



CONFIDENTIAL

P.01227

PRIME MINISTER

British Shipbuilders'
Corporate Plan 1983/84-1986-87
(E(NI)(84)3)

Flag B

BACKGROUND

Flag C

The Sub-Committee last discussed British Shipbuilders' (BS) Corporate Plan in July 1983 (E(NI)(83)7th Meeting). They rejected the Corporate Plan and invited the then Secretary of State for Trade and Industry to produce a new one early in the Autumn concentrating on merchant shipbuilding and looking realistically at all options. In that context there was to be an examination of whether there was a need to maintain particular merchant shipbuilding or ship repair facilities in the United Kingdom. The Secretary of State was to approach the European Commission indicating that the UK was likely later to approach the Commission for agreement to "crisis aid" as part of a contraction plan for BS. The amount was to be for decision in the light of the new Corporate Plan and aid was not to be used to attract orders to yards which ought to be closed.

Flag D

2. Mr Tebbit minuted you on 22 December saying that further time was required to work out a credible range of options with Mr Day but proposing nevertheless to notify the Commission of proposals for a new support regime. The Chancellor of the Exchequer in his minute of 9 January said that he did not favour an approach to the Commission on the lines proposed prior to strategic decisions on the future of merchant shipbuilding. You took the same view (your Private Secretary's letter of 12 January). You agreed however on 7 February to a request to the Commission (now sent) for a further interim extension for those months of the existing Intervention Fund (IF), which expired at the end of January and provided for support at a rate of up to 15 per cent.

Flag E

Flag F

Flag G

CONFIDENTIAL

CONFIDENTIAL

3. In E(NI)(84)3 Mr Tebbit proposes that the strategic decisions on the future size of the industry should be postponed until detailed business plans are available for each of BS's subsidiaries in May. Meanwhile he seeks a decision on the EFL for 1984-85 and has revived his proposal for an approach to the European Commission for IF assistance of up to 30 per cent intensity and £100 million volume over two years.

MAIN ISSUES

4. The main issues are:

i. should strategic decisions on the future size of BS's merchant shipbuilding activities be further postponed until after more information is available in May?

ii. should decisions nevertheless be taken now on:

a. the EFL for 1984-85;

b. the level of IF subsidy for which EC approval should be sought for the next two years?

Future of merchant shipbuilding

5. As a basis for strategic decisions about the future of BS's merchant shipbuilding activities, E(NI)(84)3 provides two pieces of evidence. Annex B demonstrates that there is no case on defence grounds for retaining more than "a minimum level of ship repair capacity and possibly some merchant shipbuilding capacity" but only at a much lower level. The economic arguments are weak. Annex A confirms E(NI)'s earlier suspicion that there may well be no viable core of merchant shipbuilding and that the cost of keeping these activities going is roughly proportionate to the volume of orders.

6. The Sub-Committee may well feel that there is not sufficient information yet to take firm strategic decisions. They may however feel that there is sufficient indication to call in question the desirability of large subsidies to encourage a substantial volume of new orders. They may also be reluctant to postpone decisions yet again until after May. Is it really necessary to await detailed business plans for each of the 24 subsidiaries? Would it not be possible for Mr Tebbit to get from Mr Day a further fuller report which would make it possible for the Sub-Committee to take broad strategic decisions before Easter?

EFL for 1984/85

^ for merchant shipbuilding

7. Mr Tebbit proposes deciding now on EFLs for BS for 1984/85. The £117 million EFL proposed is the cash requirement related to orders of 150,000 cgrt (compensated gross registered tons) per year, the central scenario of the three illustrated in Annex A of E(NI)(84)3. There is no full explanation in the paper of this figure or the £80 million proposed in paragraph 12 for the warshipbuilding component of the EFL, which is based on figures submitted to Mr Tebbit by Mr Day in the autumn.

8. It is argued that nothing would be lost by settling the EFL in this way, since the cash needs in 1984-85 are not very sensitive to decisions about future strategy and no options for the future would be closed off.

9. There is however no convincing explanation of why it is essential to settle the 1984-85 EFL now at £221 million, rather than continue with the existing provisional figure of £175 million. The Sub-Committee may feel that it would be better to defer this decision until after the strategy is settled, especially if they take the view that a strategic discussion ought not be postponed until after May.

Merchant 117
w/ w/ops 80
of those 18
ships 6

30%

Cost - stand with no work.
w/ops chosen. // Yards

CONFIDENTIAL

The Intervention Fund

10. Mr Day has said that he needs increased rates of IF to win orders. Similar arguments are advanced in the separate paper on Harland and Wolff by the Secretary of State for Northern Ireland (E(NI)(84)2). The Secretary of State for Trade and Industry says that this is an urgent problem which should be taken up now with the European Commission. Your own view, consistent with that taken at E(NI) last July and supported by the Chancellor of the Exchequer, has been that strategic decisions should come before an application for increased IF.

11. It must be doubtful in any case whether the Commission will find it easy to agree to an application for doubling the intensity of aid from the present level of 15 per cent to 30 per cent, despite the requirement in the Fifth Shipbuilding Directive for aid to be degressive. They are likely to press in return for a clear strategy for the future of the UK shipbuilding industry.

12. Delay until May or later would require the negotiation of a further temporary extension of Commission agreement to existing IF arrangements, which expired on 31 January, beyond the extension to April for which application has just been made: negotiation even of the latter extension is not expected to be straightforward. The Sub-Committee may feel that this strengthens the case for trying to take strategic decisions before Easter.

13. If it is decided to approach the Commission now, the Sub-Committee will need to consider whether the intensity should be 30 per cent, and the volume £100 million over two years as proposed. The question of whether a higher intensity should be sought for Harland and Wolff would probably be more conveniently discussed on Mr Prior's paper (E(NI)(84)2).

CONFIDENTIAL


CONFIDENTIAL

HANDLING

14. You will wish to ask the Secretary of State for Trade and Industry to introduce his paper then to invite comments from the Chancellor of the Exchequer and the Chief Secretary, Treasury. The Minister of State, Foreign and Commonwealth Office (Lady Young) will wish to comment on the implications of IF negotiations with the Commission. The Secretary of State for Northern Ireland may wish to comment on points other than those arising on his own paper on Harland and Wolff.

CONCLUSIONS

15. You will wish to reach conclusions on the following:

- i. whether strategic decisions on the future of BS's merchant shipbuilding activities
 - should be deferred until after May, as proposed in E(NI)(84)3, or
 - should be taken earlier (say before Easter) on the basis of a further report from the Secretary of State for Trade and Industry;
- ii. whether EFLs for BS for 1984-85
 - should be set now at the levels proposed in E(NI)(84)3, or
 - should not be settled until after decisions are taken on the future strategy for merchant shipbuilding;

CONFIDENTIAL

CONFIDENTIAL

iii. whether EC approval for the future intensity and volume of Intervention Fund assistance

- should be sought now for BS at the levels proposed in E(NI)(84)3, or
- should not be sought until after decisions are taken on future strategy;

iv. whether firm proposals for UK engine building capacity should be put to the Sub-Committee in June, as suggested in paragraph 13(i) of E(NI)(84)3.

PLG

P L GREGSON

17 February 1984

CONFIDENTIAL