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C.(65) 162COPY NO. 6626th November, 1965CABINETFAIRFIELD SHIPBUILDING AND ENGINEERING CO. LTD.Memorandum by the First Secretary of State and Secretary  
of State for Economic Affairs

On 3rd November we agreed to guarantee an advance of up to £1 million to Fairfields by the Bank of England, in order to keep the yard in full operation until Ministers had had an opportunity to consider the Report of the Geddes Committee, which is expected in February. This decision was based on an analysis made by the Receiver of the cash position of the Group up to 31st March next.

2. Since that decision the Receiver has had an opportunity of going more fully into the position and has had discussions with all those who have ships on order with Fairfields. Included in the programme of work which the yard would hope to undertake are three new ships to be started in the next few weeks or months, which are essential to the yard's economic position. Two of these are for Reardon Smith, to be completed by the end of 1967, and one for the Navy Department running into 1969.

3. Briefly the Receiver's assessment of the position is as follows:-

- (i) there should be no special difficulties with those owners whose ships have been launched and are due to be completed during the first half of 1966;
- (ii) there is only one ship at present under construction in the yard; it is due to be launched at the end of April, 1966 and completed in September, 1966. The owners (British Petroleum Tankers) have indicated that they would intend to remove this ship and have it built elsewhere unless the Receiver can provide assurances that the ship will be completed in time;
- (iii) at present four of the five berths in the yard are vacant. Unless new work is laid down soon, labour will lose confidence and drift away. Moreover, if the yard is to be operated economically, its large and heavily capitalised steel shop must be kept fully occupied. To achieve this, the Receiver believes that the yard must proceed as quickly as possible with the work on the new destroyer and two bulk carriers for Reardon Smith, for which it has contracts; he also thinks it would be desirable to secure further orders before long and is hoping for two air store support ships for which the yard has submitted tenders but on which no decisions have yet been taken because these ships are covered by the current Defence Review;



- (iv) neither Reardon Smith nor the Navy Department are willing to see work on their ships started unless they can be assured that it will be carried through to completion. Reardon Smith have indicated that they will want to place their contract elsewhere unless the Receiver can give them such assurances by 2nd December;
- (v) once committed to a further programme of work, Fairfields would have to remain in business until at least the end of 1968. By then all current contracts for merchant ships should have been completed. The Navy Department ship would have been launched, but would continue fitting out until early 1969.

4. The Receiver takes the view that he cannot himself give the assurances sought by B.F., Reardon Smith and the Navy Department partly because he cannot be certain that the creditors will not at some stage force a liquidation and partly because he cannot foresee the position beyond 31st March with sufficient certainty. The yard can only embark on a new programme and complete the ship already on the berth if the Receiver is given further support by the Government.

5. The interdepartmental group of officials who were instructed to supervise the Government's interest in Fairfields have considered the situation as it has now emerged. They have concluded that the action we have so far taken will not achieve the objective which we had in mind of maintaining the yard in operation until 31st March next. We are, therefore, now faced with a choice between doing nothing more or assuming a longer term commitment to maintain the yard in operation.

6. I have had a preliminary discussion of the problems involved and the alternatives open to us with the Chancellor and the President. The alternatives seem to be -

- A. to let the yard be closed down by the Receiver;
- B. to extend the guarantees given to the Receiver;
- C. to take over the yard.

A. Close the yard

7. If the Receiver is told that we are not prepared to extend the guarantees, he will be bound to run down and close the yard in quite a short time. He could be instructed to limit his call on the £1 million to the minimum required to avoid hardship to the employees. This would come as a great shock after our recent announcement and, however presented, would be likely to appear as extremely inept handling of the situation. It would, moreover, deprive us of what I think may be a great opportunity, to which I refer later.

B. Extending the guarantees

8. This course would enable the Receiver to give the assurances to the shipowners that their orders would be completed. To be effective in this respect it would need to extend to the end of 1967 for the Reardon Smith ships and to the beginning of 1969 for the Navy Department ship. This would achieve the object of keeping the yard open until the Geddes



Report had been received, would maintain employment, and avoid the reversal of policy involved in Course A. It would, however, leave us with an indefinite financial commitment, put at a maximum of £3 million by the Receiver, and a situation over which we would not have a degree of control commensurate with the financial risk incurred. Furthermore, it would be extremely difficult for the Receiver to try to run the Company as a normal business for a long period; the employees would be anxious about the continuity of their jobs and would undoubtedly accept alternative employment as it became available. However able the Receiver, he would be fighting a losing battle.

### C. Take over the yard

9. This could be done by the Government alone or in partnership with private industry on the lines indicated in "Signpost for the Sixties". I understand from the Chancellor of the Exchequer that Sir Isaac Wolfson had expressed an interest in the idea of buying the yard. I believe, however, that, following a meeting between Sir Isaac and Sir William Watson of the Bank of Scotland, it is doubtful whether Sir Isaac will pursue the matter further.

10. The disadvantages of this course - alone or in partnership - are that we would be stepping in and acquiring a company which had failed, a company in an inefficient and contracting industry, an industry which must shortly be reorganised if it is to survive. On the other hand, it seems to me that this is a wonderful opportunity to get to grips with the situation and show what can be done by increased productivity. I have been impressed by what Iain Stewart has told me can be achieved in this industry in co-operation with the Unions. I am sure he would be prepared to take a principal part in putting these ideas into practice and he has in mind a competent managing director who is already achieving success on these lines in an adjacent yard, and who is likely to be willing to act as chief executive. They would need to be supported by other directors with particular experience in industrial relations and finance and it would probably be helpful to have a member of the Scottish T. U. C. on the Board. I would expect that in due course this experiment would be an example to the rest of the shipbuilding industry.

11. The total amount owing to the Bank of Scotland and the creditors is about £6.5 million, so that this figure would be the absolute maximum of Government money involved in the takeover. It is probable, however, that the takeover operation could be achieved by negotiation for considerably less (for example, there is a subsidiary company, Fairfield-Rowan, which, for technical reasons, is not in receivership, for which something over £2 million is included in the £6.5 million and which might not have to be taken over at all).

12. If we decided to adopt this course, we should require time to investigate the position fully, to consult with the Unions and to make the necessary arrangements to acquire the yard in the most appropriate way. (I have not had time to establish whether legislation would be required). To get the time required we should have to give the Receiver the minimum undertaking necessary to enable him to keep the yard open to the end of 1967 for the Reardon Smith ships, which is in effect, the temporary adoption of Course B. I think this is a justifiable measure to keep open the possibility of this experiment. (We could presumably consider the position of the Navy Department ship as soon as we were satisfied with the arrangements for acquiring the yard).

13. I hope my colleagues will agree that Course C, although the boldest, would be the best course in the long run.

G. B.







