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E(80) 45th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 17 DECEMBER 1980 at 3.00 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment
(Items 3 and 4)

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
(Item 3)

The Rt Hon Patrick Jenkin MP
Secretary of State for
Social Services
(Items 1 and 2)

The Rt Hon Mark Carlisle MP
Secretary of State for
Education and Science
(Items 1 and 2)

The Rt Hon Angus Maude MP
Paymaster General
(Items 1 and 2)

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The Rt Hon Michael Jopling MP
Parliamentary Secretary,
Treasury
(Item 3)

Lord Strathcona
Minister of State
Ministry of Defence
(Items 1 and 2)

The Hon Adam Butler MP
Minister of State
Department of Industry
(Items 1 and 2)

Mr Alexander Fletcher MP
Parkiamentary Under-Secretary
of State, Scottish Office

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore (Items 3 and 4)
Mr R G Courtney (Items 1 and 2)

CONTENTS

Item No	Subject	Page
1	BRITISH STEEL CORPORATION: CLOSURES	1
2	INFORMATION TECHNOLOGY	2
3	IRON AND STEEL BILL 1981	6
4	BRITISH LEYLAND'S CORPORATE PLAN	9

1. BRITISH STEEL CORPORATION: CLOSURES

CONFIDENTIAL

The Committee had before them a minute of 16 December from the Secretary of State for Industry to the Prime Minister about the manpower reductions in the British Steel Corporation (BSC) corporate plan that required immediate action.

THE SECRETARY OF STATE FOR INDUSTRY said that he would be meeting the Chairman of BSC, Mr MacGregor, later that day. He had made it clear to Parliament that no final conclusions on future BSC strategy would be made until about the end of January, but he wished to be able to authorise Mr MacGregor to proceed with the immediate closures indicated in the corporate plan. Each month's delay would add £10 million to BSC's losses. In some cases, the sensible procedure would be not to reopen the plants after the Christmas holiday.

THE PRIME MINISTER, summing up a brief discussion, said that the Committee noted that Mr MacGregor did not need the Government's authorisation for the closures he had in mind. In this situation the Government should avoid action which appeared to prejudge its consideration of the corporate plan. The Secretary of State for Industry could tell Mr MacGregor that he was free to act within his existing authorities. In doing so he should draw attention to the poor impression that would be created if closure notices were issued immediately before Christmas.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Industry to be guided accordingly.

2. INFORMATION TECHNOLOGY CONFIDENTIAL

The Committee considered a note by the Secretaries (E(80) 147) covering a note by the Official Committee on Information Technology on Government policy for information technology (IT).

THE SECRETARY OF STATE FOR INDUSTRY said that IT was an area of high potential growth. The United Kingdom had considerable skills in relevant subjects and some industrial strengths. There were, however, also weaknesses in our industrial IT capability. We had, for example, no firm able to supply complete advanced office systems. Government and industry had complementary roles in IT. Government provided the legislative and regulatory framework in which firms supplying IT products services operated; had a major influence on the telecommunications network and governed access to that network; and facilitated IT development through education, training and supporting R and D. Finally, Government was potentially a very large user of IT and, through its purchasing power, was able to pull through new systems and products. The Official Committee was drawing together the government's various interests in IT. With the assistance of the Minister of State, Department of Industry, he intended to discuss obstacles to the development and application of IT both with other Departments and with industry and commerce. In particular, he would be establishing a well-publicised contact point for firms who found obstacles to the development or implementation of IT systems.

In discussion, the following points were made -

a. The note by the Official Committee did not adequately define the nature of the problem that needed to be addressed. It was doubtful whether the Committee had the depth of technical competence required for the formation of policy on IT. New central machinery, staffed by people with a sense of urgency, was required. There were many sources of relevant expertise in United Kingdom industry; for example those drawn upon by the Advisory Council for Applied Research and Development (ACARD) in preparing their report. One possibility would be to create a group of eminent industrialists to identify obstacles and supervise the implementation of policy.

b. It was significant that France was mounting a major campaign to persuade the United States authorities to adopt French standards for teletext systems. French systems were not yet operational whereas the British systems had existed for some time, but British promotional effort was tiny by comparison with that of France. Unless firm steps were taken, IT would be, like nuclear power, a technology in which an initial world lead had been frittered away. A purposeful and concerted approach was needed if the United Kingdom was to compete effectively with Japan and France.

c. The implications of liberalising the telecommunications and broadcasting monopolies would have profound effects on both social and industrial policy. It was not possible to promote commercial objectives without reference to the social consequences, but the relative weighting of social and industrial factors in reaching decisions on the regulation of the radio spectrum probably required reassessment.

d. The issue of data protection and privacy legislation, which had been considered by H Committee, was very important to the development of IT. There was a divergence of view within Government. The commercial advantages had to be weighed against the costs, both those incurred in the establishing new administrative machinery and those of the Department who would be most affected by the legislation. The proposals of the Lindop Committee would create a large bureaucracy; but more modest arrangements should enable us to sign the recent European Convention on data protection. On balance, it was probably right for the United Kingdom to sign this convention.

e. The effect of IT on working practices would be very great, and union opposition would have to be overcome. In the case of the Civil Service unions, for example, both incentives and sanctions might be needed. Outside the Civil Service, some union leaders were recognising the opportunities created by IT and the views of Selected leaders should be sought.

f. Departments had been invited in the autumn to consider the use of small computer systems. There was a risk that the Official Committee's proposal (paragraph 12.c.) for a further survey would cause confusion. Moreover, the timescale proposed for replies would not allow a proper consultation to take place outside Government. However, a first round of enquiries could be carried out and initial measures identified.

THE PRIME MINISTER, summing up the discussion, said that Committee fully recognised both the importance of information technology to the future industrial and commercial success of the United Kingdom and the Government's central role in facilitating the development and application of IT. They were, however, concerned that the history of other technologies would repeat itself and that the United Kingdom's technological leads in some areas of IT would not be adequately exploited in world markets. The Official Committee's paper had not sufficiently exposed the issues that needed to be resolved or the measures that were required in order for the United Kingdom to move purposefully ahead in IT in the manner, for example, of France and Japan. The central machinery for formulating and monitoring IT policy required further consideration. In particular, the Committee saw need for a greater input by IT professionals from industry, as had occurred in the preparation of the ACARD report. She therefore proposed to establish a small group of Ministers, of which she would take the chair, including the Home Secretary, the Secretary of State for Industry and the Lord President, to consider these issues in more depth on the basis of a paper prepared by the CPRS and the No 10 Policy Unit, in consultation as appropriate with the Department of Industry, ACARD and industrial and commercial IT interests.

There was, however, no point in stopping the work of the existing Official Committee. The proposals set out in paragraph 12.a.-e. of its note were agreed in principle, but subject to two reservations. First, Departments might be able by 31 March only to give a preliminary view on measures that would encourage use of IT outside their own organisations. Secondly, the value of any demonstration projects need to be thoroughly assessed by those technically competent in IT before expenditure was incurred.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Endorsed the statements and proposals in paragraph 12a.-e. of the note by the Official Committee on Information Technology, subject to the reservations expressed in the Prime Minister's summing up.

3. Noted that the Prime Minister, would consider with the Home Secretary, the Secretary of State for Industry and the Lord President, the development of IT policy and the appropriate machinery for its formulation and monitoring.

4. Invited the Central Policy Review Staff and Policy Unit, following the consultations indicated, to prepare a paper for the Prime Minister's group.

CONFIDENTIAL

3. IRON AND STEEL BILL 1981

The Committee considered a memorandum by the Secretary of State for Industry (E(80) 144) on the provisions to be included in the Iron and Steel Bill 1981.

THE SECRETARY OF STATE FOR INDUSTRY said that he recommended that there should be a single Iron and Steel Bill, to be enacted by the end of June 1981, to provide for an increase in the British Steel Corporation's (BSC) borrowing limit, which would be reached in about February 1981, from £5.5 billion to £6.5 billion; a capital reconstruction of BSC; a modification of the Corporation's duty to supply so as to enable privatisation measures, and rationalisation between BSC and private sector steel activities, to go ahead; and to enable BSC to be liquidated if necessary. To deal with the borrowing limit the Bill would include a new power to advance monies which would not count against the existing limit and, once it had passed Second Reading, advances could be made from the Contingencies Fund pending Royal Assent. This procedure would be criticised but the alternative was to have two Bills: the first to deal with the borrowing limit alone and to be enacted by February 1981, and the second to deal with the three other provisions and to be enacted by June 1981; he did not recommend this course.

In discussion the following points were made -

a. If the composite Bill were enacted by the end of June, drawings of about £400 million would be necessary from the Contingencies Fund; and if, because of controversy, Royal Assent was not obtained until the Autumn, the drawings could be as much as £800 million compared with the limit on total drawings on the Fund of about £1250 million in 1981-82. Use of the Contingencies Fund on this scale could be criticised by Parliament as contrary to the Treasury's undertakings to Parliamentary Committees on the management of the Fund. For this reason it would be preferable to have two Bills, with the first one providing for the borrowing limit to be increased by the end of February 1981.

b. On the other hand there was a strong case for dealing with all the provisions comprehensively in one Bill. This would avoid two series of debates during the year on the industry. Such a Bill would however be longer and more contentious than had been envisaged when the legislative programme was drawn up, and provision was made for an Iron and Steel Bill to deal with the borrowing limit and capital reconstruction. The Queen's Speeches and Future Legislation Committee (QL) would have to consider the implications of this and, as the 1980-81 programme was already heavily loaded, it would be necessary to consider the possibility of dropping another Bill to make w for the new legislation.

c. The Chairman of BSC was thought to attach considerable importance t the taking of powers to provide for liquidation. Without them his announced intention 'progressively to liquidate the business', should that be necessary, might be seen as an empty threat. There was, however, a danger that a move to take these powers would backfire. The provision would be fiercely contested during the passage of the Bill, and they could provoke the unions into resisting measures of rationalisation which they might otherwise accept. Under present legislation BSC could close down parts of their business and declare redundancies, and it was not clear th formal powers of liquidation would necessarily strengthen their hand in dealing with the unions. These arguments should be pursued further with the Chairman of BSC before a decision to legislate was taken.

d. The measures to provide for further privatisation were essential. Although they would undoubtedly be criticised by the Opposition, the case for them, and in particular the benefits they would bring to private sector industry, would be recognised. The provisions would therefore be far less contentious than those for liquidation.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that there should be one Bill and that this should provide for an increase in the Corporation's borrowing limit, for capital reconstruction, and for privatisation and joint ventures. They recognised that there might be advantage in taking powers to enable BSC to be liquidated but they were concerned that the inclusion of such measures in the Bill would be highly controversial and might, therefore, make it much more difficult for the Corporation to secure willing acceptance of the rationalisation measures envisaged in their Corporate Plan. The Secretary of State for Industry should discuss this further, at his meeting later in the day, with the Chairman of BSC and the Committee would return to the

question at their meeting on 18 December. The Committee noted that, even if the Bill was confined to three measures, it would add to the pressures on the 1980-81 legislative programme and that The Queen's Speeches and Future Legislation Committee would need to consider this question further.

The Committee -

1. Agreed to the introduction of a single Iron and Steel Bill to be enacted by the end of June 1981 to provide for -

a. an increase in the British Steel Corporation's borrowing limit from £5.5 billion to £6.5 billion;

b. capital reconstruction of the Corporation; and

c. modification of the Corporation's duty to supply, so as to permit privatisation and a reorganisation of the boundary between the public and private sectors of the steel industry.

2. Invited the Secretary of State for Industry to consider further with the Chairman of the British Steel Corporation the case for taking powers in the Bill to provide for the liquidation of the Corporation, and to report further to the Committee on this question at their meeting on 18 December.

3. Took note that The Queen's Speeches and Future Legislation Committee would need to consider the implications of these decisions for the 1980-81 legislative programme.

4. BRITISH LEYLAND'S CORPORATE PLAN

The Committee considered memoranda by the Secretary of State for Industry (E(80) 141 and 145) and by the Central Policy Review Staff (E(80) 150 and 151). Their discussion and conclusions reached are recorded separately.

Cabinet Office

19 December 1980

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(80) 45th MEETING MINUTES, ITEM 4
WEDNESDAY 17 DECEMBER 1980 at 3.00 pm

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4. BRITISH LEYLAND'S CORPORATE PLAN

The Committee considered memoranda by the Secretary of State of Industry (E(80) 141 and 145) and by the Central Policy Review Staff (CPRS) (E(80) 150 and 151) on British Leyland's (BL) Corporate Plan.

THE SECRETARY OF STATE FOR INDUSTRY said that approval of BL's Corporate Plan in principle, together with the LM 10 mid-car programme, would mean a firm funding commitment by the Government to £620 million cash in 1981-82, provisional approval of £370 million in 1982-83, and the probability of further sums in later years. Approval would be subject to review of next year's Plan and to the receipt of a letter from Sir Michael Edwardes setting out the Board's intention to review the Plan if there were a major strike or a significant change in other circumstances. He did not feel confident of the prospects of success. Although BL had made some advances in 1980 - notably the acceptance of new working practices and the launch of the Metro - their financial projections had again gone badly astray. This was partly because of poor sales in the mid-car range but particularly because the exchange rate, to which their forecasts were highly sensitive, had been higher than they had assumed. He nevertheless reluctantly recommended acceptance of the Plan. The alternative of closure, and its effect on the industries supplying BL, would have wide-spread and damaging consequences for employment and the economy. As was shown in the reports by officials attached to E(80) 141, the costs to the Public Sector Borrowing Requirement would be higher than those which would follow approval of the Plan. If the Plan were approved, Sir Michael Edwardes would continue to look actively for new partnerships. He would split BL's operations into four businesses - BL cars, the Leyland group (commercial vehicles), Landrover and Unipart and this would make it easier to sell them, in due course. Sir Michael was willing to sell the commercial vehicles group as soon as a buyer came forward, he was however firmly opposed to the sale of Landrover, Jaguar and Unipart at this stage. He saw Landrover as a potentially valuable bait to attract other car manufacturers into collaborative arrangements which could help to resolve the volume cars problem in the longer term. He viewed Jaguar similarly, although it would be first necessary to invest in it and build it up to a good sales prospect. The Secretary of State for Industry recommended acceptance of this approach to disposals, on the understanding that BL should be told that the Government would favour the disposal of Landrover at an appropriate time from 1982 onwards if by then it had not been used as part of a wider collaborative package.

MR IBBS said that the CPRS note, attached to E(80) 151, summarised BL's escalating requests for Government financing and brought out the essential fragility of their projections. The CPRS's judgement was that it was unrealistic to think that BL had a reasonable chance of success in the volume car business. Nevertheless, because of the highly damaging consequences of immediate closure, they recommended support of the Plan, on the understanding that the chances were that BL might well have to close down volume cars in a year or two. In the meantime the right course was to avoid putting in more funds than were necessary. This pointed to inviting the BL Board to attempt to find a purchaser for Jaguar before asking Ministers to approve the new model XJ 40 at a project cost of about £75 million.

In discussion the following points were made -

a. If the Plan were approved it was unlikely that BL cars would succeed, and the Government would be faced in two years' time with yet another choice between extensive further funding and facing up to the costs of closure. Sir Michael Edwardes' public standing was high but that was not a reason for accepting without qualification his escalating requests for Government funding.

b. Because of the consequences of closure outlined by the Secretary of State for Industy, it would be necessary to continue to support BL cars in the hope that collaborative ventures might emerge later. The Board should, however, be pressed hard to change their policy on disposals. Landrover were already losing out in international markets to competitors offering more attractive and modern designs. The longer BL held on to the company the less attractive it would become to prospective purchasers. They should attempt to sell Jaguar as soon as possible for the reasons set out by the CPRS. Even if the sale proceeds were small, and led to the Government having to re-finance some of BL's borrowing, the haemorrhage of funds from Government would be reduced. Although Sir Michael Edwardes had said that he would resign if his disposals strategy were not accepted he should be urged to consider the options further.

THE PRIME MINISTER, summing up the discussion, said that the Committee accepted that, for social and employment reasons, it would be necessary to continue the funding of BL cars for the time being. The Government's aim should be, however, to cut out unnecessary funding of BL and the Committee were not persuaded that it was right to retain those parts of BL such as Landrover and Jaguar which might be sold now. The Secretary of State for Industry, together with the Secretaries of State for Employment and Trade and the Chief Secretary, Treasury, should meet urgently with Sir Michael Edwardes to discuss the Plan with him and to question him informaly on the Board's strategy of deferring possible disposals. The Committee would resume discussion of BL's Corporate Plan in the light of a report on that meeting.

The Committee -

1. Invited the Secretary of State for Industry, together with the Secretaries of State for Employment and Trade, and the Chief Secretary, Treasury, to discuss urgently with the Chairman of British Leyland the British Leyland's Corporate Plan, and in particular the Board's strategy on disposals, and to report.

2. Agreed to resume their discussion of British Leyland's Corporate Plan in the light of the further discussions between Ministers and the Chairman of British Leyland.

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19 December 1980