



10 DOWNING STREET

From the Private Secretary

26 July 1982

Dear Caroline,

CUNARD ORDER

The Prime Minister discussed this morning your Secretary of State's minute to her of 23 July on Cunard's order for a "replacement" for the Atlantic Conveyor. The Chancellor, the Secretary of State for Defence and the Secretary of State for Employment were also present.

The Prime Minister said that there was no question but that Cunard's order should be placed with a British shipbuilder. The question was how this should be done. There were clearly difficulties about increasing the already high level of subsidy through a payment from defence votes, as had been set out in the note by the Ministry of Defence attached to your Secretary of State's minute. Equally, any transaction between the Department of Industry and British shipbuilders was likely to generate difficulties with the European Commission. She understood that there was no possibility of artificially increasing the compensation which the Government was paying to Cunard for the loss of the Atlantic Conveyor itself.

After discussion the Prime Minister said that it was agreed that the Government should make available a further subsidy in an attempt to bridge the \$20 million gap to which your Secretary of State's minute alluded. The Defence Secretary was prepared to find up to £4 million from the agreed Defence budget to this end. The Ministry of Defence should embark on further discussions with Cunard to see what this sum would buy: for example, access by defence personnel to Cunard's new vessel whenever needed during construction, experiments on the ship during trials, and perhaps alteration of the design of the vessel to meet defence purposes. The Secretaries of State for Industry and Employment should have an early meeting with Lord Matthews, and seek to persuade Cunard themselves to find money to help to close the gap. If Cunard were unwilling to find half of the sum required they might be persuaded, on wider political grounds, to find at least £1 million. To the extent to which, after these negotiations, a gap remained, British Shipbuilders might be asked to adjust their price; the Department of Industry and the Treasury would be prepared to accept any consequential worsening of British Shipbuilders' loss position.

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I am sending copies of this letter to Peter Jenkins (HM Treasury), Nick Evans (Ministry of Defence), Barnaby Shaw (Department of Employment), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar
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Ms. Caroline Varley,
Department of Industry.

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