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*Secretary of State for Industry*

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24 February 1981

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*Dear Tim*

## STATEMENT ON THE STEEL INDUSTRY

I enclose a copy of the final version of the statement which my Secretary of State will make today. This incorporates some minor textual amendments to the version circulated yesterday evening.

2 I am copying this letter and enclosure to Robin Birch, Murdo Maclean, Michael Pownall, David Wright, and to David Fraser in Lord Gowrie's office.

*Yours ever  
Catherine*

CATHERINE BELL  
Private Secretary

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## STATEMENT ON THE STEEL INDUSTRY

With permission I will make a statement about the steel industry.

2 No one in the House can welcome the position in which much of the steel industry finds itself. It has been nationalised, denationalised and then renationalised. It has been encouraged by Governments to carry out unrealistic investment programmes. The party opposite refused to allow BSC to close surplus steel capacity. Its workforce went on a three months' long strike. Now the market has collapsed and the high value of sterling has created serious difficulties for private and public steel firms alike - here and in Europe.

3 BSC, which should have been allowed to contract gradually by the last Labour Government, cut manned steelmaking capacity from 21½ million tonnes of liquid steel to 15 million and shed 50,000 jobs in 1980. Works were closed and manning levels slimmed to raise productivity.

4 A report by BSC on its plans has been placed in the Library of the House and in the Vote Office. The aim is for BSC to become internationally competitive. Mr MacGregor has reorganised the Corporation into separate businesses, each responsible for the production and marketing of a specific product range. He is planning a manned capacity of 14.4 million tonnes of liquid steel annually but is committed, if the assumptions behind the Plan are not sustained, to reduce the Corporation to.

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a size that can in fact make a profit. BSC's results will depend not only on its own performance but on factors such as exchange rates, the European market and any upturn in steel ordering in the UK. Mr MacGregor admits [redacted] that his Plan is optimistic and I think he is right. He has made it clear to Government and to the managers and work-force of the Corporation that there will be no future for any operations that are not competitive.

5 BSC has asked the Government for an extra £150 million in 1980/81 bringing the total external finance requirement to £1,121 million and for £730 million in 1981/82.

6 This is huge money for taxpayers to find, particularly when unsubsidised private sector steel companies, some in competition with BSC, face extreme difficulties. The Government are greatly concerned about the impact of the European steel recession plus BSC's vigorous marketing on private firms. I therefore recently authorised BSC to negotiate viable joint private companies with those firms whose operations overlapped its own. Agreement on one such company, Allied Steel and Wire, was announced on Friday. Transitional arrangements for some of the assets of Duport Steel were announced yesterday.

7 Setting up more joint companies takes time and will not entirely deal with the problem of competition between BSC and the private sector. I have stressed to Mr MacGregor that BSC must compete fairly with private firms and have pointed to widespread complaints that BSC is unfairly undercutting private firms. He replies that





BSC and private firms' prices have increasingly been undercut by other EEC producers. The Corporation has therefore had to price down. The private sector has had to do the same. He has assured me that it is not BSC's policy to sell its steel more cheaply than imports, but only to match the prices charged for them.

8 Mr MacGregor has further undertaken personally to investigate any specific allegations of unfair pricing that are put to him by companies or by Honourable Members. I have asked my Hon Friend the Parliamentary Under Secretary of State to monitor these complaints ~~if necessary~~ and to report to me.

9 And, in order to make BSC's operations more transparent, and to pave the way for further privatisation, Mr MacGregor has agreed to consider placing those BSC businesses which are in competition with the private sector in separate Companies Act companies.

10 Mr MacGregor has said that by all normal commercial criteria BSC is bankrupt. Because BSC is a statutory body it cannot be liquidated like a private sector company and the Government and taxpayers cannot therefore at present escape from funding BSC. Recognising therefore that the BSC Plan is optimistic but recognising also that BSC should be given a last chance to cease to burden the taxpayer by becoming profitable, the Government is prepared, on condition that the ~~British Steel~~ Corporation behaves responsibly towards the unsubsidised private steel makers, to





approve BSC's Corporate Plan and to provide the finance needed to implement it. BSC's target is to reduce its loss before interest from an estimated £480 million in 1980/81 to £225 million in 1981/82 and to achieve breakeven in 1982/83. We shall increase BSC's external financial limit for 1980/81 to £1,121 million and have set its EFL for 1981/82 at £730 million. These large figures reflect BSC's substantial though reduced losses, but also provide for heavy redundancy and closure costs and a limited programme of essential capital expenditure.

11 I must also emphasise that, if Mr MacGregor's optimism is not justified, further closures and redundancies may be necessary. The Government will monitor progress closely in each of BSC's businesses. Mr MacGregor will give us his assessment of progress by July.

12 To implement these decisions some changes in the law are needed and I have today published the Iron and Steel Bill 1981. This amends the Iron and Steel Act 1975 to ease the transfer of businesses to the private sector and to permit an extensive run-down of the Corporation if that proves necessary. We also need to deal with the mistakes of the past. The Bill will write off some £3,500 million of BSC's capital immediately, will provide a power to write off a further £1,000 million later and will make consequential adjustments to the Corporation's borrowing limit. This does not represent the commitment of additional funds; it marks the huge cost to the taxpayer of over-ambitious, centrally

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directed investments and the uncompetitive use of many of them.

13 The plans involve job losses in areas where unemployment is above the national average but which are already Assisted Areas, so considerable support is already available to encourage new investment and to help the jobless to find work. The Government does not intend to alter the Assisted Area status of any steel closure area at this time but we do not underestimate the problems for the communities and people concerned. I shall, if necessary, consider whether any regrading would be appropriate.

14 We shall also seek to ensure that market conditions in Europe are improved. The production quotas imposed under Article 58 of the Treaty of Paris expire on 30 June and we are already discussing with our Community partners the measures to replace them. We intend to ensure that reductions in capacity 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.

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

16 The Government may have had to spend taxpayers' money this time, but we are seeking powers to relieve the taxpayer of the inescapable obligation to fund BSC indefinitely. The Government

/intends ...





intends the competition the private sector faces from BSC to be fair and we expect more public/private steel firms to be created which will be in the private sector. It is a tough time for all who work in the steel industry. There can be no guarantee of survival. But for those who are or who become competitive there is far more hope of a secure and prosperous future than for those who do not become competitive.