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10 DOWNING STREET

From the Private Secretary

24 July 1984

Dee Ruth,

- oral? Yes

British Shipbuilders: Oil Statement

The Prime Minister has seen a copy of the draft oral statement your Secretary of State proposes to make on British Shipbuilders on 25 July. She is generally content but feels that the middle paragraph of page two needs to be looked at further. As drafted, this could give the misleading impression that the Government is endorsing a forecast of 180-210,000 cgrt., or regarding it as a level of orders which is likely to be achieved. You may wish to consider making a contrast between capacity of 180-210,000 cgrt and British Shipbuilders' ability to win orders to fill that capacity according to the factors listed in the second half of the paragraph.

I am copying this letter to Private Secretaries to Members of E(A), Richard Mottram (Ministry of Defence), Murdo McLean (Chief Whip's Office), David Beamish (Lords' Whips Office), and to Lord Lucas' Private Secretary.

*Yours sincerely
Andrew Turnbull*

Andrew Turnbull

Miss Ruth Thompson,
Department of Trade and Industry

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PRIME MINISTER

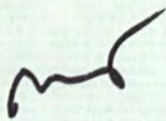
BRITISH SHIPBUILDERS: ORAL STATEMENT

I have one comment on Mr. Tebbit's draft statement. E(A) took a decision not to reduce British Shipbuilders' capacity but to ration the amount of subsidy in the expectation that this would support orders of around 100,000 cgrt, though BS could achieve a higher level if its performance improved. In the light of this the middle paragraph of page 2 could be considered misleading if the E(A) decision were ever made public. The phrase "at the forecast level" could be interpreted as a forecast by Government of orders of 180-210,000 cgrt.

DTI are aware of this. I suggest the point could be met by redrafting the start of this paragraph as follows:

"The Corporation plans to be able to accept orders of 180-210,000 cgrt. This contrasts with 117,000 cgrt of orders won in 1983/84. The rate at which the Corporation will be able to win orders to take advantage of this capacity will depend on a number of factors. These include ..."

MOD are announcing tomorrow the decision to call for new tenders for the Type 22 frigate.



23 July 1984

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JU856
Secretary of State for Trade and Industry

ccRY ce Press office
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23 July 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Andrew,

BRITISH SHIPBUILDERS: ORAL STATEMENT

I enclose a copy of a statement my Secretary of State proposes to make on British Shipbuilders on 25 July.

2 I would be grateful for urgent clearance.

3 I am sending a copy of this letter and the statement to the Private Secretaries of Members of the Cabinet, to the Government Whips' offices in both Houses, and to Lord Lucas' Private Secretary.

Yours ever,

RUTH THOMPSON
Private Secretary

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DRAFT STATEMENT

Mr Speaker, with permission I will make a statement about British Shipbuilders.

The Corporation today published its annual Report and Accounts for 1983/84. Copies have been laid before the House. The Corporation made a trading loss of £161m of which £75m was contributed by Scott Lithgow, which is now in the private sector following the successful rescue operation in March. The Chairman has stated, and I agree, that the Corporation cannot accept a continuation of the last two years' performance. I welcome his assurance that policies have now been established to ensure that the principal losses should not be repeated. I also welcome the steps that the Corporation has begun to take on the rationalisation and restructuring of its activities.

On 4 June I received the Corporation's proposed Corporate Plan for the period 1984/85 to 1987/88. I am placing in the Library a version with commercially confidential information deleted. The Government endorses the Corporation's primary aim of concentrating resources on a stable, cost-effective mainstream merchant shipbuilding business. The Corporation is aware that the key to its future depends on improving the efficiency of production of merchant ships. It sees the primary need as being the

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concentration and integration of its production, service and administrative facilities to increase efficiency, flexibility and productivity. A further key element will be the implementation of the flexible working practices agreed with the workforce earlier this year.

The history of such attempts to save, let alone, revitalise, merchant shipbuilding is not encouraging. The new programme is ambitious in its scope but it is essential to the future of the industry and it is supported by the Government.

The Corporation considers that a realistic market share is consistent with an annual order intake of 180-210,000 cgrt and plan to be able to accept orders of that level. This contrasts with the 117,000 cgrt of orders won in 1983/84. The Corporation's ability to win orders [at the forecast level] will depend on a number of factors. These include the state of the world market; the degree to which productivity is improved; the agreement of the European Commission to an enhanced rate of subsidy through the Intervention Fund; and the future levels of funding of the Corporation by the Government.

The Government will take decisions on funding levels in the Autumn in the light of the outcome of the negotiations in Brussels and of the overall Public Expenditure position at the time.

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In the light of our manifesto commitment to privatise a substantial part of British Shipbuilders the Government has decided that British Shipbuilders should sell their warshipbuilding interests, making substantial progress towards privatisation by 31 March 1985 and completing it by 31 March 1986. The Corporation will also continue to dispose of other saleable assets.

Accordingly I have today asked the Corporation to set in hand action to dispose of those parts of the Corporation engaged mainly or wholly in warshipbuilding.

To secure the maximum practical extent of fair competition we would prefer to see the yards sold separately or in small groups. I have, however, also asked the Corporation to set in hand contingency preparations for a flotation on the Stock Exchange of all or some of the companies in case individual sales may not be achieved.

I believe that this will enable the Corporation to pursue single mindedly their aims for their merchant shipbuilding business and to take the steps to improve efficiency on which their long-term future depends, while providing an assured competitive warshipbuilding capability.