

Mr Walter
Mr Duguid
Mr Wilson
Press



I have 2 suggestions
one on last amendments
and

Prime Minister For E Monday 23/2

This will be taken by E on Monday. Since there is quite an argument for making the statement on Monday afternoon, I thought you ought to see it right away. The draft is still long, and it would do well to reflect your views on the private sector - on which I have commissioned a further note

PRIME MINISTER

BSC: CORPORATE PLAN

You will have received a copy of Robin Ibbs' report of the work of from his enquiry team which was set up following your meeting on 9 February to look at the cash requirement of £729 million in 1981/82 in the BSC Corporate Plan.

Robin Ibbs.
Would you like me at this stage to suggest

2 Robin Ibbs and his team have provided a rapid independent review of the BSC Plan. Their report is clear. It confirms that there are no significant cash savings to be made if the BSC Plan is accepted and that the only alternative is a different plan with major closures now, which would not save cash in 1981/82 (see paragraph 13(iv) of the report). The team have, however, identified areas where economies later in the year might be expected. I propose to tell Mr MacGregor that we should expect any money that may be required for the setting up of Phoenix I (about which I am minuting you separately) to be found from these economies. The provision for contingencies is obviously high in relation to our budget problems but it is not high in relation to the huge volatility of the steel market and exchange rates. The Interdepartmental Group on the BSC Corporate Plan and Robin Ibbs are satisfied that the provision is not inherently unreasonable. Mr MacGregor argues strongly that he will need the full provision.

Some shortening on the lines in discussion last week?

R.
..
19/2
(last week's draft is at Play A)

3 The report suggests that, if Ministers approve the BSC Plan, Mr MacGregor should be asked for assurances on a number of points listed in paragraph 15 of the report. I accept these suggestions

/and ...



and have put them to Mr MacGregor who also accepts them.

4 I recommend that we now accept the BSC Corporate Plan and announce as soon as possible the Corporation's EFL for 1981/82 and the revised EFL for 1980/81.

... 5 I attach a copy of a draft statement to Parliament which I have revised to take account of the points which you raised on 9 February. There are two points I should make about it. First, I have retained the previous emphasis on competitiveness and profit, though of course without the binding commitment on the Government not to intervene in closure decisions. Despite the decision on NCB closures I would hope to retain this tone. Secondly, I discussed the problem of competition between BSC and the private sector with Mr MacGregor on 11 February. He assured me that BSC were not setting prices to undercut UK private sector companies: low price levels were being set by imports and the BSC had no alternative, nor had the private sector, to matching import prices. I told him that nevertheless there were increasing complaints of unfair competition from BSC. He has suggested that, if the MP or company complaining were to send the evidence to him personally, he would have the allegation investigated with a view to seeing whether some accommodation could be reached.

6 Mr MacGregor's assurance on BSC pricing policy and his offer personally to investigate complaints are welcome, but will not go far to satisfy the private steel companies. It will help if I can announce that significant progress is being made in setting up



independent joint BSC/private sector companies in areas of overlap.
Intensive negotiations have taken place this week between GKN and
BSC about the formation of a joint company (Phoenix I) for the
rod, bar and wire production, which appear to have been successful.

7 The Phoenix projects will not cover all the BSC activities
which compete with the private sector. Joint ventures take time
to negotiate and as you know the situation facing many private
steel companies is critical. One of their most persistent
complaints is about energy prices. I believe that the Task
Force which will report to NEDC on 4 March will confirm that
steel producers, together with other high load factor users, do
pay substantially more for their electricity than do their
European competitors. This is a charge which affects the private
sector companies proportionately much more than BSC because of
their reliance on the electric-arc process. If we are going to
take action to correct this competitive disadvantage, I believe
we need to be prepared to announce early and substantial price
reductions for such users. I understand that David Howell has
proposed to the Chancellor of the Exchequer a reduction in
tariff of up to 8 per cent for certain companies. This is not
likely to be considered as adequate by the industry and I would
press for a greater reduction. But the sooner we can announce
something the better.

8 Although Mr MacGregor has agreed to the Government making it clear
that we are not prepared to continue to fund indefinitely the present
level of redundancy payments at BSC, I have not included this point
in the draft statement. I believe it would be preferable to cover



this during supplementary questions or in a subsequent debate, in terms which take account of developments in the discussions between David Howell, the NCB and the NUM.

9 There are very strong arguments for making the statement on Monday 23 or Tuesday 24 February. Unless this is done we face the serious problems with the Estimates timetable about which Michael Jopling is particularly concerned.

see
my note
attached
akb MS

I believe
these can be
resolved if
we decide to have

10 I am sending copies of this minute to colleagues on E Committee, the Secretaries of State for Scotland and for Wales, to Sir Robert Armstrong and to Robin Ibbs.

the statement
Wednesday, but
we are checking with
the Treasury MS

19 K J
February 1981

Department of Industry
Ashdown House
123 Victoria Street

PS I am ^{also} copying this minute with enclosure to Francis Pym and also to the Chief Whip.



DRAFT STATEMENT ON BSC CORPORATE PLAN

With permission I will make a statement about the British Steel Corporation.

2 I am making available in the Library of the House and in the Vote Office a report by BSC giving background on its performance and current plans.

3 The past 12 months have been extraordinarily difficult for the steel industry of this country - both the public sector and the private - and indeed for steel industries throughout Europe. There has been a considerable surplus of capacity; prices have been extremely low and most major European steel companies are losing money. Hence the declaration by the European Commission of a "manifest crisis" and the unanimous agreement of the Community Governments to mandatory production quotas.

4 The House will know that the Corporation have undertaken a massive retrenchment programme in the course of 1980, cutting manned steelmaking capacity from 21½ million tonnes of liquid steel to 15 million. A number of works were closed and manning levels slimmed down at others in order to bring productivity at them up towards international standards. In 1980 there were 50,000 job losses at BSC. This has taken place at the same time



as the Corporation was recovering from the considerable commercial damage caused by the strike.

5 I appointed Mr MacGregor in July to be Chairman of the BSC, with a remit to return it to enduring profitability. Mr MacGregor's strategy is to intensify the Corporation's drive to cut the costs of production, which had become significantly higher than those of the Corporation's main competitors, and by vigorous marketing to increase the volume of sales so that BSC can compete more effectively in European and world markets. To this end Mr MacGregor has reorganised the BSC into a number of separate businesses, each responsible for the production and marketing of a specific product range under a decentralised and profit conscious management team.

6 The BSC Corporate Plan continues this strategy. It provides for a manned capacity of 14.4 million tonnes of liquid steel a year - a slight reduction from the existing capacity of 15.2 million tonnes; and it envisages that by the end of 1981/82 the rate of loss will have been substantially reduced from its present level, estimated for 1980/81 at about £480 million before interest. To achieve this the Corporation intends to press ahead with its cost reduction and marketing programmes, so that by the summer it will have a clear view of whether the objectives of the Plan can be met. Mr MacGregor has made it quite clear to the Government and to all members of the Corporation, both managers and work-force, that there will be no future for any operations that are not competitive.



7 The Plan, and in particular the proposed trading results, are highly sensitive to external economic circumstances such as the level of the Deutschmark, the state of the European market and the timing of the upturn in steel ordering in the UK.

Mr MacGregor himself freely admits, indeed claims, that his Plan is optimistic and in the light of these risks I think he is right. He aims for the largest operation that can be made profitable; but at the same time he is committed, if the assumptions behind his Plan are not sustained, to reduce the Corporation to a size that is profitable.

8 To further his Plan Mr MacGregor has asked the Government to provide an extra £150 million in 1980/81 to bring the total external finance requirement to £1,121 million, and for £730 million in 1981/82.

9 These are very large sums of money for the taxpayer to provide to a public corporation, particularly at a time when the private sector companies, some of which are in competition with it, are facing mounting losses and in some cases closure.

The Government have been greatly concerned at the effect that the recession in demand for steel, both here and on the Continent, and the vigorous marketing of the BSC may have on the private sector. As the House knows, the Government authorised the Corporation in the Autumn to open negotiations with those private sector companies whose operations overlapped their own with a view to seeing whether viable joint companies could be created.



[I had hoped that agreement on at least one such joint company would have been reached by now. Such negotiations are bound to be difficult and the Government will continue to encourage them and to ensure that they result in commercially viable private sector companies] [Such negotiations are bound to be difficult and the Government has given them, and will continue to give them, its encouragement with a view to the creation of viable private sector companies. I was very pleased therefore to note the announcement of one such agreement during the last few days].

[To be checked in the light of progress in the Phoenix negotiations]

10 Setting up joint companies will take time and in any case will not entirely deal with the problem of competition between BSC and the private sector. I have made it clear to Mr MacGregor that he should ensure that BSC should compete fairly with the private sector. I have drawn his attention to the increasing complaints which have been made that BSC's pricing policy is undercutting private sector competitors unfairly. He informs me that BSC and private sector list prices have increasingly been undercut by the prices offered to UK buyers by other producers in the EEC. The Corporation has therefore been forced to align ^{its prices} /down towards these lower levels. The private sector ^{has had to do the same} / He has assured me that it is not BSC's policy to set price levels for steel below those of imports, but only to match them. Mr MacGregor has further undertaken personally



to investigate any specific allegations of unfair pricing which are put to him by companies or by Members of Parliament, and to keep me informed of the results. And, in order to bring a greater transparency to BSC's operations, he has agreed to consider setting up separate Companies Act companies for those BSC businesses which are in competition with the private sector where they do not already have that form.

11. It is no part of the Government's policy ~~to provide~~ continuing subsidies to BSC, ~~nor to encourage the BSC to return to profitability at the expense of its private sector competitors. But if Mr MacGregor's optimism is justified there is a reasonable prospect of returning BSC to profitability.~~ Given the steps we have taken to safeguard the private sector, the Government is ~~therefore~~ prepared to approve BSC's Corporate Plan and to provide the finance needed to implement it. We are setting the Corporation the target of limiting their loss before interest in 1981/82 to £225 million, in accordance with the Plan, and in comparison with the estimate ^{loss} of £480 million for 1980/81. We are also asking the Corporation to plan ahead on the basis that they should aim to achieve breakeven, also before interest, in 1982/83. We ~~as Mr MacGregor has suggested,~~ shall/increase the external financial limit for 1980/81 to £1,121 million. We have also agreed that the EFL for 1981/82 should be £730 million. This is a high figure, reflecting in part the substantial though reduced losses, but also including a programme of essential capital expenditure and continued heavy redundancy and closure costs.



12 I must also emphasise that, as I have already explained, Mr MacGregor's optimism may not be justified and his commercial judgment may then lead BSC to seek further closures and redundancies. It will be particularly important for the Corporation and the Government to monitor progress closely, for each of BSC's businesses, and I have asked Mr MacGregor to let us have his assessment of progress in July.

13 In order to facilitate the policies I have outlined, I have today published the Iron and Steel Bill 1981. This will amend the Iron and Steel Act 1975 to allow the transfer of businesses to the private sector and to permit a rapid and, indeed, extensive run-down of the Corporation if that proves necessary. It will also write off some £3,500 million of BSC's capital immediately, provide a power to write off a further £1,000 million later and make certain consequential adjustments to the Corporation's borrowing limit. These write offs will deal with the mistakes of the past. They do not represent the commitment of additional funds. This Bill will eventually supersede the Iron and Steel (Borrowing Powers) Bill [which this House passed last week].

14 The Government are aware that implementation of BSC's plans will result in substantial job losses in a number of areas which have unemployment above the national average. As they are all Assisted Areas considerable support is already available to



encourage new investment and to help those made redundant to find new jobs, though I do not in any way underestimate the problems for the communities and people concerned. I shall, if necessary, consider whether any further measures of assistance would be appropriate. [To be amended, if necessary, in the light of E(EA) on 18 February]

15 We shall also do what we can within the European Community to ensure that market conditions in Europe are improved. The House will remember that during the autumn the Council of Ministers agreed that a state of "manifest crisis" existed in the steel industry and that production quotas were imposed under Article 58 of the Treaty of Paris. These quotas expire at the end of June and we are already in discussion within the Community on the regime that will replace them. It is our intention to seek to ensure that any reductions in capacity which are necessary are equitably shared among the members of the Community and that, so far as possible, short term market conditions do not invalidate long term commercial objectives.

16 The financial provision we propose will require approval from the European Commission .