JU cc Duguid Verelas

Prime Minister
To note that DoI are exploring various options for helping the private steel companies.

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PRIME MINISTER

BSC AND THE PRIVATE SECTOR STEEL COMPANIES

1 When we discussed British Steel Corporation finances in E Committee on 17 September (E(80)34th) we agreed that the future of BSC had to be considered in the context of the steel industry as a whole. We were particularly concerned about the problems of the private steel firms and about the risk that some of them might collapse because of subsidised competition from BSC. I shall, as requested, circulate an assessment of the prospects of the UK steel industry as a whole after Department of Industry officials have consulted the firms concerned and the CPRS and Treasury. In the meantime you should be warned that we face some difficult issues of principle and that there is a risk of serious misunderstandings if news of our consultation leaks.

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See also letter about EEC action at Flag A

2 There is no need for me to remind you of BSC's difficulties; we are committed to meeting the Corporation's debts and very large sums of money are required over the transitional period to viability. The private steel companies are in serious difficulties. Most are currently unprofitable. Many of the smaller companies may have no alternative but to liquidate (with little prospect of their operations being acquired for steel processing). The larger steel companies, which are on the whole subsidiaries of larger groups like GKN, Tube Investments or Lonrho, may not obtain the necessary finance

/from ...

from their parent companies to maintain their present scale of operations. There is therefore a real risk that the private sector will be substantially diminished, and that the public sector will control a larger share of the steel industry.

3 The private steel firms' difficulties are not due solely to the help we are giving to BSC; many are not in competition with BSC. The problems are not confined to this country; the European steel industry is generally in disarray and prices are being driven down by over-production. We and the French shall be pressing for "crisis" action under Article 58 of the Treaty of Paris in Brussels this week.

4 In the circumstances there is no obvious course we should adopt.

(a) We could do nothing beyond providing BSC with the financing we have already agreed. This would result in a severely diminished private sector and a steel industry dominated even more than at present by the nationalized sector.

(b) We could allow BSC to take over the assets of those private sector steel firms whose operations overlap with theirs. This is in effect what the private sector firms are proposing since it would relieve them of the need to meet continuing losses and closure and redundancy costs. Such a course would expand the public sector and,

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probably, BSC's need for public money. BSC, who are already in discussion with several private sector firms, have not pursued this option because they are aware that we as their bankers would not approve any general extension of the public sector.

(c) We could encourage the private sector to take over BSC operations which overlap with theirs. But, while the market for steel remains so depressed, such disposals are virtually impossible.

(d) We could foster arrangements whereby BSC and the private sector companies pooled or exchanged assets. This could result in some expansion of BSC's operations in some sectors but this would be matched by a contraction (not necessarily of equivalent size) in some of BSC's other activities. It could also result in the creation of a series of free-standing Companies Act companies to which a significant proportion of BSC's assets could be transferred. Such companies are clearly to be desired but it may not be possible to create them without some form of financial injection. GKN, TI and others will be most reluctant to provide funds at this difficult time.

(e) We could further option (d) by the injection of some form of "dowry". This might involve the diversion of some of the finance we have earmarked to BSC. The

/option

option does, however, raise serious problems; it might involve Government subsidies to, or rescue of, private sector firms and could be quoted back at us as a change of policy or as a precedent for Government assistance to such beleaguered sectors as paper or textiles. On the other hand I am not aware of any precisely similar case which could be used as a precedent; we would be acting here only because of a subsidised nationalised industry competing directly with private sector firms.

5 I do not believe that, at this stage, we should reject any option (except b) in principle. We should clearly be guided by the need to minimize the cost to the PSBR and by the desirability of ensuring that, at the end of the day, the greater part of the steel industry returns to private hands. Collaborative ventures seem to provide the only way of ensuring both that the private steel industry maintains at least its present share of the market and that we create a means of eventually transferring substantial parts of BSC's operations to private ownership. Whether or not collaborative ventures will need a dowry of public money can only be established by enquiries.

6 Against this background I have authorised Department of Industry officials to explore all the available options with BSC and with GKN and the other private steelmakers. I have instructed them to make it clear that the Government are in no way committed to accept any particular outcome to the

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discussions and all parties are being made aware that proposals will be attractive to the Government to the extent both that they limit demands on the Exchequer and that they increase private sector participation in activities currently undertaken by BSC.

7 I shall report progress to E Committee in due course. I am copying this minute to Geoffrey Howe, John Nott, John Hoskyns and Robin Ibbs.

KJ

K J

30 September 1980

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