



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
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25 June 1980

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

Dear Tim,

Following the meeting of E Committee this afternoon my Secretary of State has revised the draft statement on BSC's finances. I attach a copy of the revised draft.

I am copying this letter to the Private Secretaries to the Chancellor, the Secretaries of State for Employment, Scotland, Wales and Trade, the Chief Secretary, the Chief Whip and Sir Robert Armstrong.

Yours ever,
Pete

PETER STREDDER
Private Secretary

Revised draft in the
light of this afternoon's
discussion.
P.S.



REVISED DRAFT STATEMENT FOLLOWING E COMMITTEE

With permission, Mr Speaker, I wish to make a statement on the serious financial position at the British Steel Corporation and the Government's reaction to it.

2 For the last financial year, unaudited estimates show a loss by BSC of £450 million from ordinary activities. There are also extraordinary items, consisting of redundancy and other closure costs and a write-off of £1144m of fixed assets. The latter is needed because the book value of BSC's assets is over-stated in the accounts in the light of expected future earnings.

3 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 were likely to exceed the external financing limit but he also told me that he was seeking solutions and was not asking for more cash. On 6 June, however, he told me that, even after allowing for the measures on which they were proceeding, his Board saw an additional cash requirement of around £400 million in the financial year 1980/81 over and above the EFL. He also said that

/BSC ...



BSC could not carry on trading and would have to recommend the liquidation of the business unless the Government agreed to the factoring of home debtors and the sale and leaseback of major assets outside the EFL. Such measures would of course only postpone the day of reckoning. 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.

4 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 we warned, made BSC's sales and job prospects and the cash problems worse, at least in the short term.

5 The Government have replied that, whilst we recognise these special factors, 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. I propose to discuss with the new Chairman,

/Mr MacGregor ...



Mr MacGregor, how long it will take him to produce new proposals for corrective action.

6 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. For this reason, I only expect to be able to indicate a new figure to the House later in the year although it now seems clear that a revised cash provision for 1980/81 will be needed. Any additional amount required will involve a Winter Supplementary Estimate and if needed before then will be provided by a repayable advance from the Contingencies Fund.

7 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.

8 BSC have for years suffered from political interference and insulation from the 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 additional calls are being made 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 all practicable means including a further review of capacity and disposals, to bring the Corporation's cash requirements as close as possible to the EFL and to restore the Corporation's financial and trading position.



25 JUN 1980



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