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Secretary of State for Trade and Industry

30 September 1983

Prime Minister (2)

AT 30/9

CONFIDENTIAL

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

MS

BRITISH SHIPBUILDERS : BORROWING LIMITS

As you know Cabinet has agreed a slot in the 1983/4 Parliamentary timetable for an essential Bill to increase British Shipbuilders' (BS) Borrowing Limits.

2 We last raised BS' Borrowing Limit just before the Recess, by Order, to £800m, the maximum under the present legislation. BS borrowing now stands at £682m. I shall be writing separately on the revision of this year's EFL which E(NI) agreed we should discuss in the Autumn; as you well know, it was agreed at E(NI) that we should take a firm line on BS, and I have made this abundantly clear to Graham Day. But it is also clear that whatever we might wish, their funding requirements in late 83/4 and early 84/5 will be increased - by of the order of £100m - by Scott Lithgow/Britoil problems. Given the operational headroom they need to be absolutely certain of staying within the limit, which our recent experience has demonstrated is some £100m, we need to introduce legislation as soon as possible, and I propose to do so on 24 October.

3 The form of the legislation is simple and uncontroversial: the only policy question is by how much we should raise the Limits. In the past we have always raised them by £100m, with provision for a further £100m by Order, subject to affirmative resolution. However to do so on this occasion would not take us far forward. Since Graham Day is still working on a new Corporate Plan it is impossible to be at all precise about future



funding requirements. But we must assume that BS will be seeking annual EFLs for the PES period of £100-£150m albeit on a declining path. The broad picture is summarised in the attached Annex. One can clearly see that a £125m EFL for 1985/6, plus the £100m cost of Scott Lithgow, plus the rest of this year's funding could take us over £950m in 1984/5, which would mean legislating again for new Limits next session.

4 This would clearly be unacceptable, embarrassing and a waste of valuable Parliamentary time. I believe we should be aiming to give BS Limits which take us to 1986/7 before further primary legislation is needed. To do so we will have on this occasion to raise the limit by £200m (to £1bn) with provision for a further £200m (to £1.2bn) by Order. On the last occasion we avoided such large increments, in view of likely Parliamentary concern at the extent of funding envisaged. But the climate is now very different. The vast losses of last year are public knowledge and we have pledged ourselves to extra "crisis aid". A substantial increase in the Borrowing Limits - which must of course be carefully presented as a technical measure permitting, but not committing, such expenditure - would be fully in line with our stance of support for the rationalisation of the industry.

5 The initial raising of the Limit by £200m by virtue of the passage of the Bill itself, is readily defensible. But I believe it would be wrong to ask Parliament for an unconstrained power to raise the Limit further by Order by up to £200m, albeit subject to affirmative resolution. Instead, I propose to frame the legislation to give powers to raise the Limit by up to a maximum of £100m by any single Order, up to a total of £200m. I would be grateful if you and colleagues could let me know by Wednesday, 5 October if you are content that I proceed on this basis.

6 Copies go to colleagues on E(NI), John Biffen and John Wakeham.

*Yours* *Ear*  
*Real*

Encl

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ANNEX

ESTIMATE OF BS BORROWING REQUIREMENTS

	<u>Annual</u>	<u>Cumulative</u>
Actual borrowing at 31.3.83	597	597
Notional further borrowing in 1983/4 (subject to agreement on revised EFL)	140	737
Notional borrowing in 1984/5	125	862
Provision for Britoil contract (falling in .83/4 and/or 84/5)	100	962
Notional borrowing in 1985/6	110	1072
Notional borrowing in 1986/7	110	1182

SBP1  
22 September 1983

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AT 7/10

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Cecil Parkinson MP  
Secretary of State for Trade  
and Industry  
Department of Trade and Industry  
1 Victoria Street  
LONDON  
SW1E 6RB

2802 130 T

7 October 1983

Dear Secretary of State

BRITISH SHIPBUILDERS BORROWING LIMITS

Thank you for your letter of 30 September to the Chancellor which has been passed to me for reply.

You propose to increase British Shipbuilders borrowing limit.

I am content that this should be raised to £1 billion now with provision for revisions of £100 million to a maximum £1.2 billion by order subject to affirmative resolution.

I am copying this letter to the recipients of yours.

Yours sincerely

J. A. Giein

for PETER REES

[Approved by the Chief Secretary]

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PRIVY COUNCIL OFFICE  
WHITEHALL LONDON SW1A 2AT

NBPM

AT

6/10

6 October 1983

Dear Cecil

BRITISH SHIPBUILDERS: BORROWING LIMITS

I have seen your letter of 30 September to Nigel Lawson and endorse your proposal to increase the borrowing limits of British Shipbuilders in increments of £200 million rather than £100 million. We certainly do not want to have another shipbuilding Bill in the next Session.

Could I add that it is very important that the Bill comes to L Committee on 19 October. I hope therefore that your current discussions on the level of limits will not prejudice that timetable.

Copies go to members of E(NI) and John Wakeham.

JOHN BIFFEN

The Rt Hon Cecil Parkinson MP  
Department of Trade and Industry

Noted: Singularity Pt 5

16 OCT 1983

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