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10 DOWNING STREET

From the Private Secretary

14 December, 1982 EPRS.  
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SW  
AMB  
HMT.  
SO  
WO  
Chief Sec, HMT  
D/EMP  
D/Trade  
Min/State, FCO (Mr Hurd)

Dear Jonathan,

BSC Future Strategy

The Prime Minister held a further meeting this morning with your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, the Chief Secretary, Treasury, the Secretaries of State for Employment and Trade, and the Minister of State, Foreign and Commonwealth Office (Mr. Hurd). Mr. Sparrow, and Mr. Gregson and Mr. Buckley of the Cabinet Office, were also present. The meeting considered Mr. Jenkin's minute of 10 December and Mr. Younger's minute of 13 December.

Most of the discussion centred on the draft statement attached to your Secretary of State's minute. I enclose with this letter a list of the points on that draft which were agreed in discussion. I should also record the following:

- (a) It would be desirable to open discussions with the Commission on the Port Talbot project as soon as possible. Final decisions on this project would have to be taken in the context of the BSC's new corporate plan. In the discussions with the Commission we should take a robust line: we had already borne far more than our fair share of reductions in capacity; and it would be unacceptable for the Commission to block the project if, after examination of the BSC's detailed proposals, we finally decided to go ahead with the project. The process of discussion need not prevent the BSC from seeking tenders for work at Port Talbot, provided that it was made clear that such tenders were being sought on a provisional basis. To have such tenders could be useful in seeking to reduce financial provision.
- (b) The Chief Secretary reported that he and your Secretary of State had agreed that the aim should be to contain the BSC's EFL for 1983-84 within £350 million, compared with £195 million at present.

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This could be done by economies in operating costs, by reducing or removing the allowance for contingencies, and by bringing forward certain expenditure, for example on redundancies, from 1983-84 into 1982-83. The effects on the PSBR would be offset to a large extent by changes in British Telecom's EFL; but these two things should not be linked in public presentation. To do so would give the (entirely false) impression that the Government was cutting back on investment in new technology in order to prop up a declining industry.

- (c) It would not be desirable to defend the decision on social rather than economic grounds, or to use the figures in the note attached to Mr. Younger's minute of 13 December in public discussion.

Regarding future procedure it was agreed that your Secretary of State should report the general lines of the decisions taken at today's meeting and the meeting on 6 December, and of his proposed statement, to the Cabinet on Thursday, 16 December under the item 'Industrial Affairs'. The statement would be made on Monday, 20 December. Your Secretary of State would circulate a revised draft of the statement, taking account of the points agreed at today's meeting, to the Ministers present at that meeting.

I am sending copies of this letter to the Private Secretaries of the other Ministers present at the meeting, to Gerry Spence and to Richard Hatfield.

*Yours sincerely,*

*Michael Scholau*

Jonathan Spencer, Esq.,  
Department of Industry

Points agreed in discussion of the draft statement attached to the Secretary of State for Industry's minute of 10 December

General

- (i) So far as possible, figures should not be given: the Government's general stance would be that it would give figures, as appropriate, when it had been able to study the BSC's new corporate plan and had decided EFLs for 1982-83 and 1983-84.
- (ii) It would be emphasised that the UK had contributed far more than other members of the Community to reducing excess steel-making capacity; and that it was now the turn of other countries to contribute. There should be a reference to recent developments on the West German Arbed plant.
- (iii) It was essential to avoid sentences that could be quoted out of context, but in their entirety, to give a misleading impression.

Paragraph 8

This paragraph read obscurely: it was not clear what the 'conflict' was. It would be better to use some such phrase as 'the question is how to achieve our financial and economic objectives in the longer term'.

Paragraph 9

- (i) Although it would be for the Chairman of the BSC to make any announcements concerning the closure of the 'ingot route' at Ravenscraig, the Secretary of State should endeavour to refer in Parliament to this decision - perhaps in answer to a supplementary question: it was important that the statement in

Parliament should not lay the Government open to charges of bad faith by implying that there would be no significant closures at any of the five major integrated sites. It would be helpful to bring out more clearly the distinction between 'plants' and 'works'.

(ii) It should be made clear that the BSC's ability to keep all five integrated sites open depended both on satisfactory performance at those sites and on future demand (omitting the words 'path of'). It might be advantageous to couple these provisos, and to include them both in the opening sentence of the paragraph.

(iii) It might be better to omit the reference to the period 1983-86; the reference risked implying that there would be no closures before the end of the period.

Paragraph 10

(i) The third sentence should be dropped.

(ii) The fourth sentence should be ended after the word 'efficiency', and the remainder of the sentence replaced by a form of words to the effect that the Government would discuss the BSC's proposals with the Corporation and the Commission.

(iii) It would be better to say that the Port Talbot project would need to be 'discussed with' rather than 'approved by' the Commission.



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Reference No: E 0200

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MR SCHOLAR

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cc Mr Gregson

BSC FUTURE STRATEGY

I attach a draft Private Secretary letter recording the outcome of this morning's meeting under the Prime Minister's chairmanship. Mr Gregson has already been in touch with Mr Jenkin's Private Office to give them a preview.

M.S.O.

M S BUCKLEY  
Cabinet Office.  
14 December 1982

Attachment:

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DRAFT PRIVATE SECRETARY LETTER FOR MR SCHOLAR TO SEND TO THE PRIVATE SECRETARY TO THE SECRETARY OF STATE FOR INDUSTRY

BSC FUTURE STRATEGY

The Prime Minister held a further meeting this morning with your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, the Chief Secretary, Treasury, the Secretaries of State for Employment and Trade, and the Minister of State, Foreign and Commonwealth Office (Mr Hurd). Mr Sparrow, and Mr Gregson and Mr Buckley of the Cabinet Office, were also present. The meeting considered Mr Jenkin's minute of 10 December and Mr Younger's minute of 13 December.

2. Most of the discussion centered on the draft statement attached to your Secretary of State's minute. I enclose with this letter a list of the points on that draft which were agreed in discussion. I should also record the following.

(a) <sup>Final</sup> It was agreed that definitive decisions on <sup>this project</sup> ~~the proposed~~ modernisation of the hot strip mill at Port Talbot <sup>could have</sup> should be taken in the context of the BSC's new corporate plan. <sup>should have to</sup>

(a) (b) It would be desirable to open discussions with the Commission on the Port Talbot project as soon as possible. <sup>In such discussions</sup> we should take a robust line: we had already borne far more than our fair share of reductions in capacity; and it would be unacceptable for the Commission to block the project if, after examination of the BSC's detailed proposals, we <sup>the Commission</sup> ~~judged it essential to the future competitiveness of the UK steel industry.~~ The process of discussion need not prevent the BSC from seeking tenders for work at Port Talbot, provided that it was made clear that such tenders were being sought on a provisional basis. To have such tenders could be useful in seeking to reduce financial provision.

finally decided desirable to go ahead with the project

(b) (c) The Chief Secretary reported that he and your Secretary of State had agreed that the aim should be to contain the BSC's EFL for 1983-84 within £350 million, compared with £195 million at present. This



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could be done by economies in operating costs, by reducing or removing the allowance for contingencies, and by bringing forward certain expenditure from 1983-84 into 1982-83. The effects on the PSBR would be offset to a large extent by changes in British Telecom's EFL; but these two things should not be linked in public presentation. To do so would give the (entirely false) impression that the Government was cutting back on investment in new technology in order to prop up a declining industry.

*for example  
on redundancies,*

(d)(c) It would not be desirable to use the figures in the note attached to Mr Younger's minute of 13 December in public discussion.

*to defend the  
decision on  
social rather than  
economic  
grounds, or by*

3. Regarding future procedure it was agreed that your Secretary of State should report the general lines of the decisions taken at today's meeting and the meeting on 6 December, and of his proposed statement, to the Cabinet on Thursday 16 December under the item 'Industrial Affairs'. The statement would be made on Monday 20 December. Your Secretary of State would circulate a revised draft of the statement, taking account of the points agreed at today's meeting, to the Ministers present at that meeting.

4. I am sending copies of this letter to the Private Secretaries of the other Ministers present at the meeting, to Gerry Spence and to Richard Hatfield.

MS

Attached:

Points agreed in discussion of the draft statement attached to the Secretary of State for Industry's minute of 10 December.

General

(i) So far as possible, figures should not be given: the Government's general stance would be that it would give figures, as appropriate, when it had been able to study the BSC's new corporate plan and had decided EFLs for 1982-83 and 1983-84.

(ii) It should be emphasised that the UK had contributed far more than other members of the Community to reducing excess steel-making capacity; and that it was now the turn of other countries to contribute. *There should be a reference to recent developments on the West German Arbed plant.*

(iii) It was essential to avoid sentences that could be quoted out of context, but in their entirety, to give a misleading impression.

*(iii) BSC's own  
earnings performance  
and its  
contribution  
to the  
national  
situation should  
be alluded to  
in the  
introduction.*

Paragraph 8

This paragraph read obscurely: it was not clear what the 'conflict' was. It would be better to use some such phrase as 'the question is how to achieve our financial and economic objectives in the longer term'.

Paragraph 9

(i) Although it would be for the Chairman of the BSC to make any announcements concerning the closure of the 'ingot route' facility at Ravenscraig, it was important that the statement in Parliament should not lay the Government open to charges of bad faith by implying that there would be no significant closures at any of the five major integrated sites. It would be helpful to bring out more clearly the distinction between 'plants' and 'works'.

(ii) It should be made clear that the BSC's ability to keep all five integrated sites open depended both on satisfactory performance at those sites and on future demand (omitting the words 'path of'). It might be advantageous to couple these provisos, and to include them both in the opening sentence of the paragraph.

*The Secretary of  
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(iii) It might be better to omit the reference to the period 1983-86; the reference risked implying that there would be no closures before the end of the period.

Paragraph 10

(i) The third sentence should be dropped.

(ii) The fourth sentence should be ended after the word 'efficiency', and the remainder of the sentence replaced by a form of words to the effect that the Government would discuss the BSC's proposals with the Corporation and the Commission.

(iii) It would be better to say that the Port Talbot project would need to be 'discussed with' rather than 'approved by' the Commission.

(iv) It should be made clear that much of Port Talbot had already been modernised, and that the proposal regarding the hot strip mill was merely a continuation of this process of modernisation.

Paragraph 11

The timetable set out in this paragraph was unnecessarily tight and specific: in particular, it appeared to commit the Government to an early decision on Port Talbot, although discussions with the Commission might well take a good deal of time. It would be better simply to promise decisions 'as soon as possible'. For similar reasons, it would be as well to omit the last sentence of paragraph 10.

Paragraph 12

*(and the last sentence should be omitted or qualified)*  
This paragraph would need extensive redrafting. The aim should be to encourage improvements in productivity without implying that all BSC's plants were safe from closure or that improvements in efficiency were a sufficient condition for indefinite continuation of future operations: it was also necessary to match capacity and output to demand. There might be advantage in referring, either here or elsewhere in the statement, to the low level of UK steel exports in comparison with, say, West Germany and the opportunities that existed in the export market if costs and quality were competitive.