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Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
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SWITCHBOARD 01-212 7676

cc MAP, JV, PRESS

10 June 1982

Michael Scholar, Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

①

Prime Minister

Agree ~~that~~ subject to
colleagues, that this statement
should be made, by written answer?

Dear Michael,

PARLIAMENTARY STATEMENT ON STEEL

MCS 10/6

Further to yesterday's discussion at E(NI), I attach a copy of the statement on BSC finances which my Secretary of State now proposes to make tomorrow, Friday, 11 June. As agreed in discussion, the statement has been considerably shortened from the earlier version circulated with my letter of 7 June, and it will be in the form of a written answer to a Parliamentary question.

2 I also attach for information a copy of the separate statement - also by written Parliamentary answer - which my Secretary of State is making today on the outcome of the EC Industry Ministers' Council.

3 The Parliamentary timetable allows us very little time if we are to make the BSC statement tomorrow; and I should be grateful therefore for any comments to reach me by close of play today.

4 Copies of this letter and attachment go to the Private Secretaries to Members of E(NI), Francis Richards (FCO), Jim Buckley (Lord Privy Seal's Office), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Michael Arthur (Chancellor of the Duchy's Office) and to the Chief Press Officer at 10 Downing Street.

Yours ever

Caroline Varley

CAROLINE VARLEY
Private Secretary



6

QUESTION:
(For ordinary written answer on Friday 11 June)

To ask the Secretary of State for Industry, whether he will make a statement about the finances of the British Steel Corporation.

ANSWER:

1 The British Steel Corporation made good progress towards eliminating its losses in 1981/82. Its target was to reduce losses before interest to £225 million within an External Financing Limit of £730 million. Provisional results for 1981/82 show that the loss was about £252 million with an external financing requirement of about £768 million. BSC's cash requirements for its own operations were however below the EFL of £730 million; there were additional commitments totalling £72 million in connection with joint ventures with private sector steel producers. And the exceptionally severe winter weather, followed by the ASLEF dispute, cost BSC over £40 million in profits in 1981/82.

2 BSC's Corporate Plan for 1982/85 aims to achieve break-even in 1982/83, and increasing profits after interest in subsequent years. However in view of the uncertainties over international steel market in 1982/83, and of the US situation in particular, BSC indicated in March that the contingency margin in 1982/83 should be increased from £100 million proposed in the original Plan to £175 million.

3 The Government have decided, after consultation with BSC, to confirm the profit and loss target for 1982/83, announced on 24 February 1981, namely to achieve break-even before interest - and to approve the External Financing Limit, (provisionally set at £350 million in November), at £365 million. The provision of this finance is subject to the approval of the European Commission.



4 This EFL includes a contingency margin well below the £175 million requested by BSC. (However, in recognition of the uncertainties which BSC face, I have agreed that if it becomes clear that the financial targets are not likely to be achievable because of a disruption in the steel market, it will be necessary to reconsider the present decision. Any change would of course be announced to Parliament in the usual way.)

5 I warmly commend the efforts of the Chairman, the Board, the management and the workforce in achieving the remarkable progress made so far, and I wish them continuing success.



QUESTION:

(For ordinary written answer on Thursday 10 June)

To ask the Secretary of State for Industry whether he will make a statement about the outcome of the EC Industry Ministers' Council on arrangements for the EC steel industry held on Tuesday 8 June.

ANSWER:

1 The Council in Luxembourg on 8 June, which I attended, gave its consent to continue for 12 months the mandatory steel quota arrangements under Article 58 of the Treaty of Paris. The Italian Government will state their position on these arrangements by 16 June after there has been further examination of the quota calculation for certain products.

2 With minor amendments, quotas will be applied to products covered by the arrangements presently in force, with the addition of wire rod. I had no support from any Government or the Commission for my proposal that mandatory quotas should be applied to tool and high speed steels. The Commission will, however, issue tightly drawn guidelines, monitor their effectiveness, and report to the Council in October.

3 It was a significant achievement by the Council to reach agreement on these arrangements. With other provisions - most notably the Aids Decision which the Commission confirmed would be rigorously and equitably enforced - the Council has provided a basis for the European steel industry to return to viability during this period of crisis and uncertainty.

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bcc: Mr. Ingham
Mr. Verrekes

10 DOWNING STREET

Not. Ind.

From the Private Secretary

11 June 1982

Dear Caroline,

PARLIAMENTARY STATEMENT ON STEEL

Many thanks for your letter of 10 June attaching a copy of two Written Parliamentary Answers on BSC finances which your Secretary of State proposes to make today.

I have shown this to the Prime Minister who is content with both Answers, save that she believes that the last two sentences of paragraph 4 of the first Answer should be deleted. Her view is that it would give the wrong signal, particularly to the private sector steel industry, to indicate in this way that the financial targets could be reconsidered if they prove to be unlikely to be achievable because of a disruption in the steel market.

I am sending copies of this letter to the Private Secretaries to the other members of E(NI) and to Francis Richards (Foreign and Commonwealth Office), Jim Buckley (Lord Privy Seal's Office), Muir Russell (Scottish Office), Adam Peat (Welsh Office) and Keith Long (Chancellor of the Duchy of Lancaster's Office).

Yours sincerely,

Michael Scholar

Ms. Caroline Varley,
Department of Industry

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50

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Prime Minister (2)

X needs much more

Foreign and Commonwealth Office *emphasis.*

London SW1A 2AH

8 June 1982

MCS 8/6

From The Minister of State

Rt Hon Douglas Hurd CBE MP

Dear Geoffrey,

BSC CORPORATE PLAN 1982

As I shall not be able to attend tomorrow's E(NI) meeting I am writing to let you have my views in advance.

Although your Memorandum does not overlook the Community angle, I am not sure that it does justice to the delicacy of your task in clearing the aid through the Commission nor to the potential embarrassment should things not go according to plan.

This is by far the largest aid package which we shall have to notify to the Commission in the immediate future and is in a particularly sensitive sector. The Commission, as you know, have been taking a very tough line with other member states over their aid plans and have made it clear to us that they will insist on substantial new capacity reductions as a counterpart to the aid to BSC. We ourselves have of course been pressing hard for rigorous implementation of the Aids Decision throughout the Community.

It is against this difficult background that we shall be seeking the Commission's approval for a very substantial amount of financial support in 1982/83 and for investment in a new strip mill project. But it remains uncertain what capacity reductions we shall be able to offer in return and I understand that it may be several months before we are likely to know.

In the meantime BSC are in fairly urgent need of cash. I understand that BSC want the Commission to approve an initial tranche of £300 million by the end of July (over 50% of their likely requirement this year). But because BSC are not ready to give a commitment to any specific plant closures the Commission are in effect being asked to authorise a major slice of aid without any guaranteed counterpart. I understand that even the (largely symbolic) proposed dismantling of Normandy Park to which you refer in your Memorandum is no longer being offered as a certainty. And the rest is still subject to review.

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

/It would

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- 2 -

It would therefore be useful if you could give the E(NI) an assessment of the Commission's likely reaction to this request for approval of the initial tranche. Is it not probable that the Commission will impose strict conditions on their approval? Given BSC's need for cash, they have an effective lever on us and the Corporation. Yet how likely is it that the capacity reductions which are eventually decided upon will be enough to satisfy the Commission? Presumably if a few cuts are agreed, or if a longer timescale is envisaged we may have serious difficulties with the Commission.

There is also the question of how BSC is being financed now. We are well into the 1982/83 financial year, yet Commission approval for the first tranche of this year's financing is not expected until at least the end of July. I understand that a short term National Loan Fund facility has been proposed. I trust that the Commission are not going to object to this and it would be helpful to have your confirmation that this is so.

Finally, I note from the paper by your officials (paragraph 27) that there is a 'significant risk' that BSC will fall short of its financial targets. BSC is clearly very vulnerable to external factors (weather, strikes, price variations) and I fear that any of these could have a substantial effect on the Corporation's financial requirements. I see that you have tried to make allowance for this by building a substantial contingency element into the figures, but I think it should be recognised that these external uncertainties could well lead to further difficulties with the Commission later in the year.

x/ I realise that in dealing with the Commission there are several points in our favour (the substantial capacity reductions already achieved, the degressivity of the aid, and BSC's encouraging overall performance). But equally I believe colleagues should be fully aware of the difficulties which lie ahead. I hope your officials will keep in close touch with mine about this in the coming months.

I am copying this letter to members of E(NI).

Yours,
Dayle

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Secretary of State for Industry

7 June 1982

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

ms

Prime Minister (2)

To see that Mr Jenkin is
planning to make a statement on
steel next Monday. It is in line with
the recent E(NI) paper.

Dear Michael,

PARLIAMENTARY STATEMENT ON STEEL

As agreed in discussion with Jonathan Spencer last Friday, I attach a preliminary draft of the statement on steel which my Secretary of State would like to make on Monday, 14 June, assuming of course a firm outcome to the E(NI) discussion on Wednesday 9 June. Members of E(NI), to whom this letter and attachment are copied, may find it helpful to have a preliminary view of what we propose.

*with when
the revised
draft is
available.*

2 I should point out that the draft statement as it stands is likely to require some refinements, and is also incomplete. Besides a statement on the BSC Corporate Plan and related matters, my Secretary of State also proposes to cover the outcome of the Council of Ministers' meeting in Luxembourg on Tuesday, 8 June which is considering a package of measures on steel; and an expected announcement on 10 June by the US Department of Commerce of their preliminary findings on a number of countervailing duty cases brought against the European steel producers. It will not, therefore, be possible for us to circulate a revised and complete version of the statement until the end of Thursday at the earliest.

MUS 7/6

3 Copies of this letter and attachment go to the Private Secretaries to Members of E(NI), Francis Richards in the FCO, Jim Buckley in the Lord Privy Seal's office, Michael Arthur in the Chancellor of the Duchy's office and to the Chief Press Officer at 10 Downing Street.

Yours ever,

Caroline Varley

CAROLINE VARLEY
Private Secretary

DRAFT STATEMENT ON THE STEEL INDUSTRY

With permission, Mr Speaker, I would like to make a statement about the steel industry. A report by BSC which provides background to my statement has been placed in the Library of the House and in the Vote Office.

On 24 February last year my predecessor announced the Government's support for the short-term survival Plan which the new BSC Chairman had drawn up for 1981/82. That Plan was described by Mr MacGregor as optimistic, a view which the Government endorsed, involving as it did ambitious targets to reduce the Corporation's losses, to improve productivity and efficiency, to cut costs, and to regain market share lost as a result of the steel strike in 1980.

The Corporation has made good progress towards eliminating its losses in 1981/82 and has prepared a Corporate Plan for 1982/85 based on achieving break-even in 1982/83 followed by a return to profit after interest in subsequent years.

BSC's target for 1981/82 was to reduce losses before interest to £225 million from £482 million in 1980/81, within an External Financing Limit of £730 million compared with £1,119 million in 1980/81. Provisional results for 1981/82 show that BSC's loss was about £252 million for the year with an external financing requirement of about £768 million. The loss target would have been met if it had not been for the effects of the exceptionally severe weather in December and January, followed by the ASLEF

dispute, which cost BSC just over £40 million in all. Moreover, the Corporation's cash requirements for its own operations were in any case below £730 million: the EFL was exceeded only because of commitments totalling £72 million entered into in connection with joint ventures with private sector steel producers, which were not taken into account when the EFL was agreed and announced last year.

BSC's improved performance has been due to three main factors. First, labour productivity has increased significantly: the number of employees fell by 17,200, or 14 per cent, during the year while liquid steel production increased by almost 20 per cent over 1980/81, to 14.1 million tonnes. Second, plant utilisation and efficiency have improved in most parts of BSC as production levels and manned capacity have moved into line, in accordance with Plan. And thirdly, steel prices have increased to more remunerative levels following agreement in June 1981 on a package of measures to strengthen the European Community market for steel. In this context, I must stress the vital contribution which the European anti-crisis measures have made to improving the performance and prospects not just of BSC but also of the UK private sector steel-makers.

I turn now to the new Corporate Plan for 1982/85. Although it was first submitted to the Government in December 1981, it was withdrawn for reappraisal in January. In March Mr MacGregor informed me that BSC wished to retain the original Plan as the

basis for operations in 1982/85 but that in view of the uncertainties over the steel market in 1982/83, because of the US situation in particular, BSC considered that the contingency margin in 1982/83 should be increased from £100 million proposed in the original Plan to £175 million.

The report which BSC has made available to the House summarises the main features of the new Plan. There will be a modest increase in manned steelmaking capacity, from 14.4 million tonnes of liquid steel last year to 15.3 million tonnes in 1984/85, together with a corresponding increase in total sales. In addition, the pressure to cut costs and improve productivity will be maintained, through keeping up high use of capacity, through reducing energy consumption, and through some further slimming of manpower which will involve about 11,000 job losses in 1982/83. The Government consider that, barring serious adverse developments affecting markets or prices, the Plan represents a realistic strategy which deserves support. But I must stress in this context, as BSC itself has done, that a continuation of the European anti-crisis measures beyond June this year, and in particular the maintenance of an effective price regime, will be crucial to the success of the Plan. The Government are working hard in Brussels to secure these objectives.

The discussions with BSC have also covered the financial targets which should be set for the Plan period, and in particular for 1982/83. These discussions have taken into account the reductions in the National Insurance Surcharge and concessions on energy prices announced in the Budget as well as a more recent

assessment of BSC's profit outlook and cash requirements in 1982/83. As a result, we have agreed with BSC that the profit and loss target for the year should be the same as that announced on 24 February 1981 - namely to achieve break-even before interest - and that the External Financing Limit, provisionally set at £350 million in November, should now be finally fixed at £365 million. The provision of this finance is subject to the approval of the European Commission.

As I have already explained, BSC has proposed that there should be a contingency margin on both profit and loss and cash targets in 1982/83 of £175 million to take account of possible market instability in Europe flowing from the US legal actions. More recently, the Corporation has also expressed concern at a weakening of UK steel demand, and at evidence of significant increases in import penetration. The Government do not discount the importance of these potential problems, but we do not think it right to set targets for BSC in 1982/83 which assume that there will be serious disruptions to its business.

We have therefore agreed to a further review with BSC if during the course of the year it becomes clear that the financial targets are not likely to be achievable because of a deterioration in the steel market. We shall assess the scope for action on the international front to restore stability to the steel market and the scope for offsetting action which should be taken by BSC. This review would consider whether BSC needed any

extra finance during 1982/83 above the EFL which I have just announced. Any extra finance would come from the Government's Contingency Reserve, and a decision to increase the EFL would be announced to Parliament in the usual way.

My final point on financial matters concerns the future funding of the Corporation. Since 1978 BSC has been financed entirely by issues of capital under Section 18 of the Iron and Steel Act 1975, no dividends have been paid on this capital, much of which was written off by the Iron and Steel Act 1981.

We intend to complete the capital reconstruction of BSC by writing off a further amount of capital later this year, as provided for in the 1981 Act. Thereafter we expect BSC to operate as a commercial enterprise, and if the Plan targets are met and BSC return to profitability after interest in 1983/84, then we intend to resume the financing of BSC by means of interest-bearing loans from the National Loans Fund, to provide BSC with a debt to equity ratio which is appropriate to a competitive commercial enterprise.

I turn now to other important matters.

On privatisation, it remains the Government's firm intention that BSC's assets and activities should be transferred to the private sector as quickly as is practicable. Priority will be given to

the non-iron and steel activities of the Corporation and to the disposal or formation of joint undertakings where BSC's activities overlap with those of the private sector steel producers.

Another element in the policy of privatisation, but linked with the question of fair competition between BSC and the private sector, lies in the conversion of BSC's businesses into Companies Act companies. This introduces transparency into the Corporation's activities and at the same time paves the way for the introduction of private capital. Since February last year, BSC has transferred a range of its businesses into such companies - British Steel Service Centres Ltd, the stockholding operation; Stanton and Stavely Ltd, the pipe-makers; and a number of discrete businesses within Tubes Division. BSC now proposes to establish a phased programme for transferring all its remaining businesses into Companies Act companies, with the precise timing reflecting the progress of each business towards profitability. I expect to receive details of this programme from BSC shortly and will keep the House informed.

In the main areas of overlap between BSC and the private sector steel producers, the Government's aim has been to encourage the formation of joint ventures, sometimes referred to as "Phoenix" arrangements. The first, combining the BSC and GKN wire rod interests into a new jointly-owned company, Allied Steel and Wire Ltd, came into operation last July. Discussions on further

possible joint ventures are continuing.

Rationalisation in the private sector is also necessary where BSC has little or no involvement. Over-capacity needs to be reduced, but leaving rationalisation to market forces would not necessarily lead to the best-equipped companies surviving. Last December, therefore, the Government set up a £22 million Private Sector Steel Scheme to assist restructuring. So far, 14 companies have submitted a total of 27 separate applications between them. A good number of other companies are also discussing proposals with the Department. We expect a substantial number of additional applications before the closing date in September, particularly in the wake of the studies commissioned by the Department into the cold-rolled strip and bright bar sectors.

So, despite set-backs and uncertainties, I can report steady progress both in the public and private sectors. Though there is still some way to go before we have a viable, profitable and competitive steel industry in Britain, the progress made so far is encouraging. It has required great efforts by management at all levels and great co-operation by the workforce, and I know that the House will share my hope that this progress will be sustained.

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Secretary of State for Industry

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arrived*

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7 June 1982

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

PM has seen

M/S 8/6

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PARLIAMENTARY STATEMENT ON STEEL

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ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

4 June 1982

David Heyhoe Esq
Private Secretary to
The Lord President of the Council
Privy Council Offices
Whitehall
SW1A 2AT

1. M/S

No need to trouble PM at this stage on timing. We have no objection to this tentative plan if Mr Biffen is happy. Nearer the time other matters could dictate a change of date.

Dear David,

PARLIAMENTARY STATEMENT ON STEEL

2. p.a.

MAD 4/VI.

On Wednesday 9 June E(NI) Committee will discuss a paper by my Secretary of State on the finances and Plan of the British Steel Corporation. BSC is the only nationalised industry for which the Government has not yet announced a firm external financing limit for 1982/83, and it will be necessary to make a short statement in the House of Commons about the BSC's Corporate Plan and its prospects once the EFL for 1982/83 has been decided.

2 Assuming that E(NI) do reach firm decisions on 9 June, my Secretary of State would like to make a statement after Questions on Monday 14 June. The statement would also need to refer to the outcome of the Council of Ministers' meeting in Luxembourg on Tuesday 8 June, which is considering a package of measures on steel but which is likely to be inconclusive. We are also expecting, on 10 June, an announcement by the US Department of Commerce of their preliminary findings on a number of countervailing duty cases brought against European steel producers, and the statement on 14 June will need to include a reference to this as well.

3 I would be grateful if you would let me know whether the Lord President can agree, on a provisional basis, that a statement on steel may be made on Monday 14 June.

4 I am sending a copy of this letter to Mike Pattison at 10, Downing Street, Jill Rutter in the Chancellor's Office, Francis Richards in the FCO, John Rhodes in the Department of Trade, Murdo MacLean in the Chief Whip's Office, Jim Buckley in the Lord Privy Seal's Office, Michael Arthur in the Chancellor of the Duchy's Office and to the Chief Press officer at 10 Downing Street.

Yours ever
Caroline Varley

CAROLINE VARLEY
Private Secretary