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The Steel Industry

PART 10

NATIONALISED INDUSTRIES

Pt 1 : June 1979

Pt 10 : April 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~8.4.81~~		~~10.7.81~~					
~~10.4.81~~		~~22.7.81~~					
~~21.4.81~~		~~4.8.81~~					
~~23-4-81~~		~~28.8.81~~					
~~1.5.81~~							
~~15.5.81~~		~~14.9.81~~					
~~26.5.81~~		~~27.10.81~~					
~~29-5-81~~		~~30/10/81~~					
		~~9.11.81~~					
~~1-6-81~~		~~11.11.81~~					
~~5-6-81~~		~~3.12.81~~					
~~12-6-81~~		~~10.12.81~~					
~~15-6-81~~		~~11.12.81~~					
~~16.6.81~~		14.12.81					
~~23.6.81~~		— ends —					
~~25.6.81~~							
~~2.7.81~~							

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PART 10 ends:-

14.12.81

PART 11 begins:-

14.1.82

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TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC (81) 22nd Conclusions, Item 3	11.6.81
CC (81) 26th Conclusions, Item 3	2.7.81
CC (81) 30th Conclusions, Item 3	30.7.81
EQO (81) 165	11.11.81
CC (81) 39th Conclusions, Item 2 (extract)	3.12.81
CC (81) 40th Conclusions, Item 3	10.12.81

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 OMWayland Date 11 August 2011

PREM Records Team

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, Fourth Report from the Trade and Industry Committee, Session 1980-81: Effects of BSC's Corporate Plan Published by HMSO, 10 June 1981

House of Commons Hansard, 14 December 1981, cols 26-28 "Steel Industry"

Signed CAWayland Date 11 August 2011

PREM Records Team

JU

Nat Ind

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

14 December 1981

M Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Michael,

PARLIAMENTARY STATEMENT ON ASSISTANCE TO PRIVATE SECTOR STEEL FIRMS

... I enclose the final version of the statement which my Secretary of State proposes to make this afternoon.

2 I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Scotland, Wales, Trade and Employment, the Leader of the House of Lords and the Chief Whip.

Yours sincerely

Caroline Varley

CAROLINE VARLEY
Private Secretary

Secretary of State for Industry

WITH PERMISSION MR SPEAKER I WOULD LIKE TO MAKE A STATEMENT ABOUT THE PRIVATE SECTOR OF THE STEEL INDUSTRY.

WHEN THE FOURTEEN MAJOR COMPANIES IN THE UNITED KINGDOM STEEL INDUSTRY WERE NATIONALISED IN 1967 IT WAS RECOGNISED BY THE GOVERNMENT OF THE DAY THAT SPECIAL MEASURES WERE NEEDED TO ENSURE FAIR COMPETITION BETWEEN THE PUBLIC SECTOR, WHICH WAS EXPECTED TO REPRESENT WELL OVER TWO-THIRDS OF THE INDUSTRY AND THE PRIVATE SECTOR WHICH WOULD CONSIST OF ABOUT 100 FIRMS COVERING THE REMAINDER OF THE INDUSTRY.

ACCORDINGLY, THE 1967 IRON AND STEEL ACT CONTAINED PROVISIONS TO THIS END.

WHEN BRITAIN JOINED THE EUROPEAN COMMUNITY ON 1 JANUARY 1973 THE STEEL INDUSTRY IN THIS COUNTRY CAME UNDER THE REGIME OF THE TREATY OF PARIS - THE EUROPEAN COAL AND STEEL COMMUNITY - AND IN SO FAR AS PRODUCTS FELL OUTSIDE THAT TREATY, WITHIN THE INDUSTRIAL ARTICLES OF THE TREATY OF ROME.

SINCE THE COMPETITION PROVISIONS OF THE 1967 ACT WERE INCONSISTENT WITH THOSE TREATIES, THEY WERE REPEALED BY THE EUROPEAN COMMUNITIES ACT 1972.

Secretary of State for Industry

ACCORDINGLY SINCE THEN COMPETITION BETWEEN BSC AND THE PRIVATE SECTOR HAS BEEN GOVERNED BY THE PROVISIONS OF THOSE TREATIES.

AS THE HOUSE WELL KNOWS, THE PERIOD SINCE 1974 HAS BEEN ONE OF CONTINUING, INDEED INTENSIFYING DECLINE FOR THE WHOLE EUROPEAN STEEL INDUSTRY.

PRODUCTION IN EUROPE WHICH IN 1974 WAS 156 MILLION TONNES OF LIQUID STEEL HAD FALLEN BY 1980 TO 128 MILLION TONNES LEAVING SUBSTANTIAL SPARE CAPACITY.

Secretary of State for Industry

PRICE COMPETITION BECAME INCREASINGLY INTENSE.

PRICES TODAY ARE LOWER IN MONEY TERMS THAN THEY WERE TWO YEARS AGO.

AT THE SAME TIME, COSTS - PARTICULARLY ENERGY COSTS - HAVE CONTINUED TO INCREASE.

BY MID-1980 THERE WAS HARDLY A STEEL COMPANY IN EUROPE OPERATING PROFITABLY.

THESE DIFFICULTIES WERE SO GREAT THAT, ALTHOUGH THE TREATY OF PARIS PROHIBITS STATE SUSBSIDIES TO THE STEEL INDUSTRY, THE COUNCIL GAVE ITS ASSENT TO A DECISION OF FEBRUARY 1980 WHICH ALLOWED THE COMMISSION TO GIVE TEMPORARY APPROVAL TO STATE AIDS LINKED WITH RESTRUCTURING.

Secretary of State for Industry

TOWARDS THE END OF 1980 MANDATORY PRODUCTION QUOTAS WERE INTRODUCED BY THE COMMISSION WITH THE APPROVAL OF THE COUNCIL.

DESPITE THESE MEASURES BY MID-1981 THE COMMUNITY STEEL INDUSTRY FACED CRISIS CONDITIONS.

PRICES WERE WELL BELOW ANY POSSIBLE BREAKEVEN POINT FOR THE INDUSTRY AND SEVERE DISRUPTION THROUGH MASSIVE OVER-CAPACITY AND UNRESTRICTED COMPETITION THREATENED.

Secretary of State for Industry

ACCORDINGLY A FURTHER CRISIS PACKAGE OF MEASURES WAS AGREED COMPRISING THE EXTENSION OF MANDATORY PRODUCTION QUOTAS FOR SOME PRODUCTS, VOLUNTARY INDUSTRY RESTRAINT AGREEMENTS, MONITORED BY THE COMMISSION, FOR OTHERS, AND STRICT ENFORCEMENT OF THE ECSC RULES ON PRICING TRANSPARENCY BY BOTH PRODUCERS AND THE LARGER DISTRIBUTORS.

THE MEASURES TO STABILISE PRICES AND TO INCREASE THEM SO THAT FIRMS MAY ONCE AGAIN MOVE INTO PROFITABILITY WILL OF COURSE HELP THE PRIVATE SECTOR ALONG WITH THE REST.

BUT BY ITSELF, THIS WILL NOT BE ENOUGH.

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Secretary of State for Industry

IN OTHER COMMUNITY COUNTRIES VARIOUS FORMS OF AID ARE AVAILABLE FROM GOVERNMENTS BOTH TO PUBLIC AND PRIVATELY OWNED COMPANIES.

IN BRITAIN, HELP HAS BEEN CONFINED TO THE BRITISH STEEL CORPORATION.

THE PRIVATE SECTOR HAS RECEIVED NO ASSISTANCE APART FROM REGIONAL AIDS WHICH ARE ALSO AVAILABLE TO BSC.

SINCE 1975 SUCCESSIVE GOVERNMENTS HAVE MADE AVAILABLE TO THE BRITISH STEEL CORPORATION A TOTAL SUM APPROACHING £5,000 MILLION PARTLY TO FUND OPERATING LOSSES, PARTLY TO FINANCE INVESTMENT IN THE MODERNISATION OF PLANT, AND PARTLY TO MEET THE COSTS OF CLOSURES AND RATIONALISATION - MAINLY REDUNDANCY AND RESETTLEMENT COSTS

Secretary of State for Industry

THE BRITISH INDEPENDENT STEEL PRODUCERS ASSOCIATION HAVE FOR SOME TIME BEEN MAKING REPRESENTATIONS TO THE GOVERNMENT ABOUT THE EXTREME UNFAIRNESS OF THE SYSTEM UNDER WHICH THEY ARE EXPECTED TO OPERATE.

THEY HAVE POINTED OUT THAT STEEL IS UNIQUE IN THAT IT HAS ITS OWN REGIME UNDER THE TREATY OF PARTIS - SOMETHING WHICH IS NOT APPLICABLE TO ANY OTHER INDUSTRY.

THEY HAVE POINTED OUT THAT IN NO OTHER EUROPEAN COUNTRY HAVE MASSIVE SUMS OF AID BEEN GIVEN TO THE PUBLIC SECTOR WHILE NOTHING HAS BEEN GIVEN TO THE PRIVATE SECTOR.

Secretary of State for Industry

THEY HAVE POINTED OUT THAT THE EFFECT OF THIS IS THAT EVEN WHERE COMMUNITY AID IS AVAILABLE IT HAS GONE EXCLUSIVELY TO THE BSC.

I HAVE BEEN GIVING URGENT CONSIDERATION TO THIS POWERFUL CASE.

I AM PLEASED TO TELL THE HOUSE THAT I HAVE DECIDED TO INTRODUCE A SCHEME UNDER SECTION 8 OF THE INDUSTRY ACT 1972 TO HELP THE PRIVATE SECTOR STEEL COMPANIES IN BRITAIN WITH RATIONALISATION AND RESTRUCTURING PROJECTS AND WITH THE COSTS OF REDUNDANCIES.

Secretary of State for Industry

THE SCHEME WILL OFFER UP TO £22 MILLION OF ASSISTANCE TO THE INDUSTRY BY THE END OF 1984.

ELIGIBLE PROJECTS WILL ATTRACT GRANT AT THE RATE OF 25%.

THE SCHEME WILL ALSO GUARANTEE 85% OF THE COST OF STATUTORY REDUNDANCY PAYMENTS AND PROVIDE A MAXIMUM CONTRIBUTION OF £500 PER PERSON TO THE EMPLOYERS COSTS OF ANY EXGRATIA OR SEVERANCE PAYMENTS.

Secretary of State for Industry

THIS SCHEME IS INTENDED TO COVER STEEL PRODUCTS AS DEFINED BY THE TREATY OF PARIS WITH THE ADDITION OF THE DRAWING, COLD ROLLING AND COLD FORMING OF STEEL (EXCLUDING THE DRAWING AND MANUFACTURE OF STEEL WIRE AND WIRE PRODUCTS).

I WILL PUBLISH DETAILS OF THE ELIGIBLE SECTORS OF THE INDUSTRY IN THE OFFICIAL REPORT AND THEY ARE AVAILABLE IN THE VOTE OFFICE.

FULL DETAILS OF THE SCHEME WILL BE AVAILABLE VERY SHORTLY FROM MY DEPARTMENT.

Secretary of State for Industry

THE SCHEME HAS, OF COURSE, TO CONFORM WITH THE OBLIGATIONS WE HAVE UNDERTAKEN WHEN WE AGREED TO THE ECSC DECISION ON STATE AIDS PROMULGATED IN AUGUST OF THIS YEAR.

AS SUCH, IT HAS TO BE CONFINED TO ASSISTING RESTRUCTURING, RATIONALISATION AND REDUNDANCIES.

APPLICATIONS FOR HELP WITH RESTRUCTURING PROJECTS MUST BE MADE BY SEPTEMBER 1982; NO PAYMENTS CAN BE MADE AFTER 31 DECEMBER 1984.

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Secretary of State for Industry

AS REQUIRED BY THE TREATY, THE SCHEME IS BEING NOTIFIED TO THE COMMISSION FOR APPROVAL BUT I DO NOT ANTICIPATE DIFFICULTIES IN THIS REGARD.

QUITE SEPARATELY, THE STEEL CASTING SECTOR HAS DRAWN UP A SCHEME TO ALLOW THE RATIONALISATION OF THAT PART OF THE INDUSTRY WHEREBY FIRMS REDUCING CAPACITY WOULD BE COMPENSATED BY A VOLUNTARY LEVY PAID BY COMPANIES REMAINING IN PRODUCTION.

TO WORK, THE SCHEME REQUIRES FRONT END LOADING AND I AM GIVING URGENT CONSIDERATION TO MAKING A GRANT UNDER SECTION 8 OF THE INDUSTRY ACT 1972.

Secretary of State for Industry

ANY PAYMENT WOULD BE CONDITIONAL ON A SUBSTANTIAL MAJORITY OF THIS INDUSTRY AGREEING TO FUND A SIGNIFICANT REDUCTION IN CAPACITY THUS FULFILLING THE REQUIREMENTS OF SECTION 406 OF THE INCOME CORPORATION TAXES ACT 1970.

MR SPEAKER, THE GOVERNMENT IS DETERMINED TO SECURE THE SURVIVAL OF A HEALTHY AND PROFITABLE PRIVATE SECTOR IN STEEL.

I BELIEVE THE MEASURES I HAVE ANNOUNCED ARE FAIR AND RESPONSIBLE.

THEY CAN BE ACCOMMODATED WITHOUT ANY INCREASE IN THE ALLOCATIONS TO MY DEPARTMENT.

I COMMEND THEM TO THE HOUSE.

PV, COVERING CONFIDENTIAL

Nat Ind cc. Press Office. Policy Unit 1

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

My worry is that the scheme is too modest and £500 per person too little i.e. no

11 December 1981

M Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister to see

Neill Mitchell
Duty Clerk
11/12/81

Dear Michael

PARLIAMENTARY STATEMENT ON ASSISTANCE TO PRIVATE SECTOR STEEL FIRMS

... I enclose a draft statement which my Secretary of State proposes to make on Monday, subject to the Prime Minister's agreement.

2 You will wish to note that Mr Jenkin will be considering the draft again over the weekend and I shall, if necessary, circulate any amendments on Monday.

3 I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Scotland, Wales, Trade and Employment, the Leader of the House of Lords and the Chief Whip.

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

COVERING CONFIDENTIAL

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SINCE THE COMPETITION PROVISIONS OF THE 1967 ACT WERE INCONSISTENT WITH THOSE TREATIES, THEY WERE REPEALED BY THE EUROPEAN COMMUNITIES ACT 1972.

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AS THE HOUSE WELL KNOWS, THE PERIOD SINCE 1974 HAS BEEN ONE OF CONTINUING, INDEED INTENSIFYING DECLINE FOR THE WHOLE EUROPEAN STEEL INDUSTRY.

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PRICE COMPETITION BECAME INCREASINGLY INTENSE AND PRICES TODAY ARE LOWER IN MONEY TERMS THAN THEY WERE TWO YEARS AGO.

AT THE SAME TIME, COSTS - PARTICULARLY ENERGY COSTS - HAVE CONTINUED TO INCREASE SO THAT BY MID-1980 THERE WAS HARDLY A STEEL COMPANY IN EUROPE OPERATING PROFITABLY.

THESE DIFFICULTIES WERE SO GREAT THAT, ALTHOUGH THE TREATY OF PARIS PROHIBITS STATE SUSBSIDIES TO THE STEEL INDUSTRY, THE COUNCIL GAVE ITS ASSENT TO A DECISION OF FEBRUARY 1980 WHICH ALLOWED THE COMMISSION TO GIVE TEMPORARY APPROVAL TO AIDS LINKED WITH RESTRUCTURING.

Secretary of State for Industry

IN OTHER COMMUNITY COUNTRIES VARIOUS FORMS OF AID ARE AVAILABLE BOTH TO PUBLIC AND PRIVATELY OWNED COMPANIES.

IN BRITAIN, HELP WAS CONFINED TO THE BRITISH STEEL CORPORATION AND THE PRIVATE SECTOR RECEIVED NO ASSISTANCE APART FROM REGIONAL AIDS WHICH ARE ALSO AVAILABLE TO BSC.

TOWARDS THE END OF 1980 THE STEEL CRISIS WAS SO SEVERE THAT MANDATORY PRODUCTION QUOTAS WERE INTRODUCED BY THE COMMISSION WITH THE APPROVAL OF THE COUNCIL.

Secretary of State for Industry

NEVERTHELESS BY MID-1981 THE COMMUNITY STEEL INDUSTRY WAS STILL FACING CRISIS CONDITIONS WITH PRICES WELL BELOW ANY POSSIBLE BREAKEVEN POINT FOR THE INDUSTRY AND THE THREAT OF SEVERE DISRUPTION THROUGH MASSIVE OVER-CAPACITY AND UNRESTRICTED COMPETITION.

ACCORDINGLY A FURTHER CRISIS PACKAGE OF MEASURES WAS AGREED COMPRISING THE EXTENSION OF MANDATORY PRODUCTION QUOTAS FOR SOME PRODUCTS, VOLUNTARY INDUSTRY RESTRAINT AGREEMENTS, MONITORED BY THE COMMISSION, FOR OTHERS, AND STRICT ENFORCEMENT OF THE ECSC RULES ON PRICING TRANSPARENCY BY BOTH PRODUCERS AND THE LARGER DISTRIBUTORS.

Secretary of State for Industry

THE MEASURES TO STABILISE PRICES AND TO INCREASE THEM SO THAT FIRMS MAY ONCE AGAIN MOVE INTO PROFITABILITY WILL OF COURSE HELP THE PRIVATE SECTOR ALONG WITH THE REST.

BUT THERE STILL REMAINS A MARKED DISPARITY OF TREATMENT IN THIS COUNTRY BETWEEN THE AVAILABILITY OF AIDS TO THE BRITISH STEEL CORPORATION AND WHAT IS AVAILABLE TO THE PRIVATE SECTOR COMPANIES.

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Secretary of State for Industry

SINCE 1975 SUCCESSIVE GOVERNMENTS HAVE MADE AVAILABLE TO THE BRITISH STEEL CORPORATION A TOTAL SUM APPROACHING £5,000 MILLION PARTLY TO FINANCE INVESTMENT IN THE MODERNISATION OF PLANT, PARTLY TO MEET THE COSTS OF CLOSURES AND RATIONALISATION - MAINLY REDUNDANCY AND RESETTLEMENT COSTS - AND PARTLY TO FUND OPERATING LOSSES.

HITHERTO, THE PRIVATE SECTOR STEEL COMPANIES HAVE RECEIVED NO SPECIAL AIDS DESPITE THE FACT THAT, FOR MUCH OF THEIR OUTPUT, THEY ARE IN COMPETITION WITH THE HEAVILY SUBSIDISED STEEL CORPORATION.

Secretary of State for Industry

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THEY POINTED OUT THAT IN NO OTHER EUROPEAN COUNTRY HAD MASSIVE SUMS OF AID BEEN GIVEN TO THE PUBLIC SECTOR WHILE NOTHING HAD BEEN GIVEN TO THE PRIVATE SECTOR SPECIALLY TO HELP THEM WITH THE OVERWHELMING DIFFICULTIES THEY FACED.

Secretary of State for Industry

THEY POINTED OUT THAT STEEL WAS LIKE NO OTHER INDUSTRY IN THAT IT HAD ITS OWN REGIME UNDER THE TREATY OF PARIS - SOMETHING WHICH WAS NOT APPLICABLE TO ANY OTHER INDUSTRY.

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MR SPEAKER, THE GOVERNMENT IS DETERMINED TO SECURE THE SURVIVAL OF A HEALTHY PROFITABLE AND HOPEFULLY EXPANDING PRIVATE SECTOR IN STEEL.

IT IS OUR POLICY TO ENCOURAGE THE BRITISH STEEL CORPORATION TO ENTER INTO MORE JOINT ARRANGEMENTS WITH PRIVATE COMPANIES TO CREATE SEPARATE PRIVATE COMPANIES ACT FIRMS COVERING SECTORS OF THE INDUSTRY ON THE LINES OF THE SUCCESSFUL ALLIED STEEL AND WIRE COMPANY.

Secretary of State for Industry

THERE WOULD NOT BE MUCH POINT IN STRIVING TO CREATE NEW PRIVATE SECTOR COMPANIES IF EXISTING COMPANIES WERE TO GO OUT OF BUSINESS FOR WANT OF THE KIND OF SUPPORT AVAILABLE TO ITS MAIN UK COMPETITOR.

I BELIEVE THE MEASURES I HAVE ANNOUNCED ARE FAIR AND RESPONSIBLE.

THEY CAN BE ACCOMMODATED WITHOUT ANY INCREASE IN THE ALLOCATIONS TO MY DEPARTMENT.

I COMMEND THEM TO THE HOUSE.

Mr Palkinson

British Steel Corporation

News Release

Nat Ind

PRESS AND INFORMATION OFFICE · 33 GROSVENOR PLACE · LONDON SW1X 7JG · 01-235 1212

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BRITISH STEEL CORPORATION

INTERIM RESULTS

Half-Year to 3rd October 1981

In the half-year to 3rd October 1981 the Corporation made a loss of £196 million, compared to a loss of £279 million in the corresponding period last year, and compared to a loss of £665 million in the full year to end-March 1981.

The trading loss was £154 million compared with £187 million in the corresponding period last year.

Increased costs of raw materials and fuel and depressed selling prices for steel in the first four months of the period were offset by improved utilisation of both fuel and labour. These economies, together with a small increase in volume, combined to yield the reduction in trading losses. Interest payments were reduced mainly by the debt reductions arising from the Iron & Steel Act 1981.

Actions arising from the Manifest Crisis measures introduced by the ECSC have assisted in some price recovery. However, BSC's prices today have only just returned to and begun to exceed the level they had reached in 1979, whereas the prices both of steel-using industries and of manufacturing industry generally have increased steadily over the period. This recovery in BSC's prices, together with the more competitive cost base now in the course of being achieved, gives some cause for expectation of further reductions in the rate of loss. Accordingly, the loss should be less in the second half of the year compared to the first, in contrast to last year when the losses increased as the year went on. These expectations rest heavily on retention of the more favourable environment for steel prices; this will not be secure until steel demand and supply in European and world markets are brought into reasonable balance.

The table of interim results is attached.

December 2, 1981

NR/942

BRITISH STEEL CORPORATION

INTERIM RESULTS STATEMENT

FOR THE HALF-YEAR ENDED 3 OCTOBER 1981

The unaudited consolidated results of the British Steel Corporation and its subsidiaries and principal associated companies for the six months ended 3 October 1981 are shown below, together with those for each half of 1980/81 and for that year as a whole.

26 Weeks ended 27 September 1980 £'million	26 Weeks ended 28 March 1981 £'million	52 Weeks ended 28 March 1981 £'million		27 WEEKS ENDED 3 OCTOBER 1981 £'million (Note 1)
			Turnover of UK operations	
1,227	932	2,159	Home	1,054
292	375	667	Export	417
1,519	1,307	2,826		1,471
(187)	(295)	(482)	(Loss) before interest payable	(154)
(92)	(91)	(183)	Interest payable	(42)
(279)	(386)	(665)	(Loss) before taxation	(196)
Million Tonnes	Million Tonnes	Million Tonnes		Million Tonnes
6.1	5.8	11.9	Liquid steel production	7.0
			Deliveries: finished and semi-finished steel products:	
4.1	3.1	7.2	Home	3.8
1.0	1.3	2.3	Export	1.5
5.1	4.4	9.5		5.3

Note (1)

(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.

JU689

cc A. Walters
A. Duguid

CONFIDENTIAL

Nat Ind
NBPM yet

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

Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
HM Treasury
Whitehall
London SW1

9 November 1981

Dear Leon,

BSC

Thank you for your letter of 3 November confirming the loss target and EFL for BSC in the current year, as proposed in my letter of 27 October. I also note that you are content with the guidance which I have given Ian MacGregor in preparing his next Corporate Plan for 1982/85. This Plan was not in fact ready for the BSC Board meeting on 4 November and I now expect Ian MacGregor to present it to me towards the end of November.

2. In your letter you express regret that there was no collective discussion by Ministers of BSC's progress and the choice of options to be developed. You mention in particular three matters which might have been decided before the BSC Plan was finalised. I accept the fact that in February, when the BSC Plan for 1981/82 was agreed and the EFL for the current year decided, E Committee envisaged such collective discussion. But in the event BSC's performance to date, and prospects for next year, are more closely in line with Ian MacGregor's avowedly optimistic survival plan than many of us dared to hope in February. So I am not sure what the collective discussion you suggest would have achieved. I do not think we could have reached firm conclusions on any of the three points you listed in page 2 of your letter, and it may be helpful if I set out the action which is in hand on each of them:

(i) Remuneration of BSC's capital

following discussion with officials, BSC are preparing a discussion paper on this subject, which will relate to the financial projections in the final version of their 1982/85 Plan.

(ii) Redundancy Pay

Ian MacGregor has told me that it will be difficult and expensive to achieve the further reduction of

/about

SECRETARY OF STATE FOR INDUSTRY

about 20,000 employees that he is aiming for by July 1982. But I accept that the potential repercussive effects on other industries of high BSC redundancy payments need to be looked into and my officials are in contact with the Department of Employment and the Treasury about this.

(iii) <u>BSC/Private sector boundary</u>

I have discussed this difficult subject both with Ian MacGregor and with BISPA. The main problem is the weakness of the private sector and I believe that further action may be necessary to help them But I am not yet ready to put proposals on this to colleagues.

3. I am copying this letter to the Prime Minister, to the other members of E(NI), to the Secretaries of State for Scotland and for Wales, to Robin Ibbs and to Sir Robert Armstrong.

Yours ever

Patrick

10 NOV 1981

c J. Vereker
A. Duguid
A. Walters

(4)

CHIEF SECRETARY TO THE TREASURY

Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG

MLS 3/11

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

3 November 1981

Dear Patrick,

MT

BRITISH STEEL CORPORATION : PROGRESS IN 1981-82, AND PREPARATION OF THE NEW CORPORATE PLAN FOR 1982 to 1985

In your letter of 27 October to the Chancellor you invited colleagues to agree that the present loss target and EFL for 1981-82 should be confirmed; to note the guidance that you have given Mr MacGregor on the corporate plan that he will present to his Board on 4 November and to Government shortly thereafter; and to officials carrying out further work on one of the options that will feature in the plan.

While generally content with the guidance you have given Mr MacGregor I must point out that progress towards finalising the plan and Ministerial oversight of progress this year have not gone in the way that E Committee envisaged when we considered the survival plan this Spring. We were then led to expect a mid-year review and the meeting that Keith Joseph held on 22 July with Mr MacGregor, at which I was present, was seen as the precursor to collective consideration of progress and the options for BSC in September. That collective consideration has not taken place and could not therefore influence the genesis of BSC's corporate plan. I regret that.

I fully accept that the guidance you have given Mr MacGregor reflects our common concern to have a plan presented in a way that leaves real options for Ministers to consider and I particularly appreciate the firm steer you have given Mr MacGregor towards the target of break-even in 1982-83 and an EFL in that year of no more than £350 million. Nor do I disagree with the options you have asked Mr MacGregor to set out for us - although in my view the 8 million tonne option would have proved a useful benchmark against which to measure the others.

However, there are other points of concern here which were set out in the Chancellor's letter to your predecessor of 6 July and which we would have wished to see explored collectively before the plan was finalised, points which can now only be pursued in our discussion of the plan as presented. These are:-

i. When and in what way should BSC begin remunerating capital? (A point reflected in the note prepared by your officials);

ii. Should BSC continue to pay exceptionally high redundancy terms after 1981-82? (A point of particular relevance if, as I understand it, Mr MacGregor's main case does not call for any major closures, and no closures are involved in the programme of redundancies he now proposed to institute by July 1982);

iii. What should be the boundary between the public and the private sector in the steel industry?

In addition there is at least one important point raised on the options Mr MacGregor put to you which might usefully have been explored before the option became set - namely why Ravenscraig and/or Teeside are now BSC's front runners for closure if further closures are needed. The work you suggest for officials may help thrash out the answer here.

In sum I am content with the guidance you have given Mr MacGregor, while regretting that the absence of a chance for collective discussion means that a number of points that could have been taken in preparation for the plan must now be taken in considering it as presented. I am prepared to confirm the loss target and EFL for the current year on the basis you suggest and to see the further work by officials you recommend to put in hand. Finally I know that you will press Mr MacGregor to make his plan available to us all as soon as possible after his Board meets - it is already inconveniently late in the year.

I am copying this letter to the Prime Minister, to the other members of E(NI), to the Secretaries of State for Scotland and for Wales to Robin Ibbs and to Sir Robert Armstrong.

Yours
Leon

LEON BRITTAN

cc AD
JV

Nat Ind

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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

CONFIDENTIAL

30 October 1981

Dear Patrick

BRITISH STEEL CORPORATION: PROGRESS IN 1981/82, AND PREPARATION OF THE NEW CORPORATE PLAN FOR 1982/85

Thank you for your letter of 27 October. I support the approach you are taking.

Copies of this letter go to the recipients of yours.

Yours ever

Nick

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
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AD
JV

NBPM

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
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Ashdown House
123 Victoria Street
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SW1

30 OCT 1981

Dear Patrick

BRITISH STEEL CORPORATION: PROGRESS IN 1981/82, AND PREPARATION OF THE NEW CORPORATE PLAN FOR 1982/85

Thank you for copying to me your letter of 27 October to Geoffrey Howe.

I do not dissent from your proposals, but I would hope that the study by officials will cover the possible economic and employment effects in other industries, such as the railways and the ports which are of considerable interest to me in view of the financial ill-health of the railways, the Mersey Docks and Harbour Company and the Port of London Authority and of the proposed privatisation of the British Transport Docks Board. My officials would of course be ready to assist if required.

Copies of this letter go to the recipients of yours.

Yours ever

David

DAVID HOWELL

JH 819

CONFIDENTIAL

Nat Ind. (2)

cc/ J. Vereker
A. Walters
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DEPARTMENT OF INDUSTRY
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Secretary of State for Industry

27 October 1981

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
London SW1

Prime Minister

This is an interim report - you should be receiving the Corporate Plan within weeks.

MCS 28/10

Dear Geoffrey,

BRITISH STEEL CORPORATION: PROGRESS IN 1981/82, AND PREPARATION OF THE NEW CORPORATE PLAN FOR 1982/85

Ian MacGregor is due to present his Corporate Plan for 1982/85 to us in mid-November.

2 I met him on 30 September and 7 October to discuss three issues:

(a) BSC's progress under the 1981/82 Corporate Plan both as it relates to the achievement of the loss target and the External Financing Limit (EFL) set for the year and as it forms the backdrop to preparation of the new Plan;

(b) the strategic options open to BSC in framing the new Plan; and

(c) the financial objectives and constraints that the Government will set for the period 1982/85.

Our discussions were based on a Corporate Review document which he sent me on 29 September, the text of which is at Annex A to the attached note by officials.

3 As regards 1981/82, Ian MacGregor told me that he expected to remain within the loss target of £225 million and the EFL of £730 million which the Government set in February. He intended, however, to embark on a new redundancy programme which had not yet been made public, involving a further 15,000 job losses throughout the Corporation by July 1982 at a total cost of £95 million, up to half of which might fall in 1981/82. The costs of this programme in 1981/82 meant that he was still unable to guarantee to contain within the EFL the £35 million attributable this year to the Phoenix I arrangements.

4 As regards 1982/85, Ian MacGregor's preferred strategy would

be to maintain the present plant configuration and broadly the current level of BSC's output, with manpower reduced by 15,000 under the new redundancy programme (ie to about 90,000 in total). This would imply a loss target of £150 million in 1982/83 and an EFL of £450 million. If financial constraints of this order were not acceptable to the Government, then the strategic options open to him would be to close either Ravenscraig or Teesside, or to close three major plants and reduce BSC's output to 8 million tonnes a year. In reply, I stressed the importance which the Government attached to BSC keeping within the publicly-announced target of breakeven before interest in 1982/83 and I warned that an EFL of £350 million for the year was the most that should be assumed for any strategy that did not involve further major plant closures. He agreed to reassess his preferred strategy in the light of these constraints and to present his conclusions when submitting the new Plan to me. In addition, he undertook at my request to present at the same time a fuller assessment of the implications for the Corporation of a decision to close either Ravenscraig or Teesside, including the effects that this would have on the profit/loss targets and EFL levels to be set over the period of the Plan.

5 The enclosed note by officials describes the position in detail. On the basis outlined, the Corporate Plan due in mid-November should allow us to make a proper choice between a range of realistic and costed options for BSC's future development. The guidance which I have given Ian MacGregor is based on the premise that, while the consequences for the UK of a major run-down of the BSC might be argued to be acceptable in strategic terms (see Annex D to the note by officials), the interests of the country as a major industrial nation would best be served by retaining the bulk steel-making industry, provided that it can be made profitable and efficient.

6 I understand that your officials, and those from the other Departments concerned, have endorsed the note by my Department. I therefore suggest that we now agree in correspondence to:

(a) confirm the loss target of £225 million and the EFL of £730 million for 1981/82 on the basis proposed in paragraph 8 of the note by officials;

(b) note the guidance I have given Mr MacGregor on the strategic options that he should present when submitting his new Plan and on the profit and cash constraints that he should assume in the options involving no further major plant closures (paragraph 15); and

(c) officials carrying out further work on the wider consequences of closing the Ravenscraig or Teesside plants

SECRETARY OF STATE FOR INDUSTRY

(paragraph 16).

7 I should be grateful for confirmation by close on 30 October that the approach I propose is acceptable.

8 I am copying this letter and enclosure to the Prime Minister, to the other members of E(NI), to the Secretaries of State for Scotland and for Wales, to Robin Ibbs and to Sir Robert Armstrong.

Yours ever

Patrick

BRITISH STEEL CORPORATION: PROGRESS IN 1981/82, AND PREPARATION OF THE NEW CORPORATE PLAN FOR 1982/85

Note by the Department of Industry

INTRODUCTION

1. This note reviews BSC's progress to date under the 1981/82 Corporate Plan and reassesses the External Financing Limit (EFL) and loss target which the Government set for the Corporation in February. It goes on to consider the background to the new Corporate Plan for 1982/85 and in particular the Government's guidance to Mr MacGregor on the financial objectives that he should aim for over the period and the strategic options that he should present when submitting the Plan to Ministers later in November.

BSC'S PROGRESS UNDER THE 1981/82 PLAN: JULY REVIEW

2. Mr MacGregor's report to the Government in July turned out to be an interim one. His full assessment of progress was put off until September so as to allow time for a clearer view of the prospects for higher steel prices following the package of measures agreed in the European Community at the end of June. The essential features of his interim report, which the Minister for Industry recorded in his minute of 4 August to the Prime Minister, were as follows:

(a) All the major programmes for improving BSC's internal performance had been completed or were proceeding to plan.

(b) The weekly rate of loss had been virtually halved, from £10.4 million in January to £5.7 million in June.

(c) But external factors - adverse exchange rates, weak home demand, and low home prices - had conspired to keep losses above the planned level.

(d) If no corrective action were taken, the Corporation would exceed the loss limit of £225 million for the year by £64 million and the EFL of £730 million by anything up to £49 million.

(e) But there was scope for further improvement in BSC's internal performance. On the basis of three new programmes which had been set in hand, Mr MacGregor believed that BSC would remain within the EFL for the year, though he could make no promise to contain the costs of £35 million attributable this year to the rationalisation arrangements under Phoenix I (£20 million for the formation of Allied Steel and Wire Ltd, £10 million for Round Oak, and £5 million for acquisition of the Duport assets).

PROGRESS SINCE JULY

3. In mid-September, at the monthly meeting to monitor BSC's progress, the Corporation reported that the outlook had improved markedly since the review in July. UK steel orders had increased; prices had begun to rise; and the £/DM rate had at last started to move in BSC's favour. Losses had continued to fall - from £5.7 million a week in June to £4.8 million a week in July - despite a pay increase from 1 July which added more than £1 million to weekly costs. The improved outlook, coupled with the new programmes to improve performance further and to reduce cash requirements (particularly working capital), meant that BSC now expected to stay within their loss limit of £225 million and to reduce their cash requirement to about £664 million (though the £35 million arising from the Phoenix arrangements would come on top of this). There would, however, be further significant expenditure on extra redundancies which had not featured in the original Plan: the scale and cost of these had not yet been finally assessed, nor the extent to which the expenditure would fall within the current financial year or spill over into 1982/83.

4. The detailed breakdown of the cash requirement was as follows:

£ MILLION

	Corporate Plan targets (1)	Latest view	Improvement
Capital expenditure	237	237	0
Closure/Redundancy costs	178	178(2)	0
Stocks	39	9	+ 30
Other working capital	128	82	+ 46
Operations	199	199	0
	781	705	+ 76
Less disposals	51	41	- 10
	730	664	+ 66

(1) Contingency allowance of £100 million for the year now built into the Corporate Plan target for operations (which equal trading loss before depreciation plus interest).

(2) No allowance for the costs of the new redundancy programme.

(3) No allowance for the Phoenix costs of £35 million.

5. On 30 September Mr MacGregor met the Secretary of State and presented a Corporate Review (copy at Annex A) which completed his mid-term assessment of progress in 1981/82 and set out the background against which he was preparing the new Corporate Plan for 1982/85. As regards this year, the Review broadly confirmed the picture presented in mid-September, while going into greater detail on the new redundancy programme. The Corporation were planning to eliminate a further 15,000 jobs, at a cost of £95 million, between now and July 1982. The cuts would involve no plant closures, would be spread evenly throughout the Corporation, and would be loaded disproportionately on to staff posts as opposed to shop-floor jobs. In the Corporation's view, it made sense to embark on the programme as soon as possible so as to get the expenditure done with and to secure the resulting economies swiftly. This meant, however, that up to half the total costs of £95 million could fall in the current financial year, which would in turn put pressure on the EFL. Providing that the expected gains from improved prices and internal economies (particularly in working capital) were realised, the costs could in fact probably be contained within the existing limit. But Mr MacGregor was still in no position to undertake that the Phoenix costs of £35 million would be similarly contained.

6. The Secretary of State pressed him hard for a commitment on this last point, arguing that the offsetting gains should be stretched to cover the Phoenix as well as the redundancy costs. But he remained adamant that, if the manpower reductions went ahead, then the contingency margin for therest of the year (at perhaps £20-£30 million) would be very slim in comparison to the uncertainties which persisted over prices and demand; and that a commitment now to contain the Phoenix costs would simply force him to postpone the redundancy programme. If demand and prices held up better than expected, and if even greater economies in working capital could be realised, then the Phoenix costs might eventually be accommodated. But he could not guarantee that yet.

RECOMMENDATION ON THE EFL AND LOSS TARGET FOR 1981/82

7. The thorough reassessment of BSC's loss target and EFL which E Committee called for in February has now been completed. The loss target of £225 million appears secure, provided that the recent improved trends in the European steel market are sustained. On the cash side, particular attention has been paid to two areas - stocks/working capital, and

disposals - which Mr Ibbs identified in his report of 16 February as offering scope for further economies. In the first area, considerable savings are being made which should reduce the planned cash outflow for the year by at least £76 million (from £167 to £91 million). In the second area, which in absolute terms gives less scope for gains, BSC are putting considerable effort into disposing of surplus plant and land. But the market for both is slack, as reflected in the reduced cash inflow which is now expected from this source over the year. The remaining cash items - capital expenditure, closure/redundancy costs, and operations - are all broadly on target, despite (in the last case) the adverse effect of price, demand and exchange rate levels during the first five months of the year.

8. The Department's judgement is that the Corporation have made a major effort to put their house in order and so are managing to contain the extra losses arising in the first part of the year from factors outside their control. Mr MacGregor's reluctance at present to accommodate the Phoenix costs arises because he is not yet sure what further savings and gains he can deliver; because he judges the new redundancy programme to rank as the first priority; and because he is running against a slender contingency margin if other things go wrong (particularly prices and demand). We consider that further savings and gains may well be delivered later in the year, all things being equal, and that it would be short-sighted to delay the redundancy programme on the chance that the Phoenix costs could not otherwise be accommodated. In any event, if a decision to increase the EFL had to be taken later in the year, it seems clear on present trends that it could be justified as attributable solely to the extra costs of the new redundancy programme and not to any failure in BSC's performance. We therefore recommend that Ministers should:

(a) Confirm the EFL and loss target set in February;

(b) Repeat to Mr MacGregor the importance which they attach to his containing the Phoenix costs within the existing EFL;

(c) Make clear that at this stage there is no question of the limit being increased;

(d) Encourage him to make all possible further economies internally;

(e) Take note that proceeding with the new redundancy programme <u>may</u> lead to the EFL being exceeded.

OBJECTIVES AND OPTIONS IN THE 1982/85 CORPORATE PLAN

9. The first two-thirds of the Corporate Review describes the main economic and commercial assumptions upon which BSC will base their Plan. The material takes a detailed forward look to 1985 in such crucial areas as GDP; prospects for the main steel-using industries; likely production capacity and demand for steel in the UK, Europe and the world as a whole; BSC's market share in the UK; price levels; exchange rate movements; and input costs, including labour and raw materials. The Department and the Treasury have discussed the assumptions with BSC during their formulation over the last few months and have just finished scrutinising them in final form. The outcome is generally cautious and realistic. The Corporation's total sales are forecast to rise to 11.8 million tonnes by 1984/85, an increase of only 1 million tonnes over the latest outlook for this year and well below pre-strike levels. But they include a significant increase in exports, and we shall need to explore with the Corporation how far these are likely to prove profitable.

10. The last two - very short - sections of the Review come to the heart of the matter. The first section (page 22) discusses the financial and profit objectives which might be aimed for during the period of the Plan, and the second section (pages 23-24) outlines the main options open to BSC in drawing it up.

11. Mr MacGregor's preferred strategy is to maintain the present configuration and level of output while shedding at least a further 15,000 jobs throughout the Corporation by July 1982 (this is the new redundancy programme on which he wishes to embark as soon as possible). The financial objectives that this would imply, and the associated EFL levels in each year, would be as follows:

	£M PROFIT AND (LOSS) (a) Before Interest and Tax	£M PROFIT AND (LOSS) (b) After Interest and Tax	£M EFL
1979/80 (actual	(381)	(545)	566
1980/81 (actual)	(526)	(668)	1,156
1981/82 (objective)	(225)	(318)	730
1982/83 (objective)		(150)	450
1983/84 (objective)		0	200
1984/85 (objective)		150	10

12. If those objectives and cash requirements are not acceptable to the Government, then the Corporate Review identifies three alternative strategies: the closure of either Ravenscraig or Teesside, or the closure of three major plants involving a reduction of BSC's output to 8 million tonnes a year. A short description of the preferred strategy and of the three alternatives is at Annex B.

13. There are two main problems with Mr MacGregor's preferred strategy. Since BSC's interest payments are not expected to exceed £80 million in 1982/83, the proposed loss of £150 million after interest and tax is not consistent with the target of break-even before interest and tax for the year which Sir Keith Joseph announced in his statement to Parliament on 24 February. And the proposed EFL of £450 million for that year exceeds by £100 million the level which appears on a provisional basis in the current Investment and Financing Review. The Secretary of State has put these points to Mr MacGregor. His reply was that these were his best estimates at present of the costs associated with bringing the Corporation in its current shape back to profitability as quickly as possible. Any tightening of the financial objectives and constraints to the extent indicated would require a revised strategy, the details of which could not be assessed until each of the businesses had completed their input to the current corporate planning exercise. He would present such an assessment when submitting the Plan.

14. One problem with the strategies of closing either Ravenscraig or Teesside is that they would each increase the Corporation's EFL level in 1982/83 (while improving the expected position in each of the following years). A more important consideration is that Mr MacGregor has indicated that closing Ravenscraig in particular would put the Corporation out of justthe sort of high value-added business which was essential to their future prosperity. This point needs to be examined further. Finally, one of the effects of the closure of any of the major plants would be to require a further write-down of capital in excess of the £1,000 million limit provided for under the Iron and Steel Act 1981.

15. The new Corporate Plan is due to be submitted to the BSC Board on 4 November and to the Government some 2 weeks later. On 12 October the Secretary of State wrote to Mr MacGregor confirming the outcome of their meetings on 30 September and 7 October (letter at Annex C). In essence, Mr MacGregor has been:

(a) Left in no doubt that the Government expect the Plan to allow choice between a range of realistic and costed options;

(b) Asked to evaluate fully his preferred strategy and the strategy that would be necessary if profit and cash constraints tighter than he has been assuming were imposed.

(c) Asked to assess more fully the strategies of closing either Ravenscraig or Teesside, including the implications of either course for the Corporation's profit/loss targets and EFL levels; and

(d) Told not to pursue further the 8 million tonne strategy (on the grounds that its precursor, the "Lower Case" option which he identified in September last year, was rejected by the Government even at a time when the Corporation's prospects for survival in its present form were considerably bleaker than now).

FURTHER WORK

16. Before the Plan is received, and in parallel with the Corporation's exercise to define the consequences for them of closing either Ravenscraig or Teesside, Ministers will want to consider the wider political, economic and social effects of either course of action. In response to the E Committee remit of 3 February (E(81)5th)*, officials have already prepared the framework for such an analysis. This is set out in Section I of Annex D. The analysis will need to include the impact on unemployment levels both nationally and in the areas which would be affected, the PSBR costs, and the dangers of wider industrial disruption spreading from such major closures (c.f. the Triple Alliance).

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* E Committee asked the Department of Industry, in consultation with the Treasury and the CPRS, to consider and report on the recommendations in paragraph 6 of the CPRS paper E (81) 14 [relating to the strategic need for retaining a steel industry and how to assess the viability of individual steel plants] ; the points made in discussion on the identification of performance aims for BSC; and the evaluation of the wider social and economic costs of major closures.

17. As a background to any decisions on major closures, E Committee also asked for an assessment of the strategic need for retaining a bulk steel-making industry in the UK. Officials have now completed a study - Section II of Annex D. Because of the sensitivity of the issues, users of steel for <u>civil</u> purposes were not consulted about the exercise. But this constraint applied less in the <u>military</u> sphere and allowed the Ministry of Defence to discuss the question frankly with their main armament suppliers. The fact that the conclusions based on <u>a priori</u> reasoning in the civil sector were closely matched by those based on actual enquiry in the military sector suggests that the overall conclusion of the study is reasonably robust - namely that, while there would inevitably be problems of adjustment and associated costs for UK industry, the consequences of an orderly run-down of the BSC, if it could not be made profitable and efficient, would be manageable from both the civil and military points of view.

18. After the Plan has been received, there will be a particular financial point to be addressed in the context of setting EFL levels and profit/loss targets for the Corporation up to 1985. If the aim is to put BSC back on a proper commercial footing, then a return to the Government on the finance provided should rank as an early and important objective. This could be achieved through either a resumption of National Loans Fund financing for some part of the Corporation's cash needs, or a dividend on finance provided under Section 18 of the 1975 Iron and Steel Act, or a combination of the two. Resolution of these issues will have to await an analysis of the Corporate Plan itself, an assessment of when the business is likely to move into genuine profitability, and a decision in the light of these factors on the extent of the further write-down of assets necessary to give the Corporation a capital structure appropriate to its future shape (under the 1981 Iron and Steel Act, any further write-down of capital, up to a limit of £1,000 million, must be effected by December 1982).

19. Ministers are <u>invited:</u>

(a) To note the guidance given to Mr MacGregor (paragraph 16 above);

(b) To agree that further work should be carried out in the way proposed on the wider political, economic and social consequences of closing Ravenscraig or Teesside (paragraph 16 above);

(c) To endorse the conclusions of the study of the strategic need for retaining a bulk steel-making industry in the UK (paragraph 17 above); and

(d) To note that decisions will be necessary, in the light of the Corporate Plan, on the future capital structure of the Corporation and on resuming a system of capital remuneration (paragraph 18 above).

Department of Industry

26 October 1981

ANNEX A.

COPY NO. 4

BRITISH STEEL CORPORATION

CORPORATE REVIEW

CONFIDENTIAL

~~SECRET~~

SEPTEMBER 1981

FORWARD PLANNING OBJECTIVES AND OPTIONS

1982/83 to 1984/85

CONTENTS

BACKGROUND

PROSPECTS FOR WORLD STEEL DEMAND

The future world demand for steel will depend largely on the levels of capital spending and investment. The most striking examples causing recent weakening in steel demand are the world fall in shipbuilding and construction.

Economic growth in the major industrial countries is expected to average about 2½% pa. compared with 3% pa. 1974 -80. A cyclical peak is expected in 1983 - 84.

Steel demand in the non-communist world is expected to grow at about 2½% pa. on average, about half the rate that occurred prior to 1974.

Most of the growth is expected to occur in the developing countries as shown below:

Growth of Steel Demand

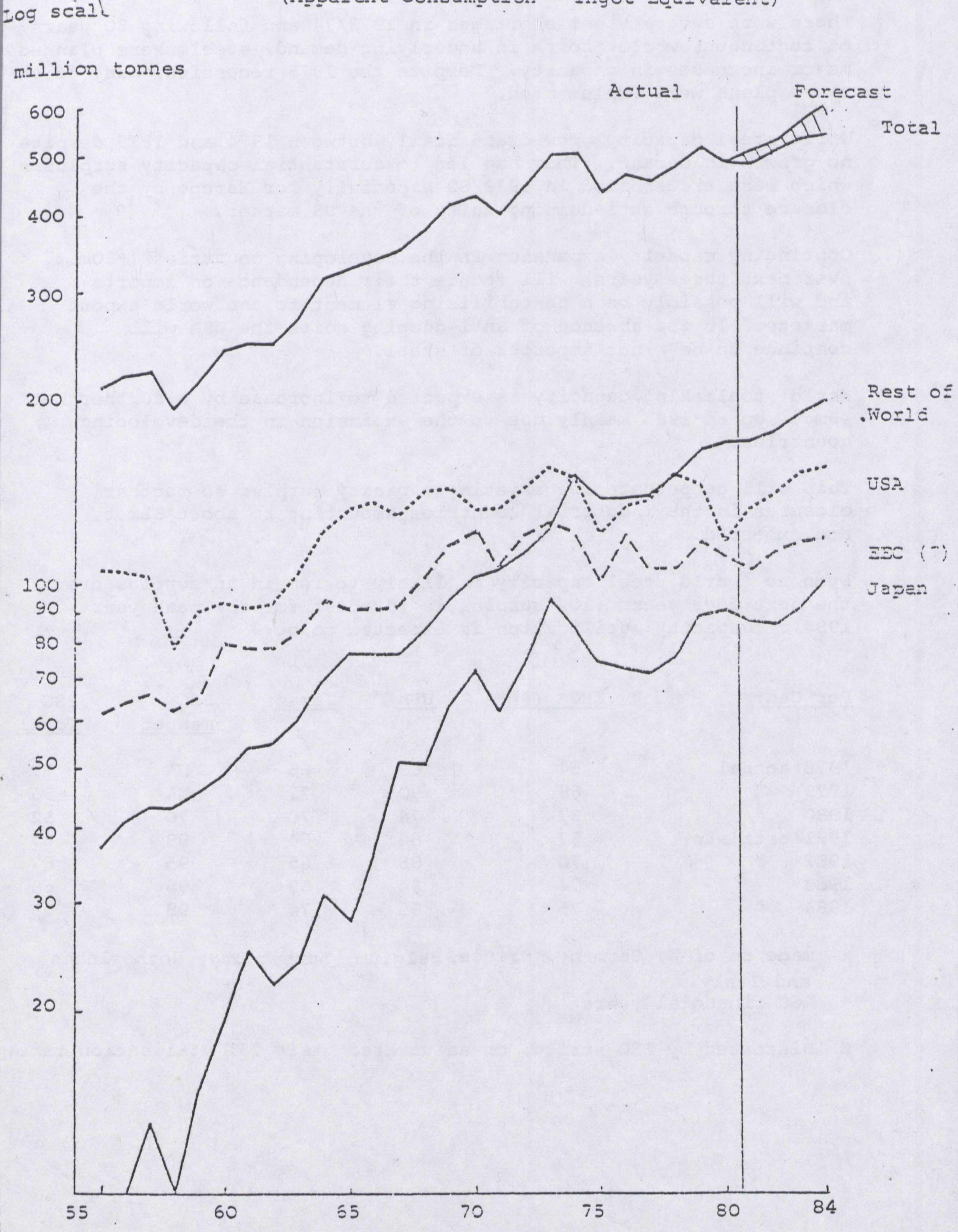
	1979* (peak)	Growth Rates (% pa)	
		1960-73	1975-85
EEC	117	4	1
USA	144	3	1½
Japan	88	13½	3½
Rest of World	166	7	4
Total Non-Communist	515	5¼	2½

* million tonnes, ingot equivalent

The graph opposite shows these demand forecasts and indicates the range of uncertainty of ∓ 5% about the world forecasts.

WORLD STEEL DEMAND

(Apparent Consumption - Ingot Equivalent)



WORLD STEEL DEMAND/SUPPLY

There were severe steel shortages in 1973/74 and following 20 years of continuous world growth in underlying demand, steelmakers planned major increases in capacity. Despite the 1975 recession, many of the these plans were implemented.

World steel capacity grew dramatically between 1974 and 1979 despite no growth in demand. This has led to substantial capacity surpluses which were exacerbated in 1979/80 especially for Europe by the closure through anti-dumping suits of the US market.

Continuing capacity expansion in the developing countries (+30m.t. over next three years) will reduce their dependence on imports and will possibly be a destabilising element to the world export markets. In the absence of anti-dumping suits the USA will continue to be a net importer of steel.

World steelmaking capacity is expected to increase by a further net 45m.t. up to 1985 mainly due to the expansion in the developing countries.

This will perpetuate the existing capacity surplus so further closures in the industrial countries amounting to about 32m.t. are expected.

Even so, world steel capacity is likely to remain in surplus over the next five years (10% surplus is forecast for the peak year 1984). Capacity utilisation is expected to be:-

Per Cent	EEC (6)*	USA	Japan	BSC ** manned	BSC Total
1978 actual	64	89	66	NA	77
1979 "	68	90	72	NA	56 Ø
1980 "	67	74	70	70	52
1981 estimate	67	84	64	99	67
1982 "	70	88	65	95	67
1983 "	74	94	69	96	68
1984 "	75	95	74	98	69

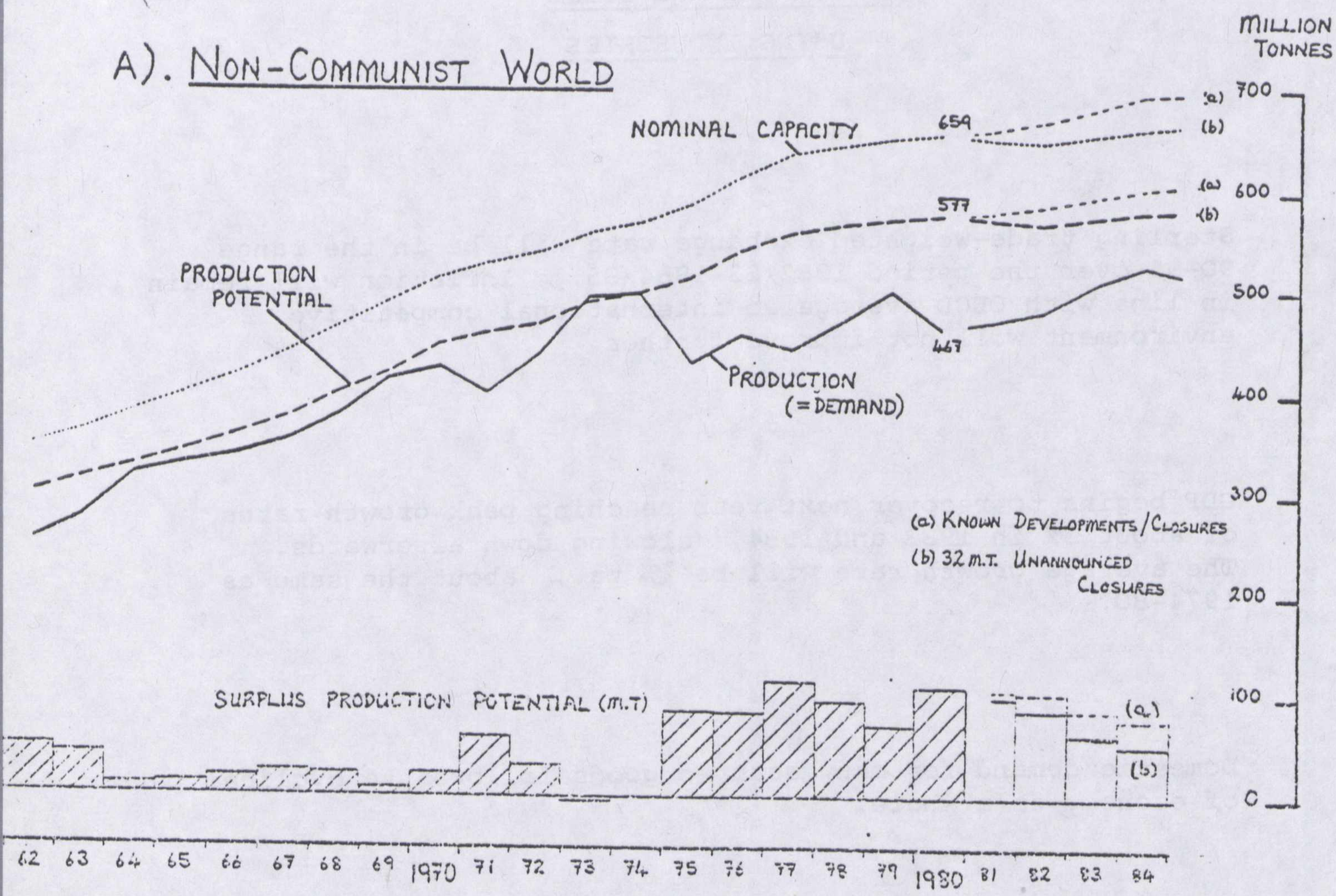
* made up of W. Germany, France, Belgium, Luxembourg, Netherlands and Italy.

** BSC financial years

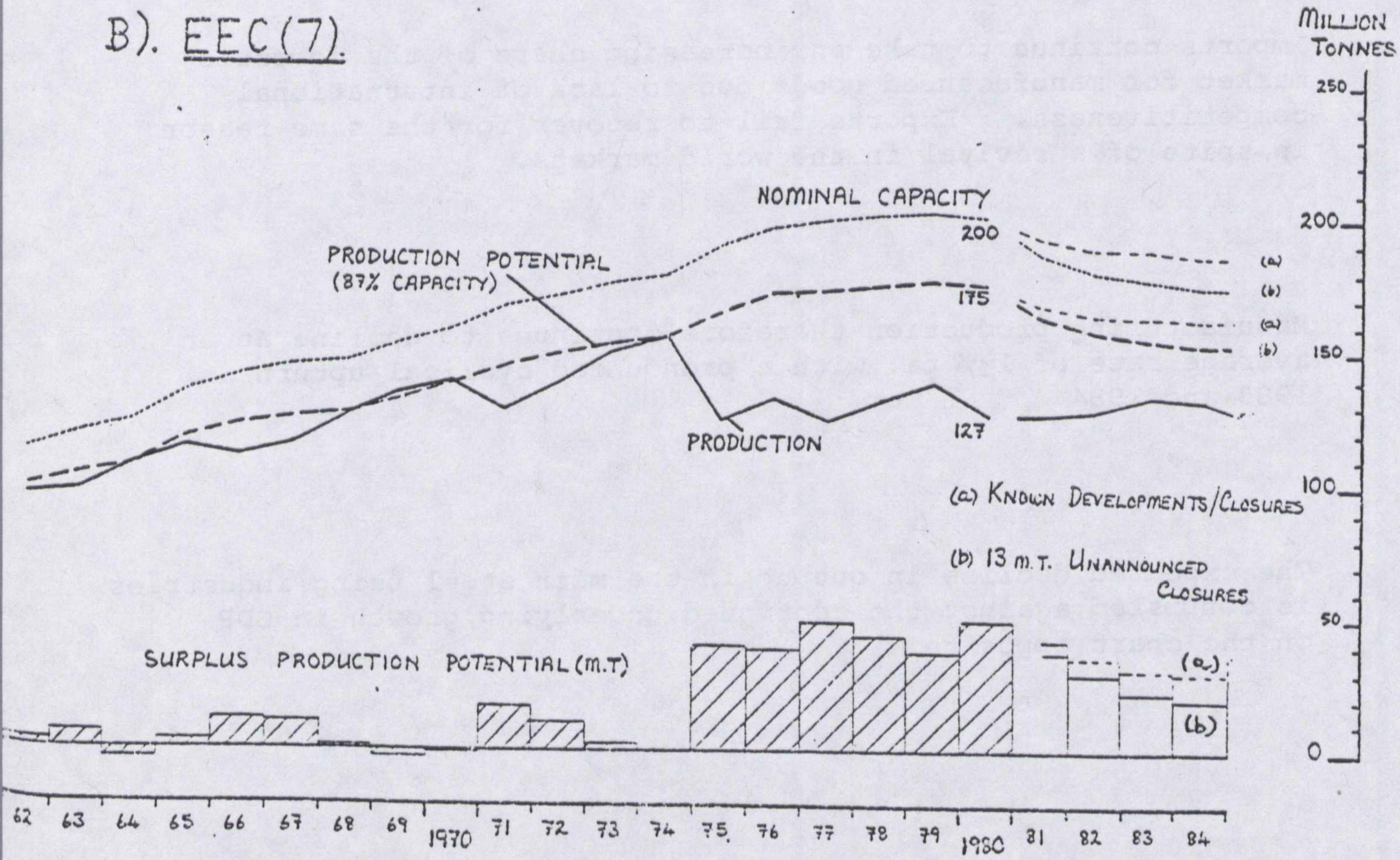
Ø Distorted by BSC strike, on an uprated basis 75% utilisation rate.

WORLD DEMAND AND SUPPLY - TOTAL STEEL

A). NON-COMMUNIST WORLD



B). EEC(7).



UK ECONOMY AND STEEL

USING INDUSTRIES

Sterling trade-weighted exchange rate will be in the range 90-95 over the period 1982/83-1984/85. Inflation will remain in line with OECD average so international competitive environment will not improve further.

GDP begins to recover next year reaching peak growth rates of about 3% in 1983 and 1984, slowing down afterwards. The average growth rate will be ¾% pa., about the same as 1974-80.

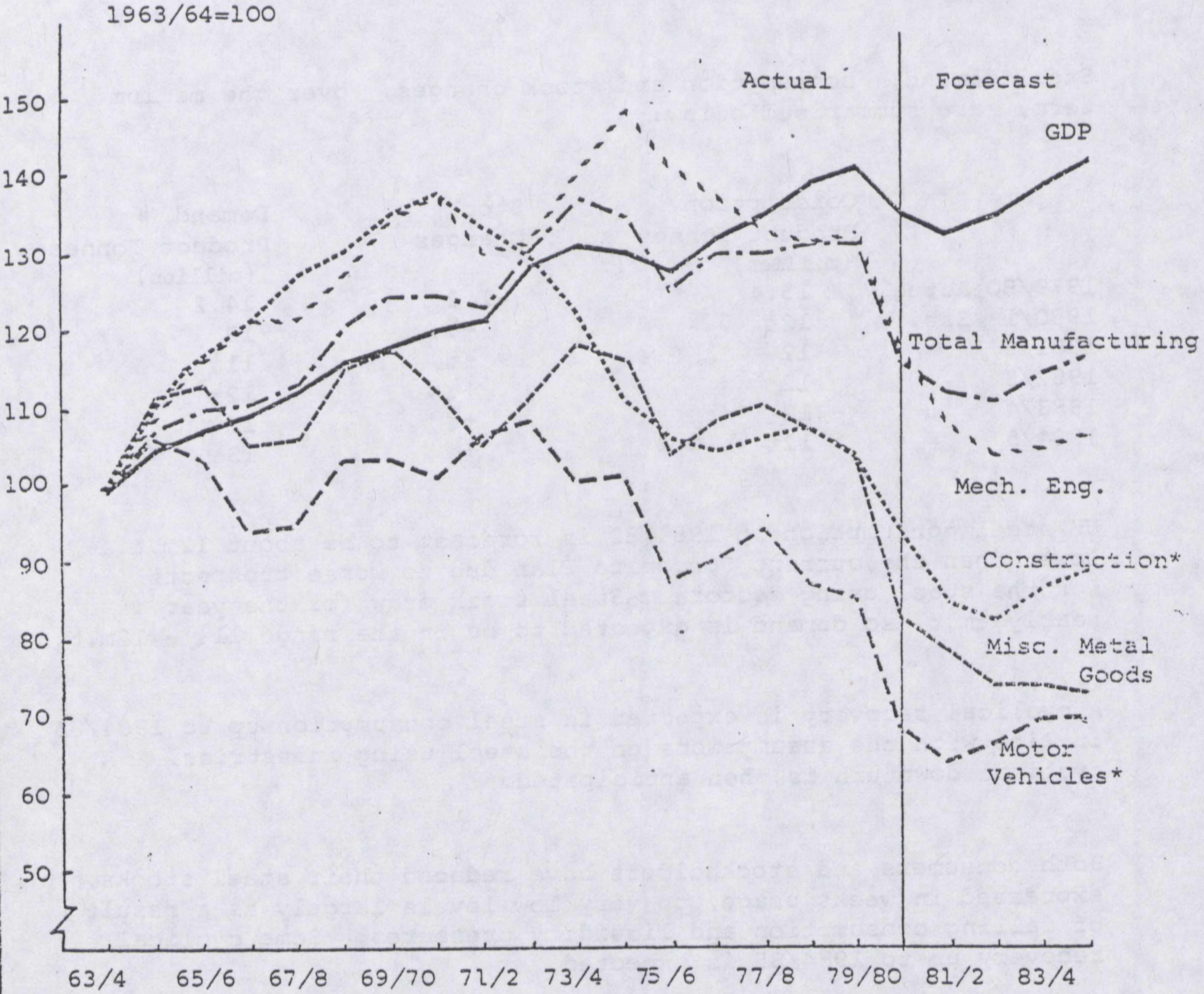
Domestic demand for manufactured goods follows the cyclical path of economy as a whole.

Imports continue to take an increasing share of the domestic market for manufactured goods due to lack of international competitiveness. Exports fail to recover for the same reason in spite of a revival in the world markets.

Manufacturing production therefore continues to decline at an average rate of 1½% pa. with a pronounced cyclical upturn in 1983 and 1984.

The expected decline in output in the main steel using industries is contrasted against the continued underlying growth in GDP on the chart opposite.

UK GDP AND THE MAIN UK STEEL USING INDUSTRIES



* steel weighted index

UK STEEL DEMAND

Steel demand, consumption and stock changes, over the medium term, are summarised below:

	Consumption Product Tonnes (million)	Stock Changes	Demand Product Tonnes (million)
1979/80 Actual	15.4	-1.2	14.2
1980/1 Est.	12¾	+¼	13
1981/2	12	-¼	11¾
1982/3	12	+¼	12¼
1983/4	12½	+¼	12¾
1984/5	12¾	+¼	13

UK steel consumption in 1981/82 is forecast to be about 12m.t., lower than the current Corporate Plan due to worse prospects for the steel using sectors. Steel stock draw for the year is nearly ¼m.t. so demand is expected to be in the range 11¾ - 12m.t.

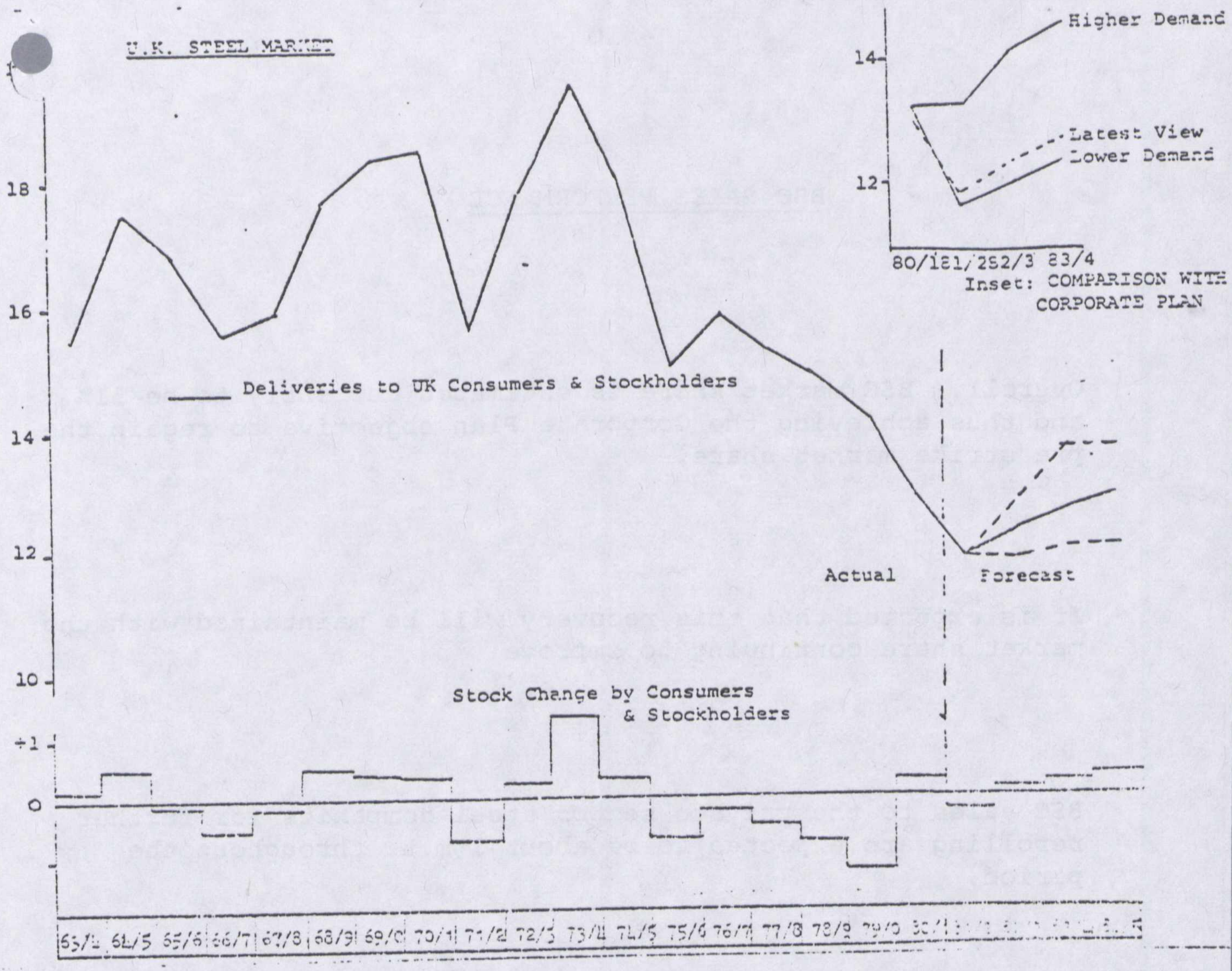
A cyclical recovery is expected in steel consumption up to 1984/85 in line with the assumptions on the steel using industries. A cyclical downturn is then anticipated.

Both consumers and stockholders have reduced their steel stocks, expressed in weeks usage, to very low levels largely as a result of falling consumption and liquidity pressures. Some cyclical recovery up to 1984/85 is expected.

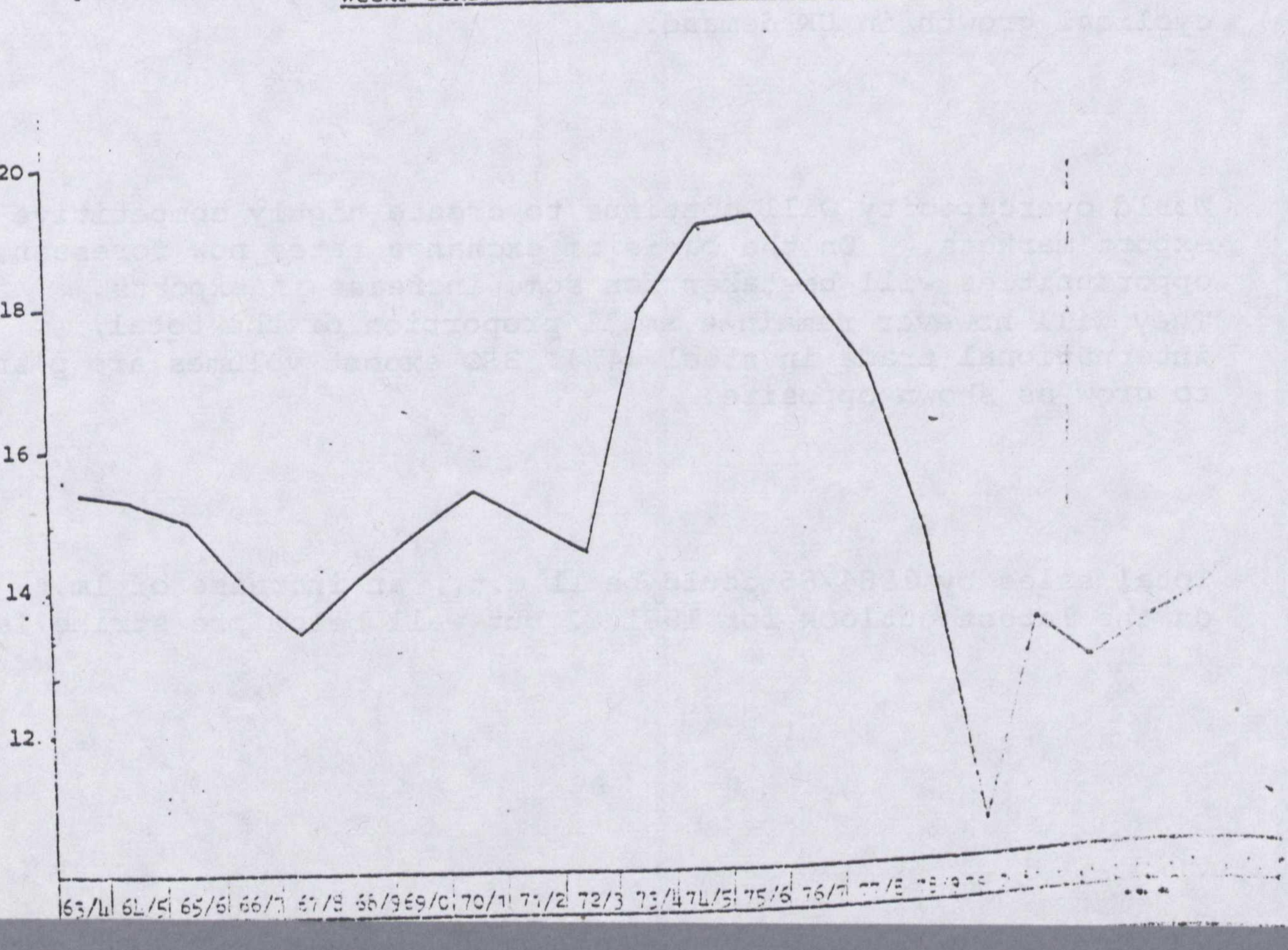
Steel demand is forecast to peak in 1984/85 at about 13m.t.

Risks and opportunities on steel consumption relate specifically to prospects for the steel using sectors. The number of weeks consumption held in stock could be larger or smaller than forecast in the period, so that, in total, the range on steel demand, for any one year, could be ∓ 1m.t.

U.K. STEEL MARKET



Weeks Consumption held in Stock by Consumers and Stockholders



BSC SALES PERFORMANCE

Overall, BSC market share is estimated currently to be 51% and thus achieving the Corporate Plan objective to regain the pre strike market share.

It is expected that this recovery will be maintained with the market share continuing to improve.

BSC sales to the private sector steel companies for further rerolling are expected to be about 1½m.t. throughout the period.

BSC Home sales, are forecast to improve in line with the cyclical growth in UK demand.

World overcapacity will continue to create highly competitive export markets. On the basis of exchange rates now foreseen, opportunities will be taken for some increase in exports. They will however remain a small proportion of the total, international trade in steel (4%). BSC export volumes are planned to grow as shown opposite.

Total sales by 1984/85 could be 11¾m.t., an increase of 1m.t. on the latest outlook for 1981/82 but well below pre strike levels.

UK DEMAND, BSC SHARE AND DELIVERIES

	UK DEMAND BY C.& S.	BSC MARKET SHARE	BSC TO C.& S.	BSC TO PRIVATE SECTOR	DELIVERIES HOME	EXPORT	TOTAL
	Mt	%	Mt	Mt	Mt	Mt	Mt
1976/77	15.9	50	8.0	3.4	11.4	2.4	13.8
1977/78	15.3	50	7.6	3.1	10.8	2.7	13.4
1978/79	14.8	49	7.3	2.7	10.0	2.6	12.6
1979/80	14.2	44	6.2	2.2	8.4	2.3	10.6
1980/81	12.9	46	5.9	1.5	7.4	2.2	9.6
1981/82							
Corporate Plan	12.5	50	6.3	1.6	7.9	2.7	10.6
Latest Outlook	11.9	51	6.1	1.6	7.7	3.1	10.8
1982/83	12.4	51	6.4	1.4	7.8	3.6	11.4
1983/84	12.8	52	6.7	1.5	8.2	3.5	11.7
1984/85	13.1	52	6.9	1.5	8.4	3.4	11.8

Notes: The figures in the table have been adjusted for the formation of Allied Steel and Wire. Thus sales of BSC reinforcement and non alloy wire rod have been excluded and billet sales to Allied Steel and Wire included.

BSC OPERATING COSTS

The trend of costs in the iron and steelmaking business over recent years has been as follows:-

Cost per tonnes of finished product produced

£	77/8	78/9	79/80*	80/1*	81/2 Q1	81/2 Est. Q2	81/2 Est. Q3	81/2 Est. Q4
Materials	83	81	99	103	86	87	88	94
Fuels (incl. coal)	55	61	72	77	72	73	74	79
Employment	75	80	93	110	82	85	86	76
Other	34	34	40	43	32	32	31	32
Total	247	256	304	333	272	277	279	281

* distorted by the effects of the national steel strike

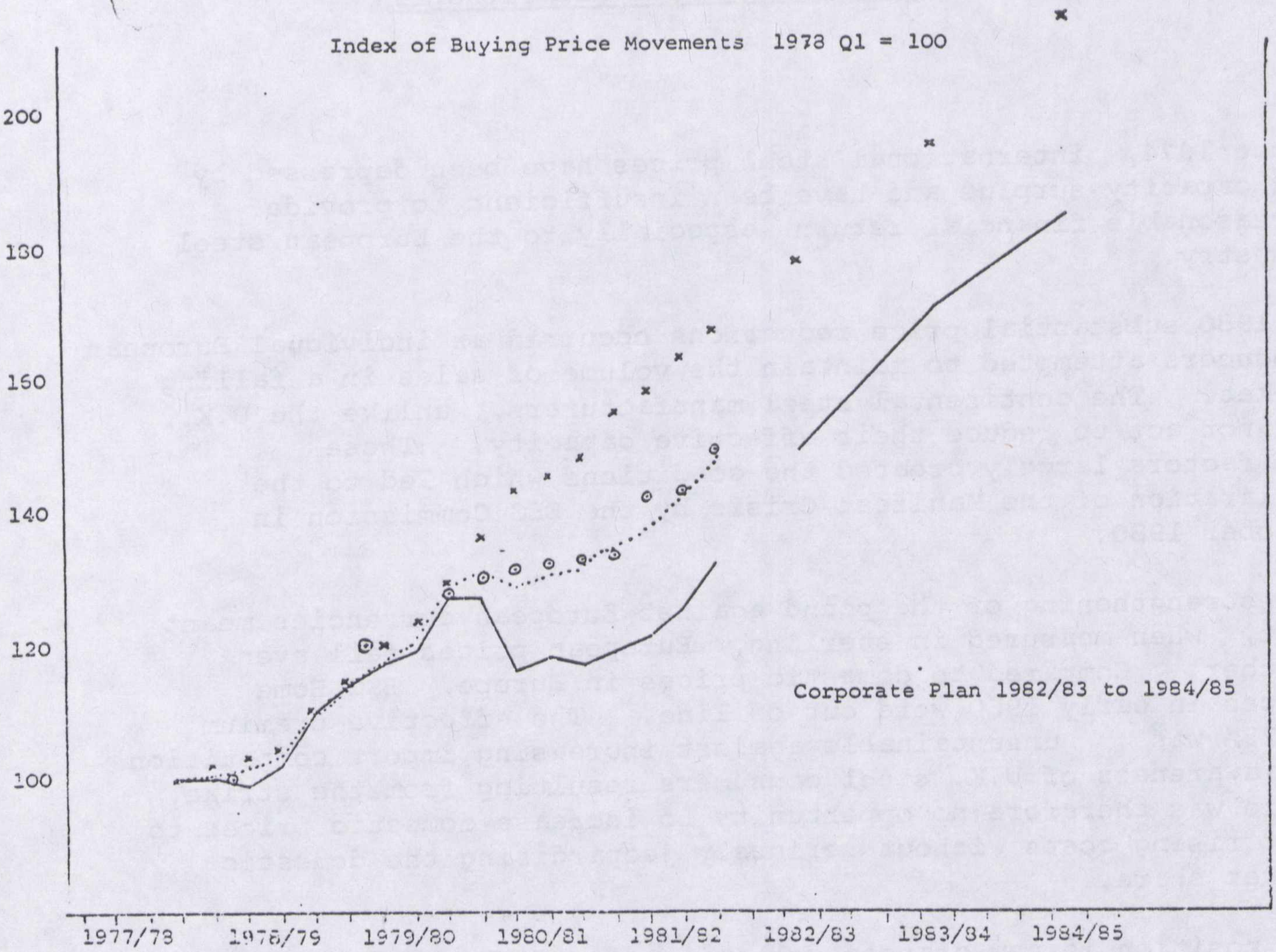
Memo:

Revenue per tonne sold-£	216	243	265	283	250	267	274	279
Production -mt -Liquid Steel	17.4	17.3	14.1	11.9	3.6	3.5	3.4	3.8
- Finished product equivalent	12.6	12.6	10.3	9.0	2.7	2.7	2.6	2.8
Manpower (end period) 000's	179.4	169.7	150.8	111.0	101.5	100.3	98.4	97.0

With a few exceptions (e.g. scrap), the Corporation is a small buyer in the world markets for its materials and fuel purchases. Planned improvements in material yield and fuel utilisation based on trends now established will reduce the effect of input cost inflation.

Substantial progress has been made in reducing manpower, especially since 1978/79 but, in the face of lower output volumes, and rising earnings per head employment costs as a percentage of total costs have only recently shown improvement. The new plan is intended to reflect the impact of still more stringent manning standards particularly for indirect and staff categories. This will involve further manpower reductions (though "slimming" not closures) of the order of 15,000.

UK Steelmaking Costs



KEY AND NOTES TO GRAPH

× UK Inflation - taken as indicator of prices of miscelllaneous materials and bought in goods and services.

——— Materials and Fuels - the weighted average of changes in prices of BSC purchases of major materials and fuels.

⊙ Employment Cost per head - includes national agreements, national insurance, pension contributions etc.

..... Total BSC Input Costs - the weighted average of these three series, indicating the input cost movements facing BSC. Changes in efficiency of use of inputs have offset part of the increase.

BSC COST - PRICE RELATIONSHIP

Since 1974, international steel prices have been depressed by the capacity surplus and have been insufficient to provide a reasonable financial return especially to the European steel industry.

In 1980 substantial price reductions occurred as individual European producers attempted to maintain the volume of sales in a falling market. The continental steel manufacturers, unlike the U.K., did not act to reduce their effective capacity. These two factors largely created the conditions which led to the declaration of the Manifest Crisis by the EEC Commission in October 1980.

The strengthening of the pound against European currencies meant that, when measured in sterling, European prices fell even further. Compared to domestic prices in Europe, BSC Home prices in early 1980 were out of line. The effective premium of 25% was unsustainable against increasing import competition and awareness of U.K. steel consumers resulting from the strike. There was therefore no opportunity to increase domestic prices to meet rising costs without seriously jeopardising the domestic market share.

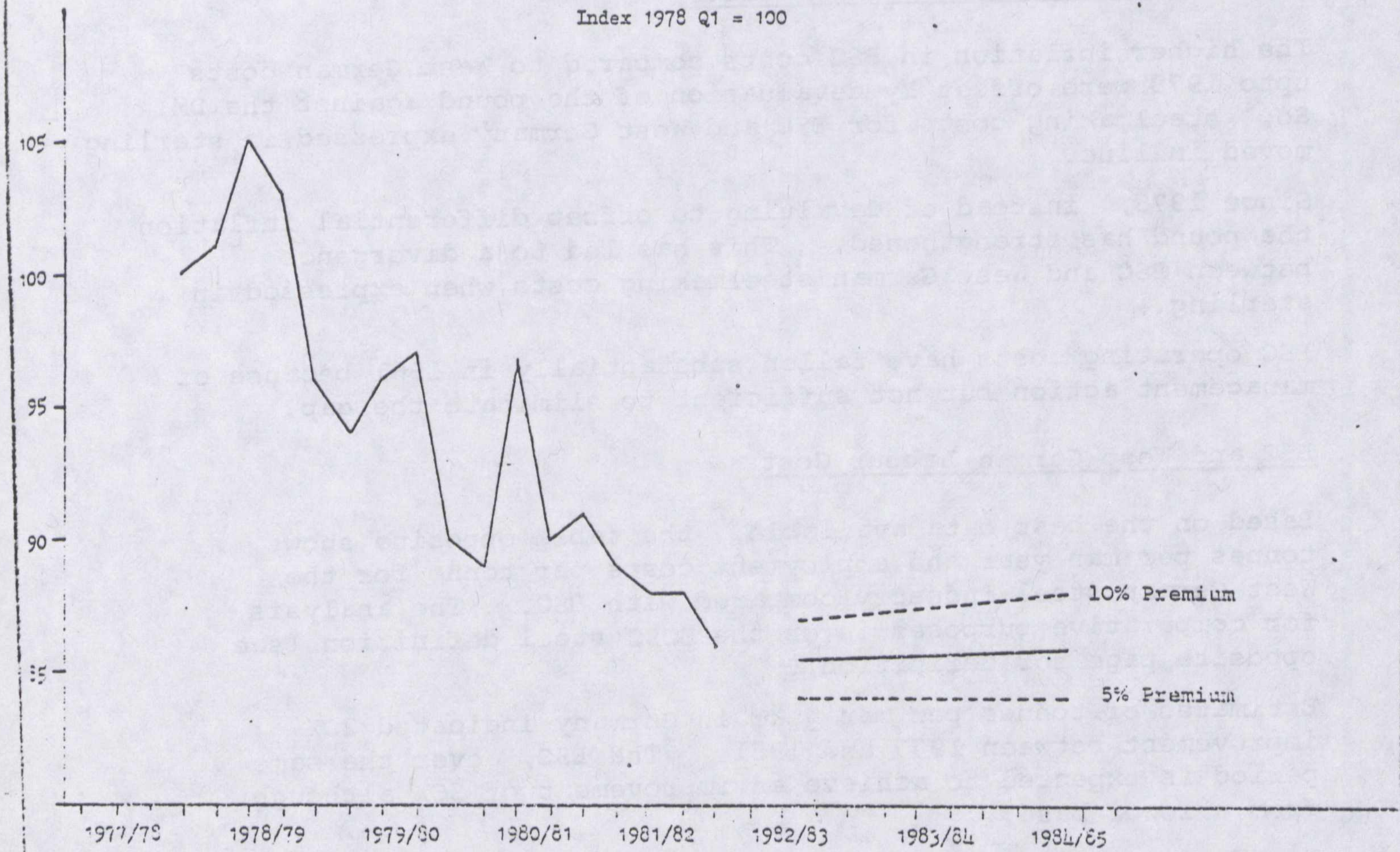
The position is now changed following significant increases in European prices resulting from recent agreements. This trend is expected to continue and combined with a weakened pound will allow BSC to increase prices without recreating commercially unsustainable premia.

The deterioration in the cost - price relationship experienced over the last few years is therefore expected to halt. No significant recovery of what has already been lost is envisaged. Future efficiency improvements can now be expected to be reflected in improved profitability rather than being wholely offset by the cost - price squeeze as has been recent experience.

BSC Cost: Price Relationship

Ratio of UK Selling Prices (average all steel products)
to BSC Buying Prices (Materials)

Index 1978 Q1 = 100



EXAMPLE : 1977/78 compared with 1980/81.

		£M
Actual Results	1977/78	(246)
	1980/81	(485)
		(241)

Made up of :-

Impact of cost price squeeze	(650)
Recovery through efficiencies	600
Impact of Volume reductions	(190)
	240

BSC COMPETITIVE POSITION AND STATE INTERVENTION

BSC and West German Operating Costs

The higher inflation in BSC costs compared to West German costs upto 1978 were offset by devaluation of the pound against the DM. So, steelmaking costs for BSC and West Germany expressed in sterling moved in line.

Since 1978, instead of devaluing to offset differential inflation, the pound has strengthened. This has led to a divergence between BSC and West German steelmaking costs when expressed in sterling.

BSC operating costs have fallen substantially in 1981 because of management action but not sufficient to eliminate the gap.

BSC and West German Labour Costs

Based on the best data available, the table opposite shows tonnes per man year and employment costs per tonne for the West German steel industry compared with BSC. The analysis for comparative purposes is on the ECSC steel definition (see opposite page for definition).

Estimates of tonnes per man year in Germany indicated 20% improvement between 1977 and 1981. The BSC, over the same period is expected to achieve an improvement of 60% although from a lower base.

Trends in relative employment costs per tonne, when expressed in sterling however, show a different picture:

	1977-79	1979-81
BSC	+12%	-8%
W. Germany	- 5%	-3%

State Intervention

All EEC Governments influence their domestic steel industries. This is done in a number of ways reflecting their national industrial and social policies.

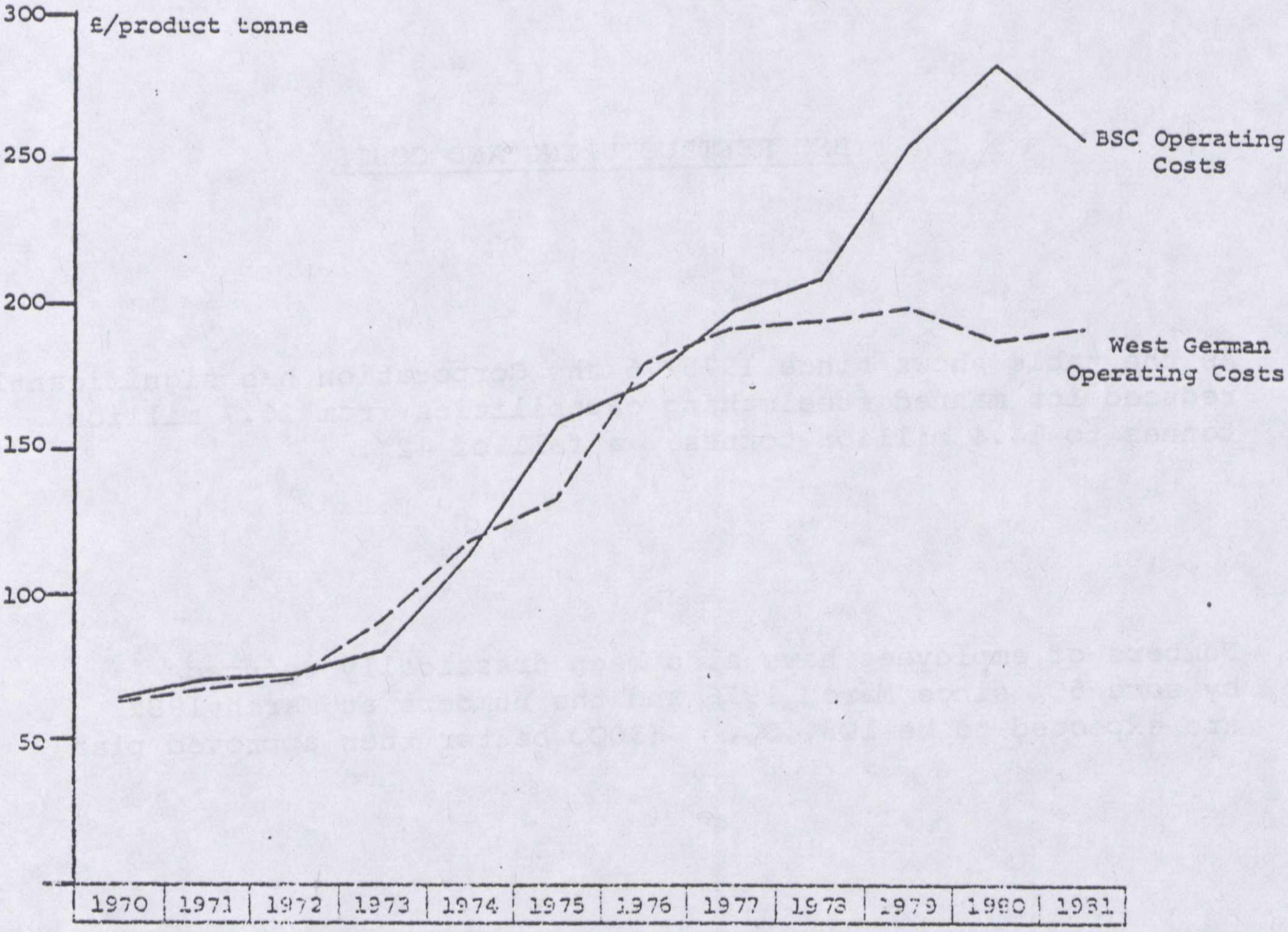
- state funding by grants and loans
- costs of state interventions :
  - pricing restraint
  - delays in plant closure
- allocation of social costs
- funding of research and development
- effect of transport pricing
- effect of energy policy

The net effect of these factors is estimated to benefit BSC by about £10pt. compared with a benefit to the West German steel producers of about £15pt. The net benefit on average to the other EEC producers is also about £15pt.

COMPARISON OF BSC AND WEST GERMAN

STEEL INDUSTRY COSTS

(Cost per tonne before interest and depreciation)



STATISTICS BASED ON E.C.S.C. RETURNS **

TONNES PER MAN YEAR		GERMANY	BSC	BSC as % of Germany
	1977	189	117	62
	1978	209	122	58
	1979	237	141	59
	1980	228	N/A	-
	1981	228	183	80
Objective for	1982	246	212	86

EMPLOYMENT COSTS PER TONNE		GERMANY	BSC	BSC as % of Germany
		£ *	£	
	1977	52.00	46.25	89
	1978	51.50	49.75	97
	1979	49.20	51.75	105
	1980	48.80	N/A	-
	1981	47.80	47.50	99
Objective for	1982	51.4	44.5	86

* Conversion DM/£ at average rate for the year.

** To put the BSC data on to an ECSC definition the following are excluded:

- people and associated costs involved in Treaty of Rome products, namely tube and pipes, colliery arches, cold rolled narrow strip, and forgings and castings.

- non steelmaking activities such as RDL, BSC Chemicals and British Steel Service Centres.

BSC RESTRUCTURING AND COSTS

As the table shows since 1975/76 the Corporation has significantly reduced its manned steelmaking capabilities from 24.7 million tonnes to 14.4 million tonnes, a fall of 42%.

Numbers of employees have also been drastically reduced by some 50% since March 1976 and the numbers at March 1982 are expected to be 105,400. (3000 better than approved plan)

The cost of this restructuring has been heavy with total expenditure on redundancy and closure costs amounting to £768m. in five years since 1975/76. In addition £1029m. of assets have been written off.

BSC RESTRUCTURING AND COSTS

MANNED STEELMAKING CAPABILITIES BY PROCESS

Mt.	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
Basic Oxygen	14.9	14.9	14.9	15.8	16.7	12.7	11.1
Open Hearth	5.5	5.2	4.3	2.2	1.1	-	-
Electric Arc	4.3	4.5	4.7	5.0	4.8	4.0	3.3
Total	24.7	24.6	23.9	23.0	22.6	16.7	14.4

Memo: Total BSC Employees ('000) (At Year end)	210.2	207.9	196.9	186.0	166.4	120.9	105.4
of which ECSC Manpower ('000) (At year end)	147.0	148.1	140.7	132.3	116.0	81.0	66.3

COST OF RESTRUCTURING

		REDUNDANCY AND CLOSURE COSTS	FIXED ASSETS WRITTEN OFF	MEMO: Loss on Ordinary Activities
		£M	£M	£M
1976/77	Actual	22	-	95
1977/78	"	70	-	443
1978/79	"	48	-	309
1979/80	"	464	841	545
1980/81	"	164	188	668

The above figures represent the net cost of :

- Redundancy payments (Statutory)
- " " (Corporation top-up)
- Severance payments
- Other costs of closure (e.g. dismantling costs, cancellation of contracts, etc.)

and are after receipt of EEC refunds.

FORWARD PLANNING

METHODOLODY

The main framework of BSC planning will be the annual re-examination of a forward plan covering a minimum of three years.

The Corporate Plan will cover:-

(1) market assessments of steel demand

(2) a sales plan

(3) facility and manpower requirements

(4) cost objectives based upon operating performance criteria

(5) profit and cash projections.

The plan will be based on key economic and industry assumptions developed by BSC at corporate level, discussed and concurred in by Department of Industry and Treasury.

BSC's business operating as individual profit centres (currently 19 units) prepare their proposals by applying the corporate assumptions to the specific circumstances of their business.

BSC reviews business submissions and, after appropriate adjustments, proposes to Government a Corporate Plan. Progress against the finally agreed plan is monitored in detail and appropriate management actions are generated to control actual performance with the agreed plan.

An important feature of this process is the detailed involvement of key executives, at both a corporate and business level, to ensure personal commitment by all management to successfully complete, within the agreed cash and profit parameters, their individual element of the plan.

This basic planning, operating and control system is capable of being augmented by special studies of elements of the plan at either business or corporate level. The results of these studies can either influence future formal planning or can be overlaid on data derived from normal planning to assess the likely significance of major options not necessarily evaluated by the main plan.

SUMMARY OF MAIN CORPORATE ASSUMPTIONS

		1981/82		1982/83	1983/84	1984/85
		Approved Plan	This Review			
Manufacturing						
Production Index (1975 = 100)		91	89	87	90	92
Demand						
Market Size UK	Mt	12.5	11.9	12.25	12.75	13.0
BSC Share	%	50	51	51	52	52
Deliveries *						
Home	Mt	7.9	7.7	7.8	8.2	8.4
Export	Mt	2.7	3.1	3.6	3.5	3.4
Total	Mt	10.6	10.8	11.4	11.7	11.8
Exchange Rates						
US$ - £		2.30	** 2.00	2.00	2.00	2.00
DM - £		4.20	4.55	4.20	4.00	3.80
Inflation						
RPI (1.4.80 = 100)		120	119	131	144	159
Costs						
Imported Iron ore	£ pt	11.80	11.99	15.28	17.36	19.78
Coal (NCB)	£ pt	36.25	36.74	40.57	45.80	51.30
Scrap	£ pt	50.00	41.60	56.00	65.00	60.00
Fuel oil	£ pt	110.00	112.00	125.00	140.00	157.00
Average	Index	100	100	119	137	148

* Deliveries forecasts may be amended when Business Plans are finalised.

** After taking into account forward foreign exchange cover.

Note: BSC market share has been adjusted for the formation of Allied Steel and Wire.

OBJECTIVES

The 3 year plan for the period 1982/85 will be completed by the individual businesses by the middle of November.

In the meantime, BSC has centrally determined financial and business objectives for the overall performance of the Corporation. Those objectives are realistic and will continue the significant improvements in performance that were achieved in 1981/82.

The approved plan for 1981/82 required a decrease in trading losses of 53% over the previous year and a 36% decrease of the cash requirement.

£ million	Actual Results 1979/80	1980/81	Plan 1981/82
Trading Loss	357	485	225
Interest	188	183	93
Loss	545	668	318
Cash Requirement	566	1156	730

The planned reduction of losses to less than half that of the prior year was regarded as a stiff task. BSC management still believes this to be substantially achieveable and that it would be sensible to attempt a similar task for 1982/83. This should set the scene for a planned break even in 1983/84 and a small profit in 1984/85.

		P & L £m	Total Cash Required £m
1979/80	actual	(545)	566
1980/81	"	(668)	1156
1981/82	plan	(318)	730
1982/83	objective	(150)	450
1983/84	"	zero	200
1984/85	"	150	10

These figures are preliminary but represent the expected financial performance to result from the assumptions on volumes, costs price and performance criteria now being evaluated in detail by the businesses.

OPTIONS

In our judgement, the financial objectives set forth can be achieved by maintaining the present configuration. Management action can be taken to rectify minor deviations from the plan. In addition to such measures as additional cost reduction programmes and further price increases, these could include decisions to curtail or eliminate certain self-contained parts of the business such as Electrical Steels, Stainless Steels or parts of Special Steels.

A major re-assessment of the stated financial objectives would require the closure of one or more of the Corporation's major integrated steel-making installations. Essentially, there would be two options available to the Corporation:-

(1) Closure of either Ravenscraig or Teesside

	Ravenscraig	Teesside
Manpower Reduction resulting from the closure	5.8k	12.3k
Cash Costs of Closure	£53m	£115m
Asset Write-Off	£170m	£300m
Profit Impact on BSC	+£147m	+£110m

The profit impact on BSC has been arrived at centrally as a result of a theoretical exercise. No discussions have been held with the businesses concerned. In particular, it assumes:-

(i) Alternative process routes can be and are successfully proved;

(ii) Customer confidence is retained;

(iii) No adverse industrial relations reaction in other parts of BSC.

Successful implementation of such a closure avoiding loss of customer confidence will take about one year to both plan in detail and carry out. IR disturbance may extend this implementation programme and effect other BSC wide operations. The full profit impact will only be received after a complete year of successful operation in the new configuration.

(2) An 8 mt Strategy

The simplest way of bringing BSC back into profitability would be to make a fundamental reduction in the number of intergrated iron and steel making plants and reduce the number of strip mills.

Finishing facilities would then process purchased semi-finished steel. Major reduction in iron and steel making capacity at both Teesside and

.../

Ravenscraig with a further contraction to about 8 mt has always been considered as an ultimate fall back. This dramatically increases profit possibility but exposes hazards of IR disruption, reduction of customer confidence and severe production dislocation as the changed process routes are introduced and stabilised.

This strategy would involve the closure of Ravenscraig, Llanwern and either Teesside or Scunthorpe. The two remaining integrated plants would be loaded to their maximum capacity.

The immediate cash costs of such an exercise would be approximately £200 million and would involve an asset write-off of between £520 million and £410 million. This implies a manpower reduction of between 22,700 and 20,400.

BSC management believe that the improved performance achieved in 1981/82 provides a credible base for achieving the financial objectives outlined on page 22 .

If, in broad terms, these financial objectives are not acceptable to HMG, then it will be necessary to evaluate fully the alternative options described above.

ANNEX B

THE MAIN OPTIONS AND THEIR FINANCIAL IMPLICATIONS

(i) The Central Option

This represents the Corporation's preferred strategy. The present plant configuration would be maintained, but at least 15,000 jobs would be shed throughout the Corporation. Management action to rectify minor deviations from plan would include further cost reduction programmes and additional price increases. More extreme deviations would be met by the slimming or closure of certain self-contained parts of the business, for example Electrical Steels, Stainless Steels or parts of Special Steels.

(ii)Closure of Ravenscraig

(iii) Closure of Teesside

These would involve, respectively, further redundancies of 5,800 and 12,300. The financial impact on BSC is based in each case on the assumption that alternative process routes can be developed successfully; that customer confidence is maintained; and that the workforce remaining in BSC co-operates to the full. Implementation of either closure would take about a year to plan end execute, but longer if the workforce proved disruptive. The full impact of the cost savings on BSC's profitability would not be felt until after the new configuration had been successfully operated for a complete year.

(iv) The 8 million tonne strategy

This is described as "the simplest way of bringing BSC back into profitability". It is in essence a retabling of the "Lower Case" option which Mr MacGregor presented to Ministers last September and which they subsequently told him not to evaluate further. It would involve a major reduction in the number of strip mills and integrated iron and steel plants, with the remaining finishing facilities buying in semi-finished steel for final processing. Ravenscraig and Llanwern would be closed, together with either Teesside or Scunthorpe: the remaining two plants would be loaded to capacity. Between 20,400 and 22,700 jobs would be lost. The strategy would inevitably carry very heavy risks in terms of industrial disruption, loss of customer confidence, and difficulties in introducing the new production routes.

ANNEX C.

CONFIDENTIAL

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 October 1981

cc
PS/JW
PS/SOC
Mr Manzie
Mr ~~Murray~~
Mr Bolton
(on file)

Ian MacGregor Esq
Chairman
British Steel Corporation
33 Grosvenor Place
London SW1X 7JG

Dear Ian,

Following our meetings on 30 September and 7 October and your letter to me of 2 October, I thought it would be helpful if I confirmed the arrangements we agreed about the options which you are going to present to the Government in BSC's Corporate Plan for 1982/85.

I am clear that your preferred strategy will be to continue the present plant configuration while shedding at least a further 15,000 jobs throughout the Corporation by 1 July 1982. On that basis, your expected objectives would be to make a loss after interest and tax of £150 million in 1982/83 with a cash requirement of £450 million for the year (excluding any sums required for privatisation). I am also clear about the difficulty that you foresee in agreeing to any more stringent objectives before you have been able to assess in detail the level of performance to which each of the businesses consider that they can realistically commit themselves. But, as I explained, the Government too will be acting within very severe constraints when assessing your Plan. In terms of profit and loss, it regards itself as being publicly committed to the target of break-even before interest and tax in 1982/83 which Keith Joseph announced on 24 February. And, in terms of cash, I need not labour the importance which the Government attach to keeping to a minimum the amounts which are allocated to the nationalised industries in 1982/83 and subsequent years. I therefore asked you to present the Government with an assessment of the strategy that you would need to pursue to keep to the break-even target in 1982/83 while minimising the cash requirement necessary for that purpose. In concrete terms, the latter target would involve remaining within an EFL for the year as close as possible to £350 million.

As regards the other options which we discussed, it would be helpful if you would set out in more detail and separately the implications for the Corporation of closing either Ravenscraig or Teesside. The financial estimates which you have now provided are a useful basis for a fuller assessment. The 8 million tonne strategy, on the other hand, is not one to pursue any further in present circumstances. The arguments against it that held good in September last year appear to apply with at least equal force now.

Yours ever

Patrick

SECTION I: ANALYTICAL FRAMEWORK FOR ASSESSING THE SOCIAL AND ECONOMIC EFFECTS OF A MAJOR PLANT CLOSURE

Three principal aspects of a major plant closure must be considered in building up a full picture of its effect.

A <u>Re-employability of those made redundant</u>

2 A number of studies of the effects of a closure at <u>local level</u> have resulted in a fairly reliable picture of what happens to workers made redundant as part of a major closure or contraction of a firm. It has been found that while the proportionof workers finding work within 12 months can be high, the general economic circumstances in which the redundancies occur, the skills of the workers and their age matter a great deal. A particularly pertinent study has recently been undertaken of the 1980 Shotton Steelworks closure. This shows not only the average rate of re-employment of the steel workers concerned, but also the significant difference between the proportion of manual as opposed to non-manual workers finding a job after 4 months, and the proportion of workers over 55 being re-employed as opposed to prime-aged males (see Table 1 below):

TABLE 1

Percentage of Redundant Workers Economically Active after 18-22 Weeks

Age	A Manual	B Non Manual	A and B
25	35	53	38
25 - 34	52	67	54
35 - 44	50	72	51
45 - 54	41	51	41
55 +	4	5	4
Average for all ages	31	44	32

B <u>Net employment effect within the local labour market</u>

3. Redundant workers becoming re-employed in the months following a major closure will to some extent do so at the expense of others in the local area concerned. For example, redundant prime-age males will to some extent displace young people and older workers from jobs which they might otherwise have secured. The degree to which this occurs will depend upon such factors as the level of unemployment in the area, and the degree to which wage rates adjust to increase the attractiveness of the area.

4. The areas in which the major BSC plants are situated are all suffering from high and rising unemployment. They are therefore already failing to attract new employers at a rate sufficient to offset current job losses in the area. It is clear that in the short-term there will be no local net absorption of the unemployment created by closure of a BSC plant. Experience of the most recent English major steel closures—Corby, Consett and Scunthorpe—is that despite very considerable efforts to bring job opportunities to these areas, there has been no net reabsorption in the first year. Of these, only Corby, now some two years after the announcement of closure and a full year since the last workers were made redundant, is within reach of any net reabsorption - which would be indicated by the local unemployment rate rising more slowly than the regional average, or actually falling.

5. Clearly a full analysis can only be carried out when the details of a proposed closure are known. But, on the assumption as argued above that there would be no net short-term absorption of the consequent redundancies in the local labour market, the following Table 2 gives an indication of the effect on unemployment rates in the relevant Travel to Work Areas (TTWAs) if the plants were to close immediately. It thus provides an indication of the relative severity of the local problems likely to ensue, and a basis for comparison with unemployment throughout the country and in the different grades of Assisted Area. It is clear that in most cases the closure of a major BSC plant would call for a reappraisal of the Assisted Area gradings of the affected TTWAs, a procedure which has been followed in the past on such occasions.

TABLE 2

BSC Plant	TTWA Affected (1)	Jobs at Plant Sept 81	Working Population	Unemployment Rate Oct 81	Rate if Plant now Closed (2)
Llanwern	Newport	4716	90,082	15.0	18.4
	Pontypool		50,611	15.7	16.6
Port Talbot	Port Talbot	5880	81,242	15.5	19.9
	Neath		26,817	16.1	18.1
	Swansea		107,971	15.7	16.2
Teesside	Teesside	11477	226,189	18.9	23.0
Ravenscraig	N. Lanark-shire	5473	151,516	20.5	23.4
Scunthorpe	Scunthorpe	10050	64,699	18.1	29.4
	Doncaster		112,330	16.3	16.6
	Grimsby		76,381	12.7	13.0
	Gainsborough		13,147	13.8	15.0
	Goole		12,908	15.4	16.1

1) The distribution of the job losses between individual TTWAs has been based on current knowledge of the distribution of the workforce of each plant by area of residence.

2) It is assumed that 80% of those made redundant will register.

C   Employment effects at the national level

6. At national level the consequences are far less easy to assess. They depend critically on the view which is taken of the overall workings of the economy, and in particular of the manner in which, and the rate at which, it adjusts to and compensates for the effects of a major plant closure. The issues involved have been reviewed by an inter-departmental group of economists under CPRS chairmanship and have been discussed with the Prime Minister's economic adviser. The main points to emerge were as follows.

7. It was common ground that a major plant closure would increase unemployment and reduce production in the area concerned (though there was scope for debate over the rate at which these would return to pre-closure levels). At the national level, the longer-run rate of unemployment depended upon producing goods at prices which consumers were willing and able to pay. Fiscal and monetary policies alone could not affect this unemployment level, though Government measures to create a more smoothly functioning labour market could have some beneficial effect. In the shorter run, however, the process of bringing about a reduction in price inflation might involve an increase in unemployment to a level which itself then acted as part of the mechanism by which inflationary expectations and pressures were reduced. This level of unemployment would be dictated by the mix of the Government's macro-economic policies and would be given. Thus any temporary rise in unemployment arising from a particular plant closure would be eroded as its effects on the economy - notably on real wages - were reflected in increased employment elsewhere. On this analysis,expenditure by Government to avert closures was arguably wasted because it would have no lasting net impact on the levels of unemployment and production in the economy as a whole. By the same token, the PE and PSBR costs of allowing the closure to take place might be more or less cancelled out by offsetting savings elsewhere in the economy, as unemployed capital and labour were brought back into use in response to the stimulus of lower inflation.

8. It was also argued, however, that this analysis, while useful so far as it went, had then to be tempered by further considerations. It was accepted that the capacity of the economy to adjust in the way described would be affected by the circumstances of the particular closure. It was likely, for example, that a major closure in a part of the country where unemployment was already high, or in an industry which was already being run down, would have less of an impact on inflationary expectations, and hence on wage settlements, than would either a similar closure elsewhere or a more even distribution of unemployment through the economy. Moreover, the impactof a major closure would arguably be less than that generated by a large work-force remaining in employment but accepting a pay settlement below the going rate. While it was therefore inappropriate to count the gross loss of jobs and output arising from a particular closure as the net loss to the economy, it was equally inappropriate to assume that there would be no net loss at all. Its extent, and the associated PE and PSBR costs, would depend on the circumstances surrounding the closure.

9. Some of the costs involved - principally redundancy payments - would be clearly identifiable. But the cost of additional unemployment and social security benefits, and the loss of taxation and national insurance revenue, for each worker made redundant would depend on assumptions about how quickly, taking account of the circumstances of the closure, the economy was likely to adjust to it. The sensitivity of these costs to a range of possible assumptions about the rate of adjustment can be illustrated by the table below, which shows the PSBR costs of making 10,000 workers redundant on the basis of alternative assumptions about the rate at which net re-employment would take place. The polar options - assuming immediate and total net re-employment on the one hand, and net re-employment completed at the end of year 3 on the other hand - would be equally unlikely in current economic circumstances. But a judgement on where, within the range, the most realistic assumption lay would depend on knowing the circumstances of the particular closure set against the general economic background at the time.

The Direct Exchequer Costs (ie lost income tax and National Insurance, and increased unemployment and social security benefits) of 10,000 workers being made redundant under alternative rates of labour reabsorption. £M out-turn prices.

An increase of 10,000 in net national unemployment, returning to zero:	
Immediately	0
After 1 year	24
After 1½ years	34
After 2 years	47
After 3 years	70

10. Finally, at both the national and regional levels, it is important to recall that a major steel plant closure could trigger a reaction from the Triple Alliance, the joint campaign between the NUM, ISTC and NUR which came into being on 23 January 1981. Their policy statement said: "There must be no further closures of steel capacity. In particular, the closure of Llanwern, Port Talbot, Scunthorpe, Teesside or Ravenscraig would therefore be unacceptable. We willtake whatever action is necessary to defend jobs in these plants".

11. It is difficult to predict the success of any reaction by the Alliance to a particular plant closure. But the chances of securing effective combined action must be higher in South Wales than elsewhere, given the traditional social and industrial cohesion in the area, the strength of local links between trades union officials and recent experience of combined action in the first half of 1980 (the one-day strike in January over coking coal imports; the TUC day of action on 14 May; and the steel strike itself). There are nonetheless constraints on effective joint action. The steel strike showed that, despite the stance taken by the NUM leadership in South Wales, the mineworkers themselves were not prepared to strike in support of the steelworkers,

a lead that was soon followed by the dockers. And future joint action would face similar problems: the reluctance of workers to take sustained action when their own interests were not so immediately affected; difficulties in co-ordinating action (eg the NUM has to hold ballots before calling a strike); and THE COST to the unions of a long stoppage. In sum, there is little doubt that the three unions have the necessary machinery for co-ordinating joint action in South Wales, and perhaps more widely. But the likelihood of their using it to inflict substantial economic damage in response to a threatened major plant closure could only be determined nearer the time.

SECTION II: STRATEGIC IMPLICATIONS OF CLOSING ALL OR PART OF BSC

1. The truth of the proposition that there is a strategic need to retain a bulk steel-making industry in the UK is usually held to be self-evident: steel is an essential input for manufacturing industry, and both civil and defence users must have access to indigenous supplies. But closer consideration of the issues casts considerable doubt on the proposition. The analysis

which follows assesses the implications of the most extreme - and unlikely - case: a near-total rundown of BSC. The implications of any particular plant closure would clearly be correspondingly less.

2. The <u>availability of alternative supplies</u>, whether in aggregate or in particular product areas, seems assured in both the short and medium term. "Prospects for the Steel Industry" (E(80)39), which E Committee discussed on 4 December last year, assessed available world capacity against likely demand and concluded that a widespread shortage of steel was most unlikely to occur. In the European Community - the most important market for UK purposes - effective production potential at present amounts to about 170-180 million tonnes of crude steel a year compared to likely output in 1981 of only 115 million tonnes. Substantial spare capacity would therefore continue to exist even if the whole UK steel industry - with production potential in 1981 of about 25 million tonnes - were to close. Success in bringing European production capacity into line with demand would not upset the equation: success would then be defined in terms of equating production, already reduced by the rundown of BSC, to a level of demand which included the increased reliance of UK users on steel producers elsewhere in Europe. Nor is the adequacy of aggregate steel supplies likely to mask shortages in particular product areas. The evidence shows a generally close historical correlation between the balance of capacity and production in the market as a whole and in particular sectors:

PRODUCTION AND PRODUCTION POTENTIAL IN THE ECSC FOR FINISHED ROLLED PRODUCTS IN 1979

	A Actual Production (Million Tonnes)	B Production Potential (Million Tonnes)	Percentage A/B
Light and Heavy Sections	31.6	49.2	64%
Wire rod	12.6	18.9	67%
Hoop and strip	7.2	12.2	59%
Hot-rolled sheet and plate	14.4	27.9	52%
Cold-rolled sheet	29.0	43.8	66%
Coils finished products	11.6	15.6	74%
Total	106.4	167.6	63%

Source: ECSC investment survey, July 1980

3. The question of <u>security of supply</u> involves assessing whether the disappearance of the greater part of the UK steel industry would increase the vulnerability of UK steel users to temporary shortages which might result either from short-term surges in world demand (as in 1970 and 1974) or from strikes affecting steel deliveries. On the first point, it is possible that during a short-term surge in demand users in countries retaining a full-scale steel industry would secure a rather greater proportion of their needs than would users in the UK, particularly if the Governments concerned broughtpressure to bear on their domestic producers (eg to channel supplies to essential users such as defence contractors). But there is a limit (except in time of war) to the pressure which market-economy Governments can exert in this direction, particularly to overcome what would by definition be a short-term problem. And it would be a short-sighted company indeed which, particularly in a highly competitive market dogged by long-term overcapacity, chose for other reasons to let down a regular customer. In any case, there is scope for guarding against such eventualities through the conclusion of long-term contracts between users and suppliers.

4. The second point - the effect of strikes - is more difficult. At present UK users have two potential sources of supply - domestic and foreign - between which they can switch if strikes disrupt either the steel producer himself, the sources of his raw material (eg the mines), or the transport network (ships, docks, railways and road hauliers). The scope for such switching should not be exaggerated: during last year's steel strike, for instance, picketing of thedocks and sympathetic action in the transport industry quickly reduced imports of steel to a trickle. But if BSC ceased to produce steel, such flexibility as exists would undoubtedly be reduced. Private sector producers would remain as an alternative source of supply (though the range and volume of their production is much less than BSC's, and the 1980 strike at BSC soon spilled over to produce a drastic reduction in their output). And switching between foreign producers in different

countries should still prove possible, since strikes in the steel industry do not generally cross national boundaries. But the lengthening of the transport chain inherent in sourcing abroad would inevitably increase the vulnerability of UK users to disruption. The effect of transport strikes within the UK can be ignored since their impact on indigenous and imported supplies would be substantially the same. But imports face two additional threats - transport strikes abroad or at sea; and a national docks strike in the UK. The former might admittedly be circumvented by alternative sourcing or by using ships of different flags; and the latter, on the evidence of recent years, may not be such a danger as it has been in the past. Nonetheless, these are real extra risks which UK users would have to face, with consequent expenditure of money and effort in avoiding them if disruption occurred. The worst eventuality would be a national docks strike: one that dragged on until steel stocks were exhausted would leave UK users without any alternative source of supply at all. In these circumstances, the volume of steel held by UK stockholders and by steel users themselves would be a crucial factor: in the first quarter of this year, stocks of finished steel products stood at between 3 and 4 months' supply.

5. Adequacy and security of supply are not the whole story: it could be argued that the costs of sourcing abroad would put UK users at a commercial disadvantage. But this is not borne out by the evidence. The fact that steel can be obtained from abroad at least as cheaply as from domestic sources is reflected in the firm level of import penetration in the UK market (about 20% in recent years) and in the keen prices which BSC are currently being forced to charge to regain their market share from imports. Nor do transport costs upset the equation. They do not account for a significant proportion of final selling price, and in any event they are not peculiar to imports: on average, they amount to less than 10% of UK delivered price in the case of imports from Europe, compared with about 5% in the case of domestic deliveries. (Taking £200 as the average cost at present of a tonne of steel, typical transport costs from Germany to London and Birmingham would be, respectively, £17 and £21, compared with costs of £10 and £8 respectively for deliveries from South Wales). A gap of this order can easily be swallowed by differences in ex-plant prices.

6. Flexibility and speed of supply is particularly important to some steel users, a requirement which direct imports would be hard put to meet. In this case, however, the role of steel stockholders should not be overlooked. They are increasingly acting as the intermediary between producers and users, and urgent orders are already often directed to them. They account at present for about 40% of UK steel deliveries, a figure that would be likely to increase if domestic production were significantly reduced.

7. The preceding analysis broadly holds good from the defence as well as the civil point of view. Ministry of Defence's main contractors rely heavily on BSC. The Corporation is a key supplier to the aerospace industry; accounts for nearly half the requirements of the Royal Ordnance Factories; and provides almost all the requirements for production of surface warships and submarines. MoD rate six of BSC's plants as being ofparticular importance, notably the special steels division at River Don (which produces heavy forgings). A sudden run-down of the Corporation would therefore involve very serious disruption of the equipment programme. A more gradual rundown, however, allowing time to find alternative sources, would be correspondingly less disruptive, particularly if any of the BSC facilities of major concern to MoD were taken into private ownership. MoD's main suppliers would probably try first to secure alternative sources amongst private sector steel producers in the UK. To the extent that they failed, they should be able to meet their needs from foreign sources, whether in Europe or the USA.

8. Complete or significant reliance on foreign sources would raise much the same issues already dealt with in the civil context (paragraphs 2-6 above). MoD would be uneasy about such reliance, though as much on commercial as defence grounds: secure and timely supplies would no longer be within UK control, and supplies for (eg) tank production from a country whose own tank manufacturers were in competition with ours (eg France, Germany, USA) might be unreliable for that reason (though steel firms do not produce tanks and would have no obvious self-interest

in rejecting orders in a highly competitive business). Leaving aside such commercial considerations, from the strictly defence point of view the question falls into three parts. In peacetime, MoD consider that, if BSC were to be totally or partially run down, all theproducts now supplied by BSC could be obtained from abroad. The fact of surplus world capacity should ensure adequate supply at reasonable prices. And, given that the new sources of supply would be in countries which are members of NATO, and in most cases also of the EEC, there could be no objection to turning to them (we already, for example, rely on France to supply special forgings for our nuclear-powered submarines, which are the highest priority items in the naval equipment programme). In circumstances where hostilities appeared imminent, supplies would almost certainly become very tight as foreign steel makers diverted production to satisfy the increased demand of domestic defence contractors. But if hostilities actually began, the likely speed and nature of any modern war would make the existence or otherwise of an indigenous steel industry largely irrelevant.

9. Finally, against the possibility that a rundown were implemented but the consequences in fact proved to be damaging, what sort of <u>safety net</u> could be retained? The options would be to mothball some or all of the discarded plant so that it could be brought back into production; to build new plant from scratch; or some combination of the two. Mothballing a large plant could be costly (it has never been attempted), and years of technological change would eventually make recommissioning either unduly expensive or technically undesirable. Construction from scratch, on the other hand, would admittedly take time, but not so long as to rule it out as an option. The table below shows some estimates of typical CONSTRUCTION AND commissioning periods:-

A new integrated iron and steel works	5 years plus
A new mini-mill	3 years
A new rolling-mill at an existing works	2-3 years
A new continuous-casting route at an existing works	2 years

10. Our conclusion, based on <u>a priori</u> reasoning in the civil sector and detailed enquiry in the military sector, is that while there would inevitably be problems of adjustment and associated costs for UK industry, the consequences of an orderly run-down of the BSC would be manageable from both the civil and military points of view.

bc Mr. Walters
Mr. Ingham

Subject

cc Master: Associated Energy's gas gathering

10 DOWNING STREET

From the Private Secretary

14 September 1981

BF X

Dear Peter,

9/9/81

As you know, Mr. Ian MacGregor called on the Prime Minister last Wednesday afternoon. He was accompanied by Mr. Tebbit.

Mr. MacGregor said that BSC's performance during the current financial year was to some extent off course. Their expectations about the domestic market had proved rather too optimistic - mainly because the recession in the construction and engineering industries had proved longer than they had anticipated. They had managed to maintain their volume of production by "buying" exports; but as a result they had eaten into their contingency reserve. BSC were hoping to increase their exports to the USA. The prospects were reasonably favourable. He had seen Mr. Baldridge, the US Secretary of Commerce, who had indicated that the Administration was likely to accept higher imports from the UK provided that other European producers did not continue to dump steel which they were unable to sell in Europe on the American market. BSC had a reasonably good case for increasing their exports to the US, particularly since they had been exporting to that market at a considerably higher level in the early 1970s. Also, unlike the Europeans, they had been concentrating on special steels, which posed less of a threat to the US steel producers than the bulk steels. BSC would continue to be selective in their efforts to penetrate the American market, and he would shortly be having talks with Viscount Davignon to try to ensure that BSC's efforts were not thwarted by their competitors in Europe.

Mr. MacGregor mentioned briefly his proposals for the coming pay negotiations with the steel unions. He hoped to persuade them that there should be no general pay increase, but that there should be bonuses at plants that performed well. There was then some discussion of BSC's investment and capacity problems. Mr. MacGregor said that much of BSC's investment in recent years had been misdirected: he mentioned in particular that there had been too little investment in tube making capacity. A major problem at present was the future of the Redcar blast furnace: it was uneconomical to keep this furnace going since there was no second furnace next to it which could be used while it was periodically relined. Mr. MacGregor also mentioned the problems of GKN's Brymbo plant, which BSC had an interest in seeing closed. This made sense insofar as it was probably the worst plant of its kind in the industry, but closure would be expensive. In response to a question from the Prime Minister about the future of Sheerness, Mr. MacGregor said that

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/ their problem

their problem was essentially lack of demand; BSC were trying to persuade the Canadians to close Manchester Steel, which would help Sheerness.

Turning to the coal industry, Mr. MacGregor said that it was essential that NCB should close down their uneconomic pits, particularly those in South Wales. He thought that the best approach to persuading the unions was for the Government to publicise the appalling conditions in the South Wales pits. The public would never support their continued working if the conditions in them were better known. Mr. MacGregor also warned about the technical problems of building up coal at power stations: he hoped that the Government appreciated that coal tended to oxidise and lose calorific value the longer it was stored.

Mr. MacGregor said he hoped the Government would consider favourable the latest proposals from the consortium headed by BSC for the Channel crossing link. The fundamental problem in obtaining private sector finance for the project was somehow to guarantee its completion. The same applied to the gas gathering pipeline project; but for the latter to attract private finance, it was essential that BGC should no longer be the monopoly purchaser of gas flowing through the pipeline. In addition, BGC's monopoly in selling industrial gas should be removed, and the transport of gas on-shore ought to be on a common carrier basis. The Prime Minister asked if Mr. MacGregor would write to her with his proposals for the gas gathering pipeline. (In the event, he wrote to David Young - a copy of his letter is enclosed and the Prime Minister would be glad to know of the outcome of the meeting which Mr. MacGregor is to have with Mr. Young on it.) One final point that Mr. MacGregor made was that, for large scale projects that the Government wished to see financed by the private sector, it should consider providing specific tax exemptions to those who put up the funds: this had been successfully done in the US.

I am sending a copy of this letter and the enclosure to Julian West (Department of Energy) and John Kerr (HM Treasury) and without the enclosure to Tony Mayer (Department of Transport).

Yours ever,

Tim Lankester

Peter Mason, Esq.,
Department of Industry.

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c Vercher
Walters

Nat Ind

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Secretary of State for Industry

7 September 1981

David Moore Esq
Cabinet Office
70 Whitehall
London SW1

PL
8/9

- with request if required

Dear David

Graham Austin wrote to you on 26 August enclosing the forward look for Cabinet business for this Department until the end of the year. The forward look envisaged discussion in E Committee at the end of September on the progress of BSC in this financial year and BSC's scenarios prior to the finalisation of the next Corporate Plan.

I am writing now to let you know that because of my Secretary of State's visit to the Far East in the latter part of September it has not been possible to arrange for Mr Ian MacGregor to come in to discuss these issues until 30 September. Accordingly, we would plan to submit a paper for consideration by E Committee 7 to 10 days later, ie in the early part of October.

I am sending copies of this letter to the private secretaries to the members of E Committee.

Yours sincerely
Catherine Bell
CATHERINE BELL
Private Secretary

File

085

Nat Ind

28 August 1981

Thank you for your letter of 21 August, explaining the background to the dispute over the nomination of ISTC representatives to serve on the Board of the British Steel Corporation. The Prime Minister has seen and noted this.

M. A. PATTISON

Mrs. Catherine Bell,
Department of Industry.

JH 556 CONFIDENTIAL 2.

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MO 1

Secretary of State for Industry

21 August 1981

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister
BSC has been a bit ham-fisted over re-appointment of employee directors, but the trouble will blow over. MAP 25/viii

Dear Mike

You asked for a note on the reports in yesterday's press on Mr Sirs' comments on the dispute over the nomination of ISTC representatives to serve on the Board of the British Steel Corporation.

2 The six employee directors on the BSC Board were first appointed in 1978 by the previous administration when the Board was reconstituted in line with the policy for nationalised industry boards set out in the White Papers on Nationalised Industries (Cmnd. 7131) and Industrial Democracy (Cmnd. 7231). The aim was to achieve a Board with broadly equal numbers of management, workforce and independent members. The appointments were intended as a permanent feature and not experimental as in the case of the trade union appointments to the Post Office Board in 1978. The latter were for a two year period, and as you know that experiment was not renewed. BSC is therefore the only nationalised industry board to have employee directors on it.

3 The procedure adopted in 1978 for the appointments was that the TUC STeel Committee were invited by the then Secretary of State to nominate six representatives to serve as part-time members of the Board. The Committee in turn invited ISTC, the National Union of Blastfurnacemen, the General and Municipal Workers Union, the Transport and General Workers Union and the National Craftsmen's Co-ordinating Committee to nominate representatives on the basis of two seats for ISTC and one for each of the other unions. It was expected at that time that a seventh seat would become available and it was agreed that it should go to ISTC. No amendment of the Iron and Steel Act was necessary and the appointments were made for the customary period of three years from August 1978.

4 In considering whether to renew the appointments, after some discussion at official level with the Department of Employment my Secretary of State concluded that on balance it would not be

worth inviting the political confrontation liklely to occur if all employee directors were removed from the Board, especially since industrial relations were in general good, in spite of massive job losses in the period since the strike. He consulted Mr MacGregor (as he is required to do under the provisions of the Iron and Steel Act) on the re-appointment of board members and intimated that it was also his intention to consult the TUC Steel Committee. Mr MacGregor confirmed that he would be content to have five of the existing employee directors re-appointed - the sixth, one of the two ISTC representatives, did not wish to continue owing to poor health. Unfortunately, Mr MacGregor assumed that the Secretary of State would think that consultation with the Steel Committtee was not necessary, and one of Mr MacGregor's staff wrote to the TUC informing them of his recommendation, with the implication that it had already been accepted and that there was therefore no need for the Committee to make nominations. In the meantime the TUC had written to the Secretary of State submitting two new ISTC nominations and confirming the existing NUB and NCCC nominations.

5 This action by BSC was premature, to say the least, and gave the unions, and particularly the ISTC, an occasion for protest. As a result the Secretary of State thought it necessary for Norman Tebbit to see Mr Sirs and Mr Dennis Delay of the TUC to apologise for the confusion but to confirm at the same time the Secretary of State's decision to offer re-appointment to the five existing members. This decision is not one to which the steel unions and the TUC can formally agree since to varying extents they see the employee members as trades union appointments and the appointees as representatives of their particular union interests. The Secretary of State and Mr MacGregor take a fundamentally different view. Mr MacGregor recommended keeping the existing five employee members solely because he believes they are committed to and can contribute to the success of the Corporation and not because they represent the interests of their particular unions; and the Secretary of State therefore intends to reappoint them.

6 The formal position is that the Secretary of State has invited the five memebers to continue on the Board until 31 December 1982. All but the ISTC man have accepted, with the acquiscence if not the approval of their unions. The ISTC representative, Mr McLaren, is in a dilemma since on the one hand he knows that he no longer has the backing of his union while on the other that he is being invited to serve in a personal capacity and not as a union representative. The probability is that he will decide that his only course is to decline to contiue to serve on the Board. This would be particularly unfortunate since his reappointment was well justified on the basis of his contribution to corporate objectives.

7 The position on Sir John Boyd is that Mr MacGregor proposed to the Secretary of State that he should be appointed to take the place of Sir John Buckley who retired from the Board on 1 August. Mr MacGregor values the sense and robustness of Sir John and wants him as an independent member and not in any sense as a

union representative.   Sir John has accepted the Secretary of State's invitation to serve for a term of three years.

8   The Secretary of State for Employment was told about the reappointment of the employee directors, and also about the difficulties which have subsequently arisen.   We also consulted him about Sir John Boyd's proposed appointment.

9   We do not expect that Mr Sirs will get much support for his protest, either from his rank and file or from other unions in the steel business.   But it will be as well to wait until the air has cleared before issuing the customary press notice announcing the appointments.

10 I am sending a copy of this letter to Richard Dykes at Employment.

Yours ever
Catherine

CATHERINE BELL
Private Secretary

Nat Ind

10 DOWNING STREET

NOTE FOR THE FILE

Ian MacGregor of British Steel and Norman Tebbit are coming to see the Prime Minister on Wednesday, 9 September at 1445 hrs. Tim will be doing this meeting and has told me that no briefing or papers are required.

CS.

5 August 1981

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cc Vereker 2
Walters
Duguid

Prime Minister
An encouraging report.
TL
4/8

PRIME MINISTER

BSC CORPORATE PLAN: JULY REVIEW

1. The Secretary of State and I met Mr MacGregor on 22 July to hear his preliminary report on BSC's progress towards the targets in the 1981/82 Corporate Plan. The Chief Secretary to the Treasury and Mr Ibbs were also present.

2. At our request, the Corporation had prepared a short Review document setting out the essential features of progress to date and the prospects for the year as a whole. The main points to emerge from this document and from our discussion were as follows:

(a) All the major programmes for improving BSC's internal performance had been completed or were proceeding to plan. As a result, BSC's weekly rate of loss (before interest and tax) had fallen from £10.4 million in January to £5.7 million in June. But this steady improvement would be difficult to maintain after July because the planned programme of manpower reductions had been virtually completed and the 7 per cent wage settlement payable from 1 July would add about £1.3 million a week to BSC's costs;

After interest?

(b) With the major benefits from internal efficiencies now largely reaped, adverse external factors were starting to have a more marked effect on losses. In the first three months of 1981/82, losses before interest totalled £80 million as against the Plan figure of £45 million. The main problems were low home demand, weak home prices, and the loss made on exports which were nonetheless necessary to allow optimal plant-loading;

(c) There was, however, scope for further improvement in BSC's internal performance. Both Ravenscraig and Teesside were still performing below standard, and even the South Wales plants could do better. The problem was largely one of attitudes. Senior management were making a major effort to ensure that middle and junior management appreciated the need for rigorous control of costs, close attention to detail, and improved working disciplines. That message was now getting through, though not all the workforce had yet taken it on board. Apart from this vital exercise in altering attitudes, further jobs were being shed, particularly in the maintenance and service sectors. And BSC planned an eventual reduction of a further 20,000 in the numbers employed in producing ECSC products, this to be achieved by a steady programme of pruning rather than by major closures;

(d) On the revised assumptions set out in the Review document, and if no corrective action were taken, BSC would exceed the loss limit of £225 million for 1981/82 by £64 million and the EFL of £730 million by anything up to £49 million. So three new programmes were being set in hand to put the Corporation back on course (price increases; further economies in operating costs; and reduction in working capital needs). On this basis, Mr MacGregor was confident that BSC would remain within its EFL for the year. He stressed, however, that this would not necessarily include the costs of £35 million which BSC had incurred as a result of the various Phoenix arrangements (Allied Steel and Wire Ltd, acquisition of the Duport assets and Round Oak). He would do his best to contain these costs within the EFL, but he could give no promise to do so;

(e) BSC's full assessment of the prospects for 1981/82 would be delayed until early September so as to allow a proper appraisal not only of the effects of the recent European agreement on prices but also of the prospects for bringing Teesside and Ravenscraig on course. The assessment would include a number of alternative scenarios illustrating for Ministers the rangeof options open to the Corporation in preparing their next Plan for 1982/85.

3. I think that the interim position which we have now reached is much as was expected when we considered the Corporate Plan at the turn of the year. Vigorous management action has brought considerable improvements in the Corporation's internal performance, though more remains to be done to tighten up working disciplines at plant level throughout the Corporation as a whole. But the crucial factor now is whether the package of measures agreed in Europe on 24 June is effective in bringing about a significant and sustained rise in steel prices. An increase of 5 per cent in average realised prices over the remainder of 1981/82 would allow the Corporation to achieve

its financial targets even without further corrective action; and an average increase of 10 per cent would bring the Corporation to breakeven. Successful implementation of the package will depend on producers in Europe abiding by the discipline of the new pricing arrangements; it is too early to judge how far they will be prepared to do so.

4. Mr MacGregor will report again in September with a full assessment of the current position and of the options open to him in drawing up the next Corporate Plan for 1982/85. Once we have his report, the Secretary of State will put a paper to colleagues for discussion in E Committee.

5. Copies of this minute go to the members of E Committee, to the Secretaries of State for Scotland and for Wales, to Robin Ibbs and to Sir Robert Armstrong.

NT

N.T.

Department of Industry
4 August 1981

CONFIDENTIAL

Steel

cc Mr Duguid

REVIEW OF THE BSC CORPORATE PLAN: MEETING BETWEEN THE SECRETARY OF STATE AND MR MACGREGOR ON WEDNESDAY 22 JULY 1981

PRESENT:	Secretary of State	Mr MacGregor
	Mr Tebbit	Mr Scholey
	Mr Marshall	Mr Barker
	Mr Brittan (Chief Secretary to the Treasury)	Mr Roseveare
	Mr Ibbs CPRS	Mr Prior
	Mr Binning	
	Mr Murray	
	Mr Ellison	

Progress in 1981/82

1. Welcoming Mr MacGregor and his colleagues, the Secretary of State noted that the Review document contained evidence of heartening progress by BSC in achieving internal efficiencies but that the picture was clouded by adverse external factors, notably weak prices and low home demand. Could further internal improvements be made, in particular through cost reduction measures, or was the scope for this now exhausted?

2. Mr MacGregor confirmed that the programme of internal improvements was well on course. But more could and would be done. Progress to date had been patchy, reflecting the different perceptions in each plant of the threat to its survival. The South Wales plants had recognised a clear danger and so had co-operated in demanning and improved working practices. Teesside and Ravenscraig, by contrast, were under the illusion that their future was assured and so had proved less amenable to change. BSC management would continue to take firm steps to disabuse them of this notion. Nor could the South Wales plants rest on their laurels: the achievements there were real and had received a great deal of favourable publicity, but plenty more remained to be done.

3. The Secretary of State asked for concrete instances of the scope for future progress in cost reductions. Mr Barker cited indirect expenses as one of the main areas of attention. Clerical and computer staff were being shed, and economies were being made in maintenance and service costs. On the production side, Mr Scholey estimated that cost reductions of £10 a tonne could be gained from improved performance in plant yield, operating speeds and frequency of stoppages; and quality needed to be improved, particularly in the Strip mills. The key to securing all these improvements lay in instituting tighter working disciplines, which in turn required management action to strengthen the motivation of the workforce. Mr MacGregor stressed that a rigorous approach to cost control held the only hope of progress. There had been a management revolution in BSC designed to bring this message home to all corners of the

business and to secure the attention to detail which was essential if the Corporation was to survive. Mr Tebbit asked whether any further demanning was in prospect, citing recent Press speculation that 20,000 more jobs were to go. Mr MacGregor confirmed that his target was an eventual reduction from 66,000 to 45,000 in the numbers employed in producing ECSC products. The intention was to achieve this by a steady programme of pruning manpower within individual works and not by means of major closures.

4. Mr Ibbs noted that the Review document brought out clearly that, while the Corporation were on target in achieving internal efficiencies, external factors were conspiring to knock them off course. This raised the question of how long the Government could be expected to support BSC in the hopes that all would come right in the end. Mr Barker agreed that, while internal factors were well under control, the combination of low home demand, weak prices, and the need for loss-making exports so as to maintain optimal plant-loading was having an adverse effect on losses. But management were not sitting on their hands. Three new programmes were under way in a bid to offset the impact of these external factors. With nine months ofthe Plan period still to run, there was every chance of success, but it was too soon to enter into a commitment. Mr Brittan sought confirmation that BSC therefore intended to remain within the EFL of £730 million for 1981/82. Mr MacGregor hoped so, with the exception of the costs to BSC of the Phoenix programme; he would do his best to accommodate these costs within the EFL, but they had not formed part of the original Plan and he could make no promises. After further discussion, the Secretary of State concluded that Mr MacGregor well understood the Government's need for him to absorb these costs within the existing EFL but could not pledge himself to do so.

5. Mr Ibbs asked about the prospects for price increases and capacity rationalisation following the recent agreement in Europe. Mr MacGregor stressed that the major problem remained over-capacity in Europe. Interpenetration of markets by German, Belgian and French steelmakers, particularly in strip products, had a destabilising effect. He hoped to get them out of the UK market. On prices, there was a circle which was very difficult to square. If BSC managed to make its UK prices stick at levels above those in the rest of Europe, then its customers would become uncompetitive and risk closure. But if BSC could not secure higher home prices, it would itself move ever further into deficit. The Secretary of State asked whether there was likely to be any need in August for Ministers to take special action in Brussels (eg. by calling a Council meeting) so as to curb misbehaviour on the part of other European steel producers. Mr MacGregor doubted whether this would be necessary. But BSC did have a problem. The production limit on hot rolled coil left them short of what they needed to produce. A temporary agreement recently made with other European producers would tide them over for the moment, but a proper solution would need to be reached. If this proved impossible amongst producers, an appeal to Commissioner Davignon would be necessary and at that stage the help of Ministers would be useful.

Corporate Plan for 1982/3

6. Mr Brittan asked whether the new Corporate Plan due in November would cover a period of more than one year, and indicated that he hoped it would present the Government with strategic options. Mr MacGregor confirmed the first point. On the second, he was quite prepared to present options, though the Government might find some of them unpalatable. Mr Brittan said that, if there were unpalatable options to be considered, the Government needed to know about them. He asked in particular whether BSC were considering the closure of either Ravenscraig or Teesside or both. Mr MacGregor said that BSC could not rule out these possibilities. Much would depend on whether performance at the plants could be improved to a satisfactory level. But the closure of either plant would entail a wide-ranging restructuring of the entire BSC business, including perhaps complete withdrawal from certain major product areas, eg heavy sections if Redcar/Lackenby were closed.

7. Mr MacGregor agreed that BSC would put forward a number of alternative scenarios to Government in September, which would illustrate the range of options open to the Corporation in preparing the next Plan. He would welcome further guidance from Government on certain key assumptions which would need to be made in preparing the next Plan, notably on the expected changes in the £/DM exchange rate.

8. Mr Tebbit suggested that, from the figures in the Review document, BSC's labour costs per tonne of steel appeared to be below those in Germany. Mr MacGregor cautioned against such a conclusion. Comparisons in this area were notoriously tricky. He would have a paper prepared for Mr Tebbit.

Privatisation

9. The Secretary of State asked about progress in the Phoenix negotiations and in the formation of Companies Act companies. On the first point, Mr MacGregor regretted that the degree of progress did not match the amount of effort which BSC had been expending. Phoenix 2 was proving a real headache: any arrangement would involve GKN in closing plant, and it was not clear that they were prepared to accept the financial consequences. There was, however, a separate initiative which was at an early stage. BSC had started to talk to Tube Investments Ltd about a joint venture in the tubes sector. BSC had developed a new process for making low-cost tubes. Any joint venture would involve plant closures on both sides. There were many unknowns and progress was likely to be slow. On Companies Act companies, Stanton and Staveley Ltd and British Steel Service Centres Ltd had now been formed. There were no other obvious candidates at present. But other aspects of privatisation were being pursued. Redpath Dorman Long Ltd had captured some new business and was now making only small losses. The Japanese were no longer interested in buying into the business, but efforts were being made to attract bids from UK construction companies. BSC (Chemicals) was on the way to being sold, though this had to be done piecemeal.

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Press Statement

10. Concluding the discussion, the Secretary of State suggested that it would be desirable for BSC and the Government to speak with one voice in answering Press questions about the meeting. It was agreed that a statement would be made on the following lines: "The meeting between the BSC and the Secretary of State considered the progress being made by the Corporation towards achieving the target of break-even in 1982/83, and as a result the BSC will prepare further plans for consideration with the Government in September".

S J Bowen

S J Bowen
IS1a
813 Ashdown
212 6992

22 July 1981

cc PS/SoS
PS/Mr Tebbit
PS/Mr Marshall
PS/Mr MacGregor
PS/Secretary
Mr Steele
Mr Binning
Mr Murray
Mr Morris
Mrs Cohen
Mr Woodrow
PS/Chief Secretary
Mr Ibbs CPRS
PS/Prime Minister

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

20 July, 1981.

Dear Ian,

BSC Corporate Plan: July Review

Your Secretary of State minuted the Prime Minister on 10 July. This was partly in response to the Chancellor of the Exchequer's letter of 6 July suggesting that E Committee should discuss BSC's future before the end of the month. The Prime Minister has now considered these papers, and she has also seen the Chancellor's further letter of 17 July.

The Prime Minister accepts that discussion in E Committee on this subject should be deferred until September.

I am sending copies of this letter to the Private Secretaries to the Members of E Committee, to Godfrey Robson (Scottish Office), John Craig (Welsh Office), Gerry Spence (CPRS), and David Wright (Cabinet Office).

Yours ever,

Tim Lankester.

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

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

17 July 1981

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

Dear Keith

BRITISH STEEL

Thank you for your letter of 10 July. I have also seen your minute of 10 July to the Prime Minister.

I reluctantly accept your view that in the absence of the expected mid-year report on BSC's progress you are not in a position to produce a detailed paper that colleagues could consider in E before the Recess. I note that you are looking for a discussion in E in early September. As my earlier letter made clear, such a discussion seems to me essential.

This postponement throws a great deal of weight on to the meeting you will be having with Mr. MacGregor on 22 July. We will need to get across to him the importance we attach to a fully articulated medium-term plan, and the need for it to offer alternative options and to cover the points mentioned in our present exchange of letters.

For my part I would have welcomed the opportunity to join you but I gather the meeting has been fixed for 9 a.m. and I am returning from Ottawa that morning. I have therefore asked Leon Brittan to attend. You might also like to consider whether it would not be useful for Robin Ibbs to be there.

I am copying this letter to the Prime Minister, the other members of E Committee, to the Secretaries of State for Scotland and for Wales, and to Robin Ibbs and Sir Robert Armstrong.

GEOFFREY HOWE

Prime Minister
To note. The Chancellor (Flag A) accepts that the discussion in E should be deferred until September.
M.
17/7

2 pps

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cc/Vereker
Walters
Duguid

PRIME MINISTER

BSC CORPORATE PLAN: JULY REVIEW

When E Committee agreed the BSC's EFL for 1981/82 in February, (E(81)5th Meeting, Item 1), we did so on the understanding that the EFL and the financial targets, together with the Corporation's strategy, would be further reviewed in July in the light of Mr MacGregor's assessment of progress by that time.

On Pt 8
Attached

2 I have arranged to meet Mr MacGregor on Wednesday 22 July to discuss BSC's progress, and will circulate a report to you and colleagues in E Committee immediately after that meeting. However, Mr MacGregor has warned me that the assessment of progress which he will give on 22 July will be only a very preliminary one; a full review will reach me before the end of August so that any necessary decisions may be taken in the first part of September.

3 From the monthly monitoring of BSC's performance which has been carried out by officials here, the signs are that BSC have made significant progress in recent months. Losses before interest have dropped from an average of over £10 million a week in the three months January to March, to £6.5 million a week in April and £6.1 million in May. The manpower reduction programme is going well: total employment in BSC has dropped from 127,000 at the end of January to just under 113,000 at the end of May.

And in the three months period to 30 June BSC required less cash from the Government than forecast in February. The forecast for the quarter was £250 million, but actual payments made to BSC in the quarter were only £170 million, including £20 million subscription of capital in Allied Steel and Wire Limited.

4 The programme of cost cutting in BSC is continuing, but as we have always recognised the elimination of BSC's losses will require an increase in steel prices. Prices have on average been below planned levels in recent months. If BSC is to reach its aim of breakeven in 1982, it is essential that the package of steel measures recently agreed by the Council of Ministers is effectively implemented and leads to a significant hardening of steel prices over the remainder of 1981.

5 Geoffrey Howe, in his letter to me of 6 July, suggests that E Committee should discuss BSC's future before the end of July. I am enclosing a copy of my reply to his letter from which you will see that I do not consider that E Committee could have anything more than a very sketchy discussion of the issues facing BSC before we receive Mr MacGregor's full assessment in late August. For this reason, and since, as I have indicated above, BSC seem to be reasonably on course so far this year, I believe that substantive discussion in E Committee should be deferred until early September. However, I fully accept Geoffrey's suggestion that when I meet Mr MacGregor on 22 July I should ask

him to present alternative options to Government when he puts forward his next Corporate Plan in the autumn. I will also explain to Mr MacGregor that the Plan will need to take into account many of the points which Geoffrey has made.

6 Copies of this minute go to the members of E Committee, to the Secretaries of State for Scotland and for Wales, to Robin Ibbs and to Sir Robert Armstrong.

KJ.

KJ

Department of Industry
Ashdown House

10 July 1981

CONFIDENTIAL

JH 429

Steel

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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Secretary of State for Industry

10 July 1981

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Nerida
David
Walters

Dear Geoffrey,

P. 17/7

Thank you for your letter of 6 July about the future of the British Steel Corporation. As you will see from the minute I have sent today to the Prime Minister, I had already been giving thought as to how this matter might best be handled in E Committee. It may, however, be helpful if I deal with the main points which you raise in your letter.

2 First, you mention the need to review BSC's EFL. One of the encouraging features of BSC's performance so far this year is that its cash requirements have been below those projected in February. There are no signs of an overshoot in the EFL in BSC's current cash projections, but whether and to what extent BSC's EFL might be reduced must wait until I have Mr MacGregor's own assessment of BSC's performance and prospects for 1981/82. As you will see from my minute to the Prime Minister I will not receive this until towards the end of August. As I also point out in my minute to the Prime Minister, BSC's future prospects depend crucially on the package of measures recently agreed in Europe leading to a significant and sustained increase in steel prices. It will take some time to see if the package works.

3 Second, you refer to the need for BSC's next Corporate Plan to put forward options rather than a single, take it or leave it strategy. I agree that we need to have a clearer knowledge of the strategic choices of the individual businesses which underlie the next BSC Plan. I will put this point to Mr MacGregor when I meet him on 22 July, to ensure that we have suitable alternatives from BSC to choose between when we take decisions about BSC's future later this year.

4 Third, you put forward a number of issues which will need consideration. I suggest the first two of these questions, on relative priorities within individual businesses, and alternative assumptions about capital investment, should be put to Mr MacGregor as part of the process of ensuring that there is a range of options in the Corporate Plan. On redundancy and closure costs, there is agreement in principle on new ECSC aids for closure costs as part of the package of measures agreed in the Council of Ministers last month. We should perhaps first

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see what help these may bring before taking decisions about BSC's redundancy payments. I agree that the next BSC Corporate Plan will need to take account of the need to remunerate BSC's capital - I think this should cover all BSC's capital, not merely new advances - perhaps starting in 1983/84.

5 I have, as you know, already had several discussions with Mr MacGregor about privatisation and had already agreed with him that we would discuss this further on 22 July. A number of proposals are under consideration for the introduction of private capital into parts of BSC, such as RDL, and for the formation of joint companies in the areas of overlap between BSC and the private sector. However, as yet there are few prospects that any of these proposals will bring substantial early relief to the PSBR.

6 If you would find it helpful to join me when I meet Mr MacGregor on 22 July, you are of course very welcome to do so.

7 I am sending a copy of this letter to the recipients of yours.

Yours,

Keith

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A Duguid
A Walters
Nat Ind

CHANCELLOR OF THE EXCHEQUER

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

6 July 1981

Prime Minister

To note that the Chancellor is calling for a meeting with MacGregor, and then a meeting of E before the recess to discuss BSC.

TL 6/7

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

MW

Dear Secretary of State,

BRITISH STEEL CORPORATION

I have been thinking further about our handling of this subject. If seems to me that, given the vast sums we are spending on steel and the very large question mark which still hangs over its future, it is essential for Ministers to meet from time to time to review progress and prospects. There is much to be said, also, for our hearing a personal progress report from Ian MacGregor.

This month seems a good time to do this. We agreed at E Committee last February that there should be a review of the EFL in July in the light of MacGregor's assessment of progress by then and I believe you will be receiving a progress report from him later this month. We should, I am sure, meet to consider this and at the same time to discuss the scope for cutting back on BSC's financing limit of £730 million for the current year. Some potential areas for savings that might be secured in July were identified by Robin Ibbs in the report of his special enquiry team last February - working captial, energy costs, disposals of land and the large contingency provision.

But that is not all. We must all be concerned that, a full year after MacGregor's appointment, we are still without a clear plan and a timetable for turning this troublesome industry round and getting it on to a profitable basis. The sonnest we can expect that, I gather, is when the medium-term plan in produced in the autumn. But we must make absolutely sure at this stage that the plan which is produced meets our requirements.

The 1981-82 "Survival Plan" under which we are working at present was offered to us, in effect, on a take-it-or-leave-it basis. We were not offered any strategic choices. But it is clear enough that MacGregor himself made certain

/strategic

strategic choices before offering his plan to us. He has made it clear since then that the plan he produced was not based solely on business criteria but took account of wider factors. The Select Committee on Industry and Trade has commented critically on the fact that Governments appraisal of the plan did not include any consideration of alternatives.

If we do not insist on it, MacGregor may again present us with a single choice only and I would not regard that as acceptable. We must be in a position to consider alternative strategies with the implications of each fully explained. If we do not have this, we shall be in the same position as we were in last winter of having to take or leave MacGregor's proposals, with their enormous cost. I think he must be told that we require an exposition of two or three alternatives reflecting, perhaps, two or three different levels of external finance. I should certainly want to know what kind of strategy might be possible if we decided that external finance next year had to be reduced to, say, one-quarter of the amount we are providing this year.

I suggest that we meet very soon to discuss these things amongst ourselves; and also on a separate occasion with MacGregor. Both meetings need to take place before the Recess. If you are not to receive any report from him before 22nd July, as I have been told, this may be difficult. Could we meet with MacGregor some time before that and ask him to present his report orally, as a preliminary to a further discussion in E Committee?

For our discussion, I think it would be very useful if you could offer a paper discussing some of the issues. I suggest that, inter alia, it should deal with the following points:-

i. <u>The relative priority between short-term profitability and longer-term viability</u>. The two may be in conflict, possibly in the area of flat-rolled products (strip and plate) and in the stainless business; and political considerations come into play in judging where our priorities lie. We need to see the precise issues exposed, perhaps by way of alternative scenarios.

ii. <u>Capital rationing for profitable investment</u>. Investment in BSC has been excessive in the past but is now running at a low level; MacGregor tells us that it will need to be high in future because of changing technology in fuel utilisation. Given our wider PSBR problem should we not again ask him to explore two scenarios - a capital-constrained one, and one in which investment is planned at a level consistent with the trading conditions of the business?

iii.

iii. Redundancy and closure costs. Should we not make clear, to remove what might otherwise be seen as a constraint, that closure costs will continue to claim a high priority on available resources? Should we continue to allow BSC - given the continuing risk of repercussions for other industries - to pay exceptionally generous redundancy terms after 1981-82?

iv. Financial remuneration. MacGregor recently told the Select Committee that our present financing regime for BSC - Advances of public dividend capital and of Iron and Steel Act Section 18 funds which are then written off - is "a sort of fairyland in which somebody gives you presents". From what date should he be told to assume that all future advances must be remunerated at the NLF rate?

v. Privatisation. What assumptions should he be told to make about the future boundary between the public and private sectors of the steel industry?

I am sending copies of this letter to the Prime Minister, members of E Committee, Mr Ibbs and Sir Robert Armstrong.

Yours sincerely,

R.I. Tolkien, for,

GEOFFREY HOWE

(Approved by the Chancellor and signed in his absence).

JFH

c DTI and FCO

CF

10 DOWNING STREET

THE PRIME MINISTER

25 June 1981

Thank you for your letter of 11 June.

I wholeheartedly agree with Chancellor Schmidt on the need for a Community decision requiring state aids that are contrary to the ECSC Treaty to be phased out and linked to capacity reduction. It was disappointing that more progress was not made by the Council on 4 June. I hope for better results at the next meeting on 24 June. It is also important that we reach agreement on social measures to demonstrate the Community's concern for the social consequences of capacity reduction.

I am grateful for the efforts being made in the Commission in putting forward proposals on these matters.

(SGD) MARGARET THATCHER

His Excellency Monsieur Gaston E. Thorn.

B

2

DEPARTMENT OF INDUSTRY
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From the
Minister of State

PS/Norman Tebbit MP

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

23rd June 1981

Dear Tim

Mr Tebbit has asked, at the suggestion of the Solicitor General, that the Prime Minister should be made aware of an awkward and urgent issue which has arisen in the negotiations on measures to overcome the crisis in the European steel industries. The attached correspondence set out the background.

In essence an agreement has been reached in the Council of Ministers to impose production quotas on most (perhaps all) steel products in order to reverse the disastrous fall in steel prices which has put even the Community's most efficient steel makers into losses. Endeavours are being made in the face of reluctance on the part of the new French Government to finally agree on a timetable to eliminate state subsidies to steel industries which have restrained economic forces from bring about reductions in capacity to match demand.

It is essential to the success of the plan that steel producers publish price lists and abide by them. Otherwise there will be a further outbreak of discounting to unload steel produced in excess of quotas. It is proposed that enforcement of the requirement that producers do not undercut their own price lists should be undertaken in the first instance by EEC Commission officials acting under Article 95(1) ECSC and that this should be extended to cover steel distributors. Unless it is so extended the control would be ineffective. Enforcement requires that inspectors should have powers to inspect the books of such firms.

The Solicitor General has indicated to my Minister that he cannot advise that such powers could be properly exercised under Article 95(1) ECSC. No other Member State nor the Council's Legal Services has such reservations.

Prime Minister
The Solicitor General is worried that the power of entry could be challenged in the European Court. But the steel stock-holders are happy with the proposal, and other Governments do not believe it is ultra vires. Mr Tebbitt has accordingly ~~[illegible]~~ gone along with it.
T.
24/6

(This is only a temporary measure. Permanent powers of entry would have to be taken in new legislation).
T.

Without urgent action the BSC MacGregor plan cannot be achieved and substantial losses beyond those envisaged in the plan would be incurred. The industry and trades unions are in agreement with the proposals of the Commission. It would be for my Minister to defend in Parliament the proposed action, and this he is prepared to do.

Mr Tebbit believes that it is essential that the UK should not prevent an agreement in the Council tomorrow and that he must therefore agree to the proposed measures despite the Solicitor General's misgivings. He feels however that the Prime Minister should be aware of the Solicitor General's misgivings and his own intentions.

I am copying this letter (without attachments) to the Private Secretaries of all members of OD(E), the Chancellor of the Duchy of Lancaster, and the Solicitor General and to David Wright.

Yours sincerely

Peter Mason

PETER MASON
Private Secretary

RECEIVED IN
23 JUN 1981
OFFICE OF THE
MINISTER OF STATE

SOLICITOR GENERAL

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

23 June, 1981

Norman Tebbit, Esq., MP,
Minister of State,
Department of Industry,
Ashdown House,
123 Victoria Street,
London, SW1.

Sols
Mr Melville
WEG
B

Dear Norman,

I have considered your letter of 19 June as best I can in the time available (it arrived yesterday).

It seems that what is desired is powers of entry to ensure that no-one is selling steel too cheaply. No doubt that is why the inspector should have powers to go through the books and accounts - I suppose they will be looking in detail for all kinds of ways in which price has been disguised, e.g., by giving discounts, etc.

I really do not have anywhere near sufficient information to give to your proposals the kind of consideration which I have to give to the very frequent desires of other departments to have such powers and so I can not do as you ask, that is to say accept either the temporary powers - or more particularly the proposed permanent ones.

As to the temporary powers, you will, I know, bear in mind the doubts as to the vires of the proposal as a whole. As to the permanent ones I would hope that we would have the opportunity to discuss the implementing legislation in detail at a later stage.

If you or any of your officials would like to discuss this I shall be very happy to do so.

I am copying this letter to Members of OD(E), Francis Pym and Sir Robert Armstrong.

I am sorry that I cannot help. If there were more time I would like to do as I do with other Departments - discuss other ways of achieving the same objectives - as seems possible here - but as you need an answer so quickly it has to be as above.

Yours ever
Ian.

Sols

PB

NEG

Foreign and Commonwealth Office
London SW1

RECEIVED IN
22 JUN 1981
OFFICE OF THE MINISTER OF STATE

22 June 1981

Dear Minister of State

APPLICATION OF ESCS PRICE RULES TO DISTRIBUTORS

I have seen your letter to Ian Percival of 19 June.

I believe that our policy objectives in the Community on steel require that we support the nine other Member States who are prepared to agree the prices decision for a temporary period while Member States implement a Commission recommendation under Article 63.3. The Commission's efforts to eliminate price cutting are essential to our attempts to reduce subsidies and restore the industry to profitability. I recognise that this poses the legal difficulties which you set out in your letter, but I understand that our representatives in Brussels have made several attempts to meet the points. In the last resort, they have been unable to carry other Member States with us and I agree that we cannot be in a minority of one in holding up a decision which we believe to be an essential part of the steel package, and vital to our industry. I think this is particularly true given that the Council legal services have produced an opinion which I understand is again supported by all other Member States that the Commission proposals can be justified on a temporary basis in the present circumstances.

/I recognise

Norman Tebbit Esq MP
Minister of State
Department of Industry
123 Victoria Street
London SW1E 6RB

3/23.6.

I recognise that right of entry is a sensitive issue but the objections to proceed under Article 95.1 are lessened by its temporary nature. But it will, of course, be for you to justify to Parliament our support for this measure.

I am copying this letter to members of OD(E), to Francis Pym, to Ian Percival, and to Sir R Armstrong.

Yours sincerely

M A Arthur

Approved by the Lord Privy Seal
and signed in his absence

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From the
Minister of State
Norman Tebbit MP

Sir Ian Percival QC MP
Solicitor General
Law Officers' Department
Royal Courts of Justice
Strand
WC2 2LL

19 June 1981

Dear Solicitor General,

STEEL: APPLICATION OF ECSC PRICING RULES TO DISTRIBUTORS

You have, I understand, expressed the view that it would not be a proper use of Article 95.1 ECSC to make a Commission decision in order to extend the ECSC pricing rules to distributors, since the power to make a recommendation to deal with such matters already exists under Article 63.3 ECSC. Your views on this question were not affected by the fact that the decision would be a temporary one, pending the implementation by Member States of a recommendation made under Article 63.3. However you considered that a decision which was expressed to be of a temporary nature and to be prompted by a real and immediate crisis would be less likely to create a damaging precedent.

The Commission in the meantime has produced a draft decision (of which I attach a copy, only available in French) to operate only until 30 June 1982 and referring to a parallel recommendation to Member States in the preamble, which describes the need for the decision in terms of the urgency of measures to improve the market situation and the time that will be needed to complete the legislative procedures in Member States to give effect to the recommendation.

Officials have, of course, insisted in Brussels that the UK's position must be reserved both because of the legal objections to the use of Article 95.1 and because of the added political sensitivity of giving rights of inspection (necessary for enforcement) when such rights would rise from a decision of doubtful legal propriety.

The Council Legal Services, speaking also on behalf of the Commission's Legal Services, took the view, however, that since it had now been demonstrated that there was a very urgent need for the immediate extension of the pricing rules to distributors and that national legislative procedures to implement the recommendation would take a considerable time, the decision could be justified as a transitional measure compatible with the Treaty. No other Member State representative had any objection to raise to this procedure so that we were left in an isolated position; nor was there any disposition to consider the alternative - although we put it forward strongly - of using Article 95.3 and 4.

It was made clear that the decision and recommendation would be phrased in similar terms, mutatis mutandis, and implementation of the recommendation by Member States would take over from the decision. If experience of operating the decision showed that its provisions needed tightening or otherwise amending, this would be proposed - and by implication similar changes made to the recommendation. Discussion in Brussels has recognised the difficulty in the adoption of two Community instruments dealing with the same matters at the same time. It is expected that arrangements will be worked out to overcome this. One possibility is that this might be achieved by requiring implementation of the recommendation on 1 July 1982, immediately following the expiry of the decision.

It is vital that steel prices should rise if the crisis in the steel industry is to be resolved. To encourage this process the Commission is seeking better enforcement of the ECSC pricing rules which require transparency and non-discrimination in pricing. The present measure is designed to prevent cladestine price cutting through distributors. I therefore wish at the forthcoming Council on 24 June to be able to support the immediate implementation of what is a logical part of the package of measures to deal with the crisis in the steel industry.

The provision for the inspection of documents to verify observance of the pricing rules implies the right to enter premises but there is no prospect of securing the removal of this provision, which is regarded as essential to ensure that the measure is seen to be capable of enforcement and not to leave effective freedom for the unscrupulous. I recognise that right of entry is a very sensitive area. But the objections to proceeding under Article 95.1 are lessened by its temporary nature. We ought therefore to be able to argue the rights of entry point as essential to any effective prices regime. I should add that this is accepted by the UK National Association of Steel Stockholders. I hope, therefore, that you can accept the inclusion of this provision in the decision and in the subordinate legislation that will be required under section 2(2) of the European Communities Act to implement the recommendation.

I think it would be helpful to explain to Parliament the position on this and other aspects of the Community package to deal with the problems of steel and hope that it will be possible to do this early in July. A formal Parliamentary reserve could be maintained in the meantime, while indicating the UK Government's support for the proposal.

I am sorry that the force of events allows so little time but given our overall policy objectives and the need to take up a position on 24 June I see little alternative to proceeding on this basis.

I am copying this letter to Members of OD(E), Francis Pym and Sir Robert Armstrong.

Yours sincerely,

Heather Archer.

pp NORMAN TEBBIT
(Approved by the Minister and signed in his absence)

Ind Pol

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

23 June 1981

M O D'B Alexander Esq
10 Downing Street
London SW1

~~Type for PM's signature & submit with M. Thorn's letter.~~ Mal

Dear Michael

Francis Richards copied to me his letter to you of 16 June covering M. Thorn's letter of 11 June to the Prime Minister.

I enclose a short draft letter which the Prime Minister might send to the President of the European Commission in reply to his letter. This draws on the letter the Prime Minister sent to Chancellor Schmidt on 18 June.

Yours sincerely
Catherine Bell
CATHERINE BELL
Private Secretary

Secretary of State for
Foreign and Commonwealth
Relations

The Secretary of State
for Industry

The UK Permanent Represeentativ
to the EEC
Sir Robert Armstrong

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO

M Gaston E Thorn
The President
Commission of the European Communities
200, rue de la Loi
1049 BRUSSELS
Belgium

Thank you for your letter of 11 June.

I wholeheartly agree with Chancellor Schmidt on the need for a Community decision requiring state aids that are contrary to the ECSC Treaty to be phased out and linked to capacity reduction. It was disappointing that more progress was not made by the Council on 4 June. I hope for better results at the next meeting on 24 June. It is also important that we reach agreement on social measures to demonstrate the Community's concern for the social consequences of capacity reduction.

I am grateful for the efforts being made in the Commission in putting forward proposals on these matters.

cc. Martin
Opl.

JAA

PRIME MINISTER'S PERSONAL MESSAGE

SERIAL No. T92/81

cc FCO
DOI
CO
HMT

CF

10 DOWNING STREET

THE PRIME MINISTER

18 June 1981

Dear Chancellor,

Thank you very much for your telegram of 1 June.

I wholeheartedly agree with you on the need for a Community decision requiring state aids that are contrary to the Treaty to be phased out and linked to capacity reduction. It is disappointing that more progress could not be made by the Council on 4 June although closely similar positions on behalf of the Federal Republic of Germany and the United Kingdom were taken by Count Lambsdorff and Norman Tebbit, who had met beforehand. I hope for better results at the next Council discussion due on 24 June. It is also important that we reach agreement on social measures to demonstrate the Community's concern for the social consequences of capacity reduction.

I hope that we can continue to concert our positions, the more so as the positions of other Member States evolve.

Yours sincerely

Margaret Thatcher

His Excellency Herr Helmut Schmidt

Foreign and Commonwealth Office

London SW1A 2AH

B/F
with any
comment from Industry.
Mrd.

16 June 1981

Dear Michael,

Steel

/ I enclose a letter dated 11 June from the President of the Commission to the Prime Minister which covers correspondence which he has had with Chancellor Schmidt on the need for early progress to curtail specific aids to the European steel industry.

I am copying this letter to Ian Ellison as you will no doubt wish the Department of Industry to consider whether, and if so on what terms, the Prime Minister should reply to the President's letter.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

M O D'B Alexander Esq
10 Downing Street
LONDON
SW1

SEC(81)10.071

A b s c h r i f t

Bonn, den 1. Juni 1981

Sehr geehrter Herr Präsident,

mit wachsender Sorge erfüllt es mich, daß in den EG-Mitgliedstaaten umfangreiche sektorale Beihilfeprogramme ins Werk gesetzt werden, um den Struktur- und Anpassungsproblemen in einzelnen Industriebereichen zu begegnen. Der Europäischen Gemeinschaft erwächst daraus eine zunehmende Belastung. Der sich entwickelnde Subventionswettlauf unter den Mitgliedstaaten führt zu einer Fehlleitung von Ressourcen, die wir uns alle nicht erlauben können. Dies gilt um so mehr, als die Subventionen zur Unrentabilität auch der an sich wettbewerbsfähigen Unternehmen führen.

Das Ausmaß der bereits gewährten oder noch geplanten Beihilfen im Stahlbereich ist besonders besorgniserregend. Die auf breiter Front in verschiedenen Mitgliedstaaten gegebenen Subventionen haben bei der deutschen Stahlindustrie schon in der Vergangenheit zu empfindlichen Schädigungen geführt, nunmehr stellen sie unsere Industrie zunehmend vor Existenzprobleme. Das unauskömmlich niedrige Stahlpreisniveau in der EG ist nicht zuletzt auch subventionsbedingt.

Sie werden verstehen, daß die auf dem europäischen Stahlmarkt entstandene Situation für meine Regierung nicht mehr hinnehmbar ist. Auch die deutsche Öffentlichkeit verfolgt mit großer Sorge, daß die Gemeinschaft bisher nicht in der Lage war, die entstandenen Probleme zu lösen. Sie erwartet wirksame Gegenmaßnahmen, wie sie die EG-Kommission in der Ratssitzung vom 27. März 1981 zugesagt hat.

Der Europäische Rat war sich in Maastricht darin einig, daß die Einheit des Marktes durch die Verringerung und schrittweise Beseitigung der staatlichen Hilfen und der unwirtschaftlichen Kapazitäten gewahrt werden muß. Eine freiwillige Vereinbarung der Unternehmen sollte dies ergänzen. Diese Grundsätze müssen umgehend verwirklicht werden. Nur auf diesem Wege wird innerhalb der EG wieder ein Preisniveau erreicht werden können, das den wettbewerbsfähigen Unternehmen der Stahlindustrie wieder wirtschaftliche Chancen vermittelt.

Der Rat der EG wird am 4. Juni 1981 die Stahlpolitik erörtern. Die EG-Kommission hat ihm, wenn auch kurzfristig, den Entwurf eines neuen Subventionskodex zur Zustimmung vorgelegt. Ich halte es für dringend wünschenswert, daß der Rat am 4. Juni 1981 klare Zeichen für einen deutlichen und schnellen Abbau der Subventionen in Europa setzt und zumindest die Eckdaten für den künftigen Kodex (einschließlich enger Fristen) festlegt.

Ebenso notwendig ist es, daß die Kommission in allernächster Zeit über die ihr vorliegenden Beihilfepläne in strikter Anwendung des Kodex und der Ratsentschließung vom 27. März entscheidet. Nur wenn das geschieht und daran deutlich wird, daß es allen Beteiligten mit der Eindämmung der Subventionen ernst ist und daß dabei auch Fortschritte gemacht werden, wird der gemeinsame Stahlmarkt zu erhalten sein.

Ich wäre Ihnen dankbar, wenn sie darauf hinwirken könnten, daß der Vertreter der Kommission im Interesse des guten Funktionierens der Gemeinschaft am 4. Juni 1981 auf eine Entscheidung des Rates in diesem Sinne hinwirkt. An die Staats- bzw. Regierungschefs der Mitgliedstaaten habe ich gleichlautende Schreiben gerichtet.

Mit freundlichen Grüßen

gez. Helmut Schmidt

Bundeskanzler der Bundesrepublik Deutschland

cc A Duguid
A Walters

Nat Ind

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
London
SW1A 2ER

16 June 1981

DUPORTS: RAIL FACILITIES AT LLANELLI WORKS

Thank you for copying to me your letter of 15 May to Sir Keith Joseph.

At this stage there are no comments I can usefully offer on what I agree is a difficult problem. Because of my responsibility in Scotland for these grants I should like to continue to be kept informed of developments. Fortunately, we have not yet had this problem. It would be useful if I could see the advice given by Treasury Solicitor and I shall be grateful if you would arrange for this.

Copies of this letter go to recipients of yours.

GEORGE YOUNGER

PV

Dept Ind.

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

15 June 1981

Michael Alexander Esq
10 Downing Street
London SW1

Dear Michael

Thank you for your letter of 1 June forwarding the message from Chancellor Schmidt about the steel industry. I am enclosing a draft reply and sending copies to Francis Richards (FCO), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Yours sincerely

Catherine Bell

CATHERINE BELL
Private Secretary

Type for PM

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO THE CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY, HERR HELMUT SCHMIDT

Thank you very much for your telegram of 1 June.

2 I wholeheartedly agree with you on the need for a Community decision requiring state aids that are contrary to the Treaty to be phased out and linked to capacity reduction. It is disappointing that more progress could not be made by the Council on 4 June although closely similar positions on behalf of the Federal Republic of Germany and the United Kingdom were taken by Count Lambsdorff and Norman Tebbit, who had met beforehand. I hope for better results at the next Council discussion due on 24 June. It is also important that we reach agreement on social measures to demonstrate the Community's concern for the social consequences of capacity reduction.

3 I hope that we can continue to concert our positions, the more so as the positions of other Member States evolve.

c.c. A Walters
A Duguid

Nat Ind

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department Of Industry
Ashdown House
123 Victoria Street
London SW1

12 June 1981

Dear Keith,

DUPORTS: RAIL FACILITIES AT LLANELLI WORKS

I have seen Nicholas Edwards' letter to you of 15 May seeking comments on his view that he has no alternative to informing Duports that they must repay the grant made under Section 8 of the Railways Act 1974 and asking for their proposals.

I concur with his decision that, providing the legal position is clear, accounting propriety demands that we should seek repayment of freight facilities grant made to Duports in respect of their Llanelli Works, subject to whatever reduction he considers to be reasonable in respect of the environmental benefit already enjoyed.

If the Group could make a good case for some flexibility of the repayment terms in view of their financial difficulties, my officials would be very willing to discuss with yours and the Welsh Office possible arrangements on the timing of repayments as Nicholas suggests.

I am copying this letter to the Prime Minister, Norman Fowler, and members of E(EA).

Yours
Leon

LEON BRITTAN

cc A Duguid
A Walters

Noted

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
Norman Tebbit MP

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
London
SW1A 2ER

12/6

11th June 1981

D Nick.

DUPORT: RAIL FACILITIES AT LLANELLI WORKS

Thank you for your letter of 15 May to Keith Joseph about the need for recovery from Duport Limited of some of the freight facilities grant at Llanelli. As Duport have correctly represented to your Department, we are very much concerned that the group shall prove to be viable for a reasonable period of time. Keith Joseph has authorised BSC to pay £25 million for those of Duport's steel-making assets which were considered important to a new joint venture company in the engineering steels sector.

It was made plain to all concerned, including the Bank of England and the group's bankers, that we considered it part of the arrangements that the group should remain in existence in the immediately foreseeable future. We do not of course expect the Midland bank to hold them up indefinitely if it ultimately proves to be totally unviable. However we believe that most of the remaining companies within the group have good prospects, and that with some rationalisation of their foundry businesses they have reasonable prospects if they can live through the immediate short term spell of dramatic rationalisation. We are thus concerned to ensure that public funds have not been used simply to secure assets which arguably might have been obtained more cheaply, though less conveniently, from a Receiver.

Our second concern is over repayment of part of the Regional Development Grants paid to Duport Steel Ltd in respect of assets at the Llanelli Steel Works. The company was well aware of the standard conditions attaching to all RDG payments. When representatives came to see officials here in early February in the first round of negotiations with BSC, it was made clear that repayments could not be waived but we did discuss provisional terms for an instalment arrangement as part of the deal then being implemented. However, when the final arrangements between BSC and Duport were renegotiated, the possibility of repayment by instalments was not pursued. We have therefore initiated normal recovery procedures, although we will not know precisely how much is due until we have fuller details from Duport of the disposal of the costs.

If Duport took the initative in seeking afresh to justify an instalment arrangement for RDGs, we would look at it on its merits in the light of their present financial situation, about which we have little up to date information.

We would not want anything to be said to Duport which might <u>encourage</u> them to seek to delay RDG repayments for which it appears they made provision when the group was reconstructed in March. It would therefore be helpful if your letter to Duport could avoid any hint of possible deferment of recovery, as they would inevitably then seek to obtain a similar concession to the terms of the RDG recovery.

At the time the deal with BSC was concluded, the company, and perhaps more importantly their bankers, were working on your earlier view that without statutory provision, repayment of grant was unlikely. As you know we cannot tell what assessment was made of the likelihood of having to repay your grant, nor what financial provision, if any, was made. However in the Chairman's letter to shareholders at the end of March (which you have already seen) the following passage appears:-

> "... other Group rationalisation costs are estimated at approximately £13.9 million, including the anomalous repayment of Government grants relating to Llanelli of £3.6 million."

Since £2.3 million of that is RDG and £1.3 million for freight facilities this does sugest that both the company and their bankers had realised that it was likely that not only the RDG but the rail freight grant would have to be repaid, and indeed have warned their shareholders accordingly.

I note that you are contemplating a broadly similar approach to our own over seeking repayment of grant. This may well lead the company to seek discussions with your Department in much the same way as we anticipate our approaches may do. At that point it would be helpful if we saw the details of the company's finances so that we could discuss the case against that background rather than in the abstract.

I am copying this letter to the recipients of yours.

Norman

NORMAN TEBBIT

COMMISSION
OF THE
EUROPEAN COMMUNITIES

The President

200 RUE DE LA LOI
1049 BRUSSELS
TEL: (02) 735 80 40

11. VI. 1981

SG (81) D/ 7906

Dear Prime Minister,

I have the honour to send you enclosed copies of correspondence between Mr Schmidt, Chancellor of the Federal Republic of Germany, and the Commission concerning the development of steel industry problems in the Community and relating in particular to the subject of aids to the industry.

Yours sincerely

Gaston E. THORN

The Right Hon. Mrs Margaret Thatcher
Prime Minister
10, Downing Street
LONDON SW1

C O P Y

Bonn, 1 June 1981

Dear Sir,

I note with increasing concern that extensive programmes of sectoral aids are being implemented in the Member States of the Community to deal with problems of structure and readjustment in individual industries. This gives rise to increasing burden for the European Community. The subsidies race which is developing between the Member States is leading to a misdirection of resources which none of us can afford. The more so, since subsidies are leading to un-profitability even in undertakings which of themselves are competitive.

The extent of the aids already granted or merely planned in the steel sector is a cause for particular concern. The subsidies given on a wide front in various Member States have already in the past led to significant damage to the German steel industry; they are now, increasingly, threatening the very survival of our industry. The intolerably low level of prices in the European Community is also to a considerable extent due to subsidies.

You will understand that the situation which has arisen on the European steel market is no longer acceptable to my Government. The German public is also aware with considerable disquiet that the Community has so far not been able to solve the problems which have arisen. It expects effective countermeasures such as those to which the Commission of the European Communities agreed at the Council meeting of 27 March 1981.

The European Council agreed unanimously in Maastricht that the unity of the market must be preserved by the reduction and progressive removal of state aids and un-profitable capacity. This was to be complemented

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by a voluntary agreement on the part of the undertakings. These principles must be put into effect without delay. Only in this way will it be possible within the European Community to restore a level of prices which will afford the competitive undertakings in the steel industry a chance of regaining profitability.

The Council of th EC will discuss steel policy on 4 June 1981. The Commission has presented for Council approval a draft for a new subsidy code, albeit at short notice. I consider it a matter of urgency that the Council on 4 June 1981 give a clear signal for an unequivocal and rapid dismantling of subsidies in Europe and at least establish the basic data for the future code (including close time limits).

It is equally necessary that the Commission take a decision in the immediate future on the aid plans which it has before it in strict application of the code and of the Council Resolution of 7 March. Only if this is done and it can be clearly seen thereby that all those involved are serious in their concern to put an end to subsidies and that progress is also being made, can the common market in steel be saved.

I should be grateful to you if you could use your influence to ensure that the Commission representative, in the interest of the proper functioning of the Community, will endeavour to obtain a Council Decision on these lines on 4 June 1981. I have sent letters voicing these same concerns to the Heads of State and Government of the other Member States.

Yours sincerely.

signed Helmut SCHMIDT
Federal Chancellor of the Federal Republic
of Germany

COMMISSION
OF THE
EUROPEAN COMMUNITIES

The President

200 RUE DE LA LOI
1049 BRUSSELS

TEL: (02) 735 80 40

Brussels, 3 June 1981

Dear Sir,

Thank you very much for your letter of 1 June, in which you express your concern over the development of the steel problems in the Community.

The Commission shares your concern and is endeavouring, in accordance with the responsibility which it bears, to propose appropriate measures and to translate them into action. Indeed, in the past few weeks we have put forward precise proposals designed to create the conditions for the increase in prices of steel products which is so vitally needed and to intensify efforts to normalize the market situation.

We have also drawn up our position on the question of the restructuring of this sector of industry and on the control of aids, which is an indispensable complement to this action.

Finally, we have just presented considerations which will make clear the extent to which we are disquieted by the deterioration in the situation from a social point of view. In this connection, we are not considering increasing the burden on the Community budget for 1981.

With regard to aids specifically, I can assure you that the Commission is determined to take up position regarding restructuring programmes in the light of the Council Resolution of 27 March 1981. It is the Commission's intention to proceed on these lines as of now.

Mr. Helmut SCHMIDT
Chancellor of the
Federal Republic of Germany,
Chancellery,
Adenuer-Allee 139

D-5300 BONN 1

.../...

It is vital that the Council take position regarding market problems, as requested by the Commission, at its meeting on 4 June. We must also continue the work in connection with the subsidy code and social measures. It is however possible that several governments, for domestic political reasons, may not - as desired by you and ourselves - be able to state their positions conclusively on 4 June. I do not believe, however, that this will present major difficulties, since the Commission is determined to abide by the Resolution of 27 March and since a further Council meeting is scheduled for 24 June.

The Commission is convinced that, if we all pull together, all difficulties - and you may be assured that I do not underestimate your own difficulties - can be overcome and that we can give this vital sector of industry hope of a recovery.

I have sent a copy of this letter to the Heads of State and Government of the Member States of the Community.

I should be very glad to meet you during the course of the month.

Yours sincerely,

Gaston E. THORN

Translation

T82/81

Top copy filed on.

Telegramme

from Herr Helmut Schmidt, Chancellor of the Federal Republic of Germany

to

The Rt. Hon. Margaret Thatcher, MP, Prime Minister

Dear Prime Minister,

It fills me with growing concern that extensive aid programmes are being initiated in the member states of the European Community so as to meet structural and adjustment problems in individual sectors of industry. This places an increasing burden on the European Community. The race for subsidies developing among member states leads to a misdirection of resources which none of us can afford. This applies all the more as subsidization eventually leads to the unprofitability of competitive enterprises as well.

The extent of official aid granted or still being planned in the steel sector is particularly alarming. Large-scale subsidies in various member states have caused considerable damage to the German steel industry in the past and now increasingly confront our industry with problems threatening its very existence. The inadequate low price level of steel in the European Community is in no small measure also the result of subsidising practices.

You will understand that the situation as it has arisen in the European steel market is no longer acceptable to my Government. The German public also note with great concern that the Community has so far not been in a position to solve the problems that have arisen. They expect effective countermeasures such as were promised by the EC Commission at the Council Meeting on 27 March 1981.

At its meeting in Maastricht the European Council was agreed that the unity of the market must be maintained by scaling down and gradually eliminating the state aid and by reducing less competitive capacities. This process should be complemented by a voluntary agreement among enterprises. These are principles that must be put into practice without delay. It is only in this way that a price level can be restored within the European Community, which will again afford competitive steel enterprises economic prospects.

The EC Council will be discussing the subject of steel policy on 4 June 1981. It will have before it for approval a draft code on subsidies submitted to it, though at short notice, by the EC Commission. I regard it as highly desirable that the Council should give a clear signal on 4 June for a marked and rapid scaling down of state aid in Europe and determine at least the standard data for the future code (including strict time limits). It is equally necessary that the Commission should take a decision in the immediate future on the aid plans submitted to it and, in doing so, strictly apply the provisions of the code and the Council's resolution of 27 March. Only if this is done and the decision makes it clear that all concerned are seriously intent on containing state aid, and that progress is being made in this direction, can the common steel market be maintained.

I would be grateful if you could bring your influence to bear so that your country's representative on the Council will, in the interest of the Community's smooth functioning, influence the Council's decision on 4 June along these lines.

I am sending this letter to all my colleagues on the European Council as well as to the President of the Commission of the European Community.

Yours sincerely,
Helmut Schmidt
Chancellor of the Federal
Republic of Germany

Wat hid

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

cc. A. Duguid
A. Walters

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

5 June 1981

R.

Dear Keith.

I have seen Nick Edwards' letter of 15 May to you about the grant paid to the Duport Group under Section 8 of the Railways Act 1974.

Perhaps I should begin by explaining my Department's brief involvement in this case. At the request of officials in your Department, representatives of Duport who were gathered in London to meet your officials came to talk to mine about repayment of the grant as part of a survival package for the company. At that meeting it was made clear that the administration of this grant in Wales was Nicholas Edwards' responsibility. The issues were, therefore, discussed on the telephone with officials in Cardiff and their advice was passed on to the representatives of Duport.

On the question of repayment of the grant, we usually attach conditions to the approval which make it clear that if these are not complied with in one particular or another we reserve the right to withdraw the undertaking to pay all or part of the grant or, if necessary, to require repayment of grant as appropriate. We rely on Section 8(4) of the 1974 Act to impose conditions. Repayment of grant has not been required in any 'English' case and the legality of recovery has not, therefore, been tested.

I am not in a position to form an opinion about the impact on the on-going viability of the Group of recovery of all or part of the grant but I would not dissent from the line which Nick Edwards proposes to take as set out in his Private Secretary's letter of 29 May.

Copies of this letter go to the Prime Minister, other members of E(EA) and Nicholas Edwards.

Yours ever,
Norman

NORMAN FOWLER

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SWIA OAA
01-219 5469 (Direct Line)/5778/5779
01-219 3000 (Switchboard)

INDUSTRY AND TRADE COMMITTEE

R

— Information for the Press

British Steel Corporation - Report and Press Conference

On Wednesday 10th June at 2.30 p.m. the Industry and Trade Committee will publish a report on the effects of the British Steel Corporation's Corporate Plan. The Chairman of the Committee, Sir Donald Kaberry, will hold a press conference at 2.30 p.m. in Committee Room 8 at the House of Commons to coincide with publication.

Confidential Final Revise Copies of the Report (to be published as the Committee's Fourth Report for 1980-81 - H.C. Paper No. 336-I) will be made available to the press, to witnesses and to government departments at 11.00 a.m. on Tuesday 9th June in the Committee Office, House of Commons, on the clear understanding that no public use is made of them before the time of publication.

European Air Fares - Start of Inquiry

Also on Wednesday 10th June at 10.45 a.m. the Committee will begin a series of meetings on European air fares by taking evidence from Lord Trefgarne, the Parliamentary Under-Secretary at the Department of Trade. The meeting will be held in Committee Room 16.

G. Cubie
R. Lloyd Thomas

Clerks to the Committee

4th June 1981

File

Nat Ind

DSS

10 DOWNING STREET

From the Private Secretary

1 June 1981

~~B/F~~ 15-6-81

I enclose a copy of the text of a message about Community policy towards the steel industry from the Chancellor of the Federal Republic. I have acknowledged receipt of the message. No doubt you will let me know in due course if you think a substantive reply is called for.

I am sending copies of this letter and its enclosure to Francis Richards (Foreign and Commonwealth Office), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Ian Ellison, Esq.,
Department of Industry.

File

1 June 1981

I am replying on the Prime Minister's behalf to your letter to her of 1 June. The message which you enclosed from the Chancellor of the Federal Repuglic has been placed before the Prime Minister.

His Excellency Dr. Jurgen Ruhfus, KBE.

DER BOTSCHAFTER
DER BUNDESREPUBLIK DEUTSCHLAND

Jürgen Ruhfus

London, 1st June 1981

Dear Prime Minister

I have the honour to transmit to you the enclosed telegramme from the Chancellor of the Federal Republic of Germany, Herr Helmut Schmidt.

A translation is also attached.

I am, dear Prime Minister,

Yours sincerely
Jürgen Ruhfus

The Rt. Hon. Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury

L o n d o n

SUBJECT

c.c. Master
OPS

Translation

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T82/80

Telegramme

from Herr Helmut Schmidt, Chancellor of the Federal Republic of Germany

to

The Rt. Hon. Margaret Thatcher, MP, Prime Minister

Dear Prime Minister,

It fills me with growing concern that extensive aid programmes are being initiated in the member states of the European Community so as to meet structural and adjustment problems in individual sectors of industry. This places an increasing burden on the European Community. The race for subsidies developing among member states leads to a misdirection of resources which none of us can afford. This applies all the more as subsidization eventually leads to the unprofitability of competitive enterprises as well.

The extent of official aid granted or still being planned in the steel sector is particularly alarming. Large-scale subsidies in various member states have caused considerable damage to the German steel industry in the past and now increasingly confront our industry with problems threatening its very existence. The inadequate low price level of steel in the European Community is in no small measure also the result of subsidising practices.

You will understand that the situation as it has arisen in the European steel market is no longer acceptable to my Government. The German public also note with great concern that the Community has so far not been in a position to solve the problems that have arisen. They expect effective countermeasures such as were promised by the EC Commission at the Council Meeting on 27 March 1981.

At its meeting in Maastricht the European Council was agreed that the unity of the market must be maintained by scaling down and gradually eliminating the state aid and by reducing less competitive capacities. This process should be complemented by a voluntary agreement among enterprises. These are principles that must be put into practice without delay. It is only in this way that a price level can be restored within the European Community, which will again afford competitive steel enterprises economic prospects.

The EC Council will be discussing the subject of steel policy on 4 June 1981. It will have before it for approval a draft code on subsidies submitted to it, though at short notice, by the EC Commission. I regard it as highly desirable that the Council should give a clear signal on 4 June for a marked and rapid scaling down of state aid in Europe and determine at least the standard data for the future code (including strict time limits). It is equally necessary that the Commission should take a decision in the immediate future on the aid plans submitted to it and, in doing so, strictly apply the provisions of the code and the Council's resolution of 27 March. Only if this is done and the decision makes it clear that all concerned are seriously intent on containing state aid, and that progress is being made in this direction, can the common steel market be maintained.

I would be grateful if you could bring your influence to bear so that your country's representative on the Council will, in the interest of the Community's smooth functioning, influence the Council's decision on 4 June along these lines.

I am sending this letter to all my colleagues on the European Council as well as to the President of the Commission of the European Community.

Yours sincerely,
Helmut Schmidt
Chancellor of the Federal
Republic of Germany

T82/80

Telegramm

von Herrn Helmut Schmidt, Bundeskanzler der Bundesrepublik Deutschland

an

The Rt. Hon. Margaret Thatcher, MP, Prime Minister

Sehr geehrte Frau Premierminister,

Mit wachsender Sorge erfüllt es mich, dass in den EG-Mitgliedstaaten umfangreiche sektorale Beihilfeprogramme ins Werk gesetzt werden, um den Struktur- und Anpassungsproblemen in einzelnen Industriebereichen zu begegnen. Der Europäischen Gemeinschaft erwächst daraus eine zunehmende Belastung. Der sich entwickelnde Subventionswettlauf unter den Mitgliedstaaten führt zu einer Fehlleitung von Ressourcen, die wir uns alle nicht erlauben können. Dies gilt um so mehr, als die Subventionen zur Unrentabilität auch der an sich wettbewerbsfähigen Unternehmen führen.

Das Ausmass der bereits gewährten oder noch geplanten Beihilfen im Stahlbereich ist besonders besorgniserregend. Die auf breiter Front in verschiedenen Mitgliedstaaten gegebenen Subventionen haben bei der deutschen Stahlindustrie schon in der Vergangenheit zu empfindlichen Schädigungen geführt, nunmehr stellen sie unsere Industrie zunehmend vor Existenzprobleme. Das unauskömmlich niedrige Stahlpreisniveau in der EG ist nicht zuletzt auch subventionsbedingt.

Sie werden verstehen, dass die auf dem europäischen Stahlmarkt entstandene Situation für meine Regierung nicht mehr hinnehmbar ist. Auch die deutsche Öffentlichkeit verfolgt mit grosser Sorge, dass die Gemeinschaft bisher nicht in der Lage war, die entstandenen Probleme zu lösen. Sie erwartet wirksame Gegenmassnahmen, wie sie die EG-Kommission in der Ratssitzung vom 27. März 1981 zugesagt hat.

Der Europäische Rat war sich in Maastricht darin einig, dass die Einheit des Marktes durch die Verringerung und schrittweise Beseitigung der staatlichen Hilfen und der unwirtschaftlichen Kapazitäten gewahrt werden muss. Eine freiwillige Vereinbarung der Unternehmen sollte dies ergänzen. Diese Grundsätze müssen umgehend verwirklicht werden. Nur auf diesem Wege wird innerhalb der EG wieder ein Preisniveau erreicht werden können, das den wettbewerbsfähigen Unternehmen der Stahlindustrie wieder wirtschaftliche Chancen vermittelt.

Der Rat der EG wird am 4. Juni 1981 die Stahlpolitik erörtern. Die EG-Kommission hat ihm, wenn auch kurzfristig, den Entwurf eines neuen Subventionskodex zur Zustimmung vorgelegt. Ich halte es für dringend wünschenswert, dass der Rat am 4. Juni klare Zeichen für einen deutlichen und schnellen Abbau der Subventionen in Europa setzt und zumindest die Eckdaten für den künftigen Kodex (einschliesslich enger Fristen) festlegt.

Ebenso notwendig ist es, dass die Kommission in allernächster Zeit über die ihr vorliegenden Beihilfepläne in strikter Anwendung des Kodex und der Ratsentschliessung vom 27. März entscheidet. Nur wenn das geschieht und daran deutlich wird, dass es allen Beteiligten mit der Eindämmung der Subventionen ernst ist und dass dabei auch Fortschritte gemacht werden, wird der gemeinsame Stahlmarkt zu erhalten sein.

Ich wäre Ihnen dankbar, wenn Sie darauf hinwirken könnten, dass der Ratsvertreter Ihres Landes im Interesse des guten Funktionierens der Gemeinschaft am 4. Juni auf eine Entscheidung des Rates in diesem Sinne hinwirkt.

Dies Schreiben richte ich an alle Kollegen im Europäischen Rat sowie an den Präsidenten der Kommission der Europäischen Gemeinschaften.

Mit freundlichen Grüssen

Helmut Schmidt

Bundeskanzler der Bundesrepublik
Deutschland

cc A Duguid
A Walters

Nat Ind

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GWYDYR HOUSE
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Tel. 01-233 3000 (Switsfwrdd)
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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

29 May 1981

Dear Mr Ellison,

DUPORTS: RAIL FACILITIES AT LLANELLI WORKS

DL 4/6

I am afraid that a paragraph was inadvertently omitted from my Secretary of State's letter of 15 May. It should be inserted as the last substantive paragraph in that letter and reads as follows:

> "In the circumstances I see no alternative to informing Duports now that they must repay the grant under Section 8 of the Railways Act 1974, and to ask for their proposals. My Department will however be wishing to consult with the Treasury and Department of Industry about the timing of repayment if the Group can now show good cause for deferment. There will be some abatement of the sum to be recovered in respect of environmental benefit already enjoyed; but I expect that to be very small."

I am sorry for any inconvenience this may have caused.

Copies of this letter go to the Private Secretaries of the recipients of my Secretary of State's letter.

Yours sincerely
Leighton Davies

pp J F CRAIG
Private Secretary

Ian Ellison Esq
Private Secretary to
The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON

N Ind
Steel
MAP

File X Ps
Nat Ind

10 DOWNING STREET

From the Private Secretary

26 May 1981

CF to Lite

The Prime Minister has seen and noted Mr. Tebbit's minute of 21 May, about Round Oak Steel Works.

M. A. PATTISON

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

cc Mr Wolfson
Mr Duguid
Mr Ingham

1.

Prime Minister

Content?

MAP 21/6

Prime Minister

No option! not

ROUND OAK STEEL WORKS LIMITED

I am writing to inform you and other colleagues that I have just given consent to BSC to acquire from Tube Investments their 50% shareholding in Round Oak Steel Works Limited. BSC already own the other half. This deal is broadly analogous to that done in the Duport case, ie BSC are acquiring assets with the intention that they should ultimately become part of a joint venture company in the engineering steel sector.

The deal has come about at this point because Round Oak had run through its borrowing limits. TI were not prepared to put in any further funds to this company, which is making losses, and wanted to withdraw from any further involvement in steelmaking. BSC for their part were not prepared to provide further finance for the company unilaterally. Liquidation was the only alternative, and this would have been costly for BSC, and would also have removed the options of either including Round Oak in Phoenix II or disposing of it at a later stage to a private sector consortium. It would have been improper for BSC (as a 50% owner) to have put Round Oak into receivership and then purchased it from the Receiver, so receivership would have risked this very good works remaining closed or falling into the hands of a foreigner.

A condition of this deal is that the re-rolling operations shall cease, creating 1,000 redundancies in the West Midlands where the company is situated. These redundancies are to be paid for at private sector rates. BSC estimates that thereafter the steelmaking operation with a slimmed down workforce can be brought into profit by the Autumn. We have made it clear to BSC that the financing of this operation must be contained within this year's EFL.

Apart from Phoenix II another interesting possibility has arisen. We have been approached by Glynwed (who are re-rollers of steel, steel stockholders and manufacturers of iron and steel products eg sinks, baths, drainage pipes etc). They and other re-rollers may be interested in acquiring an interest in Round Oak as their local source of steel for subsequent re-rolling. They see this as an attractive alternative to being forced to purchase their steel from BSC/Phoenix II with whom they are all in competition at various stages downstream to both stockholding and final product stages. The idea is so far little more than a gleam in the eye but we are giving it every encouragement. In addition I am exploring every possible way of restoring the engineering steels business to the private sector.

Copies of this minute go to Geoffrey Howe, Francis Pym, Jim Prior and John Biffen.

NT

Department of Industry NT

21 May 1981

O'O

cc A Duguid
A Walters

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WHITEHALL LONDON SW1A 2ER
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Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

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From The Secretary of State for Wales

Nat Ind

15 May 1981

Dear Keith

R.. 27/5

DUPORTS: RAIL FACILITIES AT LLANELLI WORKS

Under Section 8 of the Railways Act 1974 my Department has paid a freight facilities grant of £1.3m to the Duport Group in respect of new sidings and gantry cranes at their Llanelli works. This was in the expectation of environmental benefit by virtue of heavy loads being transported by rail instead of road.

Payment of the grant was made, as is normal practice, in stages as each section of the facilities was completed. The overall completion occurred on 9 January 1981 by which time some £1.3m had been paid with a balance remaining of £0.3m. It was very soon after this that the Department first became aware of the Group's financial difficulties and the possibility of the closure of the Llanelli works. A decision was therefore taken to withhold further grant payments, since the administrative conditions under which grant payments are made require that the facilities should be kept in use for a minimum of 5 years.

As you will know, Duport's financial problems became acute and during their negotiations with the Department of Industry and the British Steel Corporation on the future of private sector steelmaking, the company approached the Department of Transport to ascertain the Government's intentions on the question of the recovery of the freight facilities grant in the event of a Llanelli closure. The Department of Transport, following consultations with my Department, advised Duport that in the event of the Group's survival no immediate repayment of the grant would be sought, but that the Department would wish to reserve its position in the event of their liquidation. Further consideration revealed doubts about the legality of recovery since it seemed that no statutory provision to do so existed. The Treasury after consultation with Treasury Solicitor have advised that the grant could and should be recovered and so the Group were told, in response to a

/further enquiry

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

further enquiry from them, that whatever the fate of the Group as a whole recovery of grant was a possibility and that it would be prudent for them to make provision for this contingent liability.

Duports have told my Department that the question of ongoing viability had been an important prerequisite of the Department of Industry in any rescue plan for the Group. They pointed out that there had already been some environmental benefit from the new grant aided facilities and expressed concern that repayment would seriously affect the ongoing viability of the Group. The Department of Industry consider that the Group are probably still in a precarious financial situation and that the effect of the recovery of the grant would depend on whether provision for repayment had in fact been made in their financial reserves. The Department have told the Group that Regional Development Grant will be repayable and I understand that substantial sums are involved.

/ Copies of this letter go to the Prime Minister, other members of E(EA) and Norman Fowler, and I would welcome their views.

As I was not consulted about nor directly involved in the Department deal I do not feel that I am in a position to decide the matter on my own

Yours ever

Nick

NOTE OF A MEETING ON 14 MAY WITH REPRESENTATIVES FROM HADFIELDS

Present: Norman Tebbit MP MoS DoI
Mrs Cohen)
Mrs Hamilton) DOI
Mr James)

Rt Hon Edward du Cann MP
Patrick Duffy MP

Hadfields Mr D A Norton
Mr J L Adams
Mr G F Smith
Mr D Buston
Mr M Adams
Mr A Bird
Mr K Fletcher
Mr D Ramsage
Mr K Poole
Mr F Smith

TL
2/7/5

Mr du Cann thanked Mr Tebbit for agreeing to the meeting. He considered the policy of the BSC was unsatisfactory. Mr Tebbit replied that the problems of Hadfields had not been solely of the making of BSC but asked the representatives of Hadfields to proceed.

Mr Norton said that he had seen Mr Tebbit's predecessor on 15 February 1980 about Hadfield's prognostications for the period following the steel strike. They had been given assurances that a price cutting campaign by BSC to win back lost markets would not take place because BSC would have strict limits of £459 million imposed upon it. Hiwever, by May Hadfields viewed these assurances as myths. Mr Norton then recounted the history of events as he remembered them until the present.

On 15 May 1980, Mr Duffy had raised the whole question in the House. He then approached Mr du Cann, who wrote to the Secretary of State on 23rd. During June 1980, Mr Norton wrote to Mr Gross at DOI and between the date and September a miscellany of meetings and correspondence took place and were exchanged. Later that year, in October, Mr MacGregor visited Hadfields and conceded that he would be prepared to take the company into BSC. This was put to DOI and Hadfields were told that DOI had turned this suggestion down. Mr Norton said that Hadfields had then been told that action would be taken and were reassured on this point by Mr Binning and Mrs Cohen.

It was Hadfields' understanding that the market for engineering steel currently stood at 2-2¼ million tons; it might come back to 3 million tons on the assumption that this was an accurate estimate; approximately 1 million tons must be taken out and the loss compensated for. Mr Norton's understanding was that the steel workers so displaced would receive "BSC redundancy terms". Moreover, 1 million tons of steel-making capacity would have to be mothballed. What remained of the industry would have to be viable.

Hadfields had submitted their considerations to the Department in November 1980 and had tried to pursue them in December and through January 1981. On 20 February Hadfields wrote to Mr Binning to confirm these points and on 9 March Mr MacGregor invited Mr Norton to lunch with him informally. During discussions, Mr MacGregor had said that he wanted to be able to conclude a deal by 13 March. Later the two had met "across the table" and Mr Norton had been told categorically by Mr MacGregor that he wanted Hadfields cold. He did not want the workforce and there was no dialogue between the two sides. Mr Norton had subsequently written to Mr Prior (Secretary of State for Employment) asking for redundancy terms for the Hadfields workforce, similar to the BSC terms.

Mr Ramage read out a number of replies by the Secretary of State and by Mr Tebbit to questions in the House which amplified the Government's policy towards public and private sector steel firms. He agreed with Government statements to the effect that they should not subsidise the public sector at the expense of the private sector steel companies. However, it was his contention that BSC was destroying the private sector. It had resources at its disposal which no other company had. So far, it had received £1,851 million, and this year had written off over £3 billion. Any other company would have been liquidated. Mr Ramage asked if the Government would cease subsidising BSC is Hadfields could prove that BSC was using public money to destroy the private sector.

Mr Adams referred to the costs which would be borne by the Government vis-à-vis the sale of Hadfields. Among these would be unemployment costs and the loss of tax revenue, amounting to £15 million a year. Were Hadfields to request an interest-free loan equal to the sum offered by BSC to Lonrho for Hadfields, he contended that the firm could then be an effective alternative source of supply of steel for the engineering and automotive industries. The retention of 2,600 jobs was socially important for Sheffield. If it were accepted that Phoenix II was dead, then Hadfields would be kept going. Mr Tebbit said that discussions with various private sector firms were still continuing.

Mr du Cann said that it was recognised that the industry needed to be slimmed down but it appeared that the major slimming down was being effected in the private sector. The Minister drew attention to the 70 thousand redundancies in the public sector. Mr du Cann made a plea for a method to be evolved whereby Hadfields might be helped; they had been the one company which had not gone on strike during the steel strike.

Mr Norton said that Hadfields had wanted to be part of Phoenix II; they could produce liquid steel cheaper than BSC. He added that there was no discussion between the two sides; Mr MacGregor had simply told them that BSC was best placed to make liquid steel and he was not prepared to consider any permutations.

Mr Tebbit said that it was always made clear that the costs of closures would be borne by the parent companies before any consortia were formed. Mr Norton maintained that they had been told that the "front end money" would put the industry right and the reply which Mr Norton received from DOI in his letter of 20 February 1981 did not refute this. Hadfields had taken the decision that the sum of money offered by BSC was not enough. Mr Tebbit replied that the sum of money involved was discussed on a company to company basis. Discussions were continuing between a number of companies who were still interested in consortia; these discussions covered which assets would be included and which left out. It was up to Hadfields to discuss these matters with prospective partners. He reasoned that, with substantial over-capacity in the steel market, problems of foreign competition and with prices still falling, it would not be appropriate for him to prohibit BSC from reacting to these circumstances, in the market place.

Mr Norton asked how the Minister could condone a public company putting a private one out of business, particularly when the private firm produced liquid steel cheaper than BSC. They wished to express their views and asked where would be the appropriate venue to do so. He believed matters hinged on viability; Hadfields had always been a viable company. Mr Tebbit said that it might well be that Hadfields had done better than BSC by extracting more from what was old equipment. However, the Minister could not properly become involved in making commercial decisions which only companies could do. He had not asked Mr MacGregor to create a public sector monopoly. Indeed his instructions were to the contrary.

Mr Tebbit said that the Department was always prepared to discuss with Hadfields any Industry Act Assistance which might be necessary to ensure that Hadfields' plant was competitive. Mr Norton replied that they already had Lonrho's agreement to back them with the sum of £12 million to do just that, but they wanted Mr MacGregor to give them an assurance that they would not undercut them with public money. Mr MacGregor had refused to give this assurance.

Mr Tebbit said that Mr Norton could assume that he would be taking action to require BSC to ensure that their operations in areas in which they were in competition with private sector firms would be conducted through Companies Act companies, so that Government and the private sector could monitor them and see whether there was fair play. It would not be right to assume that the money DOI might be prepared to offer under the Industry Act would be sufficient for Hadfields; he could not approve finance which would increase capacity as opposed to efficiency in the steel sector.

Mr Tebbit inquired about Short Time Working subsidies and whether Hadfields were eligible to claim for them. Mr Adams explained that they could no longer claim them since there had been a change in the regulations.

Mr Adams referred to previous discussions during which the name of Hill Samuel and Sir Robert Clark had been linked with the possibility of chairing discussions of all the possible participants. Mrs Cohen confirmed that this had been mentioned at one stage but Mr Tebbit said that he had concluded that it would not be appropriate to appoint either in the role of arbiter or chairman. Mr Adams replied that the treatment of any arbiter would be preferable to the treatment meted out by BSC.

Hadfields had reduced their capacity in the hope that they could return to full capacity when the upturn came. There was resentment in Hadfields about the BSC's mothballing activities: two furnaces at Templeborough had been mothballed, instead of being taken out of commission. Hadfields contended that BSC was losing money in Sheffield but the Corporation was not being pressurised by shareholders to take these works out of commission and get back to profitability.

Mr Tebbit responded that all present were agreed that capacity had to be taken out of the industry. Mr Norton commented that decisions had to be made as to who made these decisions. Mr Tebbit replied that he had done his best: he had instructed Mr MacGregor and had introduced legislation implementing much closer monitoring of BSC's activities. Moreover, Brussels would want to know whether the money was being used to subsidise loss-making steel operations, indefinitely.

Mr Duffy commented that if the exchanges round the table today had seemed robust they were nothing compared to those in Sheffield. It seemed to him that the Government had so heavily invested in Mr MacGregor that they were obliged to continue underwriting him. He considered that the private sector was entitled to a much better deal than it was receiving. Mr Tebbit said that the amount which the Government would pay to the company which had loaned him, would depend in part on the degree to which privatisation, not nationalisation was achieved.

Mr du Cann observed that the amount offered by BSC to Hadfields was scrap value; BSC had made up its mind that it did not want Hadfields, under any circumstances. Mr Norton made the point that Mr MacGregor was not solely responsible for decision making in BSC; he had advisers, whom Mr Norton described as "a maf ia". He asked if the Minister was sure that BSC's actions towards Hadfields were not vindictive. Mr Norton foresaw the run down of the private sector: London Works would go, there would be more redundancies at Round Oak. That left only Brymbo, owned by GKN, who were already doing a deal with BSC. It seemed that Mr MacGregor aimed to eradicate the private sector.

Mr Ramage said that as a trades unionist, he wished to save jobs. He considered that the cost to the Government to save the jobs was comparatively little. He estimated a figure of £14 million for redundancy payments and guessed at the figure of £20 million having been offered by BSC for Hadfields.

Mr Norton said that Hadfields wanted someone to decide who would be made redundant. BSC steel workers who were made redundant were being paid £15k; by comparison private sector workers received approximately £3k. Mr Ramage asked whether the Government could even this up.

Mr Tebbit replied that this could not be done since other industries would want parity. Redundancy terms were a matter to be agreed between employer and employees and it would be up to Hadfields to decide how generous they could be. It was the Minister's intention to ensure that competition between the public and private sectors became fairer. Capacity in the industry had, however, to be reduced.

Mr Adams said that if Hadfields closed, their business would go abroad; firstly their customers required dual sourcing and secondly some of them did not want to trade with BSC. This would result in an increase in imports. Mr Adams continued that investment meant people, not just machinery and pleaded for the Government to help Hadfields' workers. Mr Tebbit said he had Industry Act finances at his disposal but he could not find the money to subsidise even more capacity. Mr Ramage added that it had been his understanding that the front end money would help to soften the blow. He considered that Hadfields should be compensated for their losses since September, 1980. He concluded by saying that Hadfields and by inference, the steel industry, would fight for their jobs.

Heather Archer

HEATHER ARCHER
APS/Mr Tebbit
Rm 10.12 Ash
212 7691

18 May 1981

cc PS/Prime Minister
PS/Sec of State
Mr Steele
Mr Binning
Mrs Cohen
Mrs Hamilton

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400 GTN 213

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Derek Norton Esq
Chairman
Hadfields Ltd
East Hecla Works
SHEFFIELD S9 1TZ

15/5

13 May 1981

Dear Mr Norton

TL 18/5

Thank you for your letter of 1 May about the position at Hadfields. I am very much aware of the difficulties which are facing steel workers both here and throughout Europe due to the severe drop in demand for steel products. This has resulted in considerable excess capacity with the result that closures are inevitable. This, as you recognise, is taking place in both the public and the private sectors of the steel industry. I very much regret that in making an assessment of the commercial realities facing Hadfields, you and your management team have had to take the decision to make 1,900 of your employees redundant.

It is by no means unusual for employers to supplement the statutory minimum redundancy payment, but I appreciate that this may not always be possible and I take the point you make on this in comparing the BSC position with that of your own company. However, the severance payments available to some redundant BSC employees are negotiated at local level between the Corporation's management and the unions involved. The Government plays no part in these negotiations; the levels of severance payments are entirely a matter for the Corporation's commercial judgement in securing essential closures as smoothly and rapidly as possible, as opposed to continuing to sustain heavy losses at certain plants. The Corporation has found that severance payments have been effective in attaining this objective, which, of course, is in the long term interests of the taxpayer.

I am sorry that unions and management in your company have not found it possible to make similar arrangements, though I understand that the majority of Hadfields's redundant workers are likely to receive, in addition to the redundancy payments you mention, support benefits for periods of 1½ to 2½ years depending on age, under the provision of the Iron and Steel Employees Readaptation Benefits Scheme, funded jointly by the Government and the ECSC.

SECRETARY OF STATE FOR EMPLOYMENT

I am afraid that I cannot agree that the Government should top up the severance pay offered to your employees. The sort of disparity you describe exists throughout industry depending on each firm's resources, and its commercial judgement about the desirability of additional payments. It would not be practicable for the Government to top-up redundancy payments throughout industry to the highest levels paid.

Yours ever

JE VB

10 DOWNING STREET

From the Private Secretary

8 May 1981

BF 15.5.81

for nits record.

The Prime Minister has asked me to thank you for your letter of 28 April which was also copied to Sir Keith Joseph.

I understand that BSC's capacity for engineering steels has been as follows:

	million tonnes
BSC capcity at end 1979	3.0 (approx.)
less closures in 1980 at	
Bilston and Hallside	(0.6)
closure of Normanby Park (Corporate Plan)	(0.4)
slimlining at Templeborough	(0.6)
BSC present capacity	1.4

BSC has therefore reduced its capacity by approximately 50% since the end of 1979. During the period of the Corporate Plan (ie leaving aside closures in 1980) the capacity reduction has been about 40%.

Furnaces were transferred from Templeborough to Aldwarke in early 1974. Their capacity is therefore included in both the 3 million tonnes at end 1979 and in the current figure of 1.4 million tonnes.

I understand that representatives of the Hadfield's management and workforce are meeting Mr. Norman Tebbit, the Minister of State at the Department of Industry, on Thursday 14 May. The Prime Minister will receive a report of that meeting and does not therefore think that a separate meeting with her is appropriate.

I. P. LANKESTER

D. Ramage, Esq.

SP

JU 76

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

8 May 1981

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

Ed - pls type

TL

Dear Tim

Thank you for your letter of 5 May enclosing one dated 28 April from the Hadfields' Joint Shop Stewards Committee.

... 2 I enclose a draft reply from which you will see that, on the basis of factual material supplied by BSC, the Shop Stewards have not correctly understood the position.

3 Mr Tebbit is meeting representatives of Hadfields management and workforce on Thursday 14 May and we shall let you have a note of that meeting as soon as possible afterwards.

Yours ever

Ian

I K C ELLISON
Private Secretary

JU76.1

Hadfields Joint Shop Stewards Committee
Hadfields Ltd
East Hecla Works
Vulcan Road
Tinsley
Sheffield S9 1TZ

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File BK
cc: Press Office

5 May 1981

BF 8.5.81

The Prime Minister has seen the enclosed letter from the Hadfields shop stewards. She has asked me to write to them declining once again their request for a meeting. Since they have only questioned one point in Sir Keith's letter of 23 April, it would be helpful if you could let me have a draft reply. Could I have this please by Friday 8 May.

T P LANKESTER

SP.

Ian Ellison, Esq.,
Department of Industry

Hadfields

T. P. LANKESTER ESQ.

for information only

With the compliments of DEREK A. NORTON

Hadfields Limited

East Hecla Works, Sheffield S9 1TZ. Telephone Sheffield (0742) 440353. Telex 54228 Hadfld G

cy Prim Mini

HADFIELDS LIMITED
EAST HECLA WORKS
SHEFFIELD S9 1TZ

CHAIRMAN'S OFFICE
Telephone No. 440353

Stat

1st May, 1981

The Rt. Hon. James Prior M.P.,
Department of Employment,
Caxton House,
Tothill Street,
London, SW1H 9NF

MBPG

Dear Secretary of State,

I am writing to you on behalf of the unfortunate employees of Hadfields who are to be made redundant in the very near future.

As you will be aware, during the national steel strike last year, the employees of Hadfields epitomised everything that you have been striving to achieve in your two years in office, namely excellent industrial relations, a common sense approach to industrial problems, high productivity and, most important, a desire to work despite intense picketing and personal abuse.

Today, 1,900 of these 2,600 employees face the unemployment scrap heap with the vast majority having no possibility of finding alternative employment.

The problems of the steel industry are well known to you and your Government and I do not propose, therefore, to repeat the factors which have brought about the present situation.

Ironically, those people who were intent on bringing the Government down during the winter of 1980, and were so vociferous in their campaign to jeopardise the future of Hadfields and its employees, have had their future employment prospects safeguarded. Even more ironic is the fact that the British Steel Corporation employees, if made redundant, would "enjoy", at the taxpayers' expense, redundancy terms four or five times better than those that can now be offered to Hadfields employees - statutory redundancy payments and money in lieu of notice.

I hope you will agree that those people to be affected are tragic victims of circumstances totally beyond their control. The taxes they have paid have been used in part to force them out of employment, and yet their neighbours in British Steel employment who face a similar experience at least benefit financially from Government resources.

I wish to appeal to you for consideration by your Department that our employees should have a make-up of severance pay to equate to the redundancy terms offered by the British Steel Corporation. I am not looking for any financial benefit for the Company, but I do feel that such a gesture by you would do much to assuage the terrible bitterness felt towards the Government in their handling of the Steel Industry's problems and pre-empt the possibility of any emotive action that ultimately might be regretted.

I would be delighted to discuss the matter with you.

Yours faithfully,

Derek Norton

DEREK A. NORTON

10 DOWNING STREET

PRIME MINISTER

This is a further letter from the Hadfields shop stewards asking for a meeting with you. Sir Keith Joseph replied on your behalf saying that you were unable to meet them.

I cannot see any new reason why you should see them. But I think I should reply on your behalf rather than Sir Keith. Agree?

Yes

MT

T..

1 May 1981

HADFIELDS' JOINT SHOP STEWARDS COMMITTEE

R30
PPS

HADFIELDS LIMITED,
EAST HECLA WORKS,
VULCAN ROAD,
TINSLEY,
SHEFFIELD,
S9 1TZ.

cc Press Office ✓

28th April, 1981

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

Copy: Sir Keith Joseph

Dear Madam,

Thank you for your letter of the behind 23rd April, 1981.

I am afraid you have been misinformed by the British Steel Corporation since the two thirds reduction in capacity at Templeborough has been mitigated by the re-installation of two furnaces ex Templeborough at Aldwarke. The total reduction in capacity by the B.S.C. in engineering steels is therefore the equivalent of only one third of the previous Templeborough capacity, or put another way only 12% of B.S.C's total capacity.

As you mention in your letter, Duport have eliminated 100% of their capacity and Hadfields' proposal will reduce 60% of its capacity.

It is the very fact that your decisions, which we respect even though we may disagree with them, are based on misinformation from the B.S.C. that we feel it is imperative that you should meet the Hadfields' Conveners.

Yours sincerely,

D. Ramage　　　　K. G. Poole

M. Adams　　　　A. Bird

Secretary of State for Industry

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

23 April 1981

M Adams Esq
Secretary
The Hadfields Joint Shop
Stewards' Committee
Hadfields Limited
East Hecla Works
Vulcan Road
Tinsley
Sheffield S9 1TZ

Dear Mr Adams.

In her absence abroad the Prime Minister has asked me to reply to your letter of 30 March.

I remember very well the determined fight that Hadfields' employees put up to safeguard their jobs during the BSC strike and I much regret that the company should now be in such difficulty. I am afraid that these are difficulties shared by all plants in the engineering steels sector in the EEC. They stem primarily from excess capacity in the UK and Europe. BSC is closing two-thirds of its capacity at Templeborough to meet the situation and, as you know, Duport has had to close its works at Llanelli.

I noted the points you put to me when we met on 2 March with Bill Sirs.

I am sorry that I do not feel any useful purpose would be served by a meeting with the Hadfields' workforce at this stage.

Yours sincerely.

Keith Joseph

Copies to -:
PS/NT
PS/MM
PS/Sec
Mr Steele
Mr Binning
[illegible]
[illegible]
[illegible]

Nat Ind.

PM seen

CONFIDENTIAL

FM FCO 231437Z APR 81

TO IMMEDIATE SALALAH

TELEGRAM NUMBER 5 OF 23 APRIL

FOLLOWING FOR LANKESTER PRIME MINISTER'S PARTY FROM SANDERS 10 DOWNING STREET.

BEGINS:

HADFIELDS

FOLLOWING IS A REPORT FROM DEPARTMENT OF INDUSTRY DATED 23 APRIL ON RECENT EVENTS.

QUOTE LONHRO BROKE OFF NEGOTATIONS WITH BSC ON THURSDAY 16 APRIL. AT THIS POINT BSC HAD OFFERED POUNDS STERLING 13 AND ONE HALF MILLION COMPRISING POUNDS STERLING 7 AND ONE HALF MILLION FOR GOODWILL AND POUNDS STERLING 6 MILLION FOR STOCK AND PLANT LONHRO WERE ASKING POUNDS STERLING 15 MILLION POUNDS STERLING 9 MILLION BEING FOR GOODWILL.

YESTERDAY HADFIELDS ANNOUNCED THAT THEY INTENDED TO CLOSE THEIR LEEDS ROAD PLANT WHICH EMPLOYS 1,900 AND TO KEEP OPEN ONLY THEIR EAST HECLA PLANT WHICH EMPLOYS 700. BOTH BSC AND OFFICIALS HERE CONSIDER THIS IS A TACTIC TO GET A BETTER PRICE. HADFIELDS' ANNOUNCEMENT WAS ACCOMPANIED BY ALLEGATIONS THAT MR. MACGREGOR BSC AND THE DEPARTMENT OF INDUSTRY HAD MISLED THEM AND CAUSED THEM TO INCUR FURTHER LOSSES. THESE ALLEGATIONS ABOUT THE DEPARTMENT OF INDUSTRY HAD BEEN MADE PREVIOUSLY BY MR DU CANN IN A LETTER HE SENT TO THE SECRETARY OF STATE FOR INDUSTRY ON 2 APRIL. THE SECRETARY OF STATE FOR INDUSTRY REPLIED TO MR. DU CANN ON 7 APRIL BEFORE MEETING MR DU CANN ON 9 APRIL.

A FURTHER SERIOUS DIFFICULTY HAS ARISEN ON THE HADFIELDS' NEGOTIATIONS. YOU WILL REMEMBER THAT THE SECRETARY OF STATE FOR INDUSTRY ADVISED THE PRIME MINISTER THAT A PAYMENT FOR GOODWILL COULD ONLY BE JUSTIFIED ON THE BASIS THAT BSC WERE BUYING AN ORDERLY WITHDRAWAL BY HADFIELDS FROM THE MARKET. IN THE PRESENT SITUATION BSC'S FINANCIAL ADVISERS LAZARDS AND THE DEPARTMENT OF INDUSTRY'S ADVISERS HILL SAMUEL HAVE BOTH SAID THAT IF NEGOTIATIONS RECOMMENCE IT WILL BE VERY DIFFICULT TO JUSTIFY ANY GOODWILL PAYMENT IN RESPECT OF LEEDS ROAD AND PROBABLY IN RESPECT OF EAST HECLA ALSO. THE ANNOUNCEMENT OF CLOSURE WILL CAUSE A RAPID LOSS OF ORDERS FROM LEEDS ROAD AND THE POLITICAL CAMPAIGN WHICH LONHRO ARE CONDUCTING WILL MAKE IT VERY DIFFICULT FOR THEM TO ACHIEVE AN ORDERLY RUNDOWN AT EITHER LEEDS ROAD OR EAST HECLA.

THE SECRETARY OF STATE FOR INDUSTRY HAD THOUGHT IT LIKELY THAT MR. DU CANN WOULD WISH TO APPEAL TO THE PRIME MINISTER FOLLOWING MR. DU CANN'S MEETING WITH HIM. I UNDERSTAND FROM A RADIO INTERVIEW GIVEN BY MR NORTON OF HADFIELDS THAT HE INTENDS TO MAKE A PUBLIC APPEAL TO THE PRIME MINISTER TO STEP IN AND PRESERVE THE 1,900 LEEDS ROAD JOBS. BSC HAVE OF COURSE GIVEN UP TWO THIRDS OF THE TEMPLEBOROUGH PLANT WITH A LOSS OF 1+600 JOBS AS WELL AS CLOSING BILSTOWN AND HALLSIDE LAST YEAR SO THE PAIN HAS BEEN SHARED TO SOME EXTENT.
UNQUOTE

ENDS

CARRINGTON

NNNN

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

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

23 April 1981

PM(O/R)
to see - telegraphed to Saleloh
MJS 23/4

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

Dear Nick

HADFIELDS

You asked to be kept in touch with events at Hadfields.

2 Lonhro broke off negotiations with BSC on Thursday 16 April. At this point BSC had offered £13½ million, comprising £7½ million for goodwill and £6 million for stock and plant; Lonhro were asking for £15 million, £9 million being for goodwill.

3 Yesterday~~, as you know,~~ Hadfields announced that they intended to close their Leeds Road plant, which employs 1,900 and to keep open only their East Hecla plant which employs 700. Both BSC and officials here consider this is a tactic to get a better price. Hadfields' announcement was accompanied by allegations that Mr MacGregor, BSC and the Department of Industry had misled them and caused them to incur further losses. These allegations about the Department of Industry had been made previously by Mr du Cann in a letter he sent to my Secretary of State on 2 April. My Secretary of State replied to Mr du Cann on 7 April before meeting Mr du Cann on 9 April. ~~[I enclose copies of the exchange of correspondence with Mr du Cann and a copy of the note of the meeting]~~.

4 A further serious difficulty has arisen on the Hadfields' negotiations; ~~you may wish to draw this to the Prime Minister's attention~~. You will remember that my Secretary of State advised the Prime Minister that a payment for goodwill could only be justified on the basis that BSC were buying an orderly withdrawal by Hadfields from the market. ~~(My Secretary of State's minute of 26 March)~~. In the present situation, BSC's financial advisers, Lazards, and the Department of Industry's advisers, Hill Samuel, have both said that if negotiations recommence it will be very

/difficult

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difficult to justify any goodwill payment in respect of Leeds Road, and probably in respect of East Hecla also. The announcement of closure will cause a rapid loss of orders from Leeds Road and the political campaign which Lonhro are conducting will make it very difficult for them to achieve an orderly rundown at either Leeds Road or East Hecla.

~~8~~ My Secretary of State had thought it likely that Mr du Cann would wish to appeal to the Prime Minister following Mr du Cann's meeting with him. I understand from a radio interview given by Mr Norton of Hadfields that he intends to make a public appeal to the Prime Minister to step in and preserve the 1,900 Leeds Road jobs. BSC have of course given up two thirds of their Templeborough plant, with a loss of 1,600 jobs as well as closing Bilston and Hallside last year, so the pain has been shared to some extent.

/x

Yours ever
Catherine

CATHERINE BELL

Private Secretary

FUTURE OF HADFIELDS LIMITED

RECORD OF A MEETING HELD IN ROOM 11.01 ASHDOWN HOUSE ON THURSDAY, 9 APRIL 1981 at 9.00am

Present

Secretary of State	Lord Duncan-Sandys
Mr Tebbit	Mr Du Cann MP
Mr Steele	

1 Mr Du Cann was grateful to the Secretary of State for seeing Lord Duncan-Sandys who was Chairman of Lonrho itself and himself as Chairman of the Lonrho subsidiary controlling Hadfields Ltd. He expressed regret that he and the Secretary of State were at loggerheads but the present situation created anxieties at Lonrho. Lonrho had anticipated that the private sector would have a place in the future engineering steel industry in this country and no one had previously indicated otherwise. Hadfields had an efficient plant and a competent and loyal workforce which formed an island of sanity in the sea of difficult labour relations in Sheffield. The workforce had refused to strike during the BSC strike but now found themselves in difficulty. Mr Du Cann said that all concerned knew that there was over-capacity in the industry, that there were heavy losses and that some closures were necessary. At the same time there was enormous, indeed monstrous, competition particularly from the BSC. The BSC had made an insulting offer for the Hadfields assets.

2 In the circumstances Mr Du Cann wanted advice from the Secretary of State on the proper course of action to follow. It would be extraordinary if the workforce was paid only slender compensation; this would give a poor example to the rest of the country. He could not explain the situation in which Hadfields found itself to the workforce, to the country or to the House of Commons. He was in a serious dilemma.

3 The Secretary of State said that Lonrho could not blame the Government for its inheritence, since the Government had not been responsible for nationalising the steel industry. (Lord Duncan-Sandys pointed out that he had de-nationalised the industry). The Secretary of State said that Mr Du Cann's letter of 7 April referred to past disappointments; the Government had not contained BSC's losses but both Mr Du Cann and himself knew that the reason for this was that the market had fallen off the precipice. If BSC had not existed, foreigners would still have undercut the prices charged by Hadfields.

4 Mr Du Cann interrupted to stress that BSC was undercutting Hadfield's prices and that there was clear evidence to prove this. The Secretary of State replied that Mr Du Cann had tied his hands so far as investigating these allegations were concerned. The Secretary of State did not doubt that Mr Du Cann believed the allegations but in the one case which he had been able to investigat BSC totally and categorically denied Mr Norton's allegations. BSC asserted that they were not taking orders away from the private sector, but it was possible that there may be mistakes in individual cases. Mr Du Cann suggested that information from Fords confirmed the allegations against the BSC; he would investigate

/what ...

what could be done about providing a dossier of cases providing evidence that BSC had undercut the private sector.

5 The Secretary of State stressed that the market had fallen and Mr Du Cann indicated agreement. There was also over-capacity and Mr Du Cam agreed. The Government had constructed the Phoenix concept as the least bad way of allowing the private sector to survive. The creation of Phoenix companies was slow and difficult but much time had been spent on creating Phoenix I first which had resulted in delays on Phoenix II. The objective was to take out surplus capacity on an even-handed basis. The Government could not, however, order Phoenixes into existence and their establishment had to be a matter for negotiations between the parties. The Secretary of State added that Mr Du Cann had previously made his views clear on the unacceptability of BSC acting as both judge and jury on the value of assets taken into Phoenix companies but he had then replied that the Government had no expertise in valueing steel-making assets and were not to be a partner in the Phoenix companies. The result was that in the Government's view the parties concerned had to be the judge of the value of assets. He acknowledged, however, that Mr Du Cann had never accepted his position.

6 The Secretary of State continued that the Government had a small role in the creation of Phoenix companies because the person who occupied the office of Secretary of State had to give his consent to the disposal of BSC's mainline steel making assets. In order to safeguard his role in discharging this function he had appointed merchant bank advisers. This meant that there were three merchant banks involved in the negotiations; one for BSC, one for the private steel company concerned and one representing the taxpayers' interest. Hill Samuel's role was not to negotiate but to keep an eye on developmentsto ensure that the Secretary of State would be in a position to defend himself against criticisms by the Public Accounts Committee. Hence the Secretary of State's role was confined to:

a putting the idea of Phoenix companies to the parties concerned;

b encouraging the negotiators to reach an early conclusions;

c making a judgement on whether any offers made by BSC were proper.

The Secretary of State stressed that he was advised by Hill Samuel that the BSC offer for the Hadfields' assets was proper and was
/ any moreover at the top of/reasonable price bracket.

7 The Secretary of State enquired what Mr Du Cann meant when he said that it would be intolerable for Hadfields to be closed. Was he referring to the cost to Lonrho or did he have it in mind that BSC should close assets instead? The fact was that BSC had already closed a substantial amount of capacity. Over 70,000 jobs out of a total of 160,000 would go within 2 years; BSC was not being kept at its original level and equivalent capacity to Hadfields had already been closed by BSC at Templeborough. The least bad solution was to take out capacity in both the public and the private sectors and to leave the parties concerned to negotiate about which plants should close.

/8 ...

8 Mr Du Cann said negotiations were not really left to the parties; there was a shotgun marriage situation. The Secretary of State accepted that the parties were negotiating under some duress but Lonrho was not on the precipice and certainly was not in the same position as Duport, which had been on the brink of receivership. Mr Du Cann was glad about the solution which had been found in the Duport case. So far as the Hadfields negotiations were concerned Mr MacGregor had mentioned the sum of £22 million when he and another Lonrho colleague, Mr Robert Dunlop, had met him. Subsequently Lonrho were told that the Department would not agree to a payment of £22 million.

9 The Secretary of State said that his information was that £22 million had not in fact been offered to Lonrho. Mr Du Cann said this was correct. Mr MacGregor's line had been that he paid an enjoyable visit to Sheffield and had been told by his people in Sheffield of the £22 million figure. Mr MacGregor had said that he could not give a value to the plant because he did not know whether to value it on a scrap basis or as a going concern. As it was, Mr Du Cann said Lonrho had not decided whether to get out of steelmaking. Later, someone had rung up and said that a £22 million offer was off since the Department would not agree.

10 Mr Du Cann said there had been two changes of policy. First, the Government had said there would be no extra money for the BSC and, secondly, they had said that there would be a place for the private sector in the new Phoenox engineering company and that money would be provided "up front". Duport were told the same. Mr Tebbit intervened to say that Duport had never said the same thing to him. The Secretary of State said that there was probably no real gap between the two parties. The position was that commercial money and not taxpayers' money would be the only money which would be available.

11 Mr Du Cann argued that Mr Sayers and his colleagues at Duport had always taken this line but he made no charge of insincerity. The position was that Lonrho had kept Hadfields going and had kept faith with the workforce. There was an effective and an efficient business which could be made profitable. However, because BSC held all the cards / Lonrho was asked to sell the works for its scrap value and to throw the workforce on the scrap heap. This would not have happened if the Government were not standing behind BSC and providing them with lavish finance. He did, however, accept, in reply to a point made by the Secretary of State, that there had been slimming down in BSC.

12 The Secretary of State said that difficulties would not have arisen if the steel industry had not been re-nationalised; that was the root of the problem. Lonrho knew that the Phoenix companies could be put together only by negotiation between the parties. Mr Du Cann disagreed; he had thought that Phoenix would be created by pooling the assets of the various companies involved on the basis of the value of each of the companies. He had not known that the private sector would be forced out of the engineering steel business. The Secretary of State said that was not what he expected. The Phoenix I company had been a mixed public/private sector operation and he expected the same in Phoenix II, some of the partners in which were potent and not in the same condition as Duports. It was for the parties concerned to decide who should dance and at what price. If Lonrho kept Hadfields open, then the Hadfields assets

/would ...

would not be in the Phoenix company.

13 Lord Duncan-Sandys said that it was difficult to separate BSC from the Government. It was particularly difficult for the private sector to compete with BSC because it was subsidised. These subsidies put BSC in an unfair bargaining position and the reality was that BSC could grind the private sector down.

14 The Secretary of State said that he did not see how the difficulties which Lord Duncan-Sandys described could be avoided. The arguments he put forward were one of the reasons why the Government had introduced the Iron and Steel Bill which created powers virtually to liquidate BSC. BSC itself was an artificial creation, a monster.

15 The Secretary of State stressed that Lonrho had to decide whether to come out or to stay in steel making. He cound not interfere with the commercial decisions of BSC and the other partners to Phoenix II on what the Hadfields assets were worth. Hill Samuel had said that the price was at the top of the range. Mr Du Cann's argument that Hadfields was worth more as a going concern did not take account of the serious over-capacity in the industry and the fact that, if additional BSC capacity were closed, there would still be severe competition from within the EEC.

16 Mr Tebbit reviewed the possibility of the discussions in Brussels yielding some relief. All the governments concerned were twisting the arms of their steel masters and there was general agreement that a reduction in capacity was necessary. Hadfields themselves had suggested in a document submitted to the Department that there should be a cut in engineering steel capacity. It was in reality a judgement for professionals to make which parts of the industry were truly competitive. Lonrho took the view that it was BSC that should reduce capacity but they had already done so. It was open to Hadfields to stay in the steel making business. The Government could not justify paying taxpayers' money for Hadfields as a going concern and then to pay extra money for BSC closures elsewhere.

17 Mr Du Cann said that Lonrho always accepted that a cut in capacity was necessary. Hadfields were not uncompetitive and they stood comparison with BSC's competitiveness. Lord Duncan Sandys thought there should be some impartial judgement on which bits of the steel industry were efficient and on which should close. He wondered really if it was BSC that was taking the decisions since the management at BSC knew they were supported by the Government.

18 The Secretary of State stressed that BSC had already closed much capacity and a decision on what further capacity should be closed was a matter for the participants in the new Phoenix company. He accepted that BSC were powerul but Lonrho was not a small or powerless company.

/19 ...

19 Mr Du Cann said he understood the position was that the offer for Hadfields' assets was a matter for BSC and not for the Government. (The Secretary of State intervened to say that this was the case unless Hill Samuel said that an offer was outrageous). Mr Du Cann continued that had the Government's policy been clearer from the outset Lonrho might have acted differently. He understood that the position on imports would not be altered substantially by the discussions in Brussels. The Government would not interfere with BSC's commercial decisions. It was clearly implicit that the Government would not ease Lonrho's position even though they subsidised the public sector. The Secretary of State agreed that subsidies were not available. In reply to Mr Tebbit, who asked whether Mr Du Cann wanted the Government to subsidise the private sector, Mr Du Cann said that he did not wish subsidies to be given to anyone.

20 Lord Duncan Sandys suggested that the public sector was subsidised to an unfair extent and this was leading to a closure of private sector assets. The Secretary of State, however, could not accept all the implications of this. The Government was changing the law so as to permit substantial closures at BSC. Moreover, it was not idly standing but was playing an active role in cartel building in Europe.

21 There followed a continued discussion about allegations of price cutting by BSC and of the role of capital write-offs in reducing BSC's prices.

22 The Secretary of State said that a decision on what should be done about the workforce at Hadfields was for the Lonrho parent Board to decide. It was for them alone to decide on redundancy payments but there would be an outcry if a wealthy parent like Lonrho paid the minimum even if Lonrho received less for the sale of its Hadfield assets (if that went ahead) than it had hoped. The Hadfields assets would be acquired only en route to the creation of a Phoenix II company and not for retention in the public sector.

23 Mr Du Cann accepted that the decision on redundancy payments was a matter for the Lonrho Board. The position was aggravated by the high level of redundancy payments made by BSC. Lonrho did not want to close Hadfields. They had bought the company in good faith and wanted to help the workforce. They might in fact attempt to slim the company down and might call for Industry Act assistance in order to do so. There might be a slot for a small engineering steel company which provided a second source for UK engineering steel. It was possible therefore that Lonrho might come back to the Department to talk about Industry Act assistance.

I. Ellison

I K C ELLISON
PS/Secretary of State for Industry
Rm 11.01 Ashdown Ext 3301

10 April 1981

Circulation

PS/Mr Tebbit
PS/Mr Marshall
PS/Secretary
Mr Steele
Mr Binning
Mrs Cohen

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

7 April 1981

Edward du Cann Esq MP
House of Commons
London SW1

cc PS/Mr Tebbit
PS/Mr Marshall
PS/Secretary
Mr Steele
Mr Treadgold
Mr Binning
Mrs Cohen - on file

Dear Edward.

Thank you for your letter of 2 April about Hadfields. We shall meet on Thursday but I thought it important before we met to reply to your letter since you suggest that my Department or BSC have been guilty of "dereliction of duty" and that Hadfields have been "misled" about progress towards Phoenix II or Hadfields' role.

It is true that we have funded BSC in excess of the £450 million originally envisaged for 1980/81 and that it is this Government funding which has enabled BSC to continue to compete with imports in the market. But equally, as I am sure you would agree, had BSC not been in the market, Hadfields would still have had to compete with importers in a cut-throat market and would have inevitably made losses. I am sorry that I have not been able to investigate further your allegations of unfair pricing from BSC, but you did ask me not to pass them on to BSC and I have of course respected your confidence.

Taking the events referred to in your letter in chronological order, you mention the meeting with Mr MacGregor on 14 October at which you thought he had offered £22 million for Hadfields' assets, subject to Departmental consent. I have raised this with Mr MacGregor who points out that no offer was made, that what he was establishing was the price at which these Hadfields' assets appeared in the Lonrho accounts, this being a price at which Lonrho would presumably have been glad to sell.

You refer next to the meeting on 3 November, which I understand was attended by Mr Norton and Mr Adams. I have looked at the Department's record of that meeting which does not, I am afraid, in a number of ways resemble Mr Norton's recollection. The note does, however, record some discussion of the "offer" of £22 [illegible]

Mr Binning told Mr Norton:

> "The present position was that there was no proposal either
> from BSC or from Hadfields for a new joint company involving
> BSC and Hadfields. If such a proposal were evolved, and it
> were agreed that it were Hadfields' assets which would be
> closed, then Hadfields might receive compensation. Whether
> that compensation amounted to £22 million would depend
> entirely on the value of the closure to the new company - the
> present value of Hadfields' assets was irrelevant to the
> calculation".

You also say that nothing further has been heard from the Department since the end of 1980. You and I have, of course, had several discussions. In particular we spoke on the telephone at the end of January when I explained that the Phoenix II proposals were delayed and that we would be taking advice from BSC on what assets should be included and at what price. I urged you to talk to Mr MacGregor as soon as possible.

I look forward to seeing you on Thursday.

Yours ever,

Keith

From: the Rt. Hon. Edward du Cann, M.P.

Mrs Cohen

FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)

PLEASE BY: ASAP

COPIES TO
PS/NT
PS/MM
PS/Sec
Mr Steele
Mr Bunning
Mr Murray

RECEIVED IN
2 APR 1981
SECRETARY OF STATE FOR INDUSTRY'S OFFICE

HOUSE OF COMMONS

LONDON SWIA OAA

2 April 1981

Dr Keith.

I am writing to you once again regarding Hadfields. You know my commercial connection with this Company. I feel it appropriate to set out part of the recent history of this unfortunate company.

On 18 February 1980 during the steel strike Hadfields warned Adam Butler (then Minister of State in your Department) that, following the strike, it was likely there would be price cutting by B.S.C. when they tried to recover their market share. An assurance was given that this would not be the case as B.S.C. would be required to operate within stringent cash limits. Mr Butler was quite specific about both these matters. In the light of hindsight both assurances, which we accepted in good faith, have proved valueless.

As you know, the position of the steel industry deteriorated in the summer of 1980 and on 6 June Hadfields met B.S.C. and invited them either to put up prices or take Hadfields out of the market.

There followed, between June and October, correspondence and discussions with your Department on the future of the private steel industry and the concept of Phoenix 2 was evolved. Hadfields were told by officials in your Department, quite categorically, on 3 November 1980 that (a) the rationalisation would be completed by Christmas, 1980; (b) no steel maker would be allowed to go into liquidation; (c) Government money would be available at the front end of the rationalisation as a once and for all payment to ensure a viable industry for the future; (d) the ultimate shareholdings of the various parties to the rationalisation would not necessarily be affected by their current net assets injected into the business; (e) the Department would make the decisions: they would not be made by B.S.C.

/ over

Your letter of 23 June 1980 to me stated, inter alia "an efficient and competitive private steel sector has an important part to play in our economy".

None of the assurances given to Hadfields has been kept.

As part of the Phoenix 2 concept Mr MacGregor, Mr Sambrooke and Mr Prior had previously visited Sheffield on October 14 to discuss the position with Hadfields. Mr MacGregor offered to acquire, subject to the agreement of your Department, the business of Hadfields for book value of the assets other than the land and buildings viz. £22 million. The Department did not ratify this offer.

Since these discussions at the end of 1980 nothing further has been heard from the Department. Various attempts have been made by Hadfields to progress matters without result. The submission sent in to the Department in November was not even acknowledged. Mr Norton's letter to Mr Binning of 20 February referring to the November proposals was not acknowledged until 20 March (it was received in Sheffield on 25 March). That letter seemed to confirm that the specific proposals of November were still valid, if tardy of realisation. Nothing was said to indicate otherwise.

We have kept Hadfields in business from the evolution of Phoenix 2 as we considered the Department was committed to an efficient and competitive private steel sector and would progress with Phoenix 2 with fairness and reasonable expedition. After putting continuous pressure on B.S.C. we finally met with Mr MacGregor to discuss Hadfields on 24 March. At that meeting it was stated that B.S.C. considered there was no part for Hadfields in Phoenix 2 and that the sites should be closed. This came as a bombshell to us and completely undermines the Phoenix 2 concept. Furthermore, the Hadfields sites are extremely well known to B.S.C. and the views expressed on 24 March could have been stated much earlier.

I regard the procrastination and delay between October and March as a dereliction of duty by both your Department and B.S.C. We accepted the assurance in your letter of 23 June 1980 and the Department's and Minister's statements in good faith and, as a consequence, Hadfields have incurred losses of over £10 million in the period from 1 July 1980 to end March 1981, i.e. at the rate of over £1 million per month. These losses are continuing. In our view, the offer made by B.S.C. does not compensate us for these losses and I look forward to discussing this matter with you immediately.

To my mind it is a shocking thing that Hadfields, an efficient company in the private sector, is on the verge of closure while the public sector, shored up by massive injections of taxpayers' money and loan write-offs, acknowledged to be less efficient, will survive. This is an astounding result for a Conservative Government to contrive. That situation is bad enough, but worse still is the fact that Hadfields have been persistently mislead by those on whose assurances the Company had every right to rely.

I will telephone your office to arrange an appointment. I hope you will agree that here is a potential wrong which urgently needs righting, and it seems to me that you are the only one who can do that.

Yours Ever

Fred.

The Rt Hon Sir Keith Joseph, Bt.,M.P.
Department of Industry
Ashdown House
123 Victoria Street
SW1E 6RB

Copies to -
PS/NT
PS/MM
PS/SEC
Mr Steele
Mr Burning
Mrs Cohen

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 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 excep 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 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 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.

IS.

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

Department of Industry
Ashdown House
123 Victoria Street

CHAIRMAN'S OFFICE
Telephone No. 440353

HADFIELDS LIMITED
EAST HECLA WORKS
SHEFFIELD S9 1TZ

21st April, 1981

T.P. Lankester Esq.,
Private Secretary,
10 Downing Street,
LONDON

IR(O|R) TL

to see

MJS
22/4

Dear Mr. Lankaster,

I enclose a copy of a statement which I shall be making to the workforce of Hadfields at 10.00am in the morning.

I am sending this to you in the hope that you will keep the Prime Minister informed.

Regards,

Yours sincerely,

Derek Norton

Encl/.

HADFIELDS NEWS

1. Lonrho acquired Dunford & Elliott (of which Hadfields was the major subsidiary) in March, 1977, at a cost of £14m. In addition to the purchase consideration, Lonrho assumed responsibility for Bank loans amounting to £21m. The Group was purchased with a profit forecast of not less than £5m for 1976/77 which subsequently fell short by some £3.3m.

2. Since the acquisition, Hadfields has experienced what can only be described as "turbulent" trading conditions due, principally, to:

   a. The Leyland Tool Room Strike;
   b. The Ford Motor Company Strike;
   c. The Transport Strike;
   d. The Engineers Strike;
   e. The Steel Strike;
   f. Various industrial disputes in the automotive industry;
   g. Lack of demand for agricultural equipment;
   h. The general recession.

3. The cost to the Company of these disruptions during the 4-year period has been enormous. Since it acquired ownership of the Company, Lonrho has injected a further £13m into the business.

4. During the steel strike in the early part of 1980, representatives from Hadfields saw Adam Butler, who was then Minister of State for Industry, and we warned him that when the strike was over, the Bristish Steel Corporation would start a price-cutting campaign in order to win back customers they had lost. We were given an assurance by the Minister that this would not happen since the Government would impose stringent cash limitations on the nationalised industries and, in the case of the Steel Corporation, the Government were adamant that a figure of £450m would not be exceeded.

5. In actual fact, as you will have read recently in the press, the Government increased this figure of £450m to well over a billion pounds — we had believed Mr. Butler's assurance but it proved unfounded. We estimate that their cash subsidy from the taxpayer was at least £125 per tonne. This cash has been used to undercut our prices.

6. In June of last year, representatives from your Company visited the British Steel Corporation since it was obvious that the Government were going to give them additional cash, and we asked the British Steel Corporation to either put up selling prices or alternatively take Hadfields into British Steel Corporation ownership. Both approaches were rejected as being of 'no interest'.

7. Between July and November, representatives from your Company held numerous discussions and meetings with representatives from the Department of Industry and were told:

a. that the private steel-making sector would be rationalised and completed by not later than Christmas 1980.

b. that no steel-maker — (public or private) — would be allowed to go into liquidation.

c. that Government money would be available at the front end of the rationalisation, as once and for all payment to ensure a viable industry for the future, with the emphasis being of viability.

d. that the ultimate shareholdings of the various parties to the rationalisation (code named Phoenix 2) would not necessarily be reflected by their current net assets injected into the business.

e. that the Department of Industry would be making the decisions — not the British Steel Corporation.

8. As I shall be telling you later, all these assurances have likewise proved unfounded. In October of last year, Mr. MacGregor, the British Steel Corporation Chairman visited Hadfields with some of his management team and suggested that a deal should be concluded with Hadfields — but the terms discussed were rejected by the Department of Industry.

9. You won't be surprised therefore that we feel that we have been led by the nose. We have been incurring losses at the rate of £1m per month since July of last year. The losses continue at this rate and are likely to increase due to changes which the Government have made in the temporary short-time working compensation scheme — details of which have not yet been disclosed to the House of Commons or to the public at large.

10. Representatives from your Company started on a series of meetings with the British Steel Corporation on the 24th March and we were given the "bombshell" news that they wished to acquire Hadfields "cold". By "cold" they mean the complete closure of both sites and the cessation of steelmaking and steel processing, with all employees made redundant at Lonrho's cost.

11. In meetings with the Steel Corporation since the 24th March, we have proposed all sorts of alternatives but they have been adamant throughout that their only interest is the total closure of the Hadfields operation.

12. During the last 4 years, we have done everything promulgated by this Government for survival. We have reduced our labour force from 5,400 to 2,600 (52%) including the closure of the open die forging activity. We have increased our productivity, and up to June 1980 we were profitable. As I told your elected union representatives at a conference at Olivers Mount on the 14th January, when we had survived all the disruptions which I referred to earlier and completed our own reorganisation following closure of the Forgings Division, we were back to normal working patterns at the start of the steel strike in January 1980.

13. It is perhaps worth mentioning again that during the month of March 1980, Hadfields made a trading profit in excess of £1m. The point which I wish to emphasise is that profitable, hard-working and loyal private steelmakers are to be sacrificed at the expense of the judge, jury and hangman attitude of the present Government and nationalised steel corporation. The Corporation have offered Lonrho a sum of money to buy Hadfields "cold". Lonrho are not prepared to accept the offer and see 2,600 employees made redundant. On the other hand, Lonrho cannot sustain indefinitely the losses which are being incurred. In order for Hadfields to become a viable operation outside Steel Corporation control, we must, regrettably, close Leeds Road Works and reduce the East Hecla workforce to 700 which will involve 1,900 redundancies. You will have read of a recent statement made in the House of Commons that each unemployed person in the U.K. costs between £5,000 and £6,000 per annum. Thus the cost to the nation of the action which is being forced upon us by the Government and B.S.C. is between £9½m and £14m per annum. These figures place no value on the human misery, degradation and humiliation which the unavoidable decision causes.

14. We will do everything possible to help in this iniquitous position and consultations will start this afternoon with your elected trade union representatives to ascertain what action we can take, either together or individually.

DEREK NORTON
Chairman, Hadfields Limited.

22nd April, 1981.

Sk ~~Sk~~ JS

10 DOWNING STREET

From the Private Secretary 21 April 1981

HADFIELDS

As I told you on the telephone this morning, the Prime Minister has considered the terms of your letter of 15 April to Tim Lankester. She has decided that she does not wish to write herself, but would like your Secretary of State to write on her behalf. The Prime Minister has not commented on the draft reply itself.

N. J. SANDERS

Mrs. Catherine Bell,
Department of Industry.

R

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LVC 105/18

PP F C O

GRS 65

UNCLASSIFIED
FM BOMBAY 181545Z APR 81
TO PRIORITY F C O
TELEGRAM NUMBER 72 OF 18 APRIL

FROM LANKESTER, PRIME MINISTER'S PARTY (BOMBAY)
FOR PATTISON, 10 DOWNING STREET, LONDON.

MESSAGE BEGINS.
RE YOUR TELEGRAMS 365 AND 366. THE PRIME MINISTER DOES
NOT WISH TO WRITE TO THE HADFIELD SHOP STEWARDS. SHE WOULD
LIKE SIR KEITH JOSEPH TO WRITE ON HER BEHALF.
MESSAGE ENDS.

IMRAY

NNNN

1732

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IMRAY

NNNN

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

15 April 1981

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

Cabled to Delhi
pa
MAP 16/4

Dear Tim

Thank you for your letter of 6 April seeking advice from my Secretary of State on how the Prime Minister should reply to the Hadfields' Joint Shop Stewards Committees.

2 My Secretary of State minuted the Prime Minister on 26 March setting out the position which had then been reached in negotiations between BSC and Hadfields. My letter of 7 April explained the position about redundancy payments to Hadfields employees. PART 10

3 Negotiations between BSC and Hadfields are now moving towards a conclusion. The final arrangements will require the agreement of the Department of Industry and of the Treasury. Briefly, however, the deal as presently constituted will provide that Lonhro close Hadfields and cease to compete with BSC; BSC will pay £12m, £7m for stock and plant plus £5m for goodwill. (These figures may be slightly increased.) If negotiations continue on their present course an agreement will be reached quickly, perhaps even before Easter. It is also possible, however, that Mr du Cann in his capacity as a director of Lonhro will continue to express dissatisfaction about the price agreed. He saw my Secretary of State on 10 April and I attach a note of that meeting.

4 In a situation of severe overcapacity, where the Hadfields facilities are duplicated in BSC Stockbridge, Lonhro would have wished to close Hadfields before now had they not been hoping for a better offer from BSC. BSC themselves have had to close capacity; two-thirds of Templeborough, or 550,000 tonnes with a loss of 1,600 jobs. This compares with 500,000 tonnes and 1,100 jobs at Llanelli and 325,000 tonnes and 2,200 jobs at Hadfields. In commercial terms it must be right for Hadfields to close but it is very hard on the Hadfields workforce, particularly since they stayed at work in the 1980 strike when the BSC workforce did not. Although the agreement will provide for Hadfields to close it is not BSC who are closing them down as they suggest. The only people who can close Hadfields are the owners of the business, ie Lonhro - by choosing to be bought out on terms which involve closure.

5 The Shop Stewards Committee is seeking a meeting with the Prime Minister. There is nothing that can be done for them, and there is a risk that their hopes would be raised unjustifiably by securing such a meeting. It will appear somewhat unsympathetic to refuse a meeting with a workforce for whose behaviour Ministers expressed admiration last winter. However, I have discussed the point with my Secretary of State and he remains firmly of the view that Ministers should not see the Hadfields' workers before a decision on closure is taken and announced. My Secretary of State considers this is consistent with the generally agreed line in closure cases that Ministers should decline to meet delegations from workforces before closures are announced.

6 Accordingly, I enclose a draft letter for the Prime Minister's signature declining to see the Hadfields' Shop Stewards at this stage. The draft letter refers to the meeting which my Secretary of State held with Bill Sirs and some of his union colleagues from the private sector steel companies - including Mr Adams of Hadfields - on 2 March. I am therefore also enclosing a copy of the note of that meeting.

7 Could I draw your attention to the sensitivity of the timing of the Prime Minister's reply to the Hadfields' Shop Stewards. Any deal between BSC and Lonhro is subject to Department of Industry and Treasury consent; no announcement can be made until this consent is given and a formal announcement will be delayed until the Prime Minister returns. However, it is well known that Lonhro and BSC are involved in negotiations, and it could be embarrassing for the letter from the Hadfields' Shop Stewards to be left outstanding. I am afraid, therefore, that I must ask that the letter should be put to the Prime Minister for approval in India to enable a reply to be sent as soon as possible.

Yours ever
Catherine Bell
CATHERINE BELL
Private Secretary

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

M Adams Esq
Secretary
The Hadfields Joint Shop
Stewards' Committee
Hadfields Limited
East Hecla Works
Vulcan Road
Tinsley
Sheffield
S9 1TZ

Thank you for your letter of 30 March.

I remember very well the determined fight that Hadfields' employees put up to safeguard their jobs during the BSC strike and I much regret that the company should now be trading with such difficulty. I am afraid that these are difficulties shared by all plants in the engineering steels sector in the EEC. They stem from excess capacity in the UK and Europe. BSC is closing two-thirds of its capacity at Templeborough to meet the situation and, as you know, Duport has had to close its works at Llanelli.

I am sorry that I do not feel any useful purpose would be served by a meeting at this stage. I know that you accompanied Bill Sirs when he came to see Sir Keith Joseph about the private sector generally and I have seen a note of that meeting.

Nat Ind ds

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ds

cc Mr. Duguid
Mr. Ingham

10 DOWNING STREET

From the Private Secretary

10 April 1981

The Prime Minister has read your letter of 7 April about Hadfields. She has noted that Lonrho are expected to pay lower redundancy money than BSC, but that there is no way in which the Government can oblige them to pay more. Nonetheless, she still hopes that Lonrho can somehow be persuaded to be more generous, given that their employees have been very loyal to them.

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

I. P. LANKESTER

Mrs. Catherine Bell,
Department of Industry.

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PV

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

Nevertheless I hope Lonrho will consider better redundancy pay. Their employees have been very loyal to them. not

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7. April 1981

Tim Lankester Esq
10 Downing Street
London SW1

Prime Minister

There seems no hope of keeping Hadfield's open – and Lonrho will be paying lower redundancy money than BSC. But there is no way we can oblige them to pay more.

TL 9/4

cc ~~[illegible]~~
~~[illegible]~~

Dear Tim

Thank you for your letter of 27 March about Hadfields. My Secretary of State is conscious of the political difficulties that will be caused by the closure of Hadfields. The firm's problems are not caused primarily by competition with the BSC but are a function of over capacity in Europe and a depressed market. The owners, Lonrho Limited, are losing something of the order of £1 million per month and are simply not prepared to keep the firm going in these circumstances. Nor could officials here persuade them to keep going except by a massive subsidy which would be particularly anomalous given the existing over capacity.

The Prime Minister also raised the question of redundancy payments for Hadfields' employees. In the private sector the redundant employee receives on average statutory redundancy pay plus 50%, which works out at about £2500 per man. This is the level of payment made at Duport's Llanelli plant and paid recently to those made redundant from Round Oak. Lonrho have budgeted £4.5 million closure costs which is to cover redundancies for their 2000 Hadfields employees. Given that the Redundancy Fund pays half the employers statutory redundancy costs, it appears that Hadfields' employees will receive around £2500 on average. This is substantially less than the £6550 average payment received by redundant BSC employees. Were Lonrho to pay their employees off at this level it would cost them about £13 million rather than the £4.5 million already budgeted. This is slightly more than BSC are offering for the business at this stage. BSC's offer represents their commercial judgement of what the Hadfields business is worth, and it would not be right to persuade them to act against their commercial judgement. I expect BSC have held a small negotiating margin at this stage but it seems most unlikely that Lonrho would be

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prepared to spend all the proceeds on redundancy pay, cash rich though Lonrho are.

Even if BSC could be persuaded to exercise a generous commercial judgement so that Lonrho get a rather higher price, it would of course still be for Lonrho to decide what they did with the cash. They are under no obligation to top up their employees redundancy pay, and it is most unlikely that BSC would be prepared to make their offer conditional on Lonrho paying a certain sum to their employees. Moreover, BSC making such a condition would be bound to leak out and would lead other similarly placed employees - in particular Duport's ex-employees at Llanelli - to ask why similar favourable treatment was not accorded to them.

I am copying this letter to John Wiggins (HM Treasury), Murdo Maclean (Chief Whip's Office), and David Wright (Cabinet Office).

Yours ever
Catherine
CATHERINE BELL
Private Secretary

Nat Ind

Top copy filed on:-

Euro Pol: Budget: Pt 11

Ref: A04676

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PRIME MINISTER

Community Affairs

The Chancellor of the Exchequer might report on the Informal Meeting of Finance Ministers on 3rd and 4th April, at which the Germans initiated a discussion on budget restructuring.

2. You might invite the Secretary of State for Industry to report on the outcome of the Informal Meeting of Industry Ministers on 7th April, which was expected to carry forward last week's Steel Council discussions on the Community steel recovery plan in the light of progress in the separate Eurofer producers discussions. [No details of the results of the Council are yet available.]

3. The Secretary of State for Employment might be invited to report on the outcome of the Informal Meeting of Employment Ministers on 6th and 7th April. No decision was reached on the timing of the proposed Joint Council (Ministers of Economic Affairs, Finance, Social Affairs and Employment), though Mr. Prior made clear his view that an ill-prepared meeting in June would be a mistake and suggested a target date in 1982.

4. The Joint ACP/Community Council of Ministers takes place on 9th and 10th April. The Finance and Foreign Affairs Councils scheduled for next week have both been cancelled, although Foreign Ministers may have a Political Co-operation meeting if the Polish situation warrants it.

ROBERT ARMSTRONG

Robert Armstrong

8th April 1981

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PART 9 ends:-

PL to DOI 6/4

PART 10 begins:-

Ind to TL 7/4