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CABINET

THE SHIPBUILDING INDUSTRY

Memorandum by the Secretary of State for Industry

1. At their meeting on 26 February the Ministerial Committee on Economic and Industrial Policy asked me to inform the Cabinet of the desperate outlook for the shipbuilding industry - perhaps the most difficult industrial issue we face with intractable problems both short and long term.
2. The main features of the situation are:-
 - a. The world market for ships is exceptionally difficult. New orders over the next five years may run at only 25 per cent of world capacity.
 - b. United Kingdom shipyards are uncompetitive in price - the Japanese are undercutting us by up to 50 per cent and European yards by up to 20 per cent - and are taking very few orders indeed. (See table at Annex A.)
 - c. Unless substantial new orders are placed soon - and without urgent special Government action this is unlikely - the numbers employed in the industry will by the end of 1977 be reduced by 35,000 or half the present level of 70,000. Contraction of the industry would also have a serious effect on those indirectly employed in supplying industries.
 - d. In the long term the prospects of the industry will depend on the success of British Shipbuilders (BS) in increasing productivity and cutting costs. But manpower is likely to be substantially less than now either because BS succeed and produce the same output with fewer men or because they fail and are unable to obtain any orders.
 - e. Without urgent and significant measures, a great many shipyard workers will be out of employment for a long time on Tyneside, Wearside, Merseyside and the Upper and Lower Clyde. Local male unemployment rates in some shipyard areas (eg Bideford, Greenock, and Wearside) will exceed 20 per cent and persist into the 1980s.

3. To ease this situation we need to take steps a. to secure additional orders particularly within the next few months and b. to ease the social consequences of the contraction which in any circumstances seems unavoidable. Following the Ministerial Committee's discussion and earlier discussions of the Ministerial Committee on Industrial Development the following action is in hand:-

a. I shall be discussing with the Organising Committee for BS both the development of a long-term strategy for the industry and an interim strategy for the next 18 months until BS can prepare their first corporate plan. I will bring forward the latter by 1 May.

b. We have agreed in principle to extend the cost escalation guarantee scheme to home shipbuilding orders and to introduce a scheme of performance bonds against the possible failure of those shipbuilding companies which are to be nationalised. The second of these proposals has been cleared by the European Commission but the first is still being discussed with them.

c. The Secretary of State for Trade and I will jointly see the General Council of British Shipping and then leading individual shipowners to bring the strongest possible pressure to bear on them to place what orders are going in United Kingdom yards. If this approach is unsuccessful we shall need to consider legislation, possibly in relation to tax benefits (see further below).

d. Officials are undertaking a cost/benefit analysis of the consequences of inducing the United Kingdom shipping industry to bear the additional costs which might result from placing more orders in United Kingdom shipyards at a time when United Kingdom prices are uncompetitive and also of the effects of Government assistance for this purpose.

e. We are exploring with our Community partners the possibility of joint pressure on the Japanese Government to ease the pressure of the Japanese industry on the world shipbuilding market, perhaps leading to an international agreement to limit over-capacity. But this is unlikely to yield early results.

f. The Ministerial Committee on Economic and Industrial Policy have agreed in principle on a number of specific measures to ease the consequences of contraction - selective financial assistance to be made available for shipbuilding areas on more flexible terms than under the normal administrative guidelines; further building of advance factories; consideration by the National Enterprise Board and the Scottish Development Agency of the scope for joint ventures or projects of their own in the shipbuilding areas; BS to redeploy workers within the industry to the extent possible; the Manpower

Services Commission to consider what help they can give. But if further substantial orders are not forthcoming, these measures can only have a limited effect.

g. The Ministerial Committee also agreed that there should be a special scheme of redundancy compensation for shipyard workers and that this should be financed by the Government separately from their general funding of BS. I am working out details and am considering further whether to take the necessary legislative powers.

h. The Secretary of State for Northern Ireland will be bringing forward proposals on Harland and Wolff.

4. I ask the Cabinet to note the extremely serious situation facing the shipbuilding industry and the steps being taken to ease it. However, as the above notes make clear, this action may have no more than a limited impact. I believe that if the Secretary of State for Trade and I are unsuccessful in our approach to United Kingdom shipowners we should be ready to consider even more drastic, and perhaps unprecedented, action. I believe, for example, we should examine carefully the position in relation to 100 per cent first year depreciation allowances. At present, as I understand it, shipping companies qualify for these allowances whether they place orders at home or abroad. I believe we should seriously examine the possibility of withdrawing first year allowances in cases where orders are placed abroad. I also believe we may need to consider further improvements in the export credit terms we offer in relation to orders placed at home. I am not making specific proposals on these points in this paper. But I ask my colleagues for general support in principle for taking drastic measures to save the shipbuilding industry, against the background of which I can pursue specific proposals with those colleagues directly concerned.

5. I regard this as the industrial problem facing the Government which should be given top priority. Failing urgent action Britain could face the paradox of becoming a leading maritime nation without a substantial shipbuilding capability - a permanent importer and prisoner of overseas shipbuilding countries.

E G V

Department of Industry

1 March 1976

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ANNEX A

ORDERS PLACED BY UK SHIPPING INDUSTRY 1970-75

Million tons gross

Year	Worldwide Orders for UK registered ships	Orders for UK registered ships placed in:-		Total orders taken by UK Yards
		Foreign Yards	UK Yards	
1970	8.24	6.77	1.47	1.75
1971	2.87	2.04	0.83	1.03
1972	3.03	2.43	0.60	0.84
1973	6.23	2.49	3.74	4.36
1974	1.53	1.20	0.33	0.86
Total	21.90	14.93	6.97	8.84
Average	4.38	2.99	1.39	1.77
1975	0.77	0.73	0.04	0.07