28 July 1970

CABINET

FINANCIAL ASSISTANCE TO HARLAND AND WOLFF LIMITED

Memorandum by the Secretary of State for the Home Department and the Minister of Technology

1. We are bringing this matter before our colleagues both because of its importance in terms of industrial policy and for its impact on the current situation in Northern Ireland. Substantial public expenditure is also involved.

PRESENT FINANCIAL POSITION

2. The Belfast company of Harland and Wolff have requested urgent financial assistance, through the Shipbuilding Industry Board (SIB), to enable them to carry on business. Information provided by the company recently showed that:

i. They have a bank overdraft of £2½ million which is fully used. There is no possibility of an increase.

ii. They owe suppliers about £2½ million of which nearly £2½ million is owed in Northern Ireland. £2 million is the maximum amount of suppliers' credit they would generally think prudent.

iii. They expect, even with the most advantageous financial arrangements, to lose money on shipbuilding and engine building up to 1974. A profit forecast for 1974 is based on a £2.5 million profit from future orders (i.e., orders not yet taken or contemplated).

iv. On the same basis, they expect an adverse cash flow of £8½ million during the whole of the period up to 1974. £7 million of this adverse flow is in the period 1970-71.

v. By the end of this week they claim they will be unable to meet wages payments.

3. The figures supplied by the company support the view that £1.5 million is needed almost immediately to meet essential payments, and that a further sum of between £1 million and £2 million will be required by the end of the year if they are to stay in business.

LONGER TERM NEEDS

5. The company are preparing a detailed submission for the SIB on their longer term needs and hope to submit it in August. Present information indicates a need for at least a further £4 million early next year, but there are a number of ways in which the company's longer term cash position might be eased.

6. Cost escalation and inflation have made unprofitable past fixed price contracts taken by Harland and Wolff (in common with other shipbuilders). The company have already renegotiated contracts for two ships for delivery in 1973 and are seeking to renegotiate prices for two large tankers for Esso and two for Onassis. There are ship repair facilities (at London, Liverpool and Belfast) which are at present breaking even and which might well have a price on the market to help meet future losses. These facilities are not essential to the shipbuilding operation. The company have negotiated with the Northern Ireland Government a moratorium on capital repayments on their 1966 loan due for repayment between 1970 and 1975. They also hope to negotiate a deferral of interest payments amounting to £245,000 per annum.

7. We are therefore not required for the moment to reach a final view on the amount of any further assistance needed beyond an initial sum of up to £3 ½ million, but if we agree to this initial sum it must be in the knowledge that (as explained below) we are accepting a liability for an even larger amount. The method of meeting this longer term requirement can be pursued with the SIB, the Northern Ireland Government and the company. There could be a case for putting the onus of legislation to provide money on the Northern Ireland Government though we should in practice have to put them in funds to meet this requirement.

THE SIB VIEW

8. The SIB hold the view that the company should have a viable future given proper direction, good management and co-operation from the workers. SIB think it undesirable that the substantial public investment in the shipbuilding dock and other capital facilities (£15 million) should be jeopardised by a temporary shortage of working capital or that the company with its shipbuilding potential should go out of business. They have therefore recommended that the assistance needed should be made available under the provisions of the Shipbuilding Industry Act. They point out, however, that they are unable to provide more than £3.5 million as a grant under Section 3 of the Act given the funds remaining available to them for this purpose and other calls. Moreover, they cannot under the terms of the Act provide loans to the company for working capital purposes nor, since they may only take equity in circumstances where they can give loans, could they provide funds by way of subscription for shares.
9. The SIB therefore seeks the approval of the Minister of Technology for a grant of £3.5 million. They make it clear, however, that they recommend this assistance only if they are assured that the further assistance needed would also be made available by the Government.

10. With a £3.5 million grant by the SIB grants under Section 3 of the Shipbuilding Industry Act will exceed the Ministry of Technology vote provision for 1970-71. However, as loans under Section 4 will be less than forecast overall, shipbuilding industry expenditure will not exceed the Public Expenditure Survey Committee (PESC) forecast. A supplementary estimate to cover this and expenditure in respect of other shipbuilding companies may be necessary next spring.

THE BEAGLE IMPLICATIONS

11. In considering the implications of the Beagle case in February, 1970, the Law Officers set down the principle, under the Companies Act, that Government should never knowingly be a party to an insolvent company continuing to carry on business unless either there was a reasonable prospect that by doing so, or by some other means, it would become solvent again, or that Government was satisfied that such funds as may be needed to pay creditors would become available from its own resources or otherwise. In further deliberations with the Law Officers, it was made clear that they meant by "become solvent again" that the company would "become solvent again and remain so for a reasonable period".

12. Following information from the Chairman and the Financial Director of Harland and Wolff there is no doubt that the company is now insolvent. It is the Treasury Solicitor's opinion that, by agreeing to provide money, whether through the SIB or otherwise, the Government will be committed to providing not only what is immediately required to make the company solvent, but also whatever further assistance may be needed to keep the company solvent for a reasonable period. Given that we know on present forecasts that the company is not expected to break even financially again till 1974, "a reasonable period" may have to be interpreted as up to that time. If this is not done, and the company subsequently goes into liquidation, the Government may well be obliged to ensure that the company's creditors are met in full.

ALTERNATIVE TO ASSISTANCE

13. Any assistance to the company at this time from public funds will carry with it the obligations set out in the preceding paragraph. The alternative of refusing assistance would inevitably lead to the collapse of the company and its eventual liquidation.

14. Liquidation need not mean that shipbuilding at Belfast would entirely cease with the immediate and permanent loss of some 9,500 jobs in the Belfast shipyard. Arrangements would likely be made for the completion of ships in the yard where construction was at an advanced stage. Moreover,
the building dock and its facilities (even incomplete) provide a shipbuilding facility unequalled elsewhere in this country and possibly in Europe. With the present world demand for ships and a world shortage of capacity for early delivery, such a facility is likely to prove attractive to other shipbuilders. Similarly both the engine building and ship repair facilities at Belfast may find a purchaser.

15. The effect on other industries in Northern Ireland might also be only moderate. Harland and Wolff say that only about 15 per cent of their trade creditors represent Northern Ireland interests.

16. Against this must be set the profound shock which the collapse of this company would have on Northern Ireland opinion at the present difficult time. No-one can really foresee what the effect of a liquidation would be. Even if shipbuilding survived at Belfast there would be a period of uncertainty and some additional unemployment. With an overall unemployment rate in Belfast of 4.5 per cent of the working population (and a higher male unemployment rate) the loss of even half the jobs in the yard would increase the unemployment rate in Belfast to 6.5 per cent or more. In the present disturbed state of Northern Ireland, this could have an inflammatory effect.

FUTURE POSSIBILITIES

17. The company have improved their management information systems and have introduced a new management structure. They are also seeking a new Managing Director. They are concentrating on building bulk carriers and large tankers and are rationalising their facilities and abandoning those not required for this purpose. The new steel working facilities have not yet been completed but are expected to be fully operational by the beginning of next year. The company are seeking to introduce shift working. All of these developments should enable them to increase substantially their steel work productivity. No further contracts will be taken without the inclusion of a price variation (i.e. escalation) clause. They hope to return to profitability by 1973 or 1974 (although if their cash flow deficit continues at the current rate beyond 1971 we would expect to see far bigger losses than these forecast).

18. Two prominent foreign shipowners (Fred Olsen and Onassis) have shown interest in acquiring the shipbuilding facilities and operating them with the help of management expertise from abroad. British shipbuilders may also be interested in acquiring the facilities, particularly the new building dock. These possibilities are being actively explored. None of them is sufficiently advanced to avoid the immediate need to supply £1.5 million to the company. It is likely that any possible arrangements here would require public funds (such as the clearing of the company's debts first) to get them off the ground.
CONCLUSIONS AND RECOMMENDATIONS

19. The following main conclusions may be drawn:

i. Harland and Wolff are insolvent. They require £1.5 million immediately, up to £2 million by the end of the year, and up to £4 million in 1971 if they are to stay in business. They cannot raise the money required immediately from the market or from sale of assets.

ii. For 1970 to 1973 inclusive they forecast company losses of £10 million which could be greater if the expected improvement in company performance is not achieved.

iii. The Shipbuilding Industry Board has recommended a grant of £3.1 million under the Shipbuilding Industry Act - provided the Government undertakes to make available any further sums required to keep the company viable. Moreover, given the insolvency of the company, the Government is in no position under the Companies Act to meet immediate needs only without an obligation to meet the further needs of the company as foreseen.

iv. The alternative is liquidation of the company to release it from its present financial burdens. With the present situation in Northern Ireland this is politically unacceptable.

v. In all of this, we need to recognise that this will be an industrial rescue operation having similar features to the Upper Clyde Shipbuilding (UCS) and Cammell Laird (i.e. public funds to meet losses). It carries with it, unless handled very skilfully, the same potential demoralisation of the rest of the industry as similar operations under the previous Government. It will need to be cast within the wider framework of aid to Northern Ireland at a troubled time without undue emphasis on employment alone which is precisely the case for UCS and Cammell Laird. (There is not much difference between the unemployment rates for Belfast and Glasgow).

20. We therefore recommend to our colleagues that:

i. The Minister of Technology should approve the SIB's recommendation of a grant of £3.1 million for Harland and Wolff but should ask for only £1.5 million to be made available immediately on the understanding, however, that the Government accepts that the financial needs of the company as foreseen will have to be met by one means or another.

ii. Departments concerned should consider how best to meet the future financial requirements of the company given the limitations on SIB funds and the desirability of associating this aid as closely as possible with the Northern Ireland Government.
iii. The Ministry of Technology should actively explore, in consultation with other interested Departments, how best to reinforce the management and improve the future financial performance of Harland and Wolff (including the possibility of association with foreign interests) and the conditions to be attached to any further help from public funds.

R M
GR

Home Office SW1

27 July 1970
BACKGROUND INFORMATION ON HARLAND & WOLFF

In their yard at Belfast the company build and repair ships, manufacture ships engines and electrical equipment and fabricate structural steelwork. The company also has shiprepair yards at Liverpool, Southampton and London.

2. The company's shipbuilding activities are concentrated in a large new building dock with associated steel facilities, still in course of construction, and an adjacent yard building on berths. For ship repair the company has the exclusive use of a large modern graving dock owned by the Belfast Harbour Commissioners.

3. The company employs about 7,500 operatives and 2,000 staff at Belfast and about 700, 1,400 and 750 (including staff) at Liverpool, Southampton and London respectively.

4. Currently on order with the company are six giant (250,000 dwt) tankers and eight bulk carriers for delivery between now and 1973. The company also has orders for 23 slow speed diesel engines and three steam turbines, also for delivery between now and 1973.

Assistance from public funds

5. In September 1966 the company was saved from collapse by a £3.5 million loan at 7 per cent from the Northern Ireland Government. The loan is to be repaid by instalments between now and 1975.

6. Between mid-1968 and end 1969 the company received a total of £8 million in loans from the SIB at rates varying between 7½% and 9½% to be interest free until end 1970, with interest capitalised between then and 1975 and repayable thereafter in equal instalments over 33 years. The loan was a contribution towards the cost of building the new dock and facilities. Most of the rest of the cost of the dock and facilities was met from Northern Ireland Government Investment Grants (about £6m.).

7. In 1967 the SIB promised £910,000 in grants as a contribution to the cost of building two giant tankers for Esso. To date £455,000 has been paid.

8. In 1969 the SIB promised up to £1.56 million in grants as a contribution to the losses and expenses arising out of the reorganisation of the yard around the new facilities. To date £1.2 million has been paid.

9. In all, Harland and Wolff can be said to have had £19m. so far from public funds for their purposes; a promise of nearly £1m. to come; and a current plea for up to £7m. or so.

27th July 1970