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From: THE PRIVATE SECRETARY

CONFIDENTIAL



NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ

David Norgrove Esq
10 Downing Street
LONDON

30th June 1986

Handwritten squiggle

Prime Minister

Dear David,

*DES
30/6*

SHIPBUILDING

E(A) is to consider a number of shipbuilding matters next Wednesday. The Secretary of State will be unable to attend but with the Prime Minister's permission the Minister of State, Dr Boyson, would wish to attend in his stead.

MISC127's report records that a number of issues relating to Harland and Wolff - overheads study, flexible working, offshore and a review of 1986-87 financial performance - are to come to E(A) before the Recess. The company's studies sought by E(A) earlier this year should be available early in July and my Secretary of State plans to bring these forward by the end of that month.

I am copying this letter to the Private Secretaries to other members of E(A) and to Michael Stark in Sir Robert Armstrong's Office.

Yours Sincerely

Neil Ward

N D WARD

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CF
Please
tell NIO, yes.

JLS
1/7

10 DOWNING STREET

Prime Minister

The King is opening a
factory in a part of the
province which he doesn't
often visit. The engagement
was set up months ago, and
he is reluctant to break it.

A pity, because of the
Harland and Wolff aspects.

But content that the
King should be represented
by Dr Boyson?

Yes no

JLS
30/6.

F056

MR NORGROVE

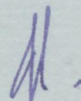
Shipbuilding

ATTACHED

Mr Unwin sent you on Friday an advance copy of the MISC 127 Report. You should receive tonight or early tomorrow the formal E(A) version (E(A) (86) 31). There are only two substantive changes reflecting late comments received from Departments. These are:

- (i) Paragraph 15, last sentence: clarification of the decisions Ministers will have to make about Harland and Wolff;
- (ii) Paragraph 76, final 5 lines: clarification of the cost to the Exchequer of unemployment.

The conclusions and recommendations are unchanged.



J E ROBERTS

Cabinet Office

24 June 1986



906

Mr. Notgrove
(Not send)

ce dn
file
E 01.7!
5 JUNE 1986
FILING INSTRUCTION
FILE No.

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and Commercial in Confidence

MR UNWIN

cc Mr Roberts

To Unwin
Many thanks. The politics
of a ship for BSC being built
abroad are not at all attractive.

HARLAND & WOLFF:
Relationship with MISC 127 work

DEW
6/6.

I have discussed the timetable for further Ministerial consideration of Harland and Wolff with Mr Watkins, DED Belfast.

2. DED expect the Swedish consultants' study to be completed and submitted to the H & W Board around the end of this month. Meanwhile the Company are themselves exploring the scope for savings through increased labour flexibility, but this subject is bound up with the current year's pay negotiations - the Company have proposed complete abolition of all demarcation lines, but the unions have not yet accepted this. There is also outstanding a remit to the Company to explore the scope for additional offshore oil-related work. Given the need for discussion by the H & W Board before reports are formally submitted to the Northern Ireland Secretary, DED do not expect to have a paper ready for E(A) until the second half of July.

3. Now that the AOR order has been given to H & W, there is no risk of the yard running out of work during the next three years. Ministerial discussion will thus need to focus on the extent and timing of any contraction in capacity at H & W, which would be implied by action to cut overheads. The view of the DED officials concerned appears to be that it would be sensible to decide in the near future to cut overheads sharply, so ending H & W's ability to take more than one major vessel at a time. This would be consistent with the present work schedule, which provides for the virtual completion of the SWOPS vessel for BP before major steel work begins in 1988 on the AOR. It would mean a decision that H & W should not compete for a 170,000 tonne bulk carrier for BSC on which work would start in 1987. This would eliminate the possible need for Intervention Fund Support for the BSC bulk carrier - no remaining BS yard is capable of building a ship of this size, although Swan Hunter are thought to retain some ambitions in this direction.

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4. The DED position is that, whereas it would have been very difficult had Ministers been obliged to take decisions on H & W in advance of the MISC 127 report, it would not matter if they had to deal with H & W after decisions had been reached on the GB shipbuilding situation. I think this is probably fair enough, provided we can be satisfied that there is no realistic possibility of the BSC bulk carrier being built by a GB yard. On the other hand, if Swan Hunter are realistic contenders for this ship, that would be a significant element in Ministers' consideration of the future of that yard. As to the substantial question of the reduction of H & W capacity, it appears that the consultants' study shows the most successful continental yards to be those which have retained the flexibility to do more than one ship at a time, although DED will be reluctant to accept this conclusion in relation to H & W. In the end the decision whether or not to take early action to cut H & W capacity should depend on a costs/benefit analysis of the alternative options, once all the facts are available. If Ministers were to decide on new measures to assist the GB merchant yards, it might be a little more difficult to cut H & W capacity in the near future, although the AOR order (and the fact that there is no imminent threat of total closure) could be argued to represent an alternative measure of assistance already given to H & W. If Ministers decide against any action to help BS, that would be an argument against additional subsidies to H & W to enable them to undertake the BSC bulk carrier.

x | 5. Mr Watkins has undertaken to keep us abreast of developments in relation to H & W as the MISC 127 discussions proceed. We shall need to consider later on this month whether to call for some kind of interim report on H & W, in order to give E(A) the full background.

JW
A J WIGGINS
Economic Secretariat.
5 June, 1986

*You should see this note.
I do not think it affects the
basic proposal in my earlier
minute to you. We shall
probably need to call for an
interim note on H & W, as
at X above.*

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JW
5/5/86