



PRIME MINISTER

BRITISH SHIPBUILDERS

At the meeting of E(EA) on 17 July (E(EA)(80)15th Meeting) we considered a paper by Adam Butler (E(EA)(80)39) on the question of introducing private sector capital into British Shipbuilders, in accordance with our manifesto commitment.

2 This is an issue which Ministers considered collectively last July. (E(DL)(79) 4th Meeting). We concluded then that privatisation was not practicable partly because of British Shipbuilders' poor prospects, and more specifically because there would be a substantial net cost to the PSBR.

3 When E(EA) considered the issue this time, we were of the firm view that privatisation was desirable in principle. However, we noted that the practical difficulties largely remained:-

(i) On British Shipbuilders' present performance, of their mainstream shipbuilding activities only the specialist warship-builders are really saleable, and for the most part their prospects will suffer from the fall in naval orders.

(ii) There would still be a substantial cost to the PSBR, probably well over £50 million, because sale of the warship-builders would require British Shipbuilders to repay advance deposits for work in progress, and these represent substantially greater sums than the likely proceeds of the sale.

/(iii) ...



(iii) There would be very substantial opposition to the proposals from the unions, which could further increase British Shipbuilders' financial difficulties at a time when there is real doubt over whether they can remain within their EFL for this year.

4 On the other hand we are, as you know, facing difficulties over the terms for compensation for previous nationalisation; and selling some of the subsidiaries to their original owners might help them to accept more willingly our current proposed terms for compensation - although it would not of course help with the difficulties we similarly face on aircraft nationalisation.

5 I therefore suggest that we should consider the two issues of privatisation and compensation together. We have, I think, broadly two options on privatisation:

(i) To announce our intention now to introduce a Bill next Session to permit privatisation, recognising the strong resistance we can expect from the unions and from the Opposition, and the adverse effects on the PSBR.

(ii) To defer a decision on privatisation for at least one year, though recognising that the prospects are unlikely to improve in the immediate future. If we took this line we should make it clear that future legislation had not been ruled out. We should also emphasise the need for Mr Atkinson, the new Chairman, to pursue the maximum degree of privatisation within existing legislation. This would not please all our supporters, but it



would avoid the difficulties referred to above, and it is the course strongly preferred by Mr Atkinson. We would also require a short Bill next Session if we decide to extend the Shipbuilding Redundancy Payments scheme.

6 It would be helpful to reach a decision on this soon, so that we can make a statement before British Shipbuilders publish their annual accounts due on 30 July.

7 I am copying this minute to the members of E and E(EA), the Secretary of State for Northern Ireland, the Chancellor of the Duchy of Lancaster, the Attorney General, the Chief Whip and Sir Robert Armstrong.

K J
21 July 1980

Department of Industry
Ashdown House
123 Victoria Street



21 JUL 1980

