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10 DOWNING STREET

File 'Nat Ind.' 82

cc: Mr. Hoskyns
Mr. Wolfson

cc Maiter

From the Private Secretary

19 June 1980

As you know, the Prime Minister held a meeting this morning with your Secretary of State and the Chancellor of the Exchequer to discuss Sir Keith's minute of 13 June on BSC finances. Mr. David Wolfson was also present.

The Prime Minister said that the financial situation of BSC as revealed by the minute was very serious indeed, and the Corporation would have to do everything possible to reduce the projected excess cash requirement of £400 million. This would need to include the selling off of assets wherever possible. She agreed that the sale and lease-back of assets was not acceptable. Even if the excess cash requirement could be reduced somewhat, it would still involve great difficulties for the Government - both in financial terms and from a political standpoint. In announcing that their financial situation had deteriorated and that further job losses were likely, it was essential that the Government should get over the fact that much of this was due to the strike. Sir Keith would also have to make clear that the Government were looking to Mr. MacGregor to restructure the Board and top management of BSC; but she doubted whether it would be wise to call for the resignation of the Board. To do this now would look odd when the Government had stood behind the Board during the strike and when - as might well come out - the Government had been informed as long ago as last January that a substantial overspend was likely. Moreover, there were several Board members whom the Government would want to retain; and the full Board could not be asked to resign without this appearing as a total condemnation of Sir Charles Villiers's chairmanship. (On the question of the restructuring of BSC's Board and top management, the Prime Minister suggested that Sir Keith should consult Mr. Ibbs).

Sir Keith Joseph said that the Government would have to await Mr. MacGregor's assessment before reaching a firm view on the likely overspend in 1980/81. The figure of £400 million was largely based on forecasts prepared last January. It was possible that the additional requirement could be reduced somewhat, but there was no prospect whatever of eliminating it entirely. Mr. MacGregor would be looking at all the options, and he might well need to cut back capacity below 15 million tons.

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This might involve mothballing a major steel works. He would of course be doing everything possible to improve BSC's market share, but the Corporation was still likely to be burdened with excess capacity until further action were taken. On the other hand, further closures would involve heavy expenditure on redundancy payments; and it might be necessary to consider reducing the level of such payments. Another possibility Mr. McGregor would probably be looking at was the temporary laying-off of employees. The Prime Minister commented that further closures or lay-offs would add to unemployment in areas where this was already high.

Turning to the immediate action proposed, the Prime Minister agreed that Sir Keith should write to Sir Charles Villiers in the next few days on the lines set out on pages 7 and 8 of the minute. This would be without the "possible addition" to the effect that the Board should resign. Under (d), the letter should make clear that Sir Keith expects Mr. MacGregor to restructure the Board and top management. In addition, the letter should make quite clear that the Government regard the present situation as extremely grave. As regards informing Parliament, the Prime Minister agreed that Sir Keith should make a statement on 30 June or 1 July: he should circulate a draft to colleagues.

I am sending copies of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment), Bill Beckett (Law Officers' Department), David Wright (Cabinet Office) and Robin Ibbs.

T. P. LANKESTER

Ian Ellison, Esq.,
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