



JF6110

BF with Policy Unit note  
no 4/1/4 AT

~~CC~~ NO.

PRIME MINISTER

BRITISH SHIPBUILDERS : OBJECTIVES

<sup>PH 4.</sup>  
In his minute to you of 15 March 1983 Patrick Jenkin circulated draft strategic objectives which were then being discussed with Graham Day as part of his terms of appointment. You and the then Chancellor commented that we should set quantified targets for losses on merchant shipbuilding. Since Mr Day was unlikely to agree such targets until he had had a chance to develop his own strategy we had to delay agreeing objectives with him. Patrick Jenkin undertook to consult colleagues on revised objectives before putting them to Mr Day.

2 Now that we have discussed BS strategy in E(NI), I would like to return to objectives again with Mr Day. It is important that the Corporation has a clear and agreed statement of what Government seems as its aims. Unfortunately, since Mr Day's first Corporate Plan was only a strategy document and since BS have qualified all figures they have given us as indicative only we still cannot agree quantified loss targets. But we must make it clear in the objectives themselves that detailed targets will be set and agreed when the next Plan has been discussed.



3 I think it is important that we press ahead with objectives now and do not wait until June when we could put in detailed targets, not least because we need to have a clear statement of the Corporation's strategy against which to measure Mr Day's performance for the purpose of assessing his salary bonus.

4 I will naturally be looking to the BS non-executives for advice on how much of the bonus (maximum of £15,000) Mr Day merits. They will therefore need to see the objectives. In fact, I see no reason why the objectives should not be available to the whole Board since the general thrust will already be clear to them.

5 I propose then that the objectives should be agreed with Mr Day and then sent to him for circulation to the BS Board in confidence.

... 6 I attach a revised set of objectives at Annex which takes in comments made last year. I would welcome your views and those of other E(NI) colleagues to whom I am copying this minute.

A handwritten signature in black ink, appearing to be 'NT' with a stylized flourish.

N T

29 March 1984



CONFIDENTIAL

JU100

BRITISH SHIPBUILDERS: OBJECTIVES

The primary aims of the Government are:-

to return the constituent parts of British Shipbuilders to the private sector at the earliest opportunity; and

substantially to reduce the Corporation's call on Government financial support as quickly as possible.

To this end, subject to the provisions of the Aircraft and Shipbuilding Industries Act 1977 and the British Shipbuilders Act 1983 and any direction given by the Secretary of State by virtue of his powers under such Acts, the Corporation's aims shall be:-

1) Privatisation: The Corporation shall aim to:

a achieve privatisation of all of its warshipbuilding activities by end 1984/5\* (or by end 1985 if a flotation proves necessary);

b ensure the sale or closure of all shiprepairing-companies and of peripheral engineering interests by end-1984;

c dispose of any other saleable businesses of the Corporation by end 1985/6.

2) Increased Efficiency: The Corporation shall continue to pursue, in consultation with the workforce, a vigorous programme of cost reduction, including productivity improvements, more efficient purchasing and use of materials and equipment with the

---

\*Draft E(DL) paper suggests this timing, subject to consultation with Mr Day.



aim of bringing BS costs and productivity for all its activities into line with those of the most efficient European producers and thereafter to improve BS' relative position.

3) Merchant Shipbuilding: The loss-making Merchant shipbuilding companies are unlikely to be candidates for privatisation in the foreseeable future, although sale of potentially viable companies remains a longer term aim. To this end the Corporation shall aim to reduce substantially each successive year the rate of trading loss, before crediting Intervention Fund assistance, on merchant shipbuilding. The longer term aim of the Corporation should be to bring its merchant shipbuilding activities to break-even and to close facilities where this is judged not to be achievable. When the 1984 Corporate Plan has been received Ministers will agree with the Corporation quantified targets for reducing losses on merchant shipbuilding.

4) Offshore: The high level of losses on offshore work must be reduced quickly and exposure to such potentially large losses in the future limited. The Corporation has already taken action on this front. Quantified targets for reducing losses on offshore work will be agreed when BS' 1984 Corporate Plan is produced.

5) Enginebuilding: The Corporation shall take early action to reduce over-capacity in its enginebuilding facilities. Further objectives will be set in the light of the review of enginebuilding to be continued in the 1984 Corporate Plan.

6) Finance: The Corporation shall be required to meet the financial targets set by the Secretary of State. These targets will be set after consideration of BS's annual Corporate Plan and will reflect the Government's policy of reducing financial support for BS.



7) Fair Competition: The Corporation shall ensure that where it is in competition with UK private sector companies such competition is at all times on fair and equal terms and seen to be so.

SBP1

March 1984



cc HMT D/M  
DOE CDL  
SO CO  
DOT Bob Young  
CSO  
D/N

10 DOWNING STREET

*From the Private Secretary*

9 April 1984

British Shipbuilders : Objectives

The Prime Minister has seen your Secretary of State's minute of 29 March. She is generally content with the draft objectives (Policy Unit have some drafting suggestions to make which they will be putting to you at official level). She agrees that the objectives can now be put to Mr. Day, and subsequently to the BS Board.

I am copying this letter to Private Secretaries to members of E(NI) and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

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



10 DOWNING STREET

Prime Minister ①

- (i) To note Policy Unit Noted  
mb  
Comments
- (ii) Agree statement of objectives  
or strategy be sent to tvDay  
and the BS Board? Yes
- (iii) Agree I ask Policy Unit  
to feed in their proposed  
drafting changes at official  
level?

Yes - they AT 5/4  
are very good  
not

②  
MR TURNBULL

cc Mr Redwood

OBJECTIVES FOR BRITISH SHIPBUILDERS

*Charley on mb*

1. Whether for British Shipbuilders or any other nationalised industry, the Government has three main responsibilities:

- (a) to set a policy for the business as a whole or for its major parts - preferably once only in each Parliament;
- (b) to approve and provide finance - annually, in the light of the industry's trading performance and prospects, and in the light of Government's own finances;
- (c) to hire and fire the key appointees.

Lord Cockfield has confused (a) and (b), and even Mr Tebbit might usefully draw a clearer distinction.

2. Mr Tebbit's memorandum makes a very good job of (a). It would be better to retitile the paper "Policy" or "Strategy" rather than "Objectives" for British Shipbuilders. That apart, we have only minor clarifying changes to suggest, as marked up on the attached copy of Mr Tebbit's text.

We agree that there is no need to delay the release of the paper. Its contents flow directly from E(NI)'s February discussion of Mr Day's strategy of last October.

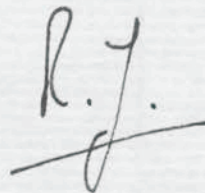
We also agree that objectives for the corporation, which should involve much more specific financial targets, must await E(NI)'s judgement of the corporate plan in June.

3. For the moment, the question of Graham Day's performance related bonus is a red herring. The facts are that Mr Day was appointed



Chairman of BS on 1 July 1983, on the understanding that he would be eligible for a bonus of up to £15,000 on top of his base salary of £80,000. Prior to appointment, he declined a set of objectives until he had looked inside the corporation, the shipyards and above all the books. In October 1983, Graham Day delivered a strategy (not a corporate plan) which E(NI) did not review until February 1984. So by July, he will have worked for a year without a set of objectives other than the EFL determined for Sir Robert Atkinson.

In these circumstances, the only basis Norman Tebbit has for awarding Graham Day a bonus for the last 12 months work is a subjective one (and he does not need to decide for at least two more months). Performance targets for the next 12 months must await the corporate plan. The proposed statement of Government's strategy for BS, good though it is, is necessarily too imprecise to be of help in determining either year's bonus.



ROBERT YOUNG



CONFIDENTIAL

JU100

STRATEGY

BRITISH SHIPBUILDERS: [OBJECTIVES]

The primary aims of the Government are:-

to return the constituent parts of British Shipbuilders to the private sector at the earliest opportunity; and

substantially to reduce the Corporation's call on Government financial support as quickly as possible.

To this end, subject to the provisions of the Aircraft and Shipbuilding Industries Act 1977 and the British Shipbuilders Act 1983 and any direction given by the Secretary of State by virtue of his powers under such Acts, the Corporation's aims shall be:-

1) Privatisation: The Corporation shall aim to:

a achieve privatisation of all of its warshipbuilding activities by <sup>March 31st 1985</sup> end 1984/5\* (or by <sup>December 31st 1985</sup> end 1985 if a flotation proves necessary);

b ensure the sale or closure of all shiprepairing-companies and of peripheral engineering interests by <sup>December 31st 1984</sup> end-1984;

c dispose of any other saleable businesses of the Corporation by <sup>March 31st 1986</sup> end 1985/6.

2) Increased Efficiency: The Corporation shall continue to pursue, in consultation with the workforce, a vigorous programme of cost reduction, <sup>DELETE</sup> [including productivity improvements, more efficient purchasing and use of materials and equipment] with the

---

\*Draft E(DL) paper suggests this timing, subject to consultation with Mr Day.



aim of bringing BS costs <sup>DELETE</sup> [and productivity for all its activities] into line with those of the most efficient European producers and thereafter to improve BS' relative position. *The Corporation shall propose relevant comparators and targets in its 1984 Corporate Plan.*

3) Merchant Shipbuilding: <sup>DELETE</sup> [The loss-making Merchant shipbuilding companies are unlikely to be candidates for privatisation in the foreseeable future, although] <sup>The</sup> sale of potentially viable companies remains a longer term aim. To this end the Corporation shall aim to reduce substantially each successive year the rate of trading loss, before crediting Intervention Fund assistance; <sup>DELETE</sup> [on merchant shipbuilding. The longer term aim of the Corporation should be] to bring its merchant shipbuilding activities to break-even; <sup>or sell with a 'dowry'</sup> and to close facilities where this is judged not to be achievable. When the 1984 Corporate Plan has been received <sup>and annually thereafter,</sup> Ministers will agree with the Corporation quantified targets for reducing losses on merchant shipbuilding.

4) Offshore: The high level of losses on offshore work must be reduced quickly and exposure to such potentially large losses in the future limited. <sup>DELETE</sup> [The Corporation has already taken action on this front.] Quantified targets for reducing losses on offshore work will be agreed when BS' 1984 Corporate Plan is produced, *and will be reviewed annually hereafter.*

5) Enginebuilding: The Corporation shall take <sup>DELETE</sup> [early] action <sup>by March 31st 1985</sup> to reduce over-capacity in its enginebuilding facilities. Further objectives will be set in the light of the review of enginebuilding to be continued in the 1984 Corporate Plan.

6) Finance: The Corporation shall be required to meet the financial targets set by the Secretary of State. These targets will be set after consideration of BS's annual Corporate Plan and will reflect the Government's policy of reducing financial support for BS.

*This should really be No. 1)*



7) Fair Competition: The Corporation shall ensure that where it is in competition with UK private sector companies such competition is at all times on fair and equal terms and seen to be so.

SBP1

March 1984



Chancellor of the Duchy of Lancaster

BR with PM response

AT 4/4

## SECRETARY OF STATE FOR TRADE AND INDUSTRY

## BRITISH SHIPBUILDERS

Thank you for copying to me your minute of 29 March to the Prime Minister.

1. We are in very considerable difficulty in this matter as it is a very long time since we have had an agreed Corporate Plan for British Shipbuilders. The 1982 and 1983 plans while not rejected were regarded as unsatisfactory and the 1984 plan has not yet surfaced.
2. It is very difficult to draw up a satisfactory set of objectives in the absence of a realistic Corporate Plan. If however it is thought that a document of the kind proposed would exert pressure on Mr Day to produce a Plan then this would be an argument in its favour. But if we are to achieve that end, I would have thought that the first requirement to be imposed in the document is that a Corporate Plan should be produced, that it should be produced on time and that the objectives whether operational or financial set by Government in the light of that Plan should be adhered to.
3. On more detailed matters, the very considerable success in disposing of Scott Lithgow does not appear to be reflected in the thinking in the document. The statement that "the loss making merchant shipbuilding companies are unlikely to be candidates for privatisation" seems to strike the opposite note. And similarly the statement that the "aim .... should be to bring its merchant shipbuilding activities to break even and to close .... where this is not judged to be achievable" ignores the possibility of disposing of loss makers.

CONFIDENTIAL

4. I doubt whether you can have "fair and equal" competition with private sector firms so long as you are subsidising heavy losses. The only way this requirement can be met would be to close all loss makers in competition with private sector companies. That might well be the right answer. But it is more likely in practice that this particular "objective" would be regarded as a pious hope.

I am copying this minute to the Prime Minister, the other members of E(NI) and Sir Robert Armstrong.

A.C.

A C

3 April 1984

NAT IND FT 6

Shipments

11 12 1  
10 11 12  
9 10 11  
8 9 10  
7 8 9  
6 7 8  
5 6 7  
4 5 6  
3 4 5  
2 3 4  
1 2 3

24 JUL 1984

CONFIDENTIAL

~~SECRET~~



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM  
AT 18/4

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON SW1H 0ET

17 April 1984

*Dear Norman*

#### BRITISH SHIPBUILDING - OBJECTIVES

Thank you for sending me a copy of your minute of 29 March to the Prime Minister about objectives for British Shipbuilders.

I am generally content with the objectives and the approach you propose, but have some comments on the detail.

On merchant shipbuilding, I feel that the objectives would be more robust and more easily monitored if the basic aim was to break even through progressive reductions in trading losses. As currently drafted the aim to reduce trading losses and break even only in the longer term seems rather undefined. I appreciate, however, that quantified targets and a timetable for their achievement cannot be fully defined until the Corporate Plan is available. In addition, I think the draft inadvertently implies that possible privatisation is the only justification for reducing losses. Eliminating losses is essential in itself

CONFIDENTIAL



CONFIDENTIAL

if we are to achieve our aim of reducing financial support to those parts of British Shipbuilders remaining in the public sector.

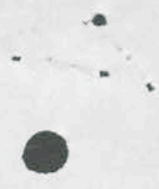
On offshore work, I think the objectives should be strengthened to make it clear that all losses - not only potentially large ones - should be limited and to emphasise that the action to this end that British Shipbuilders have already taken should continue in the future.

I am copying this to the Prime Minister, other E(NI) colleagues and Sir Robert Armstrong.

*Yours sincerely*  
*Nicholas Ridley*

NICHOLAS RIDLEY

CONFIDENTIAL



178 APR 11 1904

