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Secretary of State for Industry

DEPARTMENT OF INDUSTRY
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23 September 1980

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

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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.

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"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

