

House of Commons  
Scottish Affairs Committee

**EMPLOYMENT IN SHIPBUILDING  
ON THE CLYDE: RESPONSE BY  
THE GOVERNMENT  
to the Fifth Report of the Committee of  
Session 2001–02 (HC 865)**

Second Special Report  
of Session 2002–03



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*Report with Appendix*

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## SCOTTISH AFFAIRS COMMITTEE

The Scottish Affairs Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Scotland Office (including (i) relations with the Scottish Parliament and (ii) administration and expenditure of the offices of the Advocate General for Scotland (but excluding individual cases and advice given within government by the Advocate General)).

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The following was also a member of the Committee during this inquiry: Mr Peter Atkinson MP (*Conservative, Hexham*).

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Order, principally in SO No.152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at [www.parliament.uk/parliamentary\\_committees/scottish\\_affairs\\_committee.cfm](http://www.parliament.uk/parliamentary_committees/scottish_affairs_committee.cfm). A list of Reports of the Committee in the present Parliament is at the back of this volume.

### Contacts

All correspondence should be addressed to The Clerk of the Scottish Affairs Committee, Committee Office, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general inquiries is: 020 7219 6123; the Committee's e-mail address is: [scotaffcom@parliament.uk](mailto:scotaffcom@parliament.uk).

# SECOND SPECIAL REPORT

The Scottish Affairs Committee has agreed to the following Special Report:

**EMPLOYMENT IN SHIPBUILDING ON THE CLYDE:  
RESPONSE BY THE GOVERNMENT TO THE FIFTH REPORT  
FROM THE SCOTTISH AFFAIRS COMMITTEE, SESSION 2001–02  
ON EMPLOYMENT IN SHIPBUILDING ON THE CLYDE**

On 15 July 2002 the Scottish Affairs Committee published its Fifth Report<sup>1</sup> of Session 2001–02 on Employment in Shipbuilding on the Clyde. On 16 December we received a memorandum from the Government which contained a response to the Report. The memorandum is published without comment as an appendix to this Report.

## APPENDIX

### Memorandum submitted by the Scotland Office

#### Summary

This memorandum constitutes the Government's response to the Scottish Affairs Committee's report *Employment in Shipbuilding on the Clyde* (Fifth report of session 2001–02, HC 865 published on 15 July 2002). The Government welcomes the Report's contribution to existing efforts to help sustain employment in shipbuilding on the Clyde. The Government has considered the Committee's report and this memorandum sets out the Government response.

The Committee's 8 recommendations and conclusions are set out below followed by Government's responses.

**(a) We welcome the clarification of defence shipbuilding policy which the letter from Lord Bach to the Chairman of the Committee introduces. This was reaffirmed by the Minister during oral evidence. It is clear that until we started our inquiry some fabrication of warships, although limited in scope, had been diverted overseas. The Government has acted with alacrity to close, or at least diminish, the relevant loophole, which should not have been open in the first place. For reasons of security and protection of the capability, the fabrication and assembly of military vessels commissioned by the Ministry of Defence must remain within the UK. The letter from Lord Bach explained that instances such as the one drawn to our attention, were caused by the receipt of more cost effective bids, or a shortage of relevant skills or equipment. There must be no exceptions to the stated Government policy on warship construction. All appropriate efforts should be made to ensure that the skill and equipment base sufficient to allow this policy to be fulfilled is available. [Paragraph 12]**

As stated in the Report, it remains the policy of this Government that all warships for the Royal Navy will continue to be built in the United Kingdom, including the largest and most capable vessels. This entails all fabrication and assembly of new warship hulls.

The Report refers to an unwitting departure from this policy in the case of two ships (Alternative Landing Ships Logistic—ALSL), where the prime contractor, Swan Hunter

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<sup>1</sup> Fifth Report from the Scottish Affairs Committee, Session 2001–02, Employment in Shipbuilding on the Clyde, HC 865.

placed a sub-contract for the fabrication of the bow sections (representing less than 0.5 per cent of the overall contract value) with a Dutch company. As the Report acknowledges, the MOD has therefore placed a clause in the ALSL contract that specifically requires the company to obtain the Ministry's prior approval before subcontracting any fabrication or assembly of structural steelwork. Future contracts for warships will incorporate a similar clause, which will make it clear that approval to place any such subcontracts outside the United Kingdom would be granted by the MOD only in the most exceptional circumstances. Although it is expected that exceptions would be rare, if they were to happen at all, the possibility cannot be ruled out entirely; for example, if such action were essential in order to meet key programme criteria of time, cost, or performance.

The Government is well aware of the need for the UK shipbuilding industry to retain and develop the necessary skills to accommodate the future warship building programme. The DTI, together with the Shipbuilders and Shiprepairers Association, are engaged in a number of initiatives to assist in this respect, including the establishment of a national skills database. The MOD also continues to work closely with industry to ensure that the programme is achievable. In support of this objective, the MOD has commissioned a study by the RAND organisation to assess the shipbuilding strategies of the two competing prime contractors for the future carrier (CVF). It is intended that this work, together with studies by the CVF prime contractors, will assist in establishing the skills and capabilities that will be required for the design and manufacture of the carriers. The MoD is commissioning RAND to carry out a further study, building upon the work they have already done, to assess the capabilities (design, build and outfitting) and capacity (infrastructure and manpower) that will be needed for the future MoD shipbuilding programme more generally.

**(b) We consider that, given the Government's policy on home grown warships and accepting the somewhat limited scope for competition that this policy allows, it is the duty of the Ministry of Defence to provide the earliest notice possible of its commissioning decisions. [Paragraph 13]**

The MOD will continue to keep industry informed of its future programme plans and identify requirements as soon as practicable. It should be noted that, although the Strategic Defence Review remains the basis of MOD policy, the future procurement programme will continue to evolve in line with the strategic environment, financial imperatives and industrial and technological developments. The timing of future orders cannot therefore be predicted with absolute certainty.

**(c) In the light of subsequent developments concerning MoD commissioning plans, most of which might have been anticipated, at least to some extent, we deprecate the way BAE SYSTEMS went about reducing the number of workers at its yards on Clydeside. The company's heavy-handed exaggeration of the numbers who would be required to go must have created a climate of uncertainty and low morale, which has only improved following the more optimistic forecasts of recent months. We recognise that BAE SYSTEMS operates in a hard business world and in a politically sensitive industry, but we recommend that in future the company adopts a more sensitive and straightforward approach to its workforce. [Paragraph 16]**

This is a commercial matter for BAE SYSTEMS.

**(d) We feel that the overall concept of the BAE Ten Year Strategy lacks an appropriate level of flexibility common in other business plans. We hope that BAE SYSTEMS will review its approach on a regular basis. At the very least the Strategy should constantly focus on prospects over a 10-year period and not be subject to a diminishing timescale. [Paragraph 24]**

This is a commercial matter for BAE SYSTEMS.

**(e) We believe it is essential that, in order to maintain the quality, sophistication and expertise of warship design, which is a feature of the UK shipbuilding industry, the current Government policy on the commissioning of defence vessels should be extended to include the design role. [Paragraph 27]**

It is the MOD's policy, wherever practicable, to select prime contractors through competition to manage major procurement projects. The MOD seeks to make the prime contractor responsible for design, system integration, and production. Prime contractors are also under remit to use competition, wherever practicable, including overseas companies where appropriate, to secure the best value for money for the MOD, not only in the procurement stage but also through life.

There are well understood reasons for restricting the construction of new warship hulls to the UK and British shipyards have benefited considerably from this policy; few industries have the advantage of such a bedrock of work on which to plan. The great majority of design work on warships ordered by the MOD is also carried out in the UK. For example, all such work for the Type 45 destroyer programme is being undertaken in this country, with the design team (from both BAES Marine and Vosper Thornycroft) based principally on the Clyde at Scotstoun and also at Woolston in Southampton. Similarly, platform design and ship construction work for the CVF programme will be carried out in the UK, whichever of the two competing candidate prime contractors wins the order. This will offer excellent opportunities to UK shipbuilders.

The MOD recognises the importance of preserving warship design capability within the UK and will keep under review the means of maintaining it. However, the MOD would not wish to limit warship prime contractors to the use of UK designs. The ALSL project has shown that both the MOD and the British shipbuilding industry can benefit from contracting for overseas design. Swan Hunter entered into an alliance agreement with the Dutch company Royal Schelde during the initial bidding process for the ALSL contract. This offered Swan Hunter a commercially attractive solution, which met many of the MOD's smart acquisition principles. Under the arrangement with Royal Schelde, the initial technical design work was carried out in Holland but there has been a progressive transfer (now complete) of design responsibility and activity to Swan Hunter, enabling the UK company to build up a design capability that it did not previously possess.

More generally, the MOD also appreciates the importance of retaining a healthy industrial base for warship building in the UK, with companies available to compete for future orders. However, MOD orders alone cannot be expected to sustain the shipbuilding industry. It is essential for their longer term future that UK shipbuilders seek to widen their customer base and identify other opportunities, for warship export orders in particular. They must be innovative, efficient and productive, enabling them to offer attractive designs at competitive prices. With this in mind, the MoD is setting in hand work to examine strategies for keeping the warship building industry competitive and innovative; to investigate the attributes that are necessary for shipyards to be successful in both commercial and military shipbuilding; and to establish actions that might be taken to bring about a more robust industrial base for shipbuilding in the UK.

This work is intended to identify steps that UK shipbuilders could take to improve their performance, leading to benefits both for the industry, in terms of securing their longer term future, and to the MoD.

**(f) BAE SYSTEMS bemoaned the lack of investment in research and development from which the industry suffered. Sufficient funds were apparently unavailable to support an appropriate level of research. This must change if the industry is to thrive beyond the next ten years. Ministers made it very clear that although some grants were available, there was no extra money in the Government's pot further to subsidise research and development in shipbuilding. We therefore urge the industry to consider very carefully the implications for future success, profits and jobs of allowing the research and development expertise which is available within the UK shipbuilding industry to stagnate or go to waste through lack of adequate investment. [Paragraph 30]**

This is a matter for UK industry.

**(g) Shipbuilding was, in living memory, the heavy manufacturing heart of Western Scotland. Despite having undergone radical surgery, the organ continues to function, but cannot be left without proper care. The Task Force designated a clear role for the Scotland Office in promoting export orders. The job requires regular liaison with the owners of the Govan and Scotstoun yards. Failure over a period of months to observe this obligation would amount to a serious neglect of duty. [Paragraph 36]**

The Scotland Office recognises the significance of the shipbuilding industry within the manufacturing base of the West of Scotland economy. The Department has ongoing contact with the management of the Govan and Scotstoun yards to ensure that it is kept in touch with their current and future work plans and will take this forward as a priority. The report of the Clyde Shipyards Taskforce and the evidence to the Committee have underlined that while MoD contracts continue to be vitally important to the future of the yards there is also a need to look to defence export markets and other suitable commercial opportunities. Scotland Office Ministers have therefore specifically committed themselves to supporting and promoting export opportunities for the Clyde shipyards. The Defence Export Services Organisation (DESO) provides support for the marketing and promotion of UK defence exports and the Scotland Office maintains contact with DESO in order to identify opportunities for Scotland Office Ministers to offer support to the position of the Clyde shipyards. The Scotland Office discusses specific opportunities with BAE Systems to identify the scope and nature of support which Ministers might be able to offer. The Secretary of State recently participated in the launch ceremony for KDB Jerambak, the third Offshore Patrol Vessel for the Royal Brunei Navy, which included contact with other potential export customers. The Scotland Office will continue to work in partnership with DESO and the company to promote the work of the yards whenever suitable opportunities arise.

**(h) It is very much in the interests of the UK shipbuilding industry to strive to develop a system of mutual support and co-operation which would enable the dissemination of best practice and stimulate growth. The introduction of an individual overseer or "Czar" would be no panacea to the problems faced by the industry today. We do not consider that in the context of the shipbuilding environment one person could be expected to be able constructively to manage the dynamics surrounding competition, commercial sensitivity and Government procurement activity to the satisfaction of all those involved. The Shipbuilding and**

**Marine Industries Forum allows the separate parts of the industry their own voice. It could well be that to display itself with maximum efficiency and force, the Forum needs to undergo further re-organisation. But it is the appropriate body to deal with the issues which otherwise might be directed towards a co-ordinator.**  
*[Paragraph 47]*

The Committee's Report drew attention to the role and work of the Shipbuilding and Maritime Industries Forum and the debate about the merits of appointing a Maritime Coordinator ("Czar"). The Committee suggested that the Forum might need again to undergo further reorganisation to remain fully effective. The Committee concluded that a Maritime Coordinator would not be able to offer a positive contribution to the issues facing the industry at present.

The Shipbuilding Forum was established in the summer of 1998 to address a weakness in that there had never been any mechanism for all the stake-holders in the shipbuilding industry to meet together. The Forum brought together the shipyards, their unions, suppliers and customers, training providers as well as interested Government Departments. The Forum produced a very valuable Report (deposited in the Library of the House) which contributed to the industry's and DTI's objectives and work programmes.

Over time, DTI Ministers—with the full support of the Shipbuilding Forum—recognised that the scope of the Forum's work should be broadened to give more equal emphasis to other parts of the marine sector, most notably marine equipment and leisure boatbuilding. This reflected the economic and employment strengths of the other sectors and the interdependence between all the sectors. The Forum was renamed "The Shipbuilding and Marine Industries Forum", chairmanship has been transferred to the industry and a Steering Group was established.

DTI Ministers believe that the reconfigured Forum will result in even greater participation, involvement and drive towards improving the competitiveness, and hence profitability and employment opportunities of the marine industry. DTI Ministers similarly recognise that the Committee did not support the appointment of a Maritime Coordinator as those functions were the responsibility of the enhanced Forum.

Nevertheless, Ministers (and their officials) will—as the Committee recommends—continue to participate strongly in the work of the Forum and also actively ensure that the structure and membership of the Shipbuilding and Marine Industries Forum meet the objectives set.

*16 December 2002*

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