
Economic Perspective 3

THE HALL-RUSSELL SAGA

Jim Walker
Fraser of Allander Institute, University of Strathclyde

The tale of the Government's attempt to privatise the Aberdeen war shipyard of Hall-Russell can indeed be appropriately referred to as a "saga". For the management and workforce at this highly successful Scottish yard the whole privatisation episode is turning into a long, involved nightmare.

The beginnings of the saga are not really in August 1984 when the Government announced its plans to sell-off the profitable warshipbuilding division of British Shipbuilders by April 1986, but years earlier with the Conservative's ideological conversion to the view that private ownership was better than state ownership *per se*. On coming to office in 1979 a programme of privatisation was started which has seen British Telecom, Britoil, Associated British Ports, Amersham International, Jaguar and a number of others move into private hands. Two features have been particularly noticeable about the operations which have been floated in the period 1979-85: they have all been profitable; and their prospects for continued profitability have been good. The one planned denationalisation which has been delayed, ie the sale of British Airways, was held-up because the litigation going on in the US courts over the Laker collapse was potentially damaging to the level of bids the firm was thought likely to attract when offered for sale. This example confirms that the Government is acutely aware of market sensibilities and, when necessary, is prepared to keep the umbrella of state protection well and truly up - at least in the short-term. Why then is the same not true of the Hall-Russell shipyard?

In August last year, British Shipbuilders' annual report for the year ending 31 March

1984 was published. It showed that the warshipbuilding division of the company had made a £44m profit during the year, with Hall-Russell contributing £765,000 to the total. On the same day, the Government announced that the seven yards within this division, including both Scottish operations - Hall-Russell and Yarrows, were to be privatised. Despite criticism from Graham Day, the BS Chairman, claiming that it was against his better judgement as a businessman, the Government was "not for turning". This criticism was, however, somewhat surprising since it had been common knowledge for some time that the Government was planning to privatise the warshipyards in 1985 (see Simpson 1984).

At that time, writing in the *Commentary*, I suggested that it was no bad thing for the warship yards to be severed from the 'lumbering giant' of BS and that the prospect of privatisation was one to be greeted warmly. While generally still holding to that view, the special circumstances pertaining to Hall-Russell require a drastic re-think by the Government and BS along the lines of the British Airways sell-off.

Hall-Russell and Co Ltd was founded in 1790. Over the years it has specialised in trawlers, drifters and other small ships (many of which were fitted with the company's own steam engines). During the 1970's it built patrol and fishery protection vessels as well as supply vessels for the offshore oil industry. After nationalisation in 1977 it was placed in BS's warships division and, therefore, was not allowed to tender for merchant work. Unlike the majority of BS

yards up and down the country, Hall-Russell has had a flexible working practice agreement in place since 1970 and its labour relations have been exceptionally good. Furthermore, it has made profits every year since 1977 culminating in the £765,000 profit for financial year 1983/84. Indeed, the specialist work of the yard, its performance record and its labour relations record would all point to its being a much sought-after acquisition. Unfortunately, the yard lacks one crucial feature on which commercial interests place major importance - a healthy order book. It is currently working on its last Ministry of Defence order which is due to be finished in August 1986. Even so the firm has attracted some interested parties.

The first deadline for offers was set by British Shipbuilders advisers, Lazard Brothers, for 21 January 1985 but, at the request of a potential bidder, was put back to 15 February. That bidder was a consortium headed by Ross Belch, former managing director of Scott-Lithgow, and Iain Sproat, the ex-MP and Shipping Minister. It was believed that their first bid was a financial package with only £500,000 in cash (£265,000 less than the profits for the previous year). Not surprisingly, Lazard Brothers rejected this offer and invited more bids, presumably hoping for something between the £3-7m valuation of the yard reported in various leaks. In the meantime a proposed joint management buy-out for the two Scottish yards up for sale, Yarrow and Hall-Russell, fell through because of lack of interest at the Glasgow yard. This was a blow to management and men in Aberdeen who had voted 99% in favour of the proposal.

In April the Belch-Sproat consortium submitted a revised bid for the yard, believed to be in the region of £2m, and waited for a decision as two further prospective buyers arrived on the scene. The first was another consortium headed by Iain Philip, J Dickson Mabon and Colin Deans and the second was British Aerospace, who had been associated with the yard on the ship design for the new Mark III patrol vessel which is at present being assessed by the Navy. In the face of continuing delays by Lazard Brothers on

a decision over the yard's future the Sproat-Belch consortium eventually withdrew their bid completely in mid-May. This left the way open for British Aerospace and the Philip consortium. Subsequently, however, at the beginning of June, British Aerospace dropped their plans for a bid. Undoubtedly the major influence on this decision was the announcement by Michael Heseltine, the Minister of Defence, that there was no provision for the Mark III offshore patrol vessel in the defence budget and that no orders for the Castle class vessel (OPV2) would be forthcoming. In the meantime the Philip consortium had put in a bid of just over £1m for the yard although stating that it was subject to revision. In late July Lazard Brothers announced that they were seriously considering this bid, a courtesy never paid to the second Belch-Sproat offer. Meanwhile, the yard has only twelve months of its last contract to go, although sections of the workforce will not be required from later this year.

The predicament of the 800 employees in the Footdee yard has aroused little interest in the Scottish media and even that perennial voice of Scottish discontent, the Scottish lobby, has been silent. Whereas the threats to Scott-Lithgow on the Clyde and the Ravenscraig steel works have resulted in major campaigns to save jobs, the only people to show more than transient interest in what is happening to Hall-Russell have been local MPs and local interest groups including the district and regional councils. The spectre of unemployment is just as important to these men and their families as it is to those in Motherwell and Greenock. Admittedly, there are only 800 jobs at stake (the same number as at Gartcosh) and the Aberdeen area is not Scotland's worst job blackspot but it is the last sizeable shipyard left on Scotland's east coast.

Furthermore, as has seemed to be the case in previous privatisation moves, the Government's commitment to privatisation has resulted in a quite bizarre situation.

First, Hall-Russell is one of the smallest warshipbuilding yards in the UK. This is

likely to be an advantage in world terms where many less developed countries and smaller nations are in the market for patrol craft and other medium-sized ships. The Aberdeen yard has already had orders from Hong-Kong and LDCs. However, the yard's lack of experience in export dealings, as a consequence of its designation under BS, make its launch into world markets a medium to long-term aim rather than one which could be achieved in the next few months.

Secondly, the decision to put up for sale an enterprise which had only eighteen (now twelve) months guaranteed work is a difficult one to understand. It is made all the more incredible when the main source of orders, the Ministry of Defence, announces that it has no plans to place any more contracts for the type of vessel built at the yard in the foreseeable (ie two years at least) future.

Thirdly, the uncertainty surrounding the yard's eligibility as regards the Governments' intervention fund must be cleared up before prospective owners can plan their future course of action or, indeed, formulate a realistic bid for the yard. To date, this fund has only been available to merchant shipbuilders to be used when competing with Far East shipyards for new orders. The fuzzy comments made in June by ministers about the "possibility" of using this money to aid "specific" yards in trouble just will not do.

When the announcement to privatise the warship yards was made a year ago there was uncertainty over the future of Royal Navy defence contracts and the Hall-Russell order book reflected this. This uncertainty has been removed and the yard now knows that its principal customer no longer requires its services. This development makes successful privatisation of the yard difficult if not impossible. To persist in trying to sell-off a firm in this predicament as an ongoing business is sheer folly. Since November the workforce, aided by the district council, have fought against the possibility of the yard being sold off as a prime site to the oil industry. However, the Government's

actions in the affair make this development all the more likely especially if they continue to insist on a high selling price. Few private concerns would want to buy a shipyard with only one order to complete, no prospect of new ones from its major customer, little or no experience in export markets and no guarantee of Government support from the intervention fund.

The trade unions at the yard are currently calling on British Shipbuilders to revise their decision to sell the yard and to take it back into the fold until it can diversify its interests into the merchant market. This would appear to be the only sensible course of action if Scotland wishes to maintain a shipbuilding capacity on the east coast. The analogy of British Airways is appropriate here. The Government has continued to shelter this company, with all its monopoly rights on existing air routes, until the Laker law suits have been resolved in America. In that case the Government was, and still is, waiting for the most appropriate time to sell. In Hall-Russell's case the opposite has been true. The yard is being sold-off when it is least likely to have a chance of survival as a successful shipbuilding operation. Unless the Government and BS relent and allow Hall-Russell more time and a better chance to remain as a shipyard, there are only two conclusions which can be drawn: either the Government is ignorant of just how the market works and thinks, or it had no interest in the successful sale of the yard in the first place. The example of British Airways clearly indicates that it is not the former.

REFERENCE

- D Simpson, "Privatisation", *Fraser of Allander Quarterly Economic Commentary*, August 1984.

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