



Only on a
strictly
basis
CONFIDENTIAL

2 pps of sv
Prime Minister (1)

PRIME MINISTER

BSC CORPORATE PLAN

* please see, too,
the attached
progress report
on Sheerness Steel.

I mentioned on Friday that I
told Industry they could not write to
Mr MacGregor as they are proposing
without your agreement (and that, as things
stood, you disagreed). They now make their case.

Have Mr Jenkin should write as
proposed?

Following the discussion in E(NI) on June, I have announced the
BSC's EFL for 1982/83. I would also like to write to Ian
MacGregor, along the lines of the attached draft, to let him know
that the Government acknowledges the very real uncertainties
which BSC faces during the current year, and to explain that we
would be prepared to reconsider BSC's EFL if disruptions to the
steel market occur for reasons which are beyond BSC's control.
Leon Brittan is content with this approach, and, indeed, it is
difficult to see what else we could do in those circumstances.

MLs 146

But NOT for publication in any way. It would only
be a signal to
other

2 I do not intend that BSC should be given an easy option,
least of all an automatic right to any extra finance if they are
unable to stay within their EFL of £365 million for 1982/83.

Net. Inc.

The question was considered in some detail in the final
paragraphs of the report by officials attached to E(NI)(82)15.
For your convenience I attach a copy of the relevant page of that
report.

3 Ian MacGregor is expecting to receive from me some
acknowledgment of the possible difficulties which BSC faces
during the current year. Failure to do so will be interpreted



by him, and the BSC Board, that the Government has dismissed the dangers to the Corporation's Recovery Plan which are posed by the US anti-dumping and countervailing actions and the threat of price instability on the European steel market. I hope, therefore, that you can agree to my writing to Ian MacGregor in the terms of the attached draft.

4 I am sending copies of this minute to Leon Brittan, John Sparrow and Sir Robert Armstrong.

PJ

P J

14 June 1982

Department of Industry



CONFIDENTIAL

DRAFT LETTER TO MR IAN MACGREGOR

As you know, the Government have decided that BSC's external financing limit for 1982/83 should be set at £365 million.

I know that you, and the BSC Board, attach particular importance to the possible need for an extra contingency margin in this year's EFL, because of the uncertainties which exist over the international steel market in 1982/83, particularly in connection with problems which may result from the U.S. steel anti-dumping and countervailing duty suits.

The EFL of £365 million does not include the contingency margin you asked for to deal with these potential international difficulties. However, the Government recognises the uncertainties which BSC face, and I am writing to you now to confirm that, if it becomes clear that BSC's financial targets are not likely to be achievable because of a disruption in the steel market, it will be necessary to reconsider BSC's EFL for 1982/83.

11 June 1982

Report attached to EN(I)(82)15

53. BSC's revised external cash requirement in 1982/83, given in the Table in paragraph 50 above, is £461 million. This however includes a contingency margin of £175 million. A breakeven target for the year implies a contingency margin of only £79 million, i.e. £96 million less than BSC envisage. Hence the appropriate EFL for 1982/83 consistent with a breakeven target before interest is £461 million - £96 million = £365 million.

54. The BSC Board attach particular importance to the need for the full extent of the possible contingency margin of £175 million to be acknowledged publicly by the Government, in view of the considerable uncertainties which face BSC during the year.

55. It is proposed that the extra BSC contingency allowance should be dealt with in 2 steps. First, in any announcement made by the Government about BSC's EFL for 1982/83, it should be made clear that the limit set does not allow for the full £175 million proposed by BSC in order to cover the potential uncertainties foreseen during the year. Second, the Government needs also to decide how it would deal with a situation in which BSC could not meet its breakeven and EFL targets because of price and export weaknesses caused by international events which neither BSC nor the Government can control. It is unrealistic to expect BSC to be able to find instant offsetting savings in such a situation; plant closures and extra redundancies would in general cost more in the short-term than continuing BSC's full operations, though in later years BSC's profitability would be improved and cash requirements reduced. But BSC should not have an automatic claim to the full £175 million contingency they have proposed. A practical approach to this problem is for the Government to make it clear, preferably in the announcement of the BSC's EFL and certainly in writing to the Corporation, that if during the course of the year it becomes clear that BSC are not likely to be able to meet their breakeven target, because of a deterioration in prices and in international trade in steel due to U.S. anti-dumping actions and/or to weaknesses in the European steel regime, then the Government will review with BSC the scope for

- (i) Action by Government on the international front to restore stability to the steel market; and
- (ii) Offsetting action which should be taken by BSC

In the light of that review, a decision would be taken on BSC's need for any extra finance required during 1982/83 above the EFL which had earlier been announced. This extra finance would come from the Government's contingency reserve, and the decision to increase the EFL would be announced to Parliament in the usual way.

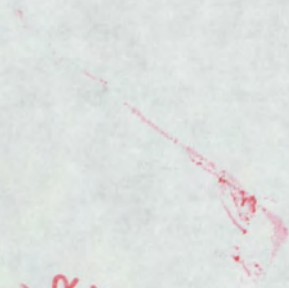
IS Division

14 May 1982



4 JUN 1982

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Noted by

10 DOWNING STREET

From the Private Secretary

15 June, 1982

BSC CORPORATE PLAN

The Prime Minister was grateful for your Secretary of State's minute of 14 June about the letter he proposes to send to Mr Ian MacGregor about the BSC's EFL for 1982/83.

The Prime Minister agrees to your Secretary of State writing as proposed, provided the letter is sent on a strictly confidential basis and will not be for publication in any way. Mrs Thatcher believes that publication, or a leak, of the letter would act as a signal to the other nationalised industries; she is also concerned about the reaction in the private sector steel industry

I am sending a copy of this letter to Terry Mathews (HM Treasury), Gerry Spence (CPRS) and David Wright (Cabinet Office).

M. C. SCHOLAR

J Spencer, Esq
Department of Industry

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