



Minister of State
for Defence Procurement

D/MIN/TT/27/1

MINISTRY OF DEFENCE
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cc. Defence: Defence Sales: Pt 2.

19th August 1982

Personal

Dear Prime Minister

RECESS WORRIES

— STATE OF INDUSTRY

For the first three years of office I wrote memoranda to Keith Joseph under the above heading, and I think for the past two years I have sent a copy to you. This year I am simply writing it direct to you.

I hope you had a little rest in Switzerland after all the burdens you have been and are carrying so well and courageously.

Last year I told you in essence that I had moved from being 'wet' to being 'dry' but being very worried as to whether industry would react any quicker to a position in which they were becoming competitive than they had done to a position of hopeless uncompetitiveness brought about by the movements of the exchange rate in 1979. In this connection their speed of reaction can be hastened or slowed to a degree by the statements of leaders of industry and the line taken by the media.

/ I said ...

The Rt Hon Margaret Thatcher MP

I said last year that with the exchange rate returning to a reasonable level for British manufacturing industry large sections of industry whose prices were hopelessly uncompetitive should be competitive again. I fear too many of them are waiting to be absolutely sure and we go on announcing in our bulletins based on the Central Statistical Office, that compared with 1975 we are still 30% non-competitive. This is not true, and the fact that in volume terms we have clearly bottomed out is evidence that it is not true. I believe among the factors which have not been built into this very broad statement are first that we have lost the most non-competitive part of our industry and the rest is well above the old average. Secondly, that our reliability and quality have improved enormously and they now command or can command a higher price relative to other countries than they could three years ago.

I have sufficient of the old Department of Industry data in my mind to know that at current exchange rates and current much improved productivity figures larger sections of industry could and should be growing again than are. Even parts of textiles and newsprint should be growing. I am privately trying to influence industrial leaders on the vital importance to us and to them of changing the message being issued by leaders of industry from one of "we see no evidence of recovery" to one of "we are now competitive and it should be possible to bring about an upturn".

The industrial and economic war is a longer one and a harder one than the Falklands has been. We can win it but we do need to bring about a change in the message from quarters other than Ministers.

/ I hope ...

I hope these thoughts have not wasted your time.

I have sent John Nott a copy of this note.

Yours
Tom

Trenchard

P.S.

I have asked to see you for 10 minutes before you go to Japan to add a point or two about Defence sales to Japan.

T.S.

[record of meeting on Japan: PM's visit to Japan in September 1982 - Policy: July 82]

1. MR. BUTLER ✓
2. PRIME MINISTER

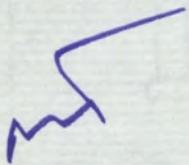
The postscript to the attached letter indicates what he wants to talk about.

RF

FERS
19.8.

Lord Trenchard would like 10 minutes with you between 13 and 16 September on a "sensitive" matter on which he cannot write to you.

This is just before you go overseas and you will be very busy but I have put him in the diary at 1800 hours on Tuesday 14 September.

 es.

19 August 1982