PREM 19/807

UK Newsprint Production.
Bowater's Mersey Mill at Ellesmere Port.

INDUSTRIAL POLICY

July 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~11.8.80~~		~~27.3.81~~					
~~26.8.80~~		~~10.7.81~~					
~~5.9.80~~		~~2.8.82~~					
~~12.9.80~~		~~3.8.82~~					
~~18.9.80~~		~~10.8.82~~					
~~29.9.80~~		~~26.11.82~~					
~~6.10.80~~		1.12.82					
~~8.10.80~~							
~~16.10.80~~							
~~22.10.80~~							
~~28.10.80~~							
~~30.10.80~~							
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~~10.11.80~~							
~~11.11.80~~							
~~12.11.80~~							
~~18.11.80~~							
~~19.11.80~~							
28.11.80							

PREM 19/807

Dd 533270 5M 2/78 8362633 JET

Briefing for mtg on 3.10.80
in folder attached

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(EA)(80)47	28.7.80
E(EA)(80) 17th Meeting, Minute 1	31.7.80
E(EA)(82) 23	29.7.82
E(EA)(82) 24	30.7.82
E(EA)(82) 12th Meeting, Minute 3	3.8.82

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

Signed AWayland Date 13 September 2012

PREM Records Team

CABINET OFFICE

Central Policy Review Staff

With the compliments of
John Sparrow

70 Whitehall, London SW1A 2AS
Telephone 01-233 7765

IND. POL.

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Prime Minister (2)

This* is, notwithstanding these points, likely to be agreed by E(EA).

MCS 1/12

*The details, which I mentioned to you, are set out in the attached letter from Mr. Lamont.

Qa 06165

From: John Sparrow

CONFIDENTIAL

1 December 1982

The Rt Hon Patrick Jenkin MP
Department of Industry
ASHDOWN HOUSE
S W 1

Dear Patrick,

United Paper Mills

The proposal set out in Norman Lamont's letter of 23 November is, of course, much less expensive than the earlier proposals for Government support of the Shotton project. There are, however, still some points which I think should be borne in mind in making the decision.

Integrated pulp and paper manufacture is so highly electricity intensive that it is very doubtful whether we can in the long run compete with other countries such as Scandinavia which have access to much cheaper sources of power. There is a strong risk that in a few years time UPM will be asking the Government for operating subsidies, perhaps citing a discretionary Government grant of £2 million as evidence of our commitment to the project.

Next, Governments have over the years sunk a lot of money into forestry, but this does not make a good argument for sinking more into a means of using its products. I question whether we should be subsidising the products of an already subsidised industry.

Finally, this case shows how important it is for the Quinlan Group's Review of the RDG system to be a radical one. Automatic grant to the tune of some £22,000 a job, against the background set out above, is not something I should be happy to see repeated.

I am sending copies of this letter to Norman Lamont and to the recipients of his letter.

Yours sincerely,

John.

John Sparrow

Ind Rel July 80

UK Newsprint Reduction

Ind Pol   cf JV

NBPM
MCS 30/4

6106   6106

RT HON NICHOLAS EDWARDS MP

26 November 1982

Norman Lamont has copied to me his letter to you of ~~23~~ 25 November about the United Paper Mills project.

I need hardly rehearse my previous arguments in support of this project. As you know I am wholly convinced that its establishment would bring real benefits to the Shotton area as a result of the much neededidirect jobs that it would provide and it would of course be of vital importance to the United Kingdom forestry industry not only in employment terms but also in providing a much needed boost to the forestry industry's marketing of its timber supplies.

The further discussions that have been held with UPM have resulted in a very significant reduction in the level of financial assistance now under consideration and I am convinced that the package that can now be negotiated represents, as Norman suggests, an attractive proposition from the Government's point of view. I therefore fully support Norman's recommendation.

I am copying this letter to the recipients of Norman's.

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

Ind Policy

UK Newsprint Production

July 1980

11 12 1
10 2
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8 4
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fc 52

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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From the
Minister of State

Norman Lamont MP

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

23 November 1982

Dear Secretary of State

On 3 August we considered in E(EA) a project for a pulp and newsprint mill to be built at Shotton by United Paper Mills (UPM), a major Finnish company. The project would cost £132 million and bring significant industrial and employment benefits both in itself and via the forestry sector.

The conclusion of the meeting was that the levels of Selective Assistance proposed were too high but we should explore with the company whether they would be prepared to carry out the project in return for a significantly smaller level of selective assistance, and report back. After discussion with the Chief Secretary £2 million was taken as an indication of the lower level which could be considered

Officials discussed the position with UPM in Finland on 5 August. UPM's immediate reaction was that such a significant reduction in the level of assistance would reduce the return on the project to an unacceptably low level. The projected IRR before tax and interest payments of the project in its original form was 17.8%. £2 million instead of £16.6 million selective financial assistance would reduce the IRR to 15.4%. But because they were convinced that the project in itself was sound, and because they had already expended so much effort on it, UPM wished to re-assess all the parameters involved to see if another way of financing the project could be found.

The UPM Board have now reconsidered the position and will shortly be looking at proposals for proceeding with the project with the much lower level of Industry Act assistance which has been indicated. They believe that the changes outlined below would enable the project to go ahead.

The most significant change concerns the cost of wood, where the Forestry Commission have agreed an improved deal on prices with UPM. This has been done on commercial grounds without any adverse effect on the Commission's grant in aid. There have been significant changes in the UK wood market since the original negotiations took place. Prices have weakened and the demand for exports from the UK to Scandinavian countries has fallen off substantially. Some export contracts have ceased altogether, and longer term prospects are further impaired by devaluation of the Swedish and Finnish currencies by 16% and 10% respectively. In these circumstances the Forestry Commission are very keen that the UPM project should go ahead.

It was always the intention that the price of wood over the life of the project should be governed by a formula which links it to the selling price of newsprint (thus reducing the risk for the project). The Forestry Commission have now in addition offered a temporary rebate on the wood price over the first four years of the project. On the basis of the private sector wood suppliers following suit, which is reasonable on the evidence of the current market position, and taking account of other modifications, these changes save £7 million at constant prices. The effect of these and some other adjustments is set out in the attached table A. Apart from the items shown, the main assumptions are unchanged. It will be seen that a considerable part of the new financial package depends on the rebate in world prices in the early years of the projects.

The second change is that UPM have decided to go for some leasing of assets rather than rely wholly on bank loans. Their current plans are to raise £50 million from leasing, and finance the balance from bank loans. Details are at table B. The borrowing will be guaranteed by UPM or the Finnish bank closely associated with it. Taken together, these changes bring the IRR back from 15.4% to 17.4% compared to the original projected 17.8%. If falling interest rates mean that at the time that the financing package is finalised there is little difference between the costs of leasing and of fixed interest loans, UPM may prefer the loans option.

UPM have also now decided that as the terms on which the City would want equity to be remunerated are too onerous, they would prefer to provide all the equity themselves which brings their equity contribution up to £22 million (they are considering a rights issue of £5-6 million to finance this increase).

In total UPM will be carrying responsibility for £104 million of the £132 million project costs for a venture promising them a return after tax and interest payments of 8-9%.

At present discussions are proceeding with two major UK financial groups about leasing finance and with the EIB and ECSC about loans. UPM are looking to finalise the arrangements before the end of the year by when their present options with the Forestry Commission and the BSC (for site) will expire. UPM are incurring considerable expense throughout this period and have asked for confirmation that £2 million of selective assistance will be forthcoming since without this they would not proceed further.

The Department of Industry's economic analysis has been revised to take account of the changes in the company's assumptions on costs and prices, the lack of alternative markets for wood and the smaller sum of selective assistance. The crux is whether the wood sales to UPM are additional to what the forest owners could have achieved without the project. It was strongly argued by the Forestry Commission that this was so, and this view was supported by IDAB after detailed discussion. Thus the project enables us to use an indigenous resource which would otherwise be wasted. For these reasons, the analysis shows the benefits in terms of increased net UK income to be roughly double the total cost of assistance (including RDGs). This more than satisfies the Department's normal economic requirement and compares favourably with other assisted projects. £2 million selective assistance, including an element of training grant, is within the relevant cost per job and NGE limits. UPM now have one principal alternative investment option in Finland but firmly believe that this project will be viable, a view accepted by the Industrial Development Advisory Board.

I believe that, following restructuring of the project's financing in the more realistic way that is now proposed, then for £2 million selective assistance the project, which will provide some 270 direct jobs, plus another 940 indirect jobs, is an attractive inward investment proposition for the UK which is unlikely to occur again. The IRR has been brought back in reach of the figure the company had always regarded as necessary but this time in ways not making such large additional calls on public expenditure. I recommend we offer the £2 million: since we would now be within the normal limits for regional assistance, we would intend to make the offer under Section 7 of the Industry Act, thus avoiding the need for notification to the European Commission.

As well as selective assistance, UPM will benefit automatically and as of right from Regional Development Grants since Shotton is in a Special Development Area. Their entitlement is estimated at £26.2 million. I recognise that colleagues will find this a substantial figures. The RDG system, although it is currently being reviewed by the Quinlan Group, is at present an established part of our policy and practice, and the amount has been taken fully into account in the economic analysis carried out on this case. We have consistently been in favour of attracting wealth-creating capital intensive projects to the UK through our system of incentives. Examples of other large capital projects, approved by us, which will be receiving substantial RDGs include the Mossmorran cracker (project costs £350 million, anticipated RDGs £53 million) and Motorola (project costs £87 million, anticipated RDGs £12 million). The total grant assistance, including RDGs, would amount to 21% of project costs. The rest is being borne entirely by the company, demonstrating their confidence in its viability. It is, as I have said, the opinion of the Industrial Development Advisory Board that this is a sound, viable and valuable project which deserves this degree of support. Without the Selective Assistance UPM have made it clear the project will not go ahead.

To sum up, this project conforms to our policy of welcoming large capital intensive inward investment projects when these bring overall economic benefits. It passes all the tests normally applied to selective assistance. Compared with the earlier proposal, the amount of Industry Act assistance has been substantially reduced, and a considerable degree of additional finance has been found in ways that do not make extra calls on the Exchequer.

The UPM board intend making a final decision on the project at a meeting on 2 December and I would hope to be in a position to communicate our decision to the Company before then.

I am copying this letter to the recipients of the previous papers.

Yours sincerely,

John Alty

NORMAN LAMONT

(Approved by Mr Lamont and signed in his absence)

EFFECT OF CHANGES TO ASSUMPTIONS

The figures set out below show the changes to financial rewards and internal rates of return (IRR) of the project which have occurred since the project was first considered :

		£m	IRR of project *
1	Original assumption concerning selective financial assistance	16.6	17.8%
2	SFA reduced from £16.6m to £2.0m	- 14.6	- 2.4%
3	Forestry Commission-led temporary rebate in first 4 years	+ 7.3	+ 1.2%
4	Electricity change of tariff	+ 0.6	+ 0.1%
5	Leasing rather than medium term loans	+ 3.1	+ 0.5%
6	Newsprint price and other adjustments	+ 1.2	+ 0.2%
	UPM's reduced returns from project	— 2.4	—0.4%

* This refers to the rate of return before tax and interest payments. After tax and interest the return, on the original assumption concerning selective financial assistance, would have been about 10%. As a result of the changes outlined above it is now likely to be 8-9%.

TABLE B

The financing of the project is currently estimated to be as follows :

	£m
UPM equity	22
Leasing	50
Loans (including EIB and ECSC loans)	25
Bank overdraft	7
RDG & SFA	28
TOTAL	132

Ind Pol, July '84, UK newsprint Production

BK

file Ind Pol

10 DOWNING STREET

From the Private Secretary 10 August 1982

UNITED PAPER MILLS

The Prime Minister has seen your Secretary of State's minute of 5 August in which he reported the conclusions of E(EA) on the UPM project at Shotton. She has also seen Mr. Lamont's letter of 6 August to your Secretary of State, in which he recorded UPM's reaction to the proposal that the Shotton project should proceed with no more than a very limited measure of selective financial support. She has noted both these reports without comment.

I am copying this letter to John Gieve (Chief Secretary's Office, HM Treasury), Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office).

W. F. S. RICKETT

Jonathan Spencer, Esq.,
Department of Industry

CONFIDENTIAL

cc JV

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From the
Minister of State
Norman Lamont MP

Prime Minister 2

WR 6/8

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

6 August 1982

Dear Patrick

In accordance with the minutes of E(EA)(82)12th meeting, officials have informed United Paper Mills that the selective financial assistance they were seeking will not be given. They then explored with the Finns, without commitment, the possibilities of the Shotton project proceeding with no more than a very limited measure of selective financial support on top of the Regional Development Grants that would be available automatically.

The instant reaction of the company's Managing Director and his colleagues present was that this would reduce the return on the project to an unacceptably low level. Before coming to a final formal decision, which would need ratification by the Board, they would wish to reassess all aspects of the project a final time. However it could not easily be seen how these aspects might be varied to bring the rate of return back to the level they and potential City investors would need. The company will therefore respond formally as soon as it can, at the latest by the end of September but very probably much sooner.

I am copying this to the Prime Minister, colleagues on E(EA), the Minister for Agriculture, John Sparrow and Sir Robert Armstrong.

Yours

Norman

NORMAN LAMONT

-6 AUG 1982

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Prime Minister

You have already seen the minutes of E(EA) recording this decision, as well as UPM's reaction to the proposal that they should go ahead at a lower level of selective financial assistance. UPM will respond formally by September, but it seems likely they will not go ahead.

WR 9/8

PRIME MINISTER

UNITED PAPER MILLS

The Ministerial Sub-Committee on Economic Affairs yesterday discussed (E(EA)(82)12th meeting, item 1) the United Paper Mills project at Shotton on which you commented in your Private Secretary's letter to mine of 2 August.

2 There was a general recognition in the Sub-Committee that the proposed total financial assistance to the project was very large (£43m including both regional development grants and selective financial assistance) and also that there was a risk that the project would not be viable in the longer term because it would have to compete with pulp and paper mills in Scandinavia which have the advantage of cheap hydro-electric power. The Sub-Committee did not therefore feel able to approve the proposal.

3 Some Ministers felt however that the main argument in favour of the project was the potential benefit to the United Kingdom forestry industry. Present forestry policy is geared to producing substantial amounts of timber around the end of the century when a shortage is forecast. To achieve this policy extensive thinnings are required in the years ahead and, as a result of recent developments, the market for such thinnings has

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virtually disappeared. The proposed Shotton mill would provide the market which is needed. Rejection of the proposal would therefore be likely to provoke a strong reaction from forestry interests and the Government would need to consider carefully how to deal with that.

4 The Sub-Committee therefore agreed that the Minister of State, Department of Industry might explore, entirely without commitment, whether the project might go ahead with the regional development grants (to which it is entitled automatically) and a smaller amount of selective financial assistance than the £16.6 million proposed. If, as might well be the case, United Paper Mills are unwilling to go ahead with a significantly smaller amount of selective financial assistance, that will be the end of the matter. Otherwise, the Sub-Committee would be prepared to look at a revised proposal, without any assumption that they would necessarily reach a favourable conclusion and with the position of the Chief Secretary, Treasury, fully reserved.

5 I am sending copies of this minute to the Secretaries of State for the Environment, Scotland, Wales, Energy, Employment and Trade, the Minister of Agriculture, the Chief Secretary, Treasury, the Minister of State, Department of Industry (Mr Lamont), Mr Sparrow and Sir Robert Armstrong.

PJ

P J

5 August 1982

Department of Industry
Ashdown House
123 Victoria Street

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virtually disappeared. The proposed shotblasting would provide the market which is needed. A rejection of the proposal would therefore be likely to provoke a sharp reaction from the [illegible] interests and the Government would be expected to consider carefully how to deal with them.

8. The CI Committee therefore agreed that [illegible] the Minister of State, [illegible] careers, [illegible] directly [illegible] could only, [illegible] with the regional development grant (to which it is entitled automatically) and a smaller amount of selective financial assistance than the £10.0 million proposed. If, as might well be the case, United Paper Mills are unwilling to go ahead with a significantly smaller amount of selective financial assistance, that will be the end of the matter; otherwise, the CI Committee would be prepared to look at a revised proposal, without any assumption that they would necessarily reach a favourable conclusion and with the addition of the Chief Secretary, Treasury, fully reserved.

9. I am sending copies of this minute to the Secretaries of State for the Environment, Scotland, Wales, [illegible] and Trade, the Minister of Agriculture, the Chief Secretary, Treasury, the Minister of State, Department of Industry (Mr Lamont), Mr Sparrow and Sir Robert Armstrong.

[illegible] August 1982

Department of Industry
Ashdown House
123 Victoria Street

9 AUG 1982

CONFIDENTIAL

VB

2nd Del

bc: Mr. Walters

file

10 DOWNING STREET

From the Private Secretary

2 August 1982

Dear Caroline

As I said on the telephone this morning, the Prime Minister has seen the three papers for E(EA) on United Paper Mills' project at Shotton: E(EA)(82)21, 23 and 24.

The Prime Minister is not content with the proposal in E(EA)21 that UPM should be offered £16.6 million under Section 8 of the Industry Act for their project. She sees little merit in the scheme and agrees with the points made by the Chief Secretary in E(EA)(82)23. She also shares the concern expressed by the CPRS in E(EA)(82)24 that there is a considerable risk that in a few years' time the Government will face pressure from UPM to provide an operating subsidy in order to avoid closure of their plant.

Finally, the Prime Minister has noted that the Department of Industry's proposals involve total government assistance of £43 million, and she has commented that if such sums were in fact available, they would be far better spent on the Small Engineering Firms Investment Scheme.

I am copying this letter to the Private Secretaries to other members of E(EA), Robert Lowson (MAFF), Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office)

Yours ever

Willie Rickett

Ms Caroline Varley,
Department of Industry.

CONFIDENTIAL

BK

Told Cab Off, DoI, and Tsy

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Prime Minister

(1)

PRIME MINISTER

Agree Alan Walters's view?
(please see attached papers)
MLS 30/7

UNITED PAPERMILLS

The proposal of the Department of Industry should be rejected. It asks for aid of £43.2million, comprising about a third of a £132million project, which will employ about 1,200 people - of which 270 will be in Shotton.

Most of the employed, probably more than 900, will not be in either intermediate areas, development areas or SDAs. They will be found in the forest areas of mid-Wales, and the Border District. These areas are many miles from Tyneside, Clydeside, and the depressed areas of South Wales or the Mersey.

In terms of Shotton itself, the investment associated with each man there will be £½million, of which £150,000 per man will be subscribed by Government. In other words, this is the typical enormously capital-intensive project which is ill-suited for soaking up the excess supplies of labour left in Shotton by the decline of its traditional industry, industrial base.

Norman Lamont puts great store by the approval of IDOD. But this merely means that there is likely to be a profit for the firm in this operation. Certainly it does not imply that it is a good way to spend Government money. I can see no merit in the scheme.

30 July 1982

ALAN WALTERS

CONFIDENTIAL

Action

PA

MCS

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£46 m aid!

I see little merit in this scheme. The next thing we shall be asked for is a special energy contract. (cf. Bowaters). If large sums like this are available they would be far better spent on help to small businesses with engineering purchases - which [illegible] has had to be closed at - £30m

E(EA)(82)21

COPY NO 2

28 July 1982

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON ECONOMIC AFFAIRS

UNITED PAPER MILLS: ASSISTANCE UNDER THE INDUSTRY ACT

Memorandum by the Minister of State, Department of Industry

I am in full agreement with the Treasury. NL

1 I am seeking the agreement of the Committee to the offer of £16.6 million under Section 8 of the Industry Act towards a £132 million project to construct and operate a pulp and newsprint mill at Shotton.

The Project

2 The applicant is a Finnish company, United Paper Mills (UPM), which is one of the largest Scandinavian paper companies. They propose to float a UK company in which they would hold 51% of the equity. The mill will use the latest technology, producing 180,000 tonnes/per annum of newsprint of a quality suitable for offset printing. Production per man will be better than any present or planned mill in the UK and equal to the most modern plant anywhere. The mill's output will be sold largely to nón Fleet Street producers and will displace imports, primarily from Canada and Sweden.

3 At present the UK imports over 90% of its newsprint and the EEC as a whole imports 66% of its demand; thus the project provides a clear industrial advantage. On top of this, the mill will source all its wood from the UK, chiefly from Wales, the North of England and Southern Scotland. It will consume 510,000 cubic metres of pulpwood annually and 90% of the annual

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production in Wales. Detailed surveys have shown that there is no alternative market for this quantity of wood which otherwise would remain unused and, essentially, wasted. The sales, approximately £10 million a year at constant prices, will be genuinely additional and bring significant benefits to the forestry sector.

4 The project will also provide a significant number of jobs; 270 in Shotton itself, an SDA and a steel closure area; a further 840 in forestry-related jobs, largely in rural parts of Wales and the North of England; and 100 more in consequential transport and ancillary employment. These jobs would make a most important contribution to the economy of severely depressed areas, though that is not the main reason for supporting the project.

5 I recognise that the project requires a high level of support since it would also attract £26.2 million in Regional Development Grants. However UPM do have other options for their development and only have the capacity to undertake one such project. I am confident that this offer is the lowest that could attract them to the UK. Despite the risks of the project, particularly the £/$ exchange rate, the internal rate of return, at 18% has been negotiated down from their normal criterion of 20%; it does seem that the project would be genuinely additional.

6 Because of its size, IDAB gave the project very careful consideration and discussed the underlying assumptions with the Forestry Commission. IDAB concluded that the wood sales to UPM would be additional and that the case did meet the criteria for assistance under Section 8 of the Industry Act, including the value for money threshold set by the agreed methods of economic analysis. This requires the net benefits to the UK economy to exceed the costs of assistance by at least 50%. An assessment of the benefits of the case turn on a commercial judgement of the future of the woodpulp market, exactly the kind of point on which IDAB was set up to advise Ministers. I would be most reluctant to see their advice on a commercial matter overturned. The

Treasury however are still concerned both about the value for money and the amount of expenditure involved. I attach copies of the correspondence between us.

Recommendation

Given that the case meets our published criteria for support and has been endorsed by IDAB, I recommend that UPM be offered £16.6 million under Section 8 for this project. The offer would also be subject to the approval of the European Commission and of Parliament.

NL

Department of Industry
28 July 1982

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50

From the
Minister of State
Norman Lamont MP

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Parliament St
London SW1

23 June 1982

Dear Leon

I am writing to ask for your agreement to the offer of £16.6 million under Section 8 of the Industry Act towards a £132 million project to construct and operate a pulp and newsprint mill at Shotton. the applicant is a Finnish company, United Paper Mills (UPM). I understand that your officials are concerned about the level of assistance and whether it represents value for money.

I recognise that this is an important case but it has been considered extremely carefully by IDAB who have discussed it in detail with the Forestry Commission. They have examined all the assumptions about the project and its benefits to the UK including whether the wood sales to UPM would be genuinely additional. IDAB's conclusion was that these sales would be additional; that the case did meet the normal minimum criteria for assistance under Section 8; and that it should be supported. I endorse this conclusion. The whole purpose of IDAB is to have access to advice from experienced businessmen on questions of this kind and their advice must be given great weight.

This is particularly so for Section 8 assistance which requires there to be a significant net benefit to the UK economy and is not to be judged in terms of cost per job. I see little point in asking them to exercise their judgement on matters such as these if we then act contrary to their recommendations. It was for this reason that the Industry Act gave IDAB the opportunity, should the Board wish to take it, of asking the Secretary of State to inform Parliament of a case where he rejects their recommendation with respect to the use of his powers under Sections 7 and 8 of the Act.

I hope therefore that you will be able to accept IDAB's recommendation. The project will provide an efficient and modern mill, all of whose output will displace imports and which will utilise otherwise unusable small roundwood. There are therefore very significant industrial benefits as well as additional employment in a steel closure area and in other other areas of higher than average unemployment.

You should be aware that the company is committed to talking to its potential customers this week and in the light of this is likely to announce its aspirations on Friday. Thereafter there is likely to be considerable public interest in this case.

I am copying this letter to Nicholas Edwards, George Younger and Robin Ferrars who also have an interest in this case.

Yours –

Norman

NORMAN LAMONT

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MINISTER OF STATE TREASURY

Treasury Chambers, Parliament Street, SWIP 3AG

Norman Lamont Esq
Minister of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1

8 July 1982

Dear Norman,

UNITED PAPER MILLS

You wrote to Leon Brittan on 23 June about this project. George Younger and Wyn Roberts have also written in support of it.

I have given it very careful consideration because of the difficult issues it raises. The project has many good features but the cost of it must, as you will understand, be a matter of concern. I would value a discussion with you, not so much about the details of the project - which our officials have already examined at some length - as on the broader issues of the cost and the context in which it has to be seen.

I am concerned about the cost in two senses: first, about the value for money which the project would offer; and secondly, about the pressure on public expenditure in this area.

The project is poor value for money both in terms of cost per job and in terms of the balance of resource costs and benefits.

Section 8 assistance is not subject to a cost per job limit, but it is nevertheless instructive to compare the cost per job of the assistance proposed with what would be available if the assistance was provided under Section 7. Even if allowance is made for all the additional jobs in forestry and

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in support services (something which could not be done under the Section 7 guidelines) I am told that the cost per job comes out at over £13,000 - nearly double the Section 7 limit for a Special Development Area. Not all of the jobs created in forestry, it should be said, will be in assisted areas. The price for 276 jobs directly created at Shotton is extremely high.

Section 8 assistance does, as you say, require that there be a significant net benefit to the UK economy. The analysis carried out by your economists demonstrated that the maximum resource benefit from this project only just exceeded the threshold of one and a half times the assistance provided. That threshold is the one which is also used to judge whether Section 7 assistance provides value for money. The resource benefits could easily fall below it. I find it hard to see that there is an overwhelming national benefit which justifies assistance so much more generous than would have been justified on regional grounds.

My second area of concern is the public expenditure context. This project would attract £26 million of RDGs as well as £16.6 million of selective assistance over the next few years. Your Department is already bidding for substantial additions to its programme in the Public Expenditure Survey - not least on account of a forecast upturn in RDG expenditure - and Patrick Jenkin has made it clear that he will find it difficult to identify the requisite offsetting savings. In these circumstances I am bound to ask you to consider most carefully whether you could not forgo a project which is at best marginal in economic terms. Unless alternative ways of saving money can be found we shall need to be very hard-headed about projects which, like this, represent poor value for money. Indeed, you will no doubt already be looking into the possibility of increasing the stringency of your criteria for selective assistance as one possible means of holding down expenditure.

I accept that we should not lightly overturn the views of IDAB and act contrary to their recommendations. But I cannot accept that the Treasury's role should be circumscribed by being obliged to agree to whatever IDAB recommend. The papers put to IDAB made it clear that the assistance proposed was subject to Treasury approval. We have to take account of other considerations than those of importance to IDAB - including in particular the pressure on public resources - and we may place a somewhat different weight on different arguments.

I will ask my Private Secretary to contact yours to arrange a meeting.

I am sending copies of this letter to Nicholas Edwards, George Younger and Robin Ferrers.

Yours ever

John

RESTRICTED

JOHN WAKEHAM

Led 15/2

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 7676

Kenneth Baker's Office

Prime Minister
Good news from Merseyside.

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

10 July 1981

TL 10/7

Dear Tim,

In view of the representations that were made to the Prime Minister at the time of Bowater's impending Mersey Mill closure in the autumn of 1980 you may wish to know that Consolidated Bathurst of Canada has announced this evening that it has taken up an option to purchase the mill which is to recommence production at the start of 1984 after considerable re-equipment.

It has taken a substantial tranche of regional assistance to encourage the company to make this investment at the end of which there will be over 450 more jobs at Ellesmere Port, a Special Development Area. Less jobs, admittedly, than the 1500 which Bowater employed but with much more security to them.

I attach a copy of an announcement to be put out at the same time on behalf of my Minister.

Yours sincerely,

Jonathan Hudson

JONATHAN HUDSON
Private Secretary

M12/M12AEC

Press Notice

Department of Industry

123 Victoria Street, London SW1E 6RB TEL: 01-212 5492

Ref:
July , 1981

MINISTER WELCOMES REOPENING OF ELLESMERE PORT MILL

Mr Kenneth Baker MP, Minister of State at the Department of Industry, today welcomed the decision by Consolidated Bathurst to reopen the Ellesmere Port Mill which will bring over 400 jobs to Merseyside.

Commenting on the company's announcement Mr Baker said:

"I warmly welcome this decision by Consolidated Bathurst. The reopening of the mill will provide a valuable relief for unemployment at Ellesmere Port and increase the UK's newsprint manufacturing capacity. I am pleased that, through its offer of assistance, the Department has helped to make it possible for Consolidated Bathurst to decide in favour of this project. I wish Consolidated Bathurst and those who will work at the mill every success with their venture".

NOTE FOR EDITORS

Consolidated Bathurst announced today that it will be taking up the option to purchase Bowater's Mersey Mill at Ellesmere Port. The mill will restart production late 1983 ~~at the beginning of 1984~~.

FILE

R H

10 DOWNING STREET

cc: Industry

From the Private Secretary

27 May 1981

The Prime Minister has asked me to thank you for your letter of 8 May about Consolidated Bathurst's interest in re-opening Bowater's paper mill at Ellesmere Port. It may encourage you to know that as soon as this interest was announced the Minister of State at the Department of Industry, Mr Kenneth Baker, met the President of Consolidated Bathurst Inc. of Canada and his colleagues, on 30 April to hear what they have in mind. Mr Baker welcomed their interest and promised them that the Government would give urgent consideration to a request for financial assistance.

The Department of Industry is now in close touch with Consolidated Bathurst about the detail of the proposals, including the implications for employment.

The Prime Minister was also very glad to hear of the help you have received from people in the Conservative Party.

T. P. LANKESTER

R A French, Esq

JU164

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

Secretary of State for Industry

22 May 1981

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

Dear Mike

Thank you for your letter of 13 May enclosing one to the Prime Minister from Mr R A French, Secretary of the Bowater Action Committee, about Bowater's Mersey Mill.

2 Shortly before the mill closed last November and at the Action Committee's request the then Minister of State Lord Trenchard wrote to Mr Turner, the President of Consolidated Bathurst, to see if Consolidated Bathurst might be interested in the mill. The reply then was negative in contrast to the company's recent expressions of interest. The enclosed copy of the joint Bowaters/Consolidated Bathurst press release, issued at the time of Mr Turner's meeting with Mr Kenneth Baker on 30 April, outlines the present Consolidated Bathurst proposals.

3 This Department is now working closely with Consolidated Bathurst to obtain the information needed for a response on the question of Government financial assistance for the project to be given in good time. Ellesmere Port is in a Special Development Area and new investment would qualify for the maximum level of regional development grant but the company is seeking selective financial assistance as well.

... 4 I enclose a draft Private Secretary reply to Mr French. This includes a possible paragraph in response to his appreciation of help received from the Conservative Party.

Yours ever
Catherine
CATHERINE BELL
Private Secretary

JU165

DRAFT REPLY TO

R A French Esq
Secretary
Bowater Action Committee
4 Ruskin Drive
Ellesmere Port
Wirral
Cheshire L65 5DQ

The Prime Minister has asked me to thank you for your letter of 8 May about Consolidated Bathurst's interest in re-opening Bowater's paper mill at Ellesmere Port. It may encourage you to know that as soon as this interest was announced the Minister of State at the Department of Industry, Mr Kenneth Baker, met the President of Consolidated Bathurst Inc of Canada and his colleagues, on 30 April to hear what they have in mind. Mr Baker welcomed their interest and promised them that the Government would give urgent consideration to a request for financial assistance.

The Department of Industry is now in close touch with Consolidated Bathurst about the detail of the proposals, including the implications for employment.

[The Prime Minister was also very glad to hear of the help you have received from people in the Conservative Party. ~~and has asked me to pass on to them your kind remarks.]~~

MFJ

BW 27/5

Industrial Policy.

13 May 1981

The Prime Minister has received the attached further letter from the Bowater Action Committee. I should be grateful for a draft Private Secretary reply by 28 May.

MAP

Mrs Catherine Bell
Department of Industry

MFJ

13 May 1981

I am writing on behalf of the Prime Minister to thank you for your letter of 8 May.

Your letter is receiving attention and a reply will be sent to you as soon as possible.

MAP

R.A. French, Esq.

c/Press office M.R.M

MAP

BOWATER ACTION COMMITTEE

4, Ruskin Drive,
Ellesmere Port,
Wirral,
Cheshire L65 SDQ.

8th May, 1981. RU

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

BPS NT CS.

Dear Prime Minister,

On behalf of my colleagues on the Bowater Action Committee,who have stayed together since the unfortunate closure of the Paper Mill at Ellesmere Port, Cheshire, I am again making application for your sponsorship.

We have tried since November last, to find an answer to the problem facing us and early this year submitted a plan to Consolidated Bathurst of Canada and subsequently in February met their European Managing Director.

Last week it was announced that Consolidated Bathurst had taken a 60 Day Option to purchase the Mersey Mill with, we understand, the intention of Anglo Canadian Newsprint Manufacture.

In these times of high capital commitment the Government will no doubt be asked for Financial Assistance and we respectfully urge you Prime Minister, to take this opportunity to 'Change the tide of events' and make a positive move against the high unemployment in the North West and restore production of Newsprint in the United Kingdom.

It is a sad fact that so much of your correspondence should only seek your patronage, so may we take this opportunity of conveying our sincere thanks for the tremendous help and encouragement your Party Organisation has given us, in particular Margaret Daly and Paul Dowling who have shared our struggle and sustained us when all else had given up, they will remain, win or lose, 'Friends in Need'.

Yours sincerely,

R.A.French

R.A.FRENCH,
Secretary.

Ind Pol. BK cc D/I

10 DOWNING STREET

THE PRIME MINISTER

28 November 1980

Dear Mr. Leech,

Thank you for your letter of 14 November which crossed with my reply to your earlier letters.

I am afraid that the figures that you quote and the presumptions that underlie them take less than full account of the help that was on offer to Bowater or the situation facing the Ellesmere Port operation. Thus your quoted figure for the cost reductions generated is less than their annual value could have been to Bowater as a whole, as you will recall from the explanation which Lord Trenchard gave to you. There was also very considerable investment aid available to the company.

As you know, the concept of Government financial assistance to Bowater was related to the company's own outline plan for new investment to improve the mill's performance as it appeared that, with such investment, and in contrast to the position without it, the mill could have become viable. In considering whether it would be right to offer assistance and the extent and nature of it, the Government took account of the costs that closure would involve. These are affected by, amongst other things, the numbers involved and the personal circumstances of individual employees as well as the rate at which alternative employment is found. In the Government's view the cost, while

/ substantial,

JS

substantial, should be much less than you quote.

Without investment to make the mill viable the prospects were that the mill could only have continued if it were given a permanent operating subsidy. It is not the Government's polciy to give operating subsidies nor is this permitted under EEC rules. It was for Bowater to decide whether to take up the investment alternative and, against the cost to them of closing the mill, accommodate the losses until the new investment had effect. The company was not prepared to make the investment and this took away the basis for the assistance.

As you know, I share your own disappointment that this has been the outcome.

Yours sincerely

Margaret Thatcher

R. French, Esq.

3

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/Lord Trenchard

Prime Minister

I think it would be a good idea if you signed the attached draft, even though you have already written.

T.
25/11

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

25 November 1980

Dear Tim

Thank you for your letter of 18 November enclosing another letter from the Bowater's Mersey Mill Action Committee. This would have crossed with the Prime Minister's reply to their earlier correspondence and it is doubtful how much more they would expect the Prime Minister to say. The closure of the mill took place on 21 November.

There are many errors and doubts concerning the figures in the Action Committee's letter. The £2.1m of assistance referred to covers the annual value of the coal concession for Ellesmere Port alone and values the wood concession at £0.8m, ie the value before any investment in a new pulp mill. This ignores the benefits of the coal concession which could apply to Bowater's operations in Kent. It also omits all reference to the very considerable aid that could have been available for investment at the mill, investment which offered the prospect of a viable future instead of a continuation of the loss-making situation the mill has experienced over the years.

The estimate of 5,000 people losing their jobs also looks very high considering that the direct job losses are 1,500, the Forestry Commission hopes to save harvesting and transport jobs through export contracts for pulp wood and the NCB also hopes to save jobs in the pit affected. The Department of Employment is, I understand, of the view that the costs of unemployment and other benefits will be much less than £19m quoted, though an actual figure is difficult to assess. Nor would we accept that the taxpayer will face a permanent bill for benefits in respect of half the number becoming unemployed.

The risk of the taxpayer facing a substantial continuing bill looks the greater if the Government were to give an open-ended operating subsidy to Bowater to keep the mill going instead of encouraging necessary investment. The company has not been prepared to make the investment needed to give the mill the chance of a viable future. And, particularly taking account of the closure costs which Bowater otherwise faced, it is hardly unreasonable that the company, not the Government, should bear the commercial risk of losses in the interim.

I attach a draft reply prepared for the Prime Minister's signature but you might consider that, having had one personal reply, it would be more appropriate for a Private Secretary reply this time. In this case the draft can be easily amended.

I am copying this letter and its attachments to Private Secretaries in the Treasury, Employment, Trade and Energy.

Yours sincerely

Peter Mason

PETER MASON
Private Secretary

JD

C.F.

cc N1
CWO FL

10 DOWNING STREET

THE PRIME MINISTER

19 November 1980

Dear Mr. Manton,

Thank you for your telegram and letter of 7 November about the proposed closure, by Bowater, of the mill at Ellesmere Port.

Since these were sent, Lord Trenchard, Minister of State at the Department of Industry, has held two meetings with the Mersey Mill Action Committee. At the second of these, held on 12 November, Dr. Lenton and Mr. Pomeroy from Bowater were also present. At that meeting Lord Trenchard went through the assistance that could have been available to Bowater for viable new investment at the mill, as an alternative to closure, and the better terms for coal and wood supplies which the National Coal Board and the Forestry Commission were prepared to offer on a commercial basis, as well as through a large number of other factors suggested by the Action Committee as leading to possible revenue savings. In consequence there can be no doubt but that the company has been fully aware of the various ways in which costs at the mill would and might be reduced, including the contributions which could be expected from the work force.

As Lord Trenchard explained to the Action Committee, the final decision between investment and closure is one for Bowater to take, though the decision to close has been a disappointment to us all.

/ Whilst

JS

Whilst I very much share your regret that the strenuous efforts to find a solution to this difficult problem have not met with success, I do not believe that the further meeting you suggest would break any new ground.

Yours sincerely

Margaret Thatcher

A. Martin, Esq.

2

10 DOWNING STREET

PRIME MINISTER

Yet another letter from the Bowaters Action Committee - you wrote to them yourself last week. I am getting advice from Industry on how we should deal with this one.

SJ Pike

PP TL

18 November, 1980.

MO.

Prenland's. Ind Pol.

18 November, 1980.

I enclose a copy of yet another letter from the Bowaters Mersey Mill Action Committee, and should be most grateful for advice on how we should handle this one.

T. P. LANKESTER

Peter Mason, Esq.,
Department of Industry.

18 November, 1980.

I write on behalf of the Prime Minister to acknowledge receipt of your letter of 14 November. A reply will be sent to you as soon as possible.

T. P. LANKESTER

R. French, Esq.

FILE

CF.

JS

CC D/1

10 DOWNING STREET

THE PRIME MINISTER

14 November 1980

Dear Mr. French,

Thank you for your letters of 28 October and 11 November, the former with its petition about the proposed closure by Bowater of the mill at Ellesmere Port.

Since you wrote, you have, I know, had two meetings with Lord Trenchard. At the first you were accompanied by David Hunt, MP, and Barry Porter, MP. At the second, Dr. Lenton and Mr. Pomeroy from Bowater were present. You have heard, in confidence, from Lord Trenchard about the assistance that could have been available to Bowater for viable new investment at the mill, as an alternative to closure, and about the better terms for coal and wood supplies which the National Coal Board and the Forestry Commission were prepared to offer on a commercial basis. As Lord Trenchard explained, the final decision between investment and closure is for Bowater to take, though the decision to close has been a great disappointment to us all.

I am very sorry that all these efforts have not met with success. I would like to pay tribute to the way your Action Committee has worked responsibly and tirelessly to try to find a solution to this difficult problem.

Yours sincerely

Margaret Thatcher

R. French, Esq.

VRB

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/Lord Trenchard

3

Prime Minister

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

18/11

14. November 1980

Dear Tim

Thank you for your letters of 10 and 11 November on Bowater.

We have already supplied you with a draft reply to the most recent letters from the Bowaters Mersey Mill Action Committee and now enclose a draft letter responding to the communications from the Merseyside Branch of SOGAT who sent both a telegram and a letter to the Prime Minister on 7 November.

The Prime Minister asked whether the aid offered to Bowater can now be published. For reasons of commercial confidentiality it would not be appropriate to make public the full details of the terms offered by the NCB and the Forestry Commission, although with their agreement Lord Trenchard made these clear to the Bowater Action Committee, on a confidential basis, when he saw the Committee and Bowater on 12 November. At that meeting the figures of Government assistance which could have been available were also confirmed. Publishing the details of the assistance would not, in any case, resolve the argument as to how Bowater would fare financially if the investment option was taken up and we have always made it clear that, at the end of the day, the final decision is one for the company.

Following the Action Committee/Bowater meeting on 12 November there is no vestigal reason to believe that the potential cost reduction factors are not fully known to Bowater whilst the items on the SOGAT list, some of which are little more than conjectural, point too favourable a picture of the cost savings that are attainable. The figure of £2.25 million for coal concessions is correct for the current year ending June 1981, but subject to negotiation thereafter. (There is an important point of potential misunderstanding in relation to the coal price figures and my Minister spoke directly to Sir Derek Ezra on 11 November. The offer of £2.25m off an already discounted price was for the two Bowater mills, of which the portion applicable to Ellesmere Port is only £1.3m. The offer was therefore much more valuable to

Bowater than it would be to any new owner of Ellesmere Port.) The figures for savings from wood price productions should, in fact, be £1.4million on the quantity of wood required after investment in the chemical pulp mill, but only £800,000 on present wood purchases. The reference to a Corporation Tax concession is simply not understood. Ellesmere Port cannot be paying Corporation Tax when making a £7m pre tax loss. The waste paper and rates "savings" in particular represent little more than conjecture, while short time working is not likely to be helpful at Ellesmere Port because the mill loses more money when operating beneath capacity. Agreement to a lower pay increase would not reduce costs, although it would help the future competitive position. But the key point is that Bowater are well aware of the possibilities and it is Bowater that has rejected them.

The Minister has also asked me to emphasise that the figures for any new owner, not faced with the alternative of high closure costs, would make the investment proposition more doubtful. However, for the Prime Minister's private information, Lord Trenchard has asked me to say that he has an outside hope that a proposal to retain a nucleus operation of about 500 people just might come to fruition, and that he is leaving no stone unturned in an attempt to find a solution.

Yours sincerely

Peter Mason

PETER MASON
Private Secretary

DRAFT

File No.

Addressed to:

A Martin Esq
Secretary
Merseyside and District Branch
SOGAT
254/256 County Road
Walton
LIVERPOOL L4 5PW

Copies to:

Enclosures:

Originated by: (Initials and date)

JWH

Seen by: (Initials and date)

JEA

Type for signature of

Prime Minister

(Initials and date)

DEPARTMENT OF Industry

Thank you for your telegram and letter of 7 November about the proposed closure, by Bowater, of the mill at Ellesmere Port.

Since these were sent, Lord Trenchard, Minister of State at the Department of Industry, has held two meetings with the Mersey Mill Action Committee. At the ~~latter of which~~ of these, held on 12 November, Dr Lenton and Mr Pomeroy from Bowater were also present. At that meeting Lord Trenchard went through the assistance that could have been available to Bowater for viable new investment at the mill, as an alternative to closure, and the better terms for coal and wood supplies which the National Coal Board and the Forestry Commission were prepared to offer on a commercial basis, as well as through a large number of other factors suggested by the Action Committee as leading to possible revenue savings. In consequence

Second

(CONTINUE TYPING HERE)

File No.

there can be no doubt but that the company ~~is~~ has been ~~already~~ fully aware of the various ways in which costs at the mill would and might be reduced, including the contributions which could be expected from the work force.

As Lord Trenchard explained to the Action Committee, the final decision between investment and closure is one for Bowater to take, though the decision to close has been a disappointment to us all.

Whilst I very much share your regret that the strenuous efforts to find a solution to this difficult problem have not met with success, I do not believe that the further meeting you suggest would break any new ground.

14 NOV 1980

2 PPS

CF
PPS

Bowaters Mersey Mill Action Committee,
C/O Bowaters U.k. Paper Co. Ltd.,
Mersey Mill,
North Road,
Ellesmere Port,
South Wirral L65 1AF

The Prime Minister,
10 Downing Street,
LONDON

14th November, 1980 R15/11

Dear Prime Minister,

Further to our letter of November 11th, 1980, it has been made clear to us the extent of aid made available to Bowaters.

The Department of Industry has pressed the various Government based industries to assist wherever possible and as a result, a total of £2.1M a year has been generated. Set against the Bowaters predicted losses of £7M a year in the present economic climate leaves a shortfall of £4.9M, which Bowaters cannot accept.

We have been advised that the cost to the State in unemployment and social security benefits, for the closure of the Newsprint Mill at Ellesmere Port, including all those outside Bowaters who will lose their jobs, is calculated at £19M a year.

It is appreciated that these figures assume that no re-employment of the 5,000 people involved would take place. A most optimistic assessment of 50% finding alternative employment will burden the tax payer with an annual bill of £9.5M

	£M
The consequence of this closure, if we discount the social distress, will cost	9.5
The shortfall in aid required for Bowaters is	4.9
Therefore the cost of keeping the "Mill" closed is	4.6

This cost to the tax payer is a permanent one, the alternative bill would progressively diminish as our economic circumstances improve and the technology invested at our mill takes effect.

Cont'd......

14th November, 1980

This simple solution, is obviously unacceptable, set against the Government's philosophy that British private industry should be able to compete with the sponsored competition from abroad.

An industry will be lost and our foreign competitors are already queuing up to strip the human assets of skill and experience from Ellesmere Port.

Prime Minister, what folly is this?

Yours sincerely,

Secretary,
Bowaters Mersey Mill Action Committee
On behalf of the workforce at
Bowaters Mersey Mill, Ellesmere Port

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

3

From the Minister of State
PS/Lord Trenchard

Prime Minister

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

MT

TL 13/11

13 November 1980

Dear Tim

In replying to the two letters of 28 October and 11 November from the Bowaters Action Committee the Prime Minister may wish to refer to two meetings which Lord Trenchard has held with them this week. The second of these was in the presence of Dr Lenton and Mr Pomeroy of Bowater and had as a main object to clarify for the Committee the assistance that had been on offer whilst making it clear that the commercial decision whether or not to close is one for the company to take. The Committee did have some hope that a third party such as the NEB might be encouraged to take over the mill. Lord Trenchard discussed with them issues which any prospective new owner would need to consider, pointing out that the heavy closure cost which Bowater would otherwise incur must have made the investment concept relatively more attractive to Bowater. Even so, the company had decided not to make the investment. Third parties would lack that investment incentive. Lord Trenchard pointed out that new owners would need to negotiate their own terms from the suppliers and the size of any Government assistance would have to be considered in the light of the particular proposals that a new owner might put forward. All this could be looked at quickly if new proposals were put forward but it had to recognised that if Bowater was unwilling to invest at the mill others would be inherently less likely to wish to do so.

At the end of the meeting it seemed that the Committee did realise that the best prospects for saving the mill had already been actively pursued and that they would be unlikely to find anyone willing to take-over the mill.

... I attach a draft reply to the Action Committee.

Yours sincerely
Peter Mason

PETER MASON
Private Secretary

2 BPR

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H OET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the
Minister for Trade

R J Bernie Esq OBE
Chief Executive and Town Clerk
Borough Council of Ellesmere
Port and Neston
Municipal Office
4 Civic Way
Ellesmere Port
South Wirral
L65 OBE

R 14/

12 November 1980

Dear Mr. Bernie

Thank you for your letters of 29 and 31 October, in which you suggest a top-level meeting to consider ways of keeping open Bowater's newsprint mill at Ellesmere Port. The Prime Minister and Lord Trenchard have asked me to reply also to your letters to them of the same dates.

I have to say that I do not consider such a meeting would be likely to break any new ground. There has already been a high-level meeting, on 3 October, between the Prime Minister and representatives of Bowater management, the trade unions and the newspaper publishers, at which there was a very full discussion about the proposed closure.

You suggested that a meeting was necessary to clear up misunderstandings, for example about the extent of the assistance offered by the Government. I think that the various parties directly concerned are essentially aware of each other's positions. Discussion of what would inevitably be details would be unlikely to affect fundamental attitudes.

Your second reason for a meeting was to discuss the Council's proposals for a newsprint cost pooling scheme. Such a scheme was not discussed at the Prime Minister's meeting on 3 October. However, my letter of 27 October explained our doubts about whether it could be put into practice. I do not think we would dispute that the administrative complexities of such a scheme could be overcome, or at any rate tolerated, if necessary. The central issue, as you rightly recognise, is whether the newspaper publishers would accept the scheme and, if so, whether this would persuade Bowater to continue newsprint operations. We do not believe the scheme would be practicable on either count, and this is why I did not pursue further the suggestion of a meeting in your letter of 13 October.

Taking the attitude of newspaper publishers first I understand that members of the Newspaper Raw Materials Committee explained their position to you when you met them last month. Certainly, they have made it quite clear to us that they could not accept the scheme in present circumstances.

On the question of an inducement to Bowater to continue their newsprint operations, you say there can be no doubt that, if the Council's scheme were accepted by the newspaper publishers, it would guarantee a full take-up of UK production. I do not know whether the additional revenue from such a guarantee, plus a higher price, would in fact be sufficient to persuade Bowater to continue production; but I must point out that the scheme does not in our view provide any such guarantee. As paragraph 1.3 of the scheme states, publishers would still be free to purchase newsprint from whatever source they wished. If they purchased imported newsprint, their payments into the pool would spread the burden of the premium price paid by those publishers who were able to use Bowater newsprint and did in fact choose to do so; but as regards direct help to Bowater, the scheme would have a persuasive effect only.

You third reason for a meeting was to explore alternative ways of keeping the mill open, even if that involved a change in ownership. If there were to be a potential bidder for the mill, it would be for him to engage in commercial negotiations with Bowater and I do not think Government involvement in the discussions would be helpful. However, we would do our best to respond quickly to any specific questions about Government responsibilities (eg merger legislation).

For the reasons given above, I do not feel that a further meeting under the auspices of Government would be likely to prove useful. My colleagues and I very much regret that all the hard work by you, your Council and others to find ways of keeping the mill open have proved fruitless. But as we have indicated before, the decision must in the last resort be a commercial one for Bowater to take.

Yours sincerely,

Keith Woll[illegible]

(Private Secretary)
pp. CECIL PARKINSON
Approved by the Minister but
signed in his absence abroad

cc PS/Prime Minister
PS/SOS(T).
PS/Lord Prenshaw
Mr Eagers CTS
Miss Lackey WEG
Mr Avery PTM
Mr Mansfield CRE1
Mr Linstead CTS
-Of

10 DOWNING STREET

Mr LANKESTER

Two principles should govern letters to the press from Ministers:

(i) topicality – ie an immediate connection; and

(ii) a rigorous refusal to follow up or take issue with comment; only to correct matters of fact.

The proposed letter fails on both counts and on one other, too – namely, it is defensive. I do not think it adds much and I find it interesting that at least part of the Guardian story tends to be substantiated by the deletion in the foot part of page 2.

My advice is: Do not write

[signature] 11/11

H8

10 DOWNING STREET

From the Private Secretary

11 November 1980

B f 17/11

I wrote to you yesterday enclosing a telegram from SOGAT about Ellesmere Port. I now enclose a letter from them, and would be grateful if you could take this into account in the advice which you send me.

I also enclose a further letter which we have received from the Bowaters Action Committee. We asked for a draft reply to their earlier letter of 28 October, and I would be grateful for a very early draft reply to both of these letters.

J. P. LANKESTER

Peter Mason, Esq.,
Department of Industry.

10 DOWNING STREET

PRIME MINISTER

A further letter from the Bowaters Action Committee: everyone seems to be asking you to arrange another meeting, but the Department of Industry do not think there is any mileage in this. I will get a reply for you to send.

MS

Duty Clerk

pp TL

11 November 1980

Bowaters Action Committee
Bowaters
Mersey Mill
Ellesmere Port

11 November 1980

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

Dear Prime Minister

On behalf of the Bowaters Action Committee we wish to express our thanks for your interest in the problem facing us at Ellesmere Port.

We know you have been personally involved in 'opening doors' for us so that we could make representation at the highest level.

We may not succeed but we have certainly been given every opportunity by Government to find a solution, and wish that Bowaters's Board had shown your willingness.

We have tried throughout our campaign to demonstrate the good sense of the people at Mersey Mill, as our production figures throughout this bleak period have shown.

If the reasoned and intelligent approach should fail, what will the rest of industry make of our example?

Yours sincerely

Bob French Tom Saban Jim Deane

→ copy to
~~B.~~ Ingham ms

TLY
I've told Trenchard's office
MS 12/11

T.

PRIME MINISTER

Lord Trenchard wishes to write to the Guardian to refute an article they published last week on Bowaters. Bernard Ingham's advice is strongly against. He feels that, if the article was to have been corrected, it should have been corrected immediately; and secondly, he feels that, if Ministers are to write to newspapers, they should only do so to correct matters of fact - and not to follow up or take issue with comments. Furthermore, the draft reply is very defensive, and adds very little to what is known of the Government's position already. (I have asked whether we can publish the NCB's coal offer and am told not.)

Shall I tell Lord Trenchard's office that you do not want him to write?

I agree - ~~if we~~ too late now

MT

Duty Clerk

pp TL

11 November 1980

✓ Press Office

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/Lord Trenchard

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

11 November 1980

Dear Tim

BOWATER

The Minister has only recently has his attention drawn to the article on Bowater which appeared in the Guardian on 4 November giving a very biased account of the Government's, and in particular my Minister's, dealings with Bowater. He would very much like to respond to this by means of a letter to the Editor, and I attach the terms in which he would like to write. He draft has been approved by the Secretary of State here, but I note that Questions of Procedure require that the Prime Minister's authority is required before such a letter is sent. I should be grateful if you could seek the Prime Minister's approval, in order that the Minister might write as soon as possible. For ease of reference, I also attach a copy of the Guardian article.

Yours sincerely

Peter Mason

PETER MASON
Private Secretary

DRAFT LETTER FOR LORD TRENCHARD TO SEND TO:

The Editor
The Guardian
etc

I have seen the article entitled "Bitter Charity for Bowater" in the 4 November edition of the Guardian and consider that I must correct some of the "facts" contained in it.

Bowater came to see me on 3 July to ask for assistance to keep Ellesmere Port open in view of losses rising to the now published figure of around £7m in 1980. I made it clear that there was no hope of meeting these losses from Government subsidies as such but that we would look at every way of tackling this large problem.

During the following two months officials were made aware, by the company, of the existence of an outline company plan for investment in a sulphite mill at Ellesmere Port which indicated the theoretical possibility of substantial profits if the investment were made. Officials also ascertained that the Forestry Commission and the NCB were prepared to act commercially ~~against~~ under the threat of losing an important customer altogether.

The combination of these and other contributory factors seemed to us to offer a possible solution and, importantly, to indicate that Bowater's problems were not entirely the result of energy prices but that investment was essential for long-term viability. Other countries had the advantages of hydro-electric power or cheap open-cast coal, but Bowater had the advantage of nearness to the market and we could aid investment in a Special Development Area, not only with regional development grants but also with selective financial assistance and with the negotiation of EEC loans at advantageous rates. Between these sources almost all the investment costs would be covered, justifying my reference to the investment plan running into "tens of millions", the large majority of which would be available in grants and loans. ~~It is true that the company would still have had to meet some costs, but the sum of money involved would have been comparable to the costs of the closure it is intending to meet now~~.

My comments after the meeting of the industry with the Prime Minister on 3 October were only made because of repeated reports in the Press in the period from July to the end of September which indicated that Bowater's problems were mainly due to British energy costs and that the Government had not responded to Bowater's requests for help. Before that time I had resisted any public comments as being unhelpful to the possibility of a favourable decision by the company.

In view of recent statements, I must also make clear that the improvement in terms in prospect from the Forestry Commission and the energy suppliers on a commercial, basis ~~in this and subsequent years~~, was substantial.

It has to be recognised that the exchange rate movements have made things very difficult for Bowater, particularly in relation to North American competition, but we hoped that the company would go ahead with its own essentially long-term plan on the grounds I have set out above and after considering the high costs of closure. Nevertheless, the decision must remain one for the company.

THE GUARDIAN 4TH NOVEMBER 1980.

James Erlichman on the Tories' lead lifebelt for Ellesmere Port

Bitter charity for Bowater

FACTS which are only now emerging from the protracted and highly public death throes of Ellesmere Port, Bowater's Merseyside newsprint mill, suggest that the Government has stumbled upon an effective new way to lose the hearts and minds of British industry.

The new tactic is known in American parlance as "hard ball"—or playing the game rough. It is the use of a government's power to disseminate information to ensure that the best possible face is put on its policies. Traditionally, hard ball is reserved for use against natural enemies.

At Ellesmere Port, however, the Government has played "hard ball" against a natural ally, the Bowater Corporation, which contributed £10,000 to Conservative Party funds at the last election.

The Government has, through the use of discreet leaks, attempted to give the impression that:

- Its rescue package to save Ellesmere Port was generous in the extreme,
- Only the narrow vision and faint-heartedness of the Bowater board prevented the offer from being accepted.

Bowater's ability to counteract these claims has been severely limited by an undertaking it gave early in the negotiations that it would not publicly comment in substantive detail on the terms of the Government's offer.

The two sides first got down to talks on July 21, when Bowater's chief executive, Dr Ingram Lenton, met privately with the Industry Minister, Sir Keith Joseph. With Ellesmere Port on course to lose around £8 million, Dr Lenton made it clear that only direct government aid to stem the mill's immediate trading loss could prevent its imminent closure. Realistically, this could happen only if the Government agreed to make a major concession on fuel costs, a plea that was echoed by the rest of the paper industry.

With confidentiality agreed, Sir Keith went away to think. On August 6 the Department of Industry announced that a major but unspecified package of assistance was being offered to Ellesmere Port.

Neither side revealed the details while Bowater studied the plan. Two days later Parliament went into its long summer recess and that evening the Department of Industry announced that the paper industry's plea for across-the-board energy concessions would not be considered until the CBI concluded an exhaustive survey.

Help for Ellesmere Port to meet energy costs appeared dead. Gradually it emerged from the Government's side that Sir Keith's offer to Bowater had been exclusively in the form of investment loans and subsidies to build a new sulphite pulp mill. Lord Trenchard, the junior Industry Minister, was later to describe this offer as being worth "tens of millions of pounds." Stories began to appear in the North-west extolling the generosity of the Government's offer.

But on Augsut 19 Bowater announced Ellesmere Port would close on November 21.

We now know that Bowater was offered £14.4 million cash in investment aid, divided equally between selective financial assistance under the Industry Act and a regional development grant.

The money was earmarked for a new sulphite pulp mill. But the sulphite mill is estimated to cost £36 million — leaving Bowater to pay the £22 million difference.

Even more importantly, Bowater's own experts were never convinced that the sulphite pulp mill would be a success. In theory the sulphite pulp mill would reduce or eliminate the need to import expensive "chemical pulp" vital to newsprint making. But it would take three or four years to build the new mill at Ellesmere.

Crucially, Bowater's experts were unconvinced that the new mill would improve Ellesmere Port's efficiency sufficiency to ward off cheap imports. They argued that the Scandinavians and Canadians could easily afford to drop the prices of their chemical pulp temporarily to cancel out the new mill's benefits.

They concluded, and the board agreed, that even with Government aid, £22 million was a lot to pay for dubious hardware which at best could only trim, not alleviate, Ellesmere Port's underlying losses.

But with Bowater failing to explain itself, the Government was winning the war of words. The union action committee set up to keep Ellesmere Port open was beginning to direct its fire at the company instead of the Thatcher Government.

Bowater's position was only to get worse. Mr Bill Keys, the powerful general secretary of the print union, SOGAT, demanded and got a meeting with Mrs Thatcher on October 3, Dr Lenton and other paper industry officials also attended.

It was here that the Government's "hard ball" campaign began in earnest. The meeting broke up with no official announcement about its outcome. Bowater was again silent. But Whitehall made strenuous, if vague efforts, to convince the press that the Government was making an offer so generous that Bowater could hardly refuse.

A week later it emerged from union sources that energy and wood cost concessions—the very crux of the issue—had been granted to Ellesmere Port after all. Stories in the local press even suggested that Mrs Thatcher had come close to accusing Bowater's management of "cowardice" if they did not now accept the deal.

Mr Bill Keys, who earlier threatened a national newspaper strike directed against the Government if it did not save Ellesmere Port, switched his attack, threatening to "fight the company into the ground."

Finally, excerpts of a private letter from Mrs Thatcher to the chairman of Bowater were released in which she claimed that, on Bowater's own calculations, the aid now on offer brought "the prospect of mill profitability in all but the most adverse circumstances."

Pressure from the Government has forced the National Coal Board to reduce by £1.8 million the cost of the coal it supplies to Ellesmere Port. A similar arrangement with the Forestry Commission would shave around £1 million off wood supplies. And the electricity board is also likely to offer a £1 million reduction.

However, the £3.8 million package is conditional on Bowater agreeing to build the £36 million sulphite mill and other machinery. Most importantly, the energy and wood cost concessions have only been agreed for a single year.

If the concessions were renewed. . . . If the sulphite mill were successful in three years' time. . . . If interest rates and sterling fell significantly to make imports less attractive, then Bowater privately believes Ellesmere Port might, and only might, come near to breaking even. But only if all these optimistic circumstances prevailed.

In no sense does it believe it is being offered a package which will bring the "prospect of mill profitability in all but the most adverse circumstances."

Barring unforeseen developments, Ellesmere Port will close. And Bowater will have learned what its like to play "hard ball."

Reduced to a pulp: the milling process at Ellesmere Port

HS

lod PM

BF 17.11.80

11 November 1980

I wrote to you yesterday enclosing a telegram from SOGAT about Ellesmere Port. I now enclose a letter from them, and would be grateful if you could take this into account in the advice which you send me.

I also enclose a further letter which we have received from the Bowaters Action Committee. We asked for a draft reply to their earlier letter of 28 October, and I would be grateful for a very early draft reply to both of these letters.

TIM LANKESTER

Peter Mason, Esq.,
Department of Industry.

GB

HS

11 November 1980

I am writing on the Prime Minister's behalf to thank you for your telegram of 6 November and for your letter of 7 November about Bowaters Ellesmere Port mill.

A reply will be sent to you as soon as possible.

TIM LANKESTER

A. Martin, Esq.

C.F.

JMP

10 DOWNING STREET

From the Private Secretary 10 November 1980

We spoke about the latest letter which Mr. Bernie of the Ellesmere Port Borough Council has sent to Mr. Parkinson, of which the Prime Minister has also received a copy. I enclose the letter of 31 October which Mr. Bernie has written to the Prime Minister.

I have told the Prime Minister that your Department do not think a meeting with the Council would be worthwhile. She would be grateful if Mr. Parkinson could reply on her behalf to Mr. Bernie's latest letter at the same time as replying to the letter which he has written to him.

T. P. LANKESTER

K.M. Long, Esq.,
Department of Trade.

10 November 1980

I am writing on behalf of the Prime Minister to thank you for your letter of 31 October. This is receiving attention and a reply will be sent to you as soon as possible.

T. P. LANKESTER

R.J. Bernie, Esq., O.B.E.

C.F.

10 November 1980

I would be grateful for advice on how the Prime Minister should respond to the enclosed telegram about the Ellesmere Mill. The Prime Minister has asked whether we can now publish what has been offered to Bowaters.

T. P. LANKESTER

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

10 DOWNING STREET

Prime Minister

A follow-up letter about Ellesmere Port. Mr Parkinson does not think a meeting is worthwhile: the basic objection to the council's scheme is that the newspaper publishers are not prepared to pay any higher price for their newsprint.

I think Mr Parkinson can reply on your behalf.

Agree? Yes MT

TL. 7/4

Rcd C/F 11/11/80.

R10

PPS

SOGAT

Society of Graphical and Allied Trades

MERSEYSIDE AND DISTRICT BRANCH

254/256 COUNTY ROAD
WALTON
LIVERPOOL L4 5PW

Secretary: A. Martin
Assistant Secretaries: W. Morris
F. King

Telephone: 051-525 7489

AM/DP

7th November, 1980

Prime Minister,
Mrs. Margaret Thatcher,
10 Downing Street,
LONDON.

Dear Prime Minister,

Further to our telegram of 7th November, 1980.

We would like to put forward some of the factors that we consider prove that the death of the Bowater Mersey Mill is unnecessary, together with the disastrous social consequences it will have on the people of Ellesmere Port, Merseyside.

The Company are claiming that they are losing £7 million per year because of Government Policies.

Irrespective of whether we agree with that opinion or not, we have seen through your good offices money being put forward that helps to eradicate Bowaters financial position.

As we explained to you in our telegram, we believe that there is no necessity for this closure to take place, particularly in the strategic newsprint industry, and we list below for your perusal relevant factors.

FACTORS THAT GO TOWARDS ELIMINATING THE £7 MILLION

Government Assistance

Coal

£2.4 million

Timber

£1.3 million

Concession Corporation Tax

£1 million — £4.7 million

MANWEB

The local electricity Board have indicated that they are prepared to cut approximately £100,000 off the present electicity bill. — £100,000

/Cont'd.......

SOGAT

Society of Graphical and Allied Trades

MERSEYSIDE AND DISTRICT BRANCH

254/256 COUNTY ROAD
WALTON
LIVERPOOL L4 5PW

Secretary: A. Martin
Assistant Secretaries: W. Morris
F. King

Telephone: 051-525 7489

WASTE PAPER

Talks have gone on with the local waste merchants and it has been agreed that there will be a reduction of £9 per tonne. If this was spread on a national basis, and this seems feasible, this would throw up a saving of £300,000 — £300,000

CURRENT RATES

The current rates are £800,000 and there have been no definite proposals on this, but it is felt that some movement could be made on the question of rates.

SHORT-TIME WORKING

Discussions have taken place between the Departments and it has been indicated that in line with the short time working arrangements, if notice was withdrawn, there could be upto £500,000 of Government money available. — £500,000

FUTURE INCREASES

The projected losses in the Mill are based on a 15% increase in wages with the present payroll being around £13 million per year. It has been indicated quite clearly to the Company that the Unions feel that the figure of 15%, in these circumstances, is quite high, and this would account for an increase in the payroll of just under £2 million.

We would be prepared to look at that area, and even if we could only meet the Company half way, that would throw up a saving of just under £1 million. — £1 million

The workforce have already indicated to the Company some six months ago, that because of the position they were in, they were prepared to do away with their bonus payment which again, was approximately £500,000 per year. — £500,000

/Cont'd.....

SOGAT

Society of Graphical and Allied Trades

MERSEYSIDE AND DISTRICT BRANCH

254/256 COUNTY ROAD
WALTON
LIVERPOOL L4 5PW

Secretary: A. Martin
Assistant Secretaries: W. Morris
F. King

Telephone: 051-525 7489

MANNING LEVELS

Ellesmere Port now operates with three newsprint machines and two craft machines (brown paper) and in certain areas of clerical and supervision, there is dual control which makes the levels in that area top heavy.

This, together with their ancillary areas, taking into consideration a small investment on mechanicalisation, could reduce (and the Company are aware of this) 200 employees at a total saving to the Company at present rates of £1.8 million. £1.8 million

NEW VENTURE

It is also conceivable that if drastic steps were taken by the Company and agreement could be reached with the respective Trade Unions (and we believe from a Trade Union point of view this could be achieved) that a green field situation could be started on two newsprint machines and one craft machine.

That would put the Company, in relationship to the £7 million, in an immediate break-even position, and with the investment of the Sulphite Mill it could go into profit as soon as that was in operation, with a profit forecast of between £3½ million to £4 million per annum.

The other machinery, one newsprint and particularly the craft machine (brown paper) could come on flow when there was an up-turn in the Order Book.

N.P.A.

We believe that the N.P.A. are sympathetic to the problems of the newsprint industry and would, with the right sort of commitment from the owners of the Ellesmere Port Plant, be prepared to assist in maintaining a full Order Book and would possibly be sympathetic to the price that they actually pay for their newsprint, but again believe that it is a case of them not being prepared to help people who are not prepared to help themselves, which is perhaps understandable.

/Cont'd.......

SOGAT

Society of Graphical and Allied Trades

MERSEYSIDE AND DISTRICT BRANCH

254/256 COUNTY ROAD
WALTON
LIVERPOOL L4 5PW

Secretary: A. Martin
Assistant Secretaries: W. Morris
F. King

Telephone: 051-525 7489

In finality, we feel we have been totally frustrated, whereby on different occasions we have met and discussed with various interested parties the assistance that could be given to save the Bowater Mersey Mill, and as you can see from the foregoing there is sufficient on the table, as a package, to retain the operation at Ellesmere Port.

No-one has yet been able to bring all the interested parties together and it is our opinion that the only person left, who has any chance of doing this, is yourself in the office as Prime Minister, but unfortunately time is running out.

Trusting you will consider our suggestion.

Yours sincerely,

A. Martin

A. MARTIN
BRANCH SECRETARY

a Post Office

NA att

Industry

MR. LANKESTER 2

SW1P 1AA
6 NOV 1980
WESTERN DISTRICT OFFICE

Prime Minister

I will get advice on how we should respond to him. R 7/11

T. 7/11

O
889113 PO SW G
628621 PO LV G

G16 1047 LIVERPOOL T 51

THE PRIME MINISTER 10 DOWNING STREET
LONDONSW1

DEAR PRIME MINISTER THE PREMATURE DEATH OF THE MERSEY MILL IS 14 DAYS AWAY. WE BELEIVE THAT THE MONIES PUT UP BY GOVERNMENT AND OTHER PARTIES GO THE VERY LONG WAY TO MAKING THE BOWATER MERSEY MILL VIABLE THE D!FFICULTY WE HAVE IS GETTING ALL THE INTERESTED PARTIES NAMELY BOWATER
REPRESENTATIVE OF GOVERNMENT DEPARTMENTS TRADE UNIONS N P A AND OTHER INTEREWTED PARTIES TO SIT DOWN IN ONE ROOM AND STATE WHAT [illegible] THEY ARE PREPARED TO GIVE TO ELEAVIAT THE FINANCIAL PROBLEMS OF THE MILL WE WOULD THEREFORE REQUEST BECAUSE OF THE EFFORTS YOU HAVE PUT IN AND INTEREST YOU HAVE SHOWN THAT YOU USE YOUR GOOD OFFICES IN MAKING ONE FINAL EFFORT IN BRINGING ALL INTERESTED [illegible] PARTIES TOGETHER BECAUSE WE SINCERELY BELEIVE THAT THIS COULD BE THE KEY TO THE PROBLEM LETTER TO FOLLOW

ARNIE MARTIN BRANCH SECRETARY SOGAT MERSEYSIDE AND DISTRICT

COL 10 SW1 14 . N P A SOGAT

Can we publish what has been offered? MT.

628621 PO LV G
889113 PO SW G

JU

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

Secretary of State for Industry

4 November 1980

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

ABoy
R
7/11

Dear Tim

My Secretary of State has seen Peter Jenkins' letter of 20 October about Bowater's Ellesmere Port Mill.

2 He entirely agrees with the Chancellor's points about wage settlements and past productivity at the mill. The mill would have been in far better shape to withstand present adverse conditions if action had been taken much earlier by management and employees to improve the mill's productivity. The same is true of investment at the mill.

3 But the other more general factors identified by the Chancellor must also have influenced Bowater's decision to close Ellesmere Port. Bowater is a multi-national group also producing newsprint in North America and the relevant merits to Bowater of investment and production there, as against Britain, are likely to have been taken into their consideration. The exchange rate and higher energy costs certainly weighed heavily with the company though the UK disadvantage on wood price related only to North America. North American and Scandinavian competitors also have large integrated pulp and paper mills which give them economies of scale.

4 Broadly the same disadvantages are indeed faced by other UK producers of bulk low-quality grades of paper and the industry is becoming increasingly aware of the need to switch to higher value products where the prospects are much better. Bowater, for example, while abandoning newsprint production in the UK, is at the same time contemplating substantial new investment in tissue manufacture in this country. But not all the bulk paper producers by any means will be able to find salvation by this route. The minority of companies like Wiggins Teape, which are already well-

/established ...

established producers of higher value added products, can afford to sound more confident.

5 It would in any case be going too far to assume there is no viable future for any of the UK bulk paper products. No other part of the industry is quite as vulnerable to North American competition as the newsprint sector and even Ellesmere Port could have become profitable again with new investment. Lower quality products derived from recycled waste should be able to withstand international competition at least in the home market.

6 I am copying this letter to the recipients of Peter Jenkins' letter.

Yours ever

Catherine Bell

CATHERINE BELL
Private Secretary

file

TLM 4/11/80

B/F 13/11

3 November 1980

I am enclosing a copy of a letter the Prime Minister has received from the Bowaters Mersey Mill Action Committee.

As the Prime Minister will wish to reply to this letter personally, I should be grateful if you could let me have a draft reply for her to send, to reach us by Thursday 13 November.

T P LANKESTER

P.E. Mason, Esq.
Lord Trenchard's Office,
Department of Industry

6

File

BK

3 November 1980

I am writing on behalf of the Prime Minister to thank you for your letter of 28 October.

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

T P LANKESTER

R.A. Duncan, Esq.

BOROUGH COUNCIL OF ELLESMERE PORT AND NESTON

Municipal Offices
4 Civic Way
Ellesmere Port
South Wirral
L65 0BE

Chief Executive and Town Clerk
R.J. Bernie. O.B.E., LL.B(Lond) Solicitor

Tel. 051-355 3665

Your reference

Our reference CE/JK. IND.4.6.

Date 31st October, 1980.

R3/11

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

Dear Prime Minister,

BOWATER NEWSPRINT MILL ELLESMERE PORT

I write on behalf of the Council to express my very sincere thanks for the initiative you have taken in asking your colleagues to consider urgently the proposals submitted to you on October 13.

Mr. Cecil Parkinson, Minister for Trade, has now replied on your behalf but it is not clear whether the Department intend to seek the meeting on the lines suggested by my Authority and I have, therefore, written further to Mr. Parkinson.

A copy of that letter is enclosed.

I have the honour to be,
Madam,
Yours faithfully,

R.J. Bernie

Chief Executive and Town Clerk

Encl.

BOROUGH COUNCIL OF ELLESMERE PORT AND NESTON

Municipal Offices
4 Civic Way
Ellesmere Port
South Wirral
L65 0BE

Chief Executive and Town Clerk
R.J. Bernie. O.B.E.,LL.B(Lond) Solicitor

Tel. 051-355 3665

Your reference

Our reference CE/JK. IND.4.6.

Date 31st October, 1980

Cecil Parkinson, Esq., MP,
Minister for Trade,
Department of Trade,
1 Victoria Street,
LONDON SW1H OET

Dear Mr. Parkinson,

BOWATER NEWSPRINT MILL ELLESMERE PORT

Flag A

Thank you for your letter dated October 27 and for the kind remarks which you make about the efforts made by the Council to save the Ellesmere Port mill.

The Council have warmly welcomed the latest initiative taken by the Prime Minister following my submission to her of the Council's scheme for raising extra revenue for Bowater. Members are grateful to the Prime Minister, and, to you personally for the efforts that have been made to try to avert the closure of the mill.

As you know, the Council have suggested that there should be a top level meeting to examine their scheme. Since making the suggestion the Council have said that such a meeting should be broadened to include consideration of any alternative means of keeping the mill open even if that involves a change of ownership. I assume, since the question of such a meeting was not dealt with in your letter, that this matter and the issue of who should attend such a meeting is still under examination, and, I am asked to express the earnest hope that such a meeting will be convened.

It seems to the Council that such a meeting is vitally necessary in order firstly, to clear up the many misunderstandings which patently exist between the various parties. Even the extent of the package offered by the Government seems to be in dispute, and, I believe that in fairness to the Government this needs to be clarified once and for all. Apart from that, I know that there is a willingness on the part of the unions involved to accept a substantial reduction in the labour force but I doubt whether the extent of that reduction has been seriously discussed and its value in terms of reducing revenue losses accurately quantified. There are also wide differences of interpretation about productivity, freight charges and manning levels between Bowater and the Newspaper Raw Materials Committee.

Cecil Parkinson, Esq., MP. 31st October, 1980

The Council believe that as long as each party involved looks at the problems separately, and moreover on the basis of a particular interpretation of what are thought to be the facts, there can be no prospect of achieving a solution. This in itself underlines the need for a joint meeting.

The second reason for the meeting is to discuss the Council's proposals. The difficulties which stand in the way of its adoption are fully appreciated although I must, in fairness, say that the Council are satisfied that none of the problems to which you draw attention is incapable of solution given an acceptance of the scheme by the parties concerned.

Indeed, I must express some disappointment about the doubts raised by your Department on some aspects of the Council's scheme. For example, there can be no doubt that the scheme will guarantee a full take-up of UK production if accepted by the Newspaper Raw Materials Committee. The real question is not whether the scheme is workable - which it clearly is - but whether the Newspaper Raw Materials Committee is prepared to accept it, and if so, whether the extra revenue raised by it would persuade Bowater to continue newsprint operations. Unfortunately, there seems to be mistrust between the Newspaper Raw Materials Committee and Bowater. A meeting and some straight speaking is clearly necessary if any progress is to be made.

The Council's proposal, or some scheme similar to it, seems essential to retaining a viable newsprint industry in the UK since it protects the newsprint manufacturers from the harsh effects of the fluctuating exchange rate. As you know, it was the exchange rate issue that finally caused Consolidated Bathurst to decide against investing in Fort William.

The third reason for a meeting would be to explore fully whether there is any alternative way of keeping the mill open even if that involves a change of ownership.

It is fully appreciated that a meeting on the lines proposed may not succeed but the Council believe that it is now essential as a last initiative to see if there is any hope at all of keeping the mill operational. The consequences of a failure to achieve a solution have such serious national repercussions that my Council think it would be wrong not to pursue to the fullest any proposal which might offer a gleam of hope.

Yours sincerely,

Chief Executive and Town Clerk

c/ Press Office

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Ind Pol 4

Prime Minister

From the Secretary of State

R T B Dykes Esq
Principal Private Secretary to the
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London, SW1N 8NA

MS. TL 30/10

30 October 1980

Dear Richard

BOWATER

You copied to me your letter of 22 October to Peter Mason about your Secretary of State's discussions with Lord Erroll about the closure of Bowater's mill at Ellesmere Port. As this Department has responsibility for newspaper publishing, I have been asked to reply to you direct on the question of the newspaper proprietors' attitude to the closure.

Officials here keep in close touch with the Newspaper Raw Materials Committee, which co-ordinates the views of the newspaper publishers on newsprint issues. Mr Stephen, the Chairman of the Committee, has spoken to us about the publishers' attitude to the possibility of their total reliance on imported newsprint. They view the prospect with some disquiet: during strikes of dockers and transport workers, the existence of home production has been of some use in ensuring continuity of supply. However, since the home mills are dependent on imports of chemical pulp to produce newsprint, a prolonged docks strike would halt home production. Moreover, although a United Kingdom newsprint industry is desirable to ensure some security of supply, the publishers do not consider it of any benefit in terms of keeping down prices. They have often pointed out that the two home producers - Bowater and Reed - have never been the price setters: they have always followed import prices.

Many newspapers are themselves in severe financial difficulties. Fleet Street, taken as a whole, is not making profits. The reported losses at Times Newspapers are an indication of the level of losses some proprietors are facing. Despite this, many publishers are voluntarily paying premiums for United Kingdom newsprint - currently about £10-11 per tonne for Bowater's lightweight grade. They feel that to expect higher premiums is unrealistic unless Bowater is

From the Secretary of State

prepared to undertake very substantial investment at Ellesmere Port which would make it fully competitive with overseas mills. The figure of £100 million has been mentioned as the required level. The publishers have also pointed to a further advantage enjoyed by Bowater: it does not incur the extra costs - about $80 per tonne - for stevedoring and freight borne by overseas suppliers. Bowater no longer produces the heavier grades of newsprint: well over half of the United Kingdom's consumption is of those grades and publishers have to rely on imports for their requireemnts. Under the circumstances the newspaper proprietors do not feel that they can be expected to do more to assist Bowater.

Ministers here do not consider that the Government should attempt to persuade the publishers to do more than they are already doing voluntarily, particularly in view of the industry's current difficulties. In any event, we have been told in confidence that the Newspaper Raw Materials Committee has received a letter from Bowater, indicating that the company will definitely close the Ellesmere Port mill at the end of November. The publishers will not be prepared to consider further support without a long-term commitment to United Kingdom production by Bowater.

I am also copying this letter to the recipients of your letter.

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

1

10 DOWNING STREET

PRIME MINISTER

28.10.80

A further letter from the Bowaters Mersey Mill Action Committee with a 9,000 signature petition. I think that you ~~would~~ will want to reply, and I will get a draft.

Yes an

Bowaters have not yet taken a "final" decision but Lord Trenchard thinks there is little chance that they will keep the mill open - in spite of all our efforts.

30 October 1980

R

Bowaters Mersey Mill Action Committee,
C/O Bowaters U.K. Paper Co. Ltd.,
Mersey Mill,
North Road,
Ellesmere Port,
South Wirral. L65 1AF

Prime Minister,
10 Downing Street,
Westminster,
LONDON.

R29/10.

28th October, 1980

CF
ps. I think

Dear Prime Minister,

Further to our letter to you on the 15th September, we are now at Day 68 of our campaign and time is very short.

We appreciate that which has been done on our behalf and there is, as we petitioned you, a will to maintain a U.K. newsprint operation. The finality of Bowaters Chairman, Lord Errol's statement asking for what 'we' cannot in reality expect urges us in a last attempt to seek your help.

Our Member of Parliament is seeking the will of the House and an opportunity to speak to you on our behalf.

The folly of closure, the loss of an industry and the dissipation of human skills so close to a possible solution is a shame we must all bear but the load will be most heavy on the shoulders of Ellesmere Port.

Yours sincerely,

Secretary
Bowaters Mersey Mill Action Committee

Approx 9000 signatures

PETITION TO THE PRIME MINISTER

As the last representation of the United Kingdom newsprint industry 'Bowaters Mersey Mill' we petition you most urgently to consider their desperate situation.

All that you have asked of the working people when you took office has been carried out by the people at Mersey Mill, but now forces beyond their control threaten their jobs, town and the future of their children.

We know the external forces are many and no individual pressure would in itself have forced the closure. It is because we believe their salvation can be obtained without dramatic change in Government policy the representation is a realistic one.

We ask for your "will" on their behalf before it is too late.

NAME	ADDRESS
Judith Whelan	31 Browning Drive, Ellesmere Port.
Lillyan Morris	38 Warwick Court Ellesmere Port.
Clifford Morris	58 Warwick Court Ellesmere Port
Joan Roberts	25, Harlech Court Ellesmere Port.
Charles Whelan	31. Browning Drive, Ellesmere Port.
Gillian Whelan	" " " "
John T. Woodall	4. Whitemere Ct. Ellesmere Port
Lenna Phip	417 Chester Rd,
Joan Mace	58 Princes Road E/Port
Betty Foxall	4. Woodsome Drive, Whitby
Sue Richardson	1 Alvanley View Eaton
Carol Norton	39 Northbury Rd.
Jenny Bailey	6 Stanney Lane Little Stanney Chester.
Lynn Bills	
Joan Bowker	170 Parklands Little Sutton
Gill Souther	18 Ashfield Road.
Pat Casey	32. Rochester Drive
Netta Cordiner	6, Barnston Avenue
Julie Ferguson	52. Armthorpe Drive Little Sutton
Mark Chase	11 Hyde Close Great Sutton.
Sue Sutton	52. Enfield Rd
	438 Sutton Way Great Sutton E. Port

PARLIAMENTARY UNDER SECRETARY OF STATE

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ
01-211 3932

Ind Pol.

Mr R T B Dykes
Principal Private Secretary
to the Secretary of State
Mr J Prior MP
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NA

28 October 1980

Dear Richard

BOWATERS

You sent Julian West a copy of your letter of 22 October to Peter Mason in Lord Trenchard's office about the recent talk between your Secretary of State and Lord Erroll.

I have shown this letter to Mr Moore who has asked me to say that he sees no justification for the statement that the National Coal Board have been telling different stories to different people. The NCB's policy has remained throughout exactly as stated in Mr Lamont's letter of 26 September to the Prime Minister. They have been prepared to consider two possible further concessions to Bowaters in addition to the considerable discounts described in that letter. These further concessions were :

a) A further discount of £2/tonne on Ellesmere Port coal for the current year of the contract: annual cost £400,000. This would have provided Bowaters with coal for Ellesmere Port at a price considerably lower than the price of imported coal, and lower than the price at which their European competitors are likely to be able to buy coal.

b) The NCB were also prepared to "consider sympathetically" not applying the next price increase, due on 1 January, to any Bowaters coal. Lord Erroll says that they had offered only a "9/10 month moratorium on a price increase". It is true, as Mr Lamont's letter made quite clear, that the possible offer by the NCB covered only the price increase on 1 January 1981. It is also true that a further general price increase is likely on 1 November 1981. But the NCB told Bowaters only that they were not prepared to commit themselves as to the application of the 1 November increase to Bowaters; the question of what should happen on that date remained open for subsequent negotiation. Lord Erroll also mentioned that the moratorium would be shared between the Bowaters plants in Ellesmere Port and Kent. We are not quite sure what he is complaining about. Certainly the benefit of the moratorium on Ellesmere Port coal alone would be only about £1 million, but the more coal it applies to the more Bowaters benefit from it, and the total benefit of the moratorium to them remains as stated by Mr Lamont

Finally, Mr Moore has asked me to say that in his view the NCB have shown considerable flexibility in dealing with Bowaters. The concessions they have been prepared to offer have been quite substantial. Indeed, it is important, in the NCB's commercial interests, that they should remain confidential.

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

Yours sincerely

Peter Edwards

PETER EDWARDS
Private Secretary to
Mr John Moore MP

28 OCT 1980

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/Lord Trenchard

cc Mr Ingham

R T B Dykes Esq
Principal Private Secretary to
The Rt Hon James Prior MP
Secretary of State for
Employment
Department of Employment
Caxton House
Tothill Street
London SW1N 9NA

MBPry

28 October 1980

Dear Richard

BOWATER ELLESMERE PORT

Thank you for your letter of 22 October.

Lord Erroll appears to have quoted certain figures to your Secretary of State on 21 October that bear little relationship to figures discussed and agreed between Bowater and the Department of Industry to date. This is not the first time that Bowater have sought to cloud the issues by changing their ground as the arguments flow against them.

I attach a copy of a letter sent to Mr Keys of SOGAT which sets out the figures put forward by Government and the energy and wood suppliers that, allied with an investment programme of £36million, offered the prospect of long term viability at the mill. The Forestry Commission made formal proposals to Bowater, whilst the NCB had only formally offered a price discount of £2.00 per tonne equivalent to £400,000 pa. The remainder of the potential energy savings, about £2m, was to be effected by a moratorium on the 1981 price increase for the whole of Bowater's UK coal consumption. This proposal was communicated by the DoI officials to Bowater following discussion with the Department of Energy. We are not aware of the NCB formally offering only a 9/10 month moratorium to Bowater. The NCB were clearly offering a differential from their prices to Bowater and the company could well have asked for a general undertaking that the differential would continue.

I would like to clarify other points made by Lord Erroll:

a The loss forecast for the current year is approximately £7m after interest on an output of 271,000 tonnes (including 82,000 tonnes of Browns paper) which is equivalent to £26 per tonne, not £50 per tonne as indicated.

b The £36m investment programme, mainly in a sulphite pulp mill, was estimated by the company to produce cost savings of approximately £10m per annum not £2m per annum.

taking account of

An overriding factor in our discussions with Bowater was that, based on the company's own figures and using an exchange rate of $2.40 to the £,/assistance offered, and including the major downside volume and quality risks identified by them, the investment option involved no greater cash penalty to Bowater than the closure option. In other words, Bowater's closure costs were estimated to exceed £10m.

Stuart Hampson (Department of Trade) will write to you separately on the question of the attitude of the newspaper proprietors.

I am copying this letter to Tim Lankester, Stuart Hampson and Peter Edwards, (Mr Moore's Office, Department of Energy).

Yours sincerely

Peter Mason

PETER MASON
Private Secretary

PRIVATE AND CONFIDENTIAL

From the
Minister of State

Copies to
PS/Prime Minister
PS/SoS
PS/Mr Mitchell
Mr Steele
Mr Wright
Mr Smouha
Mr Avery

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

W H Keys Esq
Society of Graphical and Allied Trades
SOGAT House
274/288 London Road
Hadleigh
Essex SS7 2DE

8 October 1980

Dear Mr Keys

Thank you for your letter of 6 October. with enclosure

Since Dr Lenton agreed at the meeting with the Prime Minister on 3 October, which you attended, that I could mention the figures put forward by the Government and by Bowater's energy and wood suppliers, I am prepared to confirm what was said at that meeting. The figures in question were:

a) Capital for a major investment in a sulphite pulp mill (for which Bowater have made an initial plan) - approximate cost £36m:

1) Under regional policy, RDG's and selective assistance (Section 7) amounting to £14.4m.

2) A soft loan from the European Investment Bank of £18m.

b) Revenue

1) Forestry Commission quotes which compared with present prices would make a difference of £1.4m per annum after investment (£0.8m on present Forestry Commission supplies) since requirements for home grown supplies would increase in place of imported pulp after Bowater's investment.

2) Energy price reductions, mainly coal, worth £2.25m in a full year. These were put forward, as the Prime Minister described, on the commercial basis that a large customer might otherwise be lost.

No other figures were mentioned at the meeting, and I am unable to supply further details of what were confidential discussions with the company.

I am copying this letter to Dr Lenton, who I am sure will agree that I have only confirmed points raised at the Prime Minister's meeting.

Finally, I must again emphasise, as the Prime Minister has already made clear, that the Government recognise that the final decision of a closure of the Mersey Mill must be a matter for the company's commercial judgement.

Yours sincerely

P E Mason

pp LORD TRENCHARD

(Dictated by the Minister
and signed in his absence)

From the
Minister for Trade

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H OET
TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

R J Bernie Esq
Chief Executive and Town Clerk
Borough Council of Ellesmere Port and Neston
Municipal Offices
4 Civic Way
Ellesmere Port
South Wirral
L65 OBE

27 October 1980

Dear Mr. Bernie,

Thank you for your letter of 13 October about your Council's newsprint pooling scheme. The Prime Minister and Lord Trenchard have also asked me to reply to your letters to them.

I am pleased that you fully understand the reasons why we were unable to accept your proposals based on a change in the operation of the Community newsprint quota system. As you know, we do not feel that any payment of duty on any imported newsprint which could not be supplied by the home mills would be justified.

Your pooling scheme as detailed in the enclosures accompanying your letters has obviously entailed a great deal of thought on your part. As I understand it, in essence, it would ensure that the costs of supporting the home producers through payment of premium prices for their newsprint would be spread equitably among all users. Whilst, on the face of it, the scheme has undoubted attractions, we are doubtful whether it could be put into practice. It would prove extremely complex to administer and would, as you recognise, require as an essential element the voluntary participation of all newspaper publishers.

I understand that members of the Newspaper Raw Materials Committee pointed out, when you met them recently, that many newspapers were themselves in severe financial difficulty. Despite this, many publishers were paying a premium of £10-11 per tonne for Bowater's lightweight newsprint. To expect a higher premium was unrealistic unless Bowater were prepared to undertake very substantial investment at Ellesmere Port which would make it fully competitive with overseas mills. I gather that they also indicated another advantage enjoyed by Bowater: it did not incur the extra costs - about $80 per tonne - for stevedoring and freight borne by overseas suppliers. Under the circumstances the publishers were not prepared to accept your scheme. Moreover, as I understand it, Bowater no longer produces the heavier grades of newsprint: well over half the newsprint consumed in the UK is of those grades and it would be unreasonable to expect those publishers using them to participate in the pooling scheme.

If I am interpreting your scheme correctly, it would not appear to guarantee 100% utilisation by the UK publishers of Bowater's newsprint production. This has been one of Bowater's main complaints. The scheme also appears to suggest that Bowater should receive the same price as Reed for its newsprint. Assuming that the publishers agreed to this, but without any guarantee of 100% offtake, the scheme would not appear to offer any greater benefit to Bowater than does the present arrangement whereby some publishers pay a premium for UK production. The scheme would merely spread the burden among all publishers.

My colleagues and I recognise that you and your Council have spared no effort in your attempt to save the Ellesmere Port mill. We appreciate and share your concern at the prospect of closure and are sorry that we are not able to be more encouraging about your scheme. If the mill does finally close that will be a commercial decision for Bowater. It will not be for any lack of action on your part or that of the Government. The package of assistance put together, which included substantial help towards the financing of a new pulp plant and offers of better terms on coal and wood prices, would, we believe, have enabled the mill to return to profitability.

Yours Sincerely,

Cecil Parkinson

CECIL PARKINSON

PS/Prime Minister
PS/SOS (T)
PS/Lord Trenchard
PS/PUSS (T)
Mr Eagers CTS
Ms Lackey WEG
Mr Avery PTM
Mr Mansfield CRO
Mr Linstead ETS
—of

Ind Pol.
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SECRET

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

Tim Lankester Esq
10 Downing Street
LONDON
SW1

22 October 1980

Prime Minister

To note. (Jim Prior said Bowater's was taking 6 million tons per year!!).

Dear Tim,

MO

BOWATERS AND THE NCB

Following yesterday's meeting on another subject, my Secretary of State has asked me to write to you about the price and quantity of the NCB's sales of coal to Bowater's plant at Ellesmere Port. I understand that the Secretary of State for Employment spoke at that meeting about six million tonnes of coal for Ellesmere Port at a price of £25.64 a tonne.

TL
22/10

Mr Howell has asked me to point out that Ellesmere Port's actual coal take from the NCB is 205,000 tonnes on which, as Norman Lamont reported in his minute of 26 September to the Prime Minister, the NCB have offered a further discount of £2 a tonne for the current year of the contract (ending in June 1981), reducing the price to £23.64 a tonne - some of the cheapest coal in Europe.

I am copying this letter to Richard Dykes (Employment), John Wiggins (Treasury) and Richard Prescott (PMG).

Yours ever,

J D WEST
Private Secretary

SECRET

22 OCT 1980

CONFIDENTIAL

Ind Pol

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

Peter Mason Esq
Private Secretary to
Lord Trenchard MC
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

22 October 1980

MBAM
TL 22/10

Dear Peter.

BOWATER

After his talk with your Minister on 20 October my Secretary of State spoke to Lord Erroll on the telephone yesterday. I attach a copy of my record of what was said.

On further reflection I think it would risk engendering more confusion if we ourselves were to pursue with the NCB the disparity in the figures quoted by Lord Erroll and that contained in the Prime Minister's letter to him of 8 October. Could I therefore ask you to let me know what I can tell Mr Prior both on this point and on the question about the attitude of the newspaper proprietors? We think it important that Ministers should be in a position to demonstrate how hard they have fought to prevent this closure, and this means, of course, that we ought if possible to be agreed on the facts and figures involved.

I am copying this to Tim Lankester (No 10), Stuart Hampson (Department of Trade) and Julian West (Department of Energy)

Yours ever

Richard Dykes

R T B DYKES
Principal Private Secretary

Reference..

CONFIDENTIAL

MR WEST

cc Mr Fraser
Mr White
Mr Wye
Mr Derx
Mr Brand
Mr Bower

BOWATERS

The Secretary of State had a telephone conversation this morning with Lord Erroll, Chairman of the Bowater Coporation. He pressed Lord Erroll strongly about their decision to close the Mill at Ellesmere Port and recited to him the figures we had been given showing the contribution that might be made towards reducing operating losses by the NCB, the Forestry Commission and the CEGB. He said he believed that closure of the Mill would not only be a serious blow to the workers involved and possibly lead to damaging industrial unrest but would also leave the country without a major pulp making facility.

Lord Erroll replied firmly that while they were sorry to close this plant they had no option but to staunch the haemorrhage of loss that had been continuing now for some years. They had looked at every possible way of keeping going but there was no prospect of increasing revenue and cutting costs to bridge the gap that now existed - equivalent to an extra £50 per ton. The figures quoted by the Secretary of State, in particular those in respect of the NCB's possible contribution, were markedly different from those the company had been given. The NCB had offered only a 9/10 month moratorium on a price increase. This would be shared between their plants in Ellesmere Port and in Kent, and the contribution that this would make would be less than £1 m. They had explored also the further possibility of capital investment but they had concluded that this was not practicable. Some £36 m

CODE 18-77

~~pounds~~ would be needed, some 50% of which would be on loan, against a possible return in three years time of no more than £2 m per annum. Unless the Government were prepared to cover their operating losses of some £7 m ~~pounds~~, which he thought unlikely, there seemed no option but for the Mill to close.

The Secretary of State expressed surprise at the difference in figures that had been quoted. He said he would investigate this further and pursue also with the newspaper industry how they viewed the prospect of total reliance on imported newsprint.

I should be most grateful if you could please confirm with the Department of Industry that the figures in your minute of 14 October are correct. It may be that we shall need to check with the NCB themselves who, it would appear, are telling different stories to different people. I should be grateful for advice also please as to how we might pursue the question raised above with the newspaper proprietors.

RD

Private Office

R T B DYKES

21 October 1980

Prime Minister

This suggests, amongst other things, that poor productivity and excessive pay settlements have been part of the problem at Ellesmere Port.

cc Mr Ingham
Mr Vereker
Mr Duguid

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

Tim Lankester Esq.
10 Downing Street
LONDON
SW1

20th October 1980

Dear Tim,

The Chancellor has seen the note of the Prime Minister's meeting with the delegation from the Paper and Board Industry on 3 October.

He shares the concern of his colleagues about Bowater's proposal to close the plant at Ellesmere Port at a time of high unemployment and industrial difficulty. He supports the offers of assistance for re-equipment which the Department of Industry has made to the company, but agrees with the Chief Secretary (his minute to the Prime Minister of 2 October) in opposing the idea of a government operating subsidy which could be very expensive and absolve the company from taking a properly commercial view of this operation.

The Chancellor has asked me to draw attention to three factors which he believes have an important bearing on Bowater's problems at Ellesmere Port which, for understandable presentational reasons, were not stressed at the Prime Minister's meeting, but which he thinks colleagues should take into account.

a) Despite the fact that employees at Ellesmere Port made wage settlements in 1979 below the national average and have said they will forego a pay rise next year, our calculations based on Bowater's own figures suggest that wages as a proportion of total sales costs at the mill have risen significantly since 1974 and 1979. The wage increase paid to all Bowater's employees in 1978 was apparently above the national average for manufacturing industry. (These figures are confidential and should not be quoted publicly.) Similarly, while there has been improvement

/in productivity

in productivity at the Ellesmere Port mill during the last two years, productivity was previously very poor and there is still evidence of a significant degree of over-manning. Some of the blame for the current financial position of the mill must therefore rest with unions and management.

b) The problems of this mill need to be seen in the context of the industry as a whole. It is difficult to see much future for bulk "commodity" grade paper making in the UK. Its problems are long-standing and not just the result of the recession, or the exchange rate or current energy pricing policy. Underlying industrial and economic factors do not appear favourable to the location of this part of the industry in the UK. We lose out on energy costs to the Scandinavians who have cheap hydro-electricity and to the North Americans who have cheap coal and to both on the cost of timber because of their rich natural endowments. We lose out too on prices because they are determined by low-cost Canadian producers and because the Canadian dollar has been depreciating while the pound has been appreciating. Given North Sea oil, the relative strength of the pound is likely to be more than a temporary phenomenon. It would seem therefore that the cards are stacked against UK production of bulk "commodity" grade paper on both costs and selling prices.

.... c) On the other hand, the recent report on Wiggins Teape in the Financial Times suggests (attached), there may be a continuing niche in the UK for the manufacture of quality and speciality paper products. Wiggins Teape's experience is in line with the advice which Ministers have been giving to industry generally which is that it should move up market in response to the high exchange rate and the competitive pressures which it faces from low-cost producers.

The Chancellor acknowledges that these comments are all in the nature of generalisations. The Treasury does not have the detailed knowledge of the situation at the Ellesmere Port mill which the Department of Industry has, but he feels that it may be useful to have these factors in mind, for the purposes of presentation as well as analysis - in cases quite apart from this one (and whatever the outcome in this case).

Yours ever,

Peter.

P.S. JENKINS
Private Secretary

PS. I am sending copies of this letter and attachment to Peter Swadden (Department of Industry), David Jones (Ministry of Agriculture, Fisheries and Food), Stuart Hampson (Department of Trade), David Wright (Cabinet Office) and Godfrey Robson (Scottish Office).

WRESTLING WITH RECESSION

A paper tiger in good shape

William Hall on why Wiggins Teape is a special case

THE HON. Patrick Best, the chairman of Wiggins Teape, is not the most popular member of Britain's paper making community.

While some of his competitors are leading delegations to ask the Prime Minister for help, Mr. Best can see no reason why the paper industry should be singled out for special assistance.

He does not believe the industry's problems will be solved by import controls. And on the cost of energy, all he can say is "Thank God we do not make cement."

Wiggins Teape, which was taken over by BAT Industries in 1970, ranks after Bowater and Reed in terms of size, but with nearly a third of its UK output going overseas it is number one in exports.

Apart from the closure of the Fort William pulp mill in Scotland, which was unrelated to the recession, Wiggins Teape is unusual in that it has not yet had to close any mills or shed labour.

Mr. Best feels strongly that Wiggins Teape's strategy is the only sure way that UK paper producers can survive long term. The increasing dominance of the huge integrated North American and Scandinavian paper mills in the "commodity" grades of paper such as newsprint, kraft liner and board, has led to a steady reduction in the size of the UK industry.

"I am not a Canute," says Mr. Best. He sees the problems of the high pound, fierce import competition and costly energy, as merely accelerating the long-term restructuring of the UK paper industry.

He admits the UK paper industry is going through one of its worst ever crises but sees it as part of the painful adjustment the country has to make to live with itself.

"I believe it is up to us to seek our own solution," he says.

Mr. Best does not rule out the possibility that he will have to lay off staff before the recession ends. In fact, he says there is "quite a high probability" of redundancies within the next few months. However, there is no denying that Wiggins Teape is in far better shape than most of Britain's other paper companies.

Wiggins Teape has the good fortune of never having had a big commitment to "commodity" grades like newsprint. Its strength is in high-quality and speciality papers with a high added value. Its most successful product is Idem carbonless copying paper and the growth of this product, which accounts for over a quarter of group sales and a higher proportion of profits, has insulated it from many of the UK industry's problems.

During the past few years, the company has spent around £50m on new UK capacity. Wiggins Teape has been carving out a position for itself as the market leader on the specialised field of carbonless copying papers—a market where imports have made little impression.

The company also departed from tradition and set up a highly motivated marketing force to sell its paper throughout the world. Traditionally, the big papermakers have left the selling job to paper merchants, whose loyalty quickly disappeared when cheaper imports arrived.

Not that Wiggins Teape is immune from the recession. Although it will not confirm the fact, its UK operations are probably losing money at the moment. The strong pound has hit exports of Idem and photographic base papers—volume is holding but margins have suffered badly. Fortunately, the overseas enterprises (two thirds of trading profits last year) improved their contribution significantly in the first half of this year.

Wiggins Teape has cut its UK workforce by 10 per cent over the past five years but increased its output by 25 per cent, about a 7 per cent per annum increase in productivity. Mr. Best believes there is still room for improvement.

He cites the case of two similar sized Wiggins Teape mills—one in Belgium and one in the UK— and producing the same product. The output per employee of the Belgian mill is roughly twice that of the British mill.

Wiggins Teape has also been looking at overheads. Two years ago it appointed an energy supremo to cut energy bills. By turning down central heating at the Basingstoke headquarters, 25 per cent less energy was used last year. And at many of its mills Wiggins Teape has been able to make energy cuts of up to 20 per cent.

It has also taken a hard look at its sales force. Company cars are now changed every three years, instead of two years, and Wiggins Teape has waged war on repair costs.

There is a ban on recruitment and, with an eye on the forthcoming wage round, Mr. Best says that there is "no way that Wiggins Teape in the UK can contemplate wage settlements that are not significantly below the rate of inflation."

The recession has affected Wiggins Teape's investment plans. Investment in boosting volume is tending to be postponed and cost-saving projects are being brought forward. However, Wiggins Teape has not been forced to make major cuts in its investment plans.

Wiggins Teape appears to be stoically facing the recession. "If I have any axe to grind," says Mr. Best, "it is about the gay abandon with which gas, electricity and transport prices are being raised at an unjustifiable rate."

What Mr. Best does not emphasise is that the strong pound is keeping down the price of his imported pulp (60 per cent of total costs). This tends to go unnoticed in the current clamour for help for the British paper industry.

Nevertheless, Mr. Best makes it clear that, come what may, his company will still be around when the recession is over (late 1981 in his view). The recession will have beneficial effects in that it will "shake out" companies that lack business sense. At the end of the day Mr. Best hopes to pick up a bigger share of the market.

Mill closures Page 8

GATEWAY

WIGGINS TEAPE

Sales (1979)	£542.5m
of which UK	£260.7m
Trading profits	£52.9m
of which UK	£17.7m
UK exports	£72m
Group employees	18,250
Capital employed	£273.7m
of which UK	10,320

MFJ 17/10

c DOT

C.F. ~~Drafe~~
Thank you
ABJ 20/10

10 DOWNING STREET

THE PRIME MINISTER

20 October 1980

Dear Mr. Pearce

Thank you for your letter of 1 October about the plight of Bowater's mill at Ellesmere Port. The Government is very conscious of the consequences of closure and we have, as I explained to the delegation from the paper industry when we met on 3 October, done everything possible to help find a solution to Bowater's problems.

At the meeting I made it clear that Bowater had been offered substantial assistance towards the financing of a new pulp plant. The National Coal Board and the Forestry Commission have also offered major discounts on the price of coal and wood respectively. Bowater has also been advised to press the local Electricity Board for a discount on the electricity price.

Your letter mentioned the possibility of the EEC duty-free tariff quota being operated in such a way as to impose duty on newsprint imports above a certain level. You and other members of the Action Committee put proposals to Cecil Parkinson when you met him in September. As I understand them, these would result in the payment of duty on a large proportion of the UK's newsprint imports. Many of the newspaper publishers are themselves in severe financial difficulties. They are dependent on imports for some three-quarters of their newsprint requirements. We have considered your proposals very carefully, but have concluded that a change in the operation of the quota

/system,

E.R.

system, which would result in the payment of duty on any newsprint supplies which could not be met by home production, would not be justified.

You also suggested in your letter that the producers and publishers could co-operate to ensure that a price for home-produced newsprint higher than the import price could be spread among all users. My information is that many publishers are already voluntarily paying a premium for UK-produced newsprint which varies with the exchange rate of the £ against the US $. Figures supplied by the publishers indicate that for lightweight newsprint Bowater receives about £11 more than do the Scandinavian and Canadian suppliers at an exchange rate of £1 = $2.40. A voluntary equalisation scheme such as you are suggesting could prove extremely complicated to adminster and in any event could fall foul of restrictive trade practices law. There must also be some doubt as to whether the publishers would be prepared to accept such a scheme.

I fully understand how concerned you and everyone involved must be at the prospect of closure. My colleagues and I share that concern. Although, after careful consideration, we are not able to assist through tariff protection, we do feel that a substantial package of assistance has been put on offer. If the mill does finally close, that will be Bowater's commercial decision and will not be for lack of effort on the part of Government. I doubt whether there is anything further we can do without appearing to be totally unfair to other industries in difficulty and without undermining the Government's financial strategy.

Yours sincerely

MT

Andrew Pearce, Esq., M.E.P.

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Ind Pol

From the Secretary of State

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

16 October 1980

Dear Tim

Your letter of 1 October 1980 to Ian Ellison at the Department of Industry attaching a copy of a letter from Andrew Pearce MEP about the closure of Bowater's paper mill at Ellesmere Port has been passed to me for reply. As requested I am enclosing a draft reply for the Prime Minister to send Mr Pearce.

The Department has carefully considered the possibility of assistance by means of the EEC duty-free tariff quota for newsprint, but has concluded that this is not possible. Mr Pearce and other members of the Bowater Action Committee met the Minister for Trade on 11 September to discuss this. A Department official has since visited Ellesmere Port to explain the reasons why we were unable to agree with the proposals put forward by the Action Committee. The draft reply briefly indicates the reasons for the decision.

Many publishers already pay a premium for Bowater's UK newsprint. This varies with the exchange rate. As the £ strengthens against the US $ the premium increases and conversely as the £ weakens the premium decreases. At £1 = $2.40 the premium for Bowater lightweight newsprint is about £11. An equalisation scheme as suggested by Mr Pearce would be extremely complex to administer. The publishers have indicated <u>in confidence</u> that such a scheme would be unacceptable, although they have not told the Action Committee this. In any event it could fall foul of our restrictive trade practices legislation.

The draft reply also draws on material in the Prime Minister's letter to Barry Porter MP, which she sent following her meeting with paper industry representatives on 3 October.

Yours sincerely

Catherine Capon.

CATHERINE CAPON

DRAFT LETTER FOR THE PRIME MINISTER TO SEND

Andrew Pearce Esq MEP
30 Grange Road
West Kirby
Wirral
Merseyside
L48 4HA

Thank you for your letter of 1 October about the plight of Bowater's mill at Ellesmere Port. The Government is very conscious of the consequences of closure and we have, as I explained to the delegation from the paper industry when we met on 3 October, done everything possible to help find a solution to Bowater's problems.

At the meeting I made it clear that Bowater had been offered substantial assistance towards the financing of a new pulp plant. The National Coal Board and the Forestry Commission have also offered major discounts on the price of coal and wood respectively. Bowater has also been advised to press the local Electricity Board for a discount on the electricity price.

Your letter mentioned the possibility of the EEC duty-free tariff quota being operated in such a way as to impose duty on newsprint imports above a certain level. ~~As I understand them, the proposals which~~ You and other members of the Action Committee put proposals to Cecil Parkinson when you met him in September. As I understand them, these would result in the payment of duty on a large proportion of the UK's newsprint imports. ~~As you know~~ Many of the newspaper publishers~~, many of whom~~ are themselves in severe financial difficulties. They are dependent on imports for some ¾ of their newsprint requirements. We have considered your proposals very carefully, but have concluded that a change in the operation of the quota system, which would result in the payment of duty on any newsprint supplies which could not be met by home production, would not be justified.

You also suggested in your letter that the producers and publishers could co-operate to ensure that a price for home-produced newsprint higher than the import price could be spread among all users. My information is that many publishers are already voluntarily paying a premium for UK-produced newsprint which varies with the exchange rate of the £ against the US $. Figures supplied by the publishers indicate that for lightweight newsprint Bowater receives about £11 more than do the Scandinavian and Canadian suppliers at an exchange rate of £1 = $2.40. A voluntary equalisation scheme such as you are suggesting could prove extremely complicated to administer and in any event could fall foul of restrictive trade practices law. There must also be some doubt as to whether the publishers would be prepared to accept such a scheme.

I fully understand how concerned you and everyone involved must be at the prospect of closure. My colleagues and I share that concern. Although, after careful consideration, we are not able to assist through tariff protection, we do feel that a substantial package of assistance has been put on offer. If the mill does finally close, that will be Bowater's commercial decision and will not be for lack of effort on the part of Government. I doubt whether there is anything further we can do without appearing to be totally unfair to other industries in difficulty and without undermining the Government's financial strategy.

HS

cc DOI
MAFF

10 DOWNING STREET

From the Private Secretary 16 October 1980

We spoke yesterday about the approach to the Prime Minister from the Ellesmere Port and Neston Council, in pursuit of their latest suggestion to prevent Bowaters closing their mill.

I enclose a copy of the Chief Executive's letter, together with a copy of the Prime Minister's acknowledgement. I should be grateful if you could ensure that a Minister replies to Mr. Bernie as soon as possible. I understand that similar letters may have come to Ministers at your Department and at the Department of Industry. I think that a single reply would be appropriate. I should be grateful if we could have a copy of the reply for our records.

I am sending a copy of this letter to Catherine Bell (Department of Industry) and David Jones (Ministry of Agriculture, Fisheries and Food).

M. A. PATTISON

Mrs. Catherine Capon,
Department of Trade.

10 DOWNING STREET

THE PRIME MINISTER

16 October 1980

Dear Mr. Bernie,

Thank you for your letter of 13 October, setting out a scheme which your Council believes could avert the closure of the Bowater Paper Mill.

I know that you have made great efforts to find ways of helping the Company and I have asked my colleagues to consider urgently the proposal you have made. We will be in touch with you as soon as possible to let you know whether there is anything the Government might do to encourage the industry to act along the lines you have suggested.

Yours sincerely

Margaret Thatcher

R. J. Bernie, Esq.

PRIME MINISTER

Ellesmere Port Council write asking you to get the Government to consider a new scheme to help keep Bowaters open.

The scheme revolves around an increase in the premium paid to UK newsprint manufacturers by those publishers who buy it, and an arrangement to equalise the cost of that premium fairly among all newsprint users.

Would you like to reply to the Council saying that you have asked John Nott and Keith Joseph to look at this suggestion urgently - I attach a draft.

MP

15 October 1980

BOROUGH COUNCIL OF ELLESMERE PORT AND NESTON

R14/10

Municipal Offices,
~~Whitby Hall~~ 4 Civic Way,
Ellesmere Port
South Wirral
~~L65 6QX~~ L65 OBE

Chief Executive and Town Clerk
R. J. Bernie, LL.B. (Lond.), Solicitor

Tel. 051-355 3665

Your reference | Our reference CE/JK. IND. | Date 13th October, 1980

Dear Prime Minister,

In view of the deep interest which you have personally taken in the imminent closure of the Bowater Paper Mill at Ellesmere Port I have been asked to bring to your notice a scheme which it is believed, could avert that closure if added to the package of assistance already offered by the Government.

Council Members last week submitted their scheme to the Newspaper Raw Materials Committee, and, subsequently talked to Dr. A.I. Lenton, Chairman of Bowater U.K. Ltd. about it. Before doing so they had discussed their proposals with officials of both the EEC's Directorate General for Industrial Affairs and the Department of Trade.

No one has raised any technical objec tions to the scheme which cannot be overcome. What is now required is a willingness to adopt it in the interest of the newspaper industry as a whole. A further Government initiative at this critical time could achieve this.

The scheme is designed not to call for more Government aid but to enable the UK newsprint producers to increase their charges for home produced newsprint in a way that does not impose an intolerable burden either on the newspaper publishers as a whole, or, on any individual member. The Council's proposal is, in essence, a scheme for slightly increasing the premium which those publishers who buy UK newsprint currently pay to the manufacturers and to equalise that premium in such a way that the cost is shared evenly and fairly by all the newsprint publishers. The scheme includes a stablizing element for the benefit of the publishers so that although they would be paying an agreed premium on UK newsprint when sterling was high, they would benefit from stabilized prices for home newsprint when sterling fell. In the latter event they would be paying less for home produced than for imported newsprint.

The Council share the view of the Department of Industry that improvement of the Ellesmere Port Mill's facilities in order to achieve cost savings is essential if there is to be a viable long-term future for it, and the Council know of the level of financial assistance offered by the Government to attain that end. Unfortunately, Bowater have rejected that aid as insufficient. But the Council believe that if the Company could, in addition, secure a reasonable increase in the price of newsprint, it should be possible to persuade Bowater to keep the Mill open for some time at least. The breathing space gained would enable the

13th October, 1980

Company to prepare detailed proposals for the modernisation which is essential to put the mill on a sound basis.

Unfortunately, there is now a very real prospect that Bowater will close its Ellesmere Port mill on November 21. This would effectively mean the end of the newsprint manufacturing industry in the UK because the mill produces 57% of all UK newsprint. The consequences of the potential loss of the newsprint industry must be a matter of grave concern not merely for the publishers but for the nation.

In these circumstances, it is vital that every step is taken to preserve a viable UK newsprint industry. The Government have already offered a great deal, but there is now a danger that the mill may close by default. The Council's scheme would help the whole industry - not merely Bowater - by helping to counter the crippling effect which the high value of sterling linked with the special US Dollar arrangement, has on this industry. The scheme offers the home industry both a modest increase in prices and a full take up of home production.

A copy of the scheme is enclosed. Time is now desperately short and these proposals are submitted to you in the hope that you will feel it has sufficient merit to justify a Government Department taking the initiative, and, convening a high level meeting of all the parties concerned to discuss it.

I have the honour to be,
Madam,
Yours faithfully,

Chief Executive and Town Clerk

Rt. Hon. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
LONDON W1

Encl.

OUTLINE OF PROPOSALS FOR POOLING PREMIUM COST OF UK NEWSPRINT

1. **POOLING ARRANGEMENT:**

1.1. It is assumed for the purposes of this paper that:-

Home production capacity is 325,000 tonnes.

UK newsprint demand is 1.3 million tonnes.

Bowater production capacity is 225,000 tonnes.

Reed production capacity is 100,000 tonnes.

1.2. Since home produced newsprint forms 25% of the UK requirements and of this 17% is manufactured by Bowater and 8% by Reed, each newsprint user would agree to a theoretical take of 25% of the home produced newsprint consisting of 17% from Bowater and 8% from Reed.

1.3. The list prices for Reed and Bowater newsprint would be the subject of negotiation between the Companies and the Newspaper Raw Materials Committee.

1.4. The newsprint user would be free to buy newsprint from any source. There would be no interference with existing contracts, and if he so wished he could meet his entire requirements from imported newsprint.

1.5. Each newsprint user who bought less than 25% home produced newsprint would be required to pay into a pool the difference between the cost of the imported newsprint calculated at the prevailing \$/£ list price, and, the additional cost he would have incurred had he purchased the full 25% of his requirement from UK manufacturers.

1.6. Each newsprint user who bought more than 25% of home produced newsprint would be entitled to draw from the pool the difference between the cost of purchasing 25% of home produced newsprint and the cost of the excess tonnage purchased on the basis of the agreed prices.

2. **STABILIZER:**

2.1. In return, the home producers to agree to undertake to hold the prices of home produced newsprint at an agreed level for a fixed period.

2.2. This stabilizer would have the effect of ensuring that when the £ was high the newsprint users would be paying a premium to the home newsprint industry but when the £ was low in relation to the \$, the home newsprint industry would be supplying the newsprint users at rates below the imported rates and thus help to keep the overall cost of newsprint down. Such an arrangement would have been of real advantage to newsprint users during much of 1977/78.

3. **PRICE LEVEL FOR HOME PRODUCED NEWSPRINT:**

3.1. This would have to be the subject of discussion between the Newspaper Raw Materials Committee and the home producers.

3.2. Taking the cost of 45 gsm. newsprint as an example it is thought that the arrangement could produce extra revenue for Bowater if the newsprint users merely agreed to pay Bowater the same 10.25% increase that has recently been made to the Canadians and to Reed. The current list price for 45 gsm. is as follows:-

$/£	Bowater:	Reed:	Canadian and Scandinavian:
2.39	£273.70	£278.55	£263.40

Although the Canadians and Reed have secured a price rise of 10.25% Bowater have only achieved a rise of 6.4% over their previous cut-off price for 45 gsm. of £257.19.

3.3. On the basis outlined above the extra cost to a Company importing the whole of its annual newspring requirement of 100,000 tonnes of 45 gsm. would be 1.75%. That percentage increase would be less for a newsprint user who was currently purchasing some home produced newsprint.

3.4. It is stressed that this section on price level is intended to be illustrative only. Actual prices for the purposes of the scheme would need to be the subject of discussion between the home producers and the Raw Materials Committee.

9th October, 1980.

R.J. Bernie, OBE, LL.B (Lond).
Chief Executive and Town Clerk
Ellesmere Port and Neston Borough Council.

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The British
Paper and Board Industry
Federation

Plough Place, Fetter Lane, London EC4A 1AL

Telephone 01-353-5222 Telex 24854
Telegrams Qualified London EC4A 1AL

T.P. Lankester, Esq.,
Private Secretary to the Prime Minister,
10 Downing Street,
LONDON, SW1.

DG.C38/JHA/JOC
8th October 1980

MO

Prime Minister

Dear Mr Lankester,

9/10

May I, on behalf of all our delegation, ask you to give the Prime Minister our very warm thanks for receiving us last Friday and for giving us so much more time than we expected to explore the problems of the Paper and Board Industry.

Yours sincerely
John Adams

The British Paper and Board Industry Federation Limited. A Company Limited by Guarantee Reg. No. 122788 in England. Registered Office as above.
Director General: J.H. Adams, CB, MVO; Director, Commercial Division: E.D. Peacock, M.A.; Director, Industrial Relations Division: W.J. Bartlett.
Director, Technical Division: A.G. Marriott, C.Eng., M.I.Mech.E.; Secretary: C.F. Robinson.

9 OCT 1980

10 DOWNING STREET

THE PRIME MINISTER

8 October 1980

Thank you for your letter of 1 October 1980. I welcome your support towards the basic aims of the Government to reduce inflation.

Your letter acknowledges savings of £2 million per annum in raw material and energy costs but does not acknowledge the possibility of further assistance with coal prices which could amount to £1.8 million per annum. I understand that, in addition, the workforce's attitude towards future wage increases could have saved the company up to a further £1 million per annum.

I am sorry that you feel obliged to talk of "the long term decision of investing £36 million" when grants of £14.4 million towards it could be expected, coupled with a soft loan for a further £18 million. This is apart from the tax relief that would be available to be set off against group UK profits.

We have not failed to recognise that any closure decision must be your own; but Bowater requested assistance from the Government to enable the mill to survive. Not only do the improvements in timber and energy costs and the potential grants and loans, based on your own figures, offer the prospect of mill profitability in all but the most adverse circumstances, but they also show no cashflow penalty when compared with closure. The details of the profit figures under the investment plan supplied by your company were attached to Lord Trenchard's letter to you of 6 August. At his subsequent meeting with Mr. Popham, your Chief Executive,

/ they

they were, I understand, broadly accepted. If even more adverse assumptions are now to be taken, then the improved offers on energy should also be taken into account.

The case has been put in the media that the solution of the problem turns only on wood and energy costs. I find this unfortunate as it is investment in improved production methods which holds the key to long term viability. It is our belief that the package of assistance towards major investment at the mill and the substantial reductions indicated for raw material and energy costs do offer a real prospect for long term viability.

Like yourself, we deeply regret your decision to close the mill and would still hope that you might reconsider it. I trust that this letter clarifies the Government's view.

(SGD) MARGARET THATCHER

The Right Honourable Lord Erroll of Hale.

PRIVATE AND CONFIDENTIAL

From the
Minister of State

Copies to
PS/Prime
Minister
PS/SoS
PS/Mr Mitchell
Mr Steele
Mr Wright
Mr Smouha
Mr Avery

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

Ind Pol

W H Keys Esq
Society of Graphical and Allied Trades
SOGAT House
274/288 London Road
Hadleigh
Essex SS7 2DE

8 October 1980

Dear Mr Keys

Not copied to No10 ?

Thank you for your letter of 6 October.

Since Dr Lenton agreed at the meeting with the Prime Minister on 3 October, which you attended, that I could mention the figures put forward by the Government and by Bowater's energy and wood suppliers, I am prepared to confirm what was said at that meeting. The figures in question were:

a) <u>Capital for a major investment in a sulphite pulp mill</u> (for which Bowater have made an initial plan) - approximate cost £36m:

1) Under regional policy, RDG's and selective assistance (Section 7) amounting to £14.4m.

2) A soft loan from the European Investment Bank of £18m.

b) <u>Revenue</u>

1) Forestry Commission quotes which compared with present prices would make a difference of £1.4m per annum after investment (£0.8m on present Forestry Commission supplies) since requirements for home grown supplies would increase in place of imported pulp after Bowater's investment.

2) Energy price reductions, mainly coal, worth £2.25m in a full year. These were put forward, as the Prime Minister described, on the commercial basis that a large customer might otherwise be lost.

No other figures were mentioned at the meeting, and I am unable to supply further details of what were confidential discussions with the company.

I am copying this letter to Dr Lenton, who I am sure will agree that I have only confirmed points raised at the Prime Minister's meeting.

Finally, I must again emphasise, as the Prime Minister has already made clear, that the Government recognise that the final decision of a closure of the Mersey Mill must be a matter for the company's commercial judgement.

Yours sincerely

P E Mason

pp LORD TRENCHARD

(Dictated by the Minister
and signed in his absence)

3

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

From the
Minister of State

Prime Minister

Draft letter at Flag A for you to send to Lord Erroll.

TL 7/10

The Rt Hon Mrs Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON SW1

6 October 1980

Dear Prime Minister

BOWATER

First, my apologies for the inadequate publicity on Friday. Both ITV and BBC recorded nearly all the points, which I put strongly, but it was cut to a small fraction to make room, I imagine, for the Paris synagogue bombing. However, enough is out for the debate to continue and the unions are clearly going to have a go at Bowater as well as us, so we will try to do better next time.

Secondly, I attach a draft letter for your reply to Lord Erroll. Since Lenton categorically told you that they did not agree that they could make a profit, we have spelt it out. I had deliberately confirmed everything in writing (for instance in my letter of 6 August, attached), as it has been clear for some time, I fear, that they have not been playing quite straight.

Third, I am sure our rightful indignation with Bowater will not take our minds off the fact that a large proportion of the paper and board industry is losing money due to the combination of pressures of which you are well aware. The same, I fear, applies to other industries.

Only a minority of an industrial nation's production will ever lie in the security of "up market", fairly invulnerable added value fields. The current combination of factors, including particularly the accumulated swing in cost and price competitiveness against our manufacturers, is more than the majority of companies can or will be able to cope with when the full pressures reach them. At the moment, with falling volume, productivity has actually worsened, but even a 5% per annum improvement would take 7 or 8 years to offset the 40% swing in competitiveness since 1978. That is of course at present exchange rates. Energy prices are also important.

yours
Tom T.

LORD TRENCHARD

DRAFT LETTER FOR THE PRIME MINISTER TO SEND

The Rt Hon Lord Erroll of Hale
Chairman
Bowater Corporation
Bowater House
Knightsbridge
LONDON SW1X 7LR

Thank you for your letter dated 1 October 1980. I welcome your support towards the basic aims of the Government to reduce inflation.

Your letter acknowledges savings of £2m per annum in raw material and energy costs but does not acknowledge the possibility of further assistance with coal prices which could amount to £1.8m per annum. I understand that, in addition, the workforce's attitude towards future wage increases could have saved the company up to a further £1m per annum.

I am sorry that you feel obliged to talk of "the long term decision of investing £36m" when grants of £14.4m towards it could be expected, coupled with a soft loan for a further £18m. This is apart from the tax relief that would be available to be set off against group UK profits.

We have not failed to recognise that any closure decision must be your own; but Bowater requested assistance from the Government to enable the mill to survive. Not only do the improvements in timber and energy costs and the potential grants and loans, based on your own figures, offer the prospect of mill profitability in all but the most adverse circumstances, but they also show no cashflow penalty when compared with closure. The details of the profit figures under the investment plan supplied by your company were attached to Lord Trenchard's letter to you of 6 August. At his subsequent meeting with Mr Popham, your Chief Executive, they were, I understand, broadly accepted. If even more adverse assumptions are now to be taken, then the improved offers on energy should also be taken into account.

The case has been put in the media that the solution of the problem turns only on wood and energy costs. I find this unfortunate as it is investment in improved production methods which holds the key to long term viability. It is our belief that the package of assistance towards major investment at the mill and the substantial reductions indicated for raw material and energy costs do offer a real prospect for long term viability.

Like yourself, we deeply regret your decision to close the mill and would still hope that you might reconsider it. I ~~hope~~ trust that this letter clarifies the Government's view.

Bowater

cc Mr Avery
PS/SofS
PS/Mr Mitchell
PS/Secretary
Mr Ridley
Mr Mannie
Miss Mueller
Mr Binning
Mr Smouth
Mr Lodge
Mr Owen

From the
Minister of State

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

Lord Erroll of Hale
The Bowater Corporation Limited
Bowater House
Knightsbridge
London SW1

6 August 1980

PERSONAL AND CONFIDENTIAL

Dear Lord Errol

I have today met Dr Lenton for a further discussion on Bowater's problems at its Ellesmere Port Mill and its request for help to overcome these.

I think I should make the Government's position and understanding of the situation entirely clear.

Your company has asked for assistance in relation to wood prices, energy prices and trade matters. When I saw Dr Lenton on 3 July I made clear that if there was a chance of arriving at a situation where Bowater might feel able to continue its Mersey Mill operation it must include ensuring that the company became fully competitive in terms of investment and productivity. The problem was such that no one action alone was likely to overcome it.

Your own management at the Mill has developed an investment plan involving expenditure of some £36 m and including the provision of a new sulphite pulp mill offering genuine prospects of a return to reasonable profitability were the investment to be made. The implications of the investment are set out in the attached memorandum from which you will see that a direct Government contribution of some £6½ m under Section 7 of the Industry Act as well as Regional Development Grants of some £7.9 m could be anticipated. In addition, within this investment framework, further significant contributions have been offered by the Forestry Commission and the NCB whilst the publishers had indicated that they would take all the output from the Mill if it is produced to an acceptable quality.

As I told Dr Lenton, against this background my colleagues and I frankly find difficulty in understanding the company's reluctance to endorse this Government-assisted investment proposal. It would involve the company in expenditure but not any additional cash outflow above those it would incur in the alternative event of closure. (See paragraph 10 of the memorandum.) Even as it stands therefore the investment option would seem merit-worthy.

Looking at the situation more widely Dr Lenton gave me the impression that Bowater regarded the UK as a second rate location for such manufacture on a long-term basis. When you kindly asked me to lunch last summer we speculated on the future of energy prices and the exchange rate. The current discussion of the energy situation will have shown you that there is a widespread debate with the Government in relation to industry's energy prices. You may recall my private opinion on this subject. Again, for what would essentially be a view of the long-term prospects I would think that the particular advantages/disadvantages of present and future North American/UK exchange rates would repay your further consideration.

You will readily appreciate that beyond the help already proffered we cannot recommend any major change of Government policy for your company or your industry alone, but I believe that it must be clear to all of us that notwithstanding present effects on UK manufacturing industry of our possession of North Sea oil, this country will be a reasonable base for efficient manufacturing industry in the future. We rely partly on large British companies to help the country through the inevitably tough short-term period. If heavy losses appeared to be unavoidable, I could not ask you to consider the matter any further, but this does not seem to be the case.

I am available and would welcome a meeting next week (Thursday or Friday) to discuss further this letter and the attached memorandum if it would be at all helpful.

Copies of this letter go to Mr Popham and Dr Lenton.

Yours sincerely

Tom Trenchard

LORD TRENCHARD

BOWATERS - ELLESMERE PORT

MEMORANDUM FOR LORD TRENCHARD'S DISCUSSIONS

1 Forestry Commission have proposed a reduction in timber costs as set out in their letter of 1 August which would give the following reduction in costs (@ $2.30):

£K	1981	1982	1983	1984
	810	1080	1410	1410

and would ensure that there is an availability of timber for enlarged requirements.

2. The National Coal Board have offered a reduction in coal prices of approximately £1.50 p.t., giving a saving of up to £300 K pa on a year by year basis.

3. The Department of Industry would consider Selective Financial Assistance of £6.5 m. towards a project securing 1300 jobs with capital expenditure of £36m. The capital expenditure would also quality for Regional Development Grants of £7.9m giving a total assistance of £14.4m.

4. An EIB loan of £18m. would be sought for the £36m. investment programme. The current rate of interest on such loans is approximately 10%.

5. The publishers have indicated that they would take all output from the mill if it is produced to an acceptable quality.

6. The cash flow projection for closure shows a need for borrowings of £12.5m. in addition to the £13.5m. already shown as borrowings of the mill, and for the investment programme under discussion shows a lesser need for cash.

The cash flows can be summarised as follows: (for the purposes of comparability interest has been assumed on the closure option - alternatively the £26m. write-off could be deducted from the investment option).

Total borrowings (including EIB loan)

	1981	1982	1983	1984	1985	1986
Closure option £M	(26)	(30)	(34)	(39)	(45)	(51)
Investment option £M	(19)	(14)	(25)	(15)	(5)	4

7. After the capital investment and at $2.30 the projected profitability (before interest) of the mill would be £10m. per annum.

Bowaters have drawn attention to the following sensitivities:

(a)	Currency risks	£2m.	$2.30 to $2.40 (a further £2m. if it goes to $2.5).
(b)	Volume risks	1	Inability to obtain UK market for increased capacity (maximum risk £2m)
(c)	Quality risks	1	Reluctance of users to wholly convert to 45 gram weight paper.
		4	

If the balance of qualities of newsprint were brought into line with the requests of the publishers (see 5 above), the volume risks would be avoided.

The profit before interest has been used as:

i) interest on £13.5m already borrowed is academic as this will not be repaid

ii) interest on the additional closure costs will be incurred anyway.

All figures are in 1980 £s. The projections therefore do not reflect the effect of inflation on profitability.

8. Bowaters have principally requested assistance for the current trading. The cash flow forecasts include the projected losses until the investment comes on stream and assistance is being provided as set out in 1 to 4 above.

9. If the investment programme were to fail prior to 1983 Bowaters would have further cash costs in excess of those of an immediate closure in the range £5m to £15m. (For this calculation it has been assumed that the exchange rate will be $2.50 and other worst situations have been taken.) The cost would reduce thereafter to the extent that if reasonable trading had taken place for a couple of years there would effectively be no penalty by 1986.

10. Conclsuion

The assistance being discussed would have the effect of putting the plant in a position to earn profits from 1984 onwards of £10m. pa and positive cash flow of £10m pa (profits £6m and cash flow £6m. with worst assumptions). All this at no additional cash cost to that of closure but with a maximum further exposure of £15m (see 9 above).

Bowaters are confident that the investment option would bring the mill up to a level as efficient as any other than the top 25% in the world. At some stage between, perhaps before 1990 and maybe as early as 1986, it would be necessary to invest in a larger newsprint machine (150K t.p.a.) at a substantial cost to retain the profitability of the mill.

Given the confidence which Bowaters have in their technical ability, the offers suggested by HMG and the costs of closure reduce their exposure to such a level that the potential benefits make the investment a not unreasonable commercial venture (based on Bowater's own projections).

JH

DEPARTMENT OF INDUSTRY
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PS/Secretary of State for Industry

6 October 1980

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

Dear Tim.

Thank you for your letter of 1 October 1980, enclosing a letter from Andrew Pearce, MEP about Bowaters papermill at Ellesmere Port.

The papers have been transferred to the Department of Trade, who have agreed to prepare a draft reply for the Prime Minister.

Kim.

KIM BENSON
Private Secretary

1nd Pol

COVERING CONFIDENTIAL

HS

10 DOWNING STREET

cc D/N
MAFF
D/T
HMT
CO

From the Private Secretary

6 October 1980

BC Press Office
Hoskyns
Wolfson

cf. master set.

Dear Peter,

I enclose the record of the Prime Minister's meeting last Friday with the delegation from the paper and board industry.

I am sending copies of this letter and enclosure to Julian West (Department of Energy), David Jones (Ministry of Agriculture, Fisheries and Food), Stuart Hampson (Department of Trade), Peter Jenkins (H.M. Treasury) and David Wright (Cabinet Office).

Yours ever

Tim Lankester.

Swedder
Peter ~~Mason~~, Esq.,
Department of Industry.

VRS

CONFIDENTIAL

RECORD OF A MEETING AT NO. 10 ON FRIDAY 3 OCTOBER 1980 BETWEEN THE PRIME MINISTER AND A DELEGATION FROM THE PAPER AND BOARD INDUSTRY AT 1130 HOURS

Present:

Prime Minister	Dr. A.E. Lenton (Chairman, Bowater UK Ltd.)
Minister of Agriculture	Mr. J.J. Benn (Chief Executive Reed Paper & Board UK Ltd.
Secretary of State for Energy	Mr. J.H. Adams (Director General of the Federation)
Minister of State, Department of Industry (Lord Trenchard)	Mr. W.H. Keys (General Secretary SOGAT)
Mr. T. Lankester	Mr. P. Evans (National Secretary T&GWU)
Mr. N. Gaffin	Mr. H.M. Stephens (Chairman, Newsprint Raw Materials Committee, Newspaper Publishers' Association)

* * * * * * * * * *

Mr. Adams first gave a slide presentation of the industry's problems as the delegation saw them. The industry was not a "lame duck"; it was an efficient industry, and all they were seeking was equal opportunities with their competitors. They wanted a reduction in energy costs and other costs controlled by Government; assistance to offset the high exchange rate; two-tier interest rates; assistance with restructuring; and the preservation of the forestry industry. Imports were taking up an increasing share of the domestic market, partly because there were no tariff barriers against the Nordic countries. Consequently, there had been a steady decline in employment and mills - despite substantial investment in recent years. They were not crying wolf, but only seeking Government help to prevent a total collapse. They disagreed with Sir Keith Joseph that the industry could survive simply by being more efficient: they could not be responsible for the exchange rate, the high level of interest rates, and uncompetitive energy prices. As a proportion of a typical mill's costs, energy costs had gone up from 12% to 23% between 1971 and 1979. In recent months, the industry had suffered a worsening cost/price squeeze. The price of imported newsprint from Germany had, for example, fallen and all costs had gone up. Rates were up 43% in the past nine months, and wages 11% up. Recent increases in energy prices were particularly crippling. The price paid for oil, even taking

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account of discounts for high volume purchases, was higher than for all the UK's main competitors; the problem was compounded by the levying of excise duty. Figures supplied by Kimberley Clarke showed a similar pattern for gas prices. The industry was also at a disadvantage in respect of electricity.

The discussion then turned to Bowater's Ellesmere Port mill. Dr. Lenton said that Ellesmere Port were losing £7 million per annum. Manufacturing efficiency was high - probably in the upper quartile internationally. Productivity in the service areas was not so good. But this was due to under capitalisation. It was now becoming worthwhile to replace men by machines in the service area, and productivity would rise. However the total costs of the service functions would not be reduced. There were basically two reasons for the losses. First, they had been unable to raise their prices since January 1977. Second, they were paying £5 million more in energy costs than their overseas competitors, and £2 million more for wood pulp. They could only become competitive again if their energy and wood costs came back into line with what the industry paid overseas. The NCB and the Forestry Commission had offered discounts on coal and wood respectively amounting to £3.1 million in total; but the concession on wood assumed major capital investment, and there would still be a £4 million revenue cost differential. There was no justification for a new pulp plant when Ellesmere Port had no unique advantage over Scandinavia and North America. Bowaters were determined to run the mill at a profit. If the Government was not prepared to provide £7 million assistance on revenue account, they would close it. If they could have £7 million, they would be prepared to forego Government capital assistance: it was the revenue lost that mattered.

The Prime Minister said that the Government were very concerned about the future of Ellesmere Port. They were doing everything possible to find a solution to Bowater's difficulties. The Department of Industry were prepared to offer a substantial programme of regional assistance towards the cost of a new pulp plant, and this could be supplemented by an EIB loan. In addition, the NCB were willing to offer a dscount on coal price, and the Forestry Commission on wood. There was also scope for negotiating a lower electricity price. She understood that the workforce were showing greater co-operation in getting rid of restrictive practices, and that they had also offered to accept no wage increase in the current pay round. The fact that energy and wood costs were higher than overseas was not a new problem - this had always been the case. But the Government were prepared to help; and on the basis of the package on offer, they were confident that the mill could return to profitability. If Bowaters did decide to close it down, it would be their commercial decision and not for want of the Government trying to help.

Lord Trenchard said that the discount offered by the NCB was worth £2.25 million and the discount offered by the Forestry Commission £1.4 million. Bowaters had shown his Department their forward plan, including the investment in a new pulp plant; and this had shown a theoretical profit of £10 million in 1983/84. The latter figure had been reduced to £6 million in discussion, and then to £4 million. Lord Erroll had since told him that not even this figure was valid - since the company were worried about the downside risk. He had made it clear that the Government could not match North American energy prices; but they believed that with the total package on offer, the mill could be kept open. The company ought to recognise that, while the UK was at a disadvantage in respect of energy and wood prices, we had the advantage of lower wages and larger regional assistance.

Dr. Lenton said that what the Prime Minister called "everything possible" was not sufficient. They did not deny that the Government had done its best, but the amount of assistance on offer was simply inadequate. As regards the profit figures quoted, the company were upset that Ministers were implying that these had been agreed. Department of Industry officials had read too much into them. They certainly had not been agreed, and as far as the company were concerned, there was a significant risk that they would be running a £50 million negative cash flow. Lord Trenchard commented that the figures had not been formally agreed, but it had been his Department's sincere understanding that the Bowater management stood behind them. The Prime Minister said that Bowaters could not simply ignore the capital assistance on offer: to the extent that it involved a subsidy, it would offset the continuing excess costs on revenue account; and in addition, the company ought to take into account redundancy costs before deciding on closure.

Mr. Keys said that the paper industry had a fine record. Productivity in the last two to three years had gone up 25%, wage settlements had been low, and there had been hardly any disputes. Despite all this, the industry was in great difficulty. The problem was not just confined to Bowaters. One consequence of the decline was that printing and publishing was going overseas as well. On strategic grounds, it would be a disaster if the UK came to rely on newsprint imports. If Ellesmere Port closed at least 4,500 people would be affected, and the Government would find itself paying £13 million in unemployment benefit. Mr. Evans asked if there was any way in which Government revenue assistance could be increased to £7 million.

The Prime Minister denied that there was a strategic argument - since some of the inputs for the industry had to be imported anyway. The Government could not do anything more to bridge the revenue gap. The real problem on energy prices was the low productivity of our coal industry. The miners were effectively putting other people out of work. This was not the Government's fault: they were already providing the NCB with over £800 million this year.

Mr. Benn then described Reed's problems. They had gone over to oil in 1972. They found themselves paying consistently higher prices than the industry abroad. It was no comfort that US oil prices were supposed to be rising to international levels in two years time. Reed's had already declared a number of redundancies: a further 2,000 jobs were still at risk unless something more was done about the electricity and oil price differential. On electricity, they were at a disadvantage partly because in contrast to Europe, industry subsidised the

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domestic consumer. Even if the rest of their business was making money, they were not prepared to keep loss-making business on the newsprint side going.

Mr. Howell said he was surprised to hear that Reed's were paying higher oil prices than on the continent. On his information Shell and BP (who apparently supplied Reed's) were selling at a similar price both here and in Europe. If European prices were lower this would have to be because of subsidies; and he would look into this. Mr. Stephens said that the publishers wanted the newsprint industry to continue, and they would do what they could to help.

In conclusion, the Prime Minister repeated that the Government were doing what they could on energy prices, though more could be done with higher productivity in the coal industry. They were prepared to offer substantial capital assistance towards a new plant at Ellesmere Port. It seemed unlikely that anything could be done to ease Reed's oil price problem, but Mr. Howell would look into the allegation that they were having to pay higher prices than on the continent. She hoped that, before reaching final decisions, both at Ellesmere Port and on other possible closures, the industry would take fully into account what was available from Government, and the discounts available on coal and wood; and that they would negotiate hard for lower electricity prices also. Further, she hoped they would not ignore some inherent advantages of production in the UK. In reply to a question from Mr. Evans, the Prime Minister said that the Government would not be willing to set out in writing their proposals for Ellesmere Port in specific terms, but they would do so in general terms if the unions wanted it.

The meeting closed at 1315 hours.

TL

6 October 1980

The British
Paper and Board Industry
Federation

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Telegrams Qualified London EC4A 1AL

MEMBERS OF DELEGATION TO PRIME MINISTER - 3 OCTOBER 1980

Dr. A.I. Lenton	Chairman, Bowater UK Ltd. President of the Federation.
Mr. J.J. Benn	Chief Executive, Reed Paper & Board (UK) Ltd.
Mr. J.H. Adams	Director General of the Federation.
Mr. W.H. Keys	General Secretary, SOGAT.
Mr. P. Evans	National Secretary, T & GWU.
Mr. H.M. Stephens	Chairman, Newsprint Raw Materials Committee, Newspaper Publishers' Association.

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CHIEF SECRETARY TO THE TREASURY

Back-up for tomorrow's mtg

MBPM

R 2/10

PRIME MINISTER

MEETING WITH THE PAPER INDUSTRY 3 OCTOBER 1980

I have seen the letter from Lord Trenchard's Private Secretary dated 25 September and Mr Lamont's letter the following day about the impending closure of Bowater's mill on Merseyside.

2. Bowaters' intention to close the mill with the loss of 1,500 jobs would clearly be a serious blow to an area where the unemployment rate is already approaching 15 per cent. I am sure Lord Trenchard has been right to offer all he can under our regional assistance schemes to modernise the plant. That way holds out a real hope of a viable future for the mill.

3. Nevertheless it seems that Bowater prefer to concentrate their newsprint production in North America. They suggest that only a government guarantee to make good any adverse cash flow over the next three years would induce them to keep the mill open.

4. I am sure we cannot contemplate giving the company any undertakings of that sort. Indeed it is hard to believe that they intended us to take the suggestion seriously.

5. A straight operating subsidy to preserve jobs would be a major reversal of our regional policies, and a promise that one firm would be guaranteed against loss would surely have serious repercussions.

6. I am copying this minute to Keith Joseph, George Younger, Nicholas Edwards, David Howell and Peter Walker.

W J B

JOHN BIFFEN

CONFIDENTIAL

x

Parliamentary Under Secretary of State

Department of Employment
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Telephone Direct Line 01-213 6620
Switchboard 01-213 3000
GTN 213

Tim Lankester Esq
Private Secretary
10 Downing Street
London SW1

3 October 1980

Dear Mr Lankester

BOWATERS - ELLESMERE PORT

Last evening, Mr Lester met representatives of the Bowaters work force from Ellesmere Port. They were introduced through the CTU organisation at Central Office. They were very worried about the proposed closure of the mill which is due to take place on 21 November. They asked Mr Lester if he would emphasise to the Prime Minister prior to her meeting about Bowaters the serious results which would flow from the closure.

I enclose a note of the meeting but for ease of reference the main points made by the delegation were:-

1. The closure of the mill would result in the loss of 1540 jobs in an area where the unemployment rate is already over 14%. Also, most of those skilled in the papermaking trade whose skills were not transferable would become unemployed unskilled workers whose prospects of finding a job would be very poor indeed.

2. The closure would also lead to the loss of jobs in industries supplying the mill - and would put up to 3000 more jobs at risk.

3. The mill was efficient and its productivity had risen significantly during the past year. Labour relations had been good. Its products were of high quality and it had a full order book. Its problems were entirely beyond the control of the workforce.

4. It was likely that with more time and goodwill on the part of Bowaters, their customers and suppliers together with such help as the Department of Industry could provide that a solution could be found which would keep the mill open and ensure an efficient UK newsprint industry.

Mr Lester told the delegation that he was sure that the Prime Minister was fully briefed on all the issues involved. He would nevertheless draw her attention to the points they had made and emphasise the serious consequence which would follow the closure.

I am copying this to Peter Mason in Lord Trenchard's office and Keith Long in Cecil Parkinson's office.

Yours sincerely
Kevin White

K C G WHITE
Private Secretary

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NOTE FOR THE RECORD OF A MEETING HELD IN CAXTON HOUSE ON 2 OCTOBER 1980 TO DISCUSS THE FUTURE OF BOWATERS MERSEY MILL ELLESMERE PORT

Those present:

Jim Lester MP	Mr French EEPTU
Mr Cottingham DE	Mr Dean SOGAT
Mr Rees RMSD North West	Mr Saben EEPTU
Mr White DE	Mrs Daly Central Office
	Mr Dowling Central Office (North West)

1. Mr French explained that he and his colleagues had come to see Mr Lester to see whether he could in any way assist them in their fight to keep Bowaters Mersey Mill running. 1540 employees were under notices of redundancy which would expire on 21 November. The actual number of those who would lose their jobs as a result of a closure of the Mill would, however, be nearer to 5,000. The unemployment position in Ellesmere Port and surrounding areas was already dangerously high and it was most unlikely that new employment could be found in the area. The workforce was a skilled workforce and the skills would not be recovered if the Mill closed.

2. Since the threat of closure the Bowaters Mersey Mill Action Committee, which represented all the trade unions in the plant, had been taking a hard look at the position of the company. They were convinced the Mill was viable and that a rescue package could be found. The main ingredients of the package would be investment in a new pulp mill and action taken to reduce the losses of the Mersey Mill until the new pulp mill came into operation.

3. The current losses of the Mill were, they stressed, due to factors beyond the Mills' control. The main problem was that, because newsprint prices were fixed in dollars, the high exchange rate meant that they were selling their newsprint at the same price as in 1977 whilst their costs, notably energy costs, had soared. The Mill itself was no "lame duck". There was no lack of will for success. The Mill had good labour relations. The workforce had accepted a reasonable pay settlement last year (13%) and had increased productivity by 17% in the last twelve months. Even under notice of redundancy the Mill was working well. Capital investment was no problem. Over £2m had been spent on new machinery this year. The Mill was making better and more profitable

products and there was a full order book. In these circumstances it was hard to see why the Mill should go to the wall.

4. Mr Lester said that he fully accepted the seriousness of the unemployment position in Merseyside and what had been said about the record of the Mill. To a very great extent, however, the matter was in the hands of Bowaters. Colleagues had been involved in detailed discussions with the company and had offered what he thought was a very generous package to them. Under that offer a considerable porportion of the capital cost of a new pulp mill would be paid for by the Government.

5. The representatives of the Action Committee acknowledged that the Government had made substantial offers of capital. However the problem was not, they felt, one of a lack of investment but one of revenue losses. Bowaters were primarily reluctant to accept the envisaged operating losses of up to £6m per year for the four years before the new pulp mill came into operation.

6. Mr Lester said that it would not be in the Government's power to subsidize the running costs of Bowaters Mersey Mill. Besides, Bowaters International were making a significant profit in other markets and it was only right that they should bear some of the costs. It was a question of balance. The offer that was made would have put Bowaters UK in profit in 1984. It was accepted, however, that it might be difficult to persuade Bowaters to contribute. They might believe that if they did pull out of the UK they could supply the UK market at a greater profit from abroad. Furthermore, although if the Mill closed they probably stood to lose some £10m in plant that could not be sold or written off, this compared favourably with the continuing costs of running the Mersey Mill until the new Pulp mill came into operation.

7. The Action Committee said that they were not envisaging a direct Government subsidy for the running of the Mill and accepted that Bowaters would have to contribute. They felt, however, that it would be reasonable for a package to involve a reduction in energy costs for the Mill. They were confident, and could cite examples, that our European competitors had forms of protection for their newsprint industries because of their strategic importance. There were other arguments too for cheaper raw materials. The closure of the Mill would have adverse effects on their major supplies of raw materials. For a few years the timber suppliers

could sell to the Scandinavians (who would sell the newprint back at a profit) but once new Russian forests came of age the UK timber suppliers would have no markets. The Mill used poor quality coal from the Newstead colliery (it was 1/3 of the product of that colliery) for which there would be no other market. They thought that these factors might persuade the suppliers of the Mill to lower their raw material prices.

8. They argued that there were more general strategic reasons for keeping the Mill in operation. The Mersey Mill effectively represented the last of the UK newsprint industry. It would be a great mistake to be dependant on foreign newsprint which, without UK competition, would be more expensive and would make our supply of newsprint vulnerable. It would be sensible for the Newspaper Publishers Association to pay more for their newsprint from a UK firm now than from a foreign firm later.

9. They stressed that they were not seeking immediate decisions but a breathing space. They believed that a solution could be found. There was goodwill and there were hopeful signs. The Company was seeking to preserve the workforce during the period of notice. They were aware, also, that the next day the Prime Minister was meeting senior officials of Bowaters UK, representatives of the Newspapers Publishers Association, the Paper and Board Industries Federation as well as trade union leaders. They very much hoped that emerging out of this meeting might be the lifting of the redundancy notices for a while. This would allow more time for an acceptable package to be put together.

10. In conclusion, Mr Lester thanked them for putting their case to him. He had sympathy with much of what they had said and hoped very much that an acceptable solution could be found. He assured them that he would pass their views on to colleagues. It was agreed that, dependant on the results of forthcoming meetings, Mr Rees would meet them again in the North West to see what further the Department could do to assist.

cc Mr Dykes
Mr Fraser
Mr Waring
Mr Shepherd
Mr Derx
Mr Brand
Mr West
Mr Cottingham
Mr Rees RMSD North West

K C G WHITE
3 October 1980

JH

DEPARTMENT OF INDUSTRY
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PS/ Secretary of State for Industry

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

2 October 1980

Dear Tim,

BOWATER ELLESMERE PORT

The main points in Lord Erroll's letter of 1 October to the Prime Minister are the familiar ones that due to the constraints on raising selling prices, the high cost of wood and energy and the company's views on the strength of sterling and of future markets the risks of making the Ellesmere Port investment are too great for the company to undertake. Only a guarantee, quantified as £7m/annum, that operating losses will be met and the certainty of a full order book would induce Bowater to keep the Ellesmere Port operation open.

2 These points have already been covered in the briefing provided for tomorrow's meeting. It has always been for Bowater to decide whether or not it is prepared to keep open the Ellesmere Port plant. But on the basis of the figures agreed with Bowater the investment proposal, allied to the reductions in wood and energy costs that could have been available could on the company's own figures have produced profits at the mill from 1984 onwards though these were subject to certain sensitivities. Bowater was assured of an offtake for its newsprint at competitive prices. By contrast an operating subsidy with no commitment to investment could not ensure a viable future for the mill.

3 Additionally, Lord Erroll suggests that the problems of the mill are not due to newsprint alone but also to problems on the smaller packaging paper side. It is true that those operations are also experiencing difficulties, though less severe than in the case of newsprint but if, through investment, the newsprint operations were made viable then the major problems at Ellesmere Port would be overcome. The profit figures discussed with Bowater were for the Ellesmere Port operations as a whole.

4 A substantive draft reply to Lord Erroll's letter will be forwarded in the light of the outcome of tomorrow's meeting.

Yours ever,
Pete
PETER STREDDER
Private Secretary

Andrew PEARCE

MEMBER FOR CHESHIRE WEST

EUROPEAN PARLIAMENT

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AP/AJH

1st October 1980

Prime Minister
The general brief at 3 dismisses this suggestion for a quota - mainly because it would add to the losses of the publishers
T.

RT. HON. THE PRIME MINISTER

Dear Prime Minister,

Bowaters Newsprint Mill

I understand that you are having a meeting on Friday about the threatened closure of Bowaters Paper Mill at Ellesmere Port.

You may be interested to know that two detailed discussions on aspects of this problem have been held between EEC Commission officials, Bowater staff, local Council representatives and myself, with the full knowledge of the Department of Trade and UKREP. The following points emerged:

1. The EEC Commission is fully aware of the gravity of the situation facing the United Kingdom and other Member States' newsprint industries and is prepared to do whatever it can, with the backing of Member States, to find a practical solution to the problem.

continued/........

1st October 1980

RT. HON. PRIME MINISTER

2. The existing, but never used, EEC provision for imposing a customs duty on newsprint imports above a certain level could, in all probability, be used if the political will to do so was there in Member States. This would enable Bowaters to raise their prices. (Bowaters Action Committee say that this would increase the cost of a newspaper by 0.1 p and that such a rise might be supportable since newsprint prices have not risen significantly since 1977).

3. Alternatively, some kind of cooperative measure between United Kingdom newsprint producers and the publishers could be used to spread a United Kingdom newsprint price that was higher than the import price among all users. The French apparently do this.

Not only Bowaters and their suppliers of energy and wood would lose from the closure of this mill but also the newspaper publishers because they would be more exposed to international pressures on their prices and would no longer have the round-the-corner facility for emergencies and re-pulping. All the interested parties therefore have an interest in contributing to a solution. If the tariff quota measure and/or the cooperative purchasing ideas mentioned above can offer sufficient short-term relief to Bowaters to persuade them to keep the mill open, a breathing space will have been obtained in which to find longer-term answers.

Yours sincerely

Andrew Pearce

Andrew Pearce
Member of the European Parliament
for Cheshire West

- 1 OCT 1980

RH

1 October, 1980

I enclose a copy of a letter which we have received from the General Secretary of NATSOPA. I don't see any need for the Prime Minister to reply to this, but perhaps Sir Keith in his reply to the letter of 26 September could refer to the fact that they had also written to the Prime Minister.

M. P. LANKESTER

P E Mason, Esq

(Lord Trenchard's Private Secretary,
Dept of Industry)

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RH

NB: Lord Trenchard's Office (DOI) have already received a copy of this letter and will be letting us have a draft reply within 10 days.

1 October, 1980

I am writing to acknowledge your letter of 1 October, which I will place before the Prime Minister in advance of her meeting with the delegation from the British Paper and Board Industry on Friday. A reply will be sent to you as soon as possible.

T. P. LANKESTER

The Right Honourable
Lord Erroll of Hale

RH

From the Chairman
The Rt. Hon. Lord Erroll of Hale

THE BOWATER CORPORATION LIMITED
England 191285

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1 October 1980

The Rt Hon Margaret Thatcher M. P.
No. 10 Downing Street,
LONDON SW1.

Dear Prime Minister,

At Lord Trenchard's request, I went to see him on Wednesday last, 24th September, accompanied by Mr C. F. Popham, Bowater's Deputy Chairman and Chief Executive, and heard your views on the impending closure of our Ellesmere Port Mill.

As you are receiving a delegation from the British Paper and Board Industry on Friday, and time is short, I thought it best to write to you direct, with a copy to Lord Trenchard.

My colleagues and I firmly believe in, and support, the basic aim of your Government to reduce inflation.

Our planning must assume that you will succeed, and we believe that the pound will continue to be strong, both as the rate of inflation comes down and pay settlements are realistic, and as Britain continues to be self-sufficient in energy. To this extent the Bowater new investment in the U.K. of £75 million over the last three years demonstrates our confidence.

The losses at our Ellesmere Port plant are now running at the rate of approximately £7 million per annum, based on current market conditions. The cash outflow for 1980 will be some £8.5 million, and this in a year of relatively modest capital expenditure, and a full newsprint order book. Additionally, I cannot emphasise too strongly the very real improvement in productivity which has been achieved at the mill during the last two years, as a result of the efforts of the total workforce. This mill has an annual capacity of 90,000 tonnes of packaging papers in addition to 190,000 tonnes of newsprint and consequently, contrary to popular belief, its future is not solely dependent on a solution to the newsprint problem.

This present situation has arisen due to the very low selling prices of both packaging papers and newsprint, which in sterling terms are still at 1977 levels. Newsprint selling prices in the U.K. are linked to the U.S. dollar (a factor dictated by the domination of the Canadian producers in this market). Additionally, on two of the major items of variable cost, namely energy and wood, U.K. prices are very substantially higher than those enjoyed by our overseas competitors.

In the very frank and open discussions which we have had with the Department of Industry, every possibility of reducing costs has been examined, including the building of a new pulp mill with Government support. This new mill would supply the newsprint machines only, and not benefit the production of packaging papers.

Recent discussions with the appropriate Government Agencies have succeeded in achieving possible reductions in raw material and energy costs of some £2 million at the Ellesmere Port Mill, although the continuity of such offers remains uncertain. This does not overcome the problem, and it cannot be commercially correct for this Corporation to take the long-term decision of investing £36 million, primarily in the aforementioned new pulp mill, until the problem of manufacturing costs is resolved.

Furthermore, the change to a worldwide over-capacity for both packaging papers and newsprint in 1981 is now certain, and several other facets of the investment option are not only at risk in the weak market ahead, but also are at best achievable only over a period of years.

The Corporation is therefore faced with a range of exposures:

(a) The effect of the strength of sterling on selling prices of dollar-based products.

(b) The prospect of weak markets for the next few years.

(c) Uncompetitive wood and energy costs.

In the absence of any indications that these problems will be resolved, it is our judgement that the risks of continuation are too high. However much we may regret it, therefore, the only sensible course open to us is to close down an operation which is losing, and could continue to lose, up to £7 million a year, and so draining off money generated by our other activities within the United Kingdom. These operations are also under strain because of the strength of the pound, and high energy costs. I do not need to tell you that this in turn could jeopardise the jobs of other employees.

We deeply regret the necessity of making so many hard-working employees redundant. The only way, however, in which we would feel justified in keeping the mill running, and so saving these 1,600 jobs, would be if we were to receive a reduction in costs, or a cash injection, of £7 million per annum for three years, and if we were certain of a full order book for newsprint. We would still, of course, continue to be exposed to considerable risks on world prices, and on the market for packaging papers.

Yours Sincerely,

Freddy Erroll

RH

1 October, 1980

I am writing on the Prime Minister's behalf to acknowledge your letter of 30 September. I will, of course, place this before her in advance of her meeting with the delegation from the British Paper and Board Industry on Friday.

T. P. LANKESTER

Owen O'Brien, Esq

File

10 DOWNING STREET

From the Private Secretary 1 October 1980

I attach a copy of a letter the Prime Minister has received from Andrew Pearce, M.E.P. about Bowaters Paper Mill at Ellesmere Port. I should be grateful if you could provide a draft reply for the Prime Minister to send to Mr. Pearce after Friday's meeting.

I am sending a copy of this letter and enclosure to Stuart Hampson (Department of Trade).

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

ds

1 October 1980

I am writing on behalf of the Prime Minister to acknowledge your letter of today's date.

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

T P LANKESTER

Andrew Pearce, Esq., M.E.P.

7.7.9 FILE HS

1 October 1980

I am writing on behalf of the Prime Minister to acknowledge your letter of today's date about Bowater's mill at Ellesmere Port. I will draw this to the Prime Minister's attention in advance of the meeting she is having with the industry's representatives on Friday, and a reply will be sent to you as soon as possible.

TPL

Andrew Pearce, Esq., M.E.P.

PS/SofS
PS/Mr Mitchell
PS/Secretary
Mr Steele
Mr Mangie
Mr Wright
Mr Smouha
Mr Avery
PS/Prime Minister.

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

From the
Minister of State

Lord Trenchard

The Rt Hon Lord Erroll of Hale
Chairman
The Bowater Corporation
Bowater House
Knightsbridge
London SW1X 7LR

1 October 1980

with regards

R 2/10

Dear Lord Erroll

As agreed, I asked Brian Smouha to contact Mr Pomeroy, and I learn from their discussions that there are no new figures subsequent to those attached to my letter of 6 August. Mr Pomeroy made it clear that your company was worried about the assumptions and sensitivities involved, in particular regarding the exchange rate and the savings offered by the sulphite pulp mill, but the figures still, I understand, suggest profits of up to £10m, though more probably around half that amount.

We shall, of course, take care in any response to the media, MP's and other enquirers to state the company's right to make its own commercial decisions, but if it is suggested, as it has been in some press reports, that the majority of the problem is due to energy prices, we shall have to make it clear that they are not the whole story and that it appeared possible on your company's plan, with present exchange rates and quoted energy prices, to see the operation in profit in 1984. This would of course be after further investment towards which we were willing to offer aid and for which we would also arrange EIB loans. If asked, we shall also have to make it clear that reductions in wood and other prices were in prospect, on a commercial basis, and in a full year following the investment these could have been very substantial. Indeed, I understand suggestions of further concessions on coal prices have been made since we met. We shall therefore have to say that we are disappointed by Bowater's decision, particularly in view of the Government's determination to see improved efficiency in our energy producing industries in the longer term.

I must also make it plain to you that checking the figures again indicates clearly that Bowater's closure costs would be approximately the same in relation to cash flow as the aided investment plan. You asked whether we would be prepared to guarantee you a balanced cash flow for three years if the Mersey Mill were kept open. I am afraid this would involve a very considerable subsidy for unimproved production methods which would not necessarily lead to long term viability, and it would not be proper for the Government to support your company alone in this way.

I can only say that I am sorry that you and your colleagues have felt unable to see out the next few years, which will undoubtedly be tough for all of manufacturing industry.

Yours sincerely

P C Mugan

pp Lord Trenchard

(Dictated by the Minister
and signed in his absence)

NATSOPA

National Society of Operative Printers Graphical and Media Personnel

Caxton House
13-16 Borough Road
St George's Circus
London SE1 0AL
Telephone
01-928 1481

General Secretary
Owen O'Brien

National
Assistant Secretaries

J A Selby
E O'Brien
J A Moakes

C1/10

Rt. Hon. Mrs. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
LONDON, SW1

Dear Mrs. Thatcher,

Bowaters, Ellesmere Port

I attach copy of a letter which we have sent to Sir Keith Joseph from which you will see our deep concern at the possibility that the national press of this country will be totally dependent on foreign imports of newsprint.

It would be a catastrophic situation if at any time this supply was cut and there would no indigenous supply to fill the gap.

Obviously we are not only concerned with the effect this would have on the democratic processes of this country, but the vast unemployment problem it could well create.

Yours sincerely,

Owen O'Brien

Owen O'Brien, pp GMS.
General Secretary

Dictated by Mr. O'Brien but signed in his absence.

OOB/GMS

30th September, 1980.

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

J A Moakes

Dear Sir Keith,

Bowaters, Ellesmere Port

Our Executive Council at their meeting earlier this week considered letters that we had received from members concerning the threatened closure of the above plant.

Our Executive share our members concern. Not only would the closure increase the number of uhemployed workers in this country - and you will appreciate that at Bowaters the workers are members of our sister union SOGAT, with whom we have a particular affinity - but the loss of newsprint production in this country places the printing industry in this country at increased risk.

Foreign paper producers, primarily of course Scandanavia and Canada, already have the advantage of home produced raw materials, whereas the British industry has to import wood pulp. In addition, because of subsidies, they are less affected than the British industry by the high costs of, for example, fuel.

Once the subsidised imports from abroad have destroyed the British papermaking industry, the foreign producers will have the British printing industry in a pincer grip and this could result in even more printing work going abroad - to the further detriment of our members and the British labour force generally. Already the cheaper cost of paper abroad is increasing the amount of printing that is leaving this country.

We would urge the Government to subsidise the Bowater plant at Ellesmere Port, to enable it to continue in production. Failure to do so will aggravate the already appalling unemployment situation in the Merseyside area as well as placing the printing industry in further jeopardy.

Yours sincerely,

Owen O'Brien,
General Secretary

26th September, 1980

10 DOWNING STREET

PRIME MINISTER

There is one point in this minute which you have not dealt with: do you wish me to invite Mr. Walker to the meeting with the paper industry in view of the forestry dimension (or, if he is not available, one of his Junior Ministers)?

Yes

M.

29 September 1980

Caroline

taking

action

R.

PRIME MINISTER

BOWATERS

Attached at Flag A is a note on Lord Trenchard's further meeting with the Bowater management. You will remember that he was asked to see them once more to see if he could persuade them to keep Ellesmere Port open, and build a new plant with the help of Government regional assistance.

The meeting did not go well. Bowaters seem to have changed their tune on the potential profitability of a new plant: earlier they agreed with the Government that the business would return to profitability by 1984; now they are saying that even the longer term prospect - with a new plant - looks very uncertain. They told Lord Trenchard that they would only be prepared to keep the mill open if the Government were to guarantee that there should be no negative cash flow for the next three years; and they would only take a decision on a new mill in the light of their experience over these years.

Such a guarantee is clearly unacceptable. It looks to me as if Bowaters have decided, come what may, to close the plant. The Department of Industry are looking again at Bowaters' cash flow forecasts, but I doubt whether this will lead to anything. You may well need to push some of the blame for the closure on to Bowaters when you see the paper industry delegation next Friday: Lord Trenchard will be briefing you on this.

At Flag B is a report from the Department of Energy on the fuel cost point. At your request, they have been in touch with the NCB and the local electricity board. On coal, the NCB have now agreed to offer Bowaters a further discount of £2 per tonne - so that the price at Ellesmere Port would be approximately £23.50, compared with a price of about £15 per tonne paid by American paper plants. The NCB have also said that they would "consider sympathetically" not applying the next coal price increases, which are due on 1 January, to any Bowaters coal.

/ On electricity,

On electricity, the local Board are discussing with Bowaters the possibility of some slight reduction in the tariff. But it is interesting that Bowaters had never apparently approached the local Board before.

For the meeting with the industry next Friday, I have invited Lord Trenchard. I think we will also need an Energy Minister, and a Minister from MAFF, to cover the forestry aspect. Shall I ask Mr. Howell and Mr. Walker? And if they are not available, one of their Junior Ministers?

You said at the meeting on Bowaters that you would like Sir Francis Tombs to come to the meeting. I think it will look slightly odd if we have him but not Sir Derek Ezra - since coal costs represent a larger share of total energy costs to the industry than electricity. Shall I ask Ezra and Tombs? Or shall we drop this idea altogether, and leave the energy aspect to be dealt with by Mr. Howell?

Leave it to D.H.

R.

MT

26 September 1980

CONFIDENTIAL

B

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ
Direct Line 01-211 3390
Switchboard 01-211 3000

From the
Parliamentary Secretary

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

26 September 1980

Dear Prime Minister

BOWATERS

At our meeting on 17 September, the Department were invited to explore with the NCB and the Electricity Council the possibility of their offering Bowaters a discount on the present prices charged for coal and electricity.

On coal, in addition to existing discounts (reducing the list price for coal suitable for Ellesmere Port from £30.20/tonne to £25.64/tonne) the NCB are now prepared to offer a further discount of £2/tonne on coal sold to Ellesmere Port for the current year of the contract (ending in June, 1981). The cost of this to the NCB is £400,000. Though this would require full Board sanction, they are also prepared to "consider sympathetically" not applying the next coal price increase, due on 1 January, to any Bowaters coal. If the price increase were 15%, the cost of this would be £2.25m in a full year. The Board have mentioned the further (£2) discount to Bowaters, but it is not clear whether they have said anything about the possibility of a price freeze.

On electricity, the local Distribution Board (MANWEB) is discussing with Ellesmere Port the possibility of engineering some reduction in charge through operational changes at the plant. However, the scope for reduction is likely to be very limited. (In the case both of coal and electricity any reductions must, of course, remain commercially confidential.) Incidentally, it seems clear that Bowaters themselves do not appear to have tried as hard as they might have done to secure reductions through local pressure. No approach was apparently made, for instance, to the Chairman of MANWEB prior to the approach by the Chairman of Bowaters (UK) to Sir Francis Tombs on 3 September.

I am copying this to Tom Trenchard, Jerry Wiggins, Wyn Roberts and Alexander Fletcher and also to John Biffen and Sir Robert Armstrong.

Yours

Norman

NORMAN LAMONT

CONFIDENTIAL

26 SEP 1980

A

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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SWITCHBOARD 01-212 7676

From the
Minister of State
PS/Lord Trenchard

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

25 September 1980

Dear Mr. Lankester

BOWATER

As agreed at the meeting which the Prime Minister held to discuss the problems of Bowater and the paper industry on 17 September, my Minister yesterday saw Lord Erroll and Mr Popham of Bowater.

Lord Trenchard put to Lord Erroll and Mr Popham the point that the figures which had been agreed between officials in this Department and the company indicated that profits at Ellesmere Port could be made if investment in a chemical pulp mill was made with regional selective financial assistance. This had not been appreciated in the public discussion of the Bowater question, and the Government were consequently bearing the brunt of the blame for the company's decision. However, it would be difficult to avoid this coming out if, as expected, the Prime Minister were pressed on the Ellesmere Port issue at the meeting to be held with SOGAT and the British Paper and Board Industry Federation on 3 October. On energy costs, he stressed that the energy industries were determined to improve their efficiency with a view to making their prices competitive. Finally, he mentioned that recent reports indicated that the workforce were prepared to accept both a nil pay rise next year and up to 140 redundancies, or even 300 redundancies, to help avert the mill's closure. This was thought to represent a saving of a further £2million per annum.

Lord Erroll replied that the figures which Bowater had before them suggested a continuing negative cash flow. Moreover, he was doubtful about the long-term market for newsprint holding up in the UK, and was also doubtful about lower exchange rates or energy costs even in the long-term. If the Government were determined that this mill should remain open, and since there was no strategic reason for maintaining a domestic newsprint industry he could only assume that this was for regional policy considerations, the only proposal which would persuade Bowater to keep the mill open would be a guarantee from the Government that there should be no negative cash flow for the next three years. This guarantee, which paralleled an arrangement which had previously been employed for a copper mine in Australia, would allow the company to see how things developed for another year - eg whether the UK newsprint market was holding up and whether there were any signs of easing of the exchange rate and energy cost pressures - before making a decision on investment in the chemical pulp mill. The Bowater Board had met that morning and had again confirmed their decision. Moreover, since time was running out and decisions needed to be given to both customers and suppliers, they would need a decision by 10 October at the latest.

Lord Trenchard said that he would pass on the comments which Bowater had made including their suggestion of a guarantee that there should be no negative cash flow, but he could see little possibility of the Government agreeing to such an obvious operating subsidy and he was also doubtful whether the statutory powers to do so existed. He also expressed surprise that the figures on the profits which might be made from new investment had changed once again, and it was agreed that officials in our Department should have urgent talks with Mr Pomeroy, the Finance Director.

My Minister, who is now on leave, has asked that an appraisal of the new Bowater figures be provided by the weekend so that he can consider what further briefing is required before the Prime Minister's meeting on 3 October. He also hopes to be in a position to indicate how much of the details of the negotiations between the Department and the company can if necessary be disclosed without breaching commercial confidentiality.

I am copying this letter to the Private Secretaries to Mr Wiggin (Ministry of Agriculture, Fisheries and Food), Mr Roberts (Welsh Office), Mr Lamont (Department of Energy), Mr Fletcher (Scottish Office), and also to John Wiggins (HM Treasury), David Wright (Cabinet Office) and of course Ian Ellison here.

Yours sincerely,
Heather Archer.

p.p. PETER MASON
Private Secretary

25 SEP 1980

BF for Oct 3 meeting
MAP

MR. PATTISON

Bill Keys' Office has confirmed the proposed date and time for the meeting on the paper industry. He will be accompanied by Peter Evans of the T&GWU and Mr. H.M. Stevens of the Newspaper Publishers Association; I was told that the employers will be contacting us separately with their names.

R

22 September 1980

Nl VS
Ind Pol.

10 DOWNING STREET

BF 1-10-80

From the Private Secretary

22 September 1980

As you know, the Prime Minister has agreed to meet representatives from both sides of the paper industry. The meeting has been set for 1130 on Friday 3 October. I would be grateful for a brief for this meeting to reach me by Wednesday 1 October.

I am sending copies of this letter to Garth Waters (MAFF) and Peter Jenkins (HM Treasury).

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

cc Ind dsg

10 DOWNING STREET

THE PRIME MINISTER

18 September 1980

Dear Mr. Keys

Thank you for your letter of 5 September with which you enclosed a copy of the SOGAT booklet "Action Now" about the problems of the paper-making industry.

I have written to you separately saying that I will be glad to meet a delegation from the industry, and I am sure we will have an opportunity to discuss the points in your booklet at that meeting.

Yours sincerely

MT

W. H. Keys, Esq.

jfh

Incl pd

File TL 1979

3

10 DOWNING STREET

Prime Minister

GR – cc Dol
cc Press Office
and note last para
TL

Attached is a draft letter for you to send to Bill Keys agreeing to meet a delegation. Ld Trenchard will see Bonsor's before then, and I have told Energy that they must ~~discuss~~ explore with the NCB and Electricity Council the possibility of lower energy prices, and then come back to you.

TL. 13/9

cc Ind dsg
Press

10 DOWNING STREET

THE PRIME MINISTER

18 September 1980

Dear Mr, Keys

Thank you for your letter of 1 September about the UK newsprint industry.

We are of course most concerned about the difficulties that the industry is currently facing, and I would be glad to have an opportunity of discussing these problems with a small delegation comprising representatives of SOGAT, the British Paper and Board Industry Federation, the Newspaper Publishers Association and the Paper and Board Sector Working Party. I would be able to see you here at No. 10 at 1130 on 3 October. If that is convenient, perhaps you could let my Private Secretary, Tim Lankester, know. (His telephone number is: 01-930-4433).

I am sending a copy of this letter to the Director General of the British Paper and Board Industry Federation.

Yours sincerely

MT

W. H. Keys, Esq.

jfh

25A

10 DOWNING STREET

From the Private Secretary

18 September 1980

Following the Prime Minister's meeting yesterday about the proposed closure of Bowaters, she has written brief personal letters to several of the correspondents who had approached her about this. There is therefore no need for Garth Waters (Ministry of Agriculture, Fisheries and Food) to take any further action on the letter from Peter Morrison, MP, about which I wrote to him on 11 September, nor the earlier letter from the Duke of Buccleuch.

Filed in the G.R.

The Prime Minister has also written to SOGAT and the British Paper and Board Industry Federation, offering them a meeting, and suggesting 3 October; a copy of this letter is on its way to you.

There is one outstanding piece of correspondence, the enclosed letter from the Principal of Glynllifon College. The Prime Minister thinks this eloquently sets out the issues which need considering and she would like your Secretary of State, in consultation with Forestry Ministers, to reply on her behalf. I should be grateful for a copy of the reply for our records in due course.

I am sending copies of this letter to Stuart Hampson (Department of Trade), Garth Waters (Ministry of Agriculture, Fisheries and Food), John Craig (Welsh Office), Godfrey Robson (Scottish Office) and Julian West (Department of Energy).

MAP

Mrs Catherine Bell,
Department of Industry.

jfh

18 September 1980

The Prime Minister has asked me to reply to your letter of 15 September in which you ask that she should see a deputation from the Bowater Action Committee.

You may know that SOGAT and the British Paper and Board Industry Federation have asked the Prime Minister to meet a joint deputation, and the Prime Minister has now written agreeing to do so. We expect this meeting to take place in the first week of October as the Prime Minister will be on an official visit abroad next week.

MAP

R.A. French, Esq.

DSG

COMMERCIAL IN CONFIDENCE

Ind PD.

2

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/Lord Trenchard

Prime Minister

Another big paper closure.

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

18 September 1980

Dear Tim

PAPER AND BOARD INDUSTRY

Lord Trenchard has asked me to let you have further details of the intended closure on 23 September of St Annes Board Mills in Bristol, to which he referred at yesterday's meeting with the Prime Minister.

Eight hundred redundancies are involved. The operation has lost £4.5m over the last nine months. Over the year a loss of more than £6m is forecast, while the forecast loss for next year is put at £8 - £9million. With these losses in prospect, the company's parent, the Imperial Group, has decided it would be cheaper to face up to closure. The Managing Director identifies the basic problem as a lack of demand from customer industries as the recession bites deeper (the mill manufactures carton board, a sector in which there is European wide over capacity and where imports hold over 40% of the UK market). Even before the recession margins had been under severe pressure due to the strength of sterling and the impact of energy costs. Had the problems been seen as "short term" Imperial would probably have ridden out the storm, but they could see no profitable future for the mill for some years ahead. The company have made no approach for Government help, and Lord Trenchard does not see any case for attempting to change the company's commercial decision. He does, however, consider that it highlights very well the impact of rising energy costs and the strength of sterling in another part of the paper and board industry.

Yours sincerely
Peter Mason

PETER MASON
Private Secretary

CONFIDENTIAL

file

Ind Policy

cc. Ld. Trenchard
(DI Ind)
MAFF
WO
D/W
SO
HMT
CO

BK

10 DOWNING STREET

From the Private Secretary

17 September 1980

masters

Dear Ian,

The Prime Minister held a meeting this morning to discuss the threatened closure of Bowater's Ellesmere Port plant. The following were present: Sir Keith Joseph, Lord Trenchard, Mr. Wiggin, Mr. Roberts, Mr. Lamont and Mr. Fletcher.

The Prime Minister said she was very concerned about the threatened closure. She understood that, apart from the strength of sterling and high interest rates, other reasons for Bowater's difficulties were the higher costs that they had to pay for timber and energy as compared with their competitors overseas. She wanted to know whether the Forestry Commission might be able to offer a lower price for their timber while still covering their marginal costs, and she wondered whether there was not scope for some reduction in the price paid by Bowater for electricity and coal. On reflection, she was not convinced by the Secretary of State for Energy's minute of 10 September that nothing could usefully be done in this latter respect. She had no wish to add to the electricity and coal industries' call on the taxpayer; but she felt that it could well be better from the point of view of their cash flow to offer a small discount on the tariff rather than lose this large chunk of demand altogether. Mr. Howell's minute had ruled out the idea of a 50% discount on the electricity price; but it had not discussed the possibility of a much smaller reduction. The two industries ought in any case to be able to offer lower prices by improving efficiency: that was the only way in the end we would be able to offer industry generally energy prices that were competitive with other countries'.

Lord Trenchard said that the discussions he had with Bowater's had made it clear that, if they were to invest in a new plant, they would be able to make substantial profits by 1984 - even if the exchange rate remained high. His Department had offered them Industry Act assistance towards such an investment, but they had declined. Although Ellesmere Port could be profitable on this basis, the company seemed to prefer to concentrate their activities in North America because of the higher level of profitability available there. He had done his best to

/ persuade

CONFIDENTIAL

persuade them to continue their operation at Ellesmere Port, but, so far, to no avail. However, if the profit prospects from investing in a new plant were to be made public, this could well be an embarrassment to the company. This was a card which the Government might profitably use to get them to reverse their decision. An assurance on energy costs would of course help. Figures recently provided by Kimberley Clark suggested that prices paid by the paper industry for electricity and gas were significantly higher in the UK than in Canada, the USA, West Germany and France. The price paid for coal, which represented 60% of their energy costs, was £15 per tonne higher than the price of coal delivered to U.S. paper plants. As regards timber, the Forestry Commission were offering Bowater improved terms such that they would only be charging marginal costs. These new terms would make the price of timber to Bowater competitive with the price available to Scandinavian paper plants; but it was still well above the cost of timber in the U.S.A.

Mr. Wiggin confirmed that the Forestry Commission were offering timber to Bowater on a marginal cost pricing basis: consequently, they would be making no profit on the contract on offer. They could not offer more favourable terms than this. Mr. Lamont said that, while there was much scope for improved efficiency in our energy industries, they would always be at a disadvantage compared with Sweden and the U.S.A. Other European countries were planning to increase their energy prices, so that the current differential between their prices and ours should soon be eliminated. Mr. Fletcher said that the paper industry had to be looked at as a whole: if any concessions on energy costs were made to Bowater, they would have to be made to the other companies as well.

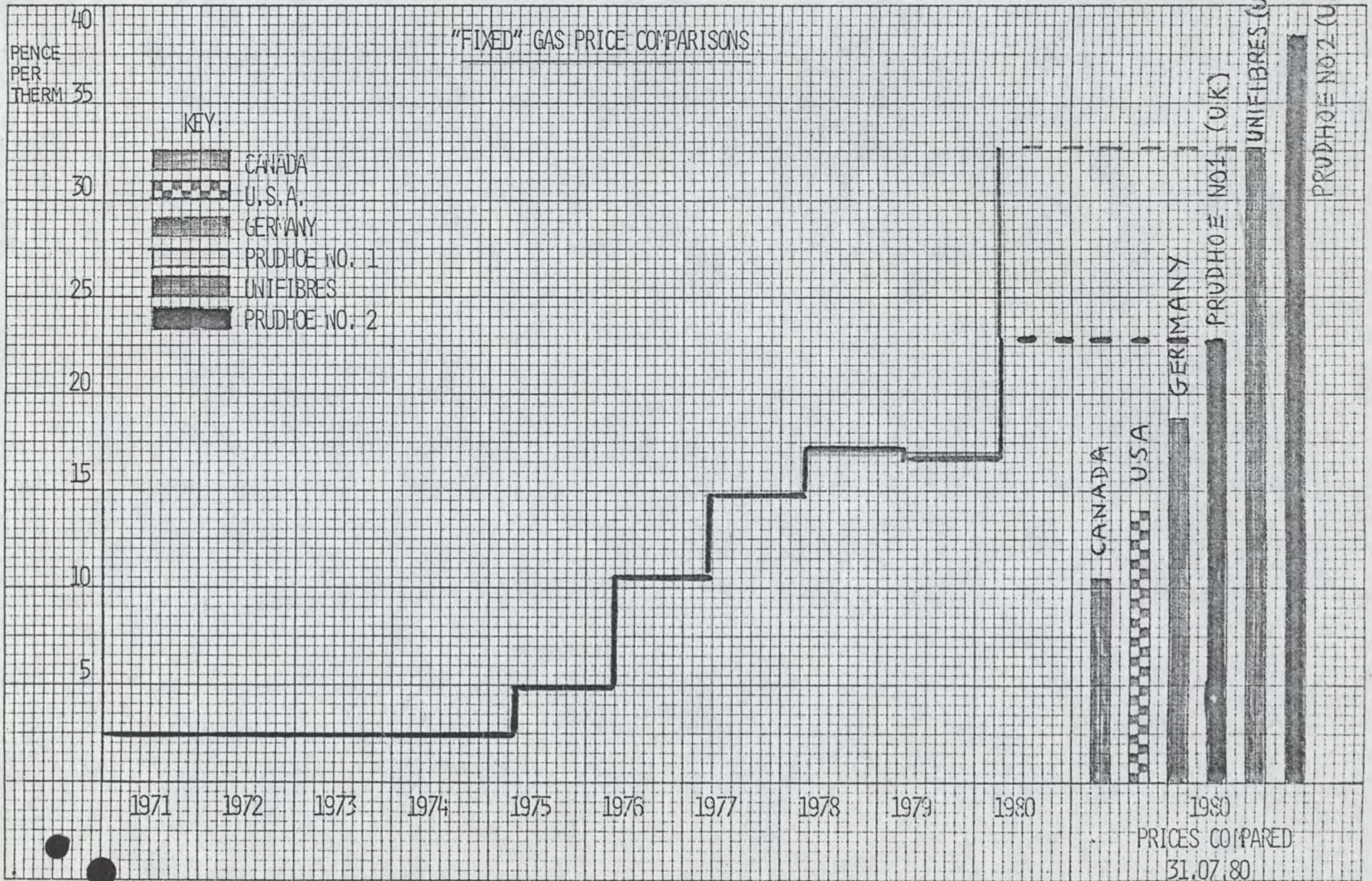
Summing up the discussion, the Prime Minister said that Lord Trenchard should make one more attempt to persuade the Bowater management to keep Ellesmere Port open, and build a new plant with Government assistance. There was nothing more that the Forestry Commission could do on timber costs; but the Department of Energy should explore with the NCB and the Electricity Council the possibility of their offering a discount on the present prices charged for coal and electricity. If in the meantime Bowater were to ask Lord Trenchard about energy costs, he could say that the energy industries were determined to improve their efficiency with a view to making their prices competitive with those charged on the Continent. She would be seeing a delegation from SOGAT and the British Paper and Board Industry Federation to discuss the problems of the industry generally; and Lord Trenchard could, if he wished, tell Bowater that she would almost certainly be obliged to give the delegation the figures on the profit prospects at Ellesmere Port. She intended to invite Sir Francis Tombs to the meeting to explain the position on electricity pricing.

/ The meeting

The meeting with the industry delegation will probably be on 3 October. The Prime Minister will want to have further advice on the outcome of the Department of Energy's discussions with the NCB and the Electricity Council by that date; and preferably earlier so that, if anything positive is to be done, Bowater can be informed without delay.

I am copying this letter to the Private Secretaries to Lord Trenchard (Department of Industry), Mr. Wiggin (Ministry of Agriculture, Fisheries and Food), Mr. Roberts (Welsh Office), Mr. Lamont (Department of Energy), Mr. Fletcher (Scottish Office), and also to John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Ian Ellison, Esq.,
Department of Industry



"FIXED" GAS PRICE COMPARISONS
PENCE PER THERM
40
35
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25
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5
KEY:
CANADA
U.S.A.
GERMANY
PRUDHOE NO. 1
UNIFIBRES
PRUDHOE NO. 2
1971
1972
1973
1974
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1976
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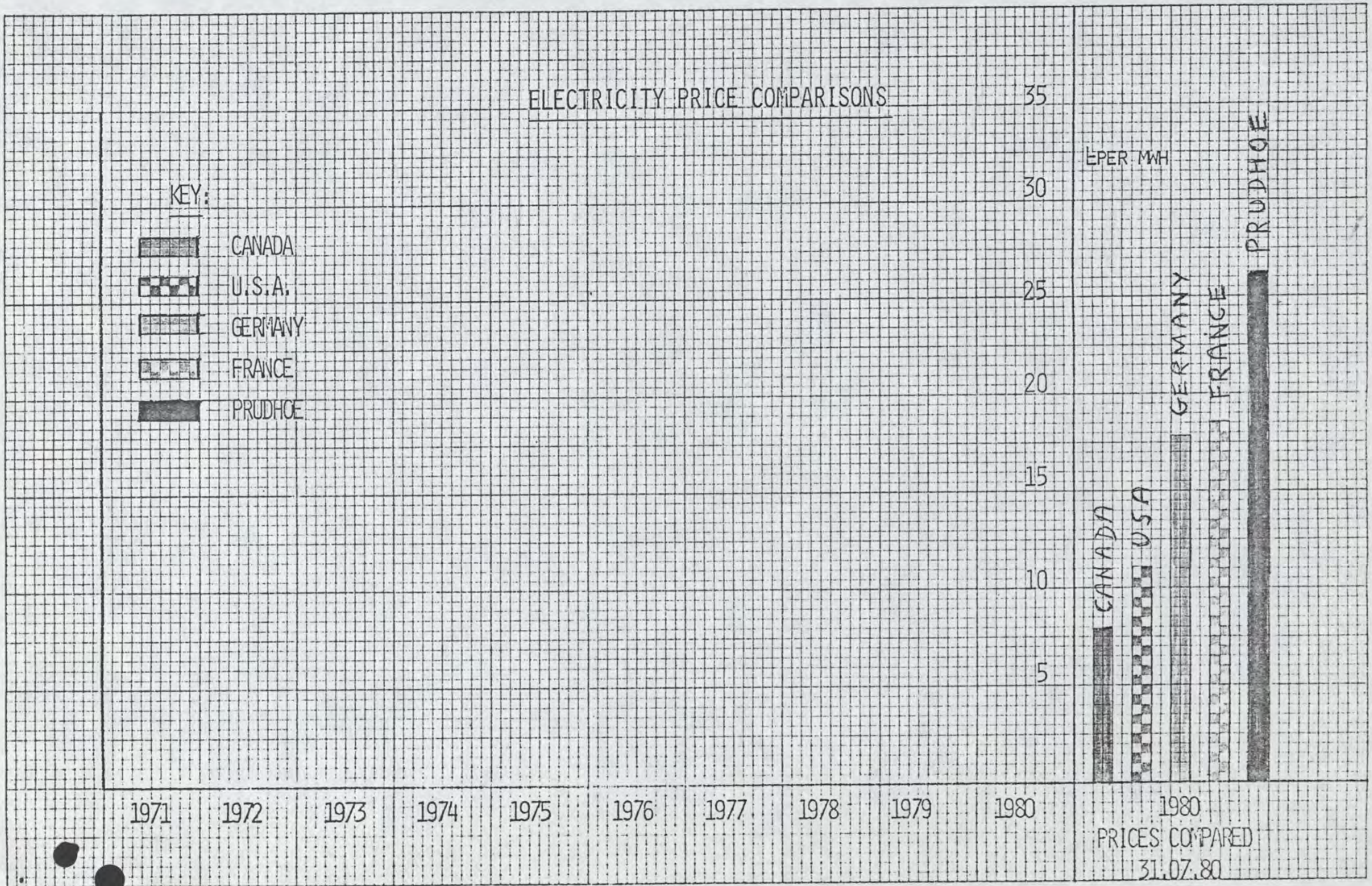
CANADA
USA
GERMANY
PRUDHOE NO1 (UK)
UNIFIBRES (UK)
PRUDHOE NO2 (UK)
1980
PRICES COMPARED
31.07.80


ELECTRICITY PRICE COMPARISONS
KEY:
CANADA
U.S.A.
GERMANY
FRANCE
PRUDHOE
£PER MWH
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PRICES COMPARED
31.07.80

File

DSS

16 September 1980

I am writing on behalf of the Prime Minister to thank you for your letter of 15 September about Bowaters.

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

M. A. PATTISON

R. A. French, Eqq.

1.

10 DOWNING STREET

PRIME MINISTER

The Bowaters Action Committee asked you to receive a deputation during the Party Conference in Brighton.

I see from the list of people they have already seen that they have not met an Industry Minister. Would you like to ask Keith Joseph to arrange a meeting for them, either at the Department or during the Party Conference in Brighton?

MAP

16 September 1980

c: Press Office
Mr. Gow.

Please tell them we are going to see the paper industry at No. 10.

MERSEY MILL ACTION COMMITTEE,
C/O BOWATERS U.K. PAPER CO. LTD.,
MERSEY MILL,
NORTH ROAD,
ELLESMERE PORT,
SOUTH WIRRAL, CHESHIRE, L65 1AF

The Prime Minister,
10 Downing Street,
Westminster,
LONDON W1

15TH SEPTEMBER, 1980

PA 16/9

Dear Prime Minister,

I have been directed by my colleagues on the Bowater Action Committee to ask you most urgently to spare a few minutes of your time which we appreciate is burdened by affairs of greater moment.

We are facing Day 26 of an 90 day execution sentence and are fighting most desperately for our survival and the life of the U.K. newsprint industry.

Can you find the time to meet with us or a small representation within the very near future. We will be only too happy to meet wherever your convenience allows and ask that we may represent ourselves at the Brighton Conference.

We have already been received most courteously by the Minister for Trade, Mr. Cecil Parkenson, our local Members of Parliament, Mr. Peter Morrison, Mrs. Lynda Chalker, Mr. David Hunt and Mr. Barry Porter, also our European Member, Mr. Andrew Pearce.

The Liberal leader, Mr. David Steel, also received us and we are hoping to meet the Leader of the Opposition, Mr. James Callaghan, in the near future.

We are aware that whatever may eventually decide out fate could not come from such a meeting but we are pledged to our colleagues to go wherever help may be found or an opportunity be given to present our case.

Yours faithfully,

R. French.

R.A. FRENCH
Secretary
Bowaters Action Committee

CONFIDENTIAL

4

10 DOWNING STREET

From the Private Secretary

15 September, 1980.

Bowaters and Fuel Costs

The Prime Minister has read your Secretary of State's minute of 10 September. She does not dispute the implicit conclusion that there is nothing that can usefully be done on electricity pricing to help Bowaters. But she believes that there is still some scope for a reduction in electricity prices in certain limited cases - for example, to supply the aluminium smelter on Anglesey.

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

T. P. LANKESTER

TL

J.D. West, Esq.,
Department of Energy.

CONFIDENTIAL

From the
Minister of State
Lord Trenchard

Copies to
PS/All Mins
PS/Sec
Mr Manzie
Mr Wright
Mr Lightman
Mr Smouha
Mr Avery
Mr Owen

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

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

15 September 1980

Dear David

Further to my letter of 4 September and correspondence on energy prices generally, you have suggested that the Bowater energy price comparison is special due to hydro-electricity and open cast coal advantages in North America and Scandinavia. I have suggested that hydroelectricity in most countries must be related to other energy costs and I have pointed out that coal, although an international commodity, has to be transported to the UK and this makes approximately £10 per ton difference.

I called on Kimberley-Clark at Prudhoe on Friday, one part of paper and board still making a profit, and asked whether they had energy cost comparisons for broadly comparable operations. They had just completed them for gas and electricity and I attach copies. They assured me that the comparisons were broadly comparable in terms of sizes of plant and dating of contracts.

I told you about the Unilever answer to my enquiry, which I understand they have now agreed to put into the CBI enquiry.

I think the Bowater case is made out that, apart from any special factors, there would be several £m per annum advantage if their energy costs were comporable with the Continent let alone Scandinavia and the USA.

I repeat again that if they could be assured that it was our policy to ensure broadly competitive energy prices in general, then I believe they might well change their essentially long term decision.

I accept of course that energy prices are not the whole story by a long way and we have yet to make clear publicly that they agreed that they could make a profit after investment in a chemical pulp mill, but they will not do so while they have what they term a permanent disadvantage of this size (and the exchange rate on top).

I think that a general policy statement, rather than a special concession which is clearly not on, could do the trick.

I am copying this letter to Peter Walker and Jim Prior as well as Keith Joseph, in view of their interest in the Bowater situation.

Yours
Tom

LORD TRENCHARD

JFF

1

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

PS/ Secretary of State for Industry

12 September 1980

M Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

PM will see them

TL.

Prime Minister
The Department suggest (see para 7) that you should meet the delegation. Shall we fix a date? If not, there is a letter at Flag A for you to sign.
TL
15/9

Dear Mike

Thank you for your letters of 2 and 3 September, concerning the letter of 1 September which the Prime Minister has received from the British Paper and Board Industry Federation and SOGAT.

Flag B . . .

2. As that letter acknowledges, Ministers in this Department have met with the Federation and SOGAT to discuss the current difficulties of the paper and board industry, though that was in respect of the industry in general rather than the newsprint producers in particular. However they are also very familiar with the particular problems of the two UK newsprint producers which have led to their closure announcements. Bowater engaged in detailed discussions with the Department before taking its disappointing decision to close the Ellesmere Port Mill. Reed also kept Ministers closely appraised of its intentions. This latest letter and paper from Mr Adams, the Director General of the Paper Federation, and Mr Keys, the General Secretary of SOGAT, reiterates calls for special assistance to the sector through energy pricing and by offsetting exchange rate difficulties, but adds nothing new to the Government's knowledge of the situation. Nonetheless, it is a reflection of a genuine and deep concern felt by many in the industry.

3. The Ellesmere Port Mill has been a problem for Bowater for years. Until recently efficiency was low, not least because of labour troubles including serious over-manning. Losses have been made since 1975. A marked improvement in productivity was achieved in the last two years, but despite this, and capacity working, losses continued to increase. Bowater pin the blame for the sharp deterioration this year on a combination of higher energy costs and low prices for newsprint (reflecting the strength of the £). But there is still plenty of scope to increase the mill's efficiency, particularly if Bowater could have been persuaded to modernise the plant. In his discussions with Bowater before the closure decision was announced, Lord Trenchard suggested the possibility of substantial investment

/in...

in modernisation and efficiency. Government assistance for this investment - regional development grants and selective financial assistance - together with the offer of some modest improvement in wood and coal costs represented a genuine alternative to closure in the Department's view. It held out a prospect of a long-term viable future for the Mill. Unfortunately Bowater rejected this package, possibly because they take a gloomier view of the future trend of the exchange rate and energy prices here and also because their overseas operations are making good profits and offer better prospects.

4. Following the Bowater closure and the Reed cut backs that have been announced, UK newsprint capacity will be reduced to not more than 150,000 tonnes per annum, and is likely to be cut back further. Bowater will be left with only a small residual UK output of 50,000 tonnes from its mill at Kemsley in Kent (and at least some of this is to be converted to manufacture other types of paper in due course). Bowater has informed its customers that it will endeavour to supply them from its profitable Canadian mills. Reed is cutting its newsprint capacity by one-third to 100,000 tonnes though the future of this is under a longer-term review. These figures compare with a total UK market for newsprint of about 1.2 million tonnes.

5. The strategic case for a home newsprint industry was considered by the Royal Commission on the Press, which reported in 1977. The Commission's view was that the case for maintaining home newsprint production to guard against war or other circumstances that might have the same effects as a blockade could not be established. They held the view that the strategic case for a home newsprint industry was weakened because of the home industry's reliance on a proportion of chemical pulp which had to be imported. If newsprint was kept out of the country for whatever reason chemical pulp would also be unavailable. The value which the publishers place on having a home supply of newsprint is obviously another important factor. At present some publishers are paying a premium of about £15 per tonne for domestic newsprint, others are unwilling to do so. It is clear from the Department's discussions with the publishers prior to the Bowater closure that rightly or wrongly they place little value on having a domestic supply of newsprint in the long term. Indeed it is the exchange rate and competition between the various overseas suppliers which has acted as a check on price increases in recent years.

6. The paper accompanying the letter contains a number of contentious statements. The estimates of job losses may be exaggerated; for example the Forestry Commission believes that the total number of jobs at risk in forestry is about 500 and they hope to mitigate this to an extent by seeking markets in Scandinavia although in the long term the international transport of this kind of wood may not be economic. The NCB also

/hopes ....

hopes to avoid redundancies at the Newstead coal mine. Nor does it follow that all the waste paper previously used by the newsprint producers will become valueless; it represented 5.7% of total UK waste paper consumption in 1979 and despite the downturn in the industry some is likely to find alternative outlets. However the direct and indirect effects of the closures are serious and while we believed and Bowater's agreed that the investment plan could have produced a profit, we have to recognise that our energy prices compared with the average of North America and Scandinavia do add an extra cost of some £5 million per annum to Bowater's costs. The exchange rate and the dollar pricing system also press hard on the industry. Finally, the French industry support scheme mentioned at Annex A to the paper was approved in 1978 by the Commission only up to the end of 1979 to allow the French Government time to prepare a restructuring plan for the French industry. The restructuring plan has not yet been put forward and the Commission has not been assiduous in pressing the French, but it certainly does not regard the subsidy arrangements as approved on a permanent basis.

7. Your letter of 3 September records the Prime Minister's view that she may have to see the suggested delegation. To do so would help to demonstrate the Government's genuine concern for the well-being of an industry which feels itself under-valued by comparison with more publicised sectors. So far as Bowater is concerned, a meeting could be the occasion to high-light the fact that substantial Government assistance under normal criteria would have been available to modernise the Ellesmere Port Mill; that such investment offered a real prospect of ensuring its long-term viability, but that Bowater turned down this possibility. Although the offer of a meeting might raise hopes that special assistance on energy prices or to overcome exchange rate difficulties could be on offer, on balance it is suggested that the delegation be seen if this can be conveniently arranged. In this case the reply to the SOGAT/ Federation letter can simply agree to a meeting with the dele-gation to hear what they have to say. If however the Prime Minister feels that an insufficient case for a meeting has been made out an appropriate draft reply is attached. It would be wrong to let all the statements in the paper go without comment and if there is to be no meeting it would be my Secretary of State's intention to reply quickly and fully to the joint letter.

8. I am copying this letter and its attachment to Stuart Hampson at the Department of Trade.

Yours ever

Catherine Bell

CATHERINE BELL
Private Secretary

Encl

C.F. For Jon.

File I. Pol T/L 1819

File JFH

10 DOWNING STREET

From the Private Secretary

11 September 1980

Dear Garth

I enclose a letter from Peter Morrison, MP, to the Prime Minister about the closure of Bowaters and the consequences for our newsprint imports.

As I have mentioned to you on the phone, the Prime Minister is particularly interested in Bowaters as a test case of pricing policy of nationalised industry suppliers. She is also interested in the arguments contained in a letter from the Principal of Glynllifon College, and I attach a copy of this.

The Prime Minister has separately taken up with the Secretary of State for Energy the issue of fuel costs. She would like to have a word with your Minister, other Forestry Ministers if necessary, and Sir Keith Joseph before she replies to these two letters.

I should be grateful if you could let me have draft replies, prepared in consultation with other Departments concerned. If these can reach me by Thursday 25 September, we shall fix a meeting in the week beginning 29 September after the Prime Minister's return from abroad.

I am sending copies of this letter and its enclosure to Catherine Bell (Department of Industry), John Craig (Welsh Office), Godfrey Robson (Scottish Office) and Julian West (Department of Energy).

Yours ever

Mike Pattison

Garth Waters, Esq.,
Ministry of Agriculture, Fisheries and Food.

1

cc Mr Hoskyns

Prime Minister

A negative response from Mr Howell on electricity prices to Bowaters. We have fixed a meeting with Forestry Ministers and Sir Keith to cover the forestry aspect next Wednesday. Would you like to cover this aspect then as well? (though it would have to be Mr Lamont as both Mr Howell and Mr Gray are away)

Alternatively, you may wish to drop the electricity aspect – to my mind there is not much mileage in special help through this route; but cheaper electricity for industry generally is worth pursuing.

TL 12/3

It looks as if some reduction in electricity costs could be offered cf. Al smelter in Anglesey.

PRIME MINISTER

BOWATERS AND FUEL COSTS

We discussed energy pricing last week and, as you know, I shall be circulating a paper to colleagues. However, I have also been looking into the specific question you raised in the context of Bowater's paper mill at Ellesmere Port. I have also today met two MPs from the area, David Hunt and Barry Porter, about Bowaters.

The cost of energy is only one of the factors which the company have cited for their losses and their decision to close Ellesmere Port. Energy represents only about 15% of their total costs, and 60% of their energy costs are for coal which is offered to them by the NCB at the world traded price (£27 per tonne compared to US imported coal at £26.6 per tonne cif).

The company's main competitors do have an energy cost advantage, resulting from hydro-electric power in both North America and Scandinavia and open-cast coal mining in North America, which we cannot hope to match without high cost, long term subsidies. On coal, Canada and the US enjoy an advantage of some £10 per tonne over Ellesmere Port because the transport costs, to be added to low US production costs, are minimal.

The position on electricity supplies for Ellesmere Port is as follows. The Chairman of Bowater (UK) told the Chairman of the Electricity Council last week that electricity costs at the plant were approximately £2½m pa more than at comparable plants in Canada and Scandinavia. The plant's current annual electricity bill is of the order of £5m, and Tombs indicated that there was no prospect of a reduction by 50%. I understand the local distribution Board already sells to the plant at very little above cost.

I have considered whether the electricity industry, faced with a choice between selling to the plant at short run marginal costs or not selling at all (because its customer would be closed) might not choose the former course. There are two principal difficulties with this. First, the plant's electricity cost differential with Canada and Scandinavia is clearly not a short-run problem and a discounted tariff would probably have to be maintained indefinitely - a commercially unattractive prospect for any supplier, who will wish at some stage to make up for what he has foregone in lean times. And a discount of 50% would in fact mean pricing electricity at well below even the variable costs of supply.

The second difficulty concerns the industry's statutory obligation to avoid undue discrimination in their tariffs. Though not fully tested in the Courts, this would appear at the least to require that the Boards do not sell in selected cases at an actual loss. Nor would the undue preference clause appear to be met if, on a continuing basis they were to sell at a rate which covered only variable costs. The electricity industry, which would have to continue to cover its fixed overheads, could expect protest and legal challenge from other industrial, commercial and domestic customers not receiving favourable rates who objected to carrying what they would see as an increased burden.

The electricity industry does of course already charge differential rates which reflect the costs of supply at different times. Large industrial customers with appropriate load characteristics are able to benefit considerably from, for instance, cheap night units (which are priced very close indeed to the variable costs of production - mostly fuel) and from discount for managing their peak demand in a particular way. Especially where electricity-intensive processes are involved, the industry already tends to sell at a very low margin. I shall of course be pursuing these broader issues in more detail in my paper on energy pricing.

CONFIDENTIAL

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

JA.

SECRETARY OF STATE FOR ENERGY
10 September 1980

FILE

VLB

9 September 1980

I am writing on behalf of the Prime Minister to thank you for your letter of 5 September, about the Bowater Pulp Mill at Ellesmere Port.

Your letter is receiving attention and a full reply will be sent to you as soon as possible.

M A PATTISON

G. L. Edwards, Esq.

PRIME MINISTER

Here is a letter from the Principal of Gwynedd Agricultural and Residential College, about the closure of Bowater's at Ellesmere Port.

In view of your particular interest in this as something of a test case, do you want to reply personally; or are you content to ask Sir Keith Joseph to reply, in consultation with Peter Walker's office on the woodland management point?

MAP.

9 September 1980

I have asked for reconsideration of energy costs. I think we should have a small meeting (M.T. K.J. P.W) about Timber costs. Then I will reply.
MT

PS

CYNGOR SIR

GWYNEDD

COUNTY COUNCIL

COLEG GLYNLLIFON
(Coleg Amaethyddol a Phreswyl Gwynedd)

GLYNLLIFON COLLEGE
(Gwynedd Agricultural and Residential College)

FFORDD CLYNNOG,
CAERNARFON,
GWYNEDD LL54 5DU

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CYFARWYDDWR ADDYSG — TECWYN ELLIS M.A. — DIRECTOR OF EDUCATION

PRIFATHRO — G. L. EDWARDS B.Sc. — PRINCIPAL

Pob Gohebiaeth I'w Anfon I'r Prifathro

All Correspondence to be addressed to the Principal

Ein Cyf/Our Ref.

Eich Cyf/Your Ref.

5th September 1980

R 8/9

The Right Honourable Mrs. M. Thatcher,
Prime Minister,
10, Downing Street,
LONDON.

Dear Madam,

Bowater Pulp Mill, Ellesmere Port.

Special Case.

I feel that it is necessary for me to write this letter concerning Bowater's Pulp Mill because I am of the opinion that they are a special case, and should be given particular study.

If what I read is true, particular industries are suffering more than others in the recession, and that Government Policy may be responsible for some of these ills as opposed to any degree of inefficiency in the industry concerned. The four main factors that appear to be affecting Bowater are :-

1. High fuel charges - it has been stated that competitors in America and other Overseas countries are able to process pulp with fuel at approximately half the price of fuel in this country. Surely something should be done in view of our supplies of North Sea Oil.

2. The Strength of the Pound (£). I read recently that the increase in the strength of the £ has made as much as 17% difference in the value of the £, so that when competitors are selling timber from outside the U.K. for processing, or selling as pulp in this country, they start with a considerable advantage.

3. High Interest Rates. The high interest of bank rate, and as a consequence the high rate of interest payable on capital, must put additional strain on financial resources, especially at a time when Bowater are producing at a higher cost than competitors, as indicated in the first two points.

4. Bowater's have stated that the cost of timber is higher to them; currently pulp wood is about £22/ton and probably because of the strength of the £ foreign timber may be cheaper, but as a Woodland Producer £22/ton is barely adequate as a return for the Grower.

Many Woodland Owners will have invested up to £300/acre per annum over a period of 20 years, and at thinning time is faced with costs of between £10 -£12/ton for thinning and about £8/ton for transport, which leaves a very small margin after 20 years of investment; in addition one is expected to pay for thinning and transport at the completion of the work, but one may have to wait as much as three of four months for payment, which at current rates add another £1 to our costs, and consequently the margin for productivity is very low.

The reason I state that Bowater is a special case, is, that Woodland Owners are expected to make investments in a product which may not be marketed for many years. Many Woodland Owners invested in this way over 20 years ago, and now find that their main market may disappear. Several Government Reports have indicated the necessity to increase the area of land for timber, and in particular the one from the centre for Agricultural Strategy at the University of Reading, and it would appear to be sound government policy to have an adequate area of land planted with trees. However, if Bowater is allowed to close and the Reed Paper Group also reduces its capacity, there can be no confidence in the future, for Woodland Owners, and Private Woodland Owners would not have been dealt such a severe blow since the Labour Government, some years ago, removed many of the tax incentives which encouraged the planting of trees.

I therefore consider it extremely important that you should re-consider aid for the Bowater Mill at Ellesmere, as this is a special case, involving long term planning. If you are unable to assist I would be pleased to hear what the Government's proposals are for the future of woodland management in the British Isles.

Yours faithfully,

G L Edwards.

G.L. Edwards.
Principal.

MR. PATTISON

TELEPHONE:
0702-553131/40

TELEGRAMS:
SOGATRADE
BENFLEET
ESSEX

SOCIETY OF GRAPHICAL AND ALLIED TRADES

SOGAT

1

SOGAT House, 274/288 London Road, Hadleigh, Essex SS7 2DE

PLEASE QUOTE THIS REFERENCE WHEN REPLYING

OUR REF.: WHK/MVT/

5th September 1980.

10/9

Rt. Hon. Mrs. M. Thatcher, M.P.,
House of Commons,
London SW1.

Prime Minister
Shall I acknowledge on your behalf?

Dear Mrs. Thatcher,

The Society of Graphical and Allied Trades has been concerned for a number of years about the rate of decline in the British Papermaking industry. Between 1966 and 1975 something like 20,000 jobs had been lost, and since then a further 19,000 of the workforce have been affected by closures. This rate of decline has now been accelerated with the announcement of a further 3,000 jobs lost in August alone.

15/9

Clearly this state of affairs gives our Industry and this Society cause for great alarm. The reasons for the decline of the Papermaking Industry are to be found in the assessment and trends outlined within this booklet, i.e. high inflation, high value of sterling, high interest rates and high cost of energy, thus rendering our Industry powerless to compete with foreign imports, subsidised as they are in their country of origin.

Employers Federation and Unions alike agree that industrial relations in the British Papermaking Industry are second to none.

The enclosed booklet has been produced by this Society with the aim of bringing to your attention the fact that unless action is taken now by the Government to effect a change in policy so that the British Papermaking Industry can compete on equal terms with its competitors, then the misery of unemployment will be inflicted on still greater numbers of people, through no fault of their own, and eventually this country could find itself with no Papermaking Industry at all.

Yours sincerely,

W H Keys.

General Secretary

ACTION NOW!

CRISIS
IN THE PAPER AND BOARD INDUSTRIES

A NATION'S GREATEST ASSET IS ITS PEOPLE
ARE THEY TO BECOME EXPENDABLE ON THE FONT OF MONETARISM

SOCIETY OF GRAPHICAL AND ALLIED TRADES

Contents

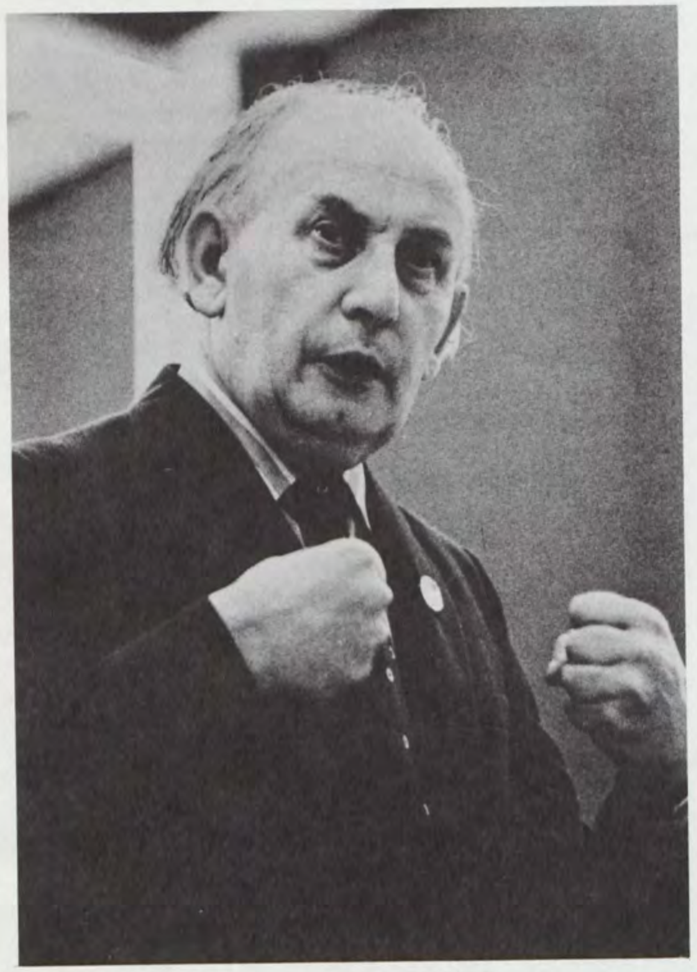
Printed and Published by:–

Society of Graphical and Allied Trades,
Sogat House, 274/288 London Road, Hadleigh, Essex SS7 2DE

General Secretary Mr. W. H. Keys

Foreword

By [illegible] Keys



In the Foreword to our 1975 "Save Our Industry" Campaign, I wrote "The Nation is in the grip of raging inflation. We are suffering the highest level of unemployment since the war. The industry which we service has been severely hit by the present economic crisis – thousands of our members are out of work or on short-time".

The present situation related in this booklet is not just a case of history repeating itself, but repeating itself with a vengeance.

The great difference between 1975 and 1980 is that the illness now besetting this industry can be terminal in many of its sectors.

The problems the industry faces today are not of the industry's making, but directly arise from the policies of Government.

For over fifteen years the industry has had to live with the problems arising from the elimination of the Tariffs with EFTA and the subsequent duty free quotas with our old EFTA partners when we joined the E.E.C.

But today, we are expected to compete effectively against overseas competition in an economic climate created by Government of high inflation – high value of sterling – high interest rates – high cost of energy.

All these factors are combining together to destroy an industry. An industry which has a strategic importance to us as a Nation.

An industry which, with its allied industries of Printing, Publishing and Packaging, represents 8.3 per cent of the gross domestic product.

We are concerned that the Government's policies are affecting our international competitiveness. Import penetration is now having a dramatic effect upon us. We import both goods and unemployment.

We have joined with the Employers' Federation to get a variation of the Government's policies.

We have seen the Secretary of State for Industry, Sir Keith Joseph, and argued for protective measures and forms of assistance on such matters as energy costs, but it seems we are having a dialogue with the deaf.

All our evidence to date points to the conclusion that the Government believes that this industry – like so many industries – is expendable on the font of monetarism.

We cannot sit idly back and allow this to occur.

The Government have to be made to acknowledge that people are the most precious commodity of any Nation. They must not be sacrificed in the pursuit of political – economic dogma.

Dogma is the end of thought – not the beginning.

It is, therefore, imperative that we take the fight to the Government and pressurise them to change their point of view if we are to see our industry saved.

In this booklet we are seeking to re-emphasise our endeavours over the past five years and re-vitalise the "Save Our Industry" Campaign by involving all our members and friends in the struggle.

There is nothing more demoralising than unemployment. It destroys the dignity of working people. It is a cancer within our society, and the mere fact that it is imposed by a Government does not make it easier to bear.

I therefore reiterate. It is our wish that you study this document carefully, and that you use the arguments contained to further our case with your local Member of Parliament – Trades Council – Newspapers – and every other influential body.

SOGAT JOURNAL

SEPTEMBER 1975

Investment in Industry has become almost non-existent.

Introduction

The following report can, and no doubt will, be regarded by some as merely another plea for assistance to aid a troubled industry.

This is the case, which we certainly make no apology for, because we believe that it is fundamentally a sound industry and therefore imperative that immediate assistance be given to save the industry which is essential to the quality of life and the maintenance of our democracy.

The main purpose of this report is to highlight the problems and suggest remedies which would ensure that the papermaking industry survives. Paper consumption is regarded as an indication of the degree of civilisation which a nation has attained. Certainly the development of our civilisation would not have been possible without the means of communication which paper, as the principal medium, provides. Therefore, to ensure the continuing development of this nation, the Government must recognise the importance of maintaining a healthy papermaking industry.

The Prime Minister, in her letter of congratulation to the Paper Magazine, recognised the industry's importance when she wrote, "The pulp and paper industry which Paper Magazine serves – are essential to the communications industry and thus to international understanding. They are a vital part of the economy." We, therefore, call upon her to demonstrate that recognition by taking positive action to ensure the survival and future well-being of that industry.

A very important point to note in all the following arguments is that the general recommendations apply to the industry as a whole, but it is, of course, divided into different sectors, each with their own problems and priorities.

This report recommends that priority be given to the newsprint sector, because that sector is in a desperate state and requires immediate assistance if it is to be saved.

Some may argue that in the present circumstances, Britain would be better off without a newsprint industry because we can buy cheap newsprint on the world market. But in their shortsightedness, they fail to recognise the most important advantages of having a healthy domestic industry.

The advantage of not totally relying on overseas supplies, which provides some insurance against any future uncertainties of foreign supply.

The industry's importance in terms of international crisis when imports can be cut off. The fact that home produced newsprint saves something like £100 million of imports and therefore contributes greatly to the country's balance of payments.

That it is a major user of indigenous raw material and wastepaper and provides employment to thousands of people.

And last, but certainly not least, the cost of buying back into the industry when the present relatively cheap market turns against the consumer.

Although the plight of the newsprint sector necessitates priority, the total industry requires assistance and a better understanding by Government, Politicians, Consumers and the General Public of its important role.

The strategic importance of the UK paper and board industry, which is absolutely essential to the economy, cannot be stressed enough. It is the indigenous source of the nation's supplies of printing, publishing, packing and stationery materials.

It saves millions of pounds on imports and greatly benefits the balance of payments. It provides the basis for the printing, publishing and packaging industries which are dependent on domestic supplies. Should there be no UK paper industry then, as indicated in this report, a lot of converting and publishing industries would move abroad.

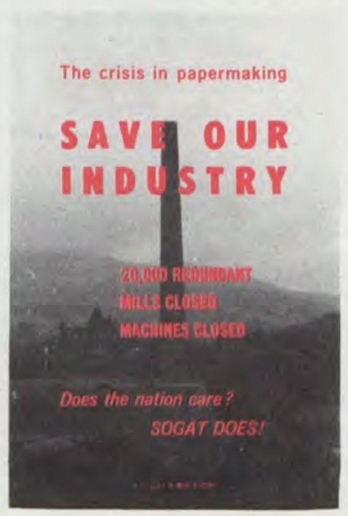
It provides essential employment, much of which is in rural areas. It enables the most economic use to be made of the UK's wood and wastepaper supplies. If there was no papermaking industry, these supplies would have to be burnt or exported at a much lesser value than the finished products.

Paper and Board permeates almost every aspect of economic activity and ensures that domestic demand can be better met when world demand exceeds supply. There is little to suggest that a domestic papermaking industry is undesirable so it is conceivable that given the appropriate assistance now, the long-term future and profitability can be secured.

SAVE OUR INDUSTRY

Action is required NOW

1975



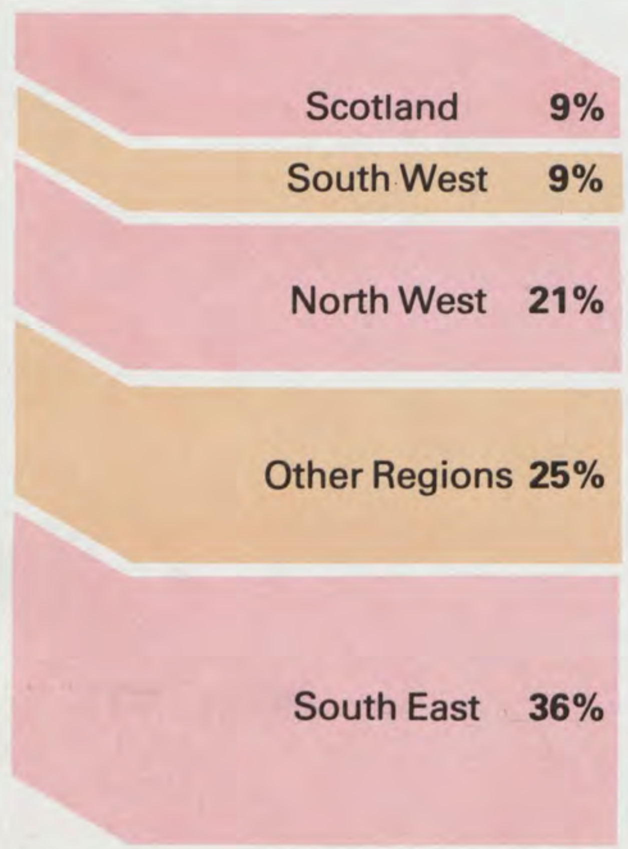
Assessment of Trends and Implications for British Paper and Board Industry

Although the general prediction world-wide is that production of Paper and Board will increase, the general outlook and projections to 1985 show that consumption of Paper and Board are also expected to increase in the United Kingdom, particularly for Corrugated Case Materials and Soft Tissues, where demand is likely to be met by increased United Kingdom production, but in all other areas there is considerable concern at the high level of foreign importation.

Economically, the next few years are likely to be extremely difficult ones for the industry with, (as a result of foreign imports and other economic factors) declining markets, ecological and raw material problems, high energy costs, competition from other materials and quite rapid technological changes in certain areas.

The main trends in employment are of continued contraction in every sector, (25.9% since 1969 = 23,000 approx. employees), except Soft Tissues. Geographically the industry is heavily concentrated in the South-East, which has 36% of all employees, with the next largest regions being the North-West with 21% and Scotland and the South-West, each with 9%.

REGIONAL CONCENTRATION OF MILLS



The biggest threat to the Paper and Board Industry comes from imports. Since 1970 United Kingdom production has fallen by 15% as imports have taken an increasing share of the market. Import penetration now stands at almost 50% of the United Kingdom market, compared to 35% in 1970.

Imports

Performance varies between different parts of the industry, but there are some major problems which are common to all parts of the industry:

(A) Strong competition in nearly every sector of the industry has come from North America and the Nordic countries, who have plentiful supplies of their own raw material – woodpulp.

(B) Overseas suppliers have their own processing industries and can further exploit their natural advantages through a "double squeeze" by increasing the price of woodpulp without increasing the price of the paper they export to the United Kingdom. This practice makes it very difficult for United Kingdom producers to remain competitive.

(C) Changes in market requirements call for investment and an ability to re-structure quickly in view of the relatively old and the small size of much of the industry's machinery.

(D) Capital intensive production processes require full capacity utilisation to ensure adequate profitability for further investment in large scale new machines.

(E) High energy-usage has had a major impact on costs. In contrast, Nordic and North American competitors have relatively cheap supplies of hydro-generated electricity.

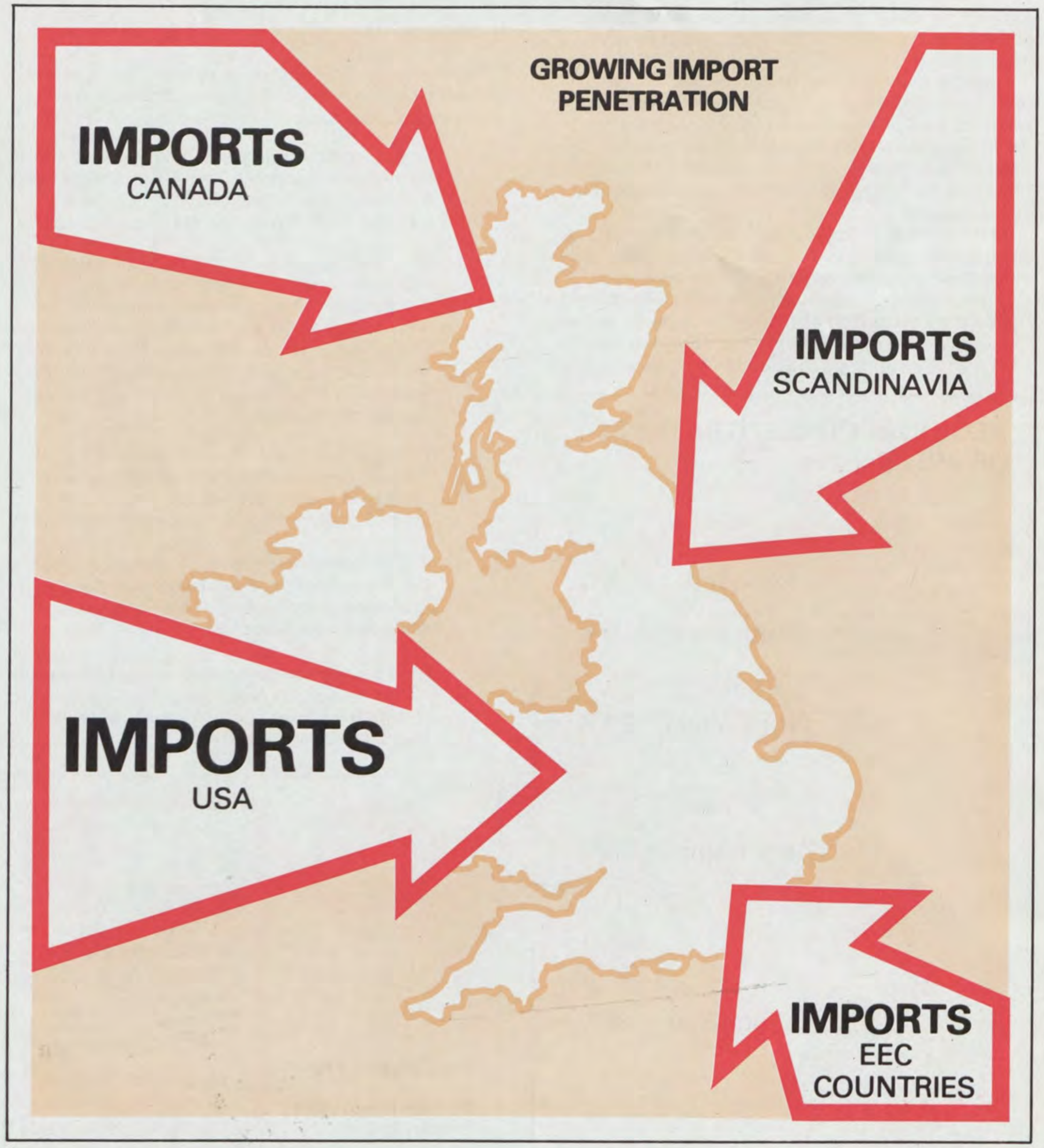
SOGAT JOURNAL

DECEMBER 1975

National Press reflect Industry in Crisis.

(F) The demand of the industry's products is highly cyclical, causing instability in output and earnings. Severe over-capacity exists for some grades in Western Europe.

Government, Management and the Unions must, therefore, work together at all levels in the industry if they are to solve these problems and increase production, productivity and investment, increase domestic raw material supplies, reduce import penetration and increase exports and make sure that, above all, there is security of employment for its labour force.



Pound/Dollar Relationship and its Effect on the British Papermaking Industry

Since sterling was floated in 1972, its value has fluctuated greatly against most other currencies, especially the US dollar, where it has moved from the record low level of \$1.76 in 1976 to its present level of \$2.35.

It is impossible to say whether the Papermaking Industry as a whole gains or loses from the fluctuation of sterling value, because the various sections are affected in different ways. So, although a stable exchange rate is desirable, it is not the complete solution.

The bizarre combination of exchange rate movements are dependent on two main factors:

Parity Rate

Which is the calculable figure of the differences between two countries' inflation rates, and

Market Rate

The rate at which foreign currency is exchanged. It reflects interest rates and balance of payments fluctuations.

When the Parity Rate is above the Market Rate, the pound is undervalued in relation to the other currency and the industry must use more pounds to buy a given quantity at the foreign currency rate. This means that those UK producers competing with imports priced in foreign currencies benefit because revenues arising in sterling are depressed, which leads to price increases in products such as newsprint and kraft papers.

At the same time, however, the cost of imported woodpulp rises and adversely affects producers whose products contain a high pulp content. Exports will be easier as lower prices in foreign currencies will be converted into a higher number of pounds.

When the Market Rate is above the Parity Rate the reverse happens and pulp, kraft papers and newsprint become cheaper when expressed in pounds. Although this state benefits products with high pulp content, it depresses prices of waste based products which are related to them. Exports also become less competitive.

EFFECTS OF CURRENCY FLUCTUATIONS ON THE PAPER AND BOARD INDUSTRY

Set against the three main foreign currencies, i.e. US Dollar, Swedish Kroner and the German Deutsche Mark:

Pound below Parity

UK imports of kraft papers, newsprint and pulp become more expensive because they have to be paid for in de-valued pounds. Pressure by the US and Sweden to increase prices to maintain mill revenue means:

Cost of paper increases.

Imports become less attractive.

Exports become more competitive.

Pound above Parity

UK imports of kraft papers, newsprint and pulp are cheaper. The US and Sweden enjoy higher mill revenue for sales based on sterling, and:

UK competitive prices are forced down.

Imports increase due to high value of the pound.

Exports become difficult.

Therefore, as shown, a strong pound facilitates imports and makes exports more difficult, but a strong pound, coupled with high interest rates and high inflation, creates a disastrous situation for the papermaking industry – not only because it facilitates imports of paper and board, but it also puts pressure on customer industries such as publishing and packaging by encouraging the import of finished consumer goods.

Also, although it reduces the cost of US dollar priced woodpulp, it makes domestic woodpulp and waste paper relatively more expensive, and in any case the advantage is only illusory when compared to the main competing countries.

High domestic interest rates and high inflation are placing intolerable pressures on the industry, which discourages expansion and virtually eliminates the necessary investment.

Immediate action by the Government is necessary to cushion the industry from the pressures of the fluctuating pound. This could be done by agreeing a fixed level for sterling and assisting the sections who are adversely affected when the pound rises above the fixed rate and by assisting the others when the pound falls below the fixed level.

Paper and Board Industry

1. In evaluating the position and problems within the British Paper and Board Industry, it would be important in the first place to outline its structure within the United Kingdom.

2. There are 141 Pulp, Paper and Board Mills operating within the United Kingdom, employing some 60,000 people. These Mills produce hundreds of different grades of Paper and Board, which are converted into a wide range of products for use in industry, commerce, education, communications, distribution and in the home, together with a host of speciality papers for industrial use. The estimated consumption of Paper and Board within the United Kingdom is 130 kg. for every man, woman and child.

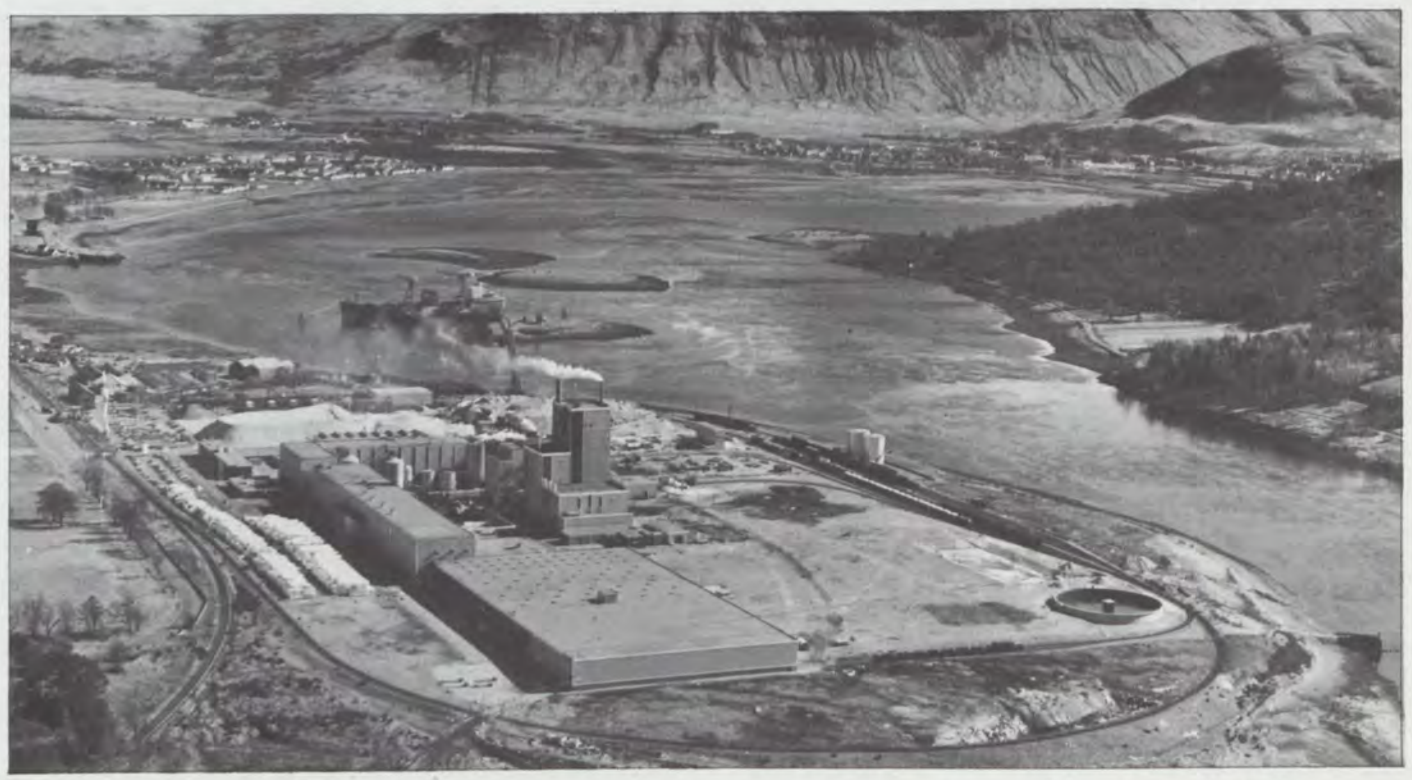
3. The Industry is, by its very nature, a continuous process industry and a highly capital intensified one, a new Papermaking or Boardmaking machine can cost up to £80 million, and from the design stage takes some three years to come on stream. Because it is highly capital intensified and to obtain an adequate return on investment, the equipment has to be fully utilised and therefore run on a continuous 24 hour working basis.

4. The Industry is particularly sensitive to fluctuations in demand. For companies to attain adequate profit margins to provide for future necessary capital investment, they must remain competitive as the end product features in every aspect of the social, economic and industrial life in this country. One of its main problems is if the economic growth falls off, so does the demand for Paper and Board and in these circumstances it is very difficult for the Industry to keep its capacity utilisation at a level which permits it to retain its market share and the necessary profits to re-invest, let alone combat the ever increasing importation from abroad.

5. The United Kingdom Paper and Board Industry is important for many reasons, but mainly for its direct contribution to the country's economy. This can be exemplified by estimating the value of UK production for the home market of £1,171 million, plus exports of £241 million, less imported raw materials, chiefly pulp, of £294 million, leaving a net benefit to the Balance of Payments of £1,118 million.

6. Another most significant and obvious reason, is that with its allied industries of Printing, Publishing and Packaging, it represents 8.3% of manufacturing industries' contribution of the gross domestic product.

7. The Industry itself is divided into several sub-sections; Newsprint, Soft Tissues, Printings & Writings, Packaging Papers, Corrugated Case Materials and Boards.



Newsprint Production in the United Kingdom

In spite of Britain's impressive position as one of the largest newsprint consumers, its newsprint production industry has been something of a disaster area in recent years.

Ten years ago Britain was producing more than half of its 1.5 million tonnes per year consumption, but today it produced just over a quarter and if immediate Government assistance is not forthcoming, there will probably be no newsprint industry in this country.

For years, successive Governments have paid lip service to the problems of maintaining an indigenous newsprint industry. Almost every other newsprint industry in the world is in a healthier state than ours. Countries like Japan, America, West Germany and the Eastern Bloc have, or are investing heavily in new newsprint capacity, to reduce their dependence on foreign supplies.

By contrast, Britain is not investing in any new capacity and the pressures of today's economic situation are threatening the collapse of what little we have.

The main problems the industry has are that raw material and energy costs are considerably more than its main competitors, wood costs are double those of Canada and 20% higher than the Scandinavians, and energy costs are almost double the Scandinavians and three times the cost of the Canadians.

The crux of the industry's current problems lies in the fact that newsprint prices have remained virtually unchanged in real terms since 1977, although raw material and energy costs have risen sharply. This is mainly due to the fact that in 1976 the major foreign suppliers who dominate the market, introduced a scheme of currency parity to protect themselves from erosion of earnings caused by the fall in the value of sterling. *It was agreed that if sterling fell below a fixed value, the price of newprint would increase to maintain their dollar earnings and if sterling rose above the fixed value, they would cut the price. Since the scheme was introduced in 1977, sterling has been rising steadily against the dollar and as a result British newsprint buyers have been getting substantial discounts.*

In July 1979 the British producers gave up the unequal struggle and raised their newsprint prices. Bowater coming out at £233.68 a tonne and Reed at £229.50. The Canadian suppliers have raised too, the bulk of them starting to rebate at a higher dollar/pound price – $1.95, compared with $1.75 in the original agreement – while International Paper kept to the $1.75 but put up the posted price, from which the discount is deducted, to £285. This made all Canadian prices about £210 – £215.

So far the Scandinavians have remained impaled on the original agreement, though their currencies too have strengthened against the dollar and most will admit that they are not doing well.

Therefore, because the domestic producers do not have enough influence to dictate the market price and the British Publishers are not prepared to give up their discount or pay a premium price, the newsprint industry is rendered hopelessly unprofitable and on the verge of collapse.

Some may argue that in the present circumstances, Britain might be better off without a newsprint industry and buy relatively cheap newsprint on the world market, which will surely be the case unless the Government decides that it wants to keep the industry, but consideration should be given to the most important advantages of having a healthy Newsprint Industry.

Newsprint in 1979

There were only two companies and four mills still producing newsprint in the UK, i.e. Bowater UK Paper Co. Ltd., at Kemsley Mill, Sittingbourne, Kent, and Mersey Mill, Ellesmere Port, Cheshire; Reed Paper and Board (UK) Ltd., at Aylesford Paper Mills, Larkfield, Maidstone, Kent and Imperial Paper Mills, Gravesend, Kent. Both Bowater mills produce the mechanical pulp portion of their furnish from homegrown timber and only have to import chemical woodpulp; some de-inked waste paper is used. The Reed mills have been substituting de-inked waste paper for up to 30% of their pulp for several years and have now increased that proportion to over 60%; further increases are planned.

Newsprint demand is commonly regarded as a barometer of world economic conditions. If money is in short supply, sales and advertising drop and newsprint consumption falls correspondingly. North America is the principal user of newsprint (45% of world total), followed by Western Europe (22%, including the UK share of 7%).

SOGAT JOURNAL

JANUARY 1976

The present recession is by far the deepest for many years.

The weakness of the dollar, is now threatening the future of newsprint production in the United Kingdom. Both Bowater and Reed, the two British manufacturers, have warned customers that they may be forced to withdraw from the market and these warnings do not seem exaggerated. *If Bowater and Reed are forced to close their newsprint mills, which is a strong possibility, the United Kingdom Newspapers will be wholly dependent on foreign suppliers, who will then combine to force up prices, resulting in a lack of domestic counter-weight; the users would be forced to pay up, also resulting in an adverse position in the country's balance of payments position, and in certain circumstances, e.g. in the event of dock strikes, either at home or abroad, shipping and importation problems due to international crisis or severe weather conditions, the UK newspapers could be very vulnerable.*

In Bowater, Ellesmere during 1978, the company produced 151,000 tonnes of newsprint, and 57,000 tonnes of packaging grades, selling against an exchange rate of approximately US $1.80 – £1., the bank rate being 12.5% and the rate of inflation was 8.4%.

Since 1978, with complete co-operation of the Unions, Management have, by re-organisation of Management Structure and a mutually created more positive industrial relations climate, improved productivity efficiency, which was running at 61% in 1978, to 85% by removing restrictions and demarcations. This has been reflected in increased tonnages since 1978 of 190,000 tonnes per year of newsprint and 81,000 tonnes per year of packaging grades.

Unfortunately, in spite of these achievements, Bowater made considerable losses in 1979 and predict even higher losses in 1980 (by losses we are talking in millions of pounds sterling).

In the case of Reed, it is less easy to quantify, since the two mills where newsprint is made, at Aylesford and Gravesend, Kent, both make other paper products as well. However, more than 2,000 workers employed there would be affected, and many would have to be laid off, if newsprint were lost.

Printings and Writings Paper

During January, 1978, the Paper and Board Sector Working Party (SWP) of NEDO issued its third Progress Report to the National Economic Development Council. In this report the SWP indicated that the Printings and Writings Sub-Sector gave considerable cause for concern. This concern was due to a considerable increase in import penetration of the bulk mechanical grades of paper, where the Nordic producers have the advantage of integrated production. As a result, most United Kingdom firms had largely withdrawn from the production of these grades and in the area of woodfree grade papers, which are also under attack, in order to economise some users were switching to lighter, part-mechanical papers which United Kingdom firms, being relatively small, have not had the profits or capital to make the necessary investments in this area. Because there is an over-capacity in Western Europe and a high degree of technologically advanced mills operating within both Nordic and Western Europe, this had resulted in light part-mechanical papers currently entering the United Kingdom at abnormally low and apparently unprofitable prices.

In evaluating the situation, the SWP put forward the following recommendation:

"A study of the Western European Printings and Writings Sub-Sector, and of the UK producers' place in it, should be made. Subject to consultation with the UK firms involved, this study should have the objective of reporting on (among other things):

— the structural changes needed.

— the level and form of investment required to improve the Sub-Sector's cost competitiveness."

At a meeting of Chief Executives of the companies of the Printings and Writings Association (AMPW) held on 2nd March, 1978 following the AGM of that Association, it was decided that the Federation itself should undertake the study, though a report, with recommendations, would eventually have to be made to TSWP.

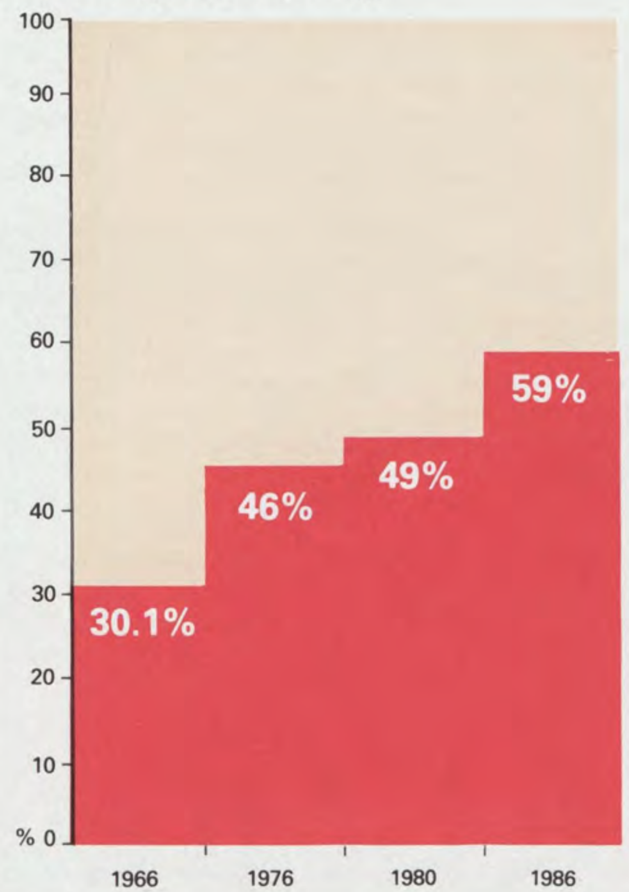
Very careful thought was given as to which companies should be invited to participate in the study, and it was eventually decided to issue invitations to ALL companies in membership of the AMPW, with the exception of those manufacturing technical (specialist) grades who could not be considered to be in competition with standard qualities in the market place. Also excluded were those off-machine coated mills which are not integrated (i.e. those without a base paper producing mill on the same site).

Twenty-nine companies were approached, of these twenty-seven agreed to participate in the study.

It was also agreed that the study should cover the years up to and including 1985/6.

The result of this study was reported to the SWP in January 1979 and its indications, briefly, were:

The import penetration gave considerable cause for concern and this can be illustrated by quoting statistics which show an increasing growth of imports – 1966 30.1%, 1976 46.0%, with a forecast, if no action is taken, of 59% by 1986.



SOGAT JOURNAL

MARCH 1976

The Papermaking Industry was one of 30 industries selected for Special Assistance.

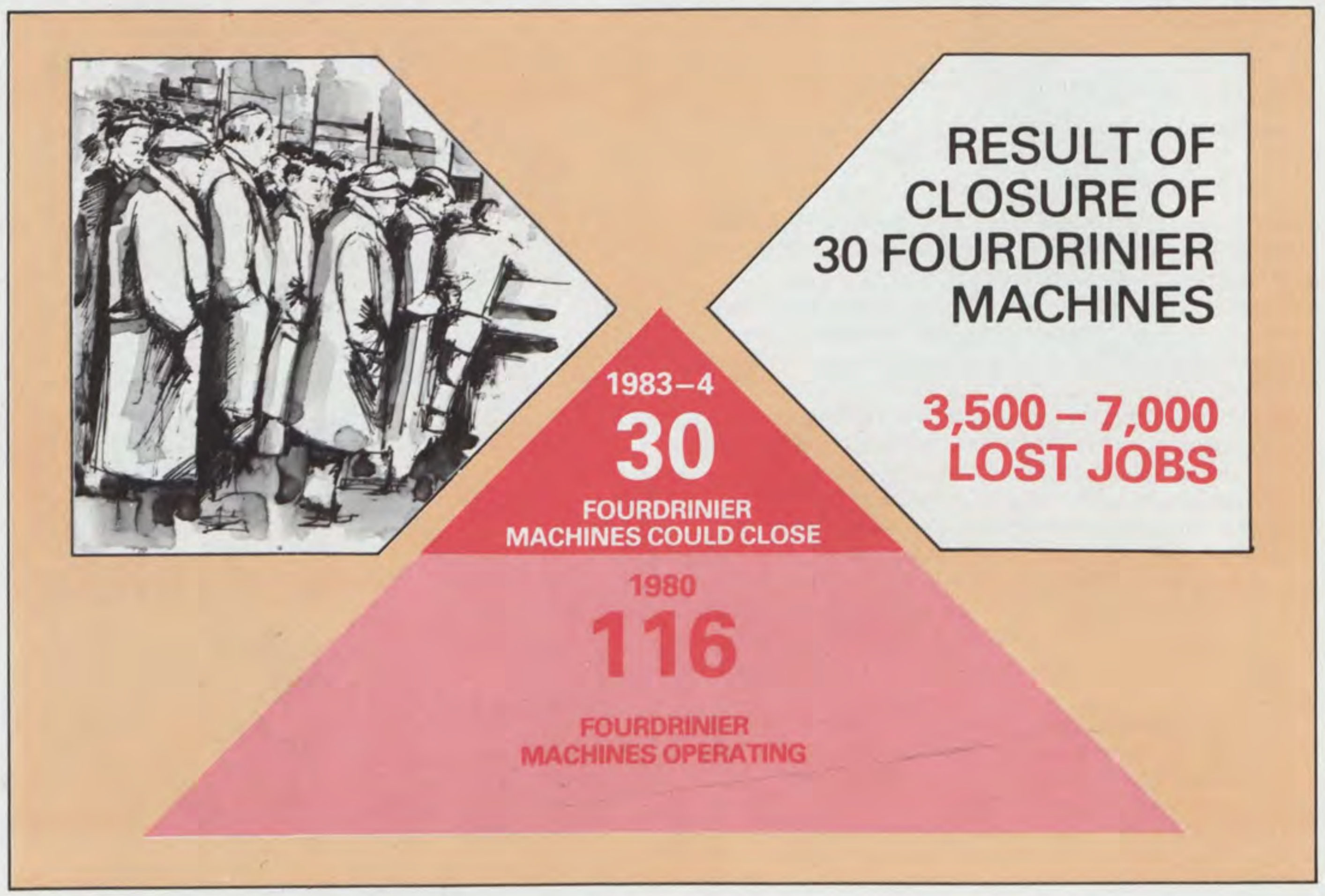
This would result in, not only a decline of United Kingdom production and less secure jobs, but the implications of this decline could go far beyond the paper mills themselves, resulting in adverse long-term effects in employment in the much more labour-intensified industries using Printings and Writings Papers, as well as in the allied trades supplying the Paper Industry.

The other economic implications indicated within the report are that the balance of trade in pulp and paper already in deficit by nearly £1 billion per annum, will deteriorate further and it is estimated that of the 116 Fourdrinier Machines operating in this sector, if no action is taken, at least 30 machines would be closed, with the result that over the next five years redundancies would probably result of between 3,500 and 7,000 people.

Therefore, if we within the industry do not consider action required to achieve improved competitiveness to combat this import penetration, and do not carry out a consultative and co-operative rationalisation in the industry itself, the result will be a decline in the UK industry. Therefore, it must be recognised that the implementation of such a rationalisation programme would have a major impact, not only on the personnel working in the mills, but investment to modernise the production base is an essential complement to any such rationalisation programme. *It has been estimated in the report that the investment needed would be about £150 million, of which the industry could supply £40 million and about £80 million through normal channels (with Government backing, if forthcoming) at low interest rates, and the rest, approximately £30 million, on the basis that existing Department of Industry Grants are available. Unfortunately, the present Government's policies will effectively discontinue any such assistance.*

In the light of this situation, and given that there is little or no immediate likelihood of special Government financial assistance for the Printings and Writings Sector, (other than aid under Sections 7 and 8 of the Industry Act, and Regional Development Grants, where applicable, and which will be cut by 5% as from 1st August, 1980 by the present Government) the process of restructuring and modernisation will proceed only slowly and will not lead to the competitiveness necessary to match overseas' development.

In addition, it is now economic for manufacturers to import converted products, such as printing, publishing and packaging material, rather than to buy from UK Converters and many finished products in fully packaged form are now imported because of the high value of sterling.



Soft Tissues

Soft Tissues, or hygienic paper products, are described variously as tissue, wadding, creped paper, etc., but are better known in finished product form: toilet/facial tissues, paper handkerchiefs, etc.

Some 6,500 men and women are employed at manufacturing sites around the United Kingdom, which normally operate 4-shifts 7 days a week. The United Kingdom consumption of tissue industry products in 1978 was about 400,000 tonnes, and the annual per capita consumption in the country is 7.2 kg., whereas the comparable figure for Western Europe as a whole is approximately 4.5 kg.

Although, traditionally, about 90% of the sector's requirements of bulk tissue is manufactured within the UK, the balance of between 40,000 – 45,000 tonnes is imported. These imports come mostly from the Nordic countries and the tariff free quota agreement covers the major portion of both parent reels, (i.e. the reel taken straight from the paper machine) and the finished goods themselves.

The soft tissue sector is unique within the overall Paper and Board Industry in the fact that it manufactures the final product and carries out its own marketing and selling to the retail trade, whereas most Paper and Board Mills sell their output in reels or cut sheets for conversion as a separate process by their customers. The estimated market values at retail selling prices for 1978 in each product sector were: toilet paper £146 m., facial tissues and handkerchiefs £46 m. and kitchen rolls £29 m., giving a total for the industry of £223 m.

By British Paper Industry standards, most of the investments by tissue manufacturers are relatively recent and contain the latest technological innovations within the hygienic paper products field. Each of the last four paper machines installed, (between 1970 and 1975) is 5 metres wide, has potential for production speeds of well over 1,200 m/minute, and has a production capacity of more than 35,000 tonnes of tissue per year.

They, therefore, have big investments, not only in the basic paper machines, but also in power plant to drive them, effluent treatment equipment to purify the waste, converting and packaging equipment, and warehouse and distribution facilities. In addition, there is a very significant investment in marketing.

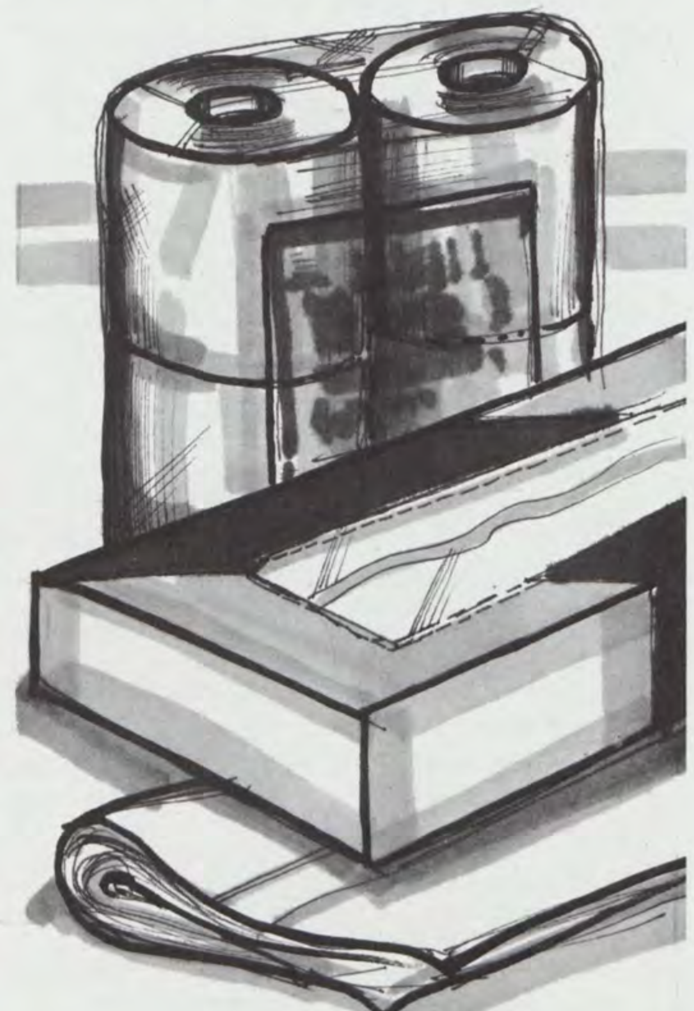
This Sub-Sector of the British Papermaking Industry has been through a time of very considerable difficulty within the industry, has shown encouraging growth, and has been highly competitive in the consumer field.

However, although it has shown encouraging growth, there is evidence that very serious consequences could develop within this industry if foreign competitors, in attempting to break into this market, start dumping surplus production.

This happened in 1978, when the Spanish Company Brand "ALBOR" dumped their surplus production in the South of England at something like 40% below normal prices for similar goods produced by United Kingdom manufacturers. Fortunately, this was arrested in time to save any disastrous situations arising, but when a country like Spain seeks to import into this country, and we compare the importation situation at that time, the ratio of duty for someone importing to Spain was 36.8%, whereas for converting products to be imported into the United Kingdom, the import duty was 4.8%. It is obvious that we just could not compete on this basis.

In the present economic climate, there is very strong evidence that with over capacity in the industry world-wide, many companies outside the British Isles will be attempting to export into this country, certainly with an eye on the very high consumption rate in this area.

Investment is needed to cater for projected future demand, though it must be timed and planned properly to avoid over-capacity. Transport has a very strong part to play here, it is very important that there should be an efficient UK road network and low road haulage costs if firms are to keep costs down and to maintain a competitive distribution system.



Packaging and Speciality Boards

This sector covers the range of boards, (other than Corrugated Board) used mainly for packaging purposes, but also, in some cases, for other purposes too.

Of the 4.2 million tonnes of paper and board made in the UK in 1979, some 22% was accounted for by the board sector.

UK producers, through the skilful use of indigenous raw materials – wastepaper and mechanical pulp – have built up a manufacturing capacity which satisfied over 75% of the UK market. By re-using wastepaper the sector not only helps the environment, but makes a substantial contribution to the balance of payments, for without it finished board would have to be imported at far greater cost to the UK as there is no other material which can be used economically.

Despite this relatively healthy share of the market, the pressure from imports is growing for the following reasons:

(a) **Western European countries can now sell duty free in to the UK all grades of board following the removal of EFTA tariffs in 1967 (duty free quotas now provide only marginal protection) and the EEC tariffs in 1977.**

(b) **The strength of the £ sterling, relative to the US dollar, together with a reduction in duties from 12% to 8% under GATT, means that the huge production of Solid Bleached Board in the USA is now competitive with UK waste based grades.**

(c) **Unlike other countries in Europe, the UK has maintained price stability for waste paper in order to help preserve the collecting structure. Thus prices during a recession are at a higher level than true market prices, and at a lower level at a time of peak demand, which has given some stability to raw material costs. In addition, UK mills tend to hold far greater stocks than their continental counterparts which, with high UK interest rates, is very costly.**

(d) **Excess capacity, particularly of carton boards, in Western Europe, coupled with aggressive pricing policies to dispose of surplus tonnage, is not only causing an over supply in the home market, but also leads to severely reduced margins.**

(e) **The latter in turn inhibits investment in the UK to compete with the more modern machines abroad.**

Despite the currently inadequate margins, however, one British company is building a 100,000 tonne p.a. duplex carton board machine, using home grown timber, with Government backing, in Cumbria, which will almost double UK capacity for this grade. Its success will depend upon the strength of the market, and above all, the achievement of comparable productivity to its competitors abroad.

Should there be no domestic supply in this particular sector, then clearly it would be manufactured abroad. It is already the avowed intent of our Scandinavian and North American competitors to add greater added value to their paper and board products, and so an adverse move in the United Kingdom's position could only benefit them.

Corrugated Case Materials

As the name implies, Corrugated Case Materials (CCM) are those papers used in the production of corrugated board, the use of which, because of its lightness, strength and relative cheapness, has grown very rapidly since the early 1960s.

UK production of CCM grades, together, have grown rapidly, as the table below shows, and in 1979 accounted for nearly 23% of UK production of paper and board:

	1964	1974	1977	1978	1979	
CCM	392	879	905	940	956	'000 tonnes

Their development, and in particular the effective use of re-cycled fibre (wastepaper) must, therefore, be accounted one of the success stories of the industry in recent years.

Around 28 mills employing 11,000 people are engaged in their production.

Apart from the employment provided, by saving the imports of expensive papers made from 100% virgin woodpulp, UK production of CCM is estimated to save the country £100 million per annum in terms of balance of payments.

SOGAT JOURNAL

MAY 1976

Branches link up in Joint Paper Industry Campaign.

The considerable technical advances made by British mills have helped to allow for the substitution by UK produced materials of all bar some Kraft Liner Paperboard, which is essential where high strength characteristics are required, e.g. packaging of television sets, scotch, etc.

With demand for new timber reaching a balanced situation with supply, the greater use of re-cycled fibre is a factor of increasing importance to the conservation of world timber raw material resources.

As implied above, the CCM Sector is a larger user of re-cycled fibre (wastepaper) – some 850,000 tonnes out of a total of 2.1 million tonnes were consumed in 1977.

Consumption of these grades, because of the UK's relatively stagnant economy, only grew from 1.45 million tonnes in 1972 to 1.51 million tonnes in 1977.

Thus to achieve the growth indicated in table on previous page, imports have been reduced between the years 1977 and 1972 as below:

Fluting	—	22%
Test Liner	—	25%
Kraft Liner	—	11%

– a notable achievement when in so many other sectors of the UK imports are gaining ground far too rapidly. Of remaining imports, Kraft Liner, at over 500,000 tonnes p.a. forms by far the largest single item.

Because it has been possible to introduce the necessary additional capacity in UK mills by modification of existing plant, e.g. newsprint and magazine printing machines, during the 1970s, the scope for further capacity increases at reasonable cost is now strictly limited.

ACTION NOW!

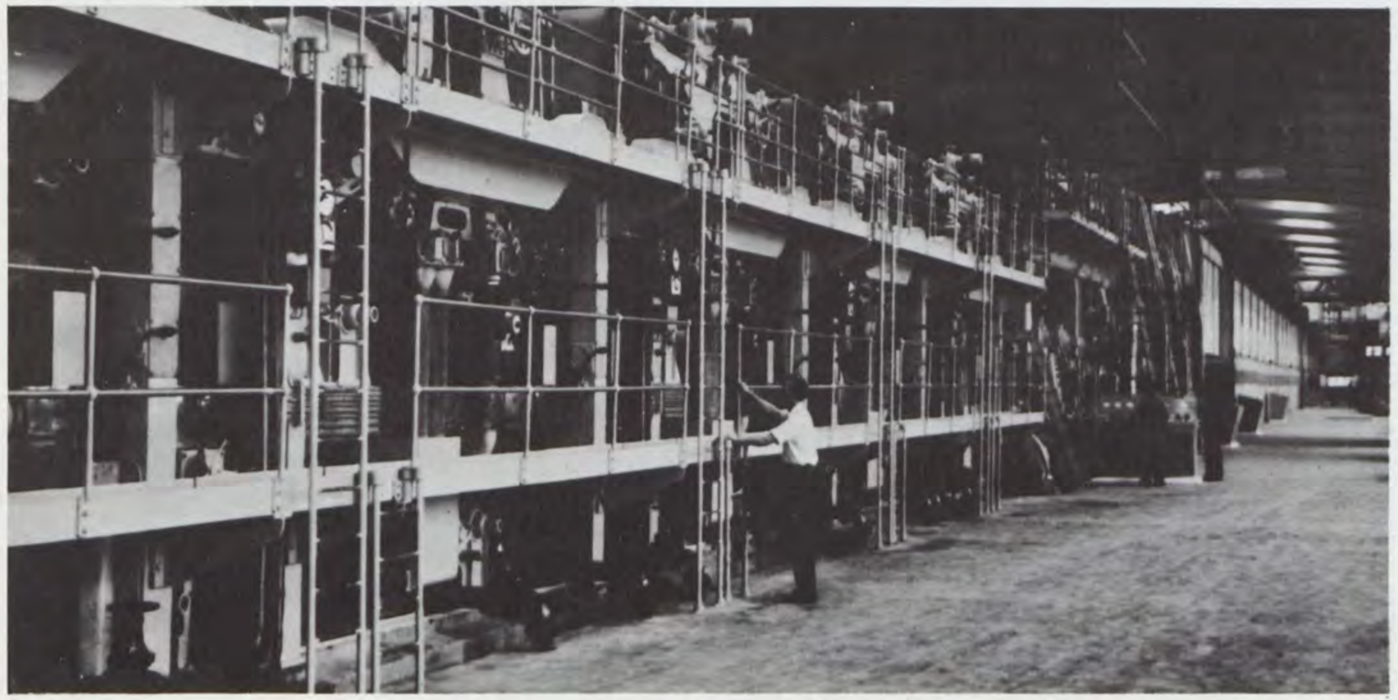
It is, therefore, important for the future of the CCM Sector that the following important issues are understood and acted upon.

(a) **It is essential that an adequate flow of waste-paper for re-cycling is maintained.**

(b) **Whilst the cost of re-cycled fibre must not be out of relationship with competing imported materials, it should not be so depressed as to make its collection unattractive to Local Authorities and voluntary organisations.**

(c) **The rate of exchange, particularly for the US dollar against sterling, is of vital importance because if the dollar is relatively weak as it is at present, imports of Kraft Liner from the USA become cheaper and the UK becomes a more attractive market to a country with a vast production capacity which can easily swamp demand for all types of liner in this country.**

(d) **Again, bearing in mind the importance of Kraft Liner Paperboard relative to the products of this Sector, the Government should maintain, by all possible means, the existing tariffs under GATT to allow for the further advantageous development of the sector.**



Basic Resources

For this industry to prosper, there are four basic resources: Pulp, Machines, Water and Energy.

Pulp

Nearly all pulp comes from trees, Britain has very little in the way of forests compared with countries like North America and Scandinavia, who are the prime suppliers. We could have more, but forestry is now competing for land with sheep farming (this is also an EEC objective). It is also a matter of objection by environmentalists who consider coniferous forests unpopular with country lovers and, therefore, most of our wood for pulping will always have to be imported – at a price.

The industry, in considering this, have made extensive efforts to develop an alternative by the use of waste paper, resulting in Britain now being the world leader in the use of waste paper – so much so that just over half the pulp we use comes from this source.

However, because the North American and Nordic countries own the raw material of the industry, it means that they can exert a 'double squeeze' on the UK mills. They determine the price the UK mills must pay for their woodpulp.

They can, therefore, raise the price of woodpulp and, at the same time, refrain from raising the price of paper they send to the UK market. This means that in order to keep their customers, the UK mills cannot raise their price for finished paper but must, at the same time, pay more for the raw material from which it is made.

Machinery

This represents a very large investment which has to come either from industry profits, or from outside finance, attracted by the prospect of future profits.

The crucial question is clearly whether the industry will be profitable enough to attract the needed capital funds, either out of cash flow or from the finance market.

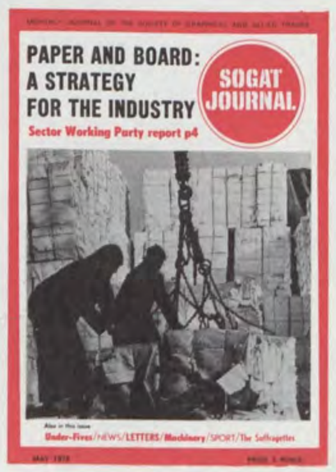
This urgency has been strengthened by the imperative need to improve rates of return on investments to compete with the highly profitable and capital-hungry sectors of energy, petrochemicals and other science based industries.

Experience of market recession, and given the relatively modest predictions for the future growth from paper consumption over the next ten years of between 2–4.6% per annum, leading pulp and paper manufacturers have been forced to concentrate even more into raising efficiency, increased productivity and reducing costs at every stage of the papermaking process.

Before 1977, the trend towards concentration of larger production units had been strongly pursued. However, since 1977, investment in new paper machines was scaled back dramatically and the continued increase in overall expenditure has gone particularly to improve pulping and existing mill operation.

Non-productive investments in pollution control have further increased the pressure for savings in the operating area by reducing manpower requirements and raising speed likewise by increased instrumentation, electrical, and computer control systems.

SOGAT JOURNAL



MAY 1978

Our objective was to reverse the trend of import penetration.

Water

The process of making paper needs about 100 times its own weight of water. Most of the water, after draining away, is re-cycled but the industry still uses 1.2 million cubic metres of fresh water a day.

Water is becoming more expensive because of abstraction costs and the capital and running costs required to prevent pollution after use. Because of this, the industry is making considerable progress in the re-use (re-cycling) of water so that the water is purified within the mill and used a number of times before discharge. During the process additional recovery of fibres and other materials can be made; this in itself is cost-saving. The re-cycling of water, therefore, achieves three things: less overall water is used, less fibre is lost and there is less risk of pollution. Some mills have achieved outstanding savings in water usage by re-cycling, one mill having reduced its usage by 90% whilst another is carrying out work to achieve a saving of 95%.

Savings in recovered pulp are impressive. In 1974, 128,861 tonnes of pulp were recovered for re-use by the employment of savealls such as disc filters, floculators and flotation units. The value of the pulp recovered was of the order between £8 million to £10 million, which was roughly double the value of equipment fitted.

In ten years, to the end of 1974, the industry spent £12,950,000 on effluent treatment plant and, notwithstanding the current recession, continues to install expensive plant. Some of the money has been used to finance joint schemes with local authorities.

Some of the largest units in the industry are situated on tidal waters and they will now be brought under the control of the 1974 Act. *It is estimated that (over the next ten years) these units will have to spend £18 million on capital plant to deal with their effluent.*

WATER – SAVINGS, AMOUNT USED . . .

RECOVERED PULP FOR RE USE 128,861 TONNES
VALUE £10M

SAVINGS IN RE-CYCLING WATER UP TO
95%

1.2 MILLION CUBIC METRES OF FRESH WATER A DAY

EFFLUENT ENVIRONMENTAL COSTS

IN TEN YEARS UP TO 1974 £12,950,000 ON EFFLUENT PLANTS

IN NEXT TEN YEARS UNDER 1974 ACT FURTHER £18 MILLION NEEDED

As we quoted in 1975 in our "Save our Industry" booklet, the Nordic countries and Canada have abundant and cheap supplies of water and the effluent problems are less serious. In the UK, water is becoming more scarce and expensive as the demands of industry and a growing population increase. The use of water is therefore becoming very costly.

Pollution is becoming a very serious matter and the demands for standards of cleanliness now being made on mills for the purification of effluent are very heavy. Though the social objectives are highly desirable, the extra financial cost involved has proved too great for some mills.

Energy

Energy costs on average within the industry have risen from about 7% to 15% of total manufacturing costs, despite the fact that the paper industry has always been conscious of the benefit of 'combined heat and power generation' and most mills have endeavoured to maintain the best possible energy (heat and mechanical) balance compatible with product quantity and quality. This is now a major factor influencing both the competitiveness and viability of the industry.

A total of 4,801 GWh of electrical energy was used by the industry in 1978 and 43% of this was self-generated, the balance being purchased from the National Grid. Of the electricity purchased, 39.1% was supplied to mills taking all their electrical energy from the National Grid while the remainder was used to supplement self-generated energy. The industry is a good customer for electricity in so far as it provides a constant load over 24 hours; additionally a large number of paper mills work the full 168 hours a week on a continuous cycle of operation. Yet the price of electricity in the UK is substantially greater than charged in many other countries with whom the UK is competing.

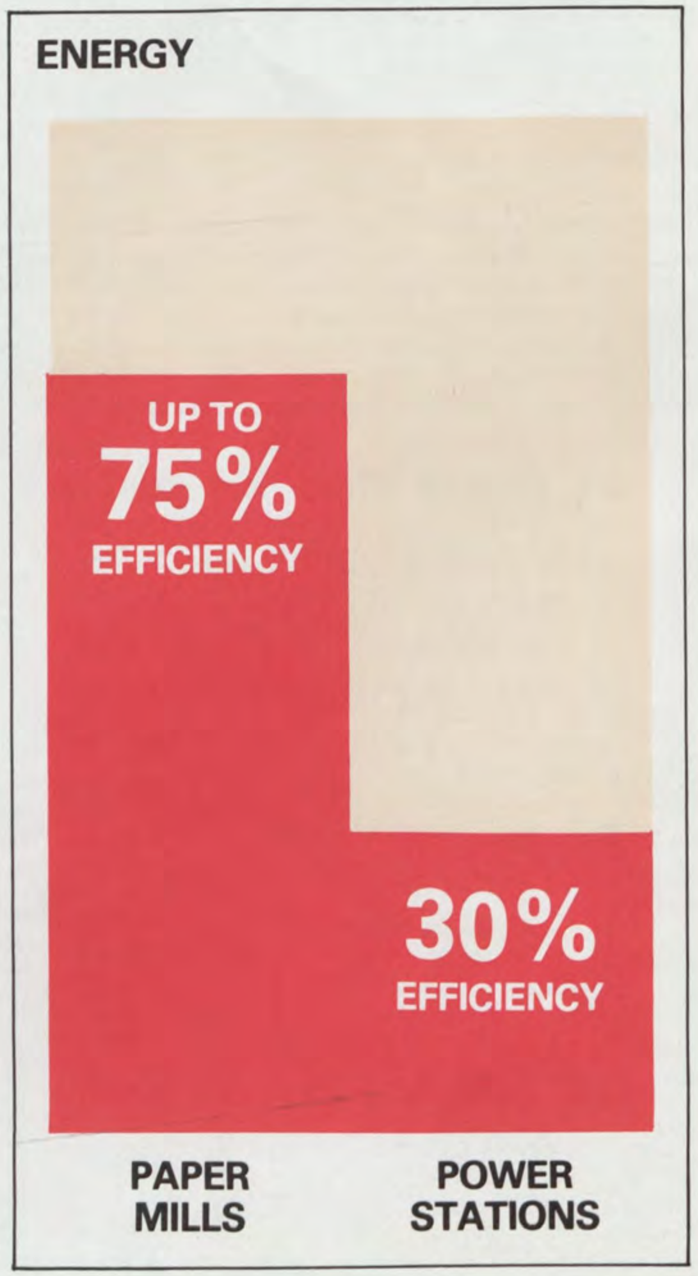
Many mills with a high level of self-generated electrical energy are achieving an overall thermal efficiency of around 70–75%; this means than nearly ¾ of the energy/fuel in-put is doing useful work and only 25–30% is being lost. This is significantly better than CEGB power stations, which have average thermal efficiencies of about 35%.

Mills purchasing all their electrical energy from the National Grid have thermal efficiencies of around 50–60%. In most of the seven integrated pulp and paper mills in the UK, waste products from the timber are increasingly being utilised as fuel.

In recent years the industry has been adversely affected by primary fuel supply problems and it is important to note that the paper industry is classified in two Acts of Parliament as being a continuous-process industry. Interruption of supplies is most disruptive to the process and the product, owing to the time required to re-start heavy machinery, re-establish product quality, and the need for a capital-intensive plant to run 24 hours a day, seven days a week.

The industry is the sixth largest energy consuming industry in the UK and the second largest private generator of electricity. The cost of energy, however, is now larger than that of wages and a more understanding approach towards industry's energy costs is required from Government.

It is significant that the percentage increase in the price of fuels has been greater in the UK than in many other countries and in some cases it is believed that the lower energy prices in other countries results from a deliberate policy of subsidisation aimed at enabling their industries to compete better in world markets.



Energy Consumed by the UK Paper and Board Industry

APPENDIX A

Shows the amount of energy used and the distribution between the different fuels.

APPENDIX B

Shows that oil prices in the UK are significantly higher than in many other countries.

APPENDIX C

Show coal price comparisons.

APPENDIX D and E

Shows that UK gas prices are the highest on the list and that we have the lowest price reduction for process use.

APPENDIX F

Shows that electricity prices are significantly greater than any other country shown.

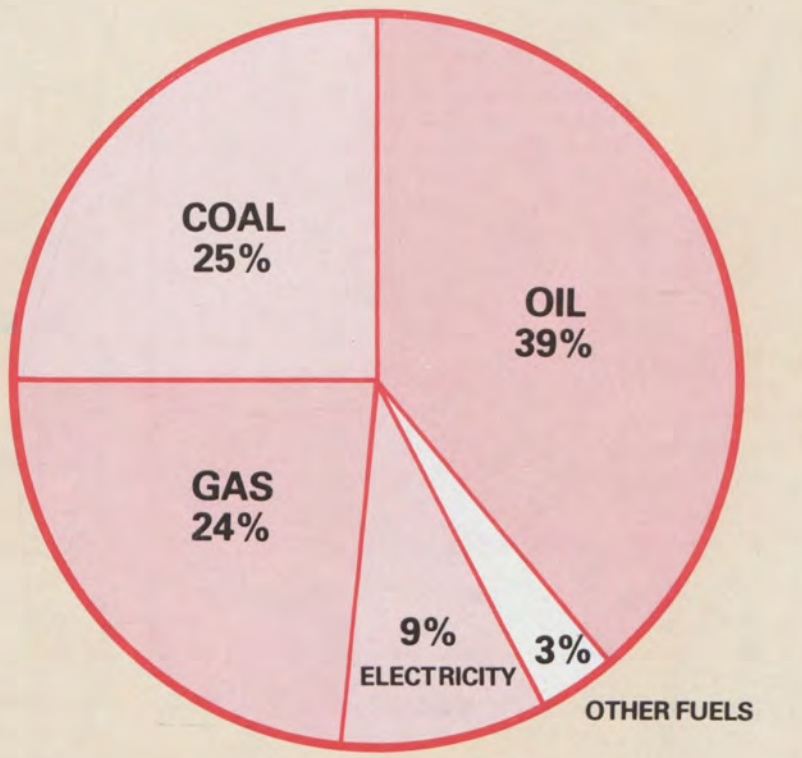
Appendix A

Total energy input embracing fuel oil, coal, natural gas, L.P.G. purchased electricity, steam and energy derived from waste fuels, amounted to 1018 million therms in 1978. The breakdown of this is as follows:

ENERGY CONSUMPTION

(Absolute energy equivalent of fuels and electricity in millions therms)

Coal	253
Natural Gas	249
Public Electricity Supply	93
Waste Fuels	19
Other	8
Fuel Oil	396
	1018



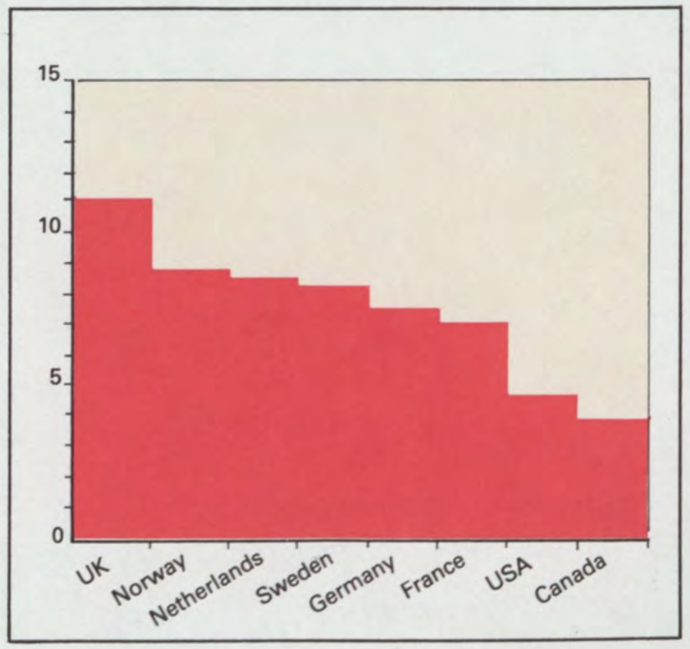
Source: Annual Energy Survey of BPBIF for 1978, page 4.

Appendix B

INTERNATIONAL COMPARISON OF PRICES FOR HEAVY FUEL OIL

Prices are quoted for bulk deliveries, including taxes.

Country	Local Price per unit as shown (*)	UK Sterling Pence per litre	
UK	11.0 pence/litre	11.0	(Includes .77p/litre HMG Excise Duty).
Norway	1002 Nor. Kr./ tonne	8.5	
Netherlands	394.5 florin/ tonne	8.3	
Sweden	129.2 Sw. Kr./ barrel	8.2	
Germany	.17 DM/cubic metre	7.43	
France	.67 fr/litre	7.0	
USA	34.65 $/barrel	4.6	
Canada	32.44 Can. $/ barrel	3.8	



(*) Currency Exchange Rates as quoted by *The Times* (issue 19th June 1980).

Source: Information collected for BPBIF Energy Statistics.

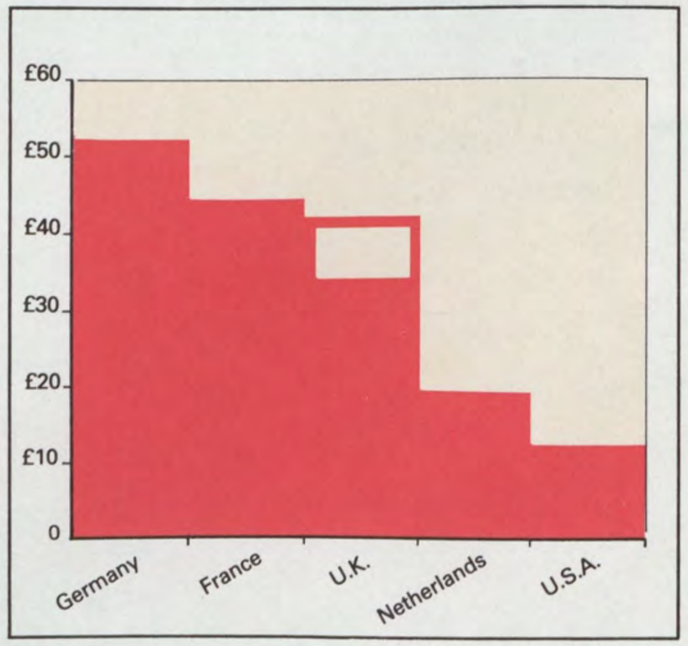
Appendix C

INTERNATIONAL COMPARISON OF PRICES FOR COAL

Prices quoted are for bulk loads delivered to mill.

Country	Local Price per tonne (*)	UK Sterling £/per tonne
West Germany	220 DM	52.7
France	432 fr.	44.8
UK	£34.4–42.7	34.4–42.7§
Netherlands	90 florins	19.7
USA	27.33 $/short ton	12.6

(*) Currency Exchange Rates as quoted by *The Times* (issue 19th June, 1980).



(§) Minimum price is untreated coal delivered to mill near coalface, maximum is treated coal delivered to mill away from coalface.

Source: Information collected for BPBIF Energy Statistics.

Appendix D

INTERNATIONAL COMPARISON OF PRICES FOR NATURAL GAS

Pence per therm for differing quantities and applications.

	100,000 Heating	100,000 Process	1,000,000 Heating	1,000,000 Process
UK	24.0	24.0	23.8	23.6
Germany	22.6	20.2	20.5	17.1
Italy	22.0	17.2	21.5	16.7
Belgium	23.7	23.7	15.7	15.7
France	20.0	16.6	19.2	15.2
New Zealand	13.6	13.6	13.6	13.6
USA	14.8	12.5	13.0	12.1
Canada	8.1	7.8	4.1	7.2
Australia	7.3	6.9	5.6	5.0

Information based on September 1979 prices and mid-October 1979 currency conversion. In some cases average figures have been computed for countries where large national price variations exist.

Appendix E

PRICE REDUCTION FOR PROCESS USE

Italy	22%
France	19%
Germany	13%
USA	10%
Australia	9%
Canada	7%
UK	½%

Percentages are average for 100,000 and 1,000,000 therms usage. Belgium and New Zealand: no price reduction.

Source: Press Information from National Utility Service dated 12th November 1979.

Appendix F

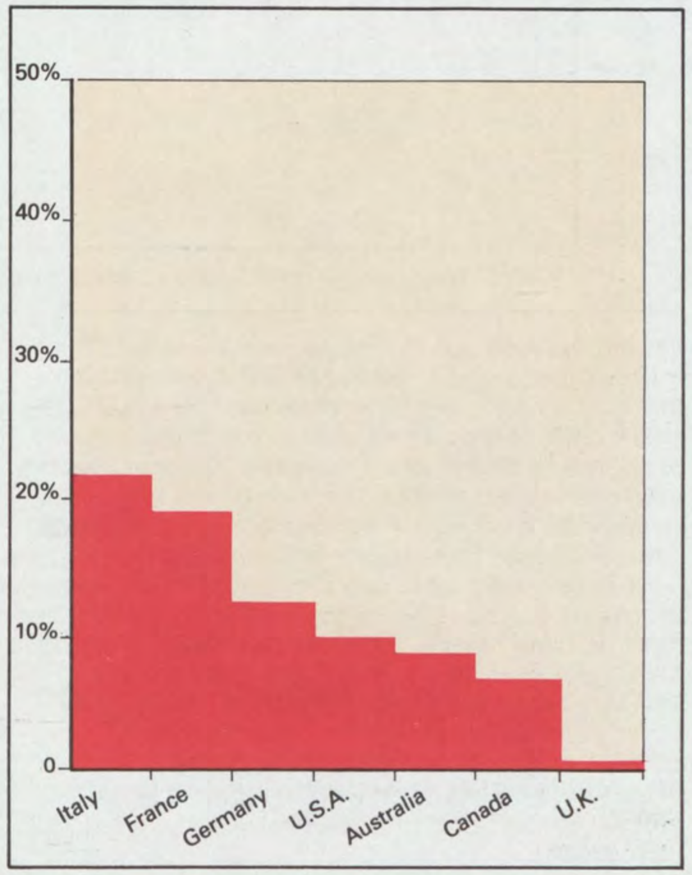
INTERNATIONAL COMPARISON OF PRICES FOR ELECTRICITY

(Average figures for large industrial users)

Country	Local price per MW h (*) or per kW h	UK Sterling pence per kW h
UK	£3.00/kW h	3.00
Netherlands	128.3 florins/MW h	2.80
France	208.6 fr./MW h	2.16
West Germany	0.08 DM/kW h	1.92
USA	26.62 $/MW h	1.13
Sweden	110.0 Sw. Kr./MW h	1.10
Norway	107 Nor. Kr./MW h	0.94
Canada	17.7 Can. $/MW h	0.66

(*) Currency Exchange Rates as quoted by *The Times* (issue 19th June 1980).

Source: Information collected for BPBIF Energy Statistics.



Manpower

EMPLOYMENT IN THE PAPER AND BOARD INDUSTRY

For almost a decade there has been a steady fall in the number employed in the Paper and Boardmaking Industry; the number of workers has fallen by 25.9% since 1969. This decline has been most noticeable in process and staff workers. However, there has been a marked increase in the proportion of manual employees working a 4-shift system – 37% in 1980, compared to approximately 28% in 1972.

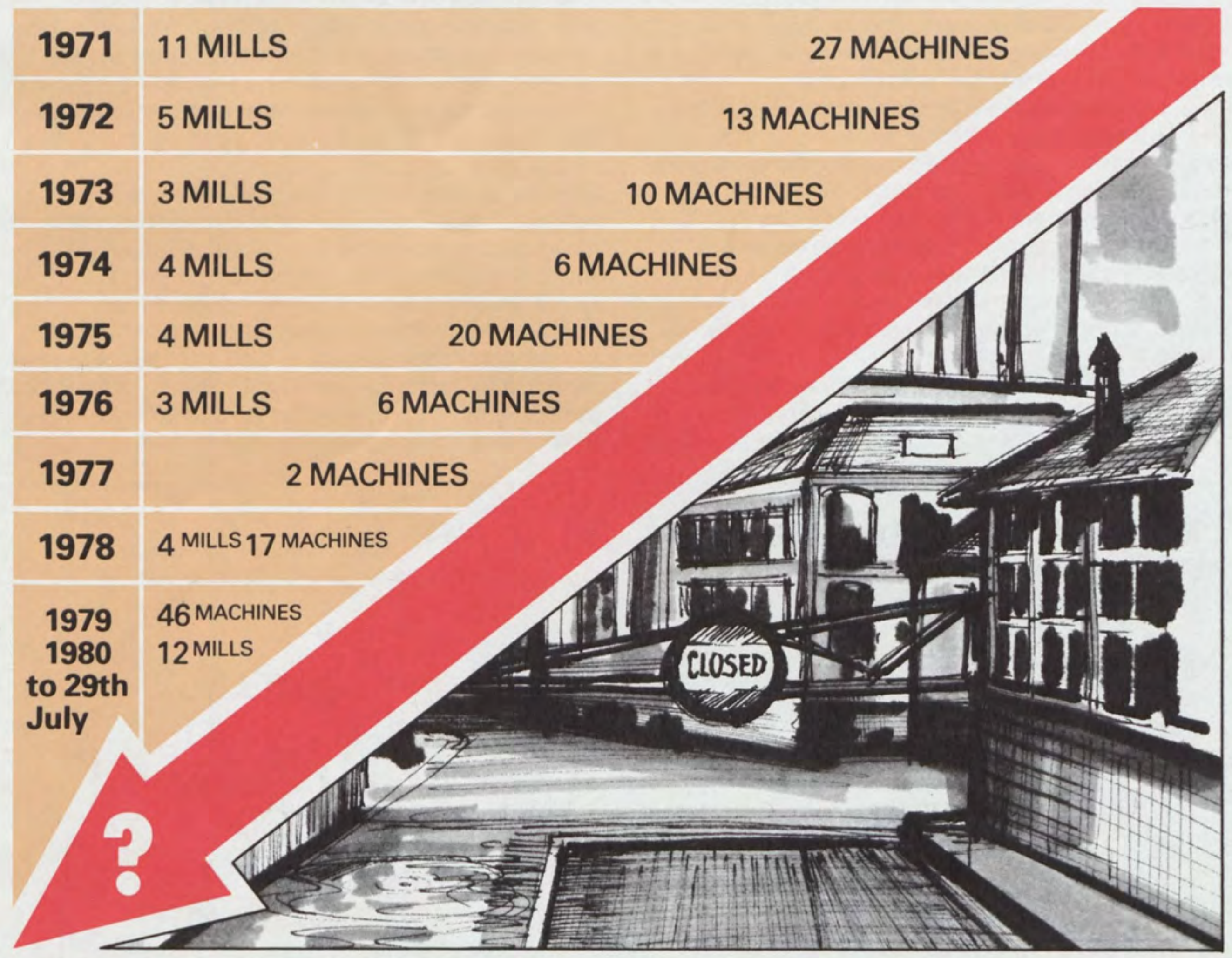
As Paper and Board manufacture is a continuous process industry, shift work is essential. Of the 141 mills working in 1980, 59 (42%) operated a continuous 4-shift system (these accounted for 71.5% of the industry's total capacity), and the remainder three shifts. Most mills also employ day workers, particularly in maintenance and finishing departments. Shift work, with its inherent social problems, is an obvious drawback to employee recruitment.

SOGAT JOURNAL

APRIL 1979

Sector working party N.E.D.O. looking for urgent Government assistance.

MILL CLOSURES/REDUCTION IN MACHINE NUMBERS.



ONCE SHUT NEVER TO BE REOPENED

Employment Trends by Sector 1969–1979

Sector	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979 Emp	1979 % + or – since 1969
Waste Paper	4157	5236	4907	3907	3641	3830	3642	3765	3993	3838	3526	– 15.1
P B & C	88969	85635	79502	74384	73495	73643	71359	67077	66547	66652	65938	– 25.9
Agents/Merchants	9009	8890	9181	9202	9266	9074	8951	9136	9090	9187	9390	+ 1.2
Converting	89887	95196	89249	87408	89805	93380	88652	81903	84443	82269	81163	– 9.7
Stationery	28801	27820	26665	25758	27002	27147	27268	24580	25271	24413	23822	– 17.3
Wallcoverings	7504	7894	6817	7068	6058	6666	5922	5781	5706	5529	5313	– 29.2
Total	228327	230671	216321	208177	209267	213740	205794	192242	195050	191888	189152	– 17.2

If the UK Paper and Board Industry is to survive as a high technology industry, it must be able to compete in the labour market for the best recruits available. However, in the UK at present, in order to do this, it must be able to overcome some drawbacks, which are summarised in the next few paragraphs.

There are few transferable skills recognised for process workers. In many mills there is also little interchange within the mill between the different skills employed. When a skilled production operator leaves the industry, he is technically only a labourer.

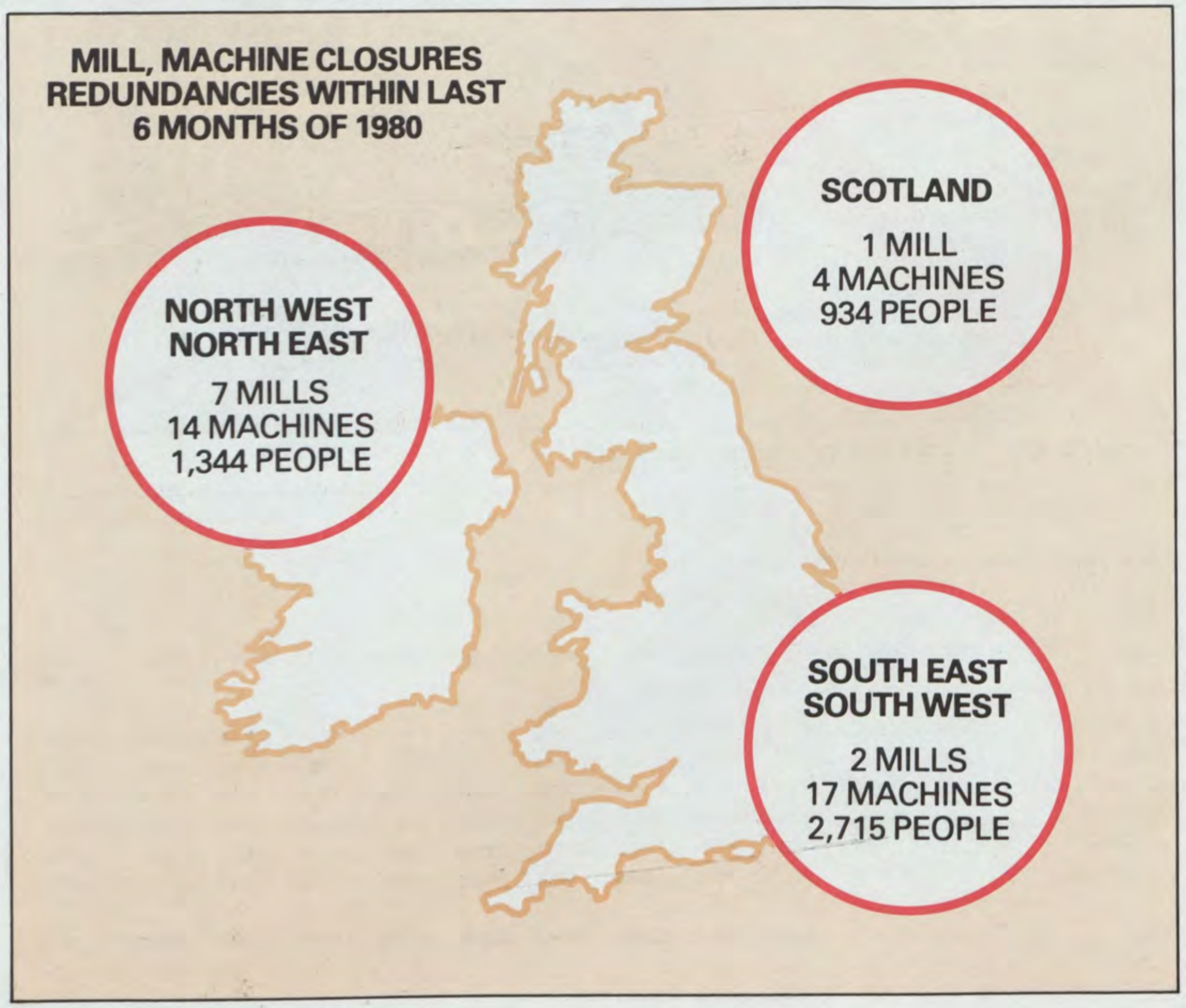
One of the key factors in ensuring the economic health and prosperity of the industry in the future, is to attract, train and retrain craftsmen and process operators, without whom no Paper and Board can be produced.

Labour turnover of up to 100% in a year may be experienced among the newly joined, particularly when employed on shift work; able young men can find jobs at least as well paid elsewhere, without the need for shift working.

The present economic climate with its high pound high interest rate and high inflation rate is having a devastating effect on the industry. Since May of 1979 we have been notified of more than 4,000 redundancies and unless immediate action is taken by the Government this number could double by the end of this year.

One issue, however, is over-riding: security of employment. Unless actual and potential employees have confidence in the future of the industry and of individual companies, any action on the factors explained above can have no lasting effect.

The industry has a history of mill, machine and manpower reduction since 1969, the percentage of which is laid out in Appendix 4 *showing a total 17.2% decrease between 1969 and 1979 which in overall manpower figures is 39,175 employees.*



General Recommendations

The UK papermaking industry as already outlined suffers from a number of important disadvantages, compared to the main competing countries. Therefore, it is imperative that the Government clearly states that it recognises the importance of maintaining a healthy industry and demonstrates its sincerity by taking both immediate and longer term measures to protect the industry from the irreversible damage now being done.

We recommend the Government to seriously consider taking action to assist on the following points:

1. Import Penetration.
2. Finance.
3. Energy.
4. Forestation.

Import Penetration

It is clearly recognised that the biggest threat to the papermaking industry comes from imports. This situation is being made alarmingly worse by the current over-valuation of sterling which greatly encourages competitive imports from North America and Scandinavia.

These competitors, who already enjoy natural and trading advantages over UK companies, including advantages derived from former EFTA Agreements, will continue to unfairly pressurise the industry.

The serious problem of import penetration not only threatens the survival of the papermaking industry but, as the industrial base weakens, so does the position of the related industries such as printing and packaging. The overall effect, which is self-perpetuating, will result in thousands of lost jobs and inevitably worsen the balance of payments crisis.

ACTION NOW!

It is, therefore, essential for the Government to assist the industry to contain, and ultimately reduce import penetration, by:

(a) Adopting a more aggressive policy towards imports.

(b) Considering some type of selective import control such as quotas, surcharges, or minimum prices.

(c) Ensuring strict enforcement of all existing duty free quotas at their present levels.

(d) The application of tariffs on all other imports.

(e) Import restrictions to check excessive competition, including that which does not come under anti-dumping rules.

Finance

The economical problems of the industry are not new, they go back over several years. At the heart of the problem lies the failure of the industry and the Government to adequately invest in new plant and machinery to ensure its future. The recent economic position with its high level of the pound, high interest rates and high inflation have only exaggerated the problems and accelerated machine and plant closures.

The strong pound, combined with high interest and inflation rates, not only facilitates imports, but places severe pressure on profit margins and virtually eliminates investment.

ACTION NOW!

Attention should be given to providing positive financial backing and assistance, such as:

(a) Providing financial assistance and subsidies, similar to those provided by other Western European Governments.

(b) Re-directing some oil revenues into those industries essential to the future of the economy.

(c) Lowering interest rates.

(d) Taking measures to reduce the effect of oil revenue on current exchange rates.

(e) A determined attack on inflation.

(f) The introduction of appropriate investment incentives.

(g) An immediate increase in regional development grants.

(h) The introduction of a selective grant scheme to assist with the necessary re-investment in new improved plant.

SOGAT JOURNAL

JULY/AUGUST 1980

Conference declared total opposition to Conservative Governments Economic Policies.

2. Ind P.D.

PRIME MINISTER

U.K. NEWSPRINT INDUSTRY

Sir Alex Jarratt telephoned me this morning about the joint approach you have had from the British Paper and Board Industry Federation and the Society of Graphical and Allied Trades, seeking a meeting with you about the present position of the newsprint industry in this country.

He wanted to let you know that Reed as a company are not looking for Government support. He said that he was clear that the newsprint business in this country was, in his own words, "for the birds." So great were the losses now being sustained, that Reed were determined to go ahead and close down. He did not believe that there was any way in which the domestic newsprint industry could be put back on its feet and he was therefore not looking for public money for Reed. But Reed had had to go along with the initiative taken by the British Paper and Board Industry Federation and SOGAT because, as he put it, they had to play their hand intelligently with the unions, and this required them to take up a certain public position. Nonetheless, he wanted to make it absolutely clear to you privately that his company were not asking for financial support from the Government for their newsprint operations.

I will pass this on, on a suitably discreet basis, to Sir Keith Joseph's Office.

AAW.

MT

5 September 1980

Ino B

File

dw

SOGAT
Newsprint industry
meeting

10 DOWNING STREET

From the Private Secretary

3 September 1980

I wrote to you yesterday enclosing a copy of a letter dated 1 September to the Prime Minister from the newsprint industry, seeking a meeting.

I asked you to provide a draft reply on the assumption that the Prime Minister would not be prepared to see a delegation. The Prime Minister has now seen the letter, and has commented that she may have to see them. I would therefore be grateful for your advice on this point, and the draft should reflect this.

M. A. PATTISON

Mrs. Catherine Bell,
Department of Industry.

ds

2 September 1980

I am writing on behalf of the Prime Minister to thank you for the letter which you and Mr. Keys sent her on 1 September about the UK newsprint industry.

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

I am writing in similar terms to Mr. Keys.

M A PATTISON

J.H. Adams, Esq.

DSG

dl

cc Press Office

10 DOWNING STREET

From the Private Secretary

2 September 1980

I enclose a letter to the Prime Minister sent jointly by SOGAT and the British Paper and Board Industry Federation. The signatories request that the Prime Minister should receive a delegation from the newsprint industry.

I see from the letter that your Secretary of State has already seen such a delegation. I think that the Prime Minister will wish to reply on the lines that your Secretary of State has already reported to her on his discussions, and that she does not feel that a further meeting with her could add to the Government's knowledge of the situation. I should be grateful if you could let us have a draft reply along these lines for the Prime Minister to consider. It would be helpful if this could reach us by 10 September.

M. A. PATTISON

Mrs. Catherine Bell,
Department of Industry.

DSG

ds

2 September 1980

I am writing on behalf of the Prime Minister to thank you for the letter which you and Mr. Adams sent her on 1 September about the UK newsprint industry.

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

I am writing in similar terms to Mr. Adams.

M A PATTISON

W.H. Keys, Esq.

10 DOWNING STREET

PRIME MINISTER

Here is a letter from both sides of the newsprint industry, seeking your intervention to assist the industry. They request that you meet a delegation to discuss their problems.

Keith Joseph has already seen a delegation from the industry. I doubt very much whether anything more can be achieved by your seeing them. If you are content, we shall ask the Department of Industry to suggest a draft reply for you to send, explaining that Sir Keith Joseph has already reported to you his discussions with the industry.

I think I may have to see them. MT.

MAP

2 September 1980

c Press Office R 1/9

SOCIETY OF GRAPHICAL & ALLIED TRADES,
SOGAT House,
274-288 London Road,
Hadleigh,
BENFLEET, Essex.

THE BRITISH PAPER & BOARD INDUSTRY FEDERATION,
Plough Place,
Fetter Lane,
LONDON, EC4A 1AL.

1st September 1980

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

Dear Prime Minister,

THE UK NEWSPRINT INDUSTRY

You will be aware that most of the UK Paper and Board Industry is in serious difficulties. We write to you now in order to request your personal intervention to save one particular sector of the Industry which is in undoubted immediate danger.

The Secretary of State for Industry has already seen a delegation from The British Paper and Board Industry Federation and the Society of Graphical and Allied Trades and has had details of the problems which companies now face. The delegation stressed that factors which seemed to be under Government control were exacerbating the effects of a recession which would be serious enough in themselves: the combination of adverse factors peculiar to the UK and a general trade recession would be highly damaging for nearly all paper and board mills and actually fatal for some.

In his subsequent considered reply to our submission Sir Keith indicated that he saw little possibility of Government being prepared to make special provision for Industry in either energy costs or interest rates - two of our most serious problems. These matters are so very important to us that we naturally cannot accept such an answer as final: we shall continue to press for some action by any means within our power.

Sir Keith also suggested that further efforts by individual paper and board companies to improve their own performance could "contribute much to seeing them through the current difficult period", and here we found ourselves in fundamental disagreement. One of the major points which we had tried to put across was that in today's climate even efficient companies cannot in many instances run profitably - or even at an acceptable level of loss: it is this point which we wish to pursue further with you personally in respect of the newsprint sector of the Industry.

As it stands today the UK newsprint industry supplies about a quarter of the country's requirements. The closures announced by both the suppliers concerned during the last ten days will, if they take place, result in that proportion being brought down to less than one eighth. We feel that for an industrialised country like Britain to be reduced to such a position after being able to meet half of its newsprint needs as recently as ten years ago, involves factors more serious than finance. The issues as we see them are set
--- out in the attached brief paper.

We seek:-

a) The Government's acceptance of the importance of keeping the small but efficient UK newsprint sector alive, to ensure minimum availability of newsprint for the Newsprint Publishers in times of overseas supply difficulties.

b) Temporary assistance to offset the exchange rate difference and continuing assistance with high energy costs for as long as those costs are intolerably greater than those of foreign companies supplying newsprint to this market.

We would therefore greatly appreciate the opportunity of discussing the situation with you. Closures have already been announced and the matter is urgent: we therefore hope that you will be able to meet at an early date a small delegation which would include a representative of the Newspaper Publishers Association and the Chairman of the Paper and Board Sector Working Party.

Yours sincerely,

W H Keys. John Adams

W.H. KEYS
GENERAL SECRETARY
SOCIETY OF GRAPHICAL & ALLIED TRADES

J.H. ADAMS
DIRECTOR GENERAL
THE BRITISH PAPER & BOARD INDUSTRY FEDERATION

THE NEWSPRINT SECTOR OF THE UK PAPER AND BOARD INDUSTRY

Introduction

Newsprint manufacture in the UK is now concentrated in two companies, Reed and Bowater. Judged against competitive international standards the companies are efficient converters of British raw materials and energy into newsprint. To achieve sales, however, they have to offer their products on the British market at more or less the same international prices as those of their competitors. These competitors enjoy considerable cost advantages, notably in cheaper wood and particularly cheaper energy: their advantage in energy costs is twice as significant as their advantage in wood costs. By contrast the UK Industry is under the handicap of a high sterling exchange rate, high interest rates and a high rate of inflation. Exchange rates, interest rates - and the cost of energy - are influenced directly by Government policies. Nevertheless, we are convinced of the need to keep the newsprint sector alive, particularly over the very difficult economic conditions obtaining today. If it were, then the advantages as set out in paragraphs 2 to 5 would result.

People

2. Jobs would be saved in the newsprint industry itself. In addition, an estimated 1,000 local people servicing the Ellesmere mill would remain in work, as would those employed in the Newstead coal mine which supplies Ellesmere with 5,000 tonnes of coal a week. The jobs currently at risk including those in forestry, see paragraph 4 below, are likely to be in excess of 3,500 in the Mersey area alone. According to the estimates of the Ellesmere Port and Neston Borough Council, these jobs losses could cost Government at least £13m. per annum in unemployment benefits.

Balance of payments

3. The balance of payments will continue to benefit from some £45 million which will otherwise be lost through the currently planned newsprint closures. It should also be noted that the UK already imports £2.75 billion worth of timber and timber products and thus arguably needs to grow more, not less, trees on which efficient manufacturing industry can be developed with consequent benefit to employment and the balance of trade.

Forestry

4. There will be a less dramatic fall in demand for UK timber. The closure of the pulp mill at Fort William is inevitable but the demise of Bowater's Ellesmere Port mill can still be prevented. If it is not, the Forestry Commission alone estimates a loss in the domestic market of 450,000 cubic metres of wood, representing 20% of present production of coniferous wood. Unless the Forestry Commission and the private timber growers can find continuing export markets at viable prices (and how unhelpful to export raw materials and have the finished product returned for sale in the UK with value added abroad), then some 800 jobs, forestry and transport, are likely to be lost in the Forestry Commission alone without taking into account private forestry. Additionally the inability to find UK uses for thinnings will prejudice the growth of more mature timber for saw logs with all the attendant problems to the future of UK forestry and its efficient management.

Waste Paper

5. UK newsprint producers currently use some 125,000 tonnes of waste paper each year. Should newsprint production cease, then waste paper (an indigenous material) will not only cease to be of value but will become a cost burden upon industry and Local Authorities for disposal as land-fill etc. Should the sector survive, then these monies would be saved.

Strategic reasons

6. We firmly believe that Britain should retain a manufacturing capacity for newsprint. If it does not - and this is the likely trend if circumstances do not alter - then the following dangers would exist:-

a) Our supplies of a vital material would be entirely in the hands of foreign manufacturers who could put supplies at risk whenever they wished.

b) There would be no domestic supplier to act as a check on indiscriminate price increases by those overseas producers (and paper makers abroad with the market in their hands would not necessarily be content with minor increases: in 1974 for example, when all paper was scarce worldwide, some grades were sold by importers into the UK at up to 80% above the UK manufacturers' prices).

c) All supplies of newsprint could cease in times of dock and transport strikes whether in the UK or in the supplying country, putting the printing and distribution of news and opinion by newspapers at risk in the UK.

7. We do not expect that the UK should supply more than a quarter of the UK requirements: this would represent, as it has in the past, a sufficient quantity to provide competition and a minimum supply in times of crisis. It is significant that other EEC countries consider an indigenous newsprint industry vital to their interests and extend to such industries (financial
--- support in some form. (See Annex A.)

The strength of sterling

8. The current loss on newsprint for both Reed and Bowater amounts to some £40/50 per tonne produced. This is principally due to the high cost of both UK energy and indigenous raw materials, together with the substantial loss of sales value incurred because of the strength of sterling. The implications of
--- currency related to the selling price of newsprint are set out in Annex B.

1.9.80

ANNEX A

SUPPORT GIVEN TO NEWSPRINT INDUSTRIES IN EEC

France

All newsprint is purchased by a co-operative (SPPP) and re-sold to the Press at a uniform price. The price paid to domestic suppliers is decided by a committee consisting of representatives of Newsprint Producers, Newsprint Publishers and Government and is based on an addition to that paid to Scandinavian suppliers, calculated:

Scan price = 100. Selling price to Press 100 + 2.
Domestic supplies are approximately 50% of total. All the extra goes to the French suppliers, i.e. their 50% attracts 4.

In addition there is a direct subsidy from Government based on the level of investment by the mills. This subsidy is currently 4.5%.

Total support therefore:	Price addition	4%
	Subsidy	4.5%
	Total	8.5%

Belgium

2. After the discontinuation in 1978 of the subsidy during the period of 7% tariff on imported newsprint, there is now a complex agreement whereby the Press are understood to pay approximately 3½% more for domestic than for imported newsprint.

Holland

3. There is no direct price subsidy on newsprint production but Government holds a 20% stake in the new newsprint plant run by a subsidiary of the Van Gelder company (itself only kept alive by Government sponsored loans).

Germany

4. No subsidy, but there is an unofficial agreement that the domestic mills should receive a higher price from the Press than importers.

ANNEX B

THE PRICING OF NEWSPRINT ON THE UK MARKET

Fears that the pound would sink lower than $US 1.65 in 1978 led to overseas suppliers agreeing with the purchasers a link between the sterling price of newsprint and the value of the pound. The price of newsprint would only remain firm as long as the value of the pound remained in the band between $US 1.65 - $US 1.75. If the pound fell below $US 1.65, the price of newsprint would be increased by approximately £1.30 for every cent of fall: similar but opposite provision was made for the pound rising. When the unforeseen happened and sterling strengthened, all newsprint suppliers - including those in the UK - were obligated to pay substantial rebates from the list price.

2. Since that time the currency clause has been changed to $US 1.85 - $US 1.95 on 1st April 1980. Further, for the fourth quarter of 1980, the price of newsprint will be based on a movement up or down on $2.15/£. The net effective price for the second and third quarters of 1980 together with that for the fourth quarter at various exchange rates is set out below. The net selling price on 1st January 1977 was £235 per tonne.

	List price of 48.8 g.s.m. newsprint £270.00 per tonne	
$/£ Exchange Rate	2nd/3rd quarters 1980. Currency clause based on $1.85 - $1.95/£	4th quarter 1980 Currency clause based on a trigger point of $2.15/£
$2.00/£	£263.25	£290.25
$2.10/£	£250.71	£276.43
$2.20/£	£239.32	£263.86
$2.30/£	£228.91	£252.39
$2.40/£	£219.38	£241.88
$2.50/£	£210.60	£232.20

File

Nationalised Industries

Ind Pol.

Jour

BF 29/8/80

See previous B/F

10 DOWNING STREET

From the Private Secretary

26 August 1980

Further correspondence and BF action on Energy Prices are filed on NAT. IND: Gas + Electricity prices Part 2.

On 11 August I wrote to you about international comparisons of energy prices to industry, and asked for briefing for the Prime Minister by the end of August.

The Prime Minister has now seen a copy of the letter of 18 August from Lord Trenchard's office about Bowater's Paper Mill at Ellesmere Port. She has commented that almost all commercial concerns sell some of their output at rock bottom prices, and sometimes below cost, to keep up the volume of sales and distribute their overheads. She has asked whether the Electricity Council does anything like this.

I should be grateful if you could take these comments into account in preparing the advice for which we have asked.

I am copying this letter to Ian Ellison (Department of Industry), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

N. J. SANDERS

J.D. West, Esq.,
Department of Energy.

2

PRIME MINISTER

A blow to Merseyside

MS 19/8

CONFIDENTIAL

c.c. Press Office

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 -7691
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From the Minister of State
Lord Trenchard

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

18 August 1980

I must speak to Energy about pricing: Almost all commercial concerns sell some of their output at rock-bottom prices (sometimes below cost) to keep up the volume of sales and therefore distribute the overheads. How far is the Electricity Council doing this? MT.

Dear Secretary of State,

BOWATER'S MERSEY MILL, ELLESMERE PORT

Following my letter of 6 August Mr Popham, Managing Director of the Bowater Corporation and Dr Lenton, Chairman of the Bowater UK Paper Company, met me on Friday 15 August to give their response to the proposals outlined in that letter for supporting the re-equipment of Ellesmere Mill as an alternative to closure. They made it clear that they would still not feel justified in changing their decision and their Board decided this morning to announce tomorrow afternoon that the mill is to close.

2 At our meeting Mr Popham said that the Bowater Board had carefully considered the investment proposals for Ellesmere, taking full account of the "package" of assistance outlined by the Department to the company. However, they did not believe that these proposals represented a sound long-term investment. While accepting that the exchange rate would readjust in the long term to reflect the competitiveness of UK industry, Mr Popham said that Bowater did not foresee any substantial narrowing of the £7-8m differential in wood and energy costs between Ellesmere and its North American competitors. He added that since my last meeting with Dr Lenton Bowater had acquired further information which led them to conclude that the savings associated with building a sulphite pulp mill would be £1-2m less than originally anticipated.

3 I suggested to Mr Popham that a decision of this nature must be a long-term one, looking to economic recovery beyond the present recession. Unless multi-nationals such as Bowater showed some confidence in the long-term economic outlook and in this Government's policies their fears about our national economic prospects could be self-fulfilling. Although Bowater could not expect special concessions on energy prices the Government was giving urgent consideration to the general problem of UK energy prices compared with those of its competitors.

CONFIDENTIAL

4 It is my view that the Government offered Bowater a real and genuine alternative to closure. The assistance outlined was the maximum possible under the Industry Act and the Forestry Commission went as far as they could without offering the company a non-commercial wood price. I find it disappointing that Bowater has nevertheless decided to close the mill.

5 Lord Erroll, Bowater's chairman, has written to me confirming the decision. The company remains committed to this country as part of its manufacturing base (having invested £75m here over the last 3 years) and our discussions will strengthen its resolve to persist with its other paper mills here "in the face of adversity". He adds that the closure could be reconsidered during the 3-month period of notice before closure if something really significant should happen on energy prices.

6 If the Department is asked, following the announcement, about the Government's rôle, I propose to say that we were willing within our existing policies on investment aids to support the modernisation of the mill, but that we were unable to subsidise uneconomic production.

7 I would only add that the case further underlines the urgency of reviewing the burden of energy costs on our manufacturers.

8 I am copying this letter to the Prime Minister, colleagues on E(EA), Peter Walker and Sir Robert Armstrong.

Yours sincerely

Heather Archer.

LORD TRENCHARD
(Approved by the Minister
+ signed in his absence)

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Ind Pol.

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PRIME MINISTER
To see
MJS
12/8

FROM THE
PARLIAMENTARY SECRETARY

The Viscount Trenchard MC
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
SW1E 6RB

11 August 1980

MO 1

Dear Tom

BOWATER'S MERSEY MILL, ELLESMERE PORT

I have seen your letter of 6 August to Sir Keith Joseph, following our discussion in E(EA) and your meeting with Dr Lenton.

It seems fairly clear from the terms of Dr Lenton's response to you that Bowater's decision on Ellesmere Port will not turn wholly on the relative cash flow advantages of closure versus continuation, and that, if they do decide on closure, they are likely to point to energy costs as a contributory factor in their decision - despite the very generous terms of the Industry Act assistance that you have offered, which would hold out clear prospect of future profitability for the mill.

If Bowaters do decide on closure and take the line foreshadowed by Dr Lenton, I hope ~~we can~~ make it clear that the Government's approach to energy pricing is that it should reflect the economics of supply and demand, and that we cannot hope realistically to bridge the gap between fuel costs here and in North America. This is not, indeed, a new factor in the situation and it will be cause for legitimate surprise if Bowaters do turn down the opportunity to make profits which your offer holds out to them.

I am copying this letter to the Prime Minister, colleagues on E(EA) and to Sir Robert Armstrong.

Yours

Norman

NORMAN LAMONT

PRIME MINISTER

to see

MS

12/8

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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From the Minister of State
Lord Trenchard

c Mr Hoskyns
Mr Wolfson

Prime Minister

Bowater are considering DoI's offer of assistance, but the prospect of their taking it up don't look very bright. I have asked for a report on the energy pricing issue.

TL 7/8

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

6 August 1980

Dear Secretary of State

BOWATER'S MERSEY MILL, ELLESMERE PORT

When I reported on the threat of closure of Bowater's newsprint mill at Ellesmere Port last week it was agreed that if the negotiations with the company for an assistance "package" based on Industry Act assistance for new investment seemed likely to fail I should report back to colleages.

I met Dr Lenton, Chairman of Bowater (UK) Paper Company, today and presented to him a memorandum summarising the assistance under the Industry Act he could expect to be available in response to the Bowater investment plan which we found his staff had already developed, as well as the negotiated reductions in wood and energy prices which Bowater would be able to secure from the Forestry Commission and the National Coal Board. In brief the effect of the total assistance under discussion should, depending on the assumptions, put the Ellesmere Mill in a position to earn profits from 1984 onwards of £10m per annum and a positive cash flow of £10m as we believe (or profits of £6m per annum and cash flow of £6m as Bowater suggest). This would of course involve the company in investment, but at no additional cash cost to the alternative of closure.

In my view the Government have now offered Bowater a real and genuine alternative to closure but one which involves the company itself in a commitment to invest at the mill and thus improve performance and productivity.

Dr Lenton's reaction today was that he could not recommend such an investment to Bowater. He argued that the Government should offer reductions in wood and more particularly energy prices to substantially cover current losses (£6-7m per annum) and that without such reductions Bowater could not contemplate investment at the mill. He reminded us that on current energy prices he was at a disadvantage of some £5m per annum over the average of North American and Scandinavian costs.

I told Dr Lenton that I did not accept that his company or the paper industry could expect special concessions on energy prices. I did however suggest that on a long-term decision of this nature it would seem prudent to give a little time to see what transpired in relation to the current debate about energy prices. I regretted his reluctance to consider positively investment at Ellesmere Port. I have therefore written today to Lord Erroll, the Chairman of the Bowater Corporation, and Mr Popham, the Managing Director, to make clear the Government's position. I expect a considered response from the Bowater Corporation next week, though in view of Dr Lenton's remarks today I have no grounds for optimism but believe that large British corporations like Bowater might be prepared to bear the present rough times now that we have a plan which we agree can take them out of loss. On the current exchange rate they are I believe making excellent profits in North America.

It is my view that the Government should not go further than we have already done in the offer of financial assistance to Bowater to encourage them to undertake investment in this Special Development Area at a cash cost to Bowater of no more than the closure option. If Bowater are determined to close the mill and unwilling to invest this should be accepted. I shall make clear that it would be a decision that the Government would not find easy to support or defend.

I am copying this letter to the Prime Minister, colleagues on E(EA) and to Sir Robert Armstrong.

Yours sincerely

P E Mus

pp LORD TRENCHARD

(Approved by the Minister
and signed in his absence)

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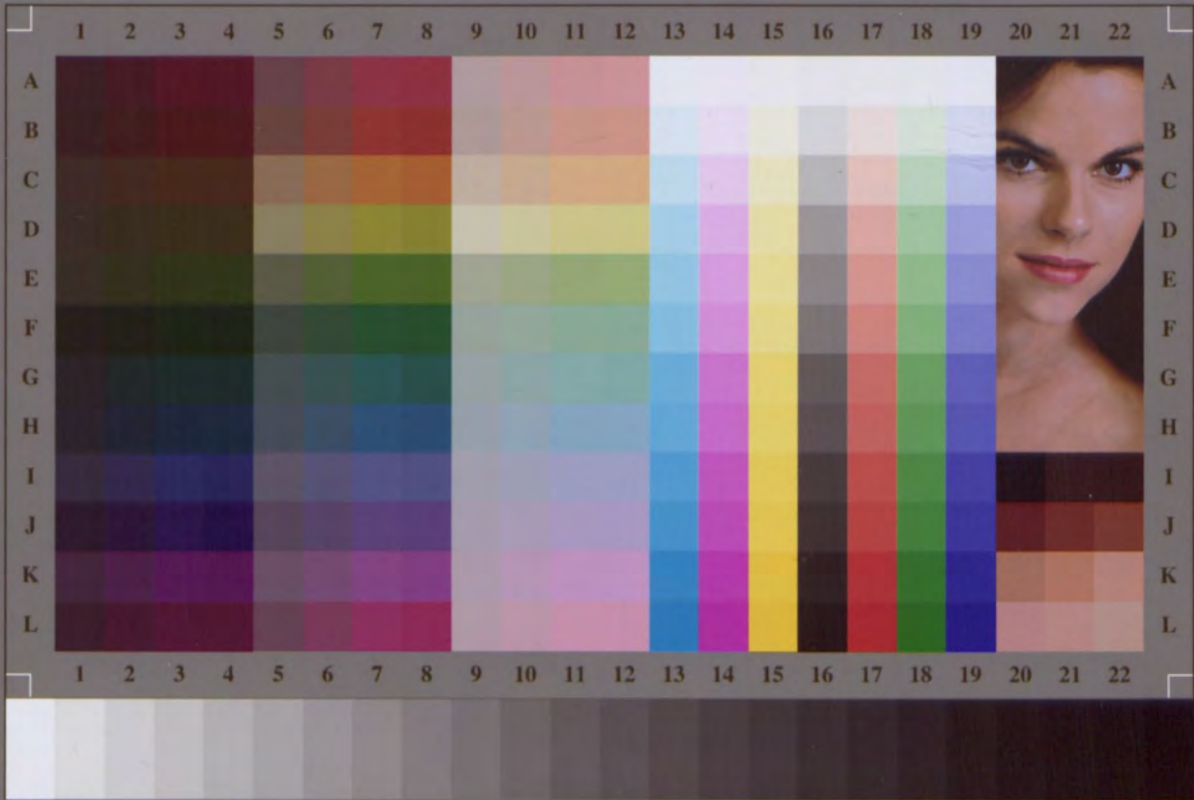

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