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Prin. Minto 5

To note. The Chancellor (Flag A)

2 pgs

accept that the discussion in E should be deferred

*cc Vercher
Walters
Duguid*

PRIME MINISTER

Must until September.

BSC CORPORATE PLAN: JULY REVIEW

12/17

on p 8 Attached

When E Committee agreed the BSC's EFL for 1981/82 in February, (E(81)5th Meeting, Item 1), we did so on the understanding that the EFL and the financial targets, together with the Corporation's strategy, would be further reviewed in July in the light of Mr MacGregor's assessment of progress by that time.

2 I have arranged to meet Mr MacGregor on Wednesday 22 July to discuss BSC's progress, and will circulate a report to you and colleagues in E Committee immediately after that meeting. However, Mr MacGregor has warned me that the assessment of progress which he will give on 22 July will be only a very preliminary one; a full review will reach me before the end of August so that any necessary decisions may be taken in the first part of September.

3 From the monthly monitoring of BSC's performance which has been carried out by officials here, the signs are that BSC have made significant progress in recent months. Losses before interest have dropped from an average of over £10 million a week in the three months January to March, to £6.5 million a week in April and £6.1 million in May. The manpower reduction programme is going well: total employment in BSC has dropped from 127,000 at the end of January to just under 113,000 at the end of May.

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And in the three months period to 30 June BSC required less cash from the Government than forecast in February. The forecast for the quarter was £250 million, but actual payments made to BSC in the quarter were only £170 million, including £20 million subscription of capital in Allied Steel and Wire Limited.

4 The programme of cost cutting in BSC is continuing, but as we have always recognised the elimination of BSC's losses will require an increase in steel prices. Prices have on average been below planned levels in recent months. If BSC is to reach its aim of breakeven in 1982, it is essential that the package of steel measures recently agreed by the Council of Ministers is effectively implemented and leads to a significant hardening of steel prices over the remainder of 1981.

5 Geoffrey Howe, in his letter to me of 6 July, suggests that E Committee should discuss BSC's future before the end of July. I am enclosing a copy of my reply to his letter from which you will see that I do not consider that E Committee could have anything more than a very sketchy discussion of the issues facing BSC before we receive Mr MacGregor's full assessment in late August. For this reason, and since, as I have indicated above, BSC seem to be reasonably on course so far this year, I believe that substantive discussion in E Committee should be deferred until early September. However, I fully accept Geoffrey's suggestion that when I meet Mr MacGregor on 22 July I should ask

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him to present alternative options to Government when he puts forward his next Corporate Plan in the autumn. I will also explain to Mr MacGregor that the Plan will need to take into account many of the points which Geoffrey has made.

6 Copies of this minute go to the members of E Committee, to the Secretaries of State for Scotland and for Wales, to Robin Ibbs and to Sir Robert Armstrong.

g.

KJ

Department of Industry
Ashdown House

10 July 1981

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