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POLICY UNIT
10 February 1984

PRIME MINISTER

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THE DTI AND INDUSTRIAL STRATEGY

Successful economies depend on a thriving competitive enterprise sector. The good companies survive and prosper, the bad companies die quickly - their assets and people absorbed by others better able to use them.

For years the DTI has tried to stop business Darwinism from flourishing in the UK. It spends £1 billion directly on industrial and regional support. In addition, along with the Departments of Energy and Transport it sponsors nationalised industries who require £2.6 billion in external finance, two-thirds of which takes the form of government grants.

UK companies (excluding North Sea Oil operations) will pay £3.3 billion in mainstream corporation tax in 1983-4. Government is therefore taxing the successful to keep in a state of half life the aging dinosaurs of our industrial economy.

Over the next two months, Cabinet committees will at last see the corporate plans of British Shipbuilders, Harland and Wolff, BSC, BL and Rolls Royce. The usual pattern of deterioration in prospects for the immediate years followed by the enticing prospect of profits and cash generation three years away will be evident.

The BL Corporate Plan for the three years 1984, 1985, 1986, shows a halving of profits compared with last year's version (£108m compared to £219m). Cash outflow (all for HMG to guarantee/subsidise) is now forecast at £204m, double the £102m forecast last year.

Rolls Royce's plan now forecasts £52m of total profits for the next three years, little more than one-third of last year's forecast of £139m. RR has made some modification in accounting presentation: 1984-6 figures are understated on a comparable basis.

BSC has still to produce its plan.

In total BL, BSC, British Shipbuilders and Rolls Royce will require around £1,600 million in three years and will lose £325 million on their current forecasts.

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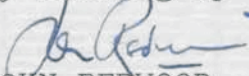
Hi-tech business can also become dangerous. Government has been notably bad in the past at picking winners (eg Nexos, Concorde, 38 out of 40 projects approved for launch aid in aerospace). DTI nevertheless favour stepping up hi-tech aid where less government spending and involvement would help the workings of the market.

What can be done about it?

If you are concerned about the cash consumption of these businesses and about the way in which every year the good news is deferred again, you could:

1. When receiving an industrial corporate plan seek a brief note on total industrial support which summarises increases and decreases on all companies and corporations over the last year: this would set the individual negotiation in context.
2. Ask DTI to implement a few crucial painful decisions early in the life of this Parliament. BSC will need to close Llanwern or Ravenscraig in addition to running down smaller plants. BL should come out of the trucks business as an urgent priority. Several shipyards have to close and others will have to contract.
3. Ask for realistic plan figures for years 3-5 of each plan.
4. Reinforce the message of splitting up these large corporations and selling off parts wherever possible.
5. Continue scepticism about the DTI's ability to pick hi-tech winners.

There is a danger that left unquestioned the DTI will carry on as if they still have to run an industrial strategy, in the wrong belief that public money expended saves jobs. In practice it destroys them by holding up the essential process of structural change.


JOHN REDWOOD
10 February 1984



File 40

10 DOWNING STREET

From the Private Secretary

13 February 1984

CORPORATE PLANS

During the next few months a number of corporate plans will be coming to Ministers for decision. The Prime Minister has been considering what information is needed for these discussions. She would like to have a table which sets out how much the Government is putting into the various industries. I attach a pro forma of a table which would show not only how much is being sought for the industry in question, but also how this compares with the corresponding figures shown last year and how much is being provided for all the industries for which your Secretary of State is responsible. If, after studying it, you can suggest any improvements, I would be happy to receive them.

The Prime Minister has also commented that all too often the picture shown is one of a requirement for increased support in the first year coupled with a strongly improving position in later years. She hopes that the figures for the later years of the corporate plans will be scrutinised very rigorously.

ANDREW TURNBULL

Callum McCarthy, Esq.,
Department of Trade and Industry.

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GOVERNMENT SUPPORT¹ : INDUSTRIAL CORPORATIONS AND COMPANIES

						<u>£ Million</u>
						Total
						3 Forecast
		1983-4	1984-5	1985-6	1986-7	Years 84-87
BSC	Last Year's Plan					
	This Year's Plan					
BL	Last Year's Plan					
	This Year's Plan					
RR	Last year's Plan					
	This Year's Plan					
BS	Last Year's Plan					
	This Year's Plan					
PO	Last Year's Plan					
	This Year's Plan					
BTG	Last Year's Plan					
	This Year's Plan					
TOTAL	Last Year ²					
	This Year ²					

1. Government lending, grants, subsidy payments, plus government guaranteed borrowing.

2. 1984 Corporate Plan where available, otherwise 1983 Corporate Plan.