

CONFIDENTIAL

Prime Minister ⁽²⁾ ~~Not Found~~
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Ms 22/11
DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

22 November 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall SW1

Dear Geoffrey,

BSC: WRITE-OFF OF CAPITAL

As you know, we need to take a decision on whether to use the power in the Iron and Steel Act 1981 to write off up to a further £1,000 million of BSC's capital. You will recall that, when we wrote off £3,500 million of BSC's capital and long term debt in 1981, we recognised that a further write off would be essential to cover the losses which were expected to occur over the year 1981/2.

2 BSC's loss after extraordinary items in 1981/82 was £504 million, and the Corporation's revenue deficit at the year end, including the deficit carried forward from the previous year, was £799 million.

3 At the start of the current financial year, BSC were operating at close to breakeven. But their financial position has deteriorated very seriously over the past few months. Early in December the Corporation will announce its half-year results, to end September, which will show losses of over £150 million during the period. This is about £100 million worse than their target and a similar loss is expected in the second half year.

4 I have been discussing with Ian MacGregor the action which BSC need to take to correct this setback. He has set in hand a series of management actions to cut costs, including a number of further small and medium works closures, some of which have already been announced, including the closure of Round Oak Steelworks on 17 November. The indications are however that BSC cannot return to profitability unless they close one of their 5 major integrated steelworks; I have not yet completed my consultations with Ian MacGregor but hope to do so soon. I will then circulate a paper to colleagues.

5 In the meantime, we cannot delay a decision on the capital write-off. The BSC's half year accounts have been specially expanded to include a balance sheet which includes further



provisions for redundancies and closure costs, and asset write-offs, arising from the new programme of closures referred to above. The total revenue deficit at 2 October 1982 shown in the balance sheet is £1,275 million.

6 Since the total revenue deficit for BSC at 2 October 1982 is significantly above the £1,000 million limit, I recommend that we write off the full amount permitted in the Iron and Steel Act, namely £1,000 million. I attach a copy of the necessary draft Order.

7 This write-off is of capital which we knew, at the time we advanced it, would not be remunerated and would have to be written off. Hence, it will be important to make it clear to all that this write-off will confer no new financial benefit on BSC; it is in many ways simply a technical adjustment to BSC's capital structure which we announced over a year ago that we would undertake. The difficult question is one of timing, given BSC's current problems. The Iron and Steel Act provides that the further write-off of BSC's capital must take place no later than 31 December 1982. We set this time limit deliberately, so as to underline our intention that BSC would be profitable by 1983. If we do not use this power, it will lapse and BSC will be left with a large deficit in their balance sheet. Failure to use the power will be likely to be interpreted as a sign that we no longer expect BSC to return to viability.

8 In order to meet the necessary Parliamentary timetable, the draft Order will need to be published in the week beginning 29 November, and tentative arrangements have been put in hand for a short debate in the week beginning 13 December. We may well not be in a position to make any announcement on BSC's future strategy by that time: in any case such an announcement should be made separately. I propose therefore to discuss with John Biffen whether, through the usual channels, we can persuade the Opposition parties to accept that this Order is an entirely separate question from that of BSC's current difficulties and future strategy, and seek their agreement to limit the debate to the short time appropriate to a technical financial Order. I will also discuss how we should handle the media - I am very anxious to avoid headlines bawling "Government £1 billion Handout to BSC!"

9 We have already notified the Commission that we expect to use this power to write off £1,000 million of BSC's capital and I do not expect any difficulty from that quarter.

10 I would be grateful for your agreement to the writing off of £1,000 million of BSC's capital, as proposed above, and for an order along the lines of the attached to be laid in the week beginning 29 November to be debated before the Christmas Recess.



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11 Copies of this letter go to the Members of E Committee, to John Biffen, Nicholas Edwards and George Younger, to the Chief Whip, Mr John Sparrow and Sir Robert Armstrong.

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Draft Order laid before the House of Commons under section 36(4) of the Iron and Steel Act 1982 for approval by resolution of that House.

D R A F T S T A T U T O R Y I N S T R U M E N T

1982 No.

IRON AND STEEL

The British Steel Corporation (Reduction of Capital) Order 1982

Laid before the House of Commons in Draft
Made 1982
Coming into Operation 31 December 1982

The Secretary of State, in exercise of the powers conferred on him by sections 18(7) and 19(2) of the Iron and Steel Act 1982(a), hereby makes the following Order, a draft of which has been approved by resolution of the House of Commons:-

1. This Order may be cited as the British Steel Corporation (Reduction of Capital) Order 1982, and shall come into operation on 31 December 1982.

2. The aggregate of -

(a) the sums paid before 30 November 1982 under section 18(1) of the Iron and Steel Act 1982 to the British Steel Corporation, and

(b) so much of the sum which, by virtue of section 18(3) of that Act, is treated as so paid as represents sums paid under section 18(1) of the Iron and Steel Act 1975(b),

shall be treated as reduced by £1,000 million.

3. The limit specified in section 19(2) (limit on borrowing by and investment in the Corporation) of the Iron and Steel Act 1982 shall be £3,000 million.

[date]

[Signature]
Minister of State
Department of Industry

EXPLANATORY NOTE

(This Note is not part of the Order.)

This Order provides that the aggregate of sums paid by the Secretary of State to the British Steel Corporation before 30 November 1982 under section 18(1) of the Iron and Steel Act 1982 and sums so paid under section 18(1) of the Iron and Steel Act 1975 are to be treated as reduced by £1,000 million.

The sum so reduced is £2429 million comprising £2237 million paid under the 1975 Act and £192 million paid under the 1982 Act.

Additionally, the Order reduces from £3,500 million to £3,000 million the limit imposed by section 19(2) of the 1982 Act on the aggregate of certain borrowings by the Corporation and publicly owned companies (as defined in section 37(1) of that Act) and investments by the Secretary of State in the Corporation.

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22 NOV 1982



Prime Minister

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ms 29/11

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

29 November 1982

2 Patrick

BSC: WRITE-OFF CAPITAL

You wrote on 22 November seeking agreement to introduce an order to make use of the powers given by the 1981 Iron and Steel Act to write-off a further £1 billion of Government capital invested in BSC.

I am content that you should proceed as you propose and note that you and John Biffen will be consulting to see how the proper presentation of the write-off can be secured and how the debate necessitated by the Order can be suitably constrained.

I am copying this letter to the recipients of yours.

LEON BRITTAN

rust Inl. Steel, A 11

29 NOV 1982

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MR. BOYLER not Izad
Prime Minister



through, this is the line
which we are displaying.
I have also told Scottish Inf.

PS/Secretary of State

Office
Further

cc PS/Mr Lamont
PS/Mr Butcher
PS/Secretary
Mr Manzie
Mr Binning MM
Mr Murray MM1 o.r
Mr Mogg MM2
Mr Woodrow Inf.
Mr Haslam Inf
No. 10 Press Office

BRITISH STEEL CORPORATION

Following the Secretary of State's meeting with the TUC Steel Committee on 4 October, they went to see Mr MacGregor yesterday. He told them that BSC's prospects were deteriorating sharply. Out of current losses of about £8 million a week, over £6 million was attributable to overcapacity. Remedial action was inescapable and decisions would have to be taken by the end of October. One of the options being considered would involve the closure of one, or perhaps even two, major plants (unspecified). It is this message which Mr Sirs will be giving to the union delegate conference in Sheffield today.

2. Against this background, I suggest the following public line:

- (a) At his meeting on Monday with the Steel Committee, the Secretary of State confirmed that BSC faced considerable difficulties at present.
- (b) The Government had been taking all the measures within their power to alleviate BSC's problems, notably on the external front, viz:
 - (i) Major efforts to secure a solution to the EEC/US dispute.
 - (ii) Pressure in the Community to ensure effective application of production quotas and pricing rules as well as respect for the agreed restraints on steel imports from third countries.
- (c) The Government would be keeping up this pressure and stood ready to investigate particular problem areas identified by the Steel Committee eg imports from Korea + Sth Africa.



- (d) It remained the Government's firm policy to see BSC return to enduring profitability.
- (e) It must be for the Corporation's management to consider remedial action to counter the deteriorating position. The Government had taken no decision on the future of any individual plant.

S J Bowen

S J Bowen
MM1a
813 Ashdown
212 6992

6 October 1982