



FCS/84/78

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BF with Treasury
response

AT 1213

SECRETARY OF STATE FOR TRADE AND INDUSTRYShipbuilding: Intervention Fund

1. I have seen a copy of your letter of 6 March to Peter Rees.
2. I agree that you should aim for a volume of £100 million in the negotiations with the Commission. I do not believe that a volume of this order of magnitude would be significantly more difficult to negotiate than the lower figures, provided of course we can demonstrate that it would be justified by the volume of orders that British Shipbuilders can reasonably expect to win. As was recognised at E(NI), however, the major hurdle will be to convince the Commission that the big increase in aid intensity we seek is justified. Such an increase goes far beyond the limited modification to the degressivity principle that the Commission are prepared to contemplate for the time being, and will certainly attract criticism from some other Member States. All this points to a difficult and, I fear, protracted negotiation, particularly given our continuing inability to identify capacity reductions as counterpart for the level of aid intensity we are trying to secure.
3. Once we are agreed about volume, I hope we can finalise the notification and submit it without further delay. You may also like to consider sending your officials to Brussels at an early date for talks with the Commission.

CONFIDENTIAL



4. Copies of this minute go to the Prime Minister, other members of E(NI), Jim Prior, and Sir Robert Armstrong.

A handwritten signature in black ink, consisting of a stylized 'G' followed by a series of loops and a horizontal line, representing the name Geoffrey Howe.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

12 March 1984

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Shipbuilding Agency





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Secretary of State for Trade and Industry

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6 March 1984

The Rt Hon Peter Rees
Chief Secretary of the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

D Peter.

SHIBUILDING - INTERVENTION FUND

We concluded at the E(NI) Meeting on ^{file with AT} 20 February that I should discuss with you and Geoffrey Howe the volume of Intervention Fund we should aim for in the negotiations with the Commission that E(NI) agreed I should now pursue. You will recall that the options are £80m, £100m or some intermediate figure, to cover the two years 1984/85 and 1985/86.

2 The volume needed depends on the volume of orders that British Shipbuilders will require and this in turn is primarily a function of the BS merchant capacity that we are prepared to sustain over the next three to four years. As was recognised at E(NI) we can have no clear idea of what capacity levels should be supported before Mr Graham Day's detailed Corporate Plan proposals, due in May, have been received and subjected to thorough examination.

3 In these circumstances we clearly need to maintain the maximum freedom of manoeuvre. This means aiming for the higher figure - £100m - for the two years, which compares with £99m for the period from July 1981 to January 1984. Securing Commission approval for this amount does not in any way commit us to spending all of it. Thus it does not preclude the choice of a lower capacity target for BS, including the lower IF provision that implies, when we have BS's detailed Corporate Plan before us. But aiming for a lower IF volume would on the other hand narrow down how the range of options open to us.

4 A second consideration is of course the need to go for a figure which the Commission would regard as credible. My proposed approach is compatible with this, in that I do not think the Commission would have good grounds for regarding £100m for two years as unrealistic. At £50m a year it would mean only a



£10m increase over the last Intervention Fund of £40m for the twelve months July 1982 to July 1983. Moreover, as you know, there is strong evidence that because of the problems besetting EC shipbuilding industries the Commission is moderating its line on the principle that aids should be degressive. It now appears ready to modify this principle for a limited period and to allow increases in support levels during that time. My proposed approach fits in well with this.

5 I hope therefore that you, and Geoffrey Howe, to whom I am copying this letter, will agree that I should aim for a £100m volume figure. I do not rule out the possibility of pitching my initial bid a little higher than this if it looks as though that would be the right negotiating tactic.

6 Copies of this letter go to the Prime Minister, other members of E(NI), Jim Prior and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT

- 6 MAR 1984





CC 100

NBPM

AT 20/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP
Secretary of State for Trade & Industry
Department of Trade & Industry
1 Victoria Street
LONDON
SW1E 6RB

15 March 1984

Norman

SHIPBUILDING - INTERVENTION FUND

Thank you for your letter of 6 March proposing that negotiations with the Commission should be opened with a bid for £100 million to cover the next two years.

On the clear understanding that our discussion of Mr Graham Day's corporate plan later in the year is in no way prejudiced by any figure of subsidy which the Commission may agree, I am content that you put in an initial bid for £100 million to cover two years. However, I should not like to see any higher bid lodged at this stage even as a negotiating tactic. Perhaps you could let me know if in the event you see any special need for this.

Copies of this letter go to the recipients of yours.

*Yours faithfully
Peter Rees*

PETER REES

NAT IND. PT 6

Shipbuilding

20 1 7 1984

