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Prime Minister
An encouraging report.
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PRIME MINISTER

BSC CORPORATE PLAN: JULY REVIEW

1. The Secretary of State and I met Mr MacGregor on 22 July to hear his preliminary report on BSC's progress towards the targets in the 1981/82 Corporate Plan. The Chief Secretary to the Treasury and Mr Ibbs were also present.

2. At our request, the Corporation had prepared a short Review document setting out the essential features of progress to date and the prospects for the year as a whole. The main points to emerge from this document and from our discussion were as follows:

(a) All the major programmes for improving BSC's internal performance had been completed or were proceeding to plan. As a result, BSC's weekly rate of loss (before interest and tax) had fallen from £10.4 million in January to £5.7 million in June. But this steady improvement would be difficult to maintain after July because the planned programme of manpower reductions had been virtually completed and the 7 per cent wage settlement payable from 1 July would add about £1.3 million a week to BSC's costs;

After interest?

(b) With the major benefits from internal efficiencies now largely reaped, adverse external factors were starting to have a more marked effect on losses. In the first three months of 1981/82, losses before interest totalled £80 million as against the Plan figure of £45 million. The main problems were low home demand, weak home prices, and the loss made on exports which were nonetheless necessary to allow optimal plant-loading;

(c) There was, however, scope for further improvement in BSC's internal performance. Both Ravenscraig and Teesside were still performing below standard, and even the South Wales plants could do better. The problem was largely one of attitudes. Senior management were making a major effort to ensure that middle and junior management appreciated the need for rigorous control of costs, close attention to detail, and improved working disciplines. That message was now getting through, though not all the workforce had yet taken it on board. Apart from this vital exercise in altering attitudes, further jobs were being shed, particularly in the maintenance and service sectors. And BSC planned an eventual reduction of a further 20,000 in the numbers employed in producing ECSC products, this to be achieved by a steady programme of pruning rather than by major closures;

(d) On the revised assumptions set out in the Review document, and if no corrective action were taken, BSC would exceed the loss limit of £225 million for 1981/82 by £64 million and the EFL of £730 million by anything up to £49 million. So three new programmes were being set in hand to put the Corporation back on course (price increases; further economies in operating costs; and reduction in working capital needs). On this basis, Mr MacGregor was confident that BSC would remain within its EFL for the year. He stressed, however, that this would not necessarily include the costs of £35 million which BSC had incurred as a result of the various Phoenix arrangements (Allied Steel and Wire Ltd, acquisition of the Duport assets and Round Oak). He would do his best to contain these costs within the EFL, but he could give no promise to do so;

(e) BSC's full assessment of the prospects for 1981/82 would be delayed until early September so as to allow a proper appraisal not only of the effects of the recent European agreement on prices but also of the prospects for bringing Teesside and Ravenscraig on course. The assessment would include a number of alternative scenarios illustrating for Ministers the rangeof options open to the Corporation in preparing their next Plan for 1982/85.

3. I think that the interim position which we have now reached is much as was expected when we considered the Corporate Plan at the turn of the year. Vigorous management action has brought considerable improvements in the Corporation's internal performance, though more remains to be done to tighten up working disciplines at plant level throughout the Corporation as a whole. But the crucial factor now is whether the package of measures agreed in Europe on 24 June is effective in bringing about a significant and sustained rise in steel prices. An increase of 5 per cent in average realised prices over the remainder of 1981/82 would allow the Corporation to achieve

its financial targets even without further corrective action; and an average increase of 10 per cent would bring the Corporation to breakeven. Successful implementation of the package will depend on producers in Europe abiding by the discipline of the new pricing arrangements; it is too early to judge how far they will be prepared to do so.

4. Mr MacGregor will report again in September with a full assessment of the current position and of the options open to him in drawing up the next Corporate Plan for 1982/85. Once we have his report, the Secretary of State will put a paper to colleagues for discussion in E Committee.

5. 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.

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Department of Industry
4 August 1981

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Steel

cc Mr Duguid

REVIEW OF THE BSC CORPORATE PLAN: MEETING BETWEEN THE SECRETARY OF STATE AND MR MACGREGOR ON WEDNESDAY 22 JULY 1981

PRESENT:	Secretary of State	Mr MacGregor
	Mr Tebbit	Mr Scholey
	Mr Marshall	Mr Barker
	Mr Brittan (Chief Secretary to the Treasury)	Mr Roseveare
	Mr Ibbs CPRS	Mr Prior
	Mr Binning	
	Mr Murray	
	Mr Ellison	

Progress in 1981/82

1. Welcoming Mr MacGregor and his colleagues, the Secretary of State noted that the Review document contained evidence of heartening progress by BSC in achieving internal efficiencies but that the picture was clouded by adverse external factors, notably weak prices and low home demand. Could further internal improvements be made, in particular through cost reduction measures, or was the scope for this now exhausted?

2. Mr MacGregor confirmed that the programme of internal improvements was well on course. But more could and would be done. Progress to date had been patchy, reflecting the different perceptions in each plant of the threat to its survival. The South Wales plants had recognised a clear danger and so had co-operated in demanning and improved working practices. Teesside and Ravenscraig, by contrast, were under the illusion that their future was assured and so had proved less amenable to change. BSC management would continue to take firm steps to disabuse them of this notion. Nor could the South Wales plants rest on their laurels: the achievements there were real and had received a great deal of favourable publicity, but plenty more remained to be done.

3. The Secretary of State asked for concrete instances of the scope for future progress in cost reductions. Mr Barker cited indirect expenses as one of the main areas of attention. Clerical and computer staff were being shed, and economies were being made in maintenance and service costs. On the production side, Mr Scholey estimated that cost reductions of £10 a tonne could be gained from improved performance in plant yield, operating speeds and frequency of stoppages; and quality needed to be improved, particularly in the Strip mills. The key to securing all these improvements lay in instituting tighter working disciplines, which in turn required management action to strengthen the motivation of the workforce. Mr MacGregor stressed that a rigorous approach to cost control held the only hope of progress. There had been a management revolution in BSC designed to bring this message home to all corners of the

business and to secure the attention to detail which was essential if the Corporation was to survive. Mr Tebbit asked whether any further demanning was in prospect, citing recent Press speculation that 20,000 more jobs were to go. Mr MacGregor confirmed that his target was an eventual reduction from 66,000 to 45,000 in the numbers employed in producing ECSC products. The intention was to achieve this by a steady programme of pruning manpower within individual works and not by means of major closures.

4. Mr Ibbs noted that the Review document brought out clearly that, while the Corporation were on target in achieving internal efficiencies, external factors were conspiring to knock them off course. This raised the question of how long the Government could be expected to support BSC in the hopes that all would come right in the end. Mr Barker agreed that, while internal factors were well under control, the combination of low home demand, weak prices, and the need for loss-making exports so as to maintain optimal plant-loading was having an adverse effect on losses. But management were not sitting on their hands. Three new programmes were under way in a bid to offset the impact of these external factors. With nine months ofthe Plan period still to run, there was every chance of success, but it was too soon to enter into a commitment. Mr Brittan sought confirmation that BSC therefore intended to remain within the EFL of £730 million for 1981/82. Mr MacGregor hoped so, with the exception of the costs to BSC of the Phoenix programme; he would do his best to accommodate these costs within the EFL, but they had not formed part of the original Plan and he could make no promises. After further discussion, the Secretary of State concluded that Mr MacGregor well understood the Government's need for him to absorb these costs within the existing EFL but could not pledge himself to do so.

5. Mr Ibbs asked about the prospects for price increases and capacity rationalisation following the recent agreement in Europe. Mr MacGregor stressed that the major problem remained over-capacity in Europe. Interpenetration of markets by German, Belgian and French steelmakers, particularly in strip products, had a destabilising effect. He hoped to get them out of the UK market. On prices, there was a circle which was very difficult to square. If BSC managed to make its UK prices stick at levels above those in the rest of Europe, then its customers would become uncompetitive and risk closure. But if BSC could not secure higher home prices, it would itself move ever further into deficit. The Secretary of State asked whether there was likely to be any need in August for Ministers to take special action in Brussels (eg. by calling a Council meeting) so as to curb misbehaviour on the part of other European steel producers. Mr MacGregor doubted whether this would be necessary. But BSC did have a problem. The production limit on hot rolled coil left them short of what they needed to produce. A temporary agreement recently made with other European producers would tide them over for the moment, but a proper solution would need to be reached. If this proved impossible amongst producers, an appeal to Commissioner Davignon would be necessary and at that stage the help of Ministers would be useful.

Corporate Plan for 1982/3

6. Mr Brittan asked whether the new Corporate Plan due in November would cover a period of more than one year, and indicated that he hoped it would present the Government with strategic options. Mr MacGregor confirmed the first point. On the second, he was quite prepared to present options, though the Government might find some of them unpalatable. Mr Brittan said that, if there were unpalatable options to be considered, the Government needed to know about them. He asked in particular whether BSC were considering the closure of either Ravenscraig or Teesside or both. Mr MacGregor said that BSC could not rule out these possibilities. Much would depend on whether performance at the plants could be improved to a satisfactory level. But the closure of either plant would entail a wide-ranging restructuring of the entire BSC business, including perhaps complete withdrawal from certain major product areas, eg heavy sections if Redcar/Lackenby were closed.

7. Mr MacGregor agreed that BSC would put forward a number of alternative scenarios to Government in September, which would illustrate the range of options open to the Corporation in preparing the next Plan. He would welcome further guidance from Government on certain key assumptions which would need to be made in preparing the next Plan, notably on the expected changes in the £/DM exchange rate.

8. Mr Tebbit suggested that, from the figures in the Review document, BSC's labour costs per tonne of steel appeared to be below those in Germany. Mr MacGregor cautioned against such a conclusion. Comparisons in this area were notoriously tricky. He would have a paper prepared for Mr Tebbit.

Privatisation

9. The Secretary of State asked about progress in the Phoenix negotiations and in the formation of Companies Act companies. On the first point, Mr MacGregor regretted that the degree of progress did not match the amount of effort which BSC had been expending. Phoenix 2 was proving a real headache: any arrangement would involve GKN in closing plant, and it was not clear that they were prepared to accept the financial consequences. There was, however, a separate initiative which was at an early stage. BSC had started to talk to Tube Investments Ltd about a joint venture in the tubes sector. BSC had developed a new process for making low-cost tubes. Any joint venture would involve plant closures on both sides. There were many unknowns and progress was likely to be slow. On Companies Act companies, Stanton and Staveley Ltd and British Steel Service Centres Ltd had now been formed. There were no other obvious candidates at present. But other aspects of privatisation were being pursued. Redpath Dorman Long Ltd had captured some new business and was now making only small losses. The Japanese were no longer interested in buying into the business, but efforts were being made to attract bids from UK construction companies. BSC (Chemicals) was on the way to being sold, though this had to be done piecemeal.

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Press Statement

10. Concluding the discussion, the Secretary of State suggested that it would be desirable for BSC and the Government to speak with one voice in answering Press questions about the meeting. It was agreed that a statement would be made on the following lines: "The meeting between the BSC and the Secretary of State considered the progress being made by the Corporation towards achieving the target of break-even in 1982/83, and as a result the BSC will prepare further plans for consideration with the Government in September".

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22 July 1981

cc PS/SoS
PS/Mr Tebbit
PS/Mr Marshall
PS/Mr MacGregor
PS/Secretary
Mr Steele
Mr Binning
Mr Murray
Mr Morris
Mrs Cohen
Mr Woodrow
PS/Chief Secretary
Mr Ibbs CPRS
PS/ Prime Minister