Ref. A03817

PRIME MINISTER

Iron and Steel Bill 1981

(E(80) 144)

BACKGROUND

In this memorandum the Secretary of State for Industry advises of the need for four amendments by the end of June to the present steel legislation. These are:-

(i) To increase BSC's borrowing limit, which is likely to be reached in February 1981, from £5.5 billion to £6.5 billion (paragraphs 5-7).

(ii) To provide general powers for the capital reconstruction and future financing of BSC (paragraphs 8 and 9).

(iii) To enable major privatisation measures, and rationalisation between overlapping BSC and private sector activities, to go ahead (paragraph 10).

(iv) To enable BSC to be liquidated where the Board so recommends the Secretary of State because it judges that there is no prospect of meeting its financial duties to break even within a reasonable period (paragraph 11).

2. There is already provision in the legislative programme for a Bill to cover (i) and (ii) above. The Secretary of State for Industry now poses the choice between:-

(i) One Bill covering all four changes and for enactment by June 1981.

(ii) A short Bill to deal with the borrowing limit alone and enacted by February 1981 and a second Bill to deal with the three other provisions for enactment by June 1981.

3. Decisions are needed urgently, because if there is to be one short Bill it will have to be introduced quickly, and if there is to be one comprehensive Bill the drafting is complicated (particularly on the liquidation measures) and Parliamentary Counsel needs to start work as soon as possible. The longer and comprehensive Bill would have to reach the Second Reading stage by February to

deal with the borrowing limit - once Second Reading was passed interim drawings could be made from the Contingencies Fund. The measures would be drafted in general terms and so they would not pre-empt particular decisions on the corporate plan.

4. The business managers are likely to argue strongly for one Bill, and I understand that the Chancellor of the Duchy of Lancaster will be minuting you in this sense today. There is already heavy pressure on the present legislative timetable, and they would not want to have two separate series of debates on the steel industry over the next six months. It is also arguable that some Government supporters would be unhappy about a further single Bill, dealing with the borrowing limit alone, in advance of any more general policy provisions.

5. On the other hand a single comprehensive Bill has the two drawbacks discussed in paragraphs 6 and 7 of E(80) 144. The proposal is to win more time to get all the provisions through by providing for a new power to advance monies which would not be caught by the existing borrowing limit; once the Bill had passed the Second Reading stage drawings could be made under this power from the Contingencies Fund. On the other hand this would be seen, and severely criticised, as a blatant side-stepping of the present borrowing limit and could run into difficulties if there were also other competing claims on the Contingencies Fund which has its own statutory limit.

HANDLING

6. After the Secretary of State for Industry has introduced his paper you will wish to ask the Chancellor of the Exchequer or the Chief Secretary, Treasury, for his views on the financial proprieties in so far as they affect the case for one Bill or two. The Chief Whip will wish to speak for the business managers. The Secretaries of State for Employment and for Wales and Mr. Fletcher, who is representing the Secretary of State for Scotland, will probably wish to comment on the general tactics.

7. The first question is whether it is accepted that there is a case for all four of the proposed legislative changes by June 1981. The increase in the borrowing limit and the capital reconstruction proposals are essential. If there is to be substantial privatisation and BSC/private sector mergers it is necessary to put the

powers beyond doubt. You have already asked the Secretary of State for Industry to bring forward proposals to provide for liquidation (Mr. Lankester's letter of 25th November to the Department of Industry) and these are necessary to give backing to Mr. MacGregor's approach.

8. The second question is whether there should be one Bill or two. On this the Committee will need to weigh the arguments of the business managers, and the requirements of the Parliamentary timetable, against the disadvantages which the Chancellor of the Exchequer is likely to see in the proposals for one composite Bill.

CONCLUSIONS

9. In the light of the discussion you will wish to record conclusions:-

(1) On whether policy approval should be given to the four legislative changes listed in paragraph 13 of E(80) 144.

(2) On whether these should be dealt with in one composite Bill with enactment by June 1981 or in two Bills, with the first enacted by February 1981 and covering the borrowing limit alone and with the second enacted by June 1981 covering the other provisions.

If the decision is in favour of two Bills, the business managers will need to consider the implications for the legislative programme. This should not be necessary if the decision is for one Bill for which there is already provision in the programme.

RTA

ROBERT ARMSTRONG

16th December, 1980