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Ref. A09906

PRIME MINISTER

Regional Industrial Policy

(C(79) 23)

BACKGROUND

The background is familiar: you have discussed this paper with the Secretary of State for Industry; and you have had separate talks with the Secretary of State for Scotland and the Home Secretary about the political implications. The paper poses a series of questions, which follow from the hard proposals set out in the Annex. It is unfortunate that E(EA) failed to reach any kind of consensus but perhaps inevitable given the strength of feeling among regional Ministers and the high political content of the proposals. You have of course now suggested a compromise which will emerge during the meeting (recorded in Mr. Lankester's letter of 3rd July). There is one other related point, which emerged from the meeting of E(EA): the Secretary of State for the Environment is very anxious about his "accelerator" proposals (set out in his letter to the Secretary of State for Industry of 27th June) and feels that the Industry paper does not do justice to them. However, you should know that Sir Keith Joseph expressly decided not to give Mr. Heseltine's ideas prominence in his paper. It is also relevant that Mr. Heseltine's suggestions are difficult to interpret, and appear to pose a number of very difficult problems for Treasury and other Ministers as well as requiring perhaps complex legislation. It would be almost impossible to get this complicated proposal right in time for announcement before the Summer Recess. (In this it differs from the much simpler suggestion you yourself made though even here we will not know the full implication until the Chancellor of the Exchequer reports back next week.) In case Mr. Heseltine returns to the charge, I have annexed to this brief a note, prepared by the Inland Revenue, and copied to all the Ministers directly concerned including Mr. Heseltine.

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HANDLING

2. You will want to call on the Secretary of State for Industry to introduce his proposal, to report the discussion in E(EA) and to outline the modified proposals he has been discussing with the Chancellor of the Exchequer. If the Secretary of State for Industry does not do so you might also inform the Cabinet of the urgent work you have set in hand on your "pilot" proposal. You might then seek comments in turn from the Chief Secretary; the Secretary of State for Scotland, the Secretary of State for Wales; the Secretary of State for Employment; and the Secretary of State for the Environment. In doing so, you might invite them to focus on the questions posed in the paper, taking account of the modifications suggested by the Secretary of State for Industry orally. You might then ask the Secretary of State for Industry to reply. Thereafter it would be advisable to run through the questions posed in paragraph 4 of the Secretary of State for Industry's paper so that specific decisions can be recorded on each of them. You will particularly want a clear view from the Cabinet on the timing of any announcement (question 4i.). Delay costs money and increases uncertainty but might be worth it if e.g. it enabled your pilot scheme to be worked up (and cleared with the EEC Commission who may well raise objections).

3. Assuming that the Secretary of State for Industry's proposals are modified he will probably want to suggest alternative offsetting savings, and you might check that the Chief Secretary is content with these. You might then seek general confirmation that the total package is acceptable to the Cabinet.

CONCLUSIONS

4. In addition to decisions on the specific questions posed in C(79) 23 as modified in discussion you may also wish to record two further conclusions:-

- (a) An invitation to the Secretary of State for Industry to circulate the text of the draft announcement about regional policy, including a section on selective assistance to Cabinet colleagues well in advance of the date of announcement.
- (b) An invitation to the Chancellor of the Exchequer, in consultation with the Secretary of State for the Environment, to report back to you by the end of next week on the feasibility and cost of a "pilot" scheme so that you can consider how best it might be further pressed with a view to an announcement, if that is the Cabinet's decision, before the Recess.

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