



Foreign and Commonwealth Office

London SW1A 2AH

13 July 1983

From The Minister of State

Sean Cecil,

BRITISH SHIPBUILDERS: 1983 CORPORATE PLAN

I have seen a copy of your memorandum E(NI)(83)15. As Geoffrey Howe will be unable to attend tomorrow, I am writing to let you and other E(NI) colleagues know our views so that they can be taken into account during the meeting.

Our concern is, of course, with the handling of the clearance of the aid with the European Commission. I am grateful for the careful consideration you have given to this aspect in your paper. I agree that of the various possible measures of assistance, an increase in the amount and intensity of the Intervention Fund seems the best course of action.

A package of crisis aid of the order of magnitude envisaged will present serious problems vis à vis the European Commission and we must expect adverse comments from other Member States. As you say, the negotiations will be very tough and we will need to be flexible. In particular, the Commission will need to be convinced that there is adequate counterpart to justify the large increase in amount and intensity of aid we propose; and they will also be looking for firm undertakings from us on loss financing.

This means that the Commission will not begin to negotiate seriously with us until they have received a detailed notification of the aid required and the planned capacity and manpower reductions. Given the timing problem, it is very important that we be ready to submit the notification as soon as possible after the new Corporate Plan is agreed in September. On loss financing, we shall need to explain to the Commission why the losses incurred this year exceed the planned figure by such a substantial margin; we must expect some probing questions from them about loss financing; and we must be ready to give a commitment to phase out the practice within a given period of time.

In the immediate future, before the Corporate Plan is ready, there would in my view be only limited value in an approach to the Commission. We could perhaps begin to prepare the ground, by warning them of the extent of BS' losses and of the need for further aid and explaining that BS are working on a restructuring plan (although they are almost certainly aware of all this in general terms). But this would do very little to speed up the clearance procedure in the autumn.

The Rt Hon Cecil Parkinson MP
Secretary of State for Trade and Industry

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Moreover, one possible difficulty about an approach to the Commission now is that they may ask how BS expects to win any orders in the next few months if the current level of IF support is so ineffective. They will be aware of the statement Patrick Jenkin made in May that we would be prepared to consider requests for help on a case by case basis, within the framework of the international rules. If they have the opportunity, they may try to probe more deeply into what this means.

All this underlines the need for particular care in the use of soft credit to win orders in the coming months. As you know, the ground rules for its use specify that it should be restricted to established UK owners and that it should not be authorised if competition from another EEC yard is known or suspected. If there is any possibility that we may need to go beyond the ground rules (eg use of soft credit to win foreign orders) I should be grateful if my department could be consulted on such cases.

I am copying this letter to members of E(NI) and to Sir R Armstrong.

*Your ever
Daint*

Baroness Young

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