



PRIME MINISTER

You asked that I should report to you the discussion in E(EA) 12/11 on the proposal for support to Govan Shipbuilders, (E(EA)(79)64), before any final decision is taken.

In answer to your specific queries raised in your Private Secretary's minute of 12 November, the Minister of State Department of Industry explained that the size of the subsidy proposed for these orders is not in fact larger than normal. The only exceptional feature in the size of subsidy is the interest free loan during construction, which amounts to 4.2 per cent of purchase price, or about £0.7 million. We have agreed higher subsidies for BP tankers; there were also cases under the previous Administration; and the competition for shipping orders is increasingly fierce. He also assured us that great efforts had been made to find an alternative British order, but the only contender was the Ocean order mentioned in the paper which would have required very much greater subsidy.

In discussion, it was common ground between colleagues that the Govan yards would, in all probability, have no long term future. Thus the purpose of supporting this order would be to cushion a painful process of run-down. So far the workforce had shown a remarkable degree of cooperation with the BS management in achieving their strategic plans for the industry. But in the negotiations on this strategy BS had mentioned the "letter of intent" for 2 ships, and the men were now becoming increasingly restive that these orders had not appeared. The Secretary of

/State ...

Prime Minister

This is still thoroughly unsatisfactory.

In view of Ken Berrill's and John Hodge's comments at Flaps A and B, I suggest we put this on the agenda for E next Wednesday. It would help, I think, a collective brief from Ken Berrill. Agree? 12

Mr Duguid 1

Yes
not



State for Scotland, and the Minister of State, Industry, were in no doubt at all that unless orders are forthcoming very soon, industrial unrest is inevitable. In that event the vulnerability of the Polish ships to being "locked in" means that BS could quickly suffer financial penalties greater than the sums we were now considering. And if industrial action spread throughout the industry, as it well might in view of the central position of Govan, and as a result all orders slipped by 3 months, costs of perhaps £100 million would arise. But apart from the financial consequences, the existing co-operative attitude of the unions would also have been forfeited. The Secretary of State for Scotland emphasised to us the succession of closures that have recently been announced on Clydeside - Singer, Prestcold, Massey Ferguson, Linwood, BSR. The loss of Govan as well in the short term - with over half the male workforce of that Employment Exchange area working at the yard, would in his view be the last straw.

We noted that the company involved in the orders, Liberty Maritime, was virtually unknown, and that it had almost no declared assets. There must therefore be a significant risk that it would default, and we should certainly have to be prepared to face criticism for giving them a subsidised order. But against that, in the event of default BS would have the vessels available to realise a part of the money, and we would also have to face political pressures if we let the yard fail immediately, with the consequences we had foreseen. We noted that the money needed for this subsidy

/would ...



4.

would be found within the provision already made in the Intervention Fund.

Because the existence of a "letter of intent" has been known since August, it should be possible to present the order as coming to fruition in the normal way, and to avoid any allegation that special arrangements have been made in response to the risk of industrial action.

On the other hand the Chief Secretary expressed the opinion that the deferment for perhaps a year of the closure of Govan would be seen as being bought by us under pressure with unfortunate overtones of what happened, also at Govan, in 1972.

However most colleagues on E(EA) were persuaded that in spite of the acknowledged drawbacks, it would be right to proceed with these orders, and I agreed to report that view to you.

I am copying this to the members of E(EA) and Sir Robert Armstrong.

1.2.

de

K J

16 November 1979

Department of Industry
Ashdown House
123 Victoria Street



176 NOV 1919
1919 NOV 17

