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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

BRITISH STEEL CORPORATION: CORPORATE PLAN

Note by the Central Policy Review Staff

1. The CPRS broadly agrees with the Secretary of State for Industry's conclusions in E(81)13 and with the analysis by Officials of the BSC Corporate Plan in E(81)11. In particular, it agrees with the emphasis placed in both papers on profit and loss targets, since PSER criteria, if too narrowly interpreted, usually tend to argue against closure. This note -

(i) lists a few short-term considerations which the CPRS believes require Ministerial discussion before the Plan is approved and a statement made;

(ii) suggests areas where further work is required before July.

2. First, the statement which the Secretary of State for Industry plans to make on 9 February in announcing Government support for the Plan will need to be carefully drafted. Clearly it should draw attention to the risks affecting both the internal and especially the external factors, and firmly support Mr MacGregor's announced policies (paragraph 4 of E(81)13) on closures, in order to discourage subsequent pressure to keep plant open on the grounds that the reasons for failure to meet targets were beyond the work force's and indeed BSC's control. But at the same time we must be firm with our European partners.

They will be tempted to dump steel on the UK market to force the pace of closures. We must make clear that this is unacceptable.

3. Secondly, BSC's future is so unclear that the setting of any profit and loss target for 1982/83 is a hazardous operation. Breakeven may not be a demanding target if the Plan works: if it does not, then any figure set now will require revision. We need to say something now for ECSC reasons. The CPRS suggests, however, that the 1982/83 figure should be presented as an aim, not a target, to be reviewed later in the year in the light of experience.

4. Thirdly, Ministers remain concerned that a subsidised BSC should not enlarge domestic market share at the expense of the private steel sector. The Plan sheds no light on this aspect. Discussions between BSC, the private sector, and the Department of Industry are continuing. There is a case for a further discussion in E when the two current rationalisation plans have progressed sufficiently for a judgement to be made on their impact both on overall capacity and on BSC's and the private sector's finances.

5. Looking further ahead to the summer, there is a distinct risk that BSC will achieve planned market and cost reduction targets but will still be losing heavily on profit targets because of the external factors to which both E(81)11 and E(81)13 draw attention. For instance, if the Deutsche Mark remained at its current level throughout the financial year 1981/82 the effect would be to cancel out a high proportion of Mr MacGregor's planned improvement of around £450m. Publicly the Government must now support Mr MacGregor and the necessity of plant closures if the planned targets are not achieved. Privately, however, Ministers may wish to consider before July whether there are any wider considerations on which they would wish to guide Mr MacGregor. It would be very undesirable if Ministers over-rode a decision which Mr MacGregor had announced for instance, the elimination of all strip capacity.

6. The factors that Ministers may want to consider in advance, if only to dismiss them, are:

(i) whether there is a strategic need to retain any part of the steel industry either to support UK customers or to ensure security of supply;

(ii) how to assess the viability of plant which fails to meet short-term targets solely for external reasons which may be temporary (for example, the exchange rate, European prices and any loss leading by our competitors).

Cabinet Office  
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