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Ref. A02828

PRIME MINISTER

Compensation and Privatisation of Shipbuilding

(C(80) 51 and 52)

BACKGROUND

Last week the Cabinet invited the Secretary of State for Industry, in consultation with the Secretary of State for the Environment, to put forward further proposals on compensation to the former owners of shipyards nationalised in 1977, including that of offering the former owners of the warship yards the choice between compensation on existing terms or the return of their yards. In his memorandum (C(80) 51) the Secretary of State for Industry identifies three main options.

2. The yards could be offered back to their former owners at compensation value. The main arguments in favour are set out in paragraph 2 of the memorandum, and those against in paragraph 3. The points which are likely to weigh most with colleagues are:-

- (a) This arrangement would be no help to former shareholders who have sold their shares on the assumption that the compensation terms would stand, or to the former owners of the British Aircraft Corporation.
- (b) It would require long and complex legislation.
- (c) It would not yield the best price for the taxpayer.

3. Legislation for privatisation could be introduced and the yards offered back at market value with former owners having the right of first refusal. The Secretary of State advises against this, in his paragraph 8, mainly because:-

- (a) There would be an immediate cost to the PSBR of about £50 million net (because of the return of progress payments).
- (b) It would be against the advice of the new Chairman of British Shipbuilders; could well lose the co-operation of the workforce; and might lead to added costs through industrial action.

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4. In the face of the objections to the other possibilities, the Government could defer privatisation and make no change in the present compensation terms. This is the course which the Secretary of State for Industry recommends. In view of all the Parliamentary and public interest in this question he wishes to make a statement before the Recess. A draft is at Annex C (Annexes A and B offer draft statements which could be used if either of the other options were adopted).

5. The Lord Chancellor argues (C(80) 52) that the case for privatisation should be considered separately from the question of the compensation terms. He advises strongly against retrospective legislation to improve the compensation terms, and points out that it would be an injustice to those who have now sold their shares to cut their losses. As he puts it, the omelet cannot now be made to return to the egg shell.

HANDLING

6. After the Secretary of State for Industry and the Lord Chancellor have spoken to their papers, the Secretary of State for the Environment will wish to comment. You might then invite the Chancellor of the Exchequer to advise on the financial implications of the options; the Chancellor of the Duchy of Lancaster to give his views on the prospects of legislation; and the Secretary of State for Defence on any implications for the naval programme.

CONCLUSIONS

7. In the light of the discussion you will wish to record conclusions:-
- (i) on which of the three options the Cabinet endorses;
 - (ii) authorising the Secretary of State for Industry to announce the decision before the Recess.

mtb

RA

(Robert Armstrong)

6th August, 1980