

RESTRICTED



*cc Mr Dwyer*

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From the  
Minister of State's office

The Hon Adam Butler MP

*(A) - original  
in Box 2 (has PM  
seen?)*

R Birch Esq  
Private Secretary to  
The Chancellor of the Duchy of  
Lancaster  
Privy Council Office  
Whitehall  
London SW1A 2AT

*JL*

12 November 1980

*Dear Robin*

STATEMENT ON BRITISH SHIPBUILDERS' FINANCES

*boxed box?*

..... I sent you a draft of this statement on 5 November. I now  
enclose a revised draft which takes account of comments made  
by the Treasury.

My Minister intends to make this statement on 13 November.

/of I am copying this to Nick Sanders (No 10), the Private  
Secretaries to the members/E(EA) Committee, the Foreign Secretary,  
the Secretaries of State for Northern Ireland and Defence, the  
Chief Whip and the Paymaster General, Bernard Ingham (No 10) and  
David Wright.

*Yours sincerely,  
Jonathan Hudson*

JONATHAN HUDSON  
PRIVATE SECRETARY





## STATEMENT ON SHIPBUILDING

In my statement of 31 July on British Shipbuilders' finances I told the House that the Corporation was forecasting cash needs well in excess of its external financing limit and that the new Chairman had been asked to carry out a review of prospects for the industry, including an examination of all possible ways of achieving savings.

As the House will know merchant shipbuilding has been contracting ever since BS was formed. Since Vesting Day employment in merchant shipbuilding has fallen from 38,000 to below 18,000. In BS as a whole there have been about 17,000 redundancies.

Despite this contraction and the economies which the Chairman is introducing, I regret that the review has shown that there is no scope for significant reductions in the Corporation's cash requirements this year. A substantial part of the cash requirement is due to the winding down of payments made in advance of work in progress on naval exports, and to the effects of the steel strike.





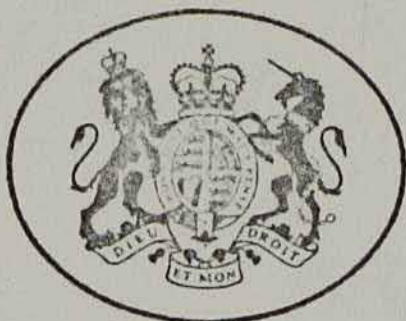
The Government has therefore agreed to increase BS's external financing limit for the current year from £120 million to £185 million. The additional resources are being found from the unallocated contingency reserve within the planned level of public expenditure.

The Chairman has also advised me that the Corporation is likely to exceed by some £20 million its loss limit of £90 million before crediting Intervention Fund assistance.

The House's approval for the additional finance will be sought in the Winter Supplementary Estimates; in the meantime should the Corporation require additional funds these will be provided by repayable advances from the Contingencies Fund.

The Chairman expects a considerable improvement next year in BS's financial performance. The benefits of the restructuring programme, the economies which he is introducing, and the forecast higher utilisation of merchant shipbuilding capacity should be important contributory factors. This improvement will be reflected in the forthcoming external financing limit for 1981/82. The loss



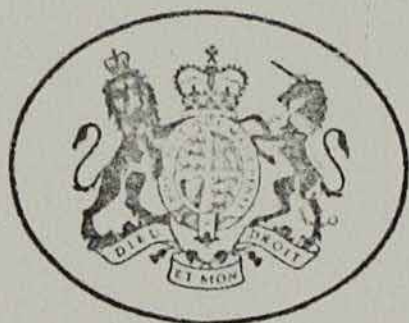


target will be reduced to £25 million after Intervention Fund assistance (which is equivalent to £75m before Intervention Fund assistance).

However, there are uncertainties ahead which could affect these forecasts for next year. The market for merchant shipbuilding and shiprepair remains weak and BS continue to be unable to secure merchant ship orders without subsidy. The future level of naval orders has yet to be determined in the context of the Government's annual expenditure review. In these circumstances the Government has decided that it would be prudent to agree to the British Shipbuilders' request that the Shipbuilding Redundancy Payments Scheme should be prolonged. Enabling legislation to this end will be introduced shortly.

The Government accepts that subsidies will, for the moment, continue to be necessary to enable BS to obtain merchant ship orders, but we believe in line with other countries that worldwide subsidies to shipbuilding must progressively reduce. We are therefore proposing to the European Commission the use of the remainder of the present £55 million tranche of Intervention Fund from the end of this year to July 1981,





and a new tranche at a lower figure of £45 million from July 1981 to July 1982.

There are new opportunities available for the industry in offshore work if the Corporation can prove themselves competitive; but this is also a difficult market. I have invited the Chairman to assess these and all other opportunities in a new Corporate Plan in Spring 1981.

However, whether in offshore work or in the production of ships, there can be little doubt about the magnitude of the task facing the Corporation. Only the most substantial, and rapid, improvements in productivity and efficiency, in reducing overheads and other cost cutting, can give BS the prospect of a viable future. The Government believes that the necessary determination exists. It is up to all those in BS to translate that determination into achievement.





12 NOV 1980