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PREM 19/312

PART 7
SECRET

Confidential filing

The Steel Industry.
Quotas on steel under Article 58 of the
ECSC Treaty.

NATIONALISED
INDUSTRIES

Part 1 June 1980

Part 7 September 1980.

| Referred to | Date | Referred to | Date | Referred to | Date | Referred to | Date |
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| 16-9-80 | | | | | | | |
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PREM 19/312

Material used by
Official Historian
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PART 6 ends:-

S/S Env to S/S Ind 27.11.80

PART 7 begins:-

E(80)139 1.12.80

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Telephone Direct Line 01-213.....6400 GTN code 213
Switchboard 01-213 3000

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

*a Mr Haslam
Mr Hutton*

27 November 1980

MBM

Kenner

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2/12

BSC's CORPORATE PLAN

I understand that you will shortly be receiving BSC's Corporate Plan for 1981. This must be directed to putting the Corporation on a much surer footing, but I am concerned that we should also be able to take an overall view of the possible consequences for other industries, notably the coal industry, and for employment generally. My concern in part stems from the steps now being taken by the steel unions, the NUM and ASLEF to re-establish the concept of the Triple Alliance and to resist closures, particularly in Wales. There are emerging political dimensions on which we should be clearer.

I would like to suggest therefore that officials from the Departments most concerned should be asked urgently to evaluate the Plan, taking into account its implications for other industries, employment and regional policy, and to provide a joint report for Ministers. I hope you will agree that we cannot look at BSC's problems entirely in isolation and that the procedure I propose is preferable to our having to consider BSC's Plan on the basis of a number of papers from different Ministers.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, and the Secretaries of State for Energy, Wales and Scotland, and also to Sir Robert Armstrong. and Robin Ibbs.

*Law
T*

27 NOV 1980



MacGregor set

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cc AD
for RB

10 DOWNING STREET

From the Private Secretary

25 November 1980

BSC Board Responsibilities

As you know, the Prime Minister had a discussion this morning with your Secretary of State and Robin Ibbs to discuss the latter's minute of 26 September and the CPRS study on the duties and responsibilities of BSC Board members; they also had before them Sir Keith's minute of 28 October.

Mr. Ibbs described the general conclusions of the CPRS study: one of these was that the relationship between the Secretary of State and nationalised industry boards was not dissimilar to that between a holding company and its subsidiaries in the private sector. He proposed that the CPRS should now look at a sample of successful UK groups who operate as holding companies with diversified interests; by looking at their experience, he believed that it might be possible to make sponsor Departments' intervention in their industries more effective. Departments' objective ought to be to intervene as little as possible, but when they did intervene they ought to be encouraging good management and efficiency to the maximum. There was never likely to be an exact analogy between the private and public sector, but he felt sure that some of the lessons of the private sector could prove helpful. In addition, he proposed that the CPRS should look at the relationship between other European governments and their public sector companies.

The Prime Minister and Sir Keith Joseph both said that they did not think the analogy with the private sector could be taken too far; but they agreed that some further work on the lines proposed would be useful.

As regards the Prime Minister's comment (recorded in my note of 3 November) that BSC should have an effective management structure when Mr. MacGregor retires, Sir Keith said that he had this point very much in mind, and would be seeing MacGregor before long to discuss it.

I am sending copies of this letter to John Wiggins (H.M. Treasury), John Craig (Welsh Office), Godfrey Robson (Scottish Office) and David Wright (Cabinet Office).

I. K. C. Ellison, Esq.,
Department of Industry.

L. P. LANKESTER

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*File No 1
Nablines*

10 DOWNING STREET

From the Private Secretary

25 November 1980

B.F. 9.12.80

When Sir Keith called on the Prime Minister today they discussed briefly the question of whether the Government should take powers to enable BSC and/or parts of it to be put into liquidation. Sir Keith said that he would let the Prime Minister have a note setting out the pros and cons of doing this.

paper for Cabinet on 17/12/80

I am sending a copy of this letter to David Wright (Cabinet Office).

T. P. LANKESTER

I. K. C. Ellison, Esq.,
Department of Industry.

SECRET



JS
Nat Ind

10 DOWNING STREET

From the Private Secretary

17 November 1980

Dear Catherine,

BSC FINANCES: PARLIAMENTARY STATEMENT

The Prime Minister has read your letter of 12 November and the draft Parliamentary statement which you enclosed with in on BSC Finances. She has suggested a number of amendments, and I enclose an amended version which she would like your Secretary of State to consider.

I am sending copies of this letter, and the enclosure, to the Private Secretaries to members of E Committee, and to the Secretaries of State for Scotland and Wales, and to Sir Robert Armstrong.

Handwritten initials

Tim Baker

Mrs. Catherine Bell,
Department of Industry.

JS

BSC FINANCES: DRAFT ARRANGED PQ

To ask the Secretary of State for Industry, if he will make a statement about the finances of the British Steel Corporation.

Yes. On 26 September 1980 I announced that the Government had decided to increase the External Finance Limit for the British Steel Corporation, for the year 1980/81, to £971 million.

This increase represented an extension of £400 million above the limit of £450 million set in November last year, together with the further £121 million carried over from 1979/80 to take account of payments which could not be made that year.

The extra £400 million for BSC is being found from the unallocated contingency reserve, within the planned level of public expenditure. A Winter Supplementary Estimate is being submitted to cover the additional finance required by BSC, but it now appears likely that, before this Estimate can be approved next month, sums of about £110 million will need to be provided by a repayable advance from the Contingencies Fund.

This increase in BSC's EFL was foreshadowed in my statement to the House on 26 June. There has, however, been a sharp decline in UK demand for steel in recent months, so that despite the closures which are taking place during 1980, which have already led to over 40,000 redundancies, BSC has extensive steelmaking capacity. The BSC's new corporate plan is expected

/in mid-December.

in Mid-December. Meanwhile, interim financial support from the Government is necessary to enable BSC to continue to meet its debts until firm decisions about its future can be taken.

When the Government has considered the BSC Corporate Plan the EFL for 1981/82, and a final revised EFL for 1980/81, will be decided and announced.

The House will be aware that on 1 February this year the European Coal and Steel Community adopted a Decision on state aids for steel. The intention of that Decision, which we fully support, is to prevent member states from financing unnecessary increases in steel capacity or subsidising, on a continuing basis, uneconomic steelmaking operations. The Commission have been sent a copy of my statement of 26 September, and the Government will consult the Commission, when the BSC Corporate Plan has been received, before final decisions are taken on the future financing of the Corporation.



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS / *Secretary of State for Industry*

17 November 1980

Robin Birch Esq
Private Secretary to the Chancellor of the
Duchy of Lancaster
Privy Council Office
Whitehall
LONDON SW1

Dear Robin

BSC FINANCES: PARLIAMENTARY STATEMENT

... I enclose a copy of my letter of 12 November to Tim Lankester on the above subject. You will see that my Secretary of State proposes to make a statement by way of an written answer.

2 I am copying this letter to Murdo MacLean and Michael Pownall, and to Tim Lankester.

Yours sincerely
Catherine Bell
CATHERINE BELL
Private Secretary



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 3301
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PS/ Secretary of State for Industry

12 November 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

copied to
PS/AB
PS/AM
PS/Secretary
Mr Steele
Mr McElheran
Mr Hardbattle
Mr Chapman
Mr Bunnig
Mrs Cohen
Mr Morris
Mr Murray

Dear Tim

BSC FINANCES : PARLIAMENTARY STATEMENT

Following our discussion at E Committee on 17 September my Secretary of State announced on 26 September an extension of the BSC EFL of £400 million, on an interim basis until the Chairman brings forward a new corporate plan in December. The terms of that announcement were cleared with the Prime Minister and colleagues in E Committee.

2. It is also necessary to make a statement to Parliament, particularly since it will be necessary to draw on the Contingencies Fund in advance of Parliamentary approval of the Supplementary Estimate. I attach a draft arranged written question and answer, which follows closely the wording of the announcement of 26 September. My Secretary of State proposes to answer this as soon as possible.

3. Copies of this letter and the draft arranged question go to the Private Secretaries of the members of E Committee and of the Secretaries of State for Scotland and Wales, and to Sir Robert Armstrong.

Yours ever
Catherine Bell
CATHERINE BELL
Private Secretary

PS I should perhaps make it quite clear that the proposed statement is not connected with the further discussions which my Secretary of State has had with Mr MacGregor about the future of BSC. I am copying this postscript to David Wright only, since other recipients are not aware of my Secretary of State's further discussions with Mr MacGregor.



BSC FINANCES : DRAFT ARRANGED PQ

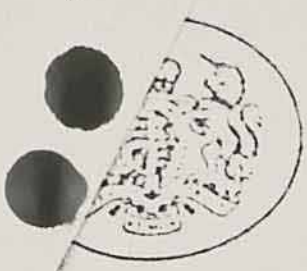
Q. To ask the Secretary of State for Industry, if he will make a statement about the finances of the British Steel Corporation.

A. Yes. On 26 September 1980 I announced that the Government had decided to increase the External Finance Limit for the British Steel Corporation, for the year 1980/81, to £971 million. This increase represented an extension of £400 million above the limit of £450 million set in November last year, together with the further £121 million carried over from 1979/80 to take account of payments which could not be made because of the steel strike.

The extra £400 m for BSC ^{was} ~~is~~ being found from the unallocated contingency reserve, within the planned level of public expenditure. A Winter Supplementary Estimate ^{for Class V5 Vote 1} ~~is~~ being submitted to cover the additional finance required by BSC, but it now appears likely that, before this Estimate can be approved next month, sums of ^{up to} ~~about~~ £110 million will need to be provided by a repayable advance from the Contingencies Fund.

This increase in BSC's EFL was foreshadowed in my statement to the House on 26 June. There has, however, been a sharp decline in UK demand for steel in recent months, so that despite the

/closures...



closures which are taking place during 1980, which have already led to over 40,000 redundancies, BSC's steelmaking capacity is severely underloaded; UK steel production in September 1980 was under 50% of that for the same month in 1979. It is clearly necessary for BSC to take effective and determined action to improve its financial position. The BSC Chairman Mr MacGregor will present a corporate plan to the Government in mid-December, and he is well aware of the importance which the Government attach to the achievement of an early and substantial reduction in the burden which BSC places on public expenditure. Meanwhile BSC continues to make losses, and interim financial support from the Government is necessary to enable BSC to continue to meet its debts until firm decisions about BSC's future can be taken.

When the Government has considered the BSC Corporate Plan the EFL for 1981/82, and a final revised EFL for 1980/81, will be decided and announced. This is expected to take place before the end of January 1981.

The House will be aware that the European Coal and Steel Community adopted on 1 February this year, a Decision on state aids for steel. The intention of that Decision, which we fully support, is to prevent member states from financing unnecessary increases in steel capacity or subsidising, on a continuing basis, uneconomic steelmaking operations. The Commission have been sent

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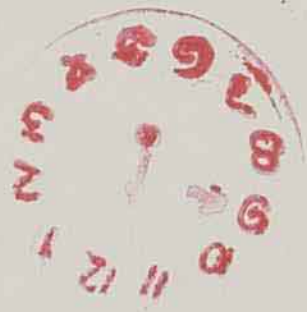
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3.

a copy of my statement of 26 September, and the Government will consult the Commission, when the BSC Corporate Plan has been received, before final decisions are taken on the future financing of the Corporation.

November 1980



17 NOV 1980

cc Master Set
cc Qat Mach. Pt6 Rayner.

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cc ~~Harquid~~

NOTE FOR THE RECORD

This is just a very short note to record the main points which came up at the meeting which the Prime Minister had with Mr. Ian MacGregor at Chequers on Saturday 15 November. Sir Keith Joseph, Mr. David Young and Mr. David Wolfson were also present.

They discussed:-

i) The BSC corporate plan and the problems of the private sector. Mr. MacGregor said that he would be putting forward various options for BSC, including the "lower case" capacity of 8 million tons liquid steel. He was also actively pursuing the idea of hiving off certain BSC plants to jointly-owned BSC/private sector companies. (There are minutes on the file from the Department of Industry recording recent meetings between Sir Keith and Mr. MacGregor which set out these proposals in more detail).

ii) Gas Gathering Pipeline. Mr. MacGregor said that he thought the pipeline should be wholly financed by the private sector, and also that BGC's monopoly as buyer of the gas should be broken. He would prefer the pipeline to be owned by a consortium of private users. If this were done, the price of the gas would be lower, and this would help stimulate the chemical industry.

iii) Mr. MacGregor described a number of ideas he had for financing public sector projects without adding to PSBR. These included self-financing public works - and he suggested, in particular, the construction of a Channel tunnel based on EEC and private financing with "only" a comfort letter (in this connection, he showed the Prime Minister a pre-feasibility study which BSC had helped to finance); production payments in advance of production by BNOC, BGC, the NCB and the CEGB; and tax exempt financing. He left behind the attached letter to Mr. Ryrie in the Treasury. The Prime Minister suggested that Mr. MacGregor should have a further meeting with Mr. Ryrie and that Mr. Young should attend also to discuss these proposals; she would consider seeing Mr. Ryrie (and possibly the Financial Secretary) as well.

→
in file
dated
12/11

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/ iv)

iv) Trade Unions. Mr. MacGregor said that the privileges of our trade unions were without parallel in the industrialised world. He hoped the government would take further action/^{to}rein them back.

v) Management Education. Mr. MacGregor said that the quality of management education in this country was abysmal, and most of the management schools were run by people who did not believe in private enterprise. That was partly why management in the UK was of a generally low standard. But another major problem was that there were not enough people with a scientific or engineering background on company boards: they tended to be full of people with accountancy and legal backgrounds, who were unable to form a judgement on production problems.

vi) Micro-electronics. Mr. MacGregor said that micro-electronics was the critical technology of the future. It was essential to maintain a high level of research in solid state physics if we were to maintain our position as an industrial power, and we needed more people in industry with a solid state physics background.

vii) Money Supply. Mr. MacGregor said he could not understand why the authorities here had such difficulty in controlling bank lending. Even taking into account the openness of our financial markets and companies' access to Euro sterling, he felt sure we could control lending if we had a proper definition of reserve assets; he also did not see why the Bank could not enforce reserve requirements of overseas subsidiaries of UK banks. He thought Mr. Volcker would have a lot to teach us, and offered to ask him to come over to talk with the Prime Minister.

After Mr. MacGregor and Sir Keith had left, Mr. Young stayed behind to discuss the new towns disposal programme and also certain ideas he had in respect of the PSA. He left the attached note on the disposals programme, and promised to let us have a further note on this and also one on the PSA to provide the basis for a discussion between the Prime Minister and Mr. Heseltine. Pending this meeting, the Prime Minister said that she did not wish the PSA Advisory Board

/ to be

CONFIDENTIAL

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to be set up as had been proposed. (In fact, we had already told the Department of the Environment that the Prime Minister did not wish this to be set up for the time being).

TL

cc Mr Whitmore
Mr Wolfson
Mr Pattison

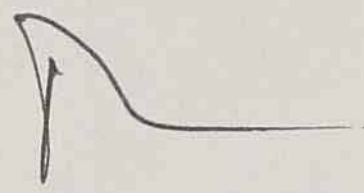
25 November 1980

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COMMERCIAL-IN-CONFIDENCE

cc A. Anguier

Nad hd




PS/Secretary of State

cc Mr D Young
Mr Steele
Mr Binning o.r.
Mrs Cohen o.r.
Mr Spencer

MEETING AT CHEQUERS, 15 NOVEMBER

The Secretary of State asked, as background for his meeting with the Prime Minister and Mr MacGregor tomorrow, for a note setting out the current proposals for BSC/private sector joint companies and a map showing the location of the main BSC and private sector steel plants.

2. I attach a chart showing our interpretation of the latest BSC thinking on two separate groupings, one covering special bars, the second special billets. Between them these 2 groupings encompass about 20 per cent of BSC's total steel production capacity and most of the area of overlap between BSC and the major private sector steelmaking companies. If these groupings are formed their nuclei will be the BSC works in the Sheffield and Rotherham area, and there will be major closures at Hadfields (Sheffield), Duport (Llanelli), and either GKN Brymbo (Wrexham) or Round Oak (W. Midlands). Also attached is a map, taken from the last BSC annual report, showing the major BSC and private sector steelworks.

3. The background to these proposals for joint BSC/private sector companies is that the current low demand for steel has hit both BSC and the private sector; as Mr Binning points out in his minute of 6 November:-

- (a) GKN, whose operation compete with BSC's billet, bar and rod businesses are losing £1½ million a month, with the threat of closure by Christmas.
- (b) Duport, losing £1 million a month, mainly at Llanelli.
- (c) Hadfields, losing £½ million a month and threatened to close by Christmas.
- (d) TI, losing £½ million a month in a 50% holding with BSC in Roundoak. They are anxious to sell out to BSC.



4. The currently proposed groupings do not include Sheerness Steel, and Mr Schueppert has this week publicly criticised the proposals for new BSC/private sector groupings on the grounds that they would reduce competition and deny U.K. steel users a genuine choice between British based suppliers.
5. The main intention of the meeting tomorrow is to reinforce the points made by the Secretary of State in his discussion with Mr MacGregor on Monday 10 November, namely that there needs to be a very substantial reduction in the calls made by BSC on the PSBR in 1981/82, and that priority should be given in drawing up the corporate plan to achieving the maximum privatisation of BSC.
6. On privatisation, there is particular urgency about the joint companies discussed above, because unless something is done quickly the private sector will collapse. The next round of disposals would probably cover only a relatively small proportion of BSC's activities (but would be worth pursuing vigorously since even £50 million off the PSBR would be a considerable help). There is a longer term objective in getting more of BSC's mainstream businesses profitable so that they should be capable of being floated off.
7. One particular suggestion for reducing the BSC's EFL in 1981/82, which Mr MacGregor may raise, is that he is considering bringing forward 10,000 redundancies into the 1980/81 financial year, from the 25,000 redundancies which he expects will be necessary in 1981/82. The extra cost in 1980/81 is likely to be up to £50 million. The Treasury have said that, provided BSC can accommodate this extra £50 million within a total of £1,171 million EFL for 1980/81 (i.e. £200 million above the £400 million extra which was announced on 26 September), there will be no difficulty at all. But if BSC need more than £1,171 million overall in 1980/81 this will be likely to exhaust the Contingency Reserve, and would cause difficulties: even so the Treasury would not want to rule out entirely the possibility of bringing forward the BSC redundancies.
8. There is also evidence that Mr MacGregor is more optimistic about the medium-term outlook for steel demand than the Government or most other forecasters. Tomorrow will not be the occasion for a detailed discussion of forecasts, but it would be appropriate to raise the question as to whether even the level of 12½ to 13 million tonnes of liquid steel capacity in BSC, recommended by Mr MacGregor in the papers he put forward on 1 September, can now be sustainable, and whether further major closures of BSC steel works will be necessary.

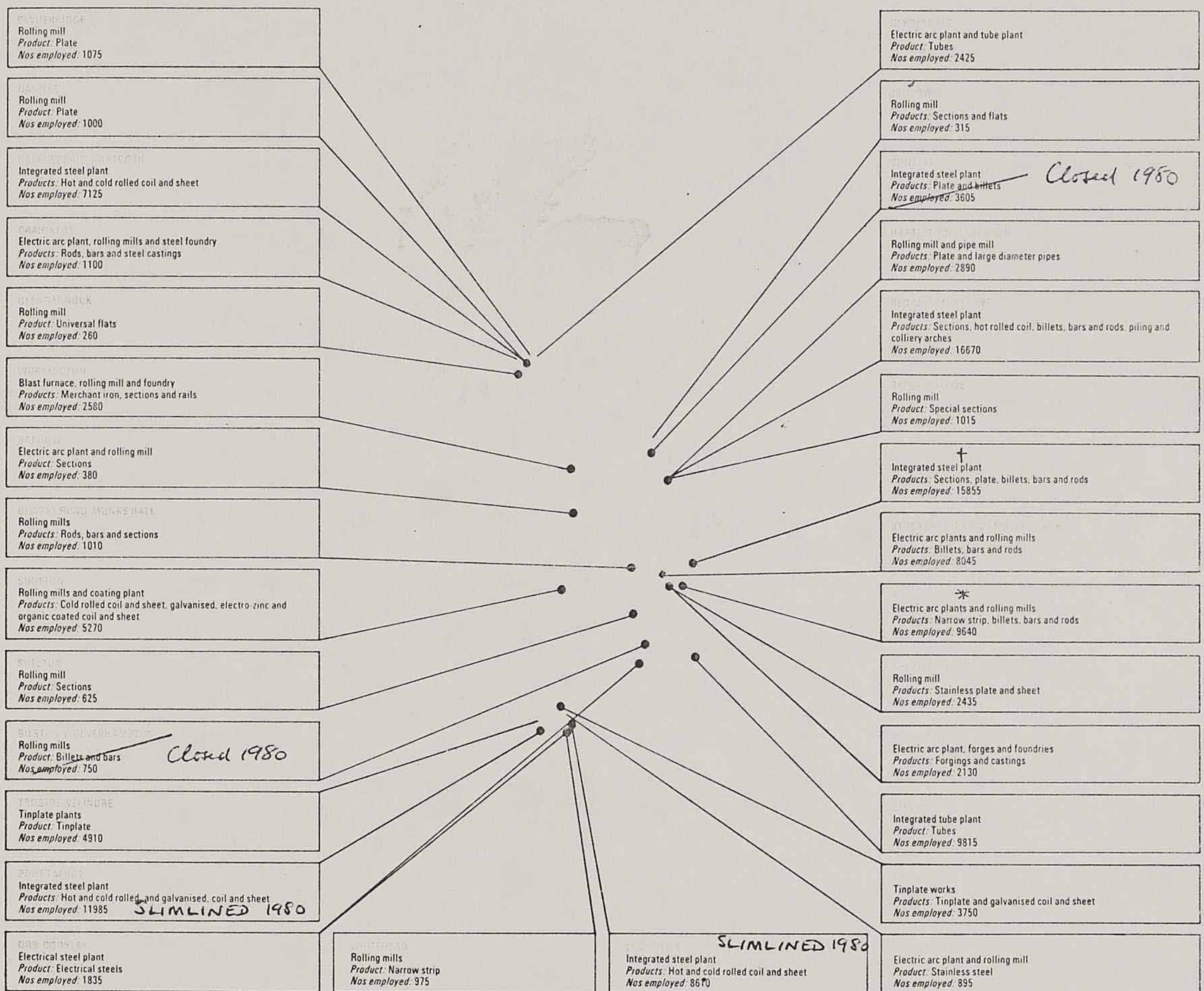
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B MURRAY
IS1
814 Ashdown
212 6104

Phone nos. 14/15 November :-
Binning (01) 650 0273
Janet Cohen (01) 226 9264
Murray 0962 67208

14 November 1980

British Steel Corporation – main iron and steel works, products and numbers employed^o (at 29th March, 1980)



^o These figures include those employed in any Divisional/Group Establishment at these locations
 ** Redcar/Lackenby includes Cargo Fleet and Cleveland

† Scunthorpe includes Appleby-Frodingham and Normanby Park Works
 * Rotherham includes Aldwarke, Roundwood, Thrybergh, Templeborough and Ickles

Main private sector steel makers:

| | | |
|-----------------------------|-----------------|---|
| GKN Brynbo (Wrexham) | 2000 employees | Electric arc + rolling mill: billets and bars |
| GKN Tremorfa (Cardiff) | 880 employees | Electric arc + continuous casting: billets |
| GKN Cardiff Rod Mill | 430 employees | Rolling mill: wire rod |
| Hadfields (Sheffield) | 2,600 employees | Electric Arc plants + rolling mills: billets and bars |
| Dupont (Llanelli) | 1,200 employees | Electric arc plant + rolling mills: billets |
| Dupont (W. Midlands) | 1,050 employees | Rolling mills: bars |
| Round Oak (W. Midlands) | 2,000 employees | Electric arc, continuous casting and rolling mills: bars + rods |
| Sheerness Steel (Sheerness) | 800 employees | Electric arc continuous casting + rolling mills: billets, bars + rods |

Chief Executive's review of operations

Finance

Financial result

In the financial year ended 29th March 1980 the Corporation incurred a loss of £545 million after interest and taxation but before extraordinary items. This compares with a loss of £309 million in 1978/79. In addition, in 1979/80, the cost of extraordinary items associated with the fixed asset write-down, closures and redundancies amounted to £1,239 million (after releases of £366 million from reserves).

The increase in the trading loss over the previous year was mainly due to the three-month steel strike, which started on 2nd January 1980 and is estimated to have cost over £200 million in the year. The rate of loss during the nine months until the strike began was comparable to that for the previous year. In this period, the Corporation derived benefits from a slightly higher rate of deliveries, manpower reductions, the advent of new, lower cost facilities, and other economies. But these benefits were off-set by increased UK cost inflation which could not be recovered in selling prices owing to weak market conditions and the strong pound. This 'cost/price' squeeze is estimated to have added some £200 million to the Corporation's losses.

Other main factors responsible for the substantial loss in 1979/80 were the costs of carrying excess capacity and of commissioning new plant, particularly at Redcar. As a result of the strike there were disruptions in accounting procedures which are referred to more fully in the Accounts. This has caused a degree of estimation in the results which may call for some later adjustment to the reported figures. If this adjustment is significant it will be separately reported during the year to 28th March 1981.

Extraordinary items – rationalisation costs

In its last Annual Report and Accounts the Corporation recognised that its installed plant capacity was more than it could reasonably expect to utilise in the future. It had therefore put in hand an assessment to determine the amount which it was necessary to write off its fixed asset values on this account.

This assessment resulted, as at 1st April 1979, in a net write-down of £1,141 million which has been charged as an extraordinary item in the 1979/80 Accounts. The write-down has been related to the reduced level of some 15 million liquid tonnes per annum of manned capacity announced by the Corporation in December 1979 and covers works closures, plant not expected to be required in the foreseeable future and general overcapacity at continuing plants. The Corporation's announcement, which was made before the strike occurred, said that at this capacity level profitable sales in the United Kingdom and overseas should be possible. However, with the uncertainties of the steel market world-wide, and particularly in the United Kingdom, where the recession is aggravated by the strong pound, the Corporation is not yet able to determine whether this level is sustainable and whether the remaining asset values will be recover-

able out of future earnings. A further write-down may, therefore, be necessary at a future date.

The Corporation has also charged as an extraordinary item the redundancy and other closure costs, amounting to £464 million, relating to the reduction in manning levels of 52,000 which formed part of the December announcement.

Capital reconstruction

The accumulated revenue deficit at 29th March 1980, including the loss in the year from trading activities and the extraordinary rationalisation costs, amounted to £2,784 million. The then Government recognised in its White Paper 'British Steel Corporation: the Road to Viability' (Cmnd 7149) published in March 1978 that a substantial capital reconstruction would be necessary, but said that the reconstruction should not be effected until there were clear indications of a return to financial viability. However, the prospects have not improved and the present Government announced in May 1980 that the necessary legislation would be introduced in the 1980/81 Parliamentary Session.

Financial objective

The financial objective set by the Secretary of State for Industry in July 1979 was that the Corporation should operate at a profit during the year 1980/81, and that there would be no financing of operating losses. The extremely difficult trading conditions which have developed since that date will, however, mean that the Corporation will be unable to meet the profit objective.

Financing

The Corporation's external financing limit for 1979/80 was established by the Government at £700 million. Notwithstanding the adverse trading conditions, the Corporation would have remained within the limit even if there had not been a strike. In point of fact, the strike caused a reduction in the Corporation's working capital needs, partly reflecting the Corporation's inability to settle all its liabilities, with many of its accounting and computer staff not at work. As a result the actual amount of external financing required in the year was £579 million. The Government agreed that the unused balance of £121 million should be made available in 1980/81 to enable the Corporation to pay those debts carried over from 1979/80.

As stated in the White Paper 'British Steel Corporation: the Road to Viability' (Cmnd 7149) published in March 1978 the Corporation's financial requirements in the UK other than short-term are currently being met mainly by subscription of capital under Section 18(1) of the Iron and Steel Act 1975. The external requirement of £579 million in 1979/80 comprised

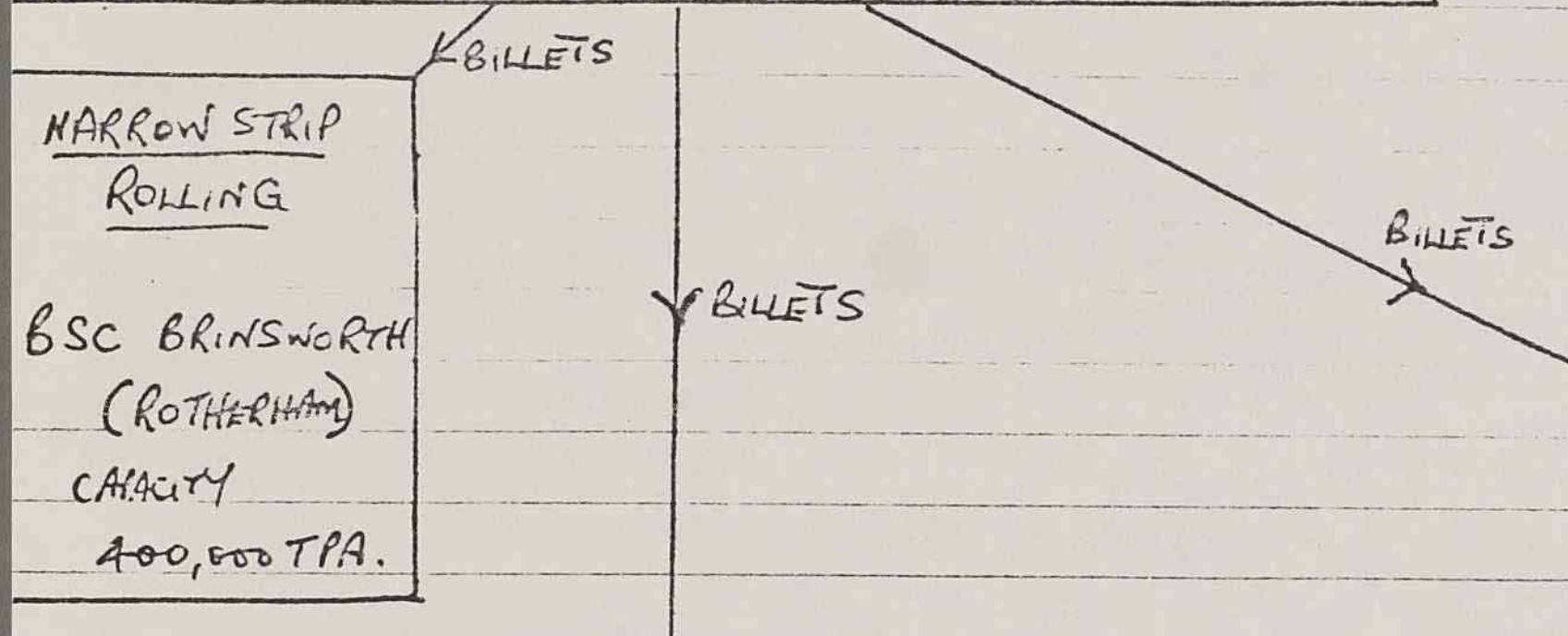
- subscription of capital under Section 18(1) of the Iron and Steel Act 1975 totalling £905 million, less repayments of National Loans Fund and other long-

BSC'S SUGGESTED JOINTLY OWNED

UK SPECIAL BAR GROUP

STEELWORKS & BILLET PLANT

| PLANT | CAPACITY (BILLETS) TONNES/ANNUM | PRESENT OWNERS |
|-----------------------|------------------------------------|----------------|
| <u>RETAINED</u> | | |
| LDWARKE | 1,200,000 | BSC |
| EMPLEBROUGH (HALF) | 375,000 | BSC |
| TOTAL | 1,575,000 | |
| <u>CLOSED</u> | | |
| HADFIELDS | 300,000 | LONRHO GROUP |
| LLANELLI | 500,000 | DUPORT GROUP |
| TOTAL | 800,000 | |



ROTHERHAM (& OTHER) BARS

| PLANT | CAPACITY (BARS) TONNES/ANNUM |
|-----------------------------|---------------------------------|
| <u>RETAINED</u> | |
| THRYBERGH | 435,000 |
| ROUNDWOOD | 330,000 |
| WOLVERHAMPTON & BIRCHLEY | 130,000 |
| TINSLEY PARK (HALF) | 40,000 |
| CRAIGNEUK (SCOTLAND) | ? 30,000 |
| MONKS HALL (WARRINGTON) | ? 100,000 |
| ? HERRINGSHAW | ? |
| TOTAL | 1,065,000 |
| plus ? | |
| <u>CLOSURES</u> | |
| HADFIELDS | 135,000 |
| ALLOY STEEL RODS (A.S.R) | 45,000 |
| TOTAL | 180,000 |

MIDLAND BARMILLS

| PLANT <u>RETAINED</u> | CAPACITY (BARS) TONNES/ANNUM | PRESENT OWNERS |
|-----------------------------------|---------------------------------|----------------|
| LONDON WORKS (CONTINUOUS MILL) | 200,000 | DUPORT GROUP |
| LONDON WORKS (MERCHANT MILL) | 100,000 | " " |
| TOTAL | 300,000 | |
| plus ? | | |
| <u>CLOSURES</u> | | |
| * CABLE STREET | 100,000 | GKN GROUP |
| ** BREDBURY (JAMES MILLS) | 72,000 | GKN GROUP |
| GADD | 75,000 | GLYNWED GROUP |
| TOTAL | 247,000 | |

↓
BARS

↓
BARS

* CLOSED UNDER PHOENIX
** GKN SAID TRANSFER TO BSC UNDER PHOENIX.

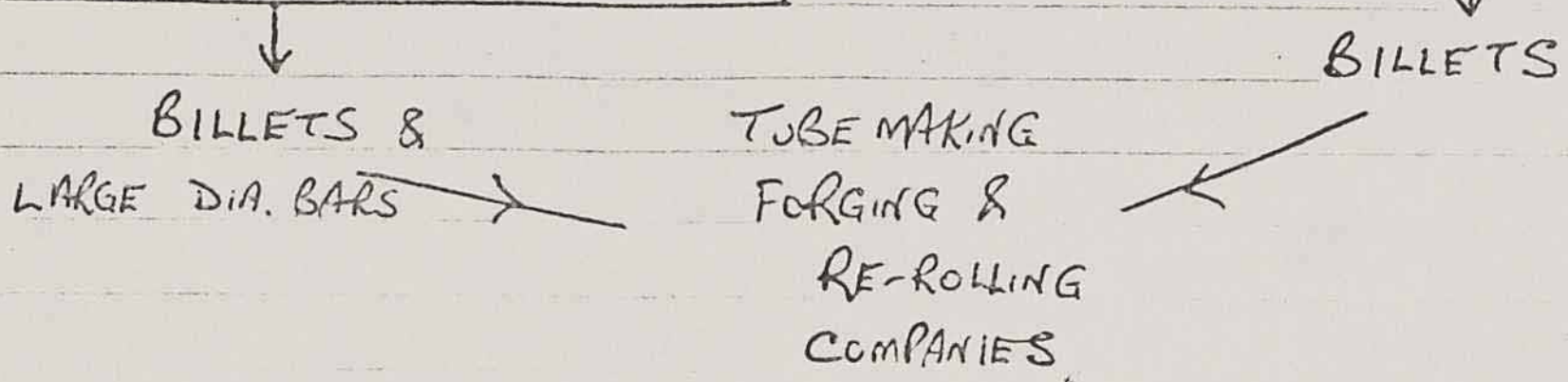
IAL

UK GROUPS FOR SPECIAL BILLETS & BARS

UK SPECIAL BILLET GROUP

| "MIDLAND" STEELWORKS/BILLET PLANT | | |
|-----------------------------------|--------------------------|--------------------------|
| | CAP. T.P.A. | PRESENT OWNERS |
| BRYMBO (WREXHAM) OR ROUND OAK | 400,000 OR 550,000 | GKN 50% BSC 50% TI |
| TOTAL 400 or 550,000 | | |

| SHEFFIELD STEEL/BILLET PLANT | | |
|------------------------------|-------------|----------------|
| | CAP. T.P.A. | PRESENT OWNERS |
| STOCKSBRIDGE | 500,000 | BSC |
| TINSLEY PARK | 550,000 | BSC |
| TOTAL 1,050,000 | | |



2) BARMILLS

| QUANTITY (BARS) / ANNUM | PRESENT OWNERS |
|-------------------------|----------------|
| 5,000 | BSC |
| 10,000 | BSC |
| 20,000 | BSC |
| 30,000 | BSC |
| 40,000 | BSC |
| 50,000 | BSC |
| 60,000 | BSC |
| 70,000 | BSC |
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| 1,990,000 | BSC |
| 2,000,000 | BSC |

↓
BARS.

LONGRHO GROUP
{ 25% BSC
25% FIRTH BROWN
50% A-LEE



*Must look long and
needless detail:
Suggest avoid.*

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

12 November 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister

*cc Mr Lydon
Mr Baker*

Dear Tim

BSC FINANCES : PARLIAMENTARY STATEMENT

*This merely repeats for the
benefit of the House what Sir
Keith announced in September.
But a statement is needed
because of the drawing on the
Contingencies Fund. A written
answer is envisaged, but we are
asking the leader
of the House and
the Committee
for their
views on
whether
this
ought
perhaps
to be
an oral
statement.
Content,
subject
to their
views?*

Following our discussion at E Committee on 17 September my Secretary of State announced on 26 September an extension of the BSC EFL of £400 million, on an interim basis until the Chairman brings forward a new corporate plan in December. The terms of that announcement were cleared with the Prime Minister and colleagues in E Committee.

2. It is also necessary to make a statement to Parliament, particularly since it will be necessary to draw on the Contingencies Fund in advance of Parliamentary approval of the Supplementary Estimate. I attach a draft arranged written question and answer, which follows closely the wording of the announcement of 26 September. My Secretary of State proposes to answer this as soon as possible.

3. Copies of this letter and the draft arranged question go to the Private Secretaries of the members of E Committee and of the Secretaries of State for Scotland and Wales, and to Sir Robert Armstrong.

Yours ever
Catherine Bell
CATHERINE BELL
Private Secretary

PS I should perhaps make it quite clear that the proposed statement is not connected with the further discussions which my Secretary of State has had with Mr MacGregor about the future of BSC. I am copying this postscript to David Wright only, since other recipients are not aware of my Secretary of State's further discussions with Mr MacGregor.

D.
14/11



BSC FINANCES : DRAFT ARRANGED PQ

Q. To ask the Secretary of State for Industry, if he will make a statement about the finances of the British Steel Corporation.

A. Yes. On 26 September 1980 I announced that the Government had decided to increase the External Finance Limit for the British Steel Corporation, for the year 1980/81, to £971 million. This increase represented an extension of £400 million above the limit of £450 million set in November last year, together with the further £121 million carried over from 1979/80 ^{Winter} to take account of payments which could not be made ^{because of the steel} ~~because of the steel~~ ^{strike.}

The extra £400 m for BSC is being found from the unallocated contingency reserve, within the planned level of public expenditure. A Winter Supplementary Estimate is being submitted to cover the additional finance required by BSC, but it now appears likely that, before this Estimate can be approved next month, sums of about £110 million will need to be provided by a repayable advance from the Contingencies Fund.

This increase in BSC's EFL was foreshadowed in my statement to the House on 26 June. There has, however, been a sharp decline in ^[UK] demand for steel in recent months, so that despite the

/closures...



closures which are taking place during 1980, which have already led to over 40,000 redundancies, BSC's ^{has extensive} steelmaking capacity ~~is~~ ~~severely underloaded;~~ ~~UK steel production in September 1980 was under 50% of that for the same month in 1979.~~ ~~(It is clearly necessary for BSC to take effective and determined action to improve its financial position.)~~ The BSC's ^{new} Chairman Mr MacGregor ^{is expected} will present a corporate plan to the Government in mid-December. ~~(and he is well aware of the importance which the Government attach to the achievement of an early and substantial reduction in the burden which BSC places on public expenditure.)~~ Meanwhile ~~(BSC continues to make losses, and)~~ interim financial support from the Government is necessary to enable BSC to continue to meet its debts until firm decisions about ^{it's} ~~BSC's~~ future can be taken.

When the Government has considered the BSC Corporate Plan the EFL for 1981/82, and a final revised EFL for 1980/81, will be decided and announced. ~~(This is expected to take place before the end of January 1981.)~~

^(On Feb 1 this year)
 The House will be aware that ^{adopted} the European Coal and Steel Community ~~adopted on 4 February this year,~~ a Decision on state aids for steel. The intention of that Decision, which we fully support, is to prevent member states from financing unnecessary increases in steel capacity or subsidising, on a continuing basis, uneconomic steelmaking operations. The Commission have been sent

/a ...



3.

a copy of my statement of 26 September, and the Government will consult the Commission, when the BSC Corporate Plan has been received, before final decisions are taken on the future financing of the Corporation.

November 1980

(.)

BRITISH STEEL CORPORATION

IAN MACGREGOR

12th November, 1980.

W.S. Ryrie, Esq.,
The Treasury,
Parliament Street,
London, SW1P 3HE

Dear Mr. Ryrie,

When you visited David Prior and myself last week, I promised to get back to you on three specific ideas: self-financing public works; production payments and tax exempt financing. In all three instances, I have borne in mind your desire to raise additional finance without adding to the public sector borrowing requirement or to the supply of money - by, for example, the extension of bank lending.

(1) Self-Financing Public Works

You are probably aware that much of the road system around New York City was constructed during the depression of the 1930's, partly to try and stimulate employment. The programme was financed privately on the general principle that the users of the roads should, by the means of a toll, pay for them. The costs of the engineering, construction and operation were met by the flotation of various debt instruments to the public and to institutions. The interest on the debt and amortisation was essentially secured upon the future flow of traffic and hence toll revenues.

I am suggesting that this principle should be extended to major public works in the United Kingdom. This could include, for example, major motorways and, in particular, the improvement of road access to London which, I am sure you will agree, is currently unsatisfactory.

.../..

W.S. Ryrrie, Esq.

12th November, 1980

I am currently engaged through BSC in promoting a scheme to provide a rail and road link across the Channel. I am convinced that this can be user-financed and that it can tap a number of sources of finance that would not add to the supply of money - for example, private savings, pensions, insurance company monies and the Euro dollar market.

In essence, the existing sources of liquid funds would be directed to long term investments which would improve the productivity of the economy.

(2) Production Payments

A production payment is essentially the sale of revenues arising from future production. I believe that the Coal Board could participate in this type of financing as well as any major government owned utility such as British Gas, BNOC or the CEGB.

Production payments developed in the United States oil industry. An operator of an oil well who wished to raise additional cash would convey a proportional interest in his annual gross production in return for a lump sum representing the discounted present value of the portion of the interest conveyed. The holder of the interest would receive a specified number of either barrels or dollars over the given time period. A number of variations developed to this scheme in order to make it as tax efficient as possible. Such schemes are now used extensively in both the US oil and mining industries as well as by major utilities.

This technique could be applied, for example, to the National Coal Board. The NCB would "carve-out" or earmark a part of its future production and in effect sell that part of its production to institutional investors in return for the present value of that future production.

.../..

W.S. Ryrie, Esq.

12th November, 1980

The security for the sum raised would be the conveyance of the future production and not the NCB, hence the financing would fall outside the PSBR. Production payments are off balance sheet in the USA.

I believe that analogous schemes have been devised in the United Kingdom. For example, in 1979, British Oxygen issued a tranches of tonnage debentures which were devised by Lazard Brothers. The security for the debentures was the tonnage industrial gas contracts between British Oxygen and specified customers.

(3) Tax Exempt Financing

In the United States certain utilities and in certain cases industrial corporations are able to issue debt instruments which provide interest free of tax in the hands of the investor. This type of instrument would typically account for a significant part of the investment portfolio of these individuals, institutions or corporations who are paying high marginal rates of tax.

This type of financing has been used extensively in the USA to direct investment to communities without adequate resources, to deserving welfare projects such as hospitals and schools, to specialised areas like pollution control facilities and to general industrial and manufacturing developments often in areas of high unemployment. The tax free element enables the issuer to sell the bonds at a considerably lower interest rate than would otherwise prevail in the market.

I understand that in the UK there is already an extensive regional policy. However, I believe that this method would both tap funds outside that of the Government, could give companies raising the finance a greater flexibility over the use of the proceeds, provide a lower cost of money to worthwhile projects, permit a higher level of debt financing for any given project and enable local authorities to tap an alternative source of finance outside the rate structure and central government contributions. You are no doubt aware that the extensive use of capital allowances as a means of encouraging investment in the UK is not currently proving so effective because few industrial

.../...

W.S. Ryrie, Esq.

12th November, 1980

companies are now paying mainstream corporation tax. Tax exempt finance would provide a useful substitute to this form of investment incentive.

If you believe that any of these ideas have any merit and you would like to pursue them in detail, I would be delighted to arrange for you to do so. I am very familiar with both tax exempt finance and production payments as both AMAX and Alumax were frequent users of both sorts of finance. Also, of course, Lazard Freres and Lazard Brothers are well aware of all the new developments. I could easily arrange for you to meet the appropriate people.

Sincerely,

Jan MacGee

151
 l/s to see
 You asked to see me
 ✓
 la

NOTE OF A MEETING HELD IN ROOM 11.01 ASHDOWN HOUSE AT
 8.00am on MONDAY 10 NOVEMBER 1980

Present

Secretary of State

Mr Ian MacGregor

R

1 The Secretary of State had asked to see Mr MacGregor because so much had changed: the market for steel had fallen generally, the recession and tough international competition had brought the private sector steel firms to the brink of bankruptcy and the Government was under desperate financial pressure. There was serious concern about the huge expenditure being incurred by the nationalised industries and he wanted to discuss whether it would be possible to change Mr MacGregor's objectives to look at the steel industry in Britain as a whole and not at British Steel in isolation. He was also wanted to examine whether there was any way in which BSC could help the Government by reducing its call for public money. He wanted to discuss the issues involved privately with Mr MacGregor before meeting his colleagues.

2 Mr MacGregor agreed that the market had dropped away (but was now bottoming out) and that the private sector firms were in difficulties. Mr Scholey and his colleagues were spending a considerable amount of time on proposals for integrating private and public steelmaking and were doing so on the basis that it did not matter at the end of the day who had eventual control. He thought a pattern had been worked out for billet steel but not yet for commodity steel, where he hoped an arrangement would be in sight by the end of the week. Both schemes would involve significant redundancies and closures.

3 The Secretary of State welcomed Mr MacGregor's news. He hoped it would be possible to move some of the larger BSC units off the taxpayer's shoulders. The Government was facing an artificial situation because it had to write-off a significant amount of BSC's capital: this did not affect public expenditure except to the limited extent that it was a loss of potential revenue in the form of dividends. It might, however, be possible to transfer parts of BSC's business at lower prices than BSC might contemplate but once transferred the running costs of these units would be carried by others and so would impose a reduced burden on the PSBR. He wanted Mr MacGregor, with his "unique knowledge of the international situation", to be more ambitious in his consideration of prospective transfers to the private sector, and/look in particular at the scope for takeovers by international companies.

/to

4 Mr MacGregor foresaw no real difficulties in transferring the billet business to the private sector; depending on the value the Government placed on British Steel's assets he thought that a 51% private sector solution was practicable. So far as international takeovers were concerned the Japanese

/ ...

Japanese were the obvious candidates and had the necessary money. He had recently visited Japan to ensure that there was a tacit understanding that BSC could expect a larger share of North Sea oil business and to assess the competition which would have to be met if BSC was to meet the Japanese in the international tube market - the problem was that BSC's tube equipment was obsolete.

5 The Secretary of State was grateful that Mr MacGregor was active in this area. He thought that the new arrangements would require much re-shaping of the plans which Mr MacGregor had partly formulated. Mr MacGregor agreed; he was adopting a flexible attitude and was not "locking-up" his plans until the pieces had come together. What was happening was that quietly and without histrionics BSC were reducing costs by getting rid of people; there was a steady stream of lay-offs, mostly of indirects. BSC had crystalised their proposals for removing their headquarters from London and disposing of Grosvenor Place. He had also secured a financial controller. He and Mr Holloway were dealing actively with the buying side but their first priority was to contain the existing situation since BSC were over-bought, had excessive stocks and extra supplies were coming in.

6 The Secretary of State enquired about the scope for reducing BSC's demands for money in the future. Public expenditure on such things as BSC was leading to higher interest rates and damage to the private sector. Mr MacGregor replied that his cost-reduction efforts were being undertaken against a background of receding volumes. He had taken up the cudgels with the Ford Motor Company which acquired 70% of its steel abroad, largely because of years of poor service and varying quality on the part of British steelmakers. He was blackmailing Fords and only a small relatively change in the share of their steel acquired in Britain would put one of the Welsh plants into the black.

7 The Secretary of State said that at her meeting with him on 15 November the Prime Minister would make much the same points. He thought that if, at the end of the day, there remained a significant nationalised steel industry this would be a burden on the taxpayer. He wanted Mr MacGregor to explore how far it was possible to contemplate a position where there would be either no nationalised steel industry at all or only a very small nationalised sector. He thought that present circumstances provided a unique opportunity; the Government could exert leverage over the private sector because it wanted help and in these circumstances it might be possible to ask the private sector to take on responsibility for more of the industry.

8 The Secretary of State was, however, troubled that Mr MacGregor had been invited to do one job and was now being invited to do another which was completely different. Mr MacGregor thought this was no problem; he was "here to help the British Government". He had preached at Mr Scholey to get him to adapt his views but he had loyalties and he saw the residue of his empire disappearing. Mr Scholey had, nevertheless, crossed the boundary into accepting the transfer of pieces of BSC into the private sector, but he had not yet perceived the broader horizons which the Secretary of State had mentioned. Senior people in British

/Steel ...

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

Steel, who had largely come from the private sector, would see the need for a changed role. They would be reluctant to liquidate their own jobs but he thought that their attitudes could be brought round.

9 Mr MacGregor wanted to describe the actions he had taken so far. In a position where the market was declining he had used the tools available to him to limit competition and to seek out new markets, for example, in the North Sea and at Fords. He would, if necessary, blackmail Mr Philip Caldwell (in a way which the Secretary of State could not do) with threats of limits on imports and by describing to Fords the impact on their business of a possible loss of UK steel making capacity, which would be "for ever".

10 The Secretary of State enquired about the scope for BSC to obtain 3-year undertakings with the trades unions about labour costs, restrictive practices etc, so that at the end of the day BSC would be able to deliver viable works to the private sector. Mr MacGregor doubted the scope for such ideas; he had been approached by Members of Parliament about the future of Gartcosh on such lines, but this had been done only when it was understood that works were over the brink. It might be possible to do something on these lines in South Wales but not perhaps in the core of BSC's business. At present, he could not fault the co-operation BSC was receiving from union members at the shop floor level (but not from Mr Sirs, who was still inclined to make tendentious speeches). Although Mr Sirs had lost control of the unions, it was best not to bring about a confrontation with the union.

11 Mr Scholey and officials then joined the meeting which is recorded separately.

I. Ellison

I K C ELLISON
PS/Secretary of State for Industry
Rm 11.01 Ashdown Ext 3301

10 November 1980

Circulation

PS/Mr Butler
PS/Mr Marshall
PS/Secretary
Mr Steele
Mr Binning
Mr Young
Mr Treadgold
Mrs Cohen
Mr Murray

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

NOTE OF A MEETING HELD IN ROOM 11.01 ASHDOWN HOUSE ON
MONDAY 10 NOVEMBER at 8.15 am

Present

| | |
|--------------------|------------------|
| Secretary of State | Mr Ian MacGregor |
| Mr Steele | Mr Scholey |
| Mr Binning | Mr D Prior |
| Mr Young | |

1 The meeting followed immediately after the private meeting between the Secretary of State and Mr MacGregor which is recorded separately.

2 The Secretary of State had asked for the meeting because the situation was changing before the Government's eyes: the market for steel had collapsed, the private sector was in difficulties and the Government was under great pressure to reduce its calls for money. In the circumstances it was necessary to review the whole position. He enquired whether the market for steel had reached bottom.

3 Mr MacGregor said that the market had stopped its retreat in the last few days. There was no rush back to order steel but the de-stocking in Europe had levelled out. (Mr Scholey interjected that this was at a very low level.) Mr MacGregor continued that import levels were high, representing about 30-31% of the market and this was hurting the private sector as well as BSC. He thought the pressure of imports was receding. The Article 58 arrangements reduced the downward pressure on the steel market but he expected to have continuing difficulty with the German industry (largely with their Federation rather than with individual firms) and he was collaborating with the French industry to exert pressure. Even so, the market had descended rapidly since July and even if there was going to be no further reduction the market had stabilised at approximately half the level that had been anticipated. Mr Scholey pointed out that the inherited programme of plant closures was going ahead and that by December all 52,000 scheduled redundancies would have taken place without significant controversy.

4 The Secretary of State thought that BSC's plans currently being formulated would involve further redundancies and closures. They would also involve discussions with the private sector and he wanted to know how many groups were now in discussion with BSC. Mr MacGregor said that discussions had taken place with GKN first but had been expanded to include Hadfields and Dupont, which had put lots of effort into ideas about rationalisation. Mr Scholey had now sketched out a way to rationalise the bar and billet side of the industry and he hoped to come up with ideas for commodity steel shortly. This would resurrect the Phoenix project but would go further and would take account of the interests of Sheerness. Sheerness' owners did not

/have ...

have the resources to make a capital initiative but they wanted to broaden their product range into sections.

5 Mr Scholey wanted to make two points. First, matters were quiet on the labour relations front and there was a general acceptance of the need for change. The Welsh works for example were nearly down to the minimum level of manpower and, in their present unloaded condition, were nearly as good as European producers in terms of manhours per tonne. If the Welsh plants were reloaded their performance would be substantially better than the Europeans. At the present level of domestic demand it was necessary for BSC to export 3 million tonnes of flat rolled products a year. The new manpower levels meant that BSC was in "touching distance" of being competitive (Mr MacGregor said this was a shortfall of 10-15% on costs) but it was possible that the present high level of the pound might force BSC to retrench. It would be very difficult to explain such further retrenchment to the workforces, who had co-operated well. The present level of demand was barely enough for one major steel plant, let alone three. The second point he wanted to make was that, although the private sector was expressing great interest in the present joint discussions and was talking in terms of an expenditure of £100-£130 million, it was inevitable that any scheme which emerged would involve substantial job losses and a dis-investment in the public and private sector as a whole. He accepted the need to move BSC plant out into the private sector.

6 Mr MacGregor said that Mr Scholey and his colleagues understood that there might be new enterprises in which BSC would be in a minority. The new schemes would involve possibly a further 3,000 redundancies and there would have to be some dis-investment on the private side, particularly in the re-organisation of the commercial side of the industry. Mr Scholey said that BSC was already disinvesting on the billet side; a decision had already been taken to close the No 1 billet works at Scunthorpe. The Secretary of State enquired about how the private sector would handle any proposed dis-investments. Mr Scholey had discussed the general proposals with Mr Mortimer who agreed with them and it was now necessary to discuss the arrangements with the Department. Members of the private sector were not speaking to each other in an orderly manner. Mr MacGregor thought the private sector firms ought to be brought together under the aegis of BISPA and the Department. All the ideas which were currently under discussion would be taken into account in the plans which he would be submitting to the Secretary of State shortly.

7 The Secretary of State enquired whether the efficiency gains which Mr Scholey had described would make the works concerned attractive propositions for private sector acquisition. Mr Scholey thought that electric steel making at Sheffield was as good as any anywhere; he was prepared to put Sheffield "into the pot". He envisaged joint BSC/private sector companies dealing with bar and billet separately. There was a question about what should be done with Scunthorpe, where there was a need for continuous cast billet making capacity. Any such proposal would affect the steel re-rollers. Without investment it would be difficult for the British industry to supply a competitive product and many re-rollers were drawing their billet from abroad. BSC had managed to regain the business of

/supplying ...

supplying the Tinsley and Bridon wire works.

8 There followed a discussion of the possible role of Mr Willi Korf, who might be interested in acquiring some BSC finishing facilities and about the need for continuous casting facilities to supply the wire making industry. There was also a discussion of the present situation in the supply and export of scrap. The Secretary of State said that the Government wanted BSC to look at its proposed plans in the light of the general situation and of the Government's problems with public expenditure. He wanted to know whether it was possible for BSC to abate its demand on the PSBR either in the current year or in the next financial year. Was it possible to bring down the level of redundancy payments and to phase them over a longer period as had been done at Consett? Mr Binning enquired about the scope for bringing redundancies forward so they counted against BSC's EFL in the current year but he accepted that if the strategy was to bring about savings quickly the price would be high in terms of redundancy payments per head. Mr MacGregor was concentrating on stopping the downward trend. The actions which he had taken in Europe and was taking to find new markets were aimed to bring BSC closer to viability. In each area of BSC's operations there was a continuous task of slicing off surplus people. This was being done without aggressive tactics or publicity. The plan would look at a longer horizon, the cheapest way of proceeding was for BSC to get more business; for example, he had persuaded the Continental oil company to use BSC steel in their oil platform; this had involved giving guarantees but there was £6 million of business and this helped level out the plate business at Teesside and Ravenscraig.

9 Mr Scholey said that all were thinking in terms of closing the Llanwern works but this was now competitive internationally and the problem was lack of exports because of the high value of sterling. Once Llanwern was closed it was difficult to envisage the plant re-opening without a step increase in the size of the market. There would be a distinct hullabaloo. In reply to the Secretary of State who enquired about a possible private sector takeover at Llanwern, Mr Scholey said that only Alfa Steel was a possibility but Mr MacGregor said that it was only a modestly capitalised company. Mr MacGregor explained that he needed a further 800,000 tonnes capacity of flat products a year, hence the pressure he was exerting on General Motors and Ford to buy more BSC steel.

10 The Secretary of State said that he was looking for savings in the demands which BSC would make on the taxpayer in the 1981/82 financial year. Mr MacGregor replied that BSC knew where they stood for the current financial year. In the period beginning 1 April 1981 BSC would not be subject to the same pressures and current events would reduce their cash requirement. He would produce plans in December showing progress that had been made (Mr Scholey said that as many as 25,000 jobs might have to go in the next financial year). Mr MacGregor, continuing, said that he would try to settle the pay round at the lowest level practicable but he did not want to interrupt the steady and successful reduction in manpower. It might be possible to win a public fight about pay levels but to do so at the cost of sacrificing BSC's ability to reduce manpower. Currently

/the unions ...

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the unions were co-operating at works level but it was always possible for Mr Sirs to step back into discussions and to take an adversary position; it was necessary to keep Mr Sirs busy on useful things "like trips to Australia". Mr Scholey said that a further 25,000 redundancies might come about through slim-lining, not closures, but they would cost a substantial amount of money and there would also be redundancy costs in the private sector. Mr Binning thought that some of the redundancy costs could fall in the current year.

11 The Secretary of State accepted that Mr MacGregor was building up outlets in order to make BSC's basic steelmaking less unprofitable. These outlets could increase the attractiveness of BSC's operations to the private sector. He mentioned in particular BSC's stainless operations. Mr MacGregor replied that the stainless activity was free standing; it might be attractive if it was fully loaded but not before then. BSC's interest in steel stockholders was defensive against incursions from abroad. In due course the entire stockholding operation would be liquidatable into private hands. At the present time there was pressure for stockholders to move towards the public sector - one stockholder was in difficulties - and he wished to ensure that it did not fall into foreign hands.

/ of 12 The Secretary of State enquired whether any outlets would be attractive to the private sector if disposed/with supply contracts running over several years. Mr MacGregor pointed out that the Phoenix project and the existing Round Oak arrangements had started out in that manner but had developed so that the private sector wished to put all the business into the public sector. The problem was that manufacturers who were down market would not integrate back upstream. (Mr Scholey said that BSC's tinsplate operations were not attractive to Metal Box). Mr MacGregor continued that operations could be transferred successfully to the private sector if offered at low prices and if there were no operating losses. But at the present time he could not promise no operating losses because of the under-loading of plants.

13 Mr MacGregor said that the operating losses were not caused by labour difficulties. The private sector plants had not been overmanned in the past but they were so now because of the change in loading. Mr Scholey said that Mr Mortimer of BISPA had been "staggered" by the success which BSC had achieved on de-manning. The Secretary of State enquired whether the changes extended to include craftsmen and Mr Scholey replied that they had reached agreement in principle with the craftsmen on Teesside to work without mates but had not yet secured the agreement of ISTC, which represented the mates. He thought that Teesside was lining up "for slimlining". Mr MacGregor said that in South Wales most of the mates had gone. The Secretary of State added that if the unions did not permit the efficient use of manpower this made a poor case for committing additional taxpayers' money.

14 The Secretary of State enquired about progress on disposals. Mr MacGregor said that there was little to dispose of in the UK. He was trying to get the best deal possible in South Africa and

/was ...

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COMMERCIAL IN CONFIDENCE

was examining the scope for disposals in Canada the following week. However, Canada was an independent market for tube for oil exploration and BSC might want to build a niche for itself there. There was also a rail business with international potential but it would be necessary to upgrade the Workington mill to produce the longer-life rails which were demanded by the railway administrations who were under increased cost pressures. This meant that Workington had to have new equipment to handle long rails and new cooling beds. RDL was making a modest loss and no one was interested in buying the company; it was useful as a vehicle to sell steel. Mr Scholey said that discussions were taking place about the disposal of BSC Chemicals to Norsk Hydro. It was first necessary to put the chemicals business into Staveley and Mr Waterstone had been authorised to negotiate a deal. The Secretary of State urged Mr MacGregor and Mr Scholey to press ahead with these arrangements.

I. Ellison

I K C ELLISON
PS/Secretary of State for Industry
Rm 11.01 Ashdown Ext 3301

10 November 1980

Circulation

PS/Mr Butler
PS/Mr Marshall
PS/Secretary
Mr Steele
Mr Binning
Mr Young
Mr Treadgold
Mrs Cohen
Mr Murray

L/S
R

BRIEF FOR SECRETARY OF STATE'S MEETING WITH MR MACGREGOR

Background

This note discusses the objectives Mr MacGregor has been asked to pursue, and the change in those objectives made necessary by the worsening economic and industrial climate.

2 On 29 April 1980 the Secretary of State wrote to Mr MacGregor on his appointment as Chairman of BSC from 1 July (letter attached). Para 2 says "You and I are agreed on the objectives under your Chairmanship that BSC shall achieve enduring profitability. I assure you of my fullest support. It is my intention that BSC shall have as free a hand as practicable in the attainment of this objective....". Subsequent discussion with Lazard Brothers attempted to specify the elements of performance which would be necessary if those objectives were to be attained.

3 Mr MacGregor has not yet produced a medium term business plan, but will do so next month. But in September he put forward provisional estimates of the effects of three different options from the present objective of manned capacity to produce 15 million tonnes of liquid steel a year. Options 1 and 2 involved reducing capacity to below 13mta, difference in effect being mainly related to differences in the location of mothballed plants. A lower case was also examined (7-8 mta) which would maintain only immediately profitable operations; this was believed by BSC to have such a traumatic effect on the Corporation that its integrity could not be maintained. Thus it would be equivalent to liquidation without the formalities. The September proposals were based on commercial information relating mainly to the period up to and including July. E Committee on 17 September agreed that BSC's EFL should be increased by £400m to allow the Corporation to continue up to end January 1981, on the understanding that a business plan would be produced and agreed with Government before then, this plan would examine options 1 and 2 in detail but not the more radical case.

4 By mid-September it was clear that there were indications of a worsening market, and the latest forecast suggests little improvement in the next eighteen months. The situation is universally bleak for industrialised countries, as confirmed by the OECD Steel Committee on 26/27 October. This has put private sector steelmakers in serious difficulties and confidential discussions with them indicate the following:-



- (a) GKN, whose operations compete with BSC's billet, bar and rod businesses are losing £1½ million a month, with the threat of closure by Christmas.
- (b) Duport, losing £1 million a month mainly at Llanelli.
- (c) Hadfields, losing £½ million a month, and threatened to close by Christmas.
- (d) TI, losing £½ million a month in a 50% holding with BSC in Roundoak. They are anxious to sell out to BSC.

5 During the past two months demands on the PSBR for 1981-82 and 1982-83 have substantially increased, partly due to the effects of the recession. As a result investment plans of profitable nationalised industries, as well as desirable public services may be further restrained. BSC, on any of the options under examination, will make large demands on the PSBR as set out in the attached table.

Objective of Discussion

The Secretary of State will, therefore, wish to examine with Mr MacGregor a substantial reorientation of objectives. While not losing sight of the aim of long term viability of the Corporation, it should seek to lay more emphasis on the survival of private sector companies, the organisation of the BSC into a form which makes further privatisation possible, and the minimisation of its reliance on the PSBR.

Points to Make

Secretary of State will wish to:-

- (a) Emphasise substantially worsening circumstances, leading to serious risks to the private sector in the short term, and heavy pressure on the PSBR in the short and medium term.
- (b) Question whether it is realistic for BSC to maintain capacity at anywhere near 13 mta.
- (c) Recognise that this turn of events requires ~~and~~ substantial reorientation of objectives which it is right to discuss with Mr MacGregor personally, since it affects not only the Corporation but his personal position.

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- (d) Invite him to accept a redefinition of the objectives for the Corporation involving:
- (i) the organisation of the Corporation into businesses capable of being transferred as rapidly as possible to the private sector.
 - (ii) Minimisation of damage to the private sector during the interim period, and no net expansion of the public sector.
 - (iii) Reduction to an absolute minimum of calls on the PSBR. In order to give Mr MacGregor a full understanding of the difficulties facing the Government, Secretary of State will wish to indicate that, while he and his colleagues will be prepared to examine the options being studied by BSC, there would be serious difficulty in approving any plan requiring EFL provision of more than £500m in 1981-82 and £250m in 1982-83. (These numbers do not take into account any effect of a capital reconstruction, and would have to be adjusted downwards to reflect any consequential changes.)
- (e) Respond sympathetically if Mr MacGregor wishes to delay the presentation of the Corporate Plan for a short while (it is for discussion with you on 17 December), but remind him that BSC is likely to run out of cash by the end of January.



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

Ian K MacGregor Esq
2 Broad Road
Greenwich
Connecticut 06830
USA

29th April 1980

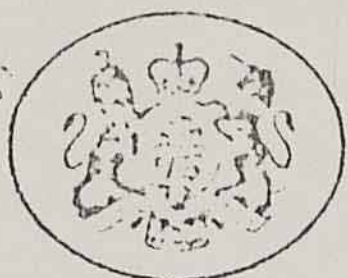
Dear Mr MacGregor,

I have today formally appointed you part-time non executive Deputy Chairman of the British Steel Corporation ("BSC") with effect from 2 May next and as full-time Chairman for the period of three years beginning on 1st July next. We both contemplate that BSC will appoint you as Chief Executive upon your assuming the Chairmanship. A related agreement has today been entered into between myself and Lazard Freres & Company ("LFNY") who have agreed to release you from your present commitments to them. A number of points arise from these arrangements which we have agreed should be recorded in a separate letter.

You and I are agreed on the objective that under your chairmanship BSC shall achieve enduring profitability. I assure you of my fullest support. It is my intention that BSC shall have as free a hand as practicable in the attainment of this objective. Various powers and duties are conferred and imposed on me by the Iron and Steel Act 1975 as amended. In exercising them I will try to give effect to all reasonable proposals which you may make, particularly with regard to the membership of the Board and the appointment of the auditors.

I should be surprised - and disappointed - if any serious and lasting disagreement were to arise between us on these matters. If, nevertheless, this were to occur I recognise that you might wish to exercise your right of immediate resignation. In this event, I would think it reasonable for BSC's performance up to the date of your resignation to be assessed by the Performance Review Committee set up under my agreement with LFNY and the appropriate payment, if any, made under that agreement. The Committee should, in making its determination under the criteria provided for in the agreement, consider in addition whether it would be appropriate to make any adjustment in either direction on account of the circumstances leading to your resignation.

/I ...



I appreciate that it was fundamental to your acceptance of the Chairmanship that the tax position should be and remain as you are at present advised. If there should be some unexpected and substantial change in this respect, we would consider together how the new position might be handled. If it proved impossible to deal with this aspect satisfactorily, I recognise that you might wish to resign on less than six months notice. In any event the provisions relating to the final payment under the agreement between myself and LFNY would apply.

I further appreciate that if agreement cannot be reached under that agreement on the criteria to be used by the Performance Review Committee under that agreement, you will, of course, be at liberty to resign but will in that case give at least 14 days notice. If you should resign for any other reason, it is envisaged that you should give at least six months notice of your intention.

The salary attaching to your appointment as Chairman is contained in the minute of appointment. This will, of course, be subject to review along with the salary attaching to other similar appointment

I confirm that I do not consider your remaining a limited partner in LFNY to be incompatible with your holding office as Chairman of BSC but if you should wish to enter into any other contractual relationship with LFNY I would expect you to seek my prior agreement as would, under the Iron and Steel Act 1975, be necessary in respect of the acquisition of any other potentially conflicting interest.

I have agreed that you should retain the appointments set out in the list attached to this letter and also keep any fees or other emoluments to which these appointments may entitle you. I recognise that it may take some little time for you to relinquish other appointments which you presently hold and I have no doubt that you will take the necessary steps within a reasonable time.

I am glad we have reached the agreements and understandings which have enabled me to appoint you as Chairman of BSC. I have every hope of its success under your leadership and I envisage that we may be able to reach new agreement on the terms on which you might continue as Chairman after your present appointment comes to an end.

Yours sincerely,

Kenn Joseph

BSC: EFL Estimates (September 1980 prices)

£m

| | Present policy continues | Opt 1 13 mta | Opt 2 13 mta | lower case 7-8 mta | liquidate by law | EFL provisional estimate |
|---------|--------------------------------|-----------------|-----------------|-----------------------|---------------------|--------------------------------|
| 1981-82 | 880-1020 | 760 - 910 | 780 - 930 | 670 - 820 | 800 | 680 |
| 1982-83 | 750-850 | 450 - 550 | 500 - 600 | 200 - 300 | 0 | Not determined |

- Notes: (a) No account is taken of reductions in EFL resulting from any future capital reconstruction.
- (b) Account has been taken of cost reductions in operations (£100m in Opt 1 & 2 and £50^m in lower case)
- (c) No ISERBS payments (or other social costs) are included.

Nav Ind

DIARY

*PA
(Steel file) MS*

Sir Keith ponders biggest cut of all

SIR KEITH JOSEPH has apparently become so disenchanted with writing increasingly large cheques to keep the British Steel Corporation afloat that he has given some thought to winding up the whole enterprise. I can reveal that a report quantifying the cost of putting BSC — which is said to be losing around £20m a week — into liquidation has been put before the Minister for Trade and Industry.

Although it concludes that liquidation is the most expensive option, a DTI official told me this morning that such a course would be "taken into account" when Jan MacGregor, the BSC's chairman, submits his rescue package to the Government in the middle of next month.

MacGregor, who publicly asserted that he had NOT left Lazard Freres in New York to liquidate BSC when he took over from Sir Charles Villiers in May, is thought to be going to ask Sir Keith to stump up around £2500 million to keep it going.

So far this year the Corporation's cash limit of £450 million has been extended to £1000 million. Yet as the recession bites harder Whitehall experts estimate that BSC will need a further £500 million to carry it through to the end of its financial year in March.

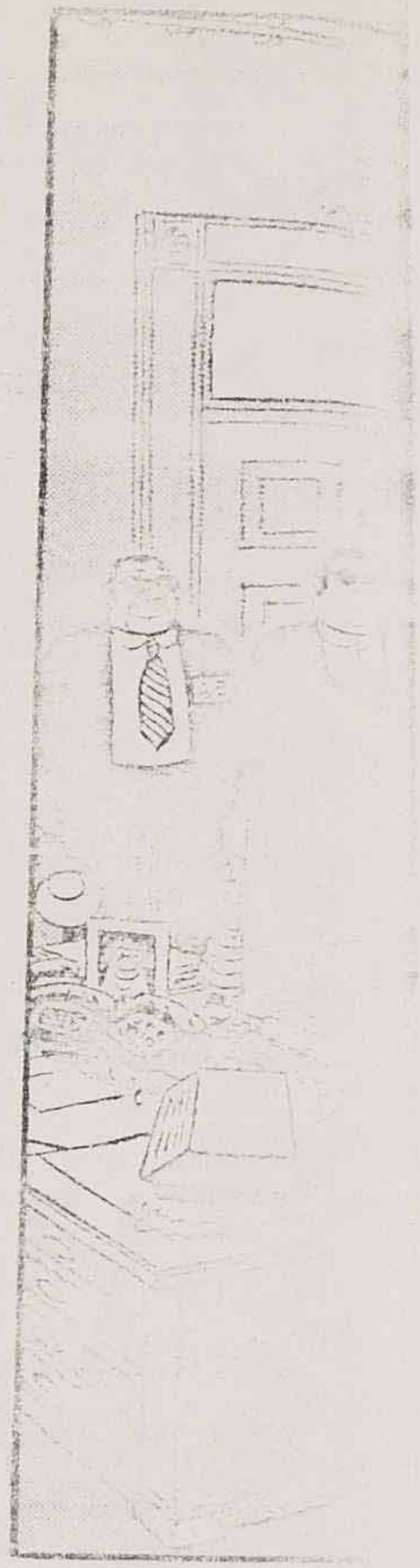
At BSC this morning officials knew nothing of the scheme. "It's news to

us," I was told by a senior executive, "and I cannot believe it would ever be implemented. It would cost too much."

APOCRYPHAL stories abound but this, the best of the latest, deserves a wider audience. Commuters, the unsung heroes of our City, will be fascinated to hear of the treatment doled out to Sir Peter Parker by Allen, Brady and Marsh the advertising agents behind the current British Rail campaign *This Is The Age Of The Train*. Before they won the account the agency had Sir Peter round to their offices. His appointment was at 10. First he was kept waiting in the lobby, then for 15 minutes in the outer office of Peter Marsh, the director in charge of the presentation. When he was finally ushered into the presence Marsh turned on the commuters friend with the words "Now you know how your customers feel." I wish I could believe it.

Missing part

APART from Lady Soames who spent 18 months adapting her biography of her mother for television nobody regretted Thames TV's decision to dump the project more than Maria Aitken who, I can disclose, had just landed the plum part. "Thames TV taketh



away," she told me this morning.

She added "They have cut my class and left me in order to trim the budget. But it is not for me as it is for



MARIA AITKEN: CBS

ducer Stella Richman for Lady Soames who just had their war out of the window.

Ms Aitken who is currently starring in *Lives at the Duches* whose own private life taken a dip after separation from her actor husband Nigel Davenport in September, was only a few weeks ago.

Miss Richman and Soames, who has been involved in the production both went to see *Lives* and offered her part the following day.




CONFIDENTIAL

Next Ind

Ref. A03457

PRIME MINISTER

Cabinet: Community Affairs

There is little of moment to discuss on the Community front this week.

2. You might wish the Secretary of State for Industry to report on the successful outcome of the 30th October Steel Council, at which the Germans finally came round to accepting mandatory steel production quotas, with some derogations for small companies and special steels.
3. You might wish to inform the Cabinet of the main points that arose in your talks with Mr. Roy Jenkins on 3rd November.
4. You will be seeing Madame Veil, President of the European Parliament, later on 6th November, as part of her programme of visits as a guest of Her Majesty's Government.
5. Next week there will be an Agriculture Council on 10th-11th November.

RA

(Robert Armstrong)

5th November, 1980

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CC: JMT
WO
SO
CO

Industry

10 DOWNING STREET

From the Private Secretary

MR ROBIN IBBS

mb

BSC Board Responsibilities

The Prime Minister was grateful for your minute of 26 September and for the report on BSC Board Responsibilities which you sent with it. She has also read the Secretary of State for Industry's minute of 28 October.

The Prime Minister's initial comment on the report is that it seems to her vital that BSC should have an effective structure when Mr MacGregor retires. It follows, in her view, that a discussion between Mr MacGregor, Sir Keith and yourself would be worthwhile, but not before some of BSC's immediate problems have been resolved. However, the Prime Minister would like to have a meeting to consider the report and Sir Keith's comments, and we will be in touch with you to arrange a date.

I am sending copies of this minute to John Wiggins (HM Treasury), John Craig (Welsh Office), Godfrey Robson (Scottish Office) and David Wright (Cabinet Office).

R.

3 November, 1980

cc Mr Dwynd

Y WYDDFA GYMREIG
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)



WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

CONFIDENTIAL

3 November 1980

Dear Secretary of State,

*R
27"*

...

Following my reference to the steel industry in Cabinet I enclose, for your information, a note of my meeting with Mr Winstanley of Duport Steel about the crisis facing the private sector of the steel industry. I am glad to know that the matter is receiving urgent attention on the lines agreed recently by E Committee. In view of the importance of this matter, I would be grateful to know how this consideration is progressing.

/ Copies of this letter go to members of E.

Yours sincerely,

Approved by the Secretary of State
and signed in his absence

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB



MEETING BETWEEN SECRETARY OF STATE AND MR WINSTANLEY, CHAIRMAN OF
DUPORT STEEL GROUP, IN CATHAYS PARK, CARDIFF ON FRIDAY 24 OCTOBER 1980

Present: Secretary of State Mr Winstanley
 Mr A H H Jones Mr Cooke (MD Duport, Llanelli)
 Mr J F Craig Mr Emmanuel (Financial Director, Llanelli)

1. Mr Winstanley said that he had been anxious to see the Secretary of State (and grateful that a meeting was arranged at such short notice) in order to dispel any impression, arising from the meeting on 8 September between Mr Wyn Roberts and Messrs Cooke and Emmanuel, that energy costs and high interest rates were the only problems which faced the Duport Steelworks at Llanelli. The high cost of electricity added 4% to their selling price in comparison with their European competitors: there was well documented evidence to show that the extra cost to the Llanelli Plant was between £2 million and £3 million pa. Interest rates were at a cripplingly high level and were costing some £4 million pa. The Company had invested heavily in a new steel plant at Llanelli with modern equipment. They believed it to be an extremely efficient plant with good manning levels; labour relations were excellent as was productivity. It was at present equal to the best in Europe - but it was being worked only one week in three. 8,500 tons were produced in May; 2,500 tons in October. The key problem was the slump in demand for steel. At Llanelli, the plant was being hit by competition from imports and from BSC, heavily subsidised to an extent with which they could not begin to compete. A further problem arose from the exchange rate and the strengthening of the £ against the DM. He was separately in discussion with Mr Binning of the Department of Industry about the urgent and vital need for rationalisation in the industry.

2. The Secretary of State said that he had been under no illusion about the seriousness or the extent of the plight which faced the Duport Steelworks. He had had discussions recently with the Chairman of BSC and with Mr Jake Stewart; he had also had discussions in the USA and in Brussels about the steel industry and about energy pricing - the latter in particular being a subject which had been raised with him by a significant number of industrialists in the US. He understood, therefore, the significance of the problems to which Mr Winstanley had referred and Ministers knew of the anxieties about energy pricing.

3. Mr Cooke said that he was disturbed by the fact that it had proved impossible to negotiate in any meaningful way on tariffs with the CEEB. Mr Winstanley added that in Germany it was possible for individual companies in different parts of the country to negotiate separate deals with the electricity industry. In Baden Baden, for example, the steelworks there obtained "cheap" electricity for 19 hours each day

/and



and "peak" rate for only 5 hours; in fact it paid the company to close down for 5 hours each day. The CEGB, however, simply would not be flexible. Exports from Llanelli had dropped from 30% to 10% of production; they were no longer competitive. Although British Rail and the docks authorities had been helpful in negotiation, neither the CEGB nor the Gas Board (more generally, for the group as a whole) had been. The Company was paying 26p per therm compared with 10p in Germany. The Secretary of State suggested that they might not be comparing like with like.

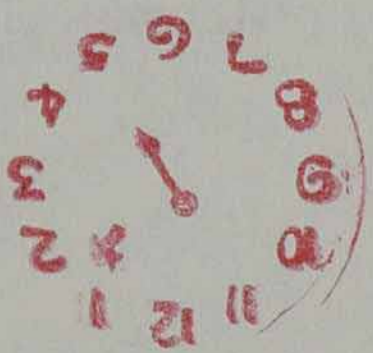
4. Mr Winstanley stressed that it was not possible for the present situation to go on for long. The group's bankers were looking critically at its cash flow. The half-way results (The Times, 23 October) were bad enough; since then they had been horrific. Restructuring was vital. Without that it was inevitable that despite its diversification the group would go into receivership, "pulled down" by the Llanelli steelworks where their capital assets were concentrated.

5. The Secretary of State asked Mr Winstanley how he saw the timescale, bearing in mind that Mr MacGregor's Corporate Plan for BSC (which although not dealing with the private sector would undoubtedly have implications for it) had not yet been submitted to Ministers.

Mr Winstanley said that it was of the first importance that the position of the private sector was considered at the same time. A restructuring plan should be considered alongside BSC's Corporate Plan, and the Government should take an initiative to "pool" steel. However, that would not save all the plants currently in production. GKN were in serious trouble; Hadfields were probably in the worst trouble of all - they employed too many in an outdated plant. He wondered whether Lonrho would support them beyond Christmas. On timing, if the problem was not resolved before next March, BSC would pick up Duport's business; as Chairman of the Duport Steel Group, he stated that that was an indisputable fact. BSC had a very efficient plant in Sheffield, which would be even more efficient than Llanelli by next year, but did the Government want only a single source of supply? Capacity for special steel throughout all the present plants, including BSC Sheffield, was about 3½-4 million tons pa. Demand (even if it could be raised to the 1979 level) was 2½ million tons. In his view, Hadfields plus one other would have to drop out altogether. The Secretary of State expressed his desire not to see single sourcing and to see the continuation of a strong private sector steel industry. While he was not directly responsible for the steel industry, the problems it faced and the possible answers to those problems had very serious implications indeed for Wales.

J F CRAIG
Private Secretary

28 October 1980



- 3 NOV 1980

CF: Arranged
for Tuesday
25 November
at 16.15.
EJ 3/11

MISS STEPHENS

Please fix a 45 minute meeting with
Mr Ibbs and Sir Keith Joseph on BSC Board
Responsibilities. Not urgent, but
preferably within the next four weeks.

TL
..

3 November, 1980

PRIME MINISTER

I have had a word with Robin Ibbs about these papers and he would very much appreciate it if you could have a short discussion with him and Sir Keith about them. He regards Sir Keith's comments on the CPRS paper as pretty luke-warm and unconstructive, and would like - with your help - to push the Department of Industry a little further. He appreciates that it may not be possible to do much in the short term with the BSC now that Mr. MacGregor is in the saddle; and that changes at BSC will mainly have to await MacGregor's departure. But he also thinks that his analysis - and particularly the analogy between Government/nationalised industry board and holding company/subsidiary board - is applicable to other nationalised industries.

Since the CPRS have clearly taken a lot of trouble over this report, can I tell Mr. Ibbs that we will arrange a meeting sometime in the next few weeks?

Yes - will gladly do.
mk. 12

31 October 1980

file

COVERING CONFIDENTIAL

2



10 DOWNING STREET

From the Private Secretary

31 October 1980

Message to Chancellor Schmidt

Further to the letter which I sent you earlier today, I now enclose the text of a message from the Prime Minister to Chancellor Schmidt which has been despatched to Bonn over the direct line this afternoon.

I am sending copies of this letter and its enclosure to Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Roderic Lyne, Esq.,
Foreign and Commonwealth Office.

COVERING CONFIDENTIAL

Handwritten signature or initials in the bottom right corner.

SUBJECT

CONFIDENTIAL

for transmission on the secret line.

*cc Marget
O/S*

MESSAGE TO CHANCELLOR SCHMIDT FROM THE PRIME MINISTER

31 October 1980

**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 216/80**

Dear Helmut,

I am glad you telephoned last night about the Council meeting on steel in Luxembourg. Like you we attached great importance to getting the right result.

As I promised, I made immediate enquiries. I understand that there was a genuine misunderstanding over what the Council had agreed on 25 October about steel tubes. I am glad that the agreement reached last night included a satisfactory compromise on that aspect.

As you know we agreed to the quota system under Article 58 of the ECSC Treaty after much heart searching. We share your belief in the importance of a liberal economic policy. But the crisis in the steel industry is very serious and in the absence of agreement among producers themselves there was the risk of a major collapse which would have been very damaging to our economic strategy.

Yours sincerely,

MARGARET THATCHER

Thatcher 20/11

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00 311500Z
BONN FROM LONDON
CONFIDENTIAL GOVERNMENTAL 0024
MESSAGE TO CHANCELLOR SCHMIDT FROM THE PRIME MINISTER

BT

DEAR HELMUT,

I AM GLAD YOU TELEPHONED LAST NIGHT ABOUT THE COUNCIL MEETING ON STEEL IN LUXEMBOURG. LIKE YOU WE ATTACHED GREAT IMPORTANCE TO GETTING THE RIGHT RESULT.

AS I PROMISED, I MADE IMMEDIATE ENQUIRIES. I UNDERSTAND THAT THERE WAS A GENUINE MISUNDERSTANDING OVER WHAT THE COUNCIL HAD AGREED ON 25 OCTOBER ABOUT STEEL TUBES. I AM GLAD THAT THE AGREEMENT REACHED LAST NIGHT INCLUDED A SATISFACTORY COMPROMISE ON THAT ASPECT.

AS YOU KNOW WE AGREED TO THE QUOTA SYSTEM UNDER ARTICLE 58 OF THE ECSC TREATY AFTER MUCH HEART SEARCHING. WE SHARE YOUR BELIEF IN THE IMPORTANCE OF A LIBERAL ECONOMIC POLICY. BUT THE CRISIS IN THE STEEL INDUSTRY IS VERY SERIOUS AND IN THE ABSENCE OF AGREEMENT AMONG PRODUCERS THEMSELVES THERE WAS THE RISK OF A MAJOR COLLAPSE WHICH WOULD HAVE BEEN VERY DAMAGING TO OUR ECONOMIC STRATEGY.

YOURS SINCERELY,

MARGARET THATCHER

BT

CONFIDENTIAL

Qz 01813

MR ALEXANDER

cc: Mr Wright
Mr Ellison - D/T
Mr Lyne - FCO
Mr Goodenough

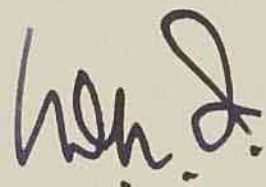
CONVERSATION WITH CHANCELLOR SCHMIDT: STEEL

As requested I attach a draft message for the Prime Minister to send to Chancellor Schmidt following last night's telephone call. Mr Adam Butler is content with the draft which has also been cleared with the FCO.

2. I understand that last night's agreement - which runs until 30 June 1981 - provides for two categories of exclusion:-

- (i) Total exclusion of liquid steels for castings; fine and special steels from firms whose output is less than 6,000 tonnes per quarter; and large tubes.
- (ii) Special steels (other than stainless steels) with more than 5 per cent alloy content, provided their price is more than 30 per cent than their non-alloy counterparts, and small tubes are excluded from the application of quota control but will be monitored and the exclusion can be withdrawn by decision of the Commission.

The main difficulty in the final stages of the negotiation arose on the treatment of special steels. The UK and France resisted strongly German pressure to exclude the bulk of special steel production. UK industry appear reasonably satisfied with the outcome. Count Lambsdorff expressed disappointment.



M D M FRANKLIN

31 October 1980

Encl.

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DRAFT MESSAGE TO CHANCELLOR SCHMIDT FROM THE PRIME MINISTER

Dear Helmut,

I am glad you telephoned last night about the Council meeting on steel in Luxembourg. Like you we attached great importance to getting the right result.

As I promised, I made immediate enquiries. I understand that there was a genuine misunderstanding over what the Council had agreed on 25 October about steel tubes. I am glad that the agreement reached last night included a satisfactory compromise on that aspect.

As you know we agreed to the quota system under Article 58 of the ECSC Treaty after much heart searching. We share your belief in the importance of a liberal economic policy. But the crisis in the steel industry is very serious and in the absence of agreement among producers themselves there was the risk of a major collapse which would have been very damaging to our economic strategy.

Yours sincerely

~~31 October 1980~~

Raymond Dechen

cf M. Franklin *Not Incl*
Steel
100/31
3/10



Prime Minister
has seen.

L.A. - Hunt - 3/10

PRIME MINISTER

COMMUNITY STEEL QUOTAS

I am sorry that you were unnecessarily involved - because of a telephone call from Chancellor Schmidt - in the negotiations about the Commission's proposals to impose quotas on Community steel production.

By way of background, you will recollect that, because of the serious over-supply of most types of steel, the Community producers had for some time been seeking an agreement between themselves to limit production. In the end we were most reluctantly forced to agree with the Commission that a voluntary agreement was impossible. Throughout the long and difficult negotiations the Germans have consistently been alone in their stand against the general application of quotas.

A key point in the negotiations was the application of quotas to steel for tubes. The complete exclusion of steel for tube products would, in the opinion of both BSC and the private sector steel companies, have made the system unworkable. They had even said that they would have preferred no system to one which excluded tubes. The French took a similar line.

/The ...



The Chancellor's intervention arose from a difference in the interpretation of what had been agreed at the Council meeting on 25 October. Count Lambsdorff had reported back to the Cabinet that there was agreement to exclude tube steel from positive quotas. Both I and my French colleague were in no doubt that this was not so and Commissioner Davignon confirmed to me that our view was correct. The Germans appeared to have lifted the President's summing up of Saturday's proceedings out of context.

It was because of this difference of understanding that Count Lambsdorff apparently felt that I was reneging on an agreement. He was forced to go back to his Chancellor because the exclusion of tubes was a key plank in the package which the German Cabinet had approved.

UKREP will have advised you that late last night we finally reached an agreement which involves a compromise on both tubes and special steels. Throughout, I had attached considerable importance to achieving unanimity. Both I and our producers regard the outcome as reasonably satisfactory - one which should help to limit the steel crisis and thus reduce the further call on public funds by BSC.

/I ...



I am sending a copy of this minute to Peter Carrington and
Geoffrey Howe.

ER.

per
ACB

31 October 1980

(dictated by the Minister and
signed in his absence)



31 OCT 1980

FILE
CONFIDENTIAL

VLS



cc D/I
CO

10 DOWNING STREET

From the Private Secretary

31 October 1980

Conversation with Chancellor Schmidt

As you may know, Chancellor Schmidt rang the Prime Minister late yesterday evening to talk about a problem which had arisen in the discussions in Luxembourg about Community quotas on steel production. I enclose a transcript of part of their conversation. The discussion also covered the Foreign and Commonwealth Secretary's visit to Poland.

Since the problem which had given rise to Chancellor Schmidt's telephone call was resolved later yesterday evening, I see no need for the Prime Minister to telephone the Chancellor again. However, there would probably be advantage in her sending him a short message and I have had the drafting of such a message put in hand.

I am sending copies of this letter and enclosure to Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

~~A. WHITMORE~~

M. O'D. B. ALEXANDER

R. M. J. Lyne, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

GB

cc Mason

CONFIDENTIAL

PRIME MINISTER'S TELEPHONE CONVERSATION WITH CHANCELLOR

SCHMIDT, 30 OCTOBER 1980, 2100 hrs

Prime Minister Hello, how are you?

T213/80

Chancellor Schmidt: Rather well despite some little difficulties. I beg your pardon Margaret for calling you so late at night - are you still in your office?

PM: Actually no, I am just going over to the House of Commons in about an hour so I'm still working, yes.

**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T213/80...**

CS: I beg your pardon indeed.

PM: No it's quite alright, its early for us.

CS: I'm still working too. ^A I had a rather alarming call from Count Lambsdorf who is in a meeting, I guess, either in Luxembourg or in Brussels I am not really aware where that meeting is. Anyway it deals with that steel business. You are certainly aware of the general problem which they have on steel. Now I'm a little bit disturbed because he tells me that a British Minister of State by the name who I have forgotten, I do not know the gentleman in person but he seems to be the deputy to Sir Keith Joseph, if that is correct.

PM: Probably Adam Butler

CS: Maybe I don't know. At least this Minister of State has called into question some partial agreement which they had arrived upon in their last meeting last week they left open some questions regarding adhlstahl - I don't what the English word for that is - special alloys in steel. But otherwise they had agreed upon most of the questions last week and we were after a long discussion in Cabinet yesterday we were tending to grudgingly but nevertheless accept the compromise. Now he calls me from that meeting and tells me that your man has proposed to again alter some of the agreements of last week and I

/was going

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CONFIDENTIAL

- 2 -

CS continued :- I was going to make it clear to your government that I didn't intend to call you in person Margaret but I could not reach Peter Carrington.

PM:- Peter is in Poland

CS: Yes he seems to be out of the country that is why I'm calling yourself. I just wanted you to know your Minister who was operating in that meeting that I think it would be very awkward if we should be forced to come up with a veto about something which had been agreed upon half a week ago and which was not changed again. I think that this gentleman might not be aware of the touchiness of the matter and this is my attempt to make your Cabinet aware of it. I now have the chance to speak to you in person its even better.

PM:- Now Helmut let me get it just right. Count Lambsdorf is at the steel meeting in Luxembourg, its in session, we had hoped it was going to agree, for example, on the quotas, this is the one. Now as I understand it you're agreed on the quotas for sheet steel and the main steel but there appears to be a question about a particular alloy of steel, is that right?

CS:- No, the question about special alloys had been left open for the meeting of tonight the other questions had been settled last week. And it seems that they are able to find a compromise about the alloy question tonight/^{but}at the same time some of the questions agreed upon last week are reopened by your delegate, and this is what caused trouble because it would have to be used for reasoning for our veto.

/PM

CONFIDENTIAL

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- 3 -

PM:- The question refers to the reopening of the main steel agreement which you say was agreed last week. Helmut I will find out immediately.

CS:- Thank you very much Margaret. I don't wish to create any feeling of alarm but on the other hand it would be just nasty for us to table a veto there.

PM:- We would be very upset if there were a veto obviously.

CS:- We really wanted to avoid it. I have some difficulty to get my Cabinet behind me in avoiding that veto and Genscher wants to avoid it the rest were in favour of giving a veto.

PM:- Were they. Look Helmut I will make immediate enquiries. I will not phone back tonight because it will probably be too late.

CS:- Yes. Well how is it going in London?

PM:- How is ^{it} going - well we have the usual problems; the world recession and we've been paying our people too much for years so we're hit rather worse than anyone else.

CS:- We have a rough time here in meetings one day after the other to lay the agreement as the foundation for the next four years of coalition. And we find everywhere that we lack money and that we cannot spend the money Ministers wish to spend. And we will have some additional unemployment next year as well. We will have a zero growth next year and its not very pleasant the outlook.

CONFIDENTIAL /PM

PM:- Well it isn't very pleasant because every spending Minister wants to spend more money and that just means more taxation because we cannot print it.

CS:- Yes. Has Peter given you any idea of his ...

PM:- No not yet, he's not back yet. He saw ^{Kania} Kahanya (?) just before he went to Moscow and this is Peter's second day and he'll be back soon. And we will just be very interested to see what's gone on because we're all a little bit worried at the moment.

CS:- I trust that he will give us some impressions.

PM:- Most certainly. We thought it a little bit important that he went, just to see what was happening.

CS:- Right. I fully agree. Because it's a dangerous point in time as regards the Polish development.

PM:- Yes very much so because all of the other Warsaw Pact countries are very jumpy about it and I didn't like Ceausescu's speech the other day at all. And one just hopes to goodness that the Poles will be left to sort it out themselves.

CS:- I think despite your economic difficulties your political situation is just fine regarding the state of the labour unions of the Labour Party.

PM:- Yes it is they are in acute difficulty but they

CONFIDENTIAL

- 5 -

PM continued:- they will just have to choose. We had two of them yesterday speaking in Parliament. Denis Healey whom you know and Michael Foot. And Michael Foot made one of these rather brilliant scintillating speeches, you know all presentation and no base. But unfortunately you know those speeches tend to go down rather well.

CS:- Does it mean that these two speeches were being made in order to compete between each other for the leadership.

PM:- That's right, yes. But we shall get two more from two other of those who want to be leader soon.

CS:- Is there any possibility that Wedgwood Benn would become leader?

PM:- None at all.

CS:- That's good.

PM:- He also spoke. He gave a total revolution/^{ary}speech. No you needn't worry about that Helmut, we're not that badly off.

CS:- I feel a little sorry for Jim Callaghan.

PM;- Well so do^{I,} he's such a nice man. I saw Brandt was over here the other day - Brandt was with Jim.

CS:- He only had a very slim chance to tell me one or two sentences; he conveyed the feeling of sympathy for poor old Jim

/PM

CONFIDENTIAL

PM:- Well Jim looks a different man. You know I just saw him quickly and he looks so relieved.

CS:- Yes, you know I don't know whether you know he is talking about you with a great amount of respect, if he talks to me anyway.

PM:- Well that is very kind of him and much appreciated. Helmut have you had a note from President Carter about the future chairman of the World Bank.

CS:- I have

PM:- You have, I have too and it will be a person whom I happen to know is extremely good.

CS:- I know him too. I am astonished that he is available for that job but I would as a person accept him easily and thankfully.

PM:- Well so would I - easily and thankfully. I just happen to be in a tricky position I can't take the lead on it in any way because I know that Ted Heath wants it. I don't believe he has a single chance of getting it because I have always thought that the Americans would insist on having an American and that is a very, very good candidate.

CS:- I am astonished that he should make himself available for that job but I know that man from San Francisco and he is just good.

PM:- He's very, very good. Indeed I think we would be even better than the present incumbent.

CS:- Yes, that's possible. Are you suggesting that I should do something?

PM:- No, no. I was just wondering if you were supporting him, that's fine.

CS:- I don't know whether it's getting on my desk again but certainly I will have to answer it.

PM:- No I think he is a very, very good person but I can't in any way take the lead in supporting him because I think Ted would not like it.

CS:- I would certainly answer Jimmy Carter that I would, that my country would certainly assist such a proposal and make it be known.

PM:- Yes alright. And Helmut have you spoken to President Giscard recently?

CS:- No I have not.

PM:- I have just had Gaston Thorn here the other day and we were just talking about the agenda for the Luxembourg Council.

CS:- When is that?

PM:- It's at the beginning of December.

CS:- No I have no idea, I'm in the middle of all my domestic problems.

PM:- So am I. Let's leave the agenda. I will start to enquire about the other matter immediately.

CS:- I will wish you a good night in the House Margaret.



PRIME MINISTER

It seems to me that the
what point is to leave
an effective structure
when Mr. J. has gone.
I should have thought that
was worth a

~~at the~~ discussion

discussion between Mr. J. K.J.
and Mr. Ibbot at the appropriate
time - i.e. when some of the
immediate problems have been

BSC BOARD RESPONSIBILITIES resolved.
not

AC A Daymond

Prime Minister

Sir Keith seems rather
lukewarm about the proposals
in Robin Ibbot's long study
at Plan A, and he is not
inclined to interfere with
the way MacGregor is running
BSC. Would you like to
discuss with

Plan A

1 Robin Ibbot sent me copies of his minute to you of 26 September and
of the CPRS report on the duties and responsibilities of BSC Board
members which you asked him to prepare.

KT and Robin Ibbot?

2 At the time the study was initiated, we were concerned about
the performance of the BSC Board under Sir Charles Villiers and
anticipated that Mr Ian MacGregor might propose radical changes in
board structure and operation following his appointment as Chairman
from 1 July. In the event, he has decided against making early
changes in board structure. He has told me that he is impressed
by the quality of the management he has found within BSC and that,
given the right leadership and a better organisational and financial
framework within which to operate, the senior executives in the
Corporation will be able to bring about the required improvements
in performance. Accordingly, Mr MacGregor has retained all the
existing full-time board members, but given them rather different
executive responsibilities within the new organisational structure
which he has introduced.

B.
29/10

3 Among the part-time directors there have been two changes since
1 July. At Mr MacGregor's request I have appointed Mr Albert Frost

/to ...



28 OCT 1980



to the Board and Mr Solly Gross has been re-appointed following his retirement from the Department of Industry. Mr MacGregor has also agreed that there should continue to be two civil servant members on the Board, given the present need for both the Treasury and the Department of Industry to be in close touch with the development of the Corporation's future strategy. Finally, Mr MacGregor has indicated that he has no immediate intention of disturbing the present arrangement whereby there are six trade unionists on the Board, since to seek changes at present would be likely to bring about needless conflict with the unions.

4 It is, therefore, unlikely that there will be early changes in BSC board structure but I agree with Robin Ibbs that the issues raised in the CPRS study will need to be borne in mind during the later stages of Mr MacGregor's chairmanship to ensure that on completion of his term of office he leaves behind an effective Board and management structure.

5 So far as the detailed points raised in the CPRS study are concerned, I would like to comment in particular on the suggestion that the analogy with the relationship between a holding company and its subsidiaries is useful in considering the relations between Government and nationalised industries. There may be some benefit in a comparison of this kind but it would be misleading to press it too far. The most important difference between a holding company and the Government, which is not brought out sufficiently clearly in the CPRS paper, is that a holding company is a purely business organisation whereas Government is not. Governments have considerably less control over nationalised industries than a holding company



does over its subsidiaries; a nationalised industry has, for example, an independent statutory existence; it cannot go bankrupt; it has statutory duties quite unlike any obligation imposed on subsidiaries of holding companies; there are clear limits on the extent to which Ministers can intervene; and there are no powers to dismiss chairmen. Moreover, Departments are not well provided with those management resources necessary to help resolve business difficulties which a holding company would be expected to possess to deal with serious problems in a subsidiary. This is well illustrated on page 7 of the paper which Professor John Heath prepared for the Nationalised Industries Chairman's Group in March this year:

"Perhaps the most significant difference with the conglomerate holding company is the way in which crises would be managed. On the first sign that something is seriously wrong, the holding company would probably order an immediate investigation by an internal audit team. On confirmation of a crisis, action would be pretty swift. The Chairman of the subsidiary himself would be at risk if management was at fault, and heads would roll. A new team might be brought in with authority to make changes. In the worst cases there may be an early decision to sell the company. The private sector response would most likely be characterised by speed, a willingness to change, a determination not to allow a crisis situation to continue."

6 It should also be borne in mind that the nationalised industries



have a significant impact on the private sector of industry, for example, through input prices (energy, transport, steel) or through competition for finance for investment. Governments are therefore concerned with these effects on the private sector generally in a way which a holding company would not be.

7 I have some brief points on a number of other matters covered in the CPRS study:-

(i) Responsibilities of non-executive directors

✓ I agree that further thought needs to be given to this.

In parallel with the CPRS study, I have been considering how to strengthen the role of non-executive directors in the industries for which I am responsible. For instance, this might involve giving them greater responsibility for initiating the process of selecting Board Members (subject of course to my continuing final approval), for management development, and for participating in Audit Committee work. I intend to open up a discussion on these approaches with the Chairmen shortly.

(ii) A smaller board with a high proportion of executive directors

✓ I would like to discuss this with Mr MacGregor next year, after we have agreed a corporate plan for BSC, and before the term of office of the six trade union members expires on 1 August 1981.



(iii) Removal of board members

As the CPRS report indicates, I have adopted the practice of making appointments to the BSC Board on the basis that they may be terminated at six months' notice.

(iv) Regional representation

I agree that regional representation for its own sake is not appropriate. But regional considerations are important and must be seen to be acknowledged by BSC. In the further stage of reorganisation announced on 6 October, BSC stated that a senior executive in each region would continue to have responsibility for maintaining a regional overview of BSC's activities in that region, even though the new organisation no longer has a regional basis.

8 Although, as I have explained above, I am wary of pursuing the holding/subsidiary analogy too far, I have no strong objection to the CPRS looking more closely at the way in which holding companies with diversified interest manage their subsidiaries. I think there is merit in the CPRS undertaking a quick study of how other European Governments deal with public sector companies, as proposed by Robin Ibbs. I am sure we still have much to learn about effective management of our relationships with nationalised industries. It might be useful if the further CPRS study were extended to cover the relationship between major institutional shareholders such as insurance companies and the large companies



in which they invest. The institutions, like the Government, do not have the particular skills necessary to manage the companies whose shares they hold, nor can they easily disengage when things go wrong.

9 I am sending a copy of this letter to the Chancellor of the Exchequer, to the Secretaries of State for Wales and Scotland, to Robin Ibbs and to Sir Robert Armstrong.

KJ

28^{K J} October 1980

Department of Industry
Ashdown House
123 Victoria Street

Ref: A03325

CONFIDENTIAL

cc Budget
Nat. Ind. Council
Europe

PRIME MINISTER

Community Affairs

The Chancellor of the Exchequer might report on the 20th October Finance Council, which agreed some details on the Ortoli loan facility but put off decisions on export credits and a new loan facility for Member States in balance of payments difficulties.

2. The Secretary of State for Industry, who is meeting the German Economics Minister (Count Lambsdorff) after the German Cabinet meeting on 22nd October, might report on the latest state of play on the proposal to introduce mandatory production quotas in the European steel industry.

3. The Secretary of State for Trade might be invited to inform the Cabinet of the background to his decision to reject applications for cheap fares to Europe from Laker Airways and British Caledonian.

4. Next week there is a Fiscal Council on 27th October (a propos of which you have said the Minister of Agriculture's letter of 21st October to the Chancellor of the Exchequer on the harmonisation of excise duties should be discussed in OD in the afternoon, not in Cabinet in the morning) and a Fisheries Council on 28th October. Mr. Thorn will visit London on 27th October for talks in his dual capacity as President of the Council and President elect of the new Commission.

RA

(Robert Armstrong)

22nd October 1980

CONFIDENTIAL

CONFIDENTIAL

Nationalized Industries

2



PRIME MINISTER

Clarification from
the Chief Secretary

MS

17/10

PRIME MINISTER

BSC & THE PRIVATE SECTOR STEEL COMPANIES

[both
attached]

I regret that my previous minute in response to Keith Joseph's of 30 September might have inadvertently suggested that I favoured closure only of private sector plants. In fact I wholly agree with Keith's underlying aim of increasing private sector participation in BSC's activities where possible.

2. The point in my second paragraph was principally presentational - channelling money for joint ventures through BSC should avoid creating the apparent precedent of bailing-out private companies. However, given the excess capacity in the industry, the rationalisation exercise is likely to mean some closures in the private sector as well as by BSC. BSC should be in a position to recognise that such orderly rationalisation is in their own interests as well as that of the private steel sector.

I am sending copies of this minute to recipients of Keith Joseph's.

T. Mathews (Private Secretary)

JOHN BIFFEN

17 October 1980

(Approved by the Chief Secretary
and signed in his absence)

CONFIDENTIAL



17 OCT 1980

CONFIDENTIAL

File



Nat Ind
bc: Mr Hoskyns
289

10 DOWNING STREET

From the Private Secretary

13 October 1980

BSC AND THE PRIVATE SECTOR STEEL COMPANIES

The Prime Minister has considered your Secretary of State's minute of 30 September, and she has also seen the Chief Secretary's comments.

The Prime Minister is content for Department officials to explore the options set out in Sir Keith's minute with BSC and the private steel makers. But she has asked me to say that she does not fully understand the Chief Secretary's suggestion in paragraph 2 of his minute. Her understanding had been that options put forward by Sir Keith were designed to keep the private sector companies in existence, whereas the Chief Secretary appears to be suggesting that funds could be channelled through BSC to enable private sector plant to be closed down.

I am sending copies of this letter to John Wiggins (H.M. Treasury), Stuart Hampson (Department of Trade), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

E. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

CS

CONFIDENTIAL

CONFIDENTIAL



cc/
August
FCS/80/149

Michael - to see
Paul
Nathaniel

MBM

12

7/11

SECRETARY OF STATE FOR INDUSTRY

Quotas on Steel Under Article 58 of the ECSC Treaty

1. Thank you for your letter of 1 October about the possibility that the Commission will propose that statutory quotas be imposed on steel production under Article 58 of the ECSC Treaty.
2. I hope that it will not come to this and that Davignon's efforts to obtain a voluntary agreement succeed. However, I agree that this seems unlikely.
3. If there is no voluntary agreement and the Commission propose quotas, I agree that HM Government should support this at the Council on 7 October.
4. Present indications are that the Germans at least will oppose the imposition of quotas. I am rather concerned about the political and institutional implications of a situation in which the Germans are alone in their opposition and it is proposed that they be out-voted under the terms of Article 28 of the Treaty of Paris. The Luxembourg Compromise is a political, rather than a legal, text and there is no firm view as to whether it might be invoked in a matter falling under the Treaty of Paris. Furthermore, the Germans do not themselves subscribe to the Luxembourg Compromise. We of course do, and would want to keep open the option of using it in a situation like the present one if the Commission's proposals were seriously disadvantageous to us. A tricky precedent might therefore be set by a situation in which we had participated in a decision which went into force even though the Germans were opposed to it.
5. It is difficult to foresee how things will develop between now and the Council and much will depend on discussions

CONFIDENTIAL

/during



during 7 October. But everything points to every effort being made to produce proposals with which the Germans can agree or at least be brought to abstain. I am sure that Adam Butler will keep closely in touch with Ian Gilmour and myself (we shall both be in Luxembourg) as the discussions develop.

6. I am sending copies of this minute to the Members of E Committee, the Secretaries of State for Scotland, Wales and Northern Ireland, the Attorney General and Sir Robert Armstrong.

(CARRINGTON)

Foreign and Commonwealth Office
7 October 1980



Prime Minister

✓ Mr. Dymally



PRIME MINISTER

Thorny comments on the note from Keith Joseph which you saw last week. Don't fully understand the idea in minutes - not to do more than what is possible. The idea is to keep in mind the 1972 Act.

BSC AND THE PRIVATE SECTOR STEEL COMPANIES

File A

I am content with Keith Joseph's proposal, in his minute of 30 September to you, that his officials should explore available options with private steelmakers, on the lines discussed in his minute. But I would wish to stipulate:

- i) that we avoid any addition to public expenditure, and
- ii) that we avoid any measure which could have repercussions by way of claims for assistance from other private sector industries - Keith mentions one or two others which are in the front line.

2. It occurs to me that one solution which might meet both of these stipulations would be a variant of that put forward in paragraph 4e of his minute. That is to say, any funds that we needed to make available - if it is quite unavoidable that we have to do so at all - should be channelled into the sort of joint venture companies Keith Joseph has in mind, not only by diverting funds already earmarked for BSC, but by channelling those funds through BSC, who would presumably have a clear interest in the closure of private sector plant that was in competition with their own. By this means we could avoid any appearance of direct government assistance to the private sector, even though private sector interests would in fact derive some benefit from it. This seems to me a much preferable solution to, say, the use of the 1972 Industry Act, which in my view must be ruled out.

3. I am sending copies of this minute to the recipients of Keith Joseph's.

W. J. B.

JOHN BIFFEN



-7 OCT 1980

11 12 1 2 3 4
5 6 7 8 9 0

The first part of the report, which is the most important, is the one that deals with the general situation of the country. It is a very good example of a report that is both informative and interesting.

The second part of the report is a detailed study of the economic situation. It is a very good example of a report that is both informative and interesting.

The third part of the report is a detailed study of the social situation. It is a very good example of a report that is both informative and interesting.

The fourth part of the report is a detailed study of the political situation. It is a very good example of a report that is both informative and interesting.

The fifth part of the report is a detailed study of the cultural situation. It is a very good example of a report that is both informative and interesting.



DEPARTMENT OF INDUSTRY
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PS/ Secretary of State for Industry

W. H. Hodgkins

6 October 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

Dear Tim,

*You might possibly
use the ISTE's apparent
lack of interest in Consett in*

attached your Brighton speech.

Thank you for your letter of 15 September about the prospects (see page 2) for the Consett steelworks. We have delayed replying until now in order to see how the takeover initiative by the Northern Industrial Group (NIG) worked out.

2 The prospects for reviving steelmaking at Consett now look very bleak. The BSC first announced their intention to close the works as long ago as last December. Ministers have repeatedly expressed their willingness to see a private sector takeover for the works, in the House and elsewhere, beginning with my Secretary of State's meeting with Mr Sirs in January. We have made approaches to senior industrialists, notably Ian MacGregor (before he took on the BSC chairmanship) and Sir John Buckley. But there has been no serious offer forthcoming - including the much-publicised initiative from the Northern Industrial Group. The evidence there strongly suggests that the NIG itself had no money of its own, and was wholly unable to put together a consortium which did. More generally, there seem to have been several reasons why no serious takeover bid materialised. Some are specific to Consett, such as lack of obvious market outlets (since much of its production in recent years has been further processed within BSC), and a relatively unsuitable site for steelmaking today, with neither raw materials nor major markets close to hand. But the most important reason is the further decline in the UK steel market generally since the closure proposal was put forward last December, and the even bleaker prospect that lies ahead. To restart steelmaking at Consett would require some tens of millions of pounds of working capital on top of the purchase price for assets, quite apart from any capital expenditure, and in the present climate companies with surplus funds on that scale do not see steel as a profitable investment. The financial difficulties faced by many of the private sector steel producers will be seen as confirmation of this view.

*R
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3 Presentationally, the true position seems now to be known and accepted locally in the Consett area, as I understand Mr David Mitchell found when he visited the town recently. And it was noticeable that the press reports of the NIG activities drew a very cautious response from the Consett MP, Mr David Watkins. Nationally, we think interest will soon fade, and the exposure of the NIG as a creature of straw (eg by the Sunday Times and ITN) will have done no harm. The Prime Minister suggested offering the works to the unions. We do not consider that the unions could make a bid in their own right, since the sums of money required are too great. The most they could do in practice would be to support a private sector bid; indeed the unions (especially the ISTC) seemed to be closely identified with the NIG initiative - an ISTC official acted as their spokesman at a press conference, one of the "consultants" for the NIG had previously advised the ISTC on the Consett decision, and Mr Sirs gave the initiative a good deal of verbal support. But the evidence also suggests that the ISTC's support was in reality only skin deep. Despite Ministers' known willingness to be helpful, the ISTC made no representations to this Department, either to urge that the works should be sold, or that the furnaces should be kept warm. This suggests that they too will not wish to prolong public interest in the decision.

4 In these circumstances, my Secretary of State doubts whether there is any significant mileage left in a private sector takeover for Consett, either politically or industrially. The Government's efforts would now best be employed in trying to attract alternative employment to the area. In implementing the package of remedial measures he announced on 19 June, my Secretary of State intends to use his discretion to relax the criteria for certain types of assistance under Section 7 of the Industry Act 1972 where this is necessary to clinch a particular project for Consett - though it will be necessary to do this discreetly and without public statements in order to prevent pressure building up from other assisted areas seeking exceptional help.

... 5 I attach a short speaking note setting out both the position we have taken over the last few months and our attitude for the future, which the Secretary of State intends to use on an appropriate occasion, and which you might also like to utilise as you think fit.

*Yours ever,
Pete*

PETER STREDDER
Private Secretary

SPEAKING NOTE ON CONSETT

In human terms, one of the saddest industrial events of the last 18 months has been the closure of the BSC steelworks at Consett. After the BSC made their initial announcement about the closure last December, the Prime Minister and I both devoted considerable time and energy to see whether a private sector buyer could be found for this plant. We would have given an equally warm welcome to a workers co-operative or to purchase by the unions - as I made clear to Mr Sirs in January. But the outlook for the steel industry generally has worsened since the closure was first proposed last December.

So, regrettably, there have been no serious offers for the works in the 9 months since last December - and that includes the apparent interest of the so-called Northern Industrial Group which attracted so much publicity recently. We could still welcome a private sector takeover for the works, but I have to conclude that the prospects do not look good.

Looking to the future we shall therefore be concentrating our efforts on the task of attracting alternative employment for the Consett area, in collaboration with the local authorities concerned. In the end, success must depend on the drive and business skills of the firms which might go there. But this Department can and will help through the provision of advance factories, regional development grants, and through the use of selective financial assistance under the Industry Act 1972. Our aim must be to develop a healthy and diversified industrial base, to give Consett a more secure prosperity than it could ever enjoy when its fortunes were tied so exclusively to a single dominant employer.

Sur

bc. Mr. Ingham
with newspaper
etc.

2 October 1980

Thank you for your letter of 1 October, and for sending me a copy of the Morning Telegraph with its report on the seriousness of the current situation at Hadfields. As I told you on the telephone, the Prime Minister is aware of this and of your concern about the additional funding for BSC.

T. P. LANKESTER

Derek A. Norton, Esq.



CHAIRMAN'S OFFICE
Telephone No. 440353

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EAST HECLA WORKS
SHEFFIELD S9 1TZ

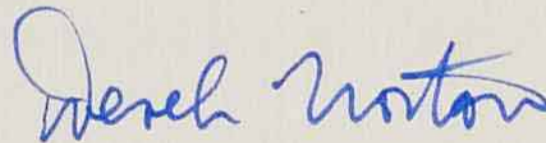
1st October, 1980

Mr. T. Lancaster
10 Downing Street,
Westminster,
London,
SW1

Dear Mr. Lancaster,

Referring to our telephone conversations of last week and earlier this week, I forward herewith for your information a copy of the front page of this morning's Sheffield Morning Telegraph. The page 1 comment column is particularly interesting and adequately reflects what we are trying to say.

Yours sincerely,



DEREK A. NORTON



N2LA

DEPARTMENT OF INDUSTRY
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TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

The Rt Hon The Lord Carrington
KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

1 October 1980

Jan Peter.

The Foreign Affairs Council is to discuss on 7 October measures to deal with the worsening steel crisis. Adam Butler, as the Minister of State responsible for steel matters, will be attending the discussion and I am writing to let you and other colleagues know of my intention that the United Kingdom should support the introduction of production quotas, if necessary, as provided for in Article 58 of the ECSC Treaty in a period of "manifest crisis".

2 Article 58 quotas have never hitherto been used, partly because of the difficulty of obtaining the necessary support in the Council. However, the fall in Community steel demand and the degree of excess capacity are now such that prices are well below the costs of even the more efficient producers. Failure to take corrective action will mean that steel producers will survive only with the help of considerable additional external finance, no doubt at the expense of Governments.

3 It will of course be preferable if the necessary production cuts can be achieved by voluntary agreement between the Commission and the various Community steel producers, provided such agreements are properly observed. The Commission are striving hard to obtain such agreement. However, should they fail to secure an agreement which is fully adequate on its own, Viscount Davignon may well put forward proposals for production quotas. In view of the serious situation and bearing in mind that UK steel production, because of the low demand in the UK, will in any case be below any likely cutback demanded by quotas, I am sure that it is in our interest to give the Commission our full support. The French Minister of Industry and I spoke about this at the recent Anglo-French summit and the French will adopt a similar course. Nevertheless it is not clear that a final decision can be reached at this Council; the Germans are known to be reluctant and their election will only just have been completed while there are now political problems in Italy.



4 I am sending copies of this minute to the other members of E Committee, to the Secretaries of State for Scotland, Wales and Northern Ireland, to the Lord Privy Seal and the Attorney General and to Sir Robert Armstrong.

Evans

Kerr

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- 1 OCT 1980

cc David
Verelst

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Am-This is to

2



PRIME MINISTER

BSC AND THE PRIVATE SECTOR STEEL COMPANIES

To note that
DoI on exploring
various options for
helping the private
steel companies.

1 When we discussed British Steel Corporation finances in E Committee on 17 September (E(80)34th) we agreed that the future of BSC had to be considered in the context of the steel industry as a whole. We were particularly concerned about the problems of the private steel firms and about the risk that some of them might collapse because of subsidised competition from BSC. I shall, as requested, circulate an assessment of the prospects of the UK steel industry as a whole after Department of Industry officials have consulted the firms concerned and the CPRS and Treasury. In the meantime you should be warned that we face some difficult issues of principle and that there is a risk of serious misunderstandings if news of our consultation leaks.

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3/10
See also
letter
about
EEC
action
w/
Play A

2 There is no need for me to remind you of BSC's difficulties; we are committed to meeting the Corporation's debts and very large sums of money are required over the transitional period to viability. The private steel companies are in serious difficulties. Most are currently unprofitable. Many of the smaller companies may have no alternative but to liquidate (with little prospect of their operations being acquired for steel processing). The larger steel companies, which are on the whole subsidiaries of larger groups like GKN, Tube Investments or Lonrho, may not obtain the necessary finance

/from ...

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from their parent companies to maintain their present scale of operations. There is therefore a real risk that the private sector will be substantially diminished, and that the public sector will control a larger share of the steel industry.

3 The private steel firms' difficulties are not due solely to the help we are giving to BSC; many are not in competition with BSC. The problems are not confined to this country; the European steel industry is generally in disarray and prices are being driven down by over-production. We and the French shall be pressing for "crisis" action under Article 58 of the Treaty of Paris in Brussels this week.

4 In the circumstances there is no obvious course we should adopt.

(a) We could do nothing beyond providing BSC with the financing we have already agreed. This would result in a severely diminished private sector and a steel industry dominated even more than at present by the nationalized sector.

(b) We could allow BSC to take over the assets of those private sector steel firms whose operations overlap with theirs. This is in effect what the private sector firms are proposing since it would relieve them of the need to meet continuing losses and closure and redundancy costs. Such a course would expand the public sector and,

/probably ...



probably, BSC's need for public money. BSC, who are already in discussion with several private sector firms, have not pursued this option because they are aware that we as their bankers would not approve any general extension of the public sector.

- (c) We could encourage the private sector to take over BSC operations which overlap with theirs. But, while the market for steel remains so depressed, such disposals are virtually impossible.
- (d) We could foster arrangements whereby BSC and the private sector companies pooled or exchanged assets. This could result in some expansion of BSC's operations in some sectors but this would be matched by a contraction (not necessarily of equivalent size) in some of BSC's other activities. It could also result in the creation of a series of free-standing Companies Act companies to which a significant proportion of BSC's assets could be transferred. Such companies are clearly to be desired but it may not be possible to create them without some form of financial injection. GKN, TI and others will be most reluctant to provide funds at this difficult time.
- (e) We could further option (d) by the injection of some form of "dowry". This might involve the diversion of some of the finance we have earmarked to BSC. The



option does, however, raise serious problems; it might involve Government subsidies to, or rescue of, private sector firms and could be quoted back at us as a change of policy or as a precedent for Government assistance to such beleaguered sectors as paper or textiles. On the other hand I am not aware of any precisely similar case which could be used as a precedent; we would be acting here only because of a subsidised nationalised industry competing directly with private sector firms.

5 I do not believe that, at this stage, we should reject any option (except b) in principle. We should clearly be guided by the need to minimize the cost to the PSBR and by the desirability of ensuring that, at the end of the day, the greater part of the steel industry returns to private hands. Collaborative ventures seem to provide the only way of ensuring both that the private steel industry maintains at least its present share of the market and that we create a means of eventually transferring substantial parts of BSC's operations to private ownership. Whether or not collaborative ventures will need a dowry of public money can only be established by enquiries.

6 Against this background I have authorised Department of Industry officials to explore all the available options with BSC and with GKN and the other private steelmakers. I have instructed them to make it clear that the Government are in no way committed to accept any particular outcome to the



discussions and all parties are being made aware that proposals will be attractive to the Government to the extent both that they limit demands on the Exchequer and that they increase private sector participation in activities currently undertaken by BSC.

7 I shall report progress to E Committee in due course.
I am copying this minute to Geoffrey Howe, John Nott,
John Hoskyns and Robin Ibbs.

KJ

K J

30 September 1980

Department of Industry
Ashdown House
123 Victoria Street

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C.F.



Top
D.C. New. Walton
Mr. Higham

10 DOWNING STREET

From the Private Secretary

30 September 1980

You should be aware that Mr. Derek Norton of Hadfields telephoned me on Friday afternoon. He said that the additional £400 million for BSC was totally unfair to the private steel makers, and directly contradicted what he had been told during the steel strike - that the Government would not in any event increase the cash limit. He went on to say that Hadfields were in deep trouble, and that the new money for BSC would make things only worse: he expected Hadfields to run out of cash on 8 October. Finally, he asked if the Prime Minister would see him to hear the private steel producers' case.

I have consulted the Prime Minister, who is not prepared to see Mr. Norton. However, she asked me to telephone him to say that she was aware of the difficulties of the private companies and of their concern at the additional funding for BSC, and that he should see your Minister if he wished. I spoke to Norton accordingly. He did not respond to the suggestion that he should meet Mr. Butler, and confined himself to saying that "there would be blood on the streets" if the present policies on steel continued.

T. P. LANKESTER

J.C. Hudson, Esq.,
Department of Industry.

JH

PRIME MINISTER

STATEMENT ON BSC FUNDING

You asked why the private steel companies, and in particular Hadfields, had not been warned of the statement on BSC funding.

I telephoned the Department of Industry and specifically asked them to make sure that the private producers were warned. What happened was that they gave an advance copy of the statement to BISPA, and they assumed BISPA would pass it on at least to the main producers. They always operate through BISPA rather than directly with the companies, partly because there are something like 70 members.

I am assured that consideration was given to telling the private companies directly. But the Department concluded that there was no justification for departing from the normal procedure. (Incidentally, I would not necessarily accept Derek Norton's word that he had not heard about it: on our experience with him last Winter, he is not the most reliable of allies.)

29 September 1980

PRIME MINISTER

STATEMENT ON BSC FUNDING

Tim - we specifically said that the private steel co's must be warned and their interests considered what happened?

Mr. Derek Norton of Hadfields telephoned me this afternoon and made the following points. He said he was angry furious at the announcement of an extra £400 million for BSC. This was totally unfair to the private steel makers, and directly contradicted what Mr. Butler had told him during the steel strike - that the Government would not increase the cash limit. Hadfields were in deep trouble themselves, and the new money for BSC would make things only worse: Hadfields expected to run out of cash on 8 October. He concluded by saying he would like to see you for 10 minutes at your convenience.

I told Mr. Norton I would pass on his remarks, and request for a meeting, to you; and that I would telephone him back next week. On questioning, it emerged that he had not been warned of Keith Joseph's statement, even though it was given to BISPA in advance.

Later, Albert Duffy, M.P. whose constituency Hadfields are in, telephoned me. He said he had had a meeting with Norton and the shop stewards, and he wanted to reiterate what Norton had said. The shop stewards were "fed up" with the way Hadfields were being discriminated against, and they were very worried about their job prospects.

As Sir Keith mentioned to you last week, the position on the private steel companies is very worrying. The Department of Industry do not think many of the companies will be able to get through the recession unless there is some form of government assistance: they are urgently seeing if a defensible package can be put together, and Sir Keith will be minuting you shortly.

In the meantime, I think it would be unwise for you to agree to see Norton. As we found last Winter, he is an unreliable figure; and there is no particular reason

Free - ask
Adam Butler
mf

/why you should

why you should get involved at this stage. We should direct him back to Adam Butler, who is in the lead on steel. Shall I speak to him accordingly?

PP 12.
Trenweston Duty Clerk.

Note for the record -

Spoken to Derek Norton,

who took note

and said that

"there would be

blood on the

streets" ~~unless~~

if the present

situation continued.

c. Mr. Sanders
Mr. Hoskyns

26 September 1980

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gc. A. Duguid
2 pp

Qa 05137

To: PRIME MINISTER

From: J R IBBS

BSC Board Responsibilities

1. Following the discussion in E Committee on 25 June about BSC's finances, you asked the CPRS to undertake a study of the duties and responsibilities of the BSC Board members. It was to be done quickly, without too much refinement, in anticipation of the restructuring of the Corporation Board.

2. The main questions that prompted the study were :

- (a) Are the duties of the members of the BSC Board less clear than those of their counterparts in private industry?
- (b) Does the fact that BSC cannot go into liquidation make it less likely that the non-executive directors will be effective in the execution of their duties?

3. The Secretary of State for Wales has since raised the question of regional representation on the BSC Board. This was stimulated by the replacement of Sir Melvyn Rosser, who had a responsibility to take a special interest in the Corporation's affairs relating to Wales, by Mr Frost who inherits no such responsibility. We put forward in paragraphs 25 and 26 of the attached report our view that special regional representation on the BSC board is not appropriate but have not made an exhaustive study of this aspect.

4. Our study has been largely desk based to avoid the possibility of creating additional difficulties for the new Chairman. With this proviso, our general conclusion is that the relationship between the Secretary of State

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and the BSC more closely resembles that between a main board and a wholly-owned subsidiary than the traditional analogy of shareholder and main board. We believe this constitutes a fundamental constraint. However tempting it may be to consider the BSC board as equivalent to a main board in the private sector, this is not an accurate analogue.

5. If this analogy with the wholly owned subsidiary in the private sector is accepted, then a number of other conclusions follow. In particular the position of a non-executive director is not as straightforward as it would be on an entirely independent main board. I believe that it could be helpful if the Secretary of State carried out a further study of the role he wants the non-executive directors to play. In particular the CPRS believes that it should be made clear to the non-executive director what his respective duties are to the Secretary of State and to the Chairman and how the non-executive director is expected to act when conflict of loyalties arise.

6. Irrespective of whether one regards the Board of BSC as main or subsidiary, I believe there is a strong case for a smaller BSC Board with a higher proportion of executive members. This should provide for better quality decision-making as well as allowing more opportunities for internal candidates to be considered for the chief executive or chairmanship. Notwithstanding the fact that the Secretary of State has given Mr MacGregor "as free a hand as possible", we feel that the Secretary of State should bear in mind the arguments for a smaller BSC board with a higher executive director content when he gives consideration to any restructuring of the board proposed by the new chairman. The long-term future of BSC depends in part on Mr MacGregor leaving behind an effective and efficient management structure when his term of office is completed.

7. Our study has highlighted some important differences between the Boards of major manufacturing businesses in the public and private sectors of the economy. The CPRS sees the key problem areas with respect to the publicly owned sector as being (i) how to ensure that the Boards feel fully accountable financially; (ii) how to improve business efficiency; (iii) how best to structure the political input; and (iv) how best to allocate priorities between the industries. It seems to the CPRS that similar

problems are faced by a Holding Company in regard to its subsidiaries in the private sector, and in the particular case of the relationship between a non-industrial holding company and its manufacturing subsidiaries these problems have to be solved without interference in the detailed business decision-making. Although I am aware that the Department of Industry is also addressing the problem of how to improve the performance of the nationalised industries, and of course we would expect to keep closely in touch, I believe there would be value in the CPRS carrying the study further by approaching a small but representative sample of successful UK groups who operate as holding companies with diversified interests. This would reveal in some detail the private sector's approach to the problem. I would also propose this aspect being complemented by a simultaneous desk study of how some of our European partners structure their relationships with their public sector companies. I would envisage that the study, which would be kept relatively modest in scope, would be completed before the Christmas Recess.

8. I am sending a copy of this covering minute and the report to the Secretary of State for Industry, the Chancellor of the Exchequer, the Secretaries of State for Wales and Scotland, and Sir Robert Armstrong.



26 September 1980

Att

BSC BOARD RESPONSIBILITIES

Introduction

1. The purpose of this study is to examine the responsibilities of the BSC Board, to compare them with those of the Board of a large company in the private sector, and to consider in this light whether any changes in the formal responsibilities of the BSC Board members, or any clarification of their duties is desirable.
2. Because of the difficulties which BSC has encountered this year, and with the recent appointment of a new chairman who is making changes, the situation is obviously highly sensitive. In view of this, the study has been primarily based on examination of relevant documents; discussion with BSC Board members has been limited to the civil servant members of the Board. The study can be followed up by wider discussions if this is thought necessary.
3. The CPRS was asked specifically to consider the question of regional representation on the BSC Board and the present report includes the conclusions on this, on some aspects of Board structure and on a number of other matters that emerged in the course of the study.

General comments on the comparison between Nationalised Industries and the Private Sector

4. Two fundamental points that must be borne in mind on considering the parallel between the private sector and the nationalised industries are :
 - (i) at the end of the day the financial discipline is different because the ultimate threat of liquidation is absent in the nationalised industries. Although each industry works to a financial target, the Government underwrites its financial commitments. And whilst private sector companies can withdraw from current lines of business if they cannot foresee commercial returns in the long-term, this option is often less easily available to nationalised industries.

- (ii) nationalised industries are so important a part of the national economy (which was often a primary reason for nationalisation in the first place) that the social and economic consequences of their actions inevitably have important political implications from time to time.

5. These distinctions must not be overstated. Private industry often finds it hard to disengage from existing lines of business. At the end of the day, however, it will do whatever is necessary, however reluctantly, to avoid bankruptcy, whereas some nationalised industries would already be in a receiver's hands if normal market rules applied.

The Statutory Duties of BSC Board Members

6. A summary of the statutory duties of the BSC is at Annex A. The key features are :

- (i) the Secretary of State appoints the Chairman and all other members of the Board, in the latter instance after consulting the Chairman, and fixes the terms of each appointment including the remuneration (the latter with the approval of the Minister for the Civil Service). The Board consists of not less than seven nor more than twenty members, excluding the Chairman. It should be noted that the Secretary of State is not obliged by statute to consult Board members on the appointment of a Chairman;
- (ii) the Corporation has a general duty "to promote the efficient and economical supply of iron and steel products and to secure that they are available in such quantities and of such types, qualities and sizes, and are available at such prices, as may seem to the Corporation best calculated to satisfy the reasonable demands of the persons who use these products for manufacturing purposes and to further the public interest in all respects". It can adjust the extent of its iron and steel activities as it sees fit, but the capital expenditure and research and development programmes and any substantial changes in organisation need the approval of the Secretary of State;

- (iii) the Secretary of State has general powers of direction on matters of national interest and general or specific powers on organisational matters. Additionally there is obviously scope for the Secretary of State to get policies adopted through persuasion;
- (iv) the Corporation has a duty to conduct its affairs with a view to achieving financial targets set by the Secretary of State. The Secretary of State provides, with the approval of the Treasury, capital or loans to the industry;
- (v) the Secretary of State appoints the auditors, and a set of accounts and a directors' report must be produced each year and laid before Parliament.

Comparison with the Private Sector

7. The above duties are different from those of directors serving on a Main Board in private industry. In the private sector, Boards are effectively self-appointing, the role of shareholders usually being to confirm the Board's own candidates; the directors can appoint their chairman, usually from amongst their midst, can collectively dismiss any of their colleagues (including the Chairman) and fix their own remuneration; the Board sets the commercial objectives for the enterprise, and has the power of decision over all major strategy including investment, organisation, and research and development, although it needs to seek the approval of the General Meeting of shareholders for an increase in the authorised capital, for a major issue of capital and for entering into a transaction which makes a substantial change in the business of the company. In the private sector the directors act in what they conceive to be the interests of the enterprise; there has been debate on whether this is the same as the short-term interests of the shareholders. In practice the directors of the large companies have taken decisions on the basis of what will ensure the prosperity of the ongoing enterprise, taking account of the interests of both shareholders and employees, but without letting the short-term interests of any group distort the long-term decisions essential to the success of the enterprise. In contrast the obligation on the BSC "to further the public interest in all respects" is a vague and unrealistic concept for a business to pursue. Most observers

would argue that it is for Governments to assess the public interest, and for nationalised industries to run their businesses efficiently and to accept (after challenging where appropriate) such directions on public interest aspects as they may from time to time receive from Governments.

8. Thus there are very substantial differences between the duties of the Main Board in private industry and the Board of the BSC. However, these differences are much less marked if one takes as one's yardstick of comparison not a Main Board in the private sector but a wholly owned subsidiary Board reporting through to a Holding Company, including, for example, a multinational's wholly owned subsidiary overseas. The subsidiary Board is appointed and has its remuneration fixed by its parent; the business objectives of the subsidiary are subordinate to overall Group strategy; its financial objectives, capital programme and any major organisation changes need approval by the Main Board; whilst a subsidiary may be wound up in an orderly way by the Main Board, the possibility of literal bankruptcy with serious loss to creditors is usually remote because this would reflect so adversely on the holding company itself; the Main Board monitors the performance of its subsidiary; the holding company is frequently the banker to the subsidiary. Thus on paper there is a close parallel between Main Board and wholly owned subsidiary in the private sector and Secretary of State and Nationalised Industry Board in the public sector.

9. There are of course some obvious differences as well. First, physical size is one; many nationalised industries are far larger than most (though not all) wholly owned subsidiaries. Second, rightly or not, the directors of these nationalised industries are widely regarded as having the authority and independence of Main Boards, for example in their appearances before Select Committees. Third, Main Boards are often in the same line of business as their subsidiaries, and in consequence have a degree of expertise and competence which sponsor departments cannot expect to match. Fourth, and for the same reason, Main Boards and their subsidiaries often have common objectives and shared experience which is lacking between departments and nationalised industries. These last two distinctions may, however, be less relevant if one considers the relationship between a non-industrial holding company and its manufacturing subsidiaries.

10. Overall, in seeking to compare the position of the BSC Board with that of a Board in the private sector, the facts of the situation indicate that the

right model is that they are nearer to the position of a subsidiary rather than a Main Board. Their "holding company" may do its utmost to allow them maximum freedom (as do some private companies, particularly for overseas subsidiaries) but in the final analysis they are not truly free agents. It is of course part of the Government's policy to avoid unnecessary intervention in order to encourage the boards of nationalised industries to increase their dynamism, efficiency and sense of responsibility. It may be possible to move towards giving them a greater say in the choice of their own members, in electing their own chairman and in fixing their own remuneration, but it is as difficult to envisage leaving them completely unfettered on these matters without the ultimate approval residing with the Secretary of State, as it is to see their having complete freedom on investment and borrowing. In practice legislation as well as economic realities impose some obvious limits, although these may vary for different industries.

How BSC Board is Organised to Meet its Responsibilities

11. The statutes say nothing about the composition of the BSC board other than defining the upper and lower bounds of its numerical strength. The make-up of the BSC Board at 1.7.80 is shown at Annex B when there was a total of 18 members. It consisted of a Chairman, Deputy Chairman, three full-time members, five part-time independents, six part-time trade unionists and two part-time civil servants; that is to say five full-time members and thirteen part-time members.

12. Such a preponderance of non-executive directors on a Board is extremely unusual, if not unique, for manufacturing companies in the UK (though this is more common in the USA and on the continent). The boards of the largest 100 UK companies typically have around thirteen members including four non-executive members. However, boards with the highest proportion of non-executive members are heavily concentrated in the banking and insurance rather than manufacturing sector. Nonetheless it should be added that it is a stated Government objective to increase the number of non-executive directors on boards, though this must be principally aimed at the 25% or so of the largest UK companies which still have no non-executive directors on the board.

13. In the private sector, in an industry as technologically and commercially complex as steel making, the board would typically comprise a majority of

full-time executive members closely familiar with the industry and its competitive position, such that the practical implications of any policy decision could be argued through in some depth. The purpose of non-executive directors is to provide a wider view which can correct possible "tunnel vision" by the executive; to provide specialised knowledge (for example on finance or overseas markets) and to provide the Chairman with a source of relatively impartial advice. The normal pattern is that the executive directors are expected to evolve objectives and strategies from their intimate knowledge of the industry, using the non-executive directors to probe and examine the resulting proposals. The composition of the BSC board seems to imply that in any discussion of strategy only a minority can base their arguments on a thorough knowledge of the industry. Indeed the small number of executive members is likely to mean that important areas may not be adequately covered at all; there has for instance apparently been no personnel director on the Board. This raises the serious possibility that because of this lack of in-depth knowledge some strategic questions simply were not examined at all by the Board. It appears to the CPRS that the BSC Board as constituted has not been suitably weighted between executive and non-executive members for effective direction of such a complex manufacturing business.

14. Another consequence of the small number of full-time executive members on the BSC board is that it allows only limited scope for succession planning of internal candidates for Chairman or Chief Executive. The ideal Chairman or Chief Executive would (a) have wide experience of the industry and its competitive environment and (b) stay in his appointment long enough to see the consequences of his decisions coming through. It can be argued that in the steel industry it would be desirable for him normally to be in office for a period of five to ten years, spanning the time between a view being formed on the long-term market and environment, objectives and supporting policies being agreed, the necessary rationalisations and investment being implemented and the quality of all those decisions being tested by results.

15. This points to the ideal candidate for either post as being someone who has grown up within the industry, who has had Board experience and who can be appointed at sufficiently early age. Outside candidates who have thoroughly proved their competence elsewhere tend in general to be older. A larger number of executive directors on the BSC board would widen the number of internal

candidates who could be tested at Board level and would also boost the morale of management since a position on the Board provides an obvious and desirable pinnacle of career achievement. The availability of a reasonable number of executive directorships will mean that more people of ability will be attracted to and stay within the industry. The recent history of the Steel Corporation demonstrates the absence of internal succession. Of the chairmen appointed from outside only the most recent (Mr MacGregor) has brought with him a deep familiarity of the industry.

16. In saying this, however, it is appreciated that the roles of Chairman and Chief Executive are sufficiently distinct to require differing personal skills. For instance, the Chief Executive requires a much more detailed knowledge of the enterprise than the Chairman; the Chairmanship on the other hand demands greater qualities of leadership and the ability to represent effectively the enterprise to the Government, Parliament and the general public. For this reason, outside candidates may be appointed to the Chairmanship from time to time if suitable internal candidates are found to be lacking in the wider range of skills required.

Size of Board

17. The present BSC Board consists of 18 members, just less than the statutory maximum. Although there is no unanimity in private industry on board size, a recent survey carried out by the Institute of Directors revealed that directors considered that if boards were much larger than twelve members then the opportunities for constructive discussions were fewer and the real decision-making devolved to the executive management. Using this as a yardstick, there are arguments for a smaller more cohesive BSC board. It is always open to the Board to devolve much of its work to a small strategic committee, and we understand the BSC is in the process of so doing (as well as forming an operating committee consisting of the managers of the major business divisions). But this does nothing to resolve the fundamental shortcomings already referred to and which derive from having very few executive directors. Very extensive delegation to committees could of course reach the point where it becomes questionable whether the full BSC Board is left with a full and useful role since, as already explained, ultimate decisions on some major issues unavoidably remain with the Secretary of State.

Terms of Appointment

18. A key factor in the operation of any board is that since it has collective responsibility for the highest level of decision-making in the enterprise, to be successful it needs to operate as a close-knit unit based on commonality of purpose and mutual trust. A feature of main Boards in the private sector is that, on the rare occasions when it is necessary, a director who has lost the confidence of his colleagues can be voted off the Board; though the repercussions are obviously greater if this is a non-executive director and this in practice may act as a constraint. However, the position of directors on the BSC Board is entirely different. By statute the Secretary of State is responsible for all BSC board appointments and these are for fixed periods of three years (see Annex C); a member can be dismissed from his post only if "unfit to continue in office or is incapable of discharging his functions". This effectively means that a member cannot be removed unless he wishes to resign or the compensation is made too attractive for him to refuse; if his colleagues believe such action is necessary they can only act through the Secretary of State. Likewise the Chairman can be removed from office only by the Secretary of State. In considering security of tenure there is obviously a balance to be struck in order to ensure that Board members cannot be removed from office by a Secretary of State for purely political reasons.

19. The final year of Sir Charles Villier's chairmanship at BSC was characterised by an apparent lack of board harmony, and highlighted the inability of the Board to resolve this problem for itself and the Secretary of State's inability to dismiss any members of the board without great difficulty. The Department of Industry has responded to this situation by putting clauses in the new contracts for Mr MacGregor and Mr Frost (who was recently appointed on the retirement of Sir Melvyn Rosser) which enable the Secretary of State to dismiss them for any reason whatsoever on not less than six months notice. It may well be that in practice the Secretary of State should normally only use this power if a majority of the Board support the action. It could also become recognised that the Board would be expected to make a recommendation to the Secretary of State on the dismissal of one of its members if he were not adequately fulfilling his duties. Both these suggestions should have the effect of making the Board more responsible for its own effective working.

Role of Non-Executive Independent Directors on BSC Board

20. One of the questions that prompted this study was whether the independent non-executive members, in particular, were acting with sufficient vigour in monitoring the performance of BSC and whether in the private sector they would have acted differently. Certainly, on the face of it, if the BSC board is compared to a Main Board in the private sector then a shareholder would have had legitimate grounds in the light of events for questioning whether they had fulfilled these responsibilities. However, if the correct comparison is with a non-executive director on a subsidiary Board the situation is not so clear-cut. Because the real power lies with the main board, non-executive directors of a subsidiary might well feel that at a time of crisis their responsibility would be to alert the main board direct rather than by registering formal dissent or resigning from the subsidiary. If this is the appropriate analogy, non-executive directors on the BSC board could see their role as being fulfilled once they had ensured, by formal or informal contact, that the Secretary of State was aware of the situation. (This is particularly so when two of their number are civil servants). Because of the sensitivity of the present situation as referred to earlier, the current study has not established with all the non-executive directors how they perceived their role in this respect during the crisis at the turn of last year. It should be added, however, that it appears that independent directors were diligent in fulfilling their role through the normal board mechanisms in that it was they who challenged the realism of BSC's breakeven target for 1980/81 and had it referred to the Corporation's auditors for a second opinion.

21. In this, however, it is important not to lose sight of the fact that whilst non-executive directors are able to be knowledgeable critics of what executive directors are doing or planning to do, they cannot be the sole monitoring device. At the end of the day it is the executive and non-executive directors who jointly take the major decisions, so executive directors also have a responsibility.

22. It seems to the CPRS that there is scope for a fuller study of this particular area that would lead to the Secretary of State providing ^{non-executive} directors

with clarification of how they are expected to discharge their responsibilities as independent monitors of performance appointed by him and in particular how they are expected to act when a difficult situation arises. In this it will be necessary to achieve a balance between on the one hand maintaining mutual trust between executive and non-executive directors and on the other ensuring the Secretary of State receives early and adequate warning of any problems, seemingly not resolvable through the normal Board mechanism. A general letter of appointment applicable to all nationalised industry non-executive directors could perhaps lessen the suspicion that non-executive directors are intended to snoop.

Trade Union Membership of BSC Board

23. The present study has not included specific consideration of the role and contribution of Trade Union members of the BSC Board. It is however certain that their number (six) is a major contribution to the problems of overall size of the Board and the high proportion of non-executive directors. It will be important to decide by the time that the term of office of the present Trade Union members expires whether the policy of having them on the board should continue.

Civil Servant Members

24. The arguments in favour of civil servant membership of certain nationalised industry boards were set out in the White Paper of 1978 (Cmnd 7131; see Annex D for relevant paragraphs). In essence, while recognising the pitfalls of dual allegiance, the previous Government saw merit in arrangements that encouraged a two-way exchange of Government and nationalised industry board thinking at an early stage in policy formulation. It was thought useful for civil servants to experience the industries' problems at first hand, and likewise to be able to explain the Government's position to the boards. On the other hand the primary responsibility of boards is to take decisions, and their collective responsibility for such decisions could put civil servant members in an awkward situation. The relatively rapid job turnover within the civil service also runs counter to the interests of the board acting as a cohesive unit since that in turn is based on the development of mutual confidence over time.

25. However, if the analogy is accepted that the BSC Board is in a position comparable to that of a subsidiary in the private sector, then the civil servant members may be regarded as being the representatives of the holding company on the Board. In these circumstances they would be expected to give a very clear indication, as issues arose, of what was required by the holding company; this is common practice in the private sector. It is understood that the two civil servant positions on the BSC board have been endorsed under the Chairmanship of Mr MacGregor and this would be consistent with the holding company/wholly-owned subsidiary model.

Regional Representation

26. Much of the above reasoning points to a smaller, more cohesive BSC board with a higher proportion of executive members. Few boards in either the public or private sector would take decisions on commercial criteria alone, without assessment of the wider implications, and a balance has to be struck between the Board's primary objective of running its business efficiently and profitably, and its need to take full account of the concerns of the communities where its main activities are carried out. The CPRS believes that a more closely knit Board is an overriding objective, and that the presence on it of identifiable representatives who regarded the advocacy of regional views as their main responsibility would not be conducive to achieving this. Clearly a non-executive board with regional knowledge would be a useful asset if he were well qualified on broader grounds to be offered a place on a smaller Board.

27. Overall, without going into the subject in great depth, the CPRS believes that regional representation on the Board for its own sake is not desirable, although it recognises the strength of regional feelings and the need to show proper concern for these. For example, some form of regional advisory committee might be appropriate. So far as the Board itself is concerned the CPRS suggests that regional representation should occur only if basic organisation, desirable on broad business grounds, results in this, or if a non-executive director who is otherwise qualified to earn his place on the board happens to have recognised regional links.

BSC "Organisation Guide"

28. BSC set out in their Organisation Guide of 1977 the direct responsibilities of the Board and the Chairman as they saw them. These are reproduced at Annex E,

updated as necessary. In summary the Guide outlines a model consistent with the Board setting the policies and then vesting all authority to execute them in the Chairman, who subsequently delegates it to the Chief Executive and other Deputy Chairman, as appropriate, while retaining direct responsibilities for certain matters himself. Whilst appreciating that the Organisation Guide will be revised to be consistent with any new organisation proposed by the new Chairman the CPRS would make the following comments on the responsibilities as set out in the existing guide and suggest that they be borne in mind:

- (i) the policy making role of the Board does not refer to a specific responsibility for reaching a judgement on the long-term market environment that the business might face - this seems a serious omission;
- (ii) nor seemingly is the Board given any explicit responsibility to monitor the performance of the business, which must constitute one of the primary tasks of any board;
- (iii) there is no mention of profitability;
- (iv) there also seems to be some inconsistency between the policy making responsibility of the Board and the responsibility for certain matters retained by the Chairman. For instance the Chairman is concerned directly with "the identification of future opportunities and dangers facing the business"; surely a primary role for the Board;
- (v) it is also unusual in the UK (but not in the USA), in such a large and complex operation as BSC obviously is, for the execution of Board policies to be vested solely in a Chief Executive; in the UK an executive committee would be the norm for the largest companies. (The new Chairman is in fact forming an operational committee).

Conclusions

29. (i) That the position of the BSC Board is more analogous to that of a very large wholly-owned subsidiary company in the private sector rather than to a main board. Although steps can be

taken to minimise intervention by the Secretary of State (who is in effect the "holding company") there are a number of important aspects on which it is not practical to regard the BSC Board as free agents, and it is not realistic to envisage their being put fully in the same position as a main board.

- (ii) That some clarification is needed of precisely how non-executive directors are expected to fulfil their responsibilities as independent, but informed, monitors of performance. It is desirable that after fuller study of the problem the Secretary of State should provide this clarification.
- (iii) That the ratio of executive to non-executive directors, which is currently five to thirteen, is too low for effective direction of such a complex manufacturing business. Furthermore, the small number of executive directors probably provides insufficient opportunity at Board level to encourage enough good people to enter and remain within the industry, and because so few internal candidates can be tested at Board level it increases the difficulty of satisfactorily filling the posts of Chairman and Chief Executive from within.
- (iv) That a Board smaller in total numbers than the present 18 (and with a higher proportion of executive directors) would probably be more appropriate.
- (v) That there needs to be adequate provision so that if an individual director prevents the Board from working as an effective team, or is seen by his colleagues not to be making an effective contribution, then he can be removed from office.
- (vi) That the six Trade Union members of the Board constitute a major contribution to the problems of the overall size of the Board and the high proportion of non-executive directors. It will be important to decide by the time that

the term of office of the present Trade Union Board members expires whether the policy of having them on the Board should continue.

- (vii) That regional representation on the Board for its own sake is not appropriate. If, however, a non-executive director well qualified for a seat on the Board on broad business grounds has regional links, then this would obviously be helpful when dealing with regional issues. Alternatively, some form of regional advisory committee might be appropriate.
- (viii) In the revision of the BSC "Organisational Guide" the CPRS would suggest the comments in paragraph 28 be borne in mind.

THE STATUTORY DUTIES OF BSC BOARD MEMBERS1. BOARD COMPOSITION AND PROCEDURES1.1. Composition and Terms of Office

- (i) The Corporation consists of a chairman and not less than seven nor more than twenty other members all appointed by the Secretary of State;
- (ii) In appointing a member of the Corporation, other than the Chairman, the Secretary of State must consult with the Chairman;
- (iii) The Secretary of State may appoint one or more members of the Corporation to be Deputy Chairman (Chairmen);
- (iv) Every member of the Corporation holds his office in accordance with the terms of his appointment and, on ceasing to be a member, is eligible for re-appointment;
- (v) Any member may resign at any time;
- (vi) Members must not have any financial or other interests likely to prejudice the performance of their duties. If a member does have a direct or indirect interest in any contract made or proposed by the Corporation, he must declare his interest and withdraw from any relevant decision making.

1.2. Meeting and Procedures

The Corporation may act despite a vacancy amongst its members. A quorum comprises

- (i) not less than five if the number of members exceeds ten;
- (ii) not less than three if the number does not exceed ten.

Subject to the foregoing the Corporation may regulate its own procedure.

1.3. Remuneration and Compensation

The Secretary of State determines, with the approval of the Minister for the Civil Service, the remuneration, allowances and pensions of members. In special circumstances the Secretary of State, with the approval of the Minister for the Civil Service, can require the Corporation to pay compensation to a member on premature loss of office.

2. THE GENERAL DUTIES OF THE CORPORATION

- (i) "to promote the efficient and economical supply of iron and steel products and to secure that they are available in such quantities and of such types, qualities and sizes, and are available at such prices, as may seem to the Corporation best calculated to satisfy the reasonable demands of the persons who use these products for manufacturing purposes and to further the public interest in all respects";
- (ii) not to discriminate between customers subject to ordinary commercial considerations;
- (iii) to take what steps seem necessary and practicable to promote exports of iron, steel and other products;
- (iv) to promote research and development within a programme agreed periodically with the Secretary of State;

- (v) "nothing in (i) to (iv) above shall be construed as imposing upon the Corporation, either directly or indirectly, any form of duty or liability enforceable in any court;
- (vi) the Corporation can adjust the extent of its iron and steel activities and dispose of assets as it thinks fit.

3. THE POWERS OF THE CORPORATION

The Corporation is empowered to carry on iron and steel activities and to sell iron and steel products; the carrying on of any other activities requires the consent of the Secretary of State. Similarly the Corporation is empowered to hold interests in the companies which were vested to it under the Iron and Steel Act 1967, but the holding or acquiring of interests in, or the forming of, other companies requires the approval of the Secretary of State.

4. GENERAL POWERS OF THE SECRETARY OF STATE

- (i) "The Secretary of State may, after consultation with the Corporation, give to the Corporation direction of a general character as to the exercise and performance by the Corporation of their function in relation to matters which appear to him to affect the national interest; and the Corporation shall give effect to any directions so given";
- (ii) however, the Secretary of State may also give general or specific directions to secure that activities are organised efficiently by the Corporation

- (iii) the Corporation cannot make any substantial change in its organisation without the approval of the Secretary of State;
- (iv) any substantial outlays of capital expenditure are to be consistent with a general programme agreed with the Secretary of State;
- (v) the Secretary of State may direct the Corporation, after consultation, to discontinue or restrict any of its activities, other than iron and steel activities.

5. DUTY TO REVIEW AFFAIRS AND REPORT TO THE SECRETARY OF STATE

- (i) The Corporation, as often as it seems necessary or as directed by the Secretary of State, should review its affairs to ensure efficiency and should report to the Secretary of State and he in turn must lay a copy of any such report before Parliament;
- (ii) before reaching any conclusion in such a review, the Corporation must consult with the trade unions (or other "organisations representing substantial proportions of persons employed");
- (iii) the Corporation must supply the Secretary of State with such returns, accounts or other information with respect to its property and activities that he may require;
- (iv) as soon as possible after the end of each financial year the Corporation must make a report to the Secretary of State "on the exercise and performance of its functions during that year and its policy and programme" (including an account of subsidiaries);

- (v) the report must be laid before Parliament and set out any directions given by the Secretary of State unless against the nation's or Corporation's interest to do so.
- (vi) The Secretary of State may give the Corporation directions to compile and to publish specified statistics and returns relating to the activities of the Corporation or alternatively specified forecasts with respect to the output of the Corporation;

6. COMPULSORY PURCHASE

The Secretary of State may authorise the Corporation to purchase compulsorily any land required for the exercise and performance of its functions.

7. GENERAL FINANCIAL DUTIES OF THE CORPORATION

- (i) Subject to below it is the Corporation's duty to ensure that its combined revenues are not less than sufficient to meet its combined costs (including depreciation), taking one year with another;
- (ii) If the Corporation makes a profit it can be applied as the Corporation may determine subject to any overriding direction from the Secretary of State;
- (iii) the Secretary of State, with the approval of the Treasury and after consultation with the Corporation, may determine the rate of return on net assets which he considers it reasonable for the Corporation to achieve in any period;

- (iv) During any period in which a determination has been made, the Corporation shall conduct its affairs with a view to achieving a rate of return not less than that specified and paragraph (i) above is suspended;
- (v) Alternatively, the Secretary of State may substitute any other financial duty in place of a return on assets.

8. FINANCING OF THE CORPORATION

- (i) The Corporation must establish and maintain a general reserve;
- (ii) The Corporation may borrow temporarily either from the Secretary of State or, with the consent of the Secretary of State and the approval of the Treasury, from any other person such sums as are necessary to meet its obligations or to perform its functions under this Act;
- (iii) The Secretary of State, with the approval of the Treasury, fixes the terms and interest rates associated with any loans he might make available to the Corporation;
- (iv) The Secretary of State, with the consent of the Treasury, has powers to release the Corporation from its liability to repay the whole or part of any sum borrowed before 1 March 1972 subject to a limit of £150m;
- (v) The Secretary of State may, with the approval of the Treasury, pay the Corporation such sums as he sees fit;
- (vi) In each financial year the Secretary of State, after consulting the Corporation and with the approval of the Treasury, may direct capitalisation of some or all of the aggregate reserves;

- (vii) The Corporation is under an obligation to pay a dividend on such sums as (v) or (vi) above or satisfy the Secretary of State that no dividend ought to be paid.
- (viii) The Treasury may guarantee the repayment of the principal and payment of interest on any sums which the Corporation borrow;
- (ix) The aggregate of investment in and borrowing of the Corporation must not exceed £5.5bn.

9. ACCOUNTS AND AUDIT

- (i) The Corporation must keep proper accounts and prepared in such a form that the Secretary of State may, with the approval of the Treasury, direct a consolidated statement of the accounts of the Corporation in respect of each financial year including profit and loss;
- (ii) The Secretary of State appoints the auditors;
- (iii) After the accounts of the Corporation have been audited the Secretary of State must lay a copy before Parliament together with any report by the auditors and a report by the directors under Section 157 of the Companies Act 1948.

BRITISH STEEL CORPORATION BOARD

MEMBERSHIP AS AT 1 July 1980

ANNEX B

| | DATE OF BIRTH | SALARY AS FROM 1.4.80 | DATE OF FIRST APPOINTMENT | EXPIRY OF PRESENT APPOINTMENT | OTHER APPOINTMENTS OR RESPONSIBILITIES |
|--|---|--|--|--|---|
| <u>Chairman</u> MR. I. K. MacGregor | 21.9.12 | £ 48,500 | 1.7.80 | 30.6.83 | |
| <u>Deputy Chairman (Full-Time)</u> Mr R Scholey | 8.10.21 | 37,000 | 10.9.76 | 9.9.81 | Chief Executive |
| <u>Members (Full-Time)</u> Mr D G S Waterstone Mr F Holloway Mr G H Sambrook | 9.6.35 20.10.24 9.1.30 | 31,500 28,500 28,500 | 1.6.76 2.8.78 2.8.78 | 31.5.81 1.8.83 1.8.83 | Chairman of Redpath Dorman Long and BSC (Chemicals) Ltd Managing Director Finance and Supplies Managing Director Commercial |
| <u>Members (Part-Time)</u> <u>Independents</u> Sir Melvyn Rosser Lord Gregson Sir John Buckley Mr R Halstead Mr R A Morton | 11.11.26 29.1.24 9.1.13 17.5.27 11.1.38 | 6,600 3,940 3,940 3,940 3,940 | 3.8.72 15.3.76 2.8.78 1.3.79 1.3.79 | 2.8.80 14.3.82 1.8.81 28.2.82 28.2.82 | Partner in Messrs Deloitte Maskins and Sells, Chartered Accountants. Carries out special duties for BSC - serves on a Board Committee, on a subsidiary company board and as Chairman of BSC's Cardiff New Jobs Team. Executive Director of Fairey Holdings Limited and Deputy Chairman of Fairey Engineering Limited. Chairman of Davy International; Chairman of Alfred Herbert Ltd. A Managing Director of the Beecham Group Ltd and Chairman of Beecham Products. <i>Until recently in executive director of BSC</i> |
| <u>Trade Unionists</u> Mr C W Abrahams Mr N J R Lee Mr J D Lloyd Mr J D McLaren Mr A White Mr J Tweddle | 7.8.23 3.1.44 6.3.30 9.11.33 29.11.20 25.12.25 | 3,940 3,940 3,940 3,940 3,940 3,940 | 2.8.78 2.8.78 2.8.78 2.8.78 2.8.78 2.8.78 | 1.8.81 1.8.81 1.8.81 1.8.81 1.8.81 1.8.81 | National Craftsmen's Co-ordinating Committee General and Municipal Workers Union Transport and General Workers Union Iron and Steel Trades Confederation Iron and Steel Trades Confederation National Union of Blastfurnacemen |
| <u>Civil Servants</u> Mr S J Gross Mr N J Monck | 3.9.20 9.3.35 | Unpaid Unpaid | 2.8.78 2.8.78 | Indefinite Indefinite | Under Secretary Department of Industry Under Secretary Treasury |

N.B. Salary review in respect to overseas members by the Government on 7 July.

Duties and Responsibilities of Board Members

The chairman and other members of the Corporation are appointed by the Secretary of State for Industry under the provisions of the Iron and Steel Act 1975.

2. The Act does not specify whether members should be full or part-time and this is left to the Secretary of State's discretion. The Board of the Corporation currently consists of a full-time Chairman, one full-time Deputy Chairman, three full-time executive members and thirteen part-time non-executive members. A list is attached.

3. The statutory duties and responsibilities of the Corporation are laid down in the Iron and Steel Act 1975 and it falls to the members both executive and non-executive, to carry them out. In addition to these statutory duties and responsibilities, members have other duties assigned to them. Details are as follows:-

| <u>Name</u> | <u>Position on Board</u> | <u>Other Duties</u> |
|---------------------|-------------------------------|--|
| Mr R Scholey | Executive Deputy Chairman | Chief Executive of the Corporation |
| Mr F Holloway | Executive full-time member | Managing Director Finance and Supplies |
| Mr G H Sambrook | Executive full-time member | Managing Director Commercial |
| Mr D G S Waterstone | Executive full-time member | Chairman of BSC (Chemicals) Ltd and of Redpath Dorman Long Ltd |

The executive members also serve on a number of committees under the Chairman or Chief Executive.

4. The non-executive members also undertake additional duties. Examples are:-

Sir Melvyn Rosser has a responsibility to take a special interest in the Corporation affairs relating to Wales. He is also a member of the Board of BSC (Industry) Ltd and chairs the Corporation's Audit Committee.

The membership of the Audit Committee comprises five of the non-executive members - Sir John Buckley, Lord Gregson, Mr R Halstead Mr N Monck and Mr A White. Five non-executive members also serve on the Corporation's Finance Committee (Sir John Buckley, Mr S Gross, Mr J McLaren, Mr R A Morton and Sir Melvyn Rosser) which has been chaired by Sir Charles Villiers and on which Mr Holloway and Mr Sambrook also serve.

STANDARD OFFER OF APPOINTMENT TO NON-EXECUTIVE DIRECTOR

I am writing to offer you an appointment as a part-time member of the Board of the British Steel Corporation.

The appointment would be for three years and normally take up two or three days a month. The present salary is £1,100 a year. Following the Tenth Report of the Review Body on Top Salaries the Government has agreed that this should rise to £3,590 a year (the full amount under the Review Body's recommendations) from 1 April 1980. From 1 April 1979 the salary will be at a level approximately halfway between £1,100 and £3,590.

Travelling, subsistence and reasonable hospitality expenses incurred directly on the business of the Corporation would be reimbursed by the Corporation. No pension or gratuity would be payable when the appointment expired.

I attach a note prepared for the guidance of members of Public Boards about political activities and an extract from Schedule 1 of the Iron and Steel Act 1975 relating to the provisions governing membership of the Corporation. For the purposes of paragraph 3(1) I should require you to let me have a list of your present financial and other interests before appointing you to the Corporation. The kind of financial and other interests on which information is required is set out in the attached annex.

Appointments to the British Steel Corporation are subject to the normal rules governing vacation of office - I can declare an office vacant if the member is unfit to continue in office or is incapable of discharging his functions.

I regard the non-executive directors as playing an essential and distinct part in the effective management of the Corporation. You would of course share with your colleagues on the Board responsibility for carrying out the duties laid upon you by statute as a member of the Corporation. I should expect you to participate actively in the Board's work, to consider as needed the Corporation's objectives in the wider context, and to contribute to their achievement. But I should also expect you, as one not directly involved in the Corporation's day-to-day affairs, to bring your experience and knowledge to bear independently on its conduct of business, and would look to you to pay particular attention to its performance in relation to its objective.

I very much hope that you will be able to accept this appointment on these terms.

THE COMPOSITION OF NATIONALISED INDUSTRY BOARDS

The following sets out the relevant paragraphs (26 and 27) on the composition of Nationalised Industry Boards as published in The Nationalised Industries White Paper of March 1978 (Cmnd 7131) :

The composition of each board will be settled on an industry by industry basis by the Ministers concerned after discussion with the Chairmen. The Government's plans for the appointment of employee representatives are explained in paragraph 28 on industrial democracy; and, as pointed out in paragraph 30, consumer members will be appointed to some boards. The Government will continue to appoint part-time non-executive members who are not representative of interest groups but who have the experience to make an important contribution to the running of the industries.

The Government has also decided that in some industries a civil servant from the sponsoring department, and in a few cases from the Treasury too, will be appointed to boards after consultation with the Chairmen concerned. The purpose is to give the department a clearer understanding of the industry, and a better insight into its problems, but the Government also recognises that in the different circumstances of the various industries appointment of civil servants to the boards will not necessarily be the best way of securing this result in every industry. It will, however, be worthwhile where it means that the Government can be aware at an earlier stage than now of the thinking of the boards and, for their part, the boards can have a clearer view, at a formative stage of their planning, of the wider objectives and implications of Government policy. There is a potential difficulty arising from the dual allegiance which a civil servant would have to his Minister on the one hand and as a board member sharing the corporate responsibility of the board on the other hand. So long as this duality does not in practice produce irreconcilable conflict, it presents no obstacle to adopting the arrangement. There are already civil servants on the boards of the British National Oil Corporation and of the Atomic Energy Authority. This has worked well and their presence has proved useful both for the Government and for the two Corporations. The practical course is to experiment with the arrangement in other cases also where it is expected to be helpful.



PS/Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE. DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

cc. A. Duguid.

26 September 1980

Roger Watts Esq
Private Secretary to the
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON SW1

Dear Roger,

Thank you for your letter of 25 September suggesting amendments to the wording of the draft press statement on BSC Finances.

... I attach a copy of the final version of the statement. From it you will see that we have taken on board your suggestion on the contingency reserve and the reference to the Contingency Fund. But we considered that your other two amendments could cause misunderstanding, since they implied drastic action to cut back BSC quickly to include only those of its activities which are currently profitable, i.e. the Lower Case option which E Committee rejected last week. The final version does, however, incorporate additions which convey the need for effective action to restore the BSC's financial position. These amendments were agreed between officials here and in the Treasury.

I am sending copies of this letter and of the press statement to Tim Lankester, to the Private Secretaries to the members of E Committee and the Secretaries of State for Scotland and Wales.

Peter Stredder

PETER STREDDER
Private Secretary



PRESS RELEASE

Sir Keith Joseph, the Secretary of State for Industry, announced today that the Government has decided to increase the External Finance Limit for the British Steel Corporation, for the year 1980/81, to £971 million. This increase represents an extension of £400 million above the limit of £450 million set in November last year, together with the further £121 million carried over from 1979/80 to take account of payments which could not be made because of the steel strike.

A Winter Supplementary Estimate will be submitted to cover the additional finance required by BSC, and in the meantime any additional funds required will be provided by a repayable advance from the Contingencies Fund. This extra money for BSC is being found from ~~within~~ the unallocated contingency reserve, within the planned level of public expenditure.

This increase in BSC's EFL was foreshadowed in a statement made by the Secretary of State for Industry in the House of Commons on 26 June, a copy of which is attached. The Government did not take any decisions at that time, however, as it wished first to have a report from the new Chairman, Mr MacGregor.



There has been a sharp decline in UK demand for steel in recent months, so that despite the closures which have taken place during 1980, BSC's steelmaking capacity is severely underloaded. It will clearly be necessary for BSC to take effective and determined action to improve its financial position, and Mr MacGregor will present a corporate plan to the Government in December. This will take account of the views of those running the separate business groups within the Corporation, following the re-organisation which was announced last week. Meanwhile BSC has continued to make losses, and the interim financial measures announced today are necessary to enable BSC to continue to meet its debts until firm decisions about BSC's future can be taken. The Government remains determined that there should be a significant improvement in the BSC's financial position as quickly as possible.

When the BSC Corporate plan has been considered by the Government the EFL for 1981/82, and a final revised EFL for 1980/81, will be decided and announced. This is expected to take place before the end of January 1981.

26 SEP 1980





Treasury Chambers, Parliament Street, SW1P 3AG

Ian Ellison Esq
 Private Secretary to the
 Rt Hon Sir Keith Joseph MP
 Secretary of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1

25 September 1980

Dear Ian

BSC FINANCES

The Chief Secretary has seen the draft statement attached to your letter of 23 September.

He thinks it important that the text of the announcement includes something along the lines:

"The additional funds are being found from the unallocated contingency reserve within the planned levels of public expenditure."

The aim is to get across the message that this does not add to public expenditure totals.

The Chief Secretary would also prefer the following drafting changes:

- (i) the second paragraph of the statement to read:
 "A Winter Supplementary Estimate will be submitted to cover the additional finance required by BSC, and in the meantime any additional funds required will be provided by a repayable advance from the Contingencies Fund."
- (ii) for "it will be necessary for BSC to take further action" substitute "It will be necessary for BSC to take far-reaching action".
- (iii) at the end of para 4 add the sentence:
 "The Government is determined that this position should be rectified in the shortest possible time."

I am copying this letter to Tim Lankester (No.10) and the Private Secretaries of other members of E Committee.

Yours sincerely
 R. Watts

R J T WATTS
 Private Secretary



25 SEP 1980



cc HO MAFF
 FVO TRADE
 HMT ENG
 WPO CSD
 EMP CO
 SO WD

bc MR Hushins
 MR Kercher

Nat Inds

10 DOWNING STREET

From the Private Secretary

25 September 1980

Dear Sir,

The Prime Minister has now seen the text of the draft press statement on BSC finances which was enclosed with your letter of 23 September.

She would like to see two deletions. In paragraph 1, line 4, she would like the second sentence to start "This increase represents an extension of £400 million".

In paragraph 4, she would like the second sentence to conclude after the word "December", deleting the remaining eight words of the draft.

Subject to these amendments, the Prime Minister is content.

[Handwritten flourish]

[Handwritten signature]

I.K.C. Ellison, Esq.,
 Department of Industry.

[Handwritten mark]

MR. SANDERS

Lifted on private news sheet of this
announcement. Is some briefing to be conducted?
NB.

BSC FINANCES

The Committee decided last week that BSC's external financing limit for 1980/81 should be increased by £400 million (with the possibility of a further increase later in the year) and that this should be announced when the House returns. It has since emerged that BSC will run out of funds on Friday, and therefore the Treasury have advised that an announcement must be made that day. BSC have already been informed of the increase in EFL, and this seems to have leaked: there were reports of the £400 million in some of today's newspapers.

Sir Keith Joseph proposes to put out the following Press statement, and I would be grateful for the Prime Minister's clearance:

"Sir Keith Joseph, the Secretary of State for Industry, announced today that the Government has decided to increase the external finance limits for the British Steel Corporation, for the year 1980/81, to £971 million. This increase ~~is an interim one, and~~ represents an extension of £400 million above the limit of £450 million set in November last year, together with a further £121 million carried over from 1979/80 to take account of payments which could not be made because of the steel strike. A Winter Supplementary Estimate will be submitted to cover the additional finance required by BSC, and in the meantime any funds required above £571 million will be provided by a repayable advance from the Contingency Fund.

This increase in BSC's EFL was foreshadowed in a statement made by the Secretary of State for Industry in the House of Commons on 26 June, a copy of which is attached. The Government did not take any decisions at that time, however, as it wished first to have a report from the new Chairman, Mr. MacGregor.

There has been a ~~shortage~~ sharp decline in UK demand for steel in recent months, so that despite the closures which have taken place during 1980, BSC'S steel making capacity is severely under-loaded. It will be necessary for BSC to take further action to improve its financial position, and Mr. MacGregor will present a corporate plan to the Government in December. ~~with his proposals~~

/for restoring

for ~~restoring BSC to viability~~.) This corporate plan will take account of the views of those running the separate business groups within the Corporation, following the re-organisation which was announced last week. Meanwhile BSC has continued to make losses, and the interim financial measures announced today are necessary to enable BSC to continue to meet its debts until firm decisions about BSC's future can be taken.

When the BSC corporate plan has been considered by the Government the EFL for 1981/82, and a final revised EFL for 1980/81 will be decided and announced. This is expected to take place before the end of January 1981."

You will ~~XXXX~~ see that the draft makes no reference to the steel strike. The Policy Unit has suggested that we add such a reference, blaming the increased funding to a large extent on the strike. On the other hand, we said during the strike that there would be no addition to the £400 million and to mention the strike again here may make it more likely that commentators will harp back to that statement.

✓ I would be inclined not to mention it.

Our only other comments relate to the sentence in the penultimate sentence which says:

"Mr. MacGregor will present a corporate plan to the Government in December with his proposals restoring BSC to viability".

The underlined passage looks naive in the light of what we already know about the need for continuing support; and it may give the impression of ruling out more radical options. The sentence should end at "December".

Could you please consult Bernard Ingham and the Prime Minister and let me have their reactions tomorrow.

TL

24 September 1980

cc Miss Dunnington
Mr Hoskyns
Mr Jeeves



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

23 September 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim

BSC FINANCES

1 At the E Committee meeting on 17 September (E(80)54th, item 1) my Secretary of State was asked to consult colleagues about the draft of a statement on the interim increase in BSC's EFL for 1980/81. At the meeting it was thought appropriate to make a statement to Parliament as soon as possible after the House had returned, and this will be done. But the Treasury have advised that, since BSC will need funds on Friday 26 September which will take them above their current EFL, it is essential that a public statement should be made this week. The BSC have been informed of the increase in EFL and there is in any case a danger of a leak.

2 I attach a draft Press statement which my Secretary of State proposes to issue on Friday 26 September. There will clearly need to be careful background briefing on the effect of this increase on the Government's economic strategy, which the Treasury have been asked to provide, and on the implications of this decision for the private sector steelmakers. The draft has been given to the BSC Chairman, Mr MacGregor.

3 I am sending copies of this letter and enclosures to the Private Secretaries to the members of E Committee and to the Secretaries of State for Scotland and Wales, and to David Wright.

Yours ever,
Ian

I K C ELLISON
Private Secretary



DRAFT PRESS RELEASE

Sir Keith Joseph, the Secretary of State for Industry, announced today that the Government has decided to increase the External Finance Limit for the British Steel Corporation, for the year 1980/81, to £971 million. This increase is an interim one, and represents an extension of £400 million above the limit of £450 million set in November last year, together with a further £121 million carried over from 1979/80 to take account of payments which could not be made because of the steel strike.

A Winter Supplementary Estimate will be submitted to cover the additional finance required by BSC, and in the meantime any funds required above £571 million will be provided by a repayable advance from the Contingencies Fund.

This increase in BSC's EFL was foreshadowed in a statement made by the Secretary of State for Industry in the House of Commons on 26 June, a copy of which is attached. The Government did not take any decisions at that time, however, as it wished first to have a report from the new Chairman, Mr MacGregor.

There has been a sharp decline in UK demand for steel in recent months, so that despite the closures which have taken place during



1980, BSC's steelmaking capacity is severely underloaded. It will be necessary for BSC to take further action to improve its financial position, and Mr MacGregor will present a corporate plan to the Government in December with his proposals for restoring BSC to viability. This corporate plan will take account of the views of those running the separate business groups within the Corporation, following the re-organisation which was announced last week. Meanwhile BSC has continued to make losses, and the interim financial measures announced today are necessary to enable BSC to continue to meet its debts until firm decisions about BSC's future can be taken.

When the BSC Corporate plan has been considered by the Government the EFL for 1981/82, and a final revised EFL for 1980/81, will be decided and announced. This is expected to take place before the end of January 1981.

23 September 1980

123 Victoria Street, London SW1E 6RB TEL: 01-212 5496/7 Ref: 136
June 26, 1980

BSC FINANCES

The following is the text of a Statement made in the House of Commons today (Thursday June 26, 1980) by Sir Keith Joseph MP, Secretary of State for Industry:

"For the last financial year, as the House was told on 10 June, BSC estimate a loss before adjustments of £450 million from ordinary activities. There are also extraordinary items, consisting of redundancy and other closure costs and a write-down of fixed assets which will be over £1100 million. Final figures will be available in a few weeks' time.

"For this financial year, as the House knows, the Government have made £450 million of taxpayers' money available as the external financing limit. The Chairman has warned me for many months that, without further corrective action, BSC's cash needs will greatly exceed the external financing limit but he also told me that he was seeking remedies and was not asking for more cash. On 6 June, however, he wrote to me that, even after allowing for the remedies which they were pursuing, his Board saw an additional cash requirement of around £400 million in the financial year 1980/81 over and above the EFL. He wrote that unless the Government agreed to the factoring of home debtors and the sale and leaseback of major assets outside the EFL, BSC could not carry

Cont/.....

on trading and would have to recommend the liquidation of the business.

"Measures such as BSC have proposed would, of course, only postpone the day of reckoning. As for liquidation, the Iron and Steel Act 1975 makes no provision for this. The £400 million figure is based on provisional trading forecasts: a firmer figure, which may well be larger, will have to await an up-to-date assessment of BSC's trading position.

"Over the past year, the market has fallen away both at home and abroad with a depressive effect on prices. Meanwhile, BSC's costs have been rising sharply. The long strike has, as I warned the House, made BSC's sales and job prospects and the cash problems worse.

"We are not satisfied that the Corporation have yet taken with sufficient speed and determination all the action open to them to reduce their cash requirement in 1980/81. Mr MacGregor, who takes office as Chairman next week, will need time to produce new proposals.

Cont/.....

"Until Mr MacGregor has made his proposals and we are satisfied that the Corporation is taking the necessary measures we are not prepared to reconsider the level of the external financing limit. Should the Government decide to advance additional funds any money required would involve a Winter Supplementary Estimate and if needed before then would be provided by a repayable advance from the Contingencies Fund. I shall report to the House again later in the year.

"Meanwhile, having considered the Corporation's concern about taking on fresh financial commitments, I have asked BSC to continue trading as an on-going business. I have told them that in the last resort HMG would have to ensure that creditors of the Corporation had their claims met in full.

"BSC have for years suffered from political interference and insulation from market realities. The taxpayer has already contributed over £4,000 million to BSC over the past 5 years; a further £450 million is being made available in the current year and now we are being asked to consider yet further calls on the taxpayer. BSC are still faced by excess capacity and lack of competitiveness in what is an intensely competitive market. It is for the new Chairman to use every practicable means, including a further review of capacity and disposals, to bring the Corporation's cash requirements as close as practicable to the EFL and to see if it is possible to restore the Corporation's financial and trading position."

24 SEP 1980



Nat Ind

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Qa 05127

To: MR LANKESTER

From: J R IBBS

British Steel Corporation Finances

1. The present position on BSC finances is well set out in the Secretary of State for Industry's memorandum (E(80)102). In the view of the CPRS the paper highlights two main issues:

(i) that the present absorption of cash by BSC in the present year needs to be brought under firm control; and

(ii) that a clear statement of the options for the future of BSC must be brought forward as a matter of urgency and a long-term strategy agreed.

2. On the short-term issue Ministers are asked to consider whether to adjust the EFL for 1980/81 by £600 million now, or to adjust it by an interim £400 million to tide the Corporation over to January. The CPRS would suggest that the cash haemorrhage is so serious that normal rules must be set aside and short-term cash management introduced. It would therefore recommend only an interim arrangement. In the view of the CPRS a provision to the end of the financial year could lead BSC to under-estimate the Government's determination to bring the overall cash requirements of the nationalised industries under control.

3. There is the further question of whether the decision about the EFL for 1981/82 should be delayed until January when the Corporate Plan has been considered. The CPRS believes that it should. To produce a number now, which almost inevitably will need revision when BSC's strategy is finally decided, could serve only to discredit the EFL system. But if a decision on the EFL is delayed, the Chairman should be left in no doubt that the Government sees BSC's cash position as appalling and that any wage settlement must take that view into account.

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4. Clearly decisions cannot be taken on a final strategy for BSC until a Corporate Plan is available. However, the CPRS suggests that it would greatly facilitate the production of the Corporate Plan if Ministers could help narrow the range of options at this stage. A steer could be given on the following points:

(i) the financing requirements of the four options presented in the Secretary of State's paper do not differ from each other a great deal, particularly bearing in mind the uncertainties associated with such forecasts. However, given that the "Lower Case" (7-8 million tons capacity) would be the most costly in PSBR terms (higher unemployment) and that Mr MacGregor considers it would not create a viable business, we suggest that this option should not be pursued further;

(ii) Mr MacGregor might also be told that the Corporation need not produce a Corporate Plan on the "Base Case" (15 million tons capacity) if, in their judgement, this is not a viable solution;

(iii) this would allow the BSC to concentrate on Case I or Case II and enable them, given the rejection of the Base Case, to sustain their momentum on redundancies. The essential difference between Case I and Case II is the location of redundancies and this is a matter on which the BSC will reasonably expect some political guidance. The CPRS therefore suggests that whilst the BSC evaluates in its Corporate Plan the detailed operational and financial distinctions between the Cases, officials in the Department of Industry consider in parallel the social and political implications. This will facilitate rapid decision-making when the Corporate Plan is brought forward;

(iv) the CPRS further suggests that the PSBR implications of Cases I and II and of liquidation be thoroughly worked through by Department of Industry officials. This will ensure that the repercussions of the fall-back position, should neither Case I nor Case II prove acceptable, are fully evaluated.

5. I am sending a copy of this minute to Sir Robert Armstrong.



16 September 1980

16 September 1980

Policy UnitPRIME MINISTERoriginal returned to
John Hoskyns 17-9-80BSC

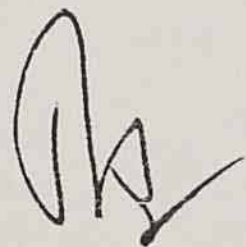
Our last night's minute urged that the liquidation option should not be dismissed too readily.

When we were talking before lunch today, you stressed how important it was for employers to set their house in order during the recession, rather than waiting until the upturn when they would all be scrambling for business and unions would be in a stronger ~~position~~ negotiating position. I fully agree with this.

Are we ever likely to have a better opportunity than this to put the BSC problem to bed for good, instead of simply doing what previous Governments have done - postponing the problem and letting it come round with the begging bowl the following year?

In addition, at a time when it is clear to all that we are off track as regards the economic strategy, grasping the nettle on BSC would be a tremendously powerful symbolic statement. It would dispel any suggestion of indecisiveness, loss of nerve, expediency, U-turns. A further ^{million} £600, on the other hand, would look to many as if this Government is, under the pressure of difficulties in following their chosen strategy, beginning to go the way of all its predecessors.

At the very least, the option should not be allowed to be dropped at this afternoon's meeting or E tomorrow.



JOHN HOSKYNs

original returned to
John Hoskyns 17/9/80

PRIME MINISTER

LOSS-MAKING NATIONALISED INDUSTRIES

1. The increased demand on the taxpayer by the nationalised industries set out in papers by John Biffen and others is alarming (though not surprising). Most alarming is the size of BSC's likely future requirements.
2. During the steel strike, Ministers said many times that there would be no increase in the £450m cash limit for BSC in 1980/81. In June, Keith told Parliament that it would be necessary to make some increase but he conveyed the impression that he was insisting that every effort should be made to minimise the extra funds needed. It now seems likely that an extra £600m will be required this year alone. Although no proper forecasts are yet available from BSC, the rough estimate by officials at Annex 2 of E(80)102 is of a further cash requirement from 1981/82 to 1983/84 of £1,400m. In short, if a great many things go right - and the long history of BSC is that forecasts have always turned out to be much too optimistic - it will cost the taxpayer another £2bn to keep the show on the road.
3. Against that background, we think that liquidation should be considered more seriously than in paragraph 13 of the paper. ^{behind} The last sentence of paragraph 13: ". . . I think (McGregor) must be given a proper opportunity to show . . ." is the all too familiar rationalisation for facing reality . . . but not yet, O Lord. If liquidation could be achieved for £1bn, it would be much cheaper than continued support. It is quite possible that many of the objectives in McGregor's forward plans could be achieved through liquidation, for example:
 - (a) rapid closure of uneconomic plant;
 - (b) effective decentralisation;
 - (c) more rapid demanning, especially among the white collar labour force;
 - (d) a more rapid change in work force attitudes.

4. If we can achieve our objectives more quickly, at less cost and eliminate the threat of further calls on the taxpayer through liquidation, it becomes a very attractive alternative.
5. Of course, the wider political impact of an event like liquidation would be very significant. We believe it would be possible to turn the event to our political advantage. It could be explained that bringing BSC's unhappy life to an end would relieve the taxpayer of a very heavy burden - helping to contain the PSBR, avoid tax increases, and get on with reducing interest rates. By contrast, maintaining BSC is an integral part of the process by which the private sector is being squeezed for the benefit of the public sector.
6. Obviously, there is some slight embarrassment after hiring McGregor if he is himself strongly opposed to liquidation. It is not clear from the paper whether this is the case. But it would be quite wrong for this to be the decisive factor.
7. Although there would be a predictable chorus of opposition to such a radical move, we could also count on its being widely welcomed by private sector steel manufacturers and by some sections of the press. In contrast to the position at BL, the press could draw the lesson that last winter's steel strike was the straw that finally broke the BSC's back. (In the case of BL, the situation is very different: union behaviour really has improved since the last decision to extend further state support.) Furthermore, the period of the steel strike demonstrated to the press and public that it was possible to live without a nationalised steel industry.
8. The liquidation of one major nationalised industry would help to make it absolutely clear to managers and workers in the remaining nationalised industries - and even in the private sector - that the Government was determined to stop shielding large groups of employees from the consequences of the market place and, in this case, their own actions. Doing it is very much more effective than saying it.
9. We are not at this stage saying that the attractions of liquidation outweigh all the drawbacks. But they are sufficient to merit a much closer and more sympathetic look at the cost and consequences of early liquidation.

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PRIME MINISTER

British Steel Corporation Finances
(E(80) 102)

BACKGROUND

This memorandum by the Secretary of State for Industry is little more than a progress report. Mr. MacGregor will not be ready to present a fully fledged Corporate Plan until the end of the year, which points to substantive decisions by Ministers on BSC next January.

2. In the meantime Mr. MacGregor is establishing cost savings goals and reorganising the Corporation into product-based profit centres. Paragraph 7 of the paper summarises the main options for capacity which he is considering. The base case assumes continuation of the present strategy to provide for capacity for 15 million tonnes of liquid steel. Cases I and II would each provide for reduction to around $12\frac{3}{4}$ million tonnes; and a loss in each case of about 15,000 jobs in addition to the 52,000 taking place this year. The main difference between these cases is that Case I provides for major mothballing at Scunthorpe and Case II at Llanwern. The 'lower case', which Mr. MacGregor does not appear to favour, is to reduce capacity to 7 or 8 million tonnes with job losses of 42,000.

1980-81

3. You will recall that the Secretary of State for Industry announced on 26th June that Sir Charles Villiers foresaw an additional cash requirement of about £400 million over and above the present External Financing Limit for 1980-81 of £450 million (and the agreed carry-over of £121 million from 1979-80). The limit was not amended then pending the arrival of Mr. MacGregor and his assessment of the situation. Mr. MacGregor believes that the additional requirement could well approach £600 million and advises that the radical changes he has in mind will not bite in time to take effect in the present year. The present cash limit will be reached next week. The Secretary of State for Industry therefore poses a choice between:-

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*Brit Steel -
" Highland -
" Shipbuilding -*

- (a) increasing the EFL by £600 million now;
or
- (b) increasing it by £400 million now and by a further amount in January in the light of decisions on the Corporate Plan.

1981-82 and the Later Years

4. The figures in Annex 2 show that if Case I or II were adopted, and certain savings are assumed, the cash requirement for 1981-82 might be £700 million. However the Secretary of State for Industry recommends that it would be premature to set the EFL on the basis of present information and that the decision should be deferred until January. (The EFLs for the other nationalised industries will be set in November.)

5. The figures for the later years would also have to be finalised in January in the light of the Corporate Plan. But in the meantime, taking the figures in Annex 2, converting them to 1980 Survey prices, and deducting present Survey provision, gives the excess to which the Chief Secretary refers in the table in paragraph 12 of E(80) 104, of:

£ million 1980 Prices

| 1981-82 | 1982-83 | 1983-84 |
|------------|------------|------------|
| <u>325</u> | <u>275</u> | <u>175</u> |

HANDLING

6. After the Secretary of State for Industry has introduced his paper the Chancellor and the Chief Secretary will wish to comment. The Secretaries of State for Wales and for Employment and Mr. Fletcher, who is representing the Secretary of State for Scotland, will wish to comment on the regional and employment implications.

7. In discussion you will wish to cover the following:-

- (a) The EFL for 1980-81

Given the uncertainties and the further work which BSC have in hand the Committee may well prefer to agree to an increase in the EFL now of £400 million with the balance to be determined in January.

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It will be necessary to announce this when the House reassembles. In view of the difficulties over drafting the 26th June statement, the Committee will no doubt wish the Secretary of State for Industry to clear the draft with them in good time.

(b) The EFL for 1981-82

I understand that Treasury Ministers are likely to agree that it makes little sense to set this EFL until firm policy decisions are taken in January.

(c) The Later Years and the Corporate Plan

Treasury and other Ministers are all likely to have a number of points which they will want the Secretary of State for Industry to urge Mr. MacGregor to take on board in his further work. If these are detailed, it might be sensible to invite them to put them in writing to the Secretary of State.

CONCLUSIONS

8. You will wish to record conclusions on:-

- (i) The amount of the increase in the EFL for 1980-81 and inviting the Secretary of State for Industry to clear his draft statement with members of the Committee in good time.
- (ii) Whether the setting of the 1981-82 EFL can be deferred until January.
- (iii) Points which the Committee wish to be covered in the further work on the Corporate Plan.



(Robert Armstrong)

15th September 1980



Copied to Master Set

10 DOWNING STREET

15 September, 1980.

From the Private Secretary

During the Prime Minister's meeting with your Secretary of State and the Chancellor of the Exchequer on Friday morning, they briefly discussed the prospects for the Consett steel works. The Prime Minister said that the Government and BSC really ought to be doing more to find a buyer for the works; and even if the prospects of sale were dim, they ought to be offering it to the trade unions. She felt that it was most important, politically, to give the unions an opportunity of purchasing the plant. For if it was as viable as they said it was, they should be given the opportunity to show it. If they showed no interest in purchasing it, then the Government would effectively be able to "call their bluff".

I am sending a copy of this letter to John Wiggins (HM Treasury).

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

/ The Home Secretary

1980

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e

d

st
new

PART 6 ends:-

PART 7 begins:-

E(80)102

12.9.80

