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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
 Chancellor of the Duchy of Lancaster
 Department of Trade and Industry
 1 - 19 Victoria Street
 London
 SW1H 0ET

Dear Ken,

4th May 1988

BRITISH SHIPBUILDERS

We spoke last night about your letter to Nigel Lawson of 18 April and I promised to consider afresh the extent to which I could entertain a claim on the Reserve for the various costs arising on British Shipbuilders and the extent to which a contribution should be found from the DTI budget.

I am aware that the settlement on the BS EFL which we reached in the last IFR was provisional, and of course I recognise that the costs of implementing your proposals for BS, which I fully support, will be substantial. I accept that you will need extra provision. But the fact is that you have not previously made a bid for any extra provision and I have not agreed to one.

Whilst I am quite prepared to accept the bulk of the costs of rationalising your policies as a charge to the Reserve, I cannot accept your proposition that all closure and disposal costs, as well as the remedial measures, should automatically be met in full from the Reserve.

You did not attempt to quantify the 1988-89 costs in your letter. But we know that they could easily be well in excess of £100 million if Govan were sold with a dowry of £75 million and all other BS facilities were closed or sold this year with dowries equal to the restimated closure costs.

This comes at a time when the Reserve for this year is already under pressure. Before April was out, claims on the Reserve of over £2½ billion had been made public. Severe restraint will be necessary for the remainder of the year if we are to convince our supporters and critics of our determination to maintain control over public spending.

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It was against this background that I asked my officials to explore with yours the scope for offsetting savings to meet in part the increased provision for the BS EFL which will be necessary. I had in mind a package involving equal contributions from DTI, Scottish Office and the Reserve to the agreed costs of disposal of Govan, and equal contributions from DTI and the Reserve to the agreed £7.6 million figure for advance factory building in Sunderland and the previously tabled costs of counselling, retraining and enterprise promotion in England. I am sorry that you were surprised to hear this. It seems to me that such an examination is always necessary, and that it is right similarly to look to Malcolm Rifkind for a contribution.

I am, however, mindful of the urgent need to reach agreement on the distribution of these costs and the problems which the need to reorder priorities to the extent necessary to find a significant contribution might cause you and Malcolm. I have therefore looked hard to see what might be the minimum I could accept. On this basis I would be prepared to accept all the agreed costs of disposal of Govan as a claim on the Reserve, together with costs of disposal or closure of other facilities which may be agreed between us, if you were willing to absorb the relatively modest costs in 1988-89 of remedial measures in England. I would need to look to Malcolm Rifkind similarly to fund the costs this year of any remedial measures in Scotland. The cost of any remedial measures in later years would be for discussion in the forthcoming Survey.

I hope that you will agree that this is a helpful basis for a quick agreement.

I am copying this letter to the Prime Minister, David Young, Malcolm Rifkind, Tom King and Nicholas Ridley, and to Sir Robin Butler.

Yours Ever,
John

JOHN MAJOR

NAT IND: Slipbuilding
pt 14

