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10 DOWNING STREET

From the Private Secretary

23 July 1980

Dear Sir,

As you know, the Prime Minister held a meeting this morning with your Secretary of State, the Secretary of State for the Environment and the Chief Secretary to discuss the question of compensation for aircraft and shipbuilding nationalisation. They had before them your Secretary of State's two minutes of 2 July and also his minute of 21 July reporting on the discussion in E(EA) about the scope for introducing private sector capital into British Shipbuilders.

Sir Keith explained that Ministers were faced with a choice of two evils: he had come to the conclusion that adhering to the existing compensation terms was preferable to changing them.

The Prime Minister said that she recognised that changing the compensation terms would raise great difficulties. On the other hand, she still found the terms that were on offer to some of the companies totally unacceptable; she had in mind, in particular, Vosper and Yarrow. A possible solution would be to offer those companies where settlements had yet to be reached back to their former owners - at nil cost to them except for the repayment of any payments on account. She understood that this would be very difficult in the case of BAC because it would involve the unscrambling of Vickers' and GEC's former shareholdings. But insofar as your Department's offer was not far short of the stockholder representative's claim, it might be possible to defend confining the denationalisation option just to the shipbuilding companies.

Sir Keith said that the Prime Minister's suggestion would itself involve difficulties - including the fact that any move to privatise would increase the likelihood of costly disputes in the industry. But it was worth considering. The Prime Minister said that she would be grateful if Sir Keith would prepare a paper for Cabinet with a view to a decision before the Recess.

I am sending copies of this letter to Alastair Pirie (Chief Secretary's Office), David Edmonds (DOE), Robin Birch (Chancellor of the Duchy of Lancaster's Office) and David Wright (Cabinet Office).

Ian Ellison, Esq.,
Department of Industry.

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