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cc:- I Gow
MOD

Defence

24 March 1980

Dear Councillor Wood,

Thank you for your letter of 3 March.

I am aware of the situation at the Vickers Elswick factory and of the possibility of redundancies in the near future. I assure you that your concern over the social and industrial implications of any redundancies there for the Newcastle area is one we share.

You are right to say that there is a need for a replacement tank for the Army and we are already considering the possibility of an order for some new tanks as a means of strengthening our armoured capability. But, as well as the social and economic considerations there are other factors which we have to take into account and we are not yet, I am afraid, in a position to take a decision on these complex matters. Last month the Secretary of State for Defence had a meeting with the four Members of Parliament for Newcastle, Sir William Elliott, Mr Mike Thomas, Mr Harry Cowans and Mr Robert Brown, and he gave them an assurance that in coming to a decision we would take into account the strong representations which they made.

Yours sincerely,
Margaret Thatcher.

Councillor Douglas Wood

VLB



10 DOWNING STREET

From the Private Secretary

21 March 1980

The Prime Minister has received the enclosed letter from the Leader of the Opposition in Newcastle upon Tyne. She would be grateful if your Secretary of State would reply on her behalf.

I am sending copies of this letter and enclosure to the Private Secretaries to Lord Trenchard (Department of Industry) and Lord Bellwin (Department of the Environment).

T. P. LANKESTER

Brian Norbury, Esq.,
Ministry of Defence.

HS



10 DOWNING STREET

PRIME MINISTER

This letter from the Leader of the Opposition in Newcastle asks you to intervene with a tank order for Vickers factory at Elswick. This would apparently have to be at the expense of the Royal Ordnance Factory at Leeds.

Do you wish to reply? Or shall we ask Mr. Pym?

Francis Pym.

We acknowledge it.

20 March 1980

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20 March 1980

I am writing to acknowledge your letter of 17 March, which I have placed before the Prime Minister. A reply will be sent to you as soon as possible.

TIM LANKESTER

Councillor Bert Moore

RA



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~938 7022~~ 218 6169

19th March 1980

Dear Mike,

Thank you for your letter of 10th March sending me a copy of one which the Prime Minister had received from Newcastle City Councillor Douglas Wood about Vickers Ltd Elswick.

As you say, Councillor Wood's letter is a continuation of the correspondence which the Prime Minister had with Messrs Cowans and Brown towards the end of last year. Since then, on 7th February, my Secretary of State has had a meeting with the four Newcastle MPs to allow them a further opportunity to explain their concern at the possible closure of the Vickers Elswick works. As you can see from the attached record of the meeting Mr Pym said that the Ministry of Defence were considering some strengthening of the tank fleet, but we were still not in a position to take a decision. He undertook to take into consideration the points which the three MPs had made when the tank decisions come to be made. Mr Pym also explained, however, the problems facing our primary tank producer, the Royal Ordnance Factory at Leeds, following the cancellation of the Iranian orders for tanks.

In the circumstances the attached draft of a reply for the Prime Minister to send confines itself to an assurance that the regional and industrial policy considerations will be taken into account when decisions are made on possible orders for tanks.

Yours ever,

Allen Piper

(D T PIPER)

M A Pattison Esq



GR
type for PM
ccIG

DRAFT LETTER FROM THE PRIME MINISTER TO COUNCILLOR WOOD

Thank you for your letter of 3rd March.

I am aware of the situation at the Vickers Elswick factory and of the possibility of redundancies in the near future. I assure you that your concern over the social and industrial implications of any redundancies there for the Newcastle area is one we share.

You are right to say that there is a need for a replacement tank for the Army and we are already considering the possibility of an order for some new tanks as a means of strengthening our armoured capability. But, as well as the social and economic considerations there are other factors which we have to take into account and we are not yet, I am afraid, in a position to take a decision on these complex matters. Last month the Secretary of State for Defence had a meeting with the four Members of Parliament for Newcastle, Sir William Elliott, Mr Mike Thomas, Mr Harry Cowans and Mr Robert Brown, and he gave them an assurance that in coming to a decision we would take into account the strong representations which they made.



MO 26/4/21

NOTE FOR THE RECORD

RECORD OF A MEETING BETWEEN THE SECRETARY OF
STATE FOR DEFENCE AND NEWCASTLE MPs
AT 1500 HOURS ON THURSDAY 7th FEBRUARY 1980
IN THE HOUSE OF COMMONS

Present:

The Rt Hon Francis Pym MC MP

Sir William Elliott MP

Mr C T McDonnell
AUS(Ord)

Mr Harry Cowans MP

Mr H R Braden
AUS(Sales Admin)

Mr R C Brown MP

Mr J D S Dawson
APS/Secretary of State

Mr Mike Thomas MP

1. Sir William Elliott expressed the gratitude of his delegation to the Secretary of State for allowing them to explain to him their concern about the possible closure of Vickers Elswick works. The Minister of State had already seen them and had given them a full account of the position on tanks. Sir William recognised the situation at Elswick had been caused principally by the Iranian revolution. The works were now on the point of making substantial redundancies (500 in March and a further 275 in September, out of a total work force of 1,525) unless orders for armoured vehicles could be obtained quickly. The Vickers management was convinced that their last chance of avoiding redundancies in March was for the British Army to place an order for the 77 Chieftain tanks which they had been expecting last year. There were some prospects for foreign sales of tanks, in particular to Greece and Thailand, but these were far from certain. The purpose of obtaining an order would be to ensure the continuity of the Elswick works for the next two years, after which the management hoped to have achieved a substantial programme of diversification into civil products. Sir William commented that the unemployment position in Newcastle was extremely grave, running at more than 8.5%. He observed that the

/unemployment



unemployment rate in Leeds was substantially less than at Newcastle, and that it was essential for the North East as a whole to keep the Elswick works open.

2. Mr Cowans agreed with Sir William's assessment and noted that Vickers had already closed their Scotswood works in Newcastle. He was concerned about the failure to conclude the contract for the 77 Chieftain tanks, and urged the Secretary of State that the order should proceed as had been planned.

3. Mr Brown observed that when he was US of S(Army) in the previous Government the Army Board had strongly pressed the case for 77 Chieftains to be purchased to top up the War Maintenance Reserve. Vickers had tendered for the contract and had been on the point of winning the order when negotiations were suspended. He wanted to know whether the Army no longer needed the 77 Chieftains; or were they still required with the same urgency as previously.

4. The Secretary of State noted that, although no contract had been signed with Vickers for the 77 Chieftains, there had been some expectation at Vickers that they would be given the contract. However, he stressed that since taking office the Government had carefully examined the whole requirement for a further buy of Chieftains for the War Maintenance Reserve and the possibility of procuring a number of modified Shir tanks. (Challenger) instead, to enhance the operational capability of BAOR. He fully recognised the grave difficulties which Vickers Elswick faced and the very serious unemployment situation in Newcastle. However, he stressed that he was unable, because of severe financial constraints and also because of a careful review of the Army's tank requirements, to place any order for tanks in time to save any redundancies at Elswick. He observed that the Army's primary tank producer, ROF Leeds, had also been badly affected by the cancellation of the Iranian contract for tanks. Leeds had already made a proportion of its work force redundant; further redundancies might be required later. The Jordanian order for tanks was not as significant in terms of employment as it appeared; about half of the vehicles for the Jordanian Army were already almost complete because they had been originally destined for Iran.

5. Mr Brown said that he was surprised that there were financial constraints affecting the order for the 77 Chieftains because he understood that financial provision had already been made for them in the Army's Long Term Costing when he was in office. The Secretary of State commented that he had initiated a careful scrutiny of future tank policy and this was still in



progress. He did not expect to take a decision on this for several months. The difficulty was to balance the Army's pressing need for various items of equipment (including more tanks) with the financial provision that had been made, and which could not meet all of the Army's requirements. Priorities had to be established. The Secretary of State commented that one factor that would influence his consideration of the requirement for further tanks was the increasing tank threat, in particular the Russian T72, in comparison with which the Chieftain was becoming less effective.

6. Sir William Elliott commented that the Managing Director of Vickers Elswick had made a number of trips abroad to press urgently for foreign sales of the Vickers tank, and there were some prospects of possible sales contracts. He also raised the question of Challenger and MBT 80 and enquired whether there was any work for Elswick on either of these projects. The Secretary of State noted that there had been some delay in the MBT 80 programme. However, he stressed that the whole question of tank policy was extremely complicated; there were also considerable financial pressures. He was not prepared to take a decision at this stage on whether Challenger tanks or more Chieftains should be purchased.

7. Mr Brown enquired whether it might be possible to transfer part of the order for MCV 80 to Vickers. AUS(Ord) reported that a decision on this programme was still some way off. However, one of the possible solutions to the requirement could lead to some work in due course for Vickers in the design and construction of turrets.

8. The Secretary of State regretted very much that there was no way in the short term in which he could make available any work for Elswick. He recognised that there were real difficulties which were being faced by Vickers Elswick. The MOD had looked very carefully at its programmes to see if it could help, but he had been unable to come up with any means of providing assistance. The Secretaries of State for Industry and Employment were also extremely concerned at the situation in Newcastle. Mr Cowans, noting that the Secretary of State was unable to provide any immediate relief for Vickers, asked whether it might be possible to prevent the second tranche of redundancies planned for September. The Secretary of State said that there was nothing that he could do to stop the September redundancies. However he would be happy for Vickers to get in touch with the Defence Sales Organisation who would give them all the help they could in trying to secure overseas contracts for Vickers.



9. Sir William Elliott and his fellow Newcastle MPs thanked the Secretary of State for allowing them to present to him Vickers' problems at Elswick. They understood that there was no prospect of any order from the Army which was likely to be placed at Vickers in the near future. They were, however, grateful for his offer of assistance from the DSO and promised to report this to the Managing Director.

10. The Secretary of State asked whether the MPs would be making a press statement. He offered them a draft press statement (attached) which the MPs took away.

TASO

Ministry of Defence

8th February 1980

DISTRIBUTION:

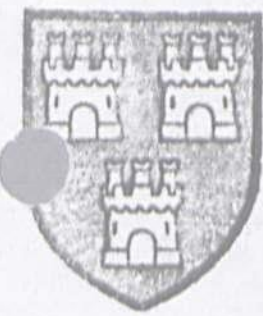
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AUS(Sales Admin)
AUS(IP)
DGFVE
Head of IP1
Head of DS7
Head of ES(FVE)

DRAFT PRESS STATEMENT

1. The Members of Parliament for Newcastle constituencies, Sir William Elliott, Mr Mike Thomas, Mr Robert Brown, and Mr Harry Cowans, met the Secretary of State for Defence at their request today to express in the strongest possible terms the need for a Defence order for Vickers, Elswick. They explained fully to the Secretary of State the present situation at the factory, with short-time working, and prospects of redundancies. They underlined the regional importance of maintaining the factory until the programme for the diversification of production there, now in hand, could begin fully to take effect. They asked in particular that the representations they had made should be taken into account in any decision to place further tank orders for the British Army.

2. The Secretary of State said that his Department was considering some strengthening of the tank fleet, but was not yet in a position to take a decision. He undertook to ensure that the points made to him would be given full weight when tank decisions came to be made. He explained however the problems facing our primary tank producer, the Royal Ordnance Factory, Leeds, since the cancellation of the Iranian orders for tanks, and said that any orders that might be placed would take into account all the factors.



City of Newcastle upon Tyne

Original sent
to MoD.

Councillor Bert Moore,
Leader of the Opposition

Civic Centre
Newcastle upon Tyne NE99 2BM
Telephone Newcastle 0632 28520
Extension 5154

Our Ref AM/KVT

Your Ref

17th March, 1980

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Dear Prime Minister,

May I please present to you the problem of Vickers on Tyneside and ask for some intervention to save our unemployment situation becoming very much worse.

Historically, the Vickers' factories in Newcastle - at Scotswood and Elswick - have been very big employers of engineering expertise and unskilled labour.

Last year, with the closure of Vickers, Scotswood, upwards of 1,000 were made redundant. Now 1,500 are in danger at Elswick and it is in an effort to save these jobs that I am appealing to you.

The possibility that an order for British tanks may be given to Vickers, Elswick, has been very much a serious issue in Newcastle for several months.

In an attempt to bring this about, contact has been made via Sir William Elliott, M.P. for Newcastle North, together with the Socialist M.Ps. in the City, with the relevant Ministers, including Lord Trenchard and Lord Bellwin.

In addition, Sir William has made recent contact with Mr. Francis Pym. The purpose of these contacts had been to try and obtain an order for some tanks for Elswick, these tanks, being part of the order which, we understand, would otherwise be carried out in its entirety at the Royal Ordnance Factory at Leeds.

We have been apprised of the difficulties in the way of such a decision but would urge that, even at this late hour, favourable consideration be given to our plea on behalf of Vickers at Elswick.

The Company is making intense efforts at diversification and is optimistic as to the ultimate success of these efforts.

We are assured that the tank order could be regarded as the essential breaching arrangement to maintain the work force until further orders, now energetically being pursued abroad, are obtained.

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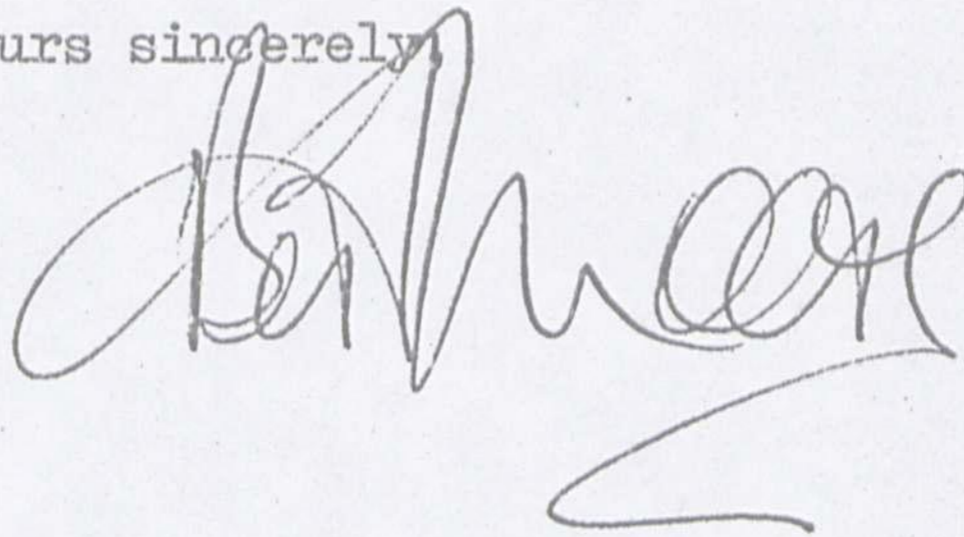
Without this assistance our fear is that there will be very substantial redundancies and that the work force could be dispersed.

It is needless, perhaps, to add that this circumstance would be the most serious economic and political consequence in our region.

It must be said that we would not seek your assistance were it not for the fact we have received absolute assurances from the Senior Management that with this support the Company will be completely viable in approximately 2 years time.

We ask, therefore, that you give urgent consideration to the state of affairs detailed here.

Yours sincerely,



The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
WHITEHALL.

File

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Defence



10 DOWNING STREET

From the Private Secretary

10 March 1980

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I enclose a letter to the Prime Minister from a Newcastle City Councillor. It is in fact a continuation of the Prime Minister's correspondence with Messrs Cowans and Brown. But I see that her last letter to Mr. Cowans was in November 1979 and I am therefore asking you for a fresh draft in the case of Mr. Wood, in case there have been any developments in the meantime.

I would be grateful for a draft reply for the Prime Minister's signature by Wednesday 19 March.

M. A. PATTISON

Derek Piper, Esq.,
Ministry of Defence.

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10 March 1980

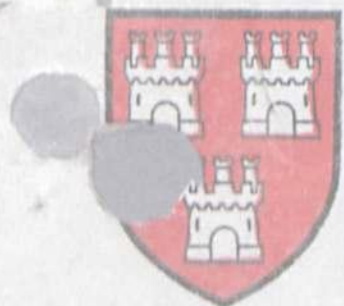
I am writing on behalf of the Prime Minister to thank you for your letter of 3 March about the Vickers Elswich Defence Division.

This is receiving attention and a reply will be sent to you as soon as possible.

MAP

Councillor D.R. Wood

HS



City of Newcastle upon Tyne

Members' Services Section.

Civic Centre
Newcastle upon Tyne NE99 2BM
Telephone Newcastle 0632 28520
Extension

Our Ref

Your Ref

3 MAR 80

Dear Mrs Thatcher.

I am very concerned, about the loss in jobs in the event of the closing of the Vickers Elswick Defence Division and enclose a document setting out the situation.

I do not know what the cost of a modern Tank amounts to, but I understand that there is a need for replacement Tanks for the British Army.

Could you give some good news for the N.E.

Yours faithfully
Douglas R Wood
City Councillor (Conservative)

THE CONSEQUENCES OF THE CLOSURE OF VICKERS ELSWICK DEFENCE DIVISION

INTRODUCTION

The shortage of defence work presently available has given rise to the possibility of redundancies and complete closure being experienced at the Vickers Elswick Defence Division.

The City Council recognising the damage that this eventuality would have in the City, have prepared this report which examines the likely financial social and economic consequences of the complete closure of the Vickers Defence Division.

The report is divided into three sections, describing firstly the industrial and social context of the possible closure, secondly the financial, social and economic costs of possible closure and finally an examination of the reallocation of productive resources which would result from the closure of this plant.

SUMMARY OF MAIN FINDINGS

1. Industrial and Social Context

- 1.1 Redundancies from the engineering industries have been pronounced in the Northern Region and on Tyneside in recent years. This trend has been strongly evident in West Newcastle where, if the Vickers Defence Division were to close, the number of jobs in engineering will have decreased from 3,500 in 1978 to between 800 and 1,000 in 1980.
- 1.2 The high level of male unemployment experienced by Newcastle residents will increase in the event of closure. Geographical concentrations of unemployment in the west end of the City would be likely to be compounded.
- 1.3 In contrast to other parts of the country, there is little evident demand locally for skilled and unskilled manual engineering workers. The closure of the Vickers Defence Division would represent a contraction of job opportunities in sectors of the local labour market where the overall level of opportunities is already low.

2. The Financial, Social and Economic Costs of Closure

Using data derived from a study of engineering workers made redundant in West Newcastle in 1978, a reasonable prediction can be made as to the likely re-employment prospects of the potentially redundant Vickers workforce. Using these figures it can be predicted with reasonable certainty that one year after closure:

- 2.1 The Financial Costs to the National Exchequer will be about £4.6m in tax and national insurance contributions lost and redundancy and welfare benefits paid.
- 2.2 The Social Costs will primarily be in terms of workers being made redundant and remaining unemployed. One year after closure:
 - . 500 men and women will be without a job at all.

- . 400 men and women will still be unemployed and looking for a job.
- . 440 men and women will never have worked since being made redundant.
- . 650 men and women will have been unemployed for over six months.

2.3 The Economic Costs can be measured in terms of the impact on the local labour market. There will be a wastage of skilled manpower, such that one year after closure it can be predicted that:

- . 135 (34%) time served tradesmen will not be working.
- . 100 (25%) tradesmen will be unemployed and looking for work.
- . 220 (54%) tradesmen will no longer be working in the engineering industry.
- . 190 (48%) tradesmen will not be working or will only be employed in a job below their current skill level.

3. The Reallocation of Productive Resources

Closure of the Vickers Elswick Defence Division will release land, labour and capital for alternative utilisation.

The utilisation of land and capital released is dependent upon the way in which the owners of those assets wish to use them.

It is apparent that the labour released through redundancy will enter a labour market which is already capable of supplying a demand for labour in those occupations or industries for which the Vickers workforce would be suited and that other sectors of local industry are not presently constrained by the absence of labour that could potentially be released from the Vickers Defence Division at Elswick.

Other resources implications that would arise as the result of closure will be:

- . the creation of a monopolist public sector manufacturer of armoured fighting vehicles.
- . a loss of export earnings and increase in import penetration.
- . a reduction of local authority income because of the non-payment of rates.