

cc. NAT. IND.
Coal Part 14

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PRIME MINISTER

Mr Ian MacGregor: Performance Payments

You should know that it will be announced tomorrow that the first performance payment for Mr MacGregor is being deferred. It is being announced by means of a Written PQ because Lazard-Freres in New York have already told a journalist on 'The Observer'.

There is a wrangle between the Department of Energy and the Department of Trade and Industry on the terms in which the announcement should be made. The Department of Industry want to say

'the Government and Lazard-Freres have agreed to defer the first payment to Mr MacGregor until next year'.

Mr Walker wants to say

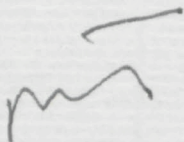
'at the suggestion of Lazard-Freres the first performance payment to Mr MacGregor is being deferred'. . .

The Department of Trade and Industry will not agree to Mr Walker's formula because it is not true, and, even if Lazard-Freres were persuaded to agree to this formula they could not be relied upon to stick to it.

Mr Lamont and Mr Walker are to have a further conversation in the morning to reach an agreed formula.

R.R.B.

15 November 1984





From the Minister of State for Industry

NDPM
18/11/84
a Press Office

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Norman Lamont MP

CONFIDENTIAL

Andrew Turnbull Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1

16 November 1984

Dear Andrew

You already know that Lazard Freres of New York have told a journalist on the 'Observer' that a decision on the first performance payment payable to them in relation to Mr MacGregor's performance at BSC is to be deferred; and that we have therefore had to accelerate the announcement of this deferral.

A written question was therefore tabled yesterday evening for answer this morning, after clearance with you and John Nielsen (Department of Energy). I attach a copy of the question and of the answer which has been put down this morning in reply. As I told you on the phone, the answer has been slightly altered from the draft circulated under cover of my Minister's letter of 14 November: the alteration, which deletes any reference to the current dispute in the coal industry, has been made at the request of the Secretary of State for Energy.

I am copying this letter to David Peretz (HM Treasury), Michael Reidy (Department of Energy) and Richard Hatfield (Cabinet Office).

Yours sincerely
Edmund Hosker

EDMUND HOSKER
Private Secretary

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Q. To ask the Secretary of State for Trade and Industry, whether the review committee responsible for assessing the performance payments due to Lazard Freres of New York in respect of Mr Ian MacGregor's chairmanship of the British Steel Corporation has reached a decision on the first performance payment.

A. The Government and Lazard Freres of New York have agreed to defer any decision on the first performance payment. The Review Committee has therefore been asked to defer its decision on the first payment until the same time as its decision on the second payment which is due to be made next year, after BSC's results to end-March 1985 are known.

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10 DOWNING STREET

From the Private Secretary

15 November, 1984

Ian MacGregor's Chairmanship of BSC:

Performance Payments to

Lazard Freres

The Prime Minister has seen and noted Mr. Lamont's letter to the Secretary of State for Energy of 14 November.

I am copying this letter to David Peretz (H.M. Treasury), Michael Reidy (Department of Energy) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Edmund Hosker, Esq.,
Department of Trade and Industry

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From the Minister of State for Industry

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Norman Lamont MP

The Rt Hon Peter Walker CBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1

Prime Minister 2

To note

AT 14/11

14 November 1984

IAN MACGREGOR'S CHAIRMANSHIP OF BSC: PERFORMANCE PAYMENTS TO LAZARD FRERES

Following the meeting on 17 September with Ian MacGregor to discuss the timing of payments to Lazard Freres in respect of his chairmanship of BSC, I met Ian Fraser, acting for Lazard Freres, on 4 October and agreed with him that the first performance payment should be deferred for a year.

We are now in a position to make the formal changes necessary to the Agreement between the Secretary of State for Trade and Industry and Lazard Freres of New York to give effect to the deferral of the performance payment. Once we have done so, we will need to make an announcement since as Norman Tebbit pointed out in his letter to you of 28 August the terms of the Agreement have been published and we receive regular enquiries, from the Press and in Parliament, about when the first payment will be made. I attach a draft of the kind of statement I have in mind, together with supplementaries (which could be used either for press briefing or for an oral statement if that were thought necessary).

I am sending a copy of this letter to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

NORMAN LAMONT

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Question

To ask the Secretary of State whether the Review Committee responsible for assessing the performance payments due to Lazard Freres of New York in respect of Mr Ian MacGregor's chairmanship of the British Steel Corporation has reached a decision on the first performance payment; and if he will make a statement.

Answer

The Government and Lazard Freres of New York have agreed that, although the assessment of the performance of the British Steel Corporation under Mr MacGregor's chairmanship has nothing to do with the current dispute in the coal industry, the making of a payment would be inappropriate while the dispute is continuing. They have therefore asked the Review Committee ^{should} to defer its decision on the first payment until the same time as its decision on the second payment which is due to be made next year, after BSC's results to end-March 1985 are known.



OUTLINE DEFENSIVE BRIEFING

Q1 Why "inappropriate"? Reflects Government disillusion with Mr MacGregor's performance at the NCB?

A The Government and Lazard Freres have simply taken the realistic view that the making of a performance payment, albeit one totally unrelated to Mr MacGregor's current position, could be widely regarded as inappropriate during an industrial dispute in which he is involved.

Q2 Simply an attempt to avoid political embarrassment?

A Not at all. Critics cannot have it both ways. If the payment had been made, the Government would no doubt have been accused of gross insensitivity and failure to appreciate its presentational impact during a difficult industrial dispute.

Q3 Was Mr MacGregor consulted about the decision to defer?

A The Agreement governing the performance payment system is between the Government and Lazard Freres. Mr MacGregor is not a party to it. But he is content with the decision.

Q4 Does deferment until next year show that the Government believe the coal dispute will last till then?

A Not at all. It was simply regarded as sensible and convenient to defer the first payment until the time when, under the performance review system, the second one is due.



Q5 Do the Government know what decision the Review Committee were coming to on the amount of the first payment?

A The Review Committee had not reached their final decision before the Government and Lazard Freres asked them to defer it until next year.

Q6 But the Government have two nominees on the Committee and must know what decision was in prospect?

A To repeat, the Committee had reached no final decision.

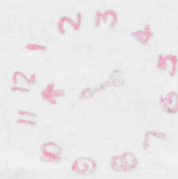
Q7 Has the system of performance assessment run successfully?

A I understand from the Committee's independent chairman, Mr John Gardiner, that the system has been running very well.

Q8 Are the Committee content with the decision to defer?

A They fully understand the reasons for the decision and have told me that they are content to continue with their work on the revised basis.

14 NOV 1984





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DEPARTMENT OF TRADE AND INDUSTRY

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Secretary of State for Trade and Industry

18 September 1984

Michael Reidy Esq
Private Secretary to the
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

Dear Mike,

IAN MACGREGOR'S CHAIRMANSHIP OF BSC: PERFORMANCE PAYMENTS TO LAZARD FRERES

Your Secretary of State and Mr Ian MacGregor came to see my Secretary of State on 17 September to discuss the handling of the performance payments to be made to Mr MacGregor in relation to his period as Chairman of BSC; Mr Tebbit's letter to your Secretary of State of 28 August refers. Mr Lamont, and Mr Mountfield and Mr Bowen from this Department were present.

2 After a very short discussion it was agreed that Mr MacGregor would ask Lazard Freres to ask for the assessment to be deferred. He was confident that they would wish to do this, and said that he saw no difficulty in playing the assessment and the payment long. The Performance Review Committee was due to meet again on Thursday (20 September), and Mr MacGregor undertook to have Lazards ask a number of questions about arrangements for the payments before that meeting. It was also agreed that Mr Lamont should see Mr Gardiner, Chairman of the Committee, and tell him that this was likely to occur; it is understood that Mr Gardiner is willing to be guided by the wishes of the two parties to the agreement (Government and Lazards) on the timing of his Committee's work, provided that the two parties are in agreement.

3 I am sending a copy of this letter to Andrew Turnbull at No 10, Judith Simpson in the Chancellor's office, and to Richard Hatfield in Sir Robert Armstrong's office. My Secretary of State would be grateful if this letter was not widely circulated within Departments.

V
Lous,
Ruth
RUTH THOMPSON
Private Secretary

JH3AXT

Nationalised Industries - Good Salaries A3



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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28 August 1984

CONFIDENTIAL

The Rt Hon Peter Walker CBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
SW1

Pro Martin

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Issue

D Peter

Dr 29/8

IAN MACGREGOR'S CHAIRMANSHIP OF BSC : PERFORMANCE PAYMENTS TO LAZARD FRERES

We need to agree our approach to an awkward issue which will have to be faced shortly.

2 In April 1980 Keith Joseph concluded an Agreement with Lazard Freres of New York on compensation for their agreeing to release Ian MacGregor to act as BSC chairman for three years from July 1980. The Agreement involved an initial flat-rate payment of £675,000: this was made in 1980. Provision was also made for two final payments based on BSC's performance during the period. The first, of up to £700,000, was to be determined when BSC's results for the year ending March 1984 were known; and the second, of up to £450,000, one year later...

3 Assessment of the two awards was entrusted to a Review Committee acting under the guidance of Agreed Criteria negotiated between the Government and Lazard Freres. These Criteria - copy attached at Annex A - were made public in April 1981. The Committee itself is independently chaired by Mr John Gardiner of the Laird Group. Lazard Freres are represented by Mr Albert Frost and Lord Weir, and the Government by Mr Gordon Manzie (now Chief Executive of the PSA) and Mr John Knox (an Under-Secretary in my Department). The Committee can take decisions by simple majority and its conclusions are binding on the Government.

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4 The Committee has kept BSC's performance under detailed review for nearly three years. BSC's results to end-March 1984 were published early in July and Mr Gardiner has now told me that the Committee will be ready to deliver its decision on the first payment towards the end of September. The Committee will include the decision in a short report describing how the task has been carried out - first draft attached at Annex B.- This is designed for us to release publicly, if we choose, so as to fend off pressure for disclosure of the Committee's detailed workings (which would be undesirable because of the commercial and political sensitivity of much of the material on which the decision is based). Although there are as yet no figures in the draft, my representatives tell me that the Committee is unanimously agreed that the first payment should be £525,000 out of £700,000. (The second award in a year's time is likely to be in the same proportion.)

5 With the miners' strike continuing, the nature and timing of the payment are clearly most unwelcome. This is a large sum which on past form will be interpreted as a personal bonus to Ian MacGregor (despite the fact that it goes to Lazard Freres, in which he retains only a small beneficial interest). But the system is of our creation and the room for manoeuvre is frankly limited. The Committee is acting strictly in accordance with the terms of the Agreement. This requires it to "certify in writing" the first payment "without undue delay after 31 March 1984" and to deliver its certificate to me and to Lazard Freres "with all due despatch after completion of its assessment". I am then required to make the payment to Lazard Freres twenty-eight days from the date of the certificate.

6 As I see it at this stage, there are three options:

- (a) To announce the payment and publish the Committee's report when the decision is sent to us in late September. The precise timing would depend on the dates of the Party Conferences and on developments in the miners' strike, but the issue would at least emerge while the House is in recess. Then and subsequently, we would have to make the most of the fact that the payment relates to Ian MacGregor, performance at BSC, not at the NCB; that his achievement was notable; that the payment is to Lazard Freres, not to him personally; and that we believe in sticking to agreements.
- (b) To announce that we have received a decision on the payment (the amount of

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which we could probably not keep confidential) but that with the agreement of Ian Macgregor and Lazard Freres - if forthcoming - we are deferring action on it.

- (c) To announce - again with the agreement of Lazard Freres and Ian MacGregor, if forthcoming - that assessment of the payment has been suspended because the miners' strike, though unrelated directly to BSC or its performance in 1981/84, makes it impossible for anyone to reach a cool conclusion at present. This would require the agreement of the Committee as well.

7 I do not think it would be practical to follow any of these courses without making an announcement. The terms of the Agreement are well-known and over recent months there has been a series of Parliamentary and press enquiries about when the payment will be made.

8 I should emphasize that Lazard Freres may not be willing to accept either option (b) or (c) above, and if we contemplate either of these two options it would be best if the approach to Lazard Freres was made by Ian MacGregor.

9 I think we should talk to Ian MacGregor before reaching a final decision on how to proceed; and in view of the obvious links with the miners' dispute, we should perhaps do this together. If you agree, I suggest that our offices make the necessary arrangements.

10 I am sending a copy of this letter to the Prime Minister and to Sir Robert Armstrong.

NORMAN TEBBIT

Payments to Lazard Freres and Co, New York, based on the
Performance of the British Steel Corporation under the
Chairmanship of Mr Ian MacGregor

On 29 April 1980 the Secretary of State for Industry entered into an Agreement with Lazard Freres & Co, New York (LFNY) for the release of Mr Ian MacGregor from his duties and obligations as a General Partner of LFNY in order that he should serve as Chairman of BSC for 3 years from 1 July 1980.

2. The terms of the Agreement provided that the Secretary of State would compensate LFNY for the release of Mr MacGregor, who has become a Limited Partner in LFNY in which he retains a greatly reduced interest. This compensation to LFNY was to take 2 separate forms:

- (a) an initial payment of £675,000, part of which is returnable if Mr MacGregor does not serve the full 3 year term as Chairman;
- (b) final payments of up to £1,150,000 to be determined by a Review Committee which is to base its decision on its opinion of the establishment under the Chairmanship of Mr MacGregor of a strong and healthy Corporation and the improvement (or deterioration) in the performance of BSC in the 3 years from 31 March 1981.

3. The final payments are to be made in two stages: a first performance payment of up to £700,000 to be determined when the results for the year ending March 1984 are known, and a final performance payment of up to £450,000 to be determined after the results for the year ending March 1985 are known.

4. The members of the Review Committee have already been announced. They are:

Chairman

Mr John Gardiner

Nominated by LFNY

Mr Albert Frost
Lord Weir

Nominated by the
Secretary of State

Mr K J Sharp [to July 1983, then Mr J A Knox]
Mr J R Steele [to October 1981, then Mr A G Manz]

The Agreement provides that the Review Committee should be guided, in determining the performance payments to LFNY, by Agreed Criteria. These Criteria were to be determined by discussion between the Secretary of State, LFNY, Mr MacGregor and the Review Committee. These discussions have now been completed, and the attached document sets out the Agreed Criteria.

Payments to Lazard Freres, New York

Agreed Criteria for the Review Committee

1 If Mr MacGregor serves a full 3-year term as BSC Chairman, the Committee has to determine a first performance payment of up to £700,000 soon after 31 March 1984, and second payment of up to £450,000 soon after 31 March 1985. This note sets out the Agreed Criteria required to be determined under Paragraph 3(c) of the Schedule to the Agreement of 29 April 1980 for the guidance of the Committee in determining the amount of the payments which in their opinion "reasonably reflects the establishment under the Chairmanship of IKM of the health and strength of BSC and improvement (or deterioration) of its performance within the period of three years from 31 March 1981". No suggestions are made for allocations of the payments to reflect the performance in particular years up to 31 March 1984. But in exercising its discretion, the Committee should recognise that the Government is looking for a progressive improvement in BSC's performance over the years in question, and that the effects of Mr MacGregor's chairmanship should be more apparent in the later years.

2 In assessing performance, the Committee should be guided in particular by the following.

Heading I - Profit and Loss Targets

3 This heading covers the achievement by BSC of the profit and loss targets (before tax and interest) agreed for each relevant financial year between BSC and the Government. Where targets are revised during a year, the revised targets should form the basis of the assessment. The Committee's assessment should take into account the attainment of the targets year by year, the need to achieve a progressive improvement during the period and the overall achievement over the period as a whole.

4 It is left to the discretion of the Committee to decide what shortfall from the profit and loss targets should disqualify LFNY from payments under this heading. In assessing performance under this heading, the Committee, in addition to the level of profit or loss achieved in relation to the targets, should also have regard

to the level of output of the Corporation in terms of total tonnage and in relation to the size of the UK markets it serves and the amount it exports; changes in the capital structure of the Corporation; and any variations in accounting practices adopted.

Heading II - Cost Reduction

5 Targets for cost reduction will include such aspects as reductions in manning levels, better plant utilisation, improved energy utilisation and other improvements in efficiency. A different balance between the different aspects of cost reduction may be appropriate in different years. The Committee should, in its assessment of performance under this heading, have regard to the extent to which cost reduction targets, agreed between the BSC and the Government (whether in a Corporate Plan or otherwise) have been met. To earn payments under this heading there should be improvements across the board in the indicators chosen, although failure to secure a significant level of improvement in one particular indicator should not prevent LFNY from receiving payment if the overall cost-reduction programme had gone well.

Heading III - Privatisation

6 The Government attach particular importance to reducing the size of the public sector involvement in the steel industry, and as a consequence to the transfer, wholly or partly, to the private sector of BSC assets and activities. In making an award under this heading the Committee should not make separate annual assessments but should take into account the extent to which BSC has been privatised over the period of Mr MacGregor's chairmanship.

7 Any transfers to the private sector which affect BSC's performance should not be a ground for a reduction of payments under other headings.

Heading IV - Broader Assessment of BSC's continuing Health and Strength

8 The Committee should take into account the qualitative factors reflecting BSC's longer term health and strength. These factors would include, but are not limited to, management structure, business organisation, financial control, management succession, technical developments, labour relations and general reputation, at all levels of the Corporation.

Assessment of Payments by the Committee

9 The Committee should, in determining payments under the Agreement, pay particular regard to the achievement of the profit and loss targets under Heading I and cost reductions under Heading II; about one-third of the money available under the Agreement should be allocated for consideration of an award under each of these headings.

10 The BSC will be expected to adhere to the External Financing Limit (EFL) as originally set for each relevant Financial Year by the Government after consultations with the BSC. Although cash discipline is an important indicator of financial performance, the Committee should regard adherence to EFLs as a normal and necessary part of the discipline to which all the nationalised industries are subject, and adherence to the EFLs should not be treated as an element meriting performance payments. The Committee should consider, however, whether success by BSC in achieving its objectives, whilst requiring less than the originally agreed EFLs, should be regarded as an element justifying an increased award under Heading I; and conversely whether failure to keep within the original EFLs should be regarded as justifying a reduced award under Heading I.

11 The effects of external economic circumstances will normally be taken into account each year by the BSC and the Government in setting profit and loss, EFL and cost reduction targets. Where unforeseen circumstances arise during the year, which are judged to be beyond the reasonable capacity of the Corporation to accommodate within their original targets, the appropriate response is for the Government and the BSC to reconsider the targets. As a general rule, therefore, the Committee should not take external economic circumstances into account in assessing performance. They should however take into account any directions given by the Government to BSC which may restrict BSC's ability to achieve its targets.

12 The Government will maintain and make available to the Committee a file of documents relevant to the Committee's task.

FIRST DRAFT

RC(82) 54

REVISE OF
3 AUGUST 1984

PAYMENTS TO LAZARD FRERES AND CO., NEW YORK, BASED ON THE
PERFORMANCE OF THE BRITISH STEEL CORPORATION UNDER THE
CHAIRMANSHIP OF MR IAN MACGREGOR

REPORT BY THE REVIEW COMMITTEE ON THE ASSESSMENT LEADING TO
THE FIRST PERFORMANCE PAYMENT, () SEPTEMBER 1984

INTRODUCTION

1 On 15 April 1981 the Government released publicly a document describing the purpose for which the Review Committee was established, its membership, and the Agreed Criteria provided as guidance for its task. The document is attached to this report.

2 The Committee has decided that the amount of the first performance payment to be made to Lazard Freres and Co. New York by the Secretary of State for Trade and Industry (the SoS) should be £ . (A maximum of £ was provided for under the Agreement between the two parties).

3 This report describes how the performance assessment has been carried out.

COMMITTEE MEMBERSHIP AND COST

4 The original membership of the Committee is listed in paragraph 4 on the first page of the attached document. There have since been two changes. In October 1981, before the first meeting was held, Mr A G Manzie took over Mr J R Steele's post in the Department of Trade and Industry (DTI) and replaced him on the Committee. In July 1983, Mr K J Sharp's place on the Committee was taken by Mr J A Knox. Mr S J Bowen, a Principal in the DTI dealing with the BSC, has acted as the Committee's secretary.

5 The Agreement between the SoS and Lazard Freres provided that the SoS should bear the reasonable fees and expenses both of the Committee members themselves and of any outside consultants and professional advisers whom the Committee might appoint. Costs so far, over nearly three years, total £ and relate almost ~~o~~ exclusively to work commissioned from professional advisers to establish and maintain a comprehensive information-base. The Committee members themselves have not claimed any fees or expenses.

METHOD OF WORK

6 The Agreed Criteria require the Committee to determine the amount of the payments due in 1984 and 1985 which in its opinion reasonably reflect the establishment under Mr MacGregor's chairmanship of the health and strength of BSC and improvement (or deterioration) in its performance within the period of three years from 31 March 1981.

7 The Committee decided that, in order to provide the necessary build-up in information, continuity and experience to support the final assessments required in 1984 and 1985, it would undertake annual reviews of BSC's performance in each of the three financial years. Accordingly, the Committee first met on 26 November 1981 and regularly thereafter. () meetings have been held to date.

8 From the outset, the Committee regarded it as essential to create a wide-ranging, objective and accurate information-base as the foundation for its assessment of the two performance payments:

- (a) For detailed assessment of BSC's performance against annual targets, as required under Headings I and II in the Agreed Criteria, the Committee

needed a clear and accurate statement, comparable from year to year, of the results achieved by the Corporation against the targets agreed by the Government (whether in Corporate Plans or otherwise). In addition, a judgement on whether progressive improvement had taken place under Mr MacGregor's chairmanship required comparable information about BSC's results in the years immediately before he was appointed. In each case, the targets and results related to a wide range of indicators, both financial (eg. profit/loss, cost reductions) and physical (eg. liquid steel output, UK market share, export sales).

- (b) The Committee also needed to be aware of the context in which it was assessing BSC's performance during the review period. Accordingly, at the outset of its work, the Committee considered detailed papers covering the history of BSC, particularly in the mid to late 1970s, as well as trends in the steel industry internationally. Thereafter, the Committee each year reviewed developments in the steel market in the UK, Europe and worldwide, with particular reference to progress under the European Community's steel policy (a key determinant of BSC's fortunes).

HEADINGS I AND II

9 To meet its information requirements, the Committee decided that for each of the three financial years it would assemble comprehensive and accurate statistical data on which to assess BSC's performance against planned targets under Headings I and II in the Agreed Criteria - Profit/Loss, and Cost Reduction. This information would be taken back wherever possible to 1978/79, the last financial year in which BSC's performance was not affected by the three-month steel strike in 1980. In May 1982 the Committee appointed Coopers and Lybrand, BSC's auditors, to carry out the detailed work.

HEADING III

10 As regards Heading III in the Agreed Criteria - Privatisation - the Committee quantified progress achieved under Mr MacGregor's chairmanship. In particular it reviewed:

- Disposals of UK businesses, including wholly-owned companies.
- Disposals of shares and holdings in UK partly-owned companies.
- Disposals of overseas interests.
- Disposals of surplus land, buildings, plant and machinery.
- Formation of private sector joint companies (the "Phoenix" programme).
- Formation of Companies Act companies.

HEADING IV

11 As regards Heading IV in the Agreed Criteria - BSC's continuing Health and Strength - the Committee was required to assess a range of "qualitative factors" which were not susceptible to the quantified approach adopted under the other Headings. In this case, therefore, the Committee based its judgement on information drawn from a number of sources including:

- Enquiries by Committee members amongst major UK steel-users.
- Written submissions to the Committee from the General Secretary of the Iron and Steel Trades Confederation.
- Reports by the House of Commons Select Committee on Trade and Industry and its predecessor (reflecting the results of four enquiries into BSC since 1981).
- Academic and other publications.

CONCLUSION

12 The Committee has decided that the amount of the first performance payment to be made to Lazard Freres and Co. New York by the Secretary of State for Trade and Industry (the SoS) should be £ . (A maximum of £ was provided for under the Agreement between the two parties).

13 The Agreed Criteria require a second and final performance payment of up to £450,000 to be determined after BSC's results for the year ending March 1985 are known. The Committee intends to reach its decision on the second payment by the same methods as those outlined above.

Signatures

J A Gardiner Chairman

A E Frost

Lord Weir

A G Manzie

J A Knox

September 1984