The Steel Industry.

PART 8

NATIONALISED INDUSTRIES

Part 1: June 1979
Part 8: Dec 1980

* BSC Corporate Plan in separate folder.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~3.12.80~~							
~~4.12.80~~							
~~11.12.80~~							
~~18.12.80~~							
~~14.1.81~~							
~~26.1.81~~							
~~5-2-81~~							
~~11.2.81~~							
~~12-2-81.~~							
~~16-2-81~~							
~~17-2-81~~							
~~18-2-81.~~							
~~19-2-81~~							
16-2-81							
— ENDS —							

PART 8 ends:-

Industry to TPL of 16/2/81

PART 9 begins:-

TPL to PM of 17/2/81 + att.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (80) 139	1.12.80
E (80) 138	2.12.80
E (80) 4rd Meeting, Minute 2	4.12.80
CC (80) 44th Conclusions, Minute 1	11.12.80
E (80) 144	15.12.80
E (80) 45th Meeting, Minutes 1and 3	17.12.80
E (80) 46th Meeting, Minute 2	18.12.80
OD (E) (81) 1	13.1.81
E (81) 11	28.1.81
L (81) 33	29.1.81
E (81) 13	30.1.81
E (81) 14	2.2.81
EQO (81) 16	2.2.81
E (81) 5th Meeting, Minute 1	3.2.81
L (81) 4th Meeting, Minute 1	4.2.81
CC (81) 5th Conclusions, Minute 1	5.2.81
L (81) 39	6.2.81
E (EA) (81) 9	16.2.81

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 OWayland Date 9 August 2011

PREM Records Team

010

✓ MS

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

From the
Minister of State
PS/Norman Tebbit MP

Robin Birch Esq
Private Secretary to the
Chancellor of the Duchy
of Lancaster
Privy Council Office
Whitehall
London SW1

11 February 1981

Dear Robin

As you know, my Minister proposes to make a short statement in the House of Commons prior to introducing the Iron and Steel (Borrowing Powers) Bill. I attach the text of the proposed statement.

I am copying this letter to the Private Secretary to all members of E Committee, the Secretaries of State for Scotland and Wales, the Chief Whip and to David Wright (Cabinet Office).

Yours sincerely

Peter Mason

PETER MASON
Private Secretary

BRITISH STEEL CORPORATION - BORROWING POWERS

With permission I will make a statement on the borrowing powers of BSC. I will be introducing today the Iron and Steel (Borrowing Powers) Bill 1981 which will increase the British Steel Corporation's borrowing powers by £500 million. This Bill will enable the Corporation to continue in operation on reaching the current statutory limit of its existing borrowing powers in the course of the next few weeks.

As the House will know, the Government received the British Steel Corporation's Corporate Plan shortly before Christmas. Decisions on the Plan involve the consideration of very large sums of taxpayers'money, and will affect the position of a number of private sector companies whose areas of operation overlap those of the Corporation. My Rt Hon Friend will be making a further statement to the House when the Government have reached their conclusion on the Corporate Plan. At that stage, as foreshadowed in the Queen's Speech, the Government will introduce a further Bill which will deal with the future of its Corporation and its financial reconstruction.

In view of the urgency of the Corporation's need of increased borrowings and the essentially interim nature of the Bill which I am introducing I hope that the House will facilitate its swift passage.

10 DOWNING STREET

TIM

We spoke to Industry again. As this is a sensitive subject, they want to let Sir Keith have a look at it before it comes across to us. I told them that if they couldn't get it across tonight they must speak to you.

11 February 1981

CONFIDENTIAL

PA MS

Prime Minister ②

S.J.B. 16.2

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

16 February 1981

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

MS.

Dear Tim

JOHNSON FIRTH BROWN LIMITED

This is to let you know that my Secretary of State learned today that Johnson Firth Brown Limited intend to announce tomorrow that their steel-making subsidiary, Firth Brown Limited, is to get out of production of the lower value engineering steels - part of the area covered by the Phoenix II proposal. This will result in 1,250 redundancies in Sheffield. The company has told the Department that they feel they are too small in engineering steels to have a useful role in the Phoenix II proposals. They think their best course of action is to get out altogether and concentrate on the high alloy and more exotic grades which form the larger part of their business.

2 The company have decided to get out of the production of lower value engineering steels for sound commercial reasons. As a courtesy, the company informed the Department of this decision on Friday. The company did enquire whether any help could be given on meeting redundancy costs but we have indicated that no help is available. I should add that the company have not put forward any propositions to enable them to continue in this sector of the steel industry.

Yours ever
Catherine

CATHERINE BELL
Private Secretary

JU

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

Secretary of State for Industry

11 February 1981

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

Dear Tim

DUCTILE STEELS

Thank you for your letter of 9 February.

... 2 I attach copies of the recent correspondence between the Secretary of State and the Chairman of Ductile Steels. The paragraphs on BSC pricing policy were obtained from the Corporation. Since the statement on the BSC's Corporate Plan will contain a stiff passage on competition between the Corporation and the private sector, we clearly do not wish to pursue the line which Mr Sidaway has already received. Nor can we of course make any reference to what is in the statement. The draft reply therefore falls back on a more political approach.

Yours ever
Catherine

CATHERINE BELL
Private Secretary

JU

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO

R Sidaway Esq
Ductile Steels Ltd
Planetary Road
Willenhall
W Midlands WV13 3SW

Thank you for your letter of 4 February about the position of private sector steelmakers and BSC pricing policy. I have seen copies of your recent correspondence with Sir Keith Joseph on the same subject, but I am afraid that there is little more that I can add to what he has already said.

I am very conscious that the severe drop in demand for steel is causing acute difficulties for both the public and private sector steelworkers in the UK where they have now been faced with a prolonged spell of severely reduced capacity working. As you know the problem extends throughout Europe and there is now excess capacity for the foreseeable future. In such a situation, competition from sources both at home and abroad is bound to be fierce, but I do agree that there are particular problems where part of an industry is subsidised. It is a matter of great concern to me that this country should emerge from the current recession with a strong and healthy private sector; our economic strategy is designed with this in mind.

I can only add that the point of view you express is being given full and serious consideration in the Government's evaluation of BSC's Corporate Plan.

STATEMENT ON BRITISH STEEL CORPORATION'S FINANCES

With permission, I will make a statement on the borrowing powers of BSC. I will be introducing today the Iron and Steel (Borrowing Powers) Bill 1981 which will increase the British Steel Corporation's borrowing powers by £500 million. This Bill will enable the Corporation to continue in operation on reaching the current statutory limit of its existing borrowing powers in the course of the next few weeks.

The House will know the Government received the British Steel Corporation's corporate plan shortly before Christmas. Decisions on the plan involved the consideration of very large sums of tax payers' money and will affect the position of a number of private sector companies whose areas of operation overlap those of the Corporation. My rt. hon. Friend will be making a further statement to the House when the Government have reached their conclusion on the corporate plan. At that stage, as foreshadowed in The Queen's speech, the Government will introduce a further Bill which will deal with the future of the Corporation and its financial reconstruction.

In view of the urgency of the Corporation's need of increased borrowings and the essential interim nature of the Bill which I am introducing I hope that the House will facilitate its swift passage.

JH

C.F. / To note ? To keep

cc D/Ind

10 DOWNING STREET

THE PRIME MINISTER

12 February 1981

Dear Mr Sidaway.

Thank you for your letter of 4 February about the position of private sector steelmakers and BSC pricing policy. I have seen copies of your recent correspondence with Sir Keith Joseph on the same subject, but I am afraid that there is little more that I can add to what he has already said.

I am very conscious that the severe drop in demand for steel is causing acute difficulties for both the public and private sector steelworkers in the UK where they have now been faced with a prolonged spell of severely reduced capacity working. As you know the problem extends throughout Europe and there is now excess capacity for the foreseeable future. In such a situation, competition from sources both at home and abroad is bound to be fierce, but I do agree that there are particular problems where part of an industry is subsidised. It is a matter of great concern to me that this country should emerge from the current recession with a strong and healthy private sector; our economic strategy is designed with this in mind.

I can only add that the point of view you express is being given full and serious consideration in the Government's evaluation of BSC's Corporate Plan.

Yours sincerely

Margaret Thatcher

R. Sidaway, Esq.

JL

Slew.

PRIME MINISTER

I had a telephone call from Mr. Derek Norton, the Chairman of Hadfields, yesterday evening. He said that Hadfields were being crucified by unfair competition from BSC, and that as a consequence, they were now at only 50% of capacity. The Government should insist that BSC should not compete as aggressively with the private sector as they currently were doing, and the Government could ensure this by a faster closure programme for the Corporation. He said that BSC should be put into liquidation.

Norton went on to say that the Department of Industry were afraid of him - in the light of the Hadfields strike last year - and were not prepared to discuss his problems.

I told Norton that you were very much aware of, and concerned about, the private sector steel companies' problems; and also about the unfair competition now being practised by BSC. In reaching a final decision on BSC's corporate plan, Ministers were taking into account this point. But I said that I would pass on to you what he had told me.

I have passed on the gist of this conversation to Sir Keith Joseph's office. They say that Sir Keith has now had a word with MacGregor on the unfair competition point, and BSC and DOI officials are now trying to establish the facts. As regards Norton himself, they say they are not afraid to talk to him; it is more a question of him being a very difficult customer and the fact that, whatever the competition from BSC, Hadfields' prospects are pretty bleak. BSC have not felt able to consider a link-up with Hadfields as they are doing under the so-called Phoenix scheme with GKN in the 'bar and rod' business. On the other hand, Lonhro (of which Hadfields are a subsidiary) may be prepared to keep Hadfields going.

/ It is possible

It is possible that Edward Du Cann will raise this this afternoon. If he does, you could say that you are very much aware of the private sector steel companies' representations on the unfair competition point and that Sir Keith Joseph is taking it up with Mr. MacGregor.

T.

12 February 1981

2

10 DOWNING STREET

PRIME MINISTER

There is a note from Sir Keith Joseph in your box about Duport, warning that a receiver will be appointed very soon. The latest news is that he will go in either this evening or tomorrow. Sir Keith reckons that "events must take their course".

Meanwhile, the employers have sent you the attached letter asking you to intervene. There are several hundred signatures supporting it.

I think you will have to reply to this one, and I have asked Department of Industry for a draft.

- soon please -

And the content of their letter must be taken into account in considering the demand for BSC finance

MT

13 February 1981

vk

Nat Ind

cc Mr Hoskyns
Mr Wolfson
Mr Vereker

CA

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400 GTN 213

Switchboard 01-213 3000

Tim Lankester Esq
Private Secretary
10 Downing Street
LONDON SW1

16 February 1981

Dear Tim

As you requested by telephone this morning, I am enclosing some short notes on redundancy payments for employees in the coal, steel and docks industries.

Yours sincerely

Marie Fahey

MISS M C FAHEY
Private Secretary

Page 1 copied to:- Nat Ind:-
Coal Industry: Pt 2.

PUBLIC SECTOR REDUNDANCY PAYMENTS

The schemes for National Coal Board and British Steel Corporation employees are summarised below. These are in addition to the statutory payment. A table comparing maximum possible payments at different ages is attached. The maximum payment under the existing NCB scheme is £24,000; the proposed improvements would raise this to £35,000. The maximum payment under the BSC scheme is £20,000. Average payments are, of course, very much smaller.

A National Coal Board

1 The existing scheme gives mineworkers aged over 55 with ten years' service 95% of previous take home pay for 3 years, then weekly payments equal to unemployment benefit until age 65. In addition pension is paid early. Miners under 55 get a lump sum based on a sliding scale, equal, roughly, to half a week's salary for each year of service up to age 35, 1 week/year age 35-45, and 1½ weeks/year age 45 to 55.

2 The proposed scheme improves benefits for all age groups. All those under 60 get an additional lump sum, on a sliding scale which varies from £1,000 for those under 39, to double the statutory payment for those aged 50-55. Those aged 50-60 get an enhanced pension, and for those over 55 the period for which 95% of previous take home pay is payable is increased to 5 years.

B British Steel Corporation

3 The BSC scheme has three possible elements:

(i) a supplement of some 50% of the statutory payment

(ii) payments under the Iron and Steel Employees Readaptation Benefits Scheme (ISERBS) of 6 months earnings-related supplement to workers under 55 who remain unemployed. For unemployed workers over 55, 90% of pre-redundancy earnings for 1 year, followed by 80% for 6 months. For workers in new employment, earnings are made up to 90% of previous steel earnings for 1½-2½ years depending on age. There is also a training allowance equal to previous take-home pay for up to 1 year, and an early pension option for over 55s. The scheme is jointly funded with the ECSC and applies to most BSC employees and some private sector steelworkers

(iii) special ad hoc severance payments may be negotiated between management and unions at individual plants. At Corby this was 48 weeks' pay plus 10 weeks' holiday pay and nine weeks's wages in lieu of notice (average payment £6,700). Similar terms were agreed at Shotton.

COMPARISON OF COAL, STEEL, AND SHIPBUILDING TERMS

Age	Years of Service	Payment under EP(C)A	MINEWORKERS (EXISTING) RMPS Lump Sums	MINEWORKERS (EXISTING) RMPS Weekly Benefit 3 yrs basic	MINEWORKERS (EXISTING) RMPS Weekly Benefit UBE only	MINEWORKERS (EXISTING) Total Cols. 3 - 6	MINEWORKERS (PROPOSED) RMPS Lump Sums	MINEWORKERS (PROPOSED) RMPS Weekly Benefit 5 yrs basic	MINEWORKERS (PROPOSED) RMPS Weekly Benefit UBE only	MINEWORKERS (PROPOSED) Supp Lump Sums	MINEWORKERS (PROPOSED) Total Cols. 8 - 14 and 3	IRON AND STEEL WORKERS Weekly Benefits	IRON AND STEEL WORKERS EP(C)A Supplement	IRON AND STEEL WORKERS Ex-Gratia Lump Sum	IRON AND STEEL WORKERS Total Incl. Col 3	SHIPBUILDING Weekly benefit	SHIPBUILDING Lump Sum	SHIPBUILDING Total with Col 3
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
		£	£	£	£	£ *	£	£	£	£	£ *	£	£	£	£ *			*
25	5	480	325	-	-	805	325	-	-	1000	1805	468	240	6,500	7688	-	300	780
30	10	1,080	650	-	-	1,730	650	-	-	1000	2730	468	540	6,500	8588	-	300	1380
35	15	1,680	1,560	-	-	3,240	1,560	-	-	1000	4240	468	840	6,500	9488	-	300	1980
36	16	1,800	1,872	-	-	3,672	1,872	-	-	1000	4672	468	900	6,500	9668	-	300	2100
37	17	1,920	2,210	-	-	4,130	2,210	-	-	1000	5130	468	960	6,500	9848	-	300	2200
38	18	2,040	2,340	-	-	4,380	2,340	-	-	1000	5380	468	1,020	6,500	10028	-	300	2340
39	19	2,160	2,470	-	-	4,630	2,470	-	-	1000	5630	468	1,080	6,500	10208	-	300	2460
40	20	2,280	2,600	-	-	4,880	2,600	-	-	1500	6380	468	1,140	6,500	10388	3600	3600	9480
45	25	2,640	4,225	-	-	6,865	4,225	-	-	1500	8365	468	1,320	6,500	10928	4800	5040	12480
50	30	2,940	5,850	-	-	8,790	5,850	-	-	5880	14670	468	1,470	6,500	11378	4800	4740	12480
54	34	3,180	6,630	-	-	9,810	6,630	-	-	6360	16170	468	1,590	6,500	11738	4800	4500	12480
55	35	3,240	-	10,519	10,079	23,838	-	18207	6744	6480	34671	8172	1,620	6,500	19532	4800	4440	12480
60	40	3,540	-	10,519	2,880	16,939	-	18207	-	-	21747	8172	1,770	6,500	19982	4800	4140	12480
61	41	3,600	-	10,519	1,440	15,559	-	14222	-	-	17822	8172	1,800	6,500	20072	4800	4080	12480
62	42	3,600	-	10,519	-	14,119	-	10519	-	-	14119	8172	1,800	6,500	20072	4800	4080	12480
63	43	3,600	-	6,434	-	10,034	-	6434	-	-	10034	7964	1,800	6,500	19864	4800	2265	10665
64	44	3,600	-	2,350	-	5,950	-	2350	-	-	5950	2247	1,800	6,500	14147	2400	450	6450

Reference

Miss Fahey

cc Mr Wake
Mr Ashfold

NATIONAL VOLUNTARY SEVERANCE SCHEME (NVSS)

1 You told me No.10 are asking for brief details of severance payments for rdws to set beside the schemes currently applying in eg coal and steel.

2 Severance arrangements for registered dock workers are contained in the National Voluntary Severance Scheme (NVSS). This is an industry agreement reached within the National Joint Council for the Port Transport Industry and financed primarily by a levy on registered employers. The Government has however from time to time made loans to the National Dock Labour Board, which administers the Scheme, in order to avoid wide fluctuations in levies.

3 Since September 1980 the NVSS has offered maximum lump-sum payments of £10,500, for rdws with 20 years service. The basic payment for an rdw accepting severance after one year's service is £1,500, with an additional £450 for each further year up to 20. Unfit men qualify for a basic payment of £3,700, with an extra £340 for each additional year up to the same maximum. There are no additional payments under the NVSS eg to maintain income for a period after leaving the industry, or in relation to early retirement.

M EMMOTT

IRD

16 February 1981

CODE 18-77
Ed 12/77

Prime Minister.

PRIME MINISTER

MB.

D.J.S. Colling
Duty Clerk
12/2/81.

DUPORT LTD

I am writing to warn you and other colleagues that it is likely that Duport Ltd will shortly be put into receivership by the Midland Bank.

2 As you will know, Duport Ltd has been in serious financial difficulty since mid 1980 because of the performance of its subsidiary, Duport Steels Ltd. 70% of Duport Ltd's assets are in this subsidiary which comprises a new steelmaking operation at Llanelli which employs 1060 people, and an older rerolling plant, London Works, at Tipton, Staffordshire which employs 575 people. There are also foundry operations employing some 1400 and other businesses more remote from steel employing some 3000.

3 Those considering the possibility of establishing a joint public/private sector company in the engineering steels sector, (GKN, Duport, Hadfields, BSC and TI) decided some time ago that retention of the capacity at Llanelli would not be required on any view of future demand. The works is geographically removed from the main steelmaking areas and incurs cost penalties both in transporting scrap from the Midlands and in transporting billets to the Midlands for rerolling. The works has no continuous casting facility.

4 The London Works, however, might well be needed in a new engineering steels company but Duport has not been able to afford to wait

/until ...

until the new company is formed. Since BSC would participate in any joint company which is likely to emerge, I authorised BSC to open negotiations for the purchase of London Works with a view to its inclusion in a new company.

5 BSC's merchant bankers, Lazards, advised that London Works would be worth £15m, if the works were to be amalgamated with BSC's operations, and £25m if viewed as part of a new company. The higher valuation is justified in their view because the contribution made by London Works to a wider grouping would be much greater. If and when the new company is formed, it would certainly be loss making in the early years. BSC decided they could not offer cash in these circumstances but offered to take over £25m of Duport's indebtedness to the Midland Bank provided that the £25m would not carry interest for the first 2½ years and that the loan could be transferred at BSC's option to the new company when formed.

6 The Bank of England report that the Midland will not accpet this proposal on the grounds that the amount on offer is inadequate and that it is unsatisfactory that the proposed loan should be secured on the assets of the new company.

7 BSC have acted at my request on the assumption that the new joint public/private sector companies should be based on sound commercial principles. I have also left the negotiations to BSC and the private sector companies since they will own the assets and will have to operate the assets. It would not be proper for me to seek to change BSC's view on the value of London Works.

/Indeed ...

Indeed if I sought to do so I am sure the Chairman would ask me for a direction. The London Works is worth £15m to BSC or £25m to the joint company; it cannot be made to be worth £25m to BSC which is the essence of what the Midland wants. I cannot allow BSC to retain responsibility for repaying the loan or to guarantee it, as the Midland would like. As I explained to you and to colleagues in E, I am aiming to establish freestanding companies without parent company guarantees.

8 I understand that the Midland would prefer to put Duport Ltd into receivership, believing that they would be at least £7m better off by this route. The Bank of England advise, and I agree, that there is little to choose between the receivership route and purchase by BSC/the new joint company. Llanelli would be closed in either case with the loss of 1060 jobs. In a receivership London Works would find a buyer probably with the loss of some jobs. The foundry side, which employs 1,400, is loss making and would probably find a buyer but some jobs would be lost - Duport had planned a rationalisation involving a loss of 500 jobs if they survived the present crisis. The other Duport non-steel making businesses employ about 3000 and would almost certainly all find purchasers.

9 I much regret that Duport should find itself in this situation and that closure of Llanelli will cause redundancies in such a politically sensitive area as South Wales. There is no question of Duport being brought down by subsidised competition from BSC; the basic fault lies with the company's management who invested

70% of its assets in steel and in a geographically isolated main plant. We shall inevitably incur some criticism if the Midland does decide to put in a receiver but I propose to make sure that the Midland takes its share of the blame by indicating that BSC had made a substantial offer for some of the assets which the Midland had felt unable to accept. I am convinced that there can be no question of the taxpayer putting in cash to save Duport. We must allow events to take their course. Since discussions have reached the end of the road, I have authorised officials in the Department to tell the Bank of England, who in turn will tell the Midland Bank, that no taxpayers' money will be forthcoming. Receivership can be expected very soon, unless Midland relent.

10 I am copying this minute to members of E Committee, to the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong.

KJ

K J

12 February 1981

Department of Industry
Ashdown
123 Victoria Street

cc HMT
CPRS
CO

HS

10 DOWNING STREET

From the Private Secretary

16 February 1981

BF 27. 2. 81

I wrote to you on Friday asking for a draft reply for the Prime Minister to send in response to the letter of 9 February from the Joint Works Committee of the Duport Steel Works. The Prime Minister has asked if this draft can be provided speedily - i.e. within the next 24 hours - and she has also said that the content of the Duport letter must be taken into account in Ministers' consideration of BSC's funding request.

I am sending copies of this letter (and also of the letter of 9 February) to Terry Mathews (H.M. Treasury), Gerry Spence (CPRS) and David Wright (Cabinet Office).

T. P. LANKESTER

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

8P

MFJ

13 February 1981

I enclose a letter the Prime Minister has received from the Joint Works Committee of the Duport Steel Works, which is also supported by several hundred signatures by individual employees. I would be grateful for a draft reply for the Prime Minister to send.

TPL

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

VLB

FILE

VLB

13 February 1981

I am writing on behalf of the Prime Minister to thank you and your colleagues for your letter of 9 February.

This has been placed before the Prime Minister and a reply will be sent to you as soon as possible.

T P LANKESTER

G. Davies, Esq.

cc Mr Ingham

1. MR WHITMORE ✓ TW 10/ii. 2
2. PRIME MINISTER
Arrangements are in hand for the timetabling of the short bill. The present draft of Mr Tebbit's statement is attached.
MJS 10/2

Ref. A04230

MR WHITMORE

British Steel Corporation

I have been discussing the handling of this with the Department of Industry.

2. It is now proposed that only the short Bill, to extend the Corporation's borrowing powers, should be introduced tomorrow, and that its introduction should be announced in a short and low key statement, to be made by Mr Tebbit. No doubt the text of the statement will be sent to the Prime Minister by the Department of Industry; it will make it clear that the Corporate Plan is still under discussion and that there will be a further Bill in due course to deal with the financial reconstruction of the Corporation and other matters required by the Plan.

3. The second reading of the short Bill is set for Monday 16 February, and the original plan was to have a full day's debate. It would clearly be very difficult to have a sensible debate, or for Department of Industry Ministers to be in a reasonable position to open such a debate, unless a fuller statement on the Corporate Plan and the external financing limits had been made. The Department of Industry have therefore been thinking in terms of clearing the full statement in time for it to be made as part of the second reading speech on 16 February.

4. I am sure that this timetable is too tight. The Secretary of State will not have seen Mr MacGregor until tomorrow afternoon and the examination which is then to take place cannot begin until Thursday. The examination is to be conducted by Mr Ibbs and an accountant who until recently was with the Department of Industry and is familiar with the Corporation's finances. It may well take more than one meeting to complete the examination: even on the basis of one meeting only, there would be very little time for the preparation of a report, its discussion by Ministers and agreement upon the terms of a statement to be made on 16 February.

5. We have therefore encouraged the Department of Industry to decouple the statement from the second reading of the short Bill, and to seek to arrange with the business managers to reduce the amount of Parliamentary time allotted to the second reading of the short Bill. We have suggested that the Bill should go forward as planned next week, and that the Secretary of State should think in terms of making his full statement not earlier than 23 February. I hope that it can be completed in time to be made on 23 or 24 February: I think that we should try to avoid having this hanging around until after the Prime Minister gets back from Washington.

RTA

ROBERT ARMSTRONG

10 February 1981

9.6

LLANELLI CONSERVATIVE CLUB & ASSOCIATION

TO THE PRIME MINISTER AND MR. IAN MACGREGOR

PETITION

WE, the undersigned urge you to take immediate action to prevent the proposed closure of the DUPORT STEEL WORKS at LLANELLI, for the following reasons : -

1) Why should the Government allow a comparatively small private business like Duport Llanelli to be closed, when it pays out billions of pounds to Nationalised Industries in a completely hopeless state.

2) At Duport Llanelli 1200 jobs will be lost. In fact 5,000 would suffer, including the unemployed in ancilliary businesses dependant on Duport.

3) Over the past three years the Company has invested about 35 million pounds in steel making at Llanelli.

4) A second electric arc steel making Furnace was completed only 12 months ago, which made Duport Llanelli the most modern factory of its kind.

5) Duport Llanelli did not strike in the early half of last year, in support of the National Steel strike.

6) Unemployment in Llanelli following the proposed closure of Duport Llanelli would top 21%.

7) Additional E.E.C. funds could be sought as an alternative to closure. The sum required is small indeeed compared with the billions of pounds recently given to the Nationalised British Steel Corporation.

NAME	ADDRESS
Grace Urge	19, Bethesda Rd. Tumble
Ruth Jones	7 Park Place Tumble
Nesta Griffiths	7. Pen Parc Tumble
Nancy Davies	Bladfa. Bethesda Road
E. Bledhill	High St TUMBLE
B. J. Decke	32 Pen Parc Tumble
D.R. Lloyd	12 Heol Ffaldau Drefach Llanelli
J. Lloyd	23 " " "
Betty Thomas	9 BRON-YR-YNN DREFACH
R. Morgan.	24 High St Tumble.
I Rosser	34 Nazareth Rd Pontyates
A. Busby	High St Tumble
T M REES	69 TIR BECCA TUMBLE

CONTINUED/

NAME	ADDRESS
A. H. Lewis	31 Brynllwan Gorslas.
Ian Roderick	15 BETHESDA Road Tumble.
Shirley Roderick	15 Bethesda Rd, Tumble.
Tina Davies	36, LLECHYFEDACH TUMBLE
R. Powell.	22 TROED-Y-BRYN.
MRS. E. Powell.	47 " Penpant Tumble
J. Rees.	49 Rhos-y-dell Tumble.
Chris Williams.	
Fiona Williams	59, High St, Tumble
ADRIAN WILLIAMS	ARDWYN CARMEL
DAVID OWEN	43 Pen Parc Tumble
Debbie Owens	17 Maesgwaun Tumble
Mine Parry	58 Rhosnewydd Tumble

Mr Walters
Mr Ingham

PRIME MINISTER

BRITISH STEEL CORPORATION: CORPORATE PLAN

At E Committee on 3 February (E(81)5th) I was asked to circulate to colleagues a note which set out in more detail the purposes for which BSC needed external finance in 1980/81 and 1981/82.

... 2 I attach at Annex A a table giving a breakdown into its main components of BSC's estimated external finance requirements of £1121m for 1980/81 and £730m for 1981/82. The main outflows are funding of a trading loss (after depreciation and before interest) of £480m in 1980/81 and £225m in 1981/82 (this includes provision of £50 million for the 7% pay award from July 1981); provisions for redundancies and closure costs of £350m in 1980/81 and £183m in 1981/82, most of which is likely to be committed by July; and net capital expenditure of £167m in 1980/81 and £198m in 1981/82 (about half of which will be covered by depreciation). The capital expenditure provision for 1981/82 contains no significant sums for major new projects, and the Chairman has agreed to consult me before authorising work on the two new projects he has in mind; no irrevocable commitments will be made before July. Interest payments will fall from £179m to £93m, mainly as a result of the proposed capital reconstruction.

No

3 The extra £150 m in 1980/81 is needed primarily to fund current losses and redundancy payments. It is in fact £50 million lower than the sum which, last September, BSC expected to need to finance

/their ...

their operations until the end of the 1980/81 financial year.

4 I was also asked whether the deferred wage increase of 7 per cent from 1 July could be accommodated within a lower EFL and financial target for 1981/82. I discussed this, and the possibility of setting tighter financial targets, with Mr MacGregor before circulating E(81)13, and he made it clear that he did not regard further tightening as realistic. I do not think that I will be able to persuade him otherwise (he is at present in North America). As colleagues noted during our discussion in E Committee on 3 February, the attainment of the targets for 1981/82 is critically dependent on external circumstances beyond the control of BSC. There are some contingency allowances in the Plan which in principle could be used to cover the £50 million required for the pay settlement. However, this would leave an unrealistically low level of contingencies for external factors such as the DM exchange rate, which is already at a level which is more damaging to BSC's prospects that it was at the time the Corporate Plan was drawn up.

He would have to if he were in Japan.

... 5 You will also see from the revised draft statement (attached) that in the light of E(81)5th I no longer propose to say that, if Mr MacGregor proposes further closures, the Government will not intervene in that decision. I regret this omission. The underlying thought behind E(81)11 was that we should aim for the largest British steel industry that is profitable; but that it is more important that manufacturing industry as a whole should

?

/have ...

have access to steel that is competitive (in price, quality, delivery and so on), wherever it may come from, than that the steel should be made here. As I emphasised in the E Committee discussion, I believe that any significant departure from this could be very expensive. More positively, the profit criterion is much the best indicator of success in what I regard as our main objectives for BSC: to get the Corporation back to normal commercial viability (and so to open the way to further privatisation) in what is a highly competitive commercial environment; to ensure that the wider manufacturing industry of this country does not incur a competitive disadvantage; and to ensure that existing private sector capacity is not driven out of existence by the long-term maintenance of uneconomic BSC facilities. Colleagues should understand that some steel converting parts of BSC could be and would be sold to the private sector if they were not needed in BSC as outlets for steel made in plants that are at present unprofitable. To depart from the profit criterion will lead to a larger and costlier nationalised industry than otherwise. Perhaps less importantly, but still significantly, the policy I prefer is central to our obtaining acceptance for our continued financing of BSC from the EC Commission under the Decision on State Aids for Steel, which we are committed to support; and the profit criterion is reflected in

!! Mr MacGregor's terms of reference and the basis on which compensation is to be paid to Lazards for his services. I am prepared, if colleagues insist, to try to work out wider criteria against which to judge proposals for closure, but I am nervous of the consequences and would much prefer to stick to the use of a commercial yardstick and deal separately with the social effects.

6 I should draw colleagues' attention to para 14 of the draft statement. In E(81)13 I suggested that we approve officials' recommendations that BSC be asked to consider creating Companies Act companies for some of their activities. I think it would be wise to mention this in the statement since I am receiving increasing evidence of disquiet from the private sector at the new vigour with which BSC is competing with them and of the likelihood that they may be doing so with the help of taxpayers' money. The formation of Companies Act companies would help to bring a greater degree of transparency to BSC's operations. Transfer prices between BSC and their Companies Acts subsidiaries will be a crucial issue and I propose to discuss the matter with Mr MacGregor.

Exactly and a 7½% increase in pay

7 I invite colleagues to agree that I should now make a statement

... to Parliament on 11 February on the lines set out in the attached draft, which takes into account the points raised in our discussion including a reference to redundancy pay which Mr MacGregor has welcomed in principle. My statement will also introduce the one clause Bill to raise BSC's borrowing limit and the longer Bill to remove the Corporation's duty to supply and to effect the capital reconstruction which we discussed in Cabinet on 5 February. Arrangements are being made for the borrowing powers bill to complete all its Commons stages in the week beginning 16 February and to obtain Royal Assent by the end of the month. The Second Reading will in effect be a debate on the Corporate Plan and my statement.

8 I am copying this to our colleagues on E, to Francis Pym, George Younger, Nicholas Edwards and Michael Jopling and to Sir Robert Armstrong.

KJ

K J

Department of Industry
Ashdown House
123 Victoria Street

6 February 1981

BSC Estimates of Cash Requirements 1980/81 and 1981/82

B

	Cash inflow/(outflow) 1980/81 £M	1981/82 £M	
Trading Profit/(loss) before interest and after depreciation	(480)	(225)	
Interest	(179)	(93)	
Redundancies/ closure costs	(350)	(183)	Only £350?
Working capital and stocks	(75)	(149)	
Capital expenditure (net of RDG)	(167)	(198)	
Depreciation	95	100	
Disposals	35	54	
Contingencies	-	(35)	
	(1121)	(729)	£730

Notes (1) The reduced interest payments in 1981/82 mainly reflect the capital reconstruction envisaged

(2) The total working capital requirement for 1980/81 was low, partly because of distortions resulting from the end of the strike, and partly because of the major contraction in output during the year. The larger figure for 1981/2 reflects the volume increase envisaged by BSC.

M

This statement, as drafted, will bring maximum harm to the Govt. We want the briefest possible statement keeping in mind the whole thing is to be reviewed in 6 months time and well [illegible] the [illegible] hostility of the [illegible] [illegible].

DRAFT STATEMENT ON BSC CORPORATE PLAN

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

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

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

4 The British Steel Corporation have nonetheless taken substantial steps to adjust to the changed environment. The Corporation undertook a massive retrenchment programme in the course of 1980 ~~cutting~~ manned steelmaking capacity was cut from 21½ million to 15m tonnes of liquid steel ~~to 15 million~~. A number of works were closed and manning levels slimmed down at others in order to bring productivity at them up towards international standards. In 1980 there were 50,000 job losses at BSC. ~~This has taken place at the same time as the Corporation was recovering from the considerable~~

damage caused by the strike. We must all be impressed by the co-operative and realistic attitude of the workforce in recent months in accepting these necessary changes and by the vigour with which the Corporation's management has approached its task.

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

6 The Corporate Plan which Mr MacGregor submitted to the Government shortly before Christmas embodies and continues this approach. It provides for a manned capacity of 14.4 million tonnes of liquid steel a year - a slight reduction from the existing capacity of 15.2 million tonnes; and it envisages that by the end of 1981/2 the rate of loss will have been substantially reduced from its present level, estimated for 1980/1 at about £480 million. To achieve this the Corporation intends to press ahead with its

cost reduction and marketing programmes, so that by the summer it will have a clear view of whether the objectives of the Plan can be met. Mr MacGregor has made it quite clear to the Government and to all members of the Corporation, both managers and work-force, that there will be no future for any operations that are not competitive.

7 To further his plan Mr MacGregor has asked the Government to provide an extra £150 million in 1980/1 [to bring the total external finance requirement to £1,121 million] and for £730 million in 1981/2.

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

9 The Government are prepared ~~to approve the Corporate Plan and~~ to provide the finance needed to implement it the Plan. We are setting the Corporation the target of limiting their loss before interest in

1981/82 to £225 million, in accordance with the Plan, and in comparison with the estimate of £480 million for 1980/81. ~~We are also asking the Corporation to plan ahead on the basis that they should aim to achieve breakeven, also before interest, in 1982/3.~~ We shall increase the External Finance Limit for 1980/81 ~~to £1121 million~~ by £150 m. We have also agreed that the EFL for 1981/82 should be £730 million. This is a high figure, reflecting in part the substantial though reduced losses, but also including a programme of essential capital expenditure and continued heavy redundancy and closure costs. We have been prepared to provide funds to BSC for the generous level of severance payments which they have negotiated over the last two years, ~~Despite the fact that no private sector company in BSC's position could afford such payments, we are prepared to do so again for 1981/82,~~ in recognition of the urgent need to eliminate surplus capacity and overmanning. But I do not think it reasonable for the Corporation's employees to expect that the Government will be willing to ask the taxpayer automatically to continue to finance redundancy payments on this scale - which will cost about £350 million in 1980/81 and about half that in 1981/82 - beyond the end of 1981, should substantial further closures or redundancies prove necessary.

?

10 If ~~I must also emphasise that, as I have already explained~~, Mr MacGregor's plan is too optimistic ~~optimism may not be justified and~~ his commercial judgement may then lead BSC to seek further closures or redundancies in order to achieve the financial objectives they have been asked to meet. The Government will monitor events closely and we have asked Mr MacGregor to let us have his assessment

of progress in July.

11 In addition, I have published today two Bills, the Iron and Steel (Borrowing Powers) Bill 1981 and the Iron and Steel Bill 1981. I shall be asking the House to pass the first Bill to raise the borrowing powers quickly, since the Corporation will reach its current statutory borrowing limit at the end of February. The second Bill will write off some £3,500 million of BSC's capital immediately, provide a power to write off a further £1,000 million later and make certain consequential adjustments to the Corporation's borrowing limit. These write-offs will deal with the mistakes of the past. They do not represent the commitment of additional funds. The second Bill will also amend the Iron and Steel Act 1975 to allow the transfer of businesses to the private sector and to permit a rapid and, indeed, extensive run-down of the Corporation if that proves necessary.

over-investment -?

12 The Government are aware that implementation of BSC's plans will result in substantial job losses in a number of areas which have unemployment above the national average. As they are all Assisted Areas considerable support is already available to encourage new investment and to help those made redundant to find new jobs, though I do not in any way underestimate the problems for the communities and people concerned. I shall, if necessary, consider whether any further measures of assistance would be appropriate.

13 The private sector in this country has also faced severe difficulties. This has caused particular concern in those areas

where BSC's operations overlap those of private sector companies. It is neither just nor sensible that the Government should subsidise State-owned activities which have the effect of driving independently owned companies out of business. The Government, therefore, authorised the Corporation in the autumn to open negotiations with those private sector companies who were interested and whose operations overlapped their own with a view to seeing whether viable joint companies could be created. Two such companies are under discussion. The Government will continue to give every encouragement to these negotiations so long as they are on a commercial basis and result in operations which are commercially viable; and as I have already indicated, the Bill will contain provisions to facilitate these and other transfers to the private sector.

14 There will nevertheless remain substantial areas in which BSC will continue in competition with the private sector, particularly in steel-related businesses such as stockholding and construction as well as some sectors of steel production. I have made it clear to Mr MacGregor that he should, as far as possible, ensure that the businesses concerned compete fairly with the private sector and that they do not use taxpayers' money to lower prices solely in order to take business from private sector competitors. In order to ensure that such competition is seen to be on a fair basis, I have asked Mr MacGregor to consider setting up separate Companies Act companies for these businesses where they do not already have that form.

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

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

17 I am sure that the House will wish the Corporation, its work-force and its managers success in the difficult task they face.

jfh

BF TODAY

9 February 1981

The Prime Minister would like to reply to the enclosed letter from the Chairman of Ductile Steels. She understands that he has already written to Sir Keith Joseph, and it appears that he has had no reply. In the circumstances, she has asked for a draft by close of play this evening.

TPL

Ian Ellison, Esq.,
Department of Industry.

JH

Nothd

CONFIDENTIAL

Qa 05245

To: MR LANKESTER

From: J R IBBS

9 February 1981

BRITISH STEEL CORPORATION: CORPORATE PLAN

1. I have read the minute from the Secretary of State for Industry dated 6 February to which he attached a revised draft statement.

2. In paragraph 5 of his minute he speaks of "departing (which he regrets) from the profit criterion" and of "trying (if colleagues insist) to work out wider criteria".

3. I do not interpret the views reached at E Committee on 3 February as urging departure from the profit criterion but rather that, if the profit criterion was to be useable in practice, it needed to be refined in good time by agreement between the Government and Mr MacGregor on certain aspects. This was certainly the point made in paragraph 5 of the CPRS note (E(81) 14) considered at that meeting. A simple profit based judgement on closure which could not actually be implemented because of some overriding reason would discredit the whole concept of a profit criterion.

4. There appear at present to be various potential dangers. Whether any actually occur will depend on external events and also on Mr MacGregor's attitude. As extremes, two alternative dangers are -

(a) that Mr MacGregor and the BSC Board may feel throughout this year and beyond that viability is "just around the corner" and so persevere indefinitely with the level of activity and breadth of operations which the Secretary of State already describes as optimistic. This optimism may not be justified but if everything is left to Mr MacGregor's commercial judgement, and no dates for making such judgement are specified, then there is a risk of creating a repetition of the BL problem with the Government being unable to institute closure except by open conflict with the BSC Board's judgement

or (b) that Mr MacGregor and the BSC Board, because they are determined to hit their ultimate profit targets without fail, may announce closures which are hard to defend either because current targets are being missed only because of external factors which are perhaps temporary, and/or because the closures affect products or plants which are strategically or politically extremely sensitive.

5. It may be helpful if I list some of the points which I believe need to be clarified -

(a) <u>What is the test which Mr MacGregor is expected to apply</u>? Although targets have been established, it is not clear exactly how decisions on viability and hence closure, are to be taken. Is the test to be actual performance on a specified date? Or progress towards a future target level? Or merely intuitive commercial judgement in the light of events on whether viability is possible?

(b) <u>How stringent is Mr MacGregor to be in arriving at this judgement</u>? Is leeway to be allowed either on a short fall from targets or on delay in achieving them? If so, how much? (This is the point raised in my minute to you dated 2 February).

(c) Are there any parts of BSC's business on which, for strategic or political reasons, straight forward profit criterion should not be applied?

(d) Is any allowance to be made if external factors outside BSC's control are unfavourable, but perhaps only temporarily?

(e) If (c) and (d) above are relevant, how can they best be taken into account without undermining the profit criterion? As I understand it this is the task which E Committee asked should be pursued.

6. Obviously, the immediate matter to be resolved is the draft statement. I suggest that the dangers outlined in paragraph 4 might be reduced if paragraph 10 were modified as follows:

> "10. I must also emphasise that, as I have already explained, Mr MacGregor's optimism may not be justified, in which case he will be seeking further closures or redundancies in order to achieve the financial objectives he has been asked to meet. The Government have been provided with details of BSC's performance targets and will monitor progress closely. We have asked Mr MacGregor to let us have an assessment by July of any further steps he needs to take."

It would then be important that the Department of Industry and Mr MacGregor should reach a clear understanding on the points in paragraph 5 above.

7. I also have a few suggestions to make on other parts of the draft statement.

(a) Paragraph 6: I suggest that the profit objective might be hardened up by changing the second half of the second sentence to read: "and it envisages that by the last quarter of 1981/82 trading operations will be near break-even."

(b) Paragraph 13: Modify line 8 on page 6 to read: "whether viable joint companies in the private sector could be created".

(c) Paragraph 14: Modify second part of the second sentence to read: "ensure that the businesses concerned compete fairly with the private sector and that they do not use taxpayers' money to enable them to take business from private sector competitors."

Modify second part of third sentence to read: "I have asked Mr MacGregor to set up where possible separate Companies Act companies...."

(d) Paragraph 15: Delete the last two lines of the final sentence and replace with "and that they are not brought about by unfair competitive pressure".

8. I am sending a copy of this minute to Sir Robert Armstrong.

JK
T

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Prime Minister

I suspect you will want another meeting of E to discuss Sir Keith's statement - we can arrange this for Monday afternoon instead of the 4.30 meeting on Govt. information services. [initials] 6/2

The statement will have to be much shorter and its pitfalls eliminated. Some more work must be done on performance criteria now. Alternatively, we could have a small meeting with KJ and other Mins.

Ref. A04217

MR. WHITMORE

British Steel Corporation: Corporate Plan

The Secretary of State for Industry has now, as requested by the Cabinet, circulated to members of the Ministerial Committee on Economic Strategy his draft of the statement which he is to make on the BSC Corporate Plan on Wednesday, 11th February. Flag A

2. The draft statement describes the Plan's provision for a manned capacity of 14.4 million tonnes of liquid steel a year. It gives the loss before interest for 1980/81 of £480 million, and the target loss of £225 million for 1981/82 as accepted by the Government. It announces an External Finance Limit (EFL) of £1,121 million for 1980/81 and £730 million for 1981/82. It says that, if Mr. MacGregor's optimism about the future is not justified, his commercial judgment may then lead BSC to seek further closures or redundancies in order to achieve their financial objectives. It says that the Government will monitor events closely and have asked Mr. MacGregor to let them have his assessment of progress in July.

We did not accept £225m

3. In his covering minute, Sir Keith Joseph argues strongly for sticking to the profit criterion; he says that he is prepared, "if colleagues insist", to try to work out wider criteria against which to judge proposals for closure, but would much prefer to stick to the use of the commercial yardstick and deal separately with the social effects.

We did insist

4. The Ministerial Committee on Economic Strategy last Wednesday asked the Secretary of State for Industry to arrange for his Department to discuss possible performance criteria with the Treasury and the CPRS. This discussion has not yet taken place - no doubt because of the Secretary of State's reluctance - and it would not now be possible to agree performance criteria among the Departments concerned and with Mr. MacGregor in time for a statement on 11th February. The one-clause Bill on the BSC's borrowing limit has to be taken

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as soon as possible, and it is not possible to defer some sort of statement beyond about the middle of next week. It is difficult to see how any statement can be made convincingly, if it does not include the revised figures of the EFLs for 1980/81 and 1981/82.

5. I think that there are two possible ways to handle this:

(a) If the Prime Minister thinks - as she well might - that this draft statement suffers from all the shortcomings which she was criticising at the meeting of E, she may think that we ought to have another meeting of E on Monday or Tuesday, to seek to persuade the Secretary of State for Industry either to restrict his statement to those things which absolutely have to be announced for the purpose of the proposed legislation or to strengthen it so as to diminish the impression that Mr. MacGregor has unlimited access to the Exchequer.

[illegible]

(b) If she reluctantly accepts that it is not now going to be possible to agree upon objective performance criteria before Wednesday, and there is unlikely to be any basis for any other figures than those indicated in the draft statement, she could leave the draft to be dealt with in correspondence, herself sending a minute which invites the Secretary of State for Industry to incorporate in the draft a reference to the Government's intention of agreeing performance targets with the BSC as a basis for assessing progress in July.

6. If she follows the second course, the Prime Minister will want to emphasise the need for the Department of Industry, the Treasury and the CPRS to get down as early as possible to discussing both performance criteria and possible closures. It may be that other Ministers do not accept that the profit criterion can be the only criterion for deciding whether to proceed with closures, and that there are some plants which, for wider economic or social reasons, ought to be kept in being even if they are not showing a profit. If this is the view of the Government, the sooner it is worked out and conveyed to the BSC, the better.

D.J. Wright

ROBERT ARMSTRONG

(drafted by Sir R. Armstrong and signed on his behalf).

6th February, 1981

CONFIDENTIAL

CONFIDENTIAL

cc/ Hoskyns
Walters
Wolfson
Ingham

Not Ind. MFS

Subject

10 DOWNING STREET

From the Private Secretary

9 February 1981

Dear Ian,

As you know the Prime Minister held a meeting this afternoon to discuss the proposed statement on BSC's Corporate Plan. The following were present in addition to your Secretary of State: the Chancellor of the Exchequer, the Chancellor of the Duchy, Sir Robert Armstrong, Mr. Ryrie, Mr. Ibbs and Mr. J.S. Steele. They had before them Sir Keith's minute of 6 February and the draft statement enclosed with it.

The Prime Minister said she was unhappy with both the substance and the tone of the draft statement. As regard the former, she had grave doubts - in the light of the further information provided in Sir Keith's minute - whether the proposed EFL of £729m. could be justified. She was surprised such a small proportion of this figure was accounted for by redundancy and closure costs; and by contrast, that so much was being allocated to trading losses, working capital and stocks, and capital expenditure. She wondered whether Department of Industry officials, before recommending the total of £729m. for the EFL, had really vigorously examined BSC's plans. With the private sector steel companies in increasing difficulty, partly because of competition from BSC, the announcement of an EFL of £729m. for 1981/82 would be politically very damaging.

As regards the tone of the statement, the Prime Minister said it was essential to get over the point that substantial funding was being provided to BSC to enable them to be slimmed down and to become more efficient, and at the same time to enable the private sector steel companies to flourish. As presently drafted, the statement would arouse great hostility from the private sector companies and bring maximum harm to the Government.

In discussion, Sir Keith said that the figures underlying the proposed £729m. EFL had been thoroughly investigated by his officials, but he was prepared to look at them again. He pointed out that the figures were in any case based on Mr. MacGregor's relatively optimistic view of the market, and that it was quite possible that BSC would need funding above £729m. If on the other hand BSC were to go for lower capacity this would also involve additional costs.

/The Chancellor

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The Chancellor of the Duchy said that, in political terms, it was most important to allay the fears of the private steel companies that they were being subject to unfair competition from BSC. Not only should this be covered in the statement but BSC should be asked to market less aggressively in product areas where they were competing with the private sector, and - if possible - to stay out of certain product areas altogether. The Chancellor of the Exchequer said that consideration should be given to reducing the scale of redundancy payments from July 1981, rather than from end 1981 as was currently proposed.

Summing up, the Prime Minister said that your Department should urgently reconsider the basis of the £729m. proposal. In particular, efforts should be made to reduce the provision for capital expenditure and working capital. If BSC insisted on a provision for £50m for their 1981 pay settlement, this should be taken off somewhere else. Consideration should be given to changing the scale of redundancy payments as from July rather than from end 1981, and BSC should be approached with a view to ensuring fairer competition with the private sector on the lines suggested by the Chancellor of the Duchy. When this further work had been completed and decisions on the substance taken, the statement would need to be recast and shortened. It would not be possible to make the statement this week; consequently, the Iron and Steel (Borrowing Powers) Bill would have to be introduced on Wednesday with a very short statement which would indicate that the fuller statement on the Corporate Plan would follow shortly.

I am sending copies of this letter to Private Secretaries to members of E Committee and to Francis Pym, George Younger, Nicholas Edwards, Michael Jopling and Sir Robert Armstrong.

Tim Lankester.

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

9 February 1981

The Right Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON

Dear Prime Minister

We, the Works employees of the Duport Steel Works, Llanelli, Dyfed appeal to you to intervene on our behalf with the Department of Industry.

We all feel that we have met the criteria you have expected of British Industry, and we enumerate them as follows:

1 Good and sensible Industrial Relations -

We have achieved with a minimum of friction, a radical demanning level from 2500 to 1000 employees, over a period of 3 years.

2 A Competitive level of Production

The new manning levels have come as a result of investment in electric arc furnaces and billet finishing facilities.

This gives figures of 500 tonnes per man year of liquid steel and 400 tonnes per man year of sold billets.

3 Investment and Future Development

Further projected developments have had to be temporarily shelved but their intention was to further enhance our productivity and output whilst reducing costs, but our productive efforts have been vitiated by the financial advantages which BSC now enjoy through subsidy.

We cannot in the present harsh economic environment compete against such competitive aggression, funded as it is by Government finance. Duport Steel Works, a unit probably amongst the most modern in Europe, at its level, will be cast aside when it has fulfilled all the essential criteria.

Cont'd.....

In conclusion we all realise that industry is cyclical in its demand; what we fail to understand is why we are being disadvantaged to such a high degree by the amount of support given to the BSC to ensure their survival, when we have been unable to be favoured in a similar manner.

We reiterate our earnest appeal for your support.

Yours sincerely

G. Davies
Donald Evans.
D A Evans
P A Small
H A Hill.
R D N Thomas
W R Davies
R John
P E [illegible]
W G Evans
R Jenkins
R D Mayze.
Wyn Thomas
Tony Nelson.
Delwyn Jones
P. K. Phelps.
J Bochie

JOINT WORKS COMMITTEE. MEMBERS.

Name	Address
M Morgan.	25 Morlais Tce B-Port
S. Davies	25. Martin Rd Pen-y-fan
R. Davies	32 Maesteg Felinfoel
R. J Jenkins.	35 PENGRY RD LLANGLOR.
N L Davies	6 Heol Elfed Burry Port.
D. B Davies.	77, BRYNHEULOG.
P. Hughes.	3, GRAIG AVENUE. LLANELLI.
P. A. Wilson	2 LLWYN YR EOS, PEMBERTON PARK.
C. Phillips	72 Trinity Rd Llanelli
G Roberts	6. DAN Y CWM FELINFOEL
W. G. Begg	20 Yanycoed Burry Port
S Pugsley	44 [illegible] Llanelli
W HARRIES	18 Pwll Road Pwll.
K D Harries	Penymon Stradey.
C R W [illegible]	83 ASHBURNHAM Rd. PEMBREY
H. J. Davies	7 Tirforgan Dafen
Gareth Williams	1, HEOL FFYNNON, PEN-Y-FAN
D. B REES	76 COLESHILL TERRACE
D G Davies	47 Tunnel Road Llanelli
R. E. Davies	32 Tunnel Road Llanelli
Josef Gnges	Josef Gnges
R A Jones	44 Gilbert Cres Lli
J. E. Evans.	43 Glascoed, Pwll, Llanelli
G Francis.	50 GARDEN SUBURBS TRIMSARAN.

Name	Depot	Address
[illegible]		29, Westbourne Rd. Neath [illegible]
G Dayer		51 Denham Ave Llanelli Dyfed
D Bonnell		11, PARK VIEW TERR LLANELLI
R T Hemmis		15 King George Ave Llanelli
M. E. Rees.		32 Maesyrhaf Pwll Llanelli
K Aldred		19 TYLE TEG BURRY PORT
R B Thomas		17 ALS ST Llanelli
D R Hopkins		9 LLETHRY RD FELINFOEL.
M W Turner		45 Coronation Road.
K. Walt[illegible]		1, BRO-WEN CEFEN CETHIN
K G Lock.		13 Carway St Burry Port.
W Bley,		39 Manor Way Briton Ferry
W J Brown		13, Meadow Drive Gorseinon
G Joseph		70 CLEVISTON PARK Llangennech
John Evans		22. ROPEWALK. Rd. LLANELLI
M Dace		6, Heol Dyfed, Gorseinon, West Glam.
M J Reynolds		61, TRILWM TRIMSARAN
M Jones		33 DYTHEL PARK TRIMSARAN
W G Evans		18 Maxwell Llanelli
P T Jones		32 STEPNEY ROAD PWLL
T Proctor		41, MAES-Y-WERN CARWAY
G G. Patterson		40, Old Lodge Llanelli
D J Silby		40 MAENOR HELIG PEMBREY
D J Rees.		12 MAESYRHAF. RD.

Sup

6 February 1981

I am writing to acknowledge your letter of 4 February, which I will place before the Prime Minister. A reply will be sent to you as soon as possible.

I. P. LANKESTER

R. Sidaway, Esq.

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster

5th February 1981

Dear Nick,

IRON AND STEEL BILLS

The Chancellor of the Duchy held a meeting yesterday evening with the Secretary of State for Industry, the Chief Secretary to the Treasury, the Solicitor General and the Chief Whip to discuss the problem which had arisen earlier in the day at Legislation Committee about the proposed power relating to the short term financial position of the British Steel Corporation (BSC).

After a brief discussion it was agreed, subject to reporting the outcome to Cabinet today, that two Bills would be necessary, one to increase the limit of the sums borrowed by, or paid by the Secretary of State, to the BSC, and one to give effect to the remaining proposals in the original Iron and Steel Bill. In view of the need to enact the proposed short Bill by the end of February, it was agreed that the object should be to conclude discussions on the policy relating to the BSC corporate plan by next Tuesday at the latest so that a statement could be made on Wednesday to coincide with publication of the two Bills. The object would then be to secure the agreement of the Opposition to suspend the two-weekend rule for the one clause Bill on the basis that the other Bill would proceed according to the normal timetable. The second reading of the one clause Bill would take place in the week beginning 16th February and would occupy a day's debate, the remaining stages being taken after 10 pm the same night. It would then be sent to the Lords immediately.

If asked for a statement on the BSC corporate plan at Business Questions today, the Chancellor would confine himself to saying he hoped that there would be a statement shortly, next week if possible. In this way he could avoid being drawn into any question of a debate on the BSC plan as such. In the event it was hoped that with two full days for second reading of the two Bills the case for discussion of matters relating to the BSC would be adequately met.

Contd ....

Given the very tight timetable made necessary by the short term financial position of BSC, it was agreed to aim at clearance of the statement on policy in correspondence rather than at the next normal meeting of E Committee.

I am sending copies of this letter to the Private Secretaries of those attending the meeting, of the Lord President, the Lord Chancellor and Sir Robert Armstrong.

Yours ever,

Robin

R A BIRCH

N Sanders Esq
Private Secretary
10 Downing Street
LONDON SW1

PRIME MINISTER

Parliamentary Affairs

There is one problem, which has arisen today, which will need to be discussed in Cabinet. At L Committee this morning, the Solicitor General expressed doubts about the Iron and Steel Bill, and in particular the proposal to take temporary powers in that Bill which would enable British Steel's funding problem to be met by recourse to the contingency fund after the Bill had received a Second Reading. You will remember that the need for extra funds is expected to arise early in March.

In the light of this unwelcome advice, it seems likely that Sir Keith Joseph will decide to split the Iron and Steel Bill into a very short Bill, to be rushed through both Houses, to deal with the immediate funding requirement; and a longer Bill to deal with British Steel's capital reconstruction and so on. He is meeting the Chancellor of the Duchy and the other Ministers involved this evening, and we should have a note of their conclusions before Cabinet tomorrow.

now attached

If we do have a short Bill, it may be taken in the Commons next week. We will let you have a final business timetable tomorrow morning in the usual way.

The Chancellor of the Duchy should report on the discussion in L Committee, and the Secretary of State for Industry and the Chief Whip will wish to comment.

All of this adds a further complication to the problems facing the Department of Industry in the handling of the announcement of Government decisions on steel. We now have to fit in two Bills and a statement on our decision, and to deal with the Opposition's request for a debate in the House before the Government reaches a decision on the MacGregor plan. The Department of Industry and the business managers are giving a lot of thought to all of this, and I hope that we shall have a clearer idea of the possibilities in the morning.

MS

4 February 1981

1

10 DOWNING STREET

PRIME MINISTER

see Duckle letter of 4/2.

Another letter from a private sector steel company complaining about unfair competition from B.S.C. They have also written to Sir Keith, but without - it seems - a reply as yet. Unless I find that he has replied, I think we could ask him to deal with this one. Agree?

I will reply - and DOI will put up a draft reply by Monday evening

R

MT

6 February 1981

R. SIDAWAY

DUCTILE STEELS LTD.
PLANETARY ROAD,
WILLENHALL, WEST MIDLANDS
WV13 3SW
TELEPHONE WOLVERHAMPTON 732244

4 February 1981

The Prime Minister
The Rt Hon Mrs Margaret Thatcher, MP
10 Downing Street
LONDON

R5/2

Dear Mrs Thatcher,

On behalf of my company and the Private Sector of the Steel Industry I have gone through all the channels open to me with no apparent effect.

You, Prime Minister, are our last hope.

If you cannot do anything quickly to protect the Private Sector from the grossly unfair competition of the British Steel Corporation, backed by its billions of pounds of taxpayers money, there will be no Private Sector left in a matter of months. I cannot believe that this is what you want.

It is obvious now that Ian McGregor's policy is to obtain orders at any price and in so doing to kill off the Private Sector. We have plenty of evidence to prove this, some of which you will see from the attached copies of correspondence, but there is plenty more if you wish to see it.

I understand that Edward Du Cann, Chairman of Hadfields - another Private Sector company hard hit by unfair competition- will confirm to you what I am writing.

I do hope you can do something quickly as it appears that no one else can.

Yours sincerely,

Ductile

23 December 1880

The Rt Hon Sir Keith Joseph, Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

Dear Sir Keith,

High Unfair Energy Charges

Perhaps you will refer to the discussion the members of MIAC had with you in the House of Commons way back on 9th July and at your request the information on this subject, which was sent to you by Eric Sayers.

All we told you in July has since been proved correct to you and the Government.

Big users of energy such as my company are being charged far more than its competitors abroad. When are you going to act before it is too late? At least one year has now passed and I can see no action by the Government.

PRIVATE SECTOR STEEL - Manufacturers unfair
Competition from the British Steel Corporation

From all I have read, you and the Government want a strong profitable, competitive Private Sector to remain in business when the depression lifts - of course you do.

Ductile Steels is one of these companies as you can easily verify if you check our record.

cont/d.....

We have never since BSC was finally nationalised in 1967 feared fair competititon with them. In fact we have consistently made a profit and they a loss!! Since 1967 my company has done all in its power to support the efforts of BSC to put its house in order, but I do not like what they now appear to be doing.

BSC's policy now is becoming apparent and if it receives your support will kill the Private Sector and lose a lot more taxpayers' money.

At Corby money has been spent to produce tube BSC has never before produced and at a time when the private sector, which has always produced this type of tube, has highly efficient plant standing idle because of the low demand for this product.

To get into this market BSC are quoting our customers 20% less than our already rock bottom prices. This is "unfair" practice and if not stopped at once will cost the taxpayer a lot of money and seriously damage the Private Sector.

There are also rumours flying around that BSC would like to encroach on the Private Sector in other directions - bright drawn steel for example - could this be the McGregor plan?

Ductile Steels has no objection to competition from BSC or anybody else of it is fair, but in the case of tube it is certainly unfair and you should ask for a report.

So to sum up if you want a Private Sector:-

1.1 Do something about unfair energy costs.

2. Look into the Corby affair.

3. Ensure that the McGregor plan is fair to the Private Sector.

Since time is running out - now is the time for action. If you require any more information or facts concerning "unfair"practices" and the effect it is having on Ductile Steels I will be pleased to give them to you.

Yours sincerely,

16 December 1980

R Scholey Esq
British Steel Corporation
33 Grosvenor Place
LONDON SW1X 7JG

Dear Bob,

Following my conversation with you last Thursday you promised to look into the matter and give me your views last Friday - no phone call - not nice. Monday, 15 December I rang you again - no reply.

So here goes. I can only assume that BSC Corby are now producing and selling light walled welded tube against the private sector companies. This seems an unfortunate time to enter the market to say the least and here are a few of my personal thoughts on the matter.

To the best of my knowledge:

1. BSC has never previously supplied this market.

2. Demand in running at less than 50% of normal - what a time to start!

3. Prices are already cut to ribbons to fight off imports and yet our salesmen tell us BSC are cutting our prices by 20% plus.

4. Tube mills can be bought at two a penny prices. I wonder how much BSC has spent on plant at Corby?

cont/d...

5. Will BSC losses on this venture be financed by the Government?

6. As Gordon Sambrook will confirm to you, the "private" tube makers purchase approximately ½ million tonnes per annum of cold reduced and hot rolled sheet, most of which comes from BSC. The big tube manufacturers are TI, Phoenix (part of Senior Eng) and Ductile and there are many smaller ones. Most are highly efficient - can you see any of them continuing to buy from a "new" competitor when similar material is readily available from other sources?

7. Don't you think Sir Keith Joseph may consider this as unfair competition or at least an encroachment on the private sector which he has recently (27 Nov) stated he does not want.

I know from the "grapevine" that what I have put to you in this letter is the thinking of the members of the British Welded Steel Tube Manufacturers Association if they have got their facts right and due to your ominous silence I strongly suspect that they have. Some of them are big customers of BSC for other products.

I do not like the threats against BSC from the BWSTMA that I am hearing and I would suggest you ask for a meeting with the powers that be - Alan Deacy of TI; Ted Dobson of Phoenix and our Norman Dukes - Norman is Chairman of the Association and could arrange the meeting here.

Bring Byron with you and stay the night, I would like to show Byron the developments at Ironbridge the next morning (and Joan too), but for God's sake do something about this before things get nasty. All the best

Yours sincerely,

BRITISH STEEL CORPORATION

R. SCHOLEY
DEPUTY CHAIRMAN
AND
CHIEF EXECUTIVE

P O BOX 403
33 GROSVENOR PLACE
LONDON SW1X 7JG

01- 235 1212

19th December, 1980

R. Sidaway, Esq.,
Ductile Steels Limited,
Planetary Road,
Willenhall,
West Midlands WV13 3SW

Dear Bill

I am writing to confirm our telephone conversation of 18th December. I am very much of the opinion that what has happened is a "storm in a teacup".

My information is that the tonnage involved is about 200 tonnes and, if we are in error, it is in respect of the under-cutting of prices, and this I have discussed with Mr. G.H. Armitage.

In taking up this issue, I gather that there is a dividing line of above and below 14 gauge. Whereby we have operated primarily in the thicker sizes, over the last few years, we have suffered a significant loss of market share in this area, both from imports and from competition with a number of UK companies who operate primarily in the thinner gauges.

I note your remarks that you believe there is little profit to be gained in this field but, nevertheless, as I said to you we are trying to run our various businesses on the same sort of basis that you, yourself, would do. This exposes us to a dilemma. If we do not operate competitively in the market we are accused of lack of commerciality - whilst, on the other hand, if we try to compete we are accused of only being able to do so because we are subsidised.

Natually, we would not wish to prejudice our raw material supply situation to independent tubemakers and this, again, has to be part of our balancing act.

Overall, we wish to present a positive front to the success of the UK manufacturing industry, as I am sure you are aware.

Finally, on a personal note, many thanks for your invitation to come and visit you in the New Year. This I will try to fix for an appropriate Friday sometime after the end of January.

With Best Wishes

Bob

30 January 1981

The Rt Hon David Howell, MP
Secretary of State for Energy

Dear Minister,

Thank you for listening to me so carefully yesterday when the members of MIAC visited you for lunch in the House of Commons.

I am enclosing the questions I put to you and the answers I gave to them.

I am sure you realised the extreme urgency as before you left you assured me you would deal with it quickly.

I also told you that I had written to Sir Keith on 23 December pointing out to him the desperate sitaation (copy enclosed). I have not received an acknowledgement from him and to prove that what I said to you yesterday was correct I am enclosing a cutting from the Birmingham Post which appeared this morning.

This I fear will be the first of many unless something is done by the Government very quickly to prevent the total collapse of the Private Sector.

Yours sincerely,

CONFIDENTIAL

8 January 1981

A Mortimer Esq
British Independent Steel Products Association
5 Cromwell Road
LONDON SW7 2HX

Dear Alec,

Am enclosing copy of a letter I wrote to Bob Scholey - his reply and my letter to Sir Keith Joseph.

They are, of course, sent in strict confidence so please don't use the information even when you meet Bob privately.

I expect all the enclosed bumph will be added to your massive file of information on this sad subject - if you want to use it will you please first have a word with me.

All the very best,

Yours sincerely,

BISPA The British Independent Steel Producers Association

5 Cromwell Road · London SW7 2HX

Telephone: 01-581 0231

Telegrams: Bispalon London SW7
Telex: 262134

AHM/BMW.

13th January, 1981.

R. Sidaway, Esq.,
Ductile Steels Ltd.,
Planetary Road,
Willenhall,
W. Midlands, WV13 3SW.

Dear Bill,

Many thanks for your letter of 8th January with enclosures.

In fact, I had heard rumblings regarding your correspondence - more particularly on the tube case - with the Corporation seeking to maintain its 'storm in a teacup approach'. However, as we all know, unless these things are sorted out early there is no knowing how far they will spread until it is too late to stop them.

Thanks also for making the point to Keith Joseph about energy charges. Although the Department of Industry appear to be on our side, continual pressure is needed to persuade the Department of Energy to do something to help.- They really are being very wooden and obstructive, but we are continuing to try to drive some knowledge and will to cooperate into their skulls.

I will, of course, come back to you first if I want to use the correspondence.

Hope to see you in the not too distant future.

Kind regards,

Yours sincerely,

R. SIDAWAY

DUCTILE STEELS LTD.
PLANETARY ROAD,
WILLENHALL, WEST MIDLANDS
WV13 3SW
TELEPHONE WOLVERHAMPTON 732244

22 December 1980

The Rt Hon Sir Geoffrey Howe, QC MP
The House of Commons
LONDON SW1A OAA

Dear Sir Geoffrey,

re Payment of Wages by Credit transfer

I refer you to the correspondence we had way back in October 1979 - copies herewith.

On 13 November 1980 there was yet another wage snatch in this district, but on this occasion the Securicor guard was murdered.

This stirred up the whole matter again and now I am getting full co-operation from other local industrialists, the Banks, the Police and the local newspaper - the Wolverhampton Express & Star - but I can detect little or no support from the Government.

As I understand it the archaic Truck Act states that we must pay "workmen" in "current coin of the realm" although there is an exception to this under "payment of Wages Act". Under that Act a workman may make a written request for his wages to be paid direct into a bank account, but he is entitled by law to reserve the right to cancel that request on 4 weeks notice - that is a useless law in practice.

I cannot see why the Government cannot alter the Law as it stands by stating that the company if it wishes can pay wages to workmen by cheque or credit transfer unless the workman states in writing he wants cash.

cont/d.....

Ductile

Can't you do something to help to prevent further murders, injuries, police time and waste of money and bring this country into line with other countries in the EEC, USA and Japan?

I hope the possible loss of votes is not holding you back.

Yours sincerely,

JU

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

3 February 1981

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

Dear Tim

BSC - DRAFT STATEMENT

... I enclose a draft statement on BSC's Corporate Plan which the Prime Minister and colleagues may wish to consider in the light of the discussion at E Committee this afternoon.

I am copying this letter and enclosure to the Private Secretaries to Members of E Committee and to the Private Secretaries to the Secretaries of State for Scotland and Wales.

Yours ever
Catherine
CATHERINE BELL
Private Secretary

CONFIDENTIAL

DRAFT STATEMENT ON BSC CORPORATE PLAN

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

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

3 The House will remember that against this background the Government appointed Mr MacGregor in July to be Chairman of the British Steel Corporation, with a remit to return it to enduring profitability. Mr MacGregor's strategy is to continue the Corporation's drive to cut the costs of production, which had become significantly higher than those of the Corporation's main competitors, and by vigorous marketing to increase the volume of sales so that as many of BSC's businesses as possible could compete in the European and indeed the world markets. This drive has meant many redundancies and some closures and we must all be impressed by the co-operative and realistic attitude of the work-force in accepting them and by the vigour with which Mr MacGregor's management has approached its task.

4 The Corporate Plan which Mr MacGregor submitted to the Government shortly before Christmas embodies and continues this approach. It provides for a liquid steel making manned capacity of 14.4m tonnes

a year - a slight reduction from the existing capacity of 15.2m tonnes; and it envisages that by the end of 1981/2 the rate of loss will have been substantially reduced from its present level, estimated for 1980/1 at about £480m. To achieve this the Corporation intends to press ahead with its cost reduction and marketing programmes, so that by the summer it will have a clear view of whether the objectives of the Plan can be met. Mr MacGregor has made it quite clear to the Government and to all members of the Corporation, both managers and work-force, that he will be unable to keep going any operations that are not competitive.

5 To further his plan Mr MacGregor has asked the Government to provide an extra £150m in 1980/1 to bring the total external finance requirement to £1.121 billion, and for £730 million in 1981/2.

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

7 The Government are prepared to back the Corporation in this strategy. We are prepared to approve the BSC's Corporate Plan and to agree to External Finance Limits of a total of £1.121 billion for 1980/1 and £730 million for 1981/2. We shall give the Corporation

a loss limit before interest for 1981/2 of £225m - which is in accordance with the Plan - and a target for 1982/3 of break-even on the same basis. But I must also make it clear that if Mr MacGregor's optimism is not justified and his commercial judgement leads him, in order to meet these targets, to further redundancies and closures - which I am sure he will propose only if he can see no commercial alternative - the Government will not intervene in those decisions. The Government will of course monitor progress closely and we have asked Mr MacGregor to let us have his assessment of progress in July.

8 In addition, I have published today a Bill, the Iron and Steel Bill 1981, which amongst other things will write off some £3,500m of BSC's capital immediately, provide a power to write off a further £1,000m later and make certain consequential adjustments to the Corporation's borrowing limit. These write-offs will deal with the mistakes of the past. They do not represent the commitment of additional funds. The Bill will also, however, amend the Iron and Steel Act 1975 to allow the transfer of businesses to the private sector and to permit a rapid and, indeed, extensive run-down of the Corporation if that proves necessary.

9 The Government is aware that implementation of BSC's Plans will result in substantial job losses in a number of areas which have unemployment above the national average. As they are all Assisted Areas considerable support is already available to encourage new investment and to help those made redundant to find new jobs, though I do not in any way underestimate the problems for the communities and people concerned. I shall, if necessary, consider whether

any further measures of assistance would be appropriate.

10 I mentioned at the beginning of this statement that the private sector in this country has also faced severe difficulties. This has caused particular concern in those areas where BSC's operations overlap those of private sector companies. It is neither just nor sensible that the Government should subsidise State-owned activities which have the effect of driving independently owned companies out of business. The Government, therefore, authorised the Corporation in the autumn to open negotiations with those private sector companies who were interested and whose operations overlapped their own with a view to seeing whether joint companies could be created which would be viable, with, if necessary, an agreed programme of closures. Two such companies are under discussion. The Government will continue to give every encouragement to these negotiations so long as they are on a commercial basis and result in operations which are commercially viable; and as I have already indicated, the Bill will contain provisions to facilitate these and other transfers to the private sector.

11 We shall also do what we can within the European Community to ensure that market conditions in Europe are improved. The House will remember that during the autumn the Council of Ministers agreed that a state of "manifest crisis" existed in the steel industry and that production quotas were imposed under Article 58 of the Treaty of Paris. These quotas expire at the end of June and we are already in discussion within the Community on the regime that will replace them. It is our intention to seek to ensure that any reductions in capacity which are necessary are equitably shared

among the members of the Community and that, so far as possible, short term market conditions do not invalidate long term commercial objectives.

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

13 I wish the Corporation, its work-force and its managers success in the difficult task they face.

CONFIDENTIAL

2 February 1981

Policy Unit

Original returned to Policy Unit.

PRIME MINISTER

BSC: THINKING THE UNTHINKABLE

1. OUR PREDICTION

1.1 We believe that, in July, McGregor will start asking for more money; and the Government, unprepared and boxed in, will have to agree.

1.2 Compare last year's outcome and predictions, which repeat a familiar pattern:

	Predictions	Outcome
1979/80	£54m	-£545m
1980/81	Break-even	-£480m

2. WHAT HAPPENS IN JULY?

2.1 There are three possible outcomes in July:

(1) BSC meets its targets and McGregor continues with the Plan. This outcome is of course possible, though unlikely.

(2) BSC misses its targets and McGregor abandons the Plan. This outcome is, in our view, unlikely for two reasons. First, we doubt if the Cabinet would let him do it. Second, clear criteria to trigger such a decision have not been established. The vague call for a progress report in July is an invitation to move the goalposts again. All the excuses for delay instead of decision are already there: the financial target is for 1981/2 as a whole; the 3-year Corporate Plan will not be ready until the autumn; monitoring is already being described as "very difficult".

(3) BSC misses its targets, but McGregor favours carrying on - with more Government money. This outcome is the odds-on favourite. The pound is already higher, against the Deutschmark, than BSC's plans assume.

2.2 We are all set for a BSC re-run of the BL saga. The question is, how do we get Cabinet to a point where it could accept McGregor's abandonment of the Plan; or insist on it if McGregor comes back for more money? Do we want to be at least in a position to take such a tough decision? If we do, tomorrow's E is the starting point.

CONFIDENTIAL

3. PREVENTING A RE-RUN OF BL REQUIRES ACTION NOW

3.1 Action must start now to provide Cabinet with a real decision point - rather than a phoney review - in July.

3.2 E needs to make three decisions tomorrow:

(1) To require clear decision-making criteria for the July review. These should be agreed in February.

(2) To call for a proper cost/benefit analysis of BSC run-down, rather than the PSBR-based comparison which is all that is now available. We have discussed this with Alan Walters and believe he should be involved, with officials. He has suggested one or two outside experts who could help with this analysis. It should be ready during March.

(3) To commission opinion research during April/May to gauge the political reaction to BSC run-down. This would avoid making political judgments, as we had to do on BL, on the basis of meaningless anecdotes.

4. DISCUSSION AT E

4.1 E members couldnot object to this work being put in hand if the McGregor Plan is to be backed.

4.2 I don't think anyone could resist the attempt to devise decision-making criteria, unless he is arguing that there is no practical limit to the level of losses by BSC which the Government will tolerate. h

4.3 Some colleagues may argue that it would be wiser to keep things fairly vague, to "leave the options open" (even though nothing would be published). But this is precisely why Governments must stop playing at being main board members (but always prevented by political considerations from taking the tough and necessary decisions which boards have to take) and wherever possible to get loss-making nationalised industries into the private sector, where funding depends on performance rather than "need". The decision to do it needs only to be made once. The decisions not to do it, but to keep on paying up, can be made - and so far have been made - indefinitely.

CONFIDENTIAL

Copies of this minute go to Geoffrey Howe, Keith Joseph and Robin Ibbs, and to Sir Robert Armstrong.

JH

JOHN HOSKYNS

CONFIDENTIAL

Ref. A04162

PRIME MINISTER

British Steel Corporation: Corporate Plan

(E(81) 11, 13 and 14)

BACKGROUND

The Secretary of State for Industry summarises his recommendations in E(81) 13. E(81) 11 covers a detailed report by an Interdepartmental Group of Officials. In E(81) 14 the CPRS raise some questions on the proposed approach.

2. BSC have presented a short term recovery plan up to 1981-82 rather than a Corporate Plan looking to the medium term and discussing the options. Essentially Mr MacGregor is asking for time until July to decide which businesses have a chance of viability by March 1982. In the meantime he is assuming capacity to produce 14.4 million liquid tonnes per annum rather than the $12\frac{1}{2}$-13 million liquid tonnes per annum which he had in mind last September.

3. This assumption of capacity seems optimistic. Officials judge that it should be possible to make internal improvements in productivity and to achieve necessary manpower reductions. External factors, however, are strongly against BSC. In particular:

(i) the Deutschemark is the main determinant of their competitiveness with European producers. They have assumed 4.20 DM to the £ in 1981-82. It is 5.0 today. A variation of 10 per cent effects BSC's profit/loss by around £200 million (see paragraph 20 of E(81) 11).

(ii) The present European Community production quotas run out in June 1981 and negotiation of their extension will be very difficult - the German Government have already said they will not support extension of mandatory, as distinct from voluntary, arrangements (paragraphs 21 and 22 of E(81) 11).

(iii) Demand for steel has to pick up and BSC have to keep their 54 per cent share of the UK market.

4. The advice is that the costs of a run-down starting in July could be somewhat lower than one starting now, because in the meantime manpower and other cost reductions would be made. The Government would however have to finance continuing running costs over this period and these are put, at the very outside, between £350 million and £450 million (paragraph 7 of E(81) 13). Against this background the Secretary of State for Industry recommends that the Government should accept the plan for the moment and wait for Mr MacGregor's further recommendations in July. In this way the Govenment would be seen to be backing MacGregor's commercial judgement and giving the Corporation a reasonable chance. The decision would not involve long term commitments: BSC would not enter into major capital investment commitments without the Government's prior approval; it is practicable to close down parts of the Corporation if necessary; and plans for joint ventures with the private sector are proceeding. It is tentatively estimated that the PSBR costs of funding the plan from 1981-82 to 1983-84 would be £1, 430 million compared with £2, 530 million for the rapid run-down of the Corporation. (See Table in paragraph 32 of E(81) 11).

5. If this approach were accepted, Mr MacGregor would report further in July with, if necessary, proposals for major closures to take account of internal and external factors and the financial targets set him. Officials recommend that he should also be required to submit a Corporate Plan, as early as possible in the Autumn, for 1982-83 to 1984-85. In the meantime officials are considering possible remedial measures for areas effected, and they wish to discuss further with the Corporation the levels of redundancy payments offered by BSC and the possibilities of converting some or all of BSC's profit centres into subsidiaries subject to the Companies Acts.

6. If the immediate proposals are accepted it is recommended that:-

(i) the 1980-81 EFL should be increased by £150 million to £1, 121 million (NB it had been expected that the increase would be of £200 million).

(ii) The 1981-82 EFL should be set at £730 million (which would allow for a wage freeze from January to July 1981 and then a 7 per cent increase).

(iii) Financial targets should be announced of a loss limit before interest of £225 million in 1981-82 (compared with an estimated loss of £480 million in 1980-81) and break-even for 1982-83. CPRS suggest (paragraph 3 of E(81) 14) that the 1982-83 figure should be presented as an "aim", open to revision, rather than a target.

(iv) The Iron and Steel Bill (which will be discussed by Legislation Committee on Wednesday) should provide for the writing-off of £3,509 million of capital immediately with a power to write-off a further £1,000 million later.

(v) The Secretary of State for Industry should announce the Government's response to the BSC Plan on Monday 9 February and publish the Iron and Steel Bill at the same time.

HANDLING

7. After the Secretary of State for Industry has introduced his paper the Chancellor of the Exchequer will wish to comment on the general approach and to confirm whether he is content with the detailed financial proposals; and Mr Ibbs will wish to speak to his paper. Of the other Ministers, the main interest lies with the Secretaries of State for Employment and Wales and Lord Mansfield (who is representing the Secretary of State for Scotland). The Foreign and Commonwealth Secretary may wish to comment on the possibilities for securing the cooperation of our EC partners in the extension of quotas.

8. The first question is whether the Committee agrees that BSC should be funded until July. If so, they will need to give specific approval to the figures for the EFLs, the financial targets, and for the capital reconstruction for which the Iron and Steel Bill will provide. (The Business Managers are particularly concerned to make urgent progress with this Bill in the interest of the management of the overall Legislative Programme).

9. The Committee will also wish to consider the extent to which decisions in July should rest on the commercial judgement of Mr MacGregor within the framework of the financial targets set him. As CPRS point out in paragraph 5 of E(81) 14, BSC might by then meet their own internal objectives for productivity, redundancies and pay, but external factors - the Deutschemark,

failure to agree European Community quotas, and demand - could be against them. If major closures were then proposed the workforce could claim that they had done all that was asked of them and that major parts of the business were being sacrificed to short term financial objectives. With that in mind, the Committee may wish to consider whether they intend that Mr MacGregor should be left to take decisions on closures according to his commercial judgement and within the targets set to him, or whether Ministers will wish to reserve the right to consider this further in July in the light of developments. If the Committee decides on the latter approach, this will have to be made clear to Mr MacGregor, together with any particular points which they wish him to take on board. The Committee might also wish to consider whether in the meantime officials ought to do further work, preparatory to the July decisions, on whether any strategic case might be mounted for postponing closures if seemed that the problem centred on external factors, which might improve beyond the short term, rather than internal improvements - see paragraph 6 of E(81) 14.

10. In any event the Committee will no doubt wish to endorse the recommendation by officials (which the Secretary of State for Industry does not pick up in his paper) for the preparation as soon as possible in the Autumn of a full-scale Corporate Plan looking several years ahead and showing some of the options. Otherwise there is a risk that Mr MacGregor will present Ministers with a series of short term propositions to which, each time, it will be difficult to say no.

11. You may also wish to invite the Secretary of State for Industry to circulate a draft of his statement to the House. In particular this will need to strike the right note on the extent to which decisions rest with the BSC Board rather than the Government and the extent to which they will be determined by external factors.

CONCLUSIONS

12. You will wish to sum up with reference to the Secretary of State for Industry's six points in paragraph 14 of E(81) 13: namely approval of the Plan; EFLs; financial targets; capital reconstruction; support for extension of EC quotas; and an announcement, with publication of the Iron and Steel Bill, on Monday 9 February.

13. You may also wish to invite the Secretary of State for Industry:-

(i) to circulate a draft of his statement, taking account of the points made in discussion;

(ii) to impress on Mr MacGregor the need for a full-scale Corporate Plan as soon as possible in the Autumn;

(iii) to commission any further work by officials, which the Committee may judge to be necessary, in preparation for the July decisions and in addition to the further work proposed on redundancy payments and the setting up of subsidiaries under the Companies Act.

(iv) to report further on progress in setting up BSC/private sector joint ventures - as recommended by the CPRS in paragraph 4 of E(81) 14.

for ROBERT ARMSTRONG

2 February 1981

CONFIDENTIAL

Qa 05240 2 February 1981

To: MR LANKESTER

From: J R IBBS

BRITISH STEEL CORPORATION

1. A CPRS note has been put in to E Committee and there is only one additional point I should like to make. This concerns the standard of judgement to be used when deciding on closures.

2. I favour taking clear cut decisions at the end of the summer on which parts of BSC should be closed, so as not to struggle on indefinitely with loss-makers. The Secretary of State proposes that the decisions should be taken by Mr MacGregor on the basis of commercial judgement and knowledge of the industry. This is fine as far as it goes, but; 'commercially viable' is not a precise term and in practice much will depend on how stringent the standard of judgement is. In finely balanced instances, of which there could be several, Mr MacGregor and the Board might tend either to harshness or tolerance. It would be as well before the judgements are made for the Government to ensure that they and Mr MacGregor are of one mind on the standard required. This is particularly necessary because the judgements may be made very difficult by factors such as the exchange rate and efforts by competitors to dislodge BSC, to which attention is drawn in the CPRS note.

3. I am sending a copy of this minute to Sir Robert Armstrong.

JRI

CONFIDENTIAL

QUESTION AND ANSWER SESSION WITH A SENIOR CABINET MINISTER IN THE HOUSE OF COMMONS ON 29 JANUARY 1981

BILL SIDAWAY - Ductile Steels - Private Sector for 47 years

- May I ask you some questions -

1. Do you agree that it is your Government's policy to support strong viable private industry?

2. Do you know that the private sector of the British Steel Industry is on the verge of bankruptcy due partly to unfair high energy costs and unfair competition from their public sector competitors (The British Steel Corporation) backed by its £1,000m plus your Government has pumped into it so recently?

3. Has your Government any plans to ensure that when this ghastly depression is over there will be a Private Sector steel industry in existence?

4. Can you explain to us the McGregor plan and how it will affect the private sector of the teel Industry?

If you cannot give me clear answers to these questions I will be pleased to give you my views.

After a lifetime in the private sector of the Steel Industry which has always been highly successful by any yardstick, it is a racing certainty that unless your Government takes immediate steps to redress the unfair competition your Government is allowing and indeed supporting there will be no private sector left.

My answers -

1. Of course.

2. I don't think the Government is aware of the certainty that large sections of the Private Sector will collapse within a matter of weeks.

3. The Government has no plans.

4. The McGregor plan becomes more and more obvious, and we in the private sector have all the evidence to prove its disastrous effect on the private sector. It is -

(i) With Government financial support to sell its products irrespective of profit.

(ii) To compete with private sector with downstream products by spending a lot of Government money on new plant at a time when similar or better plant is lying idle in the private sector and then getting into the private sector market by cutting prices by more than 20% - at the taxpayers' expense.

I can give you evidence of this encrouchment on the private sector's market and have already written to Sir Keith Joseph on 23rd December - I have not even received an acknowledgment from him.

CONFIDENTIAL

Nat Inds

10 DOWNING STREET

From the Private Secretary

26 January 1981

The Prime Minister has read your letter of 23 January proposing that the Iron and Steel Bill should include a provision which would remove altogether BSC's duty to supply iron and steel products and certain other duties. Subject to other colleagues' views, she agrees with these proposed revisions - although she has commented there may be difficulties of presentation.

I am sending copies of this letter to the Private Secretaries to all members of E Committe, to Godfrey Robson (Scottish Office), John Craig (Welsh Office), Robin Birch (Chancellor of the Duchy of Lancaster's office), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

T. P. LANKESTER

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

CONFIDENTIAL

JFF

010

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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1

PS/ Secretary of State for Industry

23 January 1981

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

Prime Minister

Agree to proposal, subject to colleagues' views?

TL 23/1

✓ Mr Hoskyns

Yes - the difficulties will be those of presentation not substance.

Dear Tim

IRON AND STEEL BILL

1. You will remember that on 17 and 18 December E Committee decided that the Iron and Steel Bill should include provisions to modify the British Steel Corporation's duty to supply steel so as to permit privatisation and reorganisation of the boundary between the public and private sectors of the steel industry. It also decided that the Bill should not include provisions to enable the BSC to be liquidated; the Prime Minister's summing up noted that the BSC had sufficient powers to make a reality of their threat to run down the business.

2. A minor problem has arisen in connection with the drafting of the provisions to modify BSC's duty to supply. It has been discovered that the duty cannot be satisfactorily modified in the way intended; the only practicable course is to remove altogether the duty to supply iron and steel products set out in Section 2(1)(a) of the Iron and Steel Act 1975. The removal of this duty would also make it desirable to remove some of the other duties in Section 2 (duties not to discriminate, to promote exports, to promote research, health and safety, etc). My Secretary of State therefore proposes to delete these duties and to leave the Corporation with only its financial duties.

3. In the light of E Committee's decision my Secretary of State believes that there is no substantive difference between modification and abolition of BSC's duties and that the drafting proposals outlined above are in line with E Committee's conclusions. There is, however, a slight difference of emphasis and I am therefore writing to check whether there are any objections to the course of action he proposes.

/4. ...

4. In view of the tight timetable for submitting the Bill to Legislation Committee it would be helpful to have your reactions by close of play on Wednesday, 28 January.

5. Copies of this letter go to the Private Secretaries to all Members of E Committee, to Godfrey Robson (Scottish Office), John Craig (Welsh Office), Robin Birch (CDL), Murdo Maclean (Chief Whip) and David Wright.

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

cc PS/Prime Minister

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From the
Minister of State
Norman Tebbit MP

cc Mr Hoskyns
Mr Wolfson

Prime Minister

To note that Duport are likely to go into receivership within next 2-3 weeks. The Duport chairman has not so far requested a meeting with you (see x below).

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Gwdry House
Whitehall
London SW1

21st January 1981

D Nick.

DUPORT LTD

I understand that Keith Joseph and my officials have already warned you and your officials that it was unlikely that there would be any place for Llanelli steelworks in any engineering steels sector company.

As you also know, Duport's financial state was so precarious that we had authorised BSC to negotiate with them for the purchase of their rerolling operation, London Works, in advance of being able to set up the engineering steels company. These negotiations have now broken down. BSC, with the advice of their merchant bankers, Lazards, were only prepared to offer between £15m and £18m for London Works, and were not prepared to make an offer at all for Llanelli since they did not want the capacity. It seems likely that some time within the next two or three weeks the Midland Bank will want to put Duport Ltd into receivership. In the meantime, Duport's Chairman, Mr Sayers, is seeking an interview with the Prime Minister (to whose office I am copying this letter).

As you will appreciate, it is not possible for us to suggest to BSC that they should pay more public money for assets than they think reasonable. Even if BSC did purchase London Works, and Duport Ltd were able to continue, it seems likely that they would have to close Llanelli, with a loss of the 1,200 jobs there.

I know you have a debate on Welsh affairs tomorrow, and I am getting this letter over to you immediately. However, it is most unlikely that the Midland Bank will take precipitate action, so you should not be embarrassed by a receivership being announced tomorrow.

Needless to say, I examined this case most carefully but I'm afraid that I can see no alternative.

Norman

NORMAN TEBBIT

Steel

2

PRIME MINISTER

Dale Campbell-Savours and Ian MacGregor

Mr. Campbell-Savours' motion to refer his complaint to the Committee of Privileges was agreed this afternoon, without objection. The whole thing was over in under 10 minutes.

Mr. Campbell-Savours said that when he met Ian MacGregor on 18 December, Mr. MacGregor interrupted his opening remarks and said that he took exception to what Mr. Campbell-Savours had said in the House earlier that week. You may recollect that he alleged that the BSC had been distorting statistics about the Workington plant. Mr. Campbell-Savours alleged this afternoon that Mr. MacGregor went on to say that if this was the way in which he intended to present his case in Parliament, then further investment at Workington would be ended.

He said that during the meeting with Mr. MacGregor, he had realised the significance of what was being said. He had therefore dictated notes about the meeting to his research assistant immediately on his return to the House and had described his experience to three Parliamentary colleagues during the same morning.

Mr. Pym spoke very briefly. He said that he wished to make no comment whatsoever on what Mr. Campbell-Savours had said but that he was clear that it would be right to refer the matter to the Committee of Privileges. John Silkin was equally brief, and said that the matter should be dealt with as rapidly as possible.

You should also see the attached letter from Ian MacGregor to Keith Joseph, together with the record of the meeting prepared by the British Steel Corporation. It gives no support to Mr. Campbell-Savours' allegations, but it is open to Mr. Campbell-Savours to argue that the record is only a summary and does not exclude the possibility that his version is the correct one.

We will keep you in touch with further developments.

MS

14 January 1981

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With the Compliments of the

Private Secretary to the
Secretary of State for
Industry

I Ellison.

IN CONFIDENCE

BRITISH STEEL CORPORATION

RECEIVED IN
14 JAN 1981
SECRETARY OF STATE FOR INDUSTRY'S OFFICE

IAN MacGREGOR

14 January 1981

R.

For Information
Mr Binning
PS/Mins
PS/Sec
Mr Steele
Mr Beckett

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry 14/1
Ashdown House
123 Victoria Street
London SW1E 6RB

Dear Sir Keith,

I understand that the House of Commons will be considering this afternoon the statement made by Mr D Campbell-Savours MP, and referred to by the Speaker yesterday, relating to a meeting which I held with Mr Campbell-Savours at his request on 18 December 1980. The subjects we discussed were BSC's operations at Workington, the discontinuance of the ingot mould foundry at Distington, and Mr Campbell-Savours' statements concerning the integrity of the BSC management in its conduct of the evaluation of the future of BSC's various ingot mould foundries at Distington and elsewhere.

I am of course ready and willing to co-operate fully with the House of Commons in whatever investigation it may decide to undertake into what I am alleged to have said at the meeting.

Meanwhile, I would simply like to say that I refute the allegations most strongly. I can best do this by sending you the enclosed summary record of the meeting, made by the Secretary of the Corporation (Mr R W Roseveare) who was present, and circulated by him on the following day. I was also accompanied at the meeting by Mr D B Bray (Managing Director, BSC Holdings), Mr G L P Highton (General Manager, BSC Cumbria) and Mr D Prior (my Assistant).

I would stress that at the meeting I took strong exception to Mr Campbell-Savours' continued statements

/contd

33 Grosvenor Place London SW1X 7JG Telephone 01 235 1212 Telex No 916061 PO Box No 403

IN CONFIDENCE.

The Rt Hon Sir Keith Joseph MP

/contd

about the honesty of some of those colleagues concerned with Workington, who were present with me on that occasion, and I expressed my concern as to the effect which these statements would have on the maintenance of sound relations between the management and the employees at Workington. I regard these sound relations as essential to the plans we are preparing to ensure a successful and secure future for our continuing operations in that area.

Sincerely

Ian MacGregor

NOTE OF MEETING BETWEEN THE CHAIRMAN AND MR. CAMPBELL-SAVOURS, MP: 18TH DECEMBER 1980

The Chairman met Mr. Campbell-Savours, MP for Workington, at his request, to discuss the closure of the Ingot Mould Foundry at Distington, included in the announcement about the Corporate Plan on 12th December.

Mr. Campbell-Savours had written to the Chairman (on 19th November), with more than fifty detailed questions relating to the operations of the Foundry and other elements of plant at Workington. He had also made very strong statements, both in Parliament and locally, about the Foundry closure, including statements that management had "deliberately doctored statistics" to destroy Workington, and had conducted industrial relations so as to produce "a deep and seething contempt" for many managers on the part of the workforce.

Mr. Campbell-Savours said that it had now been agreed that this long list of detailed questions should not be answered, but he expressed his deep resentment at the decision to close the Foundry and he maintained that the evaluation as between the different foundries was unfair and did not take account of the counter-arguments put forward by Workington - for example, mould life.

The Chairman said he took the strongest exception to Mr. Campbell-Savours' attitude. It was common ground that the Corporation must maximise the use of concast and therefore run down the use of ingot moulds. He and Mr. Bray both entirely refuted the statement that Cumbria had been dealt with unfairly: if anything, the bias had been in Cumbria's favour.

The Chairman said he had examined the decisions made and he deemed them to be appropriate in the circumstances. All germane factors had been considered, and he had absolute confidence as to the conduct of his management colleagues in the matter. Mr. Bray had already expressed his readiness to go through all the arguments with the local workforce.

The Chairman said that he was disappointed, discouraged and concerned as to the future of Workington in the face of Mr. Campbell-Savours' attitude. This had raised unjustified doubts in the minds of BSC's employees and had seriously exacerbated relations in Cumbria. This could only have the effect of jeopardizing the future employment of his constituents with BSC since the Corporation's survival depended crucially on winning the co-operation of its employees everywhere. Without this co-operation the Corporation would have to dismantle those plants involved.

Continued/

As the local MP, Mr. Campbell-Savours had a large degree of responsibility for setting the tone in the area. He hoped that he would therefore reverse engines and attempt to repair relationships in Workington for the sake of the future of BSC's continuing employees there.

RWR

(R.W.R.)

c.c. Chairman
Mr. R. Scholey
Mr. D.B. Bray
Mr. G.L.P. Highton

19th December 1980

National Economic Development Council

PA

NJS

Iron and Steel SWP

PROGRESS REPORT 1980

This report was prepared by the Iron and Steel Sector Working Party at the request of the National Economic Development Council, to describe work carried out in 1979. It covers Minimum List Headings 311 (part) and 312.

1 The strategic position of the industry

Developments in the industry over the last year

In 1978 the British Steel industry produced 20.3 million tons of crude steel compared with 20.4 million tons in 1977 and 26.6 million tons in 1973. Production in 1979 will be in the range 21-21.5 million tons. Deliveries of finished steel products to both home and export markets in 1978 were 16.2 million tons and represented no change over the previous year. The United Kingdom achieved a surplus of steel exports over imports of £41 million and half a million tons in volume. Despite fierce competition in the market, British steel producers held their home market share at around 80 per cent in 1978. It has remained at this level for the last four years.

The last year has seen the commissioning of several major investments in the industry which represent the fruits of its relatively high level of investment over the last five years. On Teesside the British Steel Corporation has commissioned its new Redcar blast furnace which is one of the largest in Western Europe and has the capacity to produce one quarter of the total United Kingdom production of iron. In 1978 the total UK iron production came from no less than 29 separate blast furnaces. The commissioning of the blast furnace at Redcar followed earlier commissioning of associated sinter, pellet, and coke-oven plants. The British Steel Corporation also inaugurated its new ore terminal at Hunterston on the Clyde estuary as part of it's £400 million expansion of steel-making in Scotland, and opened its new coated sheet steel complex at Shotton with a very healthy order book. Three automatic forging machines were commissioned at works in both the public and private sectors. Amongst several significant investments in the private sector was the commissioning of a new electric arc steelworks at Llanelli by Duport Steels which replaced open-hearth steel-making at both Llanelli and Briton Ferry.

There were several mergers and takeovers in the industry: for example, the acquisition of Bidston mini-mill in Birkenhead by Manchester Steel, the takeover of Edgar Allen Balfour by Aurora who also own Osborns, and in stockholding the acquisition by the British Steel Corporation of Dunlop and Ranken, Herringshaw Steels, and the Hall Brothers group of companies.

There has been a further fall in the numbers employed in the industry resulting from both job reductions and complete works closures. The numbers of people employed in the industry (MLH 311 and 312) fell from 285 000 at the end of 1977 to 258 000 at the end of the June quarter 1979. Major plant closures in 1979 included open-hearth steel-making at Bilston, the Consett plate mill, closures of iron-making plant on Teesside associated with the commissioning of the new Redcar blast furnace, and the Lanarkshire section mill in Scotland.

The level of profitability in the steel industry remains inadequate. Whilst the private sector in general remained in the black the return on investment is unacceptably low. The British Steel Corporation lost £309 million in the financial year ending April 1979 and is forecast to lose over £300 million in this financial year.

Prospects for 1980

The short-term general economic outlook for the United Kingdom is not at all good. HM Treasury is forecasting a fall in gross domestic product in 1980*. The three most important industrial sectors in terms of steel demand are construction, mechanical engineering, and motor vehicles. These last two major sectors of UK manufacturing industry have fared as a whole much worse than other sectors of manufacturing industry such as electrical and electronic goods. There has been a strong rising tide of imports of finished manufactured goods which has had a significant impact on these sectors and hence on their demand for steel. The Working Party fear there is a real danger that the present strength of sterling principally brought about by the build-up in North Sea oil production will seriously undermine the competitive position of a significant part of United Kingdom manufacturing industry. In steel, the high value of sterling combined with a rate of cost inflation above those of our major competitors, is reducing the profitability of export business.

The consensus of forecasters within the industry is that the United Kingdom domestic demand for steel is more likely to fall than to rise in the next couple of years. This means that any expansion of output by the steel industry in the immediate future can only come from an expansion in export business.

Although the market prospects for steel on the continent are a little less gloomy, the European Commission is proposing an extension of many of the elements of the anti-crisis measures for iron and steel (the so-called Davignon Plan) until the end of 1980. Whilst some West German steel companies have returned to profitability in their steel business in recent months the major companies in Belgium, France and Italy all remain seriously in the red and are not forecasting breaking even before the end of next year. Commissioner Davignon has stressed that his package of measures are not meant to be permanent and increasingly he will be looking for a progressive relaxation in them over the next two years.

In 1979 world steel production is likely to have surpassed last year's figure which was also the highest output ever. Although the United States steel industry has prospered in the last year as a result of the United States Government's trigger price mechanism and higher home demand for steel, most of this expansion in demand and production has come from the developing world – particularly Latin America. Although countries such as Venezuela and Brazil have long-term plans for self-sufficiency in steel, over the next few years the growth in steel demand is likely to run ahead of capital expenditure in new steel works meaning that these countries still offer export opportunities for the most competitive of the steel producers in the developed industrial countries.

Strategy for the 80s

The Sector Working Party set out the main elements of its strategy for

*Treasury Economic Progress Report, November 1979.

the 1980s in its last year's report. Nothing has occurred in the last twelve months to change the validity of this strategy. It may therefore be briefly restated.

— The industry must react to the fundamental changes occurring in the market, and further discussions are needed on action to bring supply and demand into closer relation.

— Future sales will be based increasingly on quality rather than quantity.

— New applications for steel will need to be developed and marketed.

— Delivery, performance and reliability in the customer's eyes must be improved.

— The industry should concentrate on the United Kingdom and EEC customers without neglecting other world markets, particularly for higher quality steels.

— Rationalisation of production facilities may take place in both the private and public sector.

— Major public expenditure will be required to ameliorate the social consequences of these changes.

— Production efficiency must improve through better use of raw materials, equipment, and manpower.

— The industry needs to attract and retain more skilled people – engineers and technicians to work in the increasingly technically sophisticated industry of the 80s.

2 Objectives and monitoring

Objectives

In last year's report the SWP set an objective for the industry of a home market share of between 80 per cent and 85 per cent in 1980 and 1985 and net exports of steel products of up to 3 million tons. The industry sees no reason to revise these objectives for either time horizon.

Monitoring

Selected statistics for the industry are set out in the appendix to this report.

3 The SWP's 1979 work programme

Productivity

The major part of the Sector Working Party's 1979 work programme has been devoted to productivity which it believes is the key to the industry's survival. The SWP's contribution has been a series of international comparisons of steel works efficiency with the following terms of reference:

'To examine relevant variables in specific processes in matched pairs of steelworks in the United Kingdom and Europe; to assess the reasons for differences in performance and to report to the Working Party with proposals for action.'

Six man joint trade union and management study teams under the leadership of the Sector Working Party's secretary have visited continental plants to compare plant operations. Except for the NEDO representative all study team members work on the UK plant involved. The continental plants were chosen on the basis of as closely matching the UK plant as possible in terms of age, technology, and size. No UK plants were considered which were either under threat of closure or have obsolete technology. The Working Party has compared the best as well as the not so good plants in the United Kingdom. The comparisons have been between individual units of plants within a works rather than a whole integrated works. The disadvantage of such an approach being outweighed by the advantage of studying operating practices in greater detail, with the increased prospect of identifying specific practical measures to improve performance. Most importantly the emphasis of the studies have been on all aspects of efficiency—plant and equipment, use of materials as well as labour, since one cannot be satisfactorily studied in isolation without reference to the others.

The first two studies have involved the British Steel Corporation's Appleby-Frodingham BOS steel-making plant at Scunthorpe which was compared with the Ijmuiden No. 2 BOS plant in the Netherlands, and the British Steel Corporation's Clydebridge plate mill in Scotland which has been compared with a Swedish mill. Reports written and agreed by all the members of the study teams following their overseas visits have been submitted to the Sector Working Party. These reports and their far reaching conclusions are presently being considered by the SWP and will be the subject of wide consultation both nationally and at the individual plants involved.

Results

The study teams found that both the British plants had notable strengths as well as areas where their efficiency was not as good as at their continental competitor. In the steel-making comparison the British plant matched its Dutch opposite number in the use of key cost items such as refractories and moulds. Production manning was only 75 per cent of the Dutch level but maintenance manning was found to be 20 per cent higher. However, the Scunthorpe steel plant has a design capability far in excess of that which can be supported by the iron-making plant and was consequently producing 45 per cent below the Dutch level of output. As a consequence both the labour output per ton and the capital utilisation rates were poorer than on the Dutch plant, although in the case of labour costs, since employment costs per man were twice as high on the Dutch steel plant, the labour cost per ton of steel produced must have been lower at Scunthorpe.

In the plate mill comparison the conclusions on physical productive efficiency of the plant were made more difficult by certain differences in the types of plate produced on the two mills. Comparisons based on tonnage produced were more unfavourable to the Scottish mill than comparisons based on the number of separate plates produced. The Scottish mill came out well on the use of material and on the quality of semi-finished steel available to it, but less well on its specific energy consumption and on manning levels. As at Scunthorpe the greatest discrepancies were in the number of maintenance staff.

General issues common to both studies

The most important issues to emerge as common to the two plants were the relationship and demarcation between production and maintenance employees. The production workers on the continental plants are trained and willing to work on several jobs as required across the plant and also provide the semi-skilled support for maintenance work. There are many fewer separate crafts on the continental plants with a mechancial fitter typically combining those of the plumber, welder, boiler-maker, etc. There is a complete absence of 'mates'. This last factor accounts for the much higher level of maintenance manning in the UK, even though there are no more skilled craftsmen employed. (Indeed, the continental plants employed more in certain skills, for example instrument technicians.) Flexibility between production and maintenance employees is assisted by a single trade union covering both, and the existence of common grading and pay structures.

The significant levels of overtime common in both British plants are not found on the continental plants. A willingness to work light and rotate jobs to provide cover on a shift to shift basis may be compared with the rigid seniority systems and an insistence on manning up or sharing wages found on the UK plants. Generally terms and conditions of employment and the standard of amenities provided were much higher on the continental plants. Employees were generally all treated the same and this was accompanied by a high degree of responsibility and involvement shown in their work by employees at all levels.

Maker/user liaison

The Chairman of the Sector Working Party held a meeting with several other major steel using Sector Working Parties to discuss steel supply issues. The Sector Working Party also raised the issue of steel imports with the Ford Motor Company and British Shipbuilders. British Shipbuilders were approached by the Sector Working Party on behalf of companies in the private sector who were concerned at the significant foreign steel content of the Polish shipbuilding contract – particularly the steel used in components bought by British Shipbuilders. Discussions with British Shipbuilders revealed a major difference in the price of some forgings and castings between the United Kingdom and foreign sources of supply. The Working Party is setting up a further meeting between the British Shipbuilders and the United Kingdom forging companies to discuss the issues raised by this.

Import substitution

Work was undertaken to quantify the relative contribution to the overall decline in United Kingdom steel production accounted for by the steel industry's own loss of home market share and that accounted for by the loss of market share by the major steel consuming sectors of British manufacturing industry. The analysis indicates that in the early 1970s the United Kingdom's own loss of market share was more significant. However, in the last four years the steel industry has held imports at a constant percentage level and the main cause for the continuing fall in steel production has been the poor performance of steel's major customers, with the decline in domestic car production being the most important single sector. The rapid rise in the imports of finished manufactured goods into the United Kingdom is a very worrying development for the United Kingdom steel industry since it reflects a weakness in the competitiveness of its major customers.

Research and Development

The Sector Working Party asked the Office to undertake an initial survey of R and D in steel. This identified a potential dilemma between the short term necessity of cutting back R and D expenditure in the face of low profitability and the longer term strategy identified by the Working Party for the industry of providing a high value, more R and D intensive product. There are proposals for further work on this subject in the Working Party's 1980 work programme.

Communications

The Sector Working Party has made a major effort to publicise its work and its strategy for the steel industry in the 1980s. Five thousand copies of the 1979 end of year report were distributed to managers and employees in both the British Steel Corporation and the private sector steel companies, major customers through trade associations, and to full-time and lay officials of the trade unions through the TUC Steel Committee. Fifteen thousand copies of a six page leaflet entitled *Strategy for Steel* which summarised the full report were distributed widely amongst people working in the industry. The report was reproduced in full or featured in the British Steel Corporation's internal papers *Steel News* and *Steel Manager,* the Iron and Steel Trades Confederation journal *Man and Metal,* and several private sector companies, house-journals.

The Chairman of the Sector Working Party introduced the work of the SWP at three joint British Steel Corporation/Trade Union consultative conferences. One of these at Redcar in July was the first occasion when all the TUC Steel Committee trade unions had come together with senior managers in the British Steel Corporation to discuss and debate strategic business issues. Dr Atterton gave the opening address to this conference and the National Economic Development Office mounted an exhibition to accompany the conference which illustrated 'key issues in steel' and described the SWP.

4 Progress on recommendations contained in the 1979 report

Customer service

'The industry must aim to provide a level of customer service, a quality of product, and reliability in delivery that equals the best.'

There is an increasing awareness amongst all those who work in steel that quality and delivery are crucial for the industry's survival. Although the capital expenditure programme has been restricted by low profitability and cash constraints, significant expenditure is still being undertaken and overwhelmingly this is concentrated on improving product quality. Delivery performance has been improving but both the engineering dispute in August and September and more particularly the road haulage strike at the beginning of the year caused disruption to deliveries which took several months to overcome.

Capacity and demand

'The implications of the strategy outlined in terms of action to bring supply and demand into closer relation must be given prompt and careful consideration.'

The Minister of State at the Department of Industry, Mr Adam Butler, said in the House of Commons on the 23 October 1979 that the United Kingdom steel industry has come a long way down the restructuring path and was well ahead of most other European countries. He noted that in the last two years some 5 million tons of steel-making capacity have been closed and 24,000 jobs have been lost. This reduction in the size of the industry has occurred mainly in the public sector. The British Steel Corporation has announced its intention to end both steel-making and hot rolling at Corby and Shotton. These closures would cause very grave social problems for the communities involved since they are so dependent on steel-making for employment. It is estimated that immediately following the closures unemployment in the Shotton travel to work area will rise from 6.6 per cent to 19 per cent and at Corby from 6.4 per cent to 24 per cent (31 per cent for males). These estimates only take account of those directly employed by the steelworks and ignore the secondary employment effects of the closure on the communities. The British Steel Corporation and the trade unions are in dispute over these closures.

In 1979 United Kingdom steel-making will probably be between 21 million and 21.5 million tons whilst installed capacity is currently around 31 million tons including approximately 3 million tons of capacity at the Shotton, Corby, and Cleveland electric arc works of the BSC.

Although it is true that a margin is required for fluctuations in demand and that the trend for ever higher qualities of steel tends to reduce effective capacities over time, the present gap between capacity and demand is still large. Management and trade unions do not fully agree on the emphasis of action to solve this problem. Trade unions emphasise the need to keep capacity open against the possibility of a change in the future demand prospects, whilst management, particularly the British Steel Corporation, believes further plant closures are inevitable.

Whatever is the correct balance between these views there is clearly an urgent need for the UK steel industry to find ways of breaking even at lower levels of capacity utilisation.

Special steels

'The pressure of the EEC Commission to extend the Davignon anti-crisis measures to certain special steels should be maintained. Industry should give prompt consideration to measures to improve its long-term competitiveness.'

Pressure from both the British Government and the United Kingdom steel producers on the EEC Commission resulted in progress being made in the early part of this year on discussions between European steel producers on the market problems for special steels in the United Kingdom which the SWP noted in its last report. The Sector Working Party welcomes this development but remains concerned for the survival of this important sector of the British Steel industry. Market forces led to the merger of two of the most important companies in this area (Aurora and Edgar Allen Balfour) during the year which should strengthen the British industry's competitive position in the medium term.

Industrial relations

'Historically industrial relations disputes have undermined the Industry's image as a reliable source of supply and on new plant caused serious delays in their construction. Within the industry discussions which have led to recent improvements in industrial relations should continue. Similar efforts are required by unions and management in the plant construction industry.'

Industrial relations in steel in the last year have generally been good, and new plant has been commissioned without major delays. The recent lighting of the Redcar blast furnace may be contrasted with the long drawn out wrangles and delays associated with the lighting of the last new blast furnace in the United Kingdom at Llanwern in 1975.

However, the much-publicised dispute at Hunterston terminal on the Clyde involved relatively few men but threatened major consequences. The (£94 million) iron ore terminal was opened in June but no ore carrier discharged its cargo until mid-November. This long delay undermined the viability of both the project itself and the associated £300 million development at the British Steel Corporation Ravenscraig Works which raises steel-making capacity there from 1½ million to 3 million tons per annum. Ravenscraig steelworks supplies nearly all the bulk steel-making requirements of the Scottish steel industry.

Recruitment

'Present efforts should be expanded in promoting the steel industry in schools and colleges as a challenging and interesting career for a young person with the skills required for the technically sophisticated industry of the 1980s.'

The SWP sees no value in covering areas of work which are already competently covered by the Iron and Steel Training Board which is itself a tripartite body. However, the recruitment of new blood into the industry is of strategic importance and therefore the Working Party welcomes the efforts made in the last year by the Iron and Steel Training Board to improve its contacts with local education authorities and schools.

Scrap

'The implications of the strategy outlined for the scrap requirements of the UK steel industry should continue to be jointly studied.'

A joint scrap industry/steel industry Working Party agreed a new set of specifications for steel scrap supplies last year and these were introduced this summer. The Government announced that from 1 September 1979 licences for the export of scrap to third countries will be issued freely. Its preference would be to remove all remaining government controls on the free market for scrap but in view of the UK steel producers' concern about the effects of abolishing controls and continued licensing control in other Community countries, the government has retained licensing as a surveillance measure for a trial period of 6 months.

5 Recommendations

Despite the progress recorded in the previous section on the recommendations contained in last year's report, the SWP believes that a lot remains to be done and therefore all their previous recommendations remain valid. In addition, in the light of the analysis contained in this report, it makes the following recommendations:

To the industry

Productivity

Notwithstanding the outcome of discussions on the proposed closure of steel-making at Corby and Shotton, the steel industry is likely to have a capacity in excess of the likely level of demand for the immediate future. Accordingly there is an urgent need to introduce changes in working arrangements to improve the efficiency of the industry and enable it to break even at lower levels of capacity utilisation than has been the case previously. The industry is urged to give prompt and serious consideration to the recommendations contained in the efficiency studies which the SWP has undertaken.

Image

Because of the large financial losses being incurred in the industry it has a poor public image which is not helping an informed discussion of its problems. The SWP believes that those involved in steel can help by presenting the general public with a more balanced picture of the industry's achievements. For example the general public is probably unaware of the impressive nature of the steel industry's recent investments and that the steel industry possesses plants with world beating performances in many areas. There is a lot to be proud of.

To Government

Scrap

The Sector Working Party recognises the desire of government to reduce its interference in the operations of the market for scrap. It also recognises the need to maintain a flow of material for the financial viability of the scrap processing industry. However, scrap is the basic raw material for over half the steel produced in the United Kingdom and it is also an energy-rich material. The government's decision to retain licensing for a trial period is matched on a European level by the Commission's proposals to the Council of Ministers for at least a precautionary regime to be maintained. For these reasons the Working Party would urge caution in dismantling the machinery controlling scrap exports since at some future date these might be required to ensure a continuity of scrap and hence steel supplies for UK manufacturing industry.

Enlargement of the EEC

The accession of Spain (whose steel industry has been greatly expanded – particularly in scrap-based electric arc steelworks) to the EEC will require the alignment of the country's policy for steel with the general restructuring policy for steel at present operated under the Davignon plan. The SWP urges the government to have regard for the interests of the UK steel industry in negotiations over the entry of Spain and Portugal.

Government support for the steel industry

The industry recognises that a major responsibility for restoring the fortunes of the industry lies with its management and employees but it urges the government to adopt an approach as regards the level, type and duration of support given to the steel industry which is no less favourable than that adopted by the governments of countries with whom it has to compete, especially the ECSC countries. It recommends that the nature of this support should be carefully studied. Further that the government's basic objection to intervention in the market should not prevent it from consideration of sound cases put forward for special trade measures to match those of other countries to protect the country's industrial base.

6 Work programme for 1980

The SWP's main areas of work during 1980 will be taken from the following.

Efficiency studies

The Sector Working Party will conduct a major exercise to publicise the reports of its efficiency studies and to seek action on their recommendations both at the particular works involved and at a national level. A third study will be conducted at a British Steel Corporation plant, and a private sector company may also be studied.

Research and Development

The Sector Working Party will conduct a survey of Research and Development in the steel industry.

Energy

The steel industry is a major user of energy. The Sector Working Party will commission a study of energy costs and usage comparing the United Kingdom steel industry with its major competitors. This will enable it to contribute to the general debate on energy policy and pricing matters with specific examples drawn from its own industry.

The impact of imports on steel

The SWP will undertake further work on quantifying the impact on the British steel industry of the performance of British manufacturing industry, particularly the mechanical engineering and motor vehicle sectors.

User/maker liaison

The SWP will continue to provide a link between the steel industry and its customers through its contact with other SWPs. This is to supplement and to support and not to replace the existing commercial relations between companies.

Appendix Monitoring statistics for the British steel industry

United Kingdom steel industry share of world trade

Table 1 UK steel exports as a percentage of the exports of 12 main steel producing countries (Belgium, Luxembourg, France, West Germany, Italy, Netherlands, Sweden, Japan, Canada, USA, Australia, UK)

Year	UK export tonnage (million tons)	% 12 country total
1975	3.2	3.7
1976	3.7	3.9
1977	4.4	4.6
1978	4.4	4.3

A1 The United Kingdom has been holding its share of exports of industrial countries fairly steady at approximately 4½ per cent in the last two years. This is at a slightly higher percentage than for the previous period from 1974 to 1976. In tonnage terms exports in 1978 (including wire and steel castings) were 4.4 million tons with a total value (fob) of £1027 million.

Table 2 UK steel trade balance – by country/region

	Net exports, 000 tons	
	1977	1978
EEC	(1185)	(950)
Other Western Europe	278	(218)
Eastern Europe	(141)	(57)
Africa	263	210
North America	811	600
Latin America	213	189
Asia	302	755
Oceania	6	33
Total		
Tons	547	563
Value, £m	56	41

A2 The United Kingdom was a net exporter of just over 500 000 tons of finished steel products in 1978. The figure was very similar to that achieved in 1977. However, the surplus in value fell from £56 million in 1977 to £41 million in 1978.

A3 In terms of countries there was a slight improvement in the trade balance with other EEC countries but the deficit in 1978 was still nearly 1 000 000 tons of finished steel – with West Germany and the Benelux countries taking the lion's share. 1978 also saw a dramatic turn round in our trade with other West European countries moving from a surplus of 278 000 tons to a deficit of 218 000 tons accounted for by increased tonnages imported from Norway, Spain, Austria and Sweden. Asia was the major area of market expansion particularly India, China, Iran and Saudi Arabia.

A4 In terms of products Britain's success overwhelmingly comes from rods, bars and light sections where Britain is a significant net exporter. The most worrying area continues to be flat products – sheets and plates in both coated and uncoated form and stainless steel where Britain is a high net importer of steel.

Share of the UK market

Table 3 Import share of UK home market deliveries

Period	Deliveries to UK consumers		
	Total (Million tons)	Imports	% imports
1975	15.01	3.03	20
1976	15.65	3.15	20
1977	15.01	2.97	20
1978	15.24	3.24	21
1979 – Qtr 1	3.44	0.54	16
2	4.28	0.93	22

Notes: Seasonally adjusted

A5 Imports took an additional 1 per cent share of the United Kingdom deliveries to consumers rising to 21 per cent penetration in 1978. A worrying development was the importation of rails for the first time because of disruptions to domestic production. This represents some 35 000 tons of rail imports by the British Steel Corporation. Other sectors showing a favourable trend were: tubes and pipes and heavy plates. The very heavy import penetration of the market for sheet is a continuing cause for concern.

Output in real terms

Table 4 Steel output

Year	Crude steel production (million tons)	Finished steel deliveries (million tons)
1970	28.3	21.3
1971	24.2	19.2
1972	25.3	19.0
1973	26.6	20.8
1974	22.3	18.2
1975	20.1	15.3
1976	22.3	16.2
1977	20.4	16.2
1978	20.3	16.2

A6 Crude steel production in 1978 was 20.3 million tons. Net home and export deliveries were 16.2 million tons of finished steel. This was 22 per cent below the 1973 level. 1978 was the second lowest level for crude steel production since 1955 whilst blast furnace production at 11.4 million tons was the lowest for 25 years. The drop in blast furnace output of 800 000 tons compared with 1977 indicates that the integrated iron and steel works took a bigger fall in production than the electric arc steel works. The percentage of total steel-making accounted for by electric arcs rose to a record 35 per cent.

A7 Employment in Iron, Steel and Steel Tubes (MLH 311, 312) fell by 20 000 during 1978 to 265 600.

Productive efficiency

Table 5 Average use of energy per ton of crude steel – UK

	10^9 Joules/ton
1973	24.7
1974	25.0
1975	24.9
1976	24.4
1977	24.5
1978	22.8

Table 6 Average use of coke per ton of iron, kilogram

	West Germany	France	Italy	Belgium	Netherlands	Luxembourg	UK
1977	483	502	477	527	450	497	603

A8 Average use of energy per ton of crude steel produced fell by 7 per cent in 1978. This resulted from three factors: the increasing use of continuous casting, the closure of open hearths, and the increasing percentage of total steel-making using scrap rather than pig iron. Coke consumption in the blast furnace improved by 2 per cent over 1977 but remains 23 per cent above the average for EEC countries.

Table 7 Percentage of liquid steel output which is continuously cast

	West Germany	France	Italy	Netherlands	Belgium	Luxembourg	UK
1977	34	24	39	0	15	0	12
1978 Q2	37	28	42	0	20	0	15

A9 The proportion of steel-making which is continuously cast rose from 12 to 15 per cent in 1978. The British Steel Corporation reports that it continuously cast 11 per cent of its output in the financial year 1978/79 which implies that the private sector steel companies continuously cast some 38 per cent of their production. This contrasts with the figure of 37 per cent reached in West Germany, 42 per cent in Italy and 28 per cent in France. The United Kingdom is below the average for all EEC countries, but the proportion should rise with the new plant now being commissioned.

Table 8 UK labour productivity index – UK

End of year	Manpower on books – MLH 311, 312	Productivity index 1970 = 100
1970	333 800	100
1971	312 900	96
1972	302 700	98
1973	299 900	109
1974	302 100	94
1975	292 300	82
1976	287 600	88
1977	285 200	89
1978	265 600	95

Table 9 International comparisons: man-hours to produce 1 ton of crude steel (manual workers only)

	West Germany	France	Italy	Belgium	Luxembourg	UK
1977	6.5	7.2	5.4	6.2	6.1	11.9
1978	5.9	6.4	5.2	5.2	4.8	10.9
% improvement 77-78	9%	11%	4%	16%	20%	8%
% of total workforce made up of manual workers	74%	65%	80%	82%	77%	68%
% overtime working – manual workers (Oct 1978)	4%	na	3%	1%	6%	11%

A10 Labour productivity rose in the United Kingdom by approximately 7 per cent in 1978 as a result of plant closures and a reduction in employment of 20 000. Labour productivity has now risen 16 per cent since 1975 but remains 13 per cent below 1973 levels. International comparisons of labour productivity are open to many criticisms – differing definitions of the industry, the extent to which sub-contractors are used, etc. For this reason Table 9 restricts the comparison to other EEC countries and Treaty of Paris products. Despite the 8 per cent improvement in output per man hour in the United Kingdom recorded in the statistics between 1978 and 1979 the gap is widening with other EEC steel producers because of greater percentage improvements recorded last year there.

Table 10 Capacity utilisation: international comparison: 1977, %

	West Germany	France	Italy	Netherlands	Belgium	Luxembourg	UK
Blast furnaces	57	67	67	56	57	56	70
Steel	58	66	69	60	59	59	71

Table 11 Output per unit of plant; International comparison: 1977, thousand tonnes per annum

	West Germany	France	Italy	Netherlands	Belgium	Luxembourg	UK
Blast furnace	658	507	883	1307	449	446	336
BOS vessel	806	492	1045	1538	538	429	834
Electric arc	40	35	76	77	47	6	79

A11 United Kingdom has a higher capacity utilisation than its EEC competitors – although this may reflect more conservative rating of capacity in the UK. Output per unit is above average in the UK for steel plants but significantly below the average for blast furnaces.

Membership of the Iron and Steel SWP (1979)

Chairman

Dr D V Atterton	Chairman, Foseco Minsep Ltd

Members

Mrs J Cohen	Assistant Secretary, Iron and Steel Division, Department of Industry (from 1 October, 1979)
Mr J Driscoll	Adviser, Corporate Strategy, British Steel Corporation
Dr D Grieves	Managing Director, Personnel and Social Policy, British Steel Corporation
Mr S J Gross CMG	Head of Iron and Steel Division, Department of Industry
Mr L Hancock	Executive Councilman, Amalgamated Society of Boilermakers, Shipwrights, Blacksmiths, and Structural Workers
Mr A H Mortimer	Director General, British Independent Steel Producers Association
Mr J H Pownall	Assistant Secretary, Iron and Steel Division, Department of Industry (until 30 September 1979)
Mr A Reddrop	Head of Heavy Engineering Section, National Economic Development Office
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Action

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Nat Ind

National Economic Development Council

Prime Minister

Holiday reading – the figures at Flag A are revealing.

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SECTORAL REPORT: IRON AND STEEL INDUSTRY

Memorandum by Dr D V Atterton, Chairman of the Iron and Steel SWP

1 The British Iron and Steel Industry produced 21.4 million tonnes of crude steel in 1979. It had fallen from fourth in 1960 to eighth place in the world league table, behind the USSR the USA, Japan, West Germany, China, Italy and France and in 1980 has fallen dramatically faster (Table 1). The industry produces the full range of iron and steel products needed to serve a modern industrial economy, and of these finished steel products totalling 16.7 million tonnes in 1979, exports accounted for 4.3 million tonnes valued at £1187 million, and made a positive contribution to the balance of payments of £128 million. The table below gives a view of the industry over the past decade:

	Crude Steel Output M Tonnes	Finished Steel Imports % Share of UK Market	Manpower[1]
1970	28.3	6	225,000
1975	20.1	20	184,400
1976	22.3	20	182,300
1977	20.4	20	178,900
1978	20.3	20	165,350
1979	21.4	21	156,600
1980	11.0P		122,200P

[1] ECSC defined Iron and Steel Activities (1980 - Provisional)

Source: Annual Statistics: Iron and Steel Statistics Bureau.

2 The industry is divided into a public and private sector. The British Steel Corporation accounted for approximately 80% of crude steel production in 1979, and had a turnover for the financial year 1978/9 of £3,288 million. The private sector, consisting of approximately 140 companies, had a turnover of £2,000m. The private sector has

a much greater share of special steels within its product range, and while in output terms it accounted for only 20%, in value terms it accounts for 38% of total UK steel sales revenue. The industry's key customers are stockholding merchants, whose share of home steel deliveries is 40%, motor vehicles, mechanical engineering, construction and miscellaneous metal goods etc, and the fortunes of these industries are vital to the fortunes of steel.

3 The industry has been under pressure during the last five years. Whilst making tremendous efforts to hold on to its market share, it has suffered from mounting losses, particularly in the public sector, but the private sector has not been immune. The response to this situation has been closures, rationalisation of manpower, and an attempt to contain labour costs more directly. This culminated in the first national strike in the industry since 1926. Apart from costing the British Steel Corporation over £200 million, it had other consequences in that it encouraged British firms to look to imports for their supply, and led to orders being placed abroad which were filled after the strike was over. Thus the weak home market was further diminished for the UK steel producers. Nevertheless, most recent figures, for October, suggest that the UK steel industry has returned to close to its pre-strike share of the UK market, but at a much lower demand figure.

<u>The market for steel - an industry in crisis</u>

4 British home demand for steel declined from its peak of around 20 million tonnes of finished steel in 1973 to 15 million tonnes of finished steel in 1977, and recovered somewhat to 16 million tonnes of finished steel in 1979. The situation has deteriorated markedly in 1980, and most recent estimates suggest a figure of around 13 million tonnes of finished steel demand for the year as a whole. A number of adverse factors are operating within the home market to the detriment of the steel industry.

5 The home market for steel has not grown over the last five years. This is primarily because the key steel-using sectors have hardly grown in the period, and in 1979, manufacturing output was only 4.2% higher than in 1975. However, the import share of home demand for

all manufactured goods has risen from 17% in 1970 to reach 29% in 1979 (at constant prices). Within the manufacturing sector, key steel-consuming industries, such as motor vehicles, mechanical engineering, and miscellaneous metal goods all declined. Motor vehicles highlight the position. In 1972, the previous peak in UK home demand for motor cars, UK output of motor cars was 1.9 million units including exports, and direct steel deliveries by the industry to vehicle manufacture totalled 1.6 million tonnes. In 1979, when UK home demand for motor cars exceeded the previous peak of 1972, the UK motor industry produced only 1 million units, and direct steel deliveries totalled 1.2 tonnes. Mechanical engineering has shown an absolute 8.8% decline from its 1975 output figure. The slight increase in home demand has been met from imports which have shown a 6% annual growth rate since 1975 and now account for 36% of home demand. Miscellaneous metal goods show a slight decline of 1% from 1975 in home production, and imports have risen from 10% to 17% of the home market. The British Steel Corporation, in their annual accounts for 1979/80 calculate that if the steel-consuming industries had maintained their 1975 competitive position both at home and abroad, they would have consumed a further 2 million tonnes of steel in the UK in 1979.

Steel Imports

6 Starting from a comparatively low figure at the beginning of the Seventies, when finished steel imports accounted for only 6% of the UK home market, the import figure rose quite dramatically to 20% by 1975, as steel users began to source much more from abroad. The figure was contained at a little over 20% up to the steel strike at the beginning of 1980 (Table 2). Import penetration of certain categories of special steel ie high speed steel, tool steel and stainless steel, has risen from 9% in 1970 to 54% in 1979, and is now, 1980, running at 62% (Table 3). The above is exacerbated by the rise in the value of sterling. (A recent estimate of uncompetitiveness, engendered by the increase in the effective exchange rate, is between 35% and 40%). A rise of such magnitude and speed (see Table 4) (with which no other industrial economy, post-war, has had to cope) has had consequences for imports and exports and these have not yet fully worked themselves out. Most commentators expect 1981 to be worse than 1980.

Export prices and margins

7 Export prices are being driven down, business which was profitable in 1978 is now being taken against declining, or non-existent profit margins. Under such pressure marketing directors are forced into a quest for export business in order to make some positive contribution to fixed costs (see Table 5). The achievement of the British steel industry in holding its share of world steel trade constant over the period 1975-79 must now be in danger of erosion.

The world steel situation

8 The British steel industry operates in a market of worldwide excess capacity and weak prices. At the root has been persistance in investment plans, both in Europe and the newly industrialising countries, despite the first oil crisis of 1973/74. Notwithstanding, world demand reached a historical peak in 1979 at 751 million tonnes, and is expected to go back onto a growth path in 1981. The consequences of surplus capacity, particularly in Europe, have been severe - and intensified further by the USA's imposition of a trigger price mechanism (TPM) to control imports. In response the EEC, through the voluntary production quotas of the Davignon Plan, strove to maintain prices at levels which would offer some return. The measures in USA and Europe have proved inadequate, and as the crisis has gathered pace, the Americans have introduced a new TPM, and in Europe, Article 58 of the Treaty of Paris has been invoked and "Manifest Crisis" declared for the first time by the Council of Ministers. This makes the new production quotas mandatory for EEC steelmakers. Meanwhile, third countries, barred from the USA are intensifying their efforts to export steel into the EEC. The Commission is negotiating voluntary constraint arrangements in an attempt to control this problem.

The UK's competitive position

9 New technology and R and D: both the public and private sectors have invested heavily in new plant and equipment. The British Steel Corporation spent £2,249m and the private sector about £600m between 1973/74 and 1979/80. Recent closures have removed much of

the older equipment improving quality and efficiency. The industry, therefore, has a good 'kit' (see map Table 12). Problems of delivery, reliability and quality which existed in some parts of the industry have diminished. Further investment in the British Steel Corporation is taking place, particularly in continuous casting, at Templeborough, Stocksbridge and Port Talbot, and vacuum de-gassing and other investment to improve quality is being initiated at other works. The private sector has also increased its share of continuous cast steel to 1.6 million tonnes in 1979 or about one-third of its capacity, and more is under construction or planned. Nevertheless the amount of steel continuously cast in the UK lags behind our competitors (Table 6). However, to sustain this improvement in quality entails devotion of resources to R and D. While the British Steel Corporation has resolved to maintain its R and D spend at 1% of turnover, few private companies' exceed 0.6% (according to a SWP survey), a figure tending to fall.

10 Energy utilisation: we do not appear to have made as much headway in this area as some of our competitors, particularly Japan (Table 7). However, the introduction of new coke ovens, blast furnaces and sinter plants should bring improvement.

11 Manpower efficiency: the heavy investment programme described above could increase output per man considerably (see Table 10), while the recent closures, mainly in the public but also in the private sector, and the productivity demanning which have taken place this year also imply a rise in output per man. Combining both public and private sector, the total number of employees who have left the industry since December 1979 is 36,000. The benefits will come about only as order books improve and plant can be efficiently loaded, which should result in a lowering of cost per tonne (Tables 8 and 9). Many plants are working short-time, in both the public and private sector. The industry was in the months August, September, and October operating at 50%, 40% and 45% of total installed capacity, and 65%, 55% and 60% of manned capacity. Although earnings are low compared with Europe, unit labour costs are still high and still need reducing.

Additional factors affecting competitiveness

12 The present world steel situation is exacerbated by the continuous rise in energy costs. With energy costs ranging between 20% and 30% of total steel costs, the industry has viewed with concern not only the rise in energy costs engendered by OPEC, but also UK energy pricing policies towards industry. Our European competitors have taken steps to support their indigenous energy producers, and in the case of coking coal in particular, to ensure that their steel industries obtain coal at world import price levels. They have also taken steps to ensure adequate supply of other fuels, electricity, gas, and fuel oil at favourable prices to industry. Additionally the European governments have policies of aid and finance in support of industries such as transport which assist the steel industry. Government support is also provided to R and D, particularly in W Germany, but also in France and Italy.

SWP action

13 (a) The market: the SWP is now addressing itself to the market-orientation of the UK steel industry as set out in the Council's Steering Brief. This will involve assessing the present configuration of steelworks capacity, the range of products made, and the market share we can expect to achieve in each product, and considering strategies for the industry to face the problems of the 1980s. This will require a view about the size of the home market over the medium term. This means, in turn taking a view about the prospects of the key steel-consuming industries in the short and medium term. It is already clear that 1981 is going to see a further decline in steel demand, and some commentators are gloomy about the prospects for the economy up to 1984/5. What view is going to be taken about export markets? The International Iron and Steel Institute recently forecast surplus world steel capacity up to 1990. But if the industry could improve its efficiency and performance; best achieved by loading its plants, utilising its new capacity, and containing its unit labour costs, it could obtain a larger share of world trade in export markets, and indeed achieve some import substitution.

(b) Efficiency: the SWP has undertaken two international comparisons of steelworks efficiency. These studies took as their main objective the examination of all efficiency factors, and not just labour productivity. They involved study teams drawn from a particular plant plus the Secretary of the ISSWP studying a plant specifically matched to their own plant, to assist comparisons. These studies, the reports of which were published this year were well received, and the recommendations made are being actively followed up. For example, the Scunthorpe Basic Oxygen Steel plant study, suggested more flexible working arrangements between craftsmen, and a new agreement recently reached which allows for modular training in new skills and paid release to undergo training, reflects the influence of the comparison, and the recommendations which resulted from it. It is also the case that the number of craftsmen and process workers on the BOS plant has been recently reduced, and it must now be one of the tightest manned BOS plants in Europe. A further comparison is now being planned.

(c) Energy: the SWP, concerned about UK energy prices and energy policies compared with our European competitors, has commissioned consultants to undertake an investigation of energy pricing policies and actual prices paid by steel firms in the main steel-producing countries of the EEC. A report was completed on 5 December 1980, which confirmed the SWP's impressions about generally higher prices in UK, and also supports the information given in Table 11.

(d) State Finance and State Aids: this area of public policy, both in the UK and in other European countries has been of increasing interest to the SWP as the steel crisis within the European steel market has deepened. The SWP has undertaken an investigation of the amounts of state aid available to various European steel industries including both direct capital aid, and indirect aid in the form of subsidies to coal, electricity, transport, R and D, and tax rebates.

(e) Import penetration, special steels: the SWP has investigated the question of special steel import penetration, and commissioned a consultant who recommended: the European Commission negotiate import quotas from third countries, stockpile strategic materials to prevent excessive price fluctuations, and bring special steels within the Davignon plan. These recommendations were supported by the SWP. Quotas under Davignon were negotiated, but only overall steel quotas. This has left certain special steels virtually unprotected. Attempts to pursue action on dumping from within, as well as without, the Community have not been successful.

(f) R and D: the SWP has surveyed the state of research and development in the private sector of the industry. A study group is being formed to analyse the recommendations in the report which are: that companies establish clear criteria for determining the level of internal R & D; that R & D be fully integrated into the decision-making process of a company through the technical function being represented at a senior level; that an in-depth analysis should be undertaken of the availability and application of UK government research funds; that the British Independent Steel Producers Association and the British Steel Corporation jointly seek to amend the European research budget rules, to permit assistance to steelworks-based applied research; and that the UK Government should study the assistance given to R & D activities in continental steel companies, and to report upon a course of action.

Conclusions

14 The industry, in company with major European competitors, will for a period be reliant upon government support. In particular, BSC will need to complete the investment programme to improve quality, and to achieve balanced output within plants. Representations from the private sector, some of whose companies with very new plants are in acute financial difficulties and in danger of closure, merit serious consideration, particularly in the light of help received by their European counterparts.

Looking to the medium term, the principal questions that face the industry are:

(i) How far can export markets be retained or expanded and for which products, by cost-cutting improvements in efficiency, improvements in quality, by innovation and by aggressive marketing?

(ii) To what extent, by like improvements can home market share be sustained? But of greater relative importance:

(iii) Can it be assumed that the major UK steel-consuming industries will continue to produce as wide a range of engineering and other metal products as hitherto, or will there be irreversible withdrawal and contraction indicating that it would be prudent to trim the steel industry to match?

While answers to (i) and (ii) must be sought primarily within the steel companies, with whatever assistance the SWP can bring to bear, point (iii) raises wider issues which go to the core of the Council's macro-economic agenda.

National Economic Development Council
Millbank Tower
Millbank
LONDON
SW1P 4QX

16 December 1980

TABLE 1: SELECTED COUNTRIES - CRUDE STEEL OUTPUT - METRIC TONNES

COUNTRY		1960	1970		1979	1980E
UK	(4)	24.7	28.3	(8)	21.4	11.0
Belgium		7.2	12.6		13.4	12.5
France		17.3	23.8	(7)	23.4	23.0
Germany	(3)	34.1	45.0	(4)	46.0	44.0
Italy		8.3	17.3	(6)	24.3	26.0
Spain		2.0	7.4		12.2	12.7
Japan		22.1	93.3	(3)	111.8	112.0
Brazil		2.3	5.4		13.9	15.2
Canada		5.3	11.1		16.1	
Mexico		1.5	3.9		7.0	
USA	(1)	90.1	119.3	(2)	123.3	98.0
China		18.5	18.0	(5)	34.4E	
India		3.3	6.3		10.1	
South Korea		-	0.5		7.6	8.7
Czechoslovakia		6.7	11.5		14.8	
USSR	(2)	65.3	115.8	(1)	149.5	
World Total (includes other countries in addition to above)		346	594		745	

Source: UN Statistical Yearbook and IISI
E = Estimated () = Rank Order

TABLE 2: FOREIGN TRADE RATIOS - DIRECT STEEL

IMPORT SHARE %

	UK	West Germany	France	Italy	USA	Japan
1975	17	26	35	18	12	0.1
1976	21	30	41	24	14	0.2
1977	20	31	42	25	18	0.2
1978	21	33	42	21	18	0.4
1979	21	32	45	26	15	1.4

EXPORT SHARE %

	UK	West Germany	France	Italy	USA	Japan
1975	15	36	43	25	4	37
1976	17	32	39	22	3	43
1977	23	38	49	26	2	43
1978	23	42	52	32	3	39
1979	22	40	50	26	3	35

Source: Eurostat - World Steel Dynamics June 1980 - Japan Iron and Steel Industry 1980

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TABLE 3: IMPORT SHARE OF UK FINISHED STEEL

DELIVERIES - BY PRODUCT
(based on tonnages)

Quarter / Product	% 1979 I	II	III	IV	1980 I	II
Ingot, Blooms Billets, Slabs	-	-	-	-	-	-
Rod and Bar for Re-inforcement	11	8	10	13.82	14.12	12.31
Wire Rods and other Rods in Coil	11	15	17	15.28	26.6	25.31
Arches and Light Rails	-	-	-	-	-	-
Other Light Rolled Section and Bars	14	20	27	18.76	19.08	27.86
Bright Steel Bars	5	7	10	10.49	10.11	12.04
Heavy Rails	30	4	2	1.41	36.97	1.69
Other Heavy Products	8	14	19	12.86	31.89	14.09
Plates	22	29	30	23.81	45.25	27.11
Sheets	34	34	39	26.86	49.01	34.80
Narrow Strip	11	12	14	11.04	21.23	22.65
Tinplate and Blackplate	11	16	14	8.76	49.64	27.27
Tubes and Pipes	20	25	28	8.09	28.24	25.79
Tyres, Wheels, Axles	-	2	2	0.69	0.26	2.90
Forgings (excluding Drop Forgings)	5	12	4	5.65	7.36	9.62
Castings	-	1	1	2.07	1.21	2.38
TOTAL	17	21	24	18.30	32.19	25.08
Total Non-Alloy	17	21	24	18.42	33.45	25.38
Alloy	15	17	21	16.70	19.39	20.11

Source: Iron and Steel Statistics Bureau Monthly Statistics

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TABLE 5A: STEEL COMPETITIVENESS
THE EUROPEAN MARKET FOR STEEL: THE RISING £

	1 July 1978	2 July 1979	3 July 1980	3-1 Change
1) UK Sales to Germany Price in Germany	580 DM	640 DM	650 DM	+ 12%
	= £149	= £155	= £157	+ 5%
BSC Variable Cost	£112	£125	£142	+ 27%
BSC Contribution	£ 37	£ 30	£ 15	- £22 (-60%)
£/DM	3.90	4.14	4.15	+ 6%
2) German Sales to UK Price in UK	£162	£177	£184	+ 14%
	= 632 DM	= 733 DM	= 765 DM	+ 21%
German Variable Cost	440 DM	455 DM	475 DM	+ 8%
German Contribution	192 DM	278 DM	290 DM	+ 98 DM (+ 50%)

Despite some BSC material cost increases being held down by revaluation, and improved efficiency, the strong £ had led to a drastic reduction in contribution from exports to Europe. Conversely, despite UK price increases being less than inflation and BSC cost increases, the UK market has become considerably more attractive to German producers.

TABLE 5B: SALES TO THE USA: THE RISING £

Per Tonne	1 July 1978	2 July 1979	3 July 1980	3-1 Change
USA Price	\$400	\$432	\$460	+ 15%
	£212	£196	£193	- 9%
BSC Variable Cost	£139	£155	£179	+ 29%
Contribution	£ 73	£ 41	£ 14	- £59 (- 80%)

USA Producers were giving selective discounts in July 1980, so the USA price is the average of the range of prices being charged. The range is about + \$20 (+£8) so if BSC has to sell at the bottom of the range, the contribution would be virtually eliminated.

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TABLE 5C: BSC COMPETITIVENESS IN THE WORLD MARKET: THE RISING £

The effect of the rising £ and falling Yen on BSC competitiveness (per tonne prices for a typical steel product)

	1 July 1978	2 July 1979	3 July 1980	3-1 Change
£/$ Exchange Rate	1.89	2.20	2.38	+ 26%
£/Yen Exchange Rate	379	491	525	+ 39%
World Steel Prices	$287	$352	$360	+ 25%
(fob)	= £152	= £160	= £151	0
	+ Y57600	= Y78600	= Y79300	+ 38%
Variable Costs (fob)				
Japan	Y39200	40200	43400	+ 11%
BSC	£102	£114	£131	+ 28%
Contribution				
Japan	Y18400	Y38400	Y35900	Y17500 (+ £33 or 95%)
BSC	£50	£46	£20	-£30 (- 60%)

TABLE 6: CONTINUOUS CAST OUTPUT: AS SHARE OF TOTAL CRUDE STEEL PRODUCTION

million metric tonnes

YEAR	USA		JAPAN		UK		EEC	
	OUTPUT	%	OUTPUT	%	OUTPUT	%	OUTPUT	%
1973	9.27	6.8	24.72	20.7	0.81	3.0	14.09	9.4
1974	10.72	8.1	29.41	25.1	1.13	5.0	19.59	12.6
1975	9.65	9.2	31.81	31.2	1.70	8.5	20.74	16.8
1976	12.25	10.6	37.63	35.2	2.17	9.7	26.95	20.1
1977	14.27	12.7	41.81	40.9	2.56	12.5	32.06	25.5
1978	18.90	15.3	47.16	46.2	3.15	15.5	38.19	29.1
1979	20.58	16.8	58.12	52.0	3.63	16.9	42.69	30.6

World Steel Dynamics June 1980

Source: Iron and Steel Statistics Bureau Annual Statistics 1979

TABLE 7: INTERNATIONAL COMPARISON - AVERAGE USE OF COKE PER TON OF IRON

Kilogrammes

YEAR	WEST GERMANY	FRANCE	NETHS	UK	USA	JAPAN
1977	483	502	527	603	595	423
1978	486	491	429	577	585	438
1979	502	513	442	580	N/A	440

Source: Eurostat, International Iron and Steel Institute, Japan Iron and Steel Industry 1980

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TABLE 8: LIQUID STEELMAKING COST OF AN INTEGRATED PRODUCER

INTEGRATED PRODUCER B

YEAR	USA	JAPAN	WG	UK	FRANCE
		DOLLARS PER METRIC TONNE			
1973	103.82	87.79	105.24	91.62	107.98
1974	149.32	122.17	151.43	128.54	154.65
1975	161.54	130.36	159.49	157.42	171.46
1976	172.69	135.96	160.65	153.45	167.75
1977	179.52	146.30	166.46	161.26	169.69
1978	191.69	169.24	182.72	185.29	181.14
1979	217.47	175.23	213.03	228.91	205.92

Source: World Steel Dynamics, June 1980

TABLE 9: HOME - COUNTRY STEEL LIST PRICES
(per metric tonne)

	WORLD CONTRACT EXPORT PRICE $	USA $	JAPAN $	WG $	UK $	FRANCE $
1978	343 (80)	431 (100)	441 (102)	426 (99)	439 (102)	426 (99)
1979	404 (85)	476 (100)	422 (89)	478 (100)	514 (108)	472 (99)
1980E	404 (78)	518 (100)	424 (82)	523 (101)	543 (105)	515 (99)
1981E	425 (75)	568 (100)	473 (83)	599 (105)	620 (109)	588 (104)
1982E	475 (75)	636 (100)	547 (86)	656 (103)	675 (106)	650 (102)

PRETAX COSTS FOR MAJOR STEEL MILLS AT ACTUAL OPERATING RATE
(per metric tonne shipped, or index value)

	USA $	JAPAN $	WG $	UK $	FRANCE $
1977	379 (100)	337 (89)	397 (105)	398 (105)	433 (115)
1978	396 (100)	411 (104)	426 (108)	461 (116)	456 (115)
1979	443 (100)	399 (90)	474 (107)	556 (128)	484 (112)
1980E	501 (100)	431 (86)	518 (103)	610 (122)	529 (106)
1981E	543 (100)	501 (92)	580 (107)	632 (116)	572 (105)
1982E	569 (100)	535 (94)	623 (109)	707 (124)	618 (109)

Source: World Steel Dynamics, June 1980

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TABLE 10: INTERNATIONAL COMPARISON

MAN HOURS PER TON OF CRUDE STEEL OUTPUT - (MANUAL WORKERS ONLY EXCLUDING APPRENTICES)

	WG	France	Italy	Bel	Lux	UK
1977 1978 1979	6.5 hrs 5.9 hrs 5.0 hrs	7.2 6.4 5.7	5.4 5.2 5.1	6.2 5.2 4.9	6.1 4.8 4.4	11.9 10.9 9.9
% improvement 1977-78	9%	11%	4%	16%	20%	8%
% improvement 1978-79	15%	11%	2%	6%	8%	9%
% of total workforce made up of manual workers 1979	74%	64%	80%	81%	76%	68%
LABOUR COSTS PER HOUR (including pensions etc) 1978	£5.97	£4.82	£3.82	£6.88	£5.87	£3.07

Source: Eurostat

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TABLE 11: ENERGY PRICES

YEAR	ELECTRICITY					HEAVY OIL				
	USA	JAPAN	WG	UK	FRANCE	USA	JAPAN	WG	UK	FRANCE
	MILS PER KWH					DOLLARS PER MT				
1973	12.31	14.52	19.79	18.14	14.07	31.79	39.30	38.06	31.34	35.81
1974	15.09	20.97	21.58	21.79	15.27	61.91	71.57	77.60	71.07	63.08
1975	18.99	25.25	26.32	27.46	20.29	70.43	85.34	82.53	83.72	83.02
1976	20.41	27.99	26.89	26.83	22.05	76.68	91.00	85.54	77.35	76.37
1977	22.57	35.61	29.30	30.01	23.28	87.37	92.04	94.12	95.52	85.81
1978	25.14	44.41	34.93	36.44	28.86	90.60	83.60	99.93	98.44	96.68
1979	27.54	42.43	39.38	44.53	35.28	130.68	97.99	142.20	138.34	126.32
Forecast										
1980E	35.00	65.00				175.00				
1981E	40.00	75.00				190.00				
1982E	42.00	75.00				200.00				
Pct change										
79 vs 78	9.6	-4.4				44.2				
80 vs 79	27.1	53.2				33.9				
81 vs 80	14.3	15.4				8.6				
82 vs 81	5.0	0.0				5.3				

YEAR	NATURAL GAS				STEAM COAL		
	USA	WG	UK	FRANCE	USA	UK	FRANCE
	DOLLARS PER MCF				DOLLARS METRIC TONNE		
1973	0.58	0.78	0.90	0.85	17.81	22.6	33.18
1974	0.69	0.92	0.83	1.21	26.58	24.83	42.25
1975	0.96	1.59	1.13	1.61	29.34	35.28	42.30
1976	1.30	1.75	1.39	1.89	27.76	35.37	37.84
1977	1.83	2.03	1.95	2.09	29.04	41.12	39.39
1978	2.17	2.45	2.70	2.76	31.39	49.88	53.23
1979	2.84	2.56	3.47	3.08	31.07	63.40	69.39
Forecast							
1980E	3.25				35.00		
1981E	4.50				40.00		
1982E	4.60				42.00		
Pct change							
79 vs 78	30.7				-1.0		
80 vs 79	14.4				12.6		
81 vs 80	38.5				14.3		
82 vs 81	2.2				5.0		

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Source: World Steel Dynamics, June 1980

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TABLE 12

INVESTMENT

BRITAIN HAS INVESTED HEAVILY IN ITS STEEL INDUSTRY OVER THE LAST 6 YEARS - £2,900,000,000

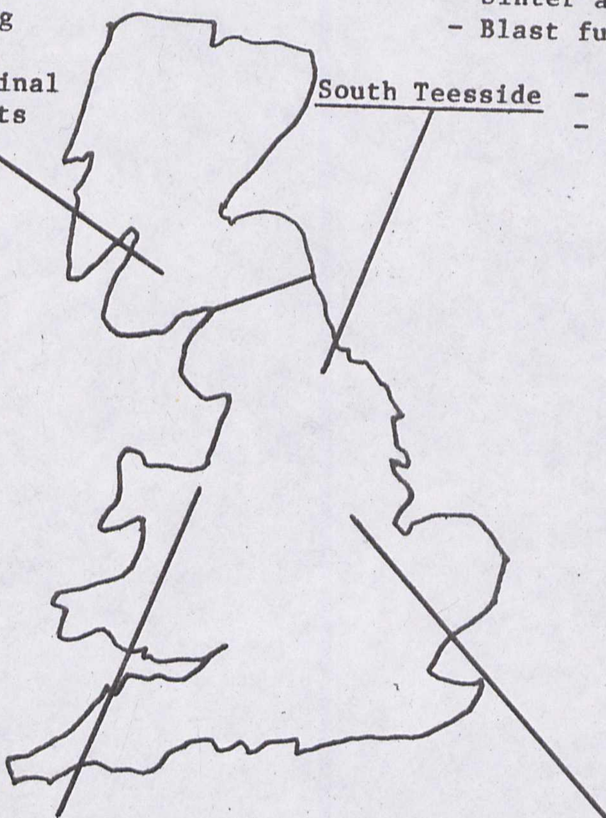
Recent Major Investments in British Steel

Ravenscraig - Steelmaking
- Continuous Casting

Hunterston - Ore terminal
- D R plants

Redcar - Coke ovens
- Sinter and pellet plants
- Blast furnace

South Teesside - Steelmaking
- Continuous Casting



Shotton - Coatings Complex

Brymbo - Billet mill

Llanelli - Electric arcs
- Continuous Casting

Newport - Alpha steelworks

Cardiff - GKN electric arcs,
- Continuous Casting
- Rod mill

Ebbw Vale - Tinplate

Tinsley Park - Stainless steel

Thrybergh - Bar mill

Scunthorpe - Coke ovens
- No. 2 rod mill
- Billet mill enchancements

Corby - Small welded tube

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Extract from letter TL to HM of 22/12/80 (meeting record PM/Ch of Ex)

Other points.

The following further points were raised:

(i) Sir Keith Joseph said that BSC's Corporate Plan was optimistic about the Corporation's market prospects. It did not include the "lower case" option, which would involve closing Llanwern and Port Talbot. Although more expensive in the short term, it was possible that the "lower case" would be more likely to make BSC competitive again; and his Department would be looking at this closely.

(ii) The Prime Minister questioned the need for the NCB to use Hobart House as their headquarters: wasn't there a strong case on employment and other grounds for having their headquarters outside London? Mr. Howell said that their present lease was on favourable terms, but he would look into the matter and let the Prime Minister have a report.

(iii) The Prime Minster said that she was concerned that more progress had not been made by British Shipbuilders in selling off the ship repair companies. She had been impressed by the arguments put forward by Mr. Christopher Bailey on this matter; she would like a report from Sir Keith Joseph as soon as possible.

I am sending copies of this letter to Ian Ellison (Department of Industry), Julian West (Department of Energy), Sir Robert Armstrong and Robin Ibbs.

[illegible]

Tim Lankester

A.J. Wiggins, Esq.,
HM Treasury.

Nat Ind

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1A 0AA

R 19/12

18 December 1980

Dear Secretary of State,

BSC's CORPORATE PLAN: CLOSURES

The proposal in your minute dated 16 December to the Prime Minister was briefly discussed in E Committee yesterday.

There is obviously much to be said for not delaying the proposed rundown, especially if this helps to bring forward some reduction in the huge costs which BSC is at present imposing on the taxpayer. I am, however, concerned because of the intense pressure on public expenditure totals this year that action of this kind could take BSC over the total of £1,171m which we have been assuming they will require in 1980-81. Such an overrun is far from certain: I understand that, even if Mr MacGregor goes ahead as proposed, the financial consequences may well be contained within a total figure of £1,171m. This would clearly be welcome. However, in view of the public expenditure position, I must insist that whatever is said to Mr MacGregor stops short of giving him authority to take action which would cause BSC to go above this figure in the current financial year. If now or later the figure seemed likely to be exceeded the issue must come back to the Treasury for further consideration.

I am sending copies of this letter to the recipients of yours.

Yours sincerely

T. Mattews

for JOHN BIFFEN

[Approved by the Chief Secretary
and signed in his absence]

CONFIDENTIAL

Prime Minister

E Committee agreed that no authorisation as such should be given.

17/12

Prime Minister

BSC CORPORATE PLAN: CLOSURES

I have seen Keith Joseph's minute of 16 December, proposing that we immediately authorise Mr MacGregor to proceed with the redundancy programme proposed in the corporate plan.

It is of course imperative that we achieve some reduction in BSC's losses just as quickly as possible, and I am sure it is right to proceed immediately with the demanning proposals and with closures where those affect plant for which the market has demonstrably totally disappeared.

But some of the closures, eg at the finishing end, imply judgements about future market prospects in the longer term, and there I think we might be criticised if by approving them we appeared to pre-empt our consideration of the corporate plan in the round. In your speech at Cardiff last week you emphasised that full account would be taken of the impact of the corporate plan. Furthermore, we shall inevitably be asked what measures we propose to take to cushion the effects of major closures. We shall need more time to consider the latter; but already it is clear that in some areas, eg West Wales there will be tremendous pressure for upgrading of assisted area status, as well as demands for remedial measures. The leader of the Opposition could be facing an unemployment rate of up to 20% in his constituency.

While not wishing to hold BSC up significantly, I think it would be helpful if the interdepartmental group of officials which is meeting on Friday could consider and advise us which measures could safely be authorised without our being accused of pre-empting our consideration of the corporate plan; and on presentation of the immediate decisions, including any holding statement on the prospects and measures to cushion the effects of the closures. The aim should of course be to make a statement very early indeed in January.

I am sending copies to the recipients of Keith Joseph's minute.

RNE
17 December 1980

PRIME MINISTER

c.c. Mr. Hoskyns

BSC's Corporate Plan

This minute from Sir Keith Joseph seeks authority for him to tell Ian MacGregor tomorrow that BSC should go ahead with the programme of closures and de-manning proposed in the Corporate Plan. Sir Keith feels it is necessary to give an immediate go-ahead so that the BSC do not lose any momentum while the Plan is being considered by Government. The only issue for Ministers, in Sir Keith's view, is whether the Plan is tough enough - i.e., there can be no question of fewer redundancies than 17,000 and fewer closures than those set out in the Plan.

I am sure this is sensible. The only queestion concerns funding. Paragraph 4 of the minute says that BSC will need an additional £50 m to pay for the extra redundancies, or perhaps £20 m if the redundancies do not come through as smoothly as MacGregor hopes. This would be in addition to the further £200 m which has already been set aside from the contingency reserve, and which will be needed by February. The Treasury say that the extra £50 m (or £20 m) would mean that the contingency reserve would be broken. Although there is a good chance that it will be exceeded even without this additional charge, exceeding the contingency reserve would be bad for the Government's credibility on public expenditure. On the other hand, on industrial grounds there is much to be said for supporting MacGregor's planned redundancies as a very minimum.

The Chancellor has not yet seen the minute - he will do so overnight. I think it would be wrong to give the proposal your blessing until he has a chance to comment. Shall I say you are content provided the Chancellor is? If he is not, you could have a word at E tomorrow afternoon.

(1) This can't be done before Xmas. It would be a terrible Xmas present for many families.

16 December, 1980.

(2) I think it a mistake to reach decisions so quickly

M

M

cc Mr Hoskyns.

PRIME MINISTER

BSC'S CORPORATE PLAN: CLOSURES

1 We have now received the BSC Corporate Plan. I have made it clear both in a written reply to a Parliamentary Question by Roy Hughes MP and in the Supply Day Debate on 16 December that we cannot expect to reach a final conclusion on the strategy underlining the Corporate Plan much before the end of January.

2 I think there is no need for us to hold up until then in deciding our attitude on the pruning which Mr MacGregor thinks necessary within BSC. He intends to reduce the number of jobs by about 17,000 by a combination of closures and de-manning. The areas for immediate action have been identified in the Plan ... and details of the cuts are set out in the attached schedule. These reductions are the minimum necessary for any continuing progress by BSC towards commercial viability; there is no question of our needing to consider whether BSC should be larger than Mr MacGregor has recommended; our essential task will be to decide whether his optimism about revitalising the Corporation with so little reduction in size is justified.

3 In the circumstances it would impose on the taxpayer an avoidable cost of at least £10 million for every month for which the closures and redundancies are delayed. Delay might also

/blunt ...

blunt the resolve of the BSC management to implement the Plan. I therefore propose to tell Mr MacGregor at my meeting with him on 17 December that, pending final decisions on the basic strategy, he should go ahead with the necessary pruning as fast as he can. Jim Prior, John Biffen, George Younger and Nicholas Edwards will be at my meeting with Mr MacGregor.

4 Officials here have discussed with BSC what implications this authorisation might have for the Corporation's total financial requirements for this financial year. So far £971 million has been authorised for use up to the end of January 1981, and we have recognised that a further £200 million will almost certainly be required to get the Corporation to the end of the financial year bringing the total to £1,171. If the unions cooperate and management action is not otherwise impeded in implementing the rundown, the Corporation believe that an additional £50 million would be required. Even if the rundown is not achieved smoothly the additional amount required is unlikely to exceed £20 million. I hope therefore that you agree that I should urge Mr MacGregor to proceed with all speed with the redundancy programme and that we shall have to meet the costs arising from this programme within the current financial year.

/5 ...

5 I am copying this minute to members of E Committee, George Younger, Nicholas Edwards and to Sir Robert Armstrong.

KJ

K J
16 December 1980

Department of Industry
Ashdown House
123 Victoria Street
London SW1

BSC CORPORATE PLAN 1981/82

Manpower Reductions due to Closures, Shift reductions and Demanning

EMPLOYMENT	Previous target for end March 1981	Job losses due to Closures: Plant	Location	Nos.	Job losses from Shift Reductions: Plant	Location	Nos.	Demanning: Location	Nos.	Revised manning by Mar.1982
GENERAL STEELS GROUP		Templeborough	Rotherham	1600	Tinsley Park	Sheffield	200			
		Rod Mill	Scunthorpe	250	Shelton	Stoke on Trent }	250	Scunthorpe	1300	
		Fluorspar Mine	Cleveland	250				Teesside	2100	
		N. Park	Scunthorpe	2500	Warrington	Lancashire }		Scotland (Plates)	200	
		Coke Plant	Hartlepool	350				Various (mainly S.Yorks & Midlands)	1600	
		Bar Mill	Teesside	200						
		Cargo Fleet Mill	Teesside	500						
		Consett	North East	200						
GROUP TOTAL	51,300			5850			450		5200	39800
STRIP PRODUCTS GROUP		Coke Plant	Shotton	500	Tinplate	Ebbw Vale Velindre	1500	Various rolling mills (Scot.& Wales)	2600	
					Associated strip products	Wales	100	Associated strip products (Wales)	400	
								Tinplate (Wales)	900	
GROUP TOTAL	34,000			500			1600		3900	28000
BSC HOLDINGS GROUP		Workington/ Distington (Foundry)	Cumbria	1700 (inc. 400 foundry)				General	200	
GROUP TOTAL	15,100			1700					200	13200
TUBES GROUP		Pipework								
		Engineering	Various	400				General	400	
		General	Various	500						
GROUP TOTAL	18,700			900					400	17400
RDL CONSTRUCTION, CHEMICALS & CENTRAL		RDL	Not specified	100				General	200	
		Chemicals	Not specified	300						
GROUP TOTAL	10,600			400					200	10000
OVERALL TOTALS	129,700			9350			2050		9900	108400

Not Ind Steel
TL 19/12

PRIME MINISTER

I have seen a copy of the paper by the Secretary of State for Industry (E(80)144) about the financial problems of the British Steel Corporation. I shall not be able to attend E Committee tomorrow afternoon, as I have to be in the Chamber, but I should like to record a very strong preference for dealing with the difficulty outlined by the Secretary of State without the need for a separate Bill on the BSC's borrowing limit. Although I accept that such a Bill would be short and unlikely to be obstructed by the Opposition, it would give them yet another opportunity for a debate on the steel industry, and would be something of a dress rehearsal for the major and heated debates which we can expect when the Iron and Steel Bill already in our programme is brought forward early in the New Year. From the point of view of our own supporters, I would have thought that we would be less vulnerable to criticism if the measures necessary to deal with the immediate financial crisis were put in the context of our longer term strategy for the Corporation than if we bring forward a Bill which simply acknowledges the existing financial situation.

I am copying this minute to the other members of E Committee, to the Chief Whip, and to Sir Robert Armstrong.

NStJS.

16th December 1980

Ref. A03817

PRIME MINISTER

Iron and Steel Bill 1981

(E(80) 144)

BACKGROUND

In this memorandum the Secretary of State for Industry advises of the need for four amendments by the end of June to the present steel legislation. These are:-

(i) To increase BSC's borrowing limit, which is likely to be reached in February 1981, from £5.5 billion to £6.5 billion (paragraphs 5-7).

(ii) To provide general powers for the capital reconstruction and future financing of BSC (paragraphs 8 and 9).

(iii) To enable major privatisation measures, and rationalisation between overlapping BSC and private sector activities, to go ahead (paragraph 10).

(iv) To enable BSC to be liquidated where the Board so recommends the Secretary of State because it judges that there is no prospect of meeting its financial duties to break even within a reasonable period (paragraph 11).

2. There is already provision in the legislative programme for a Bill to cover (i) and (ii) above. The Secretary of State for Industry now poses the choice between:-

(i) One Bill covering all four changes and for enactment by June 1981.

(ii) A short Bill to deal with the borrowing limit alone and enacted by February 1981 and a second Bill to deal with the three other provisions for enactment by June 1981.

3. Decisions are needed urgently, because if there is to be one short Bill it will have to be introduced quickly, and if there is to be one comprehensive Bill the drafting is complicated (particularly on the liquidation measures) and Parliamentary Counsel needs to start work as soon as possible. The longer and comprehensive Bill would have to reach the Second Reading stage by February to

deal with the borrowing limit - once Second Reading was passed interim drawings could be made from the Contingencies Fund. The measures would be drafted in general terms and so they would not pre-empt particular decisions on the corporate plan.

4. The business managers are likely to argue strongly for one Bill, and I understand that the Chancellor of the Duchy of Lancaster will be minuting you in this sense today. There is already heavy pressure on the present legislative timetable, and they would not want to have two separate series of debates on the steel industry over the next six months. It is also arguable that some Government supporters would be unhappy about a further single Bill, dealing with the borrowing limit alone, in advance of any more general policy provisions.

5. On the other hand a single comprehensive Bill has the two drawbacks discussed in paragraphs 6 and 7 of E(80) 144. The proposal is to win more time to get all the provisions through by providing for a new power to advance monies which would not be caught by the existing borrowing limit; once the Bill had passed the Second Reading stage drawings could be made under this power from the Contingencies Fund. On the other hand this would be seen, and severely criticised, as a blatant side-stepping of the present borrowing limit and could run into difficulties if there were also other competing claims on the Contingencies Fund which has its own statutory limit.

HANDLING

6. After the Secretary of State for Industry has introduced his paper you will wish to ask the Chancellor of the Exchequer or the Chief Secretary, Treasury, for his views on the financial proprieties in so far as they affect the case for one Bill or two. The Chief Whip will wish to speak for the business managers. The Secretaries of State for Employment and for Wales and Mr. Fletcher, who is representing the Secretary of State for Scotland, will probably wish to comment on the general tactics.

7. The first question is whether it is accepted that there is a case for all four of the proposed legislative changes by June 1981. The increase in the borrowing limit and the capital reconstruction proposals are essential. If there is to be substantial privatisation and BSC/private sector mergers it is necessary to put the

powers beyond doubt. You have already asked the Secretary of State for Industry to bring forward proposals to provide for liquidation (Mr. Lankester's letter of 25th November to the Department of Industry) and these are necessary to give backing to Mr. MacGregor's approach.

8. The second question is whether there should be one Bill or two. On this the Committee will need to weigh the arguments of the business managers, and the requirements of the Parliamentary timetable, against the disadvantages which the Chancellor of the Exchequer is likely to see in the proposals for one composite Bill.

CONCLUSIONS

9. In the light of the discussion you will wish to record conclusions:-

(1) On whether policy approval should be given to the four legislative changes listed in paragraph 13 of E(80) 144.

(2) On whether these should be dealt with in one composite Bill with enactment by June 1981 or in two Bills, with the first enacted by February 1981 and covering the borrowing limit alone and with the second enacted by June 1981 covering the other provisions.

If the decision is in favour of two Bills, the business managers will need to consider the implications for the legislative programme. This should not be necessary if the decision is for one Bill for which there is already provision in the programme.

RTA

ROBERT ARMSTRONG

16th December, 1980

Spoke to C.O.

TL 16/12

10 DOWNING STREET

Prime Minister

You questioned the need to take the Steel Bill paper in E on Wednesday.

Sir Keith insists that it must be taken this week in order to meet the Parliamentary time-table. He wants a single Bill - extending BSC's borrowing limits (necessary by Feb) and providing powers of liquidation (essential to support MacGregor's strategy of threatening liquidation).

If you are content for E to take it, shall we invite the

10 DOWNING STREET

Prime Minister

Ian MacGregor will make a presentation to Sir Keith and other Ministers on Tuesday. They will then consider with a view to coming to E in early January.

Key points:

i) The Plan calls for capacity of 14 m tons - which would mean no major closures.

ii) It suggests an EFL of £750 m in 1981/82, against estimated ~~AF~~ requirement of £1.2 bn in 1980/81.

T.

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010

DEPARTMENT OF INDUSTRY
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PS/Secretary of State for Industry

12 December 1980

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

Dear Tim

BSC CORPORATE PLAN

(To PM 12/12)

... I enclose, as requested, a copy of the Corporate Plan. I am also sending copies to the private secretaries to the Chancellor and the Secretaries of State for Employment, Scotland and Wales.

Yours ever
Catherine Bell
CATHERINE BELL
Private Secretary

12 DEC 1980

MR LANKESTER

Mr Ian McGregor, BSC Chairman, spoke to the Parliamentary Press Gallery at lunchtime today. His main message was that BSC is bankrupt and should be liquidated; that he will this week be asking the Board to contract the business with the closure of "a certain number of plants"; and that if costs did not come down in the first six months of next year he will have to seek "further substantial closures on top of what must be done now". (Club tape attached).

2. Other points he made in his speech and in answer to questions were:

i The essential problem for the UK was how to become efficient again after 20 years in which other industrialised countries had overtaken us. The UK had been concerned about social stability and equality and not about producing wealth. Hence, despite an ability to deliver on educational standards, technical capacity and management skills, we had fallen behind.

ii The BSC was a victim of the country's problems. Its customers, and the consumption of its products, had declined (eg the car industry).

iii It was possible to start back on the road to being viable by improving efficiency and reducing costs. The aim was to get costs down, salvage the maximum number of jobs, provide security for the remaining workforce and pay them increased wages.

iv On energy costs, he said that American industry was given preferential low "cost of service" tariffs. In the UK increased energy costs were always passed on to industry. He wanted energy suppliers to charge industry "what it costs, including allowing a return on capital and profit".

v On sterling, he said the point was now at its "normal" level not at the "depressed" level of the mid-70s. Most of the deterioration in BSC competitiveness in the last year was due to continuing wage inflation rather than the rate of sterling.

vi On President-elect Reagan, he said he saw George Schultz in San Francisco last weekend and had no doubt that the new Administration intended "to get the engine going again" to generate wealth.

3. You may wish to draw the Prime Minister's attention to some of these points.

NEVILLE GAFFIN

10 December, 1980.

'MORE STEEL CUTS IF RESCUE P,AN FALTERS'
IF BRITISH STEEL'S NEW PLAN TO RESCUE THE INDUSTRY FALLS BEHIND DURING ITS FIRST SIX MONTHS OF OPERATION, THERE WILL BE MAJOR CLOSURES OF STEEL PLANTS IN ADDITION TO THOSE ALREADY SCHEDULED, CHAIRMAN IAN MACGREGOR WARNED TODAY.
HE JUSTIFIED HIS THREAT BY CLAIMING ''BY ANY STANDARDS THIS COMPANY IS BANKRUPT AND SHOULD BE LIQUIDATED.''
SPEAKING AT A PARLIAMENTARY PRESS GALLERY LUNCHEON, HE SAID:
''IT IS MY DESIRE TO SALVAGE THE MAXIMUM FROM THE ENTERPRISE. BUT IF IN THE FIRST SIX MONTHS OF NEXT YEAR WE FALL AWAY FROM THE PLAN WE ARE PLACING IN FRONT OF OUR COLLEAGUES, INCLUDING OUR FRIENDS IN THE WORKFORCE, THE LABOUR UNIONS, THEN FURTHER SUBSTANTIAL CLOSURES WILL BE NECESSARY - ON TOP OF WHAT WE HAVE TO DO NOW.''
MR MACGREGOR IS DUE THIS WEEK TO UNVEIL HIS BLUEPRINT FOR THE FUTURE OF BRITISH STEEL. CLOSURES AND CUTBACKS IN THE WORK FORCE ARE CERTAIN. BUT TODAY MR MACGREGOR WOULD NOT DETAIL HOW MANY MEN OR PLANTS MIGHT BE AXED.
-- 1617

Prime Minister

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The Rt Hon Nicholas Edwards MP

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From The Secretary of State for Wales

CONFIDENTIAL

4 December 1980

Dear Keith

BSC'S CORPORATE PLAN

Flag A

Jim Prior copied to me his letter to you dated 27 November about consideration of the BSC Corporate Plan.

I very much agree that the initial evaluation of the Plan and presentation of advice to Ministers should be undertaken in a concerted way by officials of the Departments most concerned, including the Welsh and Scottish Offices. The employment and regional implications will need very close examination along-side the technical and strategic aspects. The decisions on BSC's proposals will be crucial for Wales, certainly.

I go along too with Jim Prior's point about the alliance of steel, coal and rail unions to resist steel plant closures. There is now hard evidence of a much more unified approach than that seen when the 'slimline' reductions in steel capacity were first implemented at the beginning of the year. This may well receive more than tacit support from the Opposition.

Copies of this go to the Prime Minister and to Jim Prior and recipients of his letter.

Yours ever

Nick

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

Nat Inds

CONFIDENTIAL

Ref. A03718

PRIME MINISTER

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

BACKGROUND

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

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

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

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

excess capacity in Europe will mean that prices are held down in real terms. Available capacity in the United Kingdom has fallen from 26-27 million tonnes in 1979 to 19½ in 1980 and it is judged that there will have to be a further reduction of at least 1-3 million tonnes to match likely demand in 1985 - see Table III on page 29 of the Report by Officials. Investment will be needed to get necessary quality improvement. Closures and mothballing will particularly hit South Wales. Job losses bring a heavy short-term cost to the PSBR, but it is judged that the financial risks of under-estimating demand are less than those of over-estimating it. These points are set out in more detail in the summary which prefaces the detailed report by officials.

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

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

HANDLING

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

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

CONCLUSIONS

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

(1) To take note of the prospects for the steel industry as set out in the general background paper E(80) 139 and of any particular points raised in discussion.

(2) To endorse the proposed approach to collaborative ventures proposed in E(80) 138.

RtA

(Robert Armstrong)

3rd December, 1980

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

Qa 05196

To: MR LANKESTER
From: J R IBBS

3 December 1980

Steel

1. At E on Thursday Ministers will be discussing two papers on Steel by the Secretary of State for Industry. Prospects for Steel (E(80)139) outlines the likely scale of capacity reductions and efficiency improvements necessary to create a viable steel industry. Whilst in the British Steel Corporation and the Private Sector Steel Companies (E(80)138) Sir Keith Joseph seeks colleagues' approval to the principles to be followed by his officials in aiding the detailed negotiations between the interested parties aimed at a shift of emphasis from public to private ownership through joint ventures in the billet, bar and rod sector of the market.

Prospects for Steel

2. Clearly it is impossible to take an overall view of future viability of the steel industry without either the BSC corporate plan or detailed plans for particular collaborative ventures. However, in assessing future viability of either BSC or the proposed joint ventures it is worth underlining the crucial role played by the sterling exchange rate. The level of sterling has a dual effect on the steel industry:

(i) it has a direct effect on competitiveness against international competition since prices tend to be Deutsche Mark determined while the steel industry's costs are largely sterling based;

(ii) but there is also a volume effect to the extent demand from steel industries consumers is also affected by the relative international competitiveness of the United Kingdom manufacturing sector.

In view of this, the CPRS would propose that when the BSC plan or particular joint ventures are considered the sensitivity of their viability be assessed against a range of sterling exchange rates likely over the medium-term.

3. Even if BSC achieves the goal of European productivity standards it is clear that this alone will not guarantee profitability. In addition to being subject to sudden appreciation in sterling it is also competing in an artificial international market where there is substantial excess capacity and widespread Government subventions.

The BSC and Private Sector Companies

4. The CPRS believes that the proposals on collaborative joint ventures, shifting the emphasis away from the public to the private sector, deserve positive support from Ministers. These schemes will obviously require very skilful financial juggling to ensure commercial viability and to make sure that resulting ventures fall outside the PSBR. As Sir Keith Joseph's paper brings out this will require a flexible approach to meet several types of problem but will inevitably require Government assistance in one form or another, channelled through BSC. In the view of the CPRS such dowries deserve serious consideration on the grounds that:

(i) the amounts required are expected to be significantly less than would be required to finance the business if it remained within the public sector;

(ii) once in the private sector there should be greater efficiency from more rational decision-making without political or short-term PSBR constraints.

In short, this seems a very promising line of approach for moving some unsatisfactory parts of the nationalised industries into the private sector. The provision of a dowry in suitable circumstances should prove a sound investment.

5. Given the continuing losses some of the private sector companies are incurring there is, however, an obvious urgency to some of the negotiations. If, for instance, the Duport Group were to go under, then an order book which could be a useful element in putting together

a collaborative venture would be lost. There is clearly a danger in the trading conditions likely to exist over the winter that some options may disappear and this could jeopardise the objective of an enhanced private sector share of the billet, bar and rod market. This underlines the need for strong support for what the Secretary of State is attempting, so that any sound moves that prove feasible suffer minimum delay.

6. I am sending a copy of this minute to Sir Robert Armstrong.

JR

PART ~~6~~ 7 ends:-

S/S Env to S/S Ind 27.11.80

PART ~~7~~ 8 begins:-

E(80)139 1.12.80

30 January 1981

The Rt Hon David Howell, MP
Secretary of State for Energy

Dear Minister,

Thank you for listening to me so carefully yesterday when the members of MIAC visited you for lunch in the House of Commons.

I am enclosing the questions I put to you and the answers I gave to them.

I am sure you realised the extreme urgency as before you left you assured me you would deal with it quickly.

I also told you that I had written to Sir Keith on 23 December pointing out to him the desperate sitaation (copy enclosed). I have not received an acknowledgement from him and to prove that what I said to you yesterday was correct I am enclosing a cutting from the Birmingham Post which appeared this morning.

This I fear will be the first of many unless something is done by the Government very quickly to prevent the total collapse of the Private Sector.

Yours sincerely,