

CONFIDENTIAL



Prime Minister <sup>2</sup>

A

I will submit, with

Mr Jenkin's

original

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

31 March 1983

minute,

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry

when we have a

full collection of  
views.

*Patrick*

MW 31/3

Thank you for sending me a copy of your minute of 15 March to the Prime Minister enclosing draft objectives for the BS Chairman designate Mr Graham Day.

Day's appointment will extend to autumn 1986 so the action stemming from these objectives will take place for the most part in the early years of the next Government. We need to look somewhat ahead therefore in setting these objectives and I agree very much that they should be strictly confidential. We can, as you say, consider separately what might be published immediately.

Turning to the objectives themselves, I endorse the firm steer which they give to achieving the privatisation of the warshipbuilding division by 1985-86. I wonder whether this might not be made even more concrete by giving the Chairman the immediate aim of separating the warship side fully from the merchant side, so as to give a clean track record for the market and to put an end to the tendency for it to be constrained by the problems of merchant shipbuilding. We might buttress this by an appropriate separation of the main Government controls, through separate financial and performance targets and separate financing limits.

I agree also that it is unlikely that significant privatisation will be practicable on the merchant shipbuilding side in the timescale in question. But I would like to see the new Chairman's attention very firmly directed to the question raised by the Prime Minister in her summing up of the E(NI) discussion in February, ie. whether and how the Corporation can develop into a viable shipbuilding industry and what difficult decisions about yard closures and redundancies will need to be taken to achieve this.

I suggest that these two strands could be rather more clearly brought out in the objectives. For warshipbuilding the aim must clearly be privatisation. For merchant shipbuilding on the other hand, while the ultimate goal is privatisation, the first task for the new Chairman is to let the Government have a realistic and hard-headed view of what it would be right for BS to concentrate on doing in the longer-term and what, in consequence, will need to be the contraction plan.

/I suggest

Not Ind.  
Shipbuilding  
Pt 4

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I suggest too that it would be a good idea to give Day a clear objective in quantitative terms for the merchant shipbuilding side. This might be to break-even on merchant shipbuilding, (after the generally available Intervention Fund subsidy), by 1985-86 or at the latest 1986-87. If matters are too uncertain at this stage to specify such a timetable, then I believe that we should make it clear that the Government will wish to set a firm target for break-even once Day has completed the appraisal I have referred to above.

Lastly, I wonder whether it would not be right to put the requirement for a vigorous cost-reduction and efficiency programme rather higher in the list. I recognise that, as far as merchant shipbuilding is concerned, much will depend on the prospects for the world market. But of the factors which are in BS's own power to influence this must surely be the most important, and without a radical improvement in competitiveness it is difficult to see that there can be any significant long-term future for the industry outside its Defence contracts.

I agree therefore with the general lines of the confidential draft objectives but would like to see a rather clearer distinction in the remit between the Defence side of BS's work and the rest, especially merchant shipbuilding. I believe we ought to ask Day for a firm plan for establishing a viable level of merchant shipbuilding and should either set a break-even target now or inform him of our intention to set one in the light of his plan. I also suggest that productivity needs a higher priority.

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

GEOFFREY HOWE

31 MAR 1983



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cc: *FLVE*  
D/En. *Sw.*  
D/Emp. *Met End*  
C Sec's Office  
D/Trans.  
D/Trade  
SO PoE  
HMT  
CO

10 DOWNING STREET

*From the Private Secretary*

25 April, 1983

*bcc: Mr. Owen.*

British Shipbuilders - Objectives

The Prime Minister was grateful for your Secretary of State's minute of 15 March. She has also seen subsequent correspondence from other members of E(NI).

The Prime Minister considers that there should be no reference in the objectives to the national interest; that there should be separate and explicit objectives for the warship and merchant sides of the business; and that these targets should be specified more precisely in regard to their timing.

I am sending a copy of this letter to the Private Secretaries to other members of E(NI) and to Sir Robert Armstrong.

M. C. SCHOLAR

Jonathan Spencer,  
Department of Industry

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MR SCHOLAR

cc Mr Mount  
Mr WaltersYes  
m

Agree I write as at X overleaf,  
in general terms  
i.e. supporting the line in the  
Chancellor's letter (Flag A) against  
that in Mr Younger's (Flag B)?

MUS 20/4

BRITISH SHIPBUILDERS - OBJECTIVES

Mr Jenkin has circulated a list of objectives which he proposes to give to Mr Day, the incoming Chairman and Chief Executive of BS. The Chancellor and Mr Younger have commented on these. The Chancellor suggested that the objectives should be more explicit; Mr Younger is disturbed by the absence of any reference to what he describes as the "national interest" in retaining shipbuilding capacity.

We should firmly resist any reference to retaining a core of capacity in the "national interest". The phrase appeared in the preamble to the notorious Ryder Report on British Leyland and proved a recipe for continuous subsidy and fudging. In any case, the problem - if such it is - largely solves itself in this industry. The yards which could be strategically important find themselves in the profitable warship division. And it is difficult to envisage the scenario in which it would be strategically critical to retain merchant and off-shore capabilities. Any concession to the national interest argument would compromise Mr Day's difficult task of achieving viability.

✓ There should, as the Chancellor suggests, be separate and explicit objectives for the warship and merchant sides of the business. The cross-subsidisation of the latter by the former will have to be phased out. The sooner this is recognised the better. The DoI would prefer not to follow this course, since the aggregation of the two activities' accounts helps the DoI in its dealings with the Commission. The losses on the merchant side are partially concealed by the present arrangements: this makes it easier to secure permission to support BS. But since it is the Government's objective to phase out this support, this consideration hardly seems an advantage, and in any case, what is put to Mr Day on a confidential basis need not be presented to the Commission.

The financial objectives need to be more precise. The first objective refers to "a state of enduring profitability, earning an appropriate real rate of return". This amounts to getting BS into a fit state for privatisation. This will take many years to achieve for the merchant side of the business. Therefore something more specific should be said about the financial targets in the intervening period.

✓  
X  
-  
To sum up, my advice is that no reference to the "national interest" should be included; separate targets for the warship and merchant activities should be established; and these targets need to be specified more precisely in regard to their timing.

NICHOLAS OWEN  
NO

20.4.83



VCC NO

*From the Secretary of State*

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
London  
SW1E 6RB

18 April 1983

*Dear Patrick,*

1 I have seen the letters from the Chancellor of the Exchequer and the Secretary of State for Scotland about your draft objectives for the Chairman-designate of British Shipbuilders. I have a particular interest; the continuing distortion of ship prices by widespread subsidy of shipbuilding is a continuing strain on the world's shipping markets, most of which continue to be gravely oversupplied and depressed. And the burden of British Shipbuilders on the taxpayer is of general concern. I would therefore support the comments made by the Chancellor regarding the clearer distinction between naval and merchant shipbuilding, a break-even target and greater priority for radical improvements in productivity.

2 The amendment suggested by the Secretary of State for Scotland would however seem to prejudge the question posed by the Prime Minister in E(NI) and referred to by the Chancellor, viz whether and how the Corporation can develop into a viable shipbuilding industry and what difficult decisions about yard closures and redundancies need to be taken to achieve this.

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

*[Handwritten signature]*

LORD COCKFIELD

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Nat. Ind. British Shipbuilders A4

11 APR. 1985



1 NBPM 2 PL BF to MCS (or)

B

cc NO



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Prime Minister<sup>2</sup>

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

MCS 11/4

MF

6 April 1983

Dear Secretary of State,

BRITISH SHIPBUILDERS: OBJECTIVES

Thank you for sending me a copy of your minute of 15 March to the Prime Minister, with a draft statement of the objectives for the new chairman of British Shipbuilders.

One point not covered is the future of the shipbuilding industry as a whole. Do we want, need, and intend to retain a substantial shipbuilding capability in this country, or not? The logic of your draft objectives seems to be that the future of shipbuilding will be settled by market forces, without reference to any national interest or need, and this leaves open the possibility that we shall be left with no shipbuilding capacity at all. One exception might perhaps eventually turn out to be the warship yards, which no doubt we should regard as not expendable in the face of market forces; and the Falklands campaign demonstrates the strategic need for a merchant shipbuilding capability as well. I suggest that we need to think in similar strategic terms for offshore work - we could not allow ourselves to risk the prospect of becoming wholly dependent on overseas yards in this sector also.

I think therefore that the first sentence of the draft objectives could be amended on these lines "the primary aims of the Government are to retain a substantial shipbuilding capability in the UK, and to return British Shipbuilders to the private sector ....."

I am sending copies of this letter to the Prime Minister and members of E(NI) and to Sir Robert Armstrong.

Yours sincerely

John Wilson

Approved by the Secretary of State  
and signed in his absence



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Shipbuilding  
Pt 4



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