



bc Mr. Walters  
Mr. Ingham

Subject

cc Master. Also copied to  
Energy's Gas Gathering

10 DOWNING STREET

From the Private Secretary

14 September 1981

BF X

Dear Peter,

9/1/81

As you know, Mr. Ian MacGregor called on the Prime Minister last Wednesday afternoon. He was accompanied by Mr. Tebbit.

Mr. MacGregor said that BSC's performance during the current financial year was to some extent off course. Their expectations about the domestic market had proved rather too optimistic - mainly because the recession in the construction and engineering industries had proved longer than they had anticipated. They had managed to maintain their volume of production by "buying" exports; but as a result they had eaten into their contingency reserve. BSC were hoping to increase their exports to the USA. The prospects were reasonably favourable. He had seen Mr. Baldrige, the US Secretary of Commerce, who had indicated that the Administration was likely to accept higher imports from the UK provided that other European producers did not continue to dump steel which they were unable to sell in Europe on the American market. BSC had a reasonably good case for increasing their exports to the US, particularly since they had been exporting to that market at a considerably higher level in the early 1970s. Also, unlike the Europeans, they had been concentrating on special steels, which posed less of a threat to the US steel producers than the bulk steels. BSC would continue to be selective in their efforts to penetrate the American market, and he would shortly be having talks with Viscount Davignon to try to ensure that BSC's efforts were not thwarted by their competitors in Europe.

Mr. MacGregor mentioned briefly his proposals for the coming pay negotiations with the steel unions. He hoped to persuade them that there should be no general pay increase, but that there should be bonuses at plants that performed well. There was then some discussion of BSC's investment and capacity problems. Mr. MacGregor said that much of BSC's investment in recent years had been mis-directed: he mentioned in particular that there had been too little investment in tube making capacity. A major problem at present was the future of the Redcar blast furnace: it was uneconomical to keep this furnace going since there was no second furnace next to it which could be used while it was periodically relined. Mr. MacGregor also mentioned the problems of GKN's Brymbo plant, which BSC had an interest in seeing closed. This made sense insofar as it was probably the worst plant of its kind in the industry, but closure would be expensive. In response to a question from the Prime Minister about the future of Sheerness, Mr. MacGregor said that

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their problem was essentially lack of demand; BSC were trying to persuade the Canadians to close Manchester Steel, which would help the mess.

Turning to the coal industry, Mr. MacGregor said that it was essential that NCB should close down their uneconomic pits, particularly those in South Wales. He thought that the best approach to persuading the unions was for the Government to publicise the appalling conditions in the South Wales pits. The public would never support their continued working if the conditions in them were better known. Mr. MacGregor also warned about the technical problems of building up coal at power stations: he hoped that the Government appreciated that coal tended to oxidise and lose calorific value the longer it was stored.

Mr. MacGregor said he hoped the Government would consider favourable the latest proposals from the consortium headed by BSC for the Channel crossing link. The fundamental problem in obtaining private sector finance for the project was somehow to guarantee its completion. The same applied to the gas gathering pipeline project; but for the latter to attract private finance, it was essential that BGC should no longer be the monopoly purchaser of gas flowing through the pipeline. In addition, BGC's monopoly in selling industrial gas should be removed, and the transport of gas on-shore ought to be on a common carrier basis. The Prime Minister asked if Mr. MacGregor would write to her with his proposals for the gas gathering pipeline. (In the event, he wrote to David Young - a copy of his letter is enclosed and the Prime Minister would be glad to know of the outcome of the meeting which Mr. MacGregor is to have with Mr. Young on it.) One final point that Mr. MacGregor made was that, for large scale projects that the Government wished to see financed by the private sector, it should consider providing specific tax exemptions to those who put up the funds: this had been successfully done in the US.

I am sending a copy of this letter and the enclosure to Julian West (Department of Energy) and John Kerr (HM Treasury) and without the enclosure to Tony Mayer (Department of Transport).

*am em.*

*T. Lancaster*

Peter Mason, Esq.,  
Department of Industry.

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