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Await comments
from NO.

RC NO

PRIME MINISTER

Your views on the confidential objectives for Graham Day in his new role as Chairman of British Shipbuilders were set out in your Private Secretary's letter of 25 April. Colleagues will also have seen Geoffrey Howe's letter of 31 March, George Younger's letter of 6 April, and Arthur Cockfield's of 18 April.

2 I share the Chancellor's concern, and yours, that the warshipbuilding side of BS should be separated from the rest. Organisationally, of course, there is already a fairly clear separation, as the main warshipbuilding companies - like all BS subsidiaries, separate Companies Act companies producing separate reporting figures - are grouped into the warshipbuilding division. But, because warshipbuilding is carried on also in the merchant and offshore division, the results of the divisions do not correspond with the real performance by activity. The present system of reporting by division means that a misleading public perception of BS' performance on merchant and offshore work is allowed to persist; and I agree that it would be helpful to correct this by presenting BS' results in a way that reflects performance on warshipbuilding as an activity distinct from BS' other activities.

3 This is particularly important at the present time, as a misleading impression is being created that British Shipbuilders' difficulties are not at all of its own making. It is certainly



true that the market is currently very depressed, but in fact BS has been making substantial losses on its merchant and offshore activities for some time. I am therefore considering requiring BS to report its 1982/83 losses (to be made public in July) on an 'activity basis'. (I have statutory powers to enforce this requirement if necessary).

4 I suggest that officials should discuss the pros and cons of reinforcing this separation by setting up separate systems of financial control.

5 I entirely take the Chancellor's point about the importance of the cost reduction programme, and am happy to give this higher priority in the list.

6 George Younger has suggested that the objectives should include a reference to the need to maintain a shipbuilding capability in the UK. You have commented, however, that the objectives for Mr Day should not include a reference to the national interest, and I agree. The important point is to give Graham Day a clear steer about the direction that we want to see the Corporation take - without anticipating a discussion of the Corporation's future that we have yet to have.

/7 Finally ...



7 Finally, you have proposed that the targets that we set in Mr Day's objectives should be more precisely specified in terms of timing. I am very ready to accept this; but as this is an aspect that we have not previously raised with him I think that we need first to discuss the more precise timing with Mr Day. He does not return to the UK until next month, and I would propose to meet him then for a discussion of this section of his objectives and to consult colleagues afresh when I have his views.

8 Copies go to other members of E(NI) and Sir Robert Armstrong.

PT

P J

18 May 1983

Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

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COMMUNICATIONS SECTION

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Ship.MR SCHOLARMr Owen

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26 May 1983

MS 26/5

cc Mr Mount

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OBJECTIVES FOR THE NEW CHAIRMAN OF BRITISH SHIPBUILDERS

Mr Jenkin's reply of 18 May acknowledges the force of the points put to him by the Prime Minister and the Chancellor and as a result, the new Chairman will, I/sure, be left in no doubt about what is expected of him.

On the question of requiring BS to set up separate systems of financial control, Mr Jenkin is understandably keen that this should be discussed further by officials. He will be nervous about the implications that separation would have for his dealings with the Commission; fudging the losses on the merchant side of the business is an advantage to him. However, as I indicated in my earlier note, since the Government is determined to reduce these losses, this consideration will become less important. The approach to privatisation will also require separate systems of financial control. These points will not be lost sight of in the officials' discussion of the question. I understand that the Chancellor will not be writing further at this stage. There is no need for the Prime Minister to do so either.

NICHOLAS OWEN
