



10 DOWNING STREET

THE PRIME MINISTER

6 April 1981

Dear Mr. Campbell-Savours,

Thank you for your letter of 26 March about the need for a full explanation of the decision to close Distington foundry to be made available to the workforce.

In his letter to me of 23 March Mr. MacGregor refers to his memorandum of 27 February to the Distington Joint Representative Committee: this was one of the documents which you sent me following our meeting on 4 March. It seems to me that Mr. MacGregor has, in this memorandum, given a very full and considered explanation of the reasons which led the Corporation to decide on the closure of Distington foundry.

I would be grateful if you would treat this letter, together with my letter of 26 March, as a reply to the large number of letters from your constituents on the closure of Distington foundry which you have forwarded to me in recent weeks.

Yours sincerely,

MT

Dale Campbell-Savours, Esq., M.P.

WVS 3/4

cc DOT
consts

cc 163/4

out



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

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

3 April 1981

Dear Mike

In response to your letter of 27 March, I attach a draft reply for the Prime Minister to send to Mr Campbell-Savours.

I also attach a copy of the document to which the reply refers - Mr MacGregor's memorandum of 27 February to the Distington management and workforce. While this document cannot (nor does it purport to) provide all the facts on which the decision to close Distington foundry was based, it is a succinct explanation of the main considerations. There will of course be many other documents, internal to BSC management, which the workforce may or may not have seen - including those leaked to Mr Campbell-Savours at the end of last year and sent by him to the Prime Minister - but the memorandum itself seems to provide a perfectly adequate basis on which to reply.

We understand of course that the Prime Minister wishes to deal personally with this swift come-back to her earlier letter. However, if Mr Campbell-Savours persists (as on usual form he will) and seeks to prolong the debate, you may consider that the best course might be to transfer further correspondence to my Minister.

Yours sincerely

Peter Mason

PETER MASON
Private Secretary

Enc

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

Dale Campbell-Savours Esq MP
House of Commons
London
SW1A 0AA

GR
for PM/CC/EG

Thank you for your letter of 26 March about the need for a full explanation of the decision to close Distington foundry to be made available to the workforce.

In his letter to me of 23 March Mr MacGregor refers to his memorandum of 27 February to the Distington Joint Representative Committee: this was one of the documents which you sent me following our meeting on 4 March. It seems to me that Mr MacGregor has, in this memorandum, given a very full and considered explanation of the reasons which led the Corporation to decide on the closure of Distington foundry.

I would be grateful if you would treat this letter, together with my letter of 26 March, as a reply to the large number of letters from your constituents on the closure of Distington foundry which you have forwarded to me in recent weeks.

Ian MacGregor

To
Dept.Mr J K Dunigan
Mr R Crellin
cc Mr R Scholey
Mr D B BrayFile No.
Ext.

7 401

Date

27 February 1981

Ap41

File Ref.

Subject

DISTINGTON MOULD FOUNDRY

Thank you for your memorandum of February 13 and the enclosed documents.

I do, of course, understand your deep concern regarding the closure of the above works and I have studied your arguments carefully. However, they do not provide sufficient evidence for me to reconsider the Corporation's decision to close the Distington Foundry.

In support of the Corporation's decision to close the Distington Foundry I would like to draw your attention to the following important issues affecting our decision.

1. It is generally accepted by all concerned that the BSC no longer requires three major mould foundries. Furthermore, demand for ingot moulds will continue to fall throughout the early eighties with the increasing usage of continuous casting. The fall in demand, therefore, relates to a trend and not some cyclical requirement which could conceivably show improvement in the future.
2. After heavy investment by BSC in slab casters during the last few years, the next tranche of casting machines will be designed for bloom and billet casting. This will further reduce the requirement for smaller square moulds which have been, and remain, a major product line for the Distington Foundry.
3. The costs outlined in the original rationalisation document were those provided by Distington personnel - in fact, Distington was pressed to project forward any improvements they could visualise for inclusion in the calculation. (There is no disagreement by anyone in this respect.)
4. To suggest that these costs were not the responsibility of the Distington workforce (management, staff and manual grades) cannot be sustained. Over the last three to four years all Corporation employees have known of the precarious financial position of the BSC and have been exhorted to explore every possibility for improvement. In this respect, the Workington area was no exception, though the response to such management initiatives at Distington has been, until most recently, comparatively lukewarm and uninspired. This is despite the involvement of national union officials who tried to effect a greater change of heart on the shopfloor.
5. Costs included in the rationalisation document for Fullwood and Dowlais are current manufacturing standards and reflect actual

..../cont

performances. I have little doubt that both foundries can achieve improvements and had they been asked to project these forward, and into the calculation, the gap in product cost would have been even greater than that presently indicated.

6. It is acknowledged that when faced with imminent closure Distington has finally, and belatedly, reduced costs; however, a gap still remains and this is without taking into account point number 5 above.
7. Quite apart from any weighting given to the efforts of the employees there are basic differences of plant configuration between Fullwood and Distington, which give Fullwood the advantage on costs:-
 - (a) Fullwood's furnaces were designed to melt rapidly unbroken moulds, saving breaking costs and time.
 - (b) Fullwood's electricity charges are lower than Distington's due to the availability of hydro-electric power in Scotland.
 - (c) At the projected levels of loading the Fullwood facilities will be almost fully utilised with optimum recovery of overheads. This would not be so in the case of Distington.
8. In addition to the cost and labour advantages there are other benefits in retaining Dowlais Foundry:-
 - (a) Their quasi flake moulds are seen as an excellent product by their major customers, Port Talbot and Llanwern Works.
 - (b) This mould has only been in production some three years and is already competitive on mould cost per tonne. Given the same sort of improvement curve achieved when developing the straight haematite mould it would be most surprising if current costs were not substantially improved over the next two or three years.
 - (c) Trial quantities of quasi flake moulds from Dowlais are already in service in the United States and should, therefore, provide Dowlais with a reasonable and profitable export load in the next year or so, again helping to utilise fully their facilities.
 - (d) It must make sense, whilst a reasonable load remains, to retain both a cupola and a cold charge channel furnace route - the one supplying new iron to the system and the other consuming scrap moulds.
9. There is no case for injecting fresh tax-payers' money into Distington to improve facilities when existing capacity is already in excess of requirement and where that imbalance will steadily increase in the future.

..../cont

10. It is, of course, easy in hindsight to question the original development programme for the mould foundries, involving as it did considerable capital injection. The facts are, however, that the BSC assumed, along with the rest of the world, a continuing high demand for steel through the eighties, a much stronger UK manufacturing base and a slower growth in the continuous casting process. None of this has happened and, therefore, contraction of the BSC's foundry operation has become inevitable.
11. Whilst monies may need repaying to Government on account of rules governing the iron foundry grants scheme, it is less costly to do this than retain three under-utilised foundries or retain only two but include the Distington higher cost route.
12. It is disappointing to receive no formal retraction of allegations that FFE management deliberately mis-used information to prove the case for closing Distington, particularly in view of the time and effort spent by their management in ensuring all relevant facts were brought to your representatives' notice.
13. The inference that Scotland and Wales have been given favoured treatment in respect of foundry closures would be a serious misrepresentation of the facts. Over the last two years the size of the BSC workforce has been reduced substantially and Wales and Scotland have borne the heaviest burden in this respect.
14. Closures, with resultant unemployment, are not lightly sought by BSC senior management, who are only too well aware of the hardships and family upsets that this can create. It is because of this that they have supported the provision of substantial severance payments to redundant employees.

I have given considerable time and thought to the issues raised by your memorandum and I have re-examined a number of factors and sought further detail from Mr Bray and his team. Following this re-evaluation I am still convinced that the foundry at Distington should close.

I do not believe that it would be constructive or appropriate to agree to an independent enquiry not least because its findings would need to be acceptable to both Dowlais and Fullwood. Both these works are currently in possession of all the facts available to you and are, therefore, aware of the costings submitted by the three parties and the disparities that exist.

Ian MacGregor.



pm

JFH

10 DOWNING STREET

From the Private Secretary

27 March 1981

I enclose a copy of a further letter the Prime Minister has received from Dale Campbell-Savours, MP, about Distington Foundry.

I would be grateful for a draft reply for the Prime Minister to send to Mr Campbell-Savours, to reach us here by Friday 3 April, if possible.

B/P 2/4/81

Peter Mason, Esq.,
Department of Industry.

JFH



10 DOWNING STREET

From the Private Secretary

27 March 1981

I am writing on behalf of the Prime Minister to thank you for your further letter of 26 March about Distington Foundry.

I will place this before the Prime Minister and you will be sent a reply as soon as possible.

Dale Campbell-Savours, Esq., MP.



10 DOWNING STREET

PRIME MINISTER

This is a further letter from Dale Campbell-Savours about Distington Foundry.

We will let you have a draft.

MAP

MF

27 March 1981



HOUSE OF COMMONS
LONDON SW1A 0AA

26 March 1981

127/3

The Rt Hon Margaret Thatcher MP
Prime Minister and First Lord
of the Treasury
10 Downing Street
LONDON SW1

Dear Mrs Thatcher

Thank you for your letter which I received one hour ago regarding Distington Foundry.

You did refer during your conversation with me, to the need for the workforce to be made fully aware of the reasons why the closure had to take place and your letter does not make it particularly clear as to what all the reasons are for the closure. What your letter does do is say that Mr MacGregor makes it clear that he is satisfied that the right decision has been taken and that the Management assessment which lead to it was fair and correct.

I would be grateful therefore, if you could let me know whether you are satisfied that all the facts have been made available to the Distington workforce, or are there other facts which have not been made available, that as I understand it was one of the questions you intended to raise with Mr MacGregor.

Yours sincerely

pp DALE CAMPBELL-SAVOURS MP

(Dictated by Mr Campbell-Savours
and signed during his absence)



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25/3

10 DOWNING STREET

THE PRIME MINISTER

26 March 1981

Dear Mr. Campbell-Savours,

When you came to see me on 4 March you explained your concern about the decision which had been taken by the British Steel Corporation to close their new ingot mould foundry at Distington. You told me that you understood that the decision to close had been taken by the management of the BSC FFE Group, which does not include Distington foundry, and that both management and workers at Distington believed that the decision had been made on the basis of an unfair assessment of the past performance and future potential of Distington foundry.

Norman Tebbit, who was present at our meeting explained that he had already asked Mr. MacGregor about the Distington decision, and that the Government could not cross-examine BSC managers without undermining Mr. MacGregor's authority.

As I agreed at our meeting, I wrote to Mr. MacGregor to ask him whether he personally was satisfied with the decision which had been taken at Distington. I attach a copy of Mr. MacGregor's reply. You will see that in it he refers to one of the documents which you sent me following our meeting, namely his letter of 27 February to the Distington Joint Representation Committee.

In his letter to me, Mr. MacGregor makes it clear that he is satisfied that the right decision has been taken and that the management assessment which led to it was fair and correct.

As I explained to you, the Government cannot intervene and overturn decisions which have been taken by BSC management. In this case there is no doubt that there has to be a cutback

/in BSC

Jul

in BSC foundry capacity, and since Mr. MacGregor has now assured me, as he has I understand also assured the Select Committee on Industry and Trade, that the decision to close Distington was soundly based, I do not believe there are any grounds on which the Government can intervene further in this matter.

Yours sincerely,

MT .

Dale Campbell-Savours, Esq., M.P.



10 DOWNING STREET

THE PRIME MINISTER

26 March 1981

Dear Mr. MacGregor,

Thank you for your prompt reply to my letter of 19 March about Distington foundry. I am grateful for your personal assurance about the decision to close this foundry, and I have passed a copy of your letter to Mr. Campbell-Savours saying that in the circumstances I do not believe there are any grounds on which the Government can intervene further in this matter.

Yours sincerely,

MT

Ian MacGregor, Esq.

Sup.

c. 11

25/3

Sup

MFJ

25 March 1981

BF 77

I attach yet further correspondence the Prime Minister has received about Distington from Dale Campbell-Savours, M.P. I do not think it adds anything to the arguments which have already been deployed.

NJS

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

JS

Prime Minister



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

*From the
Minister of State*

PS/Norman Tebbit MP

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

25 March 1981

*GR
type for PM
PI*

*✓
S*

*cc IG
(both)*

Ian Nich

*MS
25/3*

As requested in your letter of 24 March, I am now enclosing draft letters for the Prime Minister to send to Mr Dale Campbell-Savours and to Mr Ian MacGregor. These have been approved by Mr Tebbit.

*Yours ever
Peter Mason*

PETER MASON
Private Secretary

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO MR DALE CAMPBELL-
SAVOURS M.P.

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Norman Tebbit, ~~the Minister of State, Department of Industry,~~ who was present at our meeting explained that he had already asked Mr MacGregor about the Distington decision, and that the Government could not cross-examine BSC managers without undermining Mr MacGregor's authority.

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you sent me following our meeting, namely his letter of 27 February to the Distington Joint Representation Committee.

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As I explained to you, the Government cannot intervene and overturn decisions which have been taken by BSC management. In this case there is no doubt that there has to be a cutback in BSC foundry capacity, and since Mr MacGregor has now assured me, as he has I understand also assured the Select Committee on Industry and Trade, that the decision to close Distington was soundly based, I do not believe there are any grounds on which the Government can intervene further in this matter.

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO MR MACGREGOR

Thank you for your prompt reply to my letter of 19 March about Distington foundry. I am grateful for your personal assurance about the decision to close this foundry, and I have passed a copy of your letter to Mr Campbell-Savours saying that in the circumstances I do not believe there are any grounds on which the Government can intervene further in this matter.



10 DOWNING STREET

From the Private Secretary

24 March, 1981

I attach copies of three further letters, together with associated correspondence, which the Prime Minister has received today from Dale Campbell-Savours, MP, and a letter she has received from Mr Ian MacGregor.

The Prime Minister has to face a question, which will be reached, from Mr Campbell-Savours on Thursday afternoon this week. I think it is desirable, if it can be achieved, that she should write to Mr Campbell-Savours tomorrow night. I should, therefore, be grateful if you could let me have a draft reply for the Prime Minister to send to Mr Campbell-Savours, taking account of all the correspondence we have so far received from him and his office and Mr MacGregor's letter of 23 March.

Please let me know by telephone if there are difficulties about this.

The Prime Minister should also send a personal reply to Mr MacGregor. I hope that it may be possible for you to let us have a draft reply by tomorrow night as well.

N. J. SANDERS

P E Mason, Esq
Department of Industry



HOUSE OF COMMONS
LONDON SW1A 0AA

4 pps

The Private Secretary
to the Prime Minister,
10, Downing Street,
London
S.W.1.

24/3/81

Dear Sir,

I enclose a copy of the original leaked review document which Mr Campbell-Savoury acquired in December, 1980, and which led to the accusations he made on the floor of the House of Commons on 16th December.

This document, which is central to the argument surrounding Distinguon, is the one which misrepresented the case for Distinguon. The British Steel Corporation has always maintained that Mr Campbell-Savoury had not seen the document, which was an internal review.

You may recall that the removal of documents from Distinguon and their



HOUSE OF COMMONS
LONDON SW1A 0AA

transmission to Mr Campbell-Savours was referred to the Director of Public Prosecutions, following representations from B.S.C. to Aumbria Police. However the case was dismissed by Sir Thomas Hetherington within twenty four hours of it being received by his office.

Yours sincerely,

Heen Donoghue,

(Research Assistant to D. Campbell-Savours)

26th September 1980

INGOT MOULD FOUNDRY RATIONALISATION REVIEW

SEPTEMBER 1980

Summary

The future demand for ingot mould production is reviewed and the manufacturing costs of the available process routes are evaluated.

The foundry configurations for different levels of demand are identified and the operating costs compared..

It is possible to reduce the number of manufacturing sites to two when steel production falls below 12 million tonnes but the capabilities to react to fluctuations in demand would be limited and the timing of any further closure, therefore, requires careful consideration.

However, there is a potential saving of up to £8m next year if agreement to move to option 2(b) is achieved in the near future.

Page 5.

Doobring

- THIS IS DISCUSSION DOCUMENT.
- NOT A DOCUMENT THAT EVALUATES.
- EVEN THIS DOCUMENT IMPLIES FURTHER DISCUSSIONS ON DISTINCTION.

A

INGOT MOULD FOUNDRY RATIONALISATION REVIEW

1. Liquid Steel Make

The 'Steady State' was defined in April 1980 as a liquid steel requirement of 15m tonnes and would be distributed among the various works at annual rates, established for Quarter 4 1980/81.

The steel tonnages defined this way are:-

	<u>Total</u> K Tonnes p.a.	<u>Continuous Cast</u> K Tonnes p.a.	<u>Ingot Mould Route</u> K Tonnes p.a.
Scotland	2,028	1,500	528
Scunthorpe	3,696	692	3,004
Sheffield	2,240	-	2,240
BSC Holdings	380	164	216
Teesside	3,500	1,752	1,748
Wales	2,784	-	2,784
Tubes	300	-	300
TOTAL	<u>14,928</u>	<u>4,108</u>	<u>10,820</u>

Recent falls in liquid steel demand make it necessary to assess tonnages of liquid steel that would be produced on the ingot mould route at a number of datum points recognising:-

- (a) reduced economic activity affecting all products to a similar degree,
- (b) the current distribution of lower demand with greater reductions on wide products.

TOTAL DEMAND	LIQUID STEEL ON INGOT MOULD ROUTE	
	Even Reduction in Demand for all Products	Greater Reduction on wide products (Sept.80 position)
	K Tonnes p.a.	K Tonnes p.a.
15 MTPA Liquid Steel 'Steady State'	10,820	10,820
12½ MTPA Liquid Steel	8,254	9,424
10 MTPA Liquid Steel	6,088	6,951

Consumption Rate of Ingot Moulds & Bottom Plates

Currently, 75% of ingot moulds supplied are hematite, most of the remainder are 'quasi flake' and a small number of S.G. moulds have been supplied ex Stanton. ?

TANMAN
FRW
SAMS
1/11/02 The modified graphite moulds (quasi flake or S.G.) are giving a 20% longer service life and the objective is to increase the manufacture of this type of mould to 50% of the total make in the short to medium term.

Not clear by what life records.
A further factor is a proven longer life of Fullwood moulds using the new equipment in the redeveloped foundry.

Standard ingot mould and bottom plate consumptions, current rates of usage and the probable future usage patterns are set out below.

	<u>Planning Standard</u> KG/Tonne	<u>Current Actual</u> KG/Tonne	<u>Potential</u> KG/Tonne
Scotland	27.18	21.98	19.78
Scunthorpe	12.72	11.22	11.22
Sheffield	15.59	15.82	14.03
BSC Holdings	21.79	21.79	19.61
Teesside	19.01	19.88	17.89
Wales	18.61	17.20	17.20
Tubes	14.50	14.50	14.50
Weighted Average	<u>16.78</u>	<u>15.94</u>	<u>15.09</u>

3. Small Moulds to BSC Plants and to Private Sector Steel Plants

Renishaw Foundry makes small moulds and plates for BSC plants and Stanton make moulds for Tubes - they would continue to do so and Renishaw would remain the principle suppliers to the private sector.

Five hundred thousand tonnes of the BSC liquid steel make indicated above will be serviced by moulds and plates from Renishaw/Stanton under this arrangement.

4. Exports

Basic strategy for the operation of ingot mould foundries is founded on meeting the demands of BSC steel plants only.

Exports currently running at 14,000 tonnes per annum would continue partly at Renishaw and possibly as a filler to the foundry configuration determined to meet BSC's demand.

(c) Alternative Operating Capacity Levels

	<u>Capacity</u> <u>Tonnes P.A.</u>	<u>Capital</u> <u>£K</u>
i) <u>At Distington using Cold Metal</u>		
15 Shift Operation	57,500	339
15 Shift with Pre-heating	65,500	828
15 Shift with Pre-heating and Second Inductors	110,000	2,150
21 Shift with Pre-heating	86,500	828
ii) <u>At Dowlais</u>		
Concentration of Operations into one Foundry Building	35,000	. 225
iii) <u>At Fullwood</u>		
Increase Manning by 18 to Capacity at Single Furnace Working	56,000	-
Increase Manning by 86 and Operate both Furnaces	75,000	-

Note

- i) Distington foundry produce a higher proportion of small moulds; if the foundry configuration selected excluded Distington and allowance of approximately 10% of the transferred tonnes would be required to be made in matching capacity to demand.
- ii) Theoretically, capacity at Fullwood could be extended by 21 shift working. This would be expensive in overtime and production time lost for maintenance, further the experience in the area of 21 shift working with it's social consequences renders it unlikely that such a method of working would yield significantly higher outputs or lower costs.

7. Foundry Costs - Hematite Moulds

The following cost data is based on raw material prices current at 1st August 1980 and are aligned to the production of a 16 tonne ingot mould.

Rubric! Fixed cost could be much less at average 16 ton cast.

Please see table overleaf.

Mould & Bottom Plate Demands for the Three Major Foundries

Ingot moulds and plate production is now based on Distington, Dowlais and Fullwood foundries. Demands on these foundries at planned rates of consumption are assessed as being:-

	If Demand Fluctuations are Evenly Spread	If Greater Reduction in Demand for Wide Products
	Mould & Plate Tonnes Per Annum	Mould & Plate Tonnes Per Annum
15 ¹ / ₄ MTPA Liquid Steel Make	172,900	172,900
12 ¹ / ₂ MTPA Liquid Steel Make	131,300	150,900
10 MTPA Liquid Steel Make	96,400	110,800

No allowance is made in these figures for short term fluctuations in demand caused by restocking etc.

Mould consumptions could potentially be reduced by 10% from the figures shown by extending the use of modified graphite moulds referred to in Section 2.

By 1983/84, demand for moulds and plates will be further reduced by not more than 20,000 tonnes per year following the introduction of continuous casting machines at Templeborough, Stocksbridge and Port Talbot.

Manufacturing Capacities - Major Mould Foundries

(a) Gross Capacities

Distington - Hot Metal Route	146,000 t.p.a.
Limiting factor is furnace capacity	
Distington - Cold Metal Route	75,000 t.p.a.
Limiting factor is furnace capacity	
Dowlais	80,000 t.p.a.
Limiting factor is drying stove capacity and space	
Fullwood	82,000 t.p.a.
Limiting factor is space	

(b) Currently Manned Capacities

Distington - Hot Metal Route	126,000 t.p.a.
Dowlais	50,000 t.p.a.
Fullwood	46,000 t.p.a.

POLITICAL LICENCE

	Output Level t.p.a.	Costs Per Tonne		
		Fixed	Variable	Total
<u>Distington</u>				
15 Shift Hot Metal	126,000	87.55	96.07	183.62
15 Shift Cold Metal Minimum Capital	57,500	79.92	82.67	162.59
21 Shift Cold Metal Minimum Capital	75,000	65.41	82.01	147.42
<u>Dowlais</u>				
15 Shift Capacity	80,000	35.50	92.78	128.28
15 Shift As Currently operated	50,000	47.77	97.21	144.98
Single Foundry Operation	35,000	36.77	94.21	130.98
<u>Fullwood</u>				
15 Shift 2 Furnace	75,000	24.15	87.68	111.83
15 Shift Single Furnace Maximum	56,000	25.25	87.30	112.55
15 Shift Single Furnace as currently operated	46,000	28.61	87.73	116.34

Notes on Cost Data

IMPLIES MAJOR DIFFERENCES - Same melting process - Same process route generally pursued
WHY? - argue it out

1. The Distington mix is more complex and covers a wider range than the other two foundries. Across a full size range the Distington disadvantage may be reduced by about £5 per tonne.

2. The cost figures shown for Distington at 75,000 and 57,500 tonnes, are theoretical, assume reductions in foundry manning of 33% from present day levels to produce at 75,000 tonne rate and 59% to meet the 57,500 tonne rate. Assumptions are made that overheads charged to the foundry will be reduced plus the elimination of overhead on the blast furnace costs currently charged to the foundry through hot metal price.

A detailed statement on the reduction in overhead will be prepared by Cumbria Works Management.

3. Dowlais have operated at both the 80,000 t.p.a. level and the 50,000 t.p.a. level and their costs represent what has been done evaluated at 1st August 1980 prices. The costs

shown for 35,000 t.p.a. are theoretical as single foundry production has not so far been adopted.

4. Fullwood figures at 46,000 t.p.a. are actuals rated at 1st August 1980 prices. The 56,000 t.p.a. figures carry additional manning and tonnage variable costs but with lower electricity costs per unit from the 46,000 t.p.a. level. The 75,000 t.p.a. costs are similar to the S.E. Scheme but with 1st August 1980 prices and overhead levels.

8. Transport Costs - Mould Foundries to Steel Works

	Fullwood £ per Tonne	Dowlais £ per Tonne	Distington £ per Tonne	
Ravenscraig	1.30	12.69	5.50	7 (29)
Teesside	7.54	8.76	5.00	19 48
Scunthorpe	11.73	7.89	6.00	25 143
Sheffield/Rotherham	9.98	7.56	6.00	19 76.
Llanwern	16.28	3.25	9.50	238.
Port Talbot	16.28	2.93	9.50	216
				452

The costs shown are approximate road haulage rates for 16 tonne moulds, more accurate information would require p.l. Transport quotations and detail of possible return loadings. On the latter aspects, some advantage may possibly accrue where a higher proportion of used moulds are returned to the supplying foundry.

9. Conclusions

(1) 15 MILLION TONNES PER YEAR LIQUID STEEL MAKE

A maximum of 172,900 tonnes of ingot mould and bottom plate required, this can be met by:-

(a) current manning and facilities at

Distington	- Hot Metal	
	15 Shifts	126,000 t.p.a. capacity
Dowlais	- Current	
	Levels	
	15 Shifts	50,000 t.p.a. capacity
Fullwood	- Single	
	Furnace	
	15 Shifts	46,000 t.p.a. capacity
TOTAL		222,000 " "
		Cost - £31.1m p.a.

or (b) with the closure of Dowlais:

Distington - Hotel Metal	126,000 t.p.a. capacity
15 Shifts	
Fullwood - Single Furnace	56,000 t.p.a. capacity
Maximum Capability	
TOTAL	<u>182,000</u> " "

Cost - £29.1m p.a.

or (c) with the hot metal route at Distington closed demand could be met with between 5.5% spare capacity and possibly more dependent on progress made on the introduction of modified graphite moulds by:-

Distington - Cold Metal	57,500 t.p.a. capacity
15 shifts	
Dowlais - Current Levels	50,000 t.p.a. capacity
15 shifts	
Fullwood - 2 Furnaces	75,000 t.p.a. capacity
15 shifts	
TOTAL	<u>182,500</u> " "

Cost - £23.9m p.a.

A decision has already been taken to close the hot metal route. Option (c) offers considerable financial benefit - £7.2m per annum over current arrangements and retains a capability to expand production to service liquid steel demands of up to 20m tonnes per year.

(2) 12½ MILLION TONNES PER YEAR LIQUID STEEL MAKE

A maximum of 150,900 tonnes of ingot mould and bottom plates are required. This can be met by :-

(a) Current manning and facilities which allows 47% spare capacity.

Distington - Hot Metal	126,000 t.p.a. capacity
15 shifts	
Dowlais - Current Level	50,000 t.p.a. capacity
15 shifts	
Fullwood - Single Furnace	46,000 t.p.a. capacity
15 shifts	
TOTAL	<u>222,000</u> " "

Cost - £29.0m p.a.

- (b) Putting Distington on 15 shifts using the cold metal route, reducing capacity at Dowlais to the use of single foundry and manning up for 2 furnace operation at Fullwood. This would allow a minimum of 11% spare capacity.

Distington - Cold Metal 15 shifts	57,500 t.p.a. capacity
Dowlais - Single Foundry Operation	35,000 t.p.a. capacity
Fullwood - 2 Furnace 15 Shifts	75,000 t.p.a. capacity
TOTAL	<u>167,500</u> " "

Cost £20.9m per annum

- or (c) Close Distington and work Dowlais and Fullwood at capacity levels. This would leave virtually no spare capacity unless mould performance improved by the extension of the use of S.G. moulds (Section 2 of this report refers).

Dowlais - 15 Shifts Maximum capacity	80,000 t.p.a. capacity
Fullwood - 2 Furnace 15 Shifts	75,000 t.p.a. capacity
	<u>155,000</u> " "
Less adjustment to capacities for small moulds transferred from Distington	<u>4,000</u>
TOTAL	<u>151,000</u> " "

Cost - £18.7m p.a.

- or (d) Close Dowlais and work Distington and Fullwood at capacity levels. As in (c) above, there would virtually be no spare capacity unless mould performances improved.

Distington - Cold Metal 21 Shifts	75,000 t.p.a. capacity
Fullwood - 2 Furnace 15 Shifts	75,000 t.p.a. capacity
TOTAL	<u>150,000</u> " "

The balance of 900 tonnes required to service a steel make of 12½m tonnes per annum could be made in overtime at Fullwood if necessary.

Cost - £19.9m p.a.

Option (c) has the lower annual cost but it has the following disadvantages:-

- If demand rises much above the 12½m t.p.a., liquid steel level, mould production capability would not be available without significant capital spending and some delay. The situation will be eased when the new continuous casting machines come into service.
- The Regional Development Grant and Ferrous Foundry Grant received for the Distington Development would be at risk - amount £4m.
- To make the full range of moulds current made at Distington would probably require some capital expenditure and some enhancement to production planning and control systems at the other foundries.
- The long-term development of continuous casting may ultimately reduce demand to a level that could be met by one foundry - Distington is best equipped to meet the probable product mix in that circumstance.

Option (d) has the similar disadvantage to (c) of not being able to cope with mould requirements for steel makes in excess of 12½m t.p.a.

The £1.2m p.a. cost disadvantage of option (d) over (c) must be weighed against:-

- No capital expenditure requirements and no risk of having to pay back up to £4m in grants.
- All moulds made in foundries accustomed to the mix of products that they would be called upon to make.
- The advantage of retaining the versatility of Distington Foundry for the sole survivor role is long-term steel plant developments.
- Distington fixed costs are £1.8m greater than Dowlais - there may be potential to reduce this difference.

Option (b) shows an £8.1m p.a. advantage over the current practice, retains a capability to service steelmaking up to 20m t.p.a. but is £2.2m p.a. more expensive than option (c).

A decision on the best option cannot readily be made until the forecast demand beyond 1981/82 is more clearly appreciated.

(3) 10 MILLION TONNES PER YEAR LIQUID STEEL MAKE

Maximum ingot mould and bottom plate requirement of 110,800 t.p.a. This could be met by:-

- (a) Retaining all three foundries on their lowest capacity manning levels leaving 25% spare in the system.

Distington	- Cold Metal 15 Shifts	57,500 t.p.a.
Dowlais	- Single Foundry 15 Shifts	35,000 t.p.a.
Fullwood	- Single Furnace 15 Shifts	46,000 t.p.a.
TOTAL		<u>138,500 t.p.a.</u>
		<u>Cost - £17.3m p.a.</u>

- (b) Operate Distington on 15 shifts and Fullwood on a single furnace maximum output allowing 2½% spare capacity.

Distington	- Cold Metal 15 Shifts	57,500 t.p.a.
Fullwood	- Single Furnace Maximum	56,000 t.p.a.
TOTAL		<u>113,500 t.p.a.</u>
		<u>Cost - £15.7m p.a.</u>

- (c) Operate Dowlais at present level and Fullwood on 2 furnaces allowing 12.8% spare capacity.

Dowlais	- Current Arrangement 15 Shifts	50,000 t.p.a.
Fullwood	- 2 Furnace 15 Shift	75,000 t.p.a.
TOTAL		<u>125,000 t.p.a.</u>
		<u>Cost £14.3m p.a.</u>

A case cannot be made for operating more than 2 sites at this output level.

While option (c) shows cost advantage, this may be eroded by equipment purchase/transfer cost considerations making option (b) more desirable. It is suggested that if demand does fall to this level, a more detailed review will be necessary as the capital/redundancy/flexibility considerations may erode the apparent advantage of option (c) over option (b) at the very low levels of working.

J. Manning Implications

The foundry manning levels and productivity indices for the various options are indicated on Appendices 1, 2 and 3 attached.

It should be noted that Distington shares the use of workshops, services and functional services and overheads with other activities on the Chapel Bank and Moss Bay sites, the cost of three services are included in the main body of the report but the number of people employed in them are not shown in the appendices.

FOUNDRY MANNING/PRODUCTIVITY LEVELS

Distington Foundry

	126,000 tpa Hot Metal 15 Shifts		75,000 tpa Cold Metal 21 Shifts		57,500 tpa Cold Metal 15 Shifts	
	Men	Tonnes/ Man Year	Men	Tonnes/ Man Year	Men	Tonnes/ Man Year
Melting	41	3,073	32	2,344	28	2,053
Moulding	270	467	179	419	129	446
Finishing	98	1,286	57	1,316	50	1,150
Maintenance	156	808	115	662	110	522
Pattern Shop	21	6,000	11	6,818	9	6,389
Staff	78	1,615	49	1,530	43	1,337
TOTAL	664	190	443	169	269	156

FOUNDRY MANNING/PRODUCTIVITY LEVELSDOWLAI'S FOUNDRY

	80,000 t.p.a. maximum capacity 15 shifts		50,000 t.p.a. as currently operated 15 shifts		35,000 t.p.a. Single Foundry	
	Men	tonnes man year	Men	tonnes man year	Men	tonnes man year
Melting	18	4,444	16	3,125	14	2,500
Moulding	147	544	107	467	58	603
Finishing	24	3,333	19	2,632	14	2,500
Maintenance	107	748	84	595	70	500
Pattern Shop	4	20,000	3	16,667	2	17,000
Staff	100	800	79	633	67	522
Total	400	200	308	162	225	155
Services	33	2,424	27	1,852	23	1,522
TOTAL	433	184	335	149	248	141

FOUNDRY MANNING/PRODUCTIVITY LEVELSFULLWOOD FOUNDRY

	75,000 t.p.a. 2 Furnace 15 Shifts		56,000 t.p.a. Maximum Single Furnace		46,000 t.p.a. Current Loading Furnace	
	Men	Tonnes man year	Men	Tonnes man year	Men	Tonnes man year
Melting	12	6,250	12	4,667	12	3,833
Moulding	104	721	75	747	62	741
Finishing	37	2,027	26	2,154	24	1,917
Maintenance	31	2,419	29	1,931	26	1,769
Pattern Shop	3	25,000	3	18,667	3	15,333
Staff	35	2,143	29	1,931	29	1,586
Total	222	338	174	322	156	295
Services	16	4,688	12	4,667	12	3,833
TOTAL	238	315	186	301	168	274



HOUSE OF COMMONS
LONDON SW1A 0AA

The Private Secretary
to the Prime Minister,
10, Downing Street,
London,
S.W.1.

24/3/81

Dear Sir,

I enclose some internal British Steel Corporation documents which relate to the issue of quality of product, a matter which B.S.C. have always sought to ignore. However such matters cannot be ignored.

The document entitled Reference J is an unheaded memorandum because the manager who submitted this was anxious that he should not be identified. The erasures of the name Fullwood have been done by Mr Campbell-Savours in order that he could quote the document in the Chamber of the House without the risk of embarrassing another Member by repeating



HOUSE OF COMMONS
LONDON SW1A 0AA

to a foundry in his constituency.
There can be no doubt at all that
this document would have been of
great relevance in any fair evaluation
of foundry capacity within the British
Steel Corporation.

Yours sincerely,

Helen Doughine

(Research Assistant to D. Campbell-
Savours)

Teesside Division

Lackenby Works

Reference

J

SS

om
ept.
l. Ext.
le Ref.

To
Dept.
Date

16th December 1980

Subject

With the proposed closure of Distington Foundry scheduled for sometime in 1981, a comparison of the alternative supplying Foundry, i.e. Fullwood, for two separate periods, namely the financial year 1979/80 (9 months) and the most recent period the 6 months April - September 1980, are shown below:-

NB Only 6 Mould Types are compared as there was no direct comparison of L26, L31 and L52 Moulds.

1979/80 (9 months)

	<u>Moulds Scrapped</u>	<u>Av'ge Life</u>	<u>Consumption Kg/t</u>
Distington	468	71.10	16.18
Fullwood	111	46.03	25.40

1980/81 (6 months)

Distington	255	66.24	16.46
Fullwood	186	52.51	23.11

Using the figures for 1979/80 (9 months), had all the Moulds purchased during that period been from ~~Fullwood~~ Foundry a further 247 Moulds at a net cost of £647 780 would have been required for the same number of Ingots.

Despite ~~Fullwood~~ Foundry maintaining that performance would approach that of Distington Foundry during 1980/81, the first 6 months indicate that for the full financial year had all Moulds been purchased from ~~Fullwood~~ Foundry a further 246 Moulds at a net cost of £687 257 would have been required.

The additional net cost to Teesside for Moulds for the year 1981/82, assuming the same level of improvement, if all of these Moulds derive from ~~Fullwood~~ Foundry, will be in the order of £550 000. It is also evident that whereas in 1979/80 a settlement of £71 000 was obtained from ~~Fullwood~~ Foundry for a part acknowledgement of loss of average Mould Life compared with Distington Foundry, this type of claim will not be feasible with the demise of Distington Foundry.

16.12.80

It is unlikely that Fullwood Foundry can improve much further, particularly as the bulk of the high consumption Slab Type Moulds have recently been concentrated on Distington Foundry because of the dismal performance of those obtained from Fullwood, and should these be again manufactured at Fullwood then there could be a reversal of the recent improvement. It would appear therefore, that the net cost to Lackenby for Moulds would increase by at least £550 000 per annum on the closure of Distington Foundry, assuming a similar Ingot tonnage and mix as currently pertains.

There is no similar comparison for Bottom Plates.

- Compensation paid on life loss on moulds that
 Duntlington sold, ad. yet, subcontracted out to Duntlins and others
 - this means that quality at the time

COTEN: 7/104/278

Mr. A. Thorpe

J.M. Earnaby

Date 6th February, 1980.

Copies: Mr. C. Cox
 Mr. J.J. Storey

INGOT MOULD PERFORMANCE

With reference to our recent exchange of correspondence on the basis of our relationship for ingot mould supply, I enclose details herewith of a claim based upon the understanding reached in our meeting on July 20th 1978.

I would assure that the substance of the claim is in no way connected with the moulds supplied during the engineers' strike which we both agreed established a force majeure situation which lies outside our normal contractual relationship.

The summary of our claim is as follows:

Mould Type - 24" OE

<u>Supplying Foundry</u>	<u>Number</u>	<u>Claim</u>
Stanton	251	£33 570
Landore	107	£17 467

Mould Type - E.125

<u>Supplying Foundry</u>	<u>Number</u>	<u>Claim</u>
Stanton	38	£ 9 748
Landore	4	£ 986
	400	£61 771

I should be glad if you would give this claim your careful consideration and I am sure it would be helpful if the necessary financial adjustments can be made before the year end.

*Bill Lewis
 Longo-Hughes*

*Aldea
 Binks*

*Write to J.M.
 summary with
 to Duntlins*

*Alan Banks' report
 - Invoice
 - make
 - make*

Period 8 Year to Date 1975/80

mould performance excluding mechanical damage and learning defect causes of failure:

24" OE

	No. of Moulds	Lives	Average Life
Distington	426	37 060	87.00
Renishaw	205	17 549	85.60
Stanton	251	19 004	75.71
Landore	107	7 835	73.22

B.125

Distington	8	737	92.13
Renishaw	4	383	95.75
Stanton	38	2 794	73.53
Landore	4	297	74.25
Dowlais	7	496	70.86

Based on the guarantee of performance matching that of our nominated foundry (i.e. Distington) as laid down in our agreement on policy dated 8.8.78 (section 7) the following claims against Stanton and Landore are calculated as follows:

24" OE

$$\begin{aligned} \text{Stanton} & - \frac{251 \times (87 - 75.71)}{87} \times 5.2T \times \text{£}198.20 \\ & = \text{£}33\,570.31 \end{aligned}$$

$$\begin{aligned} \text{Landore} & - \frac{107 \times (87 - 73.22)}{87} \times 5.2T \times \text{£}198.20 \\ & = \text{£}17\,467.10 \end{aligned}$$

B.125

$$\begin{aligned} \text{Stanton} & - \frac{38 \times (92.13 - 73.53)}{92.13} \times 6.411T \times \text{£}198.20 \\ & = \text{£}9748.21 \end{aligned}$$

$$\begin{aligned} \text{Landore} & - \frac{4 \times (92.13 - 74.25)}{92.13} \times 6.411T \times \text{£}198.20 \\ & = \text{£}980.41 \end{aligned}$$

BRITISH STEEL CORPORATION
SHEFFIELD DIVISION - ROTHERHAM WORKS

Memorandum From C. Cox

To Mr. M. Barnaby

CC/FH

Date 19th December 1979

5 863 90946

WRONG CUSTOMER OVERSTATED

You will recall the meeting we had with F.F.E. where it was stated that Distington would be our main supplier of moulds and if they could not supply they would be responsible for going to alternative suppliers and that we would be guaranteed Distington standard lives from alternative suppliers. The attached is our performance at Templeborough for the first eight periods of the year and I would, therefore, like you to progress a claim on Distington for:-

13,900


£19 983 from Stanton and
£10 510 from Landore
on behalf of 24" ^{*open-top*} O.T. Moulds

*contract compensation as we couldn't
m*

AND

£8 704 from Stanton
£ 655 from Landore and
£1 394 from Dowlais
on behalf of B.125 moulds

I shall be most grateful if you can bring this to a successful conclusion before the end of Period '10' because, as you are no doubt aware, the Melting Shop at the present time is in a loss making situation.

QUOTE 

Copies to:

Dr. M. Copeland
Mr. J. K. Robinson

Mould Type Foundry	Cracked/Crazed		Mechanical		Teeming Defect			Total			Std Life	Av. Life Minus M & TD		
	Moulds	Lives	£	Moulds	Lives	£	Moulds	Lives	£					
										Moulds			Lives	£
4" OT														
Livingston	426	37060	28237	1	43	(351)	41	1506	(16810)	468	38609	11076	80	87.00
Enishaw	205	17549	10773		-		20	820	(7390)	225	18369	2883	80	85.60
Stanton	251	19004	(10196)	1	36	(417)	24	931	(9370)	276	19971	(19983)	80	75.71
Andore	107	7835	(6871)		-		10	416	(3639)	117	8251	(10510)	80	73.22
.125														
Livingston	8	737	177		-					8	737	177	90	92.13
Enishaw	4	383	239		-					4	383	239	90	95.75
Stanton	38	2794	(6510)		-		4	149	(2194)	42	2943	(8704)	90	73.53
Andore	4	297	(655)		-					4	297	(655)	90	74.25
Howlais	7	496	(1394)		-					7	496	(1394)	90	70.86

N.B. 1) The above figures include the missing lives identified on Period '6' which have not yet been progressed by Cost Office.

2) The 24" OT difference is greater because we restrict mould performance after achieving standard life. The secondary Foundries do not reach standard life on average.

(B)

Number used & calculate average

Comparative mould performances

Average life - year to date

	<u>Distington</u>	<u>Fullwood</u>	<u>% Difference Distington=100</u>
<u>Anchor</u> <i>Customs</i>			
7 ton NP type	93.4 (284)	61.2 (42)	- 34.5
8 ton	100.3 (116)	59.5 (14)	- 40.8
10 ton NEU	116 (220)	56.4 (7)	- 51.4
12 ton	104.6 (109)	89.4 (64)	- 14.5
<u>N Park</u> <i>Customs</i>			
7 ton	66.3 (127)	46.0 (5)	- 30.6
<u>Lackenby</u> <i>Customs</i>			
L40X	87.5 (45)	58.8 (6)	- 32.8
L46X	81.1 (25)	64.1 (31)	- 21.0
L48	94.6 (25)	60.8 (38)	- 35.7
S60	59.3 (44)	53.6 (55)	- 9.6
S68	57.6 (56)	37.3 (39)	- 35.2
S80	44.2 (58)	39.4 (17)	- 10.8
	(1109)	(318)	
Weighted average from forecast mix in Appendix 1			- 33

(Nos) = No of moulds scrapped.

Average life - April - Sept 1979

	<u>Distington</u>	<u>Dowlais</u>	<u>% Difference Distington 100</u>
<u>Sheffield</u>			
Rotherham B125	92.0 (7)	67.3 (7)	- 26.8
Aldwarke B125	100.6 (411)	99.1 (17)	- 1.5
<u>Llanwern</u>			
W5	86.7 (34)	57.5 (8)	- 33.7
R8	81.0 (32)	51.0 (12)	- 37.0

A. FRODINGHAM

Mould Type	Maker	AVERAGE MOULD LIFE			
		Quarter Scrapped		Year to 3.1.81 1980-81	Previous year 1979-80
		July-Sept. 1980-81	April-June 1980-81		
7 tonne Ordinary	Distington		136.4 (31)	136.4 (31)	113.5 (273)
	Stanton		41.1 (7)	41.1 (7)	96.0 (5)
7 tonne NP	Distington	91.8 (93)	94.2 (191)	92.6 (413)	85.7 (204)
	Stanton	70.2 (39)	76.1 (25)	72.4 (102)	90.3 (3)
	Fullwood	61.5 (17)	61.0 (25)	59.2 (68)	54.7 (129)
8 tonne	Distington	113.4 (54)	88.9 (62)	102.8 (197)	96.0 (367)
	Fullwood	61.8 (10)	54.0 (4)	62.1 (17)	59.0 (21)
10 tonne N.E.U.	Distington	119.5 (101)	114.6 (119)	116.0 (374)	114.1 (752)
	Stanton	94.9 (36)	87.1 (27)	97.5 (98)	94.0 (133)
	Landore	99.9 (20)	85.5 (20)	93 (56)	56.3 (11)
	Fullwood	62.0 (3)	52.3 (4)	58 (8)	
10 tonne WEU	Distington	67.1 (18)	64.2 (16)	60.7 (46)	55.0 (11)
12 tonne	Distington	104.0 (55)	105.2 (54)	105.9 (139)	121.3 (240)
	Fullwood	74.5 (2)	53.4 (5)	59.4 (7)	39.0 (1)
	Stanton	92.9 (32)	86.7 (32)	94.0 (92)	94.0 (37)

NORMANBY PARK

Mould Type	Maker	AVERAGE MOULD LIFE			
		Quarter Scrapped		Year to Date 1980-81	Previous Year 197-80
		July-Sept. 1980-81	April-June 1980-81		
7 tonne OE DP	Distington	84.8 (34)	59 (93)	66.3 (127)	84 (175)
	Fullwood		46 (5)	46 (5)	60 (35)
7 tonne OE UR	Distington	92.7 (10)	75 (34)	79.1 (44)	111 (111)
7 tonne SG	Distington	125.0 (3)	160 (8)	150.5 (11)	100 (18)
7 tonne WEU	Stanton		33 (4)	33 (4)	40 (53)
7 tonne NEU	Stanton	69.8 (21)	56 (56)	59.7 (77)	67 (8)
8 tonne SG	Stanton	70.2 (6)	66 (1)	69.6 (7)	
	Distington	27.0 (1)		27.0 (1)	

BSC LACKENBY

Mould Type	Maker	AVERAGE MOULD LIFE			
		Quarter Scrapped		Year to Date 1980-81	Previous Year 1979-80
		Present July-Sept. 1980-81	Previous April-June 1980-81		
L26	Stanton	62.2 (4)	79.2 (22)	76.6 (26)	71.8 (139)
	Consett		96.8 (6)	96.8 (6)	79.0 (74)
	Distington	96.3 (7)	98.3 (35)	98.0 (42)	86.8 (276)
	Distington(SG)	167 (1)	128.2 (5)	134.7 (6)	140.3 (45)
L31	Teesside		64.9 (11)	64.9 (11)	71.4 (60)
	Distington	84.2 (43)	81.3 (38)	82.8 (81)	86.8 (117)
L40X	Teesside		66.6 (14)	66.6 (14)	74.7 (40)
	Distington	89.0 (19)	86.4 (26)	87.5 (45)	87.6 (83)
	Fullwood	63.5 (2)	56.5 (4)	58.8 (6)	44.3 (3)
L46X	Teesside		64.4 (5)	64.5 (5)	63.7 (42)
	Distington	95.0 (5)	77.6 (20)	81.1 (25)	87.1 (99)
	Fullwood	69.0 (19)	56.3 (12)	64.1 (31)	68.7 (19)
L48	Teesside		92.0 (4)	92.0 (4)	64.6 (16)
	Distington	93.5 (15)	96.2 (10)	94.6 (25)	89.2 (43)
	Fullwood	66.4 (18)	55.8 (20)	60.8 (38)	38.7 (17)
L52	Teesside		39.0 (5)	39.0 (5)	55.3 (18)
	Distington	74.5 (2)	72.0 (3)	73.0 (5)	70.3 (7)
	Fullwood		60.0 (2)	60.0 (2)	52.0 (2)
S60	Teesside		60.0 (2)	60.0 (2)	52.0 (2)
	Distington	56.9 (14)	60.4 (30)	59.3 (44)	56.8 (75)
	Fullwood	56.3 (15)	52.6 (40)	53.6 (55)	46.5 (35)
S68	Distington	56.4 (10)	57.8 (46)	57.6 (56)	56.9 (100)
	Fullwood	43.3 (19)	31.5 (20)	37.3 (39)	43.7 (11)
S80	Distington	51.2 (16)	41.5 (42)	44.2 (58)	52.9 (68)
	Fullwood	58.0 (2)	36.9 (15)	39.4 (17)	34.8 (26)

BSC ALDWARKE

Mould Type	Maker	AVERAGE MOULD LIFE			
		Quarter Scrapped		Year to Date 1980-81	Previous Year 1979-80
		Present July-Sept	Previous April-June		
B125	Distington	90.5 (108)	97.1 (124)	94.0 (232)	103.2 (617)
	Renishaw	100.4 (63)	95.6 (58)	98.1 (121)	93.5 (206)
	Landore	79.9 (11)	87.0 (52)	85.8 (63)	
	Dowlais				
	Stanton	81.2 (61)	81.3 (34)	81.2 (95)	
	R.D.L.	78.3 (25)	76.4 (7)	77.8 (32)	

ROTHERHAM T.E.M.S.

Mould Type	Maker	AVERAGE MOULD LIFE			
		Quarter Scrapped		Year to Date	Previous Year
		July-Sept. 1980-81	April-June 1980-81	1980-81	1979-80
380mm dia.	Distington	175.9 (23)	170.0 (14)	173.8 (37)	163.9 (63)
405mm dia.	"	146.8 (52)	174.8 (16)	153.4 (68)	127.2 (71)
510mm dia.	"	166.2 (10)		166.2 (10)	159.8 (14)
610sq WEU	"	73.7 (16)	49.9 (41)	56.6 (57)	56.7 (109)
610sq SCT	"	102.2 (10)	125.5 (12)	114.9 (22)	118.9 (71)
610sq OE	"	82.4 (127)	77.3 (182)	79.4 (309)	77.2 (509)
610sq OE	Renishaw	85.4 (44)	69.8 (97)	74.7 (141)	73.8 (256)
610sq OE	Landore	72.0 (15)	67.4 (49)	68.5 (64)	65.5 (127)
610sq OE	Stanton	79.5 (79)	67.5 (93)	73.0 (172)	66.5 (296)
610sq OE	Cairds	78.1 (21)	66.8 (6)	75.6 (27)	
610sq OE SG	Distington				84.5 (10)
	Stanton				114.5 (2)
	Renishaw		84.2 (4)	84.2 (4)	
B125	Distington	88.0 (1)	73.0 (3)	76.7 (4)	70.8 (10)
	Renishaw	67.3 (8)	65.0 (1)	67.0 (9)	93.7 (5)
	Landore	93.0 (1)	75.5 (2)	81.3 (3)	68.7 (4)
	Dowlais				67.3 (7)
	Stanton	80.0 (4)	68.2 (13)	71.0 (17)	64.4 (61)

ROUND OAK STEELWORKS

Mould Type	Supplier	AVERAGE MOULD LIFE				
		May 1980-81	June 1980-81	July 1980-81	Year to Date 80-81	Aug/Sept 1979-80
100 WEU	D. Cairds	62.1 (51)	62.2 (65)	43.6 (74)	54.9 (190)	58.3 (115)
	Baglan	43.0 (1)	52.0 (1)	54.2 (5)	52.3 (7)	
	Distington	72.2 (8)	68.0 (21)	51.0 (16)	62.7 (45)	67.4 (45)
	Renishaw	72.3 (6)	74.0 (2)	40.4 (12)	53.3 (20)	65.1 (41)
100 NEU	D. Cairds	108 (1)				
	Distington	72 (1)				
	Renishaw	56 (1)				



HOUSE OF COMMONS
LONDON SW1A 0AA

PA

(Distington file)

24/3 MS

24/3/81

The Private Secretary
to the Prime Minister,
10, Downing Street,
London
SW.1.

Dear Sir,

I enclose for the attention of the Prime Minister a copy of a document that was circulated in Warrington by the British Steel Corporation.

The objective in releasing this document was to allay the anxieties of employees who suspect that a further wave of redundancies is due in the Iron Works. The document states that the Trade Unions have been informed by the General Manager that no decision has been taken regarding the future of the Iron Works. This may well be the case but Management of B.S.C. are indicating privately in Warrington that as many as one thousand jobs may be lost mid-April



HOUSE OF COMMONS
LONDON SW1A 0AA

as B.S.C. concentrates its non-producing capacity in the North-East.

Mr Campbell-Savours requests that in any consultations your office may have with the B.S.C. that this information is not attributed to him, as it would lead to difficulties in Warrington. Whilst Mr Campbell-Savours cannot be certain that these redundancies will be effected the Corporation have made it clear that an evaluation has been made of the North-East and Warrington with a view to Rationalisation.

Mr Campbell-Savours has applied to the Select Committee on Industry and Trade for a transcript of Mr Macgregor's evidence to the Committee, and this request is to be considered by the Committee tomorrow morning. As soon as the evidence is made available it will be delivered to Downing Street.

Yours sincerely,

Helen Dougherty (Research Assistant
to D. Campbell-Savours)

JOINT MANAGEMENT AND TRADE UNION STATEMENT

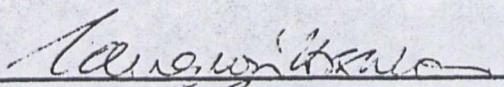
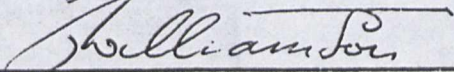
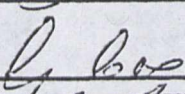
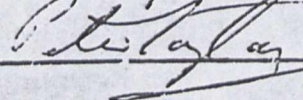
AS THE RESULT OF THE VERY CONSIDERABLE CURRENT RUMOUR AND REAL CONCERN REGARDING THE FUTURE OF THE BSC CUMBRIA WORKS, MEETINGS HAVE BEEN HELD BETWEEN THE GENERAL MANAGER AND THE LOCALLY-ELECTED REPRESENTATIVES OF THE TRADES UNIONS TO CLARIFY MATTERS AS FAR AS IS CURRENTLY POSSIBLE.

FIRSTLY, IT REQUIRES TO BE STATED THAT THE PROSPECTS OF BARROW, TRACK PRODUCTS AND CUMBRIA ENGINEERING (WHICH INCLUDES OGDEN AND LAWSON) ARE SOUND IN THAT EACH OF THESE BUSINESS' IS FORECASTING A REASONABLE PROFIT FOR THE COMING FINANCIAL YEAR. IT NEEDS TO BE ADDED THAT THEIR PROSPECTS BEYOND 1981/82 ARE, IN EACH CASE, DEPENDENT ON BOTH ACCOMPLISHING THE CORPORATE PLAN FORECAST AND CONTINUING TO MAINTAIN A VIABLE TRADING BASE. THERE IS NO FORESEEABLE REASON WHY THIS SHOULD NOT BE ATTAINED.

AS REGARDS THE DISTINGTON FOUNDRY THERE IS NOTHING AT PRESENT WHICH CAN USEFULLY BE ADDED FOR REASONS WHICH WILL BE APPARENT TO ALL EMPLOYEES.

ALL TRADES UNION REPRESENTATIVES HAVE REGISTERED THE GREAT CONCERN OF EMPLOYEES REGARDING THE FUTURE PROSPECTS OF THE IRONWORKS - PARTICULARLY THOSE DIRECTLY/INDIRECTLY EMPLOYED BY THIS BUSINESS. THE GENERAL MANAGER HAS INFORMED THE TRADES UNIONS THAT NO DECISION REGARDING THE FUTURE ROLE OF THE IRONWORKS HAS YET BEEN TAKEN: ALSO THAT ALL POSSIBLE EVENTUALITIES MUST BE PROPERLY CONSIDERED BEFORE ANY DECISION IS ARRIVED AT. IT IS ANTICIPATED THAT THE BRITISH STEEL CORPORATION WILL BE IN A POSITION TO MAKE AN ANNOUNCEMENT WITH RESPECT TO THE FUTURE OF THE IRONWORKS WITHIN 4 WEEKS OF TODAY'S DATE.

SIGNED:

	_____	BSC
	_____	NUB
	_____	ISTC
	_____	NCCG

20th March, 1981.

Ed.

PRIME MINISTER

Here is a reply from
Mr Ian MacGregor about the
Distington Foundry. I have
asked the Department of
Industry to try to let you
have a draft reply to Dale
Campbell-Savours, MP by
tomorrow night, since you
have to face him at Q4.

} 23/3/81

24 March, 1981

BRITISH STEEL CORPORATION

IAN MACGREGOR

23 March 1981

The Rt Hon Margaret Thatcher MP
10 Downing Street
Whitehall
London SW1

Dear Mrs. Thatcher,

DISTINGTON FOUNDRY

Thank you for your letter of 19 March about the Corporation's decision to close the Distington ingot mould foundry at Workington rather than either of the other two foundries, in South Wales and Scotland.

As you say, I have personally reviewed this decision, as I told the Distington Joint Representative Committee in my letter of 27 February. I am completely satisfied that it was right and that the management assessment which led to it was fair and correct.

All concerned agree that for demand reasons we must close one of the three foundries. Very briefly, the reason why the choice fell on Distington was because its present and projected costs are higher than those of either of the other two. I might add that this cost evaluation naturally took full account not only of operating costs but also of the respective transport costs associated with the different locations, of the fact that the Distington foundry was rebuilt recently at a cost of over £10m, and of the possible need to refund the Government grant received towards the cost. I am also satisfied that considerations of the quality and life of the moulds produced by each foundry in no way invalidate the cost comparison.

There is no doubt in my mind that the evaluation by BSC management was carried out fairly and objectively and was not at all influenced

...../cont

2

23 March 1981

The Rt Hon Margaret Thatcher MP

by the fact that Distington falls within a different group from the other two foundries for day-to-day management purposes. Both management groups concerned are the responsibility of the same BSC Managing Director and he, of course, satisfied himself as to the correctness and propriety of the conclusion before it was submitted to top BSC management for final decision.

Sincerely

John MacInnes



10 DOWNING STREET

THE PRIME MINISTER

19 March 1981

Dear Mr MacGregor

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

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

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

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

/ Action Committee

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

signed

MT

Ian MacGregor, Esq.



File B6

10 DOWNING STREET

From the Private Secretary

20 March 1981

I am writing to thank you for your letter of 18 March with which you enclosed more letters from constituents about Distington. I will, of course, ensure that they are taken into account.

N: J: SANDERS

Ms. helen Donoughue.



flexo PM

10 DOWNING STREET

From the Private Secretary

20 March 1981

I attach a copy of a further letter we have received from Mr. Dale Campbell-Savours' Research Assistant, together with many further letters from Mr. Campbell-Savours' constituents. As with the last batch, I should be grateful if they could be taken into account in preparing the final reply for the Prime Minister to send to Mr. Campbell-Savours, and if someone could go through them to make sure that there are no new substantive points.

N. J. SANDERS

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

Ed



*with the
compliments of*

David Griffith Jones

HOUSE OF COMMONS
LONDON SW1A 0AA

¹¹
The Right Hon.,
The Lord St. Leonards

The Prime Minister,
10 Downing St.
London. W.

STATION ROAD T.50
WORKINGTON.
CUMBRIA.

CAITH DRK
11. 3. 81

Dear Prime Minister,

This area of West Cumbria
is one that has the highest
unemployment percentage.

It is probably because of
its remoteness, always suffered
from this insidious disease.

By the closure of the
Foundry at Drington Engineering,
our position will be intolerable.

As a Sub/Porter I am

more aware than others the about
the employment benefits that is possible,

It is necessary for the
well being of the people that they
are allowed hope if their freedom
is closed even hope will have
been taken away from them.

In your deliberations I
trust you will find it possible
and necessary for such work
to be retained in the area.

Yours faithfully
R. H. H. H. H. H.

R. H. H. H. H.

SUA/Postmaster.

WHITEHAVEN & DISTRICT CHAMBER OF TRADE & COMMERCE

~~7 ASH GROVE, AIK BANK,
WHITEHAVEN, CUMBRIA.~~

Telephone : Whitehaven ~~428~~ 2009

SOLWAY HOUSE,
SOLWAY VIEW,
WHITEHAVEN, CUMBRIA.



President-Chairman : P.F. Johnstone.

Vice-President : D. Tembey,

Treasurer : W. Rook.

General Secretary : S. Williams.

16th March 1981.

Dear Madam Prime Minister,

re; - Job Losses Distington Engineering Company
Foundry.

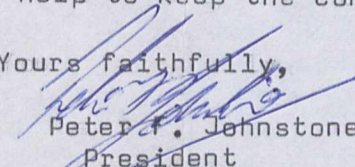
We are writing to you to ask you to seriously consider the effect on West Cumbria that the loss of a further 400 jobs in the area will have on the community as a whole.

The Chamber which represents a high proportion of Traders in Whitehaven & District are deeply concerned about the steady decline of job prospects for the young and the level of trade which will inevitably add to the already high unemployment in the area.

The Chamber is finding it increasingly more difficult to remain optimistic about the ability of West Cumbria to climb back when the present recession ends because of the loss to the community of its traditional industries.

May we urge you to give great consideration to any proposition which may improve the job prospects in the area and help to keep the community of West Cumbria viable.

Yours faithfully,


Peter F. Johnstone,
President

38, CHURCH RD,
HARRINGTON

WORKINGTON

CUMBRIA

17 March 1981

Dear Sir or Madam,

I own a small
Hairdressing shop run by myself
with two part time helpers. I would
like to put my protest towards the
closure of the Foundry at D.E.G.
I have always voted Conservative
because I believe in most of their
policies and understood that there
had to be cutbacks at the Steel Works
for it to pay. But I don't think the
Government realises how these closures
are going to affect this area. The
majority of my customers are involved
one way or another with these closures
this in the end affects me as a

business women. I was always taught by my parents "who allso are Conservatives" that if I wanted anything in this world I had to goe out and work for it, which I have done since I ~~g~~ left school but through these redurdancies I am going to be stopped from doing this.

Yours faithfully

M. A. Wood

KATHLEEN DAVIES (CRAFTS) LIMITED

11, St. Johns Arcade
Workington
Cumbria CA14 3BE

13th March 1981

The Prime Minister
10 Downing Street
London.

Dear Prime Minister,

I am writing asking for you to have investigated the imminent closure of

Distington Foundry
Chapel Bank Works
Workington.

As a business wholly dependant upon customers, many of whom are redundant or under threat of redundancy, the future is bleak.


The area has suffered severely due to the recession with Courtaulds and 'K' Shoes factories ceasing operation here and many of the lesser firms on short time working.

I am sure that every consideration has been made in determining the closure of the Foundry (Europe's most modern and largest under one roof) refurbished within the last two years to the most modern specifications but I do entreat you to consider the consequences to so many of your loyal followers if this Foundry is closed.

It is believed a further million pounds will be lost to the economy of the community should the Foundry close and the future jobs for our children would be lost leaving no course open except an exodus for the people.

May I thank you for reading this letter.

Yours faithfully,



P.S. Davies

DIRECTOR

SEATON FISHERIES
92 Main Road
Seaton
Nr Workington
Cumbria

Tel: WORKINGTON 4081

Dear Madam

As a member
of this community, I feel
it is in good cause to
support the proposals of the
members of Chapel Bank
foundery.

Yours sincerely

17th Mar 1981.

Kit John
Proprietor

I JONKINSON
NEWS AGENT
91 MAIN RD
EOSTON
WOLKINGTON

Dear Madam,
I would like to
ledge a strong objection to
the closure of D. E. Laundry
in Wokington. without a proper
survey being carried out.

I think after 7 1/2 million pounds
of tax payers money being spent
to modernise the laundry the
money should be put to good
use to keep it open
apart from the loss of present
jobs lost there will be
less training facilities for the
young sewing school. as a

now already black area.

There will also be a large loss of more than 1 million pounds per annum to the west Cumberland economy and this the county can not afford.

There will also be a large amount paid to the unemployed of state money which the state cannot afford. as the job prospects in the area are nil.
 Hoping you can oblige.

Yours Faithfully
J. J. Jensen

Mrs. M. PAE
GROCER
38^A Church Rd
HARRINGTON
WORKINGTON
CUMBRIA

DEAR PRIME MINISTER

I AM A SMALL SHOP KEEPER AND
THE SMALL SHOP DEPENDS, ON THE PEOPLE
THAT LIVE IN AND AROUND THE DISTRICT.

IF THEY CLOSE D.E.C AND BRITISH STEEL
A LOT OF PEOPLE WILL BE OUT OF WORK AND THAT
WILL AFFECT THE AREA AROUND US, AND IT IS BLACK
ENOUGH WITH PEOPLE ON SHORT TIME NEVER MIND OUT
OF WORK.

HAS YOU KNOW THE SMALL SHOP IS IT THE HARDEST
TRYING TO KEEP THE PRICES RIGHT FOR THE CUSTOMER
THIS IS MY BREAD AND BUTTER SO PLEASE THINK
TWICE BEFORE YOU MAKE A BIG MISTAKE AND
AND MAKE WORKINGTON GOD'S FOR-GOTTEN COUNTRY
BECAUSE THERE WILL BE NOTHING FOR THE MEN
AND THE YOUNG PEOPLE OF THIS AREA

Yours faithfully

M. Pae

Reference: - question 266 onwards
refer to ingot mould / bottom
plates and Distington Foundry.



with the
compliments of

CF
DISTINGTON
FILE
MS

HOUSE OF COMMONS
LONDON SW1A 0AA

UNCORRECTED

PROOF:

IN CONFIDENCE UNTIL PUBLISHED

Ev. 2

HOUSE OF COMMONS
MINUTES OF EVIDENCE
taken before

INDUSTRY AND TRADE COMMITTEE

WEDNESDAY 18 MARCH 1981

MR IAN MacGREGOR, Mr R SCHOLEY, Mr COLIN BAKER, Dr D GRIEVES,
Mr F HOLLOWAY and Mr R W ROSEVEARE.

Evidence taken in Public

Questions 144 to 310

Evidence taken in Private

Questions 311 to 353

MEMBERS' CORRECTIONS

Any Member of the Committee who wishes to correct the Questions addressed by him to a Witness is asked to send the correction to the Committee Clerk as soon as possible.

Members receiving these Minutes of Evidence are asked to ensure that the Minutes are confined to the object for which they are printed - the special use of the Members of the Committee - and are not given wider circulation.

WEDNESDAY 18 MARCH 1981

Members present:

Sir Donald Kaberry (in the Chair)
Mr Kenneth Carlisle
Mr Stan Crowther
Mr Peter Emery
Mr Derek Foster
Mr James Hill
Mr Russell Kerr
Mr Robin Maxwell-Hyslop
Mr Ian Mikardo

Mr Ian MacGREGOR, Chairman, Mr R SCHOLEY, Deputy Chairman, Mr Colin BARKER, Managing Director, Finance, Dr D GRIEVES, Managing Director, Personnel and Social Policy, Mr F HOLLOWAY, Managing Director, Supplies and Transport, and Mr R W ROSEVEARE, Secretary, Managing Director, Policy Co-ordination, of the British Steel Corporation, called in and further examined.

Chairman

144. Mr MacGregor, may I welcome you and your colleagues back to this public sitting of our Select Committee on Industry and Trade. Purely for the purposes of the record, I believe you have the same colleagues as those who accompanied you last week. Mainly financial matters today and matters associated with the plan. First, may I ask what is the projected loss for the Corporation in the year 1980/81 after taking account of depreciation and interest charges? With that may I link: what is the corresponding operating loss before depreciation and the trading loss after depreciation?

(Mr MacGregor) I want to start by perhaps asking a question. The list of questions that you provided us with goes in and out the area of reasonably confidential information.

145. The position is abundantly clear, sir. If you feel that we are verging too much on an area of commercial confidentiality, I know that you will be kind enough to tell us that immediately and we have provided that at the end of our session we shall have a private session where we can go further into those matters; but we would like to have as much on the record as we can?

(Mr MacGregor) I can understand that, but my problem is that we will float back and forth across the borderline in the answers to many of your questions.

146. I appreciate your concern, but I do want to assure you that the Committee is aware of the problems involved and surely there is no confidentiality about a loss, is there? It is either a loss or a level of gain or a profit?

(Mr MacGregor) I was not referring to that specific question. Obviously, it is only confidential to the extent that we hang our heads and try to conceal it. I will ask Mr Barker to answer your specific questions on this.

(Mr Barker) So far as the current trading year ending at the end of this month is concerned, we are looking at a forecast operating loss of £385-million, depreciation of £95-million (making a trading loss of £480-million) and an interest charge of £180-million -- making a final figure of £660-million.

147. Could you tell me how that overall loss compared with the projection made in the business plan of December 1979 and also tell us what are the main reasons for variation?

(Mr Barker) The projection which was given in December 1979 -- it was known as the 15-million tonne strategy at the time -- showed an equivalent number to the £660-million of £45-million profit.

148. Can you tell me what is the total amount of any fixed assets written off since 1st April 1979?

(Mr Barker) It is about £1,100-million. I can give you the precise figure: it is £1,141-million.

149. That is £1,141-million of fixed assets written off.

(Mr Barker) Yes.

150. May I go on to ask you what improvement in the trading position is expected for 1981/82 compared with 1980/81? And can you tell me from which activities most of the improvement is expected to come?

(Mr Barker) The equivalent number to the £660-million loss forecast for this year within the Corporation Plan as agreed with Government is a loss for the year 1981/82 of £318-million.

151. Can you identify any particular activities to which that is associated?

(Mr Barker) Yes. The significant part of the improvement comes from cost reductions which have been identified in detail by business across the Corporation. Another significant amount comes from the fact that we are expecting to sell a higher volume next year than we have sold this year. Manufacturing efficiencies account for another significant amount and interest reduction arising from the capital reconstruction also accounts for another significant figure.

(Mr MacGregor) Chairman, did I understand that you were interested in having the loss figure identified in terms of product lines?

152. It would be helpful if we could be told that?

(Mr MacGregor) I do not know that we have such detail available and, for preference, I think that should be in camera.

153. If you wish we will come back to that at the end. May I ask this, because I think that you and I agree that there are always considerable risks about projected improvements which may or may not be achieved. As a general question, are there, in your judgment, any factors which are likely to prevent your target being achieved?

(Mr MacGregor) There are quite a few factors which have to be carefully monitored because, as we discussed at the last session, all of these projections are based on certain assumptions. The critical factors are, first of all, that the volume necessary to get proper utilisation of the facilities is generated; and, secondly, that the sales prices are in accordance with our projections. Another important factor is the exchange rate. That has a great deal of bearing on the competition. The higher the £ in relation to such currencies as the Deutschmark the more penetration there will be in the British market of foreign competitive material. Another factor is inflation. The rate of inflation has a very important bearing on our own costs, the change in cost of many of the things we buy. And then we have certain cost assumptions within that that we have put together in this plan. There is another extremely important factor. That is, as Mr Barker informed you, the difference between 1980/81 and 1981/82 is in quite large numbers indicating improved performance so that a factor in this is the cost reduction programmes and a very important aspect of this is, first of all, whether they are actually achieved and the rate at which they are achieved. This, in turn, depends

on co-operation from the workforce -- the extent to which that is given readily or is the result of long-drawn-out negotiations. Finally, there is the fact that we need continued financial support during this period from the Government.

154. Given all these points -- and we know of the intense competition in so many sectors of the market, are you still of the opinion that your targets are realistic?

(Mr MacGregor) Yes, I think they are achievable.

155. Do you plan any new projects in this coming year, new investments, new developments?

(Mr MacGregor) Yes. We have the capital programme which has been of the order of £200-million. That is largely the completion of improvements in our manufacturing facilities which were conceived a long time ago and set in motion some years ago; for example, at Port Talbot we are still working on the completion of a continuous cast operation. In addition, we are now completing the secondary steel process operations at Ravenscraig; and throughout the operations (and Mr Barker has given me the list) there is a very large number of projects that are (if you will) care and maintenance of the operations. We are looking at the initial expenditures on some improvement programmes. For example, continuous casting at Scunthorpe which will cost a fair amount of money. We expect to spend some money this year on engineering there to bring that plant up to a competitive standard with most of its competition. We could go on down a long list of things here. Not any one of them is a very large sum of money but they are essential to the continuing health of the business and its improved competitiveness.

156. I think this is a fair question which I am about to ask you. Given the shortfall against the 1979 business plan of £705-million, can we really have confidence in the present proposals?

(Mr MacGregor) This gets back to the confidence we have in our own forecasting. I think that I can say without any contradiction that in the last quarter of the 1980/81 year our programme is coming out almost within what I would call experimental errors of the prognostications that we have made in the last six months; in other words, we are getting to the point where I think we are a little better able to forecast accurately.

Mr Carlisle

157. Just now you said that some of the saving next year would come

from lower interest payments. Does that include the saving that you will make after the capital reconstruction?

(Mr Barker) — That is the source of the whole of that particular saving.

Mr Carlisle: That saving is within the £380 million.

Mr Kerr

158. Mr MacGregor, in your original answer you indicated that your hopes were, in part, based on the expectation of a higher level of economic activity — I am slightly paraphrasing; but that is the purport of what you were saying. What would you regard, as a percentage, as a reasonable assumption in that situation?

(Mr MacGregor) I have difficulty in quantifying it without a rather extensive analysis.

159. As a rough guide, assuming that there is going to be 5, 10, 15, 20, 25 or 125 per cent improvement in the general level of economic activity?

(Mr MacGregor) I would say that our plans for 1981/82 are based on the assumption that the decline in economic activity seen in the previous term would stop. In the fresh quarter we are looking for a sort of equilibrium. This has an impact on our customers who, we trust, will discontinue the destocking efforts which have been going on. That, of course, has been assisted by the recent change in interest rate. We would think then that there might be perhaps a modest percentage improvement in each of the three following quarters of the year — by "modest", I would say 3 per cent to 5 per cent improvement in the business activities.

Chairman: Let us turn our attention to the questions of external financing limits.

Mr Emery has a point or two to make.

Mr Emery

150. Mr MacGregor, I am sorry that I could not be with the Committee last week but I have read very carefully the record of the questions and answers. As a lead in to a number of questions that I want to ask, I wonder whether I could propose this to you: the Secretary of State for Industry has said that the plans, and the Corporate Plan, are optimistic. From your answers (on page 3) you have gone along with that. But before one can make a judgment as to what is optimistic, one has to know what is pessimistic and what, perhaps, is a medium between optimism and pessimism. What would be the losses — and I believe

that the British taxpayer has a right to know -- shown on your figuring (which you must have) which would be represented by a medium outturn and a pessimistic outturn?

(Mr MacGregor) I think that the best way to answer that would be: a continuation of the kind of situation we have seen in the last year.

161. And that, if one were to turn it into funding terms, would obviously require much more than the £730-million borrowing requirement that has been announced?

(Mr MacGregor) Well, history has been a good guide to the future.
162. And therefore the answer is, Yes?

(Mr MacGregor) The plan that we have placed in front of the Minister clearly seeks to change things.

163. That is not the point that I was asking, sir. I was saying that if these figures are optimistic then you, as a banker, would ensure that you had other figures which showed that they were optimistic: in other words, the pessimistic and the medium figures. Would you give those figures to the Committee.

(Mr MacGregor) Those figures are the continuation of the conditions that applied before; namely, the published figures.

164. That being the case, would you remind me of what you would consider the borrowing requirement for BSC -- if £730-million is the figure for "optimistic" -- would be for "pessimistic" and for something between the two?

(Mr MacGregor) Well, our baseline is continuation of last year's performance.

165. What borrowing requirement would that represent?

(Mr MacGregor) £1,121-million.

166. So £1,120-million would be pessimistic? Is that right?

(Mr MacGregor) That would be the base line.

167. Is that the medium line or the--?

(Mr MacGregor) That would be the baseline. That would assume that we are going to do nothing better than we have done before; and that the market conditions have not change, have not improved.

168. Therefore, in your judgment, that is the worst that could happen?

(Mr MacGregor) I would hope that that would be the worst. That would be my expectation.

169. So that what the British taxpayer has to assume in the Bill that we are putting forward is that if the optimistic is not achieved then something between £730-million and £1,130-million would be the borrowing requirement?

(Mr MacGregor) I think that that is a legitimate assumption because, at least, one has been demonstrated and the other is a prognostication.

170. Thank you. Can we now go on with how the £730-million is to be allocated? Can you give the Committee any views on where and how that money is likely to be distributed within the Corporation? Is it going to be working capital? Is it going to be disposable?

(Mr MacGregor) Our distributions are: in the working capital area, about £180-million; in the cost of new and continuing closures (in other words, we have some closures that have been under way since last year), the completion of these and such further closures would cost another £180-million; there is £200-million of capital expenditures which we have just touched on; and the balance of £170-million is in trading matters and in interest costs.

171. But in view of the capital reconstruction, how much interest is then likely to be left to be paid?

(Mr MacGregor) We are showing a number of under £100-million in the reconstruction. In other words, there has been a saving of about half of the interest costs as between the one period and the other.

172. In other words, even with the total reconstruction -- and I do not have the Bill in front of me; but it is running to £4-billion to £5-billion -- you are still going to have £100-million of interest charges to pay? The balance sheet is not going to be clean?

(Mr MacGregor) That is correct.

Mr Maxwell-Hyslop

173. Is that fixed-cost interest or variable interest, depending on MLR, among other things?

(Mr Barker) A part of it is interest on bank overdrafts, which of course can vary within the banking rules.

(Mr MacGregor) We have got a fixed assumption.

(Mr Barker) Obviously, we have a fixed assumption on that. The rest is foreign, long-term borrowing, two-thirds of which is fixed.

174. What interest rate have you assumed, for the purpose of this computation, as being the average interest rate for this financial year?

(Mr Barker) 14 per cent.

Mr Emery

175. If I may complete my line of questioning, how do these figures compare with the external financial limit that obtained previously -- the £1,171-million? Where is the variation?

(Mr Barker) You are asking me to recall the EFL which was agreed at the beginning of 1981/82.

(Mr MacGregor) I am afraid that we do not have these figures with us.

Mr Emery: They must be available.

Chairman: Let us have them in a letter.

176. We are only seeking facts. We are not trying to embarrass you in any way?

(Mr MacGregor) I think the capital expenditure number would be slightly less; the closures number would be sharply higher; the interest charges would be sharply higher; I think the trading losses would be sharply higher.

177. Thank you very much. Perhaps we can have those comparisons in a short note. Returning to an answer that you gave earlier, do you regard the external financial limit which the Secretary of State has announced as immutable?

(Mr MacGregor) Well, in human affairs, there is nothing in the future immutable.

178. So that you do not believe that it is immutable?

(Mr MacGregor) I am a realist.

179. I know that. I am assuming from your reply that you do not believe that it is immutable?

(Mr MacGregor) Any kind of disaster could descend upon us.

180. If you had to go beyond the £750-million, would you come back to Government and ask for it; or would you believe that you had to close to a greater extent?

(Mr MacGregor) The simplest solution to that is to contemplate a total change in the programme. That is why, at our last meeting, we explained that this programme will be monitored literally week by week. I believe that the

situation in front of us has been portrayed in this Plan on a reasonable set of assumptions. If any one of these turns out to be totally wrong, we may have to change the Plan. Obviously, the Minister is not going to be very keen on our changing the bottom-line numbers. Therefore, he will look to us to use our ingenuity in finding ways to stay within that number. Now, what is the ingenuity at our disposal? -- possibly further curtailment of operations. But that carries with it cost penalties, too; but at least they are one-time cost penalties, not continuing.

Chairman: Let us turn our attention to financial reconstruction questions.

Mr Crowther

181. We have already moved somewhat into this field. Can we turn to Appendix 9 of the summary document that you supplied us with? It shows a rather high level of short-term borrowings at £320-million in your forecast for the end of this month. Is that not rather a high figure and would you see that continuing at that rate in short-term borrowings? If not, how do you see it changing in the future?

(Mr MacGregor) That figure has fluctuated. In March, 1979, it was £357-million; in March, 1980, it was £290-million; now, in 1981, it is £320-million. That number really reflects the fact that we went through a destocking and a replenishment of our working capital and it reflects the strike which produced a decline in our working capital. We were not shipping anything but we were getting paid. During this last period, we have been replenishing the working capital and it has reached a level which I think is reasonably normal for the set of circumstances that we have; although we hope that, as the period goes by, we get a better turnover of our working capital. In fact, that is one of the things that we are working towards.

182. So you would not regard £320-million as particularly high?

(Mr MacGregor) No, not for a business of this dimension.

183. You or one of your colleagues, in reply to Mr Emery, said that you would still be committed to something £100-million per annum in interest payments, even after the reconstruction and after the conversion of some debt to equity. If my figures are right (and you will tell me if I am wrong) that means that you are still going to be paying interest at roughly two-thirds of the present level? Is that right? Is it not about £150-million now?

(Mr MacGregor) About a half, is it not? 180 to 93 is the number in my mind:

184. That is not the figure that this Committee was given some time ago. In any event, it is still a very high amount — £100-million a year — is it not? It is not something that you can lightly brush aside as of no consequence?

(Mr MacGregor) The request I made of the Minister was to extinguish all of it and I think that in the councils of the Government it was concluded that that was not a practical solution at this time.

Mr Crowther: I am grateful for the assurance that you tried to do so. I had understood that you had.

Mr Emery

185. How much extra would that have involved?

(Mr MacGregor) Obviously, if we had extinguished all of the debt we would have got rid of the 90 we pay, except for such short-term accommodations as we needed.

186. I meant how much capital that would have involved?

(Mr Barker) After the reconstruction we are expecting to continue to carry £630-million of foreign debts that have already been referred to, and the £320-million of short-term debts that, again, have already been referred to.

(Mr MacGregor) That £630-million would be the main part of it. Obviously, on the short-term debt, we are also not going to be able to get out of all of that. In the long-term debt we have a certain segment of foreign borrowings. From our point of view, it would have been nice to have extinguished all the debt but I would imagine the Treasury was not about to pay off these attractive, low-cost, foreign loans with sterling at its present level and interest charges also high.

Mr Crowther

187. That is the next point I was coming to. Since many of these foreign loans were negotiated — so we understand — at a time when the exchange rate was rather different from what it is now; and were negotiated with the approval of the Treasury and certainly have involved the Corporation in some exchange losses, would you think it reasonable that the Government should take at least some responsibility for it?

(Mr MacGregor) Obviously, that is what I suggested.

188. Do you feel that there is any possibility of persuading the Secretary of State that he has taken a mistaken position on this and that perhaps he ought to look at this again?

(Mr MacGregor) I do not think so. We have other, more pressing problems at the moment which we are working on.

189. On the question of interest, you have told us that your interest charges per tonne of crude steel amount to £13.3 compared with £7.2 per tonne in West Germany and £2.6 in the United States. This is a very substantial difference, is it not? When I questioned your predecessor about this very matter on June 18th last year in this Committee, he said -- and I am quoting from the report -- "Our interest burden, taken simply as a matter of interest per tonne is about the middle of the European range. We are not very high, we are not very low. If you take interest and depreciation together as financial charges, then we have the lowest in Europe so that we are not claiming great damage on that account." Has the position changed for the worse or would you agree with him that it is not a serious burden?

(Mr MacGregor) That is not our worst problem in costs.

190. But it does seem to be a substantially bigger burden on your corporation than on at least many of your foreign competitors.

(Mr MacGregor) A German company enjoys very much lower interest rates than we do and (who knows?) I am not familiar with the extent to which my French and Italian competitors enjoy perhaps concessionary rates on interest.

(Mr Barker) I would make the point, if I may interrupt, that those numbers you quoted are before the capital reconstruction; and clearly we are halving our interest charge roughly arising from the reconstruction; so that on the basis of the numbers you quoted that would bring us roughly into line with the German position.

191. Yes, it would. Thank you. Coming back to the question of foreign loans, are you proposing to raise any more foreign loans in the future?

(Mr MacGregor) No.

192. You are finished with that? When will the existing ones have been replaced with other forms of financing?

(Mr MacGregor) In the present year we have got about \$76-million

which will be retired and then £419-million is in the 1-to-5-years period and, beyond that, there is about another £130-million.

193. And when all these foreign loans have finally gone, will you be free of interest payments; or will you still be committed on some other loans?

(Mr MacGregor) That depends on whether we can replenish our coffers from other sources. Hopefully, in due course, as these loans reach their term we will not need to borrow, we will have reasonable margins of our own.

Mr Emery

194. That is a very important answer. In other words, you are not planning to roll-over that £950-million approximately and are expecting to be able internally to finance that?

(Mr MacGregor) In the short term, of course, we are not. Nothing comes up until the end of this next year. We have made no particular plans about the refinancing of any of it at the present moment. Our efforts are concentrated in trying to get the operating numbers right. I think we will next get round to refinancing the business.

Mr Carlisle

195. The capital reconstruction does improve your gearing and, in theory, gives you a chance to borrow more should you wish it. I suppose that you will decide on that as your business develops; but it does give you the potential?

(Mr MacGregor) I was brought up in circumstances which indicated that when the equity component of your capital gets below 60 per cent you are in a somewhat overgeared situation. We will come out after the capital reconstruction at about 66 per cent equity -- which is a more comfortable position; but not one which, in prudence, would allow a great deal of leeway. Therefore, I would regard external borrowings as some indication of not meeting our targets.

Chairman

196. What, in your view, is the optimal capital structure for the Corporation?

(Mr MacGregor) I think I am satisfied with about a 60:30 to 60:40 ratio between equity and debt as being a comfortable area. Of course, by preference we would like to have it all equity so that we have reserve borrowing capacity at all times.

197. Is that all represented in the proposed reconstruction?

(Mr MacGregor) Our reconstruction will come out approximately at two-thirds equity and one-third debt.

198. Can you tell us why it was never possible to provide a reserve against future losses? Do you regard the deficit of £120-million as an unfortunate and necessary liability which the Corporation have to carry?

(Mr MacGregor) I think that the last profit was back in the dim shadows of long ago and therefore there was nothing to build the reserves on.

199. Do you expect to create a reserve in the course of the future reconstruction within the provisions of the Bill now before the House of Commons?

(Mr MacGregor) There is nothing in the reconstruction that provides for that. I think we will have to get into a situation where we have profitability before we start thinking about building a reserve situation.

200. Have any contingency provisions been made within external financing limits?

(Mr MacGregor) No.

Mr Hill

201. We have met before. I really wish to turn to the valuation of the fixed assets. I would like you to tell the Committee on what principles has the revaluation of the fixed assets taken place and, given the uncertainties of the market for steel, how such a valuation can be made?

(Mr MacGregor) I think that one basic principle has been the question as to whether these assets did have competitive capabilities to produce, and as to whether they were addressed to part of the operation which would have a continuing and competitive life.

(Mr Barker) Clearly, we are in a very detailed subject. I see that the questioner has a copy of our annual report in front of him. The principles of the revaluation were set out in substantial detail in General Note 4 of that report and the financial impacts of it are shown in Note 10 of last year's published accounts; so that the details are the same as those which were published. If you want me to express them, I can, but there is no change from the published position.

(Mr MacGregor) Actually, I think this is done the other-way round: by writing off assets that clearly were no longer necessary to produce our product so that by implication the assets remaining on the books were evaluated as being

capable of producing competitively. And then it was related to their depreciated costs.

202. The difficulty that I have — and I am sure one that the Committee has — is that the auditors' qualifications in the report I have before me are probably disturbing. In fact, in one particular area, the auditors say: "whilst efforts have subsequently been made to ensure, as far as possible, the accuracy and reliability of its records, not all transactions have been fully recorded and some financial procedures, including particularly the preparation of management accounts and year-end procedures relating to physical verification of stocks... could not be satisfactorily completed..." In fact, from such a well-known firm of chartered accountants, really not a very good report?

(Mr MacGregor) We are not happy about it; but may I point out two things. First of all, it is difficult to get a responsible firm of chartered accountants to do other than qualify us as a going concern. We depend on charity for that. Secondly, we did have a 3½-month strike, at which time the total clerical operation of the company came to a complete halt. And that is where their qualification in that regard arose. There had to be extrapolations and assumptions made with regard to the figures in order to close the accounts.

203. What will be the effect of the revaluation on the depreciation charge in 1981/82? Will this not increase the trading profit relative to that assumed in the Plan?

(Mr Barker) Clearly, since the large write-downs that we are talking about took place at the end of the last financial year, we are, this year, enjoying the reduced depreciation arising from those write-downs. So that, as compared with this year and next year, there is no extra advantage.

204. So, to sum it up, if we have no industrial bad relations, then the auditors of the next report, 1980/81, will be able to give a 100 per cent judgment on the company's plans?

(Mr MacGregor) It would be a clearer opinion; but we still have the "going concern" problem facing us; we still depend on external cash support. We are not in a position to run as a profitable business yet. So I presume that they will qualify their opinion in that regard. But I think that this year, with all of our clerical workforce in place and functioning, we should be able to satisfy them on the provision of the necessary information and figures.

(Mr Barker) That is already cleared.

Mr Carlisle

205. In the light of your experience with United States companies, what is your opinion of a policy in which operating losses are met by subscriptions of non-repayable, unremunerated capital which inevitably mean a financial reconstruction in the future?

(Mr MacGregor) It is a phenomenon that does not exist in the real world. I do not know what I should say. It is a sort of fairyland in which somebody gives you presents.

206. Obviously, it is something that you are trying to get out of?

(Mr MacGregor) I do not think that it is a system that should be perpetuated. I believe that it will ultimately bring great stresses on both the donor and the recipient.

Chairman

207. But you are living in the real world now, Mr MacGregor, are you not?

(Mr MacGregor) We are moving into it.

208. When do you expect fairyland to disappear?

(Mr MacGregor) We expect to get into the real world by the end of this calendar year and, hopefully, in 1982 calendar year we will be back in the flesh.

209. Because by that time -- if not -- the good fairy may have disappeared and the evil witch may be appearing?

(Mr MacGregor) That is exactly the counsel I give to all my colleagues: "Fellow-employees of British Steel: Work! for the night cometh."

Chairman: Let us have a look at the equity side of the matter. Mr Maxwell-Hyslop.

Mr Maxwell-Hyslop

210. What form of equity finance is proposed under the reconstruction and how will it differ from the public dividend capital subscribed before 1978 or new capital subscribed after 1978 under section 18(1) of the 1975 Act? And what conditions will be imposed for its remuneration?

(Mr MacGregor) I would say that we will continue to receive further equity finance by way of payments from the Secretary of State under section 18(1) of the Iron and Steel Act. Like most addicts, we have been on this for a while and

it is going to take time to get off it.

211. Is there a serious expectation that it will yield a dividend before it is reconstructed into something else?

(Mr MacGregor) I would hope that we are heading in that direction.

212. Would you expect it to be marketable at any stage into normal marketable equities on the Stock Exchange?

(Mr MacGregor) I would think that that would be a measure of the success of the people in British Steel if they were able to do that. I would assume that they should be aiming for that goal; because that would be one way of proving that they have a real business.

213. Is that the sort of thing for which you have a target date; or is the future too obscure for that to be an exercise worth performing?

(Mr MacGregor) We do not have a target date.

Chairman: Let us now look at one or two particular points and talk about Duport Limited with you. Mr Crowther has a question to ask.

Mr Crowther

214. Your Corporation, I understand, recently acquired three of the assets of Duport; namely, the London Works at Dilston, Nationwide Steel Stockholders and an J Flathers'bright Steels at Sheffield. Will you tell us, first, how much BSC paid for those operations?

(Mr MacGregor) I would prefer that this be included in our private session because it is confidential information which would have impact on our business.

Chairman; We will deal with it in that way.

215. In that case, leaving out the financial element of it, how does the disappearance of Duport from the steelmaking scene affect the Phoenix 2 negotiations and the possible construction of a company under Phoenix 2.

(Mr MacGregor) It may be considered a part of any future construction. In part, some of these facilities might have a place in a reconstructed company in a special section of the steel industry.

216. You say that it "might"; but will not necessarily?

(Mr MacGregor) I use the word, "might" advisedly. That assessment is going on at the moment.

Mr Carlisle

217. Talking about Phoenix 2, what do you expect the value of the net

assets to be of the company to be established jointly with GKN Limited to rationalise the general engineering steel sector?

(Mr MacGregor) Again, Mr Carlisle, perhaps we could deal with the financial details subsequently.

Chairman

218. We will deal with it in that way. May I ask whether the same answer is going to be given if we ask questions about Allied Steel and Wire Limited?

(Mr MacGregor) Yes.

Chairman: Then we will defer that.

Mr Crowther

219. May I ask a question on Allied Steel and Wire which is not a financial one -- or at least I do not think it is one that would be confidential; although Mr MacGregor will say so if it is. Is it true that a substantial order for reinforcing bars transferred originally to Threiber Mill because of the closure of Lackenby is now about to be switched over to the new Allied Steel and Wire Limited?

(Mr MacGregor) I do not know that any specific orders are being switched; but the nature of business would be in that area. This is part of the programme of concentrating an industry which is enormously oversupplied.

Mr Hill

220. I am a bit worried that some of these Phoenix might turn into back-door nationalisation future programmes. I am extremely worried that a certain impetus that you might have demonstrated in your Plan towards the private sector might be going the other way. Can you reassure me, and those that believe in delaying any nationalisation programmes, that you do not see this as a back-door nationalisation and that every effort will be made in the future to return the revitalised Phoenix to the private sector?

(Mr MacGregor) As we discussed earlier, the vitality of any business will depend on whether the public have an interest in it. The intention in putting these enterprises together is to make them vital and make them competitive and capable of survival. I would think that these commissions would be such that these business can stand on their own feet. And that is the intention.

Mr Crowther

221. Can you then assure me, Mr MacGregor, that, having hived off some of your most valuable assets to new private companies (in which you will, of course, have a substantial shareholding) the effect will not be to damage the remaining part of your Corporation?

(Mr MacGregor) Some of you may have been concerned about the length of time it has taken to work out these projects. It is exactly for the reasons that you put forward -- to make sure that equity is served on both sides of the transaction at all times. This has produced a lengthy, detailed and sometimes difficult negotiations to adjudicate the values of the subscribed properties. Our responsibility, of course, is to make sure that the property belonging to the taxpayer is evaluated fully.

222. But you will not be left with an unprofitable rump, having disposed of some of your potentially most profitable enterprises?

(Mr MacGregor) We are dealing in the first instance with areas where there is substantial over-capacity. By carrying out a programme of rationalisation in the industry, we have to recognise that there are some retirements. These have been on both sides of the transaction. So we are not being left with rumps of unprofitable parts of our business. We have to face up to the fact that, if so, these should be retired.

Chairman: Now may we turn our attention to the question of wages and salary assumptions?

223. On wages and salaries, what assumptions are you making in your forecasts about the movement of wages and salaries?

(Mr MacGregor) In our Plan, we have no assigned funds for any change in the wages and salaries situation.

224. That is what I thought from reading it. Is that not rather surprising? Do you not anticipate wage or salary increases during the period covered by your present Plan?

(Mr MacGregor) The original Plan did not include any provision for this, but we have made one adjustment subsequently. That is, we have costed out the proposed and largely-accepted 7 per cent number; and that has been included in the second part of the term.

225. That is from July? And that is assuming that when you do your

assessment in July, the thing is developing according to the way you wish it to develop?

(Mr MacGregor) That is right; or we will not be able to support that arrangement.

Mr Mikardo

226. What would be the effect on your profitability of each 1 per cent variation up or down from that 7?

(Mr MacGregor) About £7-million to £8-million.

Mr Kerr

227. Is it intended to finance any part of the Corporation's cash requirements for 1981/82, or its net assets, with funds from the ECSC?

(Mr MacGregor) Yes, indeed. I think we do have a contribution in that area. The Corporation's financing next year will be by interest-free, section 18(1) advances as I referred to earlier and it is unlikely therefore that any loans will be taken up through the ECSC. However, it is likely that certain R&D projects will receive support and we have estimated perhaps about a million pounds. We have, as you know, a small enterprise known as BSC Industries. That has made significant claims on the ECSC on behalf of their customers, people who are now creating new enterprises in the areas in which steel closures have taken place. BSC Industries is separately making claims for support for some of the companies which are generated as a result of their work.

228. To come to the nub of this matter, what assistance with redundancy payments and the cost of closure is to be received from ECSC sources?

(Mr MacGregor) I should like to refer that to Dr Grieves. I wonder whether he has a number in mind.

(Dr Grieves) Not a number but a principle in mind. As Mr Kerr may know, there are what we call "European re-adaptation payments" which are support payments for people out of work for two years for re-training. The cost of that is funded half by ECSC and half by Government.

229. Can we have the details now or would you rather send them on to us?

(Dr Grieves) I should like to send them to you.

Mr Crowther

230. Am I right in thinking that quite recently, because of the massive

extent of closures and redundancies in the steel industry throughout the Community, the ECSC funds for this purpose were (to say the least) in an embarrassed condition? Is that not the case?

(Mr MacGregor) We have no knowledge of that. But it would not surprise me. We have had no conscious reaction from them at our place; that may have come to the Minister.

Chairman: Now a question about working capital requirements. Mr Robin Maxwell-Hyslop.

Mr Maxwell-Hyslop

231. What were the estimated working capital requirements in 1980/81 if you distinguish between stocks and other items? "Other items" is a phrase which you used?

(Mr Barker) The changes in the value of the three main elements of working capital during 1980/81: we have been running down high stocks which had developed during the strike period; so stocks have reduced by £275-million. Obviously, building up our business again after the end of the strike led to growth in debtors, which have been run down, and that growth has taken £344-million of new funds; and our creditors' number has also increased by £23-million -- an overall change, taking all three factors into account, of £92-million.

232. Is the provision of trade credit becoming an increasingly important item in your competitive posture? Is there a credit battle between you and the other steel makers?

(Mr MacGregor) If there is, we are not conscious of it. There is a credit battle taking place in the market between all customers and their suppliers. High interest rates have forced many of our customers to press their suppliers for support and in a weak market that is what usually happens. We try to maintain a strict discipline over our receipts from particular debtors but it is not easy to do. Again, one raises a question about how much pressure you put on them when you are trying to help them survive.

Mr Mikardo

233. Has there been any interest within the Iron and Steel Community in making some arrangement which would reduce or even eliminate this credit-giving competition?

(Mr MacGregor) As you know, that is a serious problem in all facets

of international trade. In fact as you know concessionary arrangements on financing of exports seems to be the order of the day.

234. There are some international understandings, certainly among members of the Community, so far as credit for large capital projects -- the so-called "turn-key" projects -- are concerned?

(Mr MacGregor) I am aware of it; but I am also aware of the fact that we constantly run into situations where, somehow or other, despite these international agreements, others seem to be able to find ways to accommodate their customers.

235. Are you saying -- and here I am harking back a bit to the study which we did of imports and exports generally -- that, as some witnesses in that inquiry said to us, "We play cricket and the others don't."?

(Mr MacGregor) I would say that, in exaggerated instances, that might be the case; but there is still intense competition in the international markets which reflects itself in the stretching of the credit rules in some instances.

236. If I may move to a different set of questions, in Clause 3 of the Iron and Steel Bill (in subsections (3) and (5)) there are provisions for the Secretary of State to reduce the amounts paid to you under section 18(1) of the 1975 Act -- the so-called "new capital" -- by an amount not exceeding £1,000-million, in addition to the reductions which are made in the financial reconstruction. So, arising out of that, do you expect that such a reduction, in whole or in part, will in fact be made? And, if so, would that then allow the value of fixed assets to be reduced by the same amount as the amount of that reduction?

(Mr MacGregor) I think the answer to that is that we expect such a reduction to be made and we do not think it will have a bearing on the value of the fixed assets. It would have no effect on the value of the fixed assets. Of course, if we were to write down assets further, this write down would increase the revenue deficit.

Mr Hill

237. You mentioned earlier BSC (Industry) Limited. I have three questions on this particular matter. First, what was the cost to the Corporation of financing BSC (Industry) Ltd and how was it financed? What will be the cost to the Corporation in 1981/82 of operating this new company?

(Mr MacGregor) We have been supplied with some statistics on the results to be obtained. May I read the past record? In the 1979/80 period the actual amount of money supplied directly by BSC to BSC (Industry) Ltd was £12.5-million. In 1980/81, we expect that number to be approximately the same, perhaps a little higher, at £12.7-million. The 1981/82 number will be, again, about in the same area, somewhere between 12.4 and 12.5. And in 1982/83, we propose to cut it down to £9-million plus or minus £100,000. In 1983/84 to, maybe, around £6-million. So far, BSC (Industry) Ltd claims that during the 1979/80 year, approximately 8,000 jobs were created. In the 1980/81 period, about the same. In 1981/82, their forecast is slightly less, about 6,000. They believe that the situation will recover in the following year, 1982/83, and they expect a somewhat higher number, 10,000. In 1983/84, as the operation is phased out, something like 4,000.

238. What revenue does this produce for the Corporation?

(Mr MacGregor) None at all directly. We cannot measure any revenue. Some of these people do use some steel, but it is very difficult to measure.

239. This is probably a tantalising question. Would you agree that the functions of BSC (Industry) Ltd should properly be undertaken and financed by Government?

(Mr MacGregor) Let me just suggest that it is in a sense just that way now. I would say that it probably is a function of some agency other than British Steel Corporation to carry this out. But, having started it -- and it has achieved some purpose -- obviously we are planning a phase out in a decent time interval.

Mr Kerr

240. What scope in your view is there for improving the trading profit positions of BSSC (British Steel Service Centres), BSC (Chemicals) and Redpath Dorman, Long in 1981/82; how in the main in your view can this be achieved?

(Mr MacGregor) I think that in the case of these enterprises, we have under way an attempt to improve their profitability by the standard procedures of cost reduction and better marketing practices. In the case of BSC (Chemicals), the problem is a little more complicated because of the supply of

raw materials which come from our coke ovens and during the period immediately past, with the work stoppage, the chemical company's raw material supply was totally disrupted. We expect that in the period immediately ahead, it will be profitable because of maintaining its sources of supply. We are trying to find other sources of supply, essentially, coal tars; and I suspect that we will find such additional sources. With regard to RDL, that is very much a matter of internal study at the moment to arrive at the correct procedures with this part of our company. Very substantial reductions in losses have been achieved in the last two years and some parts of it are profitable today. Its future seems to be improving by virtue of the steps that have been taken; and we are continuing to study what are the correct steps to be taken with this business.

241. Do you expect that you will be required to divest the Corporation of its subsidiaries if and when they are returned to profit?

(Mr MacGregor) I would like, in some cases (as with the overseas operations that are reasonably profitable) try to convert these into liquid assets.

242. That means: sell them?

(Mr MacGregor) Yes. The problem is one of judgment. In a very depressed situation you could perhaps sell these things for two-times earnings. If we wait, maybe, until the business cycle improves, we may get four-times earnings. I feel that we have to make a judgment as to whether we liquidate them now on a fire-sale basis---

243. You do not feel that there is any matter of principle involved? Just the degree of liquidity that is desirable would determine your answer?

(Mr MacGregor) The timing is purely that of the best sales opportunity.

Mr Carlisle

244. In this context of selling off subsidiaries, we had a memo from the National Association of Steel Stockholders. It was very bitter about your competitive activities in stockholding. Would you not agree that stockholding is not really an activity for DSC and that here you would do well to sell off your subsidiary?

(Mr MacGregor) That is a debatable statement. First of all, may I say that the role of the stockholder is one which varies and changes. Clearly, at one end of the spectrum the stockholder has a very real role to play in the

retail distribution of relatively small quantities of steel to the users of that steel who are not interested or attracted to the idea of placing an order with a large steel company and waiting for the grinding of the mills to bring that up. The stockholder can give them the short-term delivery they need. At the other end of the spectrum are people who, obviously, obtain steel in quantity at regular intervals and they are properly customers of the steel mill. There has grown up in this country a quite substantial stockholding industry because the centre ground -- that area between these two clearly-defined different ends -- has grown. This is partly because of the inefficiency in British Steel and its inability to service smaller customers, and even some larger customers. Therefore, the distribution chain was increased to include the stockholder -- which adds cost. And the stockholding industry grew extensively in this country for just that reason. I did not participate in the entry of British Steel into the stockholding business but in analysing it I find that it had a motivation of defensiveness, trying to protect itself in the marketplace from the fact that the stockholding industry was not necessarily related to British Steel and found other useful sources of steel such as from abroad. To a certain extent, therefore, British Steel in a defensive mood, got itself involved in the same industry. I hope that as British Steel Corporation's activities improve, as some of the plans that have been under way for a while and are now coming to fruition on the control of production through the plants, on the control of the ordering and despatch arrangements, we can service customers who would normally look to stockholders a lot better than we could, say, even two or three years ago. Also, much cheaper, because they will buy their steel at prices related to factor cost. Therefore, there is a change going on in the stockholding business; and it is bound to create some distress as the market changes for them. The British Steel stockholding enterprise enjoys no preferred pricing structure over any of the other stockholders; in fact, somewhat less.

Mr Crowther

245. Just a point on BSC (Chemicals) Ltd, have you had any discussions with potential buyers with a view to disposing of either all or part of BSC (Chemicals) Ltd.

(Mr MacGregor) I would like to refer that to our private session, if I may.

Mr Mikardo

245. May I revert to Mr Kerr's question for a moment? Would you not feel a bit of resentment if, after you had sweated to run unprofitable subsidiaries and to get rid of the losses and make them viable, you were then required -- I use the word, "required" advisedly -- to shed them just at a time when they could make some contribution to your revenue?

(Mr MacGregor) That becomes a question of what you do in your business to make sure that the key, the main core of it, remains profitable. Many of these activities are peripheral and I think that good business would dictate that if we have assets that can be liquidated in aid of the core business, they should be. That is what would normally happen in the private sector.

247. Yes -- as a matter of commercial judgment. But I used the word, "required" -- required to do so, whether it was your judgment that you should or you should not?

(Mr MacGregor) Maybe I exceeded my authority, because I do not find the word, "required" operative. I find that the correct business calculation, which I referred to in my response to Mr Kerr, is what I am supposed to do. I am not supposed to produce any fire-sales. We have a responsibility to the taxpayers to get their money back -- and then some.

Chairman: Let us look at the question of pricing. Mr Emery has a question or two.

Mr Emery

248. You will realise that I have been interested in your projections for the future. Can you tell the Committee how you expect price levels to improve in 1981/82, first of all, at home and, secondly, in the export market?

(Mr MacGregor) We get back to the reason why the price structure in the steel industry has deteriorated: it is that there is too much steel chasing too few markets. Therefore, the price structure will change favourably only when there is either an expansion of the market or a curtailment in production. Hopefully, during the 1981/82 period, the tide is going to turn in that situation.

249. In working on your projections, how much have you therefore expected the percentage turn to bring about an increase in steel prices?

(Mr MacGregor) We have some modest assumptions on steel price improvements during the 1981-82 period.

250. Of about what sort of percentage?

(Mr MacGregor) It will vary by products; there is no overall.

It just a modest amount.

251. Is it 1 per cent, 2 per cent, 3 per cent, 5 per cent?

(Mr MacGregor) Maybe in the 2 per cent to 3 per cent area.

That is overall.

252. By comparison with the projection of prices, what is the expected increase in operating costs per tonne and what does this imply for profit margins.

(Mr MacGregor) You have already one number on our expected increase in operating wage costs. I would say that it will average down to something a little more than the number we are talking about in terms of price increases. Somewhere about 3 per cent overall. That is a net figure and after very substantial changes were made in our running costs.

253. If you are making major savings on your runnings costs, what does this mean in relation to the other factors? You say these are increasing? If you are saying that this takes into account other major economies on your running costs, does this not mean that you see greater increases in the wage bill? Where do you see the other factors?

(Mr MacGregor) We see such things as the cost of energy changing and the cost of supplies, things like iron ore and coal. We have factors in the case of these.

254. What corrective action do you expect to take if the modest 3 per cent increase in steel prices was not to be achieved?

(Mr MacGregor) This would involve us in examining the least potentially profitable areas of the Corporation and perhaps reducing our activities in that area.

255. That means going back to your fall-back position, does it? You have fall-back positions planned?

(Mr MacGregor) We have fall-back positions in the general plan.

256. Do you not think it would be useful if those fall-back positions were put in a confidential paper to the Committee?

(Mr MacGregor) We do not have any such paper.

257. But it would not be difficult to produce if the plans are there?

(Mr MacGregor) I do not think that we would have any short-term plan to produce such an operation.

258. Mr Macregor, you are a banker. You would really have invested your company's money or advise people to invest their money without in fact having knowledge of some fallback position if there is to be a variation of 3 per cent in the pricing factors? Would you advise that?

(Mr MacGregor) Yes, indeed. I am perfectly happy to take it. Business is about risks, sir.

259. Yes, but banking normally requires to know what the fall-back position is to that risk, does it not?

(Mr MacGregor) I would say that in our case I, personally, have my own private ideas about how I would set about it.

260. We would like to have a paper on that?

(Mr MacGregor) I am not prepared to go into print on it at this stage in the game.

Chairman

261. Is it that you are waiting for the circumstances to arrive when it will be necessary to make such an alternate plan?

(Mr MacGregor) I told you, Chairman, at the last meeting that we are monitoring the operations literally week by week and that it is not a question of waiting for some specific point in time to take action. We have a large number of different businesses. While they are all steel products, they are in different markets. Each one of them is acting differently. It is absolutely essential at this moment that we do not get ourselves into a situation that we have rigid arrangements. I explained at our last meeting how we are in a very fluid condition; and no general commits his troops to a fixed plan in a very fluid situation.

Mr Emery

262. I am delighted to hear that, Mr MacGregor, because I thought that we were getting into the position that you only had a fixed plan. As you, obviously, are in, and preparing for, a fluid position, surely you are not asking this Committee to believe that, with all your management experience, you and

your team have not got alternative positions fairly clear in your mind if there are to be these movements which you suggest are quite likely.

(Mr MacGregor) We have a large number of separate businesses. It is very difficult to put in the large number of variables that might affect each of these into a plan. We have work papers going back for years on alternative arrangements in every part of our business. I do not think it would do anything other than confuse people to look at these work papers; because you have no idea what they mean. Only we know that.

Chairman: I think we will take your answer as you say it at the present time. I pass on to some particular plants, to questions which I think can properly be answered in public session. Mr Carlisle.

Mr Carlisle

263. What do you estimate the effect of the closure of the Linwood ccr assembly plant to be on the demand for your products?

(Mr MacGregor) As you know, we have Gartcosh cold mill and Ravenscraig as a hot strip mill. Part of the products of these two operations went to Linwood and therefore the closure of Linwood will reduce the immediate call on these particular facilities. We had planned in 1981/82 on an expectation of about 15,000 tonnes of steel going from Gartcosh to Linwood. Clearly, if Linwood does close down our load on these mills will be reduced, except to the extent that we can find alternative business. My colleagues have not been sitting around and waiting for these events to happen; they have been concerned about the future of the plant there and have been looking elsewhere for business. It will not be easy to find because it will have to be largely in the export markets.

264. Are not transport costs a major drawback now to Ravenscraig, without Linwood?

(Mr MacGregor) Obviously, Ravenscraig material going to any other part of the United Kingdom is at a disadvantage compared with the plants in, say, the Sheffield, Teesside or South Wales area.

Mr Maxwell-Hyslop

265. Could you give us an idea of what percentage of the two steel works' output has been going to Linwood? You said 15,000 tonnes a year. What percentage is it?

(Mr MacGregor) Obviously, 15,000 tonnes is not a very large

percentage of the Ravenscraig hot-mill capacity. It is probably down in the single-figure range, less than 5 per cent. The number is a somewhat higher percentage of the Gardcosh cold mill output but still not a number that would result in total disaster immediately. Of much greater concern is the fact that Gardcosh is a long way from market.

Mr Crowther

266. On ingot mould and bottom plate production, Mr MacGregor. Can you tell us first what assumptions you are making about the demand, the production that you are aiming at, in that field? I have a figure of 151,200 tonnes per annum. Would that be--?

(Mr MacGregor) We do not have the numbers here. All that I can say is that the demand for cast iron moulds is a rapidly-declining one in our business.

267. Yes. That is what I was going to come to next. I gather something like 4.1-million tonnes is likely to be coming through the continuous casting route, so that we are talking about something like 10-million through the ingot mould route, are we not?

(Mr MacGregor) That is about the ratios.

268. How much will that be reduced with further continuous casting?

(Mr MacGregor) At Port Talbot, there is another million coming out. In the Scunthorpe area, another half million. We are moving in chunks of a million and half a million. I would say that our plans in the next two or three years will take out between 1-million and 2-million tonnes a year.

269. So it will be anything between 2-million to 4-million over two years?

(Mr MacGregor) Yes. It is a rapidly declining part of our business.

270. Accepting that there will be a decline in the demand, how did you arrive at the conclusion that the best way to deal with this was to close the Distington foundry?

(Mr MacGregor) It was on the basis of recommendations by the staff involved, based on a careful analysis of the relative costs of the different sources.

271. Are you referring at that point to two documents produced by your management in September and December of last year?

(Mr MacGregor) Yes, indeed.

272. Therefore, we are on the same wave length?

(Mr MacGregor) Yes.

273. Can I ask one thing on exports? These documents apparently assume no scope for increasing your present level of exports of ingot mould, which I gather are only 14,000 tonnes a year. Why is it felt that there is no potential for increasing exports?

(Mr MacGregor) We, unfortunately, are one of the high-cost producers in the world.

274. If exchange rates were to move in your favour, would you not then be able to get into the export business?

(Mr MacGregor) We would do anything if you could get the £ down to 1.50; but I do not think that anyone else in the country would be happy.

275. If there were an upturn in total demand for liquid steel making per annum, would you see an increase being met mostly through ingot mould route or concast?

(Mr MacGregor) No. It goes into extra concast. The pace-setters, the Japanese, are up in the region of 60 per cent to 70 per cent. We just cannot afford to go through high-cost operations and then seek to compete with them. Everyone is going into the concast business and even the United States, which has been rather slow in picking this up because of capital restrictions on the privately-owned companies there, is now engaged in putting the bulk of its capital spending into continuous cast. So what is happening around the world is that the mould manufacturing industry is in a very steep decline -- not only we, but the Americans, the Japanese, the French, the Italians; everyone else has surplus mould-making capacity. So the market is depressed internationally. We have been able to get a little business in the United States on the basis of meeting some of these international prices but, superimposed on that, twisting the arms of some of our friends in the industry.

276. I would like to go a little further into the reasons why you chose the option to close Distinguon rather than the other option, which was to keep open all three foundries, all three major ones. Was it solely on cost? Was that the only basis of it?

(Mr MacGregor) Costs was the major factor.

Chairman

277. Could you clarify my simple mind, Mr MacGregor, as to why £10½-million was spent so recently on the re-equipping of Distington before you decided to close it down? Is it taxpayers' money down the drain? What has happened?

(Mr MacGregor) I suspect that that is the case.

278. And are the people still with you?

(Mr MacGregor) If you need a further list of similar---

Chairman: We would like a little paper as to why you spent £10½-million on re-equipping a plant and then very shortly afterwards decided to close it down. Maybe for very good reasons; I am not questioning your reasons for closing it. But it seems a most odd occurrence. Perhaps you could let us have a paper saying why it was decided to spend that amount of money, who decided it, and are they still with you?

Mr Crowther

279. Consideration was already being given to closing it down before you had actually re-opened following the expenditure of over £10-million?

(Mr MacGregor) I think you might be interested in the background and I will be happy to produce a paper.

Mr Mikardo

280. The key question, if I may suggest it, for that paper is: what were the changes in circumstances between the time when the decision was made to re-invest and re-equip and the time when the decision was made to close down?

(Mr MacGregor) You are very correct to raise that question; because all of us have about 20/20 hindsight. It is much easier for us to pass judgment on this than it was for the people who were making these decisions at that time. I think it is only fair to them that we record the circumstances.

Mr Crowther

281. Of the £10-million spent on this project, £4-million came from Government grants which you could not be liable to repay, could you not? Has that £4-million been taken into account in doing your homework in deciding which option to adopt?

(Mr MacGregor) Yes, sir.

282. It has been alleged by people employed at Distington and operating through what they call a "joint committee" that the figures on which you have made your assessment -- that is the figures produced by your FFe management -- are wrong in a number of respects, particularly on energy costs and manning levels. Do you say that they are right?

(Mr MacGregor) There has been criticism of these figures, but I do not think it is based on any factual foundation. I have no evidence that it is.

283. You have doubtless seen the statement I am referring to, the statement by the joint representative committee, which sets out in very great detail the points on which (they say) your figures are wrong?

(Mr MacGregor) I have not studied it in detail myself. I have asked my management colleagues to examine all the evidence. And they reaffirm the decision.

284. Have your management colleagues brought to your notice that according to some extremely detailed figures given in this statement the Distington moulds are 50 per cent more efficient than those from either Fullwood or D (?) in the sense that it takes two Distington moulds to process the same amount of steel as three moulds from the other two plants?

(Mr MacGregor) That is one of those interesting statements that is not necessarily based on what is happening in the world today. You will refer to the paper, I am sure. But here is the story. First of all, we cannot tell much mould life until the mould has been in service for many, many months, even years. And you are talking about moulds which were made a long time ago and comparing them. We have in recent years conformed our metallurgical practice at our foundries to the extent that I do not think that these statements are true about the production that comes from any of the foundries today.

285. Have your managers who have studied this document told you that the statement to which I have just referred is based on information received quite recently from the customers in Scunthorpe, Sheffield, Teesside and so on?

(Mr MacGregor) Of course it is, because that refers to production made a long time ago.

Chairman: We shall be getting a paper from you Mr Macgregor and we may have an opportunity of coming back on this later.

286. Going back to the decision-making process, Mr MacGregor, before announcing your decision to close Distington, you had got the co-operation of the workforce in a measure of rationalisation or slimlining, have you not?

(Mr MacGregor) I believe that that was going along fairly well.

287. Although even at the time you got the workforce co-operating with you in this, you were still at that point secretly considering closure. Is that the case?

(Mr MacGregor) I do not know whom you refer to as "you".

288. Whoever it is who was making the decisions in the BSC?

(Mr MacGregor) I think that the people who were operating the business were not making any studies about what they were going to do in the future. These were done on the part of the overall top management of the company. The actual operators were proceeding with the plan as it was extant at that time.

289. But it was only a matter of weeks after you had got the co-operation of the workers in cutting down, in accepting redundancy, that you announced that the entire plant was going to close?

(Mr MacGregor) It shows you how fast business conditions are moving today?

290. You do not feel that there was certain information held back from the workforce and their representatives which ought to have been made available to them?

(Mr MacGregor) I think that what they were told was, in all sincerity, the understanding of their immediate managers as to the Corporation's current plans.

291. Let us come back now to the recommendations of your own FFE management. Did they not draw attention to the fact that further reductions in ingot mould demand, to which you have referred, may at some stage lead to the point where only one foundry is needed. And did they not suggest that it might be unwise at that point to have lost Distington as one option for the only survivor?

(Mr MacGregor) I think that if we project the trend in continuous casting, we may be down to one foundry. Where it should be is a matter of debate.

292. The choice will then have been narrow, will it not, with Distington

no longer available to you as a choice?

(Mr MacGregor) I think that that would be in order because of its enormous cost disadvantage.

293. And bearing in mind that the bulk of the ingot mould supply by Distington is going to Scunthorpe, Sheffield and Teesside, which are most geographically convenient, will there not be a considerable penalty in transport costs if those works have to be supplied from Scotland and South Wales?

(Mr MacGregor) I think that the transportation costs are not largely different between the areas in which we expect to concentrate our continuing ingot mould production as from expected sources and Distington.

294. Coming back now to the costs, if unit cost production were the only criterion, we should finish up with Fullwood as the one survivor, should we not?

(Mr MacGregor) Possibly. It is the lowest cost.

295. The only works anywhere near it is Ravenscraig?

(Mr MacGregor) You have explained, of course, the fact that transportation costs are also important.

296. The cost of supplying South Wales from Fullwood would be enormous?

(Mr MacGregor) Yes, but Fullwood is not necessarily going to be the final place. We expect to improve our procedures at the remaining foundries and have reasonably comparable costs, and, in fact, longer mould life because of the improved metallurgical practices.

297. If we refer again to the costs, would you agree that if the figures produced by the joint representative committee were correct -- and I am not saying whether they are or not; I do not know -- then your projected £2-million saving from closing Distington would become converted into a £6-million loss?

(Mr MacGregor) That is a question which I cannot answer. I have no idea. But I will tell you this. You are making an assumption that I cannot agree with.

298. I am asking you a question. I am saying that if---?

(Mr MacGregor) It starts off with an "if". That is an assumption.

299. It is an "if"; but I am asking you to say whether it is the case that if those figures are true--?

(Mr MacGregor) They are not true.

300. You will then suffer a £6-million loss rather than a £2-million saving?

(Mr MacGregor) Mr Crowther, you have my answer. These assumptions are not valid, therefore the question is academic.

301. You have just told me that you have not looked at this yourself; that you have relied on your managers to read it?

(Mr MacGregor) I get briefed on these things. I cannot read every report comes in in absolute detail. I read all of the significant reports from my managers. You know, we run a decentralised business.

302. Your managers advise you that these figures are so worthy of dismissal that they should not even be further considered?

(Mr MacGregor) We have had a very careful consideration and discussion of the matter. I can assure you that the decisions stand up under very careful grilling, especially as it obviously exposes me to a considerable amount of personal questioning, to say the least.

303. But not a great deal of answering, if I may say so, Mr MacGregor?

(Mr MacGregor) The answer is very simple: that the decision stands up under the most rigorous examination within the company. I am prepared to stand on that.

304. Perhaps we can look at that later on in relation to the document you are going to supply. Can we turn to Scunthorpe? Scunthorpe is going to suffer 20 per cent of your total job losses under this plan, is it not? What was the reason behind the decision to close Normanby Park?

(Mr MacGregor) It was a question of curtailing the productive capacity in a product line where we had substantial overcapacity.

305. Is it a fact that part of the argument for closing Consett was keeping Normanby Park open?

(Mr MacGregor) I do not know that it was. It is news to me; and I was not around.

306. Perhaps you were not around. I could ask Mr Scholey. He could answer it; he was around?

(Mr Scholey) Yes, it was. The fact is that the markets decline -- and we have been saying this all morning -- at such a rate that we have had to keep pace with it in retrenchment.

307. But such a gross miscalculation does not fill people with confidence in future forecasting, does it.

(Mr Scholey) One can only look forward at a particular point of time on the various assumptions such as we have been talking about that one can conceive. The rate of change is still proceeding. You have been referring to Phoenix 2 and so on. What do you think that is all about, other than the fact that we are still trying to cope with the rate of change of demand, really, in the market, the way that prices have been moving.

308. Again, on Normanby Park, is it the case (as I have been told) that developments in the last six years increased the total raw steel production by about 38 per cent with an increase in the workforce of only 9 per cent, uprating tonnes per man-year from 222 to 292; in other words, a very significant increase in productivity. Is that right.

(Mr Scholey) That could well be.

Mr Crowther: And is that roughly comparable to steel-makers in Europe?

Mr Hill

309. Where are we going with this line of questioning?

(Mr MacGregor) May I suggest, Mr Crowther, that it is question of the particular product line that that institution produces. Their competition comes from certain types of facilities in which even these improvements in costs are not adequate to meet the competition.

Mr Crowther

310. Is there any danger that by closing Normanby Park, the rest of the Scunthorpe complex could be jeopardized? Could you get to a point where the Appleby-Frodingham furnaces are not adequate to meet the requirements; and by having a less tonnes-per-year to share the overheads could it make it uneconomical to the point where the whole complex closed down?

(Mr MacGregor) This is not necessarily an exclusive problem to that area. We suffer from the same dangers in every location.

(Mr Scholey) Normanby Park works and Appleby-Frodingham serve two different parts of the market. Appleby-Frodingham will be associated very much with Allied Steel and Wire and, as Mr MacGregor said, the prospect of getting continuous casting in there.

Chairman: It is clear you will have to come back again and we could discuss those items on a future occasion. At this stage I will say that the Committee will adjourn for two minutes to enable Press and public to withdraw so that we may go into private session.



HOUSE OF COMMONS
LONDON SW1A 0AA

The Private Secretary
to the Prime Minister,
10, Downing Street,
London S.W.1.

18/3/81

R 19/3

Dear Sir,

I am writing on behalf of Mr Campbell-Savours to enclose more letters (30) from constituents in Worthington regarding the Distrington Foundry closure.

I feel I should draw your attention to the fact that Mr Macgregor gave evidence to the Select Committee on Trade and Industry this morning, during which questions were asked about the decision to close the Distrington Foundry. Mr Macgregor clearly placed the responsibility for this decision on the same tier of management, and indeed perhaps even the same officials that Mr Campbell-Savours has accused of misrepresenting statistics concerning Distrington. It was obvious during the questioning that some Members of

sent to J/I
on 26/3



HOUSE OF COMMONS
LONDON SW1A 0AA

The Committee were unhappy about the way some of the questions were being answered by Mr Macgregor and it was agreed that he would submit a separate paper on the Distinguon decision to the Committee. Having accepted that public money was being thrown down the drain, Mr Macgregor said that his officials had studied the Distinguon Joint Action Committee re-evaluation document. It was clear, however, that Mr Macgregor himself had not examined this document in any detail.

I believe that Mr Campbell-Savours, during his meeting with the Prime Minister, expressed the opinion that the tier of management below Mr Macgregor was responsible for the closure decision and the events of this morning only serve to confirm that.

Yours sincerely,
Heleen Donoghue

(Research Assistant to D. Campbell-Savours, M.P.)



From the
Minister of State

PS/Norman Tebbit MP

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

Dear Nick

Further to the meeting which the Prime Minister held with our Secretary of State and Mr Tebbit yesterday, I attach a draft letter for the Prime Minister to send to Mr MacGregor along the lines which I understand were agreed at that meeting. The reply takes into account the further correspondence from Mr Campbell-Savours forwarded under cover of your letters of 10 and 12 March.

Yours sincerely
Peter Mason

PETER MASON
Private Secretary

Enc

Prime Minister
DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

CLIVE

*I suggest taking out 'formal'
- don't they ever give up?
17 March 1981 MS*

*And does it really meet the
terms of your letter?*



DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

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

CLOSURE OF DISTINGTON FOUNDRY, WORKINGTON

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

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

I explained to Mr Campbell-Savours that, although I understood the concern felt by his constituents, the Government could not



intervene in decisions which had been taken by BSC management. I undertook, however, to write to you to ensure that you had been satisfied personally about the way in which the decision to close Distington had been arrived at.

Since meeting Mr Campbell-Savours, I have seen a copy of the memorandum dated 27 February which you sent to the Joint Action Committee at Distington, from which it is clear that you have personally reviewed this decision, spending a considerable amount of time on it, and that you are satisfied that the decision was the correct one. I would, however, welcome your ~~formal~~ confirmation that you have satisfied yourself about this decision, since I should not like to rely on a document which may have been illicitly acquired.

*You personally have very
confidence in the Committee's
conclusion which led to the
decision to close Dist. gite.*

file

BK

17 March 1981

all sent
D/IND.

I attach some correspondence the Prime Minister has received from Dale Campbell-Savours MP, including a large number of letters from constituents. I think that we must aim to reply to all these letters in the Prime Minister's eventual reply to Mr. Campbell-Savours.

I should be glad if someone could look through them all to make sure that there are no new substantive points in them.

N J SANDERS

Ian Ellison, Esq.,
Department of Industry

BK

file

RK

17 March 1981

I am writing on behalf of the Prime Minister to thank you for your letter of 16 March with which you enclosed a number of letters from constituents and organisations in your constituency.

I shall of course place your letter before the Prime Minister.

N J SANDERS

Dale Campbell-Savours, Esq., M.P.

RK



HOUSE OF COMMONS
LONDON SW1A 0AA

Monday. 16th

R 1913

Dear Annie Minnie

I am enclosing the comments
of a number of organisations within my
constituency ^(40 letters) on the Distinguish Foundation
charity announcement.

With sincerest thanks

Dale Campbell Savours.

DALE CAMPBELL-SAVOURS



10 DOWNING STREET

CLIVE ✓ That's
MM
13/3

You ought to see what the
Campbell-Savours row is all about.
It hinges on my minute to the PM
of 9/3. I fear that the
DoI line is indeed radically
different from the PM's instincts on
these occasions. I guess she would have
a fit if she saw some of KS's letters
to MPs.
MS
13/3

FILE

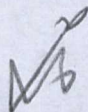
V.L.

12 March 1981

I attach some further correspondence we have received here from Dale Campbell-Savours, M.P., about Distington Foundry. It will have to be covered in the Prime Minister's eventual reply to Mr. Campbell-Savours.

N J SANDERS

Peter Mason, Esq.,
Department of Industry.



FIVE

VLB

12 March 1981

I am writing on behalf of the Prime Minister to acknowledge receipt of a letter from the Joint Action Committee at Distington dated 9 March.

I shall of course place it before the Prime Minister.

N J SANDERS

Dale Campbell-Savours, Esq., M.P.

NR
6



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

12 March 1981

Clive Whitmore Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister

I will deal with this

*You have agreed to see Sir Keith Joseph
and Mr Tebbit on Monday to discuss, at their request,
how representations from MPs to you about closures
should best be handled.*

Dear Clive

*Sir Keith has authorized his Private Secretary
to send me this letter which he sees as serving
as a basis for Monday's meeting. I am afraid
there is much in it you
will not like. K.H.*

GOVERNMENT INTERVENTION IN FACTORY CLOSURES

1. I am writing to you privately to explain some of the thoughts which lie behind the very strong reservations held by Sir Keith and Mr Tebbit about the Prime Minister's recent actions in connection with factory closures. Sir Keith and Mr Tebbit are calling on the Prime Minister at 3 pm on Monday 16 March to discuss these issues.
2. Both Sir Keith and Mr Tebbit fully understand that the Prime Minister has given her word to see individual Members of Parliament whose constituencies are affected by major closures. They also understand the Prime Minister's wish to appear to be helpful towards those concerned.
3. They believe, however, that by seeing individual MPs the Prime Minister may be creating the impression - and may even be convincing herself - that the Government is able to alter the repercussions of agreed policy without very serious risks. Both Sir Keith and Mr Tebbit believe that the Government has no alternative but to allow closures to take place and that decisions about individual closures have to be left to the companies concerned; only those who have direct management responsibility for the plants in question can have the necessary understanding of the commercial, industrial and market considerations which determine whether or not a plant, or one plant rather than another, can continue in operation. They think that the Prime Minister's intervention in connection with the Bowater plant at Ellesmere Port, the Tate & Lyle plant in Liverpool and the BSC foundry at Distington have been seen by outsiders as evidence that the Government is second guessing the managements concerned. They are worried that this may be undermining the ability of the managements to manage and companies to reach necessary but painful decisions.
4. Moreover, the Secretary of State and Mr Tebbit believe that the great majority of trade unionists and many others are deeply ignorant of the economic facts of life and believe that the

/Government



Government can "rescue" uneconomic plants as if by magic and at no cost. Correcting this misapprehension is difficult and they think that the Prime Minister's willingness to intervene in connection with closures may be helping to prevent the wider public from gaining an understanding of the impracticability of "preserving" employment artificially.

5. Sir Keith and Mr Tebbit also believe that the Prime Minister's intervention may result in the wider public perceiving her as a court of appeal to whom work forces may turn in attempts to prevent closures. They also think that because of her personal prestige, her interventions may influence firms to take completely uneconomic decisions to defer closures. If this were to happen they think it would damage the whole economy since uneconomic jobs would be artificially preserved and employment in other plants operated by the same employer would be damaged. They are also concerned about the burden on the Prime Minister's time.

6. Sir Keith and Mr Tebbit would like to suggest to the Prime Minister that when she sees Members of Parliament about closures she should draw a distinction between representations and action taken prior to a closure or redundancy and actions taken to mitigate the effects after closure. In their view no pressure should be exerted on a company to distort its commercial decision (although clearly regional aids may be available to improve the prospects of viability) and neither unions nor Opposition should be given the impression that the Government can in any way prevent closures taking place. They think that, prior to a closure, the Government can only say that the decision is for the commercial judgement of the company concerned, that no Government money will be available to prevent closure (except in special circumstances where the national interest is directly involved or through the normal structure of regional aids) and that the Government will not intervene with the company to distort commercial decisions.

7. Sir Keith and Mr Tebbit think that the Prime Minister should instead concentrate on action which can be taken to mitigate the effects of a closure after it has taken place. The Government has a battery of support measures (assisted area status, regional development grants, selective financial assistance under Sections 7 and 8 of the Industry Act and under the Science and Technology Act, assistance to clear derelict land, advance factories, infrastructure measures etc) and the Prime Minister can describe these as they apply to the particular area affected by the closure in question. By concentrating on remedial actions the Prime Minister will be able to give the MP concerned some hope for the future and can demonstrate that the Government is not indifferent

/to ...



to the human impact of closures. At the same time the necessary (but socially unfortunate) process of structural industrial adjustment can go forward without being hindered by Government intervention.

8. So far as the closure at Distington is concerned, Sir Keith and Mr Tebbit feel strongly that the Prime Minister should not seek to ask Mr MacGregor to justify his decision. They are particularly reluctant to see her acting in response to a request from Mr Dale Campbell-Savours who has been acting most unconstructively in connection with the closure proposal at Distington. The closure itself forms part of the BSC Corporate Plan and has been approved by Ministers collectively. The delay in making the closure is adding to BSC's costs and hence to BSC's call on public expenditure. The decision itself has been considered by Mr MacGregor carefully and Mr Campbell-Savours has sent the Prime Minister a document (which may or may not have been stolen) demonstrating that Mr MacGregor has considered the issues again. Sir Keith himself has mentioned Distington to Mr MacGregor who stands by his decision. The Welsh Secretary is concerned that a reprieve for the Distington foundry would lead to a comparable closure in Wales (or perhaps in Scotland, a point which has not yet occurred to political interests in Scotland). In the circumstances Sir Keith and Mr Tebbit hope that the Prime Minister will agree not to pursue her factual enquiries of Mr MacGregor and will instead agree to write to Mr Campbell-Savours saying that, since her meeting with him, Sir Keith has spoken to Mr MacGregor, that Mr MacGregor has (as demonstrated by the (stolen) document supplied by Mr Campbell-Savours) considered his decision again and that the Government, which has approved the BSC Corporate Plan, will not intervene in the matter. The Prime Minister could go on to point out that extensive regional aids are available at Distington to mitigate the effects of closure and that the economic prospects of the area will be greatly enhanced if the workforce cooperate in bringing about a speedy and peaceful closure to the plant rather than persisting in blocking the decision.

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary



HOUSE OF COMMONS
LONDON SW1A 0AA

11/3/81

Private Secretary to the Prime Minister,
10, Downing Street,
London S.W.1.

Dear Sir,

I enclose the correspondence, to which I referred in my letter of 9th March, which Mr Campbell-Savours agreed to forward for the attention of the Prime Minister as soon as it arrived here.

It is interesting to note that the gentleman who signed the letter, Mr Dunningan, is the person to whom Mr Campbell-Savours referred in line 16, Column 376 of the Official Report of February 18th, in the debate on the Iron and Steel (Borrowing Powers) Bill.

Mr. Campbell-Savours understands from the conversation that he had with the Prime Minister that any correspondence between her office and B.S.C. could not include direct contact with local Management. Despite this the Joint



HOUSE OF COMMONS
LONDON SW1A 0AA

Action Committee did feel that they had to lay on record, in this private correspondence, their own gratitude to the Prime Minister for the interest she had shown in meeting their Member of Parliament and her willingness to further examine the situation.

Please excuse this second handwritten note but I have just received this document and am delivering it, on Mr. Campbell-Savours' instructions, to Downing Street to avoid any delay.

Yours faithfully,

Helen Donoghue

(Research Assistant to D. Campbell-Savours)

Distington Foundry

PO Box 8, Workington, Cumbria, CA14 2JJ

Telephone 0900 - 64321 Telex 64147 64213



JD/EP

9th March, 1981

The Right Hon. Mrs. M. Thatcher,
Prime Minister,
10 Downing Street,
London.

Dear Prime Minister,

On behalf of our colleagues at the Distington Foundry may we thank you for the only moral booster we have had since the 12th December, 1980. The interest you have shown in our fight against closure has given, not only the workforce, but the people of Workington a knowledge that justice still remains.

Most of us at Distington Foundry have worked here since its opening in 1946 and have grown into being a part of the works. It is because of our knowledge and feeling for the plant that we are convinced the decision to close it is so wrong.

Yours faithfully,

J.K. Dumigan

J. Dumigan,
Chairman,
(Staff & Manual Workers
Joint Action Committee)
Distington Foundry

Distington Foundry

PO Box 8, Workington, Cumbria, CA14 2JJ
Telephone 0900 - 64321 Telex 64147



JD/EP

9th March, 1981

The Right Hon. Mrs. M. Thatcher,
Prime Minister,
10 Downing Street,
London.

Dear Prime Minister,

Mr. MacGregor has turned down our request for an investigation into the plans of BSC Holdings to close the Distington Foundry. He simply reiterates the views that we have heard before. It amounts to saying that he does not believe there is anything valid in our claims that the cost estimates used to justify closure could be wrong and that instead of saving £2m next year the Corporation might instead lose £6m. Mr. MacGregor also suggests that in some way or other the people at Distington are to blame for the need to close the foundry.

All this leaves us with a feeling of helplessness as though the Corporation does not really want to admit that they might have made a mistake now that they have publicly announced their intention. Even the fact that this announcement was made a month before any evidence was made available totally discarding the spirit of "prior joint consultation" does not seem to matter to the Chairman of the Corporation.

It is, Prime Minister, this intransigence that particularly hurts us; this lack of conscience about not giving us time to present our opinions before the public announcement, that directs us to seek your assistance and we are pleased that you have agreed to our M.P's request to look into the matter.

We do not, of course, know just what sort of assurances you would accept from Mr. MacGregor and this is perhaps the key to the whole matter. He may simply give you the same sort of reply that he gave to us and so we have taken the liberty of sending to you a copy of that letter and we now wish to comment upon each of the 14 numbered points contained therein. We would like to impress upon you at this stage that we are trying to represent the views of many people, managers, staff, manual workers alike who are destined to lose their jobs if the BSC plans go ahead.

Point No. 1

This is preaching to the converted but that does not prejudice the case for maintaining three foundries until a proper investigation identifies which one should be closed.

.. ..

The Right Hon. Mrs. M. Thatcher.

9th March, 1981

2.

It will be many years before the significance of this point upon the mixture of large and small ingot moulds will be felt. The continuous casting machines being installed in Sheffield will certainly reduce the demand for small moulds but the one going in to Port Talbot will have a greater effect upon the demand for large moulds.

This very detail illustrates one of the shortcomings of the BSC exercise since it was done without any detailed analysis of the products to be produced and even worse, there is no forecast whatever of the changing pattern that might be expected in the years ahead.

3 & 4 can be dealt with together.

We think you will agree Prime Minister that these two paragraphs would lay much of the blame at the feet of the Distington workforce but what a false impression this creates.

The foundry redevelopment was not completed until August of 1980. New manning levels for this had been agreed with the Trade Unions (and the previous Director) and the normal bargaining processes culminated in agreements signed last June, 1980.

The first real management initiative to severely reduce manning was taken on 7th November, 1980. 311 men had to go and this was accomplished within a few weeks with the active co-operation of the Trade Unions.

When Mr. MacGregor refers to Distington personnel being involved in the rationalisation exercise he may be strictly correct but this raises the question of who was involved. It is unfortunate but we can find no senior member of our local management who will admit to having knowingly supplied information or having been consulted in any way about a plan to identify which foundry was to close. Staff and manual workers were definitely never involved or notified.

5.

Mr. MacGregor has put the spotlight on one of the problems. Of course Dowlais and Fullwood costs reflect actual performance standards but if Distington Foundry closes their product mixes will change and the operating cost per ton will increase substantially since they will have to produce 2½ to 3 times as many castings for an equal output tonnage.

We only claim that their costs might not adequately reflect this change since the methods used to assess this difference was totally unsuitable to the task.

.. ..

The Right Hon. Mrs. M. Thatcher.

9th March, 1981

6.

This point Prime Minister continues to excuse the Corporation by putting blame on people at Distington.

Our reply to points 3 and 4 show that the workforce responded to the real initiatives presented by management. It is not their fault if the Corporation prepare a document in September that shows the foundry at some risk and then keeps it hidden until 6th January, 1981, three weeks after announcing their intention to foreclose. There is additional evidence that some capacity to improve results had been worked out by local management and it was in the process of planning just how to do it.

If there is any justification for using the term - belatedly - it can best be reserved for the Corporation's revelation of their September study.

7.

We have been having some difficulty in obtaining from the Corporation a clear statement as to why they think that we could not compete with Fullwood. This statement of Mr. MacGregor's is the nearest thing yet to that answer. However, is it true and what is it worth?

7.(a)

Distington's furnaces also melt unbroken scrap. In fact Fullwood only switched their order for furnaces at the last minute because of a price advantage, otherwise they too would have had furnaces that were identical in all but the specific power. We have 7½ megawatt, they have 10.

7.(b)

A report issued by Sheffield Laboratories in November, 1980 showed that BSC Cumbria paid 1.99p per unit for electricity in 1979/80 and that Fullwood paid 2.55p for its furnace supply.

Even Hallside Works, a BSC neighbour of Fullwood, paid 2.19p per unit and as a long established large user we can hardly expect Fullwood to improve on that. We therefore conclude that Mr. MacGregor is most likely wrong.

BUT even if Fullwood was a full 1p per unit cheaper than Distington it would give them only a £5 per ton advantage, which does not go a long way to explain the £50 per ton which was claimed as the overall advantage in the controversial September studies.

.. .. .

The Right Hon. Mrs. M. Thatcher.

9th March, 1981

7.(c)

Mr. MacGregor talks about optimising overhead recovery. We have yet to see a statement of how this will be done in such a way that the £20m of Distington's foundry assets, including the recent £11m of taxpayers money, will be seen to be justifiably dealt with.

Certainly closing Distington will do nothing for this. We would have thought that the last thing that his exercise was achieving was the optimum recovery of the Corporation's assets, least of all to pay back £4m of capital grants and then what - to sell off the remainder of Distington at scrap value? It is ironical to be talking of this when the Corporation has not yet completed paying the bills for some of the new plant installed last year.

8.

These points refer to ingot moulds made in a different quality of iron to that traditionally used by all manufacturers. Mr. MacGregor's reply illustrates a degree of optimism that is totally unwarranted by the facts. He clearly has ignored the opinions expressed in our own study dated 4th February, 1981 and in particular on page 25 an extract from a totally independent authority which points out that a traditional Distington mould is still better than the new quality of Dowlais mould and it suggests that "some of the apparent improvements (might be) due to a poor original quality!"

Paragraph 8 (a) is quite interesting since it suggests that we might now have a new raw material policy that secures Dowlais' future. This is surely a rather "belated" introduction of a new constraint and so we do not intend to suggest how we might meet this. If it is to be taken into account then it should be properly introduced into the conditions for the new investigation that we have called for.

9.

No one has asked for taxpayers money, it is but one option. Another one is for Distington to operate its melting unit on 21 shifts, a common practice in Workington's industrial spheres. A further alternative is to close down Fullwood and transfer some of its plant to Workington.

BUT in any case it is not likely to be required until the Corporation decides to manage with one foundry. This of course is another weak point in the BSC actions. In the September study it recognises the possibility of one foundry remaining. It actually suggests that Distington might be the best for this role. It does not evaluate the options and yet in spite of these, someone ignores the issue and decides to close Distington. No comment was made in reply to our claim that capital spending would be required in the 2 remaining foundries. This has already begun at Dowlais.

.. ..

The Right Hon. Mrs. M. Thatcher.

9th March, 1981

10.

We do not argue with this point.

11.

Mr. Macgregor claims he has studied our arguments carefully. His own studies suggest a saving of £2.2m p.a. by closing Distington instead of having three foundries, each on minimum manning.

We suggest that he is £2m wrong on his estimates, that he is ignoring quality differences worth £3m and a grant repayment liability of £4m. We have got to be a long way out in our calculations before Mr. MacGregor's statement is valid. You can see now Prime Minister why we have a sense of frustration. We feel sure our customers at home and abroad would endorse our claims on quality if permitted to do so.

12.

Poor Mr. MacGregor. We have had one letter from him. We have had two meetings with Mr. Bray, his Director of BSC Holdings and on all three occasions we have been faced with the same issue. All we can say to them is to go and seek the retractions from where the accusations came; it was certainly not from this Committee, although one way of stifling any such comments would be to carry out a new investigation, but this time in a totally open and constructive manner.

13.

What inference? Has Mr. MacGregor got some document that we have not? He should take that up with whoever made it.

14.

This Joint representative committee do not see lump sum severance payments as an alternative to continuing work. Of course individual Trade Unions will deal with this in their own way at local level. Our view is that Distington Foundry should expect the statutory 12 months' notice of closure and that this gives plenty of time for a proper investigation to be carried out. What has the Corporation really got to lose. If it can justify its decision against a much more rigorous review it will still be able to close on time in 1982.

We hope Prime Minister that you can make sense of these comments and that they help you to see the problem as we see it. We hope that you will urge upon Mr. MacGregor the need for a proper examination of the facts, an exercise that can be carried out long before the earliest closure date can be reached and that you can persuade him that he has nothing to lose but much to gain. We are sure that in the event of Distington Foundry being summarily closed without this further study,

The Right Hon. Mrs. M. Thatcher.

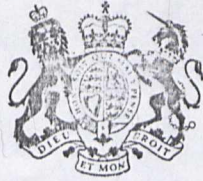
9th March, 1981

you would agree upon the need for the effects to be reviewed in say 2 years' time and would wish it reported to Parliament. We mention this now, only because we believe that it will be necessary to ensure right from the beginning that the information required is collected and made available when required and probably subjected to some degree of auditing. If the decision has been proved to be wrong we would expect those responsible to be held accountable.

Yours faithfully,

J.K. Dumigan

J. Dumigan,
Chairman,
(Staff & Manual Workers
Joint Action Committee)
Distington Foundry



10 DOWNING STREET

From the Private Secretary

10 March 1981

BF 13-3-81

DALE CAMPBELL-SAVOURS, M.P.

The Prime Minister has seen the draft letter for her to send to Mr. MacGregor which you sent us on 6 March. She has also seen your letter to me of 9 March. She is unhappy about the key paragraph of the draft in its present form, and I should therefore be grateful if you could let me have a re-drafted version.

She wishes to raise two points with Mr. MacGregor: whether the figures underlying the analysis of the foundries were correctly ascribed; and whether other factors were taken into account in reaching the decision to propose the closure of Distington.

May we please have a revised draft as speedily as possible?

N. D. SANDERS

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

9

File

DSS

10 March 1981

I told you on the telephone this morning that we have received some more correspondence from Dale Campbell-Savours, M.P. Here it is.

N. J. SANDERS

Peter Mason, Esq.,
Department of Industry.

PM

File

289

10 March 1981

I am writing to acknowledge receipt of Helen Donoghue's letter of 9 March, enclosing a memorandum from Mr. MacGregor.

N. J. SANDERS

Dale Campbell-Savours, Esq., M.P.

9th March 1981



HOUSE OF COMMONS
LONDON SW1A 0AA

Private Secretary to the Prime Minister,
10, Downing Street,
London S.W.1.

Dear Sir,

I have been asked by Mr. Campbell-Savours to draw to the attention of the Prime Minister the enclosed document.

It is Mr MacGregor's reply to Distrington. Its highly misleading contents have so angered the representatives of the Management and the Trade Unions that they have convened a number of meetings over the weekend. Mr. Campbell-Savours expects to receive their reply, which was sent to him today, in the morning. As soon as he receives this reply he will forward it to Downing Street.

Yours faithfully,

Helen Donoghue (Research to
D. Campbell-Savours)

In	Ian MacGregor	To	Mr J K Dumigan
File No.		Dept.	Mr R Crellin
Ext.	7 401		cc Mr R Scholey
			Mr D B Bray
File Ref.		Date	27 February 1981

Ap41

Subject

DISTINGTON MOULD FOUNDRY

Thank you for your memorandum of February 13 and the enclosed documents.

I do, of course, understand your deep concern regarding the closure of the above works and I have studied your arguments carefully. However, they do not provide sufficient evidence for me to reconsider the Corporation's decision to close the Distington Foundry.

In support of the Corporation's decision to close the Distington Foundry I would like to draw your attention to the following important issues affecting our decision.

1. It is generally accepted by all concerned that the BSC no longer requires three major mould foundries. Furthermore, demand for ingot moulds will continue to fall throughout the early eighties with the increasing usage of continuous casting. The fall in demand, therefore, relates to a trend and not some cyclical requirement which could conceivably show improvement in the future.
2. After heavy investment by BSC in slab casters during the last few years, the next tranche of casting machines will be designed for bloom and billet casting. This will further reduce the requirement for smaller square moulds which have been, and remain, a major product line for the Distington Foundry.
3. The costs outlined in the original rationalisation document were those provided by Distington personnel - in fact, Distington was pressed to project forward any improvements they could visualise for inclusion in the calculation. (There is no disagreement by anyone in this respect.)
4. To suggest that these costs were not the responsibility of the Distington workforce (management, staff and manual grades) cannot be sustained. Over the last three to four years all Corporation employees have known of the precarious financial position of the BSC and have been exhorted to explore every possibility for improvement. In this respect, the Workington area was no exception, though the response to such management initiatives at Distington has been, until most recently, comparatively lukewarm and uninspired. This is despite the involvement of national union officials who tried to effect a greater change of heart on the shopfloor.
5. Costs included in the rationalisation document for Fullwood and Dowlais are current manufacturing standards and reflect actual

..../cont

- performances. I have little doubt that both foundries can achieve improvements and had they been asked to project these forward, and into the calculation, the gap in product cost would have been even greater than that presently indicated.
6. It is acknowledged that when faced with imminent closure Distington has finally, and belatedly, reduced costs; however, a gap still remains and this is without taking into account point number 5 above.
 7. Quite apart from any weighting given to the efforts of the employees there are basic differences of plant configuration between Fullwood and Distington, which give Fullwood the advantage on costs:-
 - (a) Fullwood's furnaces were designed to melt rapidly unbroken moulds, saving breaking costs and time.
 - (b) Fullwood's electricity charges are lower than Distington's due to the availability of hydro-electric power in Scotland.
 - (c) At the projected levels of loading the Fullwood facilities will be almost fully utilised with optimum recovery of overheads. This would not be so in the case of Distington.
 8. In addition to the cost and labour advantages there are other benefits in retaining Dowlais Foundry:-
 - (a) Their quasi flake moulds are seen as an excellent product by their major customers, Port Talbot and Llanwern Works.
 - (b) This mould has only been in production some three years and is already competitive on mould cost per tonne. Given the same sort of improvement curve achieved when developing the straight haematite mould it would be most surprising if current costs were not substantially improved over the next two or three years.
 - (c) Trial quantities of quasi flake moulds from Dowlais are already in service in the United States and should, therefore, provide Dowlais with a reasonable and profitable export load in the next year or so, again helping to utilise fully their facilities.
 - (d) It must make sense, whilst a reasonable load remains, to retain both a cupola and a cold charge channel furnace route - the one supplying new iron to the system and the other consuming scrap moulds.
 9. There is no case for injecting fresh tax-payers' money into Distington to improve facilities when existing capacity is already in excess of requirement and where that imbalance will steadily increase in the future.

10. It is, of course, easy in hindsight to question the original development programme for the mould foundries, involving as it did considerable capital injection. The facts are, however, that the BSC assumed, along with the rest of the world, a continuing high demand for steel through the eighties, a much stronger UK manufacturing base and a slower growth in the continuous casting process. None of this has happened and, therefore, contraction of the BSC's foundry operation has become inevitable.
11. Whilst monies may need repaying to Government on account of rules governing the iron foundry grants scheme, it is less costly to do this than retain three under-utilised foundries or retain only two but include the Distington higher cost route.
12. It is disappointing to receive no formal retraction of allegations that FFE management deliberately mis-used information to prove the case for closing Distington, particularly in view of the time and effort spent by their management in ensuring all relevant facts were brought to your representatives' notice.
13. The inference that Scotland and Wales have been given favoured treatment in respect of foundry closures would be a serious misrepresentation of the facts. Over the last two years the size of the BSC workforce has been reduced substantially and Wales and Scotland have borne the heaviest burden in this respect.
14. Closures, with resultant unemployment, are not lightly sought by BSC senior management, who are only too well aware of the hardships and family upsets that this can create. It is because of this that they have supported the provision of substantial severance payments to redundant employees.

I have given considerable time and thought to the issues raised by your memorandum and I have re-examined a number of factors and sought further detail from Mr Bray and his team. Following this re-evaluation I am still convinced that the foundry at Distington should close.

I do not believe that it would be constructive or appropriate to agree to an independent enquiry not least because its findings would need to be acceptable to both Dowlais and Fullwood. Both these works are currently in possession of all the facts available to you and are, therefore, aware of the costings submitted by the three parties and the disparities that exist.

Jan MacGregor.

PRIME MINISTER

DALE CAMPBELL-SAVOURS: YOUR LETTER TO MR. MACGREGOR

*Neither is quite right.
There are 2 points
① were the relevant figures correctly
adjusted
② Were other factors taken into account?*

When you saw Dale Campbell-Savours last week you told him that you would write to Mr. MacGregor about the Distington Foundry. You said that for everyone's peace of mind and the welfare of those concerned, it might be worth "asking the Corporation to look at the figures again".

The Department of Industry now offer the draft letter at Flag A for you to send to Mr. MacGregor. When I saw it on Friday, I said to them that it seemed to me to be significantly weaker than the offer which you had made to Mr. Campbell-Savours. You will see that the key sentence in the draft says:

"I undertook to Mr. Campbell-Savours that I would seek your personal reassurance that the question of which of the foundries were to be retained and which, if any, should be closed was fairly and thoroughly considered in order to arrive at the best economic plan for BSC".

Norman Tebbit's Office have come back with the letter at Flag B, justifying the draft (which Mr. Tebbit was himself responsible for, replacing an earlier Departmental version more in line with what you actually said at the meeting).

How do you want to play this? The trouble is that your exchange of letters with Mr. MacGregor will have to become public property; it should therefore be drafted (on both sides) from the beginning with the likelihood of eventual publication in view. If you deviate too far from what you promised to Dale Campbell-Savours, he will attack the exercise as meaningless. If you go too far the other way, the dangers which Norman Tebbit foresees will assuredly be realised.

/ Are you

Are you happy with Norman Tebbit's draft, with his amendment, so that the final version would read:

"I undertook to Mr. Campbell-Savours that I would seek your personal reassurance that the question of which of the foundries were to be retained and which, if any, should be closed had been re-examined and been ^{fairly and} thoroughly considered in order to arrive at the best economic plan for BSC." ?

Or would you rather use a slightly firmer form of words such as:

"I undertook to Mr. Campbell-Savours that I would seek your personal reassurance that the decision on which of the foundries should be retained and which should be closed had been reached responsibly on the basis of the analysis which had been performed, and that that analysis had been soundly based." ?

MS

9 March 1981



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

From the
Minister of State

PS/Norman Tebbit MP

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

9 March 1981

Den Nich

Thank you for your letter of 6 March seeking further clarification of Mr Tebbit's reservations about going as far as to ask Mr MacGregor to look again at the figures underlying the decision to close Distington.

My Minister has asked me to explain that he is concerned that once Mr Campbell-Savours has made it public that the Prime Minister had required the Chairman of the BSC to reconsider the basis on which the Distington closure was reached, ie in effect to re-open the issue of closure, every closure decision of this sort would be referred to Number 10 and the Prime Minister would be obliged to ask Mr MacGregor to reconsider it. Mr Tebbit believes that this was the path which led to the Beswick review. He also doubts whether such an approach could be confined to BSC - there would be extremely strong pressure to extend it to BL, British Shipbuilders and no doubt all the other nationalised industries also. Under such circumstances, and indeed in the light of a request to reconsider the Distington closure, there must be a considerable danger that any closures which do result will be blamed on the Government rather than the corporations concerned.

Finally, apart from these political hazards, Mr Tebbit believes that there is a serious risk that the authority of management in nationalised industries could be undermined by such a policy.

In the light of these considerations, Mr Tebbit remains of the view that the form of words used in the draft submitted on 6 March goes as far as it is prudent to go, although he would suggest that in the seventh line of the second page "was" is deleted and "had been re-examined and been" substituted.



I am copying this letter to Ian Ellison and Richard Tolkien
(with a copy of my letter of 6 March which I unfortunately
omitted to send him at the time).

Yours sincerely

Peter Mason

PETER MASON
Private Secretary



DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO

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

CLOSURE OF DISTINGTON FOUNDRY, WORKINGTON

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

He told me that he was not questioning the need to reduce the foundry capacity in the Corporation, but he believed, as did the workforce and most of the local management at Workington, that the decision to close Distington foundry had been taken on the basis of an incorrect assessment of the relative costs of producing ingot moulds at the three BSC foundries. As you know, he made a long statement in the House of Commons on 18 February about this closure, and he repeated to me his assertion that the cause of the trouble lay in the fact that the Distington foundry was part of a different group within BSC from the other two ingot mould foundries.

I explained to Mr Campbell-Savours that, although I understood the concern felt by his constituents, the Government could not intervene in decisions which had been taken by BSC management. In addition, I know that you have seen Mr Campbell-Savours and



that he has put these matters directly to you, most particularly his allegation that there was bias against Distington which distorted the basis of comparison between the three foundries. Nonetheless, I undertook to Mr Campbell-Savours that I would seek your personal reassurance that the question of which of the foundries were to be retained and which, if any, should be closed was fairly and thoroughly considered in order to arrive at the best economic plan for BSC.

I made it clear to Mr Campbell-Savours that in writing to you I was not presuming any lack of integrity or competence on the part of BSC management, but I was seeking to reassure his constituents on a matter of considerable anxiety to them and one which, if left unresolved, might cause continuing difficulties within the Corporation.



P.M. sh

10 DOWNING STREET

From the Private Secretary

6 March, 1981.

15/11/3R

We had a word this evening about your letter of 6 March and the draft letter for the Prime Minister to send to Mr. MacGregor which you enclosed with it.

I said that the Prime Minister had told Mr. Campbell-Savours that she would ask Mr. MacGregor to look again at the figures underlying the decision to close Distington, and that the draft you supplied seemed to me to be significantly weaker on this key point. You told me that your Minister was unhappy about going as far as the Prime Minister had undertaken to Mr. Campbell-Savours.

In these circumstances, I think it would be helpful if we could have a further submission explaining your Minister's reservations. If necessary, the Prime Minister might perhaps have a word with Mr. Tebbit.

N. J. SANDERS

Peter Mason, Esq.,
Department of Industry.



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

*From the
Minister of State*

PS/Norman Tebbit MP

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

6 March 1981

Dear Nick

Thank you for your letters of 4 and 5 March about the meeting with Mr Dale Campbell-Savours MP to discuss the proposed closure of the Distington foundry at Workington.

As requested, I enclose a draft letter for the Prime Minister to send to the Chairman of the British Steel Corporation; the draft has been approved by Mr Tebbit.

In addition I am returning the material sent under cover of your letter of 5 March. Officials here advise that we are aware of the possibility of further redundancies at Workington in pig iron production referred to in the correspondence. We understand that this possibility arises from the low level activity in the foundry industry generally in the UK and the fact that BSC Workington is the main source of pig iron for foundries. Large stocks of pig iron have been built up and production has stopped until 31 March at least. Mr Campbell-Savours has asked that this possibility is not referred to in the letter to BSC, and it would in any case not be appropriate to do so.

*Yours sincerely
Peter Mason*

PETER MASON
Private Secretary



10 DOWNING STREET

From the Private Secretary

5 March 1981

I attach some correspondence the Prime Minister has received from Dale Campbell-Savours, MP, following up her meeting with him last night. In due course, I think that we should return this correspondence to Mr. Campbell-Savours, but I should be grateful if it could be taken into account in drawing up the draft letter for the Prime Minister to send to Mr. MacGregor.

Peter Mason, Esq.,
Department of Industry.



JS

10 DOWNING STREET

From the Private Secretary

5 March 1981

I am writing to acknowledge your letter of 5 March to the Prime Minister, enclosing additional correspondence about the Distington Foundry: I will, of course, ensure that the Prime Minister sees it at the earliest opportunity.

NJS

Dale Campbell-Savours, Esq., MP.

From DALE CAMPBELL-SAVOURS MP



HOUSE OF COMMONS
LONDON SW1A 0AA

5th March 1981

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1.

*Originals to be
returned - see
NJS to Masan (incl)
5/3/81*

Dear Prime Minister

Please find enclosed the additional correspondence which you requested at our meeting.

In addition to the jobs which were referred to yesterday, which have been lost over the last twelve months and are to be lost if the closure of the foundry were to go ahead, it is possible that a new wave of redundancies will be announced in the Pig Iron-producing section of BSC Cumbria's operations. Any announcement of redundancies in that area would add perhaps as many as 600 to the number of jobs already lost.

This decision, as I understand it, has not been taken and it depends on the evaluation currently taking place between the North East and Workington.

I would be grateful if, in any conversations which your Private Office may have with the BSC, they would not draw attention to my knowledge of the problem surrounding the Pig Iron Production evaluation.

I thank you sincerely for your efforts on behalf of my constituents in this matter.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Dale Campbell-Savours', written over a horizontal line.

THE STEEL INDUSTRY MANAGEMENT ASSOCIATION

NATIONAL DEPOSIT HOUSE
1 WATERDALE DONCASTER
SOUTH YORKSHIRE DN1 3XH
TEL: DONCASTER (0302) 25488

The Right Honourable D. Campbell-Savours, MP
House of Commons
London
SW1A 0AA

25th February 1981

Dear Mr. Campbell-Savours,

CLOSURE OF DISTINGTON FOUNDRY

As the Regional Secretary for the Midlands with a divisional responsibility for Workington, I am writing to you on behalf of the members of the Association who are employed in the Distington Foundry and associated works. They are greatly concerned at the effect of the closure, especially since the drastic slim down that took place recently was to have made Distington show a profit if targets were reached. Those targets have been achieved and therefore Distington should be able to show a considerable improvement over the next few months and reach profitability within the next financial year.

The members of Distington Branch have produced a rationale which shows that the reports on which BSC based its decision are inaccurate and speculative. Any decision of such far-reaching effect as a closure must be based on good business sense and sound commercial consideration. In this case, there does not appear to be any financial or economic necessity or reasoned logic behind the decision. It would seem that a unilateral decision has been taken to close Distington without checking into the financial accuracy of the reports upon which the decision was based.

I enclose the reports by BSC for your consideration and the document produced by a joint committee at Distington to put before the Corporation. I would appreciate your comments on these documents and their import.

The SIMA Branches at Workington are at this time asking the Corporation to table their figures and reasons for the closure as laid down by the governing National Agreement. When this has been done the Association has a month in which to consider the evidence and make a response which the Corporation must consider. It is essential that this response is accurate and irrefutable. Any suggestions which you feel you could contribute would be most welcome.

Yours sincerely,


L. MIDDLETON

B S C Cumbria

Moss Bay, Workington, Cumbria, CA14 5AE

Telephone 0900 - 4321 Telex 64147

LH/W

12th February, 1981.

D. Campbell-Savours, Esq.,
MP for Workington,
House of Commons,
LONDON
SW1A CAA

NOT ACCURATE

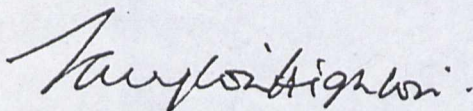
Dear Mr. Campbell-Savours,

Following the announcement of the Corporation's Survival Plan by the Chairman on 12 December 1980 which referred, amongst other matters, to the closure of the foundry and a similar announcement to the foundry workforce by the undersigned on that day, there have been a number of meetings between the men's local representatives and senior BSC Management. Despite a free exchange of information between both parties, it has not been possible to establish a sufficient improvement to future production costs to convince the Corporation that the Distington Foundry should stay open in preference to one of the other two foundries. Accordingly, the announcement of intention to close has now been confirmed.

There are 330 employees within the Distington Foundry and approximately 100 others employed in maintenance, services and administration areas who will be affected by the closure.

The Corporation will make every effort to redeploy as many of these employees as possible, but you will appreciate that this will be difficult under the present conditions.

Yours sincerely,



GENERAL MANAGER



BSC CUMBRIA is a British Steel Corporation Profit Centre

CAH: 1PX 26 Feb 81

Mr Dale Campbell-Savours

Dear Sir Thank you for disclosing this affair
 this scandal that Distinguon Steel works
 must close down so soon after the
 installation of that costly modernisation project
 what exactly is behind all this?
 Why are such costly stupidities possible?
 Frankly it stinks: This is more than
 just a BLUNDER it looks like vile
 sabotage.

And why Distinguon?
 - to save the Welsh - the Scots - ? That
 won't wash: is Cumbria to take it
 lying down which ^{neither} the Welsh nor Scots
 would? ~~not do?~~

(Well timed too, but then I have to forego the big
 papers - I'm retired.) But this matter
 really needs to be investigated; and if
 possible rectified. There is more than
 mere tomfoolery here. "surely an enemy
has done this. I am proud of my
 country; I cannot sit by while it
 crumbles to ruin; God forbid. Now-a-days
 they are all so clever with their a.i.o. levels
 & their Uni. degrees; But I regard this as a
slur on our Parliament. Do they go there to
 sleep?

yours respectfully

Isabel Marlean

Workington

Dept.	J. K. Dunigan R. Crellin	To	Mr. I. McGregor - Chairman Mr. R. Scholey - Chief Executive
Tel. Ext.		Dept.	
File Ref.	/EP	Date	13th February, 1981

Subject

There is universal concern among the people of Distington about your declared intention to close the ingot mould foundry. We understand your commitment to make the Corporation pay its way and the problems that you have to face when deciding that it is necessary to close down some activity. We would hope, however, that you would wish to have the people affected understand the reasons. Fair is just that little more tolerable if one can appreciate the "why" of the matter.

Unfortunately this is not happening at Distington. Certainly Mr. Bray has given us a financial explanation but we find his estimates of works costs at Distington to be hopelessly wrong. We also find him dismissing as irrelevant some very real costs which occur outside the simple production stages and what is even worse we find he refuses to accept any responsibility for operating Distington as cheaply as HE CLAIMS Fullwood can be operated. This should surely be possible since both foundries operate identical processes and have similar types of equipment.

We are, of course, motivated by the desire to keep this employment in Workington but there is no doubt in our minds that this is totally consistent with your search for the lowest costs. For this reason we feel morally justified, both as employees and taxpayers, to raise the matter with you. We have met Mr. Bray and it is very clear that our views are miles apart. He has refused our request for an independent review. We think that this would be a particularly appropriate way to resolve our differences since we are not seeking some compromise or middle road solution but simply an independent and trustworthy assessment of the true financial prospects. Mr. Bray believes that he can save £2.2 M p.a. by closing Distington. Our estimates indicate that this is impossible and that in the year 1981 - 1982 the Corporation might end up losing £6 M instead.

The purpose of this letter is to request an independent review of the issues involved.

We enclose two documents (labelled A & B) which were prepared by Mr. Bray and his staff, and one (C) which contains the results of our own studies. To assist your understanding of these we would like to outline the principal features.

.. ..

Mr. Bray's documents suggest that

- (a) Slimming down all three foundries would save £8 M p.a.
- (b) Closing Dowlais could save another £1 M p.a.
- (c) Closing Distington instead could save £2.2 M p.a.
- (d) Fullwood are so cheap that their future is not questioned.

We were immediately struck by the contrast between Fullwood and Distington. They could produce ingot moulds at £111 - £116 per ton and yet Distington, using the same raw materials and process route, could not do better than £147 - £162 per ton. The comparison was unbelievable and this prompted us to examine the issues in some detail with, we might add, the co-operation of the Distington Foundry Manager and his staff.

Document C presents our studies in a fair amount of detail, the principal features being

- (e) The estimated costs per ton used for Distington were clearly wrong and the comparisons with other foundries unfair. Distington can certainly beat the Dowlais quoted figures.
- (f) Differences in product quality was not taken into account.
- (g) Some, if not all, of grants totalling £4 M will have to be paid back if Distington is closed within the next 3 or 4 years.
- (h) To question Mr. Bray's role as the lowest level of management who is responsible for both Fullwood and Distington and therefore accountable for the major cost differences.

A meeting was held with Mr. Bray on Monday, 9th February, 1981, and we were very disappointed with his reaction.

item (e) He accepted this in principal and even though the error might be of the order of £2 M p.a. he did not consider this sufficient to change his mind about closure.

item (f) He dismissed as unimportant since the other foundries would soon reach Distington's quality when they take over the work. 10 years of trying to do this and succeeding to the point where 3 moulds are needed to process the same steel as 2 from Distington does little to bolster ones confidence in this little bit of crystal gazing. Cost to the Corporation - over £2 M p.a.

item (g) He dismissed as irrelevant on the grounds that no money really changes hands since it all belongs to the Government (do we need to comment upon the implications of that sort of philosophy?)

Item (h) He simply refused to recognise this responsibility.

We hope that this brief description will help you to understand why an independent review is necessary. Mr. Fray made the original decision; we believe him to be in great error and for that reason we seek to appeal to someone other than Mr. Fray. As a final note we would like to point out that though the first BSC document was produced in September, 1980, we did not receive it until 4 weeks after a totally unexpected and very public announcement was made on 15th December, 1980. How different it could have been had Mr. Fray revealed his thoughts last September and allowed us the opportunity to present our views before any closure had to be announced.

Signed on behalf of the
Distington Joint Representation Committee

J. K. Dumigan - Chairman.

R. Crellin - Secretary.

Enc:

DISTINGTON FOUNDRY

REVIEW OF THE PLANNING DOCUMENTS

Supplied by BSC
to workers
representative
6/1/81

These documents purport to consider various options of combinations between Fullwood, Distington and Dowlais foundries at different output levels. Exports of which only Distington has any worthwhile track record are dealt with superficially.

The Corporation's September document has to speculate about the possible steel output whereas the December document is merely an extract of appropriate sections made after the new 14m ton coporate plan had been announced.

These documents were not very complete. They contained total costs of the various options without saying how much each foundry would contribute to them.

They attempt to rank each foundry in terms of unit costs to produce an identical ingot mould but this was a totally hypothetical comparison since the product chosen was not universally regarded as "typically representative" of each foundries normal product range.

The presentation did not show in any manner how these unit cost comparisons could be linked in with the total cost options. To be fair to the Director of BSC Holdings he offered to supply all details on demand and there were meetings and correspondence to pursue this. However, this suffered from the inconvenience of geography and the basis on which the exercise was carried out ie. "ask and ye shall be told". It was difficult to carry out a comprehensive comparison between foundries and this is of course precisely the sort of exercise that is being asked of the Chairman in the request for an independent review.

NEVERTHELESS

A search for errors and omissions was most fruitful.

- (a) ERROR - The manning was wrong, energy was over-priced and reductions in service costs which were being planned were not taken into account.

The new estimates of ex works cost improves the comparison with Dowlais by up to £2.3/2.6m p.a.

- (b) OMISSION - Although the September document notes the facts, no attempt was made to put a cost on early closure for the repayment of the development grants worth £4m.
- (c) OMISSION - Quality is totally ignored. Distington has a world wide reputation for ingot mould quality and this explains its export record. Ever since nationalisation, the other foundries have not been able to equal this. It is a subject well served by statistical information and as recently as 1980, Dowlais or Fullwood invariably had to supply 3 ingot moulds to process the same amount of steel as 2 from Distington.

To lose Distington will almost certainly cost the corporation a lot of extra revenue for extra moulds. The value of this in one year could be over £2m but it also makes nonsense of the demand quantities used in the original planning exercise.

The answer that is regularly given to Distington when they raise this point is that this was all in the past and once these

foundries produce the new types of moulds they would soon achieve the same quality.

It is well known that Dowlais have recently been experimenting with a different quality of iron, at an additional cost of £20 per ton and with this they seem to just about reach the normal Distington quality.

Fullwood on the other hand, have 10 years of failure behind them when both they and Distington used similar processes, which are not the same as those used now. Nevertheless the comparison is still fair and even though both foundries have changed their processes, what guarantee is there that Fullwood are now as good as Distington? What they have done is to buy a bigger crystal ball and to dismiss the evidence of recent months.

How on earth can one justify closing the proven foundry, destroying the expertise built up over a lifetime and all for what? To satisfy someone who has made a mistake at the altar of demanning without realising that there are other costs too. Distington people are sensible enough to recognise the need for reducing manpower but to do this in the wrong place at the wrong time and thereby lose money is a privilege that few can afford, least of all the British Steel Corporation.

Although professionalism may have been lacking in the decision making process, we cannot level the same accusations as the authors of the planning document.

Of course they got some things wrong but if it is read as a discussion document, it has much to commend it. For instance it does not at any stage say "close one foundry". It says slim down all three and save £8m and this incidentally is on the front page summary so conveniently left off the copies submitted to the union representatives in January. The main text says that closing Dowlais could save another £1m or by closing Distington instead £2.2m might be saved. But it only says £2.2m might be saved and carefully surrounds this point with a host of provisos.

For instance we quote:-

"It is possible to reduce the number of manufacturing sites to two when steel production falls below 12 million tonnes but the capabilities to react to fluctuations in demand would be limited and the timing of any further closure, therefore, requires careful consideration."

Note the phrase "possible", not should or must and the call for careful consideration.

It goes on:-

"The £1.2m p.a. cost disadvantage of Distington over Dowlais must be weighed against:-

- The Regional Development Grant and Ferrous Foundry Grant received for the Distington Development would be at risk
- amount £4m.
- To make (at the other foundries) the full range of moulds currently made at Distington would probably require some capital expenditure and some enhancement to production planning and control systems at the other foundries."

On the other hand if Distington were to be left open
"No capital expenditure requirements and no risk of having to pay back
up to £4m in grants."

But again if Distington were to close the Corporation would
lose:-

"The advantage of retaining the versatility of Distington
Foundry for the sole survivor role in long-term steel plant
developments."

and again

"The long-term development of continuous casting may
ultimately reduce demand to a level that could be met by one
foundry - Distington is best equipped to meet the probable
product mix in that circumstance."

and finally

"A decision on the best option cannot readily be made
until the forecast demand beyond 1981/82 is more clearly
appreciated."

These phrases sound like common sense doubts about the wisdom
of closing the Distington foundry without further deliberations.
They surely help define the paper as a discussion document and as
such, allowed to correct its' obvious errors, Distington would have
little to fear. BUT to use it for immediate decision making has
proved disastrous.

Conspicuously absent is any attempt to evaluate the long term - one foundry option. To close Distington on the assumption that it costs £150 per ton to produce the same mould that Dowlais produce at £130 and Fullwood at £112 can only mean that Fullwood is seen in this final survival role. But at such a time there will be a very small demand for moulds in Scotland almost 60% of demand will be at Teesside, Sheffield and Scunthorpe. Distington has the best location of all for this area and will be considerably cheaper in transport costs than either of the other two foundries. However, the greatest anomaly would be to send mould from Scotland to Wales, 40% of total demand at a cost surcharge of £12, makes supplying Wales from Scotland very expensive and this item alone could end up justifying the closure of Fullwood and the survival of Dowlais instead. This sort of thinking helps to illustrate how superficial has been the existing study and how necessary it is for the job to be done again, completely, and competently.

SUMMARY

The people of Distington need to know from the Corporation

- (1) Why did you get our costs wrong?
- (2) Why have you ignored grant repayments?
- (3) Why do you ignore proven quality?
- (4) Why do you not take the advice of your own planners and investigate more thoroughly before making such decisions?
- (5) Why did you not start joint consultation in time to sort the matter out before a public announcement had to be made?
- (6) Why have you not evaluated the long term strategy to get the choice of a sole surviving foundry correct?

- (7) Why do you believe that Distington must be so much more expensive than Fullwood for producing the same product when they are
- (a) Using same raw materials
 - (b) Using same process
 - (c) Under the same Divisional Director.

DISTINGTON FOUNDRY

THE SEQUENCE OF EVENTS

1969 - 78

On nationalisation in 1969 the new Corporation inherited a number of iron foundries and it was immediately apparent to those with the responsibility that there would be some need to control and to plan these ingot mould (and bottom plate) activities. Even at this stage it was obvious that the country had more foundry capacity for these products than was ever likely to be needed in the future since it was expected that the great expansion plans for steel would be accomplished with continuous casting, a process that does not require the use of ingot moulds and their associated bottom plates.

This responsibility for Corporate planning was given to the Director of the Foundries, Forges and Engineering Group and was extended to embrace the activities of all Corporation ingot mould foundries, not just the ones which were within his own group. Initially, under Director Ken Lewis, the job was carried out by an Iron Foundries Policy Committee on which the foundries were represented along with the Financial and Commercial Managers of the Group. A first report was produced in 1972. Then reorganisation within this FFE Group saw the creation of a group function controlling Engineering Development and Management Services and it was this department which ^{continued} the planning studies. A report produced in February, 1975 indicated that the 1982/83 demand for moulds and plates would be 370,000 tons. In September, 1976, a further report confirmed this figure and it was at this stage that the new developments at Distington Foundry were being planned. In fact the final detailed application for the capital outturn of £15.3 M was made on 12th August, 1976.

In 1978 a further updating of demand estimates indicated some fall could be expected and suggested that these could be anywhere between 236,000 and 338,000 tpa.

It is necessary to say that throughout these stages Distington were part of the FFE Group and were adequately represented. Invariably all studies showed Distington's position as perhaps the most secure of all the foundries.

1978 - 80

In 1978 the Distington Foundry was transferred from the FFE Group to become part of a new BSC Cumbria and so from this point management is not shared until one reaches the level of Director of the new organisation called ESC Holdings. Responsibilities for corporate planning however remained at the lower FFE Group Director level.

From 1978 - 80 the local management of Distington were fully occupied with installing the new plant and this was completed in August, 1980, just in time to obtain full advantage of over £4 M from the Ferrous Foundry grant and the Regional Development Grant funds. However, as events subsequently proved someone was already forming the plans which were to result in a decision being announced 4 months later to close it all down. This decision was made following a secret study dated September, 1980 and thus it could well be said that the decision to close was already made by the time that the foundry development was complete.

September, 1980 and on

7th November.

On Friday, 7th November, Workington was informed that the Corporation's desperate financial situation required desperate measures and that 826 employees of BSC Cumbria had to go immediately and that all other employees had, wherever possible, to engage in short time working to take advantage of the Government Aid Scheme. Of these 826 there were 311 from the foundry, 203 from ironmaking and 312 in the Administrative or Service Departments. The men of the ironmaking

*Dullens
5.1
11 March 80*

department were left in no doubt about the risks that lay ahead. Their future depends upon a profitable operation but that in ^{turn} is completely dependent upon an upsurge in the demand for foundry iron. Until then the blast furnaces are closed and deliveries made from the extensive stocks.

The Distington situation was not described in such depressing terms. The new manning levels were consistent with a new standard capacity of 57,500 tpa (as against the previous 126,000 tpa) and it was made clear that at this level the foundry could expect to operate in profit. It was further revealed that this was part of a total strategy in which the other ingot mould foundries would be doing the same. It was even given a name - "Operation Slimline".

The workforce at Distington co-operated magnificently, Shop Stewart's worked assiduously in an unaccustomed role to persuade people to leave but always in the belief that this drastic measure was the one way of ensuring that the foundry would survive for the lasting benefit of the town and of succeeding generations.

12th December

Can you imagine the shock when 5 weeks' later on 12th December, when the 311 redundant employees were leaving, or had just left, the workers representatives were summoned to be told by the same management that there had been a change of mind and that the foundry had instead to close. To make the matter even worse this was not a local announcement which might have given room for some discussion but a full blooded national declaration in the form of the Chairman's survival plan. Once again it became clear that Distington's detractors were plotting its overthrow whilst innocently announcing other decisions. In this case the decision to slim was announced whilst someone else was planning to close and this became evident later when it was obvious that both decisions stemmed from the same new planning document written in September and kept secret until January, 1981.

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12th December

Can you imagine the shock when 5 weeks' later on 12th December, when the 311 redundant employees were leaving, or had just left, the workers representatives were summoned to be told by the same management that there had been a change of mind and that the foundry had instead to close. To make the matter even worse this was not a local announcement which might have given room for some discussion but a full blooded national declaration in the form of the Chairman's survival plan. Once again it became clear that Distington's detractors were plotting its overthrow whilst innocently announcing other decisions. In this case the decision to slim was announced whilst someone else was planning to close and this became evident later when it was obvious that both decisions stemmed from the same new planning document written in September and kept secret until January, 1981.

- 4 -

One began to wonder at this point about the meaning of joint consultation and the workforce at Distington ^{have} no doubt that the absence of any form of discussion prior to the announcement was part of the deliberate strategy of a bulldozer and that the choice of Distington for closure might have more to do with political objectives than commercial ones; the belief that Workington would prove to be a softer option than either Wales or Scotland.

22nd December

The Director of BSC Holdings visited Distington on 22nd December to explain the reasons for the closure. This he attempted to do in financial terms. Fortunately perhaps the September planning document which has already been mentioned and was supposed to be secret had been seen by some members of staff who were immediately concerned about its implications and had meanwhile given a critical reply to the General Manager of BSC Workington. This pre-warning of the Director's case had made it possible to verbally refute his claim but to no avail until he finally agreed to offer his reasons in writing to the accredited union officials and then receive in time, any written submission in reply.

6th January

Two documents were supplied and these turned out to be

- (a) The September planning document with a crucial front page summary missing.
 - (b) An extract from this, dated December and which contained only those points relevant to the new corporate plan which had just been revealed.
-

Relative dates

At this stage it might be convenient to recall that

- (a) A planning document with very limited circulation was issued on 26th September.
- (b) On the strength of this document, operation slimline was announced on 7th November.
- (c) On the strength of the same document, closure of the foundry was announced on 12th December.
- (d) The document was finally made available to the employees representatives on 6th January.

The great criticism that this calls for is that it made serious joint consultation an impossibility. The Corporation had formed their views entrenched them in a decision, enshrined them in a public statement by the Chairman and all that three weeks' before making available the necessary documents.

Employees Case

With the planning documents no longer secret it became possible to consider the Corporation's reasons in some detail and to consider their value. This was done and a reply submitted to the Director of BSC Holdings on 4th February. This reply identified

- (a) Some fundamental errors in estimating the costs of operating the Distington Foundry.
- (b) Two important omissions in the form of grant repayment liabilities and of the value of Distington's superior quality.
- (c) That it is the Director of Holdings himself that is accountable for any large differences in costs of the Distington and Fullwood Foundries which are very similar in process and equipment. The appropriate comment here might be that one does not shoot the patient if he only has a cold. Medicine is the correct antidote.

- t -
- (d) At outputs equivalent to the new corporate plan the estimates presented could be as much as £8 M in error for the next financial year and hence the Corporation stands to lose £6 M instead of saving the £2 M forecast.

In reality the Corporation is unlikely to operate at the new planned level in 1981 - 82 but even so, the errors seem so great that they warrant further investigation and the people of Distington are quite sure that their figures are sufficiently accurate to make it certain that whatever the activity the Corporation will L O S E not S A V E money if Distington is closed at this time.

Next step

Distington asked for an independent review which, needless to say, was (on 9th February,) refused by the Director of Holdings and this has resulted in the request being made direct to the Chairman and to the Chief Executive.

This call for a review is not a call for arbitration to find a middle road solution. The solution must be decided on economic considerations. What is being asked for is an independent and trustworthy examination of all the factors. Distington ^{believe} the following criteria need to be satisfied.

- (a) All foundries at risk should be represented
- (b) Chairman and some other members to be independent of BSC Holdings
- (c) The "through" costs to consumer as well as producer to be evaluated
- (d) The scope for exports to be more seriously considered.
- (e) The long term strategy with the possible need for one foundry to be examined, to identify the best foundry for this role so as to ensure that this foundry is one remaining in the shorter term strategy.

Joint Consultation

One cannot let this matter close without some comment about joint consultation whatever this means; there has been plenty of opportunity for it to take place ^{between} September when the planning document was produced and the 12th December when closure was announced. It is hardly fair that Distington employees suffer the injustice of a misguided decision because the Corporation choose high speed bulldozer tactics instead of a formal partnership in joint consultation.

The case presented by the team in Workington may not be accurate in all respects, it certainly has a lot more substance to it than the Director of ESC Holdings seems willing to admit and the sources of ^{his} errors and omissions seem so credible to anyone who has read the cases presented by both sides that there is, without doubt, and in the interests of justice a need for the independent review which they have repeatedly asked for.

Ministerial Involvement

It is precisely these sort of conditions for which the Government has reserve powers under Section x? of the 1975 Iron and Steel Act to question the decisions of the Corporation. If the Chairman refuses the request made by Distington then Government interference is needed.

Exports

Distington Foundry has 20 years of experience in selling ingot moulds overseas where competitive pricing and good performance are essential. Norway, Sweden, Denmark, Holland, Belgium, France, Italy, Egypt, India and Canada have all recognised the quality of the Distington product and at one time 30% of the total production was going overseas. In recent years this business has been allowed to decline because of the thin profit margins but now that the capital development has given more advanced processes to Distington and the critical slimming of manpower has improved its competitiveness on cost it is possible that this area should be examined and that extra sales might be achieved that would go a long way to support the continued operation of three foundries as well as contributing to the national balance of payments. We have often heard the phrase "export or die" and we must now question the absence of serious consideration by the British Steel Corporation into this possibility.

Social Policy

Has the BSC changed its social policy? Upon its incorporation in 1969 much was said about the importance of Social Policy and who can forget the initial appointment of a very well known Trade Union Leader as the Director of SOCIAL POLICY. Every person who has been involved in planning the operations of the Corporation must be aware of the consideration that has always been given to this in the past. Indeed the decision to close the blast furnaces at Stanton 10 years ago took account of the greater social hardship that would be created in Workington if ironmaking ceased there.

It is interesting to recall an item that was included in the Corporation's 1975 Rationalisation Study for Iron Foundries.

suggests that an alternative approach to planning might be to accept that production costs could be controlled by Managerial action to a uniform level and then to choose the operating configuration on consideration of "Sociological, Organisational and Regional forces, rather than on economic grounds.

The events at Workington make one wonder just how convenient it was to find some estimates, however wrong that could suggest that Distington Foundry should close, whereas the true reason might be in the fear of the Corporation about dealing with the regional forces that always seem ready to be unleashed by the people of Wales and Scotland. Clearly if the people at Distington believe in the existence of ulterior motives, regard the real reasons as political, and convince themselves that the figures presented were "doctored" then the Corporation have only themselves to blame for the manner in which they have handled the whole matter.

The effects on the Town will be catastrophic. Unemployment is already 14.2% on the Workington exchange and the area is third only to Ulster and Merseyside. A further 400 from Distington Foundry will add another 1 1/2% to the statistics. The follow on effects on local business like transport and the Docks will be immediately apparent. With the future of a further 600 employed in the Ironworks at risk the situation in Workington is extremely serious. By all moral principles the Corporation should think a dozen times before making any decision to close down its operations since there is no alternative employment that can deal with the situation.

SUBJECT.



Joe IS
AM
cc. Market set

10 DOWNING STREET

From the Private Secretary

4 March 1981

Dear Peter

MEETING WITH DALE CAMPBELL-SAVOURS MP
DISTINGTON FOUNDRY, WORKINGTON

The Prime Minister met Mr. Dale Campbell-Savours at his request at 1700 on 4 March to discuss the proposed closure of the Distington Foundry. Your Minister was also present.

Mr. Campbell-Savours said that the decision to close the Distington Foundry had been reached without the workforce being told. He had learned of it informally from a manager at Workington but had been pledged to silence. When the Corporate Plan was published he was confronted by the decision to close the Foundry and had subsequently made his statement in the House of Commons. Later he had sent to the Prime Minister, under cover of his letter of 9 February 1981, a report by the Joint Representative Committee at the Foundry.

He said that he had never argued that the Foundry should be kept open for social reasons. The case he wished to make was a commercial one. He said that he was supported by SIMA, who took the view that the figures on which the decision had been reached were incorrect. This view was shared by the managers at Workington, with the exception of the General Manager. He said that the local managers had written to Mr. MacGregor asking him to intervene but that Mr. MacGregor would not override his own managerial team.

In Mr. Campbell-Savours' view, the decision had been taken by the FFE Group Managers in Sheffield, who were responsible for the other two ingot mould foundries but no longer for Distington, following reorganisation in 1978.

He emphasised that £10½ million had been invested very recently in the Distington Foundry and that we were talking about a brand new works.

The Prime Minister asked whether Mr. Campbell-Savours thought it possible that the BSC had reached its decision on the grounds of sharing out closures amongst different communities.

/ She assured

She assured him that no political pressure had been exerted on the BSC, either by her or by the Department of Industry. She said that by the time the steel plan came to her, she had no option but to accept it, since it had been worked out over a long time and had been approved by a majority of the workforce. All that she had been able to do was to look into the figures. She said that she sometimes complained about not receiving alternative plans from the nationalised industries.

The Prime Minister said that she was concerned to learn from Mr. Campbell-Savours that he had been unable to discover what he regarded as the full facts behind the decision to close Distington. She said that any constituency Member would feel the same in similar circumstances.

Mr. Campbell-Savours said that the total number of redundancies in the Workington area was some 2,000, reducing the workforce from 4,800 to about 2,800. He thought that it was inconceivable that the decision had been reached on the grounds of sharing out the hardship, since the loss of jobs involved locally was some 40 per cent. He said that the Foundry workers themselves had rejected the plan. He emphasised that the number of jobs involved was more than the 300 workers in the Foundry itself, since there would also be redundancy amongst maintenance workers. He said that the workers felt they had suffered an injustice and they wanted a proper evaluation of the facts.

He said that everyone accepted the need to reduce capacity and that he would agree that one of the three foundries had to be closed. The workforce accepted that there had to be a closure but they wanted a proper evaluation of the facts. They said that they could produce their products at a price equal to any other BSC foundry and that if they had been allowed to contribute to the evaluation, their Foundry would have remained open.

Your Minister asked whether Mr. Campbell-Savours was alleging managerial incompetence in BSC. He replied that he was, and that it had taken place in Sheffield.

Your Minister said that the question facing the Government was to what extent they could intervene and take over decisions which had been reached by the BSC management. The Prime Minister said that the Government could not intervene but they could enquire into the facts. She repeated that she could understand the workers involved feeling a sense of injustice.

Your Minister said that enquiries had already been made of Mr. MacGregor, and the response had been that the BSC management were convinced that their conclusions had been correct. He said that he could not talk to local managers without undermining Mr. MacGregor's authority. The Prime Minister said that the Government could not go behind the Chairman's back, but that there should be another approach to him.

/ Mr. Campbell-Savours

Mr. Campbell-Savours suggested that it should be put to Mr. MacGregor that some of his managers were not competent to take decisions of this sort. He said that reasonable, sensible people among the management at Workington had told him that the consultation exercise leading to the closure proposals had been a sham.

Your Minister said that it was very difficult for anyone outside the Corporation to go over the Corporation's own figures. The Prime Minister said that the Government could not do that, and had to presume that the BSC management had acted honourably and decently. However, she thought that for everyone's peace of mind and the welfare of those concerned, it might be worth asking the Corporation to look at the figures again.

Mr. Campbell-Savours said that the managers at Workington felt that the behaviour of Mr. Bray and, in particular, the conversation at Workington in which Mr. Bray had made light of some of the financial considerations, had discredited the Corporation.

Closing the meeting, the Prime Minister said that she was not prejudging the issue but that she would take up the question which Mr. Campbell-Savours had raised with Mr. MacGregor.

In subsequent conversation, it was agreed that we would ask your Department to provide very rapidly a draft letter for the Prime Minister herself to send to Mr. MacGregor, explaining the source of Mr. Campbell-Savours' anxiety and asking him to respond.

The draft of that letter should obviously be cleared with your Minister. I hope that it might be possible for it to reach us by close of play on Friday, 6 March.

The Prime Minister may have to answer an oral Question from Mr. Campbell-Savours in the House of Commons tomorrow; we will approach you separately about the briefing for that.

I am copying this letter for information to Ian Ellison (Department of Industry) and Richard Tolkien (HM Treasury).

You ever

Nick Sades

Peter Mason, Esq.,
Department of Industry.



Prime Minister

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

*From the
Minister of State*

PS/Norman Tebbit MP

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

3 March 1981

Dear Nick,

Following your conversation with Peter Mason yesterday, I am enclosing a brief for the Prime Minister for the meeting on 4th with Mr Dale Campbell-Savours MP, which my Minister will attend.

The brief has not been cleared with Mr Tebbit since he is in Brussels today.

Yours sincerely,

Heather Archer

HEATHER ARCHER
Private Secretary

Enc



MEETING WITH MR DALE CAMPBELL-SAVOURS MP, 4 MARCH

Mr Campbell-Savours has asked to see the Prime Minister to discuss the closure of BSC Distington Foundry, in his constituency, which will lead to the loss of about 430 jobs. The foundry is a modern one, completed only last year, but BSC have substantial surplus capacity. Further details are given in the attached background note, and the Secretary of State for Industry wrote to Mr Campbell-Savours on 20 February, copy also attached, explaining why he would not intervene in the BSC's decision.

Line to Take

2. It is suggested that the Prime Minister will wish to express sympathy over the closure of Distington foundry, but at the same time point out that it is essential for BSC to close excess capacity and to slim down its ongoing operations if the Corporation is to become viable and cease to be a burden on the taxpayer. 50,000 jobs were lost in BSC in 1980, and a further 20,000 will go in 1981 under the Corporate Plan. The Government cannot conduct an investigation into each and every proposed closure, since this would merely



serve to delay essential cost reductions and undermine the effectiveness of BSC management. Decisions on closures must therefore remain with BSC management.

3. In response to specific points which Mr Campbell-Savours may raise, the following may be said:

- (i) There has been no pressure of any kind by the Government on BSC to persuade them to close Distington rather than one of the other ingot mould foundries in S.Wales or Scotland.
- (ii) To keep 3 foundries open, as Mr Campbell-Savours suggests, would however inevitably mean redundancies in Wales and Scotland.
- (iii) The closure of Distington Foundry will lead to the Department of Industry seeking to reclaim part of the grant paid out under Section 8 of the Industry Act towards the foundry (see para 9 of the background note).



(iv) The use of Section 5(3) of the Iron and Steel Act to obtain information about the Distington Foundry, as suggested by Mr Campbell-Savours, could not be used to provide him with detailed information against the wishes of the Corporation (see para 8 of the background note).



Background Note

MEETING WITH MR DALE-CAMPBELL-SAVOURS MP, 4 MARCH 1981

Mr Campbell-Savours wrote to the Prime Minister on 13 February seeking a meeting to discuss the closure of the BSC's new Ingot Mould Foundry at Distington, in his constituency, with the loss of about 430 jobs.

2. Mr Campbell-Savours has been conducting an intense and sustained campaign against this proposed closure. The Distington foundry is a new one, completed only last year at a cost of £10 million. He believes that the BSC's decision to close the foundry was taken on the basis of an unfair evaluation of the costs of operating each of the 3 BSC Ingot Mould foundries (the other 2 are at Dowlais in S. Wales and Fullwood in Scotland). In seeking to put right what he believes to be an injustice he has had a straight-talking meeting with Mr Ian MacGregor on 18 December, at which he claimed he was threatened: Mr MacGregor denies this and the allegation is now being considered by the Committee of Privileges. Mr Campbell-Savours has raised the matter a number of times in Parliament, most recently in a 50 minute speech during the Second Reading of the Iron and Steel (Borrowing Powers) Bill on 18 February (Hansard cols 373 to 383).

3. Mr Campbell-Savours also wrote to the Prime Minister on 9 February enclosing a copy of a lengthy document, prepared by workers and management at BSC's Distington Foundry, which sets out a



number of detailed cost and quality comparisons between the 3 BSC Ingot Mould foundries. This report shows Distington in a very favourable light and concludes that there should be a further period of 3-site operations pending further detailed studies.

4. The Secretary of State for Industry replied on the Prime Minister's behalf in a letter dated 20 February, copy attached. He made it clear that the Government would not intervene in unpopular decisions taken by BSC management.

5. There is no doubt that BSC have excess capacity in their ingot mould foundries. The decision to install modern new capacity at Distington was taken when BSC expected their production to be 26 million tonnes of liquid steel per annum rather than the 14.4 mtpa in the Corporate Plan for 1981/82. If Workington were not closed but all 3 foundries were to be kept going at reduced capacity, this would mean redundancies would take place in S.Wales and Scotland. Mr Campbell-Savours has suggested that it is political pressure on behalf of the Scots and the Welsh that has led to the decision to close Distington: no such pressure has been applied by Government.

6. The current situation at Distington is that formal notice of closure was given by BSC on 12 February, but no date for the closure has been set. This is a matter for negotiations with the



local workforce: normally BSC give 12 months notice of plant closures and negotiate severance payments to secure earlier closure. However on 27 February, following a mass meeting of the Distington workers, the local union representatives have told the BSC management that they are not prepared to negotiate terms for early closure. They have referred the matter to national union officials who are seeking a meeting with senior BSC management. BSC are considering this - they are not keen on discussing local closures at national level. For the present therefore, the Distington foundry remains open, no date has been set for closure, and no further meetings to discuss closure have been arranged.

7. Even with the closure of Distington Foundry, BSC will remain a major employer at Workington. There are about 3,000 employed in Workington by BSC at present, although over 1,200 redundancies have taken place there over the past year, including 300 in the Distington Foundry itself, as BSC have slimmed down their operations.

8. One of Mr Campbell-Savours persistent requests has been that the Secretary of State should use his powers under Section 5(3) of the Iron and Steel Act 1975 to obtain detailed information from the Corporation about the decision to close the Distington Foundry. In principle, this power could be used; the reason why it is not is set out in the Secretary of State's letter of 20 February. However, Mr Campbell-Savours may not be aware that the power under Section 5(3) cannot be used to provide



information to an MP against the wishes of the Corporation, since Section 33 of the Iron and Steel Act prohibits disclosure of information obtained from BSC under the Act, except with the consent of the Corporation.

9. Mr Campbell-Savours also may refer to the fact that the Department of Industry provided grant aid to the BSC for the Distington foundry, under the Ferrous Foundry Scheme (a sectoral scheme under the Industry Act). There have however been a number of closures of foundries in the private sector which received grant-aid under this scheme, and the Department has not intervened. Where a closure has taken place we do however seek to recover a part of the grant paid, depending on the length of time which the grant aided foundry equipment has been in use. BSC will be treated in the same way.

Iron and Steel Division
3 March 1981

Sub

2 March 1981

As I told you on the telephone today, the Prime Minister will be seeing Dale Campbell-Savours, M.P., on Wednesday 4 March at 1630 hours. Your Minister will also be present. As I mentioned, I should be very glad if you could provide a short brief for the Prime Minister, to reach us here by close of play tomorrow. I attach a letter from Mr. Campbell-Savours outlining the topics he wishes to raise. You will recollect that there has been previous correspondence to the Prime Minister from him.

N. J. SANDERS

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

Gr.



Secretary of State for Industry

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

20 February 1981

Dale Campbell-Savours, Esq MP
 House of Commons
 London SW1A 0AA

Dale M. Campbell-Savours.

The Prime Minister has asked me to reply to your letter of 9 February about the BSC's decision to close Distington Foundry, with which you enclosed a copy of a report by the Joint Representative Committee at the Foundry. This letter also follows up your earlier discussion with Michael Marshall.

I understand your concern, and that of your constituents, over the BSC's intention to close Distington, especially in circumstances where the Corporation has spent substantial sums in the recent past to modernise the foundry. The Joint Representative Committee's report brings out clearly, however, that BSC is faced with excess capacity in its ingot mould foundries. There are also several inter-related factors which have to be taken into account in deciding what strategy gives the best overall prospects for the future. In my view, and as I said to you at question time on 9 February, these decisions are for the management of BSC to take, and not for Ministers.

Intervention along the lines you suggest would, I believe, be counter-productive. Ministers and Government Departments are not equipped to evaluate detailed technical and commercial considerations such as those lying behind the Distington decision. And if we were to acquire this kind of expertise, we should end up duplicating many of the functions of BSC management, which would be both wasteful and inefficient. Second-guessing of that kind, and the creation of a court of appeal for unpopular decisions, would diminish the BSC's responsibility for its own decisions.

For these reasons, I asked the BSC to prepare its Corporate Plan on commercial criteria (so far as this is possible for a business in such great financial difficulties as BSC). My

/examination ...



examination of the Plan has concentrated on the BSC's overall recovery strategy (and the risks to it) and on the future financial needs of the Corporation. I made it clear to the House in the debate on 16 December that the Corporation does not require Government authority to put into effect many of the proposals in its Corporate Plan, including those for redundancies or plant closures.

Erin
Kear Joseph

Published Papers

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

House of Commons Hansard, 18 February 1981,
columns 373-383

Extract from debate on Iron and Steel (Borrowing Powers) Bill:
Statement by D N Campbell-Savours at 11.28 pm

Signed Wayland Date 30 August 2011

PREM Records Team



2

10 DOWNING STREET

PRIME MINISTER

This letter from Dale Campbell-Savours is the third to follow up your offer to meet Labour MPs to discuss factory closures. He has also tabled oral Questions to you on each Question day for the next two weeks, asking how many meetings you have had to discuss industrial closures.

We will make arrangements for you to see Mr. Campbell-Savours after your return from the United States.

Refer - Jo. 20 min.

MS

16 February 1981

MS

16 February 1981

I am writing on behalf of the Prime Minister to thank you for your letter of 13 February, which I shall place before her at once. You will be sent a reply as soon as possible.

NJS

Dale Campbell-Savours, Esq., MP.



HOUSE OF COMMONS
LONDON SW1A 0AA

13th February 1981

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
Westminster, SW1

Dear Prime Minister,

You will be aware of the document I sent you entitled 'Ingot Mould Foundry Rationalisation', and I wish to thank you for your reply, notifying me of your decision to refer my comments to Sir Keith Joseph, and asking him to reply directly on your behalf.

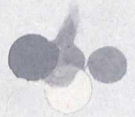
In the light of your statement yesterday, however, that you are willing to meet any Members who suffer major factory closures in their constituencies, I would be very grateful if I could arrange a meeting with you to discuss the closure of Distington Foundry.

Needless to say, I would not abuse the very kind gesture you have made to the House by seeking meetings on every closure that takes place in my constituency. However, I firmly believe that the Distington Foundry closure cannot be sustained on any sound commercial basis, especially in the light of the British Steel Corporation's decision to maintain other plants producing the same product, despite their lack of advanced technological status. I feel I would be failing my constituents and those involved in the Steel Industry in West Cumbria if I were to fail to accept the offer you have made to the House.

I would be grateful for the earliest possible meeting, as this matter is of desperate importance to West Cumbria.

Yours sincerely,

A handwritten signature in black ink, reading 'Dale Campbell-Savours'.



Report sent to DoI.



ja BK

10 DOWNING STREET

From the Private Secretary

11 February 1981

Th. Campbell-SAVOURS
(Distington Foundry)

25/3

I attach a self-explanatory exchange of correspondence between the Prime Minister and Dale Campbell-Savours MP. You will see that she would be grateful if your Secretary of State could reply on her behalf.

Could we please have a copy of that reply for our records in due course?

N. J. SANDERS

Ian Ellison, Esq.,
Department of Industry

JA



10 DOWNING STREET

THE PRIME MINISTER

11 February 1981

Dear Mr. Campbell-Savours,

Thank you for your letter of 9 February with which you enclosed a Report which has been produced by a Joint Representative Committee of the Distington Foundry.

I have passed your letter to Keith Joseph and have asked him to reply direct to you on my behalf.

Yours sincerely
Margaret Thatcher

Dale Campbell-Savours, Esq., M.P.



10 DOWNING STREET

PRIME MINISTER

This letter from Dale Campbell-Savours enclosed a report about the Distington Foundry in Workington and asks for Department of Industry action. It seems to me that you might ask Keith Joseph to reply on your behalf, rather than getting into the details of this controversy yourself.

If you agree, I attach a draft reply to Mr. Campbell-Savours for you to sign.

10 February 1981

GR
Did I do the follow up? MS
MS

File

289

10 February 1981

I am writing on behalf of the Prime Minister to thank you for your letter of 9 February enclosing a Report produced by the Joint Representative Committee of the Distington Foundry in Workington.

I will place your letter before the Prime Minister and you will be sent a reply as soon as possible.

N. J. SANDERS

Dale Campbell-Savours, Esq., M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

9 February 1981

The Rt Hon Margaret Thatcher MP
Prime Minister
First Lord of The Treasury
10 Downing Street
LONDON SW1

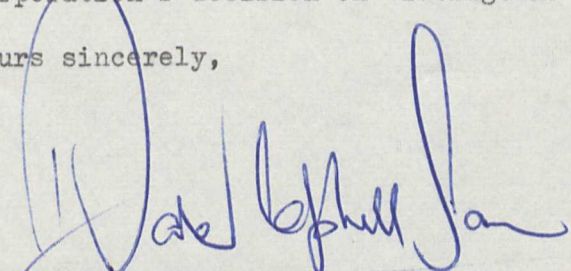
Dear Mrs Thatcher,

I am enclosing a copy of a Report that has been produced by a Joint Representative Committee of the Distington Foundry in Workington. This Report entitled 'Ingot Mould Foundry Rationalisation', challenges a Report produced in September last year by Forges, Foundries and Engineering Managers, a Report which I commented upon in my intervention during the Steel debate on Tuesday 16 December 1980.

I am forwarding this document to you with the hope that your Officials will examine it and put it to the Department of Industry that they should use powers open to them under Section V sub-section III of the Iron and Steel Act 1975, which enables the Minister to seek information from the Corporation with respect to their returns, accounts, and activities generally. It is my view that if such information was called for by the Secretary of State for Industry and the Department was willing to intervene in areas of detail in the Corporate Plan and question Corporation Managers, that the decision that has been taken to close Distington Foundry would be seen to need further consideration. West Cumbria feels that with the closure of its newly reequipped Foundry at a cost of £10.5 million, the closure is based on arguments that cannot be sustained if subjected to detailed commercial examination.

It has been suggested that in response to Political demands by the Government the Corporation modified its closure programme in order to protect certain areas. An examination of the accompanying document will show that it cannot have been commercial criteria which determined the British Steel Corporation's decision on Distington.

Yours sincerely,


DALE CAMPBELL-SAVOURS MP