

MR SCHOLAR

cc Mr Mount

BRITISH SHIPBUILDERS: CORPORATE PLAN 1983

Mr Parkinson's memorandum presents colleagues with three options:

- A. BS's preferred option;
- B. partial closure;
- C. complete closure

but it does not in our view present them at all well. One might conclude from Annex I that for only an additional £35 million over four years, Ministers could avoid the political and social difficulties entailed by the partial^{closure} option B, and that total closure would be more expensive than the BS preferred option. This presentation is misleading in several respects:

1. The figures disregard the highly unprofitable offshore activities at Scott Lithgow.
2. The BS preferred option allows BS its optimistic market assumption and an improbable 50 per cent increase in productivity over four years, even though no significant growth in productivity has been achieved over the last four years.
3. The "other restructuring costs falling to Government", ie costs of unemployment benefit, should not be counted on all fours with commercial costs, as they are here. They are highly speculative (based on assumptions about the time it would take to reabsorb the employees directly concerned, and those in supplying industries). They disregard the hidden unemployment costs associated with the jobs crowded out elsewhere in the economy by higher taxation or borrowing needed to sustain BS.
4. The calculations do not attempt to compare the positions after 1986-87. BS's preferred option would probably require ever-increasing support; complete closure would cost very little, once the redundant workers have either retired or been reabsorbed. The benefits of closure have to be viewed in a 5-10 years perspective. If all closures in the economy were analysed and decided in the way suggested here, it is doubtful whether structural change would ever occur.

The financial prospects of BS's merchant activities require urgent decisions, which have been fudged by the present management. E(NI) ought to agree now that:

1. The partial closure route should be followed as soon as possible. The disastrous merchant shipbuilding yards have been identified and are all due to complete their orders by end-1984.
2. The DTI should be specifically instructed not to provide any subsidy for new orders to these disaster yards.
3. The 1983-84 EFL should be constrained at £159 million.

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