

This information has been requested ←

CONFIDENTIAL



Can we know more about impact. How much of what kind? How much told me they were expected

Prime Minister

More bad news, J

am afraid.

PRIME MINISTER

reducing loss do us should in ridiculous. Who can the would not work out the take position where the DSE must have the

table

2001

BRITISH STEEL CORPORATION

Sir Charles Villiers is announcing tomorrow afternoon BSC results for the half year April-September 1979. Losses at £145.6 million have been contained within the initial forecast of £150 million but the expected substantial improvement in the second half of 1979/80 will not be achieved; BSC now forecast that losses will, if anything, be worse than in the first half. This means that BSC will not meet their target (not mine) of breaking even by the end of the year.

Further - how much of the decline in demand is due to the position of our own car industry?

My target was that they should operate in profit in the financial year 1980/81, and with no Government money going to finance operating losses. On their present course, BSC now forecast a loss of £76 million for 1980/81, with <sup>possibly</sup> downside risks of an additional £200 million or more. So BSC management are putting to their Board tomorrow, and, subject to its agreement, will be discussing with the main steel union on Friday, severe corrective action designed to bring them back onto the road towards profit in 1980/81. This is in accordance with what I told them in July, namely, that they should prepare contingency plans so that if they were off course they could implement the changes needed to bring them back on.

Their proposals are in line with the broad policy that the previous Administration in their time acknowledged - as now do I - to be the correct one, namely to bring capacity more into line with demand. The position is serious. Demand for steel continues to deteriorate. Indeed, the estimates of home steel demand in 1980/81 by the Treasury and our own economists are even more pessimistic than those now made by BSC. To meet this, BSC propose to reduce effective capacity next year by about 5 million tonnes or nearly a quarter of present capacity. Half of this reduction would come from mothballing iron and steelmaking





at Llanwern and rolling operations at Port Talbot, both in South Wales. Steel would be made at Port Talbot's better "heavy" end and sent to Llanwern for rolling and finishing; this accords with customers' preference for the Llanwern finished product. The other half of the reduction would come from the East Coast, with the closure of Consett in County Durham and a reduction of operations at Scunthorpe. I should warn colleagues that even this drastic reduction in capacity may not be enough; demand may fall even faster than BSC anticipate and BSC's proposed actions may themselves cause problems. BSC hope that their drastic actions will also help them secure more efficient manning at the remaining works. They look to a total reduction in manpower of well over 20,000 as a result, of which half or more would be in South Wales. When this reduction is complete the general result should be a substantial increase in output per man year. But BSC's ability to secure reductions at this level must be open to serious doubt.

Sir Charles presented these proposals to me this afternoon, explaining that they have been carefully designed to have the minimum adverse effect on customer confidence. But he agrees that the trade unions are likely to be very critical.

I told Sir Charles that I "took note" of the management proposals. I acknowledged that his proposed corrective action was in line with the contingency planning I had asked him to undertake in July. Therefore, I would not hold management back in any way from putting them forward on their own responsibility. Equally, I was in no position, given in particular the short notice, to say positively that I agreed with or supported the proposals. They are, in my view, anyhow essentially a matter for the management and the Board, given the financial targets I have set them. In saying this, I acknowledge the serious political and social effects that are likely to follow.

/I ...





I also welcomed the fact that Sir Charles was seeing Nicholas Edwards immediately afterwards to explain the proposals to him. Sir Charles is being asked to see Adam Butler next week to give him the reactions of the Board and of the unions to the proposals. Meanwhile, I am letting you know the position, in case there is a leak in the next few days following the Board discussions.

I am copying this to the Chancellor of the Exchequer and the Secretaries of State for Employment, Scotland and Wales and to Sir Robert Armstrong.

19

K J

28 November 1979

Department of Industry  
Ashdown House  
123 Victoria Street





28 NOV 1979



157  
158  
159