

Whatever happened at UCS?

Ken Fleet

In 1971, as a result of the great public outcry over the Government's 'butchery' of the shipyards on the Upper Clyde which were so crucial to the Scottish economy and the determined resistance of the workers and shop stewards in the Yards, the Scottish Trades Union Congress set up a Public Inquiry into the social consequences of the closures or run-down of the shipyards. The Institute for Workers' Control welcomed this initiative of the Scottish TUC in the development of social audit and public accountability. The IWC submitted written and oral testimony to the Inquiry, drafted by a number of experts. In this pamphlet (IWC 28) we reproduce the evidence given to the Inquiry by Ken Fleet who, as well as being secretary of the IWC, was a fully qualified accountant with experience both in professional offices and in industry and commerce.

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Introduction

The Public Inquiry into the threatened redundancies and closures on the Upper Clyde will obviously have, as its primary consideration, the social and economic consequences of the cut-back in shipbuilding and the possible closures of one or more yards in the context of the already grave unemployment situation in Scotland generally and in the Glasgow area in particular. The Inquiry will presumably not be primarily concerned to affix blame or guilt for past failures or mistakes, but rather to evaluate the priorities and point a way forward from the present difficulties.

However, the Social Audit cannot ignore

Ken Fleet was secretary of the Institute for Workers' Control from its inception in March 1968. In this role he made good use of his accountancy experience, as this intervention in the shipbuilding industry demonstrates.

the past history of Upper Clyde Shipbuilders if it is to assess the future possibilities of the shipyards, either taken individually or as a part of a reconstructed consortium (and in so doing it will not be able to completely avoid imputing blame to some of the parties involved). Neither can the overall social costs be computed without taking into account the potential costs (losses) or benefits (profits) of the Upper Clyde shipbuilding industry itself. It is certainly very desirable for the Inquiry to bring into the public domain many of the facts and figures which are either not readily available or, in many cases, not available at all. The most obvious example of this deficiency is that official accounts of the company, as required by the Companies Act, have not been published since 30 August 1968. No doubt the Inquiry will wish to call for and examine all unpublished accounts but, as is well known, much vital information is not normally incorporated in published accounts and it will be necessary to call witnesses to testify about the 'figures behind the facts' as well as the 'facts behind the figures'.

The arguments which follow are based on the information officially published by the company or made available by the press or the shop stewards and trade unionists. Some of the assumptions are speculative and the conclusions tentative for the reasons given above, but are offered in the hope that they will be of some help and guidance to the Inquiry in deciding the lines of investigation it might pursue, the documents it should call for, and the witnesses that could be most helpful.

Geddes Report

At the outset it is very necessary to remind ourselves of the context in which the UCS Consortium was formed; it was a direct result of the report of the Shipbuilding Inquiry Committee which met under the chairmanship of Mr R M Geddes during 1965-66. This report was 209 pages in length and was the outcome of a most searching and comprehensive investigation into the shipbuilding industry throughout the world. The conclusions of the report that are most relevant were that:

- (I) The world market for merchant ships had grown, was likely to go on doing so and was open to a competitive British shipbuilding industry.
- (II) The average size of the tankers and bulk carriers was likely to increase but nearly all ships were likely to be within the building capability of existing British yards.
- (III) There were no real natural or geographical obstacles to a competitive British shipbuilding industry.

(IV) Contrary to common belief there was no large surplus capacity in world shipbuilding.

(V) Probably because of this widespread but mistaken belief (coupled with strong, protected and subsidised Japanese competition) shipbuilding had produced little profit anywhere in the world despite full order books.

It was in this context that Geddes recommended the lines on which British shipbuilding needed to be restructured. By and large, said Geddes, British shipyards are not specialised enough to be competitive, nor are they grouped in large enough companies to be able to afford the necessary skilled personnel in management, marketing, development, design, purchasing, accountancy, organisation and so forth. Geddes therefore proposed that grouping should be positively encouraged with government assistance and that the ideal group should consist of a headquarters which would house most of the specialists needed and about five specialised yards. Each group should employ 8,000 to 10,000 workers with an output of up to 400,000 to 500,000 gross tons a year; groups should be concentrated geographically for ease of communication and the preservation of local pride and loyalty.

It may possibly be that the world shipbuilding outlook has altered considerably since the Geddes inquiry and the STUC Inquiry may well wish to call Mr Geddes, a member of his committee, or other experts, to testify to the situation in 1966 and changes that have taken place since that time. It is difficult to believe that the special Advisory Group on Shipbuilding on the Upper Clyde, set up hastily by the Government in June 1971, and which reported, after only four weeks' deliberations, were able to consider this crucial question thoroughly. Certainly, the Advisors' published report of three pages gives no evidence whatever to justify its sweeping recommendations for the drastic cutting back of shipbuilding on the Clyde. The vital questions are: if the UCS Consortium is not viable as a whole how can individual parts of the concern be profitable? Is it really possible to cut back overheads as far as would be necessary given the much lower production on which they could be spread? Was Geddes so completely wrong, and if so, how and why? Perhaps the Inquiry will have the opportunity to cross-examine the four so-called 'wise-men' and to examine their background material which Mr John Davies [Secretary of State for Trade and Industry] has maintained exists 'in extenso'.

Progress and Problems

It is very clear that the short history of UCS cannot be properly used to discredit the Geddes thesis. The Government's Advisory Group itself has stated that losses from pre-existing contracts taken on before the group was formed have totalled £12 million (the former owners having been paid for anticipated *profits* on these contracts!) which is more than half the sums advanced by the Government in one form or another, and the new contracts taken on after the merger have been responsible for the loss of a further £9.8 million. The Inquiry may wish to record details of the shipowners who have benefited from these artificially low prices and to cross-question the chairman and former managing director of the group, Mr Hepper, about his policy of filling the order book in this way, but the principle moral is inescapable: UCS had to bear a crushing burden from the commencement of its operations. The inherited problems were accentuated, too, by the high rate of inflation, which in one degree or another has affected all shipbuilders throughout the world, and has been particularly damaging in Britain, because of the tradition of fixed priced contracts in the industry, despite the long interval between the signing of the contract and the final completion of a ship. All this is a situation in which the group's requirement for working capital was not, in any event, realistically assessed from the beginning, according to the recent testimony (*Glasgow Herald* 5.8.71) of no less an authority than Mr J H F MacMichael, a management consultant and member of the three-man working party who advised on the formation of UCS.

In addition to these fundamental problems there were many others inherent in the undertaking. The industry had grown up very much on the basis of a craft division of labour, which was outmoded and inappropriate in modern shipbuilding: there were said to be over 700 different wage-rates in operation in the UCS concern. The transition from this situation was one which required delicate and patient negotiations between management and unions but, nevertheless, given the history of recurrent employment in the industry and the attitudes of the former shipbuilding employers to their workers, this transition was accomplished with remarkable speed.

There were, as well, the problems faced in the construction of any new group: the recruitment, training and integration of personnel of the right calibre, including top management (the Managing Director, Mr Ken Douglas, was not himself appointed until August 1969, 18 months after the UCS formation). The development of adequate production and accounting controls and the most effective systems and methods of organisation also

take time and experience for satisfactory implementation. Geddes said 'A viable industry should emerge within *five years* and *this would be quick*. No instant solutions can be offered: competitiveness and profitability will only be achieved by persevering attention to human understanding and to detail.' (My italics – KF) In the light of this realistic consideration and the great difficulties experienced by UCS from the outset, it can be strongly argued that the Consortium has made very commendable progress, especially within the last year. The unions were forced to accept swingeing cuts of some 25% in the number of workers employed, but nevertheless production of ships has increased from three completions in 1968 to 12 in 1970 and was still growing in 1971. Throughput of steel, which averaged 867 tons per week in 1970, has increased to an average 1300 tons a week and has reached 1450 tons a week. This figure represents 75 man hours per ton. The yards in the lower reaches are said to average 60-65 man hours per ton but this is working on larger vessels. This progress is due to a combination of improved working methods, better production control, and a better mix of orders for ships of the right type from these yards. (Govan achieves 61-62 man hours per ton due to work on standardised ships). It has been argued by Government critics of UCS that, while the throughput of steel has increased, the average wage cost per ton has remained static, but in a situation of world-wide inflation this in itself is a considerable achievement, and in fact wage rates in British shipbuilding do not compare favourably with competitors in other countries apart from Japan; it must also be remembered that direct shipyard labour costs only form some 15 to 20 per cent of the final cost of a vessel.

Viability

It is in this context we must evaluate the contentions of the Government that UCS is not viable, and that optimistic profit forecasts of the management were not to be believed in the light of past performance. It is very apparent that UCS were short of working capital, had always been short of working capital, and that this situation had been constantly worsened by inherited losses and early loss-making contracts. That UCS needed a further infusion of £6 million is no indication that the Consortium was actually *losing* very much money: as production and business expanded it is obvious that more working capital was *bound* to be required. The Inquiry cannot avoid an attempt to assess how far the Government's own actions directly contributed to the final crisis in UCS: if Mr John Davies and his Department were not aware of the now notorious Ridley

report*, they certainly acted in the spirit of that document and its recommendations, and in a way that showed no urgent concern or understanding of the difficulties of UCS. Credit guarantees were cut off in October 1970 and, despite assurances from the Department of Trade and Industry (DTI), were not restored until February 1971. This was a fatal blow to UCS; while the decision was not publicly announced it soon became widely known in the industry and confidence in the future of the concern plummeted. Even after credits had been restored, Mr Davies further undermined general confidence in UCS by a statement in the House of Commons on March 8th that the Government had no intention whatever in advancing further sums to UCS. Meantime UCS had found it extremely difficult to maintain a flow of supplies since they were unable to pay their creditors, and this at a time when the tempo of production was increasing. Painters and woodworkers were put on short-time and the stewards, as well as management, can give substantial testimony as to these facts.

The key documents the Inquiry needs to examine are (i) the report of the 'Government's accountant' on the UCS board, Mr Alexander MacKenzie, produced for the DTI on 14 October 1970, on the basis of which the Government decided to suspend credits; (ii) the report of the UCS finance director, Mr Alistair Crawford, on 3 May 1971, which, although it gave a 'glowing picture of profit forecast', finally determined the Government's decision to wind-up the Consortium simply because, not surprisingly, it also reported an immediate and acute shortage of cash. (See *The Sunday Times*, 20.6.71)

International Comparisons

It is necessary to consider the cash requirements of UCS in the context of the situation of the world shipbuilding industry and of the policies of governments to their shipbuilding industries, including the British Government's attitude to other shipbuilding concerns in the United Kingdom. Because of the fluctuations in world demand for shipping, which is very closely tied to the ups-and-downs of world trade, most shipbuilding industries find they are unable to survive without

*This was a plan drawn up before the 1970 general election by Mr Nicholas Ridley, who became under-secretary at the Department of Trade and Industry, in which he recommended that the cabinet should put in 'a Government butcher to cut up Upper Clyde Shipbuilders and to sell (cheaply) to Lower Clyde and others the assets of UCS'. (See *The Guardian*, 15.6.71.)

considerable government support in one form or another, and many governments realise the need to maintain their shipbuilding industries for economic and social reasons, so that their balances of payments and employment policies are strengthened. France pays a subsidy of 10 per cent on every order, plus further aid tied to the rate of inflation, while in Italy the rate of subsidy is 14 percent. Apart from the advantages of low wages, and an undervalued Yen, Japanese shipbuilders enjoy the protection of a 15 per cent tariff. The famous modernised shipyards of Sweden have been bought to the verge of collapse recently, and the Swedish Government has been forced to step in: the Gotaverken yard is facing losses of some £48 million and Uddervalla yard has lost money for each of the past five years. A similar situation is to be found in Germany, Denmark, Holland and Yugoslavia. The British Government itself has recently advanced a further £7 million to Harland and Wolff in Belfast in July 1971, in addition to the £25 million advanced previously. Of course, this enterprise is crucial to the economy of Northern Ireland: but then, given the deteriorating state of the Scottish economy, UCS is of almost equal importance for Scotland. It is also true that Harland and Wolff has managed to build a large, modernised yard out of their grants, but for all the reasons discussed earlier UCS have never had that opportunity.

Way forward

Having examined all the evidence available and the key witnesses, it seems highly likely that the Inquiry will find that a restructured UCS has as much strength and potential as most other shipbuilders in the world, and that the progress has been made on the Upper Clyde, not least in the determination and the spirit shown by the workers, forms the solid basis for a continuing and growing shipbuilding concern. However, this can only be fully tested by several more years of experience and is not wholly in the determination of the Upper Clyde, but depends very much on the world shipbuilding market and the policies of other governments. Given that there will be no alternative employment for the men thrown out of work if some of the yards close, at the very least it is preferable that these men continue to produce ships that are useful and needed rather than draw dole-money and produce nothing. Meantime, if the Clydeside Development Authority, proposed by the TUC, can be firmly established (and this sort of project is needed whether the yards keep open or not) and if, then, experience shows that over a reasonable term individual yards are not commercially viable, they can be run down with no hardship and the minimum of disturbance to the workers concerned, since there should, by

then, exist alternative employment and opportunities. (To ensure this position any disturbance which occurs must be subject to workers' mutual agreement with planners and decision-makers).

The inquiry will also want to consider the best structure for a renewed Upper Clyde Shipbuilders. It seems doubtful that the enterprise can be firmly established without considerable government funds and given this fact, and the need for workers, management, customers and suppliers to be able to operate in a secure environment, it may well appear that public ownership of the concern is the only proper and realistic solution. The Inquiry might also consider that the situation is ripe for a real experiment in industrial democracy, that the knowledge, intelligence, determination and responsibility that the workers have shown in taking over the yards ought to be recognised, and that their actions have a positive value for the future of a going concern.

Certainly if the management had been responsible to elected workers' councils, many of the problems of UCS would have come to light earlier, and the pressure generated by men whose lives were intimately tied-up with the success or failure of the industry would not have permitted the government to slide out of its responsibilities, or the management to take fundamental policy decisions without a thorough public ventilation of the issues at stake.



▲ Ken Fleet stood for Westminster in 1983