for E(NI) folder

Prime Minister

Mr Sparrow will, perhaps, prefer Mr Jenkin's words at E(NI) to what he has put in his paper (see my note on the latter).

MCS 4/2

CONFIDENTIAL

Qa 06242

To: PRIME MINISTER

From: JOHN SPARROW

2 February 1983

British Shipbuilders

1. I had intended to circulate a collective brief to members of E(NI) on the subject of British Shipbuilders, but in view of the sensitivities, I decided instead to write to you to let you know the line I propose to take at the meeting.

2. Patrick Jenkin's memorandum (E(NI)(83)2) exposes frankly the failure of BS's Corporate Plan - especially for merchant shipbuilding - to measure up to BS's appalling commercial situation and to recommend steps appropriate to it, and states that 'on any long term look the prospects for BS's merchant shipbuilding activities reaching viability look doubtful'. For the last two years BS's plans have looked inadequate even on optimistic assumptions, and they have allowed the BS Board (and the Government) to put off the evil day when it must face up to difficult and politically controversial closures. Now that the market in merchant shipbuilding has collapsed the latent crisis in BS is exposed and the need for an urgent and radical reappraisal to stem losses and cash outflow is even more glaring.

3. In this context, Patrick Jenkin's recommendation that 'we neither accept nor reject BS's plan for merchant shipbuilding', and that this reappraisal be incorporated in BS's 'next Corporate Plan in the Spring of this year' does not square with his own analysis which strongly suggests rejection of the plan as unacceptable and the urgent submission of new proposals. Nor is it consistent with the industrial objective of shifting resources towards areas of the economy capable of long term viability.

4. When the MMC reports on the efficiency of BS's merchant shipbuilding activities during 1983/84 it would be surprising if its Report does not have the effect of highlighting the long drawn out procrasti-

nation of the present BS Board (and implicitly the Government) in agreeing adequate action - the contrast with the actions undertaken by BL and BSC under this Government is stark.

5. All BS's facilities are in politically sensitive areas, and this may influence the timing of any reappraisal. Certainly, the BS Board have gone for the less controversial course of spreading redundancies over several yards rather than outright closures. There may be within BS a configuration of merchant shipbuilding yards which, with the proper concentration of orders and capital expenditure, could be cost-competitive and viable in the very tough shipbuilding environment of the 1980s. But as long as action is delayed, orders and capital expenditure will be spread thinly throughout the operation, and the danger grows that the whole of BS declines into permanent pensioner status on the Harland and Wolff model.

6. Whether the present Chairman of BS (whose term of office expires in December 1983) is capable of the necessary reappraisal, we have yet to see. And implementation of a radically new plan may require a Chairman of an altogether different character.

7. Copies go only to Patrick Jenkin and Sir Robert Armstrong.

JB.

NAT. IND: Shipbuilding Policy: Pt 4

Nat Ind.

This note to go in E(NI) folder for 9/2/82

10 DOWNING STREET

Prime Minister

British Shipbuilders: E(NI) paper

Mr Lamont's office ~~[illegible]~~ telephoned to explain that their E(NI) paper pulled its punches on closures – because of worries about leaks; they will be producing a much tougher approach orally at E(NI)

MCS 2/2