

New / ed

PRIME MINISTERCOMPENSATION AND PRIVATISATION OF SHIPBUILDING
C(80) 49BACKGROUND

In his paper (C(80) 49) the Secretary of State for Industry deals with the related questions of compensation for the nationalised shipbuilding and aircraft companies and the privatisation of parts of British Shipbuilders (BS).

2. The problems about compensation arise because the 1977 Act relates it to notional stock market value in a six months reference period ending on 28 February 1974. The fourteen companies whose values declined between then and vesting day have settled. But six other companies, whose profits rose substantially in the period, are strongly pressing the Government to change the terms.

3. The Secretary of State for Industry lists five options for dealing with these problems in his paragraph 2, and Annex A to his paper usefully tabulates the problems related to each.

4. Option (i) is to change the terms of the 1977 Act and not to privatise. The Secretary of State advises against this, mainly because -

- i. it would involve new and retrospective legislation;
- ii. it would cost at least £130 million.

5. His options (ii) and (iii) are to offer the warship yards back to their previous owners at either compensation or market values. Both are open to the objections that they would -

- i. have an immediate adverse effect on the PSBR of about £50 million (because BS are currently using progress payments to the warship builders to finance other activities);
- ii. there could be further costs from disruption in BS in protest against the sales;
- iii. immediate - though not later - privatisation would be strongly against the advice of the new Chairman of BS;

iv. it would not deal with the problems of the former owners of the British Aircraft Corporation (Vickers and GEC).

6. His option (iv) is a variant of (ii) and (iii) which provides for the Government to retain a minimum of 25 per cent of the equity of yards sold in order to prevent foreign control. The other objections noted above would remain.

7. Because of these difficulties the Secretary of State for Industry recommends that the terms of compensation should stand and that for the time being private sector capital should not be introduced into shipbuilding. He sees this solution as the least of the evils on offer. His draft statement to the House is at Annex D.

HANDLING

8. After the Secretary of State for Industry has introduced his paper you will wish to invite the Chancellor of the Exchequer to comment on the implications of the options for the PSBR and the Chancellor of the Duchy of Lancaster and the Chief Whip to advise on the implications for the legislative programme and the likely reactions of the House. The Secretary of State for Defence will wish to comment on the implications for the defence programme of any changes in the organisation of the shipbuilding industry.

9. The details are complicated but the Cabinet may feel that the legislative and financial difficulties point to the conclusion recommended by the Secretary of State for Industry. The main questions to consider are -

- i. Is it accepted that the terms of compensation under the 1977 Act should stand?
- ii. Are any of the options for returning the warship yards to previous owners acceptable?
- iii. If not, does the Cabinet accept the recommendations of the Secretary of State for Industry?

CONCLUSIONS

10. In the light of the discussion you will wish to record conclusions on the three main questions noted above.

11. If the Cabinet accepts the Secretary of State for Industry's recommendations, you will wish to authorise him to make the statement at Annex D to his paper before the Recess. If amendments to his statement are proposed, he should be invited to prepare a revised text for clearance with Cabinet colleagues before delivery.

RIA

30 July 1980