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10 DOWNING STREET

From the Private Secretary

9 February 1981

Dear Sir,

As you know the Prime Minister held a meeting this afternoon to discuss the proposed statement on BSC's Corporate Plan. The following were present in addition to your Secretary of State: the Chancellor of the Exchequer, the Chancellor of the Duchy, Sir Robert Armstrong, Mr. Ryrie, Mr. Ibbs and Mr. J.S. Steele. They had before them Sir Keith's minute of 6 February and the draft statement enclosed with it.

The Prime Minister said she was unhappy with both the substance and the tone of the draft statement. As regard the former, she had grave doubts - in the light of the further information provided in Sir Keith's minute - whether the proposed EFL of £729m. could be justified. She was surprised such a small proportion of this figure was accounted for by redundancy and closure costs; and by contrast, that so much was being allocated to trading losses, working capital and stocks, and capital expenditure. She wondered whether Department of Industry officials, before recommending the total of £729m. for the EFL, had really vigorously examined BSC's plans. With the private sector steel companies in increasing difficulty, partly because of competition from BSC, the announcement of an EFL of £729m. for 1981/82 would be politically very damaging.

As regards the tone of the statement, the Prime Minister said it was essential to get over the point that substantial funding was being provided to BSC to enable them to be slimmed down and to become more efficient, and at the same time to enable the private sector steel companies to flourish. As presently drafted, the statement would arouse great hostility from the private sector companies and bring maximum harm to the Government.

In discussion, Sir Keith said that the figures underlying the proposed £729m. EFL had been thoroughly investigated by his officials, but he was prepared to look at them again. He pointed out that the figures were in any case based on Mr. MacGregor's relatively optimistic view of the market, and that it was quite possible that BSC would need funding above £729m. If on the other hand BSC were to go for lower capacity this would also involve additional costs.

/The Chancellor

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The Chancellor of the Duchy said that, in political terms, it was most important to allay the fears of the private steel companies that they were being subject to unfair competition from BSC. Not only should this be covered in the statement but BSC should be asked to market less aggressively in product areas where they were competing with the private sector, and - if possible - to stay out of certain product areas altogether. The Chancellor of the Exchequer said that consideration should be given to reducing the scale of redundancy payments from July 1981, rather than from end 1981 as was currently proposed.

Summing up, the Prime Minister said that your Department should urgently reconsider the basis of the £729m. proposal. In particular, efforts should be made to reduce the provision for capital expenditure and working capital. If BSC insisted on a provision for £50m for their 1981 pay settlement, this should be taken off somewhere else. Consideration should be given to changing the scale of redundancy payments as from July rather than from end 1981, and BSC should be approached with a view to ensuring fairer competition with the private sector on the lines suggested by the Chancellor of the Duchy. When this further work had been completed and decisions on the substance taken, the statement would need to be recast and shortened. It would not be possible to make the statement this week; consequently, the Iron and Steel (Borrowing Powers) Bill would have to be introduced on Wednesday with a very short statement which would indicate that the fuller statement on the Corporate Plan would follow shortly.

I am sending copies of this letter to Private Secretaries to members of E Committee and to Francis Pym, George Younger, Nicholas Edwards, Michael Jopling and Sir Robert Armstrong.

I.K.C. Ellison, Esq.,
Department of Industry.

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