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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

M A Pattison Esq
Private Secretary
No 10 Downing Street
LONDON SW1

18 July 1979

Dear Mike,

PRIME MINISTER'S VISIT TO THE SCOTTISH OFFICE

I attach, as agreed, a draft note briefly indicating the subjects touched upon at the lunch with the Prime Minister on 11 July as the basis of an agreed text for the record. You will note that I have simply tried to outline what was said regarding each of the main problems which the Prime Minister asked to be identified and have not attributed statements to individuals. I would be glad of any comments which you wish to suggest.

I have conveyed separately to the Department the gist of the Prime Minister's discussion with the Lord Provost of Edinburgh about the structure of local government. I will be writing tomorrow about the representations which the Prime Minister received from NUPE and the Aberdour and Dalgety Bay Joint Action Group.

Yours sincerely,

Kenneth Mackenzie

K J MACKENZIE
Private Secretary

DRAFT

PRIME MINISTER'S VISIT TO THE SCOTTISH OFFICE - WEDNESDAY 11 JULY 1979

The Prime Minister and her party took lunch with the Secretary of State and senior officials. The complete list of those present is attached.

The Prime Minister asked what the Scottish Office regarded as the most difficult problems with which they had to deal and the discussion ranged over the following:

1. Industrial Problems

Scotland has always been more successful than other Development Areas in attracting industrial investment from abroad but has had less industrial movement from other parts of the United Kingdom. Labour relations are patchy but not notably worse than elsewhere in the UK and the promotion of small businesses continues to be successful. Difficulties in obtaining planning permission are not a critical factor or a serious disincentive to potential investors except in a very few extremely complicated cases such as Moss Morran but some relaxation of controls would certainly help.

The performance of the Scottish economy is more dependent on jobs in the public sector and therefore more at risk from public expenditure cuts. The greatest single worry is the future of the shipbuilding industry and its suppliers. The main problems affecting our competitive position seem to be:

- (a) The practices of craft-based unions which lead to less effective use of capital resources;
- (b) As elsewhere in the UK delivery times are often way behind those of our competitors;
- (c) The incentives we can offer are less generous than those of eg Southern Ireland and this is permitted by EEC rules;
- (d) Distance from main markets;

- (e) Lack of a substantial components industry to support or expand upon large assembly plants notably in the motor industry; and
- (f) The co-existence of high levels of unemployment and lack of skilled manpower.

2. Common Fisheries Policy

Scottish boats now land some 60% by weight of the UK catch or about 53% by value. To be acceptable to the Scottish industry, any settlement of the CFP would, in addition to exclusive rights up to 12 miles (except possibly for French fishing in the south west), have to include an element of preference in waters beyond that. The UK have until now sought such a preference on a flag state basis but this was regarded as discriminatory and therefore contrary to the Treaty and not likely to be negotiable. Even so this was not a reason for jettisoning an objective which had been central to the UK's and the industry's negotiating position for over three years, particularly when there seemed a real possibility of negotiating it in the form of a preference for dependent fishing communities. This could, with effort limitation by means of licensing, protect local boats from the growing concentration of stranger boats on their traditional fishing grounds. Although such a concept inevitably raised complex issues - for example how local was 'local'? - it had to be recognised that the interests of the inshore fleet in this respect were not invariably in line with those of the deep water sector.

Under Community law, fish was a common resource and legally common access would prevail unless further derogations were agreed beyond 1982. This would be politically unacceptable in Scotland as elsewhere. Further derogations might, however, be less difficult to negotiate than would the rest of the settlement. While quotas were objectionable because they lent themselves to dishonesty, they were the only basis available for dividing up the stocks. What was important was that there should be effective means of enforcement, probably by effort control.

3. Torness

While it is certain that there will be further organised protests over

the building of Torness, the station is absolutely essential to meet future electricity demand after 1990 as the SSEB already burns virtually all the power station coal produced in Scotland and coal is currently being imported in order to safeguard winter output. Consent has been given for the construction of the power station subject to the nuclear safety requirements being met.

As regards reactor choice, Magnox has proved a successful design but existing stations are small. One of the two reactors comprising the existing AGR at Hunterston B was now performing satisfactorily - the accident to the other was unconnected with the choice of reactor and was not nuclear in nature - and SSEB have full confidence in the development of this design which is planned for Torness. A major difficulty is that uncertainty over the future organisation of the nuclear construction industry which is causing loss of morale and staff within the Nuclear Power Corporation is delaying the design of the nuclear island for the AGRs. The turbine generators for which a design contract is to be placed with GEC will be four flow as at Peterhead; the CEGB's choice is for six flow turbine, to be built by NEI.

Development of the fast breeder reactor in the UK was still a considerable time in the future. It now seemed certain that the French Phoenix would be the first successful commercial fast breeder reactor.

4. Urban Deprivation in Glasgow

The worst problems are organisational and social rather than financial. The GEAR project has been bedevilled by local authority jealousies and a new town development corporation type of solution, while attractive, is not politically practicable. The working population does not have the skills to match the available jobs, and training schemes have to cope with the fact that migration to other areas has tended to leave behind the older and less adaptable. A strict laissez-faire policy towards industry would probably lead to further depopulation of inner city areas and loss of agricultural land on the outskirts. The sale of council houses would not have a significant effect on these areas as take-up is likely to be poor especially in multi-storey blocks.

5. Rate Support Grant

Some means should be found of discriminating between individual local

authorities. It is not acceptable that consistent overspenders should be treated on the same basis as authorities who budget carefully, or indeed that in the distribution of grant they should benefit from their profligacy.

Prime Minister

Mr Ian Gow MP

Mr Derek Howe

Mr M A Pattison

Mr G Roberts

Secretary of State

Sir William Fraser

Mr J I Smith

Mr T R H Godden

Mr J A M Mitchell

Mr E L Gillett

Mr A L Rennie

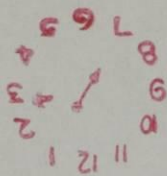
Mr W K Reid

Mr R W Deans

Dr R G L McCrone

Mr J Cormack

Mr K J MacKenzie



18 JUL 1979