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Ref. A03313

PRIME MINISTER

British Shipbuilders: Strategy and Finance

(E(80) 112)

BACKGROUND

When E discussed British Shipbuilders' strategy on 17th September they were not persuaded that the Corporation were taking sufficiently tough action to reduce costs and to slim down in the face of poor market prospects; and they invited the Secretary of State for Industry to arrange for a further review (E(80) 34th Meeting, Item 2). In E(80) 112 he puts forward his revised proposals in the light of this further work.

2. He invites the Committee to endorse a short-term strategy whereby BS will close Smith's Dock on Teesside as soon as possible; confine Scott Lithgow and Cammell Laird to naval and offshore work; build up merchant production at Swan Hunter; and dispose of ship repair activities as soon as possible.

3. He points out that it is very difficult to take decisions on the longer term strategy in the face of major uncertainties over:-

- (i) Merchant orders - no substantial upturn is expected in world markets before the end of 1982, and even then BS will be faced with fierce competition from Japan and the developing countries.
- (ii) Naval orders - these obviously turn on coming decisions on the Defence Budget, and their implications for the Navy in particular.
- (iii) Offshore orders - can BS break into this internationally competitive market?

It will therefore be necessary to look at the longer term again next year, when some at least of these uncertainties will have been resolved and BS will have produced their next Corporate Plan. In the meantime it is proposed that E(EA) should deal with particular cases and difficulties.

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4. BS's plans for Cammell Laird and Scott Lithgow depend crucially on getting contracts for semi-submersible oil rigs. The Secretary of State recommends that they should move into this business only on the basis of future viability, although he proposes that E(EA) should look if necessary at any initial orders which could not be secured at break-even and might otherwise go abroad. He advises that there is no possibility of private sector involvement in this business at present, since no United Kingdom private sector companies have the relevant experience or technology.

5. Provisionally the public expenditure position is as follows:-

	<u>£ million 1980 prices</u>			
	1980-81	1981-82	1982-83	1983-84
PES	104	82	38	16
Proposal	155	114	63	37
Additional	51	32	25	21

6. For 1980-81 the cash equivalent for EFL purposes is £185 million compared with the published EFL of £120 million. It seems that there is no possibility of reducing this sum, and the Secretary of State for Industry will have to announce the revised limit to the House.

7. The cash equivalent for 1981-82 is £153 million. This is the figure in the Chief Secretary's general paper on the nationalised industries, E(80) 121. If the Committee accept it, their decision should be subject to the reservation that it will be liable to amendment if there are to be across the board cuts on the nationalised industries. This apart, it should not be necessary to return to the question of British Shipbuilders in the general discussion on E(80) 121.

8. The Secretary of State for Industry has secured agreement in principle to extending the statutory Shipbuilding Redundancy Payments Scheme. The costs of this are uncertain and turn on the numbers and timing of redundancies. It is however necessary to accept whatever costs arise, in the longer term interests of getting a viable industry. It is also proposed (28(d) of the note by Officials annexed to E(80) 112) that to encourage restructuring any extraordinary

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costs of further closures beyond those now assumed should be dealt with outside the EFL. Particular proposals would need to be examined if they were put forward, but in principle this seems a reasonable price to pay for reorganising the industry.

HANDLING

9. After the Secretary of State for Industry has introduced his paper the Chief Secretary will wish to comment on the implications for public expenditure and EFLs, the Secretary of State for Defence on naval orders, and Mr. Fletcher, who is representing the Secretary of State for Scotland, on offshore orders and the implications for the Scottish yards in particular. CPRS have been involved in the future review and Mr. Ibbs may wish to comment. The Secretary of State for Northern Ireland is not directly concerned with British Shipbuilders but he will wish to keep his approach to Harland and Wolff broadly in line with that to BS.

10. In deciding whether they can accept the proposals summarised in paragraph 17 of E(80) 112, and in more detail in paragraph 28 of the report by officials, the Committee will wish to discuss in particular:-

- (i) whether there should be a greater cut in capacity - in practice this would fall on the Scottish yards (see paragraph 10) and the Committee may well decide that it is not justified until some of the present uncertainties are clarified.
- (ii) The approach to offshore orders (paragraphs 11 and 12) - it is proposed that BS should consult Ministers if they want to go ahead with any orders at below break-even.
- (iii) Naval orders - can the Secretary of State for Defence undertake to clarify the naval position as soon as possible after decisions are taken on the Defence Budget?
- (iv) EFLs - announcement to increase that for 1980-81 from £120 million to £185 million; and to fix 1981-82 at £153 million.

11. The Secretary of State for Industry will be anxious to secure decisions on these proposals at the meeting in order to give BS early guidance for their further planning, to fix the EFLs, and to get on with securing the Commission's approval to further use of intervention fund grants (paragraph 28(c) of the report by officials).

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CONCLUSIONS

12. In the light of the discussion you will wish to sum up with reference to the recommendations in paragraph 17 of E(80) 112.
13. In doing so you will wish to note:-
- (i) that the Secretary of State for Industry will have to announce to the House the increase in the EFL for 1980-81.;
 - (ii) that approval of the EFL of £153 million in 1981-82 will be subject to any further across the board cuts which might be agreed in the context of the general discussions on nationalised industry financing.

RA

(Robert Armstrong)

21st October, 1980

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