



PRIME MINISTER

SHIPBUILDING POLICY

Flag A

On 9 July I informed you of the main strategic decisions which the Sub-Committee on Economic Affairs (E(EA)) had reached on shipbuilding policy.

On Wednesday we looked at the details. We began by considering a point raised at our earlier discussion by the Secretary of State for Scotland, namely, whether a much contracted industry would still be sufficient to meet our strategic needs for both warship construction and merchant shipping. We concluded that it would - even if, as we expect, the industry contracts to half its present size.

On the detail, we agreed:

- a) that there was no alternative to continuing to provide financial support for British Shipbuilders (BS) for at least 2 years. However, it is our intention that they should be told that there is no commitment on our part to continuing the Intervention Fund after July 1981; and any public statement of Government policy would make this clear;
- b) that we should negotiate with the EEC Commission for an Intervention Fund of £120 million over the next 2 years

Prime Minister

Agree E(EA)'s
conclusions, with
a statement before
the recess (which
we will see in
draft) ?

Yes

16/7



to be used to provide subsidy grants of up to 30 per cent;

c) that public sector orders should be brought forward as soon as possible with Intervention Fund assistance if necessary;

d) that the aid programme should in principle continue to be available to secure orders;

e) that the possibility of bringing forward further defence orders should be kept under review;

f) that the United Kingdom should accept OECD proposals for easing the existing limits on export credits and that the terms of Home Credit Scheme should be amended in line;

g) that the Home Credit Scheme should be extended to apply to conversions of existing ships;

h) that, provided our financial reservations are met, we should accept a Community "scrap and build" scheme;

i) that BS should be encouraged to extend the scope of their existing scheme for helping redundant employees to transfer to other jobs within the organisation;

j) that, if BS propose to top up the statutory redundancy



scheme in specific cases of yard closures, this should be considered on its merits provided that the cost can be contained within their cash limits;

k) that officials should consider the possibility of encouraging firms, especially small firms, in areas affected by shipbuilding closures;

l) that the Redundancy Payment Scheme should not be extended to the private sector.

All in all, these proposals should provide useful savings to be made from next year onwards to the existing PES provision. This year there is a danger that the BS cash limit may be exceeded if the rapid run-down in the industry which we believe is necessary is achieved. The Chief Secretary accepted that it would not make sense to force BS to keep within this year's cash limit at the expense of slowing down the rate of closures and thereby increasing the need of financial support later. A number of relatively unimportant financial issues have yet to be resolved but decisions on these are not essential to implementing our main proposals and I do not propose to delay on their account.

My aim is that there should be an announcement to Parliament before the recess. We were all agreed that it was a matter of considerable urgency that the process of closing yards for which there is no work should go forward with the minimum of delay.

/Adam ...



Adam Butler is consulting members of the Sub-Committee on the text of a suitable announcement.

I hope you are content that we should proceed on the basis of these and our previous conclusions.

I am copying this letter to other members of the Sub-Committee, the Secretary of State for Defence, the Secretary of State for Northern Ireland and to Sir John Hunt.

PEM
pp K J

13 July 1979

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

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