

Prime Minister



The Chancellor's points make a lot of sense. Sir Keith goes along with them essentially.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

Agree subject to

his Keith's glasses?

Yes - very much so

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27/12

PRIME MINISTER

GOVAN SHIPBUILDERS : LIBERTY MARITIME ORDER

Flag A

I have seen Keith Joseph's minute to you of 5th December and your Private Secretary's reply of 7th December. I note that the assurances you sought, notably on George Younger's commitment to meet any additional costs of the Liberty Maritime order from his Scottish programmes, have now been given, and the order has been allowed to proceed. In the circumstances, I accept that there is now no alternative course. Although I have no wish to reopen detailed arguments on this matter, I feel sufficiently uneasy about the decision, to put my views on record in the hope that we can reduce what remains a serious risk of unwelcome repercussions in the future.

2. Neither I nor my Treasury colleagues have made any secret of the fact that we have all along felt that the Liberty Maritime deal involves and could be seen as involving surrender to industrial blackmail; it was clearly based on the unstated premise that an uneconomic price has to be paid to avert the threat of "blocking". In the present case we collectively accepted that other considerations should prevail; but for the future in the shipbuilding field we should in my view proceed on the following assumptions:-

- (i) that no further speculative orders of this type will be approved for Govan or any other yard;
- (ii) that British Shipbuilders are instructed that they should never again dangle the possibility of such deals before the workforce (much of the pressure on this deal has arisen because the Govan workers were



told about it by the local management);

- (iii) it is accepted that all the Govan yards must close except in the highly unlikely event of their getting sufficient orders on strictly commercial terms to justify their being kept open;
- (iv) following on from the importance you have rightly attached to maintaining the work schedule on the orders at Govan, we should seek from BS management urgent advice as to how they intend to ensure that such blackmail is not attempted again. If the Department of Industry cannot obtain adequate assurances from the firm, Keith Joseph will wish to consider what further sanctions or pressures can be brought to bear, e.g. through modification of the cash limit.

If Govan is not closed the Government's plans for BS stand, in my view, a very poor chance of success.

3. Unless we display strength of purpose in dealing with the shipbuilding industry on the lines outlined above, I am in no doubt that our whole stance on wider issues could well be placed in jeopardy.

4. I am copying this minute to other Members of E Committee and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

12 December 1979