S
808

PREM 19/1095

The Steel Industry

NATIONALISED INDUSTRIES

Part 1: June 1979

Part 2: December 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~13.12.82~~		~~12.5.83~~					
~~20.12.82~~		~~13.5.83~~					
~~23.12.82~~		~~17.5.83~~					
~~31.12.82~~		~~18.5.83~~					
~~10.1.83~~		~~20.5.83~~					
~~3.1.83~~		~~23.5.83~~					
~~7.2.83~~		30.6.83					
~~8.2.83~~		—ends—					
17.2.83							
~~21.2.83~~							
~~18.3.83~~							
~~21.3.83~~							
~~24.3.83~~							
~~25.3.83~~							
~~30.3.83~~							
~~21.4.83~~							

PART 12 ends:-

CC(83) 21st Item 3 30.6.83

PART 13 begins:-

CC(83) 22nd Item 3

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(82) 51st Conclusions, Minute 3	2.12.82
CC(82) 53rd Conclusions, Minute 4	16.12.82
CC(83) 11th Conclusions, Minute 3	24.3.83
EQO(83) 4	30.3.83
CC(83) 13th Conclusions, Minute 3	21.4.83
CC(83) 14th Conclusions, Minute 3	28.4.83
CC(83) 21st Conclusions, Minute 3	30.6.83

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

Signed OWayland Date 18 April 2013

PREM Records Team

Published Papers

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

House of Commons Paper 22: Second Report from the Committee on Scottish Affairs, Session 1982-83: The Steel Industry in Scotland
HMSO, 6 December 1982

Signed OWayland Date 18 April 2013

PREM Records Team

CC DOI TMP

6CC Wolfson

10 DOWNING STREET

THE PRIME MINISTER

23 May 1983

Dear Mr. Wilson.

Thank you for your letter of 12 May requesting a meeting to discuss the future of the British Steel Corporation's plant at Ravenscraig.

The Government have now approved BSC's Corporate Plan for 1983/86 on the basis set out in Patrick Jenkin's letter of 19 May to Mr. Ian MacGregor. As you will see from the copy which I enclose, the Plan has been prepared on the basis that steelmaking will continue at the five integrated plants and it contains no proposal from BSC about any possible partnership with an American steel company. It remains the case that, if any such proposal were to be made by BSC in future, the Government would consider it on its merits.

There is nothing which I could add at a meeting to this explanation of the position but I have taken careful note of the points made in your letter.

Yours sincerely

Margaret Thatcher

G. Wilson, Esq.

GR PP's ?

C/F

ce NO

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

RESTRICTED

JU756

20 May 1983

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

Dear Michael,

checked with Mr Yonge's office (Mr McPherson): they are content.

You wrote to me on 17 May asking for a draft reply from the Prime Minister to the letter she had received from the Scottish Group Branch of the Steel Industry Management Association, requesting a meeting to discuss the future of Ravenscraig.

2 The SIMA letter argues at length that Ravenscraig is an efficient plant which should not be threatened with total or partial closure as a result of BSC's attempts to conclude a slab supply arrangement with the US Steel Corporation. The arguments are those which are being extensively deployed by the manualgrade trade unions at the plant and which were put directly to my Secretary of State when he met the Ravenscraig shop stewards in Glasgow on 12 May.

3 The Government's position on the question is summarised in the letter, published today, from my Secretary of State to Mr MacGregor giving approval for BSC's Corporate Plan. This confirm that the Plan is based on continued steelmaking at BSC's five integrated plants and that the Government have received no proposals from the Corporation about any possible partnership with an American steel company.

4 I suggest that the Prime Minister sends SIMA a copy of the letter and declines a meeting on the grounds that nothing could be added to this statement of the position. I attach a draft reply on this basis.

Yours ever,

Caroline Varley

CAROLINE VARLEY
Private Secretary

Pl type

bc D Wolfson
20/5

DRAFT LETTER FROM THE PRIME MINISTER TO:

G Wilson Esq
Secretary, Scottish Group Branch
The Steel Industry Management Association
31 Wellesley Crescent
East Kilbride
Glasgow G75 8TS

Thank you for your letter of 12 May requesting a meeting to discuss the future of the British Steel Corporation's plant at Ravenscraig.

The Government have now approved BSC's Corporate Plan for 1983/86 on the basis set out in Patrick Jenkin's letter of 19 May to Mr Ian MacGregor. As you will see from the copy which I enclose, the Plan has been prepared on the basis that steelmaking will continue at the five integrated plants and it contains no proposal from BSC about any possible partnership with an American steel company. It remains the case that, if any such proposal were to be made by BSC in future, the Government would consider it on its merits.

There is nothing which I could add at a meeting to this explanation of the position but I have taken careful note of the points made in your letter.

JF3532
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 May 1983

I K MacGregor Esq
British Steel Corporation
9 Albert Embankment
LONDON
SE1 7SN

Dear Mr MacGregor

BSC CORPORATE PLAN 1983/86

The Government have completed their assessment of the BSC Corporate Plan for 1983/86 which you presented to me in mid-February and I am now writing to let you know our conclusions.

You have of course drawn up the Plan on the basis which I announced to the House of Commons on 20 December last and which still remains our policy - namely, that steelmaking would continue at all five major integrated sites - and with the objective of the Corporation reaching break-even before interest in 1984/85. I am glad to see that the Plan is designed to continue BSC's progress towards viability by increasing efficiency, quality and customer service. Financial support from the Government will continue to be reduced as break-even and profitability are achieved.

I am pleased to be able to tell you that, against this background, the Government have now approved the Plan. We have set an External Financing Limit for 1983/84 of £325 million. This is consistent with the Corporation's operating plan for the year, but includes a smaller margin for contingencies than you had proposed.

The Plan put forward proposals for capital investment amounting to £665 million over the three year period 1983/84 to 1985/86. £256 million-worth of major schemes are due to start in 1983/84 including:

		Total cost £ million
(a)	Modernisation of the Port Talbot hot strip mill	171
(b)	Provision of continuously cast feedstock for medium range seamless tubes at Clydesdale	36
(c)	Modernisation of the large-diameter seamless tube plant at Bromford	13
(d)	New slab reheat furnace at the Lackenby beam mill	13

The Government have approved the general capital expenditure programme for 1983/84 and have specifically approved the major project at Port Talbot on the basis that, as we agreed, it should at this stage include one new reheat furnace. Subject to the necessary formal consent by the European Commission, you are therefore now able to proceed with the schemes due to start in the current year.

I recognise that the steel market remains difficult and that - as I made clear to the House on 20 December last - the future of any particular plant or works will continue to depend on the way in which markets for their products develop and on the costs and efficiency of their operation.

As you know, the Corporate Plan which the Government have now approved contains <u>no</u> proposal from BSC about any possible partnership with an American steel company. If any such proposal were to be made by BSC in future, the Government would consider it on its merits.

In view of the public's interest in your plan, I propose to issue the text of this letter to the Press.

(signed) PATRICK JENKIN

19 MAY 1983

VCC N.O.

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

cf. B.I

Men (PA)

JU745

18 May 1983

CONFIDENTIAL

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

Dear Michael,

BSC CORPORATE PLAN 1983/86

As you know, Bernard Ingham and John Woodrow here have agreed that the most appropriate way of putting the Government statement on the BSC Corporate Plan into the public domain is via a letter from my Secretary of State to the Chairman of the BSC.

2 I attach a copy of this letter in final form. I should be grateful if copy recipients would note that it is dated tomorrow, 19 May, and will not be released to the press until about 9.30am tomorrow morning. It should therefore be treated as embargoed until then.

3 This Department has prepared factual question and answer briefing for use by our Press Office in dealing with any follow-up enquiries from the press, and this is being circulated to officials in other interested Departments.

4 Copies of this letter and attachment go to the Private Secretaries to the Members of E(NI), the Foreign and Commonwealth Secretary, the Secretaries of State for Scotland and Wales, the Lord President, the Chancellor of the Duchy, Sir Robert Armstrong, John Sparrow and to Bernard Ingham.

Yours sincerely,

Jonathan Spencer

JONATHAN SPENCER
Private Secretary

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

JF3532
Secretary of State for Industry

19 May 1983

I K MacGregor Esq
British Steel Corporation
9 Albert Embankment
LONDON
SE1 7SN

Dear Mr MacGregor

BSC CORPORATE PLAN 1983/86

The Government have completed their assessment of the BSC Corporate Plan for 1983/86 which you presented to me in mid-February and I am now writing to let you know our conclusions.

You have of course drawn up the Plan on the basis which I announced to the House of Commons on 20 December last and which still remains our policy - namely, that steelmaking would continue at all five major integrated sites - and with the objective of the Corporation reaching break-even before interest in 1984/85. I am glad to see that the Plan is designed to continue BSC's progress towards viability by increasing efficiency, quality and customer service. Financial support from the Government will continue to be reduced as break-even and profitability are achieved.

I am pleased to be able to tell you that, against this background, the Government have now approved the Plan. We have set an External Financing Limit for 1983/84 of £325 million. This is consistent with the Corporation's operating plan for the year, but includes a smaller margin for contingencies than you had proposed.

The Plan put forward proposals for capital investment amounting to £665 million over the three year period 1983/84 to 1985/86. £256 million-worth of major schemes are due to start in 1983/84 including:

		Total cost £ million
(a)	Modernisation of the Port Talbot hot strip mill	171
(b)	Provision of continuously cast feedstock for medium range seamless tubes at Clydesdale	36
(c)	Modernisation of the large-diameter seamless tube plant at Bromford	13
(d)	New slab reheat furnace at the Lackenby beam mill	13

The Government have approved the general capital expenditure programme for 1983/84 and have specifically approved the major project at Port Talbot on the basis that, as we agreed, it should at this stage include one new reheat furnace. Subject to the necessary formal consent by the European Commission, you are therefore now able to proceed with the schemes due to start in the current year.

I recognise that the steel market remains difficult and that - as I made clear to the House on 20 December last - the future of any particular plant or works will continue to depend on the way in which markets for their products develop and on the costs and efficiency of their operation.

As you know, the Corporate Plan which the Government have now approved contains <u>no</u> proposal from BSC about any possible partnership with an American steel company. If any such proposal were to be made by BSC in future, the Government would consider it on its merits.

In view of the public's interest in your plan, I propose to issue the text of this letter to the Press.

(signed) PATRICK JENKIN

Nat Ind BSC Pt 17

18 MAY 1983

NBPM
MLS 28/5
cc NO

Foreign and Commonwealth Office

London SW1A 2AH

18 May 1983

Dear Jonathan,

British Steel Corporation

Mr Pym has seen a copy of Mr Jenkins's minute to the Prime Minister of 10 May about BSC's Corporate Plan, and your letter of 16 May with a draft statement on the Government's response to the Plan.

with MLS?

He agrees with Mr Jenkin's analysis of the prospects for the negotiations with the Commission and with the proposed line. As the papers attached to Mr Jenkin's minute clearly bring out, the negotiations are going to be very difficult, and there will need to be careful coordination in Whitehall on the handling and tactics. Mr Pym has also commented that considerable damage would be caused by any comment by the Commission on the Plan or on our aid notification, particularly during the next few weeks. It will be important to ensure that the Commission understand the need for absolute discretion.

We are content with the draft statement on the Plan and have no comments to offer.

I am copying this letter to the other recipients of yours.

Yours ever

Roger Bone

(R B Bone)
Private Secretary

Jonathan Spencer Esq
Private Secretary to the
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

CONFIDENTIAL

NAT IND: Steel
Pt 12

CONFIDENTIAL

FILE

RM

B/c: Bingham

10 DOWNING STREET

From the Private Secretary

18 May, 1983

BSC CORPORATE PLAN 1983/86

Thank you for your letter of 16 May to which you attached a draft statement of the Government's response to the BSC Corporate Plan.

The Prime Minister has seen this draft, and is content that you should issue a statement on these lines.

I am sending a copy of this letter to the Private Secretaries to members of E(NI), Brian Fall (FCO), David Heyhoe (Lord President's Office), Muir Russell (Scottish Office), Adam Peat (Welsh Office) and to Richard Hatfield and Gerry Spence (Cabinet Office).

M. C. SCHOLAR

J. Spencer, Esq.,
Department of Industry

CONFIDENTIAL

Mr. G. WILSON

JUP

20/5

10 DOWNING STREET

From the Private Secretary 17 May 1983

I attach a copy of a letter the Prime Minister has received from Mr. G. Wilson, Secretary of the Scottish Group Branch of the Steel Industry Management Association. You will see that he requests a meeting with the Prime Minister about the future of the plant at Ravenscraig.

I would be grateful for a draft reply for the Prime Minister's signature by Friday, 20 May.

I am sending a copy of this letter to John Wilson (Scottish Office), and would be grateful if the Scottish Office's views could be taken into account in the draft letter.

M. C. SCHOLAR

Jonathan Spencer,
Department of Industry.

CC N.O.

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

MBPM
MLS 17/5

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

CONFIDENTIAL

17 May 1983

Dear Jonathan

BSC CORPORATE PLAN 1983/86

with MCS?

Thank you for sending me a copy of your letter of ~~16~~ May to Michael Scholar about the announcement to be made on Thursday 19 May.

My Secretary of State is content with the terms of the announcement and, following your earlier discussion with Judy Roberts, proposes to refer to the approval of the Port Talbot project at a press conference on Thursday, 19 May at 9.30 am. You agreed that you would be issuing a press notice, probably in the form of the text of a letter to the Chairman of the BSC, on Thursday morning. My Secretary of State's remarks will accord with the outline agreed with your Secretary of State and the Secretary of State for Scotland when they met last week.

Copies of this letter go to recipients of yours.

Yours ever

Colin

C L JONES

Jonathan Spencer Esq
Private Secretary to
The Secretary of State for Industry

17 MAY 1983

010

Secretary of State for Industry

CONFIDENTIAL

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

JU709

16 May 1983

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

Prime Minister

Agree this statement?

MCS 17/5

Yes

Dear Michael,

BSC CORPORATE PLAN 1983/86

As you know, it has now been agreed that the Government's response to the BSC Corporate Plan will be made known next week, probably in a statement from this Department. Our present intention is to make the announcement on Thursday, 19 May. I ... attach a first draft, approved by my Secretary of State. I should be grateful for any comments you and other recipients may have by 10.00 am on Wednesday 18 May.

2 Copies of this letter go to the Private Secretaries to members of E(NI), the Foreign and Commonwealth Secretary, the Secretaries of State for Scotland and Wales, the Lord President, Sir Robert Armstrong, John Sparrow, and to Bernard Ingham.

Yours sincerely,

Jonathan Spencer

JONATHAN SPENCER
Private Secretary

CONFIDENTIAL

JU711

DRAFT

BRITISH STEEL CORPORATION: GOVERNMENT APPROVAL FOR THE 1983/86 CORPORATE PLAN

The Government have now completed their assessment of the BSC Corporate Plan for 1983/86 which was submitted to them in mid-February.

As the Secretary of State for Industry announced to the House of Commons on 20 December last year, the Corporation were asked to prepare their Plan on the basis that steelmaking would continue at all five major integrated sites and with the objective of reaching break-even before interest in 1984/85. The Plan has been drawn up on this basis and is designed to continue BSC's progress towards viability by increasing efficiency, quality and service to customers.

Financial support from the Government will continue to reduce as break-even and profitability are achieved. The Government have approved the Plan and have set an External Financing Limit (EFL) for 1983/84 of £325 million. This is consistent with BSC's operating plan for the year, but with a smaller margin for contingencies than the Corporation had proposed.

The Plan provides for investment of £665 million over the three year period 1983/4 to 1985/6, for the first year of which, 1983/84, the Government has now given the necessary approval. £265 million worth of major schemes are due to start in 1983/84 including

		Total cost £ million
(a)	Modernisation of the Port Talbot hot strip mill	180
(b)	Provision of continuously cast feedstock for medium range seamless tubes at Clydesdale	36
(c)	Modernisation of the large-diameter seamless tube plant at Bromford	13
(d)	New slab reheat furnace at the Lackenby beam mill	13

Subject to necessary formal consent by the European Commission, the Corporation are now able to proceed with the schemes due to start in the current year.

As was made clear in the Secretary of State for Industry's statement on 20 December 1982, the future of any particular plant or works will continue to depend on the way markets for their products develop, and on the costs and efficiency of their operation.

As regards any proposal from BSC about a possible partnership with an American Steel company, this forms no part of the Corporate Plan which the Government have now approved, and no such proposal is currently before Ministers. If any such proposal were to be made in future, the Government would consider it on its merits.

File with MCS. Nat. Ind.

NBPM

Miss Caroline Varley
Private Secretary to the
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

13 May 1983

Dear Caroline

BRITISH STEEL CORPORATION: CORPORATE PLAN TO 1986

My Secretary of State has seen the minute which yours sent to the Prime Minister on 10 May about the British Steel Corporation, and is content with his proposals.

Mr Lawson was glad to note that BSC's capital expenditure programme contains no provision for expenditure on coke ovens. He hopes that BSC will take no decision on this until the discussions with National Smokeless Fuels Limited are concluded, and that Mr Jenkin will encourage BSC to bring this about as soon as possible.

Copies of this letter go to the Private Secretaries to the other recipients of Mr Jenkin's minute.

Yours sincerely

CEBrooks

MISS C E BROOKS
Private Secretary

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

2

Prime Minister

From the Secretary of State

To see.

MES 16/5

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

13 May 1983

Dear Patrick,

BRITISH STEEL CORPORATION

I have seen a copy of your minute of 10 May seeking E(NI) approval of the BSC Corporate Plan, the 1983/84 EFL and the Port Talbot strip mill modernisation. I would not wish to dissent from your proposals on any of these issues.

I was also interested to note the current state of play on negotiations between BSC and US Steel concerning the supply of slabs from Ravenscraig to the latter's Fairless Works in Pennsylvania. As you say, we will have to look very carefully at the proposal if and when it comes to us for decision. My main concern is the effect which the political and commercial opposition to the deal in the USA, to which you refer, could have on our trade relations, not least on the question of trade in steel. I have no wish to prejudge the issue, and I can appreciate the commercial advantages for BSC which you outline. However, since it is likely that we will have to take a decision at short notice I should be grateful if my officials could continue to be kept in touch with any developments.

I am copying this letter to the recipients of your minute of 10 May.

Yours,
Arthur

LORD COCKFIELD

not Ind,
Steel, Pt 12

MAY

No ack.

THE STEEL INDUSTRY MANAGEMENT ASSOCIATION
SCOTTISH GROUP BRANCH
31 WELLESLEY CRESCENT
EAST KILBRIDE
GLASGOW G75 8TS

Telephone: East Kilbride 39685

12 MAY 1983

THE RT. HON. MARGARET S THATCHER PM PC
(VIA THE R. HON. J P POW)
10 DOWNING STREET
LONDON EC3

Madam,

I write to express the continuing anxiety of the Management Staff of the Ravenscraig and Gartcosh Works of the British Steel Corporation, regarding the future of our operations here.

If the Media is to be believed, it would appear that we continue to find ourselves the prime target for closure or partial closure in the forward strategy of our Chairman, Mr Ian MacGregor.

While we recognise the danger of relying on the press as a source of fact, we find that, despite repeated direct advances to Mr MacGregor, we cannot obtain information of any substance from him or anyone else in the Corporation regarding either the forward plan for these Works or, more importantly, the basis of his case against us.

Mr MacGregor did meet us in November of last year and he told us then that his proposals against these works were on economic grounds. However, he declined to detail his argument in any way.

Subsequently we developed a cost case demonstrating that, far from being the poor performer in the Strip Mill trio of Port Talbot, Llanwern and Ravenscraig, our costs could be projected into very favourable comparison against our domestic competition, to the degree that the so-called disadvantage of geography could be more than overtaken.

This case was based on proven performance at both Ravenscraig and Gartcosh given a fair share of the order book.

I am happy to say that since that time, now that the previous 20% preferential loading of the Welsh Mills has been corrected, our forecasts have been more than justified.

Our productivity continues to improve to a record of under 4.0 man hours per tonne and we have reduced our Hot Rolled Coil cost by more than 20% to its lowest level ever, in real terms, to the best in the Corporation. With increased tonnage we have every prospect of further improvement.

QSGP0031305W,1

TO: THE RT. HON. MARGARET S THATCHER,PM PC 12 MAY 1983

The basis for our performance rests in our ironmaking costs which, it has been shown, can be improved to better than those of Llanwern, with its bigger and 'more efficient' Blast Furnaces and in the fact that we have a very efficient modern steelmaking unit with three Continuous Casting machines.

However, it is not only on the question of our cost performance that we argue the case for our survival.

We believe that we also have sound technical reasons to our advantage in comparison to our domestic competition and we believe that Mr MacGregor is deliberately ignoring these factors when discussion of our situation is made.

Put simply, our total steel output is 100% killed non ageing steel via the Continuous Casting route. Other Mills still make ingot route steels via a slabbing mill. For them to make a killed steel is a very costly deliberate practice, whereas for us it is an inevitable consequence of our plant.

We unavoidably make killed steels in grades ordered and sold as cheaper rimmed steels and this has been recognised by astute steel buyers here and on the Continent and more and more business is being placed here for that reason.

However, price alone is never the sole determinant in the strip steel business where quality is a prime factor as far as the user is concerned.

Here we stand by our proven reputation for consistent quality to the most severe applications whether for surface or ductility demand. We are the highest ranked domestic supplier to the Ford Motor Company and the biggest single supplier to British Leyland for critical autobody panels.

Mr Roderick, Chairman of US Steel recognises the value of our product, which he classes as "matching or exceeding the quality of steel produced anywhere in the World".

If Mr MacGregor is allowed to succeed in his plans to close or partially close these Works, the Domestic market will be robbed of our total tonnage of killed continuously cast steel. This tonnage cannot simply be overtaken by Llanwern who have no continuous casting facilities, or by Port Talbot who have, but could not meet the added demand, even if it was an accepted plant in quality terms, which it has yet to prove.

We contend, therefore, that our closure will have a serious impact on the Domestic market which will be obliged to turn to the Continent for supply and past experience shows that we do not fully recapture lost markets.

Our closure will, in addition, cost the British taxpayer heavily not only in the straight finance of closure, but also in reinvestment to duplicate our proven continuous casting plant and in the expenditure of several hundred million pounds to up-grade inadequate rolling facilities in Port Talbot to replace our Hot and Cold Mills.

All this, plus investment of additional hundreds of millions of British money in private American Companies to enable then to fend off our competition.

TO: THE RT. HON. MARGARET S THATCHER, PM PC 12 MAY 1983

We simply cannot understand this situation. Regretfully we cannot get answers to our questions to help us understand. We, therefore, ask for the privilege of meeting with you in the immediate future so that we may be certain that all of the facts of our case have indeed been fully presented. We feel that this is essential before any irrevocable steps are taken, deciding not only our future and the future of the Steel Industry in Scotland, but also the very economic existence of this Country.

Yours faithfully

G. Wilson

G WILSON
SECRETARY, SCOTTISH GROUP BRANCH

QSGP0031305W,3

10 DOWNING STREET

From the Private Secretary

c. DEmp. DEnv. FCO
DEnergy. HMT CPRS
CS-HMT CO
DTrans. LPO
DTrade WO
SO

12 May 1983

bc. N. Owen,

British Steel Corporation

The Prime Minister has seen your Secretary of State's minute of 10 May about the British Steel Corporation's Corporate Plan.

The Prime Minister agrees, subject to the agreement of her colleagues, to your Secretary of State's proposals as set out in paragraph two of his minute.

I am sending copies of this letter to the Private Secretaries to the members of E(NI), to the Foreign and Commonwealth Secretary, the Secretaries of State for Scotland and Wales, the Lord President, Sir Robert Armstrong and John Sparrow.

MS

Jonathan Spencer, Esq.,
Department of Industry.

CONFIDENTIAL

CC N.O.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

NBPM
MLS 12/5

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1 6RB

12 May 1983

Dear Secretary of State

BRITISH STEEL CORPORATION

Thank you for sending to me a copy of your minute of ~~10~~ May [within MLS?] to the Prime Minister about BSC's Corporate Plan and related matters. Following our discussion on 10 May with Nick Edwards I am content with what you propose and with the agreement we have now reached to have the announcement next week.

I am sending copies of this letter to the Prime Minister, members of E(NI), the Foreign and Commonwealth Secretary, the Secretary of State for Wales, the Lord President, and to Sir Robert Armstrong and Mr Sparrow.

Yours sincerely

[signature]

Approved by the Secretary of State
and signed in his absence

Nat. Ind. : Steel Pt. 12

MB

Nat. Ind CCNO

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

MBPM

MUS 12/5

Jonathan Spencer Esq MP
Private Secretary to the
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1

12 May 1983

Dear Jonathan

BRITISH STEEL CORPORATION

with MCS?

My Secretary of State has seen a copy of Mr Jenkin's minute to the Prime Minister of 10 May about BSC's Corporate Plan. He supports Mr Jenkin's proposals.

I am copying this letter to the Private Secretaries of the Prime Minister, Members of E(NI), the Foreign and Commonwealth Secretary, the Secretaries of State for Scotland and Wales, the Lord President, Sir Robert Armstrong and John Sparrow.

Yours sincerely

Diane Hodges

PP MS F M EVERISS
Private Secretary

NAT IND : The Steel Industry

Pt 12

12 MAY 1983

Prime Minister

Agree Mr Jenkin's proposals ~~[illegible]~~ at X in his minute, subject to colleagues (who are, I believe, content)?

MLS 11/5

(1)

Yes

11 May 1983

MR SCHOLAR

cc Mr Mount
Mr Walters

BSC's CORPORATE PLAN

The Government has little option at this point, given its decision last December, but to give its approval to the Port Talbot project, the 1984/5 EFL (£325m) and the 1983-86 Corporate Plan.

The appraisal of the Port Talbot project looks robust, for even though much else in the Plan looks doubtful, what is not in doubt is that at the core of its business BSC will need one hot strip mill in the mid-1980s, which is competitive on cost, quality and dimensional capability; and Port Talbot is the right location for it. Shortfalls in demand will weaken the case for Llanwern or Ravenscraig but not Port Talbot.

The EFL is a demanding one: BSC's case for a higher one looks quite plausible. It should therefore exert the required pressure on BSC management.

The Corporate Plan looks as if it has been constructed by working backwards from the answer expected - break-even (before interest) by 1984/85 retaining five major steel plants. The assumptions look contrived. The historical downward trend in steel demand obligingly reverses in 1983-86. Prices rise by 7% a year in 1984-86, even though the 'price guidance system' which shelters Europe's steel industry is likely to fade away along with state aids and inefficient capacity by end-1985. (Even more optimistic alternative assumptions provide BSC with price increases of 22% in 1984/5.)

Moreover, the strength of the arguments for making Port Talbot more competitive in 1986/7 make the Plan look less plausible. In 1985/6, BSC will have excessive but technically inadequate strip mill capacity. How can BSC then break even by then in competition with technically better competitors? The Plan has to be 'approved' to secure Commission approval for the EFL and to press BSC management, but hard decisions about capacity will probably have to be faced in a year or so.

NICHOLAS OWEN

010

CC / NO

JF3450

2

CONFIDENTIAL

Prime Minister

I will resubmit this to you with advice tomorrow.

MCS 10/5

PRIME MINISTER

BRITISH STEEL CORPORATION

We were due to consider BSC's Corporate Plan in E(NI) next week; decisions are needed on approving the Plan itself, the External Financing Limit for 1983/84, and the hot strip mill investment at Port Talbot. We will be pressed to state our position on these issues during the election campaign: I also need a basis for the notification of aid to BSC up to 1985 which I have undertaken to make to Brussels by the end of May at the latest, since the Commission are required by the Steel Aids Decision to approve all state aids by the end of June. Since the E(NI) meeting will not now take place, I am seeking approval by correspondence, and I believe we should decide this week so that our campaign can properly reflect our decision.

... 2 I attach the paper which I would have put to E(NI), and detailed papers by officials on the Corporate Plan and Port Talbot hot strip mill project. In my paper I invite colleagues:

X

- to approve BSC's Corporate Plan subject to a reduction in external financing proposed for 1983/84;

- to set the EFL for 1983/84 at £325 million, an effective reduction of £100 million on BSC's proposals on the understanding that we would be prepared to take a further look if the market turns against BSC;

- to approve the Port Talbot Hot Strip Mill (HSM) investment project;

X
- to take note of BSC's discussions with US Steel but not to take a decision at this point;

- to take note of the prospects for the State Aids negotiation with the Commission.

3 The EFL figure has been agreed with Leon Brittan on the basis that the Port Talbot project is approved (if it were not, the EFL would be reduced to £265m). Since the figure represents a very substantial cut in BSC's allowance for contingencies we need to be prepared to look at it again later in the year if BSC's market turns sharply down. I would also propose to include a higher allowance for contingencies in the aid notification to the Commission, since there will be no opportunity to reconsider that figure once the Commission has taken its decisions in June.

4 Besides the Port Talbot project, the Corporate Plan includes a £36 million continuous casting project at Clydesdale; this would be covered by overall approval of the Corporate Plan and does not require a separate decision.

CONFIDENTIAL

... 5 I also attach a suggested form of words on BSC issues which we can use on the campaign, which I have agreed with George Younger and Nick Edwards.

6 I very much hope that colleagues will be able to let me know by noon on Friday, 13 May whether they accept my proposals.

7 I am copying this minute and the enclosed papers to members of E(NI), to the Foreign and Commonwealth Secretary, the Secretaries of State for Scotland and Wales, the Lord President, Sir Robert Armstrong and John Sparrow.

P J.

P J

10 May 1983

Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

Encl

JH 688

DRAFT CAMPAIGN SPEAKING NOTE

Steel

BSC

(i) We will continue BSC's progress towards viability, by increasing efficiency, quality and service to customers. Financial support by HMG will continue to reduce as break-even and profitability are achieved.

(ii) The proposal to modernise the Hot Strip Mill at Port Talbot has been approved and will proceed, subject to formal consent by the European Commission. This is essential to improve quality, but will not increase overall strip capacity.

(iii) All this is entirely consistent with the Secretary of State for Industry's Statement on 20 December. As regards any future proposal involving a possible partnership with an American Steel company, the Government will consider that on its own merits.

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

BRITISH STEEL CORPORATION: CORPORATE PLAN 1983/86

Memorandum by the Secretary of State for Industry

This paper considers BSC's Corporate Plan and three closely related issues: the Port Talbot hot strip mill, the possible US slab deal and the line to take in discussions in the European Community on aid for BSC up to 1985. Detailed papers by officials on the Corporate Plan and the Hot Strip Mill are annexed, and it is on these items that I am seeking approval at this point.

BSC: Progress in 1982/83

1982/83 was a bad year for the Corporation. After real improvements in 1981/82, a sharp fall in demand and output combined with continuing over-capacity and the effects of US protectionism to impose heavy pressure worldwide on market stability and prices.

The Plan presented by BSC in 1982 forecast a trading profit of £79 million before interest in 1982/83 but also proposed a contingency allowance of £175 million in view of the developing uncertainties over prices and markets. We took the view that the EFL should reflect the objective of achieving break-even and cut the contingency margin to £79 million, giving an EFL of £365 million.

However as the year progressed BSC suffered from

- sharply declining order levels, particularly in the home market;

- high imports, and declining market share;
- weakening prices from October.

Consequently BSC's home deliveries were 16% below the planned level and BSC's production of liquid steel in 1982/83 was 11.7 million tonnes compared to a planned level of 14.5 million tonnes. Home prices were on average the same as planned but export prices were 8% lower. The provisional loss for the year was £378 million and the required level of external financing was £575 million.

Against this deteriorating background, the Corporation had to re-appraise their strategy. In particular a review of the Strip Mills was undertaken to establish the scope for remedial action. This concluded that BSC's strip capacity was excessive for actual and foreseeable demand. It identified three options, involving the complete or partial closure of Ravenscraig and the concentration of strip production in South Wales, and the modernisation of the hot strip mill at Port Talbot. As demand continued to deteriorate BSC advised that if they were to have any chance of breaking even in 1983/84 it would be necessary to close Ravenscraig immediately (saving £100 million in a full year) on top of other measures they were taking to cut costs (worth £242 million in a full year). However, we agreed that the complete closure of Ravenscraig was too drastic a step to be taken immediately, and asked BSC to prepare their plan for 1983/86 on the basis that steelmaking would continue at all five major sites, and with the aim of returning the Corporation to breakeven before interest in 1984/85.

Corporate Plan 1983/86

The Plan is designed to reduce losses and to phase out the need for financial support from Government by the end of 1985 by increasing market share from 47% to 50%, maintaining manned capacity utilisation at 80%, reducing manpower to 68,000, tightening control of working capital, and concentrating capital investment on schemes to control efficiency and quality, so preserving markets.

The Plan's financial estimates are:

	1982/83 (Provisional)	1983/84	1984/85	1985/86
Trading Profit/Loss	(288)	(59)	106	100
Interest	(90)	(72)	(53)	(47)
	(378)	(131)	53	53
Contingencies		(150)	(100)	(100)
Total Profit/Loss	(378)	(281)	(47)	(47)
Cash Requirements (including contingencies)	(575)	(425)	(315)	(185)

EFLs

There is no doubting the commitment of BSC management to cost control and reduction. Also, by rejecting the option of the immediate closure of Ravenscraig, we have required them to incur costs which they regard as excessive. However, especially as a new Chairman is due to be appointed from 1 September, I believe it is important to maintain discipline within the planning assumptions which we have set. The main determinant of cash requirements in 1983/84 will be the commercial environment, ie the level of demand and the prices which can be achieved. Experience, including the experience of 1982/83, shows that apparent improvements in the market can quickly move into reverse. However there have been distinct and continuing signs of improvement in the market since the Corporate Plan was drawn up at the end of 1982, so that the assumptions on which it was based now seem to tend towards caution. Officials have assessed these assumptions in depth (paragraphs 27 to 45 of the detailed paper). This analysis suggests that movements which have already taken place point to an improvement of some £75 million in trading results in 1983/84. I believe it is right to set an EFL which takes account of these developments and of the generally more stable environment and I have agreed with the Chief Secretary that the EFL for 1983/84 should be £325 million, on the basis that the Port Talbot hot strip mill project goes ahead. This figure should be achievable provided there is no major disruption to markets, prices or production; and in that case we would need to look at it again. We do, however, need to ensure that our aid notification to the European Commission is not pitched too low, since if we had to seek an increase at a later stage the Commission would demand more capacity cuts. I therefore intend to keep a larger contingency allowance in the aid notification than is implied by our EFL of £325 million.

The EFL for 1984/85 does not have to be set until the autumn. I think it is wise to wait until we see more clearly how the market is moving and what effect the Community measures are having before settling on a figure. The position on the slab deal (see below) may also be clearer by then; if the deal takes place it would require an increase in the EFL for 1983/84.

Investment

The Plan includes four major projects which will start in 1983/84:

	£m Spend in 1983/84	Total Cost
Port Talbot Hot Strip Mill	60	180
Continuous cast feedstock for medium range seamless tubes to be located at Clydesdale	12	36

	£m Spend in 1983/84	Total Cost
Modernising Bromford seamless tube plant	4	13
New slab reheat furnace, Lackenby	3	13

Of these, only the Port Talbot development requires separate Government approval. A full note by officials is attached. The main arguments are summarised below.

Port Talbot Hot Strip Mill

Strip products are sold, many after galvanising, tinplating or other forms of further treatment, to automotive manufacturers, manufacturers of domestic appliances, the construction industry, and producers of steel containers from drums to beverage cans. Reductions in steel usage in some areas through the use of thinner gauges and the substitution of aluminium and plastics is matched by growth in the use of organically coated steel for buildings.

Major customers are increasingly demanding better quality products in terms of ductility, surface, and dimensional control across a wide range of widths and gauges. These requirements are capable of being met by the modern European mills.

If BSC is to have a future in the strip business it therefore needs to be able to compete. None of the existing mills in the strip products group can meet the full range of products. The hot strip mills at Llanwern and Ravenscraig (commissioned in 1962) have a restricted gauge capability and are limited to orders of around 1500mm in width. Moreover both of these sites suffer from other disadvantages in terms of less competitive iron and steelmaking facilities, and, in the case of Ravenscraig, greater distance from the markets. Port Talbot, however, has its own deep water port, has had £375 million recently invested in iron and steelmaking facilities and in the cold mill, and is conveniently placed for the other finishing works in South Wales and the main markets in theMidlands and South East of England. Port Talbot is both actually and potentially the lowest cost site in the Strip Products Group and, with the project, can compete with the best European mills on cost and quality.

BSC have therefore proposed to invest £154m at April 1983 prices (£180m at outturn prices) in modernising and up-grading the hot strip mill at Port Talbot, thus completing the series of investments there. Without this investment BSC estimate that they will lose markets of at least 150,000 tonnes per annum.

Without the investment, the entire future of BSC in the strip business will eventually be called into question. With it, Port Talbot can become competitive with other European producers. Although the Corporate Plan does not show the Strip Products Group returning to profitability over the next three years on the assumption that demand stays close to its present level, BSC believe that if capacity in the UK were reduced into line with demand, this business can be made profitable. This is the logic underlying their discussions with US Steel.

I accept that BSC need a site which is fully competitive with the best European mills, and with the proposed investment Port Talbot can be that site. The future of the other sites will depend on the future trend of demand and prospects at those sites for cost reduction and product and quality improvements. They may well in fact benefit from the investment at Port Talbot since some of the extra orders attracted by a business with the ability to meet the most demanding requirements may be able to be met by the products of the other sites.

The project requires approval from the European Commission under the steel aids decision. The Commission have indicated that they are opposed to the increase in strip capacity which it provides for. BSC have therefore agreed to go ahead with the project with one reheating furnace in the first instance. This eliminates the capacity increase, and reduces the operational flexibility of the mill, but does not jeopardise the benefits of the investment at the levels of production assumed. From the technical point of view, a second reheater could be added later.

The modernisation of the hot strip mill at Port Talbot, taking account of improvements in efficiency and the improvement in market share is computed to yield a net present value of £337 million at a 5% discount rate, and £158 million at 10%. These figures are not substantially altered by the reduction to one reheater. I recommend we approve the project and regard it as an essential item (on the basis of no capacity increase) in our aid application.

Privatisation

We are committed to further privatisation (and have said publicly that there is in principle no part of BSC which cannot be privatised). But in present market conditions, with the private sector of the industry generally in a weak financial state and preoccupied with its own over-capacity problems, progress is inevitably slow. The creation of more arms-length Companies Act companies within BSC is an important first step. Proposals for a further "Phoenix" joint venture in engineering steels, involving Lonrho, GKN and possibly F H Lloyd, are likely to be made within the next couple of months. Discussions are also in train on new mergers which would reduce BSC's present 50% holdings in Allied Steel and Wire and in Templeborough Rolling Mills, and related minority interests in the wire industry. Progress may also be possible on tubes. However, a more fundamental measure of privatisation is not achievable without improvements in the market. This reinforces the need for success both of the European aid regime and of our domestic efforts to restore BSC to viability.

Slab Deal

Mr MacGregor has been holding discussions with Mr Roderick, Chairman of US Steel, about an arrangement whereby BSC would supply continuously cast slabs from Ravenscraig for rolling at US Steel's Fairless Works (near Philadelphia) and sale in the US market. This would involve closing the hot strip mill at Ravenscraig. The deal makes sense for both sides since the iron and steelmaking facilities at Fairless are obsolete, while BSC needs to produce more slabs than it can at present sell in its home market to make its present configuration economically viable.

The deal would involve the setting up of a joint venture into which BSC would be required to pay a capital contribution, partly in recognition of the value of the deal to them and partly to finance investment at Fairless.

The details of the arrangement and the size of BSC's initial contribution are still to be settled between US Steel and BSC. BSC envisage that their capital contribution to the joint venture could be raised offshore in a way which did not add to their EFL. Government would of course ultimately stand behind the obligation they incurred in so doing. The EFL would however have to be increased to allow for additional working capital and other expenditure in the UK.

Illustrative figures provided by BSC showing the effect of the deal on relatively optimistic and pessimistic assumptions are annexed to this paper. Commercially, the deal looks at worst reasonably attractive and at best extremely profitable.

At present the discussions are in abeyance while US Steel is dealing with political opposition in the United States. As and when proposals are made, we will be asked to give a quick decision. Clearly, we will have to look at the proposal carefully from several angles, not least of which is the possible risk of its being blocked by political or commercial opposition in the United States. However, potentially the deal is very attractive from the commercial point of view and I believe we should be prepared to support it if the risks are not too great. I will bring proposals to colleagues when the time comes.

The Community Aid Regime

The ECSC State Aids Decision requires all State Aids to be phased out by the end of 1985, with any aid granted in the meantime firmly linked to commensurate capacity reductions and restructuring on the part of the undertaking receiving the aid. The Commission have to take final decisions by 30 June on aid and restructuring proposals notified by all Member States. The State Aids Decision does not permit authorisation after that date of any aid, except for unforeseen closures.

The Commission sought final details of notifications from Member States by 1 April. I made an interim notification for the money needed to sustain BSC to end June 1983 (£550 million) in March. This was agreed with difficulty by the Commission, in return for a cut in UK capacity of 571,000 tonnes - already achieved - and a promise of a further cut of 300,000 tonnes when we make our comprehensive notification. I have undertaken to let the Commission have the comprehensive notification during May. I am under great pressure to submit it as soon as possible; as there is to be a further Steel Council on 25 May I shall be in an extremely embarrassing position if the notification has not been made in good time before then.

The precise sum to be notified to cover the period July 1983 to December 1985 is still under discussion at official level, but is likely to be in the region of £1,000 million. There is also likely to be a contingency element to cover BSC funding of rationalisation deals with the private sector, and the aid implications of the slab deal. There is no doubt that the Commission will insist that we offer more capacity cuts in return for their authorisation of this aid. Two recent developments should strengthen our hand:

(a) the revised Port Talbot Hot Strip Mill project. This eases the situation, insofar as it might even provide a small reduction of capacity rather than the originally envisaged increase of 375,000 tonnes of which the Commission are aware. (I also intend arguing that the investment in this project should not be considered as aid, any more than similar investment by a private sector company would be. However, the Commission are likely to oppose this argument, on the grounds that BSC, in its present financial situation, could not raise the money on the market on its own account, and that on its own the project would not eliminate the current losses of BSC's strip products group.)

(b) the recent decision by BSC to mothball the Hartlepool plate mill, which has a capacity of 550,000 tonnes. (It should be noted, however, that in the past the Commission have - with our support - refused to accept mothballing by others as capacity cuts.)

The negotiations with the Commission will, nonetheless, be difficult. If the slab deal materialises, it would provide a way out of these difficulties as it would bring about an overall reduction in BSC capacity through the closure of the Ravenscraig hot strip mill. However, the timing of the slab negotiations is such that we shall almost certainly have to enter the discussions with the Commission without knowing whether the deal is a firm option.

In the negotiations with the Commission we shall wish to ensure that eventual decisions are equitable as between Member States. We have to date been in the lead on capacity cuts, but the Commission are optimistic that others are now close to undertaking significant contributions. I intend to take the line that no further UK capacity cuts should be made until other Member States have caught up with us in achievements and not just in promises.

SUMMARY OF RECOMMENDATIONS

I invite colleagues:

- to approve BSC's Corporate Plan to 1986 subject to the reduction in external financing in 1983/84 which I have agreed with the Chief Secretary;

- to approve the proposed investment in the hot strip mill at Port Talbot on the basis of a single reheat furnace in the first instance;

- to take note of the current situation as regards the slab deal with US Steel;

- to take note of the line I propose to adopt in the negotiations on state aid with the European Commission.

ANNEX

POSSIBLE EFFECTS OF A SLAB DEAL WITH US STEEL

"Best case"

		1984	1985	1986	1987
			£m		
1	Initial contribution [note 1] $300 million				
2	BSC share of joint venture cash flow [note 2]	8	(5)	38	44
3	Repayment of borrowing and interest [note 1]	(40)	(38)	(36)	(33)
4	Net cashflow arising from joint ventures	(32)	(43)	2	11
5	Additional profit in UK [note 3]	77	108	104	95
6	Additional costs in UK [note 4]	(101)	(8)	(8)	-
7	Overall effect on BSC cashflow	(56)	57	105	113

"Worst case"

		1984	1985	1986	1987
			£m		
1	Initial contribution [note 1] $600 million				
2	BSC share of joint venture cash flow [note 2]	(22)	(42)	(3)	3
3	Repayment of borrowing and interest [note 1]	(78)	(75)	(70)	(67)
4	Net cashflow arising from joint ventures	(100)	(117)	(73)	(64)
5	Additional profit in UK [note 3]	76	108	97	87
6	Additional costs in UK [note 4]	(101)	(8)	(8)	-
7	Overall effect on BSC cashflow	(125)	(17)	16	23

Notes: 1 The different size of the initial capital contribution reflects the current negotiating stances of BSC and US Steel. BSC would borrow the money via a subsidiary incorporated outside the UK. Repayment of the sum borrowed is included in line 3.

2 Line 2 covers 50% of the projected profits of the joint venture (the difference between "best" and "worst" case represents the difference between US Steel and BSC's profit assumptions) less US tax and customs duties and net of capital investment at Fairless.

3 Profit in the UK arises from more efficient loading of BSC plants.

4 This includes working capital (the largest item), closure costs of the Ravenscraig hot strip mill, and some capital expenditure.

BRITISH STEEL CORPORATION: PERFORMANCE IN 1982/83 AND CORPORATE PLAN FOR 1983/86

Note by the Department of Industry

INTRODUCTION

1 BSC's Corporate Plan for 1982/85 was prepared against the background of real improvements in the Corporation's performance in 1981/82 but in the shadow of growing uncertainties over market prospects for 1982/83. It was presented to the Government in December 1981; withdrawn for reassessment in January 1982 once US steel producers had launched legal actions to stem imports from Europe and elsewhere; and resubmitted in March. The Department's review of the Plan (E(NI)(82)15) was considered by Ministers on 9 June (E(NI)(82)5th meeting). On 11 June, the Secretary of State announced to Parliament that the Plan had been approved, with modifications, and that BSC's objectives for 1982/83 would be to achieve break-even before interest within an EFL of £365 million.

2 In the event, 1982/83 has proved a very difficult year for steelmakers throughout the Western world, including BSC. A sharp fall in demand and output has combined with existing over-capacity and the effects of US protectionism to impose heavy pressure worldwide on market stability and prices. By the late summer of 1982, BSC's commercial and financial position had deteriorated so seriously that a strategic review had to be carried out to assess whether the Corporation should continue to operate all five of their major integrated steelworks. On 20 December last year, the Secretary of State announced at the conclusion of the review that the Government had asked BSC to prepare their Plan for 1983/86 on the basis that steelmaking should continue at the five sites and with the objective of reaching break-even before interest in 1984/85, two years later than the previous target date.

3 The Corporate Plan for 1983/86, which was submitted on 14 February, represents the Corporation's response to the Government's decisions. This note reviews BSC's performance in 1982/83, assesses the new Plan and recommends the basis on which the Government should approve it.

THE 1982/85 PLAN

4 In 1981/82 BSC incurred a loss before interest of £231 million with external financing requirements of £766 million. This represented a major improvement over the previous year's results. The principal objectives of the 1982/85 Plan were to build on this progress so as to move the Corporation into profit and reduce cash requirements.

5 The management action programme to achieve these objectives had five main elements:

(a) Support for the European steel regime and price initiatives through BSC's active participation in the EUROFER organisation.

(b) Maintenance of high capacity utilisation through holding UK market share to at least the pre-strike level (51 per cent); through increased export sales; and through more efficient use of plant.

(c) Reduction of costs to achieve best European productivity levels - through further reductions in manpower (which would fall from 104,300 in March 1982 to 92,400 a year later and to 87,800 by March 1985); through improving the yield of finished from liquid steel (primarily by greater use of continuous casting); and through further economies in energy use.

(d) Reduction in working capital requirements through tighter control of stocks and debtors.

(e) Continued restriction of capital expenditure to schemes which would cut costs or help to maintain BSC's competitive position in important markets.

6 When Mr MacGregor resubmitted the Plan to the Government in March 1982, he proposed that the contingency margin of £100 million on both profit/loss and cash for 1982/83 should be increased to £175 million to reflect the developing uncertainty over prices and markets as a result of the US legal actions. The Government decided, however, that it would be wrong to set BSC targets for 1982/83 which assumed a serious disruption to their business on that score. The contingency margins were therefore set at a level (£79 million) which was consistent with the objective announced in February 1981 that BSC should break even before interest in 1982/83. That apart, some other alterations were made to the financial targets in the new Plan, all of which were described in E(NI)(82)15. The targets finally set for 1982/85 are summarised in the table below:

£ million

	1982/83 (Plan - March 1982)	1982/83	1983/84	1984/85
		(Plan - as approved)		
Trading profit/loss	79	79	214	314
Contingencies	(175)	(79)	(100)	(100)
	(96)	0	114	214
Interest	(84)	(84)	(67)	(51)
Total profit/(loss)	(180)	(84)	47	163
Cash requirements (including contingency)	(461)	(365)	(200)	(91)

7 Mr MacGregor made clear that the success of the Plan depended not only on the achievement of the internal cost reductions but also - and most critically - on the enforcement of discipline under the European steel regime, in particular as regards the price structure, respect for production quotas, and measures to control third-country steel imports. Market stability in Europe would in turn depend to a large extent on the outcome of the US legal actions. Beyond this, however, by the time the Plan was approved in June both BSC and the Government were paying increasing attention to the importance of a further assumption underlying the Plan - that UK steel demand, and BSC's market share within it, would hold up to forecast levels. In both areas there were developing signs of slippage.

BSC'S PERFORMANCE IN 1982/83

A. Commercial and financial performance

8 BSC ended 1981/82 with order levels, prices, production and the trend of losses all broadly consistent with the achievement of break-even before interest in 1982/83. But in March and April 1982 the first signs of difficulty emerged: order levels, particularly in the home market, turned sharply downwards. This was at first regarded as a short-term phenomenon, reflecting a temporary increase in steel imports coupled with a delay in the restocking which had been expected to take place throughout UK industry. But the downturn in BSC's sales proved to be considerably more serious than this. The tables at Annexes I and II set out the key commercial and financial features of BSC's performance in 1982/83, the main points of which are summarised in the rest of this section.

9 In the April - June quarter BSC's position deteriorated rather than improved. Orders remained depressed. Deliveries - to the home market, to the UK private sector steel producers, and to export markets - fell below Plan. Imports continued at a high rate. BSC's market share declined. And production had to be cut back so as to reduce stocks and the cash required to finance them. All this was reflected in the trading results, where the weekly rate of loss grew from only £0.5 million in March to £3.0 million in June.

10 The position slipped further in the July - September quarter. All the adverse factors noted above either intensified or continued unabated. In particular, imports reached a peak in July and pushed BSC's market share down to 42 percent (compared with the target of 51 per cent for the year as a whole). Moreover, evidence emerged for the first time that UK steel demand - which had previously held up to expectations - was in fact falling below Plan levels largely because of the continuation of destocking in all sectors of the economy, including steel users. BSC's weekly losses after interest rose to between £7 and £8 million, reflecting the effects on profitability not only of reduced sales but also of the costs of operating plant at sharply reduced output levels as BSC'sdrive to cut stocks intensified.

11 The October - December quarter saw continuing decline in most key commercial areas, accelerating over the period to reach a low point in December. In a bid to sustain output and to offset the weakness in home orders, the Corporation were obliged to seek increased export business at low prices. To make matters worse, home prices, which had so far been held at or even above Plan levels despite growing price instability in Europe, had to be cut in October as the Corporation embarked on a concerted effort to stem imports and regain market share. As a result of this combination of factors, weekly losses after interest increased to between £8.8 and £9.2 million over the quarter.

12 Since then, however, there have been some signs of recovery. In mid-January, home orders increased significantly and, though they fell off somewhat in late February, remained at a level which represented a considerable improvement over the first nine months of the financial year. Import pressure, which had peaked in July, continued to decline. The Corporation's home market share grew to 47 per cent in January and 52 per cent in February. Deliveries to both home and export markets came close to Plan. And, in response, BSC increased liquid steel production significantly: the shortfall from Plan in the weekly rate of output, which had reached 34 per cent in October - December, fell to 19 per cent in January and 4 per cent in February. Financial losses attributable to low volume therefore began to decline, though this was partly offset by continued weakness in general selling prices and by the specific drop in revenue resulting from the high proportion of low-priced export orders booked in the previous quarter and now being delivered. The weekly rate of loss after interest fell to £7.9 million in January, £6.1 million in February, and £5.6 million for March.

13 Two important determinants of BSC's fortunes in 1982/83 merit highlighting, not least because of their implications for the 1983/86 Plan:

(a) On steel prices, the table at Annex II shows that, while realised prices for home sales over the year as a whole are likely to be exactly on target, the profile is not what was planned. Instead of registering a gradual increase from quarter to quarter, prices peaked in the second quarter and then fell to well below Plan in the fourth quarter. The export picture is gloomier still, with prices having dropped consistently between each quarter so giving a significant shortfall over the year as a whole. Price prospects in 1983/84, taking account of the impact of the Community's new guidance price system and of the decline in the value of sterling, are one of the key issues in assessing the new Plan.

(b) As regards the £/DM exchange rate, the Plan assumed a rate of DM 4.30 in the first quarter of 1982/83 reducing to DM 4.10 in the fourth quarter and averaging DM 4.20 over the full year. As Annex II shows, the rate in fact stayed above Plan until October and then fell more sharply than forecast, giving an average for the financial year of DM 4.09. The DM exchange rate has thus on average been marginally more beneficial than forecast, though the practical advantage has been minimal given that the collapse in effective European prices obliged BSC to reduce their own prices in October just at the time when the decline in the value of sterling would otherwise have allowed an increase.

B. Provisional results for 1982/83

14 The table at Annex III summarises the results expected for the year. The loss is forecast at £295 million before interest and £387 million after interest. Within the total, General Steels, Strip Products and BSC Holdings have all fallen well short of Plan targets and made losses, while the likely profit in Tubes Division is below expectation (and is likely to turn into a loss in 1983/84 as a result of recent price cuts implemented in a bid to regain market share from imports).

15 As regards cash requirements, the EFL of £365 million had to be revised to £575 million in March this year. As the table at Annex IV shows, the increase results from greater losses, from exceptional items (including the financing of Sheffield Forgemasters PLC and the buy-out of an onerous contract for use of Port Talbot harbour, totalling £64 million altogether), and from an increase of £80 million in redundancy costs. As a partial offset, BSC have kept capital expenditure £34 million below Plan levels and have succeeded in cutting working capital (stocks and debtors) by £167 million.

C. Remedial measures in 1982/83 - internal

16 Against the deteriorating background described in paragraphs 8 - 12 above, the Corporation had to reappraise their strategy during the course of 1982 so as to stem the growing losses and establish a sensible basis on which to prepare their new Plan for 1983/86. Part of the process of reappraisal had already been started even before the full extent of the Corporation's difficulties became apparent during the summer of 1982. A review of the Strip Mills had been set in hand in January as a Strip Products Group exercise to identify the scope for remedial action in the event that the Group began to go seriously wide of Plan targets.

17 The review, which Mr MacGregor presented to the Secretary of State on 29 July 1982, concluded that BSC's strip capacity was excessive for actual and foreseeable demand. It identified three options involving the complete or partial closure of Ravenscraig and the transfer of Scottish strip production to South Wales. All three options would, however, depend on the prior completion of a £175 million scheme to modernise the Hot Strip Mill at Port Talbot to enable it to produce the full range of strip products in terms of quality, weight and guage. Mr MacGregor made clear that even if the project received immedia

approval from the Government and the European Commission, it could not be completed and in full operation before 1984. He therefore urged that the project should be approved quickly. At the same time he confirmed that he was not at present recommending any of the three Strip review options and that a decision on the future of Ravenscraig would not have to be made until 1984.

18 By September, however, BSC's performance and prospects had deteriorated to such an extent that Mr MacGregor warned the Secretary of State that BSC would fall well short of their targets on both profit/loss and cash, not only in 1982/83 but also in the last two years of the Plan period. The Corporation already had in hand a series of cost-saving measures, including temporary plant shut-downs, short-time working, and a new programme of previously unplanned redundancies and minor plant closures. But Mr MacGregor warned that these, on their own, seemed unlikely to be enough to reverse the decline. He was therefore asked to prepare a full catalogue of the remedial options open to him.

19 At the end of September he indicated that, in his view, it would now be necessary to go for the early closure of one of the five major plants - Ravenscraig - if BSC were to have any chance of meeting a (delayed) target of break-even in 1983/84. This closure would be on top of the existing measures to cut costs. The assessment at that stage was in fairly broad terms: Mr MacGregor was asked to set out a detailed case.

20 He presented this on 10 November. The forecast was for a loss of £380 million in 1983/84 if no remedial action were taken. BSC had already set in hand a "management action programme" which would cut costs by £242 million in a full year - £99 million through improved manufacturing efficiency; £71 million through further slimline manning; and £72 million through closure of 13 smaller plants. (But the cost saving in 1983/84 would total only £180 million.) Three options to eliminate most of (but not all) the remaining full-year cost gap of about £140 million had been identified and assessed in detail: the closure of either Ravenscraig, Teesside or Llanwern. BSC's firm recommendation was that Ravenscraig should be shut around the end of 1982, with a full-year saving of £100 million.

21 The Government had already made clear publicly that any cost-saving measures, short of a major plant closure, which BSC needed to take urgently to restore their commercial and financial position were matters for the Corporation's judgement and would go ahead. But the Government had said that they would inevitably be involved in a major strategic decision over whether to shut one of the integrated steelworks. Against this background, BSC continued to implement the rest of their cost-saving programme vigorously while the Government considered the future of the five major plants in consultation with Mr MacGregor. The results of the Government's review were announced to Parliament on 20 December 1982. BSC were asked to prepare their Plan for 1983/86 on the basis that steelmaking would continue at all five major sites and with the aim of returning the Corporation to breakeven before interest two years later than planned, in 1984/85.

D. Remedial measures in 1982/83 - external

22 BSC's difficulties in 1982 arose not just from the weakness of UK steel demand but also from the direct and indirect consequences of the US action to stem steel imports from European and other suppliers (which itself reflected the worldwide slump in steel demand). By the summer, when US anti-dumping and countervailing duites were provisionally in force, this action was having a network of undesirable effects:

(a) export sales to the USA by BSC and other European steel producers were sharply reduced;

(b) competition in other export markets was increased, with consequent pressure on realised prices;

(c) by the same token, non-EEC countries were encouraged to step up their exports of surplus steel to the Community to compensate for the partial closure of the US market;

(d) excess steel on the Community market meant that the production quotas were too high in relation to demand and European producers responded by cutting prices;

(e) this price cutting, coupled with the strength of sterling up to October, made the UK an attractive dumping ground for surplus steel from elsewhere in the Community, so eroding BSC's home market share. (As noted in paragraph 11 above, BSC were finally forced in October to cut prices in a bid to reverse the tide, a process that was helped by the weakening of sterling which also began then.)

23 The negotiated settlement to the EC/US dispute, reached on 21 October, removed the threat of anti-dumping and countervailing duties being definitively imposed against European producers in return for agreement by the Community to some limitation on future steel exports to the USA. By this time, however, the effects of the US action coupled with the intensifying downturn in European and world steel demand had combined to put heavy pressure on the Community steel market. Industry Ministers meeting at Elsinore on 18 November agreed in principle on a set of measures to restore discipline for implementation on 1 January 1983. These included tighter production quotas and the introduction of guidance prices set at a realistic level for each product category. Subsequently, the Community also agreed that the quantity of steel to be allowed in during 1983 under the Voluntary Restraint Agreements regulating imports from third countries should be reduced below 1982/levels to reflect the decline in the Community steel market. Although these remedial measures came too late to have much impact on BSC's results for 1982/83, they are clearly relevant to the prospects for 1983/84 and onwards

/VRA

E. Conclusions on performance in 1982/83

24 BSC have been faced with the task of crisis-management in 1982/83. The effects of unforeseen weakness in UK steel demand have been compounded by weak demand elsewhere, by US protectionism and by the inability of the European anti-crisis measures to maintain market discipline in the face of such pressures. Against this background, the Corporation have worked to contain losses and cash requirements through intensified action in areas under their direct control. Over the year, manpower has been reduced by 21,900 instead of 11,200 through slimlining and the unplanned closure of some smaller plants. Energy use has been kept close to Plan levels despite the adverse impact of a severe shortfall in output. Working capital and capital expenditure have been strictly controlled. And, in response to deteriorating results, BSC came forward with timely and wide-ranging proposals for remedial measures. In circumstances where all Western steel producers have faced major difficulties, it is the Department's view that in 1982/83 BSC have responded effectively to adverse developments outside their control.

CORPORATE PLAN FOR 1983/86

25 The key features of the new Plan, and the financial objectives, are set out in the table at Annex V. The overriding aim is to reduce losses and to phase out the need for financial support from Government in accordance with the European timetable for ending state subsidies to the steel industry by December 1985. The management action programme to achieve this has five broad elements:

(i) A competitive pricing strategy designed at the same time to respect the European guidance price system and to restore BSC's home market share progressively from 47 per cent in 1982/83 to 50 per cent at the end of the Plan period.

(ii) Maintenance of capacity utilisation at around 80 per cent of the level of manned capacity in 1982/83 (which equalled 15.2 million tonnes of liquid steel).

(iii) Further cost reductions - through continued slimming of manpower (to 68,000 at the end of the Plan period); through increasing productivity to West German levels; through improving the yield of finished from liquid steel; and through continued progress in reducing energy use.

(iv) Concentration of capital investment onschemes to improve efficiency and quality, so preserving markets.

(v) Tighter control of working capital (stocks and debtors).

26 In his foreword to the Plan, Mr MacGregor stresses that its success depends critically on the re-establishment of price discipline within Europeas well as on the sterling exchange

rate - both areas over which major uncertainties exist. To cater for external fluctuations outside management control - though not for any major slippage in sales volume or prices - a contingency margin of £150 million is proposed on both profit/loss and cash in 1983/84 (£100 million in each of the two succeeding years).

ASSESSMENT OF THE PLAN

A. ECONOMIC AND COMMERCIAL ASSUMPTIONS

27 As usual, sections 2 and 3 of the Plan take a fairly detailed look forward to 1986 in such crucial areas as GDP; prospects for the main steel-using industries; likely production capacity and demand for steel in the UK, Europe and the rest of the world; BSC's market share in the UK; price levels; exchange rate movements; export markets; and relative inflation levels. The assumptions have been developed and updated since mid-1982 and form the centrally-determined backdrop against which the individual businesses have made their input to the Plan. Assessment is more than usually difficult this year because of changes in important variables which have taken place before and since the Plan was completed at the end of 1982. The main points of importance to the Plan's success are considered below.

(i) Outlook for BSC's sales volume

28 In November last year, as part of the strategic reappraisal of BSC's major plant configuration, the Corporation prepared a revised view of their commercial prospects in the short and medium term. This concluded that the home and export sales forecasts upon which the 1982/85 Corporate Plan had been based were no longer realistic and that total sales volume should be revised quite sharply downwards. As a cross-check on this analysis, the Department carried out its own full review of domestic and international prospects in the steel market which found no grounds for challenging BSC's conclusions (and indeed tended to support them).

29 The sales forecasts on which the new Plan is based are very similar to (though not identical with) those presented by BSC in last November's review. Compared with the 1982/85 Plan, they are as follows:

	UK Demand by C & S	BSC Market Share	BSC to C & S	BSC to private sector	BSC Deliveries Home	Export	Tot
1982/83 - Last Plan	12.5	52	6.5	1.5	8.0	3.6	11.
- Likely outturn	11.6	47	5.4	1.2	6.6	2.6	9.
1983/84 - Last Plan	13.1	52	6.7	1.6	8.5	3.6	11.
- This Plan	11.9	48	5.6	1.4	7.0	2.3	9.
1984/85 - Last Plan	13.2	52	6.8	1.6	8.4	3.6	12.
This Plan	12.5	48	6.1	1.4	7.5	2.4	9.
1985/86 - This Plan	11.7	50	5.8	1.4	7.2	2.4	9

The shortfall in total deliveries - of 2.4 MT in 1982/83, 2.6 MT in 1983/84 and 2.1 MT in 1984/85 - is attributable in roughly equal parts to two factors:

(a) Within a somewhat smaller UK market than previously foreseen, BSC will secure a reduced share mainly as a result of import competition.

(b) Prospects for export sales have deteriorated because of declining world demand for steel exacerbated by continuing surplus capacity.

30 The Department has again reviewed the market outlook to assess the realism of the forecasts in paragraph 29 above. Extrapolating from experience of the steel market in 1982 and taking account of forecasts for economic growth at home and abroad, we are generally content that the Corporation have based their assessment of total sales volume up to 1985/86 on a consistent and defensible view of such key factors as GDP, growth in UK manufacturing output, activity in the main steel-using sectors, UK steel consumption, steel stock movements, BSC's home market share and likely export sales. If anything, however, the assumptions err towards caution. In particular:

(a) The November 1982 Industry Act Forecast - now itself regarded as slightly pessimistic (see paragraph 31(b) below) - showed marginal growth of 0.6 per cent in UK manufacturing output in 1983 compared with BSC's assumption of zero.

(b) The Department's DIS appraisal last November - again based on the Government's Autumn Economic Statement which was itself less optimistic than the recent Budget forecasts - showed no sign of the downturn which BSC assume in 1985 either in UK manufacturing output or in the main steel-using sectors (except shipbuilding).

(c) As regards growth in OECD GDP and world trade in manufactures, BSC's assumptions up to 1984 are broadly in line with the recent OECD "Economic Outlook" but their forecast of an end to growth in 1986 represents a pretty pessimistic view that recovery on a modest scale will be swiftly curtailed.

31 If developments since the Plan was completed in December are taken into account, this impression of caution on BSC's part is reinforced a little further. There are three factors which could point to some improvement in sales volumes over the Plan period:

(a) The <u>sterling exchange rate</u> has declined sharply over the last three months (the effective rate fell by about 7½ per cent between December and March). BSC have taken a view on how this may directly affect their own input and selling prices over the Plan period (discussed more fully in the next section). But the depreciation of sterling should also improve the competitiveness of the UK steel-using industries and hence increase UK steel consumption - indeed, BSC have made a rough estimate that a 10 per cent decline in sterling could swell the UK steel market by about 500,000 tonnes a year. This is a pretty speculative figure; any such increase would take place after a time lag (of perhaps 6 months); and its magnitude would of course depend on the sustained depth of the sterling depreciation (it is relevant that in April the sterling effective rate has in fact increased). For these reasons, BSC do not propose to assume any growth in forecast sales volume on exchange rate grounds over the Plan period.

(b) The forecast for growth in UK manufacturing output, published in the Financial Statement and Budget Review, now shows an increase of 1.7 per cent in 1983 and 1 per cent in the first half of 1984 compared with BSC's assumption of zero growth between 1983 and 1985. Growth of the order suggested in the FSBR would not, if achieved, lead to a major increase in steel demand but it would of course be an advantage.

(c) As noted earlier, BSC's market share recovered to 47 per cent in January and 52 percent in February. At the same time, imports fell from 27 per cent in December, to 25.9 per cent in January and only 21.9 per cent in February (the lowest level for two years). The precise reasons are unclear - tighter production quotas in Europe in the first quarter of 1983 and the weakening of sterling have probably both played a part in reducing imports. Nor is it certain that a continuing improvement has been established. But if it has, this would improve BSC's sales prospects.

31 These factors give no grounds for concluding that BSC are setting their sales targets needlessly low. But they suggest, taken with the generally cautious interpretation which BSC had already put on a number of economic indicators, that the chances of the Corporation improving on planned sales volume in 1983/84 (and perhaps afterwards) are greater than of them falling short - always providing, of course, that there is no serious breakdown in the Community's measures to maintain market stability (as regards pricing rules, production quotas and control of third-country imports).

(ii) Exchange rates and selling prices

32 As page 7 of the Plan records, the "central" exchange rate assumptions on which it was based were prepared in August 1982 and updated in October but took no account of the marked depreciation of sterling since then. Before presenting the Plan in February, BSC therefore developed a set of "alternative" exchange rate assumptions to reflect recent currency movements. The effects of this on selling prices, input costs and profit/loss in 1983/84 were assumed to be neutral but adjustments were

calculated for 1984/85 and 1985/86 which produced net profit improvements of £100 million and £75 million respectively. The validity of these alternative assumptions, and their consequences, are central to the assessment of BSC's trading results and cash requirements over the Plan period. Our analysis is as follows.

33 The central and alternative exchange rate assumptions are set out below:

	1982/83 Plan	1982/83 Latest Outlook	1983/84	1984/85	1985/86
DM/£ - Central	-	-	4.00	3.80	3.60
- Alternative	4.20	4.09	3.80	2.95	2.85
$/£ - Central	-	-	1.70	1.85	1.80
- Alternative	1.80	1.69	1.60	1.60	1.60
Sterling effective					
- Central	-	-	88	88	85
- Alternative	94	88	82	83	72

34 The tables below show the pricing assumptions on which the new Plan is based, with a single-line adjustment in the last two years to reflect the improvement that BSC now expect as a result of the revised exchange rate assumptions.

Home sales (£ per tonne)	1982/83 Q4	1982/83 YEAR	1983/84	1984/85	1985/86
General Steels	240	244	245	264	284
Strip Products	266	269	274	291	314
Holdings	616	634	636	687	736
Tubes	456	526	436	464	492
Total BSC	276	284	281	301	323
% Annual increase	-	-	-1	7	7
Total BSC*	-	-	-	343	365
% Annual increase*	-	-	-	22	6

* on alternative exchange rate assumptions.

Export sales
(£ per tonne)

	1982/83 Q4	1982/83 YEAR	1983/84	1984/85	1985/86
General Steels	210	206	207	221	238
Strip Products	249	259	262	276	295
Holdings	456	467	468	515	543
Tubes	408	447	331	351	362
Total BSC	266	273	263	280	298
% Annual increase	-	-	-4	7	6
Total BSC*	-	-	-	305	322
% Annual increase*	-	-	-	16	6

* on alternative exchange rate assumptions.

NOTE

The tables above reflect the mix of sales on which the new Plan is based. The mix is different from that in 1982/83: it is generally less rich, particularly for exports (that is, rather less opportunity is foreseen for sale of higher value-added products). As a result, these figures cannot be compared exactly with those in Annex II which record BSC's realised prices in 1982/83 against Plan levels.

35 The table at Annex VI sets out BSC's calculation of the effect of the alternative assumptions on profit/loss in 1984/85 and 1985/86. The net profit improvement is arrived at after a cautious decision to discount half the total revenue gains to reflect either BSC's inability to pass on the full exchange effect to customers or a stabilisation of sterling at 3.30 - 3.40 DM. As regards 1983/84, the Plan notes on page 32 that "a prudent view of the phasing of exchange rate changes and the timing of the achievable consequential effect on prices indicates a neutral effect on profit and loss."

36 Three main questions arise over the approach which BSC have adopted:

(a) The plausibility of the alternative exchange rate assumptions.

(b) The proposed pricing strategy - particularly in 1983/84 - against the background not only of the exchange rate assumptions but also of the Community's renewed efforts to maintain and enhance prices under the guidance price system.

(c) The implications of (a) and (b) for BSC's revenue, trading results and cash requirements.

37 On the first point, forecasting exchange rates is a notoriously hazardous business. With that proviso, Government economists consider that BSC's alternative assumptions probably overestimate the degree to which the sterling effective and the DM/£ rates will decline over the Plan period - rates somewhere between the central and alternative cases seem more likely - and that in the case of the $/£ rate the central rather than the alternative assumptions seem more appropriate in the medium term. If this view is right, then it implies that BSC's revenues in 1984/85 and 1985/86 will increase rather less than assumed in Annex VI but that this will be offset to some degree by lower rises in $-denominated input costs and in other costs affected by general UK inflation. Since the calculation at Annex VI already builds in a substantial discount on exchange rate gains, and given the imprecision of forecasting in this area particularly as the time horizon extends, we should accept the calculations in Annex VI as reasonab approximations of the likely effects of currency movements in the last two years of the Plan.

38 The position in 1983/84, however, is less clear-cut and leads on to the second main question - about BSC's immediate pricing strategy and its effects. The issue is complex. As already noted, price discipline in the Community began to disintegrate in early summer 1982. BSC decided to maintain prices for as long as possible so as to avoid contributing to a price war, preserve revenues (losses would equal about £40 million for each percent drop in price) and in the hope that the market would restabilise. In October, however, they were forced to reduce prices because the combination of price cutting by other Community producers coupled with the strength of sterling had allowed imports to make serious inroads into the UK market. By November, the general position had deteriorated so seriously that Community Industry Ministers endorsed the Commission's intention of introducing a non-mandatory guidance price system. This was implemented on 1 January 1983 and set prices for individual products, denominated in European Currency Units (ECUs), at levels roughly mid-way between the discounted prices in the market and reestablishment of the full list prices which had broadly prevailed before the collapse in May/June 1982.

39 BSC's main concern over the proposed level of the guidance prices centred on the exchange rate at which they should be converted from ECUs. Sterling had depreciated significantly since October. And the structure of BSC's prices at the year-end left them generally lower /than those of their European competitors for flat products (strip and plate) but higher for long products (sections, bar and rod). As a result, and since the proposed guidance levels generally reflected the price structure in other Member States, conversion of the guide prices from ECUs into sterling at the spot exchange rate on 1 January would have required BSC to increase their list prices significantly (by around 20 per cent) for flat products while for long products the guidance prices would have generally remained somewhere below BSC's list prices. The Corporation,

prevailing
xchange rates

backed strongly by UK steel users, judged that the UK market would not bear a major increase on flat products. The Commission were therefore persuaded that the guidance prices should be converted into sterling at the average exchange rate in September/October/November so as to smooth the transition. The resulting prices in sterling were broadly in line with BSC's list prices for flat products and rather below for long products.

40 Although producers were meant to charge guidance prices for all deliveries from 1 January, in practice deliveries in the first quarter were made at the (lower) prices ruling at the time of contract. It was only in relation to new contracts - in effect, for delivery from April - that the question of observance of the guidance prices arose. In setting the new list prices, BSC faced a choice. Either they could abide by the letter of the European regime and increase their list prices to take account of thefurther depreciation of sterling since January: this would imply a 20 per cent increas for flat products, which was judged to be more than the market wou bear and to threaten the recent signs of recovery in BSC's home market share. Or they could implement a smaller increase and take advantage of sterling depreciation to recover market share. After discussion with the Department, they opted for a compromise. List prices for flat products were increased to guidance price levels after taking some account of sterling depreciation, but some of the increase was offset by sector rebates to main customers. Although the retention of rebates breached agreements reached in EUROFER, the Commission and other European producers acquiesced.

41 There are now signs in Europe that prices for flat products are firming. Other producers, like BSC, published price increases effective from April. For long products, the improvement has been more patchy. The Commission intended to review guidance prices in April with the aim, if the market would bear it, of increasing them on 1 July to the levels obtaining at the peak of the market a year earlier. The decision would take account of two main factors - whether the existing guidance prices were being respected; and the EMS currency realignment of 21 March (which has put pressure on the French to increase their prices, and has prompted the Germans to support a general increase in guidance levels so as to avoid a fall in their own prices resulting from the strengthening of the DM). The Commission have now decided on a two-stage increase. The first, effective from 1 April, has been limited to certain products and reflects EUROFER's wish to restore prices to last summer's levels. The second, effective from 15 May, is intended to correct disparities arising from the EMS currency realignment. If the latest ECU prices are converted into sterling at the January/February/March average exchange rate, they show significant divergences from BSC's list prices. BSC are now planning to narrow, but not eliminate, this gap by raising prices for certain products during the April-July quarter.

42 Against this background, BSC's pricing strategy for 1983/84 is highly cautious. The underlying philosophy is summarised in two parts of the Plan:

(a) "The main risk to the price assumptions could arise from a loss of patience by some [European] producers, who then try to force closures elsewhere through cut-throat price competition. It is possible that from time to time over the next few years a partial breakdown will occur, in which case prices could decline by up to 10-15% for periods of up to 6 months, as happened in 1977, 1980 and again in 1982". (Page 11).

(b) "The prospects for 1983 are not good. The guidance prices proposed by the Commission, if successfully applied, would eliminate losses for most producers, but it is questionable whether they can be realised without an improvement in the market, close alignment of supply and demand, and more effective import protection." (Page 21).

43 In practical terms, BSC propose to follow the price increases of other European producers by matching effective prices actually realised on the market. This reflects the Corporation's determination to avoid (as in 1982) losing market share by being the first to raise prices in response to European agreements and the last to drop them as a result of market instability. As the first table in paragraph 34 above shows, this means thatBSC are assuming that, despite exchange rate movements, realised home prices over 1983/84 as a whole will rise by only 1.8 per cent over the depressed level realised in quarter 4 1982/83 and will average 1 per cent less than in 1982/83 as a whole. And on export prices they are assuming a 4 per cent reduction between the two years. Despite pressure from the Department, BSC maintain that their view is "prudent". They have declined to incorporate any more optimistic assessment.

44 For the reasons explained in the footnote to the tables in paragraph 34, the price levels there are not exactly comparable with those in Annex II which show BSC's realised prices in 1982/83. Nonetheless, rough adjustment to the figures shows that BSC's home prices peaked at about £288 a tonne in quarter 1 1982/83 (£285 plus an adjustment of £3 for product mix). If the European strategy for 1983 succeeds in no more than restoring prices to the peak level achieved at that time, then £288 a tonne would represent a 2.5 per cent increase over the average level of £281 which BSC are assuming for 1983/84. This is itself a very cautious revision since it assumes no gain at all to BSC from sterling depreciation. An arbitrary revision of the same magnitude could also be made to BSC's assumption about export prices, where the effect of sterling depreciation should be much more directly beneficial. On BSC's own sensitivity analysis that a 1 per cent increase in home sales prices improves profitability by £23 million, and by £ 7 million for exports, this 2.5 per cent revision would improve profit and reduce cash requirements by a total of £ 75 million in 1983/84.

45 In the light of this assessment of exchange rates and selling prices, we recommend the following conclusions:

(a) BSC's selling price assumptions in 1983/84 are unduly cautious. This inflates BSC's likely losses and cash requirements for the year. Moreover, it is tantamount to suggesting that BSC will not respect the European guidance price system (or that it will collapse), an approach which the Commission can be expected to contest strongly in their own consideration of the Plan.

(b) On the other hand, history tends to support BSC's sceptical view of the effectiveness of the European pricing regime. The question is whether they are now being excessively pessimistic.

(c) Balancing these considerations, we should make some revision to BSC's profit and cash forecasts for 1983/84. The basis for this proposed in paragraph 43 - an adjustment of £75 million in each - is cautious but has some analytical justification. Any other basis, and particularly one on which we sought to take a view about the purely exchange rate gains which BSC may reap in home prices, would be more arbitrary still.

(d) At this stage, we should accept the estimate of price and exchange rate gains which BSC have made for 1984/85 and 1985/86 (in Annex VI), so leaving the profit and cash forecasts for those years unamended.

B. SOURCES OF IMPROVEMENT IN PROFIT AND LOSS

46 Annex VII (page 33 of the Plan) shows the forecast trend of improvement in profit/loss over the Plan period. The major turn-round is to take place between 1982/83 and 1983/84, when losses before contingencies are to decline by £247 million (from £378 million to £131 million). This is to be derived in large part from the programme of remedial measures set in hand last November (paragraph 20 above), which promised savings of at least £180 million in 1983/84 through improvements in manufacturing efficiency, further slimline manning and the closure of 13 smaller works. Since then, in developing the new Plan, each Group has identified further improvements which are described as "Group Tasks" and will yield £82 million in 1983/84. This total is made up of £9 million from selling price improvements and £43 million from reduced cost increases as a result, respectively, of revised exchange rate and inflation assumptions; £5 million from further manufacturing efficiencies; and £25 million from accelerated manpower reductions.

47 Between 1983/84 and 1984/85 a further improvement of £184 million is forecast (from a loss of £131 million to a

profit of £53 million, both before contingencies). Sources for the improvement include a further gain of about £60 million from last November's remedial programme (which was forecast to yield £180 million in 1983/84 but £242 million in a full year); £30 million from further "Group Tasks"; £100 million from the central exchange rate adjustment to input and selling prices (discussed in the last section); an unspecified contribution from the forecast increase in deliveries of 0.6 million tonnes over the previous year; and £16 million from a "further management task" which reflects a central assessment of the scope for additional manpower savings (2,400 in the year) over and above those identified by the business Groups. These gains would be offset to an extent by cost increases, amount unspecified.

48 Between 1984/85 and 1985/86 no further improvement is forecast in net profitability. Gains are identified of £40 million from centrally-determined manpower savings under the further management task" (4,000 job losses); £29.6 million from "Group Tasks"; and £75 million from the central exchange rate adjustment. These are presumably offset - again no detail is provided - by cost increases and by the forecast reduction in deliveries (of 0.3 million tonnes) compared with the previous year.

49 The profit/loss picture is presented very opaquely in the Plan because of the plethora of adjustments to the central figures - "Group Tasks", "Further Management Tasks", and "Currency Changes". Nevertheless, the principal plank of the forecast improvement lies in last November's remedial programme, a major feature of which was slimline manning and smaller plant closures, yielding £143 million out of the full-year savings of £242 million. These actions have almost all been implemented by now and therefore represent sure gains. Moreover, the overwhelming majority of further savings over the period derive from action which is under BSC management's direct control and in which they have a good track record (additional manpower cuts, energy savings, yield improvements, manufacturing efficiency), rather than from optimistic assumptions about external factors (exchange rates, prices, sales volume). We therefore judge that the Corporation have a good chance of achieving the turn-round to profitability which, even on their cautious economic and commercial assumptions, they are forecasting.

C. CAPITAL INVESTMENT PROGRAMME

50 BSC require the Government's general approval for their capital investment programme as well as specific approval for major projects costing £50 million or more in total. In 1982/83 they had planned to spend £180 million but the outturn figure is £146 million. This reflects determined efforts to save cash in the face of deteriorating results as well as the delay in starting the Port Talbot hot strip mill development and the abandonment of a major seamless tube development (on which expenditure of, respectively, £11 million and £20 million had been scheduled in 1982/83). Under the state aids rules, the investment programme also requires authorisation by the European Commission.

51 Expenditure over the new Plan period is detailed in Annex VIII. The broad breakdown is as follows:

	£ million - outturn			
	1982/83	1983/84	1984/85	1985/86
Major approved schemes underway	70	51	3	-
Major schemes starting in 1983/84	-	91	120	54
Major schemes starting after 1983/84	-	-	28	84
Minor schemes	76	82	76	76
Total	146	224	227	214

52 The investment programme for 1983/84, for which approval is now required, involves a start on four "major" projects (as defined by BSC):

	£m	
	Spend in 1983/84	Total cost
Port Talbot HSM development	60	180
Continuous-cast feedstock for medium-range seamless tubes	12	36
Modernising Bromford seamless tube plant	4	13
New slab reheat furnace, Lackenby	3	13

Of these, only the Port Talbot development requires specific Government approval and that is covered in a separate paper (E(NI)(83)). If the project does not go ahead in 1983/84 (or at all), there would be a saving of £60 million on capital expenditure in that year. As regards the only other scheme of importance - the concast development for seamless tube - the objective is to improve product cost and quality by supplying concast feedstock to the two medium-range seamless mills at Clydesdale and Bromford. The siting of the development, and hence the precise project details, have not been settled and it has yet to be approved by BSC centrally.

53 Apart from the Port Talbot hot strip mill, BSC's proposed investment programme for 1983/84 raises no major strategic issues and we recommend that it be approved.

D. PRIVATISATION

54 Following the pattern of its predecessors, the present Plan says nothing about privatisation. Progress to date has, of necessity, been piecemeal. Since it is largely dependent on third parties, some of whom are in a fairly weak financial state themselves, it is virtually impossible to forecast the likely timing or the financial consequences of any individual piece of privatisation. In the case of its non-mainstream activities, BSC set a target of completing the disposal of BSC Refractories, BSC Chemicals, BSC International and Redpath Dorman Long (RDL) by the end of 1982/83. With the exception of BSC Refractories and a few very minor holdings this has been achieved.

55 The poor market prospects for many of the main iron and steelmaking businesses has meant slow progress towards privatisation. The existence of very few potential partners even for joint ventures has added to the difficulties, and those that do exist have been cautious in their approach, often because of their own weakened state - itself often brought on by their involvement in the steel industry. In some instances, privatisation is also inhibited by the sheer scale of the BSC operation by comparison with any existing private sector involvement. It is encouraging that in 1982/83 two pieces of privatisation were achieved with a degree of institutional finance - Sheffield Forgemasters (open die forgings) and Victaulic (couplings for tubes).

56 The most significant achievements in 1982/83 were as follows:

(a) the disposal of the lossmaking RDL - a constructional steelwork business employing 3550 - to Trafalgar House;

(b) the transfer of the lossmaking River Don Works - an open die forging business employing 1800 - into Sheffield Forgemasters, a joint venture with Johnson & Firth Brown;

(c) a management buyout of Victaulic - a business employing 880 making couplings and fastenings for steel and plastic tubes;

(d) sales of land and property worth some £20 million;

(e) the return to the private sector of two of the three businesses taken over from Duport in 1981, in the form of a joint venture - British Bright Bar - with GKN and Brymill. (The third company, London Works, was closed.)

(f) the incorporation into Companies Act companies of three business activities - Tubes Stockholding (250 employees), Coated Electrodes (60 employees) - where a management buyout has just been announced - and Whiteheads (197 employees). This latter works has been the cause of considerable friction with the private sector and, under pressure, BSC has agreed to incorporation and an independent review of its activities after 1 year.

57 The prospects for 1983/84 are as follows:

(a) The main objectives for the new Chairman of BSC are to privatise BSC's assets as quickly as possible with priority in the areas of overlap with the private sector; and to ensure transparency between the operations of BSC and the private sector in the meantime.

(b) BSC hope to make progress with the disposal of BSC Refractories. A sectoral scheme involving rationalisation is being promoted by Lazards, at BSC's behest. However, a takeover bid by one of the 2 major suppliers for the other looks likely to be referred to the Monopolies and Mergers Commission which would hold up action in the immediate future.

(c) Although no formal proposal has yet been received by the Department, we understand that BSC and TI are at an advanced stage of negotiations to rationalise their small seamless tubes businesses. The present proposals involve the establishment of a single company owned 72/25 by BSC/TI. Outside this company, BSC will retain large seamless activities and TI their seamless bearings tubes activities. The rationale for BSC is to avoid the larger amount of capital expenditure which their seamless activity requires by linking up with TI's more modern facilities. It was the element of capital expenditure (some £120 million) which made unviable the earlier proposals for the merger of all BSC's Tubes activities with TI together with the introduction of private capital. With TI in poor financial shape, this limited proposal is, we understand, as far as they are prepared to go.

(d) Rationalisation of the engineering steels sector - the Pheonix II project - has been discussed on and off since late 1980. There are a number of substantial issues to be resolved but the discussions are now making considerable progress and Mr MacGregor hopes for agreement by the end of June. The new venture, which would also involve Lonrho, GKN and possibly F H Lloyd, would absorb a substantial part of BSC's engineering steels interests and may have a majority private sector shareholding. It would significantly reduce current over-capacity in the sector and provide an opportunity to pool technical know-how.

58 In each case, the financial implications of any major piece of privatisation remain largely uncertain until some measure of agreement between the parties has been reached. Typically, additional redundancy costs will be incurred by BSC before the new venture is formed. A contribution by BSC may be necessary either to balance up the assets (as in the case of Allied Steel and Wire) or as a means of providing the new venture with either working capital or funds for capital investment. A case by case examination of each major proposal on its merits will continue to be necessary throughout the Plan period.

E. EUROPEAN COMMUNITY CONSIDERATIONS

59 The 1983/86 Corporate Plan spans the end of the period - December 1985 - by which the Community state aids Decision (2320/81/ECSC) requires that all subsidies to the steel industry in Europe should end, with any aid granted in the meantime dependent for Commission approval on restructuring involving capacity reduction and on the demonstrable prospect of viability being achieved. In accordance with the timetable under the Decision, Member States had to notify the Commission by 30 September 1982 of the total aid which they intended to provide by end-1985 and of the restructuring and capacity reduction which would be implemented in return for the Commission's approval of the aid. In March this year the Commission asked for final details by 1 April of all Member States' restructuring plans to end-1985 so as to leave them sufficient time in which to reach decisions on each of the plans by 30 June, as required under the state aids Decision.

60 As regards BSC, the Government submitted a "final application" in September last year to cover the Corporation's estimated financing needs to end-1985. These totalled £1,790 million - £1,160 for operations; £251 million for Regional Development Grants; and £379 million for repayment of foreign loans. It was made clear that this represented a best-estimate as at September 1982 and that definitive figures would have to await completion of the 1983/86 Corporate Plan a few months later. The application registered plant closures involving a net reduction of 891,000 tonnes a year in rolling mill capacity. The gross reduction of 1,266,000 tonnes a year was partly offset by notification that the Port Talbot hot strip mill development, which formed part of the detailed forecast of BSC's capital investment programme over the period, would result in an increase of 375,000 tonnes a year in hot strip capacity.

61 On 29 November 1982 the Commission authorised £400 million of the proposed aid, which was judged sufficient to meet BSC's financing needs to end-December. The main features of the authorisation were as follows:

(a) The Commission recognised a net capacity reduction of only 404,000 tonnes. The gross total of 1,266,000 tonnes was reduced by 375,000 tonnes for the increase resulting from the Port Talbot hot strip mill development; by 322,000 tonnes for closure of Shotton cold mill (which they said had already been taken into account to justify an earlier - very small - tranche of interim aid); and by 165,000 tonnes for rolled tube rounds produced at Round Oak Steelworks (on the grounds that tube products were not covered by the ECSC Treaty and so capacity reductions involving them should not be taken into account under the state aids Decision).

(b) The remaining £1,390 million could not be authorised as matters stood because:

(i) with the deterioration in the steel market, BSC would not break even in 1982/83, as planned, and its path towards viability was no longer clearly charted; and

(ii) there were no capacity reductions to justify the remaining aid.

(c) With no growth foreseen in the strip market, the increase in capacity resulting from the Port Talbot development was "not compatible with" the state aids Decision. Although the Commission had netted off the proposed capacity increase, they specified that none of the £400 million of authorised aid should be used for the project.

(d) The Commission invited the Government to submit further information and to enter negotiations over the basis on which further tranches of aid would be released.

62 In mid-December officials discussed the position informally with the Commission, outlining the further closures and job losses which were being implemented under BSC's November programme of remedial action to stem losses. The Commission considered that these would probably be enough to secure approval for a further tranche of aid sufficient to cover BSC's needs until end-June 1983. By this time a final decision had to be taken on the total aid package to end-1985. In this connection, the Commission's main concern centred on BSC's hot rolled coil capacity and, in particular, on the increase resulting from the Port Talbot project. They suggested that approval of the project would require closure of either the Ravenscraig hot strip mill or the Lackenby (Teesside) coil plate mill. As an alternative, officials canvassed the idea (already discussed inconclusively between the Secretary of State and Vice-President Davignon) that BSC and the Government would enter into a binding "contract" with the Commission to limit BSC's output of hot-rolled coil to (say) 1 million tonnes a year below the combined capacity of the Corporation's four hot strip mills. The Commission thought that this might be acceptable if the contract were to refer to the production limitation as an interim arrangement until one hot strip mill were permanently closed, and they accepted that such a closure would not take place until the Port Talbot modernisation had been completed (in 1986). Officials thought it most unlikely that the Government would be able to accept such a condition. The Commission replied that a contract which promised no eventual capacity reduction could certainly not be agreed at present because of the risk that other Member States would seek to go down the same road, so undermining the effort to achieve a real capacity cut-back in the Community.

63 Against this background, on 15 March 1983 the Government requested Commission approval for interim aid of £550 million to meet BSC's needs to end-June 1983. As counterpart capacity reductions, it was proposed that account should be taken

of the closure of Craigneuk bar mills (48,000 tonnes); the balance of capacity taken out at Round Oak (163,000 tonnes - none related to tube round production); and certain private sector closures implemented since January 1980 (360,000 tonnes). At the same time, the Commission were warned that the final and comprehensive notification of BSC's total financing needs to end-1985, to be submitted by end-May once the 1983/86 Corporate Plan had been appraised by the Government, would probably amount to £2,500 million rather than the £1,790 million envisaged in the September application. This increase of £710 million would result from greater losses of £250 million now foreseen over the period together with a rough estimate of £460 million to fund possible further privatisation and rationalisation measures (covering, inter alia, a US slab deal, Phoenix II, Allied Steel and Wire's "Anchor" project, and possible rationalisation with TI in the tubes sector). This higher figure deliberately included padding to cover any unexpected need for finance: the Government were clear that the total represented a ceiling within which they would decide precisely how much should be paid to BSC.

64 Approval for this tranche of £550 million in interim aid - which for UK budgetary reasons had to be secured before the end of March - required the Secretary of State to meet Commissioners Davignon and Andriessen to argue the case. They were concerned at being asked to give quick assent to a large amount of aid at such a crucial stage in the assessment of all Member State's restructuring plans. And they had strong doubts about BSC's eventual viability given the December decision to retain steelmaking at the five integrated steelworks. They finally agreed to release the aid on condition that they received a copy of the 1983/86 Corporate Plan together with Government confirmation of the objective of break-even in 1984/85; and that a further 300,000 tonnes in capacity reduction (details unspecified) should be forthcoming. They also pressed to be given details as soon as possible of the basis on which the Government approved the 1983/86 Corporate Plan: while 1 April was clearly impossible, mid-May was their outer limit. After consultation with BSC, the Government accepted these conditions.

65 Negotiations with the Commission to secure approval of the balance of the aid payments to end-1985 are likely to be difficult. The key issues for resolution include approval of the Port Talbot hot strip mill project, with its associated capacity increase. Conclusion of a US slab deal, involving a reduction in BSC's total hot strip capacity, would solve this problem (and probably yield approval for our total aid package as well) at one go. But we cannot count on such a deal being concluded at all, and certainly not within the timescale required for Commission approval of the aid package by end-June. The Commission regard BSC's hot strip capacity as excessive anyway. If they are to approve the Port Talbot project, very recent exploratory discussions suggest that they will require either that it should be modified so as to avoid a capacity increase or that a compensating capacity reduction should be implemented at one of BSC's other strip mills.

66 As regards the total aid package, the negotiations with the Commission will also require at an early stage identification of any cuts in capacity which BSC might be willing to make to justify the level of aid sought. The Corporation's initial stance is that no further real capacity cuts should be made. Such a position would certainly dismiss any prospect of successful negotiation with the Commission although it may be possible to find alternative ways of meeting some of their concerns either by contracting to restrict strip production or by undertaking to make unspecified capacity closures at a further date.

67 As a preliminary timetable we intend to submit the comprehensive notification (not necessarily in a definitive form) during week commencing 16May. This will probably be before Ministers have collectedly decided on either the Port Talbot project or on the amount of aid to BSC. It is also almost certainly ahead of any conclusion to the negotiations on the US slab deal.

F. CONCLUSIONS: PROFIT/LOSS TARGET AND EFL FOR 1983/84

68 BSC have met the Government's requirement of producing a Corporate Plan which respects the target of break-even in 1984/85 on the basis of continued steelmaking at the five integrated sites. The key economic and commercial assumptions on which this depends are cautious, reflecting the very difficult background in 1982 against which the Plan has been drawn up. Major disruption in the steel market, affecting sales volume or selling prices, would throw even these cautious forecasts out. But there are no signs at the moment of such disruption.

69 On the present outlook, it is possible that BSC may improve somewhat on planned results over the period - though this assessment of course becomes progressively more speculative as the time horizon extends. In the shorter term, recent improvements in UK macro-economic indicators, coupled with the effect of exchange rate movements on BSC's competitiveness against imports, suggests that there is upside potential in BSC's forecast sales volume. And the Corporation are particularly cautious over the potential improvement in selling prices resulting from the European pricing policy and the depreciation in the value of sterling. As regards cost-saving measures under direct management control, BSC have a record of setting realistic targets and achieving them: the Plan envisages further progress in this direction.

70 The table below sets out BSC's estimate of the sensitivity of the main assumptions underlying the Plan:

		Total Effect on Profit/Loss for 1983/84
		£m
Sales Price		
- Variance	+/- 1%	
Home		23
Export		7
Sales Volume (Steel Products - Average Mix)		
- Variance	+/- 1%	10

CONFIDENTIAL

	Total Effect on Profit/Loss for 1983/84
	£m
Exchange Rates (Worked-through effect)	
- Variance £/DM rate +/- 0.10 DM	60
Manufacturing Costs	
- Materials, fuels, services and employment costs +/- 1%	26
Manufacturing Efficiencies	
- Yield liquid steel to product +/- 1% point	10
- Energy +/- 1 giga joule per tonne of liquid steel	2

Note The above financial figures provide an indication of the sensivities to change on a number of key factors. Each assessment is self-standing and no account has been taken of other effects/actions that could arise to counteract the movement in any one of these variables.

71 From our assessment of the Plan, we conclude that in most of the key areas covered by the sensitivity analysis there is insufficient basis on which to fine-tune BSC's profit/loss and cash projections to reflect our view of likely developments in 1983/84 (and still less in the two succeeding years). Sales volume may improve but the extent is quite unpredictable. And, on exchange rates, recent movements in the DM/£ relationship underline the difficulty of predicting gains and losses: while the rate in March averaged 3.60, or 0.20 below BSC's alternative assumption of 3.80, the trend has since reversed quite sharply (the rate stood at 3.83 on 19 April). Moreover, against the European background set out in Section E above, the Government would be ill-advised to take an over-optimistic view of BSC's trading results and cash requirements up to 1985. If we do so, and things go wrong, we will find it very difficult to persuade the Commission later on to breach the state aids rules by accepting an increase in funding for BSC after the cut-off date of 30 June this year.

72 Nonetheless, as explained in paragraphs 44-45 above, BSC's selling price assumptions - independently of exchange rate forecasts - appear unduly pessimistic in 1983/84. An adjustment in this area of the cautious extent proposed - reducing losses and cash requirements by £75 million each - would not only reflect our general view of the upside potential in the first year of the Plan but would also help to head off what is likely to be serious criticism from the Commission that BSC are planning on the basis of a failure in the European pricing policy (the Commission are already known to have focussed on the point). We therefore propose that the contingency margin of £150 million on both profit/loss and cash in 1983/84 should be reduced by £75 million.

73 That apart, BSC's profit/loss and cash forecasts for the whole Plan period have to be reduced by £2 million in 1983/84 and by £3 million in each succeeding year to reflect the benefit from the reduction in the National Insurance Surcharge announced in the Budget. On this basis, the revised forecasts on which the Government should base their approval of the Plan for 1983/84 are as follows (with provisional figures for the next two years):

<u>Profit and (Loss)(£m)</u>

		(PROVISIONAL)	
	1983/84	1984/85	1985/86
Proposed	(281)	(46.8)	(47.6)
Revised	(204)	(43.8)	(44.6)

<u>Cash requirements (£m)</u>

	1983/84	1984/85	1985/86
Proposed	(425)	(315)	(185)
Revised	(348)	(312)	(182)

Department of Industry
9 May 1983

INDEX TO ANNEXES

U.K. DEMAND, MARKET SHARES & BSC HOME AND EXPORT DELIVERIES - FEBRUARY 1983 (PROVISIONAL)

05/04/83

TOTAL BSC

T=000 TONNES

	DELS TO UK CONSUMERS & STOCKHOLDERS							DELIVERIES BY BSC							
	TOTAL UK DEMAND	OF WHICH IMPORTS		OF WHICH PRIVATE SECTOR		OF WHICH BSC		TO PRIVATE SECTOR	TOTAL HOME	EXPORTS					TOTAL HOME & EXPORT
										EEC	ASS EEC	USA	ROW	TOTAL	
	T	T	%	T	%	T	%	T	T	T	T	T	T	T	T
80/1	12999	3611	27.8	3424	26.3	5965	45.9	1527	7492	682	235	232	913	2063	9554
81/2	12704	2996	23.6	3371	26.5	6338	49.9	1712	8050	741	264	427	1213	2645	10695
81/2															
JUN Q	2926	660	22.5	787	26.9	1480	50.6	371	1851	206	74	95	349	724	2574
SEP Q	3017	669	22.2	783	26.0	1564	51.8	428	1992	179	54	150	319	702	2694
DEC Q	3267	787	24.1	916	28.0	1563	47.9	465	2028	164	55	105	271	594	2622
MAR Q	3491	878	25.1	885	25.4	1728	49.5	448	2176	192	81	78	275	626	2802
YEAR	12701	2995	23.6	3371	26.5	6335	49.9	1712	8047	741	264	427	1213	2645	10693
82/3															
APR/JUN - BUDGET	3173	720	22.7	816	25.7	1636	51.6	475	2111	197	77	121	333	727	2838
- ACTUAL	3166	870	27.5	786	24.8	1510	47.7	312	1822	177	72	105	300	654	2476
- % DIFF	0	+21		-4		-8		-34	-14					-10	-13
JUL/SEP - BUDGET	2829	621	22.0	755	26.7	1452	51.3	388	1840	188	88	121	336	733	2573
- ACTUAL	2700	722	26.8	684	25.3	1294	47.9	308	1602	159	61	66	230	516	2118
- % DIFF	-5	+16		-9		-11		-21	-13					-30	-18
OCT/DEC - BUDGET	3091	691	22.4	846	27.4	1554	50.3	445	1999	206	88	120	369	782	2781
- ACTUAL	2692	734	27.3	700	26.0	1258	46.7	259	1518	172	64	70	311	617	2135
- % DIFF	-13	+ 6		-17		-19		-42	-24					-21	-23
JAN - BUDGET	1001	231	23.0	285	28.5	486	48.5	146	632	63	24	29	116	232	864
- ACTUAL	857	222	25.9	231	26.9	404	47.1	104	508	42	24	13	53	132	640
- % DIFF	-14	-4		-19		-17		-29	-20					-43	-26
FEB - BUDGET	1051	244	23.2	287	27.3	520	49.4	153	673	67	26	32	119	243	916
- ACTUAL	930	204	21.9	251	26.9	476	51.2	133	609	73	27	13	104	217	826
- % DIFF	-11	-17		-13		-8		-13	-9					-11	-10
CUMULATIVE TO DATE															
APR/FEB - BUDGET	11145	2500	22.5	2990	26.8	5647	50.7	1606	7253	720	303	422	1272	2718	9971
- ACTUAL	10346	2752	26.6	2652	25.6	4942	47.8	1116	6058	624	247	268	997	2137	8195
- % DIFF	-7	+10		-11		-12		-31	-16					-21	-18

ANNEX I

ANNEX II: COMMERCIAL AND FINANCIAL OUTTURN IN 1982/83 - LOSSES, OUTPUT, EXCHANGE RATE, PRICES

1982/83

		April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	YEAR
1 Weekly rate of profit/loss £M (after interest)														
	Plan	(1.5)	(0)	(0)	(1.1)	(2.1)	(0)	0.1	0.6	(1.1)	0.9	0.9	1.3	(80)
	Actual	(3.4)	(1.7)	(3.0)	(8.0)	(7.2)	(7.5)	(9.2)	(8.8)	(9.0)	(7.9)	(6.1)	(6.7) P	(378) P
2 Weekly output, ,000 tonnes liquid steel														
	Plan	295	294	287	257	241	286	292	290	238	282	289	289	14.5 MT
	Actual	272	276	250	190	188	197	193	200	152	228	278	281	11.1 P MT
	% Shortfall	8	6	13	26	22	31	34	31	36	19	4	3	23 P
											(P - Provisional)			
3. £/DM average exchange rate														
	Actual	4.24	4.18	4.26	4.28	4.28	4.29	4.29	4.17	3.92	3.76	3.72	3.59	4.09
4. Realised steel prices, £ per tonne		←	Q1	→	←	Q2	→	←	Q3	→	←	Q4	→	
A. Home Sales														
	Plan		279			278			280			286		281
	Actual		282			285			284			274		281
B. Export Sales														
	Plan		313			317			320			325		319
	Actual		309			302			283			273		292

ANNEX II

KEY FEATURES

		1982/83	1983/84	1984/85	1985/86
Profit/(Loss)	£M				
- Trading Profit/(Loss)		(288)	(59)	106	100
- Interest		(90)	(72)	(53)	(47)
		(378)	(131)	53	53
- Contingencies		-	(150)	(100)	(100)
- Profit/(Loss)		(378)	(281)	(47)	(47)
Cash Requirements	£M	(575)	(425)	(315)	(185)
Capital Expenditure	£M Outturn	(146)	(224)	(227)	(214)
UK Market Size	M. Product tonnes	11.6	11.9	12.5	11.7
BSC Market Share	%	47	48	48	50
Deliveries	M. Product tonnes				
- Home (inc. to Private Sector)		6.6	7.0	7.5	7.2
- Export		2.6	2.3	2.4	2.4
- Total		9.2	9.3	9.9	9.6
Liquid Steel Equivalent of Deliveries	Mt.	11.8	11.7	12.3	12.0
Manpower (at end-year)	'000	81.8	75.5	71.0	68.0

CORPORATE PLAN 1983-84 TO 1985-86

ANNEX VI

ASSESSMENT OF ALTERNATIVE EXCHANGE ASSUMPTIONS

	Approx. BSC Revenues + Costs	1984/5 Assumption Change	1984/5 Gain (loss)	1985/6 Assumption Change	1985/6 Gain (loss)
Revenues	£m	%	£m	%	£m
Determined by -					
DM	2550	+28	715	+26	660
$	330	+16	50	+12½	40
Other	120	-	-	-	-
	3000		765		700
		* 50% discount	(385)		(350)
			380		350
Costs					
$ Related	(1050)	+16	(170)	+12½	(130)
Employment	(800)	+ 5	(40)	+ 7½	(60)
UK Other	(1150)	+ 5	(60)	+ 7½	(85)
	(3000)				
		Assessed impact of currency changes	100 (say)		75

Assumptions

Exchange Rates	1984/5 Plan	1984/5 Alternative	1984/5 Change %	1985/6 Plan	1985/6 Alternative	1985/6 Change %
£/DM	3.80	2.95	+28	3.60	2.85	+26
£/$	1.85	1.60	+16	1.80	1.60	+12½

General Inflation	Year over Year % Plan	Year over Year % Alternative	Change	Effective Cumulative Change %
1983/84	6½	8½	2	
1984/85	7	9	2½	5
1985/86	7	9	2	7½

* Discount - represents the effect of:

- inability to pass on full exchange effect to UK customers (customer resistance and competitive imports)

Or - £ stabilising at 3.30 to 3.40 DM

PROFIT/(LOSS) STATEMENT

£ MILLION	1982/83 BUDGET	1982/83 LATEST OUTLOOK	1983/84	1984/85	1985/86
GENERAL STEELS GROUP					
Business Results	(7.7)	(143.3)	(70.5)	(36.7)	(39.5)
Group Task	-	-	25.0	9.0	9.0
STRIP PRODUCTS GROUP					
Business Results	(36.4)	(158.6)	(118.2)	(68.6)	(80.1)
Group Task	-	-	42.0	14.0	14.0
BSC HOLDINGS					
Business Results	3.1	(36.9)	0.1	7.7	8.0
Group Task	-	-	3.1	2.0	1.6
TUBES DIVISION					
Business Results	27.0	15.8	(5.6)	10.2	21.3
Group Task	-	-	11.9	5.0	5.0
TOTAL OF GROUPS	(14.0)	(323.0)	(112.2)	(57.4)	(60.7)
FURTHER MANAGEMENT TASK	20.3	-	-	16.0	40.0
ASSESSED IMPACT OF CURRENCY CHANGES	-	-	-	100.0	75.0
TOTAL IRON & STEEL	6.3	(323.0)	(112.2)	58.6	54.3
Other Items (See Note)	(11.3)	(55.0)	(18.8)	(5.4)	(1.9)
SUB-TOTAL	(5.0)	(378.0)	(131.0)	53.2	52.4
CONTINGENCIES	(175.0)	-	(150.0)	(100.0)	(100.0)
CORPORATION	(180.0)	(378.0)	(281.0)	(46.8)	(47.6)

MEMORANDUM: INTEREST INCLUDED ABOVE	(84.4)	(90.3)	(71.7)	(52.7)	(47.4)

NOTE

Other Items includes:-

(i) BSSC together with BSC's holdings in Allied Steel and Wire, Sheffield Forgemasters and many small subsidiaries and associated companies - which, adversely affected by poor trading conditions, largely account for the worsening against Budget in 1982/83.

(ii) Centrally accounted costs not properly chargeable to individual groups and businesses.

CORPORATE PLAN 1983/84-1985/86

INVESTMENT PROGRAMME

			THIS PLAN					
BUSINESS/PROJECTS	81/ 82	82/ 83	83/ 84	84/ 85	85/ 86	86/ 87	AFTER 86/87	TOTAL: 82/3 ON
GENERAL STEELS GROUP								
SECTIONS & COMMERCIALS								
CENTRALLY-APPROVED:								
LACKENBY COIL MILL AUTO SET		1.00	0.40					
LACKENBY DEGASSER		3.90	0.90					
REDCAR COKE OVENS REBUILD		18.20	30.00	1.00				
SCUNTHORPE BILLET CASTER		7.50						
SCUNTHORPE BOS GAS RECOVERY		3.30	6.30					
APP.-PROD. NO.1 COKE REBUILD		0.80	5.10	0.90				
OTHER MAJOR SCHEMES		0.10						
SUB-TOTAL	14.80	34.80	42.70	1.90	0.00	0.00	0.00	79.40
TO BE APPROVED CENTRALLY:								
LACKENBY NO.1 PR MILL REHEAT			3.00	10.30				13.30
" BOS GAS RECOVERY						5.80	11.50	17.30
" BOS SUB LANCES						2.80	5.50	8.30
" BOS BURDEN IMPRMTS						10.20	20.30	30.50
REDCAR SINTER 400 M2 GRATE						2.20	4.50	6.70
" B/F'CE T.P. TURBINE						3.00	6.00	9.00
" COAL INJECTION						7.60	15.30	22.90
SCUNTHORPE CONCAST IMP. (BS)			4.00	1.40				5.40
" BLOOM CASTING				10.00	3.30			13.30
" NO. 1 ROD MILL DEVT			3.50	2.00				5.50
" UNIVERSAL STAND						12.00		12.00
" COAL INJECTION					8.70			8.70
" NEW SINTER PLANT				1.00	20.00	15.00		36.00
SUB-TOTAL		0.00	10.50	24.70	32.00	58.60	63.10	188.90
TOTAL LOCAL APPROVALS	10.60	13.30	17.80	10.90	11.10	11.00		
OVERALL TOTAL	25.40	48.10	71.00	37.50	43.10	69.60		
SPECIAL STEELS								
CENTRALLY-APPROVED:								
TEMPLEBOROUGH BILLET CASTER		0.30						
STOCKSBRIDGE CASTER		2.10	1.50					
SUB-TOTAL	9.70	2.40	1.50	0.00	0.00	0.00	0.00	3.90
TO BE APPROVED CENTRALLY:								
THRYBERGH BAR HEAT TREATMENT			2.00	1.00	0.50			3.50
GROUP RESTRUCTURING				4.00	8.00			12.00
SUB-TOTAL		0.00	2.00	5.00	8.50	0.00	0.00	15.50
TOTAL LOCAL APPROVALS	4.10	6.30	8.00	7.50	7.00	7.10		
OVERALL TOTAL	13.80	8.70	11.50	12.50	15.50	7.10		
PLATES								
TOTAL LOCAL APPROVALS	2.80	2.60	2.00	2.00	2.00	2.00		
OVERALL TOTAL	2.80	2.60	2.00	2.00	2.00	2.00		
OVERALL GROUP TOTAL	42.00	59.40	84.50	52.00	60.60	78.70		

14.1.83

VIII (Contd.)

[illegible]	81/ 82	82/ 83	83/ 84	84/ 85	85/ 86	86/ 87	AFTER 86/87	TOTAL [illegible]
STRIP PRODUCTS GROUP								
CENTRALLY APPROVED:								
PORT TALBOT - VARIOUS								
R'CRAIG - VARIOUS								
" - DESULPHURISATION								
TINPLATE - VARIOUS								
SUB-TOTAL	78.80	26.70	0.60	0.00	0.00	0.00	0.00	27.30
TO BE APPROVED CENTRALLY:								
LLANWERN HSM COMPUTER DEVT.				0.30	5.60	2.90		8.80
" CONCAST PHASES 1&2						40.00	80.00	120.00
" NO. 6 COKE BATTERY								
PORT TALBOT HSM MODERNISAT'N			59.70	76.50	43.10	0.70		180.00
" MORFA COKE OVENS								
COATED NO. 6 GALV. LINE				1.40	16.10	10.10		27.60
TINPLATE COIL ANNEAL/FIN LNE				8.10	22.30	14.60	38.70	83.70
SUB-TOTAL		0.00	59.70	86.30	87.10	68.30	118.70	420.10
TOTAL LOCAL APPROVALS	35.30	26.20	26.20	29.20	30.90	30.90		
OVERALL GROUP TOTAL	114.10	52.90	86.50	115.50	118.00	99.20		
BSC HOLDINGS								
CENTRALLY-APPROVED:								
ICKLES RING MILL		2.20	1.70					
STRIP EXPANSION		0.10						
CUMBRIA RAIL MILL		1.00						
SUB-TOTAL	7.20	3.30	1.70	0.00	0.00	0.00	0.00	5.00
TO BE APPROVED CENTRALLY:								
CUMBRIA RAIL HARDENING				2.70				2.70
TOTAL LOCAL APPROVALS	6.80	6.50	6.50	6.40	8.10	8.[illegible]		
OVERALL TOTAL	14.00	9.80	8.20	9.10	8.10	8.[illegible]		
TUBES DIVISION								
CENTRALLY-APPROVED:								
STANHOPE SPUN PIPE MODS.		3.30	2.30					
DALE SPUN PIPE MODS.			1.80	1.30				
SUB-TOTAL	0.00	3.30	4.10	1.30	0.00	0.[illegible]	0.00	8.70
TO BE APPROVED CENTRALLY:								
CORBY CENTRALISED FINISHING			1.00	1.50	0.50			3.00
HOLWELL MOULDING PLANT			2.30	4.20				6.50
SEAMLESS DEVT.:								
CONTINUOUS CASTING			12.00	18.00	6.00			36.00
MEDIUM RANGE MILL								
LARGE MILL IMPROVEMENTS, BROMFORD			4.00	5.00	4.00			13.00
SUB-TOTAL		0.00	19.30	28.70	10.50	0.00	0.00	58.50
TOTAL LOCAL APPROVALS	5.10	7.30	10.00	9.30	4.80	4.80		
OVERALL TOTAL	5.10	10.60	33.40	39.30	15.30	4.80		
OTHER BUSINESSES								
BSSC TOTAL (ALL LOCAL)	2.10	3.10	2.10	2.20	2.40	2.40		
BSC CHEMICALS/RDL	3.10	1.20						
BSC REFRACTORIES (ALL LOCAL)	0.40	0.80	0.40	0.40	0.50	0.50		
CENTRAL ITEMS (TREATED AS LO	9.60	8.60	9.00	8.10	9.20	9.20		
TOTAL	15.20	13.70	11.50	10.70	12.10	12.10		
CORPORATION TOTALS								
CENTRALLY-APPROVED	110.50	70.50	50.60	3.20	0.00	0.00		
TO BE APPROVED CENTRALLY	-	0.00	91.50	147.40	138.10	126.90		
LOCAL APPROVALS	79.90	75.90	82.00	76.00	76.00	76.00		
GRAND TOTAL	190.40	146.40	224.10	226.60	214.10	202.90		
[illegible] CORPORATE PLAN		[illegible]	242.10	260.40				

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

PORT TALBOT HOT STRIP MILL MODERNISATION

Paper by the Department of Industry

INTRODUCTION TO THE PROPOSAL

1. This paper considers BSC's proposal to invest £154 million at April 1983 prices (£180million at outturn prices) to up-grade and improve the hot strip mill at Port Talbot. The main items covered in the paper are:

(a) the structure and prospects of BSC's Strip Products Group;

(b) the need for investment to improve product range and quality;

(c) the reasons for basing this investment at Port Talbot

(d) a description of the project

(e) the cost savings associated with the project;

(f) the effect of the project on market share;

(g) the need for clearance from the European Commission;

(h) alternative options;

(i) conclusion.

2. The basic reason for the project is to enable BSC to roll heavier coils at Port Talbot, to extend the product range in terms of width and gauge, and achieve higher quality finishes. These capabilities are needed to meet increasingly stringent requirements from the consumers of hot rolled coil, and thus to enable BSC to maintain and improve its market share in strip products. If market share is not maintained the viability of recent investment (£375 million commissioned since 1978) in other facilities at Port Talbot will be called into question. The project also achieves significant running cost savings; while without it essential capital replacement of £39 million would be needed to continue the operation in its existing form.

SUMMARY OF BENEFITS

3. Costs and benefits have been projected over 25 years (the expected life of the enhanced mill). Discounted at 5% (the Government's basic public sector test rate) and 10% (giving a higher allowance for risks) the outcome is:

	5%	10%
Net present value of capital costs (allowing for capital costs avoided) and operating cost savings:	£129.8m	£ 40.9m
Present value of market benefits	£207m	£116.9m
Net present value of project	£336.8m	£157.8m
Net present value if plant life is reduced to 15 years	£214.8m	£113.5m
Net present value if plant life is reduced to 10 years	£127.4 m	£69.4 m

THE STRIP PRODUCTS GROUP

4. BSC's Strip Products group includes the three integrated steelworks at Llanwern, Port Talbot and Ravenscraig, the Gartcosh cold mill, the coated products works (mainly Shotton), three tinplating works in South Wales, and a number of small sheet finishing and fabricating works known as the Associated Products Group (APG). The Group had a turnover of £950 million in 1982/83 and a loss before centrally accounted costs of £85 million. It currently employs some 24,000 people.

5. BSC's coil plate mill at Lackenby (part of the General Steels Group) also produces a small amount of hot rolled coil.

6. Capacity of the three integrated works in the Strip Products Group, in terms of hot rolled coil, is set out below on the basis of capacity manned at present, the maximum level which BSC regard as sustainable with existing plant, and the figures notified to ECSC which were pitched as high as possible:

MTPA	Present manned	Maximum practicable working capacity	Capacity notified to ECSC
Llanwern	1.75	2.50	2.75
Port Talbot	1.60	2.20	2.22
Ravenscraig	1.25	1.25	1.30
	4.60	5.95	6.27

*(Footnote to paragraph 6)

(It will be noted that Ravenscraig supplies some 400 kt liquid steel equivalent in the form of slabs to the Scottish plate mills. If this could be re-sourced the hot rolled coil capability woudl become 1.6m tonnes and depending on the performance of the concast plant, further marginal improvement may also be possible. This situation, however, has implications to the capacities notified to the European Commission).

7. Production at the three integrated works is presently 4.1 million tonnes per annum of hot rolled coil. This is supplemented by 0.2 mtpa from Lackenby.Of the total, in broad terms:

1.00 mt is transferred to the Tinplate Works

0.22 mt is transferred to the works of APG

2.3 mt is sold in the domestic market as hot rolled cold reduced or galvanised product.

0.7 mt is exported

4.3 mt

8. The sectors of UK industry which provide the most imported markets for strip mills products according to Department of Industry data are

	Share of consumption of strip
Motor vehicles	25.6%
Holloware (including cans)	21.5%
Mechanical engineering	13.7%
Electrical engineering	5.9%
Construction	3.1%

A more detailed breakdown of uses for the different strip products, and BSC's market share, is at Annex 1.

PROSPECTS FOR STRIP PRODUCTS

9. Future production levels of BSC's strip products group depend on the levels of activity of the main consuming industries, the trend of steel usage in those industries, and the share of the market which BSC obtain. CSO figures show an overall decline in production levels in the consuming industries over the last ten years, but disaggregated Department of Industry forecasts for the period 1982-1985 based on the Chancellor's 1982 Autumn statement project a degree of recovery. Projections based on the 1983 Budget Statement would show a generally more optimistic outlook for manufacturing industry. The individual figures are

Sector	Change in Production 1973-1982	Projected change in net output 1982.5
Motor Vehicles	- 41%	+ 3%
Mechanical engineering	- 21%	+ 3%
Electrical engineering	+ 13%	No change
Misc. metal industries	- 37%	+ 1%
Construction	- 27%	+ 12%
All manufacturing	- 19%	+ 3%

10. Annex 2 gives BSC's own figures for UK demand for strip mills products (excluding tinplate and electrical) since 1968. It shows a peak of 5.5 million tonnes in 1973/74 falling to 3.6 million tonnes in 1982/83. Within the declining overall figure BSC's market share since 1975/76 (apart from the period affected by the steel strike) has been steady at close to 60%.

11. BSC is cautious about market prospects in the medium term, taking the view that a rising trend of import penetration, a slowing down in the growth of world trade, and a continued decline in UK industry's share of it through lack of competitiveness mean that UK manufacturing output could remain static or fall slowly. Within this, however, they expect steel intensity to remain broadly unchanged with moves towards lighter gauge and plastic in uncoated sheet applications (eg automobiles, drums) being offset by the increased use of coated sheet in buildings.

12. BSC therefore forecast the UK market for strip mills products in the medium term to be within the range from 3.5 to 3.9 million product tonnes per annum (excluding tinplate and electricals) averaging 3.7 mtpa. They expect, with the aid of a refurbished hot strip mill, to be able to retain a UK market share of around 63%, although an overall figure of above 65% is not regarded as sustainable given the open nature of the UK market (but for some individual products as Annex 1 shows figures of over 80% are achievable). As regards exports, BSC expect future levels to remain in the range of 550 - 650 thousand product tonnes per annum. In terms of hot rolled coil this level of output can be met by producing 4.1 mtpa at the integrated works, and 0.2 mtpa at Lackenby.

13. In the longer term, on a relatively optimistic view, it is difficult to foresee more than a modest growth in demand for strip mill products from UK industry. On the other hand, a continuing decline is also a possibility which cannot be ruled out. The extent of such a decline is clearly impossible to predict, but extrapolating the experience between 1973 and 1983 forward to 1981 implies a reduction in strip demand from present levels of 22%, and extrapolated over the period to 2,000 the reduction in demand would be 49%.

14. Two comments can be made about these longer term pessimistic projections. One is that they imply a scale of de-industrialisation which would amount to a major failure of Government industrial policy. Secondly, while a reduction of the order of 20% would remove any commercial case for the retention of three integrated sites, and a reduction of 50% woudl make a second site superfluous, a 50% reduction would still enable Port Talbot, if that were the sole surviving plant producing hot rolled coil to be loaded in the way assumed in this appraisal.

FINANCIAL PERFORMANCE

15. As noted in paragraph 4 above, the Strip Products Group had a loss of £85 million in 1982/83 excluding centrally accounted costs. This was £35 million better than in the previous year. BSC's projections over 3 years, consistent with their Corporate Plan, are that the losses of the strip products group will continue in the range £5 million - £20 million, before central items and contingencies, if a three site configuration is retained. Since the performance of an individual site is sensitive to loading, a 15% increase in volume would reduce losses or increase profits in the group by about £50 million per annum. With a two plant configuration the group (again excluding central items and contingencies) would move into a profit at plan volumes of between £30 and £70 million a year.

16. It should be noted, however, that the strip business is highly competitive and the UK market is wide open to European mills (shown in Annex 3) with modern, efficient facilities. The European Commission anticipates a production potential for coils in Europe of 76.5 million tonnes per annum in 1985, compared to a figure of 64.4 mtpa needed to meet expected demand levels. The steel aids regime is of course designed to reduce surplus capacity and eliminate subsidies, but clearly the prospect exists of continuing fierce price competition.

17. However, with the proposed project, Port Talbot would be able to match the best European performance in mill product costs. The strength of the competition makes it particularly important that BSC should be able to compete in terms of product range and quality, not only in the hot rolled and cold reduced markets, but also in major sectors such as tinplate which use substantial quantities of hot rolled coil as feedstock. This point is spelled out in the next section. The implication is that failure to up-grade BSC's facilities woudl make the scenario of increased losses and eventual withdrawal from the strip mill business self-fulfilling.

THE NEED FOR INVESTMENT

18. While the overall level of demand is fairly static at present, quality demands in strip mills products are growing with increasing intensity. Market demand which is being increasingly satisfied from the more modern facilities of BSC's major competitors, is moving progressively towards:

- wider coils with thinner gauges
- higher product quality in terms of coil shape, profile and gauge consistency
- improved coil presentation
- heavy coil weights
- thicker gauges for heavy wall welded tubes

19. The limitations of BSC's current hot mills, compared with their competitors, can be seen from Annex 3 which sets out the key features of wide hot strip mills in BSC and its major European competitors. The annex shows that in three key areas - coil weight, mill width and number of finishing stands - BSC will find it increasingly difficult to satisfy its markets fully from its existing facilities, which are limited as follows: (Details in Annex 4).

Llanwern and Ravenscraig

These are BSC's newest hot strip mills, commissioned in 1962. Mills of that generation have a restricted gauge capability and, in BSC's case, are also restricted to orders of around 1500mm in width.

Lackenby

This mill can roll to 1830mm width, but again has a restricted gauge range, and is in fact a coil/plate mill serving thicker and specialised hot rolled applications rather than the formable and surface critical strip market. Thus, it has no associated cold mill which limits is application in strip products.

Port Talbot

The present mill can roll to 1880mm width, but is limited on gauge range and has a low coil weight. A doubling of coil weight would remove pickle line welds from the processing of ordered coil sizes in its cold reduction mills, and in the Tinplate and Coated Products Works of Strip Products Group.

20. Investment is necessary for BSC to retain its existing markets and to compete in areas where it does not presently have the capability. Upgrading one site will benefit the Group as a whole, because if BSC cannot offer from one of its sites the full range of market needs the future of all the integrated sites in the Strip Mills Products business will progressively be at risk.* It should, however, be noted that on the basis of its view of the market, BSC believes that its commercial interests would best be served by concentrating strip production on two sites in the medium term and possibly on one site eventually.

*Conversely, the ability to meet the highest standards across the wider product range at one site would tend to improve the competitiveness of the Group as a whole, resulting in a higher level of business for all the sites.

21. The project now proposed would, in the Corporation's view, fit Port Talbot to be the core plant in their strip business into the 1990's and perhaps beyond. Without such an investment they argue that as the market for strip products becomes increasingly demanding, they will, with their present kit become increasingly uncompetitive, lose market share, and eventually be forced to withdraw from the strip market.

CHOICE OF BSC SITE FOR DEVELOPMENT

22. There are four major reasons why Port Talbot is the site at which BSC proposes that the modernisation should take place:

(a) Port Talbot is the most modernised overall of the three integrated sites in Strip Products Group, some £375m of new equipment having been commissioned since 1978 (see Annex 5 for details). In particular, the upgraded mill will enable best advantage to be taken of the recently commissioned concast plant. The concast route is eminently suited for the highest qualities of surface critical, full finish, material. The present mill is unable to handle such material over 1250mm wide due to limitations in mill power and configuration.

(b) Port Talbot is BSC's only site where there could be a fully modernised wide hot mill working in conjunction with an already fully modernised wide cold mill.

(c) In terms of transport and handling factors, the geography of Port Talbot is important in relation to:

(i) raw materials supply

(ii) supplying the Corporation's Tinplate Works in South Wales

(iii) the general distribution of the market

(d) Port Talbot is the lowest cost steel producer in Strip Products Group with the greatest potential, when the mill scheme has been completed, to match best European performance in mill product costs and quality.

The matters at points (c) and (d) above are explained more fully in Annexes 6 and 7.

THE PROJECT

23. Originally, BSC had intended to install a completely new hot strip mill at Port Talbot at a cost now estimated at some £480m which would have involved a substantial increase in capacity. On both cost and capacity grounds BSC have ruled out this option. Instead they wish to convert and improve the existing mill at a cost, including contingencies, of £154m at April 1983 prices, equivalent to £180m at out-turn prices. Expenditure would be spread over four financial years. The main items of equipment, their functions and cost, are listed at Annex 8. The project would take 3½ years to complete and would involve a number of mill shut-downs of between seven and ten days, with two longer shut-down periods (which would take the form of three week extensions to Christmas breaks). The disruption costs have been taken into acount in the assessment of costs and benefits.

24. The local management have actively progressed the detail of the scheme over recent months. Following discussions firm tenders have been received for all major items of plant and equipments. Tenders have been analysed and compared and preferred suppliers provisionally selected. Approximately £80m of business would be placed for manufacture in the UK within one month of final approval being given to the scheme.

25. The effects of the project would be:

: To double coil weights to 18kg per mm throughout the full range of widths (the present coil size is 9kg per mm of width up to 1370mm, reducing to 5.6kg per mm at 1880mm; this imposes constraints on quality, yield and efficiency at the mill and at subsequent finishing works through such factors as the need to weld coils together, increased material handling and scrap levels).

: To extend the product range down from 1.5mm minimum gauge to 1.2mm and up from 6.25 mm maximum to 17.5 mm.

: To achieve higher quality finishes.

: To achieve cost savings.

26. Although the project is not primarily intended to increase capacity it will have the incidential effect of increasing the capacity of the mill from 2.225m tonnes per annum to 2.6m tonnes per annum. The single item of investment which gives this potential increase is the second reheating furnace, whose basic function is to handle double weight slabs.

IMPROVEMENTS IN COST AND PERFORMANCE

27. Over the last five years substantial cost reductions have been achieved at Port Talbot and a measure of the productivity improvements is given by the following man hours per tonne of liquid steel:

Year to March 1978:	12.94
Year to March 1979:	10.21
March 1982:	5.02
Best achieved July 1982:	4.54

These figures reflect a reduction in manpower from 12,484 in March 1979 to 5,319 in December 1982, whilst the present plans propose manpower at under 5,000 in 1984.

28. The converted mill will perform more efficiently than the existing mill in a number of identified respects which produce annual savings of £18.5m at April 1983 price levels. The individual elements are set out fully in Annex 9. Together they would reduce the cost of hot rolled coil from £133 to £127 per tonne at the scheme level of operation, which is consistent with the current and foreseen loading pattern between the three Works. The cost savings are not very sensitive to changed volume.

BENEFITS IN TERMS OF MARKET SHARE FROM THE PROJECT

29. The project will improve the hot rolled coil in terms of surface, dimension and metallurgical properties, will enable Port Talbot to supply large weld-free coils to tighter tolerance, to provide a full width range in continuously cast products, and to extend the product range. These improvements will affect not only the competitiveness of hot rolled coil sold from Port Talbot, but also that of the finishing works which use hot rolled coil from Port Talbot as a feedstock and sell in the automotive, tinplate and colour coated markets. Some 90% of the hot rolled coil produced at Port Talbot is processed further, either within Port Talbot's cold mill or at Strip Products Group finishing works, including Shotton.

30. Assessing the effects on sales of continuing deficiencies in respect of product range and quality inevitably contains a subjective element. Over a five year timescale, however, BSC have identified particular losses in the fields of hot rolled and cold reduced coil and tinplate, which would lead to a loss of between 10 to 15% of the expected Port Talbot output. For the purposes of this paper, we have therefore taken the conservative assumption that the market losses described in Annex 10 would build up progressively to 170,000 tonnes per annum by 1987/88 and continue at that level thereafter. The present value of these losses at current contribution levels is, at a 5% discount rate, £207.0m and at at 10% rate, £116.9m.

EUROPEAN CONSIDERATIONS

31. The Commission is expecting a comprehensive notification from the UK Government under the State Aids regime by the end of May. When this is received, it will take a final decision by the end of June on aids which may be payable to the end of 1985. In this context aid means all Government payments to BSC.

32. The Commission's declared attitude is that it will only agree to aid being paid in return for capacity reductions. In this context the Port Talbot investment raises two potential problems in that it increases BSC's financing needs and creates a potential capacity increase of 375,000 tonnes per annum. At present there are few signs of flexibility in the Commission's attitude, but the position has still to be negotiated. What is clear, however, is that if the project does not form part of a comprehensive notification, there is no mechanism for a start to be made on it while the aids regime lasts. Even if the capital funds were raised from non-Government sources - which in itself woudl be a radical departure from present practice - the interest payments would increase the required operating subsidy and thus cause the project to fall foul of the state aids rules. Any substantial delay would in any case result in a serious loss of customers.

PRIVATISATION AND THE FUTURE OF THE STRIP BUSINESS

33. Bringing one integrated site in the Strip Products Group up to fully competitive standards enhances the prospect of eventual privatisation if market conditions improve

34. At present, of course, and as envisaged in the current Corporate Plan, BSC's Strip Products Group is loss-making. If based on three integrated strip mills works, without an increase in demand over current expectations, it will be very difficult to eliminate those losses, and even if one site were closed it would not be easy. The strip business is highly competitive, however, and the UK market is wide open to European mills selling strip mills products from modern, efficient facilities. Unless BSC can compete in developing the standards of quality required by its customers, as well as on prices, the business will decline further. This applies not only to the integrated works themselves, but to major sectors such as tinplate which use substantial quantities of hot rolled coil as feedstock.

35. Therefore, unless Ministers are prepared to contemplate increasing losses and eventually withdrawal from the strip mills business, investment needs to take place to bring the business to competitive levels. Any configuration of the strip mills business is likely to include Port Talbot because of the advantages of its location and port facilities, the recent substantial investments in other parts of the works and the significantly improved performances.

36. Whether either Ravenscraig or Llanwern, or possibly both, have a medium and long term future are separate questions, which can only be answered in the light of developing circumstances and the performance which can be achieved at those sites, but there are no circumstances which can readily be envisaged in which the business would exclude Port Talbot.

ALTERNATIVE OPTIONS

37. We have considered whether it would be realistic to

(a) postpone the decision on the project

(b) consider a smaller project which satisfies the same needs but does not involve an increase in capacity.

38. We have taken the view, however, that all the expenditure needs to be committed within a few months of approval so that long lead time items will be available for installation as required. The envisaged timing of the project also assumes that work can be commenced in the 1983 summer holiday period so as to minimise disruption. Any delay to the completion of the project would pose a serious risk to the achievement of a full competitiveness since BSC believe that their position in the market is already beginning to be affected . Moreover, there is the need to secure approval from the Commission before final decisions are taken on aids and capacity up to the end of 1985.

39. At one stage plans were prepared within BSC for a project similar to the one now proposed, but without a second reheating furnace. This was rejected by the Corporation as unworkable, but BSC have been asked to think again in view of the difficulty in securing Commission approval for an increase in strip mills capacity.

RECOMMENDATION OF DOI OFFICIALS

40. The project has been examined in depth, in consultation with CPRS and Treasury officials. It passes the relevant financial tests. Only if there is a real likelihood of the UK withdrawing completely from the strip mills products business are its very strong commercial and financial attractions called into question. While BSC's strip business may contract in the medium term, complete withdrawal does not seem likely.

41. The project has a very important strategic function for BSC and failute to implement it could jeopardise the whole strip business. DoI officials therefore believe the Government should approve the project and regard it as a priority objective in negotiations with the Commission.

DoI

8 May 1983

CONFIDENTIAL

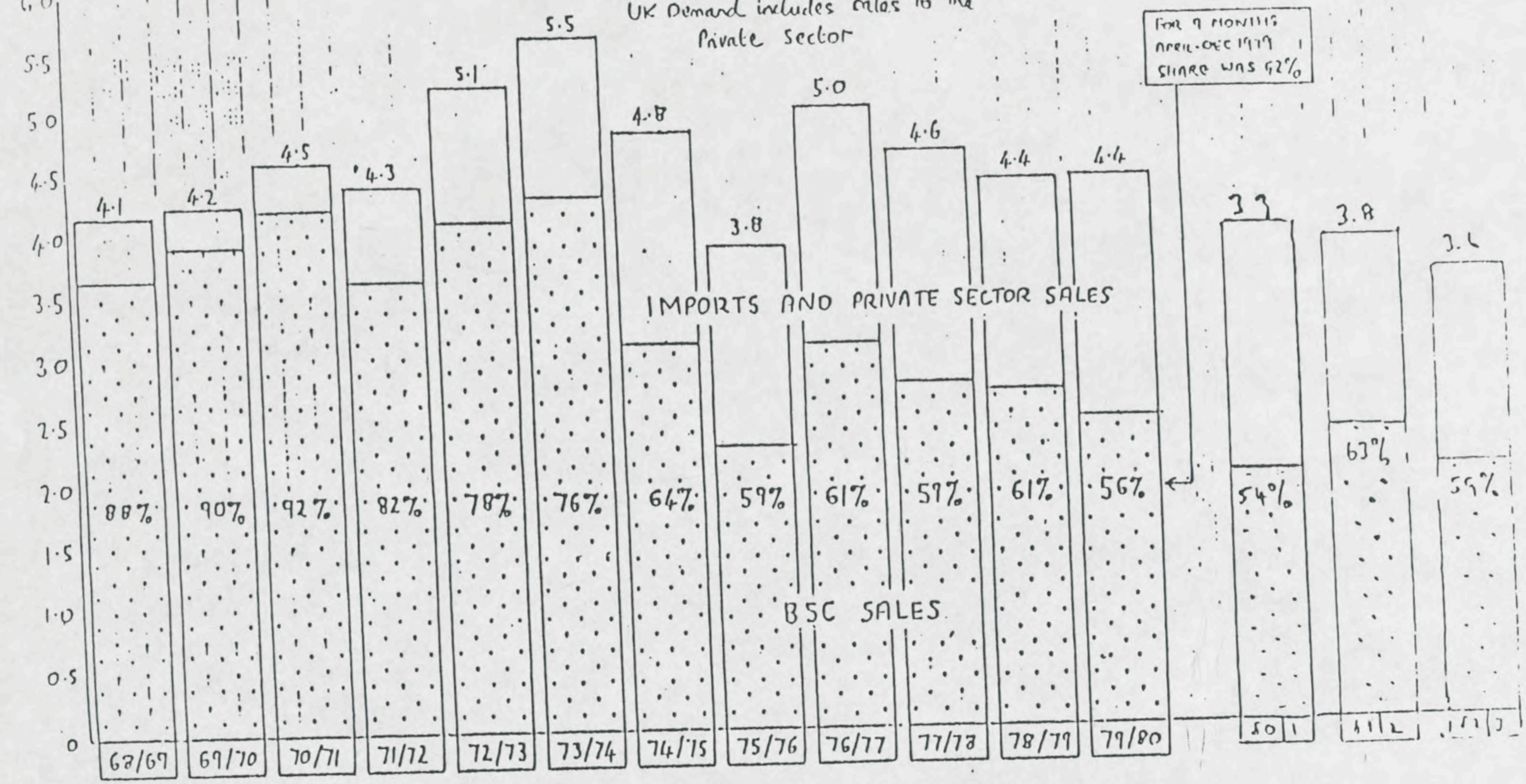
COMMERCIAL IN CONFIDENCE

ANNEX 1

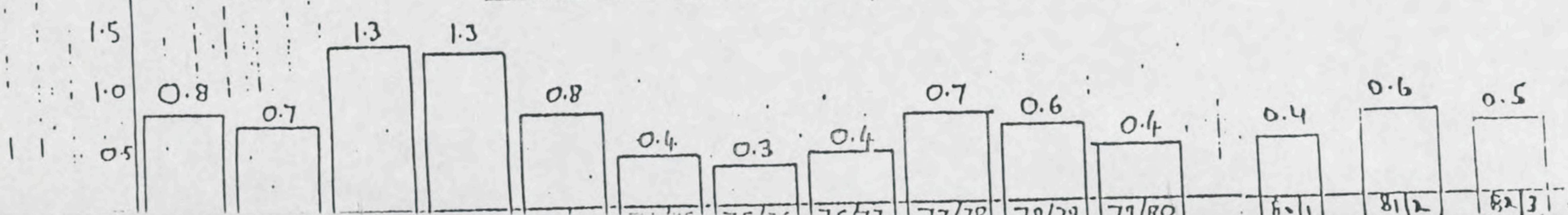
Main application of	% of Strip Production	BSC Market Share
Hot Rolled	17%	55%
Re-rolling into narrow strip Tube and pipe manufacture Automotive (commercial vehicles); Mechanical engineering; Construction		
Electrozinc	5%	82%
Domestic appliances Electricity trunking Heating and ventilation		
Galvinised	12%	70%
Ceiling tile supports Purlines Lintels Garage doors Decking Ducting Section rolling		
Coated Products	6%	82%
Cladding for buildings		
Cold Rolled		
Automotive Drums Radiators Domestic appliances Private sector tubes Coil coaters Stockists	33%	65%
Tinplate	23%	around 80%
Other	6%	-

UNITED KINGDOM DEMAND AND BSC MARKET SHARE FOR STRIP MILLS PRODUCTS

(excluding Tinplate and Electricals)
UK Demand includes sales to the Private Sector



BSC EXPORTS OF STRIP MILL PRODUCTS



Annex

ANNEX 3

BRITISH STEEL CORPORATION: STRIP PRODUCTS GROUP

PROPOSED PORT TALBOT HOT STRIP MILL MODERNISATION

EUROPEAN WIDE HOT STRIP MILLS

All BSC's major competitors are expected shortly to have the capability to meet the product specification and process efficiencies which the Port Talbot modernisation scheme is designed to attain. The attached table sets out the key features of the wide hot strip mills in BSC and its major competitors. It will be seen that nearly every competitor has a hot strip mill with seven finishing stands and a width of 80" or above, high coil weight and motor power, and high capacity reheat furnaces.

There are few exceptions outside the UK. In West Germany, the Krupp and Hoesch mills are each limited to 72" width but the companies are quite likely to merge with companies that operate a wider mill. In France the Sollac hot strip mill, similar in design to the Port Talbot mill, is being developed in a way similar to that proposed at Port Talbot.

FEATURES OF WIDE HOT STRIP MILLS IN BSC AND ITS MAJOR EUROPEAN COMPETITORS

CONFIDENTIAL

Company & Mill	Date built/ Modified	Mill Width (barrel) (mm)	Current/ planned Capa-bility (k.tonnes)	Type of Reheating Furnace+	Specific Coil Weight (kg/mm)	Maximum Coil Weight (tonnes)	No. of Finishing Stands	Strip Exit Speed (m/sec)		Finishing Stand Motor Power (000 HP)	Notes
West Germany											
Thyssen - Bruckhausen	1955/71	1500	3360	3P	18	23	7	18		56	
- Beeckerwerth	1964/72	2250	4920	5P	19	32	7	15		61	
Krupp - Bochum	1966	1800	3180	2WB,1P	19	23	7	15.5		64	
Hoesch - Dortmund	1958/73	1730	3535	3P	21	30	7	18		69	
Klockner - Bremen (No.2 mill)	1973	2300	4108	2WB	24	45	7	23		110	
Salzgitter	1964/73	2080	3120	4P	20	31	7	18		80	
France											
Usinor - Dunkirk	1964/73	2030	4800	4P	18	30	7	16.5		54	*
Sollac - Seremange - current	1953/72	2030	2800	5P	9		6	13		37	
- development	/85			IWB	16		7				
Solmer - Fos	1974	2290	4030	3WB	21	40	7	27		90	*
Holland											
Hoogovens No.1	1953	1420	1700?	3P	7	8.5	6	12		18	
No.2	1969	2235	4000?	3P	21	35	7	19		71	
Belgium											
Cockerill - Chertal	1963	2250	2600	2WB	16	30	6	16		48	
Carlam - Charleroi	1976	2235	1900?	1WB	20	40	6	17			7th stand proposed
Sidmar - Ghent	1966	2040	2610	3P	18	27	6	17		50	"
Italy											
Italsider-Taranto No.1	1964	1730	3500	3P	18	27	6	17		48	
No.2	1973	2230	4500	3WB	27	45	7	23		98	
- Cornigliano	1953	2060	1950	3P	9	14	6	11		33	
- Bagnoli	1983	1420	1000								
British Steel Corporation											
Ravenscraig	1962	1730	1686	3P	17	25	6	12.5		33	
Llanwern	1962/72	1730	2750	5P	18	27	6	17		40	
Lackenby	1968/76	2030	1220	2P	14	21	6	14		36	Coil plate mill
Port Talbot - existing	1951/66	2030	2225	5P	9	11	6	10		28	
- proposed	/85		2600	2WB	18	32	7	13		46	

+ WB = Walking beam furnace
P = Pusher furnace

* data for existing mill but developments are underway.

Annex 3

CONFIDENTIAL TO BSC/UK GOVT.

Rev. 27.4.83

ANNEX 4

BRITISH STEEL CORPORATION: STRIP PRODUCTS GROUP

PROPOSED PORT TALBOT HOT STRIP MILL

Limitations in BSC's Hot Strip Mills' Capability

The Corporation's newest hot strip mills were commissioned in 1962 at Llanwern and Ravenscraig. Mills of that generation have a restricted gauge capability and, in BSC's case, its newest mills also have a width capability restricted to orders of around 1500mm.

With the market demand towards wider coils with thinner gauges, and higher product quality in terms of coil shape, profile and gauge consistency; and heavier coil weights, BSC will find it increasingly difficult to satisfy its markets without a hot strip mill development programme. Whilst from the table below it can be seen that some of these market requirements can be met from one mill or another, a number of them - particularly those concerned with thinner gauges at the wider widths - cannot be obtained even from the widest mill (Port Talbot) because of other limitations.

The table below sets out in broad terms the normal commercial gauge and width limitations by mill of BSC's present hot rolled and cold reduced capability:

	Coil Weight Max.* Tonnes	Mill Gauge Min. mm	Mill Gauge Max. mm	Mill Width (Product) Min. mm	Mill Width (Product) Max. mm	Year Buil Modifie
HR Coil						
Port Talbot:	11	1.575	6.50	686	1880	1951/6
Llanwern	27	1.575	12.70	749	1572	1962/7
Ravenscraig	25	1.575	13.00	620	1550	1962/7
Lackenby	21	2.000	12.70µ	600	1830	1968
CR Coil						
Port Talbot:						
4-stand	** 35)	0.35	2.025	686	1829	1951/8
5-stand	25)					1959/6
Llanwern	27	0.50	3.000	710	1524	1962/7
Gartcosh	25	0.46	2.650	710	1520	1961
Shotton	32	0.35	3.175	610	1370	1973
Lackenby	NO COLD MILL					

* Not necessarily fully utilised.

** Only on basis of welded coils.

µ Normal commercial qualities. Up to a maximum of 1600mm for certain off-the-mill qualities.

The above table indicates the normal limit extremes, but within these there are more specific upper and lower gauge ranges within various width bands. Hence, whilst the HS mills at Llanwern and Ravenscraig can roll as light as Port Talbot currently, they are limited in width to 1550mm -v- 1830 mm maximum at Port Talbot. Also, whilst Lackenby can roll to 1830mm, it is ostensibly a coil plate mill and its minimum gauge at that width is nearly 2 mm above that for Port Talbot. Any proposed development by BSC would seek further to reduce the minimum gauge in line with expected market demand to 1.25mm up to 1250mm which would be 15 -20% lighter than its newest hot mills. As to thicker gauges, it would be designed to roll as standard to 17.5mm which is well above Lackenby's normal commercial limits.

The table also indicates that the Port Talbot coil weight would need to be doubled in order to eliminate pickle line welds from the processing of ordered coil sizes in its cold reduction mills, and the Coating Works of Strip Products Group. The welding of the front end of one hot rolled coil to the tail end of another, results both in a high process yield loss and quality. The differences in microstructure, gauge, profile shape and width at the weld, produce an increasingly unacceptable product for the customer.

It should also be noted that the Lackenby mill was commissioned as a light coil plate mill intended to have a limited role in the production of Strip products for specialised hot rolled applications. Thus it has no association with a wide cold mill.

The cold mill at Port Talbot, which has recently been fully modernised, is the only wide one in the Corporation.

ANNEX 5

BRITISH STEEL CORPORATION: STRIP PRODUCTS GROUP

PROPOSED PORT TALBOT HOT STRIP MILL MODERNISATION

BREAKDOWN OF RECENT YEARS' MAJOR CAPITAL SPEND

	Date Commissioned	£m
Coke ovens and coal handling	1981	104
Raw materials handling	1981	15
Sinter plant	1979	28
Blast furnace enhancement	1978	7
Power plant	1982	36
Continuous casting	1982	102
Slab mill refurbishment	1982	9
Slab mill scarfer	1980	3
Reheat furnace instrumentation	1982	2
Pickle lines	1981/82	23
Cold mill conversion	1980	14
Rewind lines	1981	3
Other schemes over £200k	1978/82	29
		375

BRITISH STEEL CORPORATION: STRIP PRODUCTS GROUP

PROPOSED PORT TALBOT HOT STRIP MILL MODERNISATION

ADVANTAGES OF PORT TALBOT'S GEOGRAPHY

1.. Raw Material Supply

Port Talbot costs benefit from the Works being located on a deep water harbour enabling imports of raw materials to be directly off-loaded into the Works system. Lackenby shares this benefit, whereas Ravenscraig and Llanwern are involved in additional transport by 'merry-go-round' trains and double handling via Hunterston and Port Talbot deep water ports respectively.

2. Corporation's Tinplate Works in South Wales

This is a traditional major customer for Port Talbot with an increasing demand for high quality large coils via the concast route. Whilst it could be fed from Ravenscraig, the excessive carriage (see para. 3 below) would detract from the cost competitiveness of the finished tinplate. Lackenby is not in a position to meet the specialised quality requirements for tinplate.

3. General Distribution of the Market

A table showing current carriage rates from each of the Strip Mill Works to the main UK user areas is given below:

£/tonne	Shotton	Tinplate (S.Wales)	Birmingham	London	NE
Llanwern	7.4	3.0*	6.1	8.3	11.3
Port Talbot	8.4	2.5*	7.6	9.7	12.4
Ravenscraig	8.5	12.1	12.4	15.5	8.6
Lackenby	8.3	N/A	8.6	11.2	2.5

* Weighted average between Works in East and West Wales.

A recent analysis showed the broad distribution of UK deliveries, including intra-BSC, to be:

NE & Scotland:	10-15%
Shotton:	8-12%
Birmingham & South	75-80%

This breakdown positively indicates by reference to the carriage rates that Port Talbot and Llanwern have a clear advantage into the major Midlands (Birmingham) and Southern area (particularly tinplate) over both Ravenscraig and Lackenby, whilst carriage penalties to Shotton are similar. The favourable delivery costs at Llanwern tend to offset their additional costs on ore.

BRITISH STEEL CORPORATION: STRIP PRODUCTS GROUP

PROPOSED PORT TALBOT HOT STRIP MILL MODERNISATION

PRODUCTS COSTS

1. In considering comparisons between product costs, it is important to note that each works produces a range of hot rolled coil products for general and full finish applications. Any comparison between the average hot rolled coil costs at different works can therefore be distorted by the different mix required to be produced. In practice, however, selling prices reflect the different qualities produced and in very broad terms selling price extras for specific qualities and finishes aim to recover the product costs over and above those for base qualities. In this Annex, therefore, in order to avoid distortion in the comparisons the costs relate as closely as possible to general purpose products only.

---

2. The table below sets out for 1982/83 the hot rolled coil ex-Works costs, including depreciation (but excluding central charges and Group administration costs).

	Q1 £/t	Q2 £/t	Q3 £/t	Q4 £/t	Average £/t
Llanwern	152	169	179	153	162
Port Talbot	146	162	179	167	163
Ravenscraig	162	200	201	161	177

3. BSC's Strip Products Group has considered the basis on which the most representative comparison can be drawn from recent actual costs and for this purpose have not taken into account results prior to the 1982/83 financial year. Such earlier comparisons would be strongly unfavourable to Scotland, where performance and productivity improvements were distinctly belated compared with the two South Wales plants.

4. So far as 1982/83 is concerned, the Q1 costs reflect a different plant configuration in Scotland to that which presently exists and are therefore not representative of the current situation. Q2 and Q3 were badly distorted by differential plant loadings in a period of abnormally poor demand.

5. Even Q4 is not wholly representative of a settled position because, although output levels had recovered substantially and relative loadings were not so disproportionate, exceptional costs were incurred on account of the Group's need to conserve cash to stay within the EFL. The Q4 position also shows very major improvements in cost in Scotland when compared with any previous period of time reflecting further management actions and increased plant efficiencies.

6. If the exceptional costs referred to in paragraph 5 are eliminated, then the Q4 1982/83 actual costs of hot rolled coil inclusive also fo the cost of delivery nct recovered from customers (excluded from the figures in paragraph 2 above but an important issue of disadvantage to Scotland with it much greater distance from the main markets), were:

	Including Depreciation	Excluding Depreciation
	£/tonne	£/tonne
Llanwern	153	151
Port Talbot	158	153
Ravenscraig	162	157

Even then, however, certain further exceptional costs were being incurred in South Wales in Q4 of a 'one off', non-recurring nature, particularly those associated with the commissioning of Port Talbot's new power plant. These items accounted for £1 per tonne of cost in Llanwern and £7 per tonne in Port Talbot included in the above figures.

Similarly, if January was excluded from the above Q4 costs on account of the different phasing of Christmas/New Year holidays in Scotland compared with Wales, the Ravenscraig costs in relative terms would be some £2per tonne more favourable.

7. The figures given for Ravenscraig in this Annex do not include the under-recovery of the costs of operating Hunterston, which are held centrally by BSC. The figures for Port Talbot and Llanwern include the total charges involved in operating the harbour at Port Talbot.

8. Each of the plants in BSC's Strip Products Group has an ongoing plan for reduction of its product costs. Thej 1983/84 plan is embraced in the Group's budget for that year, showing that these costs (at 1st April 1983 prices, and on the same basis as the table in paragraph 6 above)should reach the following levels by Q4 of 1983/84 at standard levels of activity.

	Including Depreciation	Excluding Depreciation
	£/tonne	£/tonne
Llanwern: all ingot route	146	144
Port Talbot: 50/50 concast/ingot	138	133
Ravenscraig: all concast	154	149

It is stressed that costs are dynamic and not static. They are subject to ongoing change. The Group believes that the above costs are representative of what is achievable at SLA.

9. The further cost reduction that would arise from implementing the Port Talbot hot strip mill development would reduce the Port Talbot hot rolled coil cost by a further £6 per conne.

ANNEX 8

BRITISH STEEL CORPORATION: STRIP PRODUCTS GROUP

PROPOSED PORT TALBOT HOT STRIP MILL MODERNISATION

MAIN ITEMS OF EQUIPMENT, FUNCTION AND COSTS

		At April 1983 Prices £m
1.	Two new reheat furnaces, capable of handling longer and heavier slabs from the continuous casting plant and slabbing mills; also improving thermal performance:	39
2.	Reversing rougher to replace existing roughing stands and enable longer and heavier slabs to be rolled:	24
3.	A coil box which will reduce energy usage and accommodate the longer breakdown bar between the reversing rougher and the finishing train:	5
4.	A seventh stand will be added to the existing finishing mill to roll lighter gauges at all widths with quality benefits:	37
5.	Two new downcoilers and a coil conveying system will be installed to handle the heavier and larger diameter coils:	17
6.	New computer controlled automotation system:	4
7.	Water treatment plant:	5
8.	Electrical distribution system:	4
9.	Other items, including site clearance, diversion of services etc.:	19
		154

ANNEX 9

BRITISH STEEL CORPORATION: STRIP PRODUCTS GROUP

PROPOSED PORT TALBOT HOT STRIP MILL

IMPROVEMENTS IN COSTS AND PERFORMANCES

The converted mill will operate more efficiently than the existing mill in a number of specific respects. For the purposes of evaluation these benefits have been converted to annual savings at April 1983 costs.

		Annual Saving £m
1.	Labour savings: By a combination of the elimination of manned effort, resiting of work positions and automation, the number of operatives will be reduced from 171 to 141:	0.3
2.	Energy saving: Installation of new furnaces will reduce fuel consumption from 25 therms/tonne to 15 therms/tonne:	5.6
3.	Yield: Doubling the length of bars will halve the number of crop ends and reduce losses from breakdowns or mishandling; improved combustion control will reduce scale. Overall mill yield improvement estimated at 1.3%:	2.1
4.	Rejections: The improved equipment will allow tighter operating control in terms of temperature, width and gauge, and reducing off-standard coils by 2.1%:	1.1
5.	Concast: Removal of reheating and roughing mill limitations will enable the mill to handle concast material over 1250mm wide, thus increasing the use of the concast route at the expense of the higher cost ingot/rolled slab route:	1.6
6.*	Subsequent processing: Processing double size hot rolled coils in cold mills, tinplate and coatings plants will give further improvements in plant performance through reduced discard levels, elimination of welds and gauge and temperature changes, and higher speeds:	6.3
7.	Substitution for present hire rolling overseas of hot rolled coil for BSC Stainless Steel:	1.5
		18.5

* Particularly in relation to this item, the savings are considered to be conservative.

BRITISH STEEL CORPORATION: STRIP PRODUCTS GROUP

PROPOSED PORT TALBOT HOT STRIP MILL MODERNISATION

LOSS OF MARKETS WITHOUT MILL DEVELOPMENT

1. HR COIL and CR WIDE COIL

Whilst quantifying market losses must be somewhat subjective, an attempt has been made to assess these and is summarised below:

			Tonnes pa	See App.1 Para. Ref.
(a)	Automotive Business			
	Lack of mill capability to produce full width range in concast quality		30,000	1(a)
(b)	Additional Heavy Gauge Business for Tubes:			
	Avoidance of imports	10,000		1(b)
	Additional business	33,000	43,000	1(b)
(c)	Additional Light Gauge Business From 7th finishing stand		50,000	1(c)
(d)	Export Markets where large unwelded coils are mandatory		25,000	1(d)
TOTAL:			148,000	

(a) Automotive Industry - say, 30,000 tonnes per annum

The Port Talbot continuous casting machine was built partly in anticipation of the growing use of killed steels by the motor industry, and linked with that an expected insistence upon continuously cast material. The Port Talbot hot mill with its present limited power cannot roll a concast slab wider than 1250mm, i.e. with allowance for side trimming which is increasingly specified by the motor industry, an ordered maximum of 1200mm. The Group's present business with the UK motor industry is approximately 200,000 tonnes of CR per annum, of which almost 50% is greater than 1200mm ordered width. Unless this constraint is removed from Port Talbot, an element of risk will overlie this proportion of the motor business, i.e. some 95,000 tonnes. That proportion would only be serviceable through the progressively less acceptable ingot route or from a single source of concast material in Scotland, but on a less economic basis (see answer to Question 2) and then only up to about 1500mm.

As the trend towards higher strength, and hence thinner, material progresses as expected with the new generation car models, the ability of the Port Talbot cold mill, recently refurbished, to handle wide and thin autobody material in higher strengths will assume greater significance. Although the whole of that 95,000 tonne proportion would not be at risk, it could be expected that some tonnage would be lost. Motor industry customers are anticipating a greater availability of continuous cast material now the Port Talbot facility is on stream, and are not expecting that to be accompanied by serious dimensional limits.

(b) Tubes Business: Imports - 10,000 tonnes per annum; additional heavy gauge -33,000 tonnes per annum

At present Lackenby is the only wholly satisfactory source for the supply of feedstock to BSC Tubes, although Ravenscraig is used as a back-up. Ravens -craig, however, has a width limitation problem over much of the range with economic repercussions - it has a maximum width which does not permit optimum slitting to 3 x 21" finished width. To overcome this problem, proposed developments would need to be on a wide mill and this would obviate occasional supply problems, thereby avoiding the need to import HR coil (with associated IR problems) estimated at 10,000 tonnes per annum.

In addition, proposed developments will enable BSC to make coil up to 17.5mm thick, which is considerably heavier than the heaviest product presently made. Port Talbot is currently virtually excluded from the important re-roller and tubes sectors because of its present limited coil weight. Removal of that limitation, through providing BSC with the enhanced flexibility of an extra source of supply, would generate an extra 33,000 tonnes of sales to those sectors.

(c) Additional markets from 7th Finishing Stand - 50,000 tonnes per annum

The provision of a seventh hot mill stand would be a response to the competition from similarly equipped mills in the EEC and elsewhere, with their capability of a high quality light gauge hot rolled product down to and even below 1.4mm thickness. This competition not only necessitates an improvement in the BSC standard of dimensional control at the lighter gauges, but also poses a threat in selected parts of the cold reduced business by substitition of hot rolled material, in the gauge range 1.2 - 2.0mm. If unable to match such a substitution, BSC risks the loss of existing business presently concentrated in the stockholder, tubemaking and automotive sectors.

A seventh stand would also confer benefits in other parts of the product range by uprating the standard of hot rolled feedstock. At present no HR material is used for direct galvanising below 2.05mm; the substitution of a better HR product for the present CR galvanised feedstock down to 1.2mm provides scope for further significant cost reduction. The improved hot rolled product will also contribute towards an achievement of lighter and wider dimensions of cold reduced and galvanised materials, in support of important new developments of demand for organic coated products in the construction industry. The total effect of this enhanced capability and the general improvement in the product available is judged to result in aggregate in a volume benefit of some 50,000 tonnes per annum.

(d) Export Markets: Mandatory Large Coils - 25,000 tonnes per annum

In export markets, the consequence of Port Talbot's low coil weights is a direct loss of business to BSC estimated at 25,000 tonnes of HR coil annually, where larger coils are mandatory. An example is the Group's regular hot rolled business with Yugoslavia, for which the total opportunity is in excess of 60,000 tonnes per annum. Because Port Talbot is unable to participate in this business, a portion of it recently had to be declined. A further example is the recent loss of Canadian business in HR on the same grounds.

2. TINPLATE

Currently, all European tinplate makers have now changed to using wholly large hot rolled coil for Tinplate manufacture, with the exception of Sollac and BSC where Port Talbot steel is involved. Whilst Sollac currently produce small hot rolled coil, when their latest planned hot mill modifications go ahead they will be producing only large coil, leaving BSC as the sole remaining European tinplate producer using small coil.

The growing importance of concast feedstock for tinplate has been overcome by the recent commissioning of the twin strand concaster at Port Talbot, but currently this is associated with unacceptable small coils. Whilst this requirement can be technically met from Ravenscraig, the punitive carriage involved makes finished tinplate manufacture uncompetitive and is not acceptable as a long term solution.

The direct manufacturing benefits of large coil - in terms of yield and speed of working, in particular - are readily assessable. Less easily quantifiable is the fact that any tinplate producer with a small hot rolled coil feed starts at a disadvantage, compared with the competition in that the use of welded coils involves the constant potential hazard of additional strip breaks at any stage in rolling or coating.

The most significant future problem of small versus large coil is likely to arise in the finished product area. The continuing pressure for cheaper, more efficient, food and beverage containers is likely to ensure that the high level of technological development in can-making techniques during recent years will be maintained.

DWI can manufacture requires significantly higher standards from the tinplate producer than ever before - in terms of steel cleanness, gauge control and overall attention to detail. Whilst an occasional DWI coil with a weld is currently acceptable - based on supplies of large hot rolled concast coil from Ravenscraig and imports - any attempt to supply all finished tinplate coils with minimum one weld is likely to meet increasingly severe resistance in the future, when weld-free coils are available from all other suppliers. All DWI lines are capable of detecting welds, but any failure to do so could result in serious tool damage and significant delays to high speed operation. All DWI manufacturers are already seeking to minimise this hazard. BSC (UK) sales to DWI beverage and pet food can manufacturer currently require some 110,000 tonnes of hot rolled coil per annum; a requirement which is anticipated to grow progressively to 140,000 tonnes during the next five years.

BSC Tinplate is currently developing export markets for DWI coils. Whilst small at present, the world-wide change in technology means a growing opportunity for two-piece cans. Since much of the development is led by American technology (e.g. American Can), our ability to take up these sales opportunities in the future would be significantly limited on the current coil size because our competitors can deliver bigger weld-free coil.

In the area of DRD technology - which is likely to become a major development for food canning - a coil feed system is already envisaged. In such a case the same demand for weld-free coil is likely. Currently, demand for DRD is equivalent to 10,000 tonnes hot rolled coil per annum, but is likely to increase to some 60,000 hot rolled coil tonnes equivalent for DRD over the next five years.

Demand for conventional coil for scroll shearing and end manufacture will continue to grow. Whilst welds are not a significant problem to the customer, each weld represents to us an additional opportunity for human error. Welds in lighter gauges cannot be effectively rolled to gauge and, consequently, there is off-gauge material either side of the weld. This off-gauge needs to be removed on the coil preparation lines and the coil rewelded; a modification in which our competitors are not involved.

10 MAY 1983

Nat Ind

PRIME MINISTER'S QUESTIONS, 26 APRIL 1983

BRITISH STEEL CORPORATION: MR MACGREGOR'S VISITS TO MOSCOW AND PEKING

Background

Mr MacGregor visited Moscow yesterday (25 April) and is now on his way to spend two days in Peking. He is exploring the scope for increased export business but no spectacular deals are expected to result.

2 BSC have long exported to the Soviet Union, though not in major quantities (£18 million-worth in 1982). Mr MacGregor's aim in Moscow was to consolidate relations and to identify prospects for future sales in the light of changing Soviet needs - eg they are now self-sufficient in such products as razor strip but have a growing need for imports of pipe and tube.

3 BSC have historically exported little to China (£6 million-worth in 1982). But they have recently won some contracts and Mr MacGregor will be exploring the scope for move.

4 The European Community's mandatory quota arrangements (under ECSC Article 58) set a limit on total production levels by individual companies. Any increased export orders obtained by BSC would, therefore, have either to be accommodated within the Corporation's quotas, or special derogations be obtained for specific contracts (a precedent for the latter option was set in a case involving Italian exports to the USSR last year). But it is far from clear that any increased business resulting from Mr MacGregor's visits will be large enough to raise quota difficulties.

Line to Take

5 BSC already export steel to the Soviet Union and, to a lesser extent, to China. I understand that Mr MacGregor is exploring the scope for building up relations and exporting more. It is this sort of energetic approach to selling which is vital if BSC are to improve the loading on their plants.

MM Division
Department of Industry
26 April 1983

Prime Minister 2
To note.
MCS 25/3

MR SCHOLAR

25 March 1983

cc Mr Mount
Mr Walters

RAVENSCRAIG AND GARTCOSH

Mr Younger is resisting the closure of BSC's cold rolling mill at Gartcosh on the grounds that it would "fatally weaken" the position of Ravenscraig as an integrated steel plant. I understand that he has secured an undertaking from Mr Jenkin that Gartcosh's future should not be decided immediately: it should instead be considered at the same time as Mr MacGregor's proposal to base Ravenscraig's future on selling semi-finished steel ("slab") to the USA and elsewhere. There is no immediate need for the Prime Minister to comment but she may wish to be aware of some background points.

The Gartcosh mill has no future at all if Ravenscraig is turned over completely to slab production because this would entail closing the hot strip mill at Ravenscraig which supplies the input to Gartcosh, some twelve miles away. But Gartcosh could still be dispensed with if the hot strip capacity were retained. The hot rolled coil could be sold directly or, if cold rolling capacity was required, it could be shipped to BSC's mills at Shotton or South Wales. The transport cost penalty which the latter option might involve would probably be very slight because only 6.5% of Gartcosh's orders go to Scotland (slightly higher than Ravenscraig's 4%); over 70% go to the Midlands and the South East. Gartcosh seems irrelevant, whatever the decision on Ravenscraig's product.

BSC reckon that profits would improve by £13 million a year if Gartcosh were closed, equivalent to £20,000 a year for each of its 600 employees. These gains would be only partially reduced in the first year after closure by redundancy costs, of perhaps £6 million.

Another consideration is that clearance from the European Commission for the expenditure of £350 million to finance BSC to the end of June has still to be negotiated. It has been made more difficult by the fact that we had the option to close Ravenscraig and did not take it, and did not go ahead as we once intended with another closure (the pipemill at Hartlepool). The closure at Gartcosh could become an ingredient in this negotiation.

Mr Younger is trying to argue that the closure of Gartcosh would be inconsistent with the 20 December announcement to continue to make steel at Ravenscraig. This is a very weak argument because even if Ravenscraig continues as an integrated plant there are alternatives to Gartcosh. Postponing a decision on Gartcosh only reinforces the impression that its future hangs on Ravenscraig continuing as an integrated works. The closure of the hot strip mill (700 employees) will be that much more difficult, if it occurs at the same time as the Gartcosh closure.

N.O.

NICHOLAS OWEN

TIM NO

C.B.I

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

JF3076
Secretary of State for Industry

23 March 1983

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

2

Prime Minister

BSC's EFL up from £365m to £575m, to be announced on ~~28~~ 29 March.

MCS 23/3

Dear Leon,

BRITISH STEEL'S EFL FOR 1982/83

We met on 13 December 1982 to consider the financial implications of the decision which I announced to the House on 20 December, and in particular BSC's EFL in 1982/83 and 1983/84. You said that in view of BSC's latest projections for 1982/83, and taking account of some expenditure being transferred from 1983/84 to 1982/83, you would be prepared to accept an increase in the 1982/83 EFL to £600 million.

2 Discussions on BSC's new Corporate Plan, in which Treasury officials are involved, are continuing, as are negotiations with the European Commission on BSC's financing needs, and I am not yet in a position to make an announcement about 1983/84 and later years. I shall therefore be announcing a revised EFL for 1982/83 as a separate item before the end of this month.

... 3 I thought you might wish to see the enclosed written PQ and Answer which I hope to give on 28 March.

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

Yours ever

Patrick

Encl

DRAFT

Q. To ask the Secretary of State for Industry if he is yet in a position to announce a revised external financing limit for the British Steel Corporation for 1982/83.

A. On 11 June 1982 I announced an external financing limit for 1982/83 of £365 million. Following a re-consideration of the Corporation's financial needs, to which I referred in my statement to the House on 20 December 1982, the limit has been revised to £575 million.

I expect to announce the EFL for 1983/84 in a few weeks time, together with the Government's other decisions on the BSC Corporate Plan.

Nat Ind: Steel Pt 12

cc NO

2

Prime Minister

The Treasury lines up with the DoI against the Scottish Office on Gartcosh.

MCS 22/3

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

The Rt Hon Patrick Jenkin, MP
Secretary of State for
Industry

18 March 1983

Dear Patrick

I am sure that you are right to say in your letter of 15 March to George Younger that BSC management should be left to proceed with the closure of the ingot route at Ravenscraig and the cold rolling mill at Gartcosh. These actions, while they will naturally be unwelcome in Scotland, are clearly of a kind that your statement of 20 December left BSC management discretion to take and which underpinned the calculations on which our collective decision then was based.

You also outline in that letter a scheme which Ian MacGregor is developing which would, if achieved at an acceptable price, provide security at least in the medium term for the heavy end of the Ravenscraig complex and offers the prospect of BSC attaining a much better prospect of viability.

I should not wish to dispute your intention to allow Ian MacGregor to explore this proposition fully and to put properly worked up proposals to Government when he has done so. We would then need to consider them seriously and hard headedly. I will at that stage need to be convinced on all aspects of any proposal that is made, taking account of the costs both financial and political of alternative courses for Ravenscraig. None of these is likely to be free of difficulty and I would not therefore wish to see the MacGregor proposal ruled out of court without due consideration.

In the meantime, I trust that you, George Younger and Ian MacGregor will do what is possible to damp down the press speculation that has been rife in the last week or so. Such speculation can only make any decision - whether on this proposal or on BSC's request for funding in their present corporate plan (which we are shortly to consider) - more difficult.

NATIONALISED INDUSTRIES Pt 12
The Steel Industry

Copies of this letter go to the Prime Minister, Francis Pym, George Younger, Nick Edwards, Norman Tebbit and Arthur Cockfield, and to John Sparrow and Sir Robert Armstrong.

GEOFFREY HOWE

Nat Ind Steel

Mr Scholar

NAT. IND.

PA

10 DOWNING STREET

From the Private Secretary

18.3.83

Dear Jonathan,

I enclose, for information, [illegible] the exchange of letters between the PM and Viscount Weir about the BSC Chairmanship. I would be grateful if you would not circulate outside your private office or photocopy.

Yours ever,

Michael Scholar

Dr Jonathan Spencer
Secretary of State for Industry's Office

10 DOWNING STREET

THE PRIME MINISTER

Dear Willie

It was good of you to write to let me have your views about the future Chairmanship of the British Steel Corporation.

Ian MacGregor has, indeed, been an enormous success there; and under his Chairmanship Mr. Scholey has, I know, impressed many people with his ability and grasp of the job.

We are still thinking about the top management structure at BSC and about who will be the best people for these jobs. Your letter is a useful contribution to these deliberations - thank you for writing - it is a great help.

Yours sincerely

Margaret

The Viscount Weir

FROM
VISCOUNT WEIR
Telephone 041-637 7111
Telegrams: G!WEIR, GLASGOW

CATHCART,
GLASGOW. G44 4EX

Personal

The Rt. Hon. Margaret Thatcher, M.P.,
10 Downing Street,
Westminster,
London, SW1.

11th March, 1983

R14

Dear Margaret,

B.S.C.

You must be besieged by advice on the B.S.C. - and particularly its chairmanship - so I hope you will forgive me adding to the total. I have a long connection with the B.S.C. having been a main Board Member from 1972/76, in days when it even managed an occasional profit. I resigned in 1976 because I totally disagreed with the appointment of Charles Villiers as Chairman.

In more recent times, my connection has continued, as being one of the two nominees of Lazards to the Committee to decide Ian MacGregor's compensation. Ian I have known very well for many years.

During my time on the Board I had plenty of opportunity of seeing Bob Scholey in action and I was continually impressed by his ability and grasp of his job. The Corporation got into an awful state under Charles Villiers but I know that during that period Scholey was one man who did everything he could to try and see that common sense prevailed and to hold the show together.

Beyond that, he is certainly the person who

(continued)

Personal

has the confidence of the management and I do believe must be the best person to succeed Ian.

It also occurs to me that if Scholey were to be passed over yet again, it is perfectly possible that some private sector firm might take the opportunity of offering him a job. Certainly, there are plenty of people in manufacturing who have a lot of time for him.

I really believe that if that were to happen - far-fetched as it may sound - then the Corporation would be in a really bad way if it were to lose both Ian and Scholey.

I hope you do not mind my butting in with this contribution. I feel quite strongly about it, however, and do hope that what I have said is of some help.

Yours ever,

William

William Weir.

Nat Ind Steel

c/ N.O.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

2

Prime Minister

George Younger is opposed to the closure of Gartcosh

MCS 17/3

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

17 March 1983

Dear Patrick,

RAVENSCRAIG AND GARTCOSH

Thank you for your letter of 15 March.

I recognise fully the need to close the ingot route at Ravenscraig and I have no objections to BSC announcing the closure before the end of this month. Incidentally, my information is that in anticipation of this decision, the Corporation has been running down employment in the slabbing mill and that, when the closure is effective at the end of April, 240 jobs - rather than the 500 referred to in your letter - will be lost. It would be helpful if this lower figure was referred to in any public statements.

I also welcome the efforts which Ian MacGregor is making to find new markets for BSC including the sale of some of the Corporation's semi-finished slab to the US. Clearly the Corporation must continue to improve its marketing effort both at home (where, for example, the car industry is still dependent heavily on imports from Europe) and overseas.

However I am opposed totally to any arrangement under which Ravenscraig would concentrate solely on the production of semi-finished slab and would thereby cease to be an integrated plant. Our decision which you announced on 20 December was that steelmaking should continue at all 5 major integrated sites. My understanding of that decision has always been that Ravenscraig would be retained as an integrated slab and strip producer until the path of future demand became clearer. To reverse that decision only 3 months after it was taken and at a time when we are beginning to see signs of the long expected economic recovery generally - and in particular when demand for strip products has increased significantly - would in my view expose us to the criticism that we ourselves do not believe that the economic recovery will be sustained.

Against that background I would find the closure of Gartcosh totally unacceptable. In my view the loss of the cold rolling mill from the Ravenscraig operation would weaken it fatally as an integrated plant, and I therefore cannot agree that the closure of Gartcosh could be regarded as being consistent with your December statement - and I must say I consider it disingenuous of BSC to argue that the closure of Gartcosh would not undermine Ravenscraig's position as a producer of hot rolled coil at the same time as they are negotiating a deal which, if successful, would have precisely that effect.

It may be helpful for us to meet to discuss these matters - perhaps after I myself have discussed them with Ian MacGregor on 23 March. In the meantime, it is clearly important that no announcement is made about Gartcosh, although that regarding the Ravenscraig ingot route can of course go ahead.

I am copying this letter to the recipients of yours.

Yours ever,

George

Nat. Ind: Steel Pt 12

010 Nat. Ind. cc JV

CONFIDENTIAL

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

JF2963
Secretary of State for Industry

15 March 1983

2

Prime Minister

An important letter

MCS 15/3

MT

The Rt Hon George Younger TD MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
LONDON
SW1A 2AU

Dear George,

I am writing to give you advance warning of two plant closures in Scotland which the British Steel Corporation propose to implement shortly and which they intend to announce by the end of this month.

2 The first closure concerns the ingot route for slabmaking at Ravenscraig which was foreshadowed in my statement to the House on 20 December. The need for this facility has fallen away as a result of the market trend towards concast steel. I understand from BSC that some 500 jobs will be lost as a result.

3 Secondly, Ian MacGregor has decided to close the cold rolling mill at Gartcosh which currently employs around 600 people. This decision reflects the fact that the Corporation's four cold mills are currently operating at only 55% capacity and the principal markets for cold-reduced strip are in England and Wales (with only about 6.5 per cent of Gartcosh's output being sold in Scotland).

4 I know that the decision to close Gartcosh will be unwelcome in Scotland. I do not, however, regard it as inconsistent with my December statement since, I am assured by BSC, it will not in itself undermine the continued operation of the remaining integrated facilities at Ravenscraig, as a supplier of either slab or hot rolled coil. You will recall that at the time of my statement I stressed that the Corporation would continue to be free to take management action to cut costs where necessary in order to maintain efficient operations and to move steadily towards the objective of viability; and I regard both these proposed closures as lying within the Corporation's discretion, and not requiring my agreement.

/5 Although ..

5 Although these two decisions are not in any way dependent upon a possible deal involving export of slab from Ravenscraig this letter to you provides an opportunity for advising you and colleagues of discussions which the BSC is currently holding with US Steel - reports of which have recently appeared in the press. As you know Ian MacGregor has grave doubts as to whether operations at all five integrated sites will be economically justified by any likely level of future demand. While recognising the Government's decision to maintain steelmaking at the five sites against the possibility of a higher level of demand emerging, and against the background of capacity reductions on the continent having so far been appreciably less than in the UK he nevertheless is extremely concerned about what he regards as the uncertain outlook for Ravenscraig as the most vulnerable of the integrated sites. He has therefore been looking at what action the BSC might take to underpin the future of Ravenscraig in the longer term and, in the meantime, to reduce the very sizeable losses (of the order of £70 million pa after the benefits of the two closures referred to above are taken into account) associated with maintaining operations at Ravenscraig.

6 Against this background, the BSC is exploring a possible arrangement with US Steel under which iron ore would be imported from US Steel into Ravenscraig for making into steel slab which would then be exported in that form to the United States for subsequent processing at US Steel's Fairless Works on the Delaware River. Details of the proposal are to be the subject of further negotiations between BSC and US Steel and are thus inevitably uncertain.

7 Far from being a first step towards the closure of Ravenscraig, an arrangement on these lines could enable the operations at Ravenscraig to achieve viability; by giving them the ability to transfer some work currently carried out at Ravenscraig to other parts of the Strip Group thus improving their capacity utilisation rates; and by offering the prospect of orders for slab from US Steel building up to such a high level as to offer work for other parts of the Corporation besides Ravenscraig. BSC believe that the scheme, which could be expected to run for at least 5 years, could improve their net profitability by the order of £130 million pa.

8 There would be important investment implications: first, I understand from BSC that for a slab supply arrangement to go forward they would be required to take a joint venture interest with US Steel in the Fairless works. This might cost the order of £150 to £200 million. An investment of this order is being demanded by US Steel in recognition of the expenditure they would have to incur at Fairless and of the expected benefits to BSC. I am advised by Ian MacGregor that US Steel would almost certainly be able to secure a joint venture arrangement of this kind by offering to buy their long term slab requirements elsewhere, such as from Mexico or Brazil.

9 Second, in order to reallocate the existing Strip Group product load on to South Wales works in order to release Ravenscraig for a slab supply arrangement it would be necessary to instal additional concast facilities at either Port Talbot or Llanwern at an estimated cost of around £100 million. This would have the effect of making the South Wales complex into one of the strongest and most efficient steel centres in Europe.

10 Turning to the employment implications the export of semi finished slab from Ravenscraig would inevitably involve the closure, either permanent or temporary, of the hot strip mill there with the loss of some 700 jobs (in addition to those referred to at the beginning of this letter). On the other hand it would according to BSC go far to securing the remaining 2700 jobs at Ravenscraig and would also lead, within 1 to 2 years, to some 1500 additional jobs elsewhere in the Corporation - mainly in South Wales and to some extent on Teesside.

An important aspect is the attitude of the US Administration. The current US countervailing restrictions do not apply to imported slab. I understand that Ian MacGregor has discussed this with Malcolm Baldrige, the US Secretary of Commerce, who indicated that it is unlikely that the US authorities would object to such arrangements.

12 BSC representatives are due to have further talks with US Steel over the next few days and have undertaken to keep my Department closely informed of any developments. For my part I have told the Corporation that they should not enter into any commitments without our approval.

13 I am copying this letter to the Prime Minister, Francis Pym, Geoffrey Howe, Nicholas Edwards, Norman Tebbit, Arthur Cockfield, and to John Sparrow and Sir Robert Armstrong.

Yours ever

Patrick

15 MAR 1983

26

ADVANCE COPIES FRAME INDUSTRIAL ~~19~~ XEROX COPIES

FCO

PS/MR HURD
SIR J BULLARD
MR EVANS
MR HANNAY
MR ADAMS
MR THOMAS

RESIDENT CLERK

HD/ECD (I) (3)
HD/NEWS D
HD/ERD
HD/MAED
HD/ESSD
HD/
HD/

PLUS FCO

CABINET OFFICE

MR D HANCOCK
MR G STAPLETON
MISS S J LAMBERT
MR J C MACKENNEY

D O I

MR MANZIE
MR SUMNER
MR MOGG
MR DAY
MR G DICK
MR J INGRAM
MR K BINNING
PS/SofS
PS/MR LAMONT

PLUS OGDS

PS/PM No 10

H M TREASURY

MISS J E COURT

ADVANCE COPY

IMMEDIATE

SENT 22 FEB 1983

CONFIDENTIAL
FRAME INDUSTRIAL
FROM UKREP BRUSSELS 221120Z FEB 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 744 OF 22 FEBRUARY 1983

SHEERNESS STEEL LIMITED: YOUR TELNO 102

1. I SPOKE TO DAVIGNON ACCORDINGLY, EMPHASISING STRONGLY THE PRIME MINISTER'S PERSONAL INTEREST. I HANDED HIM A NOTE SUMMARISING THE POINTS IN MR JENKIN'S LETTER OF 15 FEBRUARY AND INDICATING THE AFOREMENTIONED INTEREST. DAVIGNON SAID HE WOULD SEE WHAT HE COULD DO BUT WAS NOT SURE WHAT IT WOULD BE. I ASKED HIM TO CONSIDER THE IDEAS IN THE NOTE. HE SAID HE WOULD. I WILL SPEAK TO HIM AGAIN TOMORROW.

FCO ADVANCE TO:-
FCO - PAUL ECD(I)
CAB - MACKENNEY
DOI - PS/SOFS PS MR LAMONT MANZIE SUMNER MOGG DAY
NO 10 - PS/PRIME MINISTER

BUTLER

3290 - 1.

OO UKREP BRUSSELS
GRS 79
CONFIDENTIAL
FRAME INDUSTRIAL

A.J.C. 22/2
p.a.

FM FCO 211345Z FEB 83
TO IMMEDIATE UKREP BRUSSELS
TELEGRAM NUMBER 102 OF 21 FEBRUARY

SHEERNESS

1. MR JENKIN WROTE TO VISCOUNT DAVIGNON ON 15 FEBRUARY ABOUT THE PROBLEMS FACED BY SHEERNESS STEEL. WE SHOULD BE GRATEFUL IF YOU COULD SEEK AN EARLY OPPORTUNITY TO SPEAK TO DAVIGNON, UNDERLINING THE POINTS MADE IN MR JENKIN'S LETTER AND IN PARTICULAR STRESSING THE CLOSE PERSONAL INTEREST WHICH THE PRIME MINISTER IS TAKING IN THE FORTUNES OF SHEERNESS STEEL.

PYM

NNNN

DISTRIBUTION	ADVANCE COPIES
FRAME INDUSTRIAL	NO 10 D.S.
ECD(I)	MR MOGG MM DIV DOI
PS	PS/MR JENKINS DOI

Nat Ind Steel

8 ir
bc. J. Vereker, Nat. Ind

10 DOWNING STREET

From the Private Secretary 17 February 1983

The Prime Minister has seen a copy of the Secretary of State for Industry's letter of 15 February to Viscount Davignon about the problems which Sheerness Steel faces.

The Prime Minister would be grateful if Sir Michael Butler would let Viscount Davignon know of her close personal interest in the fortunes of Sheerness Steel. The Prime Minister has commented that she regards this as a touchstone so far as Britain's attitude towards the EEC is concerned; and that it is an extremely important and urgent matter in itself.

I would be grateful if you could make the necessary arrangements.

I am sending a copy of this letter to Jonathan Spencer (Department of Industry) and Richard Hatfield (Cabinet Office).

BF 1

M. C. SCHOLAR

John Holmes, Esq.,
Foreign and Commonwealth Office.

NR

JH 918

010

Prime Minister (2)

MCS 16/2

Please let Viscount Davignon have a letter + revised version of Sheerness [illegible] report [illegible] as [illegible] and urgently [illegible] also [illegible] will [illegible]

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

Secretary of State for Industry

15 February 1983

Vice President E Davignon
Commission of the European
Communities
Rue de la Loi
Brussels

Copies to:

PS/Prime Minister (if agreed)
PS/Mr Lamont
PS/Mr Butcher
PS/Secretary
Mr Manzie
Mr Sumner
Mr Mogg

Dear Stevie,

I am writing to you about the problems that Sheerness Steel are facing over the system of production quotas, a problem about which we have spoken in the past. These problems are coming to a climax as a result of the proceedings that have been opened against the company for excess production under the quota system.

You know the background well enough. Sheerness, an effective and efficient company, has been unable to produce profitably within the confines of the quota arrangements. As an independent and unsubsidised producer it has been forced to invest heavily in the most efficient methods of production in order to repay the financial costs that such investment entailed. The constraints of the quota system have caused greater problems to companies such as Sheerness compared with less efficient companies who either rely on old and outdated plant which has long been paid for or companies which have, for understandable social reasons, been heavily subsidised by governments. However, I must stress that I have no wish to undermine the quota system which, by limiting the absurd results of over production and cut throat competitiveness must be for the good of the steel industry as a whole. I know too that we are at one in believing that the ultimate objective of the Community steel regime must be the elimination of excess capacity. Sheerness itself has taken steps to reduce its own level of operations and has been a very strong, if not the strongest, advocate of rationalisation in the rod and bar section of the UK industry. The interests of other producers have so far made agreement on such rationalisation difficult although we still hope that Sheerness's efforts will be successful. Indeed, with the current level of over capacity eventual rationalisation seems inevitable.

At the moment Sheerness is faced with the prospect of major fines for excess quota production in the period from July 1981 to June 1982. The company has been in frequent contact with the Commission and, following their submission of a detailed written appeal, on 10 February representatives of the company argued their case against the imposition of fines at a hearing in Brussels.

It is not my intention to argue the detail but rather to reiterate some of the broader merits of their case:

(a) It seems from their submission that the Community delivery quotas given to Sheerness do not fully equate with the normal pattern of deliveries during the three year reference period. I appreciate that additional quota was given to the company for merchant bar from Q4 1981 but this did not apply in Q3 1981. Even with this adjustment they are not allowed to sell their full production entitlement within the Community even though that is their normal pattern of trade. The unrepresentative level of Community delivery quota for reinforcing bar has not been adjusted at all.

(b) Sheerness has argued that under the first quota decision (2794/80/ECSC) they should have received extra quota because they faced "exceptional difficulties" as set out in the Decision. I appreciate that the interpretation of the word "exceptional" must be a matter for judgement and I am aware that, because of the need for internal consistency, the Commission often sets itself guidelines on which such judgements are made. However, I do hope that you can look afresh to see whether Sheerness can be considered to have faced exceptional difficulties. I know that their appeal relates to the period prior to the alleged quota excesses, but any adjustment made at that time would have been included in reference levels under later quota decisions.

(c) The third major point is Sheerness's request for additional quota for new plant. To remain fully competitive a company such as Sheerness, indeed any company, must continually ensure optimum levels of efficiency and quality. Investment must take place to satisfy these needs. I appreciate that any increase in capacity which results must ideally be matched by capacity closure. A small mono-producer such as Sheerness does not usually have such an option. I do hope, therefore, that you can look sympathetically on the effects of their capacity increase. And, in this connection, I would recall the positive elements in the Commission's opinion of May 1982 on Sheerness's investment proposals.

I would not write to you if we had not already tried unsuccessfully to find a solution to Sheerness's problems within the UK. We have asked BSC to see what spare quota they can find for Sheerness. Unfortunately, given the inevitable shortage of quota, they have not been able to assist. We have also, through the Private Sector Steel Scheme attempted to encourage rationalisation in this sector. Following the breakdown of talks last November no new plans have yet emerged.

Finally, I should like to reiterate my support for the quota system and for your attempts fully to implement it. Sheerness's problems are, however, worthy of special consideration and I hope that you will be able to find some way of helping the company within the quota framework. If you consider that any detailed discussions would be useful, my officials would of course be glad to come to Brussels to meet with yours; and I myself am ready to discuss the problem further with you, should you wish.

Yours ever

Patrick

1 R. Ricketts
2 R. Schofield
Private

Nat. Ind.

BERNARD

Mr Ron Melvin of British Steel phoned (tel no 735-7654). They are issuing the following short statement in response to inquiries from the media:

> "Recent reports suggesting that Ian MacGregor might become Chairman of the National Coal Board are purely speculative. Mr MacGregor has discussed the matter with the Government but many factors have to be considered before any decision could be taken."

Further discussion with Mr Melvin revealed that this is not a written statement with any timing but a verbal response which he has agreed with Mr MacGregor.

I said only difference I could see in what he was saying and our briefing was that we said Mr MacGregor "was a contender" as opposed to "discussed the matter with the Government".

I don't think he expects you to come back to him. It was just a courtesy call to pass information on.

BETH

Press Office

Nat Ind

neck, examining them ruthlessly to test their credibility and thus establishing whether any genuine progress can be made?

The Prime Minister: As my hon. Friend points out, I shall be discussing these matters with Vice-President Bush, I hope tomorrow. We shall be discussing the proposals that are on the table and available for the Soviet Union to pick up if it wishes. We both feel that the way is open for genuine disarmament and that the only thing stopping it is the refusal of the Soviet Union to agree to negotiate genuinely towards the zero option.

Mr. Foot: On the right hon. Lady's latter answer, we shall be happy to have a debate on that subject as soon as the Government are prepared to arrange it.

On her first answer, is the right hon. Lady really trying to tell the House and the country that Mr. Ian MacGregor's rule over the coal industry—[HON. MEMBERS: "Steel"]—has been a success story? Does she regard it as successful for the steel industry that the number of people employed in it should be cut in half, that the amount of steel we produce should be almost cut in half and that we should have the fastest shrinking steel industry in the world? Is she proud of that?

The Prime Minister: The right hon. Gentleman will know, or should know, that there is vast overproduction of steel and overcapacity the world over. The world's capacity to produce steel is about 1,000 million tonnes and present consumption is only about 700 million tonnes. I believe that Mr. MacGregor has done a superb job in streamlining our industry and in securing a reasonable proportion of the world's trade and of our home market in Britain.

Mr. Foot: Why does the right hon. Lady not take the trouble to compare what has happened in the steel industry in this country with what has happened in other countries? When she took office in May 1979 Britain was the seventh largest steel producer in the world. We have now sunk to fifteenth place, producing less steel than is produced in Poland. Is that what she calls a superb job?

The Prime Minister: The right hon. Gentleman has neglected to say that our steel industry was both overmanned and overpriced. He has also neglected to mention that the Government of whom he was a member had to close down the Ebbw Vale steelworks. That Government ducked many of the difficult decisions that we eventually had to take. The closure of some of our steel plants and the reduction in the number of jobs came later than in some other countries in Europe. I believe that on the whole Mr. MacGregor has done a superlative job and that that is widely recognised.

Mr. Foot: Can the right hon. Lady name any country in the world where steel production is declining faster than in Britain?

The Prime Minister: Can the right hon. Gentleman quote any steel industry in the world that was more overmanned than the one that we took over?

010

Nat Ind

(2)

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H OET
TELEPHONE DIRECT LINE 01 215 5317
SWITCHBOARD 01 215 7877

7 February 1983

Prime Minister
To note.
A.J.C. 8/2

J Coles Esq
10 Downing Street
London SW1

Dear John,

The Prime Minister was interested in the countervailing duty case on stainless steel.

Washington telegram No.304 attached, reports that on 4 February the Department of Commerce made a preliminary determination that the countervailing duty on BSC stainless sheet, strip and plate should be nearly 20%.

It is said that this duty is less than BSC had expected but is nevertheless prohibitive. We are of course doing everything we can, with Davignon who is trying to help, to do a deal with the Americans. But as I told the Prime Minister they were not willing to do a deal last week.

Yours
Robin

R W GRAY

P.S. You don't have to report this. But I thought you should know.

8 JAN 1983

GR 150

UNCLASSIFIED [FRAME EXTERNAL]

FM WASHINGTON 042315Z FEB 83

TO ROUTINE F C O

TELEGRAM NUMBER 304 OF 4 FEBRUARY

INFO UKREP BRUSSELS

INFO SAVING BONN AND PARIS

MY TELNO 259: STAINLESS STEEL: COUNTERVAILING DUTY CASE.

1. ON 4 FEBRUARY DEPT OF COMMERCE MADE THEIR PRELIMINARY DECISIONS ON COUNTERVAILING DUTY ON STAINLESS SHEET, STRIP AND PLATE FROM THE UK. THE FIGURES ARE:

SHEET/STRIP FROM BSC	:	19.31 PRECENT
PLATE FROM BSC	:	19.31 PERCENT
SHEET/STRIP FROM LEE	:	ZERO

2. THE DUTY ON BSC IS LOWER THAN HAD BEEN EXPECTED, BUT IS STILL PROHIBITIVE.

FCO PASS TO BOURKE (OT2, DOT) AND BENDER (MM, DOI).

FCO PASS SAVING BONN AND PARIS

(REPEATED AS REQUESTED)

WRIGHT

COPIES TO:-
ADDRESSEES

FRAME EXTERNAL
ECD (E)

THIS TELEGRAM
WAS NOT
ADVANCED

SUBJECT

JW nat Ind DA

Bf → Joan Porter Dealing

bc JMV,

cf master J. Porter

10 DOWNING STREET

From the Private Secretary

31 January 1983

Dear Jonathan,

The Prime Minister had a discussion with Sir Alistair Frame this afternoon. Your Secretary of State was also present.

The Prime Minister said that she very much hoped that Sir Alistair would be able to take up the Chairmanship of the British Steel Corporation as soon as possible after July of this year. Sir Alistair said that he thought he would be able to do so in September or October. He regretted that he could not do so earlier. But there was much to do at RTZ to prepare for his departure. The Prime Minister said she was very grateful for his reaction. If he could begin in September rather than October that would be so much the better. She thought that it would be entirely proper for him to continue with RTZ, on a part-time basis perhaps in an advisory capacity, for a while after taking up the new appointment. She certainly did not wish to cause anyone to say that Sir Alistair had let RTZ down. Sir Alistair commented that there should be no conflict of interest in such a situation, except insofar as RTZ supplied iron ore to a large number of steel-makers, including BSC; but this was done on the basis of a long-term contract, in which he had not been involved.

In general discussion, Sir Alistair said that he had been concerned at the impression that the Government's resolution in running the industry had slackened somewhat; he was thinking of the Ravenscraig decision. The Prime Minister explained the economic and political reasons which had led the Government to this decision, and reiterated her view that the ideal situation would be if it were not open to governments to take such decisions, one way or the other. Sir Alistair commented that there would be much to be said for privatising BSC so that it was taken up by a conglomerate, or some company not wholly occupied in steel-making. Sir Alistair confirmed that he was not looking for a contract of the kind which Mr. Macgregor had secured. He was very concerned about the present structure of the BSC Board, in particular about the existence of worker-directors. Your Secretary of State said that he had already set in train action to change this. In discussion of the St.John-Stevas Bill, Sir Alistair Frame said that if this became an Act of Parliament he would not be able to continue as Chairman of BSC. This led to a discussion of the ways of handling the Parliamentary demand for greater accountability by nationalised industries.

/Finally,

Finally, Sir Alistair confirmed that it would be helpful if the Prime Minister were to write to Sir Anthony Tuke about his departure from RTZ. I would be grateful for a draft letter by 8 February.

I am sending copies of this letter to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.

Nat Ind

STEEL

1. Statement in the House before Christmas. No hasty decisions on the five major plans based only on short-term considerations. Want sound steel industry in UK.

2. Have to face fact that world capacity is now 1,000 million tonnes while worldwide demand will fall below 700 million tonnes this year. Even in Japan, production this year is expected to be the lowest since 1972.

3. Nonsense to think we can maintain production of steel which no-one wants. Already in a situation where BSC is producing 10 million tonnes with 21 million tonnes capacity. It takes 1½-2% growth in industrial production merely for steel production to remain constant. Some capacity reductions are inevitable, and we cannot hold up cost-saving measures which do not involve the closure of any of the five major plants.

4. The RHG opposite knows the realities. He had to explain them to his constitutents in 1975. 40,000 jobs in British Steel disappeared under the Government of which he was a member.

5. The best defence against imports and closures is to increase the steel industry's competitiveness. In 1979 the German steel industry produced twice as much steel as we did with a workforce only 50% greater than ours, and France produced more steel even though our workforce was 20% larger. It was in 1980, the year BSC went on strike, that imports from the Community jumped from about 12% to 22% of our market.

6. But the RHG opposite knows we do take a tough line on steel imports. The Community will be negotiating a new Voluntary Restraint Arrangement to reduce third country imports next year to 12½% below the 1980 level. We have quotas on imports from the GDR, the USSR, Bulgaria and Czechoslovakia; and anti-dumping duties on some imports from Brazil and Spain; and we have arranged anti-dumping investigations against Canada, Brazil, Argentina and Venezuela.

7. Imports account for under 27 per cent of our steel market, for France the figure is 43 per cent, and in Germany it is 35 per cent.

Nat Ind

10 DOWNING STREET

Caroline 8.10

Re MCS note of

23 December

DOI will be writing

to take up the offer

of a meeting with

Sir Alastair Frame after

24 January (when the SofS

returns from the Far East).

PR

10/1

SW

Nat Ind

CF

10 DOWNING STREET

THE PRIME MINISTER

31 December 1982

Dear Father Kennedy,

Thank you for your letter of 21 December. I was grateful for the way in which the delegation of which you were a member explained their views about the future of the Scottish steel industry, and I am glad that you are pleased with the announcement made by Patrick Jenkin on 20 December. Like you, I very much hope that the steel industry can now work together to achieve the efficiency and hence the competitiveness which alone can be the guarantee of its long-term future.

With very best wishes for the New Year.

Yours sincerely

Margaret Thatcher

Father Frank Kennedy

JR

R24

INTER-CHURCH INDUSTRIAL TEAM

IC
IT

CHURCH'S SERVICE TO INDUSTRY

GLASGOW – MOTHERWELL

59 Elmbank Street, Glasgow, G2 4PY

Tel: 041-332 4458

33 Briar Rd., G43

041-637 4093

Rt. Hon. the Prime Minister,
10, Downing St.,
London.

21st December 1982.

Dear Mrs. Thatcher,

I write as a member of the Scottish delegation you were kind enough to meet on December 14th to discuss the future of the steel industry in Scotland.

I wish to express my gratitude for the hospitality shown on that occasion and also, more importantly, for the courageous and sympathetic decision as to the future of the industry which was announced in the House of Commons yesterday.

I would hope that we would be able to make constructive use of the breathing space thus gained in order to contribute to the longer term social & industrial health of the community in North Lanarkshire. Their presence in Downing St on 14th December should be the beginning rather than the end of the commitment of the organisations represented to work together to benefit from the next three years - and thus also into the future. I trust we shall be equal to the task.

With renewed thanks + best wishes for Christmas + the New Year,

Frank Kennedy.

sailings cancelled from Harwich or Felixstowe last night? Is it not a fact that this is the first fatal accident in which European Ferries has been concerned in 20 years of operations? That in itself is a pretty good record.

Mr. Sproat: I have no knowledge of any cancellations last night. I am not able to confirm the precise details that the hon. Gentleman mentioned. If those are the facts, which I have no reason to doubt, they constitute a splendid record.

Mr. John Prescott (Kingston upon Hull, East): The House will be aware that today is the anniversary of the expression of condolences for the loss of 16 men from the Penlee lifeboat and the "Union Star". No doubt Christmas will claim more seamen's lives in further incidents. Can the Minister assure us that when the public investigation takes place, as it must, it will not take as long as the one year and four months that it has taken him to set up the Penlee inquiry?

Is the Minister also aware of the increasing anger felt by many seamen and by some members of the air-sea rescue services who are witnessing condolences expressed in the House at a time when the Minister is presiding over cuts in coastguards, look-out facilities, helicopter liaison officers and now the Land's End radio station? The Minister is motivated by a desire to save money that will undermine the safety of seafarers. Will he stop the cuts now, conduct a proper inquiry and increase the safety of seamen who are engaged in the most dangerous occupation in Britain?

Mr. Sproat: I am sure that all hon. Members are aware of the tragic anniversary that this has turned out to be. I ordered the inquiry earlier today and it has already begun to sit. If the preliminary inquiry should lead to a formal investigation, that will be set up with all due speed.

As to the hon. Gentleman's remarks about coastguards and lifeboats, all that I can say is that the coastguards and lifeboat men performed their jobs on this occasion with their customary heroism and skill. There is no question of any cuts bearing on what happened in this tragic accident.

Mr. D. N. Campbell-Savours (Workington): May we have an immediate safety review of every operational ferry serving the United Kingdom? Is the Minister aware that Townsend Thoresen will disclaim all insurance liability for the tractors and trailers carried on the ferry, which will mean substantial cash flow problems for many hauliers? It he also aware that some drivers may have been sleeping in their cabs in contravention of Townsend Thoresen's conditions of carriage? If that is so, will the Minister issue instructions to all ferry companies to ensure that it does not happen in future?

Mr. Sproat: The answer to the first question is "No, Sir". My answer to the second and third questions is that I am not aware of those facts.

British Steel Corporation

3.42 pm

The Secretary of State for Industry (Mr. Patrick Jenkin): With permission Mr. Speaker, I wish to make a statement about the future strategy of the British Steel Corporation.

The House is already aware that the crisis affecting the steel industry worldwide poses severe problems for the British Steel Corporation. Last spring, BSC just about broke even and the prospect for the current year, 1982-83, was for a small profit before interest. However, following the American protectionist measures and the sharp downturn in world markets for steel, BSC is again making heavy losses, now running at more than £7 million a week. The management has, therefore, been engaged in an urgent reappraisal of its prospects and of the steps necessary to stem these mounting losses.

In my speech to the House on 9 November I made it clear that the BSC management had the responsibility for taking such steps as were necessary to achieve that, but that any closure of one of the five main integrated steelworks would have to be considered in conjunction with the Government.

The recent BSC management decisions involving closures and redundancies illustrate the scale of the problem and the immediate measures necessary to stem the losses. In preparing their new corporate plan for the three years 1983-86, the BSC chairman Mr. Ian MacGregor has been discussing with me the further options open to him, including the option that one of BSC's five major integrated steelworks might be closed.

In considering the future of those five works, the crucial question is how much capacity is likely to be needed in the foreseeable future. Compared with a manned liquid steel capacity last year, 1981-82, of 14·4 million tonnes a year, BSC's current output is running at a rate of below 10 million tonnes of liquid steel a year. If there were no prospect of an increased output, there could be no economic justification for retaining all five integrated steelworks.

However, the position is not as bleak as that. A number of factors should result in some increase in BSC's steel production in 1983 and this is indeed the corporation's latest forecast. How far demand is likely to recover beyond that is, of course, difficult to predict. Much depends on external factors, notably the success of the ECSC steel regime, the future trends of world trade, and perhaps above all the international competitiveness of the main steel-using industries in Britain and of BSC itself. And while the world export market for steel is bound to remain difficult, further substantial improvements in BSC's competitiveness could offer improved prospects for exports.

Moreover, as I have made clear to the House on many occasions, the United Kingdom steel industry has made far greater cuts in capacity than the steel industries in other European Community countries. It is the turn of other member States to close steelworks and to cut capacity as we have done.

It remains the Government's firm resolve that the corporation should return to lasting viability, free of Government subsidy. That is the only way to have an efficient steel industry, providing steel at competitive prices to the market, and the only way to achieve secure

[Mr. Patrick Jenkin]

employment in steel. Moreover, the Community steel regime requires operating subsidies to be eliminated by the end of 1984. Although it will not now be possible for BSC to become profitable this year, as had been hoped, the corporation has accepted that its aim should be to return to breakeven before interest in 1984-85.

The problem, therefore, is what strategic decisions should be taken to achieve our commercial and financial objectives in the longer term.

The Government believe that it would be wrong to take irrevocable decisions on future steel capacity at a time of such major uncertainty. I am therefore asking BSC to prepare its plan for the next three years on the basis that steel making will continue at all five major integrated sites. However, that must depend on each site performing effectively and upon future demand and output. I must also make it clear that this does not imply that BSC will be required to maintain manned capacity at the current level of 14·4 million tonnes, nor that all the facilities within each of the five major integrated sites will necessarily remain in operation. The corporation will continue to be free to take management action to cut costs where necessary in order to maintain efficient operations and to move steadily towards the objective of viability. Indeed, in the case of Ravenscraig, BSC management is at present considering the closure of the slabbing mill because of the general reduction in steel demand coupled with growing customer preference for lower-cost slab produced through the continuous-casting route. That is entirely a matter for the corporation's management and it will make its decision in the next few weeks in the light of a careful examination of the prospects for that mill.

There is also the question of future major investment. The Port Talbot works has been substantially modernised in recent years, but the hot strip mill, which is now 30 years old, is in need of modernisation and a project proposal has been put forward by BSC. The Government fully appreciate the importance of the mill operating to the highest standards of quality and efficiency. We are discussing the details of the project with BSC in the light of the latest estimates of demand for strip products; it must also be discussed with the European Commission. I shall announce the Government's decision as soon as possible.

The House will wish to know what the financial consequences of those decisions might be. Our preliminary view is that the additional costs can be contained within revised EFLs for this year and for 1983-84, which will maintain the downward path of Government funding of the corporation, albeit at a slower rate than we had previously envisaged, reflecting the inevitably slower progress to breakeven that we now expect. I shall announce revised EFLs for this year and 1983-84 as soon as possible.

However, I must stress one point. The decisions that I have announced today do not mean that any particular works or plant is safe. That must depend on future markets and on plants being operated to the highest efficiencies. Massive sums have been invested by the corporation in modern plant, amounting to more than £3,000 million during the past 10 years. Although immense progress has been made in raising productivity to levels approaching the best European standards, Mr. MacGregor has made it clear to me that there is still quite a long way to go before BSC matches the productivity records of its major competitors. Quality, efficiency and service are vital.

The decision that I have announced is a challenge to both management and men.

Mr. Stanley Orme (Salford, West): This is an extremely important and serious statement. Although we welcome the fact that none of the five major plants is to be closed, the Government have made no specific long-term proposals for the steel industry. Therefore, the statement in no way provides an answer to the crisis that faces the steel industry.

Nearly 80,000 jobs have been lost in the steel industry since 1979 and redundancies are still taking place at an ever increasing pace. At least 10,286 jobs have been lost since 21 October this year. How many more redundancies are envisaged as a result of the statement? We do not want a repeat of what happened in a recent debate when the Minister did not tell the House what was happening when redundancies were taking place. We do not want redundancies to take place during the recess so that the House does not have a chance to discuss them.

Is the decision not to close any of the big five permanent or merely temporary? The Secretary of State said that the plan was on a three-year basis. We want some permanence in the industry. We should like a categorical answer about whether the decision not to close the big five is permanent or temporary.

The Secretary of State mentioned the possible closure of the slab mill at Ravenscraig. How many jobs would be lost if it were closed? Ravenscraig has already suffered many job losses. What action is he taking about imports from the EEC and elsewhere? What happens if we do not accept EEC targets? Will we take action against the EEC? Will we stand up to it as the right hon. Gentleman envisaged in his statement? His actions so far have fallen far short of that.

Does the Secretary of State agree that demand in the economy is one of the basic reasons for the decline in the steel industry? Does he agree that that is a far more important element than manning in such a capital-intensive industry? The Secretary of State, in his statement, paid no compliment to the workers in the industry. Increased productivity and the sacrifices that workers in the British steel industry have made should be recognised.

The Secretary of State was extremely vague about the external financing limit. Does he agree that an increase in the external financing limit is the key to future investment in jobs? Why can he not be more candid with the House? Has his Department made no assessment? We need an early answer to those questions.

When will Mr. MacGregor submit the revised corporate plan? Will there be genuine consultation this time rather than the cosmetic discussions of the past? I give the Secretary of State notice that we wish to have a debate on the corporate plan at the earliest opportunity. Does he agree that, as long as the Government's present economic policies continue, there will be no satisfactory solution to the crisis in the British steel industry?

Mr. Jenkin: The right hon. Gentleman is deluding himself if he believes that Britain is alone in facing a crisis in steel. [HON. MEMBERS: "He did not say that."] The right hon. Gentleman was implying that the crisis was the

CBI

~~AC~~ WR ~~Nat Ind~~

JV.

CONFIDENTIAL

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

Telephone *Direct Line 01-212* 3301
Switchboard 01-212 7676

JU513
Secretary of State for Industry

17 December 1982

(2)

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

Prime Minister

Very little changed
- it works fine.

MCS 17/12

Dear Michael,

BSC FUTURE STRATEGY

... I enclose with this letter a further revised version of the draft statement which my Secretary of State will be making in the House next Monday, 20 December. This supersedes the draft attached to my letter to you of 15 December.

2 I am sending copies of this letter and enclosure to Roger Bone (FCO), Margaret O'Mara (Treasury), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Nick Huxtable (Lord President's Office), Barnaby Shaw (Employment), John Rhodes (Trade), John Gieve (Treasury), Alex Galloway (Chancellor of the Duchy), Murdo Maclean (Chief Whip's Office), Stephen Lamport (FCO), Private Secretary (Lord Trefgarne's Office), Richard Hatfield (Cabinet Office), Gerry Spence (CPRS), Bernard Ingham (No 10), and Michael Pownall (Lord's Whips Office).

Yours sincerely,

Jonathan Spencer

J P SPENCER
Private Secretary

JF2202

CONFIDENTIAL

BSC FUTURE STRATEGY : DRAFT STATEMENT

1 With permission, Mr Speaker, I should like to make a statement about the future strategy of the British Steel Corporation.

2 The House is already aware that the crisis affecting the steel industry worldwide poses severe problems for the British Steel Corporation. Last Spring, BSC just about broke even and the prospect for the current year, 1982/3 was for a very small profit after interest. However, following the American protectionist measures and the sharp downturn in world markets for steel, BSC is again making heavy losses, now running at over £7 million a week. The management has therefore been engaged on an urgent reappraisal of its prospects and of the steps necessary to stem these mounting losses.

3 In my speech to the House on 9 November I made it clear that the BSC management had the responsibility for taking such steps as were necessary to achieve this but that any question of a closure of one of the five main integrated steelworks would have to be considered in conjunction with the Government.

4 The recent BSC management decisions involving closures and redundancies illustrate the scale of the problem and the immediate measures necessary to stem the losses. In preparing their new Corporate Plan for the 3 years 1983/86, the BSC Chairman Mr Ian MacGregor has been discussing with me the further options open to him including the option that one of BSC's five major integrated steelworks might be closed.

5 In considering the future of these five works, the crucial question is how much capacity is likely to be needed in the

foreseeable future. Compared with a manned liquid steel capacity last year, 1981/82, of 14.4 million tonnes a year, BSC's current output is running at a rate of below 10 million tonnes of liquid steel a year. If there were no prospect of any increased output, there could be no economic justification for retaining all five integrated steelworks.

6 However, the position is not as bleak as that. There are a number of factors which should result in some increase in BSC's steel production in 1983 and this is indeed the Corporation's latest forecast. How far demand is likely to recover beyond that is of course difficult to predict. Much depends on external factors, notably the success of the ECSC steel regime, the future trends of world trade, and perhaps above all the international competitiveness of the main steel-using industries in Britain and of British Steel itself. And while the world export market for steel is bound to remain difficult, further substantial improvements in BSC's competitiveness could offer improved prospects for exports.

7 Moreover, as I have made clear to the House on many occasions, the UK steel industry has made far greater cuts in capacity than the steel industries in other European Community countries. It is the turn of other Member States to close steelworks and cut back capacity as we have done.

8 It remains the Government's firm resolve that the Corporation should return to lasting viability, free of Government subsidy. This is the only way to have an efficient steel industry, providing steel at competitive prices to the market and the only way to achieve secure employment in steel. Moreover, the Community steel regime requires operating subsidies to be eliminated by the end of 1984. Although it will not now be possible for BSC to become profitable this year as had been hoped, the Corporation have accepted that their aim should be to return to breakeven before interest in 1984/5.

9 The problem therefore is what strategic decisions should be taken to achieve our commercial and financial objectives in the longer term.

10 The Government believe it would be wrong to take irrevocable decisions on future steel capacity at a time of such major uncertainty. I am therefore asking BSC to prepare their Plan for the next 3 years on the basis that steelmaking will continue at all five major integrated sites. This must however depend on each site performing effectively and upon future demand and output. I must also make it clear that this does not imply that BSC will be required to maintain manned capacity at the current level of 14.4 million tonnes; nor that all the facilities within each of the five major integrated sites will necessarily remain in operation. The Corporation will continue to be free to take management action to cut costs where necessary in order to maintain efficient operations and to move steadily towards the objective of viability. Indeed, in the case of Ravenscraig, BSC management are at present considering the closure of the slabbing mill because of the general reduction in steel demand coupled with growing customer preference for lower-cost slab produced through the continuous-casting route. This is entirely a matter for the Corporation's management and they will make their decision in the next few weeks in the light of a careful examination of the prospects for future demand for slab steel.

11 There is also the question of future major investment. The Port Talbot works has been substantially modernised in recent years, but the hot strip mill, which is now 30 years old, is in need of modernisation and a project proposal has been put forward by the BSC. The Government fully appreciate the importance of the mill operating to the highest standards of quality and efficiency. We are discussing the details of the project with the BSC in the light of the latest estimates of demand for strip products; it will also need to be discussed with the European Commission. I will announce the Government's decision as soon as possible.

CONFIDENTIAL

12 The House will wish to know what the financial consequences of these decisions might be. Our preliminary view is that the additional costs can be contained within revised EFLs for this year and for 1983/4, which will maintain the downward path of Government funding of the Corporation, albeit at a slower rate than we had previously envisaged, reflecting the inevitably slower progress to breakeven that we now expect. I shall announce revised EFLs for this year and 1983/4 as soon as possible.

13 I must however stress one point. The decisions which I have announced today do not mean that any particular works or plant is safe. That must depend on future markets and on plants being operated to the highest efficiencies. Massive sums have been invested by the Corporation in modern plant, amounting to over £3000 million over the last 10 years. Although immense progress has been made in raising productivity to levels approaching the best European standards, Mr MacGregor has made it clear to me that there is still quite a long way to go before BSC matches the productivity records of its major competitors. Quality, efficiency and service are also vital.

14 The decision I have announced is a challenge both to management and men.

Prime Minister ②

DEPARTMENT OF INDUSTRY 17/12
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone *Direct Line 01-212* 3301
Switchboard 01-212 7676

JU507
Secretary of State for Industry

17 December 1982

CONFIDENTIAL

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
Whitehall
London SW1

Dear George,

BSC: FUTURE STRATEGY

Thank you for your letter of 15 December proposing a change to the wording of the draft statement we discussed at the Prime Minister's meeting on 14 December. You will by now have seen the revised draft statement taking account of the points agreed at that meeting, which was circulated by my office yesterday evening.

with mcs?

2 The amendment you propose would substantially weaken the statement, in a sense which is entirely contrary to the lines of the discussion in No 10 on 14 December. It is essential for there to be uncertainty about the future of individual plants within major works; this uncertainty is a crucial element in obtaining the agreement of Ian MacGregor and the BSC Board to our decision to keep steelmaking at all 5 works.

3 It follows that the Government cannot say, either in the House or elsewhere, that the Government have considered and rejected the option of the partial closure of Ravenscraig. We have not done so. What we have decided, and the draft statement reflects this, is that BSC should plan on the basis that steelmaking should continue at all 5 major works.

4 That will provide only a small degree of reassurance in Scotland. But to go any further would be to provide assurances which neither we nor BSC may be able to deliver.

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

Yours ever

Patrick

Nat Ind, Steel, Pt 12

14 cc J.V.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister

MCS 15/12

SECRET

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

15 December 1982

Dear Patrick,

EEC FUTURE STRATEGY: DRAFT PARLIAMENTARY STATEMENT

I have now seen the record of our meeting at No 10 on Tuesday. I would like to see one change made in the draft statement, to the third sentence of paragraph 9. I think it would be better if this read as follows:-

> "The extent to which capacity at this level is required will depend on future demand and output; and while no individual plant would have an indefinite guarantee each would have an opportunity to demonstrate that it could face international competition. The Corporation..."

My reason for suggesting this is that the sentence as it stands seems to me open to the interpretation that BSC could without further consultation with the Government achieve the partial closure of one of the major plants - ie an outcome on the lines of option (iii) of your paper of 2 December. You yourself argued against this option and colleagues collectively endorsed your conclusion. Clearly it would be unfortunate if in our efforts to remind BSC management and workforce that there can be no guarantee of long term security for any of the major plants, we should give the impression that we were, in fact, inclining towards the partial closure option.

I know that you will be making substantial changes to the draft and I would be grateful to be kept in touch. If I could have a copy of the revised draft by Thursday evening (as I will not be in London on Friday) I would be most grateful.

I am copying this letter to the Prime Minister, Francis Pym, Geoffrey Howe, Nicholas Edwards, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

Yours ever,

George.

Nat. Ind:
Steel Pt 12

CONFIDENTIAL

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

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

JF2240
Secretary of State for Industry

15 December 1982

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

Dear Michael,

BSC FUTURE STRATEGY

As agreed at the Prime Minister's meeting yesterday, I attach a revised draft Statement which my Secretary of State would propose to give to the House next Monday, 20 December. The draft takes into account the points made in the Annex to your letter of 14 December.

2 I am sending copies of this letter and enclosure to Roger Bone (FCO), Margaret O'Mara (Treasury), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Barnaby Shaw (Employment), John Rhodes (Trade), John Gieve (Treasury), Stephen Lamport (FCO), Richard Hatfield (Cabinet Office), and Gerry Spence (CPRS).

Yours sincerely,

Jonathan Spencer

J P SPENCER
Private Secretary

Encl

Prime Minister

This is generally well in line with yesterday's discussion. But
(i) no mention of Arbed steel
(ii) nor of BSC's poor export performance
(iii) no indication that Mr Jenkin will refer to BSC's decision to close the ingot route at Ravenscraig – in response to a supplementary question.

Do you wish me to make these points, or are you content?

MCS 15/12

(i) ~~(iii)~~ will probably come out in supplementaries.
(ii) – he may consider mentioning in the statement – or in supplementaries. I will mention it to him.

Mr Spencer.
MCS 17/12

Nat Ind Steel
PA
Note
TOD
JV
BI

JF2202

CONFIDENTIAL

BSC FUTURE STRATEGY : DRAFT STATEMENT

1 With permission, Mr Speaker, I should like to make a statement about the future strategy of the British Steel Corporation.

2 The House is already aware that the crisis affecting the steel industry worldwide poses severe problems for the British Steel Corporation. Last Spring, BSC just about broke even and the prospect for the current year, 1982/3 was for a very small profit after interest. However, following the American protectionist measures and the sharp downturn in world markets for steel, BSC is again making heavy losses, now running at over £7 million a week. The management has therefore been engaged on an urgent reappraisal of its prospects and of the steps necessary to stem these mounting losses.

3 In my speech to the House on 9 November I made it clear that the BSC management had the responsibility for taking such steps as were necessary to achieve this but that any question of a closure of one of the five main integrated steelworks would have to be considered in conjunction with the Government.

4 The recent BSC management decisions involving closures and redundancies illustrate the scale of the problem and the immediate measures necessary to stem the losses. In preparing their new Corporate Plan for the 3 years 1983/86, the BSC Chairman Mr Ian MacGregor has been discussing with me the further options open to him including the option that one of BSC's five major integrated steelworks might be closed.

5 In considering the future of these five works, the crucial question is how much capacity is likely to be needed in the foreseeable future. Compared with a manned liquid steel capacity last year, 1981/82, of 14.4 million tonnes a year, BSC's current output is running at a rate of below 10 million tonnes of liquid steel a year. If there were no prospect of any increased output, there could be no economic justification for retaining all five integrated steelworks.

6 However, the position is not as bleak as that. There are a number of factors which should result in some increase in BSC's steel production in 1983 and this is indeed the Corporation's latest forecast. How far demand is likely to recover beyond that is of course difficult to predict. Much depends on external factors, notably the success of the ECSC steel regime, the future trends of world trade, and perhaps above all the international competitiveness of the main steel-using industries in Britain and of British Steel itself. And while the world export market for steel is bound to remain difficult, further substantial improvements in BSC's competitiveness could offer improved prospects for exports.

7 Against this background, the Government believe it would be wrong to take irrevocable decisions on future steel capacity at a time of such major uncertainty. Moreover, as I have made clear to the House on many occasions, the UK steel industry has made far greater cuts in capacity than the steel industries in other European Community countries. It is now the turn of other Member States to close steelworks and cut back capacity as we have done.

8 At the same time, I must make it clear that it remains the Government's firm resolve that the Corporation should return to lasting viability, free of Government subsidy. This is the only way to have an efficient steel industry, providing steel at competitive prices to the market and the only way to achieve secure employment in steel. Moreover, the Community steel

regime requires operating subsidies to be eliminated by the end of 1984. Although it will not now be possible for BSC to become profitable this year as had been hoped, the Corporation have accepted that their aim should be to return to breakeven before interest in 1984/5.

9 The problem therefore is what strategic decisions should be taken to achieve our commercial and financial objectives in the longer term.

10 The Government have concluded that it would be right to ask BSC to prepare their Plan for the next 3 years on the basis that steelmaking will continue at all five major integrated sites. This must however depend on each site performing effectively. And I must also make it clear that this does not imply that BSC will be required to maintain manned capacity at the current level of 14.4 million tonnes. Nor does it mean that all the facilities within each of the five major integrated sites will necessarily remain in operation - that will depend upon future demand and output. The Corporation will continue to be free to take management action to cut costs where necessary in order to maintain efficient operations and to move steadily towards the objective of viability. Indeed, in the case of Ravenscraig, BSC management are at present considering the closure of the slabbing mill because of the general reduction in steel demand coupled with growing customer preference for lower-cost slab produced through the continuous-casting route. This is entirely a matter for the Corporation's management and they will make their decision in the next few weeks in the light of a careful examination of the prospects for future demand for slab steel.

11 There is also the question of future major investment. The Port Talbot works has been substantially modernised in recent years, but the hot strip mill, which is now 30 years old, is in need of modernisation and a project proposal has been put forward by the BSC. The Government fully appreciate the importance of the mill operating to the highest standards of quality and efficiency. The Government are discussing the details of the project with the BSC in the light of the latest estimates of demand for strip products; it will also need to be discussed with

the European Commission. I will announce the Government's decision as soon as possible.

12 The House will wish to know what the financial consequences of these decisions might be. Our preliminary view is that the additional costs can be contained within revised EFLs for this year and for 1983/4, which will maintain the downward path of Government funding of the Corporation, albeit at a slower rate than we had previously envisaged, reflecting the inevitably slower progress to breakeven that we now expect. I shall announce revised EFLs for this year and 1983/4 as soon as possible.

13 I must however stress one point. The decisions which I have announced today do not mean that any particular works or plant is safe. That can only depend on the future market for steel products and the efficiency with which BSC's steel-making plant is operated. Although immense strides have been made over the last 2 or 3 years to raise productivity to levels approaching the best European standards, Mr MacGregor has made it clear to me that there is still quite a long way to go before BSC reaches levels of output per head comparable with its major competitors. Massive sums have been invested by the Corporation in modern plant, amounting to over £3000 million over the last 10 years. There is no reason why the highest levels of quality, efficiency and service should not be reached. [The decision to retain steelmaking at the five major integrated sites is a challenge both to management and men.]

13A

Ref: A082?0551

SECRET

PRIME MINISTER

Industrial Affairs

At least three items are likely to be raised:

(i) The future strategy of the British Steel Corporation (BSC).

(ii) The pay dispute in the National Health Service (NHS).

(iii) The water industry pay negotiations.

BSC's Future Strategy

2. The Secretary of State for Industry has been asked to warn the Cabinet of the substance of the Parliamentary statement on the BSC which he will be making on Monday. The revised draft of his statement will be circulated only to those Ministers who were at your informal meeting on Tuesday 14th December, and you will not wish the Cabinet to get into any details of drafting.

FLAG A

3. The Secretary of State will be seeking the Cabinet's endorsement of the main points of substance in his statement, i.e.:

(a) that, because of the uncertainties about future demand and the greater cuts which the United Kingdom has been making in its steel capacity compared with other European Community countries, it would be wrong to decide at this stage to close any of the five major integrated steel works;

(b) that there will nevertheless be some reduction in capacity and some facilities at the main sites will not remain in operation;

(c) that a decision on the modernisation of the Port Talbot hot strip mill will be deferred until the BSC has put forward its new corporate plan in the New Year;

(d) that some increase in the BSC's external financing limit for 1983-84 will be required and will be announced when the new corporate plan has been considered, but that the downward path of Government funding for BSC should be maintained.

4. If any major difficulty arises which cannot be quickly resolved by the Cabinet the matter will have to be dealt with at the meeting of E Committee which has been provisionally arranged for Monday 20th December.

NHS Pay Dispute

5. The Secretary of State for Social Services will wish to report on how things now stand following the result of the ballot by the Royal College of Nursing and the meeting of the Trades Union Congress Health Services Committee. Depending on the outcome of the latter, the Government may have to consider whether a settlement should be reached for some NHS groups on a one year rather than a two year basis.

6. In the New Year Ministers will need to take some decisions about the setting up and operation of the new Review Body for nurses and certain other professional groups. The issues have now been examined by the Official Group on Public Service Pay and the Secretary of State for Social Services will be putting a paper to the Ministerial Sub-Committee on Public Service Pay in early January.

Water Industry Pay Negotiations

7. The Secretary of State for the Environment might be asked about the current state of the water industry pay negotiations. The latest information suggests that both employers and unions are likely to leave matters in suspense until early January. At that stage the unions will know whether they have authority from their members to reject the employers' earlier 4 per cent offer and take industrial action. The employers will then be considering whether to increase their offer, either marginally in order to remove any excuse the unions might have for resisting arbitration, or more substantially in the hope of reaching a negotiated settlement. A misjudgment at that point could have serious consequences for public sector pay generally. We understand that the Minister for Local Government and Environmental Services will be continuing to keep in close touch with the employers and will alert his colleagues to any impending significant development.

RtA

15th December 1982 Robert Armstrong

JH 561

O10

Prime Minister

MS 15/12

most third

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

15 December 1982

Murdo Maclean Esq
Private Secretary to the
Government Chief Whip
12 Downing Street
London SW1

Dear Murdo,

I undertook to let you know the likely timetable for reaching and announcing decisions on the new BSC Plan for 1983/86, which will be finalised in the light of the guidance to be announced by my Secretary of State on Monday 20 December.

2 BSC now advise us that they will not complete their new Plan until towards the end of January. This means that the earliest date for reaching and announcing decisions on the Plan, including revised EFL's for 1982/83 and 1983/84, will be late February or early March, and therefore in the normal course of events we would not expect to offer a steel debate until early in March, after announcing a decision on the BSC Plan for 1983/86.

under -statement !!

3 You may consider that the pressures for a further debate on steel are such that it may be necessary to offer a debate rather earlier than this. We see no purpose whatever in a steel debate before Christmas recess - there would be nothing to add to what is in effect a generally reassuring statement. But if there is felt to be a strong demand for an early debate, I suggest you offer one soon after the House returns after the Christmas recess. By that time we may, for example, be able to say rather more about how the tighter ECSC steel regime is working, and the extent to which other member states have notified steel capacity cuts to the Commission.

4 I am sending copies of this letter to Nick Huxtable (Lord President's Office) and Willie Rickett (No 10).

Yours sincerely,

Jonathan Spencer

J P SPENCER
Private Secretary

Masters

Subject filed on: Nat Ind: Steel Pt 12.

BRC

File

10 DOWNING STREET

From the Private Secretary

15 December 1982

As you know, the Prime Minister met a delegation from the Scottish Trade Union Congress and others at Downing Street yesterday to discuss the future of the Ravenscraig Steel Plant. Your Secretary of State and the Secretary of State for Scotland were also present.

I attach a record of the meeting which I am copying to John Kerr (HM Treasury), John Holmes (Foreign and Commonwealth Office), Muir Russell (Scottish Office), Adam Peat (Welsh Office), John Gieve (Chief Secretary's Office, HM Treasury), Barnaby Shaw (Department of Employment), Julian West (Department of Energy), John Rhodes (Department of Trade), Richard Hatfield (Cabinet Office) and Gerry Spence (CPRS).

Jonathan Spencer, Esq.,
Department of Industry

PRIME MINISTER'S MEETING WITH A DELEGATION FROM THE SCOTTISH TUC AND OTHERS AT 1630 HOURS ON TUESDAY 14 DECEMBER 1982 AT 10 DOWNING STREET

Present:

Prime Minister	Mr. J. Langen, Vice Chairman STUC
Secretary of State for Scotland	Mr. J. Milne, General Secretary STUC
Secretary of State for Industry	The Rev. J. McIndoe, Convenor, Church of Scotland, Church Nation Committee
	Father Frank Kennedy, Roman Catholic Church
	Councillor L. McGarry, Strathclyde Regional Council
	Councillor N. Stobo, Glasgow District Council
	Councillor J. Frew, Motherwell District Council
	Mr. E. Marwick, Glasgow Chamber of Commerce
	Mr. H. Morrison, Chief Executive, Scottish Council (Development and Industry)

* * * * * * * * * * *

RAVENSCRAIG

Mr. Langen said that the nature of the delegation underlined the importance to all sections of the community of the preservation of steel making capacity in Scotland. As the recent report of the Parliamentary Select Committee on Scottish Affairs had concluded, there was a strong social, industrial and economic case for the retention of Ravenscraig. The plant was not a lame duck; it represented £250 million of investment and together with Hunterston some £400 million. When the plant was properly loaded productivity was high and earlier this year had reached 4.45 tonnes per head which was the best in the UK and comparable with European plants. The British Steel Corporation had received maximum co-operation from the workforce including very low wage increases. More generally, the British steel industry was suffering from excessive

/import

import penetration and there was evidence of dumping. BSC had taken a disproportionate share of cutbacks in steel capacity in the EEC. Italy for example had increased both capacity and employment. A firm stand was now necessary; no further reductions in capacity were acceptable. When the Scottish TUC had some time ago met the Chairman of BSC he had said that the retention of 14.4 million tonnes of capacity and the five major integrated plants was essential; the STUC agreed with him. If the steel industry were to survive the recession with a chance of health in the future Ravenscraig and the other major plants should be retained.

Mr. McGarry said that he was pleased that the Government had taken on responsibility for decisions about the five major plants. The closure of Ravenscraig would cause 20,000 redundancies, 80% of which were in the North Lanark area. The Strathclyde region would lose £350 million-worth of business. Proposals to close Ravenscraig were based on essentially short-term assumptions about the future of the economy, of inflation and of import penetration which derived from the current depressed state of the economy. It was the business of Government to take a longer term view.

Mr. McIndoe said that he spoke for both the Church of Scotland and the Roman Catholic Church in drawing attention to the social consequences of the closure for Ravenscraig. Such a closure would destroy the social fabric of the area and would greatly magnify the incidence of alcoholism, crime and mental illness which were already apparent as a result of very high unemployment. There was a sense of fear not only amongst individuals employed in Ravenscraig but also amongst the entire community. The Ravenscraig campaign had united the Scottish people in a way which was seldom seen.

Mr. Morrison said that the Scottish Council did not consider that there was no alternative to a further massive reduction in capacity. The full range of alternatives such as more rigorous policing of pricing and quota agreements and reductions in energy costs had not been deployed. Moreover a closure of Ravenscraig would not guarantee an improvement in the management of BSC.

/The

The Council was also against partial closure or mothballing of parts of BSC. Partial closure would simply raise unit costs to such an extent as to make full closure inevitable, whereas mothballing would give a clear signal to customers that they should look elsewhere. More generally the Council believed that the argument that transport costs for Ravenscraig were too high was not only intrinsically wrong but also could cause a loss of confidence in Scotland as a whole as a site for industrial development.

Mr. Marwick said that the Glasgow Chamber of Commerce too wished to retain a major steel making capacity at Ravenscraig. The plant itself was of European standard and its products had a high reputation throughout industry. Its closure would to a large extent undermine the industrial credibility of the West of Scotland. Moreover in addition to the direct redundancies as a result of any closure it would have a severe impact on the 3,000 sub-contractors which supplied Ravenscraig, 1,400 of them in the West of Scotland. The disappearance of this demand together with the impact of a closure on the rates would be enough to push companies at the margin of profitability over the edge.

Mr. Frew said that closure of Ravenscraig would have an immediate catastrophic impact on Motherwell. Its repercussions would be felt immediately in the closure of the small businesses which depended upon demand from the workers employed at Ravenscraig.

The Prime Minister said that the problems of our steel industry had to be set in the context of world over-capacity. Present world capacity was 1,000 million tonnes; output was 700 million tonnes. BSC's capacity was 21 million tonnes; output was 10 million tonnes. World capacity was moreover growing at a time when steel was increasingly being replaced by other materials. A 2% rise in industrial production each year was needed simply for steel production to remain constant. The need now was for more customers for British steel both in the home and export markets.

/Our export record

BSC's export record was appalling - less than 4% of world exports. Productivity in the steel industry had improved considerably but it had to improve still further; so too did that of industries using steel products. The sharp decline in the competitiveness of the car industry for example had deprived BSC of a large domestic market for steel. Mr. Jenkin said that although the steel industry worldwide was in deep trouble, there was no question of writing off steel. It was an essential strategic industry for Britain. The issue was the level of capacity which would best meet future needs. He accepted that other EEC countries had cut their capacity by less than the United Kingdom since 1979 (although the change since 1974 was more equitable). It was for this reason that he was taking a firm stand in the EC Council of Industry Ministers that this country had made its share of cuts. As regards imports from the EEC, the real damage had been done during the 1980 steel strike when import penetration went up by about 4%. In response to UK pressure, a range of measures, including more rigorous policing of production quotas and pricing rules under the Davignon regime was being introduced. Collective action was also being taken by the Community to tighten the control arrangements for steel imports from outside the EEC, including a restriction on quantity of 12½% below 1980 levels under the voluntary restraint measures. Anti-dumping duties had been imposed on steel imports from Spain and Brazil and quotas imposed against imports from Czechoslovakia and Bulgaria. Anti-dumping investigations had been opened against imports of steel coil from Brazil, Canada, Argentina and Venezuela. It was nevertheless possible to exaggerate the effect of import penetration on the UK steel market; UK levels were, for example, lower than those in Germany and France. Commenting on this point, the Prime Minister said that while taking anti-dumping action in appropriate cases ourselves we would need to ensure that we were not open to such measures by other countries. The recent action by the United States demonstrated our vulnerability in this area. It was also relevant that the American action had been ameliorated only by joint Community negotiations rather than unilateral action on our behalf.

Mr. Younger commented that the Government very much appreciated the social consequences of any closure of Ravenscraig and the concern of the local community. That was why he was particularly pleased at the action being taken by the community to assist BSC.

/He understood

He understood, for example, that Strathclyde Regional Council were assisting in consultations between BSC and British Rail on the latter's price structure. The Council were in addition consulting BSC on the rate burden. Although the local community had a part to play, however, the Government recognised that the decision on the future of the five major steel plants had to be taken on broad social and economic criteria. They had therefore assumed responsibility. Mr. Jenkin added that Government responsibility was limited to this particular issue; other issues were for the management of BSC.

Concluding the meeting the Prime Minister said that she wished to take an optimistic but realistic view of the future of BSC. That future must be based firmly on an increase in competitiveness on the part of the steel industry and those industries which used its products. A decision on the five major plants would be reached during the course of the week and a decision announced by the Secretary of State for Industry early in the following week.

14 December 1982

MEMORANDUM TO THE COMMITTEE ON SCOTTISH AFFAIRS

THE RUN-DOWN OF THE GLASGOW STEEL INDUSTRY

1.0 INTRODUCTION

1.1 This memorandum gives brief details of the position in the various iron and steel plants in Glasgow as far as is known, as of November 1982. In addition it provides an assessment of the implications for Glasgow of the threatened closure of Ravenscraig Works at Motherwell and the closures of plant in the City.

2.0 IRON AND STEEL CLOSURES - CURRENT POSITION

2.1 The iron and steel industry in Glasgow has declined dramatically over the last ten years during which time employment has fallen from 9862 to 2907. Over the period 1974 to 1982 an estimated 6660 jobs have been lost of which 5500 were in the nationalised sector.

The situation in the B.S.C. plants in Glasgow since 1974 is as follows:-

Clydebridge	- Decline from 2410 to 725 with a further 575 job loss imminent
R.D.L. Westburn	- Decline from 1020 to 400 :now privatised
Clyde Iron Works	- Closed 1978 with 1190 jobs lost
Tollcross	- Closed 1978 with 310 jobs lost
Tollcross P.E.D.	- Closed 1980 with 460 jobs lost
Hallside	- Closed 1980 with 550 jobs lost
Smith & McLean	- Closed 1980 with 230 jobs lost
General Terminus Quay	- Closed 1979 with 68 jobs lost
Group Offices	- Decline from 600 to an estimated 200.

The situation in the major private firms and BSC plants still operational is described below.

B.S.C. Clydebridge

2.2 B.S.C. intend to close plate mill facilities with a loss of 575 jobs by 12 November 1982. Under the proposals only the heat treatment plant employing 150 people will remain operational. Although there are no known plans to close this operation, its viability and its future is clearly threatened.

Parkhead Forge

2.3 B.S.C. have agreed to merge part of their forgings and casting business with the private forges of Firth Brown in Sheffield and rationalise UK capacity at the same time. Part of this package is the closure by March 1983 of the Firth Brown owned Parkhead Forge with a job loss of 350. Firth Brown however have stated that the closure policy could be changed if Government aid is forthcoming to help undertake a reorganisation.

Westburn

2.4 Redpath Dorman Long was sold by B.S.C. to the Trafalgar House Group for £10 million in April 1982. Although current contracts will maintain employment at Westburn for the remainder of 1982, the prospects thereafter are less certain. The uncertainty stems from low demand levels and the announcement that in 1982/83 the Trafalgar House Group will be seeking between 600-700 redundancies within the R.D.L. organisation.

Possible implications of Ravenscraig closure on Glasgow District

2.5 Should B.S.C. cease operations at Ravenscraig the possible ramifications for Glasgow District could include,

(i) a direct loss of some 275 jobs for those Glasgow residents employed at the works.

(ii) the closure of Cardowan Colliery with a job loss of 1100. The total coking coal output of this colliery is marketed within the Scottish Iron and Steel industry, the major consumer being Ravenscraig. Cardowan is already known to be in terms of output per man/production costs a marginal operation.

Loss of its main market will probably result in closure.

(iii) any hopes of saving Clydebridge and Parkhead Forge would be severely reduced.

(iv) a number of Glasgow based suppliers of oils, machine tools, electrical and smaller items would also be adversely affected with possible job losses resulting.

(v) the loss of purchasing power of employees will reduce city centre shopping and service expenditure.

(vi) consequent loss of rates revenue should Glasgow firms be forced to close.

Table 1 summarises the employment impact on Glasgow District of steel closures and contractions through direct, indirect and multiplier job losses. A total of 11154 jobs are estimated to have been lost over the period June 1974 to September 1982. A further 1503 will be lost under the proposals for Clydebridge and Parkhead Forge. An estimated 1908 job losses can be expected should Ravenscraig close.

3.0 IMPLICATIONS OF THREATENED CLOSURES

Scale of Unemployment

3.1 If Parkhead Forge and Clydebridge close, nearly all the 925 employees will become and remain unemployed due to the lack of alternative job opportunities. There are virtually no jobs lying unfilled which Parkhead and Clydebridge employees would be able to fill. The main Employment Office Areas affected are Parkhead and Easterhouse (Parkhead Forge) and Cambuslang and Rutherglen (Clydebridge).

At July 1982 unemployment of people living in East Glasgow was as follows:-

	Males	Females	Total	Total Number
Parkhead Emp. Exchange	31.1%	15.0%	24.0%	10010
Easterhouse Emp. Exchange	34.4%	12.3%	24.0%	5820
Cambuslang Emp. Exchange	16.8%	8.7%	13.3%	2082
Rutherglen Emp. Exchange	77.6%	38.0%	60.4%	7299
Glasgow Inner Conurbation	24.6%	12.2%	19.3%	84737
Great Britain	15.6%	9.6%	13.2%	3069769

3.2 If Parkhead Forge closes the number of unemployed males in Parkhead and Easterhouse is likely to rise by 2.4% and the unemployment rate for males by nearly 1%. If the Clydebridge job losses occur, the number of unemployed males in Cambuslang is likely to rise by 15.3% and the unemployment rate for males by 2.5% while the corresponding increases for Rutherglen are 4.3% and 3.4% respectively.*

Length of unemployment and vacancies

3.3 At July 1982, over 29% of all unemployed males and 17% of unemployed females in Easterhouse and Parkhead had been unemployed for more than two years. Over 55% of all unemployed males had been unemployed for more than one year (38% for females). Over 72% of all unemployed males had been unemployed for more than six months (60% for females).

The chances of Parkhead Forge employees gaining alternative employment in the area are therefore very poor. This is underlined by the vacancies position. Not all vacancies are registered but at 2 July 1982 there were only 138 vacancies registered in Parkhead and Easterhouse Employment Exchanges and well over 15000 registered unemployed - a ratio of 113 to 1.

* Assuming (1) 80% of the job loss to be males

(2) an equal distribution of Clydebridge job loss in Cambuslang and Rutherglen Exchange Areas.

3.4 In Cambuslang, 21.6% of all unemployed males had been unemployed for more than two years (as at April 1982); 50% for more than one year and 68% for more than six months. In Rutherglen, 23% of all unemployed males have been unemployed for more than two years, 49% for more than one year and 68% for more than six months.

The likely impact of Clydebridge closure would therefore be a significant increase in the long-term unemployed.

Cost of unemployment to the state

3.5 It has officially been estimated by the Treasury that the difference in income to the Government between a man on average wages paying tax, national insurance and so on and the same man unemployed and receiving benefits is between £5000 and £6000 per annum depending on whether he is married with children or not.

3.6 Total direct employment losses from the closure of Parkhead Forge and Clydebridge would be 925. Even assuming that only some 80% of job losses would be male, the minimum total cost to the state of these closures would be £3.7 million per year for as long as it takes to create new jobs.

3.7 If indirect and multiplier job losses are included (Table 1) this figure increases to a minimum of £6 million per annum. In addition if the total job loss at Ravenscraig were to materialise then a further £7.6 million cost to the state is forecast.

Environmental implications

3.8 The rash of B.S.C. closures during the 1970's (Tollcross, Hallside, Clyde Iron) has left Glasgow District with a legacy of vacant sites including 130 hectares of derelict land (1981/82). The cost of reclamation is high, for example, the SDA have already committed a £5.5 million outlay on the Cambuslang Recovery Area the greatest percentage going to vacant steel sites. The closure of Parkhead Forge and Clydebridge will further increase the current stock of vacant (including derelict) land by an estimated 40/45 hectares.

Customer Losses

3.9 In theory all the products made at Parkhead Forge, Clydebridge and for that matter Ravenscraig, could be made elsewhere in the UK. Glasgow has, however, a traditional core of industry (some 30,000 jobs in 1981) based upon steel/shipbuilding/mechanical engineering linkages.

3.10 The advantage of having local suppliers is often an important factor. If such a customer network were to breakdown it is possible that steel consumers may switch to alternative suppliers via the stockholders facilities. There is a steel stockholders network of some 55 distributors in the Glasgow area - many of whom are now purchasing from abroad. Consequently, if customers switch to imports there will be a total loss of jobs to Britain. In addition the loss of a local supplier must also make less secure customer supplies particularly as the B.S.C. rationalisation programme (concentrating production on a few works) will also make supplies more vulnerable to stoppages of whatever kind and may influence some companies to place orders elsewhere.

Rate loss

3.11 The current rateable value of Parkhead Forge is £133500 and Clydebridge £416000. Closure of these works would result in a substantial reduction in rate payment to the City.

4.0 SUMMARY/CONCLUSION

4.1 In the recent past the iron and steel industry in Glasgow has experienced massive contraction. The major impulse has been through cessation of B.S.C. operations notably in the Parkhead and Cambuslang areas of the City. This has led to large scale redundances, high long term unemployment rates and an erosion of job opportunities through indirect and multiplier factors. A legacy of derelict land and redundant buildings remains. In terms of social and community malaise, the psychological impact on remaining industry and the additional fiscal burden to the state the cost alone is high.

4.2 The continued rundown of the steel industry through closure of Parkhead Forge, contraction at Clydebridge and the possible closure of Ravenscraig might effectively produce a job loss of some 3400 jobs in Glasgow.

4.3 In a City already characterised by considerable social and economic problems and with one of the highest unemployment rates in both Scotland and the UK such a loss would place an additional and unacceptable burden on the local community.

4.4 The District Council take the view that the major factor influencing the steel industry's - and in particular B.S.C's -performance in recent years has been the low and falling level of domestic volume demand. The Council consider that there is a strong case for short-term Government support for the steel industry through demand stimulation of:-

(i) North Sea Oil and gas development (for example development of the Clyde field and major gas gathering systems);

(ii) British Rail's electrification programme; and

(iii) energy conservation programmes.

TABLE 1

Estimated Employment Impact of Steel Closures and Contractions on Glasgow District					
Job losses June 1974 to September 1982		Job losses announced October 1982		Job losses should Ravenscraig close	
DIRECT		DIRECT		DIRECT	
BSC	5500	BSC Clydebridge	575		275
Private	1100	Parkhead Forge	350		
INDIRECT*		INDIRECT		INDIRECT	
Ancillary services to BSC:other steel industry supplies: NCB, British Rail, Electrical and other suppliers	1980		278		1250
MULTIPLIER**		MULTIPLIER		MULTIPLIER	
Shops and Services	2574		300		383
TOTAL	11154	TOTAL	1503	TOTAL	1908

* Based on 30% of direct job losses

** Based on 25% of direct and indirect job losses

SECRET

Subject ✓ Master

FILE

cc HMT
SO
WO
Chief Sec, HMT
D/Emp
D/Trade
Min/State, FCO (Mr Hurd)
CPRS
CO

SW

13

10 DOWNING STREET

From the Private Secretary

14 December, 1982

Dear Jonathan,

BSC Future Strategy

The Prime Minister held a further meeting this morning with your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, the Chief Secretary, Treasury, the Secretaries of State for Employment and Trade, and the Minister of State, Foreign and Commonwealth Office (Mr. Hurd). Mr. Sparrow, and Mr. Gregson and Mr. Buckley of the Cabinet Office, were also present. The meeting considered Mr. Jenkin's minute of 10 December and Mr. Younger's minute of 13 December.

Most of the discussion centred on the draft statement attached to your Secretary of State's minute. I enclose with this letter a list of the points on that draft which were agreed in discussion. I should also record the following;

(a) It would be desirable to open discussions with the Commission on the Port Talbot project as soon as possible. Final decisions on this project would have to be taken in the context of the BSC's new corporate plan. In the discussions with the Commission we should take a robust line: we had already borne far more than our fair share of reductions in capacity; and it would be unacceptable for the Commission to block the project if, after examination of the BSC's detailed proposals, we finally decided to go ahead with the project. The process of discussion need not prevent the BSC from seeking tenders for work at Port Talbot, provided that it was made clear that such tenders were being sought on a provisional basis. To have such tenders could be useful in seeking to reduce financial provision.

(b) The Chief Secretary reported that he and your Secretary of State had agreed that the aim should be to contain the BSC's EFL for 1983-84 within £350 million, compared with £195 million at present.

/This

SECRET

SW

This could be done by economies in operating costs, by reducing or removing the allowance for contingencies, and by bringing forward certain expenditure, for example on redundancies, from 1983-84 into 1982-83. The effects on the PSBR would be offset to a large extent by changes in British Telecom's EFL; but these two things should not be linked in public presentation. To do so would give the (entirely false) impression that the Government was cutting back on investment in new technology in order to prop up a declining industry.

(c) It would not be desirable to defend the decision on social rather than economic grounds, or to use the figures in the note attached to Mr. Younger's minute of 13 December in public discussion.

Regarding future procedure it was agreed that your Secretary of State should report the general lines of the decisions taken at today's meeting and the meeting on 6 December, and of his proposed statement, to the Cabinet on Thursday, 16 December under the item 'Industrial Affairs'. The statement would be made on Monday, 20 December. Your Secretary of State would circulate a revised draft of the statement, taking account of the points agreed at today's meeting, to the Ministers present at that meeting.

B/F

I am sending copies of this letter to the Private Secretaries of the other Ministers present at the meeting, to Gerry Spence and to Richard Hatfield.

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry

ANNEX

Points agreed in discussion of the draft statement attached to the Secretary of State for Industry's minute of 10 December

General

(i) So far as possible, figures should not be given: the Government's general stance would be that it would give figures, as appropriate, when it had been able to study the BSC's new corporate plan and had decided EFLs for 1982-83 and 1983-84.

(ii) It would be emphasised that the UK had contributed far more than other members of the Community to reducing excess steel-making capacity; and that it was now the turn of other countries to contribute. There should be a reference to recent developments on the West German Arbed plant.

(iii) It was essential to avoid sentences that could be quoted out of context, but in their entirety, to given a misleading impression.

Paragraph 8

This paragraph read obscurely: it was not clear what the 'conflict' was. It would be better to use some such phrase as 'the question is how to achieve our financial and economic objectives in the longer term'.

Paragraph 9

(i) Although it would be for the Chairman of the BSC to make any announcements concerning the closure of the 'ingot route' at Ravenscraig, the Secretary of State should endeavour to refer in Parliament to this decision - perhaps in answer to a supplementary question: it was important that the statement in

/Parliament

Parliament should not lay the Government open to charges of bad faith by implying that there would be no significant closures at any of the five major integrated sites. It would be helpful to bring out more clearly the distinction between 'plants' and 'works'.

(ii) It should be made clear that the BSC's ability to keep all five integrated sites open depended both on satisfactory performance at those sites and on future demand (omitting the words 'path of'). It might be advantageous to couple these provisos, and to include them both in the opening sentence of the paragraph.

(iii) It might be better to omit the reference to the period 1983-86; the reference risked implying that there would be no closures before the end of the period.

Paragraph 10

(i) The third sentence should be dropped.

(ii) The fourth sentence should be ended after the word 'efficiency', and the remainder of the sentence replaced by a form of words to the effect that the Government would discuss the BSC's proposals with the Corporation and the Commission.

(iii) It would be better to say that the Port Talbot project would need to be 'discussed with' rather than 'approved by' the Commission.

/(iv) It

(iv) It should be made clear that much of Port Talbot had already been modernised, and that the proposal regarding the hot strip mill was merely a continuation of this process of modernisation.

Paragraph 11

The timetable set out in this paragraph was unnecessarily tight and specific: in particular, it appeared to commit the Government to an early decision on Port Talbot, although discussions with the Commission might well take a good deal of time. It would be better simply to promise decisions 'as soon as possible'. For similar reasons, it would be as well to omit the last sentence of paragraph 10.

Paragraph 12

This paragraph would need extensive redrafting (and the last sentence should be omitted or qualified). The aim should be to encourage improvements in productivity without implying that all BSC's plants were safe from closure or that improvements in efficiency were a sufficient condition for indefinite continuation of future operations: it was also necessary to match capacity and output to demand. There might be advantage in referring, either here or elsewhere in the statement, to the low level of UK steel exports in comparison with, say, West Germany and the opportunities that existed in the export market if costs and quality were competitive.

SECRET

S/c(?) ✓ Master

cc: HMT.
SO
WO
Chief Sec, HMT
D/Emp
D/Trade
Min/State, FCO (Mr Hurd)
CPRS.
CO.

(A) SW 13

10 DOWNING STREET

From the Private Secretary

14 December, 1982

MR

Dear Jonathan,

BSC Future Strategy

The Prime Minister held a further meeting this morning with your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, the Chief Secretary, Treasury, the Secretaries of State for Employment and Trade, and the Minister of State, Foreign and Commonwealth Office (Mr. Hurd). Mr. Sparrow, and Mr. Gregson and Mr. Buckley of the Cabinet Office, were also present. The meeting considered Mr. Jenkin's minute of 10 December and Mr. Younger's minute of 13 December.

Most of the discussion centred on the draft statement attached to your Secretary of State's minute. I enclose with this letter a list of the points on that draft which were agreed in discussion. I should also record the following;

(a) It would be desirable to open discussions with the Commission on the Port Talbot project as soon as possible. Final decisions on this project would have to be taken in the context of the BSC's new corporate plan. In the discussions with the Commission we should take a robust line: we had already borne far more than our fair share of reductions in capacity; and it would be unacceptable for the Commission to block the project if, after examination of the BSC's detailed proposals, we finally decided to go ahead with the project. The process of discussion need not prevent the BSC from seeking tenders for work at Port Talbot, provided that it was made clear that such tenders were being sought on a provisional basis. To have such tenders could be useful in seeking to reduce financial provision.

(b) The Chief Secretary reported that he and your Secretary of State had agreed that the aim should be to contain the BSC's EFL for 1983-84 within £350 million, compared with £195 million at present.

/This

SECRET

SW

This could be done by economies in operating costs, by reducing or removing the allowance for contingencies, and by bringing forward certain expenditure, for example on redundancies, from 1983-84 into 1982-83. The effects on the PSBR would be offset to a large extent by changes in British Telecom's EFL; but these two things should not be linked in public presentation. To do so would give the (entirely false) impression that the Government was cutting back on investment in new technology in order to prop up a declining industry.

(c) It would not be desirable to defend the decision on social rather than economic grounds, or to use the figures in the note attached to Mr. Younger's minute of 13 December in public discussion.

Regarding future procedure it was agreed that your Secretary of State should report the general lines of the decisions taken at today's meeting and the meeting on 6 December, and of his proposed statement, to the Cabinet on Thursday, 16 December under the item 'Industrial Affairs'. The statement would be made on Monday, 20 December. Your Secretary of State would circulate a revised draft of the statement, taking account of the points agreed at today's meeting, to the Ministers present at that meeting.

I am sending copies of this letter to the Private Secretaries of the other Ministers present at the meeting, to Gerry Spence and to Richard Hatfield.

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry

SECRET

ANNEX

Points agreed in discussion of the draft statement attached to the Secretary of State for Industry's minute of 10 December

General

(i) So far as possible, figures should not be given: the Government's general stance would be that it would give figures, as appropriate, when it had been able to study the BSC's new corporate plan and had decided EFLs for 1982-83 and 1983-84.

(ii) It would be emphasised that the UK had contributed far more than other members of the Community to reducing excess steel-making capacity; and that it was now the turn of other countries to contribute. There should be a reference to recent developments on the West German Arbed plant.

(iii) It was essential to avoid sentences that could be quoted out of context, but in their entirety, to given a misleading impression.

Paragraph 8

This paragraph read obscurely: it was not clear what the 'conflict' was. It would be better to use some such phrase as 'the question is how to achieve our financial and economic objectives in the longer term'.

Paragraph 9

(i) Although it would be for the Chairman of the BSC to make any announcements concerning the closure of the 'ingot route' at Ravenscraig, the Secretary of State should endeavour to refer in Parliament to this decision - perhaps in answer to a supplementary question: it was important that the statement in

SECRET

/Parliament

Parliament should not lay the Government open to charges of bad faith by implying that there would be no significant closures at any of the five major integrated sites. It would be helpful to bring out more clearly the distinction between 'plants' and 'works'.

(ii) It should be made clear that the BSC's ability to keep all five integrated sites open depended both on satisfactory performance at those sites and on future demand (omitting the words 'path of'). It might be advantageous to couple these provisos, and to include them both in the opening sentence of the paragraph.

(iii) It might be better to omit the reference to the period 1983-86; the reference risked implying that there would be no closures before the end of the period.

Paragraph 10

(i) The third sentence should be dropped.

(ii) The fourth sentence should be ended after the word 'efficiency', and the remainder of the sentence replaced by a form of words to the effect that the Government would discuss the BSC's proposals with the Corporation and the Commission.

(iii) It would be better to say that the Port Talbot project would need to be 'discussed with' rather than 'approved by' the Commission.

/(iv) It

010

Reference No: E0200

12

SECRET

MR SCHOLAR

cc Mr Gregson

BSC FUTURE STRATEGY

I attach a draft Private Secretary letter recording the outcome of this morning's meeting under the Prime Minister's chairmanship. Mr Gregson has already been in touch with Mr Jenkin's Private Office to give them a preview.

M.S.B.

M S BUCKLEY
Cabinet Office.
14 December 1982

Attachment:

SECRET

DRAFT PRIVATE SECRETARY LETTER FOR MR SCHOLAR TO SEND TO THE PRIVATE SECRETARY TO THE SECRETARY OF STATE FOR INDUSTRY

BSC FUTURE STRATEGY

The Prime Minister held a further meeting this morning with your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, the Chief Secretary, Treasury, the Secretaries of State for Employment and Trade, and the Minister of State, Foreign and Commonwealth Office (Mr Hurd). Mr Sparrow, and Mr Gregson and Mr Buckley of the Cabinet Office, were also present. The meeting considered Mr Jenkin's minute of 10 December and Mr Younger's minute of 13 December.

2. Most of the discussion centered on the draft statement attached to your Secretary of State's minute. I enclose with this letter a list of the points on that draft which were agreed in discussion. I should also record the following.

~~(a) It was agreed that~~ Final definitive decisions on this project ~~the proposed modernisation of the hot strip mill at Port Talbot~~ should be taken would have to in the context of the BSC's new corporate plan.

(a) ~~(b)~~ It would be desirable to open discussions with the Commission on the Port Talbot project as soon as possible. In ~~such~~ the discussions with the Commission we should take a robust line: we had already borne far more than our fair share of reductions in capacity; and it would be unacceptable for the Commission to block the project if, after examination of the BSC's detailed proposals, we ~~judged it essential to the future competitiveness of the UK steel industry~~ finally decided ~~desirable~~ to go ahead with the project. The process of discussion need not prevent the BSC from seeking tenders for work at Port Talbot, provided that it was made clear that such tenders were being sought on a provisional basis. To have such tenders could be useful in seeking to reduce financial provision.

(b) ~~(c)~~ The Chief Secretary reported that he and your Secretary of State had agreed that the aim should be to contain the BSC's EFL for 1983-84 within £350 million, compared with £195 million at present. This could be done by economies in operating costs, by reducing or removing the allowance for contingencies, and by bringing forward certain expenditure from 1983-84 into 1982-83. The effects on the PSBR would be offset to a large extent by changes in British Telecom's EFL; but these two things should not be linked in public presentation. To do so would give the (entirely false) impression that the Government was cutting back on investment in new technology in order to prop up a declining industry.

, for example on redundancies,

~~(d)~~ (c) It would not be desirable to use the figures in the note attached to Mr Younger's minute of 13 December in public discussion.

to defend the decision on social rather than economic grounds, or to

3. Regarding future procedure it was agreed that your Secretary of State should report the general lines of the decisions taken at today's meeting and the meeting on 6 December, and of his proposed statement, to the Cabinet on Thursday 16 December under the item 'Industrial Affairs'. The statement would be made on Monday 20 December. Your Secretary of State would circulate a revised draft of the statement, taking account of the points agreed at today's meeting, to the Ministers present at that meeting.

4. I am sending copies of this letter to the Private Secretaries of the other Ministers present at the meeting, to Gerry Spence and to Richard Hatfield.

MS

Attached:

SECRET

ANNEX

Points agreed in discussion of the draft statement attached to the Secretary of State for Industry's minute of 10 December.

General

(i) So far as possible, figures should not be given: the Government's general stance would be that it would give figures, as appropriate, when it had been able to study the BSC's new corporate plan and had decided EFLs for 1982-83 and 1983-84.

(ii) It should be emphasised that the UK had contributed far more than other members of the Community to reducing excess steel-making capacity; and that it was now the turn of other countries to contribute. There should be a reference to recent developments ~~details~~ on the West German Arbed plant.

(iii) BSC's own export performance and its contribution to the [illegible] difficult ~~situation~~ needed mention.

(iii) It was essential to avoid sentences that could be quoted out of context, but in their entirety, to give a misleading impression.

Paragraph 8

This paragraph read obscurely: it was not clear what the 'conflict' was. It would be better to use some such phrase as 'the question is how to achieve our financial and economic objectives in the longer term'.

Paragraph 9

(i) Although it would be for the Chairman of the BSC to make any announcements concerning the closure of the 'ingot route' facility at Ravenscraig, it was important that the statement in Parliament should not lay the Government open to charges of bad faith by implying that there would be no significant closures at any of the five major integrated sites. It would be helpful to bring out more clearly the distinction between 'plants' and 'works'.

The Secretary of State should endeavour to refer in Parliament to this decision - perhaps in answer to a supplementary question:

(ii) It should be made clear that the BSC's ability to keep all five integrated sites open depended both on satisfactory performance at those sites and on future demand (omitting the words 'path of'). It might be advantageous to couple these provisos, and to include them both in the opening sentence of the paragraph.

(iii) It might be better to omit the reference to the period 1983-86; the reference risked implying that there would be no closures before the end of the period.

Paragraph 10

(i) The third sentence should be dropped.

(ii) The fourth sentence should be ended after the word 'efficiency', and the remainder of the sentence replaced by a form of words to the effect that the Government would discuss the BSC's proposals with the Corporation and the Commission.

(iii) It would be better to say that the Port Talbot project would need to be 'discussed with' rather than 'approved by' the Commission.

(iv) It should be made clear that much of Port Talbot had already been modernised, and that the proposal regarding the hot strip mill was merely a continuation of this process of modernisation.

Paragraph 11

The timetable set out in this paragraph was unnecessarily tight and specific: in particular, it appeared to commit the Government to an early decision on Port Talbot, although discussions with the Commission might well take a good deal of time. It would be better simply to promise decisions 'as soon as possible'. For similar reasons, it would be as well to omit the last sentence of paragraph 10.

Paragraph 12 (and the last sentence should be omitted or qualified)

This paragraph would need extensive redrafting. The aim should be to encourage improvements in productivity without implying that all BSC's plants were safe from closure or that improvements in efficiency were a sufficient condition for indefinite continuation of future operations: it was also necessary to match capacity and output to demand. There might be advantage in referring, either here or elsewhere in the statement, to the low level of UK steel exports in comparison with, say, West Germany and the opportunities that existed in the export market if costs and quality were competitive.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

13 December 1982

Michael Scholar Esq
Private Secretary
10 Downing Street
London SW1

Dear Michael

RAVENSCRAIG: PRIME MINISTER'S MEETING WITH STUC DELEGATION: TUESDAY 14 DECEMBER

As I think you now know, the delegation which will meet the Prime Minister tomorrow afternoon to discuss the future of Ravenscraig will comprise the following

Name	Organisation
1 J Langen	Vice Chairman, STUC
J Milne	General Secretary, STUC
~~D Harrison~~	Assistant General Secretary, STUC
3 Rev J McIndoe	Convener, Church of Scotland, Church Nation Committee
Father Frank Kennedy	Roman Catholic Church
2 Councillor L McGarry	Strathclyde Regional Council
Councillor N Stobo	Glasgow District Council
6 Councillor J Frew	Motherwell District Council
5 E Marwick 7	Glasgow Chamber of Commerce
4 H Morrison	Chief Executive, Scottish Council (Development and Industry)

During the past few weeks all of the above organisations have argued strongly against the closure or major rundown of Ravenscraig. Rev McIndoe led an ecumenical delegation of Scottish churches which met my Secretary of State on 12 October and during this meeting the churchmen drew attention particularly to the severe social effects which closure or rundown would have on the Motherwell area where unemployment levels are already over 20%.

Apart from the churches, all of the bodies which will be represented at tomorrow's meeting gave evidence to the enquiry by the Select Committee on Scottish affairs into the likely economic, social and industrial consequences of a further rundown of the steel industry in Scotland. In their report which was published at the beginning of last week, the Select Committee concluded that the closure or partial closure of Ravenscraig "would be a disaster for Scotland, in industrial, economic and social terms". This conclusion is in line with that reached at a conference on the future of the Scottish steel industry which was held under the auspices of the STUC in Motherwell on 12 November, and in which Mr Michael Ancram MP played a prominent and successful part.

On the basis of their evidence to the Select Committee and the line which they took when they met my Secretary of State on 2 November, it is likely that at tomorrow's meeting the STUC representatives will argue that:-

1. Firm Government action is required to control both EC and Third Country imports of steel;

2. the Government must loosen the financial constraints under which BSC operates;

3. the Government must through reflationary policies take direct action to stimulate demand for steel in the UK; and

4. there should be no further closures or contractions in the Scottish steel industry (and by this STUC mean that even "minor" closures such as those at Clydebridge and Craigneuk should be avoided) and that all 5 of BSC's major plants should be retained.

5. that Ravenscraig and its associated Scottish plants are capable of the highest quality output but are given little chance to prove that they can be competitive in cost terms because they tend to be scheduled for short production runs and difficult jobs where economies of scale are impossible.

I understand that the briefing which the Department of Industry are providing will cover these points, but if you require any further material please let me know.

I am copying this letter to Jonathan Spencer at DOI.

Ever, Muir.

A MUIR RUSSELL
Private Secretary

CONFIDENTIAL

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

Secretary of State for Industry

13 December 1982

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

Dear Michael,

PRIME MINISTER'S MEETING WITH THE SCOTTISH TUC ON 14 DECEMBER 1982

As requested, I attach our brief for the Prime Minister's meeting tomorrow (you are receiving separately from the Scottish Office a further brief giving the background on those coming to the meeting).

Yours ever,
Caroline Varley

CAROLINE VARLEY
Private Secretary

CONFIDENTIAL

Prime Minister

I have also enclosed your "usual" Questions steel brief.

MCS 13/12

PRIME MINISTER'S MEETING WITH THE SCOTTISH TUC AND OTHERS, 14 DECEMBER 1982

REVIEW OF BSC'S FUTURE STRATEGY: AIDE-MEMOIRE

Points to make

1. The crisis in the steel industry is international. The root problem is excess capacity. [1,000 million tonnes (MT) worldwide against output of 707 MT in 1981; 200 MT in the EEC against output of 128 MT in 1980].

2. The UK is no exception - in 1981 BSC and the private sector produced 16 MT from installed capacity of 26 MT.

3. BSC have made real efforts to reduce overmanning, improve efficiency, cut costs and so become internationally competitive. Losses were reduced in 1981/82, though still stood at £358 million.

4. But since the spring the effects of the world recession have hit UK and other world steelmakers hard. Orders have dropped sharply, production has had to be cut back, and BSC's losses, which were nearly eliminated in March, have jumped back to £1 million a day.

5. The Corporation must act to stem the haemorrhage. That is why urgent cost-saving measures, involving redundancies and smaller plant closures, have been and are being implemented. These are commercial decisions for BSC management: they need no authority from Government.

6. Where the Government have to be involved is in any decision to close one of the five major plants: that is a strategic question affecting the future of an important sector of industry.

7. In the strategic review, the joint aim of the Government and the Corporation is to reach sensible decisions which will put BSC back on the path to profitability while ensuring that it retains the capacity to respond readily to the likely level of steel demand in future years. We shall not take precipitate action based on short-term considerations.

8. Our decisions will be announced before Christmas.

Defensive points

9. [Recent redundancies and plant closures in Scotland - Clydebridge Plate Mill (*closure); Imperial Plant, Airdrie (redundancies); Craigneuk Bar Mill (closure)]. These are part of the urgent cost-saving measures which BSC management have unfettered responsibility to implement.

*partial

10.[Import Controls]

(a) So far this year, steel imports from the EEC account for 17.7 per cent of the UK market, only 0.1 per cent up on last year but well above the average of 12-14 per cent in the years before the disastrous 1980 steel strike. The way to contain these imports is to ensure rigorous application of the production quota and pricing rules under the European steel regime. In response to UK pressure, a battery of measures is being introduced urgently to restore market discipline.

(b) UK steel imports from outside the EEC account for 8.9 per cent of the market so far this year - not significantly higher than previous years. Nonetheless, the control arrangements for 1983 will be tightened as regards both quantities (12½ per cent below 1980 voluntary restraint arrangement levels) and improved policing to prevent disruptive surges.

(c) The BSC Chairman has said that "imports are an exaggerated factor" in BSC's difficulties. UK import penetration of 27 per cent this year has to be compared with (eg) 43 per cent in France and 35 per cent in Germany in recent years.

(d) In any case, import controls would invite retaliation. In recent years, we have exported about as much steel as we have imported: those exports would be put at risk. Worse still, retaliation would hit our other exports, including those of the UK steel-using industries. That is no way to save the UK steel industry.

11. [Increase BSC's EFL to avoid plant closures]
BSC have not suggested that increased cash will solve their commercial problems. This Government provided £2,944 million between March 1979 and March 1982, with a further £365 million for this financial year. These are huge sums. Profitability must remain the objective for BSC.

12. [BSC's problems due to Government's economic policy]

(a) Why, then, is the US steel industry working at 40 per cent of capacity; is Japan set this year to produce the lowest amount of steel since 1972; is the rest of the EEC steel industry in a similar position to our own; and is OECD steel production as a whole likely to be at least 16 per cent down on last year?

(b) One of the root causes of BSC's problems is that in the 1970's UK manufacturing industry priced itself out of world markets because we paid ourselves more than we earned. Between 1974 and 1979, wage costs per unit of manufacturing output went up by 54 per cent in France, 32 per cent in the US, 15 per cent in Japan, 12 per cent in Germany but by 101 per cent in the UK.

13. [UK is bearing unfair share of European capacity cut-backs] We have had to cut back in the UK because of uncompetitiveness resulting largely from the gross overmanning of the 1970's and the failure of the previous administration to grasp the nettle. The SoS for Industry has made clear in the EC that he cannot and will not defend a position in which our capacity cuts are not now matched by other Member States.

14. [BSC productivity is as high as any in Europe] Before the recent decline in performance, some of BSC's plants were working close to best European standards. But productivity across the Corporation still lagged behind that in France and Germany, let alone in Japan.

15. [BSC's international competitors get unfair indirect subsidies].

(a) On energy prices, NEDC studies in February and November 1981 showed that disparities between the UK and the Continent had reduced considerably. Since then, the March 1982 Budget gave extra help to large energy users and the Autumn Economic Statement included the announcement of a freeze on electricity prices for a year.

(B) On rail subsidies, the tripartite NEDC Iron and Steel Sector Working Party concluded in 1980 that it was not possible to "substantiate that massive public funding of railways on the Continent acts as an indirect subsidy to steel".

(c) On coking coal, subsidies in Germany are given only to reduce German coke prices to world levels so as not to disadvantage the German steel industry.

16. [More cuts in the UK steel industry will leave inadequate capacity when the economy picks up]. With total steel output in the UK of 16 MT in 1981 using plant with capacity of 26 MT, there is a very wide margin of flexibility. Carrying capacity which is surplus to any foreseeable level of demand imposes heavy costs on the steel industry.

MM Division
Department of Industry
13 December 1982

file · Bre

Subject

cc Master

cc D/Em.
CO
HMT

10 DOWNING STREET

From the Private Secretary

13 December 1982

Mr. Ian MacGregor called upon the Prime Minister at her request this afternoon.

The Prime Minister asked Mr. MacGregor for his views on the future Chairmanship of BSC and of the NCB. Mr. MacGregor said that he would do whatever the Government wished. He was ready to serve as Chairman of both enterprises if that was what the Government wished, and he thought that such an arrangement would work well.

In a discussion about the steel industry, Mr. MacGregor said that he would be visiting Mr. Roderick of US Steel early next week, to explore a proposal to create a joint venture between BSC and US Steel, in which the Ravenscraig plant would supply semi-finished steel for a US steel mill in New Jersey. Such an arrangement would make use of Ravenscraig's continuous casting capability, and might take around 3 million tonnes of steel. It might be necessary to supplement the supply from Ravenscraig with steel from a Southern plant or even from a Dutch source. This would involve the mothballing of the strip mill in Scotland. He hoped that the joint venture arrangement might circumvent any fresh problems with countervailing duties.

On the coal industry, Mr. MacGregor suggested that a former NCB mining engineer, Mr. Larry Blackmore, currently Vice President of the American Electric Power Company in the United States, would make a success of running the NCB.

In further discussion about the severity of the present world recession, Mr. MacGregor said that what was required was a new Marshall Plan , with a $50 billion Fund underwritten by the OECD countries on a pro-rata basis, devoted to energy replacement investment in Africa, South America and South-East Asia; the procurement arising from this Fund also to be apportioned between the contributing countries on a pro-rata basis. The Prime Minister commented that the support operations required for Mexico, Brazil, Poland, Yugoslavia etc. in many ways already fitted the description of the Fund which

/ Mr. MacGregor

Mr. MacGregor was suggesting.

The Prime Minister will wish to have a further word with your Secretary of State, together with the Secretary of State for Energy about the Chairmanship of the BSC and NCB, and I will be in touch with you shortly to arrange a discussion.

I am sending a copy of this letter to Julian West (Department of Energy).

Jonathan Spencer, Esq.,
Department of Industry

NP

V

27582 CABOFF G

UUUPTU CBIGLA G

Prime Minister

13.12.82

TELEX TO DOWNING STREET PRESS OFFICE

MS

MCS 13/12

ATTENTION OF MS ROMELA CHRISTIPHESON.

FROM GORDON CASELY CBI SCOTLAND PRESS OFFICER.

TEXT OF LETTER FROM JAMES GOOLD, CHAIRMAN, CBI SCOTLAND,
TO PM.

Michael Scholar

SUBJECT:-STEEL

IN VIEW OF THE GREAT INTEREST IN OUR EVIDENCE TO THE PARLIAMENTARY COMMITTEE ON SCOTTISH AFFAIRS ON THE SIGHNIFICANCE OF THE STEEL INDUSTRY TO SCOTLAND, OUR COUNCIL AT THEIR MEETING LAST ~~THURS~~DAY (IN EDINBURGH) ASKED THAT I SHOULD WRITE TO YOU WITH OUR VIEWS ON THIS ISSUE.

CONSIDERANLE CONCERN WAS EXPRESSED ABOUT THE FUTURE OF STEEL IN SCOTLAND. WE BELIEVE THAT FIRSTLY, THE DECISION ON THE FUTURE OF ITS PLANTS SHOULD BE TAKEN BY THE BRITISH STEEL CORPORATION ON CURRENT FINANCIAL ASSESSMENTS. THE COST RESULTING FROM ANY COVERNMENT ACTION OVERRIDING SUCH DECISIONS FOR SOCIAL OR ECONOMIC REASONS WOULD REQUIRE TO BE MET OUT OF PUBLIC FUNDS. OTHERWISE THE FINANCIAL POSITION OF PUBLIC FUNDS SHOULD BE AS A RESULT OF AN ASSURANCE OF ULTIMATE VIABILITY.

SECONDLY, THE CLOSURE OF RAVENSCRAIG WOULD HAVE VERY SERIOUS AND FAR REACHING CONSEQUENCES FOR INDUSTRY AND COMMERCE IN CENTRAL SCOTLAND, LANARKSHIRE IN PARTICULAR. IT WOULD ALSO SERIOUSLY AFFECT BUSINESS CONFIDENCE GENEALLY IN SCOTLAND, NOT LEAST BECAUSE THE PRODUCTIVITY AND QUALITY IMPROVEMENTS ALREADY ACHIEVED WOULD APPEAR TO BE UNRECOGNISED.

THIRDLY, IF THE DECISION TO CLOSE RAVENSCRAIG WERE LIKELY, SONSIDERATION SHOULD BE GIVEN TO MOTHBALLING OR PATTIAL CLOSURE, BUT WITH THE INEVITABLE ADDITIONAL COSTS BEING BORNE BY THE TAXPAYER. THIS WOULD AT LEAST RETAIN THE POTENTIAL FOR STEEL MAKING IN SCOTLND IN THE FUTURE WHEN AN UPTURN IN DEMAND COMES. HOWEVER, THIS WOULD APPLY ONLY AS AN ALTERNATIVE PREFERABLE TO TOTAL CLOSURE AND WITH THE SAME PROVISO AS ABOVE REGARDING ULTIMATE VIABILITY.

THESE VIEWS WERE CONSIDERED BY OUR SCOTTISH COUNCIL YESTERDAY ND RECEIVED UNANIMOUS SUPPORT.

JAMES D GOOLD
CHAIRMAN CBI SCOTLAND

~~XXPARAXSHOULDXREADXXTHATXISXTHEXLASTXTWOXSENTANCESX~~

2 PARA LAST TWO SENTANCES SHOULD READ:-
OTHERWISE THE FINANCIAL POSITION OF BSC AND ITS CUSTOMES WOULD BE WORSENED FUTHER. HOWEVER, THE USE OF PUBLIC FUNDS SHOULD BE A S A RESULT OF AN S ASSURANCE OF ULTIMATE VIABILITY.

Prime Minister

JV

10

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

SECRET

Prime Minister

BSC: FUTURE STRATEGY

At our meeting on 6 December, Leon Brittan and I were asked to arrange for estimates to be circulated to the group of the financial consequences of any decision to close Ravenscraig.

2. The attached paper, which has been prepared by Scottish Office and Treasury officials, fulfils that remit. The paper examines two scenarios - Case A under which only the Ravenscraig complex (which includes the Gartcosh cold rolling mill and the Hunterston ore terminal) would close, and Case B under which BSC's other plants at Dalzell, Glengarnock and Clydebridge would close. These plants have no primary steel making capacity of their own and therefore rely wholly upon Ravenscraig as the only source of semi-finished steel in Scotland. BSC have rather surprisingly indicated that these associated plants would not necessarily be affected by a decision to close Ravenscraig; but this implies that they would be kept going on supplies of semi-finished slabs hauled up from some other source in the UK. Such an arrangement seems to me both unrealistic and unsatisfactory except as an extremely short term measure. In my view, therefore, case B provides the only realistic estimate.

3. The paper brings out that the main financial considerations are:-

(i) there are significant redundancy costs in the first two years following closure;

(ii) additional investment is necessary elsewhere as a consequence of closure;

(iii) there are tax and social security costs of higher unemployment.

4. These estimates are inevitably speculative. In terms of what they quantify, there is very great uncertainty about the rate at which the increased unemployment might be attenuated, and beyond the first two years this is the critical element in any judgement about the scale of offset to the BSC savings. Experience at Linwood leads me to expect that the local impact would persist with very little diminution for a very long time. The attenuation of unemployment is therefore assumed to arise from the beneficial effects to the PSBR of reduced support for BSC. Clearly this is extremely hard to measure and any gains to employment which are likely in consequence would be spread throughout the UK and could not be expected to have a significant impact in the Lanarkshire area.

5. The paper does not attempt to quantify the impact of possible industrial relations consequences which could lead to very substantial costs to the Government. In addition, there are major knock-on effects for other nationalised industries. We know that British Rail would be likely to lose about a third of their freight revenue in Scotland and I would not expect this to be more than partially compensated by increased traffic from the Welsh mills. The most serious repercussions are for NCB who would stand to lose in direct sales to Ravenscraig and also indirect through the provision of electricity something approaching 1m tons of output a year. If this is not to lead to even more intolerable surpluses than exist at present there would have to be accelerated pit closures and an estimated loss of 2,000 jobs in coal-mining.

6. The figures take no account of the cost to the Exchequer of the remedial action which would be required in, particularly, the Motherwell area. The costs involved in, for example, derelict land clearance and new factory building would be substantial - probably of the order of £50m - and could not be met from the Scottish Development Agency's existing budget.

7. But even if the unquantified costs are set to one side, the overall impact of closing Ravenscraig now is one of substantial financial cost to the Government in 1983/84, little net effect in the second year, with the savings to the Government accruing only in subsequent years. And the extent of these savings would depend on how far and how fast the initial rise in unemployment is eroded and on the validity of applying the BSC figure of £100m to future years.

8. I am copying this minute and the attached paper to Leon Brittan, Patrick Jenkin, Francis Pym, Geoffrey Howe, Nicholas Edwards, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

Approved by the Secretary of State
and signed in his absence

13 December 1982

SECRET

FINANCIAL IMPLICATIONS OF CLOSING RAVENSCRAIG

This paper discusses the public expenditure consequences of closing Ravenscraig, on the basis of information currently available. We consider complete closure in 1983/84 and also, for illustrative purposes, a phased closure over 3-4 years. Some of the estimates represent informed guesses and would require further investigation before being firmed up; but we believe they represent a reasonable basis for order of magnitude estimates.

2. We assume that the Ravenscraig ingot route is to be closed anyway. BSC estimate that the closure of the rest of the Ravenscraig steelworks would result in an annual saving of £100 million. In practice this may be affected by the state of demand and other considerations. A comprehensive assessment of the implication of closure for the PSBR needs to take account of:-

i. redundancy payment costs;

ii. the need for additional capital investment at other BSC plants if Ravenscraig is closed;

iii. the cost to the Exchequer of higher unemployment;

iv. other effects including those on other nationalised industries.

Employment consequences

3. If the Ravenscraig plant were to be closed, there would be a direct loss of around 4000 jobs (ie excluding 700 jobs lost by the ingot route). There may also be an impact on the viability of jobs at three other Scottish BSC plants at Dalzell, Glengarnock and Clydebridge which obtain their steel supplies from Ravenscraig and at present employ 1070. There are also 1300 support staff in Scotland. BSC advise that the prospects for these three plants and all the support staff would not be materially affected by whether or not Ravenscraig remains open. However, it seems improbable that serious consequential effects will not arise. We therefore give two estimates: in case A we consider only the loss of the 4000 jobs at Ravenscraig. In case B we include the loss of all the jobs at the other plants and 1000 support staff, totalling 6070. In the absence of information from BSC, we have had to ignore any savings additional to the £100m which might result from the further plant closures and staff reductions associated with this case. To the extent that these might arise, the savings in public expenditure in case B may be understated.

4. We have also attempted to assess the indirect consequences on suppliers who include NCB, SSEB, BR, the Clyde Port Authority, road haulage and other contractors. There would also be effects on local services generally. In case A such job losses are estimated at around 3000 and in case B 4530. The largest single loss is likely to arise in the NCB. The estimates take no account of consequences of the possible cost penalty to steel-using industries in Scotland from having to purchase steel from the rest of the UK or from abroad. It is uncertain at present whether existing pricing arrangements could be retained.

5. These figures apply to Scotland but the increased BSC word-load elsewhere in the UK would give rise to some offsetting gains. The gains in BSC and NCB employment are likely to be limited and our estimate is of an upper limit in total of one-third of the Scottish job losses.

Cost of complete closure

6. The estimates of the public expenditure consequences of redundancy costs take account of the phasing of job losses in the BSC and other industries.

7. BSC now estimate that if Ravenscraig were to close additional capital investment would be required of £50m in each of the first two years for the continuous casting machinery in South Wales. It is no longer believed that additional investment of around £50m on coke ovens in South Wales and coal injection at Teeside would necessarily follow. Estimates take no account of additional investment to upgrade the Port Talbot strip mill, which BSC seek to undertake in any event.

8. The cost of higher unemployment arising from job losses of the scale described above will depend on:-

i. the proportion of those losing their jobs who drop out of the labour force. Given the overwhelmingly male composition of employment in the steel industry and the main steel supplying industries - for whom activity rates are higher than for females - and the circumstances of North Lanarkshire this proportion is likely to be low (perhaps 10%).

ii. the rate of reabsorption into employment of the increase in unemployment. At local level experience of other major steel closures, such as Shotton and Consett, suggests that even where redundant steelworkers find alternative employment in the short term this is likely to be predominantly at the expense of others in the local areas so that the short run net increase in unemployment is likely to be close to the number of job losses (less those dropping out of the labour force), and absorption will only occur over a lengthy period. This is likely to be true for the case of Ravenscraig since both local unemployment rate (19.5% total, 21.7% males for November 1982 on the new statistical basis) and the national unemployment rate are considerably higher than in the case of the previous major steel closures.

Low rate of reabsorption at local level are likely to persist for a long time. At national level, however, it is necessary to take account of the wider effects of the changes in public expenditure related to steel, and the responsiveness of wages and inflation to higher unemployment. Our main estimates assume that reabsorption takes place over 5 years, as set out below. In view of the uncertainty surrounding the rate of adjustment, however, we have provided an indication of the sensitivity of the results to an assumption that reabsorption takes place more quickly and is completed after 3 years.

Year	Main Assumption	Alternative assumption
	Level of reabsorption into employment of increases in net unemployment resulting from closure	
1	0	33
2	25	66
3	50	100
4	75	100
5	100	100

iii. the average Exchequer cost per additional unemployed person. This cost results from reduced 'income' tax and national insurance payments, and increased unemployment and social security benefits. This is assumed to be £5000 per unemployed person.

9. The closure of Ravenscraig would also have repercussions on several nationalised industries which supply goods and services to the works:

i. The National Coal Board in Scotland would be affected directly through the loss of market for coking coal (some 500,000 tons per annum) and indirectly through reduced demand for electricity - Ravenscraig is the main customer of the South of Scotland Electricity Board using electricity with a coal equivalent of some 300,000-400,000 tons per annum. But the effect on public sector finances needs also to take account of the high costs of coal production in the supplying pits. Both SSEB and British Gas in Scotland would be adversely affected - Ravenscraig accounts for 3% of the output of the former and 4% of the sales of the latter in Scotland. Freight purchases by Ravenscraig accounted for about one-third of all rail freight revenue in Scotland in 1981. The effect on the Clyde Port Authority would be a net loss of revenue of about £1 million per annum, beginning two years from the date of a decision to close the Hunterston iron ore terminal.

ii. The Exchequer implications of all these repercussions will ultimately depend on the balance between reduced revenue and reduced costs in each of the industries concerned, and on the consequential demands arising from higher steel output in the rest of the UK.

iii. A further implication for the Exchequer could arise from the loss of rate payments at Ravenscraig and associated works which amounts to some £7 million per annum. If a part of this shortfall in rate revenue is made up by the Exchequer (in addition to an extra burden falling on local rate-payers and other local authorities in Scotland), there would be an extra financial cost involved.

iv. Finally, important financial costs could result if as a result of a decision to close Ravenscraig there were to be industrial relations disruption in the steel and related industries.

We have been unable to provide an overall assessment of these effects.

10. The net effects of these various costs are set against the estimated savings to BSC from closing Ravenscraig in table 1 attached.

Costs of Phased Closure

11. We have also briefly considered the financial consequences of an 'illustrative' case of phased closure. The savings derived from pursuing such a set of changes are inevitably much more speculative. We assume:

i. closure of Gartcosh and one Blast Furnace in 1983/84;

ii. closure of hot strip mill in 1985/86;

iii. total closure in 1986/87.

The main item to note here is that, in order to take over from Ravenscraig on closure of the hot strip mill, the investment in South Wales is assumed to take place in 1984/85 and 1985/86, one year later than in the immediate closure case. Again the potential costs of disruption from industrial relations could be high, but quantification is not practicable.

12. The financial consequences are set out in Table 2 attached.

Scottish Office
13 December 1982

SECRET

Table 1

Financial Implications of Closing Ravenscraig

£m at end-1982 prices

Case A

	83/4	84/5	85/6	86/7	87/8
Savings to BSC	75	100	100	100	100
Costs:-					
Redundancy Payments	(45)	(8)			
Additional investment elsewhere in BSC	(50)	(50)			
Costs of unemployment	(25)	(29)	(18)	(11)	(3)
	(45)	13	82	89	97
Possible offset from higher BSC activity elsewhere in the UK	8	9	6	3	1

Case B

	83/4	84/5	85/6	86/7	87/8
Savings to BSC	75	100	100	100	100
Costs:-					
Redundancy Payments	(66)	(10)			
Additional investment elsewhere in BSC	(50)	(50)			
Costs of unemployment	(30)	(45)	(32)	(19)	(6)
	(71)	(5)	68	81	94
Possible offset from higher BSC activity elsewhere in the UK	10	15	11	6	2

Note

In the case where re-absorption of the unemployed is complete after three years the overall costs of closure are reduced from £45m to £37m in 1983-84 in case A and from £71m to £61m in case B. There is a net annual saving of £100m by 1986-87.

Financial Implications of Phased Closure

Table 2

£m at end-1982 prices

Case A

	83/4	84/5	85/6	86/7	87/8
Savings from closing Ravenscraig	26	34	44	88	100
Costs:-					
Redundancy Payments	(13)	(3)	(11)	(22)	(4)
Additional investment		(50)	(50)		
Cost of unemployment	(7)	(8)	(12)	(21)	(14)
	6	(27)	(29)	45	82
Possible offset from higher BSC activity elsewhere in the UK	2	3	4	7	5

Case B

	83/4	84/5	85/6	86/7	87/8
Savings from closing Ravenscraig	26	34	44	88	100
Costs:-					
Redundancy Payments	(20)	(5)	(17)	(33)	(6)
Additional investment		(50)	(50)		
Cost of unemployment	(11)	(12)	(18)	(32)	(21)
	(5)	(33)	(41)	23	73
Possible offset from higher BSC activity elsewhere in the UK.	4	4	6	11	7

PRIME MINISTER

MT

STEEL: PARLIAMENTARY HANDLING

You may wish to raise this at your meeting tomorrow.

I understand that Bernard Ingham would favour a statement on Thursday on the grounds that this would kill speculation in the weekend press.

The business managers think that it would be asking rather a lot of Cabinet to seek their approval for a statement on Thursday afternoon. In any case, they point out that Mr. Heseltine is planning to make his statement on the RSG settlement for England that day, and that this will cause enough of a row by itself. They also feel that if we make a statement on Thursday, the Opposition will have more time to press for a debate before Christmas. For these three reasons, they favour a statement on Monday.

Mr. Jenkin is at present planning to accept the business managers' advice and make his statement on Monday. If you feel that there is sufficient force in Bernard's argument that the statement should be on Thursday, you might like to raise this with Mr. Jenkin, since it would probably be best if he were to prepare a statement for circulation to Cabinet.

[signature]

13 December 1982

cf JV

9

SECRET

P.0917

PRIME MINISTER

British Steel Corporation
Future Strategy

BACKGROUND

The informal meeting of Ministers under your chairmanship on Monday 6 December in effect decided (subject to eventual endorsement by E Committee) that all five of the British Steel Corporation's (BSC) integrated steel works should be kept open. It was agreed that further consideration was required of:

(i) the case for investment in a new hot strip mill (HSM) at Port Talbot, at an estimated cost of £175 million; and

(ii) tactics towards the Commission.

2. The minute of 10 December from the Secretary of State for Industry deals with these aspects. It also puts forward the draft of a Parliamentary statement on steel: the Government is committed to making such a statement before the Christmas Recess.

See Willie Rickett's note on the timing of the statement

MCS

3. I understand that the Secretary of State for Scotland will be circulating later today a note setting out estimates of the direct and indirect financial consequences of any decision to close Ravenscraig; such a note was commissioned in Mr Scholar's letter of 6 December recording the outcome of the meeting on that date.

MAIN ISSUES

4. The main issues before the meeting are those mentioned in paragraph 1 above, and the terms of the proposed Parliamentary statement.

Port Talbot

5. The Government could take one of the following attitudes to the proposed investment in a new HSM at Port Talbot:

(i) Reject without further examination.

(ii) Defer a decision until the BSC has produced a full case in the context of its next corporate plan; this is recommended by the Secretary of State for Industry.

(iii) Accept in principle; this is said to be favoured by the Secretary of State for Wales.

6. The discussion at the meeting on 6 December suggests that rejection at this stage would find little support among your colleagues. Ministers then took the view that the cost of keeping Ravenscraig open should be accepted, and was not a sufficient reason for refusing investment necessary for the long-term competitiveness of the UK steel industry. They also thought that it would be politically very difficult if it seemed that investment in Wales was being prevented in order to pay for the costs of keeping Ravenscraig open.

7. Nevertheless, the cost of the proposed investment at Port Talbot is significant: a comparison of cases A and C in Annex A to the Secretary of State for Industry's minute shows that the additional cash requirements arising from the Port Talbot investment are estimated to be £50 million in 1983-84, £40 million in 1984-85 and £10 million in 1985-86. The case for an investment of this size will need to be properly made out; and the financing implications will also need to be considered in the context of the Government's public expenditure plans. I understand that the Secretary of State for Industry and the Chief Secretary have been discussing these aspects. No doubt they will be able to report on the outcome tomorrow. On present evidence it would seem difficult to justify an early acceptance in principle of the Port Talbot project.

Tactics towards the Commission

8. It is possible that there may be more difficulties with the Commission than the Secretary of State for Industry implies:

(i) It may well be that the Commission would insist on a public statement of intention to close a strip mill as a condition for approving new investment at Port Talbot; they might even so insist as a condition of approving further financial support for the BSC.

(ii) It cannot be taken for granted that the proposed "contract" to limit output will be sufficient to secure the Commission's approval.

(iii) As a result of the decision to keep Ravenscraig open, there is a forecast loss (Annex A to the Secretary of State for Industry's minute) of £90 million, after interest but before allowing for contingencies in 1984-85. If the BSC cannot reach breakeven in 1984-85, the steel aids' decision will prevent us providing operating subsidies after 31 December 1984.

These difficulties are not necessarily insuperable. They do however argue against any early decision in favour of Port Talbot. It would also seem prudent to enter into early discussions with the Commission; and for Ministers not to commit themselves unnecessarily on the timing of any decisions or announcements which require the prior agreement of the Commission.

... 9. You may be interested to see the attached message which the Secretary of State for Industry has sent to Messrs Andriessen and Davignon.

Draft Announcement

10. There are a number of points which you may wish to raise on the draft Parliamentary announcement:

(i) Paragraph 9

Does the third sentence do enough to prepare the ground for the closure of the "ingot route" facility at Ravenscraig, which it is intended should go ahead even if the main works is kept open?

(ii) Paragraphs 10 and 11

These two paragraphs appear to envisage the following sequence of events: presentation to Government of new BSC corporate plan in the early new year; decisions on corporate plan and Port Talbot HSM; revised external financing limits settled for 1982-83 and 1983-84; decisions announced to Parliament. If a revised external financing limit is to be decided for 1982-83, this should probably be announced by about the end of February. Do Ministers wish to be committed to such a tight timetable? Is it likely that the Government will wish to commit itself about Port Talbot so soon? May it not, for example, unduly restrict our freedom of manoeuvre in negotiating with the Commission (see paragraph 8 above)?

(iii) Paragraph 12

The second sentence may cause widespread apprehension by implying that all five integrated steel works are under suspended sentence of death. The last sentence errs in the other direction by implying that the future of all five can be secured if efficiency is improved. If, however, there is not enough demand for UK steel in the long run, capacity will have to be reduced. You may feel that both the second and last sentences should be dropped or amended. In particular, the Government must not risk being accused of bad faith if all five plants improve their productivity but one of them still has to be closed eventually in order to match capacity to demand.

Next Steps

11. I understand that you have it in mind to invite the Secretary of State for Industry to circulate a minute to the Cabinet outlining the conclusions of tomorrow's meeting and the meeting on 6 December and putting forward a draft announcement. If there is no objection to the proposals, they might be

formally endorsed by the Cabinet on 16 December. If any member of Cabinet presses for further discussion, there is a meeting of E scheduled for Monday 20 December which would provide an appropriate occasion.

HANDLING

12. You will wish the Secretary of State for Industry to introduce the discussion. All Ministers present have a clear departmental interest. Mr Hurd (representing the Foreign and Commonwealth Secretary, who was not present at the meeting on 6 December) will no doubt wish to comment on tactics towards the Commission.

CONCLUSIONS

13. You will wish the meeting to reach conclusions on:

(i) the proposed investment in a new hot strip mill at Port Talbot;

(ii) tactics towards the Commission;

(iii) the text of the proposed statement to Parliament.

PG

P L GREGSON
Cabinet Office.
13 December, 1982

Attachment:

JF2211

CONFIDENTIAL

DRAFT TELEGRAM

TO IMMEDIATE UKREP BRUSSELS

Repeated for info to (Immediate) Paris, Bonn (Routine) Luxembourg

MIPT

Steel: SAARSTAHL

Following is text of message from Secretary of State for Industry to Andriessen, for delivery before the FAC on 13 December.

Begins

Dear Franz

I was greatly concerned to learn about the Commission's decision earlier this week concerning aid for Saarstahl. As it has been explained to me, the aid appears to have been authorized without any identification of the capacity that is to be closed and without a clear analysis of Saarstahl's prospects for viability. [It therefore appears, prima facie, to be in conflict with the provisions of the Steel Aids Decision.] From my meeting with Stevie Davignon on 11 November, I had understood that the granting of aid to Saarstahl for November was conditional upon the Federal Republic of Germany producing restructuring proposals by early December. As far as I am aware, no such proposals have been received by the Commission.

2 You know of my concern, expressed at this meeting and later both to you and Stevie at the Informal Meeting of Industry Ministers, that the terms of the Steel Aids Decision should be applied strictly and fairly. This is critical for the success of the Community's steel policy, and allows Member States such as my own to carry through the painful decision necessary to restore our industry to viability.

3 I am to make a statement to the House of Commons towards the end of next week on the planning assumptions which the British Steel Corporation is to make about the future configuration of their major plants. I do not need to tell you that this is a matter of highest political interest. I shall therefore need to be in a position to tell the House the extent to which the aid to Saarstahl, which has attracted a great deal of attention in the UK, is consistent with the principles which the Commission has put forward, and which the UK has fully supported. I should therefore be grateful for your urgent advice on this point.

4 I am copying this letter to Stevie Davignon.

PATRICK JENKIN

cc Muir Russell (Scottish Office)
Bernard Ingham

MR. SCHOLAR

The following will definitely be attending the STUC meeting with the Prime Minister on Tuesday. There will be a couple more names coming on Monday.

Church of Scotland	Revd. John McIndoe Convenor of the Church and Nations Committee
Strathclyde Regional Council	Councillor Lawrence McGarry Chairman of the Economic and Industrial Development Committee
Glasgow District Council	Councillor Neil Stobo
Motherwell District Council	Councillor J. Frew
The Roman Catholic Church	Father Frank Kennedy
Glasgow Chamber of Commerce	Mr. Ewan Marwick Secretary
STUC	Mr. John Langdon Chairman of the Economic Committee
	Mr. Milne + Douglas Harrison (assistant) General Secretary
Scottish Council (Development and Industry)	Mr Hamish Morrison

CS.

10 December 1982

PRIME MINISTER

Mr MacGregor : meeting on Monday

I understand that Mr. Lawson

(a) disagrees with point 2(i) in the Industry letter attached. He feels that Mr. MacGregor should move to NCB for the reasons he has already given.

(b) is "prepared to go along" with the argument at (ii) that it would be impossible to do both jobs at once, though he wouldn't put it in quite the same way as Mr. Jenkin; the public reaction is not the problem, the problem is that the job would be too big for one man.

In other words Mr. Lawson feels that Mr. MacGregor should go to the NCB and that someone should be found to do the BSC job (rather than staying where he is, and finding someone for the NCB)!

MCS

10 December 1982

SECRET
APPOINTMENTS IN CONFIDENCE

8

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

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

TOTAL COPIES 7

COPY No. 1

JF2205
Secretary of State for Industry

10 December 1982

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

Dear Michael,

You told me earlier today that the Prime Minister would be seeing Mr MacGregor on Monday, 13 December to discuss his personal future after the expiry of his present term as Chairman of the British Steel Corporation. You asked for our views on the suggestion that Mr MacGregor might then combine the chairmanship of BSC with the chairmanship of the NCB.

2 My Secretary of State sees two difficulties with this proposal:

(i) The severely worsened UK and international market conditions for steel, the drastic management actions that BSC is having to take in consequence, and the Government's forthcoming decision on the future of the five main integrated works will together impose severe demands on any Chairman of the BSC. As you know, my Secretary of State believes that in these circumstances it would be highly desirable to retain Mr MacGregor as BSC Chairman; he also believes that the task at BSC would require Mr MacGregor's undivided attention.

(ii) My Secretary of State also believes that there would be an incredulous public reaction to a dual appointment to BSC and NCB posts, partly on the grounds that no one could seriously expect even a superman to hold down both jobs satisfactorily, and partly because it would be taken as a serious admission of failure to find suitable British industrialists for posts of this importance.

3 I am sending a copy of this letter to Julian West (D/Energy).

Yours sincerely,

Jonathan Spencer

J P SPENCER
Private Secretary

fc JV

2

7

SECRET

TOTAL COPIES 20

COPY No. 1

Prime Minister

For Tuesday's meeting. The Scottish Office / Treasury paper on the cost of closing Ravenscraig will come on Monday. Please also Mr Jenkin's letter to Mr Jopling (attached). Flag A'

MCS 10/12

JU427

PRIME MINISTER

BSC: FUTURE STRATEGY

At the meeting on Monday 6 December I was asked to circulate a paper setting out in more detail the financial consequences of the options which were under consideration for BSC's future strategy, for consideration at a further meeting now arranged for Tuesday 14 December.

2 BSC have now provided a more up-to-date and detailed projection of the likely profit and loss and cash requirements of BSC over the next 3 years. The projections are reproduced at Annex A. They have been prepared on 4 alternative options.

A Ravenscraig stays open, the Port Talbot Hot Strip Mill project goes ahead.

B Ravenscraig closed, the Port Talbot HSM goes ahead.

C Ravenscraig stays open, Port Talbot HSM shelved.

D Ravenscraig closed, Port Talbot HSM shelved.

3 The figures in Annex A illustrate the effects of going ahead with the proposed modernisation of the Port Talbot HSM project. However, there are two points to note. First, the figures do not show the full benefit on profitability because the project will not be completed until 1986, i.e, beyond the period covered in the table. Second, the figures are perforce approximate because BSC are still completing their re-evaluation of the project in the light of the latest demand forecasts for strip mill. However, they estimate that the minimum full year benefits from the project, if all 3 strip mills remain in operation, would be £25 million a year. If Ravenscraig were closed, enabling the modernised Port Talbot HSM to be run at a higher throughput, then

annual savings from the project by 1986/87 could reach £39 million.

4 BSC are not expecting Government approval for the project at this stage. They know that they need to provide a proper and up-to-date justification for it in the context of the Corporate Plan. They know too that we shall have to negotiate approval for the project with the Commission. While therefore, in my Statement to the House, I must be careful to make it clear that the Government are not yet in a position to give approval for the project, I think we must be prepared to indicate (if we so agree) that subject to the full appraisal and subject to the Commission's approval we would be prepared to see the project go ahead. Nicholas Edwards would wish me to go further and accept the case in principle. I do not see how we could do this without making the formal appraisal meaningless and without seeming to "bounce" the Commission. I would propose therefore that we should deal with the matter along the lines of the following passage:-

> "The Port Talbot hot strip mill is now 30 years old and in need of modernisation. A project proposal has been put forward by the BSC which would cost some £175 million and take 3 years to complete. The Government fully appreciates that it is important that the mill should operate to the highest standards of efficiency and has therefore instructed the Corporation to prepare a considered case based on the up-to-date estimates of demand for the product. The project would also need the approval of the Commission. I would hope to be in a position to announce the Government's decision when I report to the House on the BSC's Corporate Plan."

5 If BSC cannot reach breakeven in 1984/85, then under the terms of the ECSC State Aids for Steel Decision we will not be able to provide the Corporation with operating subsidies beyond 31 December 1984.

SECRET

6 We may in any event face difficulties with the Commission over the new BSC cash projections. The total cash requirements now shown are higher than provided for in our final aid application in respect of BSC which we submitted in September. At that time we estimated that BSC's requirements for Government finance for its operations would be £1,160 million over the period April 1982 to December 1985. We are likely to face difficult negotiations with the Commission, when BSC's new plan for 1983/86 has been received, over the question of BSC's overall viability and on the higher volume of Government finance required, if Ravenscraig (or another works) is not closed by 1985. Potentially, these issues are more difficult than obtaining Commission approval for the Port Talbot Hot Strip Mill project, for which (as I explained in my paper dated 2 December) I believe we could secure approval by means of a contract limiting the output of the new hot strip mill.

7 In the light of these latest BSC cash projections I consider that we must allow BSC the greatest possible freedom to cut their costs by reducing their operations, if we decide we cannot allow the closure of one of the 5 major integrated steelworks. I attach a draft Statement which explains our position clearly, but which does give BSC considerable management freedom on how they operate while planning on the basis that they maintain steel-making at all 5 major works.

8 I am sending copies of this minute to Francis Pym, Geoffrey Howe, George Younger, Nicholas Edwards, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

PJ

P J
10 December 1982

Department of Industry
Ashdown House
123 Victoria Street

SECRET

ANNEX A

CONFIDENTIAL

BSC FINANCIAL PROJECTIONS 1983/84 to 1985/86

LATEST BSC CENTRAL ASSESSMENT

£ million

	Current Year 1982/3	Plan Year 1 1983/4	Plan Year 2 1984/5	Plan Year 3 1985/6
A Ravenscraig stays open, the Port Talbot HSM project goes ahead				
i) Profit/(Loss) after interest		(214)	(90)	(94)
ii) Contingency		(100)	(100)	(100)
iii) Profit/(Loss) after interest & contingency	(337)	(314)	(190)	(194)
iv) Cash (including contingency	(505)	(520)	(350)	(250)
B Ravenscraig closed, the Port Talbot HSM goes ahead				
i) Profit/(Loss) after interest		(139)	10	6
ii) Contingency		(100)	(100)	(100)
iii) Profit/(Loss) after interest and contingency	(337)	(239)	(90)	(94)
iv) Cash (including contingency)	(505)	(510)	(300)	(160)
C Ravenscraig stays open, Port Talbot HSM shelved				
i) Profit(Loss) after interest)		(214)	(95)	(110)
ii) Contingency		(100)	(100)	(100)
iii) Profit((Loss) after interest and contingency	(337)	(314)	(195)	(210)
iv) Cash (including contingency)	(505)	(470)	(310)	(240)

SECRET

	Current year 1982/3	Plan Year 1 1983/4	Plan Year 2 1984/5	Plan Year 3 1985/6
D Ravenscraig closed, Port Talbot HSM shelved				
i) Profit(Loss) after interest		(139)	0	(9)
ii) Contingency		(100)	(100)	(100)
iii) Profit/(Loss) after interest and contingency	(337)	(239)	(100)	(109)
iv) Cash (including contingency	(505)	(406)	(270)	(150)

Note: BSC are seeking to make further cost savings in 1983/84. These may reduce loss figures in that year by up to £100 million under each option. But there may not be a matching improvement in later years, since the new cost reduction programme is likely to include measures brought forward from 1984/85 into 1983/84.

CONFIDENTIAL

JF2202

BSC FUTURE STRATEGY : DRAFT STATEMENT

1 With permission, Mr Speaker, I should like to make a statement about the future strategy of the British Steel Corporation.

2 The House is already aware that the crisis affecting the steel industry world-wide poses severe problems for the British Steel Corporation. Last Spring, BSC just about broke even and the prospect for the current year, 1982/3 was for a very small profit after interest. However, following the American protectionist measures and the sharp downturn in world markets for steel, BSC is again making heavy losses, now running at over £7 million a week. The management has therefore been engaged on an urgent reappraisal of its prospects and of the steps necessary to stem these mounting losses.

3 In my speech to the House on 9 November I made it clear that the BSC management had the responsibility for

taking such steps as were necessary to achieve this but that any question of a closure of one of the five main integrated steelworks would have to be considered in conjunction with the Government.

4 The recent BSC management decisions involving closures and redundancies illustrate the scale of the problem and the immediate measures necessary to stem the losses. In preparing their new Corporate Plan for the 3 years 1983/86, the BSC Chairman Mr Ian MacGregor has been discussing with me the further options open to him including the option that one of BSC's five major integrated steelworks might be closed.

5 In considering the future of these five works, the crucial question is how much capacity is likely to be needed in the foreseeable future. Compared with a manned liquid steel capacity last year, 1981/82, of 14.4 million tonnes a year, BSC's current output is running at a rate of below 10 million tonnes of liquid steel a year. If there were no prospect of any increased output, there could be no economic justification for retaining all five integrated steelworks.

CONFIDENTIAL

6 However, the position is not as bleak as that. There are a number of factors which should result in some increase in BSC's steel production in 1983 and this is indeed the Corporation's latest forecast. How far demand is likely to recover beyond that is of course difficult to predict. Much depends on external factors, notably the success of the ECSC steel regime, the future trends of world trade, and perhaps above all the international competitiveness of the main steel-using industries in Britain and of British Steel itself. The Government believe it would be wrong to take irrevocable decisions on future steel capacity at a time of such major uncertainty. Moreover, as I have made clear to the House on many occasions, the UK steel industry has made far greater cuts in capacity than the steel industries in other European Community countries. It is now the turn of other Member States to close steelworks and cut back capacity as we have done.

7 At the same time, I must make it clear that it remains the Government's firm resolve that the Corporation should return

CONFIDENTIAL

to lasting viability, free of Government subsidy. This is the only way to have an efficient steel industry, providing steel at competitive prices to the market and the only way to achieve secure employment in steel. Moreover, the Community steel regime requires operating subsidies to be eliminated by the end of 1984. Although it will not now be possible for BSC to become profitable this year as had been hoped, the Corporation have accepted that their aim should be to return to breakeven before interest in 1984/5.

8 The problem therefore is how to decide what [illegible], would be sufficient to achieve our ~~reconcile these conflicting~~ financial and commercial objectives. in the longer term.

2202.1 9 The Government have concluded that it would be right to ask BSC to prepare their Plan for 1983/1986 based on continuing steelmaking at all five major integrated sites. I must, however, make it clear that this does not imply that they will be required to maintain manned capacity at the current level of 14.4 million tonnes. Nor does it mean that all the facilities within each of the five major integrated sites will necessarily remain in operation - that will depend upon the future ~~path of~~ demand and output. Moreover, the Corporation

4

CONFIDENTIAL

will continue to be free to take management action to cut costs where necessary in order to maintain efficient operations and to move steadily towards the objective of viability.

10 There is also the question of future major investment. The Port Talbot hot strip mill is now 30 years old and in need of modernisation. ~~A project proposal has been put forward by the BSC which would cost some £175 million and take 3 years to complete.~~ The Government fully appreciates that it is important that the mill should operate to the highest standards of quality and efficiency ~~and has~~ therefore instructed the Corporation to prepare a considered case based on the up-to-date estimates of demand for the product. The project would also need the approval of the Commission. I would hope to be in a position to announce the Government's decision when I report to the House on the BSC's Corporate Plan.

11 The House will wish to know what the financial consequences of these decisions might be. Our preliminary view is that the additional costs can be contained within revised EFLs for this year and for 1983/4, which will nonetheless maintain the downward

CONFIDENTIAL

path of Government funding of the Corporation, albeit at a slower rate than we had previously envisaged, reflecting the inevitably slower progress to breakeven that we now expect. Until BSC have completed their new Corporate Plan, which I expect to receive early in the New Year, and until the Government have taken decisions on it and on the Port Talbot hot strip mill project, I cannot be more specific. I shall announce revised EFLs for this year and 1983/4 when the Government have taken these further decisions.

12 I must however stress one point. The decisions which I have announced today do not mean that any particular plant is safe. Although immense strides have been made over the last 2 or 3 years to raise productivity to levels approaching the best European standards, Mr MacGregor has made it clear to me that there is still quite a long way to go before BSC reaches levels of output per head comparable with its major competitors. There has, in recent years, been massive investment in modern plant by the Corporation amounting over £3000 million over the last 10 years. There is no reason why, given continuing efforts by management and workforce, the highest levels of quality, efficiency and service should not

CONFIDENTIAL

be reached. The decision to retain steelmaking at the five major integrated sites is a challenge both to management and men.

7

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

10 December 1982

The Rt Hon Michael Jopling MP
Chief Whip
12 Downing Street SW1

Dear Mr Jopling,

You asked yesterday for material to use in countering Opposition criticism that major job losses are being announced by the British Steel Corporation before the Government have announced their decisions on the Corporation's future strategy and without Ministers giving Parliament advance notice of the current programme of redundancies and smaller plant closures.

2 The Opposition's criticism entirely misunderstands the problem and the nature of the relationship between the Government and the management of the British Steel Corporation. It has all along been the Government's policy that Mr MacGregor and his Board have been appointed to manage the BSC and that they can expect to do so without Government interference. The Government's role is confined to approving the Corporate Plan, giving consent to major investment projects and setting financial targets and external financing limits. There is no use expecting senior and experienced managers to run a competitive enterprise like the BSC if Ministers are constantly interfering in what they do.

3 The one major exception to this has been any question of the closure of one of the five main integrated plants operated by BSC - Port Talbot, Llanwern, Scunthorpe, Redcar and Ravenscraig. I have made it clear again and again in the House and outside that I would expect the Corporation to seek the Government's views on any such closure before making a decision.

4 The recent history can be summed up as follows. Until the spring, BSC looked set fair to break even in the current year (1982/83), but the collapse of the steel market following the American anti-dumping suits has led to a serious deterioration in BSC's prospects. In the summer, the BSC came to me and said they were reappraising their Corporate strategy with a view to providing a revised Corporate Plan for 1983/86. In the Autumn,

PERSONAL
CONFIDENTIAL

JH 510

(A)

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

10 December 1982

The Rt Hon Michael Jopling MP
Government Chief Whip
12 Downing Street
London SW1

Dear Mr Jopling,

I attach a letter which I hope will be helpful to you in rebutting the charges being made by the Opposition about Norman Lamont's speech in the House on December 1st. All the information in that letter and in the Annexes is free to be disclosed to the Opposition and I see no reason why you should not hand them Annex B.

2 For your own private and personal information, you ought to know that the total job losses due to the BSC management action programme is likely to exceed 15,000. Quite a number of these have already been made as shown in in Annex B of the attached paper. There is still, however, a good deal more to come including the following list of closures which should not on any account be disclosed to the Opposition:

Hartlepool Plate and Pipe Mills	1100
Ravenscraig ingot route	700
Fullwood Foundry	65
BSC Chemicals	260
Section Mill (unspecified)	400
	2525

3 These announcements will be made in due course by the management of British Steel Corporation and are independent of the statement which I expect to make before Christmas.

Yours sincerely,

Caroline Varley

(approved by Secretary of State and signed in his absence) when the position had deteriorated even further they said they were considering more drastic options and it was at that point that I said any question of a closure of one of the five main steel works was one in which the Government would have to be involved. At the same time, Mr MacGregor outlined to me a "management action programme" of redundancies and smaller closures which had already been set in hand and would be implemented over the next twelve months or so. I made it clear to MacGregor that the implementation of this management action programme was for the Corporation and while the Government would expect to be kept informed in accordance with practice, announcements would be made not by the Government but by the Corporation at times chosen by the Corporation.

5 The distinction between the closure of any of the five major integrated steelworks on the one hand and steps taken in pursuant of this management action programme has always been made clear to the House. I attach at Annex A a list of Ministerial statements in the House since October 1982. I would, in particular, draw your attention to the sidelined passages and perhaps particularly to my supplementary answer to John Cunningham on 29 November during oral questions. Two days later on 1 December Norman Lamont made precisely the same point.

6 It is not, and never has been, the policy of this Government (or I believe of its predecessor) to announce individual plant closures or redundancies in the House. Given the clear statements of intent since 22 October, no-one could have had any possible grounds for believing that somehow the situation had changed that in future individual closures and redundancies would be notified to Parliament. That would have been quite inappropriate given the Government's clearly expressed attitude to the responsibilities of the management of the Corporation.

7 In these circumstances I hope you will be able to persuade the Opposition that their criticism of Norman Lamont's speech is illfounded. It would totally undermine the authority and competence of the management of BSC if they had now to be told that they were precluded from taking management action to stem the haemorrhage of losses unless they had first cleared every step with Ministers and Ministers had announced their decisions to Parliament. That would mean that it is Ministers and not the management who would be running the Corporation - something that every Government since the war has striven to avoid in the case of the nationalised industries. While we can entirely understand and sympathise with the Opposition's sense of dismay at the crisis that has overtaken the European steel industry, that must not and cannot be allowed to turn the relationship between Ministers and management on its head. The Corporation

entirely understands why the Government needs to be consulted about the closure of one of the five major steelworks and I have told the House that I hope to be in a position to make a statement about that before Christmas.

8 If the Opposition press for further details I see no reason why you shouldn't hand them the paper at Annex B. It is most important, however, to make clear to them that this is not the complete list and that further cost savings are in train and will be announced by the Corporation in due course. They will know, of course, that it is part of the ECSC plan for steel that all Governments should have phased out operating subsidies by the end of 1984. They must recognise that the BSC in common with their competitors overseas have to take the steps necessary to achieve that objective.

9 I am sending a copy of this letter to the Prime Minister and to John Biffen.

Yours sincerely,

Caroline Varley

(approved by Secretary of State and signed in his absence)

CH

ANNEX ~~Ø~~ A

BSC STRATEGIC REVIEW : MINISTERIAL STATEMENTS IN THE HOUSE SINCE OCTOBER 1982

A 22 October, SoS (Industry), Statement on "Steel Exports (Brussels Discussions)", Col 667

"The right hon Gentleman referred to the report in The Guardian. Mr MacGregor has told the Government that the British Steel Corporation cannot now expect to meet its financial target to break even in 1982-83 and that the prospects for the following two years have deteriorated. We are discussing with the British Steel Corporation the economic and financial framework within which the corporation's new three-year plan from 1983 to 1986 will be prepared. I made it clear to the right hon Gentleman that no decision on the closure of major steel works would be taken by the British Steel Corporation without close consultation and the agreement of the Government. I shall not shuffle the responsibilities on to Mr MacGregor's shoulders. They are the Government's responsibilities; I am prepared to shoulder them. We do not yet know precisely what steps need to be taken to deal with the new situation, but I shall find an opportunity to inform the House as soon as decisions are taken."

B 9 November, SoS (Industry), speech during debate on Public Enterprise, Col 460

"The House will recall that I made a statement on the steel industry and answered questions on 22 October. Subsequently, there were questions about it at Question Time. I fully understand the anxieties that are felt in all parts of the House about the steel industry. Across the world, markets for steel have been collapsing and there is a world-wide excess of steel-making capacity. This country is not alone in facing a crisis in its steel industry.

The British Steel Corporation is now considering how to respond to the downturn and is reappraising its medium-term prospects. I have asked Mr MacGregor, the Chairman, to put forward a number of options for the future so that the Government can consider the problem on the widest canvas. In recent weeks, I have made it clear to the House that to the extent that these options concern the future of BSC's five major integrated steelworks, neither the Government nor the corporation has any intention of taking precipitate action based solely on short-term considerations. That would be very short-sighted.

However, we must take a careful look, as far ahead as possible, at the prospects for the steel industry if we are to reach sensible decisions on the future strategy of such an important basic industry. I do not want to disguise from the House the difficult decisions that may face the Government, and for which the Government will accept responsibility. However, the review of BSC's five main integrated works cannot and will not hold up other measures that BSC needs to take urgently to restore its financial and commercial position."

C 29 November, exchange during Oral Questions, Cols 4-5

Dr John Cunningham: "Is the Secretary of State aware that although the Labour Administration were reluctant to have massive unemployment from steel closures - we make no apology for that - other European Governments have shown even more reluctance to go along the path that he recommends? As the

Secretary of State has said that there is to be a total review of both the public and private steel industries, will he reiterate his commitment not to take decisions on any short-term considerations about the steel market? Will the right hon Gentleman assure us that there will be no further closures while that review is going on, such as those at Roundoak and Craigneuk? Will he also ensure that the evidence being collected by the Iron and Steel Trades Confederation about cheating on quotas and prices will be fully examined?"

Mr Jenkin: "Of course, we are not taking decisions on purely short-term considerations. I have made that point many times.

With regard to individual plant closures, I made it clear to the House, when I made my statement on 9 November, that the current review of the British Steel Corporation's strategy cannot be allowed to hold up necessary cost-saving measures that do not involve the closure of any of the five integrated steelworks. The corporation needs to take urgent action to restore its commercial and financial position. Those are matters for the corporation's judgement and do not require authorisation by Ministers."

D 1 December, MoS (Industry), speech during debate on the steel industry, Col 283

"The British Steel Corporation's half-yearly results are being announced today and they spell out all too clearly the deterioration in the corporation's position. Losses after interest for this half year amount to £154 million, which is better than the £208 million loss last year, but is way off the target before interest of break-even for 1982-83, which for this year is obviously no longer an attainable target.

Neither the Government nor the corporation can tolerate this haemorrhage and loss-making on this scale. Urgent cost-saving measures are being taken by the corporation to stem the losses. Further slimming is taking place and, as the House and hon Members have learnt, there have been closures of some smaller plants. Those decisions are within the responsibility of the management of BSC and do not require the Government's authorisation.

However, the Government, together with the corporation, are undertaking a review of the British Steel Corporation's five major steel making works. I emphasise that no decisions have been made. Obviously we are taking into account - I know that this is a matter of concern to the hon Member for Motherwell and Wishaw (Dr Bray) - matters such as costs, competitiveness, trends in the market, trends in the steel-making industries and implications for other industries. We are examining the matter not on the basis of short-term factors but on the basis of longer-term trends."

ANNEX B

REDUNDANCIES AND MINOR PLANT CLOSURES ANNOUNCED BY BSC SINCE 1 AUGUST 1982

Date of announcement	Plant (main activity)	Jobs Lost	Date of implementation	Nature of reduction
11 August	London Works, Tipton (re-rolling mills)	480	November 1982	Complete closure
12 August	Ravenscraig (integrated works - strip products)	320	November 1982	Mothballing of one of three blast furnaces
5 August	Hartlepool (tubes and plates)	320	by November 1982	closure of coke ovens
20 August	Clydebridge (plate mill)	575	November 1982	closure of rolling mill
24 September	Scunthorpe (integrated works - general steels)	695	by March 1983	370 due to slim-lining 325 due to contracting out of non-production jobs
11 October	Clydesdale (tubes)	50		
12 October	Imperial Works, Airdrie (tubes)	130	November 1982	One production line mothballed
15 October	Dowlais (castings, ingot moulds)	144	December 1982	Partial closure of foundry
2 November	Corby (tubes)	600	500 by end March 1983 Remainder in 1983/84	Rationalisation of tube finishing and other cost reduction measures

Date of announcement	Plant (main activity)	Jobs Lost	Date of implement-ation	Nature of reduction
17 November	Round Oak (tubes & engineering Steels)	1286	By 23 December 1982	Complete closure
18 November	Craigneuk (castings, forgings & bars)	427	By end March 1983	Closure of bar mill
22 November	Stockton (pipes)	152	Not agreed	Reduction in capacity of 84" pipe mill
29 November	Stocksbridge and Tinsley Park	815	Half by end March 1983 rest by July 1983	Mothballing of one electric arc furnace at Stocksbridge. Remainder slimlining
	Rotherham	794		
	Central Services (special steels)	100		
2 December	Llanwern (integrated works - strip products)	350	By March 1983	Slimlining
2 December	Shotton (coated steels)	170	By March 1983	Slimlining (mainly management)
2 December	APG (Orb) Works (flat-rolled electrical sheets)	200	By March 1983	Slimlining
3 December	Fullerton, Rotherham (railway products)	157	March-June 1983	Closure
3 December	Trafford Park, Manchester (railway products)	50	April-June 1983	Slimlining
2 December	Teesside (integrated works-general steels)	1300	by March 1984	Slimlining

Date of announcement	Plant (main activity)	Jobs Lost	Date of implementation	Nature of reduction
3 December	Port Talbot (integrated works - strip products)	250	By March 1983	Slimlining
6 December	Ebbw Vale, Trostre and Velindre (Tinplate group)	117	By March 1983	Slimlining (mainly management)
6 December	Whiteheads (strip products)	200	By end February 1983	Reduction by half in number of shifts
To be announced				
10 December	Scunthorpe (integrated works - general steels)	500	By September 1984	Slimlining

Total job losses announced 10282

10 DEC 1982

100 000 tes / year 4 years
Eurobridge

STEEL

BOOST PRODUCTION?

BSC is producing 10 million tonnes of liquid steel a year. There is capacity for 21 million tonnes. Perhaps the Opposition have forgotten that it requires 1½-2% growth in industrial production merely for steel production to remain constant. It is quite clear that there is no way in which they can double steel production overnight, or even in five years.

COLLAPSE IN THE MARKET

It is important to realise that the crisis facing the country is a worldwide crisis. Even in Japan, production this year is expected to be the lowest since 1972. Production in the European Community will probably be the lowest for 30 years. This is partly because of the worldwide recession. But it is also because worldwide capacity for steel production has been growing at a time when manufacturers are substituting materials such as plastics and ceramics for steel. In 1950, 32 countries produced steel. Today there are 76 producers. Worldwide capacity is now about 1,000 million tonnes while worldwide demand will fall below 700 million tonnes. We cannot isolate ourselves from these trends.

LACK OF COMPETITIVENESS

Closures in the United Kingdom have arisen largely because of a lack of competitiveness. In 1979 the United Kingdom had a workforce that was 20% greater than in France, but it produced significantly less. West Germany had a workforce 50% greater than ours and it managed to produce about twice as much steel as we did. In BSC 99 tonnes of crude steel were produced for every employee in 1979. Now the figure is 138 tonnes. The last Labour Government's failure to act led to overmanning and a lack of competitiveness which did grave damage to our steel industry and the prospects of those who worked in it.

/ THE OPPOSITION'S RECORD

THE OPPOSITION'S RECORD

(a) It may seem that the United Kingdom has made all the sacrifices since 1979 while others have done nothing. But the picture looks different if we measure it from 1974. From that date the percentage fall in United Kingdom production is similar to that in the Community as a whole. The Opposition may not like this comparison. They like to think the problem did not arise until 1979. The tragedy is the way in which the Labour Administration, between 1974 and 1979, under the Beswick Review, delayed closures which were inevitable and necessary. When the closures came they had to be more severe than they need have been if the Labour Administration had had the guts to act.

(b) I remember the RHG the Leader of the Opposition speaking at Ebbw Vale in 1975, and saying that the "real choice is whether we condemn ourselves to a slow, lingering death, or whether we are going to get on with the programme of the resurrection of the whole commmunity". If only they had got on with the programme of resurrecting the whole community!

(c) I also remember the RHG saying that he had more agony over this subject than any other. He went on to say "if you dodge the truth, it will end in disaster". They dodged the truth: we will have to cope with the consequences.

THE FIVE MAJOR PLANTS

We will not take hasty decisions based only on short term factors. We want a sound steel industry in the United Kingdom. We are examining all the possibilities with Mr. Macgregor and his colleagues as carefully as we can. I hope we will be in a position to announce decisions before the Christmas Recess.

/ RECENT REDUNDANCIES

RECENT REDUNDANCIES

As we have repeatedly made clear to the House in recent weeks, the current review of BSC's strategy cannot be allowed to hold up cost-saving measures which do not involve the closure of any of the five integrated steelworks. The Corporation need to take urgent action to restore their commercial and financial position. These measures are a matter for BSC's judgement and do not require authorisation by the Government.

IMPORTS

(a) Anti-dumping measures and third world imports: we should not forget that in many of the third world countries we are net steel exporters, and to shut out ~~those from~~ their imports would only invite retaliation. But if trade is to be free, it must also be fair. We have the advantage of the Community's voluntary restraints arrangements which are working reasonably well. Where they are not, firm action has been taken. Anti-dumping duties have been imposed on steel imports from Spain and Brazil. Quotas have been set up against steel imports from Czechoslovakia and Bulgaria. Last month, anti-dumping investigations were opened against imports of coil from Brazil, Canada, Argentina and Venezuela. For the future, the Community has recently agreed measures that ~~it~~ tighten the voluntary restraint arrangements in 1983. The aim is to reduce the amount that is imported into the Community to 12½% below the 1980 level.

(b) Effect of the strike: Imports from ~~third world~~ countries outside the EC have been little higher than in recent years. at about 9% of the UK market Imports from the Community however rose sharply in 1980. In the mid 1970s they averaged between 12 and 14 per cent. In 1980, the year BSC went on strike, they jumped to 22 per cent. Since then they have run at about 18%. There is no disputing the fact that since the strike we have lost a significant slice of the market to imports from Europe. There is no plainer demonstration of the fact that strikes can threaten jobs.

/ THE COMMUNITY

THE COMMUNITY

(a) Job losses in the UK steel industry have not been carried out as a favour to the rest of Europe; they have been essential to create a more competitive industry. Best hope for the industry lies in supporting the anti-crisis measures agreed within the Community. These include price rules to ensure that producers do not price their steel unfairly, and mandatory production quotas to ensure that the cake is shared out equitably. Voluntary restraint arrangements limit imports from the EC's main supplying countries. And the State aids decision taken in 1981 means that Member States have to agree on adequate cuts in capacity before giving further subsidies to their industries. We have made it quite clear that we want these measures enforced fairly.

(b) The idea that the United Kingdom will be better off settling its own problems outside the Community is a myth. It is propagated by those who have not yet learned the lesson from the recent dispute with the United States. This dispute put about £50 million of UK exports at immediate risk. It was the Community's combined strength which enabled us to secure a deal. Although the European Council agreed that the Member States worst affected could seek bilateral agreements with the United States, the Americans rejected the proposals we put to them.

Import Penetration

UK	27 %
France	43 %
FRG	35 %

Euroroute Channel Bridge

Half of the steel would come from France

100 000 tonnes for 5 years = 500,000 tes.

STEEL

MO

REVISED BRIEF

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

STEEL

Points to Make

1. Congratulate Vice-President Davignon on EC/US Steel agreement. An excellent example of effective Community action.

2. Similar need for concerted action on international front. Greatly concerned about current instability in EC Steel market. Welcome measures proposed by Davignon in Elsinor (18 November) and hope that these can be quickly implemented and rigorously enforced.

3. Need is now for Community to face up to vital longer term problems - the need to bring supply more closely into line with demand. At Elsinor there was a clear agreement by nine Member States on the need for capacity ~~productions~~ reductions of the order of 30-35million tonnes. All Member States agreed on the need to maintain the disciplines of the state aids regime.

4. Welcome the Commission's resolve to administer that regime strictly and fairly. Regret that the extent of capacity cutback so far is inadequate although some partners are now making major contributions.

/5. Need ....

5. Need a clear commitment by the European Council to abide by the disciplines of the State Aids code and carry out cuts in capacity on an equitable basis. Performance of UK industry so far is unchallengable - Vice-President Davignon is on the record as having said that we have made the greatest sacrifice. Essential that everyone bears - and, politically, is seen to bear - his share of the burden.

6. Suggest that the Commission reports to the next European Council on the progress made in cutting capacity.

NAT Ind
Steel

PA.

Copy for information to
Hugh Russell (Scottish Office)
MLS 13/12

MEW
13/12.

Strathclyde
Regional
Council

Robert Calderwood LLB
Chief Executive
Strathclyde House, 20 India Street, Charing Cross, Glasgow G2 4PF
Telephone 041-227 3410

8th December 1982

Dear Mr. Butler,

This authority in conjunction with our District colleagues has initiated considerable research and discussion of many aspects of the social and economic consequences of changes in the shape of the Scottish Steel Industry, most of which is located in Strathclyde Region.

We have prepared a number of briefing papers on these issues - and notably on the importance of the Ravenscraig Complex to the Scottish economy. These have already been supplied to the Secretary of State for Scotland.

The Regional Council also chairs the Standing Committee for the Defence of the Scottish Steel Industry on which are represented numerous Local Authorities with a close interest in the future of the Industry, Chambers of Commerce, the Scottish Council, the Scottish Engineering Employers Association, various management interests and the STUC and Union interests. All Scottish Members of the U.K. and European Parliaments are also invited to attend meetings.

At its last meeting, on Friday, 3rd December 1982, the Standing Committee unanimously decided, in view of the importance of the Steel Industry to Scotland and the reported imminence of Cabinet decisions that may affect that future to seek a meeting with the Prime Minister to bring to her attention our views on these matters.

It is in this context that I would now ask you to place before the Prime Minister the request that she agree to meet Strathclyde Regional Council, either independently or as part of the requested STUC delegation,

F.E.R. Butler,
Principal Private Secretary to the Prime Minister,
10 Downing Street,
LONDON. SW1

to hear our views on the importance of the Steel Industry to the Scottish Economy.

I hope the Prime Minister will agree to meet us prior to any final discussion of the issue in Cabinet.

Yours sincerely

Robert Calderwood.

13 DEC 1982

CASE

FOR THE RETENTION AND DEVELOPMENT

OF THE SPECIAL STEEL INDUSTRY

IN SCOTLAND

(CRAIGNEUK WORKS)

CRAIGNEUK WORKING PARTY

8TH DECEMBER 1982

INTRODUCTION

In April 1982 the Corporation threatened to close the whole of Craigneuk Works unless the workforce accepted an across the board reduction in wages of £15 per week.

After a Meeting between BSC Management and the STUC in Perth, the threat was withdrawn. The Craigneuk Unions agreed to consider with Management any necessary remedial action to secure the future of the site.

Management subsequently identified that the main financial drain on the Craigneuk operation was from the new light foundry complex. The Unions therefore agreed to the "mothballing" of this unit to save the remaining operations and jobs. This action has resulted in a job loss of 263.

On 18th November, 1982 after numerous leaks and rumours, Mr. Bray (Director BSC Holdings) and Mr. Blakely (BSC Special Steels) announced the Corporation's intention to close Craigneuk Bar Mills and the associated finishing facilities by 31st March, 1983. This would result in a further job loss of 327.

"Following closure of the Mills, Corporation proposed to reduce the size of the site and service overheads to meet the requirements of the remaining steel foundry/forge business."
This would result in a further job loss of 100.
The cumulative effect of all the above actions is a total job loss of 690.

The disastrous loss of job opportunities in the Scottish Special Steel Industry is highlighted by the figures given below:

1979 - Size of workforce	=	1200
1983 - Size of workforce	=	300

DIARY OF EVENTS

18th November 1982	Divisional Management announce closure of Craigneuk Bar operation
23rd November 1982	Closure document received. Letter from Divisional Management stating that alternative proposals would be considered
25th November 1982	Meeting with Sheffield Commercial, Accounting and Planning top management to obtain information lacking from the closure document
29th November 1982	Craigneuk Working Party send draft Minutes for agreement
30th November 1982	Additional written information sent by Divisional Management
2nd December 1982	Working Party state that certain replies from Sheffield are still inadequate (statements without supporting details) Working Party asked for deadline date to be extended to 8th December, 1982.
6th December 1982	Agreed Minutes plus additional information still not received from Sheffield. Request from Divisional Management that working party must complete their case by 8th December, 1982

SUMMARY

1. One of the Corporation's main reasons for closing the Craigneuk Bar Mill operation is to eliminate the projected loss of £1M. In actuality the loss is offset by a corresponding £1M+ contribution by Craigneuk to the finances of the Sheffield Division primary areas.

2. Another reason given for closure "is to reduce bar capacity in line with demand"

   The elimination of Craigneuk mills would reduce the UK Special Bar rolling capacity by only 3.5%.

   This minor reduction in rolling capacity is accompanied by a major and undesirable reduction in finishing capacity.

3. The accounting system used in reaching the closure decisions acts against Craigneuk in some ways.

   (a) The financial contribution by the Craigneuk Bar Mills to the Special Steels primary areas goes unrecognised in group accounts.

   (b) Also Special Steels Division do not calculate profit/loss figures for their other individual mills, so that decisions are being taken without actual comparable figures being available.

4. The market forecasts used by BSC to arrive at their rationalisation/closure programme are based on economic assumptions which have already been proved wrong.

5. The fact that only two alternative plans were considered for Craigneuk indicates that the decision for closure was not only based on insufficient business information, but also on insufficient planning consideration.

6. Craigneuk Working Party states categorically that no justifiable case for closure has been made.

7. The Working Party has developed a series of viable options for the retention of Craigneuk Mills. The options are based on current BSC market forecasts and any improvement in market conditions can only enhance the case for retention.

CRAIGNEUK SPECIAL BAR PLANT OPERATION

COMMENTS AND CRITICISMS OF BSC CLOSURE DOCUMENTS BY THE CRAIGNEUK WORKING PARTY

The following comments and criticisms are given in the same format as used in the BSC closure document, Section 1 Summary.

Statements in parenthesis originate from the closure documents and/or verbal/written statements from the Divisional Management.

1. PLANT

The Craigneuk Mills are hand operated, their design gives maximum flexibility to produce a wide range of sizes across the full range of steel types e.g. Carbon, Alloy, Tool and Stainless Steels. This gives the plant the operational flexibility needed to meet the specialised nature of its market.

The mills because of their relative simplicity of design are robust and reliable with minimal maintenance and have been consistently free from any major breakdowns.
There has never been any problem in manning these mills or indeed in the recruitment and retention of young people for the mill crews. We have a committed workforce with a very co-operative attitude which results in maximum flexibility in matching men and machines to production requirements.

It has been suggested that the age of the plant is an important factor in the closure. Yet if the Corporation's proposals are accepted, it will mean the transfer of some rolling from Craigneuk No. 2 Mill (1955) to the Wolverhampton 9" Mill (1926).

A high proportion of special bar production requires heat treatment and finishing and it should therefore be fully appreciated that heat treatment and finishing plant are as important as the rolling mills in the production process.

Any consideration of bar production capability must place as much emphasis on the finishing facilities as on those for rolling. The finishing facilities at Craigneuk consist of a very comprehensive heat treatement plant, straightening and brightening machines, all complemented with a full inspection capability.
The heat treatment plant can process material to a wide range of customer requirements; oil and water quenching facilities are backed by comprehensive tempering furnaces resulting in minimum quench cracking with difficult compositions.

The finishing facilities could not be readily removed and resited except at great expense and would not fit easily into any other rolling operation.

The Division have stated that the case for closure was not based on the re-siting of any facilities. The assumption was that the facilities would be eliminated from the Corporation.

The Craigneuk Committee point out that at the present time the finishing facilities in Sheffield cannot cope effectively with their present load and it is irrational to assume they could overtake an increased workload. Indeed this imbalance between rolling and finishing capacity will prevent BSC from seizing additional market opportunities as and when they arise.

Therefore the closure of Craigneuk bar operation will make an unsatisfactory situation totally unacceptable to customers, and will result in the permanent loss of profitable business for the Corporation.

When Craigneuk Working Party asked for the identity of the alternative and cost comparable finishing facilities which would handle the Craigneuk order load, Division emphasised "Hawke Street - trials had been conducted there and local management were confident of their ability to cope."

Craigneuk reiterated that Hawke Street was unable to cope even at their present loading level. The smaller heat treatment batches associated with Craigneuk small order lots would aggravate situation and customer service would be expected to deteriorate.

In addition, Hawke Street have technical problems e.g.

> cracking with certain specifications, thus necessitating bars being produced from an overall dressed billet with consequential higher cost
>
> inability to water quench
>
> the inability to meet mechanical properties on certain sizes of certain specifications due to lack of oil coolers.

Craigneuk have solved these problems, but it must be appreciated that technical expertise is extremely difficult to transfer. Recent closures of heat treatment and bright finishing facilities at Flathers and elsewhere have reduced the capacity considerably, thus limiting the options available in transferring work.

Further it has been established that at present mechanical testing facilities remain separate from the rolling and finishing plants which are proposed to overtake the Craigneuk workload. The administrative and organisational difficulties presented in co-ordinating production through a series of plants cannot be over-emphasised, and must cast serious doubts on the level of customer satisfaction which will be achieved on the proposed production routes. In the special bar market the level of service is crucial to establishing and maintaining customer loyalty.

It can be emphasised that Craigneuk is unique within Special Steels in that it is the only plant where rolling, heat treatment, finishing and mechanical testing are carred out on the same site.

2. MARKET FACTORS

The Craigneuk Mills supply to a specific market for special alloy steel bars in a wide range of sizes and numerous specifications. The order lots are small and originate from customers throughout the UK. It is accepted that the demand for bar, both nationally and internationally has declined steadily over the last few years. However, BSC's forecasts that there will be no significant improvement in the market can be disputed.

The economic forecasts quoted in the closure document are not specific to Craigneuk Bar Mills, but show the forecast for the whole of the Corporation. The "pathological pessimism" in the BSC forecasts should be compared with more optimistic forecasts reached by the Department of Trade & Industry and the Cambridge Econometric Unit using the same base figures and the Treasury model. Because of the imbalance between supply and demand, the Corporation in the last few years has, as a matter of policy, been preferentially loading its special bar orders on to its bigger plants in England in an attempt to improve their economic performance. However, it has been suggested that this attempt has not achieved the expected results because these plants cannot cope efficiently with a fragmented order load and that the market needs can in many cases be more effectively met by the Craigneuk Mills. No figures are available to disprove this claim.

It should be pointed out that these high volume "more efficient" mills operate at low cost only when filled to a high proportion of their capacity with large volume orders. This is certainly not the case under current market conditions. The difficulties in amalgamating numbers of small orders into large rolling batches of the same section size will further impair the economic efficiency of these "high volume" plants. The position will be worsened by the subsequent handling and administrative problems associated with small batch orders.

Indeed, it was admitted that allocating orders to the various mills entailed consideration of many factors other than rolling cost. Customer preference, customer service and the availability of finishing facilities frequently outweighed cost considerations and resulted in the movement of work away from high volume plant.

> There could well be some loss of market share on closure and transfer. Therefore for a conservative financial analysis the projected load retention is only 50%. In addition heat treatment and finishing capacity has been identified for the reallocated orders, where appropriate, comparable in cost levels to Craigneuk facilities.

In answer to the question "How they arrived at the projected load retention of 50%, Division replied that

> "the assumptions used were largely subjective judgements"

Division also stated that the 50% retention rate was based on their knowledge of plant capability. <u>Customers were not canvassed and their reactions were presumed by the Division</u>.

Craigneuk pointed out that since customer reaction had not been canvassed, once again we were faced with figures which were pure assumptions with a wide sensitivity to error. Ever since the closure announcement was made customers have called direct to Craigneuk to express their deep concern as to continuity of supply and service.

Also the Division had failed to take any recognition of the risk to larger volume order business because the removal of Craigneuk would limit the Corporation in their endeavour to service the whole market.

It is the firm belief of Craigneuk Working Party that any proposal to close these mills would <u>not</u> result in a significant transfer of business to the Corporation's other mills.

Indeed, if the Craigneuk mills were closed, most of the order book would probably be lost to imports.

The only factors which Division had taken into account in their re-allocation exercise were those of section and order size.
No attempt had been made to investigate the effects of small order lots e.g.

i) the problem of heat treatment batch amalgamation

ii) additional processing costs and yield losses on bright grinding when Craigneuk Mills' ability to roll intermediate sizes is lost

In the meeting between Special Steels and Craigneuk Working Party, Special Steels stated their willingness to lose the whole Craigneuk order book for bar and billet. This attitude reflects the Corporation's failure to improve their present share of the bar market and their complacent acceptance of their present poor performance in the market place. This attitude can only lead to further closures, redundancies and cutbacks. A modest increase in the order tonnage allocated to Craigneuk Works would make it viable and it is our belief that this small additional tonnage could be achieved by a more positive approach by the marketing organisation.

When discussing the potential of the various plants within BSC, the closure document emphasised the importance of export markets in generating activity.
However, Division agreed

> "that with only a few exceptions the majority of export orders are taken for contribution only"

It seems illogical to give away profitable home business to pursue loss-making export business.
Division agreed that devaluation of the pound would give some stimulation to UK demand and would also make the UK market less attractive to imports.

When asked what is BSC doing to attack imports, Division stated "that an aggressive stance was being adopted by matching import prices in order to maintain their market share".
"Matching our competitors' prices" did not seem to Craigneuk to be a particularly aggressive stance.

Part of the rationale for the closure of Craigneuk Bar Mills was to move capacity more in line with demand.
Figures supplied by BSC indicate nominal mill capacity for alloy and stainless bar by all BSC producers to be 705,000 t/annum. The closure of Craigneuk Mills would make an insignificant contribution (5.6%) to the reduction of the overall BSC capacity, since the Division stated that no other BSC mills are being considered for closure. The contribution to UKcapacity as a whole is a mere 3½%.

As mentioned earlier, finishing and heat treatment are an essential part of all special bar production and there is no stated over-capacity for these facilities. <u>The closure of the Craigneuk operation will make an insignificant contribution to the reduction of rolling capacity while producing an unwanted and detrimental reduction of finishing capacity in the industry</u>.

The problem of rolling over-capacity is being dealt with in two distinct ways. English plants are being demanned only, leaving a base for future recovery and re-employement. The single remaining Scottish plant will be closed, the buildings razed and the site bulldozed flat, thus ensuring that the Scottish Special Steel Industry is destroyed forever. The Divisional explanation for this difference was that the closure of Thrybergh was "political dynamite" while it was unthinkable to consider the closure of Wolverhampton Mills since it was situated in the heart of the West Midlands.

3. FINANCIAL FACTORS

> The financial performance of the mills is currently running at a loss in excess of £1M per annum with increased losses expected next year

Part of the rationale for the proposed closure is to stem current financial losses.

Craigneuk Bar complex in the past, however, has made significant profits. This year even in the depths of a continuing world recession the projected loss has been held to £1.1M.

The main factors in causing the loss are:

i) the plant, owing to lack of orders, is only producing 14,000 tonnes/annum

ii) the product mix allocated by Special Steels to Craigneuk has a high proportion (23% by wt.) of known high loss-making business. This order allocation reflects the supporting role given to Craigneuk mills as part of the overall strategy of special steels.

In order to understand the statement on financial losses, Craigneuk Committee asked for the comparable profit/loss figures for the other individual mills in Special Steels. They were astounded to learn that Craigneuk Mills were the only ones having a trading account with a profit/loss figure. There are no similar accounts for other individual mills.

<u>It therefore appeared that decision to destroy the Scottish Special Steel Industry (with the elimination of 427 job opportunities for future generations) had been taken without the necessary business information of comparable financial results</u>. It has been subsequently confirmed in writing that profit/loss figures are only derived at the business level - BSC Special Steels. Figures are not available for individual mills within this grouping. The Division's inability to produce comparable profit/loss accounts raises serious doubts about the accounting principles and practices used at arriving at the closure proposal e.g. it is not possible to prove the accuracy of individual standard product costs without the knowledge of true actual results.

The BSC consider a medium volume run as 20/30 tonnes. This concept is not applicable to the Craigneuk operation where our cost structure is based on an average order of 2/4 tonnes. Divisional accountants stated that they did not recognise any differential involved in the conversion costs between small and medium and large volume orders, i.e. 50 orders at 2 tonnes would have the same conversion costs as 1 order at 100 tonnes. But Division have agreed that conversion costs could increase if orders could not be amalgamated into larger rolling batches. It is therefore not suprising that Craigneuk actual costs based on small rolling batches are made to look inferior to these inaccurate theoretical costs based on large rolling batches. Therefore conclusions were being drawn from financial figures that did not take into account the effects of small batch orders on conversion costs.

Craigneuk Working Party asked "What would be the financial effect on the Corporation if 100% of the bars and billets were lost?" Division answered that the loss of 35,000 tonnes (bar and billet) would make no financial difference to the Corporation.

This statement is based on a simplistic balance between the worsening of the billet contribution by £1M and an improvement to the bar results of £1M by the elimination of the Craigneuk loss. The calculation does not take into account the fixed expenses which would remain with BSC, nor the substantial buying gains at the melting and billet stages. This approach is diametrically opposite to that taken when considering the transfer of 5000 tonnes of bar orders from Wolverhampton/Thrybergh to Craigneuk. These obvious contradictions must raise doubts about the accuracy of the thinking over the whole exercise.
When linking the full process of steelmaking, billet and bar production a favourable contribution is achieved by BSC.

The Division stated that

> "Despite some cost savings the outlook for Craigneuk Bar Mills next year was expected to be increased losses."

The Divisional explanation for the expected increased losses next year was that:

> i) allocated volume would decrease
> ii) effectively bar prices would remain unaltered

The Division have inexplicably failed to recognise that Craigneuk would respond rapidly to this lower load (see options).
In addition Division have failed to appreciate that the continuing reduction in price for scrap and alloys must inevitably lead to lower billet prices and improve Craigneuk's trading result.
Craigneuk Working Party requested complete details of the closure saving.

The written reply is so lacking in information that it is not possible to check the validity of the main financial criteria for the closure e.g. the assumption is made that closure of Craigneuk Mills will result in the total elimination of the £1.1M loss. As stated earlier, this is not correct. It is known that certain overheads e.g. FFE, Sheffield and Scottish Division charges will still remain with BSC.

4. CRAIGNEUK AND THE ALTERNATIVE STRATEGIC OPTIONS

The Corporation stated that in their efforts to come up with remedial action they had considered two alternatives:

> either find more load for Craigneuk or close the operation within further bar rationalisation

When questioned, Division stated

> "that no other alternatives had been considered nor evaluated"

It is appalling that so little constructive thought has been given to the Craigneuk Bar Mill operation, and would suggest that the decision to close was not only based on insufficient business information, but also on insufficient planning consideration.

"THE HIGHER LOAD OPTION"

> The product most attractive to Craigneuk in reallocation would be alloy black bar. 5ktpa could be reallocated from Thrybergh and 5 ktpa from Wolverhampton 14" Mill.
>
> Inspection of the tonnage involved, however, demonstrates that in no case could this lead to closure of any of those mills, consequently, the fixed costs of the total compliment of mills would remain the same. The financial evaluation of the reallocation is dependent therefore on the respective variable costs.
>
> The higher conversion costs of Craigneuk would give a net deterioration to the Corporation Mills of the order of £280,000

Craigneuk Working Party is of the opinion that with a reduction of 5000 tonnes in their order load, Wolverhampton would deman accordingly and this would achieve a reduction of fixed costs.

Division repeatedly stated that there would be no manning reduction. With regard to net deterioration of £280,000 the Craigneuk Working Party would make the following points:

We reiterate that in comparing standard product costs (SPC) the Division have not recognised any differential for conversion costs for small batch orders compared with medium/high volume orders. If Craigneuk were to base their SPC on batch order sizes of 40/50 tonnes, the rolling conversion costs would reduce by approximately £18/£20 per tonne, and if Wolverhampton or Thrybergh were to base their SPC on batch order sizes of 2/4 tonnes, then without doubt their SPC would increase substantially. In addition, if Thrybergh were to base their SPC on their revised "planned standard shift levels" - 9 shifts for 1983/84 - in lieu of current 15 shifts then their SPC would again increase considerably.

It is noted that in the consideration of re-allocation that Craigneuk No. 1 Bar Mill is compared with Wolverhampton 14" Mill, thus comparing the older of Craigneuk Mills with the newer of the Wolverhampton Mills. If Craigneuk No. 2 Mill was compared with the older Wolverhampton 9" Mill, Craigneuk would be seen in a much better light, and perhaps the figures obtained would give rise to different decisions.

Once again, failure to recognise these vital points casts serious doubts on the accuracy of the deliberations and the lack of proper understanding at Divisional level of the difference between high and low volume plants.

ALTERNATIVE PROPOSALS FOR THE RETENTION OF CRAIGNEUK BAR MILLS AND FINISHING FACILITIES

The situation which Craigneuk Bar Mills have found themselves in over the past few years and which has lead to the proposal to close the last vestiges of Special Steel production in Scotland, stems from the role in which we have been cast by the commercial organisation.

In the fight against imports and in order to service the whole market, we have been supplying known loss-making items on the basis that BSC as a whole is better off with the business even though Craigneuk shows a loss. A very good example of this is stainless bar. Losses have been shown against Craigneuk equivalent to £0.4 million for the full year, about £400 for each tonne of bar. It can be shown that gains on steelmaking and billet rolling are being made on the basis of current costs. These gains are more than equivalent to our losses.

As the closure proposal has been made because of our losses, with no recognition of the gains being made elsewhere, we need to have more say in the allocation of unprofitable business or the allocation of costs in order to save ourselves from closure.

The remit we have been given is a difficult one as we are being asked to eliminate our losses without harm to the other bar mills in the Sheffield Division; even although Wolverhampton have deliberately developed round bar production in their 9" mill and alloy bar in both mills in order to attack our traditional markets.

We have, however, developed a series of survival and development options for Craigneuk Bar Mills. Despite the fact that we have had little time to evaluate the longer term options, the Committee are convinced of their viability.

OPTION 1

Commercial thinking at BSC Special Steels indicates that for 1983/84 the demand for Special Bar will be relatively unchanged from that currently operating.

Because of the heavy loss making situation on stainless bars, a decision has already been taken to eliminate such items from the Craigneuk order book and a similar attitude is being adopted concerning loss making carbon steel bars. As a result of these factors, BSC Special Steels suggested that the Craigneuk order load for 1983/84 could only be of the order of 10,000 tonnes approximately.

If actual deliveries for Periods 1 to 7 of 1982/83 are examined and the loss making carbon and stainless materials eliminated, the remaining tonnage of profitable alloy business extrapolates to 10,200 tonnes in a full year. Thus the forecast view can be supported by current actual performance.

Craigneuk produces a special ribbed flat section for the construction industry and orders for this product are negotiated directly between the works and Reinforced Earth Co. The tonnage so secured is additional to those special bar orders allocated from Sheffield and for the year 1983/84 a usage of 1500 tonnes has been suggested by Reinforced Earth Co. These two elements of the order book when aggregated yield a loading of 11,700 tonnes per year.

This loading has been studied in detail to determine the likely shift and manning levels required for its production, and Table 1 gives this information. Table 2 gives a comparison of Management Accounts for this proposal and those for the closure case. Explanatory notes for these accounts are also provided.

TABLE 1

PROPOSED DE-MANNING - OPTION 1

MANNING BY CATEGORY	PRESENT	PROPOSED	SAVING
Management/Staff	68	40	28
Skilled/Semi skilled	76	42	34
Production	184	136	48
Totals	328	218	110

MANNING BY DEPARTMENT	PRESENT	PROPOSED	SAVING
Engineering & General Services	85	46	39
Personnel	5	1	4
Billet & Mills	113	86	27
HT & Finishing	86	59	27
QC & Met. Services	8	4	4
Commercial Services	14	11	3
A & A	17	11	6
Totals	328	218	110

TABLE 2

MANAGEMENT ACCOUNTS

		Forecast 1982/3 £K	Option 1 £K	Difference £K
Standard Sales Profit		(411)	410	821
Sales Price		70	-	(70)
Activity		(1196)	(1855)	(659)
Buying Materials		58	263	205
Employment Costs		(48)	(55)	(7)
Manufacturing	Yield	(33)	(33)	-
	Speed	230	-	(230)
	Waiting	(344)	(111)	233
	Non Standard Route	(120)	(100)	20
	Spending	642	1632	990
		375	1388	1013
Regional Dev. Grant		52	52	-
Result before H.O. Interest and profit sharing		(1100)	203	1303

1. STANDARD SALES PROFIT

Current profit @ Standard for Alloy Bar is £50/T

∴ 10,200 x 50 =	£K510
Plus 1500 tonnes of flats @ breakeven	-
Less Commercial charges	100
	410

2. SALES PRICE

It is now believed that the forecast increase in sales price will in fact not take place and the gain of £K70 has been deleted.

3. ACTIVITY

The revised activity loss is the effect of reducing the mills, grinding and H.T. finishing to single shift. (H.T. furnaces will remain at 15 shifts)

4. BUYING

(a) Materials: Examples of lower raw material costs are:

	April 1982 £/T	November 1982 £/T
Steel Scrap	56	37
Nickel	3438	2250
70% Fe Moly	5606	4178
Chrome	600	510

Therefore it is probable that the cost of billet will reduce by at least £20/tonne resulting in a buying gain at Craigneuk of £K263 p/a.

(b) Employment Costs: (£K55) represents the existing 2½% Labour award extrapolated for a full year at a reduced manning.

5. YIELD

For this exercise we show the yield loss unaltered. However, with the elimination of stainless from our product mix, it is quite probable that our yield variance will improve.

6. SPEED

No recognition of speed gains have been made.

7. WAITING

The current loss is linked with the activity and reflects the shortfall in demand. In Option 1 we acknowledge that the actual Waiting Time at No. 2 Mill will be 10% above current standard.

8. NON STANDARD ROUTE

Slight reduction to losses due to lower tonnage.

9. SPENDING

Improvement of £K990 due to demanning of 110.

OPTION 2

Using the manning levels established in Option 1, investment should be made to improve efficiency and reduce costs.

The proposals are:

i) Instal resistance heating in No. 2 Mill together with an extended cooling bank. The capital cost is £.75M but this would be partially offset by various grants (Regional Development; Energy Technology Support Unit; CEGB).

The above development will improve bar quality and reduce costs yielding a favourable return on capital.

ii) In addition to the above proposal a second-hand bar peeler should be installed in the finishing department. This would reduce bright bar costs considerably.

DETAILS OF COST SAVINGS ARISING FROM RESISTANCE HEATING ARE:

(a) Energy Savings

Current cost per tonne on single shift	£18.56
Estimated cost per tonne on single shift	£8.51
Saving	£10.05

∴ 6,000 x £10.05 = £K60

(b) Yield Savings from reduced scale loss

Improvement of yield of 1% £5.4/T

∴ 6000 x £5.4 = £K32

(c) Yield Savings due to reduction of pitting

1.18 tonnes per week

∴ 1.18 x 46.4 x 500 = £K27

(d) Reduction of Furnace manning from 2 to 1 per shift

1 man at £9,000 per annum = £K9

(e) Total £K128

(f) Capital Expenditure

Approx £K750

(g) <u>Gross Return on Capital - 17%</u>

Further benefits

(h) Reduction of billet stocks by reducing number of billet sizes required from 7 to 4.

(i) Reduction of decarburisation produced by resistance heating would give the ability to produce"decarb-free" black bars and would improve yield on centreless ground bars.

(j) By producing more consistent rolling temperatures bar size tolerance would be improved nearer to that achieved in continuous mills

A low cost route from black and bright stainless steel bar can be developed based on:

(a) The use of our new Vacuum Oxygen Decarburisation Plant to reduce melting costs

(b) Primary rolling at Sheffield

(c) Re-rolling at Craigneuk

(d) Low cost heat treatment and brightening at Craigneuk

Examination of costs has shown that we could produce a typical Austenitic Stainless billet via this route at a saving of approximately £380/Tonne (£470/Tonne yielded to finished ground bar). This would permit us to re-enter the stainless steel market and earn a profit.

With the availability of cheaper billet for carbon steels produced by concasting and roll cogging, it is possible to develop a route for carbon steels at lower cost than present. Savings of £60/tonne on the billet price are available and this would yield a saving of £66/tonne on the finished bar cost. The reduction in cost would broaden our commercial options in the Special Carbon bar market.

OPTION 3 : (MEDIUM TERM)

A G.F.M. long forging machine would be installed to produce both larger size bars and the billet feedstock for No 2 Mill. This unit would be fed with ingots made in the Craigneuk Melting Shops and would thus generate additional melting business of about 300 tonnes of alloy ingots per week. The resultant extra contribution could be used to offset some of the capital costs.

The machine would effectively integrate the whole Craigneuk site, enabling melting, rolling and finishing to be performed under a single central control, billet stocks could be reduced thereby lowering working capital. Customer service would be improved by shortening lead times. The machine would overtake the size range currently produced by No. 1 Mill. It would also accommodate the bottom end of the heavy forge size range thus making us more cost effective in this part of the market.

In addition the equipment will enable us to extend our product range into sophisticated tool steels.

During installation of the GFM Machine No. 1 mill tonnage could be supplied:

(a) from pre-planned policy stock

(b) the stock could be supported by increasing the size range of No. 2 mill up to 63 mm diameter

A specification of the equipment being considered will be appended when available.

OPTION 4 (LONG TERM)

Further increased output could be achieved by the installation of a concast machine to produce cheap feedstock for the GFM. Finishing stands could also be added to produce those bar sizes currently being rolled on No. 2 Mill.

It is expected that by the time this option will be activated an upturn in the market will have taken place. The Working Party reject the present commercial thinking which is concerned only with maintaining the same share of an ever decreasing home market.

The Corporation's facilities have the most modern mill in Europe (Thrybergh) and the most flexible and comprehensive rolling/finishing complex in Britain (Craigneuk).

The present UK alloy bar consumption is 180 kt while BSC alloy bar production is only 80 kt with Craigneuk's allocation being 14 kt. With a determined effort the BSC's share of the market could be increased and a small portion of the increased business would make the Craigneuk operation more profitable.

THE ABOVE OPTIONS SHOW THAT A VIABLE BUSINESS CAN BE REBUILT EVEN IN TODAY'S DIFFICULT MARKET CONDITIONS. WITH MODEST INVESTMENT AND PLANNED PROGRESSIVE DEVELOPMENT, THE SITE CAN BE SECURED FOR THE FUTURE.

SURELY THESE OPTIONS MUST BE A MORE CONSTRUCTIVE WAY OF SPENDING THE £5M SET ASIDE TO MEET THE COST OF CLOSURE.

PA

MR. SCHOLAR

Mr. Milne is bringing a deputation to see the Prime Minister on Tuesday next at 1630 hours. He will let us have the names of the people who are coming by Friday. He promises that there will not be more than ten, and has taken on board the Prime Minister's point that she would prefer six.

C.S.

8 December 1982

FILE

cc HMT DOT
SO CO
WO CPRS
CSO Mr. Buckley
D/M
FCO

Nat Ind

SUBJECT.

DA 6

10 DOWNING STREET

From the Private Secretary

6 December 1982

Dear Jonathan,

BSC Future Strategy

The Prime Minister held a meeting this morning with your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, the Chief Secretary, Treasury, and the Secretaries of State for Employment and Trade; Sir Robert Armstrong, Mr. Sparrow and Mr. Buckley of the Cabinet Office were also present. The meeting considered the paper attached to Mr. Jenkin's minute of 2 December, and Mr. Edwards' minute of 3 December.

Your Secretary of State said that the Government must remain committed to the policy of returning the BSC to long-term viability. In the longer run, this would almost certainly entail the closure of one of the BSC's five major integrated steel works, as well as other measures of improving efficiency, and matching capacity to demand, already in hand. There were, however, strong political and commercial arguments against immediate closure of a major works. Moreover, it was not certain which of the BSC's plants it would be best to close: at present, the case was strongest for closing Ravenscraig; but there were good arguments for allowing Ravenscraig a chance to improve its performance. Mr. Jenkin therefore favoured deciding now that a strip mill should close, but deferring the choice of works for two or three years. Compared with immediate closure, this would cost an additional £70 million in each of 1984-85 and 1985-86, and £30 million in 1986-87.

There were good arguments for accepting in principle, subject to a full case being put forward by the BSC, that the Port Talbot hot strip mill modernisation project should go ahead at an estimated cost of about £175 million. This was needed in order to allow the Port Talbot steel works, already the BSC's lowest cost strip steel producer, to remain internationally competitive. It would, however, create difficulties with the European Commission, who would be unlikely to approve the project unless it was matched by cuts in capacity elsewhere. The closure of the ingot route facility at Ravenscraig (which should go ahead irrespective of the decision about the future of the remainder of the works) would be helpful, but probably inadequate. A possible way through would be to offer to conclude a 'contract' between the Government, the Commission and the BSC, limiting the output from existing plants for a period. This possibility would need to be explored urgently with the Commission.

/In discussion,

SECRET

In discussion, there was general agreement that the immediate closure of a major integrated steel works could not be accepted. Apart from the arguments advanced by your Secretary of State, and the disastrous effects on economic activity and confidence in the area affected, it would gravely weaken the UK's negotiating position in seeking to reduce steel-making capacity in the rest of the European Community; and public opinion here would not accept that we should close a major steel works, after having suffered such a large share of recent reductions in the Community's steel-making capacity, while other countries did little or nothing. It was also arguably wrong to take far-reaching decisions about the future capacity of the UK steel industry in the trough of a recession. There was more doubt about the case for further investment at Port Talbot (and possibly at Llanwern). On the one hand, it was argued that it would be wrong to add to capacity when circumstances obliged us to keep open a major works which was most unlikely to be viable in the longer term. At the very least, the BSC should be asked for a new appraisal of the commercial justification for new investment at Port Talbot in the context of a decision to keep open five major integrated steel works for a significant period. On the other hand, it was argued that it was essential to maintain the competitiveness of the steel-making industry in this country and its ability to meet the increasingly stringent demands from steel users both here and abroad for high-quality products. There would also be very damaging effects in the steel industry and elsewhere in South Wales if the Government appeared to have set its face against justified investment there: it would be argued that Wales was being penalised to pay for keeping Ravenscraig open.

Summing up the discussion, the Prime Minister said that the meeting agreed that it would be right to defer a decision, probably for two to three years, on the need for the closure of a major integrated steel works. It should be made clear to both management and workforce at Ravenscraig, in particular, where there were serious adverse variances against standard costings, that the long-term future of the works depended on a satisfactory improvement in performance. Your Secretary of State should urgently discuss with the BSC the justification for the proposed new investment at Port Talbot against this background, and in the context of the longer-term prospects for the UK steel industry. He should prepare a further paper on these aspects, making clear the financial consequences of the various courses under consideration, and how those consequences might be handled vis a vis the EC Commission; this paper would be considered at another meeting of the same group of Ministers (which has now been arranged for 1030 on Tuesday 14 December). The issue should subsequently be brought before E Committee. This timetable implied that any early public statement on steel would have to be very brief; it would not be practicable to arrange a debate before the Christmas Recess. The Prime Minister also asked the Secretary of State for Scotland and the Chief Secretary, Treasury to arrange for estimates to be circulated to the group of the comprehensive, direct and indirect, financial consequences of any decision to close Ravenscraig (increase in social security expenditure, loss of tax revenue, and the like). Finally, the Prime Minister said that a further aspect requiring attention was the position of the steel-using industries in this country: the low level of demand

/ for

for their products was at the root of many of the steel-making industries' difficulties. They had been badly hit by imports from countries such as Japan and Spain. What could be done to curb such imports should be among the matters considered by E when it discussed trade policy next week.

I am sending copies of this letter to the Private Secretaries of the other Ministers present at the meeting, to Gerry Spence (CPRS) and to Richard Hatfield (Cabinet Office). I should be grateful if they would ensure that its circulation is restricted to those with a clear 'need to know'.

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.

5

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 7029

Reference No: E 0195 Covering SECRET

6 December, 1982

Michael Scholar, Esq,
No 10 Downing Street,
LONDON SW1

Dear Michael,

BSC future strategy

I attach a draft record of the meeting under the Prime Minister's chairmanship this morning, in the form of a Private Secretary letter.

Yours ever,

Michael Buckley

M S BUCKLEY

Attachment:

Pl type

DRAFT PRIVATE SECRETARY LETTER
For Mr Scholar to send to the Private Secretary to the Secretary of State for Industry.

BSC FUTURE STRATEGY

The Prime Minister held a meeting [this morning] with your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, the Chief Secretary, Treasury, and the Secretaries of State for Employment and Trade; Sir Robert Armstrong, Mr Sparrow, and Mr Buckley of the Cabinet Office were also present. The meeting considered the paper attached to Mr Jenkin's minute of 2 December, and Mr Edwards' minute of 3 December.

2. Your Secretary of State said that the Government must remain committed to the policy of returning the BSC to long-term viability. In the longer run, this would almost certainly entail the closure of one of the BSC's five major integrated steel works, as well as other measures of improving efficiency, and matching capacity to demand, already in hand. There were, however, strong political and commercial arguments against immediate closure of a major works. Moreover, it was not certain which of the BSC's plants it would be best to close: at present, the case was strongest for closing Ravenscraig; but there were good arguments for allowing Ravenscraig a chance to improve its performance. Mr Jenkin therefore favoured deciding now that a strip mill should close, but deferring the choice of works for two or three years. Compared with immediate closure, this would cost an additional £70 million in each of 1984-85 and 1985-86, and £30 million in 1986-87.

3. There were good arguments for accepting in principle, subject to a full case being put forward by the BSC, that the Port Talbot hot strip mill modernisation project should go ahead at an estimated cost of about £175 million. This was needed in order to allow the Port Talbot steel works, already the BSC's lowest cost strip steel producer, to remain internationally competitive. It would, however, create difficulties with the European Commission, who would be unlikely to approve the project unless it was matched by cuts in capacity elsewhere. The closure of the ingot route facility at Ravenscraig (which should go ahead irrespective of the decision about the future of the

remainder of the works) would be helpful, but probably inadequate. A possible way through would be to offer to conclude a 'contract' between the Government, the Commission and the BSC, limiting the output from existing plants for a period. This possibility would need to be explored urgently with the Commission.

4. In discussion, there was general agreement that the immediate closure of a major integrated steel works could not be accepted. Apart from the arguments advanced by your Secretary of State, and the disastrous effects on economic activity and confidence in the area affected, it would gravely weaken the UK's negotiating position in seeking to reduce steel-making capacity in the rest of the European Community; and public opinion here would not accept that we should close a major steel works, after having suffered such a large share of recent reductions in the Community's steel-making capacity, while other countries did little or nothing. It was also arguably wrong to take far-reaching decisions about the future capacity of the UK steel industry in the trough of a recession. There was more doubt about the case for further investment at Port Talbot (and possibly at Llanwern). On the one hand, it was argued that it would be wrong to add to capacity when circumstances obliged us to keep open a major works which was most unlikely to be viable in the longer term. At the very least, the BSC should be asked for a new appraisal of the commercial justification for new investment at Port Talbot in the context of a decision to keep open five major integrated steel works for a significant period. On the other hand, it was argued that it was essential to maintain the competitiveness of the steel-making industry in this country and its ability to meet the increasingly stringent demands from steel users both here and abroad for high-quality products. There would also be very damaging effects ~~on opinion~~ in the steel industry and elsewhere in South Wales if the Government appeared to have set its face against justified investment there: it would be argued that Wales was being penalised to pay for keeping Ravenscraig open.

5. Summing up the discussion, the Prime Minister said that the meeting agreed that it would be right to defer a decision, probably for two to three years, on the need for the closure of a major integrated steel works, ~~(though it was accepted that the slab unit at Ravenscraig should be closed)~~. It should be made clear to both management and workforce at Ravenscraig, in particular, where there were serious adverse variances against standard costings, that the long-term future of the works depended on a satisfactory improvement in performance. Your Secretary of State should urgently discuss with the BSC

the justification for the proposed new investment at Port Talbot against this background, and in the context of the longer-term prospects for the UK steel industry. He should prepare a further paper on these aspects, making clear the financial consequences of the various courses under consideration, and how those consequences might be handled vis a vis the EC Commission; this paper would be considered at another meeting of the same group of Ministers, ~~to be arranged before Christmas~~. ~~It would be necessary at the appropriate time to bring forward proposals to the Ministerial Committee on Economic Strategy~~ (E). This timetable implied that any early public statement on steel would have to be very brief; it would ~~obviously~~ not be practicable to arrange a debate before the Christmas Recess. The Prime Minister also asked the Secretary of State for Scotland and the Chief Secretary, Treasury to arrange for estimates to be circulated to the group of the comprehensive, direct and indirect, financial consequences of any decision to close Ravenscraig (increase in social security expenditure, loss of tax revenue, and the like). Finally, the Prime Minister said that a further aspect requiring attention was the position of the steel-using industries in this country: the low level of demand for their products was at the root of many of the steel-making industries' difficulties. They had been badly hit by imports from countries such as Japan and Spain. What could be done to curb such imports should be among the matters considered by E when it discussed trade policy next week.

(which has now been arranged for 1030 on Tuesday 14 December)

Would

The issue should subsequently be brought before 'E' Committee.

6. I am sending copies of this letter to the Private Secretaries of the other Ministers present at the meeting, to Gerry Spence (CPRS) and to Richard Hatfield (Cabinet Office). I should be grateful if they would ensure that its circulation is restricted to those with a clear 'need to know'.

MS

Nat Ind

Steel

SCOTTISH TRADES UNION CONGRESS
General Council

Prime Minister

Mr Younger thinks that, if you have the time and can bear to, it would be politically good to see these people.

Should we arrange - presumably before ~~any~~ the statement on Ravenscraig?

MLS 6/12

Our ref. JM/PM
Your ref.

3 December 1982

Industry

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

Ask SoS first ~~to~~ mr

Dear Mrs Thatcher,

FUTURE OF THE SCOTTISH STEEL INDUSTRY

At a widely representative Conference of the Scottish community held recently, a decision was made to seek an urgent meeting with you to discuss the future configuration of the BSC's Scottish operation.

We understand from Mr Jenkin's speech in the House of Commons the other night that the Government will be making a statement on the proposal to close one of the major steel works for the Christmas recess.

In the circumstances, I am now formally submitting this application to you that you meet a deputation to discuss the matters involved. The deputation would consist of between 10 and 15 people representing Local Authorities at Regional and District level, Churches and ourselves. Naturally it would be held in London, and I would not anticipate that the deputation would take more than an hour to make its case.

I do hope you will agree to meet us in view of the wide concern amongst the Scottish populace over the proposed further slimming of the Scottish steel industry. In fact a closure of Ravenscraig would, of course, virtually mean the end of steel production in Scotland.

Looking forward to an early and positive reply.

(person and Group.)

Yours sincerely

James Milne

GENERAL SECRETARY

If phoning or calling ask for

Middleton House
16 Woodlands Terrace, Glasgow G3 6DF.
Tel: 041-332 4946/7/8.
General Secretary: James Milne.

JH 448

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

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

Secretary of State for Industry

3 December 1982

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

Prime Minister

Some interesting detailed points about Ravenscraig's performance at flag A

MCS 3/12

Dear Michael,

LETTERS TO THE PRIME MINISTER FROM DR JEREMY BRAY

We spoke about Willie Rickett's correspondence with me (his letters of 2 and 26 November attached) enclosing letters from Dr Jeremy Bray about Ravenscraig.

2 I think you will agree that it would be sensible to wait until after Monday's meeting before formulating a reply to Dr Bray. We shall then have a clearer idea on the line and timing of a reply.

3 In the meantime, I explained to you that we had put together a detailed note, taking account of BSC's comments (with Dr Bray's permission we sent them copies of his letters) which responds to Dr Bray's points. In case the Prime Minister is concerned that she has seen no response as yet to Dr Bray's arguments, and would find it useful to have this before her meeting on Monday, I attach a copy which you may like to put before her.

Yours ever,

Caroline Varley

CAROLINE VARLEY
Private Secretary

A

DR JEREMY BRAY'S LETTERS TO THE PRIME MINISTER ABOUT THE CASE FOR RETAINING RAVENSCRAIG: COMMENTARY ON MAIN POINTS.

LETTER OF 1 NOVEMBER

A. Ravenscraig is as efficient and productive as the two South Wales plants

1 It is true that the Ravenscraig complex has never had such high manning levels as the two South Wales plants (in particular Port Talbot). But BSC Strip Group management are clear that it is Ravenscraig where they have had the greatest difficulty in securing acceptance of the changes necessary over the last few years to improve efficiency and cut costs. While the introduction of "slimline" manning and flexible working practices was achieved with very little opposition from the workforce in South Wales, at Ravenscraig there was resistance up to March this year. Nearly 20,000 man-hours were lost in 21 unofficial disputes between May 1980 and March 1982; the 1982 pay settlement had to be imposed at the plant and involved a damaging three-day total strike in March; and absenteeism so far this year has been about twice the level at Llanwern. As a result, while productivity at Ravenscraig has increased since March,it has been slower to improve over recent years and it is still not as consistent as in South Wales. Peak productivity in the three plants shows Ravenscraig at 4.6 man-hours per tonne (in June 1982) compared with 4.08 at Llanwern and 4.54 at Port Talbot.

B. Ravenscraig suffers from disproportionately high freight and energy costs.

2 Dr Bray claims that British Rail impose higher charges to carry iron ore and coal in Scotland than in South Wales because road transport is a feasible alternative to rail in the latter but not the former. And Scottish electricity charges are higher than elsewhere in the UK.

3 The case is overstated and in part inaccurate. As regards iron ore, road transport is not in fact practicable in South Wales: the price for rail transport was fixed in negotiations between BSC's Welsh Division and British Rail. BSC management in Scotland and British Rail are currently taking a fresh look at the charges imposed there and there is hope of a reduction. As regards coal haulage, road transport has recently been used between Hunterston and Ravenscraig, as a result of which British Rail have agreed to reduce their own charges. And as regards energy prices, the South of Scotland Electricity Board have now accepted arrangements which will leave electricity charges broadly similar as between Scotland and Wales.

4 In sum, where there have been cost disparities which put Ravenscraig at a disadvantage, remedial action has been or is being taken. What cannot be overcome, however, is the intrinsic cost disadvantage which arises because Ravenscraig is 51 miles from its raw material port at Hunterston and 12 miles from its cold-rolling mill at Gartcosh. However low freight and energy costs can realistically be set, this widely-spread plant layout adds to the cost of producing steel at Ravenscraig. Moreoever, while the plant at present manages to sell up to 70 per cent of its strip output in Scotland and the North of England, it is further than the two South Wales plants from the main steel-using areas of the UK.

C. Ravenscraig's equipment is the best of the three Strip Plants.

5 Some of the equipment, and one part of the production route, are uneconomic. The ingot route for slab production involves an old mill which is heavily underloaded. In addition, the coke-ovens are old and, together with the raw material handling facilities, are difficult to operate efficiently at high output levels. The steelmaking vessels are small - at about 130 tonnes capacity - compared with 175 tonnes at Llanwern and 330 tonnes at Port Talbot. And the Hot Strip Mill, while better than the one at Port Talbot, is less efficient than at Llanwern and is smaller than at either plant.

D. Ravenscraig is not a high-cost plant.

6 For the network of reasons described above - industrial relations problems, plant layout, and some inadequate equipment - actual costs per tonne at Ravenscraig over the last year and a half have been higher than those in South Wales at all stages of production: liquid steel, hot-rolled strip, and cold-reduced coil.

E. Ravenscraig is the only plant properly equipped for the longer-term

7 It is true that Ravenscraig is equipped to produce high quality strip and plate products and that, except in the respects mentioned above, most of its equipment is modern and efficient. But its advantages in the strip market, set out in the "product status report" attached to Dr Bray's letter, generally reflect the fact that until recently it was the only strip plant with continuous casting facilities. These are now being successfully run in at Port Talbot and that works will therefore shortly enjoy the same advantages. For cold-reduced products, both Port Talbot and Llanwern have modern rolling-mills which are on site rather than 12 miles distant.

8 As to plate products supplied by Ravenscraig, and in particular the slabs provided for processing through the Dalzell mill, most of these can be produced at other BSC plants, notably Scunthorpe and Sheffield - indeed, some top qualities of slab for Dalzell already come from Sheffield. For the limited tonnages of special plate items where Ravenscraig is currently the only source, BSC consider that alternative routes could readily be developed in their

other plants without recourse either to major capital investment or to imports. In sum, in BSC's view the advantages of Ravenscraig as a plate and strip producer are not unique in some respects and will soon no longer be in the remainder.

LETTER OF 25 NOVEMBER

F. Mothballing all or part of Ravenscraig is not an option.

9 It is true that steel plant cannot be mothballed for ever because after many years it would be so technically obsolete as to require complete replacement. But mothballing for quite a few years is a possibility: steel-making technology does not change all that quickly. There would be costs involved, as Dr Bray points out, but they might well be less than keeping production going and subsidising heavy losses.

MM Division
Department of Industry

3 December 1982

13:19

TO Mr Murray

FOR

DRAFT

APPROVAL

PLEASE BY: Noon 10/11/82

COPIES TO

PS/M

PS/PS

PS/Lee

Mr Murray

Mr Binning

10 DOWNING STREET

From the Private Secretary 2 November, 1982

Dear Caroline

Your Secretary of State will have received a copy of this letter to the Prime Minister from Dr. Jeremy Bray, M.P., in which he makes the case for keeping open the BSC plant at Ravenscraig.

I should be grateful for a draft reply which the Prime Minister might send to Dr. Bray by 10 November.

I am copying this letter and enclosure to Muir Russell (Scottish Office).

Yours ever

Willie Rickett

Ms. Caroline Varley,
Department of Industry

DR JEREMY BRAY M.P.
HOUSE OF COMMONS
LONDON SW1A OAA

01- 219 4057 (direct line)
01- 219 3000 (switchboard)

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

1st November 1982

Dear Prime Minister,

1 You will shortly be considering the future of the steel industry, and in particular the question of plant closures.

2 If Ravenscraig works in my constituency, or indeed any of the other big five steel plants, were to be closed, it would be the confession of failure of your economic strategy not only for the next year or two, but for the next 10 years. It would be tantamount to admitting that there was no prospect of industrial recovery since most industries use steel directly or indirectly, and it is their collapse and decline in investment which accounts for the loss of steel markets. It would also be to admit that when an industry has made a successful attempt to reach international standards of competitiveness as measured by manpower and technical efficiences with the latest plant, it will still not be able to compete in overseas markets or with importers.

3 Last week I met Patrick Minford. I suggested to him that he might produce a forecast justifying the reduction of UK steel capacity to the 8-10 million tonnes that could be produced by three or four of the big five. I could then use his forecasts as the reductio ad absurdum of Government policy. He laughed and said that I knew full well that he did not produce forecasts of steel output, but said, "surely it won't come to that".

4 It may be put to you that while it is worth preserving efficient capacity, if one of the big five was so out of line that it could not compete, then it should be closed. Much of the press speculation has named Ravenscraig as being the highest cost works. The car and shipbuilding industries in Scotland which it was meant to feed, have disappeared. British plants cannot export competitively. Ravenscraig has higher freight and energy costs. And its plant configuration gives it higher technical costs than Port Talbot and Llanwern. On top of this, it was argued until recently that Ravenscraig had lower levels of productivity.

/2...

5 Ravenscraig never had the high levels of manning that used to exist at Port Talbot and Llanwern. However, when manning was reduced and productivity and working practices greatly improved at Port Talbot and Llanwern, I saw the difficulties that might arise at Ravenscraig. So I wrote an article in the local press saying that absenteeism and overtime must be reduced, and flexible working practices adopted, fully competitive with the standards that had been accepted in South Wales. This was widely reported and mis-reported in the Scottish press, and caused a ferment in the works, some sections of which walked out. The able and competent shop stewards and management at Ravenscraig had been trying to bring about improvements but the atmosphere did not exist in which they could bring about the necessary changes. But the truth registered when it was spelt out by their own Labour Member of Parliament. I suggested to BSC management that they should insist on making the changes needed in the ensuing annual round of negotiations. This they did, and after one or two dodgy moments they were accepted.

6 Ravenscraig management now tell me that there is no aspect of labour relations, working practices or productivity on which they have any complaints. There have been further major reductions in manning. The result is that while Ravenscraig still had a reasonable order book in the second quarter of this year, they achieved a productivity level of 4.54 man hours per tonne, which was the best in BSC, and indeed in Europe. It can no longer be said that Ravenscraig lags behind any other works in BSC in productivity.

7 On freight and energy charges, there is still a tendency to treat Ravenscraig as a pork barrel. Despite representations from George Younger, British Rail impose monopoly charges on the haulage of ore from Hunterston to Ravenscraig which are far higher than for comparable distances between Port Talbot and Llanwern or Immingham and Scunthorpe. The reason is that while on these other routes road haulage is practicable and therefore sets a ceiling on British Rail charges, there is no such option for Ravenscraig. Also, even with their latest 'contracted load management tariffs', electricity charges are 9% higher than in Sheffield, and 6% higher than in South Wales. These can and should be reduced.

8 However, the most important consideration for the longer term is that only Ravenscraig is equipped to produce the highest quality strip and plate products. It has the most advanced, complete set of equipment from the sinter plant through the blastfurnaces, the basic oxygen furnaces, the continuous casting units, to the hot and cold strip mills and the plate mill. Llanwern has no continuous casting units, and while Port Talbot is now running in continuous casting, it has an ageing strip mill. So only Ravenscraig is able to supply those products where surface quality, internal cleanliness, homogeneity, ductility, and weldability have to be of the highest standards. I enclose a copy of a product status report giving some examples of what this means in terms of critical markets for strip products.

9 Since specifications required in markets are rising, Ravenscraig is the plant best equipped to meet future demand. I am not for one moment suggesting that demand for more standard products from Port Talbot and Llanwern do not fully justify their retention, and any reasonable level of activity would require all three flat product plants, as well as the general steels from Redcar and Scunthorpe.

10 Ravenscraig also supplies high quality products through the plate mill at Dalzell works, particularly with the use of its own unique secondary steel making facilities for producing very highly refined steels for the most demanding applications. It is a measure of the technical progress achieved with the continuous casting units and the plate mill, that Ravenscraig can now contemplate closing down entirely its slab mill without losing the capacity for producing the thickest high quality plate at Dalzell. Recent trials with rolling flatter than conventional ingots in the plate mill have been successful. If it were found possible to close the slab mill which operates in parallel with the continuous casting units, without diminishing the product range, it would be a tribute to the technical progress made in the works. The loss of a further 800 jobs would be a sad blow, but Ravenscraig would achieve levels of productivity which were quite beyond the reach of any other BSC plant provided it got a comparable order book.

11 I have concentrated on the economic and technical arguments. The social and political arguments are overwhelming. The closure of Scotland's biggest single industrial plant would mean the speedy loss directly and indirectly, of some 13,000 jobs in Scotland. It would push levels of unemployment in Motherwell up to the 50% mark. It would block off a major channel for further industrial development and recovery in Scotland. Because it has come to be a symbol of Scotland's industrial strength, the closure of Ravenscraig would be opposed bitterly by every person and interest in Scotland. It has been a privilege to represent such a major industrial interest in Scotland, having previously represented a steel constituency in England. So I have been in a unique position to see the role of Ravenscraig in Scotland. Apart from the immediate industrial reactions which would be ruthless, strong and well-organised, the long-term political consequences not only for the Conservative Party but in undermining the Union, would be such that I cannot for one moment imagine any Government closing Ravenscraig.

12 Though I am sure you will take account of the social and political considerations, I would urge most strongly that you take seriously the economic arguments and that in the annoucement of the Government's decision, it should be made absolutely clear that the decision to retain Ravenscraig along with the rest of the big five, had been made on economic grounds. There are ample reasons on the lines I have indicated for saying this. Ravenscraig has been handicapped for 20 years by being

/4...

regarded as a 'political' creation. For years it did not perform as well as it should, or as well as it must in the future. But present levels of achievement will not be maintained unless they are publicly recognised and made the basis of the decision.

13 I am sending a copy of this letter to Patrick Jenkin and George Younger.

Yours sincerely

Jeremy Bray

[illegible] - PRODUCT STATUS REPORT

1. Major Advantages of Concast Strip

1.1. Surface Quality

Steelmaking surface defects considerably improved using Concast compared with ingot route, confirmed by both internal rejections and customer complaints.

1.2. Internal Cleanliness

Concast Shrouding techniques mould level control etc. minimises arisings of macro/micro inclusions, segregation effects which are typical of ingot steel.

1.3. Homogeniety

Chemical, microstructural variations are virtually eliminated within length of Concast coil from coil to coil and from cast to cast thus providing greater consistency of product compared with Ingot route. This characteristic vital on automatic press lines e.g. Motor trade, radiator market sectors.

1.4. Ductility

Established higher $\bar{r}$ values using Concast, allowing applications to most difficult press work applications. Non-ageing characteristics for full product range applications allows greatly superior shelf life, hence maximum press shop efficiency.

1.5. Weldability

Because of superior internal cleanliness and homogeniety characteristics, Concast performs better on ERW lines e.g. (tubemaking) and equally as well as ingot route on all other systems.

2. Market Trends

2.1. Motor Trade

Ford, B.L. now moving rapidly to RR St 13 ordered caption to replace previous CR2 applications. Concast able to satisfy this trend because a) killed steel characteristic, b) superior ductility. Other B.S.C. Works must therefore a) supply killed steel via costlier ingot route for no price extra, b) supply existing CR3 rimming quality, which violates "killed" requirement of RR St 13 spec.

2.2. Drums

All major drum-makers moving towards triple seam manufacturing process. European companies e.g. Van Leer, Sweden, exclusively order Concast. Concast established as preferred steel type for triple seam because of non-ageing characteristics vital during the stoving and seam forming operation. Concast applied exclusively to all U.K. manufacturers.

2.3. Re-rollers

Diminishing availability withih Europe of traditional ingot rimming steels now focussing re-roller companies on Concast. Ductile Steels e.g. over 90% this type. Other companies involved J B & S Lees, Steel of Staffs, Brunions, all recognising need to introduce Concast to their process route.

2.4. Radiators

U.K. manufacturers now also using Concast in this traditional rimming steel market. Shelf-life of importance to them, plus consistency of chemical/ mechanical properties along length of coil etc. Automatic lines installed in almost all major U.K. manufacturers. European supplies also known to be of Concast.

2.5. Stock-holders

Non-ageing characteristics vitally important, allows Stock-holder maximum flexibility of stock rotation and application. Crucial when end-users stocks now being kept to absolute minimum levels.

2.6. Tubemaking

Greater demands on tube manipulation ability being placed on Tubemakers, and being met best by Concast (e.g. Tube Products, Phoenix Tubeman).

3. Market Reaction

3.1. Exclusive Markets

3.1.1. Michelin Wheel Centres

Ravenscraig only accredited B.S.C. supplier.

3.1.2. Tallent - Sierra Suspension Arms

Ravenscraig/Gartcosh exclusively supplying for that ductility critical unit with no rejections.

3.1.3. Gas Bottles

Although currently almost non existent, Ravenscraig only mill able to supply if trend is reversed.

3.1.4 Tinplate

D.W.I., D.R.D. can-making made exclusively from Ravenscraig H.R. coil supply.

3.1.5. Galvanised

Ravenscraig exclusively supplying rephosphorised grades to Shotton for tensile qualities e.g. Z28, Z35, Z40 as used by Butler Buildings, Ward Brothers for-factory construction.

3.1.6. Corten

Demand for Corten met only by Ravenscraig 5 000 T 1981, from both Concast, Ingot route. Major customers include Glen Metals (largest stockist of Corten in U.K.). Howdens of Glasgow, Cleveland Bridge of Darlington who successfully applied Corten to major Egyptian bridge contract.

3.1.7. Side-trimmed H.R. Coil

Significant export tonnages met only by Ravenscraig for H.R. S.T.L. e.g. Interstate and Metron of U.S.A. Increasing demand for this product from U.K. stockholders to supply to overseas.

3.1.8. Slick-surface

Gartcosh only B.S.C. Works to participate in and successfully apply to increasing demand for slick-surface C.R. strip. Major participation with B.L. in both trial and production tonnages. Also with Tube Products.

3.1.9. Low-Soluble Aluminium Grades

Japanese strongly recommend use of low Al Concast which not also already possesses very favourable advantages over Ingot type, but also over existing Concast. Ravenscraig in a unique forward position in this important development.

3.1.10. Dimensional Range

a) Ravenscraig only B.S.C. Works to roll 9.5/12.5 at 1560 mm compared with Llanwern's max. width of 1400 m.m., and Port Talbot's max. gauge of 6.5 m.m.

b) Ravenscraigs minimum width is 610 mm compared with 785 mm at Port Talbot and 720 mm at Llanwern.

3.1.11. Si-Killed Steels

Concast route significantly better than Ingot route in Si-Killed manufacture due to absence of pipe lamination. This is a common problem at Ductile Steels and Phoenix Tube with Llanwern Si-Killed product. Ravenscraig successfully supplied via B.S.C. Whiteheads Si-Killed Concast to Phoenix Tube this now onto a regular order basis.

3.1.12. .18/.23C, .10/.15C

Tube Products exclusively purchase .18/.23C from Gartcosh, and vast majority of .10/.15C also. These used for Raleigh Bicycle Frames. Now Concast under trial.

3.1.13. Phosphorus controlled

Phoenix Tubeman's requirements for batch galvanising met exclusively from Gartcosh supplies.

3.2. Automotive Performances

3.2.1. Ford

Currently Ford Halewood unreservedly prefer Gartcosh of the B.S.C. suppliers. No restrictions exist on the allocation of outside parts based on performance Recently ascertained that Llanwern to lose all skin panel participation to Gartcosh. Ductility critical panels running well on Concast ex Gartcosh. e.g. front fender. Only major panel at Halewood not being supplied is bodyside, which no other B.S.C. mill currently supplies either.

3.2.2. B.L.

Gartcosh have had greatest F.F. participation in recent years. Also majority share of panels for new LM10 model now ongoing.

3.2.3. Vauxhall

On particular panels, Gartcosh highly preferred. e.g. wheel arch at Ellesmere Port. On European and other B.S.C. Mills rejection rate once over 20%, now less than 1% on Gartcosh supplies.

3.2.4. B.M.W.

First major trial from B.S.C. successfully accomplished this year using Gartcosh Concast strip.

3.2.5. Ford - Germany

Significant tonnages now supplied with no complaints.

3.2.6. Puegeot

Gartcosh established as reliable supplier to this company over last three years with minimal complaint.

3.3. Ravenscraig/Gartcosh Preferred

3.3.1. Signode

Very strong preference for Ravenscraig/Gartcosh H.R. P & O coil recently expressed by this S. Wales customer (10 miles from Port Talbot). Llanwern strongly criticised by Signode over quality.

3.3.2. Tube Products

Gartcosh is clearly the firm first choice at Washington Works. 12 000T ordered 1982 so far. Have stated would go abroad for supplies before accepting Llanwern or Port Talbot steel.

3.3.3. Phoenix Tubeman

Again Gartcosh the strongly preferred B.S.C. Mill. 40 000T delivered in last three years with 0.1% reject level! No confidence in Llanwern/Port Talbot.

3.3.4. Thorn Heating

Of B.S.C. suppliers, Gartcosh much preferred to S. Wales mills in terms of quality, service and reliability.

3.3.5. Stelrad

Their Mexborough Works very pro Gartcosh. Again, have stated they will not participate in Llanwern or Port Talbot supplies for their radiator production.

3.3.6. J Tainton

Prior to pricing factors putting this customer to foreign suppliers again Gartcosh was the preferred B.S.C. Mill.

3.3.7. Coated Metals

Nearly 14 000T Gartcosh C.R. coil has been supplied in 1982 to this major strip user, based some 8 miles from Port Talbot. For several years a "Gartcosh Special" grade was exclusively ordered by them. As a supplier to Tube Products of Aludip the latter customer insisted on Concast.

3.3.8. American Can

This drum-maker now exclusively orders CR Concast from Gartcosh for drum-making. High regard for this supply.

3.3.9. Braby

Recently learned that 90% of their requirements will be ordered on Gartcosh.

3.3.10. B.S.C. Shotton

Ravenscraig well established as the preferred B.S.C. supplier in view of product type and dimensional range (1.8 mm H.R. recently successfully rolled in single pass to 0.25 mm) coil size (twice that of Port Talbot) and higher Pickle Line yields. Their F.F. requirements for critical Zintec applications met exclusively by Ravenscraig. Also their rephosphorised grades as previously mentioned.

Miscellaneous Points to Note

4.1. Bruntons

Previously Ravenscraig was the traditional supplier, but lost out over last 12 months to Llanwern. This B.S.C. supplier now has 850T at Bruntons under complaint, to be removed.

4.2. Port Talbot/B.L.

Participation of Port Talbot at B.L. is minimal in F.F. and not highly regarded in G.P.

4.3. Port Talbot/Ford

Port Talbot have no participation in supplies to the Halewood Plant.

4 10 82

TO Mr Bonello Mr Muir COPIES TO

PS/MC
PS/LB
PS/Sec
Mr Menzies
Mr Browning
Mr Murray

To be considered with earlier letter

10 DOWNING STREET

From the Private Secretary

26 November, 1982

Dear Caroline

On 2 November I sent you a copy of a letter the Prime Minister had received from Dr Jeremy Bray, MP about Ravenscraig. I asked for a draft reply for the Prime Minister's signature. I now enclose a further letter from Dr Bray on the same subject. I should be grateful if you could take this into account in the drafting of the reply to his earlier letter. It would be helpful if your draft could reach me next week.

I am sending a copy of this letter and its enclosure to Muir Russell (Scottish Office).

Yours ever

Willie Rickett

Ms. Caroline Varley
Department of Industry

R 26

DR. JEREMY BRAY M.P.
HOUSE OF COMMONS
LONDON SW1A OAA

01- 219 4057 (direct line)
01- 219 3000 (switchboard)

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

25th November 1982

Dear Prime Minister,

I wrote to you on 1st November, about the steel industry and Ravenscraig in particular.

In that letter, while I conceded that it might be possible to close the slab mill, I did not consider the possibilities of closing or mothballing the second blastfurnace, the hot strip mill at Ravenscraig, the cold strip mill at Gartcosh, or any combination of these. Ravenscraig would not be viable merely as a producer of plate and/or hot rolled coil, so that is not a viable alternative.

Once major units are mothballed then the likelihood of their ever reopening is slim, except in an old-fashioned war. Start-up costs are huge with the costs of re-lining furnaces, training workers and recommissioning plant. Operating plants are constantly updated and a mothballed plant would quickly fall behind the state of the art. It would be argued subsequently that it was cheaper to import steel, steel products, products of steel products, and so on. The process of deindustrialisation would be irreversible. The partial mothballing of Ravenscraig would amount merely to a two-stage closure, and would be clearly understood as such with the consequent reactions.

The decisions on steel hinge on the view the Government takes of the future of manufacturing and construction in the UK. At present the prospects are exceedingly gloomy. In his Autumn Statement, the Chancellor forecast a deterioration of £3½ billion in the balance of payments in 1983. The balance of trade in manufactures has deteriorated from £3.6 billion in 1980, and £2.7 billion in 1981, to zero in the first 3 quarters of 1982. Much of the further deterioration in the balance of payments forecast for 1983 must be in manufactures. In the Treasury Select Committee this week I questioned the Chancellor closely on his view of the prospects for competitiveness, and its components, wage costs,

2/...

productivity, and the exchange rate. I did not get the impression that he was prepared to contemplate the accelerated decline of our trading and manufacturing prospects as the consequence of your policies. In your decisions on steel and on Ravenscraig in particular I am not concerned about how you reach your conclusions, but I am concerned that they should not be reached in abject defeatism about the prospects for British industry which would be the clear implication of any decision to close or mothball any part of Ravenscraig beyond the slab mill, or any of the rest of the big five.

I am sending a copy of this letter to Patrick Jenkin and George Younger.

Yours sincerely

Jeremy Bray

SECRET

Prime Minister

BSC FUTURE STRATEGY

I have grave doubts about the Secretary of State for Industry's minute dated 2 December.

The firm recommendation of BSC is that of the 3 integrated works in the strip mills group, Ravenscraig should be selected for closure. BSC identify a 'strong customer preference' for the quality and weight of the coil produced at Llanwern, coupled with a need to introduce continuous casting if that preference is to be maintained. Ravenscraig has substantially the highest costs and these reflect both the 'inherent high costs of the facility arising from its location (separate from its port), inefficient coke ovens and low capacity steel making vessels'. They refer to Ravenscraig's remoteness from its main domestic markets in the West Midlands. The cost performance figures for Ravenscraig continue to fail to match those of the plants in South Wales. As a result of the analysis BSC eliminated Llanwern 'from the possible closure list' and concluded that 'the candidate for closure taking into account product constraints, cost performance and prospective capital costs, should be Ravenscraig'. In addition it has to be noted that unless 'there is a significant further fall in demand for hot rolled coil' over current BSC forecasts, a closure of Llanwern rather than Ravenscraig (whether it took place now or in 2 to 3 years time) would leave BSC with no spare capacity.

In other words, the proposal is to overturn the commercial logic of Mr MacGregor's case and to put at risk the primary objective against which we have justified our massive funding of BSC so far: to produce a viable and competitive steel-making industry.

It is very clear that the case for deferring the closure of Ravenscraig is not commercial and financial but political. Though the reasons for putting forward a political solution to the problem are apparent, the particular proposal made by the Secretary of State for Industry appears potentially disastrous. Any decision to defer has the inherent danger of repeating the mistake of the Labour Government which, by

/delaying

SECRET

delaying necessary decisions, made it inevitable that the eventual cut-back would be far more severe than it need have been - a mistake for which we have consistently and rightly criticised our predecessors. The key to the future is competitiveness. A decision to close Ravenscraig now and proceed with investment at both Port Talbot and Llanwern would mean that we would secure the future of two highly competitive plants. The Secretary of State for Industry is proposing not only that a plant with 'inherently high costs' should be maintained but that as a consequence we should close the door to the modernisation of Llanwern. The inevitable outcome must be that two or three years from now we would have two uncompetitive plants and would be faced with an even more difficult problem than we now face. The very arguments used in the Secretary of State's paper to support his case for investing in the essential hot strip mill at Port Talbot emphasise the destructive nature of what is envisaged for Llanwern.

It is absolutely clear from the paper that Llanwern would be put at risk not because there is any prospect of Ravenscraig overcoming its inherent weakness but because the political decision had been taken to starve Llanwern of investment.

While I fully appreciate the political case for deferring a decision at Ravenscraig, I cannot accept that this should lead to the slow emasculation of the plant that has secured both customer preference and better cost performance and productivity.

It is, I am afraid, untrue that the closure of Llanwern would have less serious social effects than the closure of Ravenscraig. Total job reductions in South Wales at between 10,000 and 13,000 might be involved, with the upper figure more likely. Newport would not be the only sufferer. The effect on the Gwent coking coalfield would also be severe since its main customer, Llanwern, would be gone. In the worst case up to 5,000 deep mining jobs might be lost. The Ebbw Vale travel to work area (still suffering from the effects of the steelworks closures of the 1970s) would almost certainly be hardest hit with the loss of over 2,000 jobs; unemployment would rise from 24.5% to 30% or more. Pit closures on this scale would cause serious political problems in South Wales and the financial consequences for the NCB could well be serious too.

/If closure

SECRET

If closure of Ravenscraig is to be deferred, the decision should not be at the expense of Llanwern or the future competitiveness of BSC. We should find the cost of both keeping Ravenscraig (on whatever scale is judged appropriate) and of securing the continuing competitiveness of Llanwern in the long term. To do otherwise would be a grave industrial error. Yet again the efficiency of an industry would have been undermined by Government interference. The Scottish political problem would have been resolved by transferring it to Wales. In my judgement there will be no way of defending such a decision in economic or commercial terms. It will be well known that we have completely overturned the commercial judgement of the man we recruited to bring BSC into better shape, whose efforts to date have been largely vindicated by performance on the ground in adverse market conditions. What is happening will be obvious to all. The position of Welsh Office Ministers and Government supporters in Wales will be seriously undermined. The decision would be seen as a major defeat in which Wales and indeed the future of the Steel industry have been sacrificed to save the Conservative Party in Scotland.

I am sending a copy of this minute to the Chancellor of the Exchequer, the Secretaries of State for Industry, Scotland, Employment and Trade, the Secretary of the Cabinet and the CPRS.

L.D.

3 December 1982

RNE

approved by the Secretary of State and signed in his absence.

SECRET

3

P.0906

PRIME MINISTER

British Steel Corporation Future Strategy

BACKGROUND

You are holding a meeting with the Ministers most closely concerned at 10.00 am on Monday 6 December to discuss the future strategy of the British Steel Corporation (BSC). In preparation for that meeting the Secretary of State for Industry has circulated, with his minute of 2 December, a paper describing the current outlook and making proposals for action.

2. Mainly because of a decline in the world market for steel and a reduction in BSC's share of the market, BSC's financial prospects have worsened severely. Losses are running at about £7 million a week; the expected total loss in 1982-83 is about £200 million before interest (£200 million worse than plan); if no offsetting action is taken the forecast loss for 1983-84 is £380 million (over £400 million worse than plan). A number of measures to reduce costs are in hand; but the BSC consider that they cannot achieve lasting profitability without closing one of their five integrated steel works. In particular, they think they will need to close one of the three hot strip mills (at Ravenscraig, Port Talbot, and Llanwern); and that if closure takes place quickly it should be at Ravenscraig.

3. The Secretary of State for Industry suggests that the Government must maintain its objective that the BSC should be profitable without Government subsidy and should eventually be restored to the private sector. Unless the Government expects a large, early and substantial upturn in the demand for steel (and there is no reason to do so), this entails closure of a major integrated works. He considers four options:

(i) close Ravenscraig as soon as possible;

(ii) decide to close a strip mill, but defer the choice of works for two or three years;

(iii) an early partial closure in the Ravenscraig complex, with the implication that Ravenscraig has no long term future;

(iv) deferring the question of closure altogether.

He recommends option ii.

4. The Secretary of State also advocates a decision in principle in favour of BSC's proposals for modernising the hot strip mill at Port Talbot, costing some £175 million. He recognises that, among other things, this will create difficulties with the European Commission (who would not approve substantial new investment in current circumstances of excess capacity unless accompanied by a reduction in capacity elsewhere). But he suggests that they could be solved by a 'contract to limit output.'

5. The Secretary of State also makes proposals on presentation, and suggests that he should circulate the draft of a Parliamentary statement reflecting the Government's decisions.

MAIN ISSUES

6. The main issues for the meeting are as follows.

(i) Is the closure of a major integrated steel works necessary?

(ii) If so, which should it be?

(iii) Should the proposed investment at Port Talbot be approved?

(iv) How should relations with the Commission be handled?

(v) How should the Government decisions be announced?

Is closure necessary?

7. To decide not to close any of the large integrated steel works would be tantamount to accepting that the BSC will not be profitable for the foreseeable future. This would be a complete reversal of existing policy. A closure therefore seems inescapable sooner or later. It is relevant that the short-term forecasts in the paper seem more likely to be optimistic than pessimistic.

They assume, for example, that BSC will secure 50 per cent of the UK market (compared with their present share of 48 per cent) and exports at the same level as in the current year, despite the weakening of the world market and the restrictions on imports imposed by the USA.

Which works should be closed?

8. It seems inescapable that if closure is to be immediate it should take place at Ravenscraig: the BSC assessment in Annex 2 to the paper points unambiguously in that direction. But the Secretary of State argues that closure should be deferred for two or three years. The choice of works would then also be deferred, since it is possible that performance at Ravenscraig would improve enough to make it preferable to close Llanwern. Unemployment there, though high, is lower than at Ravenscraig; and existing consumer preference for Llanwern is expected to decline because Llanwern cannot, without substantial new investment, produce continuously cast feed stock. The decision therefore turns on timing.

9. The Secretary of State for Industry advances some powerful arguments for delay.

(i) It would strengthen our hand in demanding reductions in steel-making capacity from our European partners.

(ii) Immediate closure of Ravenscraig would produce very high unemployment in the area - about 30 per cent male unemployment, after allowing for consequential effects of closure.

(iii) It would avoid some (probably fairly small) loss of markets to imported steel.

(iv) It would at least postpone the need for £100 million investment in continuous casting facilities in South Wales: customer preference is for continuously cast feedstock, which Ravenscraig produces but Llanwern does not.

But there are also arguments on the other side, which you will want the meeting to explore.

(v) Delay may jeopardise the necessary improvement in BSC's finances.

(vi) It is also likely seriously to complicate negotiations with the Commission.

10. Most importantly, it must be doubtful whether it would be possible to prevent it from becoming known that the Government and BSC expected a major closure in two or three years time. Apart from the usual risk of leaks, the Commission would be bound to press for an indication of our intention to reduce capacity, especially if they were being asked to approve the proposed new investment at Port Talbot. Other European countries would ask why the UK was being allowed to install substantial new capacity without making reductions elsewhere. If it were to become known that a major closure was in prospect, but no decision had been made between Ravenscraig and Llanwern, the Government would face very heavy pressure from both areas.

it would cast a slight upon both areas? MCS

Proposed investment at Port Talbot

11. There is a strong case for further investment at Port Talbot. This is already the BSC's lowest-cost strip steel producer; but it will need to be kept up to date if it is to stay competitive on international markets. However, we understand that a fully worked out case has not yet been presented by the BSC; and there may well be questions about, for example, the exact timing of investment which need consideration. You may feel that the BSC should be invited to make out a proper case in the context of their corporate plan.

Relations with the European Commission

12. It is possible that there may be more difficulty with the Commission than the Secretary of State for Industry allows in paragraph 13 of his paper. It may be that they will insist on a public statement of intention to close a strip mill, not only as a condition for approving new investment at Port Talbot but also for approving further financial support. It cannot be taken for granted that the proposed 'contract' to limit output will be sufficient. No doubt it will be necessary to start confidential exploratory talks with the Commission as quickly as possible.

Announcements

13. The Secretary of State for Industry outlines a possible Parliamentary statement in paragraph 21 of his paper. It reflects the arguments he puts forward about the substance of the decisions, and has the same strengths and weaknesses. As he points out, it risks creating political problems at both Ravenscraig and Llanwern. It is also not easy to see how it can avoid either:

(i) implying that the financial situation of the BSC is not particularly serious (an implication that would be strengthened if and when an announcement is made of further investment at Port Talbot); or

(ii) admitting that the situation is serious, but implying that the Government and the BSC are deferring necessary corrective action because the political consequences are unpalatable.

Other options

14. If other Ministers are doubtful whether the Secretary of State for Industry's option (ii) will work, because of the uncertainty which may be cast over both Ravenscraig and Llanwern, and are nevertheless reluctant to face the immediate closure of Ravenscraig, they may wish to look more carefully at the two remaining options - either the partial closure of Ravenscraig (option (iii), or deferring a closure decision altogether (option (iv). In either case it might be necessary to defer also the Port Talbot modernisation, but it could be argued that the case for going ahead with that substantial new investment in the near future has not yet been fully made out. Option (iii) would have the advantage that it would save some money (£15 million a year) and would enable the redundancies at Ravenscraig to be spread out over a longer period. Option (iv) is the least desirable option on economic and commercial grounds, but some Ministers may see political and social arguments in favour of it. They may point out that even under the Secretary of State for Industry's preferred option (ii), closure is to be deferred. Why therefore should the Government be forced into a decision now that one of the strip mills will definitely be closed?

HANDLING

15. You will wish to ask the Secretary of State for Industry to introduce his paper. All the other Ministers present have a clear departmental interest and will no doubt want to contribute. Whatever the meeting may decide, the presentation of the decisions seems likely to be difficult; and you will wish to ensure that the meeting devotes sufficient attention to this aspect.

CONCLUSIONS

16. You will wish the meeting to reach conclusions on the following:

a. which of the following options should be adopted:

(i) immediate closure of Ravenscraig;

(ii) a decision to close one strip mill, with the choice deferred for 2 or 3 years;

(iii) early partial closure of Ravenscraig;

(iv) deferring a decision on closure altogether.

b. Should the proposed investment at Port Talbot be approved in principle?

c. How should relations with the Commission be handled?

d. How should the Government's decisions be announced?

17. Depending on the decisions reached, you will no doubt wish to invite the Secretary of State for Industry to circulate the draft of any statement. It is highly desirable that when he does so he should allow colleagues adequate time to consider the text: the presentation is almost certain to be very difficult.

PLG

P L GREGSON

3 December 1982

A.5.1 2

SECRET
~~CONFIDENTIAL~~

Qa 06172

To: PRIME MINISTER

3 December 1982

From: JOHN SPARROW

BSC Future Strategy

1. We are meeting on Monday to discuss the future strategy for BSC. I felt that it might be helpful to provide you with a note of the principal issues as I see them. This minute has not been copied to the other Ministers attending the meeting.

2. The commercial case for closing Ravenscraig immediately is overwhelming. The risks of losing some customers are relatively small and it is far from clear that immediate closure of Ravenscraig necessitates expenditure on continuous casting in South Wales before the mid-1980s. However, I recognise that decisions may not in this case be taken solely by commercial criteria.

3. If it is decided to endorse Patrick Jenkin's recommendations of option (ii), to agree that it is necessary to close an integrated works and defer the decision for 2/3 years, there will still be commercial risks. The customer preference for strip from Llanwern is very strong. BSC could finish up with the worst of all worlds: an inefficient Ravenscraig and a Llanwern no longer meeting customer preference and market needs because it does not have continuous casting. There is also considerable risk that customer confidence in the BSC strip business may be eroded if two plants are known to be at risk. Closing Llanwern will leave BSC with virtually no safety margin of capacity for hot rolled coil unless the market declines further. So in commercial terms, option (ii) ought in effect to be a decision to close Ravenscraig at the appropriate time.

4. These important short term decisions are made even more difficult by the absence of any long term strategic view of the business from the BSC Management. Immense sums of money are being proposed for investment

SECRET
~~CONFIDENTIAL~~

over the next four or five years without any clear vision of the size and configuration of the business that will be required for the 1990s. A ten year view is needed. I endorse Patrick Jenkin's desire for a strategic review of General Steels, and, depending on the decisions taken, a revised long term view of the Strip business is essential.

5. If closure is deferred, there is also the question of what to do in the interim period to minimise the ultimate social effects of closure. Special measures should be taken now, and over the next year or two, to stimulate alternative employment opportunities in the Ravenscraig area.

6. It may also be appropriate to probe whether the expenditure on a new Hot Strip Mill at Port Talbot can really be justified at the present time. Certainly the investment will give Port Talbot the capability to produce the heavy coils that only Ravenscraig can presently produce, and there will be improvements in quality and efficiency; but the financial return seems marginal. However, if the expenditure is made, it makes closure of one of the other strip plants even more essential if the full benefit of the investment is to be realised.

7. On a point of presentation, I agree that if option (ii) is endorsed, a key factor will be the need to test the strength of Ian MacGregor's and the BSC senior managements' feelings before announcing the decision.

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

P.

CONFIDENTIAL

3 December 1982
POLICY UNIT

PRIME MINISTER

BSC FUTURE STRATEGY

1. BSC's analysis is clearly correct. Even if UK demand for steel does revive faster than demand in the rest of ECSC, that extra demand can almost certainly be satisfied from domestic sources without one of BSC's five existing integrated steelworks. And the most obvious candidate for closure is Ravenscraig (which should never have been built in the first place).

2. The political pressures in Scotland not to close Ravenscraig need no emphasising. But there are British political pressures too, of a kind which Patrick Jenkin only hints at in paragraph 21(ii).

Resentment is growing all the time that the UK steel industry is suffering much the worst of surgery while other ECSC members are merely trimming at the margin. True, this contrast is so sharp largely because they were taking a sensible view of future steel demand and acting on it in the years when the Labour Government was Beswicking about. But if we closed another major strip mill before action on a similar scale was visible on the Continent, the Davignon regime would appear to be absurdly unfair.

3. We need to maintain our present capacity for the time being to secure a fair - and, if possible, an improved - slice of the total European market when demand returns to a path nearer its 1975-79 level. Otherwise, we should have surrendered in advance our bargaining position in the Brussels follow-up to the State Aids Decision.

To keep Ravenscraig open for the moment would be a sign of political resolution, not feebleness.

4. We recommend:

(a) that you should accept Patrick Jenkin's option (ii);

(b) the British Government should reinforce - and with maximum publicity - its demand that "other member states must make substantial permanent cuts in steel capacity in return for state aids, to match the action we have taken in the UK".

FM

3 December 1982 CONFIDENTIAL FERDINAND MOUNT

PRIME MINISTER

MT

Patrick Jenkin, who is not in town today, was very anxious to get a letter to you this evening about Sir Peter Carey's successor.

It seemed to me that the best way was for him to give me the text of his letter, so that I could put it into your box. The following is the text:

"I have been giving very careful thought to the points which you put to me on 22 November about Sir Peter Carey's successor here. With the best will in the world, I would find it extremely difficult to accede to the proposal you are pressing on me. While it would not be appropriate to spell out in this message the precise reasons, the more I have pondered them, the more I am certain that it would not work. In the end, this comes down to a question of personal relationships, and while I have no wish whatever to be unfair in any way to a very able Civil Servant, I have never felt at ease with him, and I do not think I could do so in the future.

I hope therefore that you will forgive me if I continue to press on you my reluctance to agree to this appointment."

MCS

3 December 1982

JH 417

SECRET

TOTAL COPIES 17

COPY No. 1

c/c JV

PRIME MINISTER

BSC FUTURE STRATEGY

In the light of the marked worsening in BSC's position over the last few months, and the consequent possiblity that the Corporation might have to close one of their five integrated works, it is necessary for the Government to give the Corporation guidance on the basic assumptions on which they should finalise their Corporate Plan for 1983-86.

2 I attach a paper describing the current outlook for the BSC and the guidance I believe we should give them. I should emphasise that since this paper has, by definition, been prepared before completion of the BSC Corporate Plan, all the financial information is necessarily provisional and is subject to revision when the Plan itself is finalised. The figures are, however, of the right order of magnitude.

3 I am sending copies to Geoffrey Howe, George Younger, Nicholas Edwards, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

PJ

P J

2 December 1982

Department of Industry

SECRET

BRITISH STEEL CORPORATION: FUTURE STRATEGY

Introduction

Since we discussed the British Steel Corporation (BSC) Plan for 1982/83 on 9 June (E(NI)82 5th meeting), there has been a marked worsening in BSC's performance. Since May, steel orders have been about 30 per cent below forecast, production has been cut, and losses are now running at about £7 million a week before interest, compared with a near breakeven position in March to May this year. The outlook is that BSC's losses, before interest, for 1982/83 will be about £200 million, whereas the target for the year was to achieve breakeven before interest.

2 This sharp deterioration is due to a combination of factors: BSC has lost market share to imports in the first half of the year, achieving only 48 per cent of the UK market during the period as against 52 per cent in their Plan. There has been a small decline in UK steel demand over this period and the outlook is for a more serious decline in the 6 months to March 1983. Most important of all, BSC export orders have dropped sharply, as we and BSC recognised might happen when we discussed the BSC Plan in June. This is due to weak international demand for steel, the direct and indirect effects of the US steel import restrictions, and (until very recently) the continued strength of the £ against the DM. An analysis of the changed steel market situation and outlook is at Annex 1.

3 The effect of this deterioration in BSC's performance and prospects for 1983/84, if no offsetting action were taken, is illustrated in the table below:

BSC Sales and Financial Projections: 1982/85 Plan and Latest View

	1982/83		1983/84	
	Plan	Latest View	Plan	Latest View
Sales (million product tonnes)	11.5	9.0	11.9	10.0
Profit/(Loss) after interest and contingencies	(90)	(300)	40	(380)
Cash Requirements	365	500	200	600

Note: The loss projection for 1983/84 includes provision for a further cost/price squeeze which is estimated to increase BSC's losses by £180 million over the year unless offsetting action is taken.

BSC: Management Actions

4 BSC already have in operation a management action programme which is aimed at reducing manpower by over 15,000 by March 1984 and producing savings of £242 million in a full year, of which £180 million is estimated to arise in 1983/84. This programme has 3 elements:

	£M Savings
i) manufacturing cost improvements, including improvements in yield and energy consumption	99
ii) further reductions in manpower at all levels, to improve productivity. This will involve about 9,200 job losses	71
iii) closure of a number of smaller plants and works, involving about 6,000 job losses	72
	242

A number of the "smaller" closures have already been announced, including Clydebridge Plate Mill, Craigneuk Bar Mill, Round Oak Steelworks and the former Duport London Works. Important announcements still to come in this category are the Ravenscraig "ingot route" slab mill, and the closure of the Hartlepool works.

5 The programme described above will not eliminate BSC's expected losses in 1983/84. In addition, therefore, BSC have set "new targets" for 1983/84 which are intended to ensure that further action is taken to offset in full the £180 million cost/price squeeze in 1983/84. Individual businesses in BSC are now preparing proposals to meet these new targets, but BSC have indicated that one element will probably be further manpower reductions, possibly of the order of 4,000 in 1983/84. In addition, the Corporation expect to oppose firmly any price increases sought by their suppliers, thereby reducing the cost/price squeeze. Action by the Government and the European Commission to sustain the ECSC price regime will also help.

6 The recent fall in the £ against the DM, although welcome to BSC, is not likely to alter the outlook significantly, since the BSC Plan for 1983/84 was already being drawn up on the basis that the average exchange rate during the year will be DM4.00 = £1.

7 BSC are also considering the introduction of new flexibile manning arrangements of a much more radical nature than hitherto. These arrangements, sometimes referred to as the "steelworker concept", have been implemented at the Bromford works in BSC Tubes Division. They involve workers accepting flexible working on a wide range of duties across traditional process/craft, staff/manual and clerical/technical boundaries. Very substantial further productivity improvements are likely to

result from widespread implementation of this concept, but at present BSC wish to avoid raising it at national level with the unions collectively: their tactics are to secure wider introduction at individual plants as part of local productivity bargaining.

8 The measures outlined above might just - if all goes well on the demand, price and efficiency aspects of the new Plan which BSC are developing, - get the Corporation back to a small profit after interest in 1984/85. But BSC's view is that they cannot achieve lasting profitability while retaining all 5 of their integrated steelworks at Ravenscraig, Port Talbot, Llanwern, Scunthorpe and Teesside. In particular, they say, the market will not support three hot strip mills at levels of output which will ensure economic working.

BSC: Closure Options

9 BSC have therefore carried out a review of their 5 integrated works. The results of this review are set out at Annex 2. Their firm recommendation is that one of the strip mills must eventually close, and that if the closure takes place quickly it should be Ravenscraig. I have said that the strategic question of a major works closure is for the Government, not for BSC alone, and it is for that reason that we need to give guidance to BSC in preparing their new Plan for 1983/86.

10 Our overriding policy objective has been that BSC should become profitable, free of Government subsidies, and that eventually it should be returned to the private sector. ECSC steel policy also requires that all state operating subsidies to steel enterprises must end by 1985. My first proposal is therefore that we reaffirm this objective. It is against that background that we need to consider the BSC recommendation that to be competitive one of their strip mills must close.

11 I have identified 4 options:

(i) to agree to the BSC recommendation that Ravenscraig should close completely as soon as possible. This is the hard commercial option which BSC management would ideally prefer. Combined with the tough measures to cut costs described above, it would provide the quickest route back to profitability. Ravenscraig is currently the highest cost works of the 3 BSC strip mills and there is no long term need for its capacity.

(ii) to decide that a strip mill should close, but to defer the choice as to which works should be closed for 2 or 3 years. This option is discussed more fully below, but briefly the advantages over option (i) are first, that it postpones the need to invest in continuous casting capacity in South Wales at a cost of £100 million; second, that it gives Ravenscraig the chance to show that it can perform as well as or better than, say, Llanwern; and third that it could provide the best climate to force through the very tough demanning measures that are needed in any event. An immediate closure would also result in some loss of markets to imports, which this option would avoid.

(iii) to agree to an early partial closure at Ravenscraig/Gartcosh, with the clear implication that steel-making at Ravenscraig has no long-term future. This would be an interim solution involving, at a minimum, the closure of 1 blast furnace and the Gartcosh plant. (The ingot route slabbing mill will in any case close early next year.) Ravenscraig's continuous casting capability and the hot strip mill would be retained for the time being. This would enable the social consequences of the closure of Ravenscraig to be spread over a longer period, with remedial measures being put in hand well before the final closure. While there would be significant cost savings to BSC from this option, it would be difficult to claim that Ravenscraig had a long term future.

(iv) to instruct BSC to plan for a return to profitability by early 1984 but without the closure of a major integrated works. This would defer the questions of closure until the results of the new BSC Plan had been seen and assessed, and would involve no explicit acceptance by Government that a major works must close. It could only be justified if the Government believed that a large, unforeseen sustained upturn in steel demand would appear before 1985 which would enable the Corporation to earn a profit on its operations at all 5 integrated works. I see no grounds for such optimism.

12 In considering each of these options, we will need to take a view on BSC's proposals for modernising the hot strip mill at Port Talbot, at a cost of about £175 million. This project is intended to complete the modernisation of the whole Port Talbot steelworks, which is already BSC's lowest cost strip steel producer. The modernisation project, discussed in more detail at Annex 3, will enable the Port Talbot works to be an internationally competitive strip mill well into the 1990s.

13 We will also need to bear in mind the European dimension. This is discussed more fully in Annex 4. The essential point is that Government support for BSC will not be approved by the Commission unless it is matched by cuts in capacity. We have already made substantial cuts and a further £400 million tranche of support for 1982/83 was agreed by the Commission on 25 November. The further closures now being announced by BSC, including the closure of the Ravenscraig ingot route, will justify further support. The closure of an entire strip mill would almost certainly resolve all problems. There would be more difficulty if under any option other than option (i) we were to seek approval for the modernisation of the Port Talbot hot strip mill, because this would involve an increase in capacity unmatched by a reduction elsewhere. There could, however, be a way through here. The Commission have indicated

that as an alternative to immediate closure, they would be prepared to accept a "contract" between Commission, Government and enterprise to limit the output from existing plants for a period. Under, say, option (ii) or option (iii) such a contract might allow the modernisation of Port Talbot to proceed against a clear limit on the output from the three plants as a whole. This would need to be explored urgently with the Commission; but against the background of their acknowledgement that we have already cut capacity by much more than our partners, I would not anticipate serious difficulty.

Consideration

14 While the early closure of Ravenscraig would be the most certain way of restoring BSC's financial viability, Mr MacGregor has told me that he would support a Government decision that it should be deferred. There are a number of reasons for considering deferral:

(i) early closure would require an immediate decision to instal continuous casting facilities in South Wales at a cost of some £100 million. This would be in addition to the investment of £175 million in modernising the hot strip mill at Port Talbot which I recommend should go ahead in any event.

(ii) there would be some loss of markets from early closure of Ravenscraig, although BSC claim losses would be small in relation to the total gains from closure.

(iii) It is by no means clear, if the decision to close Ravenscraig were delayed while the modernisation of the Port Talbot hot strip mill is carried out, that it would be Ravenscraig rather than Llanwern which should eventually close.

These are significant commercial and financial reasons for delaying closure provided the wider financial consequences are accepted by Government.

15 There are also compelling political reasons:-

(i) we have already shut far more steel capacity than any other country in the European Community. We have repeatedly said that other member states must now be seen to be doing their share of major closures. A 'contract' on the lines indicated in paragraph 13 above and in Annex 4 would give us room for manoeuvre.

(ii) we expect some upturn in steel demand next year, and to close a major plant could be made to look more like a panic reaction to a short-term crisis than a considered decision based on an examination of longer term steel demand.

(iii) immediate closure would result in serious social difficulties and could well give rise to major industrial relations problems. Figures provided by the Scottish Office show that in the Lanarkshire travel to work area, where in September total unemployment was 21.6 per cent and male unemployment 22.2 per cent, the closure of Ravenscraig, Gartcosh and the Hunterston terminal would lead to a direct increase in unemployment to 24.7 per cent overall and 26.1 per cent of males. The consequential effects of the closure on other BSC employment in Scotland, on BSC suppliers including the NCB and BR, could lead to total unemployment in the area in the range 26 to 27.5 per cent, and 29.5 to 31.5 per cent male unemployment. As already indicated, the closure in 2 or 3 years time might turn out to be at Llanwern rather than Ravenscraig. While this would be profoundly unwelcome in Wales, closure of Llanwern would probably have less serious social effects than the closure of Ravenscraig. The main area affected by the closure of Llanwern would be Newport, where total unemployment in

October was 15.4 per cent. Complete closure would increase total unemployment to over 20 per cent.

Financial Implications

16 Whatever decisions we reach, there will be serious consequences for public sector fiancing. BSC are in any case likely to overshoot their EFL of £365 million for 1982/83 by about £135 million, giving a total cash requirement this year of £500 million. For 1983/84, BSC are also likely to require a minimum of £500 million to £550 million, whether or not a major plant is closed. A plant closure will not save cash in the first year since the full savings do not arise in that year. Against lower losses, there would be significant cash costs from redundancy payments and from the further capital expenditure on continuous casting required in South Wales.

17 BSC have not yet prepared cash projections for 1984/85 or 1985/86. But a marked improvement over 1983/84 is to be expected in these years in any event arising from the management action programmes described above. An early closure of a major plant would improve profitability in those years by around £100 million in each year, and there would be beneficial cash consequences of about £70 million in each year.

18 The table below illustrates this and shows the approximate effects on BSC's profit and on cash of (a) deferring a closure indefinitely and (b) deferring closure until early 1985, compared with the baseline which is option (i) - closure of a major plant in early 1983.

£ million

	Reduction in Profit			Additional Cash Required		
	1984/85	1985/86	1986/87	1984/85	1985/86	1986/87
No closure	- 100	- 100	- 100	+ 70	+ 70	+ 100
Closure early 1985	- 100	- 20	- 0	+ 70	+100 +70	0 +30

Notes: (1) Cash requirements include £30 million a year for three years for extra capital expenditure beginning in the year of a major closure.

(2) A delayed closure delays also the additional cash needed for redundancies etc.

Proposal

19 Subject to the views of colleagues, I propose to advise Ian MacGregor that he should finalise BSC's Corporate Plan for 1983-6 on the basis that a strip mill will close in 2 or 3 years time. This is in effect option (ii). We do not need to decide now which mill will close, though the probability must be that it will be Ravenscraig. If in the meantime BSC find that they are not able to make sufficient progress towards profitability either through persistent lack of demand, or through inefficient operation at a major works through lack of co-operation by the employees, then an earlier closure, partial or complete is not ruled out. I also propose to ask BSC to prepare a strategic review of Scunthorpe and Teesside, against which to assess future BSC proposals for capital investment.

20 We will need to take decisions on revising BSC's EFL for 1982/83 and 1983/84 in the light of the new BSC Plan when we receive it in a few weeks time. We will also need to take a

decision on the Port Talbot project at the same time, in the light of the latest forecasts of steel strip demand which BSC are currently preparing, and the reaction of the Commission to the "Contract" proposals.

Public Presentation

21 I have promised to present our conclusions on the current review of BSC's strategy in a statement to Parliament. This statement will need careful presentation. It should bring out clearly 4 main themes:

(i) a continuing commitment both by BSC and the Government that the Corporation should return to profitability as quickly as practicable, given current and expected market circumstances;

(ii) our continued support for the ECSC steel regime in all its aspects, including in particular the steel price and quota regime, the control of imports from third countries, and above all the requirement that other member states must make substantial permanent cuts in steel capacity in return for state aids, to match the action we have taken in the UK;

(iii) although BSC are now preparing a plan for 1983/86 which does not include the immediate closure of one of the 5 major integrated works, this does not mean that their future is in any way guaranteed. In particular, it will be essential for continued efforts to be made, by management and workforce at each plant, to reduce costs and improve productivity and quality.

(iv) there are good commercial and financial reasons for not immediately closing any of the 5 integrated works in present circumstances, quite apart from the devastating social effect of any closure. It will be very important to stress these, and for Mr MacGregor to support them publicly, both to avoid the accusation that the Government have simply overruled him in order to delay a politically difficult decision until after the election and to present a coherent case to the Commission. If it is accepted that there can be no major closure for the present, then there is no way of avoiding the threat of future closures hanging over not just Ravenscraig but also Llanwern, and this will certainly create political difficulties in the areas concerned.

Recommendations

22 I therefore put the following recommendations to colleagues:

1) We reaffirm that BSC's target is to return to continuing profitability as early as possible with a view to being returned to the private sector.

2) We accept option (ii). While for sound commercial reasons it would not be right to make an immediate closure now, we must recognise that one of BSC's five major works will inevitably close within two or three years.

3) We accept in principle, subject to a full case being put forward by BSC, that the Port Talbot hot strip mill modernisation project should go ahead at an estimated cost of about £175m.

4) That I ask Mr MacGregor to bring forward his 1983/86 Corporate Plan based upon the assumptions outlined in (1)-(3) above.

5) That I circulate to colleagues a draft statement that I might make to Parliament reflecting our decisions.

P J

Department of Industry

2 December 1982

Steel Market Outlook

1. An analysis of BSC's market prospects needs to take account of a number of factors. The most important is the outlook for steel consumption in the UK, but in addition it is necessary to assess likely trends in BSC market share; the proportion of the UK market supplied by the private sector producers (which take a significant amount of semi-finished steel from BSC); the proportion of the UK market taken by imports; and the prospects for steel exports by BSC. Finally, UK steel demand figures need to take account of stock changes.

2. UK steel consumption remained remarkably stable over the 5 years 1975 to 1979, varying between 15.30 and 15.80 million product tonnes of finished steel a year. There was a sharp decline in 1980 to 12.58 million tonnes, and a further fall in 1981 to 12.07 million tonnes. In 1982 steel consumption has fallen again and demand has been further depressed by a reduction in stocks.

3. BSC's latest estimates for UK steel demand are given in the table below:

UK steel demand: million product tonnes

	1981/82 (actual)	1982/83	1983/84	1984/85	1985/86
Consumption	12.5	11.9	12.0	12.25	11.75
Stock change	+0.2	-0.5	+0.25	+0.25	-0.25
Demand	12.7	11.4	12.25	12.5	11.5

BSC consider it likely that there will be a cyclical decline in UK steel demand in 1985.

Note: BSC figures are for years ending 31 March. The 1981/82 consumption figure is higher than the consumption for 1981 as a whole since there was an increase in UK steel consumption in January to March 1982. There has since been a sharp decline.

4.The expectation that UK steel demand in 1985 will be no greater than in 1980 is in line with European Commission forecasts for steel demand in the Community as a whole, which is expected to recover to the 1980 level by 1985. There is a difference between the basis for the two forecasts, however: the 1980 steel consumption figure in the European Community was only slightly below the average consumption in the preceding 4 years, whereas in the UK steel demand dropped sharply in 1980. There is perhaps therefore some prospect of rather greater increase in UK steel demand in the period to 1985 then the Community average, if the performance and competiveness of UK manufacturing industry improves relative to other European countries over the next 3 years.

5.Further significant growth of UK market share by imports is not expected; a combination of Community-wide market discipline and BSC determination not to lose further market share make it reasonable to assume that the Corporation will at least hold the line at the present level of 48 per cent market share and have a reasonable chance of achieving their target of a return to a 50 per cent market share.

6. The outlook for <u>exports</u> is much more gloomy. In the December 1981 Plan for 1982/85, BSC forecast that exports would increase to 3.6 million product tonnes a year, well above historical levels, as the table below shows. We believed at the time that BSC's export assumptions were optimistic; BSC now expect to export only 2.3 million tonnes in 1982/83, and have revised their forecast export level downwards to 2.5 million tonnes a year in 1984/85. The main reason for this revision is the action of the US authorities in restricting steel imports. The direct effect on BSC's own exports to the USA will not be serious, but overall the measures will have the effect of diverting onto world markets a significant volume of steel which would otherwise have gone to the USA. Given the current degree of excess world steel capacity and low demand, this means that the steel export outlook is much less promising than a year ago.

<u>BSC Steel Exports: Million product tonnes</u>

	1977/8	1978/9	1979/80	1980/1	1981/2	1982/3	1983/4	1984/5
Actual	3.2	2.9	2.5	2.3	2.7			
Dec.81 Plan						3.6	3.6	3.6
Latest Outlook						2.3	2.3	2.5

7. The drop in export deliveries in 1982/83 is the largest single factor in the current decline in BSC's steel production, and the revised outlook for exports over the next few years is one of the main reasons why BSC have found it necessary to examine the future of their 5 major integrated steelworks.

8. BSC have combined all the factors affecting the demand for their steel to calculate a range of likely level of BSC steel sales during the next 3 years. The results are set out in the Table below:

Minimum and Maximum BSC sales 1983/86: million product tonnes a year

	Minimum	Maximum
UK steel demand	11.5	13.5
BSC market share	46%	51%
BSC sales to customers and stockholders	5.3	6.9
BSC to private sector	1.2	1.6
BSC exports	2.0	3.5
Total BSC sales	8.5	12.0
Liquid steel equivalent (m.tonnes)	11.3	16.0

The most likely range of BSC deliveries is 9.5 to 10.5 million product tonnes a year, which means a most likely liquid steel equivalent production of between 12.6 and 14.0 million tonnes. For comparison, BSC produced 14 million tonnes of liquid steel in 1981/82, but over the 4 months July to October 1982 were producing steel at an annual rate of only 9.7 million tonnes, hence the high level of current operating losses.

1 December 1982

BSC: Major closure options

1. BSC currently have the physical capacity to produce 21.3 million tonnes a year of liquid steel. Manned capacity is 15.3 million tonnes. As explained in the main paper BSC do not expect to have to produce more than 14 million tonnes of liquid steel over the next 3 years on their central assumption, with 16 million tonnes per year as the maximum of the range of plausible estimates.

2 The physical capacity of each of BSC's 5 major integrated works is set out below:

	million tonnes of liquid steel a year
Ravenscraig	2.8
Port Talbot	2.9
Llanwern	2.8
Teesside	3.5
Scunthorpe	3.8

The closure of one of the strip mills would therefore reduce physical capacity to 18.5 million tonnes a year, which would give BSC a very comfortable margin of spare capacity over and above the 16 million tonnes which is the maximum forseeable demand over the next 3 years. The likelihood that BSC will ever need 18.5 million tonnes of capacity is remote. Hence BSC have examined the option of closing one of their 5 integrated steelworks.

This possibility was first looked at in some detail in the context of the strip mills review, when attention was concentrated on Ravenscraig, Llanwern and Port Talbot. It has since been widened to include Teesside and Scunthorpe, but the analysis of the future loading and development of these works has not been carried out in the same depth as for the Strip Mills.

3. BSC's assessment of the major closure options is attached as an Appendix It concludes firmly that Ravenscraig should close. The annual savings expected from the closure of each of the 3 integrated works considered to be candidates for closure is as follows:

	Annual saving £ Million
Ravenscraig	111
Llanwern	83
Teesside	58

Ital However the difference between the savings at Ravenscraig and Llanwern are narrowed if the closure of the ingot route at Ravenscraig is treated separately: this is an independent action saving £15 million a year, hence the closure of the remainder of Ravenscraig would save £96 million in a full year.

4. The choice of Ravenscraig as closure candidate depends heavily on a major capital investment programme going ahead in South Wales:

the modernisation of the Port Talbot Hot Strip Mill and the installation of further continuous casting, at a combined cost of about £280 million. This programme would be the inevitable consequence of the early closure of Ravenscraig. By contrast, BSC have separately provided the Department with capital expenditure estimates consequent on the closure of Llanwern. The Port Talbot modernisation project would still need to go ahead, but the further capital investment required if Llanwern were closed totals only £41 million as against the £123 million required if Ravenscraig is closed. If a closure is delayed, the preference for Llanwern will erode and the balance of advantage might swing towards Ravenscraig, especially if cost and quality improved there.

CONFIDENTIAL

BSC ASSESSMENT OF MAJOR CLOSURE OPTIONS

The criteria for choosing the preferred closure candidate are discussed below:-

(i) Effect on ability to meet finished steel product demand

(ii) Current Cost performance

(iii) Impact of choice on future capital programmes.

(i) Ability to meet finished steel product demand

Effective demand is for finished steel products and the selection of which liquid steel capacity to close must be affected by the feasibility of feeding from the retained liquid steel producing sites, the finishing capacity with which to satisfy demand in terms of both volume and specification for finished steel.

In judging finished steel demand requirements regard should be paid to the growing customer preference for product based on continuously cast feedstock rather than for material rolled from ingot route steel.

These highly complex criteria are reported in detail in the available appendices. The key issues are:-

Likley Impact on ability to meet product demand

Closure of	Steelmaking	Finishing
Llanwern	None	Strong customer preference for * both quality and coil weight.
Port Talbot	Loss of 16kt/w concast capability	None (prior to the completion of proposed HSM refurbishment).
Ravenscraig	Loss of 36kt/w concast capability	Small difficulty related to minority of customers with preference for this mill.
Scunthorpe	Loss of 38kt/w concast capability (inc. unique concast billet BOS capability)	Severe impact on commercial bille capability. Impacts also joists and thin plate capacity and Z piling capability.
Teesside	Loss of 55kt/w concast capability including main source of concast blooms (Feedstock for Workington Rail)	Sole source of heavy beams, columns and Larssen piling. Until Port Talbot Hot Strip Mill scheme approved and completed Teesside is only facility capable of handling rolling of Stainless coil and 'triple width' strip for welded tubes feedstock.

* Unless Llanwern is converted to concast this preference will erode as the now strongly emerging consumer preference for concast sourced material gathers force.

/...

CONFIDENTIAL

The key conclusions are:-

(1) The finishing facilities of all sites other than Port Talbot and Ravenscraig are extremely important to sustain the necessary capability in product finishing areas.

(2) All sites except Llanwern have concast capability which is of increasing importance to meeting customer preference in the market place. The concast routes are also less costly to operate than the alternative ingot route processes.

Therefore on the criteria of the ability to meet customer requirements there is no clear candidate for total site closure. Looking at finishing facilities only, Ravenscraig or Port Talbot could be closed, but to extend the closure to the whole site would require replacement elsewhere of the lost concast capability. (See (iii) for capital spend implications.)

(ii) Current Cost Performances

In choosing between various contenders any closure should ideally eliminate the highest cost production for comparable products.

£ per tonne	Hot Rolled Coil		Cold Reduced Coil	
	Standard Cost	Actual Cost	Standard Cost	Actual Cost
Ravenscraig	150	170	207	239
Port Talbot	145	153	200	214
Llanwern	155	160	196	209

The high standard costs at Ravenscraig reflect the inherent high costs of the facility arising from its location (separate from its port), inefficient coke ovens and low capacity steel-making vessels. Additional penalties at Ravenscraig are transport to final finishing locations at Gartcosh and Shotton and remoteness from main domestic markets in the West Midlands.

Therefore On the criteria of current and foreseeable costs for the major strip products the closure candidate should be Ravenscraig.

/...

Owing to the considerable overlap in facilities among the 'BOS Works', both in steelmaking and in the finishing mills, it is possible to eliminate any one of them and to cover most of the product demand, albeit in some cases with considerable transfer of semis between remaining sites. It is therefore pertinent to compare the relative costs of liquid steel at the five works.

Liquid Steel Costs April/September 1982

	Standard £ per tonne	Actual £ per tonne	Better/(worse) than Standard
Llanwern	102	104	(2)
Port Talbot	91	88	3
Ravenscraig	103	120	(17)
Teesside	104	113	(9)
Scunthorpe	99	107	(8)

On this analysis Teesside is an alternative choice for closure to Ravenscraig. If this were done it would be necessary:-

(a) to replace elsewhere the lost concast facilities (bloom and slab)

(b) to retain Lackenby No. 10 mill to provide heavy beams and columns

(c) to find substitute sources for Stainless Hot Band and Tube Strip

(iii) Impact of closure choice on future capital programmes

For the purposes of this analysis we have considered that the superior cost performance of Port Talbot and Scunthorpe and the important market preference for Llanwern have eliminated them from the possible closure list.

The calculations also ignore the proposed £180 million programme for renovation of the Port Talbot Hot Strip Mill which is common to both of the practical alternatives.

We have also ignored minor capital schemes which are not significantly different between the two sites.

/...

CONFIDENTIAL

Capital Expenditure avoided or caused by individual works closures

£m	Schemes avoided		Schemes caused		Net Impact (over 3/4 years)
If Ravenscraig closed					
	Coke oven replacement	30	Coke ovens and concast for S. Wales	41 102	
			Coal injection (Teesside)	10	
		30		153	+ 123
If Teesside closed					
	Redcar coke ovens (balance uncommitted)	41	Coke ovens (Ravenscraig)	35	
	Sub Lances	6	Concast (Ravenscraig)	12	
			Reheat facilities (Teesside No. 1 Mill)	13	
			Piling resite (Scunthorpe)	3	
			Concast	102	
		47		165	+ 118

This analysis shows that the issue of consequential capital expenditure does not differentiate between the two options.

Differentiation between the five large sites according to the different criteria are:

	Preferred Closure Candidate
Finished Steel Product Demand	Ravenscraig or Port Talbot
Cost Performance	Ravenscraig or Teesside
Future Capital Expenditure Implications	No significant difference between Ravenscraig or Teesside

Conclusion

The candidate for closure taking into account product constraints, cost performance and prospective capital costs, should be Ravenscraig.

CONFIDENTIAL

Recommendation

A plan to consolidate Strip Group operations into Wales will provide the basis for substantial short term loss reductions. If this advantage is to be sustained through to the 1990s, and the group is to be required to develop into a profitable and potentially free standing enterprise the two major capital commitments for the Port Talbot Hot Strip Mill and for extra concast capability in South Wales (£180 million and £100 million respectively) are essential. They will be built into our capital expenditure plan.

The recommended complete closure of the Ravenscraig complex (including Gartcosh and Hunterston) has within it alternative lesser options:-

	Annual Profit Improvement (Strip Group Only)	Manning Reduction	Asset Write off
1. No action	Zero	Zero	Zero
2. Close only the ingot route*	£15m	700	N/A
3. Close ingot route and Gartcosh	£28m	1350	N/A
4. Close ingot route, Gartcosh and one Blast Furnace	£44m	1930	N/A
5. Close ingot route, Gartcosh, one Blast Furnace and Hot Strip Mill	£55m	2980	N/A
6. Total closure	£101m	4810	£200m

* This action is already included in the Management action plan.

NB (1) These savings are before any penalties arising from inadequate availability of concast material. This is not expected to be significant in the first two years following the closure of Ravenscraig.

(2) The reality of these alternatives should not be taken as an indication that the officers of the Corporation are less than clear in their recommendation. The recommendation is complete closure.

BSC

10 November 1982

The Port Talbot Modernisation Project

BSC put forward in July a proposal for the modernisation of the 30 year old Hot Strip Mill (HSM) at Port Talbot. The proposed modernisation scheme will cost about £175 million at outturn prices, and includes the following main objectives:

(i) reduction in energy consumption

(ii) ability to provide heavier coils required by many customers

(iii) ability to produce hot rolled coil at smaller guages

(iv) better quality and finish on coils.

The direct cost savings resulting from this project, if the Hot Strip Mill were operated at the current Plan loading for the Port Talbot HSM, is £13.5 million a year before depreciation. But it is estimated that if the project were not to go ahead then Port Talbot works, on which £350 million has been spent for modernisation in recent years, including the installation of continuous casting which came into operation in August 1982, would gradually lose its present market. BSC calculate that the benefits from the HSM project increase to £22.5 million a year net of depreciation if account is taken of the savings resulting from avoiding the expected loss of business if the project does not go ahead. Alternatively, the cost savings which would arise if the modernised Hot Strip mill were run at nearer its full rated capacity of 2.6 million tonnes a year, instead of at the current Plan loading of 1.6 million tonnes a year, would be £23.3 million a year after depreciation without taking account of volume loss avoidance benefits.

It can be seen that the justification for the Port Talbot HSM project rests heavily on fully loading the Port Talbot works, which in turn requires the closure of one of BSC's other strip mills. If the Port Talbot HSM project does not go ahead, and if no other BSC strip works is closed, then any orders which Port Talbot might lose could be supplied from another works, at considerable profit to that other works from the increased loading.

But Port Talbot is already, before the starting up of continuous casting, the lowest cost producer of hot rolled coil in BSC. This is largely due to its low costs of producing liquid steel. With continuous casting and a modernised HSM, the Port Talbot works would increase its advantage over Llanwern and Ravenscraig, and it would be internationally competitive into the 1990's. BSC are confident that Port Talbot, at least, has a long term future as an efficient and profitable steelworks if this project goes ahead.

Failure to invest in BSC's strip mills would mean that they would gradually become more and more uncompetitive and, eventually, all would have to close. Investment in all 3 strip mills, given the present demand outlook, would be absurd. BSC regard investment in the Port Talbot HSM modernisation project as the highest priority - the project will take about 3½ years to complete - and there are no grounds on which to question BSC's judgement.

In considering the choice of strip mill for closure, it is necessary to look at the capacity and demand implications, as well as the relative costs and quality at each strip mill.

The potential capacity of each of the 3 strip mills is shown below:

Port Talbot	2.60	(after modernisation)
Llanwern	2.75	
Ravenscraig	1.70	
	7.05 million tonnes	

Note; the capacity of the present HSM at Port Talbot is 2.25m tonnes.

BSC have provided very preliminary forecasts of hot rolled coil demand to 1986/87 which show that the maximum expected production of hot rolled coil (HRC) by BSC, including exports, will not exceed 4.3 million tonnes over this period. This means that the closure of Llanwern rather than Ravenscraig could leave BSC with no spare capacity, unless there is a significant further fall in demand for HRC.

Capacity considerations point to the choice of Ravenscraig being closed if a decision is taken now, but if a decision is deferred for 2 or 3 years than the demand outlook at the time, coupled with consideration of the relative costs at Llanwern and Ravenscraig, will be the key factors in reaching a decision on which works should close.

JH 422

ANNEX 4

European Community aspects

1 BSC's return to profitability would be greatly helped by the success of the ECSC steel regime in all its aspects: price stabilisation, the phasing out of state subsidies, substantial capacity reduction, and restraint agreements to prevent an upsurge in steel imports from third countries. We are strongly supporting the Commission in their efforts to secure full adherence to the agreed policies.

2 BSC have already notified to the Commission very substantial reductions in capacity since 1980, and the further closures now being announced by the Corporation, to be followed by the closure of the Ravenscraig ingot route, will provide significant new reductions in capacity against which we can expect the Commission to authorise a substantial further tranche of finance for BSC, in addition to the £400 million for 1982/83 agreed by the Commission on 25 November. The closure of a strip mill, even if the closure were deferred for 2 or 3 years, would resolve all problems with the Commission.

3 Without a strip mill closure, there will be difficulty in getting Commission approval for the Port Talbot modernisation project. As explained in Annex 3, the Port Talbot HSM project will increase hot rolled coil capacity at Port Talbot by 0.35 million tonnes. The Commission will, we know, suggest the eventual closure of another strip mill as a condition of approving the Port Talbot project. Butat my meeting with him on

11 November, M Davignon suggested that one way of dealing with problems of excess capacity would be for the Commission, the steel enterprise and the appropriate Government to enter into a legally binding "contract" to limit the output of particular plants, as an alternative to complete closure.

4 The current loading at Port Talbot is only 1.6 million tonnes a year, and BSC have spare capacity for hot rolled coil production of over 2 million tonnes. It is proposed to explore with the Commission the possibility of entering into a contract, along the lines suggested by M Davignon, under which BSC would be required to limit their production by, say, up to 1 million tonnes a year of hot rolled coil below the potential capacity for this product, in return for BSC being authorised to go ahead with the Port Talbot HSM project. A contract limiting capacity would need to be as flexible as possible, and not rigidly restrict production at a particular works. And when a strip mill eventually closed, the contract would no longer apply since its purposes would be entirely met by the closure.

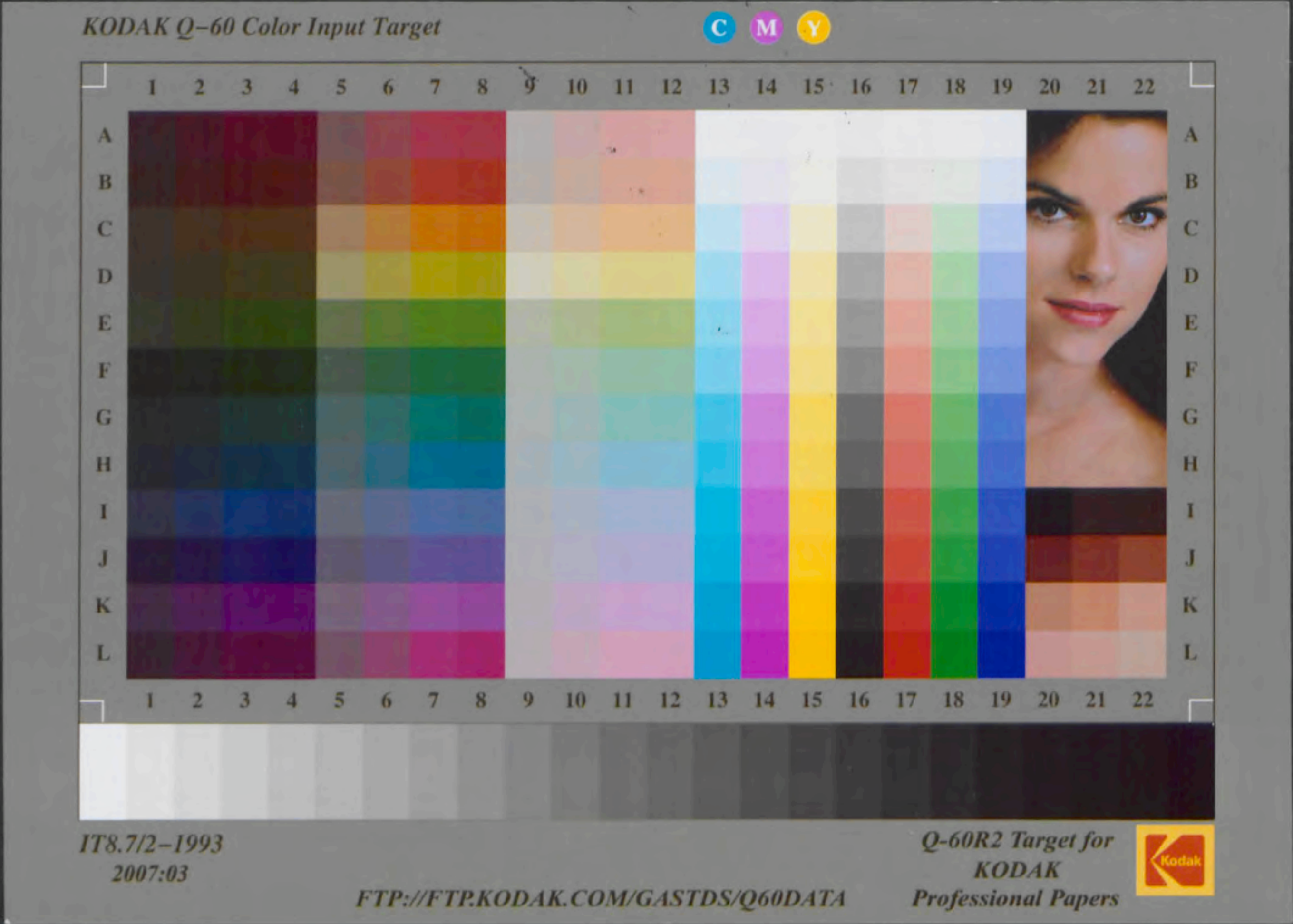
5 The purpose of seeking to negotiate a contract on the above lines is to give the Government and BSC the greatest possible room for manoeuvre, and would leave the decision and timing of a strip mill closure entirely in UK Government hands. The proposal would not be put forward as a policy alternative to the clear need to close a BSC strip mill.

PART 11 ends:-

Industry to TF + att 30/11/82

PART 12 begins:-

H/C Report on the Steel Industry in Scotland 1/12/82


KODAK Q-60 Color Input Target
C M Y
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22
A B C D E F G H I J K L
IT8.7/2-1993
2007:03
FTP://FTP.KODAK.COM/GASTDS/Q60DATA
Q-60R2 Target for
KODAK
Professional Papers
Kodak