



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

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PS/ Secretary of State for Industry

12 November 1980

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Private Secretary to the
Prime Minister
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*cc Mr Lydon
Mr Baker*

Prime Minister

*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?*

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.

*12.
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} 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