



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

7 April 1988

Paul Gray Esq
10 Downing Street
LONDON SW1

Dear Paul

SHIPBUILDING

... I attach a copy of a minute from the Chancellor to the Prime Minister, dated 30 March. I very much regret that this was not circulated earlier, owing to an administrative error.

I am copying this letter and enclosure to Stephen Ratcliffe (DTI), Peter Smith (DTI), David Crawley (Scottish Office), Martin Donnelly (NIO), Deborah Lamb (Environment) and Trevor Woolley.

Yours sincerely

Jonathan Taylor

J M G TAYLOR
Private Secretary



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

SHIPBUILDING

The Chancellor of the Duchy's paper on the future of shipbuilding circulated on 28 March 1988 set out proposals for measures to alleviate the effects of redundancies in shipbuilding, on top of those measures promoting development and employment already available, which might be introduced in support of a decision for closure of NESL. These involve, in addition to counselling and retraining, enterprise promotion measures and a major new programme of factory building in the North East. He also supports Nicholas Ridley's proposal for an Enterprise Zone in Sunderland.

I understand that Malcolm Rifkind is also likely to propose a substantial package of measures for Scotland, again with a very large element of factory building. This would be in addition to the Enterprise Zone in Inverclyde already agreed.

I am very concerned about the public expenditure costs of the measures now being proposed for England and Scotland. We are agreed that closure should be accompanied by some package of special measures. But these should be proportionate to the problem. While the absolute number of redundancies which would be precipitated by the closure of NESL and the sale of Govan to Kvaerner is serious, it is a good deal less than has happened in other industries in recent years. Moreover, it will occur against the background of rapidly declining levels of unemployment generally. Given the continued economic recovery, the effect of closure on Sunderland, where the vast



bulk of the total redundancies would be concentrated, is no more than a temporary hesitation in the rate of decline in unemployment. The same would be true of the Glasgow Travel to Work Area, even were Govan to close.

Against this background the possible packages proposed for England and Scotland appear to me excessive. If the costs of the recent offer of assistance to Nissan and of the proposed Enterprise Zone for Sunderland are included, the proposals involve public expenditure of some £86m to generate some 5,000 jobs in England in response to some 3,000 job losses from shipbuilding. Similarly, including the new Enterprise Zone agreed for Inverclyde, they could involve public expenditure of around £71m in Scotland to generate about 6,000 jobs in response to some 1,300 job losses from shipbuilding. In total they could amount to expenditure of at least £157m (excluding any additional costs for counselling and training in Scotland, or any extension to the Inverclyde EZ). This would amount to over £36,000 for each shipbuilding job lost, more than double the cost per job limit for regional assistance in Development Areas.

On Harland and Wolff, while Tom King will be putting forward substantial proposals for remedial measures, I understand he has already accepted that further work by officials will be needed in the light of decisions on British Shipbuilders. I would very much hope that we could then agree something more modest than the £94m outlined in his paper.

Any package of remedial measures must also take into account the availability of resources to fund them. Closure will not lead to early savings of public expenditure for shipbuilding support which could then be used to fund remedial measures. I must, therefore, look to the Secretaries of State most affected for funding from within their existing provisions.



Whatever is done should be even-handed between the territories. Agreement to the Enterprise Zone at Inverclyde was on the basis of no additional provision, and I would in particular expect the same to apply to any Enterprise Zone for Sunderland, including any associated costs of regional assistance.

Whatever is done by way of remedial measures, I am quite clear that we must end Government subsidies to UK merchant shipbuilding at the earliest opportunity, and that it would be wholly counterproductive to try to safeguard jobs in shipbuilding areas by continuing and entrenching current support arrangements. Merchant shipbuilding in Europe is, and will remain for some years, an uneconomic activity. Even at the peak of the next shipbuilding cycle it is highly doubtful that UK yards could be competitive. In terms of job support, the costs of shipbuilding subsidies are indefensibly poor value for money.

I therefore entirely agree with Kenneth that the alternative to disposal of Govan must be its closure, and that we must not contemplate disposal on terms involving continuing subsidies. Closure of NESL seems inevitable, and I would support an early statement to that effect. We will need to discuss at your meeting whether there should be an early comprehensive announcement covering Govan and Harland and Wolff. But I am clear that it would be indefensible to maintain subsidies in Scotland and Northern Ireland, where the same arguments should apply with equal force.

I am copying this minute to David Young, Kenneth Clarke, Malcolm Rifkind, Tom King, and, in view of the reference to a possible Enterprise Zone for Sunderland, Nick Ridley and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'N.L.' with a horizontal line under the 'L'.

[N.L.]

30 March 1988

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Whatever is done should be even-handed between the
particular aspect of an additional provision, and I would in
particular expect the same to apply to any Enterprise Zone for
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assistance.

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that we must end Government subsidies to UK merchant
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I therefore entirely agree with Kenneth that the alternative
to disposal of Govan must be its closure, and that we must not
contemplate disposal on terms involving continuing subsidies.
Closure of W&A seems inevitable, and I would support an early
statement to that effect. We will need to discuss at your
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announcement covering Govan and Hartlepool and W&A. But I am
clear that it would be indelensible to maintain subsidies in
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apply with equal force.

I am copying this minute to David Young, Kenneth Clark,
Malcolm Rifkind, Tom King, and, in view of the reference to a
possible Enterprise Zone for Sunderland, Rick Hilday and to
Sir Robin Butler.

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