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PRIME MINISTER

The Steel Industry
(E(80) 138 and 139)

BACKGROUND

✓ — At their meeting on 17th September the Committee asked the Secretary of State for Industry to arrange for an urgent examination of the prospects for the steel industry as a whole in the United Kingdom, as a basis for further consideration of the options for the future of BSC (E(80) 34th Meeting, Item 1). They were particularly concerned that good private sector firms should not collapse because of subsidised competition from BSC. The Secretary of State for Industry's memorandum (E(80) 139) covers a detailed report by officials on the prospects for the steel industry and the economic background. E(80) 138 invites endorsement of the principles which should govern the setting up of collaborative ventures between the private sector steel companies and BSC.

2. BSC's corporate plan will be ready in about mid-December when, I understand, the Secretary of State for Industry will circulate copies to colleagues. There will then be interdepartmental discussion at official level and the Secretary of State will put proposals to E in mid-January.

✓ — 3. He will also be putting forward proposals for the BSC Bill, for which there is a place in the present Session, to provide for a capital reconstruction and an increase in the borrowing limit. When he does so he will deal with the question, noted in Mr. Lankester's letter of 25th November, of whether the Government should take powers to enable BSC and/or parts of it to be put into liquidation.

4. E(80) 139 serves as a background paper to the decisions which will have to be taken, and gives an opportunity for a first general discussion of the issues. BSC currently supply 55 per cent of the United Kingdom market for steel products and the private sector 25 per cent with the rest imported. Most of the private sector companies are losing money and some could go out of business. Continuing

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excess capacity in Europe will mean that prices are held down in real terms. Available capacity in the United Kingdom has fallen from 26-27 million tonnes in 1979 to 19 $\frac{1}{2}$ in 1980 and it is judged that there will have to be a further reduction of at least 1-3 million tonnes to match likely demand in 1985 - see Table III on page 29 of the Report by Officials. Investment will be needed to get necessary quality improvement. Closures and mothballing will particularly hit South Wales. Job losses bring a heavy short-term cost to the PSBR, but it is judged that the financial risks of under-estimating demand are less than those of over-estimating it. These points are set out in more detail in the summary which prefaces the detailed report by officials.

5. The need for reduced capacity, and the fact that the public and private sectors overlap in some areas, leads in to the proposal in paragraph 2(d) of E(80) 138 that BSC and private sector companies should be encouraged to pool some of their assets in new Companies Act companies. There are no specific proposals at this stage and the purpose of the paper is to seek endorsement of the general approach. The intention is that any new company should be commercially viable from the outset so that it could borrow from the banks in its own right and without recourse to BSC guarantees (which if given would mean the loans scoring against the PSBR). There is no chance at this stage of new investment coming in and the equity would be held by the steel groups concerned. Some new cash would be necessary over and above the amount the company could raise on its own account and the Government would have to provide this via BSC. This amount would come out of the general funds being made available to BSC; and, it is argued, would be less than would be needed if BSC assets in question remained in the public sector - see paragraph 9.

6. If the Committee endorses this general approach, negotiations will continue between BSC and the private sector companies involved. Hill Samuel will be advising the Department of Industry. Specific proposals are likely to come forward in January alongside those on the corporate plan. The paper deliberately avoids saying which private sector companies are likely to be involved. The Department of Industry are very concerned to preserve commercial confidentiality particularly where quoted companies are concerned.



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HANDLING

7. The Secretary of State for Industry will wish to introduce both the general background paper and his particular proposals for the private sector. I understand that he met Mr. MacGregor last weekend, and that he will probably wish to give the Committee some foretaste of the proposals which will be in the corporate plan.

8. The Chancellor of the Exchequer and the Secretaries of State for Wales, Employment and Scotland will all want to comment. This will be very much a second reading discussion and the only specific recommendation is that the Committee should endorse the broad approach to collaborative ventures between BSC and the private sector which is set out in E(80) 138.

CONCLUSIONS

9. In the light of the discussion the Committee will wish:-

- (1) To take note of the prospects for the steel industry as set out in the general background paper E(80) 139 and of any particular points raised in discussion.
- (2) To endorse the proposed approach to collaborative ventures proposed in E(80) 138.

(Robert Armstrong)

3rd December, 1980