

CONFIDENTIAL

ADuguid

Prime Minister

This is a plea to substitute
our judgment for theirs. We
cannot do that. We can
only well-meaning. But
would be wise to report
reliable statistics to support
statements. Further - who
would take over...



PRIME MINISTER

I have seen the Secretary of State for Industry's minute of 19 December if
28 November reporting Sir Charles Villiers talks with him and me you wish.
last week.

Fly A

I have to say that my conversation with Sir Charles and with
Mr Scholey caused me to have the most profound doubts about the
competence and judgement of BSC's management at this critical
time when they are involved in decisions which will have the widest
economic and social consequences. I therefore feel strongly
that before we are irretrievably committed by their decisions to a
particular course these issues should be discussed collectively.

Mr Edwards wants a discussion -
presumably in E. I think Sir Keith
and Treasury Ministers would say this
is unnecessary: BSC should be
allowed to get on with their plans.
However, it may be unreasonable to
deny Mr Edwards his request. We
could fit this in for E on
19 December if
you wish.
6/12
pub.

My anxieties are caused, not just by the questions which I put to
them and which they were unable to answer, but by a conviction
that many of the crucial questions have not been asked at all (though
fortunately some are now being raised by members of the Board).
For example, though BSC now face the probability of large losses
in 1980/81, apparently no serious attempt has yet been made to
estimate what the losses are likely to be if the planned reductions
in capacity are made. Equally important, no serious attempt has
been made to judge the effect on customer confidence and therefore
on market share of these drastic measures. At least some in BSC
fear that the switch by customers to more certain alternative markets
may more than offset the gain from improved competitiveness. The
answers given to me also seemed to indicate that there was as yet
no firm view as to the practicality of re-activating plants that
have been mothballed; and that no clear assessment has been made
of the industrial relations implications of the proposals and the
cost of the planned redundancies. Similarly Mr Scholey was unable
to give me any clear target for the manning levels they hoped to
work towards in the remaining parts of the enterprise or the numbers
that would be required in individual plants.

We
could
manage
for this

I understand that we have no reason to challenge the Corporation's
forecast of demand (though it may be rash to reach firm long term
conclusions on the basis of a very recent and sudden deterioration
in the order book, and the ECSC appear to take a differing view
according to reports last week); but in view of the fact that by
almost every single performance indicator in relation to such
things as capital utilisation, manning, debt collection and stocking
BSC are performing worse than their competitors, we are entitled to
question whether the

/existing management



If not them - who?

existing management are the right people to decide the future of the industry. At least it would be more reassuring if the Chairman was not known to lack confidence in his Chief Executive. It would also be reassuring to know that positive steps were being taken to improve the trading performance of what is left, to safeguard remaining markets and improve upon BSC's persistently poor performance in delivery, quality and price compared with their European competitors.

The Corporation seem to be embarking on a programme of major importance to the economy and industry generally, on an insubstantial basis of fact and analysis without tackling some of the existing management failures and more important without considering the practicality of what is proposed and its consequences for others. We have taken the view in the case of the coal industry, that if the Unions are not to disrupt the programme we have to proceed more slowly than we might otherwise wish. I share the view of the Secretary of State for Industry that the Corporation's ability to secure manning reductions of the order proposed must be open to doubt; and I am concerned at the effect of what they propose upon the coal industry and on industrial relations in that industry. BSC's measures will lead to a rapid acceleration of the coal closure programme. It is now being suggested by senior officials of the NCB that the closure programme for Wales next year will have to amount to 11 pits, with a loss of 8,000 jobs. The consequences for industrial relations in the coal industry could be very unfortunate and it would not be for the management of BSC to deal with them.

On their present course BSC now forecast the loss of £76 million for 1980/81 with downside risks of an additional £200 million or more, and the reductions in capacity to avoid it are very big ones. In the absence of information one must question whether even if their plans for avoiding loss are feasible the Corporation's proposals will in fact achieve commensurate savings to the Exchequer. I can see why the Corporation want to move quickly but it is at least conceivable that a slower route to the same objective accompanied by measures to put BSC on track for the future might cost the Country considerably less in total.

/In short



In short, the risks of the course of action proposed by the Corporation - particularly in industrial relations - are very high and the consequences for Government are uncertain, and I wonder whether we should not satisfy ourselves that the Corporation's diagnosis and cure are soundly based before we are all committed to their plan. A collective discussion would also give an opportunity for considering how the Government should deal with the grave social and economic consequences of closure on this scale. These are obviously of particular concern to me, since well over 20,000 jobs are at risk in industrial South Wales alone. Bearing in mind my commitments to the 3 steel closure areas in Wales (Cardiff Ebbw Vale and Shotton) the fact is that I have not got the resources for fresh counter measures on anything like the scale required.

/ I am copying this to the Chancellor of the Exchequer, Secretaries of State for Industry, Employment and Scotland and to Sir Robert Armstrong and to the Secretary of State for Energy in view of the consequences to the coal industry.

NS.

6 December 1979

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