

CC NO

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PM/84/2

PRIME MINISTER

Shipbuilding: EC Notification of UK Shipbuilding Aid

1. I have seen Norman Tebbit's minute of 22 December about the handling of our notification to the European Commission of a new support regime for British Shipbuilders. I am grateful for the opportunity to comment on what promises to be possibly the most difficult of our aid negotiations with the Commission in 1984.

2. On timing, I agree that the notification should be submitted to the Commission without further delay; they have been expecting it for some time and are bound to suspect that we have something to hide if it does not go in very soon. Moreover, given the inevitably complicated and protracted nature of these negotiations, there are obvious advantages in getting them started as soon as possible without waiting for a fuller picture of BS's future to emerge from the E(NI) discussions. That said, I think we must recognise that the notification as it currently stands will be considered incomplete by the Commission since it does not contain any details of the future restructuring we envisage, only an assurance that major restructuring is planned. The Commission will argue that they will need to assess whether the capacity and manpower reductions in the pipeline are adequate counterpart for the proposed aid. In submitting the notification to the Commission, therefore, we shall need to explain the reasons for the omissions, and provide assurances that more details on the restructuring of the industry will be forthcoming later (a natural opportunity will arise within a couple of months under the Commission's normal procedures for handling state aid cases).

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3. On the terms of the notification, I am content with the broad thrust of the draft attached to Norman Tebbit's minute, although my officials will be in touch with the DTI about some of the details. I accept the tactical case for putting in a high opening bid for aid volume and intensity, provided it is clearly understood that Commission approval of what amounts to more than double the volume and intensity of the current Intervention Funds is almost certainly not attainable, even in the present crisis conditions facing the Community shipbuilding industry as a whole.

4. Norman Tebbit's minute did not refer to the issue of clearance for the financing of BS's losses (past and future), which remains unresolved. The Commission have not yet closed the Article 93(2) procedure which they opened earlier this year in respect of BS's 1982/83 losses; and they have made it clear that there can be no approval of a new aid regime until the question of loss financing is settled.

5. For all these reasons, I entirely agree with Norman Tebbit that it will be well into 1984 before final clearance is obtained, and that a major and sustained effort will be required to achieve this. We can expect considerable pressure from BS to secure EC approval of the new regime almost as soon as it is agreed domestically. I hope they can be brought to understand that this is just not on, and that in the interim they will have to make do with IF aid at the present level. We are agreed that soft credit may be used on a case by case basis to supplement IF aid, but it is important that this is done with particular discretion. Were it to become the norm rather than the exception, the risk of trouble with the Commission would increase significantly.



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6. I am copying this minute to Norman Tebbit and other members of E(NI); to Jim Prior and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
5 January 1984

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1-5 JAN 1984

