



From the  
Minister of State

Norman Lamont MP

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17 February 1983

*Dear Leon*

At E(NI) on 9 January (E(NI))(82)1st) it was agreed that BS should be set a loss target or limit of £20 million for 1983/84.

In previous years it has been our practice to publish such a target in the form of a financial duty for the year laid upon the Corporation by the Secretary of State. However the European Commission have objected strongly to this practice on the grounds that it amounts to an overt admission of intent to finance losses. Douglas Hurd drew attention, in his letter of 9 February to Patrick Jenkin, to the pressure the Germans are currently putting on the Commission to take a tough line on loss financing, and to the difficulties this will give rise to in negotiations for the next tranche of IF.

Clearly we must try if possible to avoid an argument with the Commission at such a sensitive time. Officials here have therefore informally approached the Commission to explore possibilities. It is clear that the Commission feel they cannot accept any duty which explicitly or implicitly refers to loss financing. They will however accept a generalised duty of the form -

"The Corporation shall have a continuing duty to make substantial and early progress towards providing an adequate return on the capital employed by the Corporation and its subsidiaries."

Given the Commission's objections a formulation along these lines seems to me the only realistic alternative. We would of course separately and privately inform the Chairman of the £20 million loss target and our firm view that it should be effective. In principle we have the alternative of setting no financial duty



for 1983/84 but this would look very odd given the precedents. The generalised duty allows us to say something and can be defended as the sensible approach at a time of unpredictable trading conditions, to be seen as a longer term complement to the already tight short-term financial control asserted by the EFL.

I intend to announce the EFL and related matters during the Report Stage of the British Shipbuilders Bill early next week. I should therefore be grateful for any comments on this proposed course of action you or your colleagues might have by the end of this week.

I am copying this letter to the Prime Minister, other members of E(NI) and to Sir Robert Armstrong.

NORMAN LAMONT

*John*  
*Norman*



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21 February 1983

*Dear Minister of State*

BRITISH SHIPBUILDERS: LOSS TARGET

Thank you for your letter of 17 February.

In view of the difficulties lying ahead in negotiations with the European Commission on the intervention fund subsidy I agree to your formula for a generalised financial duty for BS in 1983-84. The important thing is that it should be made clear to the Chairman that the effective limit is a loss of £20 million as agreed at E(NI).

I am copying this reply to the Prime Minister, other members of E(NI) and Sir Robert Armstrong.

*Yours sincerely*

*Jst. Gieve*

*Jst.* LEON BRITTAN

*[Approved by the Chief Secretary]*

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