includes all redundancy costs.



22. If BS are however successful in their current negotiations on floating structures, the prospects for privatising their Offshore Division might be re-examined next summer when the whole question of privatising BS is reconsidered. In preparation for this BS should be asked to set out in their Corporate Plan next spring the detailed planning aims of the Offshore Division and its path to achieving an economic return on the assets employed.

The way ahead

23. Because of considerable uncertainties at present about future naval orders and whether BS will be successful in their efforts to penetrate the offshore market, it seems premature to take long term decisions about BS's strategy. Failure by BS to penetrate the offshore market on acceptable terms, combined with a low level of naval orders below that assumed by BS, would threaten Scott Lithgow, Cammell Laird, Swan Hunter and possibly other yards on completion of existing programmes, and would require a radical restructuring of BS's strategy, with high costs of closure in 1982/83 and 1984/85.

24. These uncertainties are graphically demonstrated by the difficulty of estimating the effect of an extension of the Shipbuilding Redundancy Payments Scheme. A two year prolongation of the Redundancy Payments Scheme has already been agreed in principle in Ministerial correspondence, and the necessary powers will be taken in the Industry No. 2 Bill. At Annex A examples of closure patterns for BS ranging from 3,400 to 19,000 redundancies have been costed. At 1980 PES prices the total costs range from £10m to £56m respectively, but until the major uncertainties surrounding BS have been clarified to some extent, it is not possible to form a judgement either on the likely total number of redundancies or on their timing.

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25 It is therefore suggested that Ministers should accept BS's strategy for the moment subject to the provisos:-

- a) Smith's Dock, Cammell Laird and Scott Lithgow should not take any more subsidised merchant ship orders.
- b) The initial orders for oil rigs at Cammell Laird and Scott Lithgow should not be taken at a loss, and subsequent orders should be taken at a profit.
- c) BS should be asked to produce a Corporate Plan not later than spring 1981 which should include separate corporate plans for all their divisions.

26 To help BS come to a realistic strategy, and in view of the threat to Cammell Laird and Scott Lithgow if BS's present attempts to enter the offshore market are not successful, it is clearly desirable that MOD should as soon as progress on their costings permit, give a clear indication on the prospects for future orders and if at all possible should also have come to a view on the capacity they may require for submarines in the second half of the eighties.

27 The prospects for privatisation can be reviewed in the light of the corporate plans.

Conclusions

28 Department of Industry officials recommend that Ministers should now:-

- a) Endorse the step by step approach of BS's strategy set out in para 25 which means that Smith's Dock, Cammell Laird and Scott Lithgow should not be eligible for Intervention Fund assistance, and orders for oil rigs should not be taken at a loss.



- b) Give British Shipbuilders external financing limits of £155m for 1980/81 and £114m next year*, coupled with a trading loss limit, after crediting aid from the Intervention Fund, of £25m at outturn prices in 1981/82.
- c) Endorse an approach to the Commission to seek approval to use the remainder of the £55m tranche of the Intervention Fund from the end of this year to July 1981 and for a new tranche of £45m from July 1981 to July 1982 with the rate of assistance expressed as a percentage of the contract price of ships reduced by say five percentage points after July 1981. Failure to make an approach soon could prejudice our position.
- d) In order to give BS an incentive to undertake any further restructuring, agree that the extraordinary costs of further closures beyond those assumed for Vosper Shiprepairers and Smith's Dock should be regarded as a legitimate reason for increasing previously agreed external financing limits. The precise provisions would need to be considered with the Treasury.
- e) Confirm their decision, already given in principle, to prolong the Shipbuilding Redundancy Payments Scheme.

* ie £185m in 1980/81 and £153m in 1981/82 at cash or outturn prices.

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SMITH'S DOCK

Note by DoI Officials

1 The current order book at Smith's Dock (employment 2,300) at Teesside consisting of two ships for Geest is due to be completed by January 1982.

2 Smith's Dock have however been negotiating for two refrigerated cargo ships (reefers) at a contract price of £25m from a subsidiary of British and Commonwealth. Intervention Fund assistance of £5.5m would be needed. Negotiations were already at an advanced stage when the BS Chairman decided that Smith's Dock should be closed and Smith's Dock had been told by British and Commonwealth that their price range was acceptable but that certain details of the technical specification needed to be discussed further. While British and Commonwealth have not given a formal letter of intent, their communication with Smith's Dock does not fall far short of it.

3 BS's Chairman has now taken positive action to prepare the way for a cessation of merchant shipbuilding at Smith's Dock. He met the Chairman of British and Commonwealth on October 8th and told him that it would be helpful to BS's strategy if British and Commonwealth were to withdraw from negotiations for the two reefers from Smith's Dock, and were instead to place an order for two with Swan Hunter which could be delivered later. Swan Hunter because of their existing order book are not in a position to offer as early delivery as Smith's Dock. British and Commonwealth and their South African partner for this reefer venture (Saf Marine) might ultimately want six ships.



4 British and Commonwealth have undertaken to consider this request with their South African partner and give an answer within the next three weeks or so. The difficulty as far as the British and Commonwealth is concerned is that they require early delivery particularly on the first ship and it may not be possible for them to find another yard abroad which could offer the same delivery.

5 If British and Commonwealth reject the Chairman's proposals, the Chairman has indicated that he might wish the Government to consider authorising one ship at Smith's Dock with the other to be built at Swan Hunter rather than send British and Commonwealth's requirement abroad. British and Commonwealth are an important UK shipping company but they have not built in this country for many years and BS are understandably most anxious to regain their custom.

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EMPLOYMENT IN BS MERCHANT AND MIXED YARDS AT END JULY 1980 AND UNEMPLOYMENT RATES IN CORRESPONDING TTWAs AT AUGUST 1980 (PROV)

COMPANY	EMPLOYMENT	TRAVEL TO WORK AREA	PERCENTAGE UNEMPLOYMENT RATES		SHIPBUILDING PER COMPANY AS PERCENTAGE OF WORKING POPULATION
			TOTAL	MALE	
GOVAN SHIPBUILDERS	3152	GLASGOW	12.4	14.8	0.5
S L LITHGOW & CALEDONIAN* JOINERY (PORT GLASGOW)	2124	GREENOCK	14.3	15.3	4.2
S L SCOTT'S SHIPBUILDING*	2395	"	14.3	15.3	4.8
S L FERGUSON BROS	397	"	14.3	15.3	0.8
S L SCOTT & SONS (BOWLING)	1	"	14.3	15.3	-
AILSA	400	AYR	11.0	12.4	0.9
ROBB CALEDON DUNDEE	747	DUNDEE	11.8	12.7	0.8
ROBB CALEDON LEITH	566	EDINBURGH	7.4	8.9	0.2
SMITHS DOCK	2287	TEESSIDE	13.4	14.4	1.0
SUNDERLAND SHIPBUILDERS	3698	WEARISIDE	15.2	17.3	2.6
AUSTIN AND PICKERSGILL	2703	WEARISIDE	15.2	17.3	1.9
SWAN HUNTER*	9177	NORTH TYNE AND SOUTH TYNE	11.4	13.0	2.0
GOOLE	382	GOOLE	9.4	9.5	3.0
CAMMELL LAIRD*	3493	BIRKENHEAD	14.3	15.4	2.2
APPLEDORE	840	BIDEFORD	8.1	8.9	7.1
TOTAL	32362				

* Indicates mixed merchant and naval shipbuilding yard.

All the Travel-To-Work-Areas (TTWAs) in which those yards are situated are Special Development Areas except Teesside which is a Development Area and Goole, Bideford and Edinburgh which are Intermediate Areas. (Edinburgh is scheduled to be down-graded to a non-Assisted Area on 1 August 1982.)

∅ Working Population = Estimates of Employees plus the Unemployed in mid-1977.



Estimated Costs of Prolonging Statutory Shipbuilding Redundancy Payments Scheme for BS for Two Years

All figures are in £m PES 80 prices.

Case 1:- Minimum Closure programme (Smiths Dock, Vosper Shiprepairers). 3400 redundancies.

1981/82	1982/83	1983/84
6.8	2.8	0.5

Case 2:- As in Case 1, plus closure of Tyne shiprepair. 6000 redundancies.

1981/82	1982/83	1983/84
11.8	5.0	1.0

Case 3:- As in Case 2, plus closure of Scott Lithgow when present order book runs out. 10,000 redundancies. Case 3 could also be arrived at by Case 2 plus closure of some small yards eg Ferguson (400) Ailsa (400) and reduction of naval construction eg 1000 at specialist yards and 2000 at mixed yards.

1981/82	1982/83	1983/84	1984/85
11.8	12.7	4.4	0.8

Case 4:- As in Case 3, plus rundown of Cammell Laird (3000) and further rundown of naval work at specialised naval yards (1000). 14,000 redundancies.

1981/82	1982/83	1983/84	1984/85
11.8	12.7	13.8	3.4

The foregoing estimates relate to redundancies likely to fall substantially within the period mid-1981 - mid-1983 ie during



the proposed two year extension of the SRPS. Redundancies after mid-1983 eg at specialist naval or mixed yards as a result of the rundown of naval work in 1983 and 1984 could amount to a further 5000 redundancies outside the scope of the prolonged SRPS, though this estimate is highly speculative. The cost of this has been included in Case 5 below to give a likely overall cost.

Case 5:- As in Case 4, plus 5000 further redundancies at specialised naval mixed yards. 19,000 redundancies.

	1981/82	1982/83	1983/84	1984/85	1985/86
	11.8	12.7	19.1	10.8	2.1

Company	No. of redundancies	Date of closure	1981/82 82/83 83/84 84/85 85/86				
			1981/82	82/83	83/84	84/85	85/86
Smiths Dock	2300	Nov 81	4.41	1.92	0.48	-	-
Wesper Shiprepairers	1100	Apr 81	2.34	0.92	-	-	-
Wye Shiprepair	2600	Sep 81	5.00	2.20	0.55	-	-
Scott Lithgow	4000	Sep 82	-	7.68	3.36	0.84	-
Hamell Laird plus	4000	Feb 83	-	-	9.36	2.52	-
Case 5	2500	June 83	-	-	5.34	7.46	2.12
	2500	June 84	-	-	-	-	-

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BS CANDIDATES FOR CLOSURE IF GOVERNMENT
INSISTS ON FURTHER CLOSURES

<u>Yard</u>	<u>Merchant Capacity</u> <u>,000 cgrt</u>	<u>Employment</u> <u>at 25/7/80</u>	<u>Losses since</u> <u>Vesting Day</u> <u>£m</u> (July 1977 - March 1980)	<u>Total IP</u> <u>commitments</u> <u>to 31/3/80</u> <u>£m</u>
Ailsa	9	400	2.4 ⁽²⁾	2.5
Cammell Laird	(50) ⁽¹⁾	3493	34	-
Fergusons	8	397	3 ⁽³⁾	1.9
Govan	63	3152	41	20.3
Robb Caledon (Leith)	9	566	24 ⁽⁴⁾	1.1
Scott Lithgow	42	4519	76 ⁽⁵⁾	17.3
Smith's Dock	37	2287	24	16.1

Notes

- (1) Potential merchant capacity: under Option IIA Cammell Laird would go over to naval work.
- (2) Ailsa was acquired after Vesting Day. Losses given are for two years only.
- (3) Estimate of losses. Fergusons is now a separate company but was previously part of Scott Lithgow.
- (4) Losses at both Leith and Dundee yards. The Leith yard has about two thirds the capacity of Dundee but more modern facilities.
- (5) Excluding estimated losses at Fergusons.



THE ABILITY OF PRIVATE SECTOR FIRMS TO BUILD SEMI-SUBMERSIBLE RIGS
AND OTHER STRUCTURES

No private sector firm has experience in building semi-submersibles (ie exploration drilling rigs, support vessels or floating production platforms). There is however no intrinsic reason why any of a quite wide range of firms could not do so, with some capital investment and after a learning curve. In particular such semi-submersibles could be built by any of the major producers of fixed structures, all of whom currently face serious over-capacity. The fact is however that these firms have yet to make any sustained effort to convince either the drilling companies or the oil operators of their ability to do the work and this would be needed to get orders. In the short term therefore there is no private sector alternative in Britain to the British Shipbuilders yards.

It is however possible that if the demand persisted private sector firms might get into this market, particularly if the market for fixed structures fell away further. One of the builders of fixed facilities, Howard Doris at Loch Kishorn, North West Scotland, has announced that they are considering building such rigs and indeed one drilling operator, KCA International, has had at least some contact with them about it. Three other firms with varying types of relevant experience (Lewis Offshore operating from Stornoway, Laing Offshore from their moth-balled yard on Teesside and UIE on Clydebank) are also known to be interested. Any of these firms would have to convince drilling operators of their ability to do the job.

Apart from private sector firms Harland and Wolff in Belfast could decide to re-enter the market for floating structures, having built one in the 1960s.

The Offshore Supplies Office see the market for semi-submersibles required in British waters as amounting to 6-8 over 4-5 years. They think therefore that BS, aiming to secure 3 orders a year, over-estimate the size of the market. They believe however BS are right to think that the market for these structures should continue for some years: following a probably short-lived buoyant demand for exploration rigs there should be a continuing demand at a moderate level for floating production platforms and support vessels.

Exploration rigs and floating production platforms are not eligible for assistance under current and prospective Community rules governing Intervention Fund assistance but support vessels are.

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