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PRIME MINISTER

British Shipbuilders Finances
(E(80) 103 and 106)

BACKGROUND

In E(80) 103 the Secretary of State for Industry invites the Committee to endorse the general strategy for British Shipbuilders recommended by the new Chairman, Mr. Atkinson. In E(80) 106 the CPRS advise deferring decisions until further work has been done to evaluate the options. The Chief Secretary, Treasury, broadly takes the same line as the CPRS - see his letter of 15th September to the Secretary of State for Industry and paragraph 10 of his general paper on the nationalised industries E(80) 104.

2. The Secretary of State for Industry reports that British Shipbuilders are likely to exceed their external financing limit of £120 million in 1980-81 by £65 million. In 1981-82 they will need additional public expenditure provision of £50 million. In the later years the figures are wholly uncertain, and the Chief Secretary has had to resort to question marks in his summary table.

3. British Shipbuilders' preferred strategy is usefully summarised in paragraph 1(2) of the CPRS paper. There is an immediate question over whether British Shipbuilders should be pressed to close Smith's Dock on Teesside.

4. The Secretary of State recommends that the Shipbuilding Redundancy Payments Act should be extended for a further two years to facilitate progress on redundancies in the industry.

HANDLING

5. After the Secretary of State for Industry has introduced his paper the Chief Secretary and Mr. Ibbs will wish to comment on the general strategy. Mr. Fletcher will wish to comment on the implications of possible further closures in Scotland and of the proposal that Scott Lithgow should give up merchant shipbuilding. Both he and Mr. Lamont will have views on the

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proposal that Camell Laird and Scott Lithgow should diversify into oil rigs, initially at a loss. Lord Strathcona will want to comment on the implications of the proposals for the naval programme. The Secretary of State for Northern Ireland has asked to be present because of the possible implications for Harland and Wolff, although the papers do not touch directly on Harlands.

6. In discussion you will wish to cover the following points:-

- (a) It now seems inevitable that the EFL for the current year will have to be increased and that for 1981-82 will be higher than previously envisaged. Is there a case for deferring decisions on this until further work on the options has been done? The CPRS suggest in their paragraph 3 three possible points which should be considered - in particular Ministers will wish to give guidance on the question of whether British Shipbuilders should be encouraged to abandon their buy British policy.
- (b) Should British Shipbuilders' strategy be accepted now or should they be required to do further work? In his letter of 15th September the Chief Secretary recommends that British Shipbuilders should be required to provide a comprehensive appraisal to give a better view of the prospect of cutting losses and restoring the industry to long term viability. The Committee may well endorse this. The industry has a long record of massive Government intervention leading to demands for yet further subsidies and little convincing prospect for a return to viability. On the other hand further closures will obviously have painful regional and employment effects. The CPRS' proposals for a further review are in paragraph 14 of their paper.
- (c) Should Smith's Dock be closed? Irrespective of any further work on a general review, Ministers could deal with this question now. If it were agreed that would go some way to meeting the Treasury's call for a further reduction in capacity.
- (d) Should British Shipbuilders diversify into oil rigs at an initial loss? In principle diversification is attractive. But the Committee will wish to assess the risks of moving into this highly competitive business which could lead to yet further losses by British Shipbuilders.

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- (e) The system of financial controls. Both the Treasury and the CPRS claim, with good reason, that the present disciplines of EFLs and financial targets are in practice ineffective for British Shipbuilders. The Committee will no doubt wish to press for major improvement here.
- (f) Redundancy Payments. The Committee is likely to agree to the proposal to extend the present arrangements for two years. It is a price well worth paying for restructuring the industry. Any details could be worked out in E(EA).

CONCLUSIONS

- 7. You will wish to record conclusions on:-
 - (a) whether further work is necessary before the 1980-81 EFL can be amended and that for 1981-82 set;
 - (b) whether British Shipbuilders' general strategy can be endorsed or whether there should be a further appraisal as proposed by the Treasury and the CPRS;
 - (c) In particular, whether Smith's Dock should be closed and whether British Shipbuilders should be encouraged to diversify into oil rigs at an initial loss;
 - (d) endorsing the call for more effective financial discipline;
 - (e) endorsing the extension of the redundancy payments arrangements;
 - (f) delegating to E(EA) consideration of detailed proposals and particular cases.



(Robert Armstrong)

16th September 1980