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PREM 19/856

The Steel Industry

NATIONALISED INDUSTRIES

Part I : June 1979

Part II : January 1982

PART II

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
14.1.82		28.10.82					
11.3.82		5.11.82					
14.3.82		10.11.82					
14.4.82		12.11.82					
27.5.82		18.11.82					
1.6.82		19.11.82					
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PREM 19/856

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PART 11 ends:-

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PART 12 begins:-

H/C Report on the Steel Industry
in Scotland 1/12

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(82) 18 th Meeting, Item 3	14.1.82
CC(82) 10 th Meeting, Item 4	11.3.82
CC(82) 5 th Meeting, Item 3	11.2.82
L(82) 45	19.3.82
EQO(82) 63	19.4.82
E(NI) (82) 15	27.5.82
CC(82) 32 nd Meeting, Item 3	9.6.82
E(NI) (82) 5 th Meeting, Minute 1	9.6.82
CC(82) 35 th Meeting, Item 4	24.6.82
CC(82) 38 th Meeting, Item 3	15.7.82
CC(82) 39 th Meeting, Item 3	22.7.82
CC(82) 40 th Meeting, Item 3	29.7.82
CC(82) 41 st Meeting, Item 2	9.9.82
CC(82) 42 nd Meeting, Item 3	30.9.82
CC(82) 43 rd Meeting, Item 3	14.10.82
CC(82) 45 th Meeting, Item 4 (extract)	28.10.82
EQO(82) 155	5.11.82
CC(82) 50 th Meeting, Items 1, 3 & 4	25.11.82

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 Wayland

Date 25 October 2012

PREM Records Team

Published Papers

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

1. House of Commons; Fourth Report from
Industry and Trade Committee, Session 1981-82
HMSO, 31 March 1982
2. House of Commons Hansard,
25 January 1982, columns 668-704
"Steel Industry"
3. House of Commons Hansard,
26 July 1982, columns 745-753
"Foreign Affairs Council (Steel)"
4. House of Commons Hansard,
22 November 1982, columns 587-595
"Steel"

Signed Wayland Date 25 October 2012

PREM Records Team

PPS



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

30 November 1982

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

Dear Tim, *in the PMS
Signature: pse
attach PMS*

I enclose a draft letter for the Prime Minister's signature, in reply to the letter of 23 November from Mr R Evans, Assistant General Secretary of the Iron and Steel Trades Confederation, to which was attached a motion passed on the day of the National Steel Appeal.

2 As is mentioned in the draft letter, there has been an exchange of correspondence between Mr Sirs, the ISTC General Secretary, and my Secretary of State, primarily concerning imports from non-Community countries. I enclose for information copies of the most recent letters in this series from Mr Sirs, dated 19 October, and from my Secretary of State, dated 12 November. *filed separately*

3 I am copying this letter and enclosure to John Whitlock (Department of Trade).

Yours ever,

Caroline Varley

CAROLINE VARLEY
Private Secretary

hmm

DRAFT LETTER FOR SIGNATURE OF PRIME MINISTER

R Evans Esq
Assistant General Secretary
Iron and Steel Trades Confederation
Swinton House
324 Gray's Inn Road
London WCLX 8DD

Thank you for the letter of 23 November with which you enclosed the motion passed unanimously at the National Steel Appeal that day.

The motion referred to the rising level of subsidised steel imports, and to the fact that other EC nations have failed to cut capacity as has the UK. ~~As far as imports are concerned,~~ ^{As} you know a legal distinction must be drawn between ~~those~~ ^{imports} from non-Community countries and those from the rest of the EC. In the case of the former, there is a series of voluntary restraint arrangements negotiated annually by the Commission on our behalf. I know that Mr Sirs has ~~engaged in~~ ^{corresponded} with Patrick Jenkin about these VRAs, and I will not repeat all the arguments here. But it may be useful if I confirm that we have secured a tightening of the arrangements for 1983, ^{for} ~~as regards~~ both quantities, which are to be cut back to 12.5% below the figures in the 1980 VRAs, and guarantees of rigorous enforcement of the provisions to prevent disruptive surges in imports. The Government have also been pressing the Commission to take anti-dumping action against injurious imports from countries without VRAs, and you may have noted that the Commission recently announced the opening of anti-dumping investigations against certain steel imports from Canada, Venezuela, Argentina and Brazil (in addition to the duties already in force against Spain and - for certain other products - Brazil).

The Government share the ISTC's concern about the level of imports from other European Community Member States, although it should be pointed out that, while there has been an increase in the market share taken by such imports this year (19.1% compared with 17.6% in 1981), it is in comparison with the years prior to 1980, the year of the 13 week steel strike, that the biggest change has taken place (import penetration by other Member States was then only 12-14%).

The urgent need^s as regards imports from other Member States ~~are~~ to restore price stability and to get the rules on pricing and quotas enforced rigorously throughout the Community, ^{to ensure} ~~thus ensuring~~ that the competition which our industry faces is fair. The recent Informal Meeting of EC Industry Ministers in Denmark made useful progress in this direction. Patrick Jenkin's call for action was met by a series of proposals by the Commission representative, designed to stabilise steel prices and to stamp out illegal pricing practices by producers. An interesting proposal ^{with regard to the} in relation to the reference in your motion to ~~subsidies~~ ^{as interests} concerns the Commission's ~~intention~~ to block investment aid or proposed national aid to producers who are infringing pricing provisions. The various Commission proposals are currently being discussed urgently by officials in Brussels.

The important question of reduction of excess steel-making capacity was also discussed at the Informal Meeting of Industry Ministers in Denmark. Patrick Jenkin stressed that the UK industry had done and was doing its part to reduce capacity and become competitive. He made it clear that he could not and would not defend a situation in which our capacity cuts were not matched by other Member States.

In summary, therefore, and using the words of the motion, the Government are acting for Britain in support of our steel industry, in respect of unfair imports and to get other EC countries to bear their share of the necessary sacrifice in reducing excess capacity. At the same time, we need to create a competitive British steel industry that can hold its own against fair competition on the world markets.



Prime Minister

②

ms 29/11

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

29 November 1982

2 Patrick

BSC: WRITE-OFF CAPITAL

You wrote on 22 November seeking agreement to introduce an order to make use of the powers given by the 1981 Iron and Steel Act to write-off a further £1 billion of Government capital invested in BSC.

I am content that you should proceed as you propose and note that you and John Biffen will be consulting to see how the proper presentation of the write-off can be secured and how the debate necessitated by the Order can be suitably constrained.

I am copying this letter to the recipients of yours.

LEON BRITTAN

rust Inl. Steel, At 11

29 NOV 1982

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With the steel industries throughout the industrialised world facing a crisis, the problems of the UK industry cannot be solved in isolation from what is going on in the rest of the European Community. The price and quota rules constituted concerted action at Community level to combat the collapse in demand, and are intended to restore price stability and bring supply into line with demand in the short term. Although the measures have so far not solved the crisis, the position of the UK industry (and that of other Member States) would have been considerably worse in their absence.

STATE AID RULES

The State Aid's Decision of August 1981 is the Community tool for bringing about reductions in excess steel-making capacity - aid cannot be granted unless accompanied by cuts in capacity. The disciplines in the Decision are beginning to bite; the Commission have blocked aid notifications from a large number of Member States pending agreement on adequate capacity cuts, and have opened infraction proceedings in certain cases (notably against Italy) where aid has been paid without capacity cuts. So far, Member States have notified the Commission of capacity reductions of 15 million tonnes by 1985; the Commission intend trying to get this figure doubled. Detailed statistics on cuts offered by individual Member States have been obtained only in confidence. These show the following:

Net changes in capacity 1985/1980

France	minus 16.9 per cent
UK	minus 16.9 per cent
Belgium	minus 11.8 per cent
Luxembourg	minus 7.3 per cent
FRG	minus 6.4 per cent
Netherlands	plus 4.1 per cent
Italy	plus 4.5 per cent

PRIME MINISTER

STEEL IMPORTS

Robin told me that you were very concerned about the imminent arrival at Immingham docks of two ships bringing cheap foreign steel to stockholders in this country.

I have pursued this with the Department of Industry and the Department of Trade. I am told that the two ships are the "Artemis" bringing steel from Japan and the "Good Warrior" bringing steel from South Africa. They are due to arrive at Immingham docks on Thursday or Friday. I have asked why we should allow these two ships to deliver their steel, what action we could take to stop them; and what we could do to stop such things happening in the future.

I am told that it is for Ian MacGregor to decide whether the steel when it is sold is being dumped. Only the BSC have the knowledge of the price structure of steel products which would allow an anti-dumping case to be brought. If they brought such a case we would vigorously support their action. They are, however, most unlikely to pursue the matter since they will be unwilling to disturb the very satisfactory arrangements that they have with Japan and South Africa. With Japan there exists a Voluntary Restraint Agreement (VRA), with a ceiling of currently 150,000 tonnes. So far this year (January to September) only 32,000 tonnes has been imported from Japan. With South Africa the BSC have a very good inter-industry understanding. This has so far resulted in 83,000 tonnes being sent from South Africa.

So it looks as though the Iron and Steel Trades Federation have picked the wrong target. They would have better picked a shipment of low price steel from Spain. On the other hand, the attached note from the Department of Employment argues that the steel workers' action is unlawful under the 1980 Employment Act. The Department of Trade further assure me that there is no action

/ which the Government

which the Government could take before an anti-dumping case is put to them, since the delivery of this steel will be represented by the suppliers and stockholders as a piece of legitimate trading. Its delivery here is contrary to no agreement - either EEC or national.

Line to take. For the House tomorrow you could say that if this is low price steel which is being dumped on our market we shall take vigorous action against those who send it; but we must look to the British Steel Corporation and the British steel industry at large to tell us whether this is in fact a case of dumping.

In the light of the above do you want a meeting (Industry, Trade, Treasury

MLs No FCO Employment) on steel?

We already have one - for

✓ Ravenscraig etc - arranged for

Monday 6 December.

24 November 1982

INDUSTRIAL ACTION TO PREVENT STEEL IMPORTS

Background

1. Newspapers on Wednesday carried reports that the Iron and Steel Trades Federation (ITF) intends to organise industrial action to prevent foreign steel from being delivered to stockholders in this country. The initial target of the action appears to be two ships due to arrive at Immingham docks this Thursday or Friday. They are the "Artemis" bringing steel from Japan and the "Good Warrior" bringing steel from South Africa.

2. The proposed industrial action appears to take two forms. A picket of Immingham docks by steel workers from Yorkshire and Lincolnshire, and an appeal to dockers and railwaymen not to move the steel from the docks once it has been unloaded from the ships.

The legal position

3. Where steel workers are picketing away from their own place of work they are clearly taking action made unlawful by section 16 of the Employment Act 1980. Anyone who suffers loss because such secondary picketing interferes with the performance of a contract to which they are a party (whether a contract of employment or a commercial contract) can therefore sue the individual pickets or the officials organising the action. The court could issue an interim injunction to have the action lifted and, if the case was taken to a full hearing, could also award damages.

4. The lawfulness of any 'blacking' by dockers or railwaymen would depend on two considerations. First, the workers would have to show that their action was in contemplation or furtherance of a lawful trade dispute. It is just possible that a dispute between the steel workers and the stockholder importing the steel could be regarded as 'connected with' job security and therefore qualify as a lawful trade dispute under the present definition, although on the information we have this is unlikely. But once the main provisions of the Employment Act 1982 take effect on 1 December lawful trade disputes will be restricted to disputes between workers and their own employer. This means that there would almost certainly be no trade dispute in this case and so any action to 'black' the imported steel would become unlawful.

5. Even if the workers could show that there was a lawful trade dispute under the present definition, any 'blacking' by dockers or railwaymen would still have to fall within the restrictions on secondary action in section 17 of the Employment Act 1980. Basically, this means that the action would be lawful only if carried out by workers whose employers had a current commercial contract with the stockholder importing the steel and was specifically 'targetted' on that contract.

6. At present a union organising unlawful action (as the ISTC seems to be proposing to do by organising secondary picketing) cannot be sued. As from 1 December this will no longer be the case because of the repeal of special immunities for trade unions.

Line to take

7. Some of the action which the ISTC is reported to be organising is clearly unlawful under the provisions of the 1980 Employment Act. Those damaged by such action can therefore apply for a court order to have the action lifted and for damages to compensate them for their loss.

└ Once the main provisions of the 1982 Employment Act come into force on 1 December it will be possible to take such actions not only against the individual organisers, but also against the union if it organises unlawful action. 7

MFJ

MR RICKETT ✓ to see

I have kept
the
attachment

CF - Alan -

For you? Kay 25/11

LH
24/11

24 November 1982

The attached letter was handed in at Downing Street yesterday by Mr. R. Evans, the Assistant General Secretary of the Iron and Steel Trades Confederation. As you will see the letter conveys a motion passed at the National Steel Appeal at Central Hall. The Prime Minister would like to reply to Mr. Evans and I should be grateful for a suitable draft by Wednesday 1 December.

TIM FLESHER

Dr David Saunders
Department of Industry



10 DOWNING STREET

Prime Minister

M

I find Mr Sins' letter rather
offensive; particularly since Mr Jenkin saw
him yesterday.

It is true that Industry took
until 16 November to reply to our
request, on 5 Nov. for advice. But I
went to considerable lengths to get
your reply quickly to Mr Sins - I
even dictated it over the phone to
his secretary, on 18 November.

Mes 24/11

ce Geoggy: Bruce Pts Top copy on Nat. Ind) 2
Nat Ind: Steel Argentina: Relations Pts 1
 M

PNQ AND STATEMENTS

This afternoon John Nott answered a PNQ from Teddy Taylor about the French sale of Exocets to Argentina, Patrick Jenkin made a statement on the informal industry council on steel, and Nigel Lawson made a statement about the Britoil offer for sale. I think Patrick Jenkin had the easiest ride. John Nott faced some outrage from the Government backbenches, and the Opposition were determined to shout and hoot at Nigel Lawson.

Exocets

John Nott argued that our defence capability in the Falklands, and especially our early warning systems, were sufficient to ensure their protection. The Government regretted the French action since there was no formal cessation of hostilities, and our views had been made clear to the French. On the other hand, they could be said to be simply honouring long-standing contracts. On the sale of Rolls Royce engines to the FRG for frigates destined for Argentina, Mr. Nott said that the Government would naturally be concerned if these frigates were to be delivered soon. But again this was a long-standing contract with a major NATO ally and trading partner. All Governments, including the last Labour Government, had traded in arms. It would be very difficult to control this trade through NATO, as Mr. Silkin suggested.

Tam Dalyell raised the old story of the seven hour telephone conversation between an Aero-Spatiale executive and the Argentines, but Mr. Nott said that these reports had never been confirmed, and that he was satisfied that France had supported us fully over the Falklands.

Towards the end of the questioning, Frank Allaun asked Mr. Nott why he regretted the French decision to export Exocets, while at the same time allowing the export of Rolls Royce engines. He also argued that "long-standing contracts" like these had surely

been overtaken by the hostilities. In answer, Mr. Nott repeated that these were long-standing contracts, and that the FRG had been told we regretted their contract to supply frigates. This was not very well received by the House. Peter Viggers repeated that there was no end to the hostilities, and said that we must ensure that the missiles did not arrive. Bernard Braine made the same point. Mr. Nott argued that he had only seen reports of missiles being shipped, and that these had not been confirmed.

Steel

Mr. Jenkin was committed to make this statement because the Opposition had called for a statement, if not a debate, on last week's closures. Stan Orme, leading for the Opposition, said that Mr. Jenkin's statement was merely words and no action. The UK was bearing the brunt of the closures in Europe. Community imports now accounted for two-thirds of total steel imports into the UK. Third country imports were growing. The industry needed protection. He called for an assurance that there would be no closure of any of the five integrated steel plants. He urged the Government to provide money to maintain capacity in the steel industry.

Patrick Jenkin pointed out that the meeting last week had been an informal council, and that it was not in the business of making firm proposals for action. It had, however, allowed him to say that the UK would make no more sacrifices in meeting capacity reductions in Europe. The Commission would be putting forward formal proposals shortly on the enforcement of price rules. The Foreign Affairs Council had agreed a negotiating mandate on voluntary restraint arrangements on imports from third countries. He would not be drawn on closures. He would make a statement before Christmas. The industry needed to be competitive, and it was the function of the BSC Board to restore the Corporation to viability. He would not stand in the way of capacity reductions, unless these raised a question mark over the future of the five major plants. The Government would have to be involved in any decision on these plants.

Most of the questioning concentrated on the inadequacy of the Commission's response to the problems facing the steel industries, and the recent closures at Craig Neuk and Round Oak were given as examples. There were also accusations that other members of the Community were cheating on the rules, particularly on prices. But, to some extent, the House recognised that they could not have expected firm decisions from last week's meeting.

Britoil

Merlyn Rees said that Amersham had been over-subscribed by 23 times, and that Britoil had been under-subscribed by 70%. This showed that Mr. Lawson did not understand the workings of the free market. Mr. Lawson had claimed that Britoil was a strong soundly based company, but clearly the City did not agree with him. The small shareholders who had bought shares would lose from this sale. It was an absurd way to value the nation's assets. There should be a Select Committee inquiry and a full debate, and Nigel Lawson should resign.

Nigel Lawson had to struggle to make himself heard over the hooting of the Opposition, which became all the louder when he said he would not resort to abuse. He said he would welcome a PAC inquiry. Less than a week ago the Opposition had said the sale would be "a City rip-off". Now they complained when the shares were left with the underwriters. There was always a risk in an offer for sale. That is why he had gone to such pains to have this one underwritten. He quoted Merlyn Rees as having said "There is no need for underwriting. It would not matter in the short run if all the shares were not sold". There were always changes of sentiment in the nine or ten days between the announcement of the sale and the closing date for applications. He quoted Lord Kearton who considered that the sale was "not managed badly at all".

In questions, the Opposition simply continued to paint the sale as a failure, and called for Parliamentary scrutiny. The Government backbenches accused the Opposition of having caused the under-subscription by talking down the sale; they drew

/ attention

attention to Sheikh Yamani's unhelpful remarks, and pointed out that a fixed price sale would probably have been under-subscribed as well.

Merlyn Rees wound up by claiming that he had never objected to the underwriting, which allowed Mr. Lawson to have another go at him. He accused the Opposition of hypocrisy: they had been horrified at the prospect of "a City rip-off", now they were horrified when the City had itself paid a good price for the taxpayer.

Tf for WFSR

CONFIDENTIAL

Prime Minister ⁽²⁾ ~~Not Found~~
cc 52

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Ms 22/11
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 November 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall SW1

Dear Geoffrey,

BSC: WRITE-OFF OF CAPITAL

As you know, we need to take a decision on whether to use the power in the Iron and Steel Act 1981 to write off up to a further £1,000 million of BSC's capital. You will recall that, when we wrote off £3,500 million of BSC's capital and long term debt in 1981, we recognised that a further write off would be essential to cover the losses which were expected to occur over the year 1981/2.

2 BSC's loss after extraordinary items in 1981/82 was £504 million, and the Corporation's revenue deficit at the year end, including the deficit carried forward from the previous year, was £799 million.

3 At the start of the current financial year, BSC were operating at close to breakeven. But their financial position has deteriorated very seriously over the past few months. Early in December the Corporation will announce its half-year results, to end September, which will show losses of over £150 million during the period. This is about £100 million worse than their target and a similar loss is expected in the second half year.

4 I have been discussing with Ian MacGregor the action which BSC need to take to correct this setback. He has set in hand a series of management actions to cut costs, including a number of further small and medium works closures, some of which have already been announced, including the closure of Round Oak Steelworks on 17 November. The indications are however that BSC cannot return to profitability unless they close one of their 5 major integrated steelworks; I have not yet completed my consultations with Ian MacGregor but hope to do so soon. I will then circulate a paper to colleagues.

5 In the meantime, we cannot delay a decision on the capital write-off. The BSC's half year accounts have been specially expanded to include a balance sheet which includes further



provisions for redundancies and closure costs, and asset write-offs, arising from the new programme of closures referred to above. The total revenue deficit at 2 October 1982 shown in the balance sheet is £1,275 million.

6 Since the total revenue deficit for BSC at 2 October 1982 is significantly above the £1,000 million limit, I recommend that we write off the full amount permitted in the Iron and Steel Act, namely £1,000 million. I attach a copy of the necessary draft Order.

7 This write-off is of capital which we knew, at the time we advanced it, would not be remunerated and would have to be written off. Hence, it will be important to make it clear to all that this write-off will confer no new financial benefit on BSC; it is in many ways simply a technical adjustment to BSC's capital structure which we announced over a year ago that we would undertake. The difficult question is one of timing, given BSC's current problems. The Iron and Steel Act provides that the further write-off of BSC's capital must take place no later than 31 December 1982. We set this time limit deliberately, so as to underline our intention that BSC would be profitable by 1983. If we do not use this power, it will lapse and BSC will be left with a large deficit in their balance sheet. Failure to use the power will be likely to be interpreted as a sign that we no longer expect BSC to return to viability.

8 In order to meet the necessary Parliamentary timetable, the draft Order will need to be published in the week beginning 29 November, and tentative arrangements have been put in hand for a short debate in the week beginning 13 December. We may well not be in a position to make any announcement on BSC's future strategy by that time: in any case such an announcement should be made separately. I propose therefore to discuss with John Biffen whether, through the usual channels, we can persuade the Opposition parties to accept that this Order is an entirely separate question from that of BSC's current difficulties and future strategy, and seek their agreement to limit the debate to the short time appropriate to a technical financial Order. I will also discuss how we should handle the media - I am very anxious to avoid headlines bawling "Government £1 billion Handout to BSC!"

9 We have already notified the Commission that we expect to use this power to write off £1,000 million of BSC's capital and I do not expect any difficulty from that quarter.

10 I would be grateful for your agreement to the writing off of £1,000 million of BSC's capital, as proposed above, and for an order along the lines of the attached to be laid in the week beginning 29 November to be debated before the Christmas Recess.



CONFIDENTIAL

11 Copies of this letter go to the Members of E Committee, to John Biffen, Nicholas Edwards and George Younger, to the Chief Whip, Mr John Sparrow and Sir Robert Armstrong.

You ever
Patel

Draft Order laid before the House of Commons under section 36(4) of the Iron and Steel Act 1982 for approval by resolution of that House.

D R A F T S T A T U T O R Y I N S T R U M E N T

1982 No.

IRON AND STEEL

The British Steel Corporation (Reduction of Capital) Order 1982

Laid before the House of Commons in Draft

Made 1982

Coming into Operation 31 December 1982

The Secretary of State, in exercise of the powers conferred on him by sections 18(7) and 19(2) of the Iron and Steel Act 1982(a), hereby makes the following Order, a draft of which has been approved by resolution of the House of Commons:-

1. This Order may be cited as the British Steel Corporation (Reduction of Capital) Order 1982, and shall come into operation on 31 December 1982.

2. The aggregate of -
 - (a) the sums paid before 30 November 1982 under section 18(1) of the Iron and Steel Act 1982 to the British Steel Corporation, and

(b) so much of the sum which, by virtue of section 18(3) of that Act, is treated as so paid as represents sums paid under section 18(1) of the Iron and Steel Act 1975(b),

shall be treated as reduced by £1,000 million.

3. The limit specified in section 19(2) (limit on borrowing by and investment in the Corporation) of the Iron and Steel Act 1982 shall be £3,000 million.

[date]

[Signature]
Minister of State
Department of Industry

EXPLANATORY NOTE

(This Note is not part of the Order.)

This Order provides that the aggregate of sums paid by the Secretary of State to the British Steel Corporation before 30 November 1982 under section 18(1) of the Iron and Steel Act 1982 and sums so paid under section 18(1) of the Iron and Steel Act 1975 are to be treated as reduced by £1,000 million.

The sum so reduced is £2429 million comprising £2237 million paid under the 1975 Act and £192 million paid under the 1982 Act.

Additionally, the Order reduces from £3,500 million to £3,000 million the limit imposed by section 19(2) of the 1982 Act on the aggregate of certain borrowings by the Corporation and publicly owned companies (as defined in section 37(1) of that Act) and investments by the Secretary of State in the Corporation.

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22 NOV 1982

TELEPHONE:
01-837 6691 (3 LINES)

GR
CF → No Trace



MR. SCHOLAR
TELEGRAPHIC ADDRESS:
"STEELCON, LONDON W.C.1"
TELEX 22141

YOUR REF:

OUR REF: WS/MU/SS

THE IRON AND STEEL TRADES CONFEDERATION

General Secretary

W. Sirs

*Swinton House,
324 Gray's Inn Road,
London, WC1X 8DD*

19th November 1982

The Rt.Hon.Mrs.M.H.Thatcher MP
10 Downing Street
London SW1

Dear Mrs.Thatcher,

National Steel Appeal: 23rd November

Thank you for your letter received here today.

I will act on your suggestion and contact the ministers direct, but I very much regret that so little time is left to do this in view of the fortnight that it took you to reply to my letter of 5th November.

Yours sincerely

Wm. Sirs

W. SIRS
General Secretary



JF2045

Secretary of State for Industry

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

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

19 November 1982

Margaret O'Mara
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Margaret,

ISTC STEEL MEETING ON TUESDAY, 23 NOVEMBER

As you know, the Prime Minister's letter to Bill Sirs (in response to his asking if she would arrange for Ministers to make themselves available next Tuesday for his National Steel Appeal) suggested that Mr Sirs made arrangements direct with the Ministers concerned. A number of Ministers have now received their individual invitations to attend the ISTC Tuesday meeting, including my Secretary of State. You and copy recipients should be aware of the reply which my Secretary of State has now sent to ... Mr Sirs (attached). Although Mr Jenkin thinks it would be inappropriate for him to attend any meeting in the House, he has offered Mr Sirs a meeting back in the Department of Industry afterwards. It is clearly important that Ministers should aim to co-ordinate their response to Mr Sirs' invitation. Assuming that Mr Sirs accepts Mr Jenkin's invitation to a separate meeting, Mr Jenkin invites other Ministers to attend this meeting if they so wish.

2 I should be very grateful if you and others could let me know if Ministers find any difficulty with the line which my Secretary of State has taken and whether they would like to come to his meeting if arranged.

3 Copies of this letter and attachment go to Michael Scholar (No 10), David Edmonds (Environment), Muir Russell (Scotland), Keith Dalimore (Wales), Jane Swift (Chief Secretary's Office), Barnaby Shaw (Employment) and John Rhodes (Trade).

*Yours ever,
Caroline Varley*

CAROLINE VARLEY
Private Secretary

Encl



JF2042
Secretary of State for Industry

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

19 November 1982

W Sirs Esq
General Secretary
The Iron and Steel Trades Confederation
Swinton House
324 Gray's Inn Road
LONDON
WC1X 8DD

Dear Bill,

NATIONAL STEEL APPEAL : 23 NOVEMBER

Thank you for your letter of 17 November inviting me to attend the National Steel Appeal on 23 November.

As you know, I have already received representations from a wide range of interested bodies about the future of the British steel industry, and I have discussed the problems with the TUC Steel Committee, which you chair, with MP's who have constituency interests in steel, and others. I fully understand the concerns which are being expressed about the further cutbacks in our steel industry. But as you know I have made it clear that the process of further rationalisation to improve the competitiveness of our steel industry must continue, and that only the strategic question of the possible closure of one of BSC's five major integrated steelworks would be a matter for the Government. In addition, I am pressing very firmly in the European Community for the steel measures to be operated fairly, so that the inevitable burden of further closures and redundancies is spread more widely in Europe, and to ensure that the steel price and production quota arrangements are effectively enforced.

I regret that I am not able to come to the Grand Committee Room but if you wish to bring a small delegation of representatives to see me after the meeting is over for, say a half hour discussion I will be pleased to receive them.

If you would like to do this, perhaps you would get in touch with my private office to fix a time.

You may wish to be given advance notice that I intend to make a statement in the House on Monday on yesterday's Informal Meeting of EC Industry Ministers.

Yours faithfully
John Gummer

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Wh
22/11

JF2058
Secretary of State for Industry

19 November 1982

Nick Huxtable Esq
Private Secretary
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

Prime Minister

Content?

Dear Nick

I'm afraid to discuss
say anything except
that everything is urgent
we are pressing for something to be
done. It's we
need to
include
reference?

STEEL : PARLIAMENTARY STATEMENT ON 22 NOVEMBER

As we discussed last night, my Secretary of State will be making a statement on steel, concentrating on his recent European discussion and in particular the Informal Industry Ministers' Council in Elsinore on 17/18 November, in the House on Monday, 22 November.

2 I attach a draft as approved by my Secretary of State. We shall need to have any comments from recipients of this letter on the text of the statement no later than noon on 22 November, and preferably earlier.

3 I am sending copies of this letter to Willie Rickett (No 10), Roger Bone (FCO), Margaret O'Mara (Treasury), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Jim Buckley (Lady Young's Office), Barnaby Shaw (Employment), John Rhodes (Trade), Murdo Maclean (Chief Whip's Office), Michael Pownell (Lords Whip's Office), and Richard Hatfield (Cabinet Office).

Yours sincerely,
Jonathan Spencer

J P SPENCER
Private Secretary



COMMUNITY DISCUSSIONS ON STEEL

With permission, Mr Speaker, I should like to make a Statement on last Thursday's European Community discussions on steel.

2. Since my Statement on 22 October, I have had talks on steel individually with my German and French colleagues, and further talks with the Commission - Vice Presidents Davignon and Ortoli; and on Thursday I attended the Informal Meeting of Community Industry Ministers in Denmark. These meetings have taken place at a time of deepening crisis in the steel industries in this country, in the rest of the European Community and indeed in the whole of the industrialised world.

3. At the Informal Meeting in Denmark the Commission stressed the seriousness of the forecast in their document General Objectives for Steel, 1985, that the surplus steel-making capacity in the Community, already evident in 1980, will be even greater in 1985, with capacity for finished steel products exceeding forecast demand by nearly 50million tonnes per year.

4. I stressed to my Community colleagues that the UK had done and was doing its part to reduce excess capacity and become competitive. I said that I could not and would not defend a situation where our capacity cuts were not matched by other Member States'. If the Community's steel

/industries



industries were to be restored to health, all Governments must pull together, and be seen to be doing so. This position was fully shared by eight of our nine partners; however, the Italian Minister expressed misgivings. I made it clear to the Commission that there must be no certificates of exemption in their administration of the State Aids Decision of August 1981.

5. I also drew attention once again to the increasing instability of steel prices in the Community and to the widespread allegations of abuse or evasion of the rules. I called for steps to be taken to ensure more effective policing of the price and quota rules; Member States should be ready to assist the Commission in this task. I am pleased to say that Vice President Davignon outlined a battery of measures which the Commission are considering urgently in order to try to restore price stability and to improve the enforcement of the rules throughout the Community. It is the intention that formal Commission proposals on these matters will be made in the next few days. These are important moves which will, I hope, tackle the problem of unfairly low priced imports from other Member States.

6. As far as imports from third countries are concerned, I repeated the Government's calls for a toughening of the voluntary restraint arrangements to be renegotiated for 1983, both as

/regards



regards overall quantities and provisions to avoid disruptive surges in imports. The negotiating mandate is being discussed again today at the Foreign Affairs Council in Brussels.

7. I also stressed the Government's concern about the level of UK imports from other Member States of high speed and tool steels, which has particularly affected the Sheffield-based industry. I have drawn the attention of all my Community colleagues to the need for action to deal with these problems. Vice President Davignon pressed Ministers to instruct their officials to examine positively and urgently the complex technical issues involved.

8. Finally, I expressed concern about the recently announced decision of the President of the United States to open proceedings under Section 201 of the Trade Act against imports of certain special steels from the European Community. I stressed the importance of seeking to resolve this issue speedily. Vice President Davignon agreed that a Community position was urgently required.

9. The meeting in Denmark made useful progress in tackling the problems faced by the steel industry and should help to improve the outlook for British steel producers, both in the

/public



public and the private sector. In particular, the effectiveness of the Community steel policy will be an essential element in the discussions I am having with the Chairman of the British Steel Corporation about the future strategy of BSC.

10. This is not the occasion, Mr Speaker, to discuss BSC's future in detail, if only because I have little to add to what I said on this subject on 9th November. My purpose, and that of the BSC, is to reach sensible decisions aimed at putting the Corporation back on to the path to profitability while at the same time ensuring that it retains the capacity to respond readily to the likely level of demand from customers over the next few years. I still hope that I will be able to report to the House before Christmas.



10 DOWNING STREET

THE PRIME MINISTER

18 November, 1982

Dear Mr. Sirs,

Thank you for your letter of 5 November about the meeting which you are arranging on 23 November to discuss the future of the steel industry.

In reaching decisions on the British Steel Corporation's future strategy, the Government will certainly take account of the implications for the regions in which BSC's major plants are located. I know that many of the local authorities have already made their anxieties known to the Government; and the Secretary of State for Industry has, I understand, already held discussions with a number of those closely concerned.

However, if there are further points which you or the local authorities in the areas concerned want to put forward on 23 November, then I suggest that you seek to make arrangements direct with the Ministers whom you mention.

Yours sincerely
Margaret Thatcher

W. Sirs, Esq.

—

sk

cc D/I
HMT
DOE
SO
W/O
D/M
D/T
MJS

TOP DOC: file



10 DOWNING STREET

for BSC file

Following people
to be invited when
meeting, which has
been cancelled for
Tuesday next, is
next set up.

S/Ind

Ch/Ex

S/Env

S/Scotland

S/Energy

S/Wales

S. Sparrow

RTA

C.

18/11

CONFIDENTIAL



cc: DOE

SO

WO

DI Trade

CSO, HMT

NOT Inc)

10 DOWNING STREET

From the Private Secretary

18 November, 1982.

DN

DM

Thank you for your letter of 17 November about recent events in regard to the self-help scheme for rationalisation of the wire rod and reinforcement steels industry.

The Prime Minister was concerned to see that Elkem's decision will threaten the survival of Sheerness in its present form. The Prime Minister has commented that we must do everything we can to help Sheerness.

I am sending copies of this letter to the Private Secretaries to the Members of E(EA), the Chief Whip, and Sir Robert Armstrong.

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

CONFIDENTIAL

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ef JV



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JF2019
Secretary of State for Industry

17. November 1982

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

*We must do everything to help Prime Minister (2)
MS Sheerness Steel in trouble.
MS 17/11*

Dear Michael,

You will have seen a copy of Mr Norman Lamont's letter of 12 November to the Secretary of State for the Environment concerning the proposed self-help scheme for rationalisation of the wire rod and reinforcement steels industry.

2 As anticipated in yesterday's Financial Times, Elkem announced yesterday that they have decided not to participate in the scheme. Instead, they will adopt Manchester Steel management's survival plan which means that the plant at both Manchester and Bidston will be kept open, but at the cost of 170 redundancies. The Board of Elkem unanimously decided that the cash compensation offered was insufficient, though it represented the absolute limit of what the other companies, especially Sheerness, could afford, or the Government could justify supporting.

3 Elkem's decision will certainly threaten the survival of Sheerness in its present form. As Mr Lamont explained in his letter, if Manchester remains open, no other closure in the sector is likely to benefit Sheerness substantially.

4 Officials here have already informed the Bank of England at director level. We have suggested they speak to Lazard's who were involved in the previous rationalisation scheme (which was rejected by Elkem) and who know the financial and commercial interests of the companies in the sector. The Bank of England are also urgently assessing the course of action likely to be available to Sheerness, and in particular the position of the company's shareholders and creditors. Officials are keeping closely in touch with developments. They had a meeting yesterday with Mr Clancy Schueppert, the Chairman of Sheerness, at his request, who is now preparing proposals for reducing capacity and manning levels with private sector steel scheme assistance.



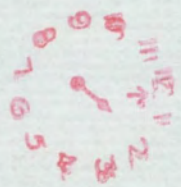
5 I am copying this letter to the Private Secretaries of members of E(EA), of the Chief Whip and of Sir Robert Armstrong.

Yours sincerely,

Jonathan Spencer.

J P SPENCER
Private Secretary

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COMMUNICATIONS



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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16 November 1982

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

Dear Michael,

You wrote to me on 5 November asking for a draft reply for the Prime Minister to send to Mr Bill Sirs of the Iron and Steel Trades Confederation about the "National Steel Appeal" on 23 November.

2 Mr Sirs asked the Prime Minister to arrange for a team of Ministers to be available that day to hear representations from local authorities and others who are meeting to lobby against further capacity reductions in the steel industry. We think that it should be for Mr Sirs to make the request direct to the Ministers concerned and for them to make their own minds up about whether they are ready to meet delegations. I should add that, given the very sensitive position at present over BSC's future and the fact that my Secretary of State has already held discussions with those most concerned (Mr Sirs himself, Labour MPs with constituency interests, etc), he does not intend that Ministers from this Department should meet a delegation and he recommends that his colleagues should take the same line in response to any approach from Mr Sirs.

3 I attach an appropriate draft reply. I am sending a copy of this correspondence (including Mr Sir's letter) to Margaret O'Mara (Treasury), David Edmonds (Environment), Muir Russell (Scotland), Adam Peat (Wales), Barnaby Shaw (Employment) and John Rhodes (Trade).

Yours ever,

Caroline Varley

CAROLINE VARLEY
Private Secretary

DRAFT LETTER FROM THE PRIME MINISTER TO:

W Sirs Esq
The Iron and Steel
Trades Confederation
Swinton House
324 Gray's Inn Road
London WC1X 8DD

pl type for pm

Thank you for your letter of 5 November about the meeting which you are arranging on 23 November to discuss the future of the steel industry.

In reaching decisions on the British Steel Corporation's future strategy, the Government will certainly take account of the implications for the regions in which BSC's major plants are located. If there are particular points which you or the local authorities in the areas concerned want to put forward on 23 November, then I suggest that you seek to make arrangements direct with the Ministers whom you mention. However, I know that many of the local authorities have already made their anxieties known to the Government and ~~Ministers~~ ^{my colleagues} will need to consider ~~whether a meeting to explore matters further would prove~~ helpful at present.

I said that the Secretary of State for Industry has already had ^{some} discussions with those most closely concerned.



10 DOWNING STREET

THE PRIME MINISTER

Thank you for your letter of 5 November about the meeting which you are arranging on 23 November to discuss the future of the steel industry.

In reaching decisions on the British Steel Corporation's future strategy, the Government will certainly take account of the implications for the regions in which BSC's major plants are located. ^{located} If there are ~~particular~~ points which you or the local authorities in the areas concerned want to put forward on 23 November, then I suggest that you seek to make arrangements direct with the Ministers whom you mention. ~~However~~ I know that many of the local authorities have already made their anxieties known to the Government ~~and my colleagues will need to consider whether a meeting to explore matters further would prove helpful at present.~~

*and the Secretary of State for Industry
(understands)
has already held discussions with a number
more
of people closely concerned.*

*NP
However, if there are further points*

W. Sirs, Esq.

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cc JV

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From the
Minister of State
Norman Lamont MP

Prime Minister

(2)

Another private sector steel
closure.

Nov 12/11

The Rt Hon Michael Heseltine
Secretary of State for
the Environment
Department of the Environment
2 Marsham Street
London SW1

MT

12 November 1982

Dear Secretary of State

I am writing to inform you that it appears likely that agreement is imminent on a proposed self-help levy scheme for rationalising the wire rod and reinforcement steels industry. The scheme which is likely to emerge would, as anticipated by the Press, involve the closure of Manchester Steel Limited, with the consequential loss of 450 jobs in east Manchester, and of its subsidiary Bidston Steel Ltd leading to the loss of 350 jobs in Birkenhead. Lynda Chalker, David Hunt and Malcolm Thornton have already expressed to me their concern about the proposed closure. In view of your particular responsibility for Merseyside I thought you would wish to be informed at the earliest moment.

These closures have to be considered against the wider background of the steel industry where the private sector is currently facing a number of problems:- the main problem is over-capacity and the only way for the industry to overcome this is to rationalise. In order to help this process colleagues decided as you know to offer £22 million through a scheme under the Industry Act for restructuring the sector. Following Treasury agreement this has now been increased to £34.2 million.

Several major rationalisations, in the form of self-help levy schemes are being developed under the umbrella of this Scheme. Self-help levy schemes are conditional upon the participation of a substantially representative proportion of the industry and are co-ordinated by an independent administrator. They require the companies continuing in production to contribute to those withdrawing from production. It is for each company in the industry to make up its own mind whether or not to participate in any scheme of this kind. Although a Government financial contribution is available under the Private Sector Steel Scheme the intention has been that the industry, not the Government, should identify and agree among themselves how the rationalisation should take place and which companies should close. This is an important principle of the scheme.

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In the case of wire rod and reinforcement steel the problem of over-capacity (30%) is particularly acute and the chance of any major recovery in the next few years seems unlikely. Companies have already done a great deal in reducing levels but regrettably some plants must go.

The scheme operates by the collection of levy payments on the companies remaining in business, in return for which they will receive a share of Manchester Steel's production quota. The details are as follows:-

	<u>Total Levy Payments</u>		<u>Share of MSL's quota</u>	
	£m	%		%
ASW	2.71	14		19
TRM	1.36	7		9
BSC	5.04	26		- *
Sheerness	10.27	53		72
	<u>19.38</u>	<u>100</u>		<u>100</u>
HMG Contribution	<u>6.46</u>			
	<u>25.84</u>			

(* BSC do not obtain quota for steel products. The commercial advantage of the Corporation's participation results from increased orders for steel semis which are not the subject of ECSC quota.)

Responsibility for the re-allocation of production quota lies with the Commission, but Patrick Jenkin has confirmed, in a discussion yesterday with Vice President Davignon, that if the present scheme comes about, and evidently achieves the objectives of the Commission in reducing capacity, then the quota will be so re-allocated.

The scheme has been examined by the Department's Industrial Development Advisory Board, who have to advise on all major schemes under the Industry Act. They are satisfied that this particular proposal does in fact conform with the rules of the scheme as published. In addition it also meets, as it is required to do, the criteria of Section 406 of the Income and Corporation Taxes Act 1970:

- i that it should entail the elimination of redundant works, machinery or plant from use in the UK industry.

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ii that the scheme should be in the national interest and in the interest of the industry as a whole.

iii that a substantially representative position of the industry participates. (In this case almost 100% of the rod and rebar sector of the industry is represented).

The significance of this is that the levy payments are treated as trading expenditure, and compensation payments as trading receipts for tax purposes.

As I have pointed out it is the case that the scheme is meant to permit the industry to rationalise itself as it sees best. Obviously too, we can only consider proposals which can command agreement among the firms concerned, and in several sectors (including this one) it has been extremely difficult for the industry to reach agreement.

For that reason it is not really open to us to consider alternatives. But perhaps I could nevertheless point out that all the possible alternative schemes to this one are likely to be unpalatable both economically and politically. The most likely alternative candidate for closure would be Sheerness Steel. Sheerness are themselves in difficulty and will not find recovery easy even if this scheme goes ahead. But I think one can state with certainty that if the proposed scheme and the closure of Manchester does not go ahead, then Sheerness will close.

The closure of Templeborough Rolling Mills is not really an alternative: its specialisation is in high carbon steels, its small size and its closure would not produce any significant benefit to Sheerness or Manchester Steel.

Allied Steel and Wire, the other company in the sector, has only just been established as one of our privatisation measures, after a rationalisation of BSC's and GKN's facilities. It is situated in Scunthorpe and Cardiff - two areas already heavily affected by steel closures. Its owners emphatically want it to continue in business.

In deciding how to rationalise the companies have obviously had regard to the cost of bringing about a closure and the potential benefit to the remaining companies. Hill Samuel, in a report commissioned by the Department, also came to the conclusion that the closure of Manchester was "the least unattractive option" and represented the best value for money. The keenness of companies to continue in business, and their willingness to contribute to the closure costs of their competitors are also relevant: none of the other companies in the sector wished to close, whereas Elkem, the owners of Manchester Steel were prepared to do so. (Moreover, Elkem would not have been prepared to contribute to the closure of Sheerness.)



Obviously the regional implications of the proposal are unfortunate. However, the industrial arguments set out above are to my mind persuasive, and there is no way in which, even if we hold back from assisting the proposal, that the future of Manchester Steel can be guaranteed. Mr Lundgaard, vice president of Elkem, has said recently that the Elkem board would eventually have had to consider the future of Manchester Steel, even without the consortium's offer. Its closure, however, should strengthen the position of the other UK wire rod producers - particularly Sheerness Steel - and their employees. My conclusion is that we should not stand in the way of the proposal being implemented.

I am copying this letter to the Prime Minister, to the Chief Whip, to members of E(EA) and to Sir Robert Armstrong.

Yours sincerely,

John A. King

NORMAN LAMONT

(Approved by the Minister
and signed in his absence)

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Secretary of State for Industry

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14 November 1982

W Sirs Esq
Iron and Steel Trades Confederation
Swinton House
324 Grays Inn Road
London WC1X 8DT

Dear Bill,

Thank you for your letters of 19 October on imports and 22 October on Alpha Steel.

I can assure you that I am not complacent about imports. As you know from my earlier letters and from my meeting with the TUC Steel Committee, both the Government and, at our behest, the Commission have been active in identifying and pursuing particular problems caused by imports. We have also been pressing for Community agreement to stronger VRAs for next year. Indeed I find that your proposals on the Community approach to VRAs for 1983 significantly reflects our own. Thus:

- a) We have ourselves been arguing for a reduction in the 6% price penetration margin.
- b) We have been pressing for a greater cut back in the tonnage levels to reflect the decline in demand. However, we have also argued that if there should be a review during the year of this level it must allow for falling as well as increasing demand.
- c) We are arguing that the clauses on regional (ie Member State) and product distribution, together with the requirement to spread exports evenly over time, should be strengthened and more rigorously enforced.

These proposals require the agreement of other Member States and, ultimately of course, the Community's VRA partners. It is particularly important, moreover, that the arrangements, once negotiated, must be properly enforced. The Commission have been sympathetic to our demand for more effective and rigorous enforcement.

Overall, the VRAs have worked reasonably well this year. I entirely agree that the increase in imports this year over 1981 levels is unwelcome, but, as I have said in earlier letters, there was an exceptionally low level of imports last year. The higher figures this year do not represent a failure of the VRA system. There have, however, been specific problems. The most



notable cases are Czechoslovakia, Bulgaria, Brazil and Spain. The Government are in the process of imposing a mandatory quota on imports from Bulgaria, as has already been done for Czechoslovakia. Both countries agreed to this measure because they were unable, due to the activities of merchants, to control indirect sales. Brazil has sent us excess pig iron, but has now agreed to stop deliveries for the rest of the year. Spain is, as you know, a particular problem, but hopefully the current anti-dumping case and provisional duty will help show that failure to abide by the VRA will harm their interests. We understand, in fact, that as a result of Commission pressure the Spanish are severely curtailing the availability of export licences for sales to the UK for the rest of this year.

To further help with the problems under the VRAs next year we are pressing the Commission to institute routine monthly meetings with problem countries. We would also like a faster system for anti-dumping actions, although the industry will still need to mount an effective case against the imports concerned. Not only should these directly control disruptive imports; they should help persuade VRA countries that keeping within the terms of the arrangements is in their own interests.

I accept your point that a lower exchange rate for the pound would increase the price of imports and make them less competitive. However, it would also put up the price of basic raw materials, including iron ore, and create inflationary pressures. The debate on the exchange rate at the CBI conference illustrated this dilemma most clearly. The Government believe that the most valuable contributions to improved competitiveness arise not from devaluing sterling but from factors such as better cost control, improved productivity, better quality control and even greater increases in efficiency. That is why we believe the level of sterling should continue to be determined primarily by market forces.

Your letter to me of 22 October raised problems Alpha Steel were having from the Temporary Short Time Working Compensation Scheme. As this is a matter for the Department of Employment I am passing your letter to Norman Tebbit for reply.

I am sending a copy of this letter to Peter Rees in the Department of Trade.

*Yours
Peter Rees*

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)



Prime Minister

Nat. Ind.

There is to be a

WELSH OFFICE
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Wlechve

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Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

disussion

Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

CONFIDENTIAL

at E(OL).

8th

November 1982

David

MS 20/11

DISPUTE BETWEEN THE BRITISH STEEL CORPORATION AND
THE BRITISH TRANSPORT DOCKS BOARD

I told you last week that Ian MacGregor would be calling on me to discuss the dispute between BSC and BTDB. There was nothing new that emerged from the conversation as far as I was concerned, except the fact that no contract has ever been signed by the parties to this dispute, something which you no doubt know already. I understand that though no contract was signed, payments have been made in the past on the basis of the contract terms so that business could go on.

Ian MacGregor's main point is that conditions have completely changed since negotiations on the contract took place, and that to enforce anything like these terms now would be unreasonable. The contract provides for a minimum flow of 6m tons of raw material but last year the figure was down to 4½m tons. The cost of moving a ton of material at Port Talbot is 110p, which is more than double the cost at Hunterston, and of course much more than at fully competitive facilities. For BSC to pay such charges raises prices for all its customers and makes it very much more difficult to compete in the export markets that are so vital for the future.

My conversation with Ian MacGregor did no more than confirm the view that I had formed on reading the papers and your letter of 5 November, and that is that for the Government to support the BTDB position, or even allow the dispute to go to court without further efforts to find an acceptable compromise would leave us open to well justified criticism.

The Rt Hon David Howell MP
Secretary of State for Transport
2 Marsham Street
LONDON



I am struck by the fact that BSC currently reimburses BTDB by way of annual payments for the gross capital costs (ie before grant) that BTDB incurred in building the harbour together with interest thereon and that by 1995 BSC will have fully paid the gross capital cost of the harbour together with financing charges. What is in dispute, therefore, is the scale of the profits on the operating costs, and by any standards - and certainly on the basis of any likely business volumes - these appear grossly excessive. You stand your case upon the sanctity of contracts but I don't believe - in the commercial world let alone in a situation that involves two state owned industries - one can stick forever to a particular contract without regard to the realities of commercial activity. I do not believe that in the present state of the steel industry, and faced by the horribly difficult political decisions about it that now confront us, we can really think it sensible that BSC should be required to pay (and guarantee that they will continue to pay) charges that are totally uneconomic from their point of view in order to provide, from one single port, a quarter of BTDB's total profits. Against a background of further major plant closures and job losses in steel, I do not believe it is a credible political position for Ministers to say that we want one nationalised industry to provide (effectively at the taxpayers' expense) the wherewithal for the successful privatisation of another. The sums are not small in BSC's terms (as you suggest) but are of crucial significance for an industry that is desperately searching for new customers in a cut throat market.

If a solution is not found within the next few weeks the legal processes will begin. I do hope that before that happens we can discuss the matter collectively.

I am copying this to the Prime Minister, Geoffrey Howe, Patrick Jenkin, Nicholas Ridley, Norman Lamont and to Sir Robert Armstrong.

J aw

Nick

ECON POL : Policy Towards Privatization

Pt 6.

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HL

5 November 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 5 November, which I shall place before the Prime Minister. A reply will be sent to you as soon as possible.

MICHAEL SCHOLAR

W. Sirs, Esq.

Bill SIRs-

12/11 HU

cc D/EMP 16/11

5 November 1982

I enclose a copy of a letter the Prime Minister has received from Mr. Bill Sirs of the Iron and Steel Trades Confederation.

I have acknowledged. I would be grateful if you could let me have a draft reply for the Prime Minister's signature by Friday 12 November.

I am sending a copy of this letter to Barnaby Shaw (Department of Employment).

MICHAEL SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

TELEPHONE:
01-837 6691 (3 LINES)

YOUR REF:

OUR REF: WS/MU/SS



Prime Minister

TELEGRAPHIC ADDRESS:
"STEELCON, LONDON W.C.1"
TELEX 22141

I will try to have
a draft reply. Mrs 5/11

THE IRON AND STEEL TRADES CONFEDERATION

General Secretary

W. Sirs

Swinton House,

324 Gray's Inn Road,

London, WC1X 8DD

5th November 1982

R 5/11
by hand

The Rt.Hon.Mrs.M.H.Thatcher MP
10 Downing Street
London SW1

Dear Mrs.Thatcher,

National Steel Appeal
23rd November, 2p.m.

As you know my members and I have been making strenuous efforts to persuade industry and government that the national interest would best be served by the continuance of the UK steel industry at least at its present capacity.

To this end we have convened a representative gathering of local authorities, business concerns and trade unions directly interested at Central Hall, Westminster, 23rd November, at 2p.m. It is our intention that those present should hear speakers of all parties and of none on the subject of the nation's need for a steel industry of adequate size.

Mr.MacGregor's revised plan for the British Steel Corporation will shortly be in the hands of your ministers. I consider it vital that during their deliberations they should hear the views of local authorities concerned so that the full implications of further retrenchment can be grasped. This is not a party matter but one of profound importance to all local authorities responsible for steel areas. I am therefore asking you, on their behalf, if you would kindly arrange for ministers from the relevant departments, namely Industry, Employment, Trade, Environment and the Treasury to make themselves available, at the House or elsewhere, to hear all party representative delegations on the problems of steel.

.../2

I am sure that this matter must be of great concern to you and expect you will do all you can to make these consultations possible.

In the hope of an early reply,

Yours sincerely

Wm. Sirs

W. SIRS
General Secretary

Steel

Naklad

TO THE HONORABLE MEMBER

Parliamentary Secretary

23 October 1962

I enclose a copy of a letter from the Federal German Chancellor to the Prime Minister which has just arrived, and which deals with steel questions.

I am copying this letter and enclosure to Roger Bone (FCO) and John Rhodes (Department of Trade).

Jonathan Spencer, Esq.,
Department of Industry.

Botschaft
der Bundesrepublik Deutschland
Embassy
of the Federal Republic of Germany

Jürgen von Alten
Chargé d'Affaires a. i.

1-200/82
London, 28th October, 1982

Dear Prime Minister,

I have the honour to transmit to you the enclosed telegramme from Federal Chancellor Herr Helmut Kohl.

A courtesy translation is attached.

I am, dear Prime Minister,

Yours sincerely

Jürgen Alten

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

L o n d o n

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T e l e g r a m

PRIME MINISTER'S

Herr Helmut Kohl, Chancellor of the Federal Republic
of Germany

PERSONAL MESSAGE
SERIAL No. T 200/82

to

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

Bonn, 27th October, 1982

Dear Prime Minister,

Thank you very much indeed for the most amicable welcome you gave me on October 19th.

In the meantime, I am happy to be in a position to be able to say that the agreement on steel exports between the EC and the US has brought a solution to a problem which was very crucial for all those involved.

You will have heard that the Federal Government has given its approval to the steel agreement with the US once the Commission of the EC had agreed to some special clauses resp. interpretations which seemed essential to us. I am very glad about this development which gives evidence of our readiness and our ability for solidarity with our partners in the EC, and is a first step towards an improvement of our trade relations with the US. Other steps will have to follow.

However, having finally come to a solution in this matter, we should certainly not forget the reasons for such an agreement on self-restraint. We will have to continue to make all possible efforts in order to stop this expensive and nonsensical race in subsidizing within the EC, and to strive for a situation which again allows a steel trade free of dirigistic measures.

I am very much looking forward to seeing you at our forthcoming consultations.

Yours sincerely,

Helmut Kohl

T e l e g r a m m

von Herrn Helmut Kohl, Bundeskanzler der Bundesrepublik Deutschland

an

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

Bonn, 27. Oktober 1982

Sehr geehrte Frau Premierminister,

ich danke Ihnen für den sehr freundschaftlichen Empfang am 19. dieses Monats.

Inzwischen bin ich in der glücklichen Lage, darauf hinweisen zu können, dass mit der Einigung über das Stahlabkommen zwischen der Europäischen Gemeinschaft und den Vereinigten Staaten ein für alle Beteiligten schwieriges Problem bereinigt werden konnte.

Sie werden erfahren haben, dass die Bundesregierung dem Stahlabkommen mit den USA zugestimmt hat, nachdem die Kommission einige Zusagen bzw. Erläuterungen geben konnte, die uns wichtig erschienen. Ich bin glücklich über diese Entwicklung. Sie zeigt unsere Bereitschaft und Fähigkeit zur Solidarität mit unseren Partnern in der EG und stellt einen ersten Schritt zur Verbesserung unserer handelspolitischen Beziehungen mit den USA dar. Weitere müssen folgen.

Über der Einigung sollten wir aber auf keinen Fall die Ursachen für dieses Selbstbeschränkungsabkommen vergessen. Wir müssen weiter alle Anstrengungen unternehmen, um den teuren und volkswirtschaftlich unsinnigen Subventionswettbewerb in der EG zu beenden und einen Zustand zu erreichen, der wieder einen von Staatseingriffen freien Stahlhandel erlaubt.

Ich freue mich auf das Treffen mit Ihnen anlässlich der bevorstehenden Konsultationen.

Mit freundlichen Grüßen

Ihr

Helmut Kohl

Nat. Industry 2

PRIME MINISTER

Statement on Steel

As might be expected, Mr. Jenkin had a fairly difficult time. The agreement reached between the Community and the US may provide some relief, but it still means a loss of markets for BSC.

Stan Orme, leading for the Opposition, said that there was a crisis in the steel industry. Whatever the agreement reached with the Americans, it would mean a reduction in Community exports to the US market, and that would mean more excess capacity in the Community. He called on the Government to ensure that this would not mean more Community imports into the UK market; already one-third of UK demand was met by imports. The Opposition wanted action. The Government should insist that the State Aids Rules were enforced in the Community. They should also follow the example set by the Americans and impose import controls. The BSC's cash limits should be increased, and measures taken to stimulate demand. The Chairman of BSC was reported in The Guardian as having told the Government that it must take responsibility for deciding whether to close Ravenscraig. Mr. Orme called for a categorical assurance that there would be no closures of any kind. He accused the Government of doing nothing for the steel industry, and said that this was why the unions had called a day of action.

In the subsequent questioning, the Opposition pursued three themes: that the Government should follow the American example and impose import controls; that it was hopeless to rely on the Community to enforce the State Aids Rules, production quotas, and pricing rules; and that the Government should come clean on the future of Ravenscraig, Redcar, and the other major steel plants. Tam Dalyell hinted that the closure of Ravenscraig would lead to more than simply industrial action in Scotland, and Ian Wigglesworth hinted much the same about the possible closure of Redcar. Richard Wainwright pressed Mr. Jenkin for

/figures

figures on the cuts in European steelmaking capacity notified to the Commission by Member States. Mr. Jenkin was unable to give him any firm details. Eric Heffer, winding up, demanded an early statement and debate before the Informal Meeting of Industry Ministers in Denmark on 18 November.

Mr. Jenkin agreed that there was a crisis in the steel industry, and that there would inevitably be reductions in Community exports to the USA. He pointed out that of the 30 per cent reduction in US imports, 20 per cent was caused by the recession, and only 10 per cent by this agreement. He reiterated that the best hope for the steel industry was for the Commission to enforce their rules strictly, and he pointed out that the Rome and Paris treaties prevented the unilateral imposition of import controls. He acknowledged the temptations of protectionism in a recession, but drew attention to the fact that we export more of our GDP than any of our main competitors. He also acknowledged that BSC were unlikely to meet their targets for 1982/83. No decision would be taken on plant closures without the agreement of the Government. He could give no specific undertakings one way or the other on Ravenscraig or any other plant. He would obviously give the House early warning of any decision, and the Lord President would naturally consider whether time could be made available for a debate. As far as today's industrial action was concerned, he said that the 1980 strike had cost the UK steel industry a lot of business by losing the confidence of customers; the unions' action was not in the long term interest of the industry.

WM

22 October, 1982



STEEL DISCUSSIONS IN BRUSSELS: ORAL STATEMENT BY THE SECRETARY OF
STATE FOR INDUSTRY

With permission, Mr Speaker, I should like to make a statement on steel exports to the USA and the steel regime in Europe.

2 Yesterday, the European Community reached agreement on the terms of a negotiated settlement with the United States. We have thus avoided the imposition of countervailing and anti-dumping duties on certain UK steel exports.

3 The Government recognised from the outset the importance of resolving this issue in a way which would guarantee the UK steel industry a reasonable share of the US market to which we have traditionally had access and avoid the imposition of punitive duties. We gave our full support to the European Commission's efforts to this end. The negotiations lasted several months, and continued up until the last possible moment. On Wednesday all Member States except Germany had signified their acceptance of the package. The German Government had a number of last-minute reservations but these were satisfactorily resolved in Brussels yesterday. This has enabled the US Administration to persuade the American steel industry to withdraw their countervailing and anti-dumping cases, and this the companies did formally late last night.

4 The settlement will establish, from 1 November, restrictions by means of export licences on Community sales of a range of



carbon and alloy steel products until 31 December 1985. In addition, Community exports of steel pipes and tubes will be monitored, and if they exceed a 5.9% share of the US market immediate consultations will be held, with the possibility of control measures being introduced. While the arrangements with the USA inevitably represent a compromise the outcome is without any doubt much better for our steel industry and for jobs in British steel plants than it would have been without an agreement. I will place details of the arrangements in the Library as soon as possible.

5 Anxiety over UK-steel exports to the USA has by no means been our only worry. Markets for steel across the world have been collapsing and there is a world-wide excess of steel making capacity. These problems pose real threats to the European steel industry. Yesterday in Brussels, we again pressed for a significant tightening of the voluntary restraint arrangements governing imports from non-Community countries, which come up for renewal at the end of the year; as a result of our pressure, these arrangements will be on the agenda at next week's Foreign Ministers' meeting. I also pressed Vice-President Davignon to ensure that the measures to restore stability to European Community steel markets are enforced more effectively, including the mandatory production quotas and the rules about pricing. We are determined to ensure that the quota regime and the price rules are observed as scrupulously by other countries as they are by us, and I have made it clear to the Commission who have the



responsibility for policing the regime, that we intend to keep them up to the mark.

6 I also spoke to Commissioner Andriessen about what other Member States are doing to restructure their steel industries. He confirmed my fear that despite the major contribution made by the UK the preliminary figures for cuts in steelmaking capacity notified to the Commission by Member States did not meet any reasonable estimate of forecast demand. I said that I expected the Commission to apply the rules of the ECSC State Aids Decision strictly and fairly, so that aids would not be permitted unless accompanied by commensurate capacity reductions. This country has already done a great deal and both the British Steel Corporation and private sector firms have made great sacrifices to make the steel industry competitive. The Government is doing all in its power to ensure that other Member States face up to their responsibilities and bear their share of the necessary sacrifice.

I shall be pursuing all these issues individually with my Community colleagues and jointly with them at an Informal Meeting of Industry Ministers, to be held in Denmark on 18 November.

7 Mr Speaker, the steel industry in Britain is an essential part of our manufacturing industry. I am determined to safeguard the best interests of the industry and all those whose jobs depend on it.

NAT. IND.

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

JU14
Secretary of State for Industry

3

21 October 1982

Prime Minister

N Huxtable Esq
Lord President's Office
Privy Council Office
Whitehall SW1

ms

Patrick Jenkin has not yet seen this draft. He will see it early tomorrow. I have told his office of your exchanges with Mr Foot, and they will consider whether the draft needs amendment in the light of that.

Dear Nick,

PARLIAMENTARY STATEMENT ON STEEL: FRIDAY 22 OCTOBER

I attach a copy of the draft oral statement on steel which my Secretary of State proposes to make tomorrow to the House. I should stress, however, that at this stage it is not fully cleared, and we may have to phone early tomorrow with amendments to the text.

WR
21/10

2 Copies of this letter and attachment go to Tim Flesher (No 10), Margaret O'Mara (Treasury), Brian Fall (FCO), Jonathan Rees (Trade), Murdo McLean (Chief Whip), and to Richard Hatfield (Cabinet Office).

Yours ever,

Caroline Varley

CAROLINE VARLEY
Private Secretary



DRAFT STATEMENT

With permission, Mr Speaker, I should like to make a statement on negotiations on steel exports to the USA and other international steel issues.

2 Yesterday, the European Community reached agreement on the terms of a negotiated settlement with the United States, thus avoiding the unilateral imposition of countervailing and anti-dumping duties on certain UK steel exports.

3 The Government had recognised ^{from the outset} / the importance of resolving this issue in a way which would guarantee the UK steel industry a reasonable share of the US market and avoid the imposition of punitive duties. We gave our full support to the European Commission's efforts to this end. The negotiations lasted several months, and continued up until the last possible moment. On 20 October, all Member States except Germany signified their acceptance of a package. The German Government's agreement was withheld until certain conditions had been met. These points were satisfactorily resolved in Brussels yesterday. This enabled the US Administration to persuade the American industry to withdraw their countervailing and anti-dumping cases.

2 The negotiated settlement will establish, from 1 November, restrictions by means of export licences on EC exports of a



range of carbon and alloy steel products until 31 December 1985. In addition, EC exports of steel pipes and tubes will be monitored, and if they exceed a share of the US market based on 1979/1981 levels, immediate consultations will be held, with the possibility of control measures being introduced. While the Arrangements with the USA inevitably represent a compromise reached in negotiations, the outcome is considerably better for the UK steel industry than that which would have obtained in the absence of agreement. Details of the Arrangements will be placed in the Library as soon as possible.

5 While the uncertainty hanging over UK-steel exports to the USA has been a major preoccupation in recent months, the Government has not been idle on other steel issues. In current discussions in Brussels, we are pressing for a tightening of the voluntary restraint arrangements governing imports from non-Community countries, which come up for renewal at the end of the year. We have also given our full support to the measures intended to restore stability to the European Community steel market: mandatory production quotas and price rules for producers and dealers. The Government are determined to ensure that the quota regime and price rules are respected, and will keep the Commission, who have the responsibility for policing the regime, up to the mark. I discussed these issues with Vice President Davignon in Brussels yesterday.

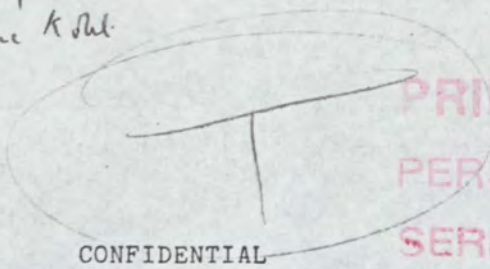


6 I also spoke to Commissioner Andriessen about what other Member States are doing to restructure their steel industries. I told him that I understood that the preliminary figures for steelmaking capacity reductions notified to the Commission by other Member States did not meet any reasonable estimate of forecast demand. I said that I expected the Commission to apply the rules of the ECSC State Aids Decision strictly, so that aids would not be granted unless they were accompanied by adequate capacity reductions. This country is doing its part to create a competitive steel industry; the Government are determined to ensure that other Member States bear their share of the sacrifice. I shall pursue this and other European Community Steel issues at an Informal Meeting of EC Industry Ministers, to be held in Denmark on 18 November.

7 The Government are not standing idly by in the face of the crisis confronting the steel industry.

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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T1964/82

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IMMEDIATE BONN

TELEGRAM NUMBER 460 OF 20 OCTOBER

INFO IMMEDIATE UKREP BRUSSELS, WASHINGTON

EC/US STEEL

1. FOR YOUR INFORMATION, THE FOLLOWING MESSAGE HAS BEEN SENT TODAY WEDNESDAY 20 OCTOBER FROM THE PRIME MINISTER TO CHANCELLOR KOHL.

2. BEGINS DEAR CHANCELLOR, I VERY MUCH ENJOYED OUR MEETING YESTERDAY. AMONG OTHER MATTERS, WE DISCUSSED THE IMPORTANCE OF REACHING A SETTLEMENT ON STEEL WITH THE US SATISFACTORY NOT ONLY TO THE UK INDUSTRY BUT TO THE EUROPEAN STEEL INDUSTRY AS A WHOLE. HOWEVER I UNDERSTAND THAT THE DECISION OF YHOUR CABINET TO ACCEPT THE AGREEMENT WAS MADE SUBJECT TO CERTAIN CONDITIONS, ONE OF WHICH WAS THAT THE BURDEN-SHARING SHOULD BE AGREED IN EUROFER: AND THAT THE GERMAN STEEL INDUSTRY HAS NOT SO FAR NOTIFIED ITS CONSENT. I REALISE THAT YOUR INDUSTRY FACES DIFFICULTIES - INDEED SO DOES OUR OWN - IN ACCEPTING THIS SETTLEMENT. AS I WRITE, I AM NOT ENTIRELY CLEAR WHAT OBSTACLES PREVENT YOUR ACCEPTANCE OF THIS PACKAGE. I FEEL SURE THEY CANNOT BE SO SERIOUS AS TO JUSTIFY THE GRAVE CONSEQUENCES - BOTH POLITICAL AND ECONOMIC - OF FAILURE TO REACH AGREEMENT WITH THE UNITED STATES.

3 MAY I ASK YOU URGENTLY TO USE YOUR GOOD OFFICES TO CLEAR UP THE REMAINING IMPEDIMENTS SO THAT THE AGREEMENT WITH THE US CAN GO AHEAD ? I HAM STILL ADVISED THAT THE US DEADLINE IS 10 AM WASHINGTON TIME TOMORROW THURSDAY 21 OCTOBER. WITH WARMEST REGARDS. MARGARET THATCHER.
MESSAGE ENDS.

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COPIES SENT TO
No. 10 DOWNING STREET

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CONFIDENTIAL



REF:

OUR REF: WS/LP/SS

THE IRON AND STEEL TRADES CONFEDERATION

General Secretary

W. Sirs

Swinton House,
324 Gray's Inn Road,
London, WC1X 8DD

19th October 1982

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

Dear Mr.Jenkin,

Re: Third Country Steel Exports

Thank you for your letter regarding the level of steel imports from non-EEC countries and your concern for those working in the steel industry who are currently threatened with the loss of their livelihood.

However your remarks concerning the Community's Voluntary Restraint Arrangements indicate a level of complacency that is, I am afraid, totally unjustified.

Substantial sections of our already depleted industry are coming under intense pressure as a direct result of the flood of imports which arrived in the first six months of 1982.

The combination of import quotas set in tonnage terms and based upon predicted levels of consumption that have been found once again to be over-optimistic, and the rise in UK prices at the beginning of 1982, plus the 6% "penetration allowance" resulted in a flood of imports from countries who used up their entire quota for the year in six months or less and in some cases exceeded it, whereas in 1981 they had not fulfilled their quota over the whole year.

Indeed, in the light of this experience I would say most categorically that the present arrangements are totally inadequate to cope with what has happened and we must ensure that it is not

.../2

peated some time in the future.

Five steps need to be taken on the EC level to safeguard our industry from such an attack, which should be supported by actions our nation can and must undertake.

- a) Reduce or eliminate the 6% penetration allowance.
- b) Enforce a percentage limit as well as a tonnage ceiling on all Third Country exports to the EC, so that any decline in consumption will be reflected in a fall in imports.
- c) Third Country import quotas should be spread evenly over the whole year so that the market does not become flooded in the early part of the year.
- d) Spread a country's quota equitably between each of the Member States.
- e) Spread a country's quota between the various steel products, so that no one sector of the industry is put under threat.

As these changes will take some little time to introduce it is essential that the UK protects itself during the remainder of the year from any further deterioration of its domestic steel supply by invoking the rules of G.A.T.T.

It is also essential that the value of sterling is returned to a more realistic level, as this is yet another factor which sways the balance towards imported goods, including steel, and away from domestic supplies. As long as the pound is over-valued then any hopes of recovery for the UK economy, whether it be spontaneous or manufactured, will simply result in a further increase in demand for imported products, or put another way, we shall be importing 'other peoples' unemployment and in effect your government will be indirectly paying Unemployment Benefit and Social Security benefits to W.Germans, French or Italians, a situation we cannot afford.

Surely you cannot be so prejudiced in favour of "free competition" that you can sit back and allow other countries the freedom to exploit our markets when they are ignoring or flaunting the rules so brazenly.

Given the orders for steel to allow optimum levels of capacity utilisation, we in the UK are the most efficient steelmakers in Europe and in many areas on par with the Japanese. The British are also, by far, the lowest paid steelworkers in the developed world and it is ludicrous to suggest that our loss of the UK home market is caused by less able and/or less productive workers.

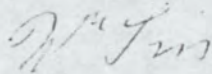
.../3

Since the implementation of the "Business Proposal" in 1979 by BSC which proposed to reduce BSC's steelmaking capacity and employment by one-third, the level of losses have been higher with an ever decreasing number of employees. This means that the income to the government in the form of National Insurance Contribution and P.A.Y.E. taxes, as well as rates paid by the steel plants to local authorities, have declined, whilst the numbers requiring unemployment benefit and social security have increased. What is the logic behind such proposals which have resulted in the decimation of whole communities and caused so much human suffering?

I hope that you will reconsider your attitude towards the Voluntary Restraint Agreement in the light of the information I have provided and you will use your influence to ensure an adequate degree of protection is afforded our ailing industry.

If you have any further queries or require any more details please do not hesitate to ask as I will only be too happy to provide whatever assistance I can.

Yours sincerely



W. SIRS
General Secretary

c.f.i. The Rt.Hon.Peter Rees MP

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Secretary of State for Industry

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

19 October 1982

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street LONDON
SW1

Handwritten initials and numbers:
MR 5/15
T. 2.

Dear John,

EC : US STEEL

As you know discussions have been going on throughout today in Brussels aimed at pressing the Germans to drop their reservations on the deal with the US. Finally, with some spilt blood, the German Ambassador accepted some revised Commission proposals subject to approval by the German Cabinet tomorrow morning.

2 This evening's meeting with Chancellor Kohl provides an ideal opportunity to exercise maximum pressure on the German Government not to block a Community deal. My Secretary of State has suggested that the Prime Minister might use the following line.

"Chancellor Kohl should be congratulated on the progress made so far in reaching a Community position on steel with the United States. Hope that this agreement will be ratified by the German Cabinet tomorrow morning.

3 Resolution of the EC/US steel issue is of crucial importance to our industry - and indeed to European steel industry as a whole. Imposition of duties by the Americans would not only have a direct impact on UK exports to US but would result in excess European steel - denied access to the American market - washing around Europe and further damaging the already fragile European steel market.

Yours ever,
Cousine Varley
JP J P SPENCER
Private Secretary

MR. BOYLER

not Izad

Prime Minister



through, this is the line
which we are deploying.

I have also told Scottish front

PS/Secretary of State

Office
Further

cc PS/Mr Lamont
PS/Mr Butcher
PS/Secretary
Mr Manzie
Mr Binning MM
Mr Murray MM1 o.r
Mr Mogg MM2
Mr Woodrow Inf.
Mr Haslam Inf
No. 10 Press Office

BRITISH STEEL CORPORATION

Following the Secretary of State's meeting with the TUC Steel Committee on 4 October, they went to see Mr MacGregor yesterday. He told them that BSC's prospects were deteriorating sharply. Out of current losses of about £8 million a week, over £6 million was attributable to overcapacity. Remedial action was inescapable and decisions would have to be taken by the end of October. One of the options being considered would involve the closure of one, or perhaps even two, major plants (unspecified). It is this message which Mr Sirs will be giving to the union delegate conference in Sheffield today.

2. Against this background, I suggest the following public line:

- (a) At his meeting on Monday with the Steel Committee, the Secretary of State confirmed that BSC faced considerable difficulties at present.
- (b) The Government had been taking all the measures within their power to alleviate BSC's problems, notably on the external front, viz:
 - (i) Major efforts to secure a solution to the EEC/US dispute.
 - (ii) Pressure in the Community to ensure effective application of production quotas and pricing rules as well as respect for the agreed restraints on steel imports from third countries.
- (c) The Government would be keeping up this pressure and stood ready to investigate particular problem areas identified by the Steel Committee eg imports from Korea + Sth Africa.



- (d) It remained the Government's firm policy to see BSC return to enduring profitability.
- (e) It must be for the Corporation's management to consider remedial action to counter the deteriorating position. The Government had taken no decision on the future of any individual plant.

S J Bowen

S J Bowen
MM1a
813 Ashdown
212 6992

6 October 1982

PRIME MINISTER

M

STATEMENT ON US/STEEL

Mr. Rees made a statement this afternoon about the results of his negotiations, both with the Americans and within the Community. This made it clear that we had failed in our attempts to get a bilateral deal with the Americans, but that the Community were still seeking a more comprehensive settlement. The Opposition were mainly interested in the effects of the 40 per cent countervailing duty on BSC, and in the possibility of mitigating these effects in some way. Some argued that this case showed how incompetent the Community was at protecting its trading interests, and some hinted at the need for import controls on steel. Sir Anthony Meyer said that he hoped that the trade war with the US would not also become a trade war within Europe, and Peter Emery said that we should publish a list of retaliatory action that we might take against the USA to demonstrate our concern. Scottish MPs were particularly concerned about the combined effects of the US countervailing duty and the embargo on the Siberian pipeline.

Mr. Rees said that we would continue to complain through the EC to the GATT, and that the Americans' actions augured badly for the forthcoming GATT Ministerial meeting. The interests of the UK steel industry, both public and private sector, would be argued for in the discussions on the Commission's Mandate for negotiations with the US. The effect of the 40 per cent countervailing duty was difficult to estimate, but BSC would clearly be unable to sell in the US markets. The Corporation would either have to cut back its production or seek other markets. In general, Mr. Rees said that it was in our interests to maintain the open trading system.

CWR

26 July 1982



CONFIDENTIAL

FOREIGN AFFAIRS COUNCIL, JULY 24 1982 - STEEL

DRAFT STATEMENT FOR THE MINISTER FOR TRADE TO MAKE IN THE HOUSE OF COMMONS

1 With permission, I will make a statement about the special session of the Foreign Affairs Council of the European Communities which was held on Saturday, July 24. The purpose of the meeting was to consider the latest developments in the very serious dispute between the Communities and the United States over action taken in the United States against certain steel imports.

2 Last January the United States steel industry initiated both countervailing and anti-dumping complaints against imports of certain classes of steel from a number of sources including seven Community countries, one of which is the United Kingdom. In the countervailing cases provisional duties have been ~~enforced~~ ^{IN FORCE} since June 11. Provisional duties in the anti-dumping cases may be determined shortly. There is no assurance that further suits will not be initiated.

3 The highest rate of provisional duty, at about 40%, has been determined in the case of products exported by the British Steel Corporation. This, as I understand the position, is on the basis that sums of capital introduced into BSC by the Government over the last three years and the ⁱw¹aver of certain BSC obligations constitute an unfair subsidy to exports into the US market. This is a formulation which we find quite unacceptable.

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4 The Government's concern is to safeguard the interests of the United Kingdom steel industry both public and private in the face of these protectionist measures and to maintain the stability of the internal steel market in the Community. The Community has tried repeatedly but unsuccessfully to achieve a settlement of this dispute on the basis of some limitation of exports to the United States of selected steel products in return for withdrawal by the United States industry of all its countervailing and anti-dumping complaints. The United Kingdom has fully supported these efforts. However none of the Community's proposals ^{SO FAR} has been acceptable to the United States.

5 At its session on 19/20th the Council therefore agreed that the Member States worst affected, with the participation of the Commission as co-ordinator, should seek bilateral arrangements with the United States. Under US law action to suspend the current countervailing complaints could be taken by the US Administration only up to midnight on July 24th. After the expiry of this deadline these cases can only be withdrawn with the concurrence of the US steel industry.

6 Regrettably, last Thursday, July 22, the United States rejected the proposals put to them under this Council decision by the Ambassadors of the countries worst affected including the United Kingdom. The Administration in turn proposed an arrangement for limiting imports of seven products from these countries at an unreasonably low level. In view of the imminence of the deadline the Council met again on Saturday at the request of HMG and the French Government. It accepted eventually that discussions between the countries worst affected and the United



States should continue to see if bilateral agreements were still possible. The Government had despatched to Washington after the Council of July 19-20 a special team accompanied by representatives of the industry. Following the conclusion of the Saturday Council meeting our team immediately took all possible steps with the US Administration to negotiate a bilateral agreement for the United Kingdom alone.

7 I have to inform the House that despite every effort by our team, reinforced by a last minute approach by myself, and despite earlier indications to the contrary from ^{it,} the US Administration, ~~it~~ was not willing to conclude a bilateral agreement with the United Kingdom.

8 The decision of Saturday's Council also provides for a new initiative for the settlement of this dispute on a comprehensive basis by the Community. Such a settlement should embrace both current and future countervailing and anti-dumping suits. The precise terms of the Commission's mandate for these negotiations will be determined in the course of this week. During these negotiations we shall ensure that the interests of the United Kingdom steel industry both public and private are taken fully into account.

Fraser: Serious consequences for steel industry and world trade. US cannot make the rules on this, pipeline, and energy prices. "Vigorous action" has failed. Have we played by the rules? Did EC proposals give us a fair deal? Why no bilateral deal, especially since 40% duty is much more damaging? What hope can be given to steel industry?

Rees: Continue to complain from EC to the GATT. We have always played by the rules by price and volume. Effect difficult to estimate. BSC unable to sell over a 40% tariff. Would have to cut back or seek other markets. Cannot specify our negotiating position. Explored possibility of bilaterals. Thought EC line had more weight. If nego fail, BSC will have to consider other markets.

Fraser: EC to act as one. Hope war with States does not become war with Europe.

Jones: What financial and job losses? We ~~import~~ ^{import} 1/200 m of steel of home made fibres?

Anglemore: Support from liberal & SNP. Ironie that LP should attack import controls?

Rees: Maintain the open trading system

Thorne: EC failed to represent the UK case.

Emery: US actions unacceptable. Publish the retaliatory action available.

Rees: open trade. US want comprehensive deal with EC, but will not rule out bilaterals.

Angus badly for GATT ministerial.

Miller: ECSC steel cartel not in our interests

Rees: not to the long term interests of commerce or industry to destabilise

Fryer: Others in EC to cut their production?

: Collapse of BSC. Import controls?

Rees: 200 tons/a exports.

Clark: Unashshire: Ravenscraig.



From the
Minister for Trade

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

W Rickett Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

26 July 1982

Dear Willie,

I attach a draft statement which the Minister for Trade proposes to make in the Commons this afternoon about Saturday's special meeting of the Council which he attended on the steel dispute with the United States. It will also be made in the House of Lords by the Secretary of State. Because of the complexity of the issues and the inaccuracy of much of the press reporting it goes into some detail about the background to this dispute and the factors which led to the calling of a special Council. The meeting has been fully reported by telegram, as have the unsuccessful discussions in Washington on Saturday by the UK team seeking to negotiate a bilateral settlement with the US of the actions against steel imports from the UK. You might however like to have some more background.

The purpose of our request for this Council meeting was to get cover from the Council for our negotiating before the 24 July deadline a bilateral arrangement on steel with the US following the failure of the Commission's attempts to work out a comprehensive settlement with the Americans of the countervailing and anti-dumping cases against Community steel producers, and also following the failure of the attempts to secure co-ordinated bilateral agreements. We had tried but failed to get the Council called for Friday so as to allow more time for negotiations in Washington before the Administration's power to suspend the countervailing cases at its own initiative ran out at midnight on Saturday.

When the Council met on Saturday afternoon the Commission tabled fresh proposals for a mandate for the Commission to seek a comprehensive settlement of the steel cases with the Americans, based on a wider product coverage than before. No prior indication of these had been given, although it had been clear to us that the Commission were firmly against our negotiating bilaterally with the US. Davignon explained that the rejection by the US of the proposals by Ambassadors of four



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member states for co-ordinated bilateral settlements had created an entirely new situation. This rendered the Council's agreement of July 20 on bilaterals out of date and demanded a fresh approach. Apart from one or two technical objections, for example from the Dutch on product coverage, the Commission's proposal was welcomed almost without discussion by most member states. In particular France, who also had a team in Washington talking about a bilateral arrangement, fully supported it. For the UK Mr Rees argued in the terms laid down by last Thursday's Cabinet decision and encountered strong opposition.

The Commission move was clearly designed to outflank the UK and it took hours of hard private bargaining, during which the French minister made constant difficulties, before the compromise formula could be agreed which provided for both acceptance of the Commission's proposed new mandate and continuance of our bilateral talks in Washington, in accordance with the terms of the Cabinet decision, for the few hours remaining before the midnight deadline.

In Washington our team of officials and industry representatives which we had despatched to Washington immediately after the Council on 19-20 July, had made good progress in working out the form of a possible bilateral agreement. The Commerce Department had however refused to discuss quantities until the Council had sanctioned these further bilateral negotiations. Immediately after the conclusion of Saturday's Council we telephoned the Council decision together with the terms of the relevant minute which gave us freedom of manouevre until the expiry of the deadline. However the Commerce Department, in spite of a further personal call by Mr Rees to Under Secretary Olmer, who was conducting the negotiations in Baldrige's absence in California, declined to conclude an agreement. Olmer gave as his main reason the wish of the Commerce Department to conclude a comprehensive settlement with the Community as a whole, and he saw Saturday's Council decision as offering new hope for such a settlement. He also claimed that a decision by the International Trade Court during last week had called in question its ability to negotiate on trade matters, in the case of Community countries, with anyone except the Commission. He doubted whether any settlement on the lines we were proposing would successfully withstand a challenge by the US industry in the Courts. Olmer indicated to Mr Rees at the end of their long and vigorous exchange that he would reflect on the situation. However shortly afterwards, after telephoning to Baldrige, he indicated to our team that he was not prepared to conclude an agreement.

The failure of this attempt to get a bilateral agreement with the US was not for want of persistence or careful preparation on the part of our team in Washington, who were supported by representatives of both BSC and the private sector. It was emphasised to our team at various times by both BSC and the private sector representatives that their interests were not identical. BSC claimed confidently throughout that the US would be ready to sign a bilateral agreement with the UK on terms substantially more favourable than had been offered in response to the Community proposal for co-ordinated bilaterals with four countries. Regrettably they were proved wrong by events.

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A representative of BSC was present in Brussels throughout the Council meeting and was kept closely in touch and consulted as discussions developed. Mr Rees also kept in regular touch with the Secretary of State for Industry during the Council and got his endorsement of the compromise formula before it was finally adopted.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, Secretary of State for Trade, Secretary of State for Industry, Lord President of the Council, Chief Whip and Sir Robert Armstrong.

Yours ever,

Nicholas McInnes

N McINNES
Private Secretary to the
Minister for Trade (PETER REES)

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FOREIGN AFFAIRS COUNCIL, JULY 24 1982 - STEEL

DRAFT STATEMENT FOR THE MINISTER FOR TRADE TO MAKE IN THE HOUSE OF COMMONS

1 With permission, I will make a statement about the special session of the Foreign Affairs Council of the European Communities which was held on Saturday, July 24. The purpose of the meeting was to consider the latest developments in the very serious dispute between the Communities and the United States over action taken in the United States against certain steel imports.

2 Last January the United States steel industry initiated both countervailing and anti-dumping complaints against imports of certain classes of steel from a number of sources including seven Community countries, one of which is the United Kingdom. In the countervailing cases provisional duties have been ~~enforced~~ ^{IN FORCE} since June 11. Provisional duties in the anti-dumping cases may be determined shortly. There is no assurance that further suits will not be initiated.

3 The highest rate of provisional duty, at about 40%, has been determined in the case of products exported by the British Steel Corporation. This, as I understand the position, is on the basis that sums of capital introduced into BSC by the Government over the last three years and the ^{waiver} of certain BSC obligations constitute an unfair subsidy to exports into the US market. This is a formulation which we find quite unacceptable.



4 The Government's concern is to safeguard the interests of the United Kingdom steel industry both public and private in the face of these protectionist measures and to maintain the stability of the internal steel market in the Community. The Community has tried repeatedly but unsuccessfully to achieve a settlement of this dispute on the basis of some limitation of exports to the United States of selected steel products in return for withdrawal by the United States industry of all its countervailing and anti-dumping complaints. The United Kingdom has fully supported these efforts. However none of the Community's proposals ^{SO FAR} has been acceptable to the United States.

5 At its session on 19/20th the Council therefore agreed that the Member States worst affected, with the participation of the Commission as co-ordinator, should seek bilateral arrangements with the United States. Under US law action to suspend the current countervailing complaints could be taken by the US Administration only up to midnight on July 24th. After the expiry of this deadline these cases can only be withdrawn with the concurrence of the US steel industry.

6 Regrettably, last Thursday, July 22, the United States rejected the proposals put to them under this Council decision by the Ambassadors of the countries worst affected including the United Kingdom. The Administration in turn proposed an arrangement for limiting imports of seven products from these countries at an unreasonably low level. In view of the imminence of the deadline the Council met again on Saturday at the request of HMG and the French Government. It accepted eventually that discussions between the countries worst affected and the United



States should continue to see if bilateral agreements were still possible. The Government had despatched to Washington after the Council of July 19-20 a special team accompanied by representatives of the industry. Following the conclusion of the Saturday Council meeting our team immediately took all possible steps with the US Administration to negotiate a bilateral agreement for the United Kingdom alone.

7 I have to inform the House that despite every effort by our team, reinforced by a last minute approach by myself, and despite earlier indications to the contrary from ^{it,} the US Administration, ~~it~~ was not willing to conclude a bilateral agreement with the United Kingdom.

8 The decision of Saturday's Council also provides for a new initiative for the settlement of this dispute on a comprehensive basis by the Community. Such a settlement should embrace both current and future countervailing and anti-dumping suits. The precise terms of the Commission's mandate for these negotiations will be determined in the course of this week. During these negotiations we shall ensure that the interests of the United Kingdom steel industry both public and private are taken fully into account.

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Mr. Swains

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SIR K COUZENS
MR ASHPORD
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SIR B HAYES

NB

* Last paragraph

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TELEGRAM NUMBER 2547 OF 25 JULY 1982
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NIPT

US/EC STEEL: COMMERCE DEPARTMENT STATEMENT

AT ABOUT 1900 HOURS (LOCAL) ON 24 JULY OLMER (UNDER SECRETARY COMMERCE) ISSUED THE FOLLOWED STATEMENT TO THE PRESS (TAKEN DOWN FROM DICTATION):
BEGINS:

AT ABOUT 1900 HOURS (LOCAL) ON 24 JULY OLMER (UNDER SECRETARY COMMERCE) ISSUED THE FOLLOWED STATEMENT TO THE PRESS (TAKEN DOWN FROM DICTATION):

BEGINS:

VICE PRESIDENT DAVIGNON HAS INFORMED US THAT THE COUNCIL OF THE EC TODAY GAVE THE EC COMMISSION AN EXCLUSIVE MANDATE TO NEGOTIATE WITH THE USG TO SEEK A MEANS TO ALLEVIATE THE TENSIONS BETWEEN US OVER STEEL TRADE. I WHOLEHEARTEDLY WELCOME THIS DECISION. I SINCERELY BELIEVE AND HOPE THAT CONTINUED GOOD FAITH EFFORTS OF BOTH SIDES CAN RESULT IN A FAIR AND AMICABLE SETTLEMENT THAT WILL RELIEVE THE INJURY CAUSED TO THE US INDUSTRY BY SUBSIDISED STEEL IMPORTS. OVER THE PAST FEW DAYS REPRESENTATIVES OF THE EC WORKING TOGETHER WITH DEPARTMENT OF COMMERCE OFFICIALS HAVE EXPLORED THE POSSIBILITY OF SUSPENDING SOME OF THE CVD INVESTIGATIONS NOW UNDER WAY. RATHER THAN PURSUE THAT ROUTE, HOWEVER, THE EC AND THE US HAVE DECIDED TO CONTINUE OUR DISCUSSIONS ON RESOLVING THE STEEL TRADE PROBLEM BETWEEN THE US AND THE EC IN ITS ENTIRETY.

PRELIMINARY DISCUSSIONS ABOUT SUSPENSION AGREEMENTS WERE HELD WITH REPRESENTATIVES OF SEVERAL EC MEMBER STATES, PARTICULARLY THE UK AND FRANCE. SINCE IT HAS BEEN DECIDED TO PURSUE A COMPREHENSIVE SOLUTION, THOSE DISCUSSIONS WERE NOT FURTHER PURSUED. THOSE DISCUSSIONS WERE MARKED BY AN EXCELLENT SPIRIT OF COOPERATION AND GOOD WILL. WE ARE CONFIDENT THAT THE SAME SPIRIT WILL MARK THE FORTHCOMING COMPREHENSIVE DISCUSSIONS.

THE COUNCIL DECISION OFFERS HOPE OF DEALING WITH THE ENTIRE PROBLEM, AND SECRETARY BALDRIGE AND I LOOK FORWARD TO MEETING WITH VICE PRESIDENT DAVIGNON OR HIS REPRESENTATIVES TO CONTINUE OUR WORK.

RESIDENT CLERK PLEASE INFORM CROWE (ECD/E) AND DUTY OFFICERS IN DEPARTMENTS OF TRADE AND INDUSTRY.

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Mr. ~~Swain~~ Use

Mr. Swain

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Mr. G. Wick

Mr. T. Jackson

Mr. K. Binning

* no (last paragraph)

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FM WASHINGTON 250050Z

TO IMMEDIATE F C O

TELEGRAM NUMBER 2546 OF 25 JULY

INFO IMMEDIATE UKREP BRUSSELS

EC/US STEEL

THE FINAL ACT IN THE AFFAIR AT THIS END STARTED WITH RENEWED DISCUSSIONS AT COMMERCE ON THE DRAFT AGREEMENT. THE DOC TEAM STILL HAD NO AUTHORITY TO TALK NUMBERS BUT THE REMAINDER OF THE AGREEMENT WAS ALMOST FULLY NEGOTIATED WHEN NEWS ARRIVED FROM UKREP OF THE COUNCIL DECISION.

2. HORLICK IMMEDIATELY CONTACTED THE COMMISSION OFFICE BUT HIS ENQUIRY AS TO WHETHER THE DECISION MEANT THAT THE UK WAS FREE TO NEGOTIATE NET WITH AN EVASIVE RESPONSE. FOLLOWING UP WITH MAEMEN IN BRUSSELS WE UNDERSTAND THAT HE MET WITH A CATEGORIC NEGATIVE. AFTER FURTHER PRIVATE CONSULTATION AMONG DOC OFFICIALS,

PAEMEN IN BRUSSELS WE UNDERSTAND THAT HE MET WITH A CATEGORIC NEGATIVE. AFTER FURTHER PRIVATE CONSULTATION AMONG DOC OFFICIALS, SUNDERLAND MET OLMER TO DISCUSS THE SITUATION.

3. THE CONVERSATION WAS INTERRUPTED BY MR REES'S TELEPHONE CALL FROM BRUSSELS DURING WHICH OLMER EXPLAINED TO MR REES THAT THEY HAD DECIDED NOT TO PURSUE THE SUSPENSION AGREEMENT NEGOTIATIONS, FOR FOUR REASONS:-

- (I) THE COUNCIL DECISION TO RESUME NEGOTIATIONS ON A BROAD PRODUCT BASIS OFFERED GROUNDS FOR REAL OPTIMISM:
- (II) A BILATERAL AGREEMENT IN THESE CIRCUMSTANCES WAS LIKELY TO PREJUDICE THE CHANCES OF COMMERCE ACHIEVING THEIR LONG-STANDING OBJECTIVE OF A DURABLE SETTLEMENT WITH THE ENTIRE COMMUNITY:
- (III) A VERDICT OF THE INTERNATIONAL TRADE COURT THIS WEEK HAD CAST DOUBT ON THE VALIDITY OF DOC'S TREATMENT OF STEEL PROBLEMS ON A MEMBER STATE RATHER THAN COMMUNITY BASIS:
- (IV) THE CHANCES OF ANY AGREEMENT SURVIVING THE 30-DAY COMMENT PERIOD WERE IN ANY CASE NOT GOOD.

4. OLMER LISTENED TO MR REES SYMPATHETICALLY, BUT THE DEPARTMENT'S POLICY WAS CLEAR AND HE WAS UNABLE TO MOVE. SUBSEQUENTLY, SUNDERLAND QUESTIONED THE WISDOM OF RELYING ON YET ANOTHER COUNCIL DECLARATION OF INTENT WITHOUT ANY QUANTIFICATION OF WHAT WAS ON OFFER WHEN WE WERE AT HAND WITH FIRM BIDS ON A WIDE RANGE OF PRODUCTS. OLMER CLAIMED THAT THE GAP BETWEEN THE EC AND THE USA WAS IN REALITY NARROW (5.9 PERCENT COMPARED WITH THE 5.67 PERCENT WHICH BALDRIDGE HAD SAID HE COULD PROBABLY SELL TO THE INDUSTRY).

5. FACED WITH THIS CLEAR DECISION, SUNDERLAND CONCENTRATED ON REMINDING OLMER OF HOW WE HAD ONCE MORE DEMONSTRATED THE SERIOUSNESS OF OUR INTENT TO CONTRIBUTE CONSTRUCTIVELY TO THE SOLUTION OF INTERNATIONAL STEEL PROBLEMS AND URGED THAT FULL RECOGNITION BE GIVEN TO THIS IN THE PREPARATION OF THE US POSITION FOR THE FORTHCOMING TALKS WITH THE EC. OLMER PROMISED TO DO SO. SUNDERLAND ALSO ASKED THAT ANY PRESS STATEMENT SHOULD ACKNOWLEDGE OUR EFFORTS. THE DOC RELEASE (TEXT IN MY IFT) DOES THIS. IT IS SATISFACTORY THAT THIS ALSO MENTIONS THE SEPARATE NEGOTIATION BY THE FRENCH.

6. SUNDERLAND WILL CIRCULATE FURTHER COMMENT ON HIS RETURN.

RESIDENT CLERK PLEASE INFO CROWE (ECD/E) AND DUTY OFFICERS IN DEPARTMENTS OF TRADE AND INDUSTRY.

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Mr. Use

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~~MR BARNAY~~

Mr. Coors

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FM UKREP BRUSSELS 242145Z JUL 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 3055 OF 24 JULY 1982

INFO IMMEDIATE WASHINGTON

SPECIAL COUNCIL OF MINISTERS

EC/U S STEEL

FOLLOWING ARE COMMISSION PROPOSALS REFERRED TO IN KIPT.

1. THE COUNCIL AGREES THAT THE COMMISSION SHOULD NEGOTIATE WITH THE UNITED STATES AUTHORITIES A COMPREHENSIVE AGREEMENT TO LIMIT STEEL EXPORTS FROM THE COMMUNITY TO THE UNITED STATES ON THE BASIS THAT ALL COUNTERVAILING AND ANTI-DUMPING PROCEEDINGS WOULD BE TERMINATED. IT WOULD BE UNDERSTOOD THAT FOR THE DURATION OF THE AGREEMENT NO NEW INVESTIGATION WOULD BE INITIATED IN RESPECT OF THE PRODUCTS COVERED BY THE AGREEMENT.

2. THE AGREEMENT WOULD CONTAIN THE FOLLOWING ELEMENTS:

A) EXPORT LICENSES WOULD BE REQUIRED FOR ALL EXPORTS TO THE UNITED STATES OF STEEL PRODUCTS MANUFACTURED IN THE COMMUNITY COVERED BY THE AGREEMENT. THE LICENSES WILL BE DELIVERED BY MEMBER STATES IN CONFIRMITY WITH THE DECISION TO RESTRAIN EXPORTS TAKEN BY THE COMMUNITY UNDER ARTICLE 95 ECSC AND ARTICLE 113 EEC. THE U S GOVERNMENT SHALL REQUIRE PRESENTATION OF A COPY OF SUCH LICENSES AS A CONDITION FOR ENTRY OF EC STEEL INTO THE UNITED STATES

B) COVERAGE WOULD BE:

- HOT-ROLLED SHEET AND STRIP
- COLD-ROLLED SHEET
- PLATE
- STRUCTURALS
- WIRE RODS
- HOT-ROLLED BARS
- GALVANIZED SHEET
- TIN PLATE
- RAILS
- STAINLESS STEEL SHEET
- STAINLESS STEEL PLATE

C) FOR THOSE PRODUCTS COVERED IN THE AGREEMENT THE TOTAL SHARE OF THE U S MARKET WOULD NOT EXCEED PER CENT OF INTERNAL U S CONSUMPTION

D) THE AGREEMENT WOULD RUN FROM 1 OCTOBER 1982 TO 31 DECEMBER 1985

3. PROCEDURES

NEXT STEPS :

A) COMMUNICATION FORTHWITH BY THE PRESIDENCY AND THE COMMISSION OF THE COUNCIL CONCLUSIONS TO THE UNITED STATES AUTHORITIES

- B) ELABORATION BETWEEN THE COMMISSION AND THE 113 COMMITTEE OF THE FURTHER DETAILS NECESSARY FOR THE NEGOTIATIONS (26-27 JULY)
- C) TECHNICAL DISCUSSIONS WITH U S (28-30 JULY)
- D) EVALUATION BY COREPER (2-3 AUGUST)
- E) FINAL NEGOTIATIONS WITH U S (3-6 AUGUST)
- F) APPROVAL BY THE COUNCIL OF THE RESULTS OF THE NEGOTIATIONS AND IMPLEMENTING REGULATIONS THE FOLLOWING WEEK.

FCO ADVANCE TO:

FCO - PS/SOFS; PS/PUS; HANRAY; CROWE; KINGHEN

CAB - HANCOCK; RS LAMBERT

IDI - PS/SCF S: HANZIE BINNING, HOGG, BENDER

DOT - PS/MR REES; PS/SECRETARY; GRAY; JOHNSON; BOURKE; R WILLIAMS;
MEADWAY

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LCDR BRIDGES
MR HANRAY
Mr. Goodison

Mr. Ewins
W. Use

Mr. Linden, C. C. (C)

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PS/ Secy of State
Mr. Johnson
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TO IMMEDIATE FCO

TELEGRAM NUMBER 3054 OF 24 JULY

INFO IMMEDIATE WASHINGTON

SPECIAL COUNCIL OF MINISTERS:

EC/US STEEL

FIRST SESSION

SUMMARY

1. INCONCLUSIVE INITIAL DISCUSSION ON COMMISSION PROPOSALS FOR MANDATE TO NEGOTIATE COMPREHENSIVE SETTLEMENT. UK INSISTED ON RIGHT TO SEEK BILATERAL SOLUTION BY 24 JULY DEADLINE. REMAINDER OF DISCUSSION CONDUCTED IN RESTRICTED SESSION.

DETAIL

2. DAVIGNON (COMMISSION) RECALLED THE DECISION TAKEN BY THE COUNCIL ON 28 JULY FOR A FURTHER COMMUNITY APPROACH. THE US HAD HOWEVER NOT BEEN PREPARED TO HAVE A PROPER NEGOTIATION. THE APPROACH APPROVED BY THE COUNCIL WAS NOW CLOSED UNLESS THE EC WAS PREPARED TO INCLUDE PRODUCTS NOT COVERED BY THE COUNTERVAILING CASES. THE COMMISSION WAS FIRMLY OPPOSED TO THIS. ACCORDINGLY THEY WISHED TO SUBMIT A NEW PROPOSAL FOR A COUNCIL DECISION (TEXT IN MIFT) UNDER WHICH THE COMMISSION WOULD NEGOTIATE A COMPREHENSIVE ARRANGEMENT WITH THE AIM OF SECURING THE TERMINATION OF ALL THE CV AND ANTI-DUMPING CASES BY 6 AUGUST. THIS WOULD BE FOR 11 PRODUCTS IN ALL. THE FIRST SEVEN WERE COVERED BY THE PRESENT COMMUNITY INTERNAL ARRANGEMENTS UNDER ARTICLE 58 OF THE TREATY OF PARIS. THE OTHER FOUR (TIN PLATE, RAILS, STAINLESS STEEL SHEET AND PLATE) SHOULD BE INCLUDED IN ORDER TO ARRIVE AT A MORE FAVOURABLE OVERALL ARRANGEMENT. IN THE COMMISSION'S VIEW THE ANTI-DUMPING CASES WERE THE MAJOR THREAT BECAUSE UNLIKE THE CV CASES (WHICH COULD BE COVERED BY QUANTITATIVE ARRANGEMENTS) THEY WERE BASED ON PRICE AND IN PRESENT MARKET CONDITIONS IT WOULD BE EXTREMELY DAMAGING IF COMMUNITY INDUSTRY COULD NOT MATCH US PRICES. NO PERCENTAGE FIGURE WAS SHOWN IN PARAGRAPH 2(C) FOR OBVIOUS TACTICAL REASONS BUT IT WAS IMPORTANT TO SIGNAL THAT THE COMMUNITY WAS LOOKING FOR A SOLUTION BASED ON MARKET SHARE. UNTIL NOW THE COMMISSION HAD NOT HAD A FIRM NEGOTIATING MANDATE. A CLEAR COUNCIL DECISION TO ACCEPT THE PRESENT PROPOSAL WOULD HOWEVER SIGNAL THE END OF THE SECTION 704 APPROACH AND BRING ABOUT A CLEAR QUALITATIVE AND POLITICAL CHANGE IN THE SITUATION. IF NO AGREEMENT WAS REACHED BY 6 AUGUST THE POSITION WOULD BE VERY SERIOUS AND IT WOULD BE NECESSARY TO HOLD A FURTHER COUNCIL TO REVIEW THE OPTIONS. IN THAT CASE IT WOULD BE DIFFICULT TO RESTRICT THE IMPLICATIONS TO ONE SECTOR. FINALLY DAVIGNON EMPHASISED THAT THE COMMISSION'S PROPOSAL WAS INTENDED TO EXCLUDE BILATERAL NEGOTIATIONS BOTH BEFORE AND AFTER THE 24 JULY DEADLINE.

3. INITIAL DISCUSSION CONCENTRATED ON PRODUCT COVERAGE. SLECHT (FRG) QUESTIONED THE NEED FOR THE INCLUSION OF THE FOUR ADDITIONAL PRODUCTS EMPHASISING THAT HE COULD NOT AGREE TO THEM BEFORE CONSULTING INDUSTRY AND FURTHER

3. INITIAL DISCUSSION CONCENTRATED ON PRODUCT COVERAGE. SLECHT (FRG) QUESTIONED THE NEED FOR THE INCLUSION OF THE FOUR ADDITIONAL PRODUCTS EMPHASISING THAT HE COULD NOT AGREE TO THEM BEFORE CONSULTING INDUSTRY AND FURTHER DISCUSSION AT WORKING LEVEL. VAN DEN BROEK (NETHERLANDS) SAID THAT TIN PLATE WAS OF PARTICULAR IMPORTANCE TO A NETHERLANDS PRODUCER AND HE COULD NOT AGREE TO ITS INCLUSION. EYSKENS (BELGIUM) SUGGESTED THAT IT MIGHT BE BETTER NOT TO IDENTIFY THE SPECIFIC PRODUCTS IN THE APPROACH TO THE US, DAVIGNON ARGUED AGAINST THIS. THE ESSENTIAL POINT WAS TO MAKE IT QUITE CLEAR THAT THE EC OFFER DID NOT INCLUDE TUBES AND THIS MEANT SPECIFYING WHAT PRODUCTS WOULD BE INCLUDED. HE ALSO HOPED THAT IT WOULD BE POSSIBLE TO PERSUADE THE FEW COMPANIES INVOLVED TO AGREE. THEY WERE NOT COVERED BY THE EC'S ARTICLE 58 MEASURES BUT THEY WERE CURRENTLY SUBJECT TO US ARTICLE 301 CASES AND IT WOULD BE ADVANTAGEOUS TO CLEAR THEM UP. EVENTUALLY IT WAS AGREED THAT ANY DECISION TO BE TAKEN BY THE COUNCIL WOULD BE ON THE BASIS OF THE FIRST SEVEN PRODUCTS LEAVING IT TO THE ARTICLE 113 COMMITTEE TO CONSIDER THE POSITION OF THE OTHER FOUR.

4. DISCUSSION THEN TURNED TO MORE GENERAL ASPECTS. CHEVENEKENT (FRANCE) EMPHASISED THE URGENCY OF AGREEING A COMMON POSITION TODAY AS SOON AS POSSIBLE. THE OVERRIDING PRIORITY WAS TO GIVE THE COMMISSION A FIRM NEGOTIATING MANDATE AND DEMONSTRATE EC SOLIDARITY. IT MUST BE QUITE CLEAR THAT THE MANDATE SHOULD EXCLUDE PURSUIT OF BILATERAL AGREEMENTS. THIS WAS SUPPORTED BY GALLI (ITALY). SLECHT RECALLED HIS COMMENTS ON TUESDAY EMPHASISING GERMAN DISLIKE OF VOLUNTARY RESTRAINT ARRANGEMENTS. HOWEVER IT WAS OF GREAT POLITICAL IMPORTANCE TO MAKE A NEW APPROACH AND HE COULD THEREFORE GO ALONG WITH THE COMMISSION'S APPROACH, BUT HE FORESAW REAL DIFFICULTIES ON HOW THE OVERALL FIGURE WOULD BE BROKEN DOWN AMONG MEMBER STATES. THERE WAS NO QUESTION OF COMPELLING GERMAN INDUSTRY TO ACCEPT CUTBACKS. THUS WHILE THE FRG COULD AGREE NOT TO TAKE ADVANTAGE OF RESTRAINTS AGREED BY OTHER MEMBER STATES HE HAD TO INSIST ON MAINTAINING GERMAN TRADE AT 1977-81 LEVELS OR AT WORST THE 1979 LEVEL.

5. DAVIGNON THEN REVERTED TO THE IMPORTANCE OF REACHING A FIRM MANDATE TODAY. THE COMMISSION WAS NEITHER OPTIMISTIC OR PESSIMISTIC ABOUT THE PROSPECTS. THE ESSENTIAL POINT

5. DAVIGNON THEN REVERTED TO THE IMPORTANCE OF REACHING A FIRM MANDATE TODAY. THE COMMISSION WAS NEITHER OPTIMISTIC OR PESSIMISTIC ABOUT THE PROSPECTS. THE ESSENTIAL POINT WAS THAT THERE WAS NO ALTERNATIVE TO THE COMMISSION'S APPROACH. IT WAS NO LONGER POSSIBLE TO NEGOTIATE ARTICLE 794 SUSPENSION AGREEMENTS IN THE SPIRIT AND LETTER OF TUESDAY'S DECISION. OLESEN ATTEMPTED TO SUM UP THE DISCUSSION AT THIS POINT. THE COMMISSION MUST BE GIVEN A FIRM NEGOTIATING MANDATE TO REACH A COMPREHENSIVE SETTLEMENT. DELAY WOULD SIMPLY GIVE THE IMPRESSION OF INTERNAL DIFFERENCES. HE HOPED THEREFORE THAT THE COUNCIL COULD ENDORSE THE COMMISSION'S PROPOSALS IMMEDIATELY SUBJECT TO SETTLEMENT OF THE DETAIL IN THE 113 COMMITTEE.

6. THE MINISTER FOR TRADE SAID THAT HE FULLY UNDERSTOOD THE COMMISSION'S REASONS FOR SEEKING A MANDATE. THE UK RECOGNISED THE IMPORTANCE OF MAINTAINING EC SOLIDARITY. THE UK HAD LONG WANTED A COMPREHENSIVE SOLUTION AND REMAINED IN FAVOUR OF ONE. HOWEVER, THE COMMISSION HAD BEEN SEEKING THIS FOR SEVERAL MONTHS AS IT HAD TO BE RECOGNISED THAT THERE COULD BE NO GUARANTEE OF A QUICK AND SUCCESSFUL CONCLUSION NOW. INDEED ALL THE INDICATIONS FROM WASHINGTON SUGGESTED THE CONTRARY. IF THIS APPROACH FAILED IT WOULD HAVE SERIOUS IMPLICATIONS FOR EC/US RELATIONS AND IN THOSE CIRCUMSTANCES IT WOULD BE DIFFICULT FOR THE COUNCIL TO REACH FIRM CONCLUSIONS LATER. MEANWHILE THE POSITION WAS CHANGING DAILY SO THAT TUESDAY'S COUNCIL DECISION WAS ALREADY OVERTURNED. IN THE CIRCUMSTANCES HE WISHED TO EMPHASISE AGAIN UK CONCERN ABOUT THE IMMINENCE OF THE 24 JULY DEADLINE AND THAT THE UK MUST MAINTAIN ITS FREEDOM OF ACTION IN WASHINGTON BEFORE THEN. THE UK HAD SO FAR SHOWN COMPLETE EC SOLIDARITY BUT MUST NOW RESERVE ITS RIGHT TO SEEK A BILATERAL SOLUTION.

7. OLESEN SUGGESTED THAT THE COUNCIL SHOULD SIMPLY TAKE NOTE OF THE UK COMMENTS AND ENDORSE THE COMMISSION'S PROPOSALS. DAVIGNON ARGUED THAT IF SOLIDARITY DISINTEGRATED NOW THERE WOULD BE SEVERE CONSEQUENCES FOR THE COMMUNITY'S INTERNAL REGIME. BILATERAL AGREEMENTS WOULD ALSO UNDERMINE ANY POSSIBILITY OF REACHING COMPREHENSIVE SOLUTION. FINALLY, THE UK HAD NO AUTHORITY TO NEGOTIATE BILATERALLY. WITHOUT THIS CONCLUSION OF ANY AGREEMENT WOULD BE IMPOSSIBLE.

8. OLESEN APPEALED TO THE UK TO RECONSIDER AND ASKED

8. LOESEN APPEALED TO THE UK TO RECONSIDER AND ASKED WHETHER THERE WERE ANY FURTHER OBJECTIONS TO THE COMMISSION'S PROPOSALS. CHEVENEMENT EMPHASISED THE SERIOUSNESS OF THE POSITION. FRANCE ALSO HAD GREAT DIFFICULTIES AND UNDERSTOOD THE UK PROBLEM. THE FIRST PRIORITY HOWEVER WAS TO MAINTAIN COMMUNITY SOLIDARITY. THE COMMISSION MUST THEREFORE BE GIVEN AN OVERALL AND EXCLUSIVE NEGOTIATING MANDATE. IN THE ABSENCE OF THIS HE MUST ASK FOR THE DISCUSSION TO BE SUSPENDED.

9. SUBSEQUENT DISCUSSION IN RESTRICTED SESSION REPORTED SEPARATELY (SEE MIPT).

FCO ADVANCE TO:-

FCO - PS, PS/PUS, HANNAY, CROWE, KILCHEN

CAB - HANCOCK, HS LAMBERT

DOI - PS/SEC OF STATE, MARZIE, BINKINS, MOGG, BLUNDER

DOT - PS/MR REES, PS/SECRETARY, GRAY, JOHNSON, BOURKE,
R WILLIAMS, MEADWAY

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LOED BRIDGES
MR HANNAY
MR ~~ESPINOZA~~ U. We
Mr. Goodison

Hd WED
ED/EC(E) (3)
ED/NEWS D
ED/ERD
ED/ECY (I) (3)
ED/MAES
ED/ESSD
Hd NAY

IMMEDIATE

Mr. Kinchen (ECY (E))

CABINET OFFICE

DOT

PLUS OGD5

MR D HANCOCK
MR S STAPLETON
MISS S J LAMBERT
U. R. Brown

MR R GRAY
U. R. Williams
U. Bowke
PS/Secy of State

MR GREGG HARRISON
ODA

DoI

Mr. G. Dick
Mr. J. Ingham
Mr. K. Binning
U. Elgie
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H V TREASURY

M A P P

SIR K COUZENS
MR ASHFORD
U. J. E. (Cust)

SIR B HAYES

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FRAME INDUSTRIAL

DESKBY FCO 250830Z

DESKBY WASHINGTON 242130Z

FM UKREP BRUSSELS 242130Z JUL 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 3053 OF 24 JULY 1982

INFO IMMEDIATE WASHINGTON

SPECIAL COUNCIL OF MINISTERS: EC/U S STEEL

1. A VERY DIFFICULT DISCUSSION WHICH LASTED 9 HOURS MOST OF IT IN VERY RESTRICTED SESSION, BUT LEFT THE COUNCIL IN NO DOUBT THAT THE UK WOULD TRY TO NEGOTIATE A BILATERAL SETTLEMENT.

2. THE COMMISSION PROPOSED ABANDONING THE S.704 APPROACH ALTOGETHER IN VIEW OF THE U S RESPONSE TO THE COMMUNITY'S OFFER. THEY PRESSED INSTEAD FOR A FRESH ATTEMPT TO NEGOTIATE A COMPREHENSIVE SETTLEMENT. THIS WOULD BE ON THE BASIS OF A

FORMAL MANDATE FROM THE COUNCIL PROPOSING A REDUCED COMMUNITY MARKET SHARE (TO BE DETERMINED) FOR 11 PRODUCTS. THE NEGOTIATIONS WOULD HAVE TO BE COMPLETED BY 6 AUGUST IN VIEW OF THE DEADLINE FOR THE PRELIMINARY ANTI-DUMPING DETERMINATIONS. THIS WOULD INCREASE THE POLITICAL STAKES AND CONFRONT THE U S STARKLY WITH THE CONSEQUENCES OF A FAILURE FOR TRANSATLANTIC RELATIONS. ALL OTHER MEMBER STATES WERE READY IN PRINCIPLE TO SIGN ON FOR THIS APPROACH THOUGH THE FRG AND THE NETHERLANDS WRIGGLED HARD ON THE PROPOSED PRODUCT COVERAGE. IT WAS AGREED THAT THIS WOULD BE CONSIDERED FURTHER BY THE 113 COMMITTEE. BUT THE FRENCH INSISTED THAT IT SHOULD BE AN EXCLUSIVE MANDATE IE WOULD RULE OUT SEPARATE BILATERAL NEGOTIATIONS.

3. MR REES EXPLAINED THAT, AGAINST THE BACKGROUND OF TWO FAILED ATTEMPTS TO NEGOTIATE A SETTLEMENT THROUGH THE COMMUNITY, THE UK HAD DECIDED THAT IT WAS BOUND TO TRY TO REACH A SEPARATE BILATERAL AGREEMENT BEFORE THE EXPIRY OF THE DEADLINE TONIGHT. HE WOULD TAKE CARE NOT TO UNDERMINE THE PROSPECTS FOR A SUBSEQUENT COMPREHENSIVE AGREEMENT COVERING THE COMMUNITY AS A WHOLE. BUT MORE WAS AT STAKE FOR US THAN FOR ANYONE ELSE. WE HAD BEEN LOYAL TO THE COMMUNITY AND THE COMMUNITY MUST DO ITS BEST TO HELP US.

4. AFTER INTENSIVE DISCUSSION INVOLVING MR REES, DAVIGNON, HAFERKAMP, CHEVENEMENT AND THE PRESIDENCY AN UNDERSTANDING WAS HAMMERED OUT WHEREBY THE COMMISSION RECOGNISED THAT ATTEMPTS WOULD BE MADE TO REACH SEPARATE BILATERAL AGREEMENTS UNDER S.704 UP TO THE MIDNIGHT DEADLINE TONIGHT, BUT WOULD OF COURSE GIVE NO COMMITMENT ON THEIR ATTITUDE TO THE RESULTS.

5. HOWEVER WHEN THIS ARRANGEMENT WAS PROPOSED TO THE RESUMED COUNCIL THE FRENCH HAD SECOND THOUGHTS AND WOULD NOT GO ALONG. MR REES CONTINUED TO MAKE PLAIN THAT WHILE HE WAS PREPARED TO ACCEPT A NEW COUNCIL MANDATE, THE REALITY THAT SOME MEMBER STATES WERE CONTINUING THEIR DISCUSSION IN WASHINGTON AGAINST THE 704 DEADLINE HAD TO BE RECOGNISED. IN THE EVENT AFTER MUCH FURTHER DISCUSSION THE FOLLOWING COUNCIL CONCLUSIONS WERE AGREED: "THE COUNCIL AGREES THE EXCLUSIVE MANDATE PROPOSED BY THE COMMISSION AUTHORISING IT TO NEGOTIATE A GLOBAL STEEL ARRANGEMENT WITH THE UNITED STATES GOVERNMENT. THIS DECISION WILL BE COMMUNICATED FORTHWITH TO THE U S GOVERNMENT".

AT THE SAME TIME THE FOLLOWING ENTRY WILL BE MADE IN THE COUNCIL MINUTES WITH WHICH NINE MEMBER STATES (IE NOT FRANCE) ASSOCIATED THEMSELVES:

"THE COUNCIL TOOK NOTE THAT UP TO THE DEADLINE SPECIFIED IN SECTION 704 OF THE U S TRADE AGREEMENTS ACT 1979 AND CONSEQUENT UPON THE COUNCIL DECISION OF 20 JULY TALKS WERE IN TRAIN BETWEEN THE U S AUTHORITIES AND CERTAIN MEMBER GOVERNMENTS".

6. THE TEAM IN WASHINGTON WERE SUBSEQUENTLY INSTRUCTED AT 23.00Z TO DO THEIR BEST TO NEGOTIATE A SEPARATE BILATERAL ARRANGEMENT BEFORE THE DEADLINE.

7. MR REES SUBSEQUENTLY MADE THE FOLLOWING STATEMENT TO THE PRESS;
THE COUNCIL HAS AGREED TO A NEW MANDATE FOR THE COMMISSION TO NEGOTIATE WITH THE U S ON A COMMUNITY BASIS A COMPREHENSIVE LONG-TERM SETTLEMENT OF THE U S STEEL COUNTERVAILING (AND ANTI-DUMPING) CASES. THE DETAILS WILL OF COURSE HAVE TO BE WORKED OUT OVER THE NEXT FEW DAYS AND WILL BE SUBJECT TO AGREEMENT IN THE 113 COMMITTEE. WE SHALL OF COURSE PLAY OUR FULL PART IN THAT PROCESS IN ORDER TO SAFEGUARD THE INTERESTS OF THE UK STEEL INDUSTRY.

THE COUNCIL RECOGNISED THAT CERTAIN MEMBER STATES WHO WERE IN DISCUSSION WITH THE U S WITH A VIEW TO REACHING BILATERAL AGREEMENTS WITH THE U S UNDER THE COUNCIL'S MANDATE OF 20 JULY COULD CONTINUE TO DO SO UNTIL MIDNIGHT TONIGHT, 24 JULY, WHICH WAS THE DEADLINE FOR DISCUSSIONS WHICH MIGHT LEAD TO A BILATERAL SUSPENSION AGREEMENT UNDER SECTION 704 (E) OF THE TRADE AGREEMENTS ACT 1979.

THE COUNCIL RECOGNISED THAT MEMBER STATES IN DISCUSSION WITH THE U S AUTHORITIES UNDER THE COUNCIL MANDATE OF 20 JULY COULD CONTINUE TO DO SO UNTIL MIDNIGHT IN AN EFFORT TO REACH BILATERAL SUSPENSE AGREEMENTS UNDER THE U S TRADE ACT.

FCO ADVANCE TO: PS/SOFS, PS/POS.

- FCO - BRIDGES; HANNAY; CROWE; KINCHEN
- CAB - HANCOCK; MS LAMBERT
- DDI - MANZIE; BINNING; BENDER; PS/SOFS
- DDT - GRAY; R WILLIAMS; BOURKE; PS/SECRETARY

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ELLIOTT

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Qz.02663

MR COLES

EC/USA STEEL

Prime Minister

To note - it may be
necessary to consult you over
the weekend.

A.F.C. 2 1/2.

The Prime Minister may like to know quite a lot has happened since the discussion in Cabinet yesterday and we cannot be sure what the outcome will be.

2. The Community put proposals to the Americans last evening for the suspension of the steel countervailing duty investigations affecting Belgium, France, Italy and the United Kingdom in return for a 10 per cent reduction (on 1981 levels) in exports of the products concerned. The three other member states which produce steel but were not affected by countervailing duties agreed not to increase their exports to the United States. Pipes and tubes were excluded as agreed by the Foreign Affairs Council earlier this week.

3. The Americans rejected these Community proposals outright. They said that any settlement would require a substantially bigger cutback in exports on a wider range of products - specifically including pipes and tubes.

4. The Secretary of State for Industry and the Minister for Trade met this morning and agreed that, in accordance with the Cabinet's decision, officials in Washington should immediately open discussions with the Americans to clarify the terms on which the United States Government might accept a suspension agreement with the United Kingdom on its own. These discussions are now taking place. Mr MacGregor of British Steel and Mr Webley of Tube Investments are both in Washington and fully in touch. Our negotiators have their eye on the deadline under US law of midnight tomorrow Washington time, 24 July. After then it may still be possible to reach an agreement with the United States Government but it may and probably will require the explicit approval of the United States industry.

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5. A special Council of Ministers is to be held in Brussels tomorrow afternoon to take stock of the position. Mr Rees will represent the United Kingdom. If the bilateral discussions in Washington look promising, Mr Rees's objective will be to secure the acquiescence of the Community, however reluctant, to our doing a bilateral deal with the Americans. This is essential since any deal including pipes and tubes (or other products not covered by the Treaty of Paris) requires Community endorsement under the provisions of the Treaty of Rome.

6. The chances of securing an acceptable deal with the Americans, whether as a Community or bilaterally, do not look good this evening. The Americans may try to secure an unacceptably large cut in our exports so as to create a precedent for dealing harshly with the rest of the Community later on. They have also, so far at least, taken the firm line that any agreement with the United Kingdom must be acceptable to the rest of the Community and must include pipes and tubes. It is probable that the Germans will resist Community approval for the inclusion of pipes and tubes whether in a Community deal or in a bilateral US/UK deal.

7. The Minister for Trade is in constant touch with the Secretary of State for Industry and they will jointly be in charge of the negotiations tomorrow. If Mr MacGregor should telephone the Prime Minister, I think it might be best for the call to be re-directed to the Secretary of State for Industry since events are likely to be moving quickly.

D.H.

D J S HANCOCK

23 July 1982



Not ind
LM

10 DOWNING STREET

From the Private Secretary

15 June, 1982

BSC CORPORATE PLAN

The Prime Minister was grateful for your Secretary of State's minute of 14 June about the letter he proposes to send to Mr Ian MacGregor about the BSC's EFL for 1982/83.

The Prime Minister agrees to your Secretary of State writing as proposed, provided the letter is sent on a strictly confidential basis and will not be for publication in any way. Mrs Thatcher believes that publication, or a leak, of the letter would act as a signal to the other nationalised industries; she is also concerned about the reaction in the private sector steel industry

I am sending a copy of this letter to Terry Mathews (HM Treasury), Gerry Spence (CPRS) and David Wright (Cabinet Office).

M. C. SCHOLAR

J Spencer, Esq
Department of Industry

CONFIDENTIAL



Only on a
STRICTLY
Confidential
basis
me

2 pps of sv
Prime Minister (1)

PRIME MINISTER

BSC CORPORATE PLAN

* please see, too,
the attached
progress report
on Sheerness Steel.

I mentioned on Friday that I
told Industry they could not write to
Mr MacGregor as they are proposing
without your agreement (and that, as things
stood, you disagreed). They now make their case.

Have Mr Jenkin should write as
proposed?

Following the discussion in E(NI) on 9 June, I have announced the
BSC's EFL for 1982/83. I would also like to write to Ian
MacGregor, along the lines of the attached draft, to let him know
that the Government acknowledges the very real uncertainties
which BSC faces during the current year, and to explain that we
would be prepared to reconsider BSC's EFL if disruptions to the
steel market occur for reasons which are beyond BSC's control.
Leon Brittan is content with this approach, and, indeed, it is
difficult to see what else we could do in those circumstances.

MLs 146

But NOT for publication in any way. It would only
be a signal to
other
Net. Inds

2 I do not intend that BSC should be given an easy option,
least of all an automatic right to any extra finance if they are
unable to stay within their EFL of £365 million for 1982/83.
The question was considered in some detail in the final
paragraphs of the report by officials attached to E(NI)(82)15.
For your convenience I attach a copy of the relevant page of that
report.

3 Ian MacGregor is expecting to receive from me some
acknowledgment of the possible difficulties which BSC faces
during the current year. Failure to do so will be interpreted



by him, and the BSC Board, that the Government has dismissed the dangers to the Corporation's Recovery Plan which are posed by the US anti-dumping and countervailing actions and the threat of price instability on the European steel market. I hope, therefore, that you can agree to my writing to Ian MacGregor in the terms of the attached draft.

4 I am sending copies of this minute to Leon Brittan, John Sparrow and Sir Robert Armstrong.

PJ

P J

14 June 1982

Department of Industry



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DRAFT LETTER TO MR IAN MACGREGOR

As you know, the Government have decided that BSC's external financing limit for 1982/83 should be set at £365 million.

I know that you, and the BSC Board, attach particular importance to the possible need for an extra contingency margin in this year's EFL, because of the uncertainties which exist over the international steel market in 1982/83, particularly in connection with problems which may result from the U.S. steel anti-dumping and countervailing duty suits.

The EFL of £365 million does not include the contingency margin you asked for to deal with these potential international difficulties. However, the Government recognises the uncertainties which BSC face, and I am writing to you now to confirm that, if it becomes clear that BSC's financial targets are not likely to be achievable because of a disruption in the steel market, it will be necessary to reconsider BSC's EFL for 1982/83.

11 June 1982

Report attached to EN(I)(82)15

53. BSC's revised external cash requirement in 1982/83, given in the Table in paragraph 50 above, is £461 million. This however includes a contingency margin of £175 million. A breakeven target for the year implies a contingency margin of only £79 million, i.e. £96 million less than BSC envisage. Hence the appropriate EFL for 1982/83 consistent with a breakeven target before interest is £461 million - £96 million = £365 million.

54. The BSC Board attach particular importance to the need for the full extent of the possible contingency margin of £175 million to be acknowledged publicly by the Government, in view of the considerable uncertainties which face BSC during the year.

55. It is proposed that the extra BSC contingency allowance should be dealt with in 2 steps. First, in any announcement made by the Government about BSC's EFL for 1982/83, it should be made clear that the limit set does not allow for the full £175 million proposed by BSC in order to cover the potential uncertainties foreseen during the year. Second, the Government needs also to decide how it would deal with a situation in which BSC could not meet its breakeven and EFL targets because of price and export weaknesses caused by international events which neither BSC nor the Government can control. It is unrealistic to expect BSC to be able to find instant offsetting savings in such a situation; plant closures and extra redundancies would in general cost more in the short-term than continuing BSC's full operations, though in later years BSC's profitability would be improved and cash requirements reduced. But BSC should not have an automatic claim to the full £175 million contingency they have proposed. A practical approach to this problem is for the Government to make it clear, preferably in the announcement of the BSC's EFL and certainly in writing to the Corporation, that if during the course of the year it becomes clear that BSC are not likely to be able to meet their breakeven target, because of a deterioration in prices and in international trade in steel due to U.S. anti-dumping actions and/or to weaknesses in the European steel regime, then the Government will review with BSC the scope for

- (i) Action by Government on the international front to restore stability to the steel market; and
- (ii) Offsetting action which should be taken by BSC

In the light of that review, a decision would be taken on BSC's need for any extra finance required during 1982/83 above the EFL which had earlier been announced. This extra finance would come from the Government's contingency reserve, and the decision to increase the EFL would be announced to Parliament in the usual way.

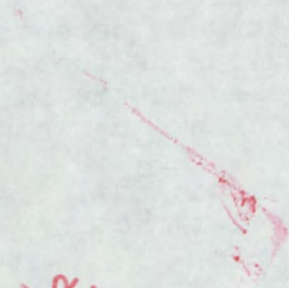
IS Division

14 May 1982



4 JUN 1982

6 7 8 9 10 11 12



Prime Minister (2)

cf JV

Mes 14/6

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

TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676



Secretary of State for Industry

14 June 1982

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

Dear Michael,

SHEERNESS STEEL

I undertook to keep you informed about the difficulties faced by Sheerness Steel.

2 There have been developments on three fronts. First, with Bank of England help, new arrangements have been worked out with Sheerness's bankers although formal agreement from the Economic Development Corporation in Canada is awaited. By this agreement the unsecured banks will be brought into the security arrangements already enjoyed by the other lenders in return for the completion, by 1 September 1982, of the postponed equity injection. Secondly, following a personal intervention by my Secretary of State, Vice-President Davignon wrote to Sheerness in terms that sufficiently reassured their Chairman to allow him the hope that the proposed capital injection would go ahead. Finally, on 8 June my Secretary of State agreed with other Community Ministers to continue the present mandatory quota arrangements until June 1983.

3 The continuation of these measures - and particularly the inclusion of wire rod - was opposed by Sheerness but will stabilise the markets and improve price levels. The financial understanding reached with the institutional lenders will give the company's Chairman some 2½ months to continue his efforts to negotiate rationalisation within the rod and bar industry. Such rationalisation is essential for resolving the company's quota difficulties and restoring it to profitability and could be supported by the Department's Private Sector Steel Scheme. We cannot, of course, be confident that the Chairman will succeed in these discussions but, at least, the new financial arrangements relieve the immediate pressure on the company.

4 I shall continue to keep you abreast of developments.

*Yours ever
 Caroline Varley*

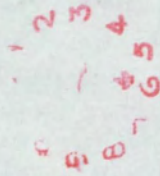
CAROLINE VARLEY
 Private Secretary

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
113 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-111
SWITCHBOARD 01-111 1111



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4 JUN 1962



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bcc: Mr. Ingham
Mr. Verrekes

10 DOWNING STREET

Not. Ind.

From the Private Secretary

11 June 1982

Dear Caroline,

PARLIAMENTARY STATEMENT ON STEEL

Many thanks for your letter of 10 June attaching a copy of two Written Parliamentary Answers on BSC finances which your Secretary of State proposes to make today.

I have shown this to the Prime Minister who is content with both Answers, save that she believes that the last two sentences of paragraph 4 of the first Answer should be deleted. Her view is that it would give the wrong signal, particularly to the private sector steel industry, to indicate in this way that the financial targets could be reconsidered if they prove to be unlikely to be achievable because of a disruption in the steel market.

I am sending copies of this letter to the Private Secretaries to the other members of E(NI) and to Francis Richards (Foreign and Commonwealth Office), Jim Buckley (Lord Privy Seal's Office), Muir Russell (Scottish Office), Adam Peat (Welsh Office) and Keith Long (Chancellor of the Duchy of Lancaster's Office).

Yours sincerely,

Michael Scholar

Ms. Caroline Varley,
Department of Industry

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Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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cc MAP, JV, PRESS

10 June 1982

Michael Scholar, Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

①

Prime Minister

Agree ~~that~~ subject to
colleagues, that this statement
should be made, by written answer?

Dear Michael,

PARLIAMENTARY STATEMENT ON STEEL

MCS 10/6

Further to yesterday's discussion at E(NI), I attach a copy of the statement on BSC finances which my Secretary of State now proposes to make tomorrow, Friday, 11 June. As agreed in discussion, the statement has been considerably shortened from the earlier version circulated with my letter of 7 June, and it will be in the form of a written answer to a Parliamentary question.

2 I also attach for information a copy of the separate statement - also by written Parliamentary answer - which my Secretary of State is making today on the outcome of the EC Industry Ministers' Council.

3 The Parliamentary timetable allows us very little time if we are to make the BSC statement tomorrow; and I should be grateful therefore for any comments to reach me by close of play today.

4 Copies of this letter and attachment go to the Private Secretaries to Members of E(NI), Francis Richards (FCO), Jim Buckley (Lord Privy Seal's Office), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Michael Arthur (Chancellor of the Duchy's Office) and to the Chief Press Officer at 10 Downing Street.

Yours ever

Caroline Varley

CAROLINE VARLEY
Private Secretary



6

QUESTION:

(For ordinary written answer on Friday 11 June)

To ask the Secretary of State for Industry, whether he will make a statement about the finances of the British Steel Corporation.

ANSWER:

1 The British Steel Corporation made good progress towards eliminating its losses in 1981/82. Its target was to reduce losses before interest to £225 million within an External Financing Limit of £730 million. Provisional results for 1981/82 show that the loss was about £252 million with an external financing requirement of about £768 million. BSC's cash requirements for its own operations were however below the EFL of £730 million; there were additional commitments totalling £72 million in connection with joint ventures with private sector steel producers. And the exceptionally severe winter weather, followed by the ASLEF dispute, cost BSC over £40 million in profits in 1981/82.

2 BSC's Corporate Plan for 1982/85 aims to achieve break-even in 1982/83, and increasing profits after interest in subsequent years. However in view of the uncertainties over international steel market in 1982/83, and of the US situation in particular, BSC indicated in March that the contingency margin in 1982/83 should be increased from £100 million proposed in the original Plan to £175 million.

3 The Government have decided, after consultation with BSC, to confirm the profit and loss target for 1982/83, announced on 24 February 1981, namely to achieve break-even before interest - and to approve the External Financing Limit, (provisionally set at £350 million in November), at £365 million. The provision of this finance is subject to the approval of the European Commission.



4 This EFL includes a contingency margin well below the £175 million requested by BSC. (However, in recognition of the uncertainties which BSC face, I have agreed that if it becomes clear that the financial targets are not likely to be achievable because of a disruption in the steel market, it will be necessary to reconsider the present decision. Any change would of course be announced to Parliament in the usual way.)

5 I warmly commend the efforts of the Chairman, the Board, the management and the workforce in achieving the remarkable progress made so far, and I wish them continuing success.



QUESTION:

(For ordinary written answer on Thursday 10 June)

To ask the Secretary of State for Industry whether he will make a statement about the outcome of the EC Industry Ministers' Council on arrangements for the EC steel industry held on Tuesday 8 June.

ANSWER:

1 The Council in Luxembourg on 8 June, which I attended, gave its consent to continue for 12 months the mandatory steel quota arrangements under Article 58 of the Treaty of Paris. The Italian Government will state their position on these arrangements by 16 June after there has been further examination of the quota calculation for certain products.

2 With minor amendments, quotas will be applied to products covered by the arrangements presently in force, with the addition of wire rod. I had no support from any Government or the Commission for my proposal that mandatory quotas should be applied to tool and high speed steels. The Commission will, however, issue tightly drawn guidelines, monitor their effectiveness, and report to the Council in October.

3 It was a significant achievement by the Council to reach agreement on these arrangements. With other provisions - most notably the Aids Decision which the Commission confirmed would be rigorously and equitably enforced - the Council has provided a basis for the European steel industry to return to viability during this period of crisis and uncertainty.

CONFIDENTIAL

Prime Minister (2)

X needs much more

Foreign and Commonwealth Office *emphasis.*

London SW1A 2AH

8 June 1982

MCS 8/6

From The Minister of State

Rt Hon Douglas Hurd CBE MP

Dear Geoffrey,

BSC CORPORATE PLAN 1982

As I shall not be able to attend tomorrow's E(NI) meeting I am writing to let you have my views in advance.

Although your Memorandum does not overlook the Community angle, I am not sure that it does justice to the delicacy of your task in clearing the aid through the Commission nor to the potential embarrassment should things not go according to plan.

This is by far the largest aid package which we shall have to notify to the Commission in the immediate future and is in a particularly sensitive sector. The Commission, as you know, have been taking a very tough line with other member states over their aid plans and have made it clear to us that they will insist on substantial new capacity reductions as a counterpart to the aid to BSC. We ourselves have of course been pressing hard for rigorous implementation of the Aids Decision throughout the Community.

It is against this difficult background that we shall be seeking the Commission's approval for a very substantial amount of financial support in 1982/83 and for investment in a new strip mill project. But it remains uncertain what capacity reductions we shall be able to offer in return and I understand that it may be several months before we are likely to know.

In the meantime BSC are in fairly urgent need of cash. I understand that BSC want the Commission to approve an initial tranche of £300 million by the end of July (over 50% of their likely requirement this year). But because BSC are not ready to give a commitment to any specific plant closures the Commission are in effect being asked to authorise a major slice of aid without any guaranteed counterpart. I understand that even the (largely symbolic) proposed dismantling of Normandy Park to which you refer in your Memorandum is no longer being offered as a certainty. And the rest is still subject to review.

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

/It would

CONFIDENTIAL



- 2 -

It would therefore be useful if you could give the E(NI) an assessment of the Commission's likely reaction to this request for approval of the initial tranche. Is it not probable that the Commission will impose strict conditions on their approval? Given BSC's need for cash, they have an effective lever on us and the Corporation. Yet how likely is it that the capacity reductions which are eventually decided upon will be enough to satisfy the Commission? Presumably if a few cuts are agreed, or if a longer timescale is envisaged we may have serious difficulties with the Commission.

There is also the question of how BSC is being financed now. We are well into the 1982/83 financial year, yet Commission approval for the first tranche of this year's financing is not expected until at least the end of July. I understand that a short term National Loan Fund facility has been proposed. I trust that the Commission are not going to object to this and it would be helpful to have your confirmation that this is so.

Finally, I note from the paper by your officials (paragraph 27) that there is a 'significant risk' that BSC will fall short of its financial targets. BSC is clearly very vulnerable to external factors (weather, strikes, price variations) and I fear that any of these could have a substantial effect on the Corporation's financial requirements. I see that you have tried to make allowance for this by building a substantial contingency element into the figures, but I think it should be recognised that these external uncertainties could well lead to further difficulties with the Commission later in the year.

x/ I realise that in dealing with the Commission there are several points in our favour (the substantial capacity reductions already achieved, the degressivity of the aid, and BSC's encouraging overall performance). But equally I believe colleagues should be fully aware of the difficulties which lie ahead. I hope your officials will keep in close touch with mine about this in the coming months.

I am copying this letter to members of E(NI).

Yours,
Dayle

JU354

CONFIDENTIAL

CC MAP Press JV
next fol



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Secretary of State for Industry

7 June 1982

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

ms

Prime Minister (2)

To see that Mr Jenkin is
planning to make a statement on
steel next Monday. It is in line with
the recent E(NI) paper.

Dear Michael,

PARLIAMENTARY STATEMENT ON STEEL

As agreed in discussion with Jonathan Spencer last Friday, I attach a preliminary draft of the statement on steel which my Secretary of State would like to make on Monday, 14 June, assuming of course a firm outcome to the E(NI) discussion on Wednesday 9 June. Members of E(NI), to whom this letter and attachment are copied, may find it helpful to have a preliminary view of what we propose.

*with when
the revised
draft is
available.*

2 I should point out that the draft statement as it stands is likely to require some refinements, and is also incomplete. Besides a statement on the BSC Corporate Plan and related matters, my Secretary of State also proposes to cover the outcome of the Council of Ministers' meeting in Luxembourg on Tuesday, 8 June which is considering a package of measures on steel; and an expected announcement on 10 June by the US Department of Commerce of their preliminary findings on a number of countervailing duty cases brought against the European steel producers. It will not, therefore, be possible for us to circulate a revised and complete version of the statement until the end of Thursday at the earliest.

MUS 7/6

3 Copies of this letter and attachment go to the Private Secretaries to Members of E(NI), Francis Richards in the FCO, Jim Buckley in the Lord Privy Seal's office, Michael Arthur in the Chancellor of the Duchy's office and to the Chief Press Officer at 10 Downing Street.

Yours ever,

Caroline Varley

CAROLINE VARLEY
Private Secretary

DRAFT STATEMENT ON THE STEEL INDUSTRY

With permission, Mr Speaker, I would like to make a statement about the steel industry. A report by BSC which provides background to my statement has been placed in the Library of the House and in the Vote Office.

On 24 February last year my predecessor announced the Government's support for the short-term survival Plan which the new BSC Chairman had drawn up for 1981/82. That Plan was described by Mr MacGregor as optimistic, a view which the Government endorsed, involving as it did ambitious targets to reduce the Corporation's losses, to improve productivity and efficiency, to cut costs, and to regain market share lost as a result of the steel strike in 1980.

The Corporation has made good progress towards eliminating its losses in 1981/82 and has prepared a Corporate Plan for 1982/85 based on achieving break-even in 1982/83 followed by a return to profit after interest in subsequent years.

BSC's target for 1981/82 was to reduce losses before interest to £225 million from £482 million in 1980/81, within an External Financing Limit of £730 million compared with £1,119 million in 1980/81. Provisional results for 1981/82 show that BSC's loss was about £252 million for the year with an external financing requirement of about £768 million. The loss target would have been met if it had not been for the effects of the exceptionally severe weather in December and January, followed by the ASLEF

dispute, which cost BSC just over £40 million in all. Moreover, the Corporation's cash requirements for its own operations were in any case below £730 million: the EFL was exceeded only because of commitments totalling £72 million entered into in connection with joint ventures with private sector steel producers, which were not taken into account when the EFL was agreed and announced last year.

BSC's improved performance has been due to three main factors. First, labour productivity has increased significantly: the number of employees fell by 17,200, or 14 per cent, during the year while liquid steel production increased by almost 20 per cent over 1980/81, to 14.1 million tonnes. Second, plant utilisation and efficiency have improved in most parts of BSC as production levels and manned capacity have moved into line, in accordance with Plan. And thirdly, steel prices have increased to more remunerative levels following agreement in June 1981 on a package of measures to strengthen the European Community market for steel. In this context, I must stress the vital contribution which the European anti-crisis measures have made to improving the performance and prospects not just of BSC but also of the UK private sector steel-makers.

I turn now to the new Corporate Plan for 1982/85. Although it was first submitted to the Government in December 1981, it was withdrawn for reappraisal in January. In March Mr MacGregor informed me that BSC wished to retain the original Plan as the

basis for operations in 1982/85 but that in view of the uncertainties over the steel market in 1982/83, because of the US situation in particular, BSC considered that the contingency margin in 1982/83 should be increased from £100 million proposed in the original Plan to £175 million.

The report which BSC has made available to the House summarises the main features of the new Plan. There will be a modest increase in manned steelmaking capacity, from 14.4 million tonnes of liquid steel last year to 15.3 million tonnes in 1984/85, together with a corresponding increase in total sales. In addition, the pressure to cut costs and improve productivity will be maintained, through keeping up high use of capacity, through reducing energy consumption, and through some further slimming of manpower which will involve about 11,000 job losses in 1982/83. The Government consider that, barring serious adverse developments affecting markets or prices, the Plan represents a realistic strategy which deserves support. But I must stress in this context, as BSC itself has done, that a continuation of the European anti-crisis measures beyond June this year, and in particular the maintenance of an effective price regime, will be crucial to the success of the Plan. The Government are working hard in Brussels to secure these objectives.

The discussions with BSC have also covered the financial targets which should be set for the Plan period, and in particular for 1982/83. These discussions have taken into account the reductions in the National Insurance Surcharge and concessions on energy prices announced in the Budget as well as a more recent

assessment of BSC's profit outlook and cash requirements in 1982/83. As a result, we have agreed with BSC that the profit and loss target for the year should be the same as that announced on 24 February 1981 - namely to achieve break-even before interest - and that the External Financing Limit, provisionally set at £350 million in November, should now be finally fixed at £365 million. The provision of this finance is subject to the approval of the European Commission.

As I have already explained, BSC has proposed that there should be a contingency margin on both profit and loss and cash targets in 1982/83 of £175 million to take account of possible market instability in Europe flowing from the US legal actions. More recently, the Corporation has also expressed concern at a weakening of UK steel demand, and at evidence of significant increases in import penetration. The Government do not discount the importance of these potential problems, but we do not think it right to set targets for BSC in 1982/83 which assume that there will be serious disruptions to its business.

We have therefore agreed to a further review with BSC if during the course of the year it becomes clear that the financial targets are not likely to be achievable because of a deterioration in the steel market. We shall assess the scope for action on the international front to restore stability to the steel market and the scope for offsetting action which should be taken by BSC. This review would consider whether BSC needed any

extra finance during 1982/83 above the EFL which I have just announced. Any extra finance would come from the Government's Contingency Reserve, and a decision to increase the EFL would be announced to Parliament in the usual way.

My final point on financial matters concerns the future funding of the Corporation. Since 1978 BSC has been financed entirely by issues of capital under Section 18 of the Iron and Steel Act 1975, no dividends have been paid on this capital, much of which was written off by the Iron and Steel Act 1981.

We intend to complete the capital reconstruction of BSC by writing off a further amount of capital later this year, as provided for in the 1981 Act. Thereafter we expect BSC to operate as a commercial enterprise, and if the Plan targets are met and BSC return to profitability after interest in 1983/84, then we intend to resume the financing of BSC by means of interest-bearing loans from the National Loans Fund, to provide BSC with a debt to equity ratio which is appropriate to a competitive commercial enterprise.

I turn now to other important matters.

On privatisation, it remains the Government's firm intention that BSC's assets and activities should be transferred to the private sector as quickly as is practicable. Priority will be given to

the non-iron and steel activities of the Corporation and to the disposal or formation of joint undertakings where BSC's activities overlap with those of the private sector steel producers.

Another element in the policy of privatisation, but linked with the question of fair competition between BSC and the private sector, lies in the conversion of BSC's businesses into Companies Act companies. This introduces transparency into the Corporation's activities and at the same time paves the way for the introduction of private capital. Since February last year, BSC has transferred a range of its businesses into such companies - British Steel Service Centres Ltd, the stockholding operation; Stanton and Stavely Ltd, the pipe-makers; and a number of discrete businesses within Tubes Division. BSC now proposes to establish a phased programme for transferring all its remaining businesses into Companies Act companies, with the precise timing reflecting the progress of each business towards profitability. I expect to receive details of this programme from BSC shortly and will keep the House informed.

In the main areas of overlap between BSC and the private sector steel producers, the Government's aim has been to encourage the formation of joint ventures, sometimes referred to as "Phoenix" arrangements. The first, combining the BSC and GKN wire rod interests into a new jointly-owned company, Allied Steel and Wire Ltd, came into operation last July. Discussions on further

possible joint ventures are continuing.

Rationalisation in the private sector is also necessary where BSC has little or no involvement. Over-capacity needs to be reduced, but leaving rationalisation to market forces would not necessarily lead to the best-equipped companies surviving. Last December, therefore, the Government set up a £22 million Private Sector Steel Scheme to assist restructuring. So far, 14 companies have submitted a total of 27 separate applications between them. A good number of other companies are also discussing proposals with the Department. We expect a substantial number of additional applications before the closing date in September, particularly in the wake of the studies commissioned by the Department into the cold-rolled strip and bright bar sectors.

So, despite set-backs and uncertainties, I can report steady progress both in the public and private sectors. Though there is still some way to go before we have a viable, profitable and competitive steel industry in Britain, the progress made so far is encouraging. It has required great efforts by management at all levels and great co-operation by the workforce, and I know that the House will share my hope that this progress will be sustained.

JU354

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Secretary of State for Industry

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7 June 1982

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

PM has seen

MCS 8/6

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Nat Ind



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Secretary of State for Industry

4 June 1982

David Heyhoe Esq
Private Secretary to
The Lord President of the Council
Privy Council Offices
Whitehall
SW1A 2AT

1. M/S

No need to trouble PM at this stage on timing. We have no objection to this tentative plan if Mr Biffen is happy. Nearer the time other matters could dictate a change of date.

Dear David,

PARLIAMENTARY STATEMENT ON STEEL

2. p.a.

MAD 4/VI.

On Wednesday 9 June E(NI) Committee will discuss a paper by my Secretary of State on the finances and Plan of the British Steel Corporation. BSC is the only nationalised industry for which the Government has not yet announced a firm external financing limit for 1982/83, and it will be necessary to make a short statement in the House of Commons about the BSC's Corporate Plan and its prospects once the EFL for 1982/83 has been decided.

2 Assuming that E(NI) do reach firm decisions on 9 June, my Secretary of State would like to make a statement after Questions on Monday 14 June. The statement would also need to refer to the outcome of the Council of Ministers' meeting in Luxembourg on Tuesday 8 June, which is considering a package of measures on steel but which is likely to be inconclusive. We are also expecting, on 10 June, an announcement by the US Department of Commerce of their preliminary findings on a number of countervailing duty cases brought against European steel producers, and the statement on 14 June will need to include a reference to this as well.

3 I would be grateful if you would let me know whether the Lord President can agree, on a provisional basis, that a statement on steel may be made on Monday 14 June.

4 I am sending a copy of this letter to Mike Pattison at 10, Downing Street, Jill Rutter in the Chancellor's Office, Francis Richards in the FCO, John Rhodes in the Department of Trade, Murdo MacLean in the Chief Whip's Office, Jim Buckley in the Lord Privy Seal's Office, Michael Arthur in the Chancellor of the Duchy's Office and to the Chief Press officer at 10 Downing Street.

Yours ever
Caroline Varley

CAROLINE VARLEY
Private Secretary

Prime Minister (2) ~~cc 52~~

To see mes 4/6

DEPARTMENT OF INDUSTRY
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123 VICTORIA STREET
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JFF789

PS/ Secretary of State for Industry

3 June 1982

Willie Rickett Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Willie

DUPORT STEELS LTD

You may recall that the Prime Minister took a close interest in the arrangements between Duport Ltd and BSC in the early part of 1981 for the transfer to BSC of some of Duport's steel making activities. This involved also the closure of the Duport Steelworks at Llannelli. One of our concerns was that this rationalisation of steel making capacity should not bring down in its train the rump of the Duport Group.

2 There have been some recent developments that you should be aware of. They have already attracted some press attention and more can be expected.

3 Closure of the Llannelli steelworks rendered Duport Steels Ltd liable to repay to the Department some of the regional development grants it had received and to the Welsh Office some railways freight facilities grant. The total claims are around £3.5m. Duport has resisted all of our attempts to negotiate sensible terms for repayment by instalments. My Secretary of State and the Secretary of State for Wales therefore decided that there was no alternative to commencing legal proceedings and writs have been issued.

4 They have also concluded that they would petition for the compulsory winding up of Duport Steels to ensure that a further £2m which is due to be paid over by BSC shortly was not dissipated. This may not in fact be necessary, since Duport's directors have now indicated that they intend to put Duport Steels into voluntary liquidation. Either way



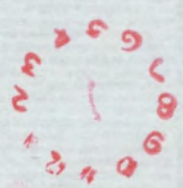
the Departments will have to see what if anything becomes available in the liquidation after meeting secured creditors, but the chances are that it may be little or nothing.

5 I should emphasise that Duport Steels Ltd has no continuing activities, so its liquidation does not threaten further jobs. Nor is the rest of the Duport group likely to be affected since the claims are against Duport Steels only.

6 This letter is copied for information to Adam Peat (Welsh Office) and Terry Mathews (Treasury).

Yours ever
David Saunders

DAVID SAUNDERS
Private Secretary



03 JUN 1982



bcJV JP

Nat. Ind's.

10 DOWNING STREET

1 June 1982

From the Private Secretary
COMMERCIAL IN CONFIDENCE

SHEERNESS STEEL

Thank you for your letter of 25 May about the difficulties faced by Sheerness Steel. I have shown this to the Prime Minister.

The Prime Minister has commented as follows:
"Everything possible and more must be done to save this Company."

I am sending copies of this letter to John Kerr (HM Treasury) and Brian Fall (FCO).

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

JP



DEPARTMENT OF INDUSTRY
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LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

25 May 1982

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

Prime Minister

(2)

Dear Michael,

*Everything possible
and more
done to save this company*
MB

An unhappy story.

Mus 25/5

SHEERNESS STEEL

My Secretary of State has asked me to write to you to bring you up-to-date on the difficulties faced by Sheerness Steel which will, despite the Government's efforts, almost certainly result in a financial crisis for the company in the near future.

2 Nearly two years ago Sheerness ran into major financial difficulties which pushed them very close to failure in the autumn of 1981. This storm was weathered - with some informal help from the Bank of England and the Department of Industry - and the company decided upon a £6½ million capital injection. This would have put their finances onto a sounder footing and permitted a rescheduling of their debts, thereby relieving the company of very heavy interest charges. The plan envisaged a very high level of manufacturing activity and ran into difficulties because of the Community's mandatory quota arrangements which restricts all producers to their historic pattern of production and trade. These quota arrangements were begun in October 1980 to deal with the grave crisis in the European steel industry, and have made a significant contribution to stabilising the market and in raising prices to economic levels. The quota for total production at Sheerness was adequate. But the quota for selling steel within the European market was insufficient, since Sheerness' former export markets in the Middle East have collapsed with no possible prospect of revival, and the company is therefore forced to concentrate more heavily than hitherto on the European market. The combination of this latter inadequate sales quota and general uncertainty about the nature of the steel regime that might follow 30 June 1982 - when the current arrangements expire - meant that the proposed capital injection has not gone forward. This, in turn, has worried banks from whom Sheerness had considerable unsecured loans.

3 The company's position has been made more precarious by the Commission's proposal to bring wire rod again within the quota



arrangements after 30 June. (In addition to wire rod, Sheerness manufactures reinforcing bars and merchant bars, both of which are already caught by the present quota measures.)

4 This proposal, and the quota regime as a whole, is fully supported by the British Independent Steel Producers Association (BISPA) who represent all the UK producers of rod and reinforcing bar, other than Sheerness. It is also supported by BSC who produce some merchant bar on their own account, and who are worried about the continued stability of the steel market generally. If the regime crumbles, then their own financial recovery could be seriously jeopardised. Sheerness, however, take diametrically the opposite view: their clear preference would be for the abolition of mandatory quotas after 30 June 1982.

5 Sheerness' view is in practice unrealistic in view of the opposition of the rest of the UK industry (both BISPA and BSC), and the strong support for continued quotas from the rest of the Community. The only area of doubt relates to the Commission's proposals on wire rod, which some Member States, including Germany, may oppose. In these circumstances my Secretary of State intends to support the continuation of the mandatory quotas, including the Commission's proposals on wire rod.

6 Within this overall framework, all possible help is being given to Sheerness, though with limited success to date. Officials have had frequent meetings with the Commission, and succeeded in obtaining some enhancement of Sheerness' sales quota. However, the Commission say that they cannot make radical concessions, despite a personal visit from the Minister of State (Mr Lamont) earlier this month, because the Decision under which they operate is tightly drawn and there is no legal way they could give substantial additional quota without significantly undermining the overall policy. A further meeting, involving the Commission, Departmental Officials, the BSC, and the chairman of Sheerness, is planned to take place in Brussels over the next few days.

7 The Department has also approached BISPA, who identified one company from whom quota could have been bought, but Sheerness could not afford the price. Quota is of course a scarce commodity and as such is bought and sold within the EEC within predetermined limits. BSC have also been pressed strongly by the Minister of State to see whether they could make quota available. The Chairman confirmed that for the first two quarters of this year all the quota was committed, and provided a detailed analysis of its allocation to support this view. My Secretary of State took the view that, while he has powers to direct BSC to hand over quota free of charge, such an action would be politically unwise, because it would be resisted by BSC



on the grounds that it was against their commercial interest, and because the publication of the decision would further weaken Sheerness's financial standing.

8 On the financial side, the Bank of England (after consultation with the Department) is trying to persuade the banks, in particular the unsecured creditors, to await the result of discussions in Brussels, including the next Ministerial Council scheduled for 8 June. The banks may also give the company a little more time to see whether it can develop ideas for rationalisation, which it has already hinted at. The company have told the Department they will wish to seek assistance under the Private Sector Steel Scheme for up to £5 million, though on the most generous interpretation of the rules, any proposal they put forward is likely to yield far less than this.

9 Matters are likely, therefore, to develop very quickly in the next few days. Indeed, aspects of what I have written above already need updating to take in latest developments, but rather than delay this letter any further, my Secretary of State has asked me to send it off now: I will telephone later today with the fully up-to-date position.

10 I am sending a copy of this letter to the Private Secretary to the Foreign Secretary.

*Yours ever,
Jonathan Spencer*

JONATHAN SPENCER
Private Secretary

*(David Walker)
now successful in persuading the banks to hold off for a few weeks more.
Mrs*

see annotations

PART 10 ends:-

14.12.81

PART 11 begins:-

14.1.82

