cc Mr Wolfson
Mr Hoskyns

CONFIDENTIAL

Prime Minister
To note. (Current subsidies are as high as British Shipbuilders' wages bill. The market situation is of course bad; but our productivity is appalling by international standards and ~~[illegible]~~ we are now paying the price for not getting rid of the worst yards several years ago. Our shipbuilding capacity has been hardly reduced even though the current problems were predicted by the Treasury 5 years ago.)
TL 8/6

PRIME MINISTER

THE CRISIS IN THE SHIPBUILDING INDUSTRY

You will be generally aware of the world slump in shipping and of the crisis that exists in consequence throughout the shipbuilding industries in all countries. It is correctly described as the most severe shipbuilding slump since the 1930s.

The position I find is even worse than I had feared, both in terms of the scale of contraction and the implications for public expenditure.

I have commissioned an urgent re-working by British Shipbuilders of the options in the Corporate Plan they provided to the last Government and of their likely cost. However, even from the broad figures we have now, it is clear that whatever course we adopt will be painful and expensive. (The policy adopted by the last Government involves a cash limit of £250 million for the present year, and very high figures for succeeding years).

The present position of British Shipbuilders is critical. Their order book is very thin; and they face the prospect of imminent collapse. Without new work soon British Shipbuilders will have to declare some 15,000 redundancies during the present calendar year, almost all of them in areas of very high unemployment - the Clyde, the Tyne, the Wear and the Mersey. There will also be direct consequences

/for

for British Shipbuilders engine works and for the supplier industries as a whole: it is usually said that there are $1\frac{1}{4}$ supporting jobs for each man in the shipyard. But the prospect of getting new work is bleak: the market recession is such that even to get to the starting line to compete for new business, British Shipbuilders must offer substantial discounts - upwards of 30% of contract price - and preferential credit arrangements. The Commission are, however, refusing to countenance Intervention Fund subsidies at the 30% level previously approved by them and are pressing for the normal ceiling to be reduced to 25%. In addition, to secure the preferential credit arrangements mentioned above would require very contentious legislation, and even then this may not stimulate fresh orders to any significant extent.

None of the courses open to us will avoid severe contraction. Indeed the history of the industry suggests that it is not a sector where we are fundamentally competitive. Contraction is therefore right. However the speed and severity of the run down immediately facing us would be too precipitate to handle.

Heavy public expenditure is unavoidable; on the one hand British Shipbuilders have advised me that the threat of a collapse will be severe industrial action and slow working, with consequent heavy penalty costs for defaults of contract. They warn that the sum could run into hundreds of millions of pounds.

On the other hand, the cost of obtaining orders - even if we can get

Commission approval - often exceeds the wage costs of the jobs directly safeguarded. Moreover, Commission approval will require a serious political initiative within the EEC involving the expenditure of good will that may be needed for other major policy initiatives.

It may well be that lesser but still very large sums of money can be used in a combination of a few orders, easing redundancies and facilitating mobility and new job opportunities.

I am going into the whole position as a matter of high priority and will be reporting further.

I am sending copies of this minute to the Chancellor of the Exchequer, the Foreign Secretary and the Secretaries of State for Scotland, Employment, Trade and Defence and to Sir John Hunt.

KJ

K J
8 June 1979

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