

File

OPPOSITION DAY
DEBATE ON
SHIPBUILDING
 Tuesday 31st January 1984
 House of Commons

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Background

British Shipbuilders was established under the Aircraft and Shipbuilding Industries Act, 1977, after a prolonged Parliamentary struggle. It was formed from twenty-seven companies in shipbuilding, ship repairing and marine engineering. BS accounts now for the great bulk of Britain's shipbuilding industry.

Shipbuilding in Europe declined throughout the 1950s and 1960s. In the UK the slide has been especially marked. Our share of the world market fell from nearly 40 per cent in 1926 to 20 per cent in 1956 and just 3 per cent today. In the UK, employment in this sector fell from 130,000 in 1955 to 69,000 in 1973. From 1974 the threat of nationalisation hung over the industry, world demand continued to decline and its financial problems continued to be acute.

Since nationalisation, the industry has received approximately £1000 million in grants and loans from the Exchequer. If it had remained in the private sector it would have needed assistance, but it would also have faced up to the need for rationalisation much sooner and the cost to the Exchequer might well have been less.

The Government has made clear its commitment to the industry, but it has also emphasised that the ultimate size and shape of the industry must depend on its competitiveness. Productivity is still below pre-nationalisation levels, so there is considerable room for improvement.

In 1982-3 British Shipbuilders lost £117.5 million, an increase of 600 per cent and far in excess of its agreed loss limit.

The BS Survival Plan & the threatened national strike

Towards the end of last year the BS management offered its workforce, who have not had a pay rise since April 1982, a £7 increase in return for acceptance of its 'survival plan'. This involves a sweeping reform of restrictive practices and demarcation lines within the yards and aims to improve productivity to the level of BS competitors in Northern Europe. It would not increase productivity to the levels attained in Far Eastern yards. The unions rejected the plan, and threatened to strike on January 6th if BS insisted on implementing it. In the event the unions withdrew the strike threat at the last minute, when it became clear that BS were not prepared to back down and that some commercial yards might be closed permanently if the strike went ahead. In return BS offered to backdate the £7 pay rise to November 2nd 1983, provided the yards voted to accept the plan; and the management also accepted a minor union amendment which allows the working party set up to discuss the survival plan to also discuss the unions counter-proposals. These talks have now ended in agreement on the plan, which will be referred to the yards.

Prospects

Present prospects are gloomy. The world's shipyards have been badly hit by the recession (see below) because their customers, the shipowners, are facing a glut in capacity brought about by the drop in world

trade. In March 1983, 91 million tonnes of shipping were lying idle up from 55.3 million tonnes nine months earlier. Competition from foreign, mainly Far Eastern, yards is intense. British Shipbuilders current order book at the end of November 1983 was estimated at approximately £2500 million, which included £1800 million for warships and £500 million for merchant shipping. Sir Robert Atkinson, the former Chairman of BS, warned before his retirement that the corporation is 'fighting for it's life'. His successor is Mr Graham Day, one-time head of Cammell Laird. He is now preparing a new corporate plan: British Shipbuilders now faces severe competition in world markets at a time when world shipbuilding capacity is reckoned to be 40 per cent greater than is required.

Warship Yards: Vickers, Vosper Thornycroft and Yarrow have a consistent track record of profitability and are clearly areas with potential for private investment. In December 1982 the Government announced nearly £600 million of naval orders. BS is anxious to increase the export share of its warship order book from around 20 per cent to 30 per cent, but many current customers are rapidly becoming competitors. The Navy has recently announced that it will be ordering up to 12 of the new Type 23 frigates, designed by Yarrow, over the next decade at a cost of approximately £100 million each. The first orders are expected this year. In its 1983 Manifesto the Government said it would return parts of BS to the private sector and in July Mr Norman Lamont confirmed that the warship yards, which made a profit of £54.75 million in 1982-3, are indeed the most likely candidate, (Hansard, 28th July 1983, W/A Col. 576-7).

Merchant Yards: This market is very depressed and expected to remain so. The Merchant Yards are the division most affected by foreign competition and the situation is bad in all the large yards. Sunderland Shipbuilders, however, has recently won an order from the Stena Line of Sweden for two sophisticated diving support vessels with an option for a third.

Offshore Yards: Charter rates for rigs are declining as a result of the world oil glut and orders are scarce. Activity in the North Sea however, is picking up. There are several independent firms involved in offshore work in Scotland, most notably Highland Fabricators and McDermotts, which has just won a £30 million order from Britoil. (See also last week's brief on Scott Lithgow).

Ship Repairing: This slump in world shipping has hit the ship repair yards hard. They suffered major redundancies last year. This division has now been put up for sale. Redheads, on the Tyne has been bought by its work force, whom BS had made redundant. Tyne Ship Repair is being sold to a management buy-out which will save the 850 jobs involved. This has now been reluctantly accepted by the unions. Grangemouth Dockyards has also been bought by two of its former managers and reopened for business. These sales were possible under the provisions of the British Shipbuilders Act 1983.

The Times on 5th January conducted a survey of BS' major yards:

'Austin & Pickersgill, Sunderland, 1,800 workers. Three bulk carriers and three cargo vessels, no delays for delivery next year.

'Govan Shipbuilders, Clydeside, 2,500 workers. Building two bulk carriers for Norwegian firm, due to be delivered late spring. 'We are running out of work, and need new contracts'.

Smith's Dock, Cleveland. 1,700 workers. Ahead of schedule on two roll-on, roll-off ships for Brazil, the second due in May next year.

Sunderland Shipbuilders, 2,200 workers in three yards. On time with three years work on five bulk carriers and two diving support ships.

Appledore Shipbuilders, North Devon, 750 workers. New order for cargo vessel for Iceland due next year.

Ferguson-Ailsa, 800 workers at Troon and Port Glasgow. 'We need orders within three months. Six tugs for Kenya and the new Arran car ferry are on time, but will be finished by the end of this year'.

Hall Russell, Aberdeen, 800 workers. 'We are urgently seeking work now'. They are building four patrol craft, on time, for Hongkong.

Cleland Shipbuilders, Clydeside, **Henry Robb**, Leith, and **Goole Shipbuilders**, Humber. No fresh orders and face 'serious risk of closure'.

Swan Hunter the composite four-yard Tyneside company, with 7,500 workers, are building the new Ark Royal aircraft carrier, a Type 42 destroyer, and two Type 22 frigates due by late 1987.

Three merchant vessels are underway, including a container ship for Cunard, which is delayed. 'We have been slightly behind on a couple of programmes, but we expect to catch up by delivery dates'.

In the warshipbuilding division:

Brooke Marine, Lowestoft. Will run out of work in the autumn.

Vickers, Barrow-in-Furness, 12,300 workers. Expect to complete the first Type 2400 submarine in November and are working on four nuclear-powered submarines, with no delays.

Vosper Thornycroft, Southampton, 4,800 workers. Have two yards working on three minehunters for the Royal Navy, and are fitting out two fast patrol boats. 'We are very anxious to get an order for a Type 22'.

Yarrow Shipbuilders, Glasgow, 5,500 workers. Have work until 1987 on a £450 million order for five Type 22 frigates and one minehunter, with all ahead of schedule.

In the offshore division:

Cammell Laird, Merseyside. 3,500 workers. Slightly delayed on a semi-submersible drilling rig for Sovereign Explorer, ahead of schedule with the missile destroyer HMS Edinburgh, which is due in a year's time, and on time with a jack-up accommodation vessel for British Gas in the Spring.

A strike last year and problems with supply of parts has caused delays, but 'future prospects of work are good'.

Scott Lithgow, Glasgow, 5,000 workers. Recently lost Britoil order for a rig overdue, and a £60 million exploration rig for BP is also behind schedule.

'Falmouth Shiprepairers and Vosper at Southampton are both secure but Tyne Shiprepair will close next month unless a sale is agreed shortly.'

World Prospects

Shipbuilding is in crisis throughout the world. Some figures are given in Appendix 2.

Manpower

BS's work force has been reduced from 87,5000 at nationalisation in 1977 to under 60,000 today. 6000 jobs were lost in the second half of last year. 4,400 jobs are involved in the troubles at Scott Lithgow, of which 300 have already gone. It is expected that by the end of March only 500-800 men will remain at the yard. 1870 other redundancies were announced on 25th January. Of these 1150 are caused by the closure of Henry Robb at Leith (383 jobs), Goole on Humberside (365 jobs) and Clellands at Wallsend (400 jobs) - none of which have had any work since Christmas. In addition 300 jobs will go at Govan on the Clyde, 140 at Brooke Marine in Lowestoft, 135 at Clark Hawthorn in Wallsend, 50 at Vickers in Barrow-in-Furness, 48 at Sunderland Forge and 35 at Ferguson-Ailsa in Port Glasgow.

BS's Finances

British Shipbuilders, like all nationalised industries, looks to the Treasury for external finance which it usually receives in the form of loans and public dividend capital. Under the 1977 Aircraft and Shipbuilding Industries Act, which created the corporation, the original limit for this finance was £200 million. This was increased in stages, to £800 million by July 1983. Later last year the Government introduced The British Shipbuilders (Borrowing Powers) Act 1983 to enable the Secretary of State to increase this again, initially to £1000 million and eventually, with the further consent of the Treasury and the House, to £1200 million. The Bill was necessary because of British Shipbuilders' continuing difficulties and the continued deterioration of its markets.

(The details of BS financial performance are given in Appendix I.)

The Intervention Fund exists to help BS compete with cheap Far Eastern prices. The most notable recent example of its use was when the Government provided around £10 million in order to ensure that Cunard built the replacement for the Atlantic Conveyor, lost in the Falklands, at Swan Hunter instead of at Hyundai in Korea. The Koreans had quoted £30 million against BS's £40 million and the Korean price was estimated to be the same as BS's material costs alone. BS estimate that approximately 60 per cent of the cost of a ship is accounted for by outside contractors and suppliers, so the benefits of intervention fund spending are spread widely throughout the economy.

Shipbuilding Redundancy Payments Scheme: This was introduced in 1978, the present Government extended it in July 1982 so that it will run until 30th June 1985. It was also improved in order to give more help to those under 40. The savings in manpower were estimated at that stage to be £150 million. So far over 22,000 employees have benefited from it to the tune of £82 million.

£m	1978	1979	1980	1981	1982	1983
Feb to April	-	4.7	15.5	20.1	14.4	28.0

The British Shipbuilders Act 1983

The Government is committed to the promotion of private ownership in the shipbuilding industry. This Act removed the previous statutory obstacles to the introduction of private capital, and provided enabling powers for the Secretary of State for Industry to direct British Shipbuilders to dispose of particular assets or subsidiaries. BS is now no longer obliged to carry on the full range of activities specified in the 1977 Act that nationalised it; it can discontinue unprofitable work and dispose of profitable yards when appropriate. The Act gives the Secretary of State powers to restrict foreign shareholdings in any yards that are sold, and gives him other powers to safeguard assets or activities which are important to our national security. Before giving any general direction to BS the Act also requires that the Secretary of State must be satisfied that it will further the national interest. The recent move to sell the repair yards, and the announcement that private investment will be sought for the warship yards, are a result of this Act.

The 1977 Compensation Terms

In Opposition, Conservatives were very much opposed to the terms of compensation for the owners of firms nationalised under the 1977 Act. As Secretary of State for Industry, Sir Keith Joseph, reaffirmed the view that they were 'grossly unfair' (Hansard, 7th August 1980, Col. 290). Total compensation paid for the 24 private companies vested in BS was £75.5 million.

The Government believes that it would be unjust to amend the terms now because people have sold shares on the basis of the 1977 Act. Many of the companies involved have decided to settle for the compensation received, but some of the previous owners bought their cases against the Government, concerning the amounts they received, before the European Commission of Human Rights. In January 1983 the Commission declared that seven of the cases were procedurally admissible. The Commission is still considering the merits of these cases.

Labour Policy

Labour said in their 1983 Manifesto that they intended to ensure that British Shipbuilders remained a wholly nationalised concern, and intended to create a state owned shipping organisation to act as its customer. Labour would have introduced protectionism in shipping 'to protect our shipping and jobs from unfair competition' and promised to provide BS with a 'new financial basis and adequate resources for investment'. In short, Labour proposed to apply their usual remedy of State control, subsidy and protection with the sole aim of preserving jobs. Shipping and shipbuilding are areas of intense international competition, and attempts by this country to opt out of that would have particularly harmful effects on inter-

national trade and the viable jobs that depend on it. Labour did nothing about the fundamental problems that make our yards uncompetitive or how they would have tackled them .

/APPENDIX I

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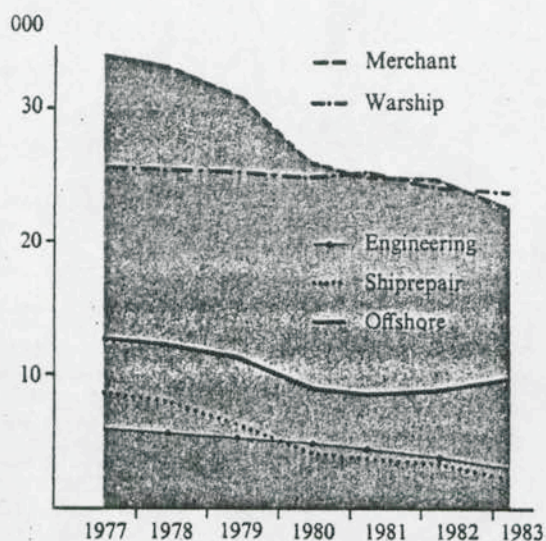
CORPORATE PERFORMANCE AND GOVERNMENT SUPPORT

PERFORMANCE (£m)	1978/79	1979/80	1980/81	1981/82	1982/83	1983/4 (year to Oct .)
Profit(Loss)	-50	-110	-41	-20	-117	na
Target	-45	-100	-90	-25	-10	not set
External Finance Requirement	117	236	170	146	120	na
Limit	83	250	185	150	122	158
Capital expenditure	27	18	17	37	43	90(plan)
GOVERNMENT SUPPORT (£m)						
NLF & PDC	55	181	110	107	76	108
Intervention Fund Receipts	11	31	40	46	44	16
SRPS	5	16	20	14	16	16
CUMULATIVE TOTAL SUPPORT SINCE 1979		228	398	565	701	841
Home Credit	For ships - 80% of contract price at 7.5% over 8 1/2 years (OECD)					
	Offshore - 85% of contract price at 12.15% over 5 years (Consensus)					
EMPLOYMENT						
Number employed '000	87	86	78	70	65	60
Total Job Losses '000 (Cumulative)	--	1	8	17	22	27
PAY						
Pay rises %	9	12	9	7	0	0

Statistics

BS Employment

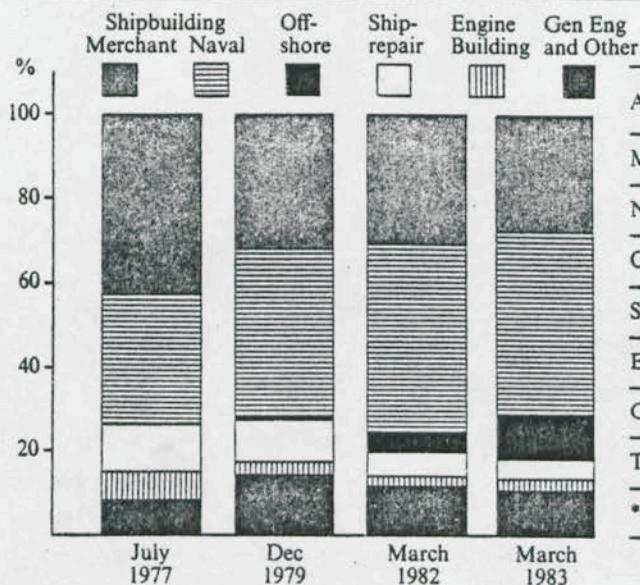
Employment by Division



Division	July 1977	June 1979	March 1981	March 1982	March 1983
Merchant	34,245	31,103	24,963	24,658	22,573
Warship	25,778	25,557	25,207	24,514	23,845
Engineering	6,027	5,670	4,560	4,123	3,192
Shiprepair	8,681	6,537	4,111	3,628	2,652
Offshore	12,703	11,377	8,794	8,918	9,421
Corporation	—	—	136	275	662
HQ	35	228	204	204	238
Total	87,469	80,472	67,975	66,320	62,583

Note: Divisions were not formed until 1980 and Statistics have been projected back to Vesting Day.

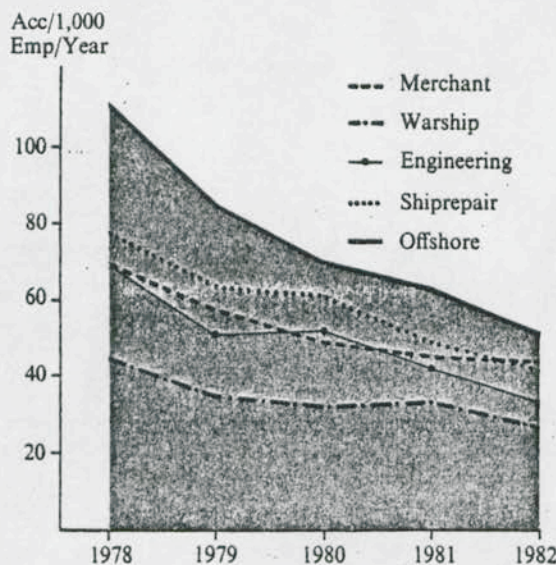
Employment by Activity



Activity	July 1977	Dec 1979	March 1982	March 1983
Merchant SB	44.3	32.5	30.2	27.8
Naval SB*	30.2	40.3	44.9	43.8
Offshore	0.3	1.1	4.8	11.2
Shiprepair	10.1	8.5	6.7	4.7
Eng Bldg	7.1	3.1	2.5	2.1
Gen Eng	8.0	14.5	10.9	10.4
Total	100%	100%	100%	100%

*Includes Naval Auxiliaries

Accidents by Division

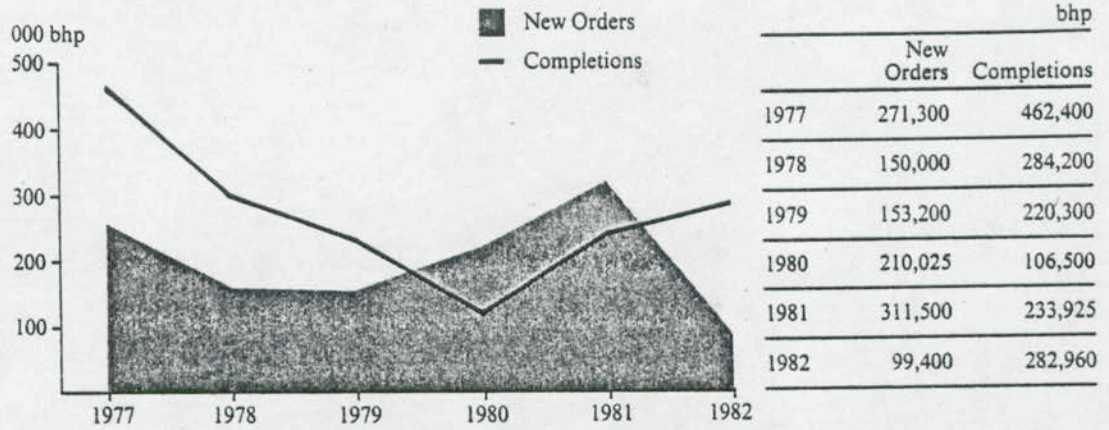


Division	Incidence Rate per 1,000 Employees per year				
	1978	1979	1980	1981	1982
Merchant	69.9	58.1	49.5	48.2	44.3
Warship	45.5	35.5	32.6	33.2	27.2
Engineering	69.9	51.3	52.7	42.6	34.9
Shiprepair	77.9	64.2	62.8	49.1	42.5
Offshore	111.3	85.8	70.7	64.1	52.4
All Divisions	71.3	55.2	48.0	45.1	39.3

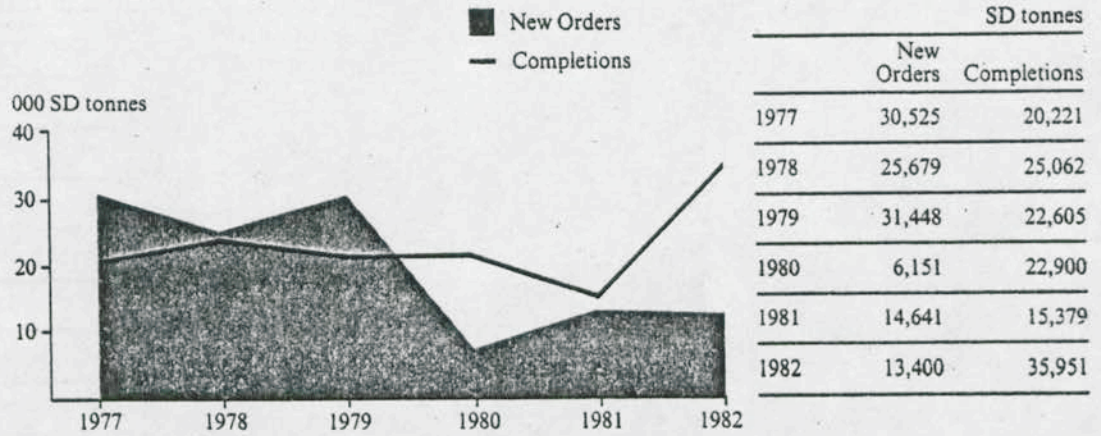
Statistics

BS Production

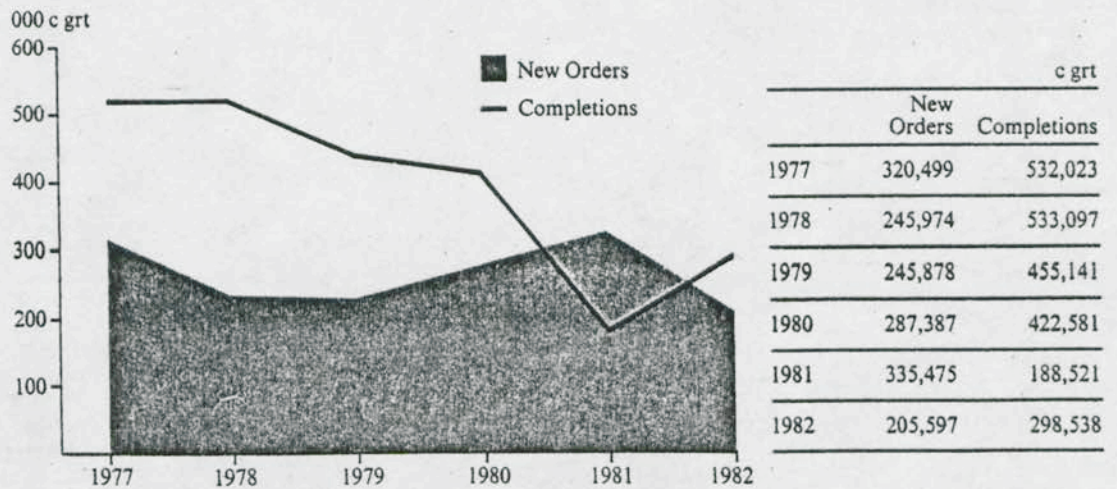
Enginebuilding



Warshipbuilding



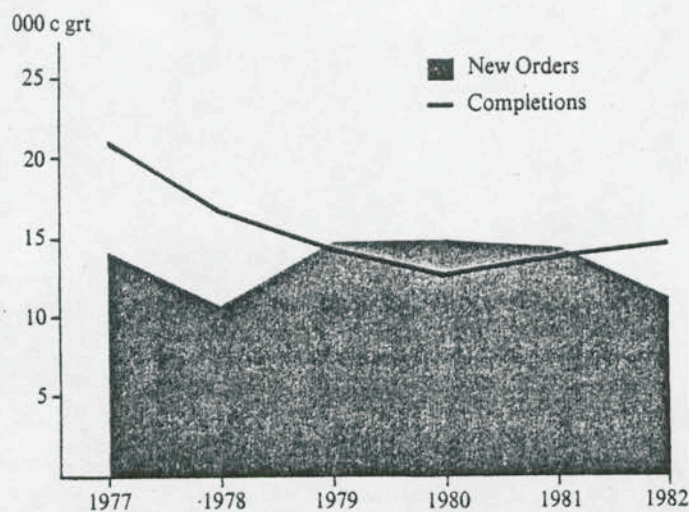
Merchant Shipbuilding



Statistics

World Merchant Shipbuilding

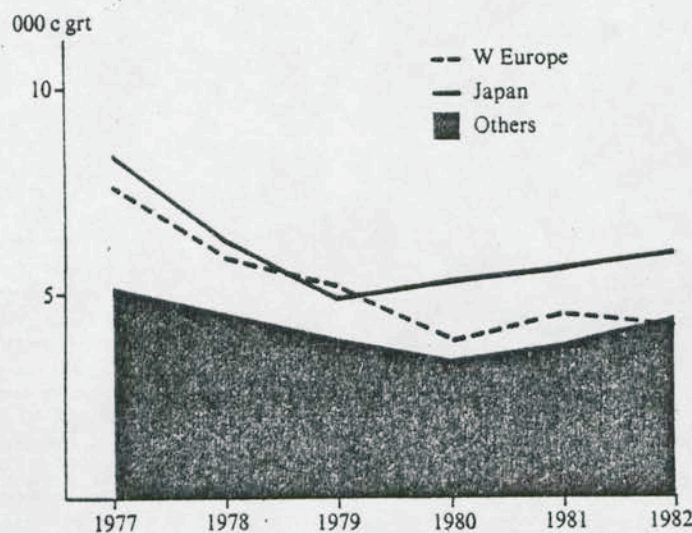
World New Orders/
Completions



	000 c grt	
	New Orders	Completions
1977	14,040	21,181
1978	10,796	16,546
1979	14,207	14,077
1980	14,357	12,635
1981	14,053	13,840
1982	11,372	14,426

Source: Lloyds Register of Shipping—
EC Contract

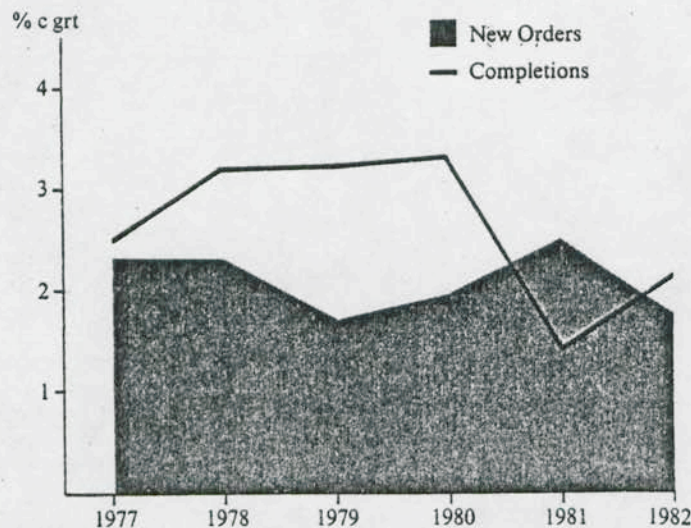
Regional Output



	000 c grt			
	W Eur	Japan	Others	Total
1977	7,654	8,358	5,169	21,181
1978	5,832	6,120	4,594	16,546
1979	5,107	4,975	3,995	14,077
1980	3,931	5,207	3,497	12,635
1981	4,451	5,580	3,809	13,840
1982	4,279	5,818	4,329	14,426

Source: Lloyds Register of Shipping—
EC Contract

BS Market Share

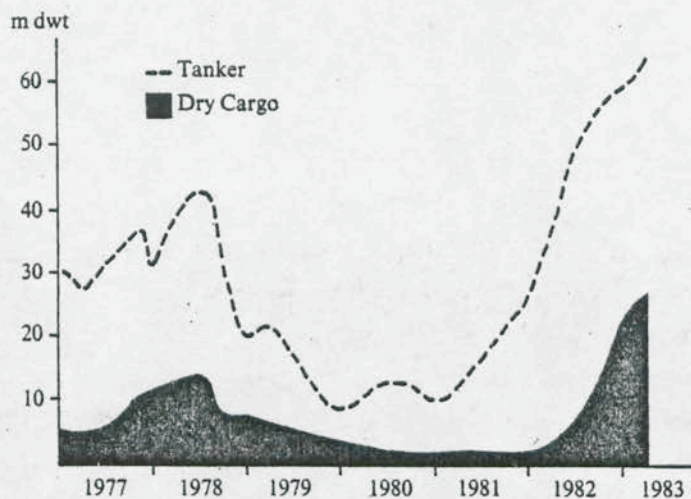


	% c grt	
	New Orders	Completions
1977	2.3	2.5
1978	2.3	3.2
1979	1.7	3.2
1980	2.0	3.3
1981	2.5	1.4
1982	1.8	2.1

Statistics

Market Environment

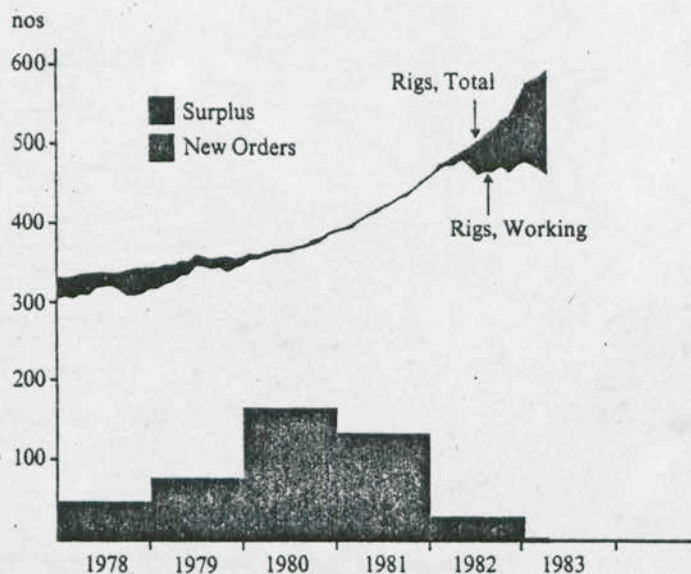
World Laid-up Tonnage



World Fleet laid-up due to lack of Employment			
	Dry		
	Tankers	Cargo	Total
June 1977	31.1	6.0	37.1
June 1978	43.5	13.5	57.0
June 1979	16.5	4.9	21.4
June 1980	12.5	2.2	14.7
June 1981	15.4	1.9	17.3
June 1982	49.2	6.1	55.3
Mar 1983	63.8	27.2	91.0

Source: GCBS

Offshore Oil Rig Utilisation/ New Orders

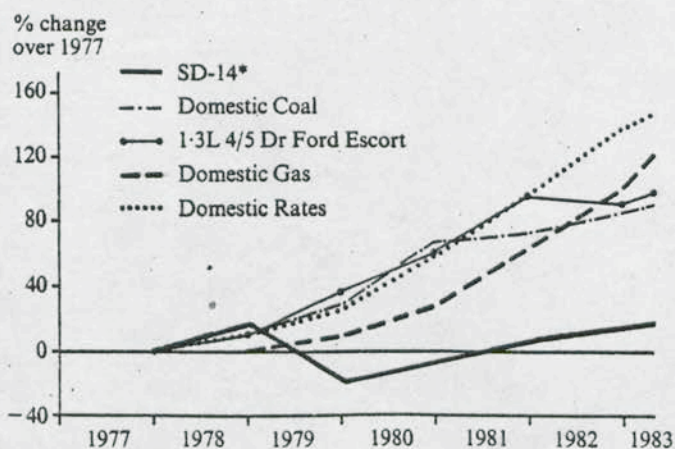


	nos		
	Rigs Total	Rigs Working	New Orders
Dec 1977	331	304	43e
Dec 1978	342	310	49e
Dec 1979	354	343	79e
Dec 1980	386	386	164
Dec 1981	452	451	133
Dec 1982	553	472	31
Mar 1983	581	468	4

NB. Utilisation figures only include Rigs customarily offered on the world charter market.

Source: Offshore Rig Data Services, Shipstats.
e = estimate

Relative prices of an SD-14 and other UK commodities



	% change over 1977				
	SD-14*	Coal	Escort	Gas	Rates
Dec 1978	16	10	10	0	10
Dec 1979	-18	27	36	8	25
Dec 1980	-7	66	60	26	56
Dec 1981	6	72	94	62	94
Dec 1982	15	86	90	99	137
Apr 1983	17	90	98	119	147

Source: NCB, Northern Gas, Sunderland Civic Centre, Ford Motor Co.

*The SD-14 is a standard 15,000 dwt Merchant Ship built by British Shipbuilders. The prices upon which the index is based relate to delivery dates and therefore do not reflect the major decline in contract prices during 1982/83.

Direct Aid to Shipbuilding	Home Credit Scheme Aid to Shipowner
<u>United Kingdom</u>	Home Credit Scheme 80 per cent over 8½ years at 7½ per cent. (On orders placed in United Kingdom yards only)
Up to 17 per cent of contract price (Includes 2 per cent Shipbuilders Relief)	
<u>Belgium</u>	Home Credit Scheme 70 per cent over 15 years. Interest relief subsidy (maximum 3 percentage points)
Nil	
<u>Denmark</u>	Home Credit Scheme 80 per cent over 12 years at 8 per cent interest including 2 year grace period
Nil	
<u>France</u>	Home Credit Scheme 80 per cent over 8½ years at 7½ per cent interest.
Up to 20 per cent of contract price (Excludes cost escalation insurance which benefit ranges from zero to 3 percentage points)	
<u>Germany</u>	12½% investment grant. Interest subsidy 1½% (1983) and 2.5% (1984 & 1985). The Investment Grant automatically reduces the amount of credit to which the Interest Subsidy applies). Credit Guarantees at OECD terms.
Nil	
<u>Ireland</u>	Home Credit Scheme 80% over 8½ years at 7½% interest.
Old scheme expired 31 December 1980. No new formal scheme. Subsidy applications considered on a case by case basis subject to EEC approval.	
<u>Italy</u>	1983 Interest relief scheme:- 2.75% of contract price paid six monthly for 12 years.
Wef 1 January 1983 up to 21% of contract price. (In Mezzogiorno maximum is 26%).	
<u>Netherlands</u>	2% Interest subsidy. New investment subsidy of 12%, plus 2.3% premium for 5 years.
1983/84 up to 8% of contract price. Special maxima of 15% (1983) and 11% (1984) for yards in IEC and VGM groups.	
<u>Finland</u>	Home Credit Scheme 80 per cent over period of construction (at least 2 years, normally not more than 8 years) at 11 per cent interest.
Nil	
<u>Japan</u>	Home Credit Scheme*. Government (Japanese Development Bank) loan of 50 or 60 per cent, Over 13 years at 7% per cent interest including 3 year grace period. Further
Nil	

Direct Aid to Shipbuilding

Home Credit Scheme Aid to Shipowners

Norway

For cash contracts subsidies given in 5 annual instalments to a total value of the amount that would have been given on the same contract under home shipowners finance scheme.

Spain

Up to $9\frac{1}{2}$ per cent of contract price.

Sweden

For 1984 and 1985 a total of £40m budgetted for Government write-off loans to shipyards.

loan available from commercial banks, acting in conjunction with JDB, for 15 or 20 per cent of contract over 8 years at $8\frac{1}{2}$ per cent interest. Supplementary provision in certain cases for interest subsidies of $2\frac{1}{2}$ per cent to $3\frac{1}{2}$ per cent.

80% of contract price over $8\frac{1}{2}$ years at 8% interest. The scheme also applies to longer or shorter term financing, but always contains the same amount of subsidy; in the case of cash payment the subsidy is equal to that of a 5 year loan.

Home Credit Scheme. 85 per cent over 12 years; at 8 per cent interest with up to 2 years grace period. (Smaller subsidy - 60 per cent of value at 8 per cent for 5 years plus 1 year grace - available for conversions and major repair work).

Credit Guarantees of 90% of contract price for up to 12 years on commercial loans. Interest rate subsidy about $2\frac{1}{2}$ % available in certain cases.

Notes

- * Japanese Home Credit. The 60% and 20% loans are available only for LNG carriers. Other types of vessel attract the lower percentages.