

*File
To Hadden*

CONFIDENTIAL **MUFAXED**

c.c. Mr Farrington

20/8.

From: Mr Cowan, NIO London

To: Mr T W Grant, Department of Commerce, Belfast

Mr Aiken, Department of Manpower Services, Belfast

Mr Leeman, Department of Finance, Belfast

APPROPRIATION ORDER DEBATES, 9 DECEMBER 1976

Following our various telephone conversations I now attach a copy of the brief and speaking note in respect of Harland and Wolff, which I have given to Mr Farrington for incorporation into the general brief which is being prepared for Mr Dunn.

JAC
Cowan

J A C COWAN
8 December 1976

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HARLAND AND WOLFF LTDIntroduction

1. Mr Airey Neave has given notice that he intends to raise "Harland and Wolff: future prospects and manning." He has not been more specific.

Background Note: NOT FOR DISCLOSURE

2. This is a very awkward time for public discussion on the affairs of Harland and Wolff, for reasons which are outlined below. In principle the Minister should say as little as possible during the debate on the Appropriation Order.
3. There are two main reasons for counselling caution. First, the affairs of the company itself. A summary of the present position is as follows:-
 - a. The No2 Shipbuilding Order last year took Harland and Wolff into public ownership with effect from 13 August 1975. The company is run as a limited company under the Northern Ireland Companies Act, with ownership being vested in the Department of Commerce. The Order also provided for £60 million to be made available to the company to enable it to complete the current order book, thus ensuring the continuation of the yard until late 1978/early 1979. Amongst the assumptions on which this £60 million was based was one that new orders would be received to continue the order book beyond December 1978.
 - b. By late 1975 it was clear that the world shipbuilding industry as a whole was in a parlous condition, in that capacity greatly exceeded likely orders. The UK industry in particular was receiving virtually no new orders - and very few were forecast during the next 5 or 6 years. Prospects for the industry were grim, including the certainty

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of massive redundancies and the probability, in the absence of Government action, of actual collapse. Ministers made certain decisions in May 1976 for an interim strategy for the UK shipbuilding industry, pending the production (in the course of the next 18-24 months) of a corporate plan by the Board of British Shipbuilders.

- c. Because Harland and Wolff is excluded from the Aircraft and Shipbuilding Industries Bill and is being treated as a separate issue in a Northern Ireland context, the then Secretary of State invited the Board of the company, assisted and supervised by the Department of Commerce, to prepare a corporate plan which would broadly be in line with the interim strategy for the rest of the industry. This plan - known as the February 1976 Blue Book - was refined by the Department of Commerce and NIO and was presented to IM in May 1976. Three fundamental aspects of the plan were:-

- (1) The absolute need (for political, economic and social reasons) to avert a decision to close the yard when the present £60 million expired. Broad parity of treatment for Harlands.
- (2) A planned reduction of the workforce from a current figure of about 9,300 to about 3,800 (a reduction of nearly 60%).
- (3) An authority, in the absence of any new orders, to build 2 ships per year, in 1979 and 1980, for stock, i.e. speculative building.

- d. On 27 May IM agreed in principle that the Secretary of State could make a "sensible plan" to keep the yard going beyond 1978 provided that such a plan did not include speculative building and did include a heavily scaled down operation on the lines of c.(2) above.

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The company, prompted by the Department of Commerce, has been working on such a plan ever since with the intention that a further submission should be made to IN in about October 1976. Indeed a revised plan was submitted to the Department of Commerce in the August 1976 Blue Book.

- e. Ministers have decided to defer a return to IN until early 1977, to give time for the completion of negotiations on three hot leads for new orders - it clearly being a much better proposition to submit a plan based on a firm order (if that comes about) rather than on the somewhat vaguer proposals in the August Blue Book.

- 4. Secondly, the Aircraft and Shipbuilding Industry Bill. Although Harland and Wolff is excluded from the Bill, it is clearly important to ensure that so far as possible the Northern Ireland shipbuilding company marches in step with the rest of the UK shipbuilding industry. Lack of progress on the Bill creates special difficulties for Northern Ireland in three main areas:-

- a. Delay in the creation of British Shipbuilders may make it more difficult for the Department of Industry to implement the measures of financial assistance to the GB shipbuilding industry which are implicit in the interim strategy referred to in para 3.b. above. This in turn may make it more difficult to persuade IN (or even Cabinet) to approve further financial assistance for Harland and Wolff. (Such assistance would be an essential part of securing one of the new orders referred to in para 3.e. above, since there is no possibility of securing a profit-making order in face of intense world competition).
- b. The inevitable contraction of the UK shipbuilding industry referred to in para 3.b. above has made it necessary to prepare draft legislation for a special redundancy scheme. This would apply to

Northern Ireland as well as to GB: but delay on the Aircraft and Shipbuilding Industries Bill is bound to defer the announcement and publication of a redundancy scheme - quite apart from the fact that it has already been held up because of difficulties in negotiations between the Secretary of State for Industry and the CSEU. Briefly the CSEU do not want to be seen to be discussing redundancy until it is forced on them by the imminent collapse of the first GB yard.

- c. Any new plan for Harland and Wolff which may be put to IM in early 1977 must be based on a major and planned reduction of the work force. Such a reduction must be discussed with and accepted by the trade unions, whose cooperation will be required if the smaller yard is to operate successfully. Put it is virtually impossible for an approach to be made to the Harlands' unions until such time as the Secretary of State for Industry has persuaded CSEU that contraction and redundancies for the industry as a whole must be faced.

5. It will be self-evident from the above summary that this whole subject is a minefield. Disclosure during the Appropriation Order debate of any of this material would have a damaging commercial effect on Harland and Wolff; it would also endanger the whole strategy of the Secretary of State for Industry in his negotiations with the UK shipbuilding industry and with the CSEU.

Sneaking Note

6. A defensive speaking note, which attempts to avoid the minefield, is attached at Annex A, for use by Mr Dunn.

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APPROPRIATION ORDER DEBATE, 9 DECEMBER 1976

HOUSE OF COMMONS

SPEAKING NOTE ON HARLAND AND WOLFF

Prospects Generally

1. I have been asked about future prospects and manning at Harland and Wolff. As this is primarily a financial debate, perhaps I should start by referring to the £60 million which was committed to the company in August last year when Harland and Wolff was taken into public ownership. I am glad to report that drawings from this sum are more or less, allowing for weekly and monthly swings, on the course predicted. The House will recollect that this money was intended to enable the company to complete its current order book in late 1978/early 1979.
2. Manning levels and future prospects clearly depend on the size and scope of new orders. And new orders depend on the ability of the company - management and unions both have a part to play in this - to convince potential buyers that it is competitive as to price and delivery. I do not need to remind the House of the serious state of the world shipbuilding industry in the face of too few orders chasing excess capacity. However I am not breaching commercial confidence if I say that Harland and Wolff is vigorously following up a number of leads, any one of which would have a major impact on the order book if current enquiries lead to firm orders. I would rather not say more about this today.

Productivity

3. I am glad to report that there has been an encouraging movement over the last two years towards improved productivity. Adopting the most commonly used unit for measurement of productivity in the shipbuilding industry - namely the overall number of man hours expended on steel-work activities divided by the calculated weight of steel prepared, fabricated and erected (known as man hours per gross tonne) - figures have come down from over 70 in 1974 to a figure which in recent months has more often been under 50 than above it. The company is confident that this improvement can be maintained. Note for the Minister. If it is desired to spin out discussion on productivity a more detailed speaking note, prepared by the Department of Manpower Services, is at Appendix 1.7.

Worker Participation

4. Agreement was reached in June on the proposed scheme of Worker Participation and since then Management and Trade Unions have been engaged, individually and jointly, in finalising arrangements for the scheme's introduction.

Attention has been focussing particularly on the arrangements for establishing the proposed Trade Union Resource Centre; on the development of participatory structures at the various sub-Board levels; and on the procedures for the election of Worker Directors.

Substantial progress has been made on the first two of these. There is, however, some evidence of difficulty amongst the Trade Unions in reaching agreement on the election procedures and the Department of Manpower Services is proposing to meet the Unions shortly to establish precisely where matters stand.

Changes were after a while 50 and hour/grade lower than above.

The proposed planning and control systems taking more and more effect (by encouraging more lateral movement of work) and the large-scale capital facilities being taken into action, the Company is confident that these improvements will be substantial - although it will be recognised that any lack of continuity of orders and the risk of orders which may be obtained due to the wide-spread receipt of large tanker orders, for which the Yard is particularly well suited, will have an effect on the two hour/grade levels which can be anticipated in future.

The Company, in common with most others in the Shipbuilding industry, does not have a standard unit of productivity to measure performance throughout the Yard. The most commonly used unit is that which applies to steel-work, namely man-hours per gross tonne, that is, the overall number of man-hours expended on steel-work activities divided by the calculated weight of steel prepared, fabricated and erected, expressed in gross metric tonnes.

Using this unit of measurement, the performance of Harland and Wolff has shown an encouraging improvement over the past two years. From recorded man hour/gross tonne figures of 70 and over in 1974, performance had considerably improved by early 1975. Following the initiative taken by Mr Orme in late 1975 in meeting Management and Trade Union interests to discuss the future of the Company, a deteriorating trend was sharply reversed and from March of this year the monthly returns have shown figures more often below 50 man hour/gross tonne than above.

With improved planning and control systems taking more and more effect (eg in ensuring more logical sequences of work) and the long-delayed capital facilities coming into action, the Company is confident that these improvements will be maintained - although it must be remembered that any lack of continuity of orders and the mix of ships which may be obtained due to the world-wide scarcity of large tanker orders, for which the Yard is particularly suited, must have an effect on the man hour/gross tonne levels which can be anticipated in future.