



10 DOWNING STREET

Prime Minister

Mr Tebbit has radically  
recast his approach to the  
Commission. He is now  
proposing to ask for an  
extension of present arrangements  
while the main strategic issues  
are settled (something he  
said was impossible in  
December). In addition  
contacts with the Commission  
will be low key and pragmatic.

Agree?

Yes

AF

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10 DOWNING STREET

*From the Private Secretary*

7 February 1984

SHIPBUILDING - EC NOTIFICATION OF UK SHIP-  
BUILDING AID

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The Prime Minister has seen your letter to me of 31 January and the draft letter which your Secretary of State proposes to send to the European Commission. She is content with the draft and with the proposal to seek a further interim extension of the Intervention Fund. She is content that there should be limited and provisional bilateral contact with the Commission on new aid proposals. She has also noted that BS's corporate plan will be brought to E(NI) in mid-February.

I am copying this letter to the Private Secretaries to the members of E(NI). Brian Fall (Foreign and Commonwealth Office), Derek Hill (Northern Ireland Office) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Miss Ruth Thompson,  
Department of Trade and Industry.

BR

CONFIDENTIAL



*CE/R4.*

*NBSM*

*AT  
9/2*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

7 February 1984

Miss Ruth Thompson  
Private Secretary to the  
Secretary of State for Trade  
and Industry

*Dear Ruth,*

SHIPBUILDING - EC NOTIFICATION OF UK SHIPBUILDING AID

The Chancellor has seen your letter to Andrew Turnbull of 31 January, with the attached revised letter to the EC Commission requesting a temporary extension of the shipbuilding intervention fund from 1 February to 30 April 1984. He is content that the Commission should be approached as is now proposed.

I am copying this to the recipients of yours.

*Yours ever,*

*Judith Simpson*

MISS J C SIMPSON  
Private Secretary

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9 FEB 1984



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*file*

c: Mr Redwood

MR TURNBULL

EC NOTIFICATION OF SHIPBUILDING AID

Mr Tebbit and his officials have retreated from their pre-Christmas intent to notify very high levels of Shipbuilding Aid to the EC. We judge it quite adequate that the unused balances from the current tranche (approximately £20 million for BS, Harland and Wolff and the private sector together) be drawn on as an interim arrangement.

In these circumstances, we see no need to say (as does para 4 of the attachment to Ruth Thompson's letter of 31 January) that "some increase in support is likely to be necessary for a time". Part of the argument which the Prime Minister used in her previous exchanges with Mr Tebbit on this point was that a needlessly high aid ceiling (a) sends the wrong signal back to the shipbuilding industry and (b) might be used.

We suggest therefore that the last sentence of para 4 be rewritten as "It is already clear, however, that the plan will involve further significant reductions in capacity."

*RJ.*

ROBERT YOUNG  
1 February 1984

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cc R.M.



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JF5502

Secretary of State for Trade and Industry

31 January 1984

CONFIDENTIAL

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

Dear Andrew,

SHIPBUILDING - EC NOTIFICATION OF UK SHIPBUILDING AID

P45

My Secretary of State has seen your letter of 12 January.

2 He has asked me to inform you that he will bring forward proposals on BS's Corporate Plan to E(NI) by about mid-February. He envisages that formal notification of a new support regime would follow quickly, on the terms which would be cleared with colleagues beforehand.

3 He strongly believes that in the meantime the Commission's agreement should be sought for a further interim extension of the Intervention Fund (IF), from end-January (when the current IF expires) to end-April. This would be done on the lines of the attached draft, which has been agreed among officials.

4 As Mr Tebbit's minute of 22 December 1983 suggests, it will take some time to reach agreement with the Commission on the proposals for a new aid regime. In the absence of an interim IF during the intervening period there would be no legal cover for providing UK shipbuilders with IF assistance unless the Commission's consent was obtained for each case. This would not only be time-consuming but also make it very difficult to provide the covert assistance that might be needed to secure important orders such as that for the CEGB colliers.

5 The Prime Minister noted that if necessary there might be limited and provisional bilateral contact with the Commission on our new aid proposals. We do think it is important to maintain contact on this basis, as the Commission will in any case wish to have an indication of

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our proposals in agreeing to an extension of the existing  
Intervention Fund.

6 I am copying this letter to the Private Secretaries to  
Members of E(NI), to Brian Fall (Foreign and Commonwealth  
Office), Derek Hill (Northern Ireland Office) and Richard  
Hatfield (Cabinet Office).

*Yours ever,*

A handwritten signature in black ink, appearing to read 'Ruth', written in a cursive style.

RUTH THOMPSON  
Private Secretary

Encl

DRAFT LETTER

E Noel Esq  
Secretary General  
Commission of the European Communities  
Berlaymont  
200 rue de la Loi  
1044 BRUSSELS  
BELGIUM

UK SHIPBUILDING AID

1. My Authorities have asked me to notify the Commission of their outline plans for the UK shipbuilding industry, and of the need for a further temporary extension of the Intervention Fund whilst these plans are finalised.
  
2. As the very serious crisis in world shipbuilding continues, the UK industry, as industries in other member states, has been hit hard by the sharp deterioration of the world market and the poor order situation. The industry now faces a crisis and the risk of disorderly collapse with serious social consequences. Order prospects are very poor. British Shipbuilders' order book at end-1983 was 347,000 cgrt compared to 485,000 cgrt at end-1982. Of the present (end-1983) order book only 83,000 cgrt represents orders on which work has not begun compared to 153,000 cgrt at end-1982. At the end of 1983 Harland & Wolff has already commenced work on all of their order book.
  
3. My Authorities have taken the view that BS needs a new strategy to cope with these very difficult conditions. This needs to take a realistic view of the market; to tackle the industry's



large losses and the burden they impose on the Exchequer; to take due account of the social consequences, bearing in mind the industry's concentration in areas of high unemployment; to avert the risk of a precipitate collapse of the UK industry; and finally, the strategy needs to make its proper contribution to a healthy and competitive shipbuilding industry in the Community.

4. Since his appointment, the new Chairman of BS has been engaged in a fundamental review of the Corporation within this general framework. His work, and the Government's examination of it, are well advanced, and the Government expect, within a few weeks, to be able to agree a detailed plan with BS and notify the Commission of the support regime necessary to underpin it. It is already clear however that the plan will involve further significant restructuring of the industry, and that bearing in mind particularly the present competitive pressures from Far Eastern suppliers, some increase in support is likely to be necessary for a time.

5. As the Commission will be aware, considerable restructuring has already taken place. In 1979 the UK industry embarked on a major programme of restructuring which, inter alia, resulted in a manpower contraction of 54% by end of 1982 (see Table 1) and closure by BS of 9 yards and of 36 out of 66 merchant berths. In general terms the very considerable fall in capacity that this represents is reflected in the fact that BS yards before nationalisation in 1977 were producing an average 623,000 cgrt annually, whereas BS's estimated current capacity is around 350,000 cgrt, slightly above the present order book level of 347,000 cgrt.

6. Further contraction has taken place since the previous annual regime expired in July last year. In British Shipbuilders as a whole 3,967 (including 2,677, 12% of merchant employment) redundancies were called for in July 1983 and a further 2,098 (including 430, 2% of merchant employment) in October 1983; in addition some 4,350 jobs (including 1,560, 7% of merchant employment) are at risk between October 1983 and March 1984. Taking all these prospective job reductions into account, 4,677 merchant jobs (ie 21% of the merchant division employment at June 1983) could be lost between July 1983 and March 1984.

7. For Harland & Wolff significant capacity reduction is difficult since building takes place in a single dock, but between March and July 1983 manning was reduced by a further 750. Thus there has been a total reduction in new merchant building employment of 22% from 5370 in 1982 to the present level of 4200.

#### Temporary Extension of the Intervention Fund

8. Pending decisions on a new strategy and support regime it is important for the whole of the UK industry, including the private as well as the public sector of the industry, that there should be no hiatus in the Intervention Fund while the new proposals are under consideration. The UK Government believe it is necessary to have a legal basis for continued Intervention Fund payments after 31 January 1984 and consider that it would be in the interests of a sound and effective Community aids policy that this continuity should be preserved. In these circumstances the Government take the view that a further temporary continuation of the present

arrangements will be necessary. The UK Government therefore propose a limited extension of the Intervention Fund from 1 February 1984 to 30 April 1984 on the same terms as for the existing tranche, pending decisions on its new proposals.

9. The UK Government propose that the amount of money allocated for this period should be the unused balance from the current tranche of the Intervention Fund. Taking account of potential as well as actual commitments, the amounts of unused balance are estimated to be in the order of £10 million for British Shipbuilders and the private sector, and £10 million for Harland & Wolff. The amounts required for BS and Harland & Wolff respectively are therefore £10 million and £10 million. In Great Britain the rate of this aid will continue to be 15%. For Northern Ireland the UK Government propose that the rate of aid for Harland & Wolff should remain at 18% of contract price for vessels of over 100,000 dwt. For smaller vessels the rate will be 15% in line with the rate for British Shipbuilders. All UK shipbuilding contracts will also continue to attract Shipbuilders' Relief at 2%.

TABLE 1

EMPLOYMENT IN NEW MERCHANT SHIPBUILDING IN THE COMMUNITY (End of year)							Percentage Contraction
	<u>1975</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1975-1982</u>
Belgium	7467	6614	6258	6523	6119	5.031	32.6
Denmark	16630	12000	9900	11400	11350	11.800	29.0
France	32500	25300	23000	22200	22200	22.000	32.3
Germany	46839	31113	27369	24784	26521	27.600	41.1
Greece	-	-	-	-	3393	3.696	-
Ireland	869	840	750	750	762	882	-
Italy	25000	20000	19000	18000	16500	13.750	45.0
Netherlands	22662	17540	14540	13100	13100	13.100	42.2
United Kingdom	54550	41050	31200	24800	25345	25.000	54.1
Sub-total less Greece	206517	154457	132017	121551	121897	119.163	
Total					125290	122.859	

Source: EC Commission Report on Shipbuilding in the Community at 1.1.83.