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From the Private Secretary

cc MASTER SET.

21 March 1984

POST & TELECOM

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Industrial Issues

Your Secretary of State called on the Prime Minister today to give her advance warning of a number of difficult issues which were coming up.

He said that Mr. Haslam's preliminary look at BSC's Corporate Plan showed that the objective of freeing BSC from Government assistance by 1986 would certainly require closure of one major plant, probably Ravenscraig. If BSC were to be made sufficiently profitable to be privatised closure of two and even three plants might be necessary. He had warned Mr. Haslam that Government was unlikely to contemplate the most drastic closures and he had suggested that the Corporate Plan concentrate on a narrower range of options. The Prime Minister agreed. Even if world trade recovered very rapidly, there would still be a great deal of surplus capacity in the world steel industry, making it difficult to achieve a complete withdrawal of Government aid.

Your Secretary of State said that Mercury was in serious difficulties. These stemmed from the way it was financed and the way it was managed. There was a dispersion of responsibility and a lack of clear leadership. It was failing to attract customers. These difficulties would shortly become apparent though it might be possible to get the bill through the House before they did.

There were several responses. First, a new Chief Executive could be appointed. One possibility was to establish the job as a stepping stone to the Chairmanship of Cable and Wireless when Sir Eric Sharp retired. Second, additional shareholders could be brought in. AT&T had once expressed an interest but this had since been dropped. Pacific Bell were now thought to be interested but a shareholding by or sale to an American company raised problems of a kind with which you will be familiar.

Your Secretary of State mentioned that Sir William Duncan of Rolls Royce might ask to see the Prime Minister. Sir William accepted that the launch aid provided for the V2500 engine was

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adequate for the project but insufficient to allow Rolls Royce to build up its balance sheet for privatisation. If the Government were serious about the latter, further aid would be needed. The Prime Minister remarked that privatisation of Rolls Royce was a project which would take some time.

I am not copying this widely and I assume you will be doing the same.

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry.

PRIME MINISTER

Mr. Tebbit is coming to see you tomorrow to talk about:

(i) BSC Corporate Plan

He wants to warn you of the very difficult decisions which lie ahead and to seek your reaction to various courses of action;

(ii) Mercury

The Government's telecommunications policy depends on the successful development of the duopoly. The second leg is not thriving. This raises the question of whether additional backers should be found. If these included American companies, difficult questions of security could be raised. There will also be difficult decisions on channelling Government business through Mercury;

(iii) Middle East Contract

Although Mr. Tebbit told BAe not to pursue the contract he mentioned to you, it has resurfaced in an even larger and more lucrative form. With the politics of the Middle East, and particularly the Lebanon, constantly changing, Mr. Tebbit will want to check whether we should continue to turn this deal down;

(iv) A "Ministerial matter".

AT

20 March 1984