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As we do not have a H&W file
Could this please be put on
our General Companies file

Mr Minnis.

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S241/87 Vol 2.

MR FELL

Copy to: Miss Brown
Miss Taylor B.

CC PS/MR VIGGERS (B&L)
PS/PUS (B&L)
PS/SIR K BLOOMFIELD
NI PERM SECRETARIES
HEADS OF GROUPS (DED)
[REDACTED] (DED)
MR McCONNELL (ESL)
MR WOOD
MR BEATTIE
MR McALEER

H&W: BASIC BRIEF ON POLICY

1. I attach a copy of the Basic Policy Brief which includes annexes giving some statistical background on H&W's performance and the Government's support for the company and for industry generally in Northern Ireland.
2. Mr Viggers agreed that this brief would provide background for officials and could be used over the next few weeks when opportunities arise or questions are asked. I am therefore sending a copy to all Permanent Secretaries for appropriate circulation within their Departments and the Heads of Groups and Divisions here.
3. I would be grateful if Mr McKenna would arrange for circulation of this material to Ministers.

IVC
IVOR C GREER
Industrial Support Division 2

21 November 1988

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18 November 1988

POLICY ON H & W

General

1. The Government does care - it may be fashionable to decry its efforts by reference to short term developments but its record over the years (specifically and generally) shows otherwise.

2. Specifically, the Government took Harland and Wolff into public ownership in 1975 when its former owners were threatening closure and since then has provided £485 million of special assistance to enable it to keep trading. Without this assistance, the company would have closed and many years of employment would have been lost. In today's currency, total assistance to H&W since 1966 is worth over £1,220 million. Attached are Annexes which show (i) HMG's support for Harland & Wolff per employee and HMG's support for other sectors of Northern Ireland industry per employee per year over the last 10 years (ii) the extent of total support (intervention aid and losses) on merchant ships built in recent years and (iii) the proportion of support for industry in Northern Ireland allocated to Harland and Wolff in the last 8 years.

3. The level of support to industry generally in Northern Ireland far exceeds that offered in any other part of the United Kingdom and equates to the best in the world. The amount of spending on industrial support per employee in Northern Ireland is 8.3 times that in the rest of the United Kingdom. The Northern Ireland share of the overall UK regional assistance budget has increased from 13% to over 16% over the past ten years.

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H & W and Privatisation

4. Support for Harland and Wolff has enabled it to continue trading for the last 13 years. However, it has not been easy and has required an ever increasing commitment. The arrangements which won the order with Shell for two Liquid Petroleum Gas tankers in 1976 represented one of the most complex financing arrangements ever put together. The current Ministry of Defence contract for an Auxiliary Oiler Replenishment Vessel (AOR) was won in the face of competition with private sector companies only on onerous terms. The dearth of orders and pressure on prices is reflected in the fact that for the last 5 years, intervention aid has represented only 15 per cent of the Government's support for H & W; over 56 per cent of that support has been to cover operating losses.

5. As in any other sector of industry, shipbuilding is a rapidly changing business. The last 20 years have seen the rapid rise of Japanese shipbuilding followed by the equally rapid rise in Korean shipbuilding and a coincident decline in European shipbuilding. Competition is stiffer than ever before. There is no reason to believe that Far Eastern yards will not attempt to avoid this competition by moving to the higher technology ships now being sought by Western European yards. A response to this competition needs owners and investors who are entrepreneurally minded and capable of responding rapidly to market opportunities and developments. The public sector is not the place to find such skills. In the long run, survival of any industry, whatever it is, cannot be guaranteed by the state. It depends on the ability of the Company, the management, the workforce and, above all, the product to meet the needs of the market.

6. This Government firmly believes in the benefits of privatisation, an economic philosophy which is finding

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favour with Governments throughout the world, including many socialist Governments, eg France and Spain. Such a policy has brought benefits to most of the companies privatised in the UK since 1979 (see Annex IV) and there is no reason why it should not bring similar benefits to the Northern Ireland economy. Without the adoption of modern economic policies such as privatisation, Northern Ireland will increasingly be seen as an economic backwater and will be hampered in competition with privately owned companies in Great Britain and further afield. This was clearly demonstrated in the competition for the AOR vessel which was won by H & W only on the basis of onerous conditions.

7. In the long run it is not possible to defy economic forces. Only companies which respond to change and achieve profits can survive. If the shipyard cannot survive in the private sector, it will not survive. A dynamic economy is one which is constantly changing. The Government is not willing to continue to bear losses above agreed levels of support.

8. Public ownership is no guarantee of survival. Indeed, during public ownership employment at the yard has fallen from 9,500 to under 3,700, cash losses have increased from just over £5m to almost £39m, and support per employee has increased from over £2,200 to more than £14,300. This has been so despite the move to higher technology ships. The only way to survive is to introduce an ownership which, within agreed levels of Government support (which are still more generous than for any other industry in Northern Ireland) can make the yard profitable.

The Way Forward

9. For these reasons, the Government is committed to the

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privatisation of Harland and Wolff. One option would be to sell the company to any buyer without condition. Given the prime site occupied by H & W this could rapidly lead to asset stripping. Instead, the Government has preferred to seek a buyer with shipbuilding orders which ensure continuity of employment within the foreseeable future. The Government is not prepared to compromise the plans of such a buyer. It is, therefore, not willing to allow orders to be taken in advance of identification of a new owner.

10. The Government regards the management/employee buy-out (MEBO) as an exciting proposition and will give it equal status with the other two main interests. Before agreeing to pass ownership of the yard to a prospective buyer, the Government must be convinced that that buyer has adequate financing arrangements which will enable him to carry forward the yard and that proposed ship orders are properly financed. The MEBO represents a unique opportunity for the management and employees of H & W to demonstrate their confidence in their ability to build ships to cost and to time.

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ANNEX 1

GOVERNMENT SUPPORT FOR NI INDUSTRY PER EMPLOYEE
1978-1988

	HARLAND & WOLFF	OTHER SECTORS*
	£	£
1978/79	1,643	909
1979/80	2,784	877
1980/81	4,491	1,164
1981/82	7,795	1,099
1982/83	7,727	1,515
1983/84	7,286	1,207
1984/85	7,360	1,450
1985/86	7,494	1,630
1986/87	13,063	1,550
1987/88	14,342	1,368

NOTE:

Government assistance to "Other Sectors" defined as IDB and LEDU selective financial assistance, standard capital grants, factory building and direct financial assistance to Shorts. Excludes training grants, advisory services, electricity subsidy, loan guarantees.

EXTENT OF GOVERNMENT SUPPORT (INTERVENTION ASSISTANCE + LOSSES)
ON THE LAST 15 MERCHANT SHIPS COMPLETED AT HARLAND AND WOLFF
(1979-1987)

	£m
- Total cost of last 15 merchant ships completed	498
- Total Government support (Intervention Assistance and Losses)	166 = 33%
- Losses after Intervention assistance on individual contracts have ranged from 14% - 71% of contract costs.	

- The Government remains willing to make available intervention assistance to a privately owned Harland and Wolff within the limits permitted by the UK and EC but it is not willing to continue to provide for trading losses above this level (currently 28%).

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Answer 4.

AID TO H&W AS A % OF TOTAL AID TO NI INDUSTRY

£'000s

Type of Assistance	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88 Projected
ID	83,442	57,969	85,040	60,598	65,902	81,452	81,510	83,215
LEDU	5,644	5,969	8,799	13,650	14,400	17,750	25,520	22,175
Standard Capital Grants	39,806	41,705	52,835	40,675	54,706	55,670	29,950	16,750
Shorts	7,300	11,700	6,000	7,400	6,500	6,440	6,270	6,686
H&W (2)	41,200	46,000	47,600	40,000	37,500	36,500	64,000	58,000
Total (1)	177,392	163,343	200,274	162,323	179,008	197,812	207,250	186,826
(2) as a percentage of (1)	23.2%	28.2%	23.8%	24.6%	20.9%	18.5%	30.9%	31.0%

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Seventeen major businesses privatised including British Airports Authority, Rolls Royce, Royal Ordnance, British Airways, British Telecom, British Gas, British Aerospace and Cable and Wireless.

Around 655,000 jobs returned to the private sector.

A reduction of 40% in the state-owned industry sector. The present privatised programme will take that total to some 65%.

The Government's programme has shown that it is possible to privatise natural monopolies to the benefit of customers, employees and the economy as a whole. Where competition is impractical, tough transparent regulation gives full protection to consumers while allowing an enforcing private sector standards of efficiency and management. The OFTEL decision on interconnection which allowed Mercury Communications to link in to the BT network shows regulation works.

The Effect

The great majority of privatised companies have seen higher output and investment, better industrial relations and morale and higher profits.

90% of the employees now eligible for special incentives to acquire shares in the flotation of their company have taken the option.

Privatisation is good news for customers too. They now benefit from more responsive utilities as shown by the fact that 90% of BT public telephone boxes now work compared with 75% last October.

Should there be any doubt as to the benefits of privatisation it is worth looking at the records of some of the companies which have been privatised.

Amersham: Pre-tax profits quadrupled since privatisation in 1982.

B Ae: Pre-tax profits tripled since privatisation in 1981.

National Freight Consortium: This company, which is 82.5% employee owned has seen pre-tax profits rise from £4.3 million in 1981 to £370 million in 1986. Its record is one of expansion and success with new distribution centres, acquisitions in North America and a share price up by a factor of 40.

Cable and Wireless: A fourfold increase in profits and a steady growth in sales, investment and employment.

The great majority of privatised companies have seen higher output and investment, better industrial relations and morale, and higher profits. It is worth comparing this good news with the position before 1979. In those days, the nationalised industry sector accounted for one-tenth of national output and had 1½ million employees. Its losses and borrowings cost the taxpayer £3 billion per year and the service which it provided to the public was the mainstay of

every standup comedian's jokes. This was not the fault of management of the workforce but of the system of public control. Nationalised industries had manifestly failed to live up to the original ideals of efficiency and commitment to the public good.