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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
 SW1

MBM at this stage.

ACC 12/5

17th May 1988

Ken

BRITISH SHIPBUILDERS: FINANCING REMEDIAL MEASURES

Thank you for your letter of ^{*Har*} 6 May 1988. I am also replying to Malcolm Rifkind's letter of 9 May and to Nicholas Ridley's of 20 April.

I am pleased that you have felt able to accept my suggestion that the cost of remedial measures in future years should be decided in the Survey. That should enable us to take a well informed view of priorities.

As for 1988-89, I note from your letter that you feel we had agreed to split the 1988-89 costs of remedial measures, with your programme bearing the costs of advanced factory provision and the Reserve meeting the cost of the enterprise package. Clearly there has been some misunderstanding between us. My approach to this issue assumed that the great bulk of the £7½ million advanced factory provision endorsed by colleagues would fall in the current year and that you were offering to meet these sums from your existing provision, leaving only the financing of the 1988-89 costs of the enterprise package to be discussed between us.

As your letter makes clear, the 1988-89 costs of remedial measures are now much smaller than originally agreed with advanced factory provision of only some £2 million and an enterprise package costing £3.75 million (including provision for measures for Scotland and Bideford which have not been discussed or formally agreed). This compares with a potential claim on the Reserve of perhaps

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£100 million, to which I agreed in my letter of 4 May, associated with the disposal of Govan and closure or disposal of other BS facilities. I would not necessarily wish to challenge the need for additional enterprise measures covering not only Sunderland but also Scotland and Bideford. But given the major claim on the Reserve I have already conceded and the modest overall size of the spend on remedial measures this year, I consider it entirely reasonable that these costs should be found from within existing programmes. I must therefore continue to look to you and to Malcolm Rifkind to finance the costs of the enterprise package in 1988-89.

On other remedial measures, I am grateful for Malcolm's assurances that any non enterprise company costs will be met from within his existing provision. And Nicholas Ridley has helpfully agreed that the costs of the Sunderland enterprise zone are to be met from within his programme. I am grateful for this and would only wish to note that the scale of the enterprise zone would need to proportionate to the scale of redundancies. Any substantial continuing activity at NESL should lead to a lower call on his programmes. Similarly, the current advance factory provision for Sunderland envisages complete or near complete closure of NESL. We might need to revisit this issue again in the (seemingly unlikely) event of substantial continuing shipbuilding activity at NESL.

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