

Confidential filing.

Metro Cammell contract to supply rolling stock
for the Kowloon-Canton Railway.

HONG KONG.

AUGUST 1981.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
9-9-81.							
2/9/85							
13/9/85							
25-9-85							
20-9-85							
14-4-86							
15-4-86							
26-9-85							
PREM 19/1531							

Copied to
IND.POL: possible
sale of Metro-Cammell;
Sept 1985.
CHPS



RM

CDTI
HMT
FCO
TWA

10 DOWNING STREET

26 September 1985

THE PRIME MINISTER

Dear Mr. Cardner

I was very concerned to hear from you of the threat to Metro Cammell's future, which you described in your letter of 30 August.

I know that Metro Cammell have made strenuous efforts to win orders to fill the long foreseen gap in London Transport orders for tube stock. The Government has also helped Metro Cammell with offers of grants amounting to some £15 million over the last six years to develop new vehicles and equipment.

I was therefore particularly delighted to learn that Metro Cammell has today been successful in obtaining the KCRC contract. I know that officials both here and in Hong Kong did all in their power to assist Metro Cammell to obtain the order and that Ministers who were recently in Hong Kong stressed to the Hong Kong Government the importance the UK Government placed on the contract being awarded to Metro Cammell. I hope that this success bodes well for the company's future prospects in this market and that you will win further orders.

I also understand that British Rail hope to announce soon the outcome of the tenders for Diesel Multiple Units. One of the objectives of the Public Purchasing Initiative is to give UK companies access to the home market in a way which will strengthen their ability to export, and the nationalised

Sam

industries have given their support to this. In the last resort, however, decisions on where to place orders have to be matters for the commercial judgement of the business concerned, as I am sure you will recognise.

Warm regards,

Yours sincerely

Margaret Barber

J.A. Gardiner, Esq.



10 DOWNING STREET

Prime Minister

I understand that
Nero - Cammell are infant
also likely to win a
substantial proportion of
the BR order. - when

will that
be announced? DWS
25/9.

~~A~~ Prime Minister
Department of
Transport do not
know. It could be
a few weeks.

DWS
26/9.



DEPARTMENT OF TRADE AND INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone (Direct dialling) 01 - 212)6008
GTN 212)
(Switchboard) 01 - 212 7676

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London
SW1

25 September 1985

Dear Mr Norgrove

THE LAIRD GROUP - METRO CAMELL

I mentioned to you this morning that Metro Cammell were successful in obtaining the KCRC contract. This means a further re-draft of the proposed reply by the Prime Minister to Mr Gardiner. Due to the urgency I have sent the attached direct to you although a copy has been sent to Mr Hosker in the Secretary of State for Trade and Industry's office.

Yours sincerely

B N STEELE

3JPAAP

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

J A Gardiner Esq
Chief Executive
The Laird Group
3 St James's Square
LONDON
SW1Y 4JU

Thank you for your letter of 30 August about the Kowloon and Canton Railway Corporation (KCRC) contract and British Rail's rolling stock purchasing policy. I am sorry for the delay in replying which was caused by my being out of the country.

I was concerned to hear from you of the threat to Metro Cammell's future. I am well aware of the company's past successes in Hong Kong and equally I recognise the company's importance as a supplier of the tube stock for London Transport and as a UK competitor for British Rail's requirements. I can assure you that the present situation of the company and the importance of winning early orders for its future are clearly understood and I well recognise the strenuous efforts you are making to achieve these. In your efforts overseas the Government has given substantial aid to help Metro Cammell's attempts to remain in such a difficult market including the offer of grants amounting to some £15m, of which £8m has been taken up, over the last six years to develop new vehicles and equipment together with the maximum help possible in overseas markets.



10 DOWNING STREET

THE PRIME MINISTER

I was very concerned to hear from you of the threat to Metro Cammell's future, which you described in your letter of 30 August.

X I know that Metro Cammell have made strenuous efforts to win orders in order to close the long foreseen gap in London Transport orders for tube stock. The Government has also helped Metro Cammell with offers of grants amounting to some £15 million over the last six years to develop new vehicles and equipment. We have also given, and shall continue to give, all the help we can in overseas markets.

X X I understand that efforts are continuing at official level to push along the Metro Cammell bid for the Kowloon and Canton Railway Corporation contract, and these will certainly continue. You suggested that political pressure might now help. At this stage, however, ^{I am advised} it seems likely that efforts of this kind would be strongly resented and might be counter-productive, unless there is evidence of interference in the commercial decisions of the Railway Corporation. But the importance of this order to your Company is well understood. I believe that ECGD have been helpful in working out a buyer credit with your bankers which will enable Metro Cammell to improve its financial package.

I also understand that British Rail hope to announce soon the outcome of the tenders for Diesel Multiple Units. One of the objectives of the Public Purchasing Initiative is to give UK companies access to a home market which will strengthen their ability to export, and the nationalised industries have given their support to this. In the last resort, however, decisions upon where to place orders have to be matters for the commercial judgement of the business concerned, as I am sure you will ^{recognise} understand.

~~I know you will find this as disappoint
 I am sorry I cannot do more to help now.
 But I hope you will keep in touch with ^{Ministers} colleagues
 at the Department of Transport and DTI in~~

~~as
 Please keep if there please do not
 hesitate to get in touch again if you~~

~~I should like to do more to help,
 but~~

I am sorry ~~not~~ to be able to offer no more support ~~at this~~ at this stage. I hope you will ~~to~~ keep Nicholas Ridley at the ~~the~~ Secretary of State for Department of Transport in touch as with negotiations on the ~~to~~ Hong Kong without proceed.

J. A. Gardiner, Esq.

SP2
CWO



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

20 September 1985

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David

THE LAIRD GROUP - METRO CAMELL

Mark Addison asked on your behalf for a re-draft of the proposed reply from the Prime Minister to Mr Gardiner which I sent you on the 13 September. The original draft has been amended, as requested, to make it fuller and more sympathetic.

Yours ever
Edmund Hosker

EDMUND HOSKER
Private Secretary

JF4AEX

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

J A Gardiner Esq
Chief Executive
The Laird Group
3 St James's Square
LONDON
SW1Y 4JU

Thank you for your letter of 30 August, about the forthcoming Kowloon and Canton Railway Corporation (KCRC) contract and British Rail's rolling stock purchasing policy.

was very
I ~~was~~ concerned to hear from you of the threat to Metro Cammell's future. *which you described* I am aware of the company's *has enjoyed successful* past successes in Hong Kong *in the past* and recognise its importance as a supplier of tube stock to London Transport and as a UK competitor for British Rail's requirements. *Hong Kong and British Rail orders* The present situation of the company and the importance of these potential orders for its future are clearly understood.

know that
I am well aware of the strenuous efforts made by Metro Cammell *have made* to obtain these and other orders in order to close the long foreseen gap in London Transport orders for tube stock. Equally the Government *also* has made very strenuous and substantial efforts to help Metro Cammell, with offers of grants amounting to some £15m over the last six years to develop new vehicles and equipment, together with the maximum help possible in overseas markets.

JF4AEZ

Political pressure by the United Kingdom Government on the Hong Kong Government is likely to be strongly resented and result in the opposite effect to that intended. It may well rebound also on other UK companies seeking business in Hong Kong. In the absence therefore of any evidence of interference in the commercial decisions of the Kowloon and Canton Railway Corporation I feel that it would be unwise to attempt to use political pressure to obtain this order. In the meantime the present efforts at official level to encourage a favourable view of the Metro Cammell bid both in the Hong Kong government and the Railway Board will be continued. I also understand that Export Credits Guarantee Department have been helpful in working out a reimbursable buyer credit with your bankers which will enable Metro Cammell to improve its financial package.

also
I understand that *British Rail* BR hope to be in a position to announce the outcome of the *DMU* tenders *for Diesel Multiple Units* very shortly. I cannot of course anticipate that announcement. The need for a consistent and coherent purchasing policy by nationalised bodies to give UK companies access to a home market base on which to found their export ability is well recognised by the Government. It is the basis of the Public Purchasing Initiative to which nationalised bodies have given their support. In the last resort however decisions such *as* *when and where* to place orders *have to be* matters for the commercial judgement of the *business* body concerned, *as I am sure you will understand,*

Yours sincerely

JF4AEZ

Metro Zumbell:

Hong Kong, Aug 8)



CONFIDENTIAL

CF pps ?



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

13 September 1985

David Norgrove
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Mark
D715 parole relett. 16/9/85
The draft letter is much less sympathetic and helpful than the covering letter. We are doing a great deal to help. The draft should put that out & say how best to do that would be counterproductive, at least in Hong Kong. David.

Dear David

THE LAIRD GROUP - METRO CAMMELL

Thank you for your letter of 2 September. I enclose a draft reply to Mr Gardiner.

Metro Cammell (Metcam) are indeed in a serious position. The company has little work and employment has dropped from 2,000 some two years ago to only 150 now. The bedrock of the company in the past has been a steady flow of orders for tube stock from London Transport. However it was long foreseen that the company would have a serious problem between 1985 and 1990 due to a gap of at least five years in London Transport orders. Of necessity Metcam has made efforts to break into highly competitive export markets and have been most successful in Hong Kong where they have supplied cars for the Mass Transit Railway and coaches for the Kowloon Canton Railway. During this period they have received Government assistance, financial and otherwise. Recently Metcam's hopes have been pinned on obtaining the Tuen Mun (Hong Kong) Light Rail contract, now lost to an Australian consortium, the Kowloon and Canton Railway Corporation (KCRC) order and orders from BR.

So far KCRC has placed all orders with Metcam who in February expected to land the current order through a negotiated contract. In the event no order has so far been placed. In the meantime currency changes have opened a wide price gap (15 per cent) between Metcam and the Japanese competition. Metcam feel rather aggrieved, possibly with some justification since there has been a recent suggestion that the Hong Kong Government - the 100 per cent owners of KCRC - had understood that the order was almost certain to be placed with Metcam. Our concern about events should certainly be

JH3CDM



CONFIDENTIAL

expressed to the Hong Kong Government but a political approach could well backfire. We prefer instead to pursue the matter at official level. This is also FCO's attitude.

There is no means by which any direct financial help could be given to Metcam to close the price gap. However ECGD have reacted positively to a proposal from Lazards, Metcam's bankers, which will enable Metcam to offer KCRC a financial package which KCRC might consider as offering the equivalent of a price reduction.

As far as orders from BR for Diesel Multiple Units (DMUs) are concerned, BR currently has authority from Department of Transport to order 240 and is almost ready with a request for authority to order a further similar number. Later, perhaps 600-700 more will eventually be needed, but the timing for these further tranches is uncertain. The likely purchasing pattern by BR of DMUs and EMUs (Electric Multiple Units) which are Metcam's product range is on average perhaps 300 per year over the next 4 years. However the preferred rate of build is not uniform and the combined capacity of the industry as a whole is greatly in excess of that workload. In such circumstances Metcam's request for a firm base of 200 units a year is unrealistic. BR are committed to the principle of purchasing rolling stock by competitive tendering, but they cannot give guarantees of future workload, particularly when the total numbers needed are relatively small in relation to the guarantees that are being requested.

Nor can they easily give the whole order to one supplier, if they want to maintain competition the future. Metcam's concern about the delay by BR in placing an order is understandable. But BR, while conforming with the Public Purchasing Initiative, have to base decisions on the Board's best long-term commercial interest. They have to have in mind the need to ensure that there can indeed be genuine competition when they come to invite their next tenders, and that may influence where they allocate the current orders. All this takes time, but it is understood that the order could well be announced within the next few weeks, provided existing discussions between BR and suppliers come to reasonable conclusions. The most likely outcome would be to share the bulk of the order between BREL and Metcam with some 30 going to BL, a new entrant in this field.

I am copying this letter to Tony Kuczys (HM Treasury), Colin Budd (Foreign and Commonwealth Office) and Sarah Straight (Department of Transport).

Yours ever
Edmund Hosker

EDMUND HOSKER
Private Secretary

Mr J A Gardiner
Chief Executive
The Laird Group
3 St James's Square
London
SW1Y 4JU

Dear Mr Gardiner

Thank you for your letter of 30 August about the forthcoming Kowloon and Canton Railway Corporation contract and British Rail's rolling stock purchasing policy.

Metro-Cammell's present situation and the importance of these potential orders for the company's future are clearly understood. Equally the strenuous efforts made by Metro-Cammell to obtain these and other orders are well recognised.

At the end of the day the customer must be guided in purchasing decisions by commercial considerations. This is our policy for our own nationalised industries: it would be impossible to justify asking the Hong Kong Government to take a different line in respect of the KCRC.

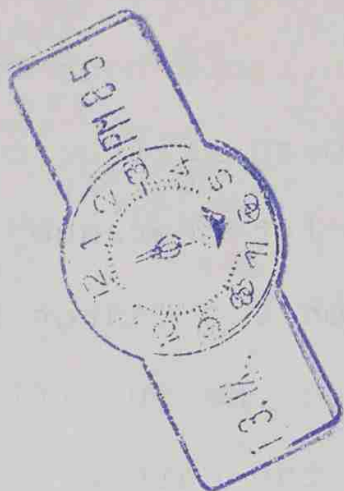
The present efforts at official level to encourage a favourable view of the Metro-Cammell bid both in the Hong Kong Government and the Railway Board will be continued but in the absence of any evidence of interference in the commercial decisions of the Kowloon and Canton Railway Corporation, it is difficult to see the justification for the sort of political pressure by the United Kingdom Government on the Hong Kong Government which you are suggesting. Indeed such pressure is likely to be strongly resented and result in the opposite effect to that intended. In the meantime I understand that Export Credits Guarantee Department have been helpful in working out a reimbursable buyer credit with your bankers which will enable Metro Cammell to improve its financial package.

I understand that BR hope to be in a position to announce the outcome of the DMU tenders very shortly. I cannot of course anticipate that announcement. The need for a consistent and coherent purchasing policy by nationalised bodies to give UK companies access to a home market base on which to found their export ability is well recognised by the Government. It is the basis of the Public Purchasing Initiative to which nationalised bodies have given their support. In the last resort however decisions such as when and where to place orders must be matters for the commercial judgement of the body concerned

Yours sincerely

Hong Kong:
Metro Cammell.

August 1981





10 DOWNING STREET

From the Private Secretary

6
A/ 2 September 1985

THE LAIRD GROUP: CONTRACTS

The Prime Minister has received the enclosed letter from the Chief Executive of the Laird Group. I should be grateful for an early advice and a draft reply.

I am copying this letter and enclosure to Tony Kuczys (HM Treasury), Colin Budd (Foreign and Commonwealth Office) and Sarah Straight (Department of Transport).

David Norgrove

Andrew Lansley Esq
Department of Trade and Industry.

SKW

The Laird Group

PUBLIC LIMITED COMPANY

J.A. Gardiner
Chief Executive

3 St. James's Square, London SW1Y 4JU
Telephone: 01-839 6441 Telex: 919329

JAG/aks

30th August 1985.

PRIVATE & CONFIDENTIAL

The Rt. Hon. Mrs. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
LONDON, S.W.1.

Dear Prime Minister,

I have decided to take the exceptional step of writing to you direct because Metro-Cammell is facing a serious situation which could possibly result in its closure and also because there are two key issues which, if decided in Metro-Cammell's favour, will avoid this.

Metro-Cammell is part of The Laird Group PLC and the company responsible for manufacturing all the railcars for London Transport, all the railcars for the Mass Transit Railway Corporation in Hong Kong and all the recent railcars purchased by the Kowloon Canton Railway Corporation for the line from Hong Kong to the Chinese border.

The issues facing Metro-Cammell are immediate and serious and they are:-

1. A contract which is soon to be awarded by the Kowloon Canton Railway Corporation, Hong Kong.
2. British Rail's rolling stock purchasing policy.

KOWLOON CANTON RAILWAY CORPORATION, HONG KONG

Metro-Cammell has supplied over 700 railcars, worth over £350 million, to Hong Kong and, in recent years, the Hong Kong market has taken the place of Metro-Cammell's domestic market for which no significant orders have been placed since 1981.

Part of Metro-Cammell's strategy for survival without significant UK orders was to seek more orders from its Hong Kong customers and an opportunity was seen in the early part of this year to take advantage of the weakness of Sterling.

Accordingly, the Management set about persuading the Kowloon Canton Railway Corporation to buy more trains. Metro-Cammell succeeded in creating a market. However, the Japanese (a Consortium of Kawasaki and Mitsubishi), who have been trying for many years to take Metro-Cammell out of the Far East market, have moved in with subsidised pricing and financing packages and battle has once again been joined.

In the circumstances I believe I am justified in asking you for as much help as can be given and in particular that the UK Government should make a major political effort to persuade the relevant Hong Kong authorities that our offer to the Kowloon Canton Railway Corporation is a good one. In these marginal situations, efforts of this kind can have a vital effect.

Now I would like to turn to British Rail.

BRITISH RAIL - UK BASE LOADING

The Government has encouraged Metro-Cammell to compete for British Rail railcars in competition with British Rail's own Workshops. In February of this year we tendered for 240 Diesel Multiple Units and, despite having submitted the lowest bid, no order has been placed with us.

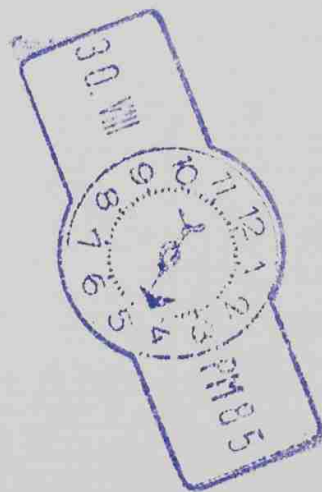
What Metro-Cammell requires from British Rail, if we are to remain in business and in the absence of any further UK orders, is a steady ordering programme of 200 railcars per year for three to four years. The financial authorisations have already been given for a substantial number of vehicles and we believe that we should already have received a significant order as a result of public tendering that took place six months ago.

If the Kowloon Canton Railway Corporation business is lost and British Rail fail to provide reasonable continuity of orders, then Metro-Cammell will probably go out of business, thereby opening the UK market, yet again, to overseas suppliers, simply because the UK, in this case, cannot get its act together.

Yours sincerely,

J. A. Gardiner

J.A. Gardiner.





May 1981

Treasury Chambers, Parliament Street, SW1P 3AG

Kenneth Baker Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

72

u/s

9 September 1981

METRO-CAMMELL LIMITED: KOWLOON-CANTON RAILWAY

Thank you for your letter of 14 August in which you proposed that Metro-Cammell be allowed to take out backdated cost escalation cover for the cash contract which it is negotiating with the Kowloon-Canton Railway. I entirely agree with John Biffen's conclusions, set out in his letter of 1 September, that it would not be acceptable to use the CEC scheme, which is intended to operate as a viable insurance facility, to provide a subsidy through retrospective insurance where a claim would be certain to arise.

I understand that as a result of Treasury officials initially rejecting this proposal, informal discussions with the Kowloon-Canton Railway began on the possibility of credit, incorporating interest subsidies, being offered as a means of obtaining their agreement to an increased price. The cost of providing interest subsidies may well exceed the subsidy requested under the Cost Escalation Cover scheme. If the latter subsidy is regarded as the amount necessary to obtain the contract, it does not seem sensible to provide a greater subsidy through an alternative route in order to obtain the contract.

I would prefer that this contract be seen in relation to the second contract mentioned in your letter which Metro-Cammell wishes to obtain in Hong Kong from the Mass Transit Railway. There is clearly an inter-relationship between the two contracts since if the subsidy requested for the first contract is granted but not the subsidy for the second, Metro-Cammell appears unlikely to obtain sufficient work to tide itself over until it obtains new orders from London Transport. On the other hand if a

subsidy is provided for the second contract but not the first and Metro-Cammell loses the first contract Hong Kong would no longer be such an effective showpiece for the company.

I understand that the Industrial Development Unit has in fact already started an appraisal for the use of the Industry Act to assist Metro-Cammell on the second contract. If no subsidy is provided for the first contract and this contract is accepted on a loss-making basis this loss could be incorporated in the appraisal undertaken by the Industrial Development Unit of the company and the contracts. I would hence prefer to defer a decision on the provision of any subsidy to Metro-Cammell until the Industrial Development Unit has reported.

I should however record at this stage my increasing concern about the number of applications received from exporters for subsidies of various forms to assist them in obtaining specific overseas contracts. In this case, the subsidy requested is to enable Metro-Cammell to continue its operations. It should be seen as much in the context of a domestic industrial subsidy as an export subsidy and will have to be justified in part on these grounds.

I am copying this letter to the recipients of yours.

LEON BRITTAN

10 SEP 1981

10 11 12 1 2 3 4 5 6 7 8 9



From the Secretary of State

The Rt Hon Leon Brittan QC MP
 Chief Secretary
 HM Treasury
 Treasury Chambers
 Parliament Street
 London, SW1P 3AG

pm. Hong Kong
 Prime Minister

There may now have to
 be collective discussion.
 But I doubt whether you
 need be involved.

MA 11/1x
 1 September 1981

Dear Chief Secretary ^{attached}

I have seen Kenneth Baker's recent letter to you about the £17 million order which Metro-Cammell Limited are pursuing for rolling stock for the Kowloon-Canton Railway in Hong Kong. I appreciate the importance of additional business to the company's future; it would be a pity if, because they were unable to negotiate this order as a supplement to the existing contract, it ended up going to the Japanese in an international bidding situation. However, I have to inform you of my conclusion, after discussion with my officials and legal advisers, that what is proposed would not represent a proper use of the relevant part of ECGD's Act.

The suggestion is that the Act be used to provide retrospective cost escalation cover (CEC), going back no less than three years. The scheme has always been represented to Parliament, both by our predecessors and by the present Government, as providing insurance against the unpredictabilities of future inflation levels. Last March Cecil Parkinson, in moving the scheme's extension to 1982, re-emphasised the Government's objective to make it viable and self-financing. It is also relevant to note here the assurance given to the House by our predecessors, that CEC would not be used to provide special assistance to firms facing difficulties for employment or viability reasons.

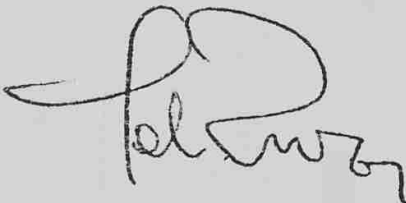
If the existing contract had included specific provision for the supply of these additional trains, perhaps in the form of an option, it might have been possible to act as Kenneth has proposed. But it did not and



From the Secretary of State

I am convinced that in all the circumstances it would not be reasonable to treat the current request as if it had been made three years ago when the existing contract was negotiated. Equally I do not believe that it would be a correct use of the power which Parliament has enacted if my Department were to provide an outright subsidy by giving CEC on the retrospective basis requested. To do so would, moreover, be at odds with the basis on which we have defended it in GATT and other international fora critical of such schemes.

I am copying this letter to the recipients of his.

Yours sincerely,


11 SEP 1981

11 12 11
10 12 3
9 12 4
8 7 6 5

H JOHN BIFFEN

(Approved by the Secretary of State and signed in his absence.)



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

✓ MFA

The Rt Hon Leon Brittan QC, MP
Chief Secretary to the Treasury
Treasury
Parliament Street
LONDON SW1

28 August 1981

Dear Leon,

I have seen Kenneth Baker's letter to you of 14 August about an extension of Cost Escalation Cover for Metro Cammell's contract to supply rolling stock for the Kowloon-Canton Railway.

I am writing to support Kenneth's view of the serious situation which would arise for Metro Cammell if they cannot secure extension of the cover. As he says, after 1983 there is a 6 year gap before London Transport are likely to be able to place rolling stock orders with Metro Cammell again. It would be extremely unfortunate if, because cover is not extended, Metro Cammell went out of business and London Transport - and any other UK purchasers - had to turn to overseas suppliers. So this contract could be crucial and I join with Kenneth in urging you to agree to Metro Cammell's request.

Yours faithfully
Norman Fowler

NORMAN FOWLER

File

059

28 August 1981

Thank you for your letter of 27 August providing some background information about Metro-Cammell in the context of the proposal for support for their orders from Hong Kong.

The Prime Minister was grateful for this information.

M. A. PATTISON

Jonathan Hudson Esq
Department of Industry

5/8



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 7676

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

Kenneth Baker's Office

27 August 1981

Prime Minister

MP 27/VIII

Mike Pattison Esq
Private Secretary
10 Downing Street
London SW1

Dear Mike,

The Prime Minister asked about the level of Metro-Cammell's wage settlement in the context of support for their orders from Hong Kong.

I attach a note setting out the details. Briefly, the supervisory and some white collar staff have settled for 5%. The direct labour force were given 8% in August last year but the offer for this year is zero. In the last year productivity has increased by 8.75%.

*Yours ever,
Jonathan Hudson*

*Handley
MT*

JONATHAN HUDSON
Private Secretary

10 11 12 1
9 8 7 6 5 4 3 2 1

27 AUG 1981

Mr Hudson
PS/Mr Baker

RECEIVED IN

24 AUG 1981

OFFICE OF THE
MINISTER OF STATE
KENNETH BAKER

cc Mr Dell o.r.
Mr Pride o.r.

METRO-CAMMELL LTD - WAGE SETTLEMENTS, PRODUCTIVITY AND COSTS

I understand the Prime Minister expressed interest in the above. You may like to have the following information.

i) Wage settlements

After a long struggle, but without "industrial action" being taken, the company had succeeded in obtaining agreements for a 5% wage increase for the following non-operative classes:-

- 1 January ASTEMS (foremen)
- 1 May APEX (clerical staff)
- 1 June TAFF (draughtsmen)

Metro-Cammell operates piece-work rates for their directly employed labour force and on 17 August 1980 agreed an 8% increase for these workers. Employee representatives are now negotiating for a review but the company (at least at this stage) is offering nothing. Mr Sansome* said that the company enjoyed good industrial relations; most of the workers realised that Metro-Cammell had a falling work load and he expected more opposition (to the company's nil offer) from union officials than from the workers themselves. Nevertheless an overtime ban had been imposed.

Mr Sansome justified the absence of any offer of an increase by saying that the workforce would just have to work harder.

About 20% of Metro-Cammell's labour force is composed of "indirect" lower paid workers whose rates have been progressively falling behind. These workers were awarded a 15% increase on 17 August 1980 and "might" get a further 5% in the present round of negotiations

ii) Productivity

The firm tells us that over the past year productivity has increased by 8.75%. A year ago it took 1,000 men to produce 8 rail cars a week. At present it is taking between 900 and 910 men.

iii) Rise in manufacturing costs

<u>State controlled Overheads</u>	<u>% OF M-C's TOTAL OVERHEADS</u>	<u>% INCREASE OVER LAST 12 MONTHS</u>	<u>AVERAGE</u>
Gas, rates, electricity, water and National Insurance Contributions	25%	20%	20%
Fuel oil	5%	20%	

(*Managing Director)

	<u>% OF M-C's TOTAL OVERHEADS</u>	<u>% INCREASE OVER LAST 12 MONTHS</u>	<u>AVERAGE</u>
<u>Costs within M-C's Control</u>			
Wages	50%	8%	8%
Costs of Materials)	20%	8%	
Pension costs			
	<u>100%</u>	<u>11%</u> (average)	

The firm was unable to say how M-C's increased costs compared with those of other similar engineering groups but referred to to CSO Digest of Statistics which, in Section 18.5, gave the index of average earnings as 11% (M-C 8%) and, in Section 18.11, gave index of materials costs as 17% (M-C 8%).

iv) The firm's actions to control costs

Metro-Cammell point to the following as evidence of their successful efforts to control costs:-

- a. following the 8% wage increase in August 1980 the company was not prepared to make any wage increase offer from August 1981;
- b. the company had no costly occupation pension scheme of its own, but had "contracted in" to the State Pension Scheme;
- c. M-C's major sub-contractors were GEC, BICC and Hawker Siddeley. Since work had started on the Hong Kong order, M-C had taken options for further equipment down the line (and each option had, according to the firm been more competitive). (When Mr Sansome 'phoned us on 21 August he told us that M-C took strenuous steps to hold down suppliers' prices.)

All in all this seems to be an encouraging picture and justifies our efforts to help the company to win business overseas.

JCS

J C S PRISTON
MEE 3
ASH 538 X6008
24 AUGUST 1981



Foreign and Commonwealth Office

London SW1A 2AH

26 August 1981

✓MAD

From The Minister of State

Dear Sir

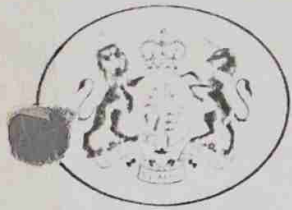
METRO-CAMMELL LTD: KOWLOON-CANTON RAILWAY (KCR)

I have seen a copy of Kenneth Baker's letter to you of 14 August requesting agreement to the provision of Cost Escalation Cover for the extension of Metro-Cammell's contract to supply rolling-stock to the KCR. I strongly support this request because there are wider issues at stake, not only because of the significance of the order for Metro-Cammell's future, but for other political and commercial reasons.

The original specifications for the modernisation of the KCR and the purchase of rolling-stock were drawn up by British consultants with the Metro-Cammell product in mind. It would do our export promotion work, in both Hong Kong and the Far East as a whole, considerable harm if a British firm failed to negotiate in a British Dependent Territory an extension of an order drawn up to British specifications, and the Hong Kong Government went to international tender. Success in the competitive Hong Kong market is highly beneficial in promoting British exports in the region. Conversely, failure there would have wider repercussions. For example, while it is true that economic readjustment has caused China to cut back her modernisation plans, it is expected that the Chinese will eventually require new rolling-stock for their own railways, particularly their part of the Kowloon to Canton line. If the whole KCR order is secured, Metro-Cammell would then be well placed for such orders.

It is also worth bearing in mind that a Transport Conference is being planned to be held in Hong Kong in February 1982. The aim is to promote the work of British consultants and exporters, using Hong Kong, which has bought much from our transport industry, as a showpiece. It could be serious if the KCR had, just prior to the conference, turned to our foreign competitors for the remaining rolling-stock it requires. I therefore hope you will agree to the provision of Cost Escalation Cover.

/I



- 2 -

I am copying this letter to members of EX Committee, to Norman Fowler and to Sir Robert Armstrong.

*Norman
Nicholas*

Nicholas Ridley

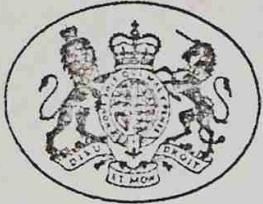
The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

26



26 AUG 1981





FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY
Kenneth Baker

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 7676

Prime Minister

*This is likely to be
resolved without a
meeting.*

MAF 17/1000

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Treasury Buildings
Parliament Street
London
SW1

14 August 1981

Agreed -

*but what increase in pay
did they award this year?*

Dear Chief Secretary,

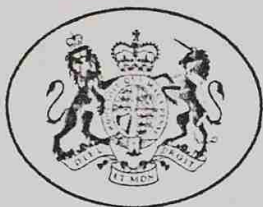
METRO-CAMMELL LTD: KOWLOON-CANTON RAILWAY

Metro-Cammell are currently working through a large contract to supply rolling stock for the Kowloon-Canton Railway, a contract which they were helped to obtain by support under the Cost Escalation Cover Scheme. The KCR authorities are sufficiently pleased with the first cars that have been supplied to want to extend the contract to include an additional 16 three-car sets.

Had KCR originally indicated that they might be interested in such an extension Metro-Cammell would certainly have pressed for such an option to be written into the contract and for it also to be covered by the Cost Escalation Cover Scheme. In fact, KCR only raised this possibility a few weeks ago. Metro-Cammell have asked ECGD for the same support for the extension to the contract, although they recognise that this might involve paying premium at the higher current rate of 2%. It is a cash contract, and therefore does not involve the interest make up costs that would normally be associated with an order of this scale.

Without CEC support Metro-Cammell could not undertake the contract extension without incurring significant losses. If they are obliged to turn down the opportunity of a negotiated contract, KCR will defer any additional purchases but will eventually go to international tender. ECGD calculate the cost of support at £1.7 million. Metro-Cammell would expect to negotiate a price of around £17.5 million.

I well understand the difficulties in making an exception to the normal arrangements under this Scheme. Nevertheless there are strong arguments for doing so. Metro-Cammell is the UK's only manufacturer of mass transit rolling stock and has good long term prospects both at home and abroad. In the 1990s London Transport will once more be ordering - Metro-Cammell estimate their annual requirement to be some £75 million at 1981 prices. Moreover there are a large number of cities around the world, particularly in the developing



countries, who are considering setting up or extending mass transit systems. Many of these projects have been deferred through lack of money, but as transport problems grow in these expanding cities the pressures to establish such systems will eventually prove irresistible.

The problem is ensuring that Metro-Cammell survive to take advantage of these future opportunities. Their major customer, London Transport, does not propose to order any cars at all in the period 1983 to 1988. Although it is important in the context of public purchasing policy to have an even ordering programme, it appears that there is very little scope for London Transport to bring forward orders into this six-year gap.

Using their successful performance in both the UK and Hong Kong as show cases, Metro-Cammell are actively pursuing a number of overseas possibilities (such as Baghdad), but only two of these are sufficiently far advanced to provide work in the early years of the gap. The KCR extension is one and the new Island Line for the Hong Kong Mass Transit Railway is the other. Officials are currently examining a currency obstacle which if resolved will enable the company to negotiate a contract on the Island Line too, and I expect that this issue will be coming before Ministers shortly. The two contracts together would enable Metro-Cammell to survive with a slimmed down capacity during the early years of the gap and we are confident that other contracts at home and abroad can be found to carry them over the later years of the decade.

If Metro-Cammell were not able to accept these two negotiated contracts, we would have to face the very real possibility that Metro-Cammell would not survive the LT ordering gap, with the consequences that LT would probably turn overseas for their future requirements and that valuable export business in an expanding world market would be lost. This would be particularly galling when Metro-Cammell and the Government have put considerable effort into making Hong Kong an attractive show case for the company. Closure of Metro-Cammell would mean the loss of around 1500 jobs in the West Midlands, over 1000 of which are based on good long term prospects. A similar amount of work would be lost to Metro-Cammell's suppliers in the UK.

A decision on the KCR contract is required urgently. I hope you will be able to agree to the request for Cost Escalation Cover.

I am copying this letter to members of EX Committee, to Norman Fowler and to Sir Robert Armstrong.

Yours sincerely,
Jonathan Haber

for
KENNETH BAKER

(Approved by the Minister and signed in his absence)

