PART 9.

confidential filing.

The Steel Industry.

NATIONALISED INDUSTRIES.

Part 1 : June 1979

Part 9 : Feb 1981.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~20-2-81~~							
~~24-2-81~~							
~~6.3.81~~							
~~16-3-81~~							
~~19-3-81.~~							
~~27.3.81~~							
6.4.81							
—PE— ends.							

PREM 19/549

PART 9 ends:-

TL to DOI 6/4

PART 10 begins:-

Ind to TL 7/4

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (EA) (81) 3rd Meeting, Minutes	18.2.81
EQO (81) 22	19.2.81
E (81) 7th Meeting, Minute 2	23.2.81
CC (81) 9th Meeting, Minute 3	5.3.81
CC (81) 14th Meeting, Minute 3	2.4.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed CAWayland Date 9 August 2011

PREM Records Team

SW at Ind

6 April, 1981.

Dear Ian,

The Prime Minister has received the enclosed letter from the Hadfields' Joint Shop Stewards Committees. She would be grateful for Sir Keith Joseph's advice on how she should respond.

Yours sincerely,

T.P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

10 DOWNING STREET

PRIME MINISTER

This is a predictable letter - though nonetheless difficult to answer - from the Hadfields shop stewards complaining that BSC are about to close them down, and asking for an urgent meeting with you.

I have told Sir Keith Joseph that you are very concerned about the likely closure of Hadfields, given that they did not strike last year. I think we need his considered advice on how you should respond.

Agree? - emphatically

Yes MT

TL

T P LANKESTER

2 April 1981

10 DOWNING STREET

From the Private Secretary

2 April 1981

The Prime Minister has asked me to thank you and your co-signatories for your letter of 30 March.

I have shown this to the Prime Minister and you will be sent a reply as soon as possible.

T. P. LANKESTER

A. E. Bird, Esq.

88 ET - PM

HADFIELDS' JOINT SHOP STEWARDS COMMITTEES

Hadfields Limited,
East Hecla Works,
Vulcan Road,
Tinsley,
SHEFFIELD,
S9 1TZ.

82/4

30th March, 1981

The Rt. Hon. M. H. Thatcher M.P.,
10 Downing Street,
LONDON SW1.

Dear Madam,

As you are aware, talks are taking place, (code named Phoenix II) to discuss the rationalisation of Britain's 'engineering' steelmaking facilities.

It is our opinion that Mr. MacGregor intends to close down Hadfields Limited, within the framework of these talks, claiming that our steelmaking facilities are out-of-date.

We have had discussions with the Department of Industry on a number of occasions and we have lobbied M.P's at the House of Commons on behalf of, not only Hadfields, but the Private Sector Steel Action Group. We have been received most courteously, but have gained nothing more substantial than sympathy.

We claim that having suffered the intimidation of mass picketing during the 1980, 13 week steel strike, in order to safeguard <u>our</u> Company, our jobs and our future, then we are entitled to something more substantial than sympathy, bearing in mind the financial assistance being given to the British Steel Corporation.

Our workforce did not risk becoming social outcasts because they believed that the B.S.C. workforce had no right to take industrial action, but because they believed such industrial action should not put their jobs at risk. They believe, as we do, that their jobs are worth fighting for.

Whether that fight be as a result of an industrial dispute that they are not directly involved with, or whether it be the result of Phoenix II talks that do not take cognisance of the true facts of the viability of our Company, the attitudes of its' workforce and the sacrifices made by that workforce, hourly paid and staff, over the last few years.

We, as Works Conveners, are urgently requesting a meeting with you to set the record straight, and to prove our case for believing we should be allowed to survive: as survive we can, in a <u>fair</u> market place.

Yours faithfully,

A E Bird

A. E. Bird,
Chairman, East Hecla,
Joint Shop Stewards Committee

D. Ramage,
Chairman, Leeds Road,
Joint Shop Stewards Committee

Mick Adams

M. Adams,
Secretary, East Hecla
Joint Shop Stewards Committee

K G Poole

K. G. Poole,
Secretary, Leeds Road,
Joint Shop Stewards Committee

2

Nat Ind

10 DOWNING STREET

PRIME MINISTER

You asked about today's FT article on Consett. The FT's allegations against BSC do not seem to be borne out by the facts.

MT

P. Duty Clerk for

T.P. Lankester

27 March 1981

JU

CC Press

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

27 March 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim,

FINANCIAL TIMES ARTICLE ABOUT BSC AND CONSETT ENGINEERING LTD (CEL)

1 You asked for guidance on the allegation in today's Financial Times that BSC was hampering CEL's efforts to create new jobs in Consett.

2 CEL is a prospective company which a Consett resident, Mr G M Murray, hopes to form using facilities on the Consett site belonging to Redpath Dorman Long (RDL), the engineering subsidiary of BSC. CEL recently attempted to buy certain equipment (heavy rolls) belonging to RDL but RDL refused to sell because the rolls could be moved and used at another plant. As a result, CEL approached Mr Tebbit (through the Consett MP, David Watkins) asking him to intervene; Mr Tebbit replied that this was a matter to be settled between BSC and CEL. Mr Murray met Mr Ian MacGregor on 3 March and reportedly accepted the Chairman's suggestion that BSC (Industry) should assist CEL to find similar equipment elsewhere.

3 CEL now claim that Mr MacGregor promised them priority in securing a set of rolls and they argue that this means that RDL - who have since installed the Consett rolls at Stockton - should return them to Consett for CEL's benefit. BSC have in fact found another set of suitable rolls, at a Scunthorpe company which is now in the hands of a receiver, and have suggested that CEL should buy them at a cost of £300,000. But CEL, who stick to their claim for priority, say that BSC should take the Scunthorpe rolls and return the original Consett rolls to Consett.

4 BSC deny that Mr MacGregor gave CEL any promise of priority. He simply agreed that the Corporation would help CEL to find a set of rolls: he certainly did not lead them to expect that they would end up with the Consett rolls which they had been seeking. The Managing Director of RDL has added the following points:

a the rolls moved from Consett to Stockton have physically been installed there and are urgently needed to fulfil an important order;

/b ...

b the rolls located in Scunthorpe are not immediately available - the receiver will only sell them separately if attempts fail at disposing of the company as a going concern - so they are no use to RDL;

c. Mr Murray has so far made no attempt to get in touch with RDL (as the Financial Times article claims) about the rolls. CEL has, however, put in a bid of £50,000 for the RDL building at Consett which BSC value at £225,000.*

5 The Financial Times article is no doubt inspired by CEL as a means of putting pressure on RDL. But there is no reason to suppose that BSC are acting unreasonably or being deliberately obstructive. They have a genuine commercial need for the rolls and have gone to the trouble and expense of installing them elsewhere. Against that background, BSC have gone out of their way to help CEL secure an alternative, which is more than most businesses would do. The claim about priority treatment is not borne out by any independent evidence and is not really credible; if Mr MacGregor had meant CEL to have the Consett rolls there would have been no point in his offer of help to CEL to secure an alternative.

* The BSC valuation of £225,000 is based on an independent valuation.

Yours ever

Ian

I K C ELLISON
Private Secretary

FILE

dd

8 Feb

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

10 DOWNING STREET

From the Private Secretary

27 March 1981

PHOENIX II - HADFIELDS

The Prime Minister has read your Secretary of State's minute of 26 March on the above subject. She has commented that the proposal to close down Hadfields will lead to great political trouble because their employees did not strike when BSC's employees did. She hopes that the redundancy arrangements for Hadfields are at least as generous as BSC's.

I am sending a copy of this letter to John Wiggins (HM Treasury), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office) together with a copy of Sir Keith's minute.

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

GC.

10 DOWNING STREET

PRIME MINISTER

BSC want to take over the assets of Hadfields, and close them down, as part of Phoenix II. This note from Keith Joseph reports that there is disagreement about the valuation of the assets: in BSC's view, they are worth very little; in Lonrho's and Edward du Cann's they are worth quite a lot. Keith Joseph and BSC have now called in Hill Samuel to provide an independent valuation - which seems sensible in the circumstances.

pp. T. Lankester

D.J.T. Willing (Duty clerk).

26 March 1981

CO
cc: Mr. Wolfson
Mr. Duguid

This will lead to great political trouble because the Hadfields men did not strike when BSC did and it is the Hadfields men who will be made redundant. I hope the redundancy arrangements are at least as generous as BSC's. MT

PRIME MINISTER

PHOENIX II - HADFIELDS

In view of your interest in the Duport case and the political sensitivities involved, you should know of the discussions between BSC and Lonrho Ltd about the position of Lonrho's steelmaking subsidiary, Hadfields Ltd, in the proposed engineering steels company which is commonly referred to as Phoenix II.

2 Hadfields, a Sheffield based company employing some 2,600 people, has been losing money at the rate of £1 million a month for a considerable period of time. Lonrho are most anxious to see this drain on their cash resources stopped and wish to end their involvement in steelmaking. Lonrho wish to see their steelmaking assets absorbed into Phoenix II and to receive cash in return.

3 The Department has known of Hadfields' losses since last September when it was proposed that Hadfields should be taken over by BSC itself before any of the Phoenix discussions really got under way. BSC (and GKN, the other major partner in Phoenix II) have since then been primarily concerned to resolve the Phoenix I negotiations; the issues are complex and those concerned could not be expected to deal with more than one set of negotiations at a time. Mr Edward du Cann, as Director ~~Chairman~~ of Lonrho, and Hadfields have, however, maintained continuous pressure on BSC and the Department to have their interest in the Phoenix II discussions expedited. The issue is complicated by the problematic valuation of Hadfields' assets. Its steel making plant, which is at best

obsolescent at a time of excessive steel-making capacity, needs to be closed down. Its order book is worth little and, since the Phoenix II company could not expect to retain Hadfields' customers except on a purely commercial basis, BSC would not be justified in paying much money to take it over. Some of Hadfields' equipment may, however, have some value, and BSC might take over a package of assets.

4 Meanwhile, the Duport crisis intervened and, as you know, resulted in BSC acting quickly to buy some of Duport's steel assets because of the serious financial situation of the entire Duport Group. Lonrho can in no sense advance a similar need for a solution in the case of Hadfields but they clearly feel that they should wait no longer and publicly argue that Hadfields' position now merits action similar to Duport. They give every sign of wanting to conclude a deal very quickly. If this issue is not resolved soon, Lonrho may attempt to provoke a political row, which might not only be embarrassing but could jeopardise attempts to make progress on Phoenix II.

5 The position is further complicated by the political stance taken up by Mr Edward du Cann. As you know, he has been strongly critical of BSC's pricing policy, claiming, without any apparent justification, that the Corporation is using taxpayers' money to drive private sector steel makers out of business. He has criticised the connection between the Department and BSC, in particular Mr Ken Binning's role as both Board member and my adviser. He is also unhappy about my reliance on Mr Ian MacGregor and BSC to value the assets taken into the Phoenix companies and

/does ...

does not accept my view that the valuation of assets is a matter to be decided by negotiation between the future shareholders in each Phoenix company.

6 Against this background, I have asked Hill Samuel to act on behalf of the taxpayer to form a view independent from BSC's as to the value, if any, to Phoenix II of the Hadfields assets and order book. BSC and Lonrho have their own merchant bank advisers. The use of independent merchant bank advisers anticipates Mr du Cann's criticisms that BSC have set too low a value on the businesses and that the Department has simply accepted their valuation without the benefit of a second opinion. It will, however, be difficult for the Department not to accept a valuation of Hadfields on which BSC and Hill Samuel broadly agree. I understand that negotiations are likely to come to a conclusion this week. Officials in the Department are keeping in close touch with Hill Samuel and I do not think that the amounts of money which we are likely to be asked to authorise BSC to commit will be indefensible or embarrassingly large.

7 The closure of Hadfields and a purchase by BSC of whatever of its assets have any value to Phoenix II will involve some cost to the taxpayer (redundancy costs will be met by Lonrho) but this will be justified by the elimination of excess steel-making capacity in this sector and by the improved prospects of Phoenix II becoming commercially viable. As was the case with the Duport solution, the public sector will be expanded transitionally until Phoenix II gets under way but the prize will, I hope, be a free standing private sector engineering steels company which

 /will ...

will privatise over 15% of BSC's assets and absolve the taxpayer from standing behind a substantial proportion of BSC's debts.

8 I am copying this minute to the Chancellor of the Exchequer and to the Chief Whip.

K.J.

KEITH JOSEPH
(Approved by the Secretary of State and signed in his absence) 26 March 1981

Department of Industry
Ashdown House
123 Victoria Street

JU

2

CONFIDENTIAL

PRIME MINISTER

Not good news

MJ

17/3

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
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Secretary of State for Industry

cc Mr Wolfson
Mr Hoskyns
Mr Ingham

19 March 1981

Tim Lankester Esq
Private Secretary to
the Prime Minister
10 Downing Street
London SW1

Nat Ind

Dear Tim

DUPORT

My letter of 18 February reported the arrangements between BSC, Midland Bank and Duport which saved Duport from receivership. In essence BSC took over responsibility for £25 million of Duport's indebtedness to the Midland Bank in exchange for assets agreed to be worth that amount.

2 As a matter of normal banking prudence, the formal agreement provided for accountants to give an independent opinion on the value of the assets. Coopers & Lybrand were appointed and have reported that, in their professional view, the assets should be assessed at £3.5 million less than the £25 million agreed. The problem appears to have arisen from the way in which Duport have kept their accounts, not from any fault on the part of BSC.

3 BSC are fully entitled to withdraw from the agreement in these circumstances. They cannot take over assets which are over-valued. They have, therefore, approached Duport to ask what proposals they can make to resolve this difficulty. Since Duport's future continues to be finely balanced and the company needs every penny, their only real option is to offer BSC more assets of use to BSC in order to bridge the gap.

4 My Secretary of State considers that this is a matter which must be left to negotiations between BSC and Duport. Officials here are sure that BSC fully appreciate the need to reach an accommodation, while at the same time looking after their own proper commercial interests and the taxpayers' money. The negotiations are clearly going to be difficult and it would have been better if the parties could have resolved the matter discreetly. Some Duport Board members, however, have been discussing this problem with others not party to the agreement and are suggesting that BSC are again driving an excessively hard bargain with the implication that the subsidised public sector is driving the private sector into difficulties. There

/is ...

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is a risk that these allegations may become public knowledge.

Yours ever,

Ian

I K C ELLISON
Private Secretary

cc Ind

Steel

cc to PM Meeting with Dale Campbell Savours

10 DOWNING STREET

THE PRIME MINISTER

19 March 1981

DearMr MacGregor

Mr. Dale Campbell-Savours, M.P. came to see me on 4 March to express his concern over the BSC's decision to close the new Distington ingot mould foundry in his constituency.

He told me that he was not questioning the need to reduce the foundry capacity in the Corporation, but he believed, as did the workforce and most of the local management at Workington, that the decision to close the Distington foundry had been taken on the basis of an incorrect assessment of the relative costs of producing ingot moulds at the three BSC foundries. He repeated to me his assertion, made in the House of Commons on 18 February, that the Distington foundry had been treated unfairly because it was part of a different group within BSC from the other two ingot mould foundries, and that the basis of comparison between the foundries had been distorted by this bias.

I explained to Mr. Campbell-Savours that, although I understood the concern felt by his constituents, the Government could not intervene in decisions which had been taken by BSC management. I undertook, however, to write to you to ensure that you had been satisfied personally about the way in which the decision to close Distington had been arrived at.

Since meeting Mr. Campbell-Savours, I have seen a copy of the memorandum dated 27 February which you sent to the Joint

/ Action Committee

Action Committee at Distington, from which it is clear that you have personally reviewed this decision, spending a considerable amount of time on it, and that you are satisfied that the decision was the correct one. Mr. Campbell-Savours' research assistant sent this document to me. I personally should welcome your own confirmation that you yourself have total confidence in the Corporation's assessment which led to the decision to close Distington.

signed

MT

Ian MacGregor, Esq.

Action Committee at Distington, from which it is clear that you have personally reviewed this decision, spending a considerable amount of time on it, and that you are satisfied that the decision was the correct one. [~~Rather than rely, however, on a document which may have been illicitly acquired, I~~ should welcome your confirmation that you ~~personally~~ yourself have ~~every~~ total confidence in the Corporation's assessment which led to the decision to close Distington.]

Mr. C-S' ~~recent~~ excellent sent this to me.

I personally ~~should~~ should welcome your own confirmation

Ian MacGregor, Esq.

VLB

cc: D/Ind

10 DOWNING STREET

THE PRIME MINISTER

18 March, 1981

Dear Mr. Sayers.

Thank you for your letter of 6 March.

I was of course aware that the BSC and Duport have between them the lion's share of the UK free cutting steels market, but the problem is that this market is not large enough to employ profitably all the capacity available.

Even if customers were prepared to accept as a second source a plant owned by the same company (as would be the case if Llanelli went into Phoenix II) the costs of keeping open under-used capacity would be very high. And high costs must be reflected in high prices which would drive away the customers that we were trying to keep.

I am sorry that I can see no way to help.

Yours sincerely,

Margaret Thatcher

E. C. Sayers, Esq.

RH

CONFIDENTIAL PCC(81)7

to NJS

✓ MS

The Iron and Steel Bill (1981)

It is hoped that Members will find the attached brief of use for the Debate on the Second Reading of the Iron and Steel Bill (1981) on Thursday, 19th March 1981.

Contents

1. Background : The Problems of the Steel Industry

a) European Measures

Britain is not alone in facing severe problems in its steel industry. There is world-wide over capacity the effects of which were exacerbated for Europe by an international recession and US protectionism. This is being dealt with at a European level. Towards the end of 1980 against a background of a drastic further fall in demand, the renewal of international price-cutting and the break-down of voluntary restraints on production by the major European steel producers, a "state of manifest crisis" in the steel industry was declared. The European Commission's declaration was subsequently approved last November by the Council of Ministers. This meant that, under Article 58 of the Treaty of Paris of 1951, a quota system backdated to 1st October 1980 was imposed. This system, which ends on 30th June 1981, applies to all steel producers whose production level does not exceed 3,000 tons of crude steel or 3,000 tons of finished rolled products or where production is confined to liquid steel for castings. The Commission is empowered to fix quarterly production quotas for crude steel and for four groups of rolled products: namely, hot-rolled wide and narrow strip, reversing mill plate and wide flats, heavy sections and light sections.

On 27th February 1981 further drastic production cuts were imposed on steel producers by the Commission, nearly 21% below the 35.7 million tonnes produced in the reference period, the last three months of 1979. However, while production has, at least till the summer, been firmly controlled the price war between producers is still continuing. The British Government regretted the need to impose the production quota restraints under Article 58. As Mr. Norman Tebbit, Minister of State for Industry, noted on 15th January 1981: "We would have preferred a voluntary system, provided that it was effective and fair" (Hansard, Col. 1626). However, it agreed that such "crisis" action was necessary and firmly supported the Commission's declaration. Now the Government are seeking a satisfactory regime for orderly marketing by producers within the EEC which will succeed the present system after June, and which will alleviate the very severe problems arising from drastic price cutting.

b) The British Steel Corporation

The BSC has, of course, a host of home-grown problems with which to contend. But these have been severely worsened by the difficulties arising from European over-capacity and price cutting. The Corporation, under Mr. Ian MacGregor's direction, is aiming to recover its pre-steel strike 54% home market share. In order to do so it is having to undercut foreign steel products, while contending with the effect on its price competitiveness of strong sterling (particularly vis a vis the DM). It is also having to live with the effects of the disastrous three month long steel strike. The latter caused its home market share to slump below 50% in 1980. It had the equally damaging effect of causing its traditional customers to become used to looking elsewhere for supplies. Finally, its home markets have been affected by the longer term decline of the UK's steel using industries: UK steel demand for the last full year for which figures are available (1979-1980) was the lowest for nearly twenty years.

The burden of the BSC upon the tax-payer has consequently rapidly increased - in spite of drastic cuts in manned capacity from 21½ million tonnes in 1979 to 15 million tonnes (and 14.4 million under the

Chairman's 1981 Corporate Plan). 50,000 jobs were cut in 1980.

The size of the burden is shown by the Corporation's External Financing Limits over the years:

BSC's External Financing Limits

	£ million
1975/6	659
1976/7	931
1977/8	801
1978/9	715
1979/80	700
1980/81	1,121
1981/82	730

BSC's losses have been running at an intolerable level too:

BSC's Losses

		£ million
	1975/6	255
	1976/7	95
	1977/8	443
	1978/9	309
	1979/80	545
Estimated	1980/81	480

With such uncompetitiveness from BSC it is not surprising that steel imports have grown, both in the medium and in the short term, as the following figures show:

Imports of Steel Into the United Kingdom 1971-80

(million tonnes)

1971	2.03
1972	2.66
1973	2.78
1974	3.82
1975	3.74
1976	4.10
1977	3.72
1978	3.68
1979	3.78
1980	4.63

Source: Hansard, WA. 25th February 1981 Col. 355

The Private Sector

There is no way in which the traumas of the steel industry could have passed the private sector by; and indeed they have not. The private steel companies - those which escaped Labour's misguided nationalisation of 1967 - now produce about 25% of finished steel products. In sharp contrast to the BSC they have been highly profitable. The profits from the steel activities of publicly reporting companies which are members of the British Independent Steel Producers Association between 1969 and 1979 totalled over £700 million.

Over the last year the private sector's problems have suddenly intensified. BISPA members' weekly crude steel production has slumped from almost 75,000 tonnes in the second quarter of 1980 to less than 45,000 in the last quarter of 1980. The difficulties of Duport were so acute that its Sheffield and Midlands activities had to be acquired by the BSC, prior either to joint venture activities or to disposal, and its Llanelli plant shut altogether.

It is understandable that this rapid change in the private sector's fortunes should be blamed either on Government policy or on the price cutting activities of the BSC, or both. However, on the first point it should be noted that the Government, not least through the Bill, is pursuing a strategy towards the steel industry as a whole which should result in its continued viability, though probably in a somewhat different form. Furthermore, it is also true that the generally poor marketing skill shown by the BSC in previous years, which allowed the private sector to expand its activities, was in part the result of years of alternate interference with and over-indulgence of the British Steel Corporation by Government. On the degree to which BSC's (undoubted) price-cutting has been the cause of the private sector's difficulties, it is important to observe the limited and specific areas within which "overlap" of products occurs. Over all, only about 20% of the BSC's activities overlap with those of the private sector. These are in three areas:

i) Wire Rod and Bar: this was the area of over-capacity partly dealt with under the BSC/GKN joint venture (see below). Other private sector producers in this field include Sheerness Steel and Manchester Steel.

ii) Engineering Steels: This large area (which included Duport) concerns Hadfields, Round Oak and GKN at Wrexham.

iii) Special Steels: This is the area of high value-added products. The private companies covered are Johnson and Firth Brown, Neepsend and Lee.

2. Purpose and Contents of the Bill

The main aims of the Bill were summarised by Sir Keith Joseph, Secretary of State for Industry: "...I have today published the Iron and Steel Bill 1981. This amends the Iron and Steel Act 1975 to ease the transfer of businesses to the private sector and to permit an extensive run down of the Corporation if that proves necessary. We also need to deal with the mistakes of the past. The Bill will write off some £3,000 million of the Corporation's capital immediately, will provide a power to write off a further £1,000 million later, and will make consequential adjustments to the Corporation's borrowing limit.

That does not represent the commitment of additional funds; it marks the huge cost to the tax-payer of over-ambitious, centrally directed investments and the uncompetitive use of many of them" (Hansard, 24th February, Col. 746).

It was originally intended that this Bill should have included the measures which were contained in the Iron and Steel (Borrowing Powers) Act 1981. The latter increased the ceiling on total borrowing by BSC from £5,500 million to £6,000 million.

The present Iron and Steel Bill (1981) has, therefore, three distinct purposes:

i) Clause 1 removes the BSC's general duty to supply iron and steel products. This allows the Corporation to withdraw entirely from some areas of the market.

ii) Clause 1 also eases the transfer of assets and businesses to the private sector. This will remove doubts about the extent to which the Corporation can go ahead with joint ventures.

iii) Clauses 2 and 3 effect the capital reconstruction of the BSC to put its finances on a sounder basis and to reflect the reality of its position. £3,509 million is to be written off the BSC's balance sheet which reflects the loss of value of the capital as evidenced by the write down of fixed assets and by revenue losses in recent years. Up to another £1,000 million may be written off by order. This will, however, be necessary only if the BSC's profit expectations are nor realised. None of this represents new public expenditure.

(Clause 4 is the least important Clause. It reduces the BSC's borrowing limit to £3,500 million following the write off in Clauses 2 and 3, thus altering the provisions of the Iron and Steel (Borrowing Powers) Bill (see above), which was enacted on 26th February 1981).

The Bill does not commit the Government to provide more cash for BSC - which is does through EFL's under the normal Estimates procedure.

Sir Keith Joseph has commented on the Bill's purpose: "The Government may have had to spend taxpayer's money this time, but we are seeking powers to relieve the taxpayer of the inescapable obligation to fund the Corporation indefinitely" (Hansard, 24th February 1981, Col. 747).

3. Government Policy Towards the Steel Industry

As a result of the recession and of the steel strike the Government's (and its predecessor's) "break-even" targets for BSC have had to be modified. Sir Keith Joseph has made it clear that while the BSC is being given substantial sums of taxpayer's money to tide it over the present difficulties and to enable Mr. MacGregor to press ahead with his plans this is not an open-ended commitment. He said: "The Corporation's target is to reduce its loss, before interest, from an estimated £480 million in this year to £225 million in 1981-2 and to achieve break-even in 1982-3. We shall increase the Corporation's financial limit for 1980-1 to £1,121 million and have set its EFL for 1981-82 at £730 million" (Hansard, 24th February, 1981, Col. 746).

It is for Mr. MacGregor, not the Government, to exercise his commercial judgement as to how precisely these aims are to be acheived. However, he will be giving the Government a report on progress by July 1981. If Mr. MacGregor's optimism as to the size of BSC's market proves unjustified further closures and job losses over and above the 20,000 proposed will occur.

The Government has also made it clear that, while recognising the need not to frustrate BSC's marketing strategy in competition with imports, it is not prepared to see action taken by the Corporation to damage the private sector. It has therefore obtained an undertaking from Mr. MacGregor that he will personally investigate any specific allegations of unfair pricing by BSC. Mr. Michael Marshall, Parliamentary Under Secretary at the Department of Industry, will be monitoring any such complaints either by Members of Parliament or by companies.

There is also limited scope for pressing ahead with further joint ventures along the lines made possible by the present Bill, which will rationalise production in the "overlap" areas (see above). The best example of how this would be done is provided by the GKN/BSC joint venture. The main features of this are:

- Equity in the new company (Allied Steel and Wire Ltd) is held 50% by BSC and 50% by GKN.

- It puts together two of the most modern rod mills in Europe (at Cardiff and Scunthorpe) with the new electric arc mini-steelworks at Tremorfa, Cardiff, and also includes downstream activities in certain bar and section mills, wire drawing, nail manufacture and reinforcement engineering.

- In return for assets contributed, GKN and BSC will each receive 50% of the ordinary share capital. GKN will receive an amount of non-cumulative Preference Shares to be issued on terms to be agreed in respect of the original net assets imbalance. In order to provide additional working capital, BSC will subscribe for non-cumulative Preference Shares of a broadly similar amount on the same terms over the first three years. The total turnover of the combined business will be about £200 million per annum.

Conservative Research Department,
32 Smith Square, London S.W.1

RH/JMH
18.3.81

3

10 DOWNING STREET

PRIME MINISTER

DOI think it would be desirable for you to write to the further letter from the Chairman of Duport. Their draft is attached.

R.

13 March 1981

c.c. Hart

SUBJECT

MB

cc D/M
WO

10 DOWNING STREET

From the Private Secretary

13 March 1981

Dear Peter,

As you know, Mr. Denzil Davies MP called on the Prime Minister yesterday afternoon to discuss the proposed closure of Duport's Llanelli steelworks. Your Minister was also present.

Mr. Davies said that he was very concerned about the closure proposal. He had come not to ask for help for a lame duck but for a highly efficient steel plant. £30 million had been spent on the plant; labour had been shed and the total number of employees was now down to 1,100; and there were no labour or management problems. Their only problem was inadequate sales, and the reasons for this were largely not of their own doing.

Firstly, according to the company, their energy bill was 30 per cent higher than it would be for a comparable plant on the continent; and it was actually higher than their wage bill. Secondly, like other steelworks, they had been hit by high interest rates and by the strength of sterling. Third, they had been facing much tougher competition from BSC since Mr. MacGregor took over. He had seen MacGregor the previous day to discuss the latter problem, and he accepted that MacGregor had to run BSC in a businesslike fashion. The problem was that this was causing immense difficulties for private steelworks such as Llanelli. Fourth, they were geographically less well placed than some of their competitors; however, he felt that this was not such a disadvantage as some had suggested. As a result of the Budget, the first

/ two adverse

two adverse factors which he had mentioned were now moving in the right direction. Would it not be possible for the works to be kept going for a year or so until a purchaser could be found? He understood that Herr Korf might be interested in purchasing Llanelli as well as the London works and also BSC's Templeborough plant, but time was needed. The Government seemed to have intervened to persuade BSC to take over Duport's London works. If they could do this for the London works, could not BSC be prevailed upon to take over Llanelli as well? Llanelli, because of its efficiency, would be a better prospect for inclusion in Phoenix II than, for example, Hadfields; but whereas Duport did not have the financial msucle to keep Llanelli open until Phoenix II could be finalised, Lonhro were in such a position to enable Hadfields to be brought into the project. Even if Llanelli were not to be part of Phoenix II, it should still be possible for BSC to take them over and then sell the works to a purchaser such as Korf.

Mr. Tebbit said that there was such over capacity in steelmaking in both Britain and Europe that some capacity inevitably had to be closed. Duport's Llanelli plant was bound to be a candidate for closure because of its geographical position and because of the group's financial difficulties. As regards the London works, the fact was that BSC wanted to take them over with a view to inclusion in Phoenix II. But they did not want Llanelli. Even if Llanelli were to be saved, it would have to be at the expense of jobs elsewhere in the private steel sector. His own information was that Korf was not interested in Llanelli - only in Duport's other plants in the Midlands.

The Prime Minister commented that she had a great deal of sympathy for much of what Mr. Davies had said, but she could not see how the Government could intervene to ask BSC to take Llanelli over.

/ I am sending

I am sending a copy of this letter to Richard Dykes (Department of Employment) and John Craig (Welsh Office).

Yours ever,

Tim Lankester.

P. E. Mason, Esq.,
Department of Industry.

JU

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

12 March 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim

LETTER FROM MR SAYERS OF 6 MARCH

Mr Sayers repeats the point that has been made to officials here ab initio by Duport, that Llanelli at the moment provides the only UK alternative to BSC for purchasers of free cutting steel - a type of engineering steel. This is only partially true; BSC and Duport, as the Prime Minister's brief for this afternoon says, have the lion's share of the market (currently 120,000 tonnes per annum) between them, with BSC having most of this. However, GKN Brymbo and Hadfields also produce free cutting steels, and several others also have the capability.

2 The second half of Mr Sayers' argument - that because Llanelli provides customers with choice it should be kept open - is also weak. It is true that customers feel the need for a second source but it seems very doubtful to officials here that once Phoenix II was set up that they would regard Llanelli (if it was taken in) as a second independent source for one of the BSC Sheffield plants. The forecasts for Phoenix I assumed some loss of separate orders once the BSC and GKN rod mills were jointly owned. Even if customers were prepared to treat separate plants as separate sources it would not be logical to try to preserve orders by keeping open under-used capacity. The costs of the under-used capacity would mean that the customers it was hoped to keep would be driven away by high prices.

3 I attach a letter to Mr Sayers.

Yours ever
Catherine
CATHERINE BELL
Private Secretary

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO

E C Sayers Esq
Chairman
Duport Limited

Thank you for your letter of 6 March.

I was of course aware that the BSC and Duport have between them the lion's share of the UK free cutting steels market, but the problem is that this market is not large enough to employ profitably all the capacity available.

Even if customers were prepared to accept as a second source a plant owned by the same company (as would be the case if Llanelli went into Phoenix II) the costs of keeping open under-used capacity would be very high. And high costs must be reflected in high prices which would drive away the customers that we were trying to keep.

I am sorry that I can see no way to help.

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

From the
Minister of State

PS/Norman Tebbit MP

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

11 March 1981

Dear Nick

Thank you for your letter of 4 March about the Prime Minister's meeting with Mr Denzil Davies MP on 12 March.

As requested, I now attach a brief, which has been approved by my Minister, for the Prime Minister. The briefing ought also to include copies of the letters which the Prime Minister sent to the Secretary of the Joint Works Committee at Llanelli on 24 February and to Mr Sayers, Chairman of Duport, on 2 March; we do not appear to have received copies of the final letters which went, but I am sure that you will be able to look them out from your records, and for convenience I enclose copies of the drafts on which the letters were based. x – detached from PM's copy

Yours sincerely

Peter Mason

PETER MASON
Private Secretary

Encs

LINE TO TAKE

The Prime Minister will wish to say again that she very much regrets the proposed closure of Llanelli, but that in view of the overcapacity that exists in the general engineering steels sector, some capacity has to close. The BSC have themselves closed two thirds of their plant at Templeborough, and there are sure to be further closures of capacity in other parts. No-one can see any place in the foreseeable future for all the 4 million tonnes plus of engineering steels capacity that we have in this country.

2 Nor are we underestimating the seriousness of this closure for Llanelli, but there is no point going on making goods for which there is no market. Ministers at the Welsh Office and at the Department of Industry will be listening with great sympathy to any case they make for special help for Llanelli to enable them to attract employment which will substitute for that lost by the closure of the steelworks. But it would not be right to ask BSC to take on capacity for the new company which they are clear that the new company would never need to use.

Department of Industry
10 March 1981

BRIEF FOR THE PRIME MINISTER'S MEETING WITH REPRESENTATIVES OF DUPORT'S LLANELLI WORKFORCE AND MEMBERS OF THE LLANELLI BOROUGH COUNCIL

BACKGROUND

The Prime Minister will be generally familiar with this case. Duport Limited had 70% of their assets in their subsidiary Duport Steels Ltd. This subsidiary contained a new steelmaking plant at Llanelli (current employment 1,060) and an older rerolling operation at Tipton called London Works (current employment 700). There are also two small operations, Flather Bright Bar and Nationwide Steel Stockholders. All four operations are squarely in the interface with BSC, and Duport Steel Ltd were potential members of any new companies formed with BSC in this sector, generally called engineering steels, together with BSC's Sheffield plants, GKN's Brymbo plant, the Hadfields plants in Sheffield and Round Oak in the Midlands (jointly owned by BSC and TI).

2 It has not been possible to make much progress with discussions on this project (code-named Phoenix II) because GKN, who are central to the sector, have been fully concentrated on getting Phoenix I - now formalised as Allied Steel and Wire Ltd - launched. It was clear however that Duport's financial affairs were in a state that would not allow them to wait for the formation of a new company, and BSC was therefore authorised to negotiate for the purchase of any assets that they thought a new company would find useful. On this basis, BSC offered to take over £25m of Duport's debt to the Midland Bank in exchange for London Works, £2m of assets from Llanelli, Flather Bright Bar and Nationwide. It is a condition of the deal that Llanelli will be closed. This means a loss of 1,060 jobs Llanelli and about 150 at London Works.

3 Duport Limited announced agreement in principle with BSC on Monday 24 February, and expect to issue a letter to their shareholders setting out precisely what is to happen later this week, probably Friday.

4 There is enormous overcapacity in this sector, generally called engineering steels, but sometimes short-handed as low alloy steels. I attach a note of Duport Llanelli's output, and a note of what others in this sector produce. There is a total engineering steels capacity of something over 4 million tonnes per annum, of which we need somewhere between 2 and 3 million tonnes. We understand that the company will claim that they are the only source outside the big BSC plants for "free cutting" engineering

steels. BSC has the largest share but they and Llanelli have 90%. However, Several others (GKN, Round Oak) have the capability.

5 The Llanelli workforce, and the Borough Council, have naturally been extremely active in expressing their opposition to the closure of Llanelli. It is a particularly difficult area, since BSC has been declaring substantial redundancies in the tinplate operation at Velindre which is also within the Borough. This is currently a Development Area, and a strong case is likely to be made that it should become a Special Development Area.

6 Mr Marshall, the Parliamentary Under Secretary here, and Mr Roberts, of the Welsh Office, met a delegation from Llanelli on 11 February led by Denzil Davies MP. The Secretary of State for Wales, accompanied by Mr Marshall, saw a similar delegation on 19 February. Sir Keith Joseph saw Mr William Sirs, General Secretary of the ISTC, who was also accompanied by people from Llanelli, generally about the plight of the private sector companies on Monday 2 March. The Prime Minister wrote to the Secretary of the Joint Works Committee at Llanelli on 24 February (letter attached).

7 In all these meetings, the delegates from Llanelli have emphasised that they have a modern, well-equipped steel plant there, operating at one third capacity, and that closure would be a tragedy. They are also likely to claim that they have been closed as a result of BSC's action. We have never accepted this argument, and the Prime Minister refutes it in her letter to the Chairman of Duport, Mr Sayers, of 2 March (copy of the draft attached).

Free cutting steels

In normal trading times the free cutting steel market amounts to 250,000 tonnes per annum though it is presently depressed to only 120,000 tonnes per annum. The predominant market share is held by the British Steel Corporation and Duport (Llanelli) who together supply over 90% of specialist bright bar drawers' requirements, the BSC being much larger than Duport. Round Oak (50% BSC and 50% Tube Investments) and Brymbo (GKN) have a small presence in the market and many private sector companies, e.g Round Oak, Brymbo, Hadfields have the technical capability to make free cutting steels. Lloyd Cooper, a Midlands steelmaker, is actively looking at market opportunities and also has adequate capability.

Department of Industry
10 March 1981

For CF file

MAP 31/3

10 DOWNING STREET

10th March 1981

Dear Robin,

Thank you for sending copies of the cuttings and correspondence relating to Duport's closure.

These are much appreciated.

Yours sincerely

Derek

Derek Howe
Political Office

Robin Harris Esq

CONSERVATIVE RESEARCH DEPARTMENT

32 SMITH SQUARE · SW1

CONFIDENTIAL

MEMORANDUM

RH/CFM

From Robin Harris

To Mr. V. Simpson
Deputy CO Agent, Wales
cc See Below
6th March 1981

Duport's Closure of Llanelli: The Prime Minister's Central Council Speech in Cardiff

Your memeorandum of 4th March 1981 concerning the closure of the Llanelli steel works by Duport and possible reaction to the Prime Minister's appearance at Cardiff has been passed on to me by David Nicholson.

The answer to Denzil Davies's remarks (see attached press cuttings) is as follows:

The severe problems of the private sector steel producers are very well known. Above all they stem from European-wide over-capacity. About 20 per cent of the British Steel Corporation's activities overlap with the private steel producers. That is why in its 'Phoenix I' and 'Phoenix II' programmes the Government is encouraging (and under the new Iron and Steel Bill will further enable) joint venture companies to be set up between the BSC and the private sector to rationalise and reduce capacity. Essentially BSC will be producing most of the money and the private sector most of the plant and skills.

Duport is a clear candidate for Phoenix II, which deals with the 'overlap' in engineering steels. However, the problems of Duport were so acute that the company could not wait for the detailed and difficult negotiations of Phoenix II to come to fruition. It faced immediate bankruptcy. The BSC, at Government urging, had to act. Consequently the Corporation purchased Duport's steel making interests in Sheffield and the Midlands. These will, if negotiations can be finalised with a private sector company, be placed in the hands of a joint-venture Companies Act company. If this does not prove possible these assets will be sold in the market. Sir Keith Joseph promised this in his statement on 24th February 1981 (Hansard, Col. 748).

However, BSC did not purchase the plant at Llanelli. There will be a loss of about 1100 jobs.

The plant was modern and productive. But it was not profitable. The interest charges on such heavy investment there and elsewhere were threatening to bankrupt Duport. They would be a burden on any owner of the plant in question. Moreover, Llanelli was disadvantaged by its location, for there was no prospect of its fitting into a reduced capacity integrated steel making business.

In short, Llanelli is to close - not because of government (or BSC) 'skullduggery', but because commercial logic required that in the hands of <u>any</u> owner - even one so well-endowed with taxpayer's cash as BSC - its operations should end.

The needs of Wales - Llanelli or elsewhere - are not going to be well served by keeping open unviable plants in the steel industry. They will be served, however, by encouraging new companies to move to the area. However, that is a broader point and one of which, I know you* are at least as fully aware as I. I hope that this short note is of use to you in answering Davies's specific allegations.

*and Elizabeth Morgan-Lewis

RH

cc Mrs. E. Morgan-Lewis
Mr. Ian Gow, MP
Mr. John Hoskyns
Mr. Derek Howe
Mr. Alan Howarth
Mr. David Nicholson

CONSERVATIVE AND UNIONIST CENTRAL OFFICE

32 Smith Square, Westminster, S.W.1.

From V.Simpson	*To* Mr.David Nicholson
Deputy *Central Office Agent*	
Wales *Area*	Research Department

4th March, 1981

I thought you might be interested in comments being made by Denzil Davies with reference to Sir Keith Joseph, bearing in mind the Prime Minister's forthcoming visit at the end of March.

development of a "them and us" attitude.

"When schools do try and involve parents, those who become involved are never the ones you want to get involved," she said.

"If class sizes are to get bigger the problem must increase because already there is a lot of pressure on teachers, and the bigger the class

S. Wales Evening Post, Wednesday Feby 25/81

SAVE STEEL JOBS, UR

URGENT Government intervention to save Duport Steelworks, Llanelli, has been called for by Dyfed industrial joint committee, representing the county council and all six district authorities in the county.

At their quarterly meeting at Llandeilo, members expressed their dismay and urged the Government to intervene to keep the steelworks open.

The meeting resolved: "To note with grave concern the decision leading to the closure of Duport Steelworks, Llanelli, and calls for direct Government intervention to safeguard the employment of the workforce."

REINFORCED

In addition, the joint committee, already urging the restoration of development area status for Llanelli, agreed to make immediate demands for special development area status for the whole of the Llanelli travel-to-work area.

During the last few months the joint committee has made representations to the Industry Secretary and the Welsh Secretary for development status for Llanelli, and these are to be reinforced.

Mr. Gwilym Peregrine, Dyfed's chief executive, claimed: "A closure of this magnitude in an area such as Llanelli is bound to have a devastating effect on the unemployment figures and the industrial scene in general.

ALLEVIATION

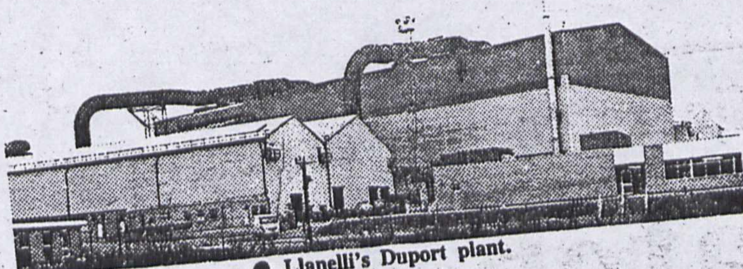
"Not only will the workforce of approximately 1,200 men at Duport Steelworks be affected but I fear that many other industries in south-east Dyfed and West Glamorgan area will also be hit.

"The county council is attempting to assess the effect of the closure on the many smaller companies of the area who are engaged in servicing or sub-contract work for Duport in order that the total implications can be realised."

He said: "At the present time the Llanelli travel-to-work area, which includes the employment exchanges of Llanelli, Kidwelly, Tumble, Ammanford and Garnant, has an unemployment rate of 14.7 per cent, which represents some 5,400 people.

"The Duport closure will push this figure up to almost 20 per cent."

He added: "There is clearly a case for immediate Government action in the alleviation of unemployment in the Llanelli area."



● Llanelli's Duport plant.

LLANELLI MP Denzil Davies (centre) talks to Glyn Davies (left) chairman of the works council, and John Carberry, ISTC senior organiser, at today's meeting.

PLEA TO BSC

● From page one.

end to keep the plant operative and to save 1,200 jobs.

The form the campaign will take in its initial stages will not be disclosed until a further mass meeting to be held on Friday.

Mr. Don Evans, the secretary of the works council, said: "We have told the workers what the position is and what the chances are and have asked them to give us their ideas on what action needs to be taken. Our tactics will be discussed on Friday."

Mr. Denzil Davies, Llanelli's MP who addressed the meeting said: "There has been political skullduggery. Acting under pressure from his back benchers, Sir Keith Joseph has made an agreement with Mr. McGregor that the BSC should buy the Duport rolling mills in Sheffield and Birmingham.

"Irrespective of the efficiency of the local plant Llanelli is to be sold down the river in a deal which has been made to satisfy the Tory MPs in the Midlands.

"We have to be realistic in this situation and not look for outside help or for pie in the sky. At the end of the day the workers themselves might have to make their own decision."

Mr. Alun Bowen Thomas, the chief executive of Llanelli Borough Council, said: "Urgent efforts have now been made to persuade Mr. McGregor to visit the Llanelli works in order to see for himself its potential. This has been done with the full support of the management and all employees."

Duport appeal plea fails

AN APPEAL by Llanelli MP Mr. Denzil Davies for an emergency Commons debate on the closure of the Duport private steel works in the town was rejected in the Commons yesterday.

His plea, made after Sir Keith Joseph had announced new backing for British Steel, was turned down by the Speaker, Mr. George Thomas.

However, Mr. Thomas added that, although he could not allow the debate to take place, he knew the area and sympathised with Mr. Davies and his constituents.

EFFICIENT

Mr. Davies said that 1,200 jobs were at stake, by no fault of the workers. And many of them would never work again.

The closure came despite an excellent industrial record, high productivity, modern plant, an efficient workforce and good local management, he said.

It was forced by the Government's policy of high energy costs — at Duport energy costs now exceeded the wage bill — high interest rates, the high value of the pound, the depression at home, and the "aggressive marketing of the BSC."

Urgent Government action was needed to save the jobs and the community in which they occurred, Mr. Davies said.

Llanelli Star
CARMARTHENSHIRE'S LARGEST CERTIFIED CIRCULATION
Vol. 72 No. 3719 SATURDAY, FEBRUARY 28, 1981 Price 11p
Registered at the G.P.O. as a newspaper, Tel. Llanelli 4809

Action 'to prevent removal' threatened

WE WILL BLOCK PLANT SALE SAY STEELMEN

LLANELLI steelworkers will take action to prevent Duport from removing any part of the works or its equipment.

That will keep hopes alive if, as Duport announced on Monday, production will cease within two or three weeks.

The works committee have been told by company executives based in Llanelli that the situation within the Duport group is so bad the company will have to "realise its Llanelli assets."

That would mean selling off the two arc furnaces—installed during the £30m. modernisation programme—or other equipment.

Secretary of the Works Committee, Mr. Donald Evans, told the Star: "It is possible that the works will cease to produce over the next two or three weeks and it will become effectively a dead plant.

"But it must be made clear to Duport Ltd. that we as employees will be examining their actions extremely carefully in order to protect our interests.

"What I'm thinking of is that we will ensure that the plant isn't taken away by whatever means we can."

Pooling ideas

The fight to save the steelworks swung into action this week after Duport announced a proposal that their Midlands and Sheffield steel interests would be taken over by the British Steel Corporation but that Llanelli would close.

Llanelli Borough Council have called for urgent talks with B.S.C. Chairman Mr. Ian MacGregor.

"We want to meet him in Llanelli if possible," explained Borough Chief Executive, Mr. Alun Bowen Thomas. "We want to show him the works.

"We feel it is just the sort of modern works he would want for B.S.C. But if he won't come to Llanelli we are willing to meet him anywhere."

But while municipal and political bodies throughout the town are queuing up to help in the fight, the road the campaign will take is to be decided by the steelmen themselves.

At a packed mass meeting at the Glen Ballroom on Wednesday their union leaders asked them to go away for two days to think about what should be done. That way they hope to pool all the individual ideas.

Llanelli's M.P., Mr. Denzil Davies, made a round trip from London to speak to the meeting.

He told the Star afterwards he was "very angry" at the way the issue had been handled. "There have obviously been talks going on behind our backs all the time.

"Sir Keith Joseph has obviously engineered this situation to relieve the pressure he has been getting from his Tory backbenchers in the Midlands.

"In the meantime Llanelli has bene sold down the river.

"We are making further approaches to the Government and to Ian MacGregor and we are going to see Secretary of State for Wales Mr. Nicholas Edwards for the third time. But the men will decide the final strategy."

"The closure could have a devastating effect on the town. Duport is the third largest employer in Llanelli, but on top of that the firm have given us a list of 173 firms who supply the works, plus 15 hauliers, said Mr. Evans.'

The Borough Council have estimated that 3,000 jobs outside the steelworks could be hit by the closure—either lost completely or hit by short-time working.

● The 1,100 steelworkers were expected to march through the town centre today in a rally staged for 10.30 a.m. B.S.C. Velindre men affected by a rationalisation scheme were expected to support them. Afterwards talks with Mr. George Wright, of the Welsh T.U.C., and officials of the National Union of Mineworkers were scheduled.

c/? 1/3.

DUPORT LIMITED

Tel: 021-454 6100
Telex: 336963
GROUP HEADQUARTERS
DUPORT HOUSE · HAGLEY RD
BIRMINGHAM B16 8JU

CHAIRMAN'S OFFICE

6th March, 1981

The Prime Minister,
The House of Commons,
Westminster,
LONDON, W1.

Dear Prime Minister

Thank you for your letter of the 2nd March. Needless to say I and my colleagues are relieved that the residue of Duport will continue and appreciate the interest you have shown in our problem.

I must however point out to you that over the last three years only 7% of output have been of low alloy steels; around 45% have been free-cutting and the bulk of that leaded.

We have been at pains to explain for some months past that this makes the Llanelli plant the only alternative domestic supply source to B.S.C. in this strategically vital product area. If the Llanelli plant goes the customer will be forced overseas for an alternative supply source. In these circumstances I respectfully suggest that it is vital that the question of the Llanelli plant be re-examined otherwise a vital component in a viable Phoenix II will be lost to the nation forever.

Yours faithfully,

Eric C Sayers

FILE

VLB

~~BF~~ 19/3

NAT. IND

6 March 1981

I enclose a copy of a letter to the Prime Minister from Llanelli Chamber of Trade and Commerce, about the closure of Duport Steelworks.

I should be grateful for a draft Private Secretary reply to Mr. Griffiths, to reach us here by 19 March.

M A PATTISON

Mrs. Catherine Bell,
Department of Industry.

FILE

VLB

6 March 1981

I am writing on behaff of the Prime Minister to thank you for your letter of 4 March, about Duport Steelworks.

This is receiving attention, and a reply will be sent to you as soon as possible.

M A PATTISON

W. H. Griffiths, Esq.

File

M. D. DAVIES

10 DOWNING STREET

From the Private Secretary

4 March 1981

Denzil Davies has asked to see the Prime Minister to discuss the closure of the Duport steelworks at Llanelli. You will now know this meeting has been arranged for 1630 on Thursday 12 March. I should be grateful if you could arrange for a short brief to reach us by 1800 on Wednesday 11 March.

B/F

11/3/81

Peter Mason, Esq.,
Department of Industry.

File BK

Mr Denzil DAVIES

4 March 1981

I hope you received my message which I left on the Board this morning. It was to confirm the 1630 meeting on Thursday 12 March in the Prime Minister's room at the House of Commons. Mr. Tebbit will also be present.

I am extremely sorry that I was not able to find another time for you. I do hope you will understand.

C STEPHENS

The Right Honourable Denzil Davies, MP

SP

FINE

cc: Mr. Gow

CH

MR. SANDERS

Here is the up to date list of the Labour Members of Parliament coming to see the Prime Minister:-

Wednesday 11 March

1700 Mr. George Foulkes and Mr. Alex Fletcher

1930 Mr. David Watkins and Mr. Norman Tebbit

21000 Mr Jim Craigen and Mr Alex Fletcher

Thursday 12 March

1630 The Right Honourable Denzil Davies and Mr. Norman Tebbit

Tuesday 17 March

1530 Dr. Gavin Strang and Mr. Alex Fletcher

All these meetings will take place in the House of Commons.

CAROLINE STEPHENS

4 March 1981

R3

HOUSE OF COMMONS
LONDON SW1A 0AA

2/3/81.

Dear Prime Minister,

I enclose a list of all the firms that will be affected by the closure of the Deposit Steelworks in my constituency.

Sincerely,

Dafydd Owen

* British Rail
Llanelli

Malcolm Cotterell
48, Upper Robinson St
Llanelli.

Harry Davies
35, Sea View Terrace
Ashburnham Rd
Burry-PORT

E. Evans & Son
Llangennech.

Owen Bros
Dafen Industrial Estate
Dafen
Llanelli

Deresloes Ltd
Bosc Yard
Llanelli.

Wm Morgan & Son
Ystradgynlais
Swansea.

D. M. Davies & Sons
Dryslwyn
Carmarthen

D. Gwynne Williams
(Lampeter Storage Co Ltd)
Station Yard
Lampeter

D. C. Dowel
Tregynwr
Carmarthen

Abertawe Transport
Cefn Part
Skewen

Lynam Price
Northend Garage
Bonllwyn
Ammanford.

B. A. Rogers
'Shangri La'
352 Clasemont Rd
Morriston

David Owen
Dawla
Llyswen
Brecon.

T. J. G Price
Troedy Rhiw
Llandovery

W. T. Price
Fernleigh
Penbont
Talgarth
Brecon.

N. A James
The Station Yard
Nantgaredig
Carmarthen

D. Gibson Davies
Highmead Abattoir
Llanybydder

C. Jones
Berwick Farm
Bynea.

Royce Jones
Caerhont
Abercrave
Swansea

[illegible] ✓	LLANELLI	M. [illegible]	SWANSEA
GREGOR BROS	SWANSEA	M.L.M.	KIDWELLY
[illegible] FERTILIZER	SWANSEA	MOTORWAY TYRES	LLANELLI
A.P. GREEN	NEWBRIDGE	MILLER BRIDGES	SWANSEA
EQUIPMENT SURPLUS	LLANELLI	NALFLOC	SWANSEA
GLOBE + SIMSON	SWANSEA	THOMAS + NICHOLLS ✓	LLANELLI
G.E.C. ELLIOT	CARDIFF	NAT. CARRIERS	SWANSEA
PREMIER CHEMICALS	CARDIFF	NATIONAL TYRES	LLANELLI
HONEYWELL CONTROLS	CARDIFF	NEWEY + EYRE ✓	SWANSEA
HILT LTD	CARDIFF	OWEN BROS ✓	LLANELLI
JOHN HALL	SWANSEA	JOHN OWEN	NEATH
HAMILTONS	CARDIFF	OFFICE STAT. SUPPLIES	SWANSEA
E.J. HUNTER	CARDIFF	PRAILS	SWANSEA
F.G. REEVES	LLANELLI	POTTERS ELEC ✓	SWANSEA
H.M.S.O.	CARDIFF	R.B. PHILLIPS ✓	GORSEINON
HACROSS ENG ✓	LLANELLI	PUMP MAINTENANCE	SWANSEA
HOBART MANUF	CARDIFF	REES + KIRBY ✓	SWANSEA
HACOL HEATING	PORT TALBOT	RUSTO BUCYRUS	CARDIFF
THOS HOSKINS	CARDIFF	HENRY RIGHTON	CARDIFF
I.A.P.	SWANSEA	RENOLD	CARDIFF
PHILLIP JENKINS	NEATH	REES INDUSTRIES	LLANELLI
T.P. JONES	LLANELLI	SIEWODE	GORSEINON
JONES CHROMOTOGRAPHY	SWANSEA	SOUTH WALES WOODMANS	LANDOVERY
JUST ENTERPRISES	SWANSEA	TOM SMITH + CLARKE ✓	SWANSEA
TOM JONES	CROSS HANDS	SHORTS ELEC ✓	"
KERNICK	CARDIFF	SOUTH WALES SAW	"
KERSWELL METALS	SWANSEA	SWIRLO - NEWTON ✓	SWANSEA
KENYONS ✓	PONTARDAWE	STADIUM GARAGE ✓	SKEWEN
R.W.B.	LLANELLI	ANDREW SCOTT ✓	PORT TALBOT
K.S. PIPELINE	CARDIFF	DYFED STEELS	LLANELLI
K + T BRAKES	SWANSEA	SANDY AUTO	LLANELLI
T.T. LEWIS ✓	NEATH	SYKES PUMPS	SWANSEA
LLANELLI PLANT	LLANELLI	SAROL HYDRAULICS	CWMBRAN
LLANELLI AUTO	LLANELLI	SECURICOR	CROSS HANDS
LLANELLI BY PRODUCTS	LLANELLI	TAYLOR BROS ✓	BRITON FERRY
LANCER BROS ✓	CWMBRAN	E.D. THOMAS	LLANELLI
E.G. MORGAN	BARRY	THYSSEN	LLANELLI
NATIONAL ELEC.	SWANSEA	UPLAND BOOKSHOP	SWANSEA
MARGAM SAND	PORT TALBOT	U.K. SUPERHEATER	SWANSEA
MORGANITE CARBON ✓	SWANSEA	GODFREY HOLMES	LLANELLI
MAGNUS ELEC ✓	SWANSEA	JOHN WILLIAMS (TRANS)	PONTARDAWE
		JOHN WILLIAMS	CARDIFF

[illegible] WARWICK - SWANSEA
WEBLER LTD - LLANELLI ✓
J.H. WADE - LLANELLI
WEST GLAM TIMBER - GORSEINON ✓.
WALES GAS - CARDIFF.
WARSAW CONDUITS - SWANSEA
(1).

R.H. Oughton - Gorseinon. ✓
S. Supply - Skewen
T.W. Weird - Bute Terr ✓
Geo Cohe - Morriston ✓
Birds - Morriston ✓
B.A. Rodgers - Skewen. ✓
Abertawe Transport - Skewen
Viscount Transport. ✓

T. Williams - Llanelli.

84
85
6.
173

173
+ 9.
182.

HAULIERS, (6 WHEELER RIGIDS).

			RELIANCE EST
E. EVANS + SON	—	LLANGENNECH	90%
OWEN BROS	—	LLANELLI.	50/60%.
W.T. PRICE	—	TALGARTH	100%
D. OWEN	—	TALGARTH	100%
COTTERELL	—	LLANELLI	80%.
COLIN JONES	—	LLANELLI	80%
DENES LOES	—	LLANELLI	80%.
FOSTER	—	WALSALL	UNKNOWN.
D. M. DAVIES	—	CARMARTHEN	100%
LAMPETER STORAGE	—	LAMPETER	50/60%.
HARRY DAVIES (2) INTERNAL + EXTERNAL.		BURRY PORT	100%
DOUGH	—	CARMARTHEN	50/60%.
D. J. JONES	—	LAMPETER	50/60%.
PRICE BROTHERS	—	LLANDOVERY	100%.

BRITISH RAIL.

cc Ind RH

Nat Ind

10 DOWNING STREET

THE PRIME MINISTER

2 March 1981

Dear Mr. Sayers

Thank you for your letter of 17 February.

I was very glad subsequently to hear that BSC have been able to reach an accommodation with the Midland Bank over the purchase of London Works, Flather Bright Bar and Nationwide Steel Stockholders, on terms that have enabled Duport Limited to continue trading.

I am naturally extremely sorry that it was not possible to save Llanelli. I read with concern what you said about subsidised competition from BSC; but it seems to us that this was not the main cause of Llanelli's difficulties. There is substantial overcapacity in low alloy steelmaking and, as you will know, BSC has had to include in its Corporate Plan the closure of two thirds of its Templeborough plant to meet this drop in demand. Against this background, I do not believe it would have been right for the Government to have tried to persuade BSC that a place could be found for the Llanelli capacity in a new joint public/private sector company.

Finally, let me say how deeply concerned we have been about the difficulties being faced by the private steel companies.

/Unfortunately,

Unfortunately, there seems no alternative in current trading conditions to reducing capacity in both BSC and in the private sector.

Yours sincerely

MT

E [illegible] Sayers, Esq

JFF

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ASHDOWN HOUSE
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LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
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3

PS/Secretary of State for Industry

26 February 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister

Draft reply (which I have amended) attached.

TL 26/2

Dear Tim

You wrote on 19 February with a copy of a letter dated 17 February from the Chairman of Duport.

2. As you know, the British Steel Corporation was able slightly to improve its offer for Duport's London Works, Flather Bright Bar and Nationwide Steel Stockholders to the point where the Midland was prepared to undertake to keep the company going. This was all announced publicly on Monday, 23 February.

3. The BSC did not make an offer for the steelworks at Llanelli since they could see no place for these assets in a reorganised joint public/private sector company. There is considerable overcapacity in this sector, and Duport's capacity, while modern, is in a poor location. This is not a point to make to Mr Sayers: the steelworks is in Llanelli because, under a previous Conservative administration, an IDC to build in the Midlands, near their re-rolling operation was refused.

4. The announcement made by the company on Monday said nothing about Llanelli, because the company had not then had time to talk to their workforce. The management however broke the news to the Llanelli workforce later that afternoon that the plant would have to shut. The workforce there have been offered statutory redundancy terms plus 50%, conditional on their accepting redundancy readily. Had Duport Ltd ended in the hands of a Receiver as Mr Sayers expected, the Receiver would presumably had paid only the statutory redundancy rates.

... 5. I attach a draft letter for the Prime Minister to send. The draft draws on the letter sent by the Prime Minister to the Secretary of the Joint Works Committee at Llanelli on 24 February.

Yours ever
Catherine
CATHERINE BELL
Private Secretary

*ENCL

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

Eric C Sayers Esq
Chairman
Duport Ltd
Duport House
Hagley Road
BIRMINGHAM
B16 8JU

Thank you for your letter of 17 February.

I was very glad subsequently to hear that BSC ~~had~~ have been able to reach an accommodation with the Midland Bank over the purchase of London Works, Flather Bright Bar and Nationwide Steel Stockholders, on terms that have enabled Duport Ltd to continue trading.

I am naturally extremely sorry that it was not possible to save Llanelli. I read with concern what you said about subsidised competition from BSC; but ~~I cannot accept that this~~ it seems to us that this was not the main cause of Llanelli's difficulties. There is substantial overcapacity in low alloy steelmaking and, as you will know, BSC has had to include in its Corporate Plan the closure of two thirds of its Templeborough plant to meet this drop in demand. Against this background, ~~it would not have been proper for Keith Joseph or myself to try~~ I do not believe it would have been right for the government to have tried to persuade ~~the~~ BSC that a place could be found for the Llanelli capacity in a new joint public/private sector company. ~~But I do regret the hardship that this will inevitably cause to the steelworkers at Llanelli and to their families.~~

Finally, let me say how deeply concerned we have been about the difficulties being faced by the private steel ~~sector~~ companies. Unfortunately, there seems no alternative in current trading conditions to reducing capacity in both ~~public~~ ~~the~~ BSC and in the private sector.

File No. ../48/32

DRAFT

Addressed to:

Eric C Sayers Esq
Chairman
Duport Ltd
Duport House
Hagley Road
BIRMINGHAM
B16 8JU

Copies to:

Enclosures:

Originated by:
(Initials and date)

J C
25.2.81

Seen by:
(Initials and date)

Type for signature of

Prime Minister
(Initials and date

DEPARTMENT OF INDUSTRY

Thank you for your letter of 17 February. I was very glad to hear that BSC had been able to reach an accommodation with the Midland Bank over the purchase of London Works, Flather Bright Bar and Nationwide Steel Stockholders, on terms that ~~did in the end~~ enabled Duport Ltd to continue trading.

I am naturally very sorry that it was not possible to save Llanelli. I read with concern what you said about subsidised competition from BSC but I cannot accept that this was the main cause of Llanelli's difficulties. There is substantial overcapacity in low alloy steelmaking, and as you will know, BSC has had to include in their Corporate Plan the closure of two thirds of their Templeborough plant to meet this drop in demand. Against this background, it would not have been proper for Keith Joseph or myself to try to persuade the BSC that a place could be found for the

Continuation Sheet No.

(CONTINUE TYPING HERE)

File No.
23/48/32

Llanelli capacity in a new joint public/private sector company. But I do regret the hardship that this will inevitably cause to the steelworkers at Llanelli and to their families.

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard, 24 February 1981, cols. 745-747
"Steel Industry"

Signed D.Wayland Date 9 August 2011

PREM Records Team

JU

CONFIDENTIAL

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Secretary of State for Industry

24 February 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim

STATEMENT ON THE STEEL INDUSTRY

I enclose a copy of the final version of the statement which my Secretary of State will make today. This incorporates some minor textual admendments to the version circulated yesterday evening.

2 I am copying this letter and enclosure to Robin Birch, Murdo Maclean, Michael Pownall, David Wright, and to David Fraser in Lord Gowrie's office.

Yours ever

Catherine

CATHERINE BELL
Private Secretary

CONFIDENTIAL

JU

PA ✓ MS

STATEMENT ON THE STEEL INDUSTRY

With permission I will make a statement about the steel industry.

2 No one in the House can welcome the position in which much of the steel industry finds itself. It has been nationalised, denationalised and then renationalised. It has been encouraged by Governments to carry out unrealistic investment programmes. The party opposite refused to allow BSC to close surplus steel capacity. Its workforce went on a three months' long strike. Now the market has collapsed and the high value of sterling has created serious difficulties for private and public steel firms alike - here and in Europe.

3 BSC, which should have been allowed to contract gradually by the last Labour Government, cut manned steelmaking capacity from 21½ million tonnes of liquid steel to 15 million and shed 50,000 jobs in 1980. Works were closed and manning levels slimmed to raise productivity.

4 A report by BSC on its plans has been placed in the Library of the House and in the Vote Office. The aim is for BSC to become internationally competitive. Mr MacGregor has reorganised the Corporation into separate businesses, each responsible for the production and marketing of a specific product range. He is planning a manned capacity of 14.4 million tonnes of liquid steel annually but is committed, if the assumptions behind the Plan are not sustained, to reduce the Corporation to

/a size ...

a size that can in fact make a profit. BSC's results will depend not only on its own performance but on factors such as exchange rates, the European market and any upturn in steel ordering in the UK. Mr MacGregor admits that his Plan is optimistic and I think he is right. He has made it clear to Government and to the managers and work-force of the Corporation that there will be no future for any operations that are not competitive.

5 BSC has asked the Government for an extra £150 million in 1980/81 bringing the total external finance requirement to £1,121 million and for £730 million in 1981/82.

6 This is huge money for taxpayers to find, particularly when unsubsidised private sector steel companies, some in competition with BSC, face extreme difficulties. The Government are greatly concerned about the impact of the European steel recession plus BSC's vigorous marketing on private firms. I therefore recently authorised BSC to negotiate viable joint private companies with those firms whose operations overlapped its own. Agreement on one such company, Allied Steel and Wire, was announced on Friday. Transitional arrangements for some of the assets of Duport Steel were announced yesterday.

7 Setting up more joint companies takes time and will not entirely deal with the problem of competition between BSC and the private sector. I have stressed to Mr MacGregor that BSC must compete fairly with private firms and have pointed to widespread complaints that BSC is unfairly undercutting private firms. He replies that

/BSC ...

BSC and private firms' prices have increasingly been undercut by other EEC producers. The Corporation has therefore had to price down. The private sector has had to do the same. He has assured me that it is not BSC's policy to sell its steel more cheaply than imports, but only to match the prices charged for them.

8 Mr MacGregor has further undertaken personally to investigate any specific allegations of unfair pricing that are put to him by companies or by Honourable Members. I have asked my Hon Friend the Parliamentary Under Secretary of State to monitor these complaints and to report to me.

9 And, in order to make BSC's operations more transpararent, and to pave the way for further privatisation, Mr MacGregor has agreed to consider placing those BSC businesses which are in competition with the private sector in separate Companies Act companies.

10 Mr MacGregor has said that by all normal commercial criteria BSC is bankrupt. Because BSC is a statutory body it cannot be liquidated like a private sector company and the Government and taxpayers cannot therefore at present escape from funding BSC. Recognising therefore that the BSC Plan is optimistic but recognising also that BSC should be given a last chance to cease to burden the taxpayer by becoming profitable, the Government is prepared, on condition that the Corporation behaves responsibly towards the unsubsidised private steel makers, to

/approve ...

approve BSC's Corporate Plan and to provide the finance needed to implement it. BSC's target is to reduce its loss before interest from an estimated £480 million in 1980/81 to £225 million in 1981/82 and to achieve breakeven in 1982/83. We shall increase BSC's external financial limit for 1980/81 to £1,121 million and have set its EFL for 1981/82 at £730 million. These large figures reflect BSC's substantial though reduced losses, but also provide for heavy redundancy and closure costs and a limited programme of essential capital expenditure.

11 I must also emphasise that, if Mr MacGregor's optimism is not justified, further closures and redundancies may be necessary. The Government will monitor progress closely in each of BSC's businesses. Mr MacGregor will give us his assessment of progress by July.

12 To implement these decisions some changes in the law are needed and I have today published the Iron and Steel Bill 1981. This amends the Iron and Steel Act 1975 to ease the transfer of businesses to the private sector and to permit an extensive run-down of the Corporation if that proves necessary. We also need to deal with the mistakes of the past. The Bill will write off some £3,500 million of BSC's capital immediately, will provide a power to write off a further £1,000 million later and will make consequential adjustments to the Corporation's borrowing limit. This does not represent the commitment of additional funds; it marks the huge cost to the taxpayer of over-ambitious, centrally

/directed ...

directed investments and the uncompetitive use of many of them.

13 The plans involve job losses in areas where unemployment is above the national average but which are already Assisted Areas, so considerable support is already available to encourage new investment and to help the jobless to find work. The Government does not intend to alter the Assisted Area status of any steel closure area at this time but we do not underestimate the problems for the communities and people concerned. I shall, if necessary, consider whether any regrading would be appropriate.

14 We shall also seek to ensure that market conditions in Europe are improved. The production quotas imposed under Article 58 of the Treaty of Paris expire on 30 June and we are already discussing with our Community partners the measures to replace them. We intend to ensure that reductions in capacity are equitably shared among the members of the Community and that, so far as possible, short term market conditions do not invalidate long term commercial objectives.

15 The financial provision we propose will require approval from the European Commission.

16 The Government may have had to spend taxpayers' money this time, but we are seeking powers to relieve the taxpayer of the inescapable obligation to fund BSC indefinitely. The Government

/intends ...

intends the competition the private sector faces from BSC to be fair and we expect more public/private steel firms to be created which will be in the private sector. It is a tough time for all who work in the steel industry. There can be no guarantee of survival. But for those who are or who become competitive there is far more hope of a secure and prosperous future than for those who do not become competitive.

PV.

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PS/Secretary of State for Industry

24 February 1981

Nick Sanders Esq
10 Downing Street
London SW1

PA
MS

Dear Nick

Further to Ian Ellison's telephone conversation with you yesterday, I now enclose a copy of the BSC document "Background of the Corporate Plan" which will be laid today in the libraries of both Houses and in the Vote Office in the Commons and the Printed Paper Office in the Lords.

Yours ever
Catherine

CATHERINE BELL
Private Secretary

BRITISH STEEL CORPORATION

THE BACKGROUND OF

THE CORPORATE PLAN

23rd February, 1981

CONTENTS

23rd February, 1981

Note
The Corporate Plan does not take into account the effects of recent arrangements agreed in principle with parts of the Private Sector of the industry with regard to rationalisation.

I. PREFACE

The purpose of this Paper is to provide details of the current results of the Corporation, and its view of the future with particular reference to the Corporate Plan.

The Corporate Plan was presented to the Government on 12th December 1980. It is also under discussion by BSC with the trade unions. The Plan set out measures designed to achieve significant improvements in the level of BSC's costs and efficiency, and some capacity reduction together with an expansion of the Corporation's sales through more resolute marketing.

In order to place the current result of the Corporation in its appropriate context, details are shown on Appendix 1 of the results since 1974/75 when the Corporation last made a profit, whilst Appendix 2 details the source and application of funds over the same period.

Until March 1978 the financing requirements of the Corporation were met by 55% - Public Dividend Capital and 45% - Loan Capital. The large loans required in the years up to then were to meet fixed capital requirements as a result of the 1973 Development Strategy, to provide for the higher levels of working capital necessary due to inflation, and for the financing of operating losses. Interest has continued to be paid on these loans.
Since then, and until a capital reconstruction is effected, the financing requirements of the Corporation have been met by new capital under Section 18(1) of the Iron and Steel Act 1975.

Before consideration of the Corporate Plan this Paper provides background on the current results and the competitive environment in which the Corporation operates.

II. CURRENT RESULTS

The trading loss for the half year to 27th September 1980 was £187 million. The total loss after interest of £92 million amounted to £279 million. Details are shown on Appendix 3.

The trading loss was affected by the reducing demand for steel, aggravated by loss of market share and price competition. Increased penetration of the UK market by overseas producers during the steel strike earlier in the year had a serious effect on the half-year results, with BSC deliveries being lower than anticipated. Production was curtailed so as to bring stocks into line with current demand and to conserve cash. The Corporation is making strenuous efforts to increase its market share.

Progress towards implementation of its 15 million tonne strategy, announced by the Corporation in December 1979, reduced total manpower between April and September 1980 from 166,400 to 140,400. Manpower was further reduced to 129,100 by the end of December 1980 - a reduction of 55,500 since September 1979.

Since September 1980, there has been a further weakening of steel consumption in Europe and the UK. This has been aggravated by destocking by consumers and stock-holders, and accompanied by very severe price competition. The 'Manifest Crisis' measures were introduced by the EEC in October 1980 to attempt to bring some degree of price stability back into the market-place.

The outlook is bleak and the trading result for the second half year will be worse than the first half, due mainly to the market situation.

BSC is continuing intensive efforts to reduce operating costs by better utilization of plant, materials and energy together with improvements in labour productivity. The efforts also include the re-organisation, announced in September 1980, of its main iron and steel activities into discrete Businesses. Resolute marketing efforts are continuing, but the trading loss for the year is nevertheless expected to be substantial.

The expected trading loss is incorporated in the cash requirements for 1980/81 which are expected to be over £1100 million and comprise:-

	£M
Capital Expenditure	185
Increase in Working Capital	75
Redundancy and Closure Costs	350
Funding of Operations	510
	1120

"Funding of Operations" includes interest, disposals of assets and operating losses which are after adjusting for items not involving the movement of funds, principally depreciation.

III. COMPETITIVE ENVIRONMENT

Continued low economic growth and demand for steel throughout the EEC will mean that BSC will have to operate during the next two to three years in a competitive environment characterised by excess capacity, and low price levels.

The main factors relevant to this environment are :-

1. World Economic Prospects

Economic growth rates in the major industrialised countries will continue to be low, relative to historical trends, over the next two to three years (Appendix 4)

2. Prospects for World Steel Demand

World steel demand in the major industrialised countries is likely to remain below the levels reached in the pre-oil crisis peak year of 1973-74. Details by Region are :

Steel Demand by Region

(average % annual growth rate)

	1955-74	1973-79 (peak to peak)	1979-84 (peak to peak)
EEC	5	-1	0 - 1
USA	3	-½	0 - 1½
Japan	13	-1	1 - 3
Other Industrialised	7	-3	0 - 2½
Developing	7	4	3 - 5
Total (non-Communist)	5	½	½ - 2½

Further details are shown on Appendix 5.

3. World Steel Capacity

Consequently the outlook is for continued surplus of capacity in the non-communist world. (Appendix 6). Given the poor prospects for growth (even at the top of the forecast range) very substantial closures of capacity will be required to bring demand and supply back into balance by the mid 1980s.

4. UK Economy and Steel Using Industries

GDP is expected to fall by 1½% in 1981 in line with the recent plublished Government forecast, following the fall of 3% forecast for 1980.

Many UK steel using industries have been in decline since the mid 1970s or before (Appendix 7). The decline has accelerated sharply in the current recession. UK manufacturing output as a whole dropped by over 15% between the second quarter of 1979 and the end of 1980. This is the worst continuous drop recorded at least since the 1930s. Within the manufacturing sector, key steel using industries have been especially hard hit with activity in the motor vehicle industry down by about 30% compared with Q2 1979, and output of miscellaneous metal goods down by over 20%. The major steel using industry outside manufacturing is construction and this has also suffered severely from cuts in private and public investment.

There may be some recovery in economic growth in 1982 and beyond, but the very poor competitive position of UK industry on current exchange rates, and the continuing pressure from imports, will probably mean at best a very modest pick-up in many of the steel using industries.

5. UK Steel Demand

As a consequence of the above factors and after allowing for a range of uncertainty associated with any forecast of this nature UK steel demand is projected at 12½mt. in 1981/82, a fall of 5% on 1980/81. This is at a level not seen since 1953. The forecast is summarised as follows :-

million tonnes

	Consumption	Stock Change	Demand
1979/80	15 1/4	-1	14 1/4
1980/81	13 1/4	nil	13 1/4
1981/82	12¾	-1/4	12½

Post 1981-82 it is expected that the demand will slowly grow with the UK economy. Further details are shown in Appendix 8.

6. EEC Steel Prices and Costs

Continued surplus of capacity suggests continuation of competitive pressures on prices and margins, particularly within the EEC. Thus :-

- Continental EEC domestic prices have fallen to below 1978/79 levels.
- At the end of 1980 the equivalent EEC prices, stated in sterling, have dropped by about 20% since 1978/79 mainly as a result of the strengthening of the pound.
- Consequently, BSC (and other U.K. producers) have had to respond to this price competition notwithstanding the continuing inflationary pressures in the U.K.

7. EEC Steel Industry Profits

Although the EEC steel industry is now unprofitable, pressures on prices may continue even though the EEC "Manifest Crisis" measures may halt further price erosions and, hopefully, allow price increases.
It should be noted that:-

- German steel producers, among the most efficient in the EEC, are losing money as a result of declining demand and price pressures.
- The German, Belgian, Italian, French and British (BSC) producers are all receiving substantial direct and indirect subsidies.
- The EEC "Manifest Crisis" action appears to have temporarily stopped further price erosion. Although some aggressive pricing is likely to continue, overall a modest recovery of price is expected.
- Continued Government support of the "Manifest Crisis" measures is essential to restore the profitability of the European steel industry.

8. BSC's Cost/Price Position

In relation to its competitors the Corporation is operating with:-

- higher costs, due to the less efficient use of labour, expressed as man hours per tonne, now only partly offset by savings arising on lower costs of wages.

- high energy costs, due to higher prices for energy.

- greater energy usage due partly to plants operating at low levels of capacity.

- a net deterioration in the cost/price relationship arising from the strengthening of the pound.

- the effects on costs due to the UK high inflation rate.

- low home demand for steel.

This is the background against which the BSC has been taking measures to increase efficiency and reduce costs and the strategy proposed in the Corporate Plan is to continue and intensify these measures.

IV. CORPORATE PLAN

Given the competitive environment, and BSC's financial position, a plan to close permanently substantial parts of BSC's steelmaking facilities was seriously considered and evaluated. In the absence of improvements in performance involving very significant reductions in cost and an increase in efficiencies, as well as an improvement in the overall market for steel, this option would be implemented. However, BSC's strategy, as embodied in the Corporate Plan, is aggressively to seek further reductions in cost, to narrow the cost gap with continental producers; while regaining market share through competitive pricing and improved quality and service in order to ensure that BSC's manned core capacity, at 14.4 million tonnes, is fully utilised.

If the Corporation fails to achieve these goals, significant closures will be required.

Specifically, management plan action to :-

1. Regain pre-strike domestic market share of 54%

   a. BSC market share in the first half of 1980/81 declined to 47% as a result of the strike and subsequent aggressive pricing by EEC producers.

   b. By resolute selling in recent months, BSC recovered market share to just over 50%, in the final quarter of 1980.

   c. Competitive pricing strategy will be maintained in 1981/82.

   d. Improved quality, consistency of operations and reliable delivery will be critical to achieving increased market share.

2. Increase Export Tonnage

   BSC exports (at less than 3% of world-wide trade in steel) are planned to increase over recent levels but will remain below peak levels.

3. Improve Productivity

a. Substantial reductions in personnel (49,000) will have taken place during 1980 resulting in improved overall productivity.

b. Continuing programmes will reduce personnel throughout BSC (at least 20,000) as early as possible in 1981.

In addition to closures these reductions will arise from :-

- Improving working practices
- Eliminating tasks no longer necessary
- Improving plant availability
- Cutting absenteeism and unnecessary overtime.

4. Reduce and pack capacity

a. Further reductions in capacity are necessary because of inadequate demand to fill existing capacity:

- Normanby Park will be closed
- Appleby-Frodingham No.1 Rod Mill will be closed
- Lackenby bar mill will be closed
- Distington ingot mould foundry will be closed
- Templeborough will be run as a mini-plant
- Coking capacity will be reduced by closing ovens at Shotton and Hartlepool. Orgreave and/or Brookhouse will continue until alternative fuel arrangements are made for works in the Sheffield area.
- Velindre (Tinplate) to operate on a restricted basis.
- Ebbw Vale 4 stand cold mill will be closed.

b. As a result, utilisation of manned steelmaking capacity should increase from 64% (October 1980) to well over 90% in 1981/82.

c. Further closure options were considered, particularly in strip. However, it was decided that they should not be implemented, at least for the time being, in an effort to determine whether planned costs and market objectives could be achieved with the co-operation of the employees.

5. Reduce energy costs

a. Substantial reductions, amounting to approximately £34 million annually, in those costs of energy relating to consumption have been identified by the Businesses and further opportunities are expected to be identified during 1981/82.

b. However, BSC has still an estimated energy cost penalty of between £50 million and £70 million a year relative to EEC producers because of higher UK energy prices.

6. Restrict Capital Investment

Management plan to restrict capital investment to the completion of schemes in progress and essential new items. The capital expenditures for 1981/82 are largely limited to those which have already been approved, and are expected to amount to approximately £200M.

7. Reduce BSC interest burden

a. BSC interest cost per tonne is two to three times higher than that of US or German producers because of a combination of high gearing and high interest rates.

b. Proposals for a capital reconstruction submitted separately to the Government would mitigate this cost penalty.

V. THE FINANCIAL IMPLICATIONS OF THE CORPORATE PLAN

The Corporate Plan was presented to the Government in December 1980 and since then discussions have ensued regarding the financial implications. As a result of these discussions, and subject to the assumptions shown in (d) below, the projections for 1981/82 are:-

(a) Profit & Loss

The projected loss for 1981/82 is	£318 million
after charging - depreciation	£100 million
- interest	£ 93 million

This represents an improvement of £400 million in the trading loss compared with the expected current annual rate of loss.

(b) Cash Requirements

The projected cash requirement for 1981/82 is £730 million and covers :-

	£M
Capital Expenditure	200
Increase in Working Capital	180
Redundancy and Closure Costs	180
Funding of Operations	170
	730

Note that:-

"Funding of Operations" includes interest, disposals of assets and operating losses which are after adjusting for items not involving the movement of funds, principally depreciation.

(c) Capital Reconstruction

Proposals for a capital reconstruction were made to the Department of Industry in late 1980. The Government has announced that a Bill, effecting a capital reconstruction, will be introduced during the current session of Parliament.

The Corporation understands that the Bill may provide for a write-off of capital of £3,000 million and the extinguishing of NLF debts totalling £509 million, with a further provision for an additional write-off of up to £1000 million. The impact of these proposals on the forecast Balance Sheet is shown in Appendix 9.

(d) Implementation

Successful implementation of the Plan will be heavily dependent on the key underlying assumptions, and rests on the following critical factors:-

- The market developing as anticipated particularly in respect of price and volume.
- Rapid implementation of programmes for improving productivity and closures of activities.
- The co-operation and dedication of BSC's management and entire workforce.
- The continued support of BSC by the Government.

The Plan will be closely monitored to ensure that the planned performance and market objectives are being realised. Corrective action will be taken immediately according to the degree that any of the Businesses within the Corporation may fail to realise their own individual plans.

APPENDICES

1. Profit/(Loss) 1974/75 to 1979/80
2. Source and Application of Funds 1974/75 to 1979/80
3. Interim Result for Half-Year to 27th September 1980
4. World Economic Prospects
5. World Steel Demand
6. World Steel Capacity
7. UK Steel-Using Industries
8. UK Steel Demand
9. Forecast Balance Sheet, March 1981

BTITISH STEEL CORPORATION

PROFITS/(LOSSES) 1974/75 TO 1979/80

(EXCLUDING EXTRAORDINARY ITEMS)

£ Million	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80
Turnover	2,256	2,357	3,059	3,154	3,288	3,105
Trading Profit before Depreciation	226	(66)	151	(178)	(18)	(274)
Non-Trading Items	31	29	33	18	10	5
Depreciation Net of Grants	(101)	(101)	(99)	(98)	(111)	(87)
Interest Payable	(67)	(108)	(168)	(197)	(208)	(188)
Loss before Tax	89	(246)	(83)	(455)	(327)	(544)
Tax and Other Items	(16)	(9)	(12)	12	18	(1)
Loss for the Year	73	(255)	(95)	(443)	(309)	(545)
Extraordinary Items						
Closures	(3)	(14)	(22)	(70)	(48)	(464)
Release from General Reserve	3	14	22	70	48	66
Fixed Assets (Net)	-	-	-	-	-	(841)
Total	-	-	-	-	-	(1,239)

Appendix 1

BRITISH STEEL CORPORATION

SOURCE AND APPLICATION OF FUNDS

£ Million	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80
SOURCE OF FUNDS						
Long Term Funds						
Public Dividend Capital	45	344	490	445	-	-
New Capital under Section 18(1) Iron and Steel Act 1975	-	-	-	-	850	905
NLF Loans	(78)	131	161	216	(161)	(209)
	(33)	475	651	661	689	696
Foreign Loans	215	184	214	133	(8)	(35)
Short Term Borrowings	123	(1)	66	7	34	(94)
	305	658	931	801	715	567
APPLICATION OF FUNDS						
Required for Operating Losses	(165)	136	(21)	365	209	507
Redundancy and Closure Costs	-	-	22	70	60	80
Fixed Assets, Investments and Long Term Debtors	266	52	543	409	286	228
Working Capital	197	(1)	387	(43)	160	(248)
Dividend	7	-	-	-	-	-
	305	658	931	801	715	567

Appendix 2

British Steel Corporation

Interim Results Statement

For the Half-year ended 27 September 1980

The unaudited consolidated results of the British Steel Corporation and its subsidiaries and principal associated companies for the six months ended 27 September 1980 are shown below, together with those for the corresponding period of last year and for the 52 weeks ended 29 March 1980.

	26 weeks ended 27 September 1980 £'million	26 weeks ended 29 September 1979 £'million	52 weeks ended 29 March 1980 £'million
Turnover of U.K. operations			
Home	1227	1450	2321
Export	292	388	650
	1519	1838	2971
(Loss) before interest payable	(187)	(32)	(356)
Interest payable	(92)	(94)	(188)
(Loss) before taxation	(279)	(126)	(544)
	Million Tonnes	Million Tonnes	Million Tonnes
Liquid steel production	6.1	9.5	14.1
Deliveries: finished and semi-finished steel products:			
Home	4.1	5.4	8.0
Export	1.0	1.6	2.5

Notes:

(a) No amount is included in the above figures for redundancy and other works closure costs. Expenditure on these items in the half year has been charged against provisions made in last year's Accounts.

(b) Exchange translation adjustments, taxation and minority interests are not included in the above figures and will be taken up at the year end.

(c) The loss in the comparative half year period has been adjusted from the figure published last year to reflect the revised depreciation charge arising as a result of the write-down, with effect from 1st April 1979, of fixed asset values.

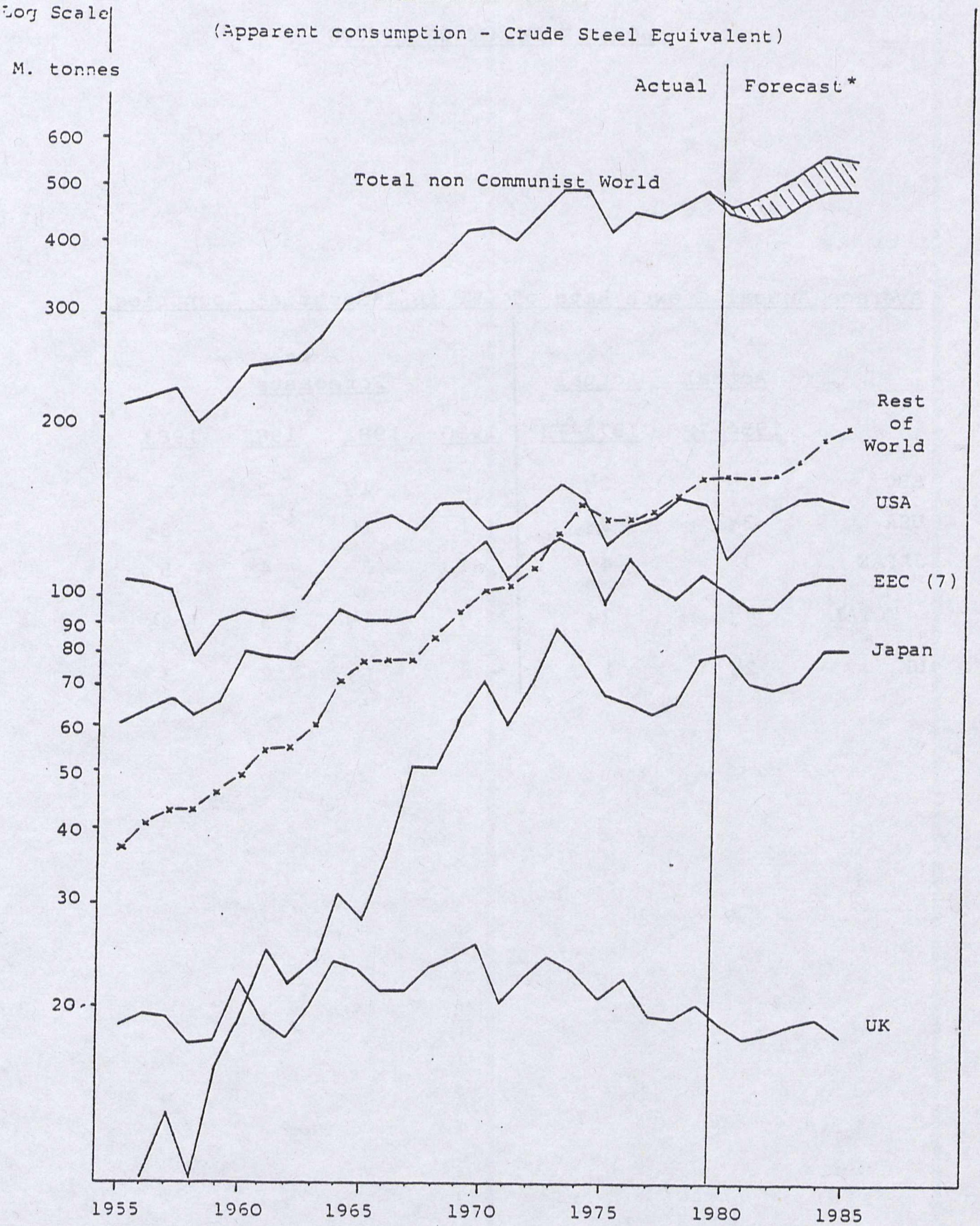
WORLD ECONOMIC PROSPECTS

Average Annual Growth Rate of GNP in Industrial Countries

	Actual	Actual	% pa Forecasts			
	1954-74	1973-79	1980	1981	1982	1983
EEC	4½	2½	1	1½	2	3
USA	3½	2½	- 1	1	3	3½
JAPAN	9	4	4	3	4½	5
TOTAL	4½	2½	½	1½	3	3½
UK	2½	1	- 3	- 1½	2	3

WORLD STEEL DEMAND

(Apparent consumption - Crude Steel Equivalent)



* Forecasts by country and region are centre of range of uncertainty

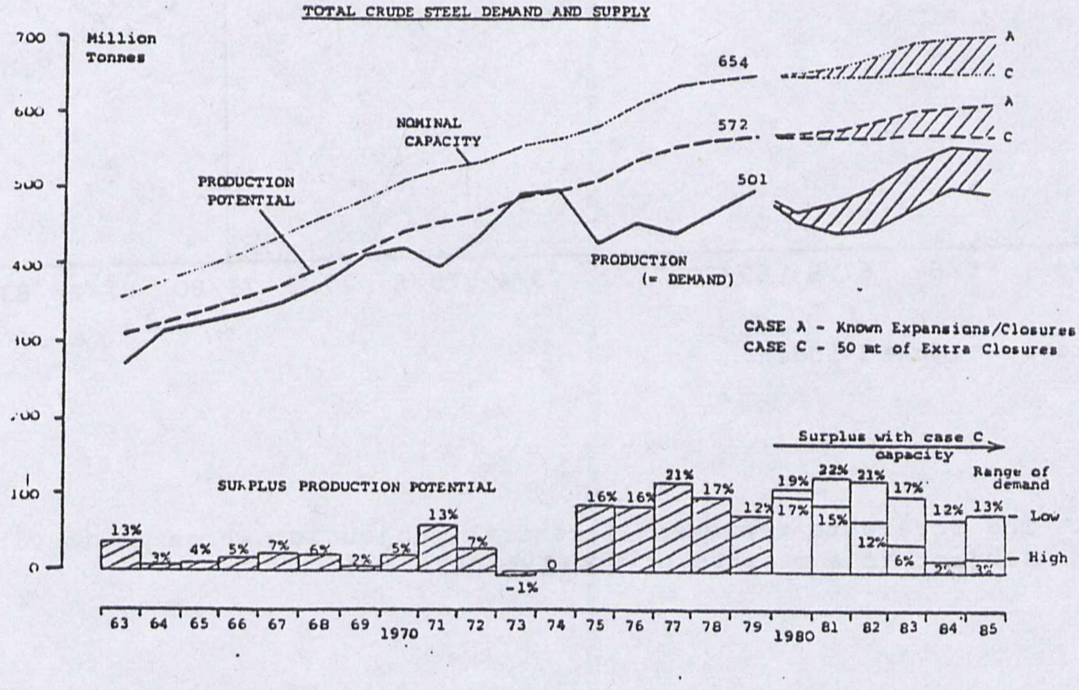
WORLD CRUDE STEEL NOMINAL CAPACITY 1973 to 1979

Million Tonnes

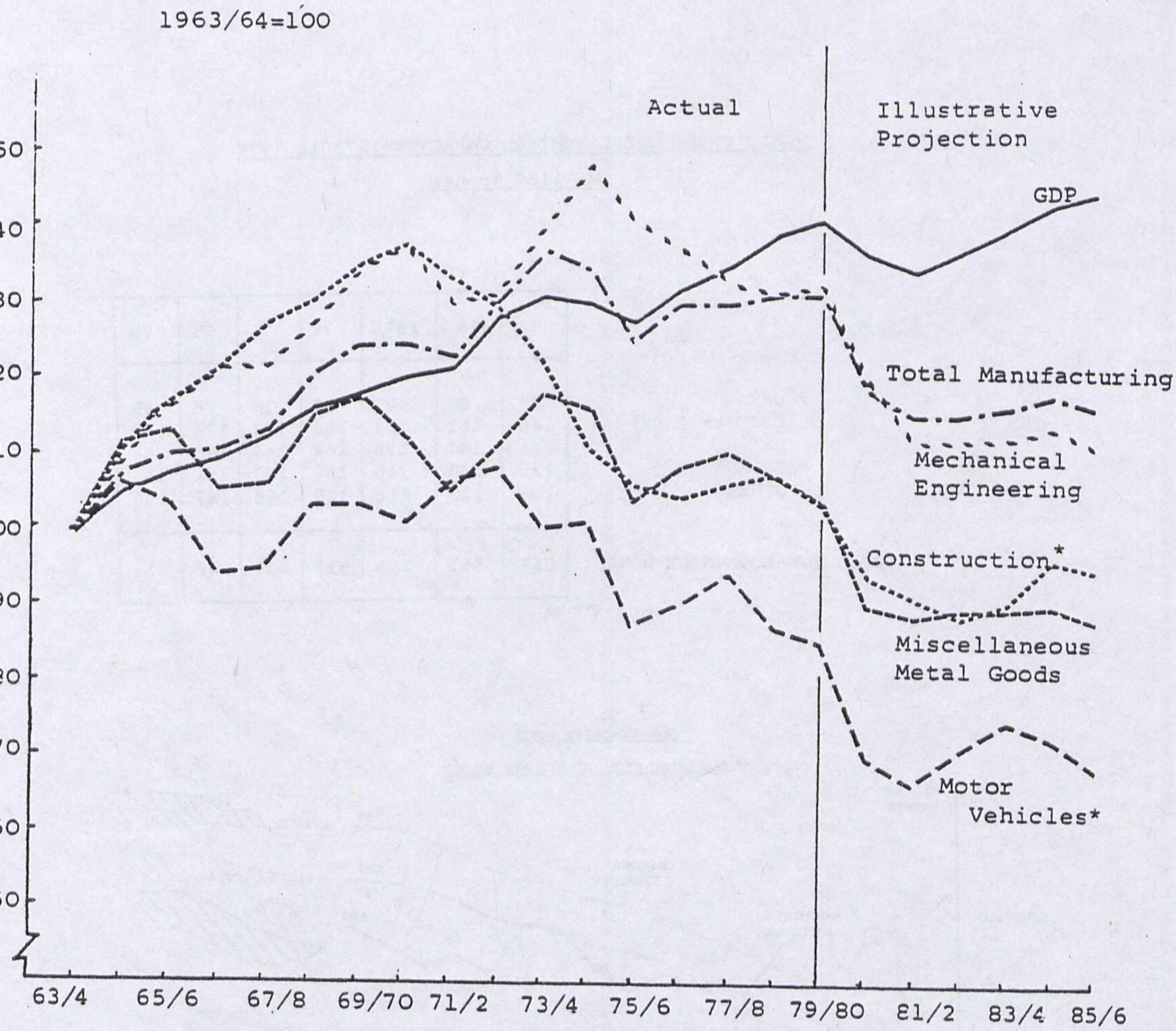
	73	74	1975	76	77	78	79
UK	29	28	27	29	29	28	29
EEC (excl UK)	146	151	163	168	172	174	175
USA	141	140	139	144	145	143	141
JAPAN	135	138	140	147	153	154	153
OTHERS	106	110	116	127	138	147	156
TOTAL NON-COMMUNIST WORLD	557	567	585	615	637	646	654

NON-COMMUNIST WORLD

TOTAL CRUDE STEEL DEMAND AND SUPPLY



UK ECONOMY AND STEEL USING INDUSTRIES

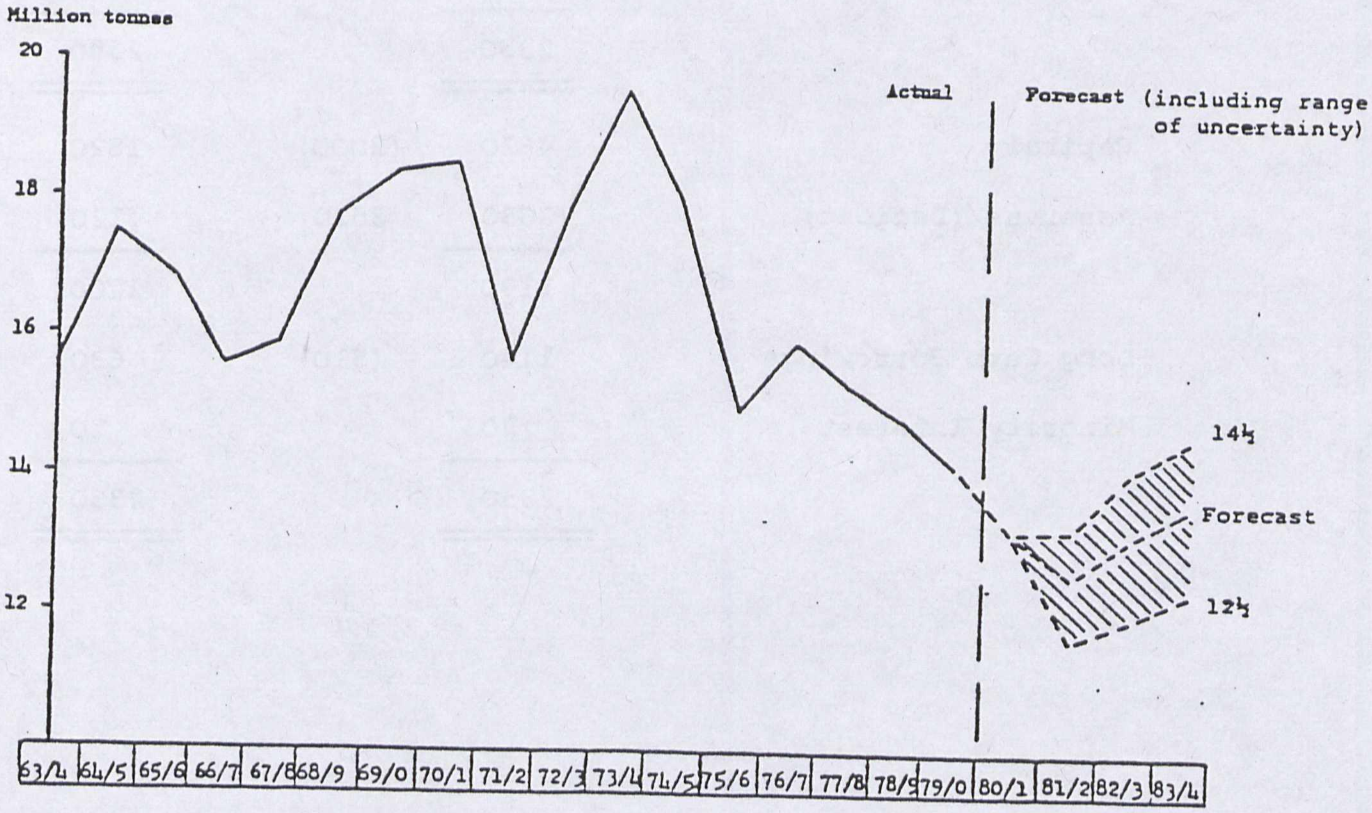


* Steel weighted index.

N.B. The forecasts represent a central projection which is inevitably subject to a measure of uncertainty.

Appendix 8

UK STEEL DEMAND



BRITISH STEEL CORPORATION

BALANCE SHEET

FORECAST AT 28TH MARCH 1981

£Million	Current Forecast	Capital Reconstruction	Post-Reconstruction
Fixed Assets, Investments, and Long Term Debtors	1870		1870
Working Capital	800		800
Short-Term Borrowings	(320)		(320)
	2350		2350
Capital	4820	(3000)	1820
Reserves/(Deficit)	(3630)	3510	(120)
	1190		1700
Long Term Borrowings	1140	(510)	630
Minority Interest	20		20
	2350		2350

File

JS

cc: Ind.

CF.

10 DOWNING STREET

THE PRIME MINISTER

24 February 1981

Dear Sirs,

Thank you for your letter of 9 February about Duport's Llanelli Steelworks which was signed by several hundred of the Llanelli workforce.

I have read what you have to say with great care and I can assure you that I am fully aware of the background to the recent difficulties experienced by Duport. I have discussed these many times with the Ministers concerned. Obviously I deeply regret the position in which the Llanelli workforce now find themselves.

I acknowledge all the efforts which the Llanelli management and workforce have put in to make the works competitive. I wish that the rest of British industry could tell a similar story of cooperation.

But the losses at Llanelli have been so great that the Duport Group as a whole can no longer sustain them. Other steel-makers throughout Europe are facing similar difficulties.

I have read with concern what you say about subsidised competition from BSC causing the present difficulties. The Government are giving this issue full and serious consideration in their evaluation of BSC's Corporate Plan but it seems to us that competition from BSC is not the main cause of Llanelli's difficulties.

/ I know that

SK

I know that Sir Keith Joseph has explored fully the scope for Duport joining a new company to manufacture engineering steels. Various detailed ideas have been explored but none of these, I am sorry to say, has produced a workable solution which would include the steelworks at Llanelli.

I realise that this letter will come as a disappointment to you and to your families. I am very sorry that in the present circumstances of the steel industry I have not been able to help.

Yours sincerely,

(sgd) Margaret Thatcher

The Secretary,
Joint Works Committee,
Duport Steelworks.

cc: PS/Mr Tebbit
PS/Mr Marshall
PS/Secretary
Mr Steele
Mr Binning
Mr Murray IS1 o.r
Mrs Cohen IS3
Mr Morris IS2
Mr McElheran Sols
Mr Thompson IS1b
Mr Cameron RPDG
Mr Costin IS3
Mr Hardbattle PB
Mr Woodrow Inf
PS/Lord Gowrie

PA
(cf file)
MS

PS/SECRETARY OF STATE

BSC STATEMENT: 24 FEBRUARY

I attach question and answer briefing (with background notes where appropriate) for the BSC Statement tomorrow on the following topics:

1 BSC Corporate Plan: financial aspects
2 BSC Corporate Plan: closures etc
3 Remedial measures for steel closure areas
4 Iron & Steel Bill: Capital Reconstruction
5 Iron & Steel Bill: Removal of Duty to Supply
6 Performance Criteria for Mr MacGregor
7 Phoenix I
8 Phoenix II
9 Duport Limited
10 Competition between BSC and the Private Sector*
11 ECSC Article 58 Production Quotas
12 Community Steel Policy
13 Steel Imports
14 Steel Exports
15 Coal Imports
16 General Questions on Energy Prices

I also attach a copy of the BSC document being laid before Parliament to ~~circulate~~ coincide with the Statement.

for M. Lazar
J P Spencer
IS1a
813 Ashdown
212 6992

23 February 1981

*This item to follow

1: BSC CORPORATE PLAN: FINANCIAL ASPECTS

1 Why is the cost of the Plan so high?

As with all nationalised industries, the Government is effectively the BSC's sole banker. It therefore is responsible for all the Corporation's cash needs - not just to meet any trading losses. In view of BSC's past history of losses, it would not be realistic to expect a turnaround overnight. But the Corporation does expect to make substantial progress towards profitability in 1981/2, and intends to reach breakeven (before interest) in 1982/3. And their cash needs will be substantially lower in 1981/2 [at £730 m] than in 1980/81 [£1,121 m]. In this period, the Corporation will still need substantial financial support for e.g. redundancy and closure costs and for essential capital expenditure.

2 How is the £730 m broken up?

The BSC envisage that the main elements ofthe £730m will be:

redundancies and closure costs £180m
capital expenditure £200m
increase in working capital £180m
funding of operations (including
interest payments, trading losses,
and allowing for depreciation and
sales of assets) £170m

These figures are obviously subject to some adjustment in the light of events during the year. [NB: These figures are those quoted by BSC in their document for Parliament].

3. <u>Monitoring of progress</u>?

We shall be making arrangements to receive regular information from BSC on their progress towards the targets in the Corporate Plan. This will be based on the information the BSC management themselves will be receiving, and on which they will be taking their own decisions.

4 <u>Will the Corporate Plan be published</u>?

As I said in my statement, the BSC have prepared a background document on performance and current plans. But the plan itself contains commercially confidential information, and in accordance with the usual practice in relation to the Corporate Plans of Nationalised Industries it will not be published.

5 <u>Will the Government consult the Commission about the proposals in the Corporate Plan</u>?

The financial provision we propose will require approval from the European Commission, under the terms of the ECSC Decision on State Aids for steel.

6 Vulnerability to high £ exchange rate?

The BSC have had to take a view on exchange rates for 1981/2. If the £ exchange rate turns out to be higher than they anticipated, this will cause problems, but they will have to cope with these problems like anyother business.

2 : BSC CORPORATE PLAN: CLOSURES

1 Will the Government delay (or review) individual plan closures (eg the Distington foundry in Mr Campbell-Savour's constituency, Velindre tinplate works)

As I said in the debate on 16 December, the BSC does not need Government authority to reduce manpower or to close plants. We regard decisions on the future of individual BSC works as being for the commercial judgement of the BSC management. In considering the Plan, the Government has been principally concerned with the overall BSC strategy and with the future financing needs of the Corporation.

2 Will there be an investigation into the decision to close Distington Foundry?

No. We have already explained to the Hon Member, decisions on the closure of individual works are a matter for the Corporation.

3 Will there be further closures after July?

Mr MacGregor's Plan represents the best chance for the BSC to avoid further major closures. We must all hope that he will succeed. But he has made it very clear that there can be no future for operations that are not competitive. We cannot guarantee, in an uncertain world, that there will be no further closures. That will depend partly on how well the Corporation succeeds in meeting the targets in the Corporate Plan, and also on the conditions in the external market.

4 <u>Why not cut the taxpayer's losses and liquidate BSC now?</u>

Obviously we have looked at this possibility. But there are large financial and social costs in this course of action. The net cost to the taxpayer in the first year would be higher. There would be substantial job losses both in BSC and among its suppliers [up to 100,000 in BSC if the business closed completely - which it would not - and a similar or rather smaller number in supplying firms]. But if BSC cannot be made competitive, these costs may have to be faced.

5 <u>Wouldn't more closures be more expensive (in PSBR terms)?</u>

That depends on how competitive BSC can become. If BSC businesses can return to viability, then there is a case for supporting them in the intervening period. If not, then the short-term costs of closure may have to be faced.

6 <u>Is not the Government locked into BSC like it is with BL</u>?

The two cases are not entirely similar. The present BSC Corporate Plan is for one year only - neither we nor BSC are taking long term decisions on major capital expenditure items at this juncture. The BL plan covered a five year period, and we specifically agreed to fund the first two years of it including major investment in a new model which will be launched in about two years time.

7 <u>Will not the BSC's cutbacks this year and last year mean a massive surge of imports when the upturn comes</u>?

Neither the BSC [nor the Government] anticipate a major or rapid increase in steel demand in the foreseeable future. But should a substantial increase in demand occur, BSC will have a good deal of additional capacity which could be broughtback on stream quite quickly.

3: REMEDIAL MEASURES FOR AREAS AFFECTED BY STEEL CLOSURES

1 What is the Government doing to help the areas affected?

As I have said, all the areas in question are already assisted areas, and benefit from extensive investment incentives. Those most affected will also benefit from ECSC Aid. I am considering whether there is scope for any further measures to help.

2 Upgrade Area [X]

On present evidence, and in the light of the Corporate Plan proposals, I am not persuaded that Area [X] should be upgraded. But I shall of course continue to keep a close watch on the situation and am prepared to consider any new evidence. [I and my colleagues will be always prepared to see deputations led by any Hon Member whose constituency is affected by these proposals].

4 : IRON AND STEEL BILL: CAPITAL RECONSTRUCTION

BACKGROUND NOTE

The Initial Write Off

On enactment the Bill will provide, with effect from the end of this financial year, for the write off of BSC's remaining borrowing from the National Loans Fund(£509m) and £3,000m of capital subscribed by Government.

The write off recognises the consequences of past mistakes involving an over ambitious investment programme in the early seventies and a failure to react quickly enought to replan for a deteriorating market since the oil crisis in 1974/75.

These mistakes left the Corporation with investments, some of them in modern equipment, that had no potential value in the foreseeable market conditions, and also compounded the scale of losses that nearly all the European steelmakers have experienced in recent years.

The previous Government's White Paper "The British Steel Corporation: The Road to Viability" recognised the need for BSC to bring capacity into line with demand; but it is only since this Government came into office that the Corporation has had the financial and political support necessary to undertake the massive realignment to market realities, necessary to provide some prospect of enduring viability. This resulted in the reduction in manned capacity from about 22 million tonnes per annum to 15 mpta with the loss of 50,000 jobs over the past year.

The investments written off, the generous payments to redundant steel workers and the losses incurred through inefficient operations in the past can never be recovered. The Bill will immediately recognise the cost to the country of these past mistakes by writing off some £3,500m from BSC's capital.

The write off of NLF borrowing will provide BSC with an immediate £59m relief from interest in 1981/82. The long term interest burden will be reduced from £119 million to £60 million. After the initial write off £622m foreign borrowing and about £1800m capital will remain on BSC's balance sheet.

Further Write Off of Capital

The Bill makes provision for a further write off of £1,000m of capital subscribed under section 18, by Order subject to affirmative resolution.

The process of realigning BSC to its markets is not yet complete, Mr MacGregor's Corporate Plan shows a way forward to achieve this. However viability cannot be achieved without further irrecoverable costs in eliminating unnecessary capacity and reducing manning levels to competitive international standards, and whilst this plan is put into effect more losses are expected.

The power to reduce further BSC's capital expires at the end of 1982. Before this date we will know whether the Corporation is on the road for enduring viability and the return the taxpayer can expect on his investment in BSC. At this time the Government will take a view on the Capital structure appropriate to the size of the Corporation and the return that can be expected from an efficiently run business. If we can see a viable future for BSC we will then seek an order to write off a further amount of capital in line with the view we have taken, but within the £1,000m provided in this bill. At this time no estimate can be made of the further amount we will need to write off the type of financing that will be appropriate in future or the return in dividends or interest on loans that we can expect. However if a write off of more than £1,000m appears to be necessary this will be indicative of the need for a more radical solution to BSC's financial problems which will require further legislation.

Adjustments to BSC's Statutory Borrowing Limits in Section 19 of the 1975 Act

On enactment of the Iron & Steel Bill BSC's borrowing limit under section 19 of the 1975 Act will become £3,500m. By Order subject to affirmative resolution this limit can be

(a) increased to not more than £4,500m or

(b) if a further write off of capital is effected adjusted to a figure between £2,500m and £4,500m.

The provisions for the borrowing limit in this bill supersede the provisions of the Iron and Steel (Borrowing Powers) Bill which passed all its Commons stages on 18 February 1981.

The amounts to be written off the Corporation's borrowing and capital count towards the borrowing limit in section 19 and will effectively reduce the amount of borrowing that count against this limit. Therefore, the £6000m limit under the Borrowing Powers bill would have allowed BSC to acquire £4000m additional borrowing without further reference to Parliament. After the write off of £3509m in this bill, the new £3500m limit will allow BSC to acquire £1500m further borrowing without further reference to Parliament.

Relationship between the Iron & Steel (Borrowing Powers) Bill and the Iron & Steel Bill

The Iron & Steel (Borrowing Powers) Bill completed all its

Commons stages on 18 February and is expected to receive Royal Assent this week. This is an interim measure, to allow the Corporation to continue to be financed during the passage of the Iron & Steel Bill. BSC will run up against the limit on their total borrowings imposed by Section 19 of the Iron &Steel Act 1975 by about the middle of March; it would not have been possible, or indeed desirable, to rush the main Bill through before then. The provisions in the Borrowing Powers Bill allow lengthy and detailed consideration of the Corporate Plan, both by Ministers and by Parliament.

The provisions of the Borrowing Powers Bill will be completely overtaken by those in the Iron & Steel Bill, when it becomes law.

CAPITAL RECONSTRUCTION

Questions and Answers

1 Does not the write off of £3000 million of capital and £509 million long term loan constitute a subsidy?

No, it is not new money, or even a commitment to provide more money. It simply recognises that the large sums invested by the taxpayer in BSC in the past are now worthless. There is no commitment of new money involved.

2 Is not the provision in the Bill to write off a further £1000 million a soft option which will encourage BSC to lose even more money in the future?

No. As my statement made clear, the Corporation are aiming to return to viability in the foreseeable future, but will need transitional finance to meet eg closure costs until then. This provision in the Bill will enable us to complete the capital reconstruction of BSC when viability is more clearly in view, and when we can assess more clearly the kind of dividend payments to the taxpayer of which BSC might be capable.

3 How does the Iron and Steel Bill relate to the Iron and Steel (Borrowing Powers) Bill? Isn't this still more money for BSC?

The Iron and Steel (Borrowing Powers) Bill is purely an interim measure. The Iron and Steel Bill will supersede it entirely when it receives Royal Assent. The amounts of money BSC will receive over the next year or so are determined by the EFLs - a further £150m for 1980/81, bringing the total to £1121m, and £730m for 1981/82.

5: THE IRON AND STEEL BILL: REMOVAL OF BSC'S DUTY TO SUPPLY IRON AND STEEL PRODUCTS.

Background Note

The bill will remove from BSC the general duty to supply iron and steel products as required by Section 2 of the Iron and Steel Act 1975. This has two objectives:-

(a) it will allow the transfer of BSC's business and assets to the private sector; and

(b) it will permit a rapid and extensive run-down of the Corporation if that proves necessary.

These objectives are met in the following way:-

(i) Section 2 of the Iron and Steel Act 1975 which imposes on BSC a general duty to secure that it meets the demand for iron and steel products - this will be replaced entirely, thus leaving the Corporation without general duties;

(ii) Section 3 of the 1975 Act which confers on the Corporation its basic powers will be modified so as to secure that the Corporation will retain its legal capacity to carry on its existing functions and so as to make it clear that its existing functions need not be carried out by companies that are publicly owned;

(iii) Section 4 of the 1975 Act will be modified so as to provide the Secretary of State power by specific or general direction to require the disposal of any part of the Corporation or of the publicly-owned companies or any of their assets. This power was available formerly solely in respect of non-iron and steel activities.

NOTES FOR SUPPLEMENTARIES

1 How do you propose to allow an extension run down of BSC's operations?

The present legislation leaves considerable doubt as to whether the BSC can run down its activities e.g. withdrawing from major sector steel production. I propose therefore to remove the BSC's general duty to supply iron and steel products, so that is free to take decisions on the future of particular BSC businesses on a normal commercial basis.

2 How will removal of the duty to supply affect BSC's legal powers to carry out its functions?

The Corporation's powers under Section 3 of the Iron and Steel Act 1975 will be modified so as to make it clear that the Corporation retains its legal capacity to carry on its legal functions.

3 Can the Secretary of State ensure that the Corporation acts in accordance with his wishes as to run-down of BSC's activities?

My powers of direction will be extended so as to enable me to require the disposal of any part of the Corporation. However I would not expect to use these powers except in exceptional circumstances.

4 Will the Secretary of State be able to use his new powers to direct BSC to sell mainline iron and steelmaking assets to the private sector?

Yes. But I would not expect to use those powers except in exceptional circumstances.

5 Further detailed questions on the Bill

The bill will be published this afternoon and hon. members will have the normal opportunities to examine its provisions. It would not be appropriate for me at this juncture to deal in detail with the bill's provisions. However the general purpose of the bill is to facilitate the policies I have just outlined.

6 : PERFORMANCE CRITERIA FOR MR MACGREGOR

1. Are performance criteria for Mr MacGregor yet agreed? What will the criteria be?

I expect to make an announcement about the performance criteria soon.

2. Will the criteria be published?

We shall consider publication of the criteria when agreement on them has been reached.

3. How will the payments to Lazard Freres be decided?

By a performance review committee which will assess Mr MacGregor's performance in relation to the agreed criteria.

4. Can you name the members of the review committee?

Yes. Mr John Gardiner (Laird Group) has agreed to act as the Chairman. I have nominated Mr K Sharp and Mr J R Steele of my Department. Lazard Freres have nominated the Viscount Weir (of the Weir Group) and Mr Albert Frost.

7: PHOENIX I

BACKGROUND

BSC and GKN announced last Friday the formation of Allied Steel and Wire Ltd, a joint public/private venture to rationalise certain of their rod, wire and bar interests at Scunthorpe and South Wales. The company will be owned on a 50/50 basis with GKN providing key management, taking it outside BSC control. It will be a free-standing company which will not have recourse to parent company guarantees. Working capital requirements will be chanelled through BSC.

2 GKN will provide most of the fixed assets and the majority of the stocks. BSC will provide some fixed assets, some stocks and cash. In exchange, GKN will take half of the equity and £18.3m of preference shares. BSC will take the other half of the equity and subscribe for £23m of preference shares. After two years of loss making, the company is expected to make a good profit in year 3. The first two years will of course be particularly difficult for steelmakers throughout Europe.

3 The company, which will have a turnover of over £220m, expands the private sector and paves the way for further privatisation in due course. It also represents a small step in reducing the competition which the private sector is receiving from BSC. This particular deal is important for its implications in the much larger field of engineering steels where GKN have proposed to amalgamate their plant at Brymbo (Wrexham) and their drop forging companies with BSC's Sheffield plant to create a second 50/50 company. This is the area of discussion known as Phoenix II.

LINE TO TAKE

I welcome the announcement in principle between BSC and GKN to amalgamate certain of their rod, bar and wire interests in Allied Steel and Wire Ltd. This joint venture is fully in line with European plans for restructuring in the steel industry and I hope it will pave the way for further joint ventures in other parts of the industry.

PHOENIX I
QUESTIONS AND ANSWERS

1 Money and cost of deal
What happens if this company runs out of cash? Will HMG stand behind it?
This will be a private sector company controlled jointly by BSC and GKN and HMG is not a participant. It follows that HMG will not have responsibility for the future funding of this company, nor will it stand behind its debts. The company will be established on a basis that is believed to be commercially viable and will obtain any funding required beyond the initial capitalisation from external market sources. It is not the present intention to secure further borrowing by giving parent company guarantees. Both parties intend that this should be a free-standing company.

2 Will the company's borrowings be outside the PSBR?
Yes. The rule is that the borrowings of any company where the public sector participant does not have sole control fall outside the PSBR. In the proposed new company BSC does not have sole control.

3 What is the cost of this deal to HMG?
HMG will not be a participant in the new company; all shares will be held by BSC and GKN. The details of the proposed company are a matter of commercial confidence to the parties, but this will be a Companies Act company and its accounts will be available in accordance with the Companies Acts.

4 Will HMG be subsidising the new grouping?
No. This will be a free-standing Companies Act company and its accounts will be available for inspection as required by the Companies Acts.

5 Other companies/competitors - what about the competitors like Manchester Steel and Sheerness? Why have they been excluded?

I understand that both preferred to remain independent of a new grouping.

6 What about any other competitors (Bridon, TRM)?
This will be a matter for the Board of a new company when it is in business. TRM is owned 50% by BSC in any case.

7 What about the wire companies?
The new company does not, I understand, effect any rationalisation of the wire drawing industry.

8 What about further rationalisation/inclusion of more groups?
That will be a matter for the Board of the new company.

9 What is the effect on competition and on Phoenix's competitors (particularly within the UK)?
The main objective of the Phoenix ventures is to combat imports and it has followed overall a considerable reduction in the productive capacity of the two organisations concerned.

Statutory position
The proposal was considered by the Director General of Fair Trading who made his recommendations to the Secretary of State for Trade in the usual way. The Secretary of State for Trade has announced that the merger will not be referred to the Monopolies and Mergers Commission.

10 Phoenix II - what are the implications of the Phoenix I proposals for the companies (GKN / Duport/Hadfields/Round Oak)involved in the Phoenix II discussions?
The Phoenix II proposals are concerned with a different sector of the market and involved considerably more participants. There is as yet no agreed proposal so it is impossible to speculate on how anyone will be affected.

11 Is this an example of denationalisation/privatisation?
This is a joint public/private sector venture which has been devised as the best use of modern capacity installed by BSC/GKN to meet expected demand for rod, bar and wire.

12 BSC/GKN appear to be injecting an unequal amount of assets. How will equity be achieved?
Both will receive 50% of the ordinary share capital. GKN will receive an amount of non-cumulative preference shares to be issued on terms to be agreed. In order to provide additional working capital, BSC will subscribe for preference shares so that the shareholdings of the two will be about equal at the end of 3 years.

13 What is the value of the physical assets involved?
About £130m.

14 Will the Government be making any cash payment to either party or to the new company?
There will be no Government payments to GKN or to Allied Steel and Wire Ltd.

15 When does the new company come in to existence?
It will be formed as soon as possible and it will start trading by 1 July or earlier if possible.

16 Are not BSC subsidising the new company?
No, because at the end of 3 years, the shareholdings in ordinary and preference shares will be about equal.

17 Will the venture affect any other producers in the UK?
The major objective is to achieve import substitution and to seek development of overseas markets.

18 How many employees are in the separate businesses now and how many will remain? Will there be any redundancies?
BSC 1,000. GKN 3,800. No job losses are planned but equally there

can be no absolute guarantees for the future.

19 What percentage of the various markets do the existing companies have?

The new company will have 47% of the rod market, 20% of the wire market, 34% of the reinforcement market, 33% of the nail market.

20 Will the new company be free to seek its own low-cost steel sources?

Yes, but it is the intention that the new company will buy most billet it does/manufacture itself from BSC.
not

8: JOINT VENTURES IN ENGINEERING STEELS : PHOENIX II

BACKGROUND

In the engineering steels sector, there is considerable overcapacity. The major participants - BSC, GKN, Duport, Hadfields and TI - are all losing large amounts of money. In the case of Duport Ltd their financial situation has become so acute that they could not wait for a solution in the shape of a new public/private joint venture and such of their assets that might be useful to a new company/ies have been bought by BSC. GKN have suggested putting in their Brymbo plant together with their drop forging interests to form a second 50/50 BSC/GKN joint venture with BSC's Sheffield plants. This means that it now begins to look as though two companies, rather than a single entity might emerge. A BSC/GKN billet company could be established first, leaving the rather more complicated re-rolling issues to be handled later since there are a number of smaller companies which might need to be included in this regrouping.

2 We do not yet have any agreed proposals, though various partial solutions have been put forward. There is general agreement that Duport's Llanelli works did not find a place - it is too remote - and its closure will be announced later this week. It is also unlikely that Hadfields will find a place, but this is not yet resolved. Detailed work in engineering steels has had to wait until the Phoenix I arrangements could be brought to the stage of public announcement and were a necessary pre-requisite to securing the co-operation of GKN, without whom any sensible re-grouping was unlikely to be achieved. We are aware that a number of firms, e.g Manchester and Sheerness Steel wish to remain outside such joint ventures. There is not a lot that can be said publicly about this sector at this stage, since we are not discussing any agreed proposal, but the launching of Phoenix I is an encouraging start to the formation of similar joint ventures in other sectors.

LINE TO TAKE

Discussions between BSC, GKN, Duport, Hadfields and TI have been taking place with a view to forming joint public/private ventures in the engineering steels field. However, no agreed proposal has yet emerged. The BSC/GKN announcement of their intention to merge their rod, bar and wire interests in a joint venture company gives every encouragement that such ventures can be given practical effect.

JOINT VENTURES IN ENGINEERING STEELS : PHOENIX II

QUESTIONS AND ANSWERS

1 Isn't subsidised competition from BSC driving the private sector steel industry to the wall?

The whole of the UK steel industry is in severe difficulties at present due to the recession in demand, and low prices throughout Europe. The Government's aim is that BSC should become efficient and profitable; 50,000 jobs were eliminated last year and another 20,000 are to go this year under the Corporate Plan. Government finance is necessary to help this slimming down process and it not intended for subsidising competition with the private sector. But we are aware of the problems faced by the private sector where they are in competition with BSC and have taken this up with Mr MacGregor.

2 Duport/others are announcing closures/declaring redundancies - what is HMG doing about it?

If the prospect of joining such a grouping is not sufficiently attractive for any individual steel company, then the Government is not prepared to intervene either in the negotiations or to provide separate financial support for the company in question.

COMMERCIAL IN CONFIDENCE

9: DUPORT LTD

Background

Duport Ltd have 70% of their assets in their subsidiary Duport Steels Ltd. This subsidiary contains a new low alloy steelmaking plant at Llanelli (current employment 1,060) and an older rerolling operation at Tipton called London Works (current employment 700). There are also two small operations, Flather Bright Bar and Nationwide Steel Stockholders. All four operations are squarely in the interface with BSC and Duport Steels were potential members of any new companies formed with BSC in the low alloy billet or bar sectors, generally called "engineering steels", together with BSC's Sheffield plants, GKN's Brymbo plant, the Hadfields plants in Sheffield and Round Oak in the Midlands, jointly owned by BSC and TI.

2 We have not been able to make much progress with discussions because GKN who are central to the sector have been fully concentrated on getting Phoenix I - now formalised as Allied Steel and Wire Ltd - launched. Agreement in principle was announced on Friday. It was clear however that Duport's financial affairs were in a state that would not allow them to wait for the formation of a new company. BSC was authorised to negotiate for the purchase of any assets that they thought a new company would find useful. On this basis BSC offered to take over £25m of Duport's debt to the Midland Bank in exchange for London Works, £2m of assets from Llanelli, Flather Bright Bar and Nationwide. It is a condition of the deal that Llanelli will be closed. This means a loss of 1,060 jobs at Llanelli, and about 150 at London Works. Duport Ltd announced agreement in principle today (copy attached). The Secretary of State's consent was required under section 3 of the Iron and Steel Act 1975.

COMMERCIAL IN CONFIDENCE

3 The announcement was deliberately vague because Duport and BSC had not yet managed to talk to their work forces. However they have now told the work force at Llanelli that Llanelli steel works will close. The Secretary of State cannot discuss the consideration or other terms, that is a matter of commercial confidence between the parties.

LINE TO TAKE

I understand that details of which assets will be acquired will be made public later in the week. I understand however that Duport Ltd have told the work force at Llanelli that the steelworks there must close. It is not our intention that BSC should retain any assets they acquire but that they should transfer them to a new joint company in the engineering steels sector when and if one is formed. I much regret the loss of jobs at Lanelli.

DUPORT LTD: ADDITIONAL SUPPLEMENTARIES

1 Why did the Secretary of State allow BSC to buy London Works? Is this not creeping nationalisation?

It is the intention that BSC should not retain these assets but transfer them to a new joint company in the engineering steels sector if and when one or more can be formed and it was on this basis that they formed their view of the value of the assets. Had any new company been already in existence, its Directors could have acted in the purchase. However, Duport's financial situation, and the fact that there is as yet no new company in this sector, meant that these assets might have been lost for the nation if BSC had not been able to take them over.

2 What happens if no new company is ever formed?

These assets will have to remain with BSC but we do expect proposals for a new company or companies to be forthcoming soon.

3 How much did BSC pay for the assets? What are the terms?

This is a matter between BSC and Duport Ltd.

4 Why did the Government take BSC's advice? Why not ask an independent adviser?

It is not intended that HMG shall be a member of any new company or companies, nor has the Government any expertise in the valuation of steel assets. Since Government will not have the responsibility of owning or operating these assets, it seemed right to take advice from those who will have this responsibility.

5 What about Hadfields (or anyone else)? Will BSC now be allowed to buy their assets?

The question of what assets will be required in any new company will fall to be decided by those who are going to participate in a new company.

11: ECSC ARTICLE 58 MANDATORY PRODUCTION QUOTAS

Are they effective?
They have been quite effective in stabilising the market after the serious decline last year. There have been some increases in steel prices and a further improvement is hoped for.

2 What will happen after 30 June 1981 when they are due to end?
The Government is working to ensure that there will be measures to secure market discipline in the face of excess capacity that are no less effective than the present mandatory production quotas.

3 Will the Government press for continuation of Article 58 quotas?
If satisfactory voluntary measures can be agreed by the Community steel producers so much the better, but they would have to be adequately policed. It is important to agree in good time on measures that will be effective.

12: COMMUNITY STEEL POLICY

What is the Government's attitude?
We support restructuring of the Community steel industry to eliminate excess capacity and improve efficiency, and the temporary continuation of anti-crisis market discipline measures while this is being done.

2 How can this be secured?
We must ensure that other member states play their part in this process. We shall press for acceptance that State aids specific to the steel industry should be phased out over a period during which aid still being granted should be strictly examined to ensure that it is linked with restructuring including net capacity reduction. [We therefore accept that provisions similar to those in ECSC Decision 257/80 controlling State aid should be given continued effect by an appropriate legal procedure].

3 Will the BSC Plan and its financing be acceptable to the Commission?

We are of course in close touch with the Commission and intend to meet our obligations under the ECSC decision on state aids for steel. We believe that what we are doing is in conformity with Community restructuring policy.

13: IMPORTS

Why import steel which we could produce instead of closing plant?
Import controls are no solution. UK steel has to be competitive in price, quality and service; our steel-using industries must be able to compete with foreign manufacturers who buy steel from the most competitive sources available.
Three fifths of imports come from Common Market countries; restrictions on them would be illegal and could be overturned in the UK courts. The Article 58 quotas on production put an overall limit on the amount of Community steel available.
Imports from most non-Community sources are already subject to voluntary restraint agreements which the Commission are renegotiating this year to take account of reduced demand and the restrictions on Community production.

2 Level of imports?
Great damage was done by the BSC strike after a number of years when finished steel imports stayed at about 21 per cent of total UK deliveries. BSC are making every effort to recover lost ground and by 4th quarter 1980 finished steel import penetration was back to 26 per cent. But much remains to be done.

14 : EXPORTS

Why not export more?

For 3 years up to 1979 the UK was exporting over ½ million tonnes of steel more than it imported when BSC exports were badly damaged by the strike at a time when the world market had become very difficult. The Corporation aims to recover previous average export levels and is making strenuous efforts in an extremely competitive market. In the last quarter of 1980 there was again a positive UK export balance in steel, although it was small and further ground has to be recovered.

There is no point in exporting at totally unprofitable prices, which moreover would provoke anti-dumping action.

15: COAL IMPORTS

Will the Government restrict imports of coal by the British Steel Corporation?

As my Rt Hon Friend, the Secretary of State for Energy said in his statement on 19 February, the Government is prepared to look with a view to movement at what could be done to reduce imports of coal. Discussions on this are now in progress. As regards BSC specifically, the Corporation agreed with the National Coal Board last September that when contracts for imported coal came up for renewal, they would be offered to the NCB. Provided that the NCB could meet the increasingly stringent technical specifications required to operate modern plant efficiently and could supply at the ruling world prices, BSC would take their coal in place of imports. But for technical reasons it will not be possible to replace all imported coal in the forseeable future.

16 : GENERAL QUESTIONS ON ENERGY PRICES

General

1 What action is the Government prepared to take to reduce the burden on industry of unduly high energy costs?

An Energy Task Force has been set up by the National Economic Development Council with the objective of agreeing a common view on disparities in the price of energy to industrial customers in the UK and elsewhere.

The Task Force will be reporting to the National Economic Development Council next week and we must await the outcome.

Electricity: tariff for bulk users

2 Following a request by the Secretary of State for Energy, the electricity supply industry is reviewing its bulk supply tariff for large users of electricity. Steel businesses are of course free to discuss their particular concerns with the supply industry.

PA (CF file)
MS

BRITISH STEEL CORPORATION

THE BACKGROUND OF

THE CORPORATE PLAN

23rd February, 1981

CONTENTS

23rd February, 1981

Note

The Corporate Plan does not take into account the effects of recent arrangements agreed in principle with parts of the Private Sector of the industry with regard to rationalisation.

I. PREFACE

The purpose of this Paper is to provide details of the current results of the Corporation, and its view of the future with particular reference to the Corporate Plan.

The Corporate Plan was presented to the Government on 12th December 1980. It is also under discussion by BSC with the trade unions. The Plan set out measures designed to achieve significant improvements in the level of BSC's costs and efficiency, and some capacity reduction together with an expansion of the Corporation's sales through more resolute marketing.

In order to place the current result of the Corporation in its appropriate context, details are shown on Appendix 1 of the results since 1974/75 when the Corporation last made a profit, whilst Appendix 2 details the source and application of funds over the same period.

Until March 1978 the financing requirements of the Corporation were met by 55% - Public Dividend Capital and 45% - Loan Capital. The large loans required in the years up to then were to meet fixed capital requirements as a result of the 1973 Development Strategy, to provide for the higher levels of working capital necessary due to inflation, and for the financing of operating losses. Interest has continued to be paid on these loans.
Since then, and until a capital reconstruction is effected, the financing requirements of the Corporation have been met by new capital under Section 18(1) of the Iron and Steel Act 1975.

Before consideration of the Corporate Plan this Paper provides background on the current results and the competitive environment in which the Corporation operates.

II. CURRENT RESULTS

The trading loss for the half year to 27th September 1980 was £187 million. The total loss after interest of £92 million amounted to £279 million. Details are shown on Appendix 3.

The trading loss was affected by the reducing demand for steel, aggravated by loss of market share and price competition. Increased penetration of the UK market by overseas producers during the steel strike earlier in the year had a serious effect on the half-year results, with BSC deliveries being lower than anticipated. Production was curtailed so as to bring stocks into line with current demand and to conserve cash. The Corporation is making strenuous efforts to increase its market share.

Progress towards implementation of its 15 million tonne strategy, announced by the Corporation in December 1979, reduced total manpower between April and September 1980 from 166,400 to 140,400. Manpower was further reduced to 129,100 by the end of December 1980 - a reduction of 55,500 since September 1979.

Since September 1980, there has been a further weakening of steel consumption in Europe and the UK. This has been aggravated by destocking by consumers and stock-holders, and accompanied by very severe price competition. The 'Manifest Crisis' measures were introduced by the EEC in October 1980 to attempt to bring some degree of price stability back into the market-place.

The outlook is bleak and the trading result for the second half year will be worse than the first half, due mainly to the market situation.

BSC is continuing intensive efforts to reduce operating costs by better utilization of plant, materials and energy together with improvements in labour productivity. The efforts also include the re-organisation, announced in September 1980, of its main iron and steel activities into discrete Businesses. Resolute marketing efforts are continuing, but the trading loss for the year is nevertheless expected to be substantial.

The expected trading loss is incorporated in the cash requirements for 1980/81 which are expected to be over £1100 million and comprise:-

	£M
Capital Expenditure	185
Increase in Working Capital	75
Redundancy and Closure Costs	350
Funding of Operations	510
	1120

"Funding of Operations" includes interest, disposals of assets and operating losses which are after adjusting for items not involving the movement of funds, principally depreciation.

III. COMPETITIVE ENVIRONMENT

Continued low economic growth and demand for steel throughout the EEC will mean that BSC will have to operate during the next two to three years in a competitive environment characterised by excess capacity, and low price levels.

The main factors relevant to this environment are :-

1. World Economic Prospects

Economic growth rates in the major industrialised countries will continue to be low, relative to historical trends, over the next two to three years (Appendix 4)

2. Prospects for World Steel Demand

World steel demand in the major industrialised countries is likely to remain below the levels reached in the pre-oil crisis peak year of 1973-74. Details by Region are :

Steel Demand by Region
(average % annual growth rate)

	1955-74	1973-79 (peak to peak)	1979-84 (peak to peak)
EEC	5	-1	0 - 1
USA	3	-½	0 - 1½
Japan	13	-1	1 - 3
Other Industrialised	7	-3	0 - 2½
Developing	7	4	3 - 5
Total (non-Communist)	5	½	½ - 2½

Further details are shown on Appendix 5.

3. World Steel Capacity

Consequently the outlook is for continued surplus of capacity in the non-communist world. (Appendix 6). Given the poor prospects for growth (even at the top of the forecast range) very substantial closures of capacity will be required to bring demand and supply back into balance by the mid 1980s.

4. UK Economy and Steel Using Industries

GDP is expected to fall by 1½% in 1981 in line with the recent plublished Government forecast, following the fall of 3% forecast for 1980.

Many UK steel using industries have been in decline since the mid 1970s or before (Appendix 7). The decline has accelerated sharply in the current recession. UK manufacturing output as a whole dropped by over 15% between the second quarter of 1979 and the end of 1980. This is the worst continuous drop recorded at least since the 1930s. Within the manufacturing sector, key steel using industries have been especially hard hit with activity in the motor vehicle industry down by about 30% compared with Q2 1979, and output of miscellaneous metal goods down by over 20%. The major steel using industry outside manufacturing is construction and this has also suffered severely from cuts in private and public investment.

There may be some recovery in economic growth in 1982 and beyond, but the very poor competitive position of UK industry on current exchange rates, and the continuing pressure from imports, will probably mean at best a very modest pick-up in many of the steel using industries.

5. UK Steel Demand

As a consequence of the above factors and after allowing for a range of uncertainty associated with any forecast of this nature UK steel demand is projected at 12½mt. in 1981/82, a fall of 5% on 1980/81. This is at a level not seen since 1953. The forecast is summarised as follows :-

million tonnes

	Consumption	Stock Change	Demand
1979/80	15 1/4	-1	14 1/4
1980/81	13 1/4	nil	13 1/4
1981/82	12¾	-1/4	12½

Post 1981-82 it is expected that the demand will slowly grow with the UK economy. Further details are shown in Appendix 8.

6. EEC Steel Prices and Costs

Continued surplus of capacity suggests continuation of competitive pressures on prices and margins, particularly within the EEC. Thus :-

- Continental EEC domestic prices have fallen to below 1978/79 levels.

- At the end of 1980 the equivalent EEC prices, stated in sterling, have dropped by about 20% since 1978/79 mainly as a result of the strengthening of the pound.

- Consequently, BSC (and other U.K. producers) have had to respond to this price competition notwithstanding the continuing inflationary pressures in the U.K.

7. EEC Steel Industry Profits

Although the EEC steel industry is now unprofitable, pressures on prices may continue even though the EEC "Manifest Crisis" measures may halt further price erosions and, hopefully, allow price increases.
It should be noted that:-

- German steel producers, among the most efficient in the EEC, are losing money as a result of declining demand and price pressures.

- The German, Belgian, Italian, French and British (BSC) producers are all receiving substantial direct and indirect subsidies.

- The EEC "Manifest Crisis" action appears to have temporarily stopped further price erosion. Although some aggressive pricing is likely to continue, overall a modest recovery of price is expected.

- Continued Government support of the "Manifest Crisis" measures is essential to restore the profitability of the European steel industry.

8. <u>BSC's Cost/Price Position</u>

In relation to its competitors the Corporation is operating with:-

- higher costs, due to the less efficient use of labour, expressed as man hours per tonne, now only partly offset by savings arising on lower costs of wages.

- high energy costs, due to higher prices for energy.

- greater energy usage due partly to plants operating at low levels of capacity.

- a net deterioration in the cost/price relationship arising from the strengthening of the pound.

- the effects on costs due to the UK high inflation rate.

- low home demand for steel.

This is the background against which the BSC has been taking measures to increase efficiency and reduce costs and the strategy proposed in the Corporate Plan is to continue and intensify these measures.

IV. CORPORATE PLAN

Given the competitive environment, and BSC's financial position, a plan to close permanently substantial parts of BSC's steelmaking facilities was seriously considered and evaluated. In the absence of improvements in performance involving very significant reductions in cost and an increase in efficiencies, as well as an improvement in the overall market for steel, this option would be implemented. However, BSC's strategy, as embodied in the Corporate Plan, is aggressively to seek further reductions in cost, to narrow the cost gap with continental producers; while regaining market share through competitive pricing and improved quality and service in order to ensure that BSC's manned core capacity, at 14.4 million tonnes, is fully utilised.

If the Corporation fails to achieve these goals, significant closures will be required.

Specifically, management plan action to :-

1. Regain pre-strike domestic market share of 54%

   a. BSC market share in the first half of 1980/81 declined to 47% as a result of the strike and subsequent aggressive pricing by EEC producers.

   b. By resolute selling in recent months, BSC recovered market share to just over 50%, in the final quarter of 1980.

   c. Competitive pricing strategy will be maintained in 1981/82.

   d. Improved quality, consistency of operations and reliable delivery will be critical to achieving increased market share.

2. Increase Export Tonnage

   BSC exports (at less than 3% of world-wide trade in steel) are planned to increase over recent levels but will remain below peak levels.

3. Improve Productivity

a. Substantial reductions in personnel (49,000) will have taken place during 1980 resulting in improved overall productivity.

b. Continuing programmes will reduce personnel throughout BSC (at least 20,000) as early as possible in 1981.

In addition to closures these reductions will arise from :-

- Improving working practices
- Eliminating tasks no longer necessary
- Improving plant availability
- Cutting absenteeism and unnecessary overtime.

4. Reduce and pack capacity

a. Further reductions in capacity are necessary because of inadequate demand to fill existing capacity:

- Normanby Park will be closed
- Appleby-Frodingham No.1 Rod Mill will be closed
- Lackenby bar mill will be closed
- Distington ingot mould foundry will be closed
- Templeborough will be run as a mini-plant
- Coking capacity will be reduced by closing ovens at Shotton and Hartlepool. Orgreave and/or Brookhouse will continue until alternative fuel arrangements are made for works in the Sheffield area.
- Velindre (Tinplate) to operate on a restricted basis.
- Ebbw Vale 4 stand cold mill will be closed.

b. As a result, utilisation of manned steelmaking capacity should increase from 64% (October 1980) to well over 90% in 1981/82.

c. Further closure options were considered, particularly in strip. However, it was decided that they should not be implemented, at least for the time being, in an effort to determine whether planned costs and market objectives could be achieved with the co-operation of the employees.

5. Reduce energy costs

a. Substantial reductions, amounting to approximately £34 million annually, in those costs of energy relating to consumption have been identified by the Businesses and further opportunities are expected to be identified during 1981/82.

b. However, BSC has still an estimated energy cost penalty of between £50 million and £70 million a year relative to EEC producers because of higher UK energy prices.

6. Restrict Capital Investment

Management plan to restrict capital investment to the completion of schemes in progress and essential new items. The capital expenditures for 1981/82 are largely limited to those which have already been approved, and are expected to amount to approximately £200M.

7. Reduce BSC interest burden

a. BSC interest cost per tonne is two to three times higher than that of US or German producers because of a combination of high gearing and high interest rates.

b. Proposals for a capital reconstruction submitted separately to the Government would mitigate this cost penalty.

V. THE FINANCIAL IMPLICATIONS OF THE CORPORATE PLAN

The Corporate Plan was presented to the Government in December 1980 and since then discussions have ensued regarding the financial implications. As a result of these discussions, and subject to the assumptions shown in (d) below, the projections for 1981/82 are:-

(a) Profit & Loss

The projected loss for 1981/82 is		£318 million
after charging	- depreciation	£100 million
	- interest	£ 93 million

This represents an improvement of £400 million in the trading loss compared with the expected current annual rate of loss.

(b) Cash Requirements

The projected cash requirement for 1981/82 is £730 million and covers :-

	£M
Capital Expenditure	200
Increase in Working Capital	180
Redundancy and Closure Costs	180
Funding of Operations	170
	730

Note that:-

"Funding of Operations" includes interest, disposals of assets and operating losses which are after adjusting for items not involving the movement of funds, principally depreciation.

(c) Capital Reconstruction

Proposals for a capital reconstruction were made to the Department of Industry in late 1980. The Government has announced that a Bill, effecting a capital reconstruction, will be introduced during the current session of Parliament.

The Corporation understands that the Bill may provide for a write-off of capital of £3,000 million and the extinguishing of NLF debts totalling £509 million, with a further provision for an additional write-off of up to £1000 million. The impact of these proposals on the forecast Balance Sheet is shown in Appendix 9.

(d) Implementation

Successful implementation of the Plan will be heavily dependent on the key underlying assumptions, and rests on the following critical factors:-

- The market developing as anticipated particularly in respect of price and volume.
- Rapid implementation of programmes for improving productivity and closures of activities.
- The co-operation and dedication of BSC's management and entire workforce.
- The continued support of BSC by the Government.

The Plan will be closely monitored to ensure that the planned performance and market objectives are being realised. Corrective action will be taken immediately according to the degree that any of the Businesses within the Corporation may fail to realise their own individual plans.

APPENDICES

1. Profit/(Loss) 1974/75 to 1979/80
2. Source and Application of Funds 1974/75 to 1979/80
3. Interim Result for Half-Year to 27th September 1980
4. World Economic Prospects
5. World Steel Demand
6. World Steel Capacity
7. UK Steel-Using Industries
8. UK Steel Demand
9. Forecast Balance Sheet, March 1981

BTITISH STEEL CORPORATION

PROFITS/(LOSSES) 1974/75 TO 1979/80

(EXCLUDING EXTRAORDINARY ITEMS)

£ Million	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80
Turnover	2,256	2,357	3,059	3,154	3,288	3,105
Trading Profit before Depreciation	226	(66)	151	(178)	(18)	(274)
Non-Trading Items	31	29	33	18	10	5
Depreciation Net of Grants	(101)	(101)	(99)	(98)	(111)	(87)
Interest Payable	(67)	(108)	(168)	(197)	(208)	(188)
Loss before Tax	89	(246)	(83)	(455)	(327)	(544)
Tax and Other Items	(16)	(9)	(12)	12	18	(1)
Loss for the Year	73	(255)	(95)	(443)	(309)	(545)
Extraordinary Items						
Closures	(3)	(14)	(22)	(70)	(48)	(464)
Release from General Reserve	3	14	22	70	48	66
Fixed Assets (Net)	-	-	-	-	-	(841)
Total	-	-	-	-	-	(1,239)

Appendix 1

BRITISH STEEL CORPORATION

SOURCE AND APPLICATION OF FUNDS

£ Million	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80
SOURCE OF FUNDS						
Long Term Funds						
Public Dividend Capital	45	344	490	445	-	-
New Capital under Section 18(1) Iron and Steel Act 1975	-	-	-	-	850	905
NLF Loans	(78)	131	161	216	(161)	(209)
	(33)	475	651	661	689	696
Foreign Loans	215	184	214	133	(8)	(35)
Short Term Borrowings	123	(1)	66	7	34	(94)
	305	658	931	801	715	567
APPLICATION OF FUNDS						
Required for Operating Losses	(165)	136	(21)	365	209	507
Redundancy and Closure Costs	-	-	22	70	60	80
Fixed Assets, Investments and Long Term Debtors	266	52	543	409	286	228
Working Capital	197	(1)	387	(43)	160	(248)
Dividend	7	-	-	-	-	-
	305	658	931	801	715	567

Appendix 2

British Steel Corporation

Interim Results Statement

For the Half-year ended 27 September 1980

The unaudited consolidated results of the British Steel Corporation and its subsidiaries and principal associated companies for the six months ended 27 September 1980 are shown below, together with those for the corresponding period of last year and for the 52 weeks ended 29 March 1980.

	26 weeks ended 27 September 1980 £'million	26 weeks ended 29 September 1979 £'million	52 weeks ended 29 March 1980 £'million
Turnover of U.K. operations			
Home	1227	1450	2321
Export	292	388	650
	1519	1838	2971
(Loss) before interest payable	(187)	(32)	(356)
Interest payable	(92)	(94)	(188)
(Loss) before taxation	(279)	(126)	(544)
	Million Tonnes	Million Tonnes	Million Tonnes
Liquid steel production	6.1	9.5	14.1
Deliveries: finished and semi-finished steel products:			
Home	4.1	5.4	8.0
Export	1.0	1.6	2.5

Notes:

(a) No amount is included in the above figures for redundancy and other works closure costs. Expenditure on these items in the half year has been charged against provisions made in last year's Accounts.

(b) Exchange translation adjustments, taxation and minority interests are not included in the above figures and will be taken up at the year end.

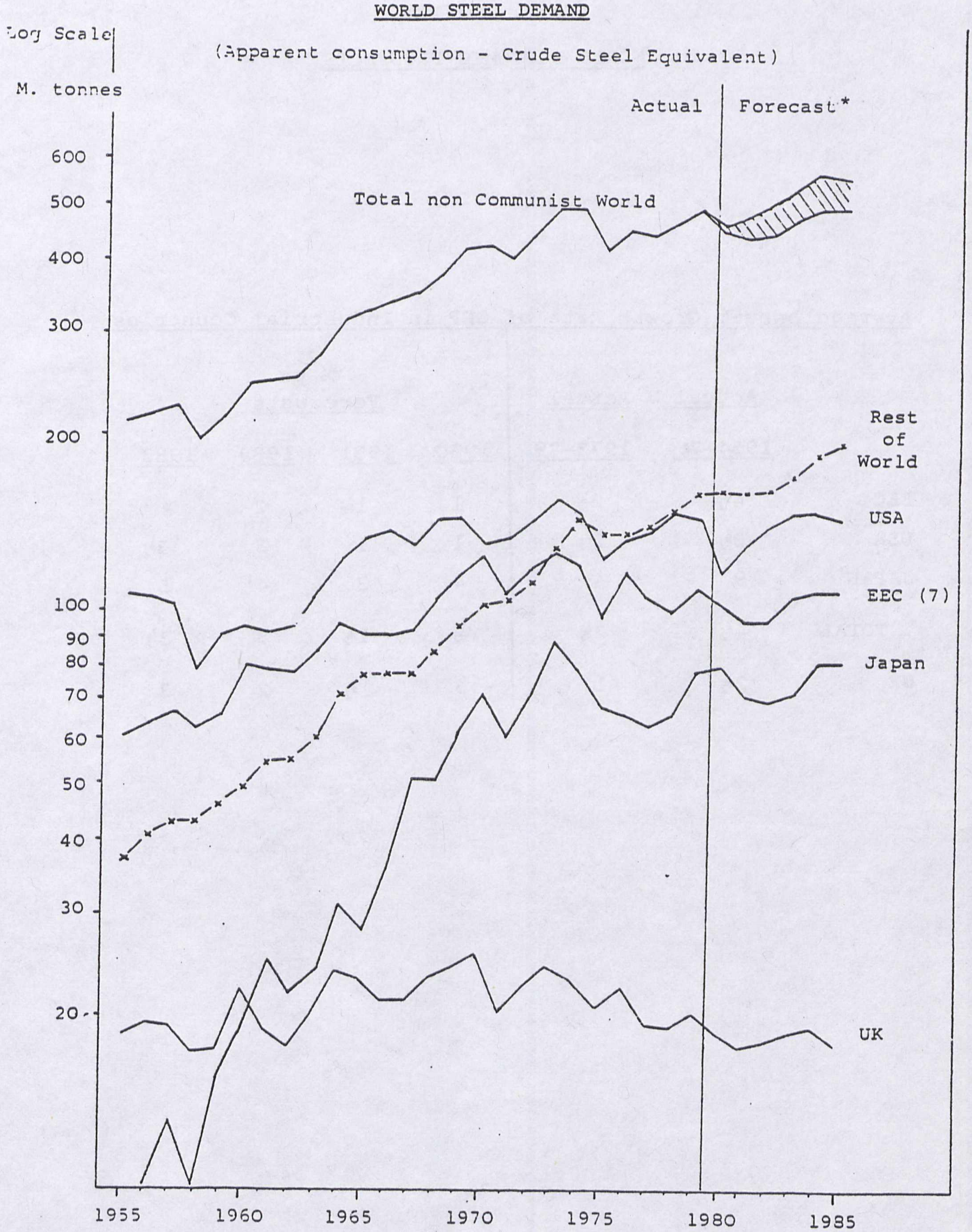
(c) The loss in the comparative half year period has been adjusted from the figure published last year to reflect the revised depreciation charge arising as a result of the write-down, with effect from 1st April 1979, of fixed asset values.

WORLD ECONOMIC PROSPECTS

Average Annual Growth Rate of GNP in Industrial Countries

	Actual	Actual	% pa Forecasts			
	1954-74	1973-79	1980	1981	1982	1983
EEC	4½	2½	1	1½	2	3
USA	3½	2½	- 1	1	3	3½
JAPAN	9	4	4	3	4½	5
TOTAL	4½	2½	½	1½	3	3½
UK	2½	1	- 3	- 1½	2	3

WORLD STEEL DEMAND



* Forecasts by country and region are centre of range of uncertainty

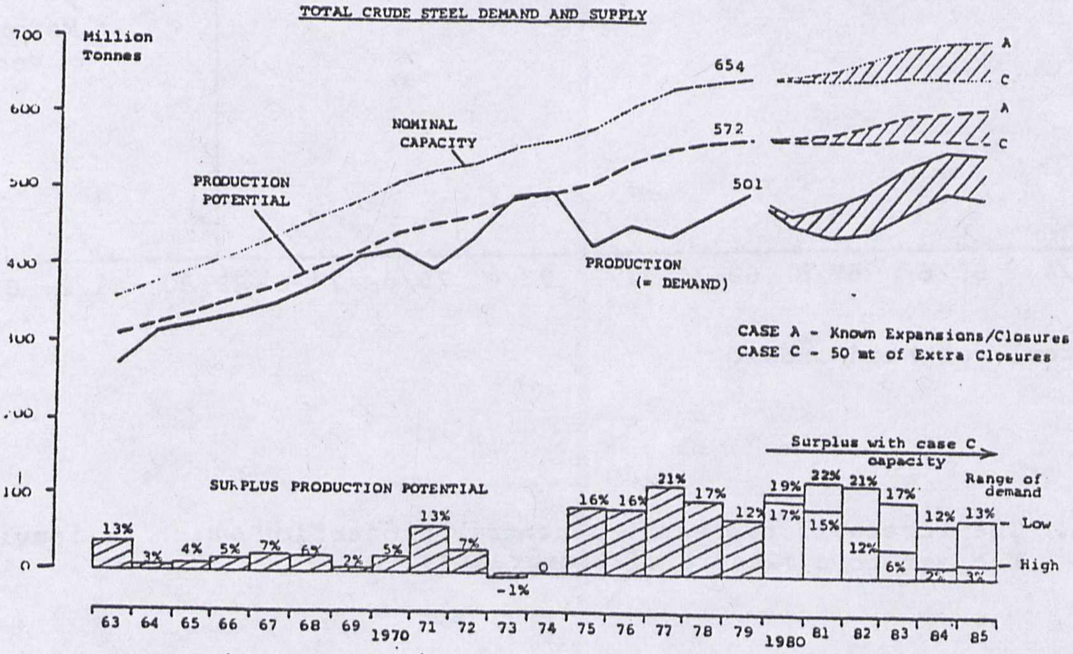
WORLD CRUDE STEEL NOMINAL CAPACITY 1973 to 1979

Million Tonnes

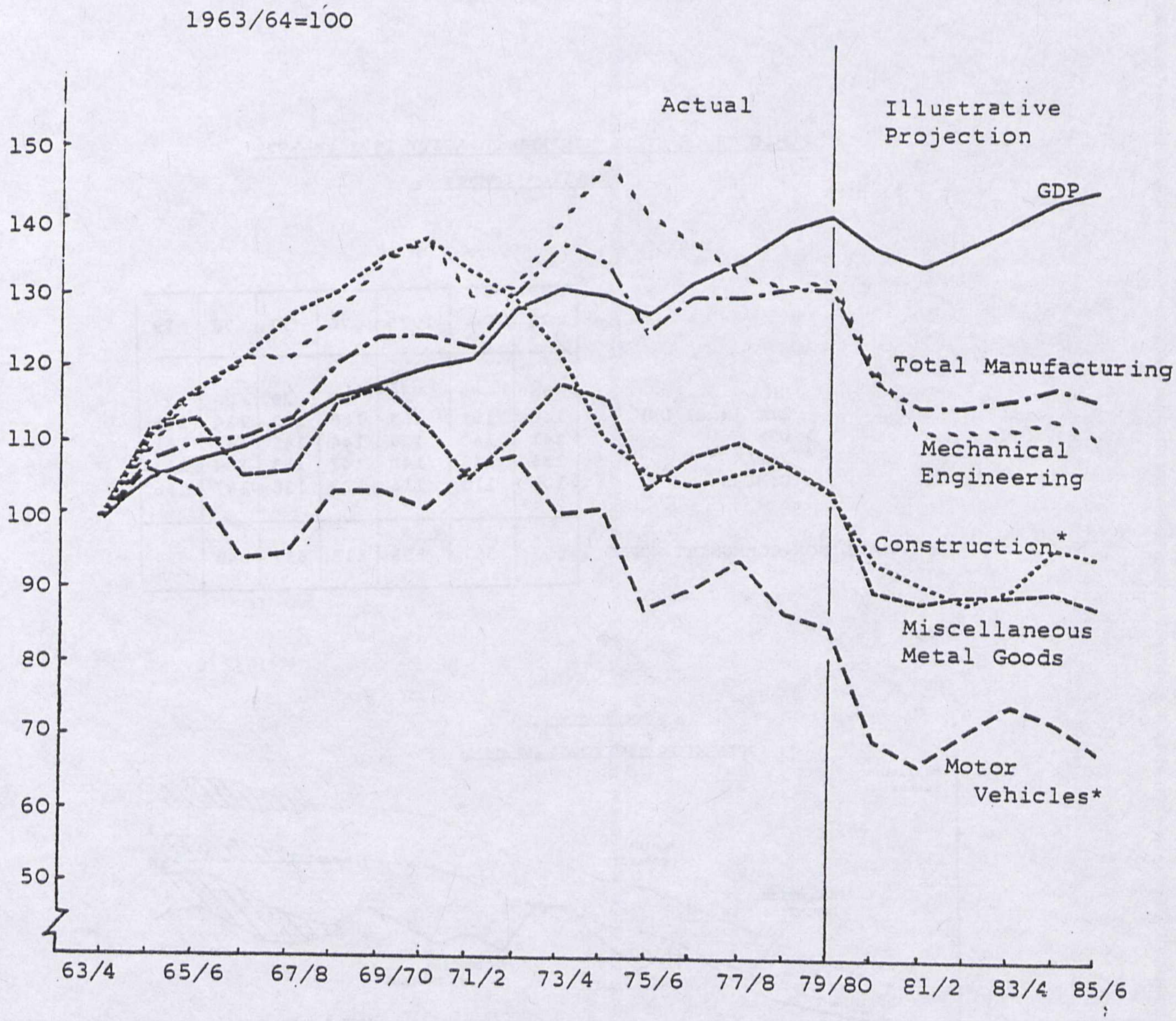
	73	74	1975	76	77	78	79
UK	29	28	27	29	29	28	29
EEC (excl UK)	146	151	163	168	172	174	175
USA	141	140	139	144	145	143	141
JAPAN	135	138	140	147	153	154	153
OTHERS	106	110	116	127	138	147	156
TOTAL NON-COMMUNIST WORLD	557	567	585	615	637	646	654

NON-COMMUNIST WORLD

TOTAL CRUDE STEEL DEMAND AND SUPPLY



UK ECONOMY AND STEEL USING INDUSTRIES

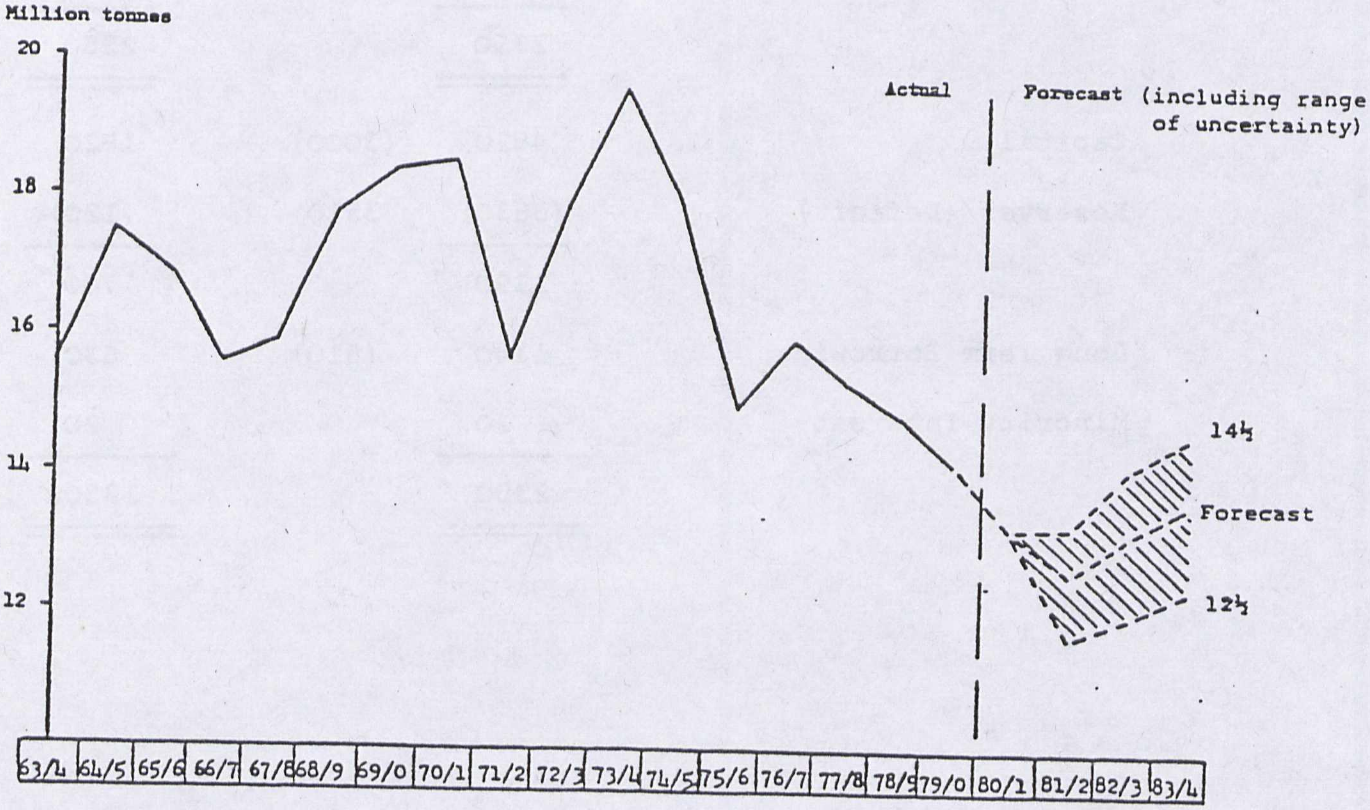


* Steel weighted index.

N.B. The forecasts represent a central projection which is inevitably subject to a measure of uncertainty.

Appendix 8

UK STEEL DEMAND



Appendix 9

BRITISH STEEL CORPORATION

BALANCE SHEET

FORECAST AT 28TH MARCH 1981

£Million	Current Forecast	Capital Reconstruction	Post-Reconstruction
Fixed Assets, Investments, and Long Term Debtors	1870		1870
Working Capital	800		800
Short-Term Borrowings	(320)		(320)
	2350		2350
Capital	4820	(3000)	1820
Reserves/(Deficit)	(3630)	3510	(120)
	1190		1700
Long Term Borrowings	1140	(510)	630
Minority Interest	20		20
	2350		2350

CONFIDENTIAL Prime Minister 1

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/Secretary of State for Industry

23 February 1981

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A

PRIME ~~MINISTER~~ 1

Still on the long side, in my view. Happy with paras 6-8 in particular?
MS

Yes
MT.

Dear Nick

... I attach a copy of the draft Statement on the Steel Industry which my Secretary of State proposes to make tomorrow, 24 February 1981.

I am copying this letter and enclosure to the private secretaries to the Chancellor of the Exchequer, Lord President of the Council, the Chancellor of the Duchy of Lancaster, the Secretaries of State for Employment, Scotland and Wales, Lord Gowrie and to Robin Ibbs and David Wright.

Yours ever
Ian Ellison

I K C ELLISON
Private Secretary

CONFIDENTIAL

DRAFT STATEMENT ON THE STEEL INDUSTRY

With permission I will make a statement about the steel industry.

2 No one in the House can welcome the position in which the steel industry finds itself. It has been nationalised, denationalised and then renationalised. It has been encouraged by Governments to carry out unrealistic investment programmes. The party opposite refused to allow BSC to close surplus steel capacity. Its workforce went on a three months long ruinous strike. Now the market has collapsed and the high value of sterling has created serious difficulties for private and public steel firms alike - here and in Europe.

3 BSC, which should have been allowed to contract gradually by the last Labour Government, cut manned steelmaking capacity from 21½ million tonnes of liquid steel to 15 million and shed 50,000 jobs in 1980. Works were closed and manning levels slimmed at others to raise productivity.

4 A report by BSC on its plans has been placed by me in the Library of the House and in the Vote Office.

The aim is for BSC to become internationally competitive. Mr MacGregor has reorganised BSC into separate businesses, each responsible for the production and marketing of a specific product range. He is planning a manned capacity of 14.4 million tonnes of liquid steel annually but is committed, if the assumptions behind his Plan are not sustained, to reduce the Corporation to

/a ...

a size that can in fact make a profit. BSC's results will depend not only on its own performance but on factors such as exchange rates, the European market and any upturn in steel ordering in the UK. Mr MacGregor admits, indeed claims, that his Plan is optimistic and I think he is right. He has made it clear to Government and to the managers and work-force of the Corporation that there will be no future for any operations that are not competitive.

5 BSC has asked the Government for an extra £150 million in 1980/81 bringing the total external finance requirement to £1,121 million and for £730 million in 1981/82.

6 This is huge money for taxpayers to find, particularly when unsubsidised private sector steel companies, some in competition with BSC, face extreme difficulties. The Government are greatly concerned about the impact of the European steel recession plus BSC's vigorous marketing on private firms. I therefore recently authorised BSC to negotiate viable joint private companies with those firms whose operations overlapped its own. Agreement on one such company, Allied Steel and Wire, was announced on Friday. Transitional arrangements for some of the assets of Duport Steel were announced yesterday.

7 Setting up more joint companies takes time and will not entirely deal with the problem of competition between BSC and the private sector. I have stressed to Mr MacGregor that BSC should compete fairly with private firms and have pointed to widespread complaints that BSC is unfairly undercutting private firms. He replies that BSC and private firms' prices have increasingly been undercut by

by other EEC producers. The Corporation has therefore had to price down. The private sector has had to do the same. He has assured me that it is not BSC's policy to sell its steel more cheaply than imports, but only to match the prices changed for them.

8 Mr MacGregor has further undertaken personally to investigate any specific allegations of unfair pricing that are put to him by companies or by Honourable Members. I have asked my hon Friend the Parliamentary Under Secretary of State to monitor these complaints, if necessary to bring the parties together to see whether their interests can be reconciled, and to report to me.

9 And, in order to make BSC's operations more transparent, and to pave the way for further privatisation, Mr MacGregor has agreed to consider placing those BSC businesses which are in competition with the private sector in separate Companies Act companies.

10 Mr MacGregor has said that by all normal commercial criteria BSC is bankrupt. Because BSC is a statutory body it cannot be liquidated like a private sector company and the Government and taxpayers cannot therefore at present escape from funding BSC. Recognising therefore that the BSC Plan is optimistic but recognising also that BSC should be given a last chance to cease to burden the taxpayer by becoming profitable, the Government is prepared, on condition that the subsidised Corporation behaves responsibly towards the unsubsidised private steel makers, to approve BSC's Corporate Plan and to provide the finance needed to implement it. BSC's target is to reduce its loss before interest from an estimated £480m in 1980/81 to £225m in 1981/82 and to achieve breakeven in 1982/83. We shall increase BSC's external financial limit for 1980/81 to £1,121 million and have set its EFL for 1981/82 at £730 million. These large figures reflect BSC's substantial though reduced losses, but also provide for heavy redundancy and closure costs and a limited programme of essential capital expenditure.

11 I must also emphasise that, if Mr MacGregor's optimism is not justified, he may decide on further closures and redundancies. The Government will monitor progress closely in each of BSC's businesses. Mr MacGregor will give us his assessment of progress by July.

/12 ...

12 To implement these decisions/I have today published the Iron and Steel Bill 1981. This amends the Iron and Steel Act 1975 to ease the transfer of businesses to the private sector and to permit an extensive run-down of the Corporation if that proves necessary. We also need to deal with the mistakes of the past. The Bill will write off some £3,500 million of BSC's capital immediately, will provide a power to write off a further £1,000 million later and will make consequential adjustments to the Corporation's borrowing limit. This does not represent the commitment of additional funds; it marks the huge cost to the taxpayer of over-ambitious, centrally directed investments and the uncompetitive use of many of them.

13 BSC's plans are resulting in job losses in many areas which already have unemployment above the national average. The job losses are occurring in Assisted Areas where considerable support is already available to encourage new investment and to help the jobless to find work. The Government does not intend to alter the Assisted Area status of any steel closure area at this time but we do not underestimate the problems for the communities and people concerned. I shall, if necessary, consider whether any regrading would be appropriate.

14 We shall also seek to ensure that market conditions in Europe are improved. The production quotas imposed under Article 58 of the Treaty of Paris expire on 30 June and we are already discussing with our Community partners the measures to replace them. We intend to ensure that reductions in capacity are equitably shared among the members of the Community and that, so far as possible,

short term market conditions do not invalidate long term commercial objectives.

15 The financial provision we propose will require approval from the European Commission.

010 PV

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PS/ Secretary of State for Industry

20 February 1981

Tim Lankester Esq
Private Secretary
to the Prime Minister
10 Downing Street
London SW1

Prime Minister

You will still need to write to the Llanelli workers (attached).

TL 20/2

Dear Tim

DUPORT'S LLANELLI STEEL WORKS

... As requested in your letter of 19 February I enclose a revised draft letter for the Prime Minister to send to the Secretary of the Joint Works Committee of the Duport's Steel Works.

As I explained on the telephone Duport intend to tell the Llanelli workforce that the Works is to close at about 2.30pm on Monday 23 February. You may wish to arrange for delivery of the Prime Minister's letter to take account of this announcement.

The good news is that the Duport Group as a whole is not going into receivership as we feared. An announcement about the disposal of the London Works is expected some time on Monday morning.

Yours ever
Ian

IAN ELLISON
Private Secretary

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO

The Secretary

Joint Works Committee
Duport Steelworks
(Duport Steels Limited)
PO Box 1
Llanelli
Dyfed SA15 2SS

Thank you for your letter of 9 February about Duport's Llanelli Steelworks which was signed by several hundred of the Llanelli workforce.

I have read what you have to say with great care and I can assure you that I am fully aware of the background to the recent difficulties experienced by Duport. I have discussed these many times with the Ministers concerned. Obviously I regret the position in which the Llanelli workforce now find themselves.

The fact of the matter is that there is nothing we can do to help in this very difficult situation. I acknowledge all the efforts which the Llanelli management and workforce have put in to make the works competitive. I wish that the rest of British industry could tell a similar story of cooperation.

But the real truth is that the Llanelli works is unprofitable. The losses at Llanelli have been so great that the Duport Group as awhole can no longer sustain them. Other steel-makers throughout Europe are facing similar difficulties.

I know what you say about subsidised competition from BSC causing the present difficulties. The Government are giving this issue full and serious consideration in their evaluation of BSC's Corporate Plan, but it seems to us that competition from BSC is not the main cause of Llanelli's difficulties.

I know that Sir Keith Joseph has explored fully the scope for Duport joining a new company to manufacture engineering steels. Various detailed ideas have been explored but none of these, I am sorry to say, has produced a workable solution which would include~~d~~ the steelworks at Llanelli. ~~There appears to be no justification in practice for asking the taxpayer to spend money on keeping the Llanelli works open.~~

10 DOWNING STREET

THE PRIME MINISTER

Thank you for your letter of 9 February about Duport's Llanelli Steelworks which was signed by several hundred of the Llanelli workforce.

I have read what you have to say with great care and I can assure you that I am fully aware of the background to the recent difficulties experienced by Duport. I have discussed these many times with the Ministers concerned. Obviously I deeply regret the position in which the Llanelli workforce now find themselves.

~~The fact of the matter is that there is nothing we can do to help in this very difficult situation~~. I acknowledge all the efforts which the Llanelli management and workforce have put in to make the works competitive. I wish that the rest of British industry could tell a similar story of cooperation.

But the ~~real truth is that the Llanelli works is unprofitable.~~ ~~The~~ losses at Llanelli have been so great that the Duport Group as a whole can no longer sustain them. Other steel-makers throughout Europe are facing similar difficulties.

~~I note~~ I have read with concern what you say about subsidised competition from BSC causing the present difficulties. The Government are giving

/ this issue

this issue full and serious consideration in their evaluation of BSC's Corporate Plan, but it seems to us that competition from BSC is not the main cause of Llanelli's difficulties.

I know that Sir Keith Joseph has explored fully the scope for Duport joining a new company to manufacture engineering steels. Various detailed ideas have been explored but none of these, I am sorry to say, has produced a workable solution which would include the steelworks at Llanelli.

I realise that this letter will come as a disappointment to you and to your families. I am very sorry that in the present circumstances of the steel industry I have not been able to help.

The Secretary,
Joint Works Committee,
Duport Steelworks.

Nat Ind

CONFIDENTIAL

COMMERCIAL - IN CONFIDENCE

Qa 05256 20 February 1981

To: PRIME MINISTER

From: J R IBBS

OVERLAP BETWEEN BSC AND THE PRIVATE SECTOR

1. You asked for more information on the overlap between BSC and the Private sector steel companies. The following notes indicate the extent of the overlap on BSC's mainline activities and the nature of the problem that is leading to protests from the private sector. They also describe briefly the steps that are being taken to reduce the problem through the Phoenix I and Phoenix II proposals. In addition there is an assessment of the likely consequences if the difficulties were tackled by attempting to reduce BSC's participation in the UK market.

2. Overall balance

An indication of the relative sizes of the private sector and BSC is given by the production figures for 1979: (1979 was a relatively good year, production declined by 44% in 1980):

	Liquid Steel Production		Steel Product Deliveries (Home and Export)	
	m tonnes	%	m tonnes	%
BSC	17.8	83	11.8	71
Private Sector	3.7	17	4.9	29

For the private sector, product sales exceed liquid steel production by a significant margin; this deficit is met by purchasing semi-finished steel from both the BSC and from overseas. (The BSC Corporate Plan assumes part-finished sales of 1 million tonnes to the private sector in 1980/81).

3. Areas of Overlap

Within this overall balance, the overlap between BSC and the private sector varies for each sector. The overlap sector by sector is summarised at Table 1 along with the major plants involved. Table 2 shows how BSC and the private sector competed with imports for supplies to UK consumers in 1979 in each of these sectors. Attached at Annex 1 is a list of the twenty principal companies in the private sector.

4. Sectors of Principal Concern

The sectors where there are the most serious overlap problems are:

Engineering Steels
- broadly the first two sectors and some of the fourth in Table 1
- the principal private sector companies involved are GKN, Duport, Hadfields and Round Oak (50/50 : BS/Tube Investments)
- this is covered by the Phoenix II proposals for a joint venture between BSC and the private sector

Rod and Reinforcing Bars
- broadly the fourth and fifth sectors in Table 1
- the principal private sector companies involved are GKN, Templeborough Rolling Mills (50/50 : BSC : Bridon), Sheerness Steel Ltd and Manchester Steel Ltd
- Phoenix I covers a joint venture between BSC and GKN.

It is hoped to eliminate the overlap problem in these sectors by creating new joint ventures in the private sector which will absorb BSC's facilities. Phoenix I has successfully been put together and will remove the overlap problem with BSC on rod and reinforcing bars. Negotiations on engineering steels (Phoenix II) are at an early stage; some private sector companies will not be participants, e.g. Tube Investments, who wish to opt out.

5. Other Sectors of Overlap

Other sectors of substantial overlap are:

Tubes
- Tube Investments is the largest private sector producer but direct confrontation with BSC does not occur. About a quarter of the market is

taken by low priced imports which put great pressures on the smaller companies

Hot Rolled Strip - the only overlap with the private sector is with Alphasteel (a Greek company). They compete with BSC only at the lower quality end of the market, where competition from overseas producers, e.g. India, Brazil, South Korea and Eastern Europe, is already intense.

6. Source of the Problem between BSC and the Private Sector

The basic problem in the overlap areas stems from two factors:

(i) Over-capacity

There is manifest over-capacity compared with current and foreseeable demand so that plants are running at uneconomic loadings. The problem is exacerbated by the rapidity of the reduction in demand that has occurred since 1979. In the same way as BSC itself has been reducing capacity in sectors of its business, there is a need for overall reductions in the areas of overlap; the private sector has not reduced capacity nearly as much as BSC in the face of reduced demand.

(ii) Pricing

Following the strike there has been a change in the way prices are determined in the UK. Prior to the strike the UK market had been insulated to a large extent from imports and prices were largely set by BSC with a premium of at least ten per cent over Continental prices. Supplies from overseas during the strike opened up the market, particularly from the Germans who, aided by a weak Deutsche Mark, now look to the UK market to help solve their own over-capacity problem. As a result prices are set largely by imports. BSC are responding by pricing down to import levels, where necessary. They are also vigorously attacking European producers, particularly the Germans, in their home markets in order to force them to move to a more sensible price regime across Europe which is in all producers' interests. It is inevitable that when importers are selling at low prices and BSC are matching them, the private sector will be adversely affected. This general picture is confirmed by the situation in those sectors where BSC do not compete. For example, Aurora Holdings Ltd, because of reduced demand and pressure from imports, are contracting substantially (with government and ECSC help announced last week)

7. BSC declare that they are not seeking to gain share by attacking the private sector. As evidence of this their Corporate Plan shows only two sectors where they are planning substantial enhancement of market share in 1981/82 compared with historical pre-strike levels (see Annex 2). These are in Plates, where the major UK competitor dropped out of the market a year ago, and in Stainless, where BSC are commissioning new plant and where the private sector share is minimal.

8. Alternative Policies to help the Private Sector

Where new joint ventures which would have the effect of removing BSC from the market cannot be created, a way to give some help to the private sector companies would be for BSC deliberately to withdraw from the market to an appropriate extent. There are three ways in which this might be done:

(a) deliberately to reduce utilisation of their capacity;

(b) to make closures so that the capacity ceases to exist;

(c) to switch substantial BSC tonnage to exports.

9. It is estimated that if part of the UK market were vacated by BSC between 40 per cent and 70 per cent of the gap would be taken by imports, the proportion depending on the product. In order to bring the loading of the private sector up to 80 per cent or 90 per cent of capacity (a reasonable long-term target), BSC's production would have to be reduced by around 2m. tonnes of steel products. (This figure

excludes the activities now in Phoenix I) If this were achieved through lower utilisation of existing capacity, it is estimated that the cost to BSC would be between £150m. and £200m. a year. Furthermore, there would be great practical difficulties in running plants at these low levels of utilisation.

10. If the reduction were obtained by closures, this would entail an even greater cash outflow from BSC in the first year. It would also be difficult to ensure that the remaining capacity was correctly balanced because of repercussive effects in the rest of the business.

11. Diverting products into the export market, as an alternative to reducing activity, would not be a better solution. The only market reasonably accessible is the EEC. To get the extra business, which would amount to doubling the current level of exports, BSC would have to undercut fiercely the existing Continental suppliers. The consequence of this would be that the Continental producers would intensify their attack on the UK market by quoting prices even lower than they are now. This would in turn leave the private sector companies, which could certainly not meet this competition, in a worse situation than they are at present.

12. I am sending copies of this minute to the Secretary of State for Industry, the Chancellor of the Exchequer and Sir Robert Armstrong.

KJ

TABLE I

BSC AND PRIVATE SECTOR STEEL PRODUCT DELIVERIES (HOME AND EXPORT)

		BSC		PRIVATE SECTOR	
Product Sector	Size m tonnes	%	Plants	%	Plants
Blooms, Billets, Slabs, Tube Semis 1	0.9	52	Scunthorpe, Rotherham (2) Sheffield (2),	48	GKN Cardiff & Brymbo Round Oak, Sheerness, (Duport), Hadfields Manchester Steel, Lloyd
Light sections and straight bars 2	1.6	42	Rotherham, Sheffield (2), Wolverhampton, Warrington	58	GKN - 3 plants, Duport London works, Hadfields, Round Oak, Sheerness, Lloyd, Manchester, Glynwed
Rails and heavy sections	2.1	86	Scotland (2), Scunthorpe, Teesside, Workington	14	Round Oak, Brymbo
Wire rods and coiled bars 4	1.5	54	Scunthorpe, Rotherham	46	Sheerness, GKN Cardiff, Templeborough Rolling Mills, Duport London Works
Reinforcing bars	1.1	43	Scunthorpe, Rotherham, Teesside (closed under Phoenix I)	57	Sheerness, GKN Cardiff, Manchester Steel
Tubes and Pipes	1.4	68	Clydesdale, Hartlepool, Corby, Midlands	32	Tube Investments Natural Gas Tubes, 30 small companies
Cold rolled strip in coil	0.4	22	Whitehead, Rotherham	78	GKN Cardiff, Ductile Group
Hot and Cold Rolled sheets/Hot Rolled Strip in Coil	3.1	96	Ravenscraig/Gartcosh, Port Talbot, Llanwern, Shotton, Brinsworth	4	Aurora, Alphasteel 16 other smaller companies
Bright steel bars	0.5	under 2	Sheffield, Rotherham	98+	Duport-Flather Bright, Lee Bright (45% BSC), GKN-Mills, Glynwed, 43 other companies
Plates	2.3	over 90	Scotland (2), Teesside (2), Scunthorpe	under 10	Several small companies
Tinplate	1.2	100	Ebbw Vale, Trostre, Velindre	-	-

TABLE 2

PATTERN OF STEEL SUPPLY TO UK CONSUMERS AND STOCKHOLDERS BY SECTOR 1979

Product Sector	Size m tonnes	Proportion of market %	% ages by source of supply		
			BSC	Private Sector	Imports
1. Blooms, Billets, Slabs, Tube Semis	0.7	4	44	56	-*
2. Light sections and straight bars	1.6	10	36	46	18
3. Rails and heavy sections	1.7	11	78	10	12
4. Coiled bars and rods	1.2	8	40	45	15
5. Reinforcing bars	0.9	5	40	49	11
6. Tubes	1.3	8	48	28	24
7. Cold rolled strip	0.5	3	15	70	15
8. Hot and cold rolled sheets/ Hot rolled strip	3.9	25	64	4	32
9. Bright bars	0.5	3	1	91	8
10. Plates	2.5	16	63	9**	28
11. Tinplate	1.1	7	87	-	13
Total deliveries to UK market consumers	15.9	100	55	24	21

* although there were no direct imports of semi finished steel by consumers, there were 323,000 tonnes of imports of semis for conversion by the steel industry

** Patent Shaft, closed in early 1980 leaving BSC the only significant UK producer

ANNEX 1

PRIVATE SECTOR COMPANIES

	Group	Turnover in Steel making and conversion (£million)	Description of Business	Overlap with BSC
1.	GKN	400 - 450	Steelmaking, billets, bars forgings, castings, wire, rod.	Large (in Phoenix I, in Phoenix II)
2.	Johnson & Firth Brown	200 - 250	High alloy steelmaking; billets, bars, forgings, castings, wire, rod	Limited
3. *	Duport	100 (before collapse)	Steelmaking (closing), re-rollers of bars and bright bars	Large (re-rollers in Phoenix II)
4. *	Glynwed	90	Re-rollers of bars, strip and bright bars	Limited
5. *	Ductile Steels	90	Re-rollers of strip, light sections and tubes	Limited
6.	Tube Investments	80	Seamless and welded tubes	Limited
7. *	Lonrho (including Dunford-Hadfields)	80	Steelmaking, billets, bars and forgings	Large (Hadfields closed in Phoenix II)
8.	Round Oak Steelworks (50%BSC, 50%TI)	80	Steelmaking, tubes, bars and sections	Some
9.	Arthur Lee & Son	70	Re-rollers of strip and wire	Small
10.*	Sheerness Steel Co.	60	Steelmaking, billets, wire and rod	Large (competes with Phoenix I)
11.*	Manchester Steel	50	Steelmaking, billets, wire, rod	Large (competes with Phoenix I)
12.*	F H Lloyd	50	Founders, some steelmaking and re-rolling	Limited
13.*	Aurora Holdings	30	High alloy steels, special steels	Small
14.*	Alphasteel	25	Steelmaking, hot rolled coil and sheet	Large
15.	Darlington & Simpson (50% BSC, 50% Norcross)	25	Hot and cold rolled sections	Limited
16.	Brymill	20	Bright bars, cold rolled strip	Small
17.	Brockhouse	10	Hot rolled steel, light sections	Small
18.	Cope Allman Int (J B & S Lees)	10	Re-rollers of strip	Limited
19.	Neepsend	10	High alloy steels	Small
20.	Sanderson-Keyser	10	High alloy steels, special steels	Small

Note: Companies marked with an * have complained to the Department of Industry about price competition from BSC

ANNEX 2

BSC MARKET SHARES BY BUSINESS (%)

1975/76 - 1981/82

	1975/6	1976/7	1977/8	1978/9	1979/80 [1]	1980/1 [2]	1981/2 [3]
General							
Sections & Commercial Steels	54	54	55	54	52	48	49
Plates (inc. 44" Mill)	58	61	63	58	58	61	71
Special Steels	36	32	32	32	31	26	30
Strip							
A.P.G.	84	83	84	80	81	58	72
Strip	59	62	60	61	62	49	62
Tinplate	89	89	89	88	87	66	81
Holdings							
Track Products	94	92	92	92	91	92	90
FFE	18	15	15	16	17	20	20
Stainless	41	43	40	40	40	35	51
Tubes	57	55	51	49	49	46	50
TOTAL	55	55	55	54	54	47	54

1. April to December 1979 only
2. Forecast
3. Plan

Ref: A04304

PRIME MINISTER

British Steel Corporation: Corporate Plan

with Prime Minister's information folder 19/2.

BACKGROUND

The Secretary of State for Industry's minute of 19 February to you covers a draft statement on BSC's Corporate Plan which he wishes to make on either Monday or Tuesday of next week. Members of the Committee also have copies of Mr Ibbs's letter of 16 February to the Secretary of State reporting on his enquiry into BSC's 1981-82 cash requirement; but only the Secretary of State and the Chancellor of the Exchequer have copies of Mr Ibbs's report to you today on the overlap between BSC operations and the private sector (in response to Mr Lankester's letter of 19 February).

E(81) 5th Mtg item 1.

2. At their discussion on 3 February the Committee agreed on the amounts to be written off in the Iron and Steel Bill from BSC's capital; they asked for a further explanation of the purposes for which the proposed increase of £150 million in the Corporation's External Financing Limit (EFL) for 1980-81, and the total of £730 million proposed for 1981-82, were required; and whether any of the £50 million wage increase in 1981 could be accommodated within a lower EFL for 1981-82; and they invited the Secretary of State to arrange for his Department, in consultation with the Treasury and the CPRS, to consider further the identification of performance aims and the evaluation of the wider social and economic costs of major closures, and to report. The Secretary of State was asked to revise his statement accordingly and also to make it more positive by bringing out the recent achievements of BSC - reductions in manpower and improvements in productivity - and to indicate that the present high levels of redundancy payments would not be maintained for more than another year (E(81) 5th Meeting, Item 1).

3. The Secretary of State for Industry gave the break-down of the EFLs for 1980-81 and 1981-82 in his minute to you of 6 February. Following this report Mr Ibbs led an enquiry team into BSC's 1981-82 cash requirement on which he reported in his letter of 16 February. Although the team had doubts about some of the component parts of the arithmetic, their conclusion was that, if Mr McGregor's plan is adopted, there is no practical

alternative to accepting the cash requirement for 1981-82; including the £50 million for the wage increase which has now been agreed with the work-force. They suggested, in paragraph 15 of their report, that Mr McGregor should be asked for assurances on the points listed; and the Secretary of State for Industry reports that these assurances have now been given. The team did not report on the proposed increase of £150 million to bring the 1980-81 EFL up to £1121 million.

4. The Phoenix I project was announced this afternoon, and so paragraph 9 of his draft can be amended accordingly.

E(EA)(81) 3rd Mtg

5. At their meeting on 18 February, E(EA) agreed that no immediate change should be made in the Assisted Area Gradings of those areas likely to be affected by BSC closures, but that there should be a general review - not to be announced - of the case for re-drawing the boundaries of the Assisted Areas generally. They also agreed to some relatively limited measures in the areas affected but these are subject to further discussion by the Ministers concerned and to examination of how the money will be found.

6. The report on the identification of performance aims, and the evaluation of the wider social and economic costs of major closures, will be put forward later. It will be designed to prepare the way for the Committee's further discussions in July when Mr McGregor reports progress. In the meantime the Secretary of State's statement refers (paragraph 12) to the fact that Mr McGregor's commercial judgment may well lead BSC to seek further closures and redundancies; but he does not say that the Government would necessarily accept such a judgment.

7. In paragraph 9 of his covering minute the Secretary of State for Industry says that there are very strong arguments for making his statement on Monday or Tuesday because of serious problems with the Estimates timetable. This arises because the Spring Supplementary Estimate for 1980-81 has to provide the proposed extra £150 million for BSC. The present Parliamentary timetable provides for the Supplementary Estimates to be considered on 4 March and, by convention, they should be printed and presented two weeks

before then. It follows that the presentation of the BSC supplementary is already late. Quite apart from this, there are strong expectations in Parliament that the statement on the Corporate Plan will be made shortly. The Iron and Steel Bill would be published on the same day.

HANDLING

8. After the Secretary of State for Industry has introduced his memorandum, you will wish to invite Mr Ibbs to report on the findings of his enquiry team into the 1981-82 financial position and also on his further report, which most of the Committee will not have, to you on the overlap between BSC and the private sector.

9. The main questions which the Committee will wish to consider are:-

(i) Do they accept the figures, in paragraph 11 of the draft Statement, showing an increase in the 1980-81 EFL to £1121 million, £730 million for the 1981-82 EFL, a financial target for 1981-82 of limiting loss before interest to £225 million, and a planning aim to achieve break-even, before interest, in 1982-83?

(ii) Are the references to the private sector, in paragraphs 9-11 of the Statement, acceptable?

(iii) Is the general tone acceptable?

(iv) Is it agreed that, although Mr McGregor accepts that the Government should make clear that it is not the intention to continue to fund indefinitely the present level of redundancy payments, this should not be mentioned in the draft Statement - see paragraph 8 of the covering minute?

(v) Subject to these points, can the Secretary of State for Industry make his statement on either Monday 23 February or Tuesday 24 February?

(vi) Can the Chancellor of the Exchequer and the Secretary of State for Energy say anything on the prospects for an early announcement of substantial electricity price reductions for steel producers and other high-load factor users? - paragraph 7 of the covering minute?

CONCLUSIONS

10. You will wish to record conclusions on the 6 points listed above and on any further points arising in the discussion. It would be useful to establish when the Secretary of State for Industry and Mr Ibbs expect to report back on the identification of performance aims and the evaluation of wider social and economic costs of major closures.

RTA

ROBERT ARMSTRONG

20 February 1981

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

20 February 1981

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1

Dear Keith

PHOENIX I

We discussed this subject briefly in Cabinet today on the basis of your minute of 18 February to the Prime Minister. While I do not wish to stand in the way of the proposal I am very concerned to limit the public expenditure consequences both for 1981-82 and later years.

I would therefore like your assurance on two points. First, that the additional finance needed for Phoenix I in 1981-82 (£34m) will be found within the EFL agreed for BSC (and although we have not finally settled this it should be no more than £730m maximum). Second, it must be understood that the sums of public money currently identified (£34m in 1981-82, £11m in commitment of £14m to pay off the balance of the ECSC loans after 1985 represents the total of taxpayers' money that can be put into this project. There can be no question of further support if the project does not in the end prove viable.

I think this is consistent with the proposal as you have outlined it but it is important that there should be no ambiguity on these points.

I am copying this letter to all Cabinet colleagues, Michael Jopling and to Robert Armstrong.

Yours ever
Geoffrey

GEOFFREY HOWE

ps

CONFIDENTIAL

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400 GTN 213

Switchboard 01-213 3000

Mrs Catherine Bell
Private Secretary to
the Secretary of State
for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

20 February 1981

Dear Catherine

BSC : CORPORATE PLAN

My Secretary of State is in the North at the moment, and has not yet seen your Secretary of State's minute to the Prime Minister of 19 February. He is however likely to have one comment on the minute, which concerns paragraph 8, about the proposal that the Government should make it clear that it is not prepared to continue to fund indefinitely the present level of redundancy payments at BSC.

He would, I am sure, entirely agree with your Secretary of State that it would be better to omit any reference to this from his announcement. But the reasons that have persuaded your Secretary of State of this would apply with at least equal force to your Secretary of State's answers to supplementary questions. My Secretary of State would, I think, suggest that it would be wiser to say nothing in public about this until Ministers have considered it in the context of the Secretary of State for Energy's proposal to make a big increase in the scale of severance payments for miners, and until Ministers are clearer about their policy towards severance payments in other public sector enterprises. I am sending copies of this letter to Private Secretaries to all those who received your Secretary of State's minute.

Yours sincerely
John Anderson

J ANDERSON
Private Secretary

MFJ

CONFIDENTIAL

SUBJECT.

cc CO
HMT
DOI
Mr Wolfson
Mr Duguid
Mr Hoskyns

cc. Master set.

10 DOWNING STREET

From the Private Secretary

MF

MR IBBS

BSC - Report of Enquiry Team into 1981/82 Cash Requirement

The Prime Minister had a word with you this morning about the Report which you submitted to Sir Keith Joseph on 16 February. She said that she was disappointed that the Report did not cover the question of the overlap between BSC operations and the private sector and the damage which was being done to the private sector by BSC's aggressive marketing.

You explained that this had not been part of the enquiry team's remit. You went on to say that it was a necessary consequence of BSC's struggle to return to profitability to market aggressively, and this inevitably meant difficulties for the private sector. The private sector were also under greater threat than they had been before the steel strike from imported steel, which was now being offered at more competitive prices. If BSC were to hold back on their effort to regain market share, their plant loading would be reduced and and their losses and cash requirements would be even greater than their estimates already showed. The only other alternative would be for BSC to reduce their capacity by more than they were currently planning; but this would not reduce their estimated cash outflow in 1981/82 - because of the additional closure costs.

The Prime Minister said that even though the cash outflow would be no lower, it might still be desirable to ask BSC to cut out capacity (or even possibly to accept reduced plant loading) in order to give the private sector a greater opportunity. She asked if you would be good enough to prepare a further note by the weekend, so that it can be taken into account in the E Committee discussion on Monday morning, indicating the areas of overlap between BSC and the private sector and the case for and against cutting back BSC capacity and/or production in those areas.

I am sending a copy of this minute to John Wiggins (HM Treasury), Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

T. P. LANKESTER

19 February 1981

CONFIDENTIAL

jfh

Jane
I do not really want to retain this on our Steel Policy file
Alan 20/2

19 February 1981

I wrote to you on 13 February, with a further letter on 16 February, asking for a draft reply for the Prime Minister to send to the letter of 9 February from the Joint Works Committee of the Duport Steel Works. The attached draft reply you supplied is, as a result of subsequent events, no longer appropriate and I would be grateful for a revised draft.

TPL

Ian Ellison, Esq.,
Department of Industry.

88

FILE

VLB

BF 3/3/81.

19 February 1981

I believe you have a copy of the enclosed letter from the Chairman of Duport. Could you please let me have a draft reply for the Prime Minister's signature.

T P LANKESTER

I. K. C. Ellison, Esq.,
Department of Industry.

PRIME MINISTER

STATEMENTS NEXT WEEK

We shall have some problems next week sorting out which Statement to make on which day. We have to fit in Keith Joseph's steel Statement and - in all probability - a further Statement by David Howell reporting on his coal meeting on Wednesday. There are a couple of other contenders: Peter Walker on the Agriculture Council and Patrick Jenkin on Health Service priorities, but they can be fitted in with whatever structure we devise for the coal and steel Statements.

We talked about the timing of the steel Statement this afternoon, and you said that you were unhappy about having it on Tuesday, immediately after the unemployment Question Time. I am sure that we should avoid Tuesday if we possibly can, but to have the steel Statement on Wednesday would probably be just as embarrassing, given its juxtaposition with coal.

In the light of all this, there would be a lot to be said for having the steel Statement on Monday, if we can reach agreement on the draft in time. The House will be very empty on Monday afternoon, since the Business is uncontroversial. It is the second reading of the Energy Conservation Bill. What is more, we would get the steel Statement out of the way before the unemployment figures.

No need to decide now on all this, but from the point of view simply of organising the House Monday would be the best day for the steel Statement.

MJS

19 February 1981

JH

CONFIDENTIAL

cc Mr Walters
Mr Duguid
Mr Wolfson
Press

2 Nat Ind

I have suggested one or two amendments! and

Prime Minister For E Monday 23/2
This will be taken by E on Monday. Since there is quite an argument for making the statement on Monday afternoon, I thought you ought to see it right away. The draft is still long, and of course does not reflect your views on the private sector - on which I have commissioned a further note from Robin Ibbs. Would you like me at this stage to suggest some shortening on the lines we discussed last week?

TL
19/2
(last week's draft is at Flag A)

PRIME MINISTER

BSC: CORPORATE PLAN

You will have received a copy of Robin Ibbs' report of the work of his enquiry team which was set up following your meeting on 9 February to look at the cash requirement of £729 million in 1981/82 in the BSC Corporate Plan.

2 Robin Ibbs and his team have provided a rapid independent review of the BSC Plan. Their report is clear. It confirms that there are no significant cash savings to be made if the BSC Plan is accepted and that the only alternative is a different plan with major closures now, which would not save cash in 1981/82 (see paragraph 13(iv) of the report). The team have, however, identified areas where economies later in the year might be expected. I propose to tell Mr MacGregor that we should expect any money that may be required for the setting up of Phoenix I (about which I am minuting you separately) to be found from these economies. The provision for contingencies is obviously high in relation to our budget problems but it is not high in relation to the huge volatility of the steel market and exchange rates. The Interdepartmental Group on the BSC Corporate Plan and Robin Ibbs are satisfied that the provision is not inherently unreasonable. Mr MacGregor argues strongly that he will need the full provision.

3 The report suggests that, if Ministers approve the BSC Plan, Mr MacGregor should be asked for assurances on a number of points listed in paragraph 15 of the report. I accept these suggestions

/and ...

CONFIDENTIAL

and have put them to Mr MacGregor who also accepts them.

4 I recommend that we now accept the BSC Corporate Plan and announce as soon as possible the Corporation's EFL for 1981/82 and the revised EFL for 1980/81.

... 5 I attach a copy of a draft statement to Parliament which I have revised to take account of the points which you raised on 9 February. There are two points I should make about it. First, I have retained the previous emphasis on competitiveness and profit, though of course without the binding commitment on the Government not to intervene in closure decisions. Despite the decision on NCB closures I would hope to retain this tone. Secondly, I discussed the problem of competition between BSC and the private sector with Mr MacGregor on 11 February. He assured me that BSC were not setting prices to undercut UK private sector companies: low price levels were being set by imports and the BSC had no alternative, nor had the private sector, to matching import prices. I told him that nevertheless there were increasing complaints of unfair competition from BSC. He has suggested that, if the MP or company complaining were to send the evidence to him personally, he would have the allegation investigated with a view to seeing whether some accommodation could be reached.

6 Mr MacGregor's assurance on BSC pricing policy and his offer personally to investigate complaints are welcome, but will not go far to satisfy the private steel companies. It will help if I can announce that significant progress is being made in setting up

 /independent ...

independent joint BSC/private sector companies in areas of overlap. Intensive negotiations have taken place this week between GKN and BSC about the formation of a joint company (Phoenix I) for the rod, bar and wire production, which appear to have been successful.

7 The Phoenix projects will not cover all the BSC activities which compete with the private sector. Joint ventures take time to negotiate and as you know the situation facing many private steel companies is critical. One of their most persistent complaints is about energy prices. I believe that the Task Force which will report to NEDC on 4 March will confirm that steel producers, together with other high load factor users, do pay substantially more for their electricity than do their European competitors. This is a charge which affects the private sector companies proportionately much more than BSC because of their reliance on the electric-arc process. If we are going to take action to correct this competitive disadvantage, I believe we need to be prepared to announce early and substantial price reductions for such users. I understand that David Howell has proposed to the Chancellor of the Exchequer a reduction in tariff of up to 8 per cent for certain companies. This is not likely to be considered as adequate by the industry and I would press for a greater reduction. But the sooner we can announce something the better.

8 Although Mr MacGregor has agreed to the Government making it clear that we are not prepared to continue to fund indefinitely the present level of redundancy payments at BSC, I have not included this point in the draft statement. I believe it would be preferable to cover

/this ...

this during supplementary questions or in a subsequent debate, in terms which take account of developments in the discussions between David Howell, the NCB and the NUM.

see my note attached aKB MS

9 There are very strong arguments for making the statement on Monday 23 or Tuesday 24 February. Unless this is done we face the serious problems with the Estimates timetable about which Michael Jopling is particularly concerned.

I believe these can be resolved if we decide to have the statement on Wednesday, but we are checking with the Treasury MS

10 I am sending copies of this minute to colleagues on E Committee, the Secretaries of State for Scotland and for Wales, to Sir Robert Armstrong and to Robin Ibbs.

KJ

K J

19 February 1981

Department of Industry
Ashdown House
123 Victoria Street

PS I am also copying this minute with enclosure to Francis Pym and also to the Chief Whip.

DRAFT STATEMENT ON BSC CORPORATE PLAN

With permission I will make a statement about the British Steel Corporation.

2 I am making available in the Library of the House and in the Vote Office a report by BSC giving background on its performance and current plans.

3 The past 12 months have been extraordinarily difficult for the steel industry of this country - both the public sector and the private - and indeed for steel industries throughout Europe. There has been a considerable surplus of capacity; prices have been extremely low and most major European steel companies are losing money. Hence the declaration by the European Commission of a "manifest crisis" and the unanimous agreement of the Community Governments to mandatory production quotas.

4 The House will know that the Corporation have undertaken a massive retrenchment programme in the course of 1980, cutting manned steelmaking capacity from 21½ million tonnes of liquid steel to 15 million. A number of works were closed and manning levels slimmed down at others in order to bring productivity at them up towards international standards. In 1980 there were 50,000 job losses at BSC. This has taken place at the same time

as the Corporation was recovering from the considerable commercial damage caused by the strike.

5 I appointed Mr MacGregor in July to be Chairman of the BSC, with a remit to return it to enduring profitability. Mr MacGregor's strategy is to intensify the Corporation's drive to cut the costs of production, which had become significantly higher than those of the Corporation's main competitors, and by vigorous marketing to increase the volume of sales so that BSC can compete more effectively in European and world markets. To this end Mr MacGregor has reorganised the BSC into a number of separate businesses, each responsible for the production and marketing of a specific product range under a decentralised and profit conscious management team.

6 The BSC Corporate Plan continues this strategy. It provides for a manned capacity of 14.4 million tonnes of liquid steel a year - a slight reduction from the existing capacity of 15.2 million tonnes; and it envisages that by the end of 1981/82 the rate of loss will have been substantially reduced from its present level, estimated for 1980/81 at about £480 million before interest. To achieve this the Corporation intends to press ahead with its cost reduction and marketing programmes, so that by the summer it will have a clear view of whether the objectives of the Plan can be met. Mr MacGregor has made it quite clear to the Government and to all members of the Corporation, both managers and work-force, that there will be no future for any operations that are not competitive.

7 The Plan, and in particular the proposed trading results, are highly sensitive to external economic circumstances such as the level of the Deutschmark, the state of the European market and the timing of the upturn in steel ordering in the UK. Mr MacGregor himself freely admits, indeed claims, that his Plan is optimistic and in the light of these risks I think he is right. He aims for the largest operation that can be made profitable; but at the same time he is committed, if the assumptions behind his Plan are not sustained, to reduce the Corporation to a size that is profitable.

8 To further his Plan Mr MacGregor has asked the Government to provide an extra £150 million in 1980/81 to bring the total external finance requirement to £1,121 million and for £730 million in 1981/82.

9 These are very large sums of money for the taxpayer to provide to a public corporation, particularly at a time when the private sector companies, some of which are in competition with it, are facing mounting losses and in some cases closure. The Government have been greatly concerned at the effect that the recession in demand for steel, both here and on the Continent, and the vigorous marketing of the BSC may have on the private sector. As the House knows, the Government authorised the Corporation in the Autumn to open negotiations with those private sector companies whose operations overlapped their own with a view to seeing whether viable joint companies could be created.

[I had hoped that agreement on at least one such joint company would have been reached by now. Such negotiations are bound to be difficult and the Government will continue to encourage them and to ensure that they result in commercially viable private sector companies] [Such negotiations are bound to be difficult and the Government has given them, and will continue to give them, its encouragement with a view to the creation of viable private sector companies. I was very pleased therefore to note the announcement of one such agreement during the last few days].
/[To be checked in the light of progress in the Phoenix negotiations]/

10 Setting up joint companies will take time and in any case will not entirely deal with the problem of competition between BSC and the private sector. I have made it clear to Mr MacGregor that he should ensure that BSC should compete fairly with the private sector. I have drawn his attention to the increasing complaints which have been made that BSC's pricing policy is undercutting private sector competitors unfairly. He informs me that BSC and private sector list prices have increasingly been undercut by the prices offered to UK buyers by other producers in the EEC. The Corporation has therefore been forced to align/its prices down towards these lower levels. The private sector/has had to do the same. He has assured me that it is not BSC's policy to set price levels for steel below those of imports, but only to match them. Mr MacGregor has further undertaken personally

to investigate any specific allegations of unfair pricing which are put to him by companies or by Members of Parliament, and to keep me informed of the results. And, in order to bring a greater transparency to BSC's operations, he has agreed to consider setting up separate Companies Act companies for those BSC businesses which are in competition with the private sector where they do not already have that form.

I fear this would draw laughter.

11. It is no part of the Government's policy ~~to provide continuing subsidies to BSC~~, ~~nor~~ to encourage the BSC to return to profitability at the expense of its private sector competitors. ~~But if Mr MacGregor's optimism is justified there is a reasonable prospect of returning BSC to profitability~~. Given the steps we have taken to safeguard the private sector, the Government is ~~therefore~~ prepared to approve BSC's Corporate Plan and to provide the finance needed to implement it. We are setting the Corporation the target of limiting their loss before interest in 1981/82 to £225 million, in accordance with the Plan and in comparison with the estimate~~d~~ loss of £480 million for 1980/81. We are also asking the Corporation to plan ahead on the basis that they should aim to achieve breakeven, also before interest, in 1982/83. We shall, as Mr MacGregor has suggested, increase the external financial limit for 1980/81 to £1,121 million. We have also agreed that the EFL for 1981/82 should be £730 million. This is a high figure, reflecting in part the substantial though reduced losses, but also including a programme of essential capital expenditure and continued heavy redundancy and closure costs.

12 I must also emphasise that, as I have already explained, Mr MacGregor's optimism may not be justified and his commercial judgment may then lead BSC to seek further closures and redundancies. It will be particularly important for the Corporation and the Government to monitor progress closely, for each of BSC's businesses, and I have asked Mr MacGregor to let us have his assessment of progress in July.

13 In order to facilitate the policies I have outlined, I have today published the Iron and Steel Bill 1981. This will amend the Iron and Steel Act 1975 to allow the transfer of businesses to the private sector and to permit a rapid and, indeed, extensive run-down of the Corporation if that proves necessary. It will also write off some £3,500 million of BSC's capital immediately, provide a power to write off a further £1,000 million later and make certain consequential adjustments to the Corporation's borrowing limit. These write offs will deal with the mistakes of the past. They do not represent the commitment of additional funds. This Bill will eventually supersede the Iron and Steel (Borrowing Powers) Bill [which this House passed last week].

14 The Government are aware that implementation of BSC's plans will result in substantial job losses in a number of areas which have unemployment above the national average. As they are all Assisted Areas considerable support is already available to

encourage new investment and to help those made redundant to find new jobs, though I do not in any way underestimate the problems for the communities and people concerned. I shall, if necessary, consider whether any further measures of assistance would be appropriate. [[To be amended, if necessary, in the light of E(EA) on 18 February]]

15 We shall also do what we can within theEuropean Community to ensure that market conditions in Europe are improved. The House will remember that during the autumn the Council of Ministers agreed that a state of "manifest crisis" existed in the steel industry and that production quotas were imposed under Article 58 of the Treaty of Paris. These quotas expire at the end of June and we are already in discussion within the Community on the regime that will replace them. It is our intention to seek to ensure that any reductions in capacity which are necessary are equitably shared among the members of the Community and that, so far as possible, short term market conditions do not invalidate long term commercial objectives.

16 The financial provision we propose will require approval from the European Commission .

Top Copy: Nat Ind, Pt 2
Coal.

Extract from P. Le Cheminant to PM P.0427 of 18.2.81

Flags D + E 4. Private steel industry: You might ask the Secretary of State for Industry to report, as far as he can, on the present position. The information he gives may well be commercially confidential and if so you will wish to urge absolute discretion on the Cabinet.

JU GRooms

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

18 February 1981

Tim Lankester Esq
Private Secretary to the
Prime Minster
10 Downing Street
London SW1

PA(CF fik)

MS
4/3

Dear Tim

PRICE CUTTING ALLEGATIONS AGAINST BSC

I enclose the text of a letter which is being submitted for signature by my Secretary of State this evening, replying to the allegations which Mr Edward Du Cann made at his meeting with the Prime Minister last night of predatory pricing on the part of BSC, which had caused Hadfields to lose an order to supply Fords. I hope the letter is self-explanatory and that it will provide the Prime Minister with any background briefing she may require for her questions on Thursday, 19 February. I should perhaps mention that although my Secretary of State has seen the factual information on which the enclosure is based and has suggested the initial drafting of the letter. He will not in fact be sending the letter to Mr Du Cann until the morning and may then do so in a modified form.

Yours ever,

Ian Ellison

I K C ELLISON
Private Secretary

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

February 1981

The Rt Hon Edward Du Cann MP
House of Commons
London SW1A OAA

COMPETITION BETWEEN BSC AND HADFIELDS

When we met the Prime Minister on the evening of 17 February you alleged that BSC had taken business from Hadfields by under-cutting by £20 a tonne a long-standing contract with Fords for the supply of forgings.

I have made enquiries - and perhaps these may be wrong - but I have it from BSC that their Special Steels Division, which I understand is the Division in direct competition with Hadfields, does not have any significant business with Fords. They therefore reject your allegation.

BSC have said, however, that Hadfields may have lost a contract to provide Fords with forging billets, which is a business which BSC had until the strike last year. If Hadfields have indeed lost this business BSC have tentatively suggested that this may be because Ford UK can import finished forging from Europe more cheaply than they can be produced in the UK. Fords may therefore have ceased buying forging billets for their UK plant.

I am as you know seriously concerned about the allegations that BSC is using taxpayers' money to undercut private sector steel makers. As I explained, I have made arrangements for such allegations to be fully investigated. I am equally concerned, however, by the number of unsubstantiated allegations which are currently being made against BSC. What appears to be happening is that, following the strike last year which allowed continental steel producers to enter the UK market in force, BSC is no longer able to fix its own prices. Imports are now the price setters and European prices tend to be set by German manufacturers quoting in Deutchmarks. The widespread excess capacity, the aggressiveness of German producers and the current very low level of the Deutchmark mean that BS is having to follow continental prices down to very low levels. The private sector suffers in consequence but BSC itself has a clear interest in firmer prices for steel now that Mr Ian MacGregor has been set clear commercial objectives.

JU

PRIME MINISTER

PHOENIX I

In my memorandum E(80)138, approved by colleagues at our meeting on 4 December (E(80)43rd), I set out the criteria to be used in establishing joint public/private ventures in areas of steelmaking where BSC overlaps with the private sector. These were:

(a) BSC not to have majority equity ownership or control;

(b) new ventures to be free-standing Companies Act companies, with no recourse to parent company guarantees or finance;

(c) companies to have good prospects of viability;

(d) working capital requirements to be channelled through BSC.

2 BSC and GKN have been negotiating for some months to rationalise their rod, bar and wire interests, an arrangement known as Phoenix I. They have now reached agreement to establish a company amalgamating in it the assets described in the Annex. This will produce a company with a turnover of some £220 million in its first year of operation. The partners are now in a position where, subject to our agreeing to BSC's participation in the new arrangements, an agreement can be announced on Friday, 20 February.

3 The financial arrangements are for GKN to provide most of the fixed assets and the majority of the stocks. BSC will provide some

/fixed ...

fixed assets, some stocks and cash. In exchange GKN will take half the equity and £18.3 million of preference shares. BSC will take half the equity and £23 million of preference shares. The forecast financial position over the first 3 years is:

Year end 30 June	1982 £m	1983 £m	1984 £m
Operating Profit/ (loss)	(12.7)	(1.5)	7.5
Net Cash inflow/ (outflow)	(28.2)	(10.9)	(3.9)
Financed by BSC as to Equity	20	-	-
Preference Shares	8.2	10.9	3.9*

*In addition there is a contingent commitment on BSC to take £14 million of preference shares in years beyond 1985, which may be needed to pay off the balance of ECSC loans used to provide some of the fixed assets taken into the new company.

4 The opening Balance Sheet at 1 July 1981 will have the following shape:

		£m		£m
Share Capital -	BSC	56.6	Fixed Assets	86.2
	GKN	56.6	Working Capital	
Shareholders Interest	BSC*	----	Stocks	37.3
			Debtors	42.9
			Creditors	(30.9)
	GKN	18.3	Terms of Employment Provision	(4.5)
ECSC Loans		19.5		
			Cash	20.0
		151.0		151.0

* BSC's preference capital (up to £23 million) will be contributed in 1982/83 and 1983/84

/The ...

The cost to the taxpayer in 1981/2 will be £34 million which I shall expect BSC to find from economies within their external financing limit. An additional £11 million and £4 million will be needed in 1982/3 and 1983/4.

5 The new company meets the criteria set out in my memorandum in the following ways:

(a) equity ownership is 50/50 and control lies outside BSC, with GKN providing the key Board management;

(b) the company will be freestanding (i.e there will be no continuing commitment after the initial funding) and it has been made clear that BSC will not be allowed to give guarantees for any commercial borrowing required;

(c) the company has a good prospect of viability, and after losses in years 1 and 2 (which will be bad years for steelmakers throughout Europe) it promises a good profit in year 3;

(d) the finance does not come direct from the Government but is channelled via BSC in a mixture of equity (£20 million) and preference shares which will be remunerated in later years.

I believe this to be the best deal possible in the circumstances.

6 If the company is not established and BSC remains in competition with GKN, I believe that there will be substantial risks and costs. BSC would lose immediately sales of 100,000 tonnes (worth £5.5 million) annually from its Scunthorpe works which it currently sells to GKN's Cardiff operation. GKN would compete as hard as possible with BSC and they can do this more effectively on the basis of a cheaper route for making steel. This could force the closure of BSC's Scunthorpe rod mill (at a cost of £21 million in asset write off plus about £5 million in redundancies) and the loss of orders from this

/rod

rod mill (500,000 tonnes) would make the whole Scunthorpe steel-making operation (now geared down to 1,700,000 tonnes annually) irrecoverably expensive. The financial and commercial cost of closing Scunthorpe would be enormous.

7 The Phoenix I arrangement has obvious political advantages. The formation of a public/private venture with a turnover of over £220 million will expand the private sector and paves the way for complete privatisation in due course. We shall also be seen to have taken a step - albeit small and not wholly adequate in the light of present difficulties - to reduce the competition which the private sector is suffering from the subsidised BSC. Agreement on Phoenix I is moreover an essential pre-requisite to an agreement on a joint public/private engineering steels company (known as Phoenix II) which, although based on GKN and BSC assets, may comprise the assets of other companies as well (for example some of the assets of Duport which I have been discussing with you separately). GKN have already proposed to amalgamate their plant at Brymbo (Wrexham) and their drop forging companies with BSC's Sheffield plants to create a second 50/50 company which would encompass 12% of BSC's total turnover. Without GKN there is no prospect of forming a joint public/private sector company in the engineering steels field which would further reduce the area where the private sector experiences subsidised competition from the BSC and would widen the scope for privatisation.

8 I do not pretend that the Phoenix I arrangements are ideal. They produce a large operating company and reduce competition (but the effective competition now comes from the continent). They involve a significant amount of public money. But they do represent an arrangement to which both GKN and Mr Ian MacGregor have agreed and there is a good prospect that the new company will succeed. In the circumstances I believe we must agree to BSC entering into the new arrangements, provided the costs are met within the EFL we shall be discussing next week. There is obvious advantage in GKN and the BSC making an announcement quickly. Unless therefore you let me know by

/midday ...

midday Thursday 19 February that you see objections, I propose to authorise BSC to enter into the arrangements. We can cover the matter when we discuss industrial affairs at Cabinet on 19 February.

9 I am copying this minute to all our Cabinet colleagues, to Michael Jopling and to Sir Robert Armstrong.

I. Ellison

K J

18 February 1981

(approved by the Secretary of State and signed in his absence)

Department of Industry
Ashdown House
123 Victoria Street

ANNEX

		Nos. employed
BSC		
(1)	Appleby Frodingham No 2 Mill (Scunthorpe)	568
(2)	Reinforcement Steel Services	448
GKN		
(1)	GKN South Wales Limited -	
	Tremorfa Steel Works	476
	Castle Rod Mill	334
	Tremorfa Bar Mill) Tremorfa 12" and 16" Mill)	570
	+ central staff	404
(2)	GKN Reinforcements Ltd (mainly West Midlands)	394
(3)	(i) GKN Wire Products Ltd (ii) Firth Co Ltd - Warrington (iii) John Smith Ltd - Birmingham (iv) F A Power Ltd - Birmingham	1611
	TOTAL:	4805

Employment Consequences: Both BSC and GKN have been demanning and closing down surplus capacity in the 18 months they have been discussing this project. BSC have already announced closures of 2 mills involving 500 jobs as part of their Corporate Plan. No additional redundancies will occur at GKN.

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

18 February 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim

DUPORT LIMITED

My Secretary of State has asked me to tell you of developments in connection with Duport Ltd following the Prime Minister's request earlier today that he should look again at the possibility of BSC improving the terms of its offer to the Midland Bank to take over responsibility for some of Duport's borrowings. The aim would be to relieve Duport of bank debt on acceptable terms so that the Directors of Duport would not need to call in a Receiver.

2 Following the Prime Minister's request Mr MacGregor reopened negotiations with the Midland Bank. An arrangement has now been concluded which is acceptable to the Midland and to BSC and which is being communicated to Duport by the Midland. The proposed arrangement is that BSC will acquire the following Duport businesses:

London Works Steel (Warley)
Flather Bright Steels (Telford and Sheffield)
Nationwide Steel Stock (a stockholder with 5 locations in the Midlands and North)
£2 million worth of equipment from Llanelli Steel Works.

3 The deal involves:

(a) the assumption by BSC of the bank debt owed by Duport up to £25 million;

(b) the conversion of the debt into a 10 year term loan, repayment starting in year 6;

(c) interest at London Inter-bank offer rate plus ½%, with no interest payable in the first year;

(d) BSC being able to assign the loan to another company (e.g Phoenix II) subject to the agreement of the Midland Bank, their agreement not to be unreasonably withheld.

/4 ...

COMMERCIAL IN CONFIDENCE

4 Before this deal could be reached both BSC and the Midland had to reconsider their positions but the Chairman of BSC still regards it as commercially reasonable in the circumstances. It is expected that the Midland Bank will inform Duport about the new arrangement on the morning of Thursday 19 February and that the Duport Board will decide that they will be able to continue in business (but this is not absolutely certain). It is important to note, however, that the Duport Board will conclude that steel-making and associated activities at Llanelli will have to be closed down. There has never been any reasonable possibility that the Llanelli works would remain open in the present market situation.

5 My Secretary of State has authorised BSC to acquire the assets listed in paragraph 2. He is fully aware that the acquisition represents an extension of the public sector and could be mis-represented as an act of nationalisation. It is his understanding that these businesses will either form part of the proposed joint public/private sector engineering steels company known as Phoenix II or be sold to the private sector. He stresses, however, that there can be no guarantee that BSC will be able to transfer the acquired businesses to the Phoenix II company; a transfer will depend on the agreement of the other participants. Also, the businesses are being acquired at valuations which depend on their being amalgamated into Phoenix II; there is no guarantee that, if Phoenix II does not go ahead, BSC will be able to sell the businesses in the near future at the valuation they will be paying. There is therefore a clear risk to public funds, but the alternative is almost complete certainty that Duport would go into receivership amongst loud (but inaccurate) allegations that it had been sunk by subsidised competition from BSC.

6 My Secretary of State has been concerned that the arrangements under which BSC is acquiring Duport's assets might create a precedent for other private sector steel companies to seek to dispose of their steel assets on similar terms and to retire from the business. The terms might for example increase the pressure on private firms not to participate in Phoenix II. My Secretary of State believes that the Prime Minister should be aware of this risk but he thinks that in practice the present arrangements are a not unhelpful precedent; the deal does not involve the immediate payment of any cash.

7 Copies of this letter go to the Private Secretaries to all members of the Cabinet and to Murdo Maclean in case the matter is discussed at Cabinet on 19 February..

Yours ever
Ian Ellison

I K C ELLISON
Private Secretary

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10 DOWNING STREET

From the Principal Private Secretary

18 February 1981

BF 25.2.81

DUPORT LIMITED

Your Secretary of State called upon the Prime Minister this morning to report briefly on the position of Duport Limited. Mr. Binning was also present.

The Prime Minister said that she was very concerned that by pumping public money into the British Steel Corporation, the Government was indirectly bringing about increased unemployment in the private sector steel industry. She was particularly alarmed at the prospect of the possible closure of Duport's works at Llanelli. We should consider whether Duport's immediate difficulties could not be overcome by diverting £7 million from the public money allotted to BSC.

Sir Keith Joseph said that whether the works at Llanelli were bought or not, they would close. The purpose of the Pheonix scheme was to get the right balance in our steel-making capacity and this involved closing down parts of both the private and public sectors. It was not for him to tell the Chairman of BSC what he should pay for Duport's steel assets.

Mr. Binning said that he had just had a telephone conversation with the Chairman of BSC, and Mr. MacGregor had undertaken to talk to the Chairman of the Midland Bank immediately about Duport's position. This news would be passed on to the Duport Board straightaway. It gave everybody more time.

The Prime Minister said that she would be grateful if your Secretary of State would continue to keep her in touch with developments.

C. A. WHITMORE

Ian Ellison, Esq.,
Department of Industry.

PORT GROUP
DUPORT LIMITED
Tel: 021-454 6100
Telex: 336963
GROUP HEADQUARTERS
DUPORT HOUSE · HAGLEY RD
BIRMINGHAM B16 8JU

CHAIRMAN'S OFFICE

17th February, 1981

The Prime Minister,
The House of Commons,
Westminster,
London, W.1.

Dear Prime Minister,

For the lack of about £7 million the Board of Duport will, tomorrow morning, have to ask the Trustees for its debenture stocks and the Midland Bank to appoint a receiver. A year ago the group balance sheet revealed shareholders' funds of over £67 million.

This incredible situation has been brought about because our steel interests (approximately 80 per cent. of our business) have been in competition with British Steel Corporation, to whom in recent weeks your Government has given £5.4 billion in respect of past losses and rationalisation costs and promised £750 million to cover expected trading losses in 1981/82. On a steel-making capacity basis our share of those figures would be more than £100 million and £15 million respectively.

Our steel operations, on which we have spent £33 million in the past 3 years, are among the most efficient in Europe - British Steel Corporation will confirm that. We made profits in May 1980. All our other businesses (which employ 3,700 people and include such familiar names as Vi-Spring and Slumberland beds, Swish curtain rails and Grovewood kitchen furniture) are expected to make profits in 1981/82. The whole group is acknowledged as being well run - the Bank of England will confirm this. We have followed successive Governments' exhortations to invest and to improve productivity.

British Steel Corporation - playing more than one role in this drama - have agreed that our steel assets (excluding Llanelli) have a value to Phoenix II (the planned private steel consortium company) of only £25 million. However, even this sum would enable Duport to survive. The stumbling block, and the only stumbling block, to survival is that the form of consideration offered to satisfy this value of £25 million is worth approximately £18 million because the related loan demanded by British Steel Corporation will not bear interest for two years.

The Prime Minister,
The House of Commons

We are not a lame duck begging assistance. We are the victim of a publicly-owned monopoly with virtually unlimited funds.

We are prepared to accept the closure and disposal of our steel operations if that is deemed to be in the public interest. But is it really the policy of your Government, which aspired to be champions of free trade and private enterprise, to "nationalise" Duport's steel interests without compensation?

I am making this direct appeal to you at the last moment to intervene immediately to prevent a wasteful and tragic occurrence over such a small financial gap.

Yours faithfully,

Eric C Sayers

10 DOWNING STREET

PRIME MINISTER

Not appropriate!
M

The Duport Receivership is to be announced at lunchtime tomorrow. If you will sign this letter, we will arrange for it to be delivered shortly after the announcement.

N.P.G. Mitchell
(Duty Clerk)
For TPL.

17 February 1981

N.B DO NOT DESPATCH UNTIL NOTIFIED BY INDUSTRY

10 DOWNING STREET

THE PRIME MINISTER

Thank you for your letter of 9 February about the Duport Steelworks which was signed by several hundred of the Llanelli workforce.

I have read what you have to say with great care and I can assure you that I am fully aware of the background to the difficulties experienced by Duport. I have discussed these many times with the Ministers concerned. Obviously I regret the position in which the company and the workforce now find themselves.

The fact of the matter is that there is nothing we can do to help in this very difficult situation. I acknowledge all the efforts which the Llanelli management and workforce have put in to make the works competitive. I wish that the rest of British industry could tell a similar story of co-operation.

But the real truth is that the Llanelli works is unprofitable. The losses at Llanelli have been so great that the Duport Group as a whole has been brought down. Other steel-makers throughout Europe are facing similar difficulties.

I know what you say about subsidised competition from BSC causing the present difficulties. The Government are giving this issue full and serious consideration in their evaluation of BSC's Corporate Plan, but it seems to us that competition from BSC is not the main cause of Duport's difficulties.

/ I know

I know that Sir Keith Joseph has explored fully the scope for Duport joining a new company to manufacture engineering steels. Various detailed ideas have been explored but none of these has produced a workable solution. There appears to be no justification in practice for asking the taxpayer to spend money on keeping the Llanelli works open.

The Secretary,
Joint Works Committee,
Duport Steelworks.

DEPARTMENT OF INDUSTRY
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123 VICTORIA STREET
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PS/ Secretary of State for Industry

17 February 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim

DUPORT STEELWORKS LLANELLI

The Prime Minister is familiar with the background to this case and in particular with the fact that Llanelli would have closed under the BSC deal if that had been accepted. No decision has finally be taken on the announcement of the appointment of a Receiver but the group are holding a Board meeting tomorrow, making a decision on Thursday the most likely outcome. A draft letter for the Prime Minister's signature is attached.

Yours ever
Catherine

CATHERINE BELL
Private Secretary

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO

The Secretary
Joint Works Committee
Duport Steelworks
(Duport Steels Ltd)
PO Box 1
Llanelli
Dyfed SA15 2SS

Thank you for your letter of 9 February about Duport Steelworks which was signed by several hundred of the Llanelli workforce. // I am fully aware of the background to this case and I very much regret the position in which the group as a whole finds itself. Despite your strenuous efforts, I understand that it is the losses over a considerable period of time by the steel making companies in the Group which have caused the current difficulties. I cannot agree that it is subsidised competition from BSC which has caused this situation although this aspect is being given full and serious consideration in the Government's evaluation of BSC's Corporate Plan. I have to tell you that I am not prepared to intervene with the Department of Industry or BSC to persuade them to take decisions which are not commercially prudent.

2

10 DOWNING STREET

PRIME MINISTER

MT.

Here is Robin Ibbs' Report on BSC. It will have to be taken by E Committee, along with a revised draft statement. But I thought you should see it right away.

The basic conclusion is that MacGregor's funding request is justified.

N.P.G. Mitchell
Duty Clerk
(For TPL)

17 February 1981

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DEPARTMENT OF INDUSTRY
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PS/ Secretary of State for Industry

17 February 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Tim,

DUPORT LIMITED

We have learnt that following their Board meeting tomorrow, Wednesday 18 February, Duport will announce that a Receiver is being invited in. The announcement is expected at about lunch time but we do not have a precise timing. I understand that the Receiver will not actually go in until Thursday 19 February.

2. I am copying this letter to John Craig (Welsh Office), Robin Birch (CDL) and to Murdo Maclean (Chief Whip).

Yours ever
Ian Ellison

I K C ELLISON
Private Secretary

cc Mr Wolfson
✓ Mr Hoskyns

Mr. Duguid

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

Qa 05254 CONFIDENTIAL
COMMERCIAL-IN-CONFIDENCE

16 February 1981

Dear Secretary of State,

BSC - REPORT OF ENQUIRY TEAM INTO 1981/82 CASH REQUIREMENT

1. I have led a team consisting of Mr Brian Smouha of Messrs Touche Ross & Co., Mr John Steele, Department of Industry and Mr William Norton, Treasury, which has examined the 1981/82 cash requirement of £729m put forward in relation to BSC's Corporate Plan.

2. The task had to be completed within a few days. We have reviewed the information that was available to the inter-departmental committee and some additional material that has become available more recently as a result of their enquiries. We have had a series of discussions with Mr MacGregor and Mr Scholey and also with the principal members of their financial staff and with Dr Grieves, the Personnel Director.

why?

3. We interpreted our task as being equivalent to that of a prudent banker enquiring into the affairs of a private company known to be in difficulties and which was seeking a substantial injection of cash. It soon became clear that the parallel with a private company was not entirely valid. In the Chairman's foreword to the BSC Corporate Plan, Mr MacGregor stated "By any commercial measure, BSC is bankrupt". A private company struggling for existence in such circumstances would seek immediate cash savings almost

The Rt Hon Sir Keith Joseph Bt MP
Department of Industry
Ashdown House
SW1

regardless of the longer term consequences. However, Mr MacGregor on his appointment was given the task of restoring BSC to enduring profitability as rapidly as possible and of preserving as much of it as could be made viable. His interpretation of this remit has been to aim to break even by 1982/83. To do this,he claims he needs not only a substantial cash injection in 1981/82, but some freedom for manoeuvre within this because of the uncertainty inherent in many of the internal and external factors that will influence achievement of his targets. He tells us that even if the Plan goes awry he does not intend to seek additional money from the Government and that his cash requirement reflects this.

4. Our comments on each of the main components making up the total of £729m are given in paragraphs 6 - 11 below and additional information on each is given in the Annexes. Our conclusions are given in paragraphs 13 - 16.

5. The make-up of the BSC's estimate of its cash outflow in 1980/81 and 1981/82 is shown below.

	Cash inflow/(outflow)	
	1980/81	1981/82
	£m	£m
Loss before interest and after depreciation	(480)	(225)
Depreciation	95	100
Capital Expenditure (net of RDG)	(167)	(198)
Disposals	35	54
Working Capital and Stocks	(75)	(149)
Interest	(179)	(93)
Redundancies/Closure Costs	(350)	(183)
Contingencies *	-	(35)
	(1121)	(729)

* The figure £225m for loss before interest in 1981/82 includes a contingency item of £100m, making a total for contingencies of £135m.

A summary of conclusions on each of the separate items is given below with more detail included in the Annexes.

6. PROFIT/LOSS (Annex A)

The loss of £225m is built up from three separate items:

(i) a projected trading loss within the Corporate Plan	(75)
(ii) the wage increase of 7% effective from 1.7.81 for which no provision was included in the Corporate Plan	(50)
(iii) a trading profit contingency	(100)
Hadfields, Duport, Sheerness etc.	
	(225)

(i) Trading Loss.

The team reviewed the £450m performance improvement for 1981/82 which takes the last quarter of 1980/81 as a baseline. BSC reported they were on target on most items, the main problem envisaged at present being that the Deutsche Mark would be likely to be above the assumed level. The current exchange rate is DM5.00/£1 compared with an average rate of DM4.20/£1 assumed in the Plan. If the current exchange rate prevailed throughout the year 1981/82 and no offsetting action were taken this would add £400m to the loss.

(ii) Wages.

The BSC plan stated that no provision was included for any increase in pay rates. The 7% pay increase effective from 1.7.81 has now been agreed with the workforce and cannot be rescinded. The additional cost is £50m. Cancellation would lead to serious industrial disruption that would put the plan at risk. It would have been better had BSC included some charge on this account in the contingency calculations. They are adamant that they did not and that the full contingency (see below) is still required.

(iii) Contingency Provisions

The total contingency provision amounts to £135m. The main risks to be covered are failure to achieve the assumed efficiency improvements, volume, prices and exchange rate. Of these the last two appear likely to be the most important. (No specific provision has been made for Phoenix I and II.) Significant departure from plan will lead to its revision. Whilst this should curtail the trading loss in the latter part of the year, it is likely to lead to additional charges for redundancies and closures. Mr MacGregor has told us that he would expect to cover such additional charges within the contingency allowance and not to seek additional cash. However, the team believes that if the plan goes seriously awry and substantial closures are necessary, additional cash is likely to be required.

7. CAPITAL EXPENDITURE (Annex B)

Discussion with BSC of their capital expenditure of £198m has confirmed that this is the result of stringent review and reduction. The team believes that any further savings could be achieved only at the expense of a serious effect on future operating performance, and do not recommend any reduction.

8. DISPOSALS (Annex C)

The estimate of £54m for disposals in 1981/82 includes all the obvious items that are saleable with the possible exception that a more systematic and concentrated approach would lead to some additional sales of land. Once market conditions improve it should become possible to sell a number of wholly-owned subsidiaries which are peripheral to the main line business; but this is not feasible at present because of poor profitability.

9. <u>WORKING CAPITAL AND STOCKS</u> (Annex D)

The BSC management has concentrated on improving trading performance. Plans on working capital and stocks have not yet been developed and worthwhile economies should be possible. Although it is right that trading objectives should be given priority in the next six months, it would be appropriate to give greater attention to working capital thereafter, and BSC management has this in mind.

i.e. on selling at a loss — cutting prices — evidently — out of business.

10. <u>INTEREST</u>

The interest payments within the Plan are built up as follows:

	£m
Long-term foreign loans at 10.7% average	60
Short-term borrowing	33
	93

Currently BSC has a maximum short-term borrowing limit of £350m. When this is exceeded the Department of Industry grant further interest free Section 18 money. The Department of Industry and BSC are currently trying to devise an alternative method of financing that will exert greater financial discipline on the Corporation and give it incentive to keep its working capital requirements to a minimum.

11. <u>REDUNDANCY AND CLOSURE COSTS</u> (Annex E)

With the emphasis on manpower savings and the possibility of further closures, the willingness of employees to accept redundancies is of major importance.

BSC management are adamant that if redundancy payments were reduced, the whole tempo of demanning which is now taking place smoothly with such a low profile (50,000 reduction in manpower during 1980/81, 20,000 scheduled for 1981/82 in the Plan) would be jeopardized. Because of undertakings given by BSC as a result of the Beswick Plan, closures have to be "bought out". BSC management regard public references to the possible need to reduce severance terms as helpful but advise strongly against such reduction taking place until the programme of demanning has been substantially completed. BSC envisage worthwhile demanning opportunities extending beyond 1981/82. The team accept that premature reduction of severance payments would be a mistake, even though they are generous.

12. BSC's VIEW OF THE CONSEQUENCES OF A REDUCED CASH ALLOCATION.

We asked Mr MacGregor what specific steps would be taken by the Corporation if the Government were able to provide only (a) £600m. and (b) £500m. In replying he made it clear that he would not attempt to persevere with the Plan without the contingency element that the lower figures would eliminate. Instead he would proceed at once to a modified plan based upon closures, probably of one of the strip mills and of long products at Scunthorpe. However, he pointed out that such action would not necessarily achieve savings for BSC in 1981/82 because of closure costs. It is clear that his underlying view is that whether or not the plan is adopted it is not possible significantly to reduce the forecast cash requirement below that requested. The team has carefully considered these views put forward by Mr MacGregor and concludes that any substantial reductions in the cash expenditure in 1981/82 would damage the plan and the prospects for future years. The proper alternative to the plan is immediate substantial closures but these could not be cash conserving in 1981/82.

13. CONCLUSIONS

(i) Mr MacGregor's primary target is profitability. He has drawn up a plan which he believes will enable him to achieve the profit objective as rapidly as possible with the maximum capacity he considers might be made viable.

(ii) The plan is distinctly optimistic and Mr MacGregor freely admits this. He has set himself a tight profit target and in conditions of considerable uncertainty has requested a sufficient margin on cash to accommodate some deviations from plan, including the possibility of some closures.

(iii) The team believes that in the circumstances of the Plan the cash required for capital expenditure and for redundancies/closure costs is reasonable. We also believe that the estimated trading loss of £125m (this includes £50m for the wage increase) is a reasonable estimate of what will result if the plan is achieved, but there is clearly a downside risk. The main element we have questioned has been the contingency element which totals £135m.

(iv) If Mr MacGregor's plan is adopted, the team does not see any practical alternative to accepting the cash requirement including the contingency element. If the plan is not accepted, the only alternative to it is a different plan with major closures now, but this would not save cash in 1981/82.

(v) It would not be acceptable to run indefinitely with a wide contingency margin. By July Mr MacGregor will have come back to Government with his assessment of progress on the plan; he should then reassess his cash need for the second half of the year. The team believes that the uncertainties at present envisaged should be less by the middle of the year because he will either have achieved a large part of the transition envisaged in the plan or be taking alternative action including closures. Because of this, thecontingency element will either have been committed for specific purposes such as closure costs or be capable of some reduction.

(vi) Because Mr MacGregor has given priority to profit improvement he has not yet concentrated attention on reducing working capital. He has this in mind and it should be possible by later in the year to start producing some savings under this head. There may also be scope for some increase in disposals of land.

14. In terms of establishing whether there is scope for reduced cash requirement in 1981/82 the examination by the team has been disappointing. Mr MacGregor clearly believes that there is no alternative option to his Plan that would make long term sense and which would use significantly less cash. We certainly have been unable to identify one. What matters is the cash actually used rather than the cash requested; one improvement would be that the contingency provision proves not to be needed. This however appears unlikely - indeed despite Mr MacGregor's stated intention to remain, whatever transpires, within the cash limit he is requesting, there is a significant risk that it may be exceeded.

15. We suggest that if Ministers approve the Plan, Mr MacGregor should be asked:

(i) to confirm his intention of remaining within the cash requested even if he has to modify the Plan;

(ii) to confirm that there are no other additional items he envisages, such as the wage increase, for which he will seek extra provision;

(iii) to give increasing attention to stocks and working capital so that target improvements can be proposed by mid-year;

(iv) to keep all potential disposals under review and in particular to ensure that sales of land are systematically pursued;

(v) to ensure that new capital approvals are restricted to absolutely essential items.

16. It will be important that the level of finance needed for 1981/82 should be thoroughly re-assessed not later than July/September when Mr MacGregor has reported progress on the Plan and made any recommendations on closures, and when some of the present uncertainties should have been reduced.

17. I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

Yours sincerely,

J R Ibbs

ANNEX A

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TRADING PROFIT/LOSS: SOURCES OF IMPROVEMENT

1. BSC's expectations on the breakdown of their £450m. forecast improvement in trading performance are at Table F5 on page 52 of the Plan (copy attached). An item-by-item commentary on that table follows, based on what BSC told us.

2. Sales volume (£177m.) They are so far well on target. Achievement depends on (a) the market picking up, i.e. an end to destocking (since actual steel consumption will be lower in 1981/82 than this year), and (b) recovery of their 54 per cent market share. On the latter, BSC assured us that their aim was simply to recover their pre-strike level, not to knock out the private sector; !! this is borne out by the table on page 26 of the Plan (not attached), which shows the market share aim broken down by business and where the only big advances on past performance are for plates (where a major competitor has dropped out) and stainless (where a new investment has come on stream). Neither is a sector with major private sector participation.

Don't believe. Pre-strike level does mean knocking out the private sector because so much had/will have gone ahead

3. Manufacturing efficiency (£77.2m.) BSC are confident about this improvement, which depends primarily on filling plants and getting more efficient working from them.

4. Cost increases (-£37.0m.) This item includes purchased materials and services. BSC believe they should achieve the target, although they admit to some doubt on individual items particular electricity prices.

5. Price movements (£107.0m.) This is the major area of uncertainty. BSC's big problem is that European prices are dominated by German manufacturers quoting in the DM. Widespread excess capacity and aggressiveness by German producers have led to very low prices on the Continent and in the UK. Before the steel strike, BSC largely set their own prices, but the enormously destructive impact of that strike on the market has meant a breakdown of that insularity; imports are now the price-setters, BSC follow, and the private sector suffers in consequence. The Plan assumed £1 = DM4.20 as an average for the year. This compares with a current rate of £1 = DM5.

6. Cost reductions (£166.4m.) BSC are so far on course, and optimistic. The detail is in the small table bottom left in Table F5: BSC are now hopeful that energy savings could be higher than the figure shown in that table.

7. Others (£9.3m.) The £4.5m. improvement under 'central' is for demanning at headquarters, as they move to smaller premises in Croydon.

TABLE F5

Annex A cont'd

SOURCE OF IMPROVEMENT

Business £M	Base	1981/82	Improvement	ELEMENTS OF IMPROVEMENT: Sales Volume	Manufact. Efficiency	Cost Mov.	Price Mov.	Cost Reductions	Others	Total
Commercial/Sections	(87.9)	(10.8)	77.1	(19.9)	27.9	(12.4)	10.8	70.7	-	77.1
Plates	(25.0)	(14.5)	10.5	5.0	3.3	(2.5)	1.5	3.2	-	10.5
Specials	(61.7)	12.6	74.3	54.0	0.2	(14.0)	4.5	29.7	(0.1)	74.3
TOTAL GENERAL	(174.6)	(12.7)	161.9	39.1	31.4	(28.9)	16.8	103.6	(0.1)	161.9
APG	(12.2)	(7.1)	5.1	1.5	0.1	(1.8)	1.3	3.8	0.2	5.1
Strip Mills	(219.6)	(43.3)	176.3	88.1	28.4	(12.7)	29.1	40.3	3.1	176.3
Tinplate	(28.4)	0.6	29.0	14.2	1.3	(8.0)	15.1	6.4	-	29.0
TOTAL STRIP	(260.2)	(49.8)	210.4	103.8	29.8	(22.5)	45.5	50.5	3.3	210.4
Cumbria	(10.4)	7.8	18.2	5.8	10.2	(4.2)	2.5	3.2	0.8	18.2
FF & E	3.1	7.1	4.0	3.4	(1.1)	(5.3)	6.5	0.5	-	4.0
Light Products	(1.8)	1.6	3.4	3.1	-	(0.5)	1.3	-	(0.5)	3.4
Stainless	(36.8)	(16.6)	20.2	7.4	2.4	(12.8)	22.5	0.7	-	20.2
TOTAL HOLDINGS	(46.0)	(0.1)	45.9	19.7	11.5	(22.7)	32.8	4.4	0.3	45.9
Steel Tubes	15.9	23.5	7.6	4.2	1.9	(5.8)	4.6	3.4	(0.7)	7.6
Other Businesses	7.5	10.1	2.6	1.0	0.8	(5.3)	2.2	3.9	-	2.6
TOTAL TUBES	23.4	33.6	10.2	5.2	2.7	(11.1)	6.8	7.3	(0.7)	10.2
B.S.S.C.	(6.2)	0.6	6.8	4.0	-	2.0	-	0.6	0.1	6.8
CHEMICALS	(0.9)	1.4	2.3	0.7	0.7	(2.7)	2.1	1.3	0.2	2.3
RDL	(5.1)	2.9	8.0	4.5	1.1	(1.0)	3.0	(1.3)	1.7	8.0
BSC (INT)	0.6	0.6	-	-	-	-	-	-	-	-
CENTRAL	(54.5)	(50.0)	4.5	-	-	-	-	-	4.5	4.5
	(523.4)	(73.5)	449.9	177.0	77.2	(87.0)	107.0	166.4	9.3	449.9

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Business £M	COST REDUCTION DETAIL: Manpower	Energy	Closures	Others	Total
Commercial/Sections	42.0	10.6	18.1	-	70.7
Plates	0.9	0.6	-	1.7	3.2
Specials	20.1	1.2	-	8.4	29.7
TOTAL GENERAL	63.0	12.4	18.1	10.1	103.6
APG	2.3	0.3	-	1.2	3.8
Strip Mills	12.0	10.3	18.0	-	40.3
Tinplate	5.5	0.1	-	0.8	6.4
TOTAL STRIP	19.8	10.7	18.0	2.0	50.5
Cumbria	3.1	-	-	0.1	3.2
FF & E	0.5	-	-	-	0.5
Light Products	-	-	-	-	-
Stainless	0.7	-	-	-	0.7
TOTAL HOLDINGS	4.3	-	-	0.1	4.4
Steel Tubes	3.0	0.4	-	-	3.4
Other Businesses	3.0	0.9	-	-	3.9
TOTAL TUBES	6.0	1.3	-	-	7.3
B.S.S.C.	0.5	0.1	-	-	0.6
CHEMICALS	1.5			(0.2)	1.3
RDL	(1.3)	-	-	-	(1.3)
BSC (INT)	-	-	-	-	-
CENTRAL	-	-	-	-	-
	93.8	24.5	36.1	12.0	166.4

ANNEX B

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CAPITAL EXPENDITURE

1. The attached Tables break down by business stream the capital expenditure of £198m. (net of RDG Claims and Capital Creditors) and identify the individual projects.

2. The investment breaks down into three convenient categories: (i) further or final expenditure on items previously approved (£101m.); (ii) expenditure on new projects each costing over £2m. but not yet approved(£45m.); and (iii) expenditure on small schemes costing less than £2m. (£84m.). Considering these separate categories in turn:

(i) Planned Expenditure on Major Approved Schemes - £101m. These schemes are in general 85-90 per cent complete. Deferral or cancellation at this stage would not be economic. The major items are:

	Expenditure in 1981/82 £m.
Stocksbridge Concaster - necessary to make Phoenix II viable	10.0
Port Talbot Slab Caster - necessary if tinplate to achieve correct quality for Metal Box to re-order from BSC	36.0
Port Talbot Power Plant - replacement of antiquated power plant to achieve energy efficiencies	19.0
	65.0

who would they order from otherwise

But Port Talbot is new

(ii) Expenditure on major new projects - £45m.

This expenditure includes preparatory work £13m. on three major projects which will not be released until "it is demonstrated that the business is on course in its Corporate Plan". These are:

Concasting at Scunthorpe - necessary to achieve economic production of billets; will be required to supply Phoenix I at a viable price

Vacuum Degassing at Teesside - necessary to get the right product quality for North Sea pipeline and rail products

Refurbishing the Hot Rolling Mill at Port Talbot - replacement of a 30 year old plant

The other substantial items of expenditure within this category are:

	Expenditure in 1981/82 £m.
Seamless Business - essential for North Sea pipeline	10.0
Port Talbot Blast Furnace reline - scheduled reline (already deferred once)	4.9
Workington Rail - essential to compete in US market	3.6
Forgings - only heavy forging and casting plant in UK; essential for nuclear and defence work	7.0
	25.5

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(iii) <u>New Schemes under £2m. - £84m.</u>
BSC central management have no details of these individual schemes. These will be aimed mainly at the finishing end and include schemes for keeping existing equipment in good working order, maintaining or improving quality standards, reducing costs, removing bottlenecks or achieving energy savings. Typically they would offer very attractive pay-backs. Although some are not essential to enable the business to continue, deferral of such schemes would affect future cost performance. This is the second year running that expenditure on such items has been severely throttled back.

3. The total capital is modest in relation to the size of the business. The depreciation for current cost accounting purposes in 1980 was £236m., i.e. more than current rates of expenditure.

INVESTMENT PROGRAMME

Annex B cont'd

£ million (outturn)

General Steels Group	Total Cost	Expenditure to Mar.'81	1981/82	Subsequent Years
. Major approved schemes:-	-		21.4	5.9
Sections and Commercial Steels:-				
- Redcar IIB	350.2	347.0	1.8	1.4
- Oil Pipeline	4.4	4.0	0.1	0.3
- Cleveland Colliery Arch	2.4	2.3	0.1	-
- Lackenby Loco Repair	2.3	2.2	0.1	-
- AGC Coil Mill	5.8	1.5	2.3	2.0
- Scunthorpe Dawes Lane Coke	78.1	75.2	2.9	-
Iron Rationalisation	13.3	12.1	1.2	-
Vacuum Degassing	5.3	4.8	0.5	-
Shelton Rationalisation	4.0	4.0	-	-
Special Steels:-				
- Stocksbridge Concast	26.4	14.6	10.0	1.8
- Templeborough Concast	24.7	22.2	2.2	0.3
- Brinsworth Annealing	2.3	2.2	0.1	-
- Tinsley Park Scrap Handling	2.8	2.6	0.1	0.1
Plates:-	-		-	-
. Major unapproved schemes:-	-		16.5	71.1
Sections and Commercial Steels:-				
- Lackenby BOS Vacuum Degassing	11.5		5.0	6.5
- Scunthorpe Concast	65.0		5.0	60.0
Special Steels:-				
- Rotherham Hot Rolled Strip	6.1		1.5	4.6
Plates:-	5.0		5.0	-
. Under £2 million schemes:-	-		30.5	-

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INVESTMENT PROGRAMME

Annex B cont'd

£ million (outturn)

	Total Cost	Expenditure to Mar.'81	1981/82	Subsequent Years
Strip Products Group				
. Major approved schemes	-		73.8	35.2
Strip Mill Products:-				
- Ravenscraig Stage III	200.3	197.8	2.3	0.2
- Secondary Steelmaking	14.6	9.5	2.3	2.8
- Iron Desulphurisation	14.1	12.9	1.2	-
- 'A' Coke Ovens	9.7	8.9	0.6	0.2
- Port Talbot Coal Handling	31.1	28.8	2.0	0.3
Coke Ovens	74.5	72.4	2.0	0.1
Raw Materials Handling	14.8	13.9	0.5	0.4
Slab Scarf/ Soaking Pits	10.3	7.0	3.0	0.3
Slab Caster	102.1	43.3	36.0 ×	22.8
Pickle Lines	24.9	16.6	4.0	4.3
3/4 Stand Cold Mill	10.9	8.7	0.8	1.4
Power Plant	37.8	16.7	19.0	2.1
Effluent Disposal	6.4	6.0	0.1	0.3
. Major unapproved schemes:-			10.5	59.7
Strip Mill Products				
- Ravenscraig No. 2 B/F Rebuild	4.2		1.0	3.2
- Coal Import	7.5		1.7	5.8
- Port Talbot No. 2 B/F Reline	9.1		4.9	4.2
- HSM Refurbishment	49.4		2.9	46.5
. Under £2 million schemes:-	-		18.5	-

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INVESTMENT PROGRAMME

£ million (outturn)

	Total Cost	Expenditure to Mar '80	1981/82	Subsequent Years
Tubes Division				
. Major approved schemes:-	-		1.8	2.1
- Corby Small Weld	39.6	36.6	1.7	1.3
- Slitters	11.8	10.9	0.1	0.8
- Stanton Pipe	14.7	14.7	-	-
. Major unapproved schemes:-	-		10.0	28.4
- Large Seamless	38.4		10.0	28.4
. Under £2m schemes:-	-		5.9	-
BSC Holdings				
. Major approved schemes:-	-		0.6	1.1
- Stainless Strategy	132.2	130.5	0.6	1.1
. Major unapproved schemes:-	-		9.9	16.3
- Workington Rail	3.6		2.9	0.7
- FFE Forge Manipulator	12.8		2.7	10.1
- Vertical Bores	2.6		0.9	1.7
- Ring Mill Development	7.2		3.4	3.8
. Under £2m schemes:-	-		3.7	-
Others (includes RDL, BSC Chemicals, Refractories etc.)	-		22.1	-

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ANNEX C

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DISPOSALS

1. The make-up of the disposals for 1981/82 is shown below:

Surplus Land and Property	5
Blast Furnace Stack	20
Overseas Divestments	
South Africa (Market Value £30)*	22
Others - India, Zimbabwe	6
UK Divestments mainly Kiveton Park	1
	£54 m.

*Sale subject to withholding tax. BSC are currently trying to avoid this by achieving a "matched" sale with an inward investor.

2. The opportunities for additional disposals fall into four categories:

(i) Peripheral Businesses under Consideration

(a) Redpath Dorman Long Ltd - Construction and Engineering
Capital employed £14m.
Losses before interest 1980/81 £(4.4)m.
1981/82 £(0.1)m.

The history of losses coupled with the present depressed market make RDL virtually unsaleable at present.

(b) BSC Chemicals - Tar and Benzol refiners
Capital employed £28m.
Losses before interest 1980/81 £(0.1)m.
1981/82 £(0.1)m.

Trading results have been depressed by low receipts of by-products from coke ovens and steelworks. Discussions are taking place with other refiners regarding further rationalisation.

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(c) Stanton and Staveley - spun iron pipes, foundry and concrete pipes

Capital employed £50m.
Profit before interest 1980/81 £3.0m.
1981/82 £5.5m.

Stanton and Staveley are heavily dependent on public spending which is very depressed. Their sale in the near future would realise relatively little. Saleability should improve after the commissioning of new plant. The company could become a candidate for disposal in 1982/83.

(d) BSC Canada could be divested for ca.£5m. However, it should provide a way into the Canadian market in future for oil pipeline business.

(ii) <u>Non-Mainline Steelmaking Activities</u>

Stainless Steel - Sheet and Plate

Capital employed £178m.
Losses before interest 1980/81 £(26.9)m.
1981/82 £(16.6)m.

A mainly new plant commissioned in 1978/79 which has had to seek improved market share at a time of low demand and substantial surplus capacity. The profit improvement projected for 1981/82 anticipates commissioning of a bright annealing unit which will open up new markets. The abysmal profit record and the strength of sterling make it unsaleable at present.

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(iii) Mainline Downstream Assets

The Shotton coatings complex (½ mtpa), tubes (½ mtpa), or tinplate (1 mtpa) would be saleable and make profits on the basis of imported steel prices. In present market conditions of surplus capacity throughout Europe, BSC could not expect to hold the supply contracts if these plants were sold. One of the main objectives of steel producers is to secure outlets such as these. Moreover, loss of any major sales outlet would create a domino effect within BSC making other business streams unprofitable because of interdependence. For instance, loss of an outlet for strip products could mean that on paper Ravenscraig would need to be closed. Since Ravenscraig produces two-thirds strip and one third plate this in turn would repercuss on the plate stream.

(iv) Land

BSC have been selling property at a steady rate, but a more systematic and concentrated approach should enable them to realise land faster.

ANNEX D

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WORKING CAPITAL AND STOCKS

Working capital amounts at 31 March 1979, 31 March 1980 and projected for 31 March 1981 and 31 March 1982 are summarised below.

The figures at 31 March 1979 have been given, as those at 31 March 1980 were distorted by the effect of the strike. Turnover figures for each year are also given.

	Actual 31 March		Projected 31 March	
	1979	1980	1981	1982
	£m.	£m.	£m.	£m.
Turnover	3,288	3,105	2,750	3,300
Stocks				
Raw Materials	309	343	230	255
Process and finished	623	640	492	545
Contract work in progress (net)	26	19	15	15
Stores and Spares	181	165	155	150
	1,139	1,167	892	965
Other				
Debtors	809	356	700	797
Creditors	(716)	(539)	(516)	(537)
Cash	15	42	25	25
	1,247	1,026	1,101	1,250

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In discussion on working capital generally, BSC stated that this was an area to which the new management had not as yet had an opportunity to devote much time but intended to do so shortly. A number of specific enquiries which we made suggested that on stocks, debtors and creditors, there probably was ground to be gained. It should be possible to show some improvement before the end of 1981/82.

It was notable that information provided for us on stocks, debtors and creditors was of less reliable quality than information on operating targets.

ANNEX E

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REDUNDANCY AND CLOSURE COSTS

1. The figure of £183m. is built up from three items:

	£ million
(i) Redundancies occurring in 1980/81 - cash required in 1981/82	45
(ii) Redundancies occurring in 1981/82 - cash required in 1981/82	121*
(iii) Other Costs - site clearance, etc.	17
	183

* Originally £133m. in the Corporate Plan but £12m. subsequently brought forward into 1980/81.

2. The carry-over of £45m. redundancy costs from 1980/81 into 1981/82 principally reflects staged payments at Consett and is irreducible. (The carry-over from 1981/82 into 1982/83 is estimated at £17m.)

3. The net costs to BSC per redundancy in item (ii) are built up as follows:

	Statutory Redundancy	BSC RPA Supple-ment	ISERBS	Seve-rance	Total
'Paris' Closures	£1,100	£900	£100*	£3,600	£ 5,700
'Rome' Closures	£1,100	£900	£2,900**	£3,600	£8,500
Slim Line/ Demanning	£1,320	£1,080	£4,100***	£3,600	£10,100

* ISERBS Cost funded mostly by EEC/UK Government; Treaty of Rome applies

** ISERBS Cost funded wholly by BSC; Treaty of Rome applies

*** Age/length of service is assumed higher than in closures and ISERBS cost funded wholly by BSC.

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4. Redundancies (as opposed to total reductions) in the Plan are 17,700 and the total cash sum is built up as follows:

	Redundancies 1000	Rate £1,000	Total Cash £m.	Cash in 81/82 £m.
'Paris' Closures	6.0	5.7	34.2	34.2
'Rome' Closures	1.2	8.5	10.5	9.0
Demanning	10.5	10.1	106.1	90.0
Total			150.8	133.2

The £133.2m. was subsequently reduced to £121m. since £12m. of closure costs were brought forward into 1980/81.

5. The £17m. other closure costs are built up as follows:

	£m.
Cancellation charges in respect of facilities at site - water, oxygen, etc.	10
Clearance costs	7

These are not reducible.

PART 8 ends:-

Industry to TPL of 16/2/81.

PART 9 begins:-

TPL to PM of 17/2/81 + att.