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STEEL INDUSTRY

Nationalised Industries

Part 1: June 1979

Part 13: July 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~7.7.83~~		~~28/3/85~~					
~~28.7.83~~		~~30/5/85~~					
~~10.11.83~~		~~3.6.85~~					
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~~2.2.84~~		~~16.7.85~~					
~~21.3.84~~		~~18.7.85~~					
~~12.4.84~~		~~30/7/85~~					
~~19.6.84~~		~~6.8.85~~					
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~~4.7.84~~		~~6.9.85~~					
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PART 13 ends:-

MEA to Scottish Office 27.8.85

PART 14 begins:-

Ch/Ex to SS/DTI 3.9.85

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(A)(85) 50	22/07/1985
E(A)(85) 14th Meeting	17/07/1985
E(A)(85) 45	12/07/1985
CC(85) 12th Meeting, item 3	28/03/1985
CC(84) 4th Meeting, item 3	02/02/1984
CC(83) 35th Meeting, item 3	01/12/1983
CC(83) 33rd Meeting, item 3	10/11/1983
CC(83) 26th Meeting, item 3	28/07/1983
CC(83) 22nd Meeting, item 3	07/07/1983

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 J. Gray Date 28/2/2014

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 HANSARD, 26 July 1983, columns 1062 to 1070: Steel Council

Signed J. Gray Date 28/2/2014

PREM Records Team

DG.

FILE

10 DOWNING STREET

From the Private Secretary

27 August 1985

Dear John

RAVENSCRAIG

The Prime Minister has seen your Secretary of State's minute of 20 August. She has noted the points he makes, but does not think a meeting at this stage would serve a useful purpose.

I am sending copies of this letter to Joan MacNaughton (Lord President's Office), and John Mogg (Department of Trade and Industry)

Yrs ev
Mark Addison

Mark Addison

John Graham, Esq.,
Scottish Office.

Prime Minister:

[illegible]

cc ~~NO~~ 2

This is obviously going to be a difficult issue, but I am not sure what aspect Mr Younger's proposed meeting could serve (other than to review the decision itself)

I don't think a meeting would help. The decision ~~should~~ has been taken. not

SECRETARY OF STATE FOR SCOTLAND

NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Prime Minister

20 August 1985

Copy to The Lord President
Secretary of State for Trade and Industry

21/8

RAVENSCRAIG

I think it is time for me to report on the situation following the announcements about the steel industry on 7 August.

2. While the main announcement was that the Government had indicated its approval to BSC of future plans keeping the five main integrated steelworks, including Ravenscraig, open for the next 3-year planning period, BSC announced at the same time that it intended to close the cold rolling mill at Gartcosh in March 1986.

3. This announcement has been very badly received in all quarters in Scotland on the grounds that Gartcosh, although 12 miles away from Ravenscraig, is an integral part of it. It is considered that without Gartcosh, Ravenscraig is only part of a plant and will lack the cold rolling facility which its rivals have, and which its customers expect it to provide. The conclusion drawn from this, despite denials on our part, is that the closure of Gartcosh is a preliminary to the closure of Ravenscraig itself.

4. All the media and all sections of opinion in Scotland are mobilising for a campaign to save Gartcosh and they have been most publicly joined by the Scottish Conservative Backbenchers led by Sir Hector Monro. Needless to say, our opponents are playing this up for all they are worth.

5. I have strongly defended our position both in the Press and on Radio and TV as follows:

1. It is the Government that has insisted that Ravenscraig shall remain open over the next 3-year planning period.

2. It is BSC who have decided as a perfectly normal management decision, that Gartcosh must close, as there is much surplus capacity and much more economic operation can be achieved by concentrating the cold rolling at the larger mill at Shotton. Although it is further from Ravenscraig, it is nearer to 80% of Ravenscraig's customers.

3. That according to BSC, relieving Ravenscraig of the heavy overloads of Gartcosh will probably make it rather more secure as its results should be better.

4. Therefore, although we greatly regret a loss of 700 jobs at Gartcosh it is a management decision BSC has every right to take and it is to them that representations should be made.

6. I am bound to say that apart from Sir James Goold the Chairman of the Party in Scotland, I am a totally lone voice in this argument in Scotland and up to now I do not think it is believed. Furthermore, the Corporation has so far provided little material on the benefits of closure. I have now asked Sir Robert Haslam for further information on this but I am surprised that the Corporation has not taken a stronger line in public on the merits of its decision.

7. A request has already been made for a debate on the issue in the Scottish Grand Committee as soon as Parliament resumes, and it will be difficult to resist. The likely outcome will be that it will end with a vote on a procedural motion on which only Government Ministers would support us and most of the Scottish Conservative Backbenchers will join with the Opposition to defeat us by a very large margin.

8. I, and all Ministers, will continue to defend the Government's actions vigorously on every possible occasion and we will see how matters develop, but it may be that we should have a meeting to review the position in early September.

G.Y.

G.Y.

CePW

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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

August 1985

NBPMS

CONFIDENTIAL

Dear John,

BSC STRATEGY: ANNOUNCEMENTS

My Secretary of State has seen Maureen Dodsworth's letter to No 10 dated 2 August. He is generally content with the announcements and understands that your Secretary of State is making some amendments of tone rather than substance which may, inter alia, deal with the points raised by Mr Younger.

On this basis, my Secretary of State is not expecting to hold a press conference himself, but thinks it prudent to put a reasonably positive gloss on the proposals as they affect Wales in order to discourage speculation. He therefore proposes to release the attached statement tomorrow and, in dealing with press enquiries, to discourage divisive comment.

I am sending a copy of this to Rachel Lomaz (Treasury) and Andrew Turnball (No 10) and John Graham (Scottish Office)

Yours sincerely

Colin Williams

R C WILLIAMS

John Mogg Esq
Private Secretary to the Secretary of State
for Trade and Industry
Department of Trade and Industry
1 Victoria Street
London
SW1H 0ET

CONFIDENTIAL

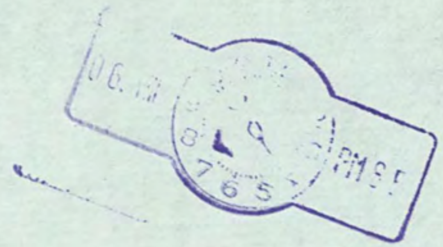
BSC: ALPHASTEEL

(COMMENT BY SECRETARY OF STATE FOR WALES)

BSC's statement will be very welcome news for the Welsh steel industry. It provides the integrated steel plants in Wales with the investment in their future that they have been seeking. The purchase of Alphasteel's hot strip mill greatly eases the quotas constraint that has been inhibiting BSC's marketing arrangements while the new investment at Llanwern and Port Talbot gives those works the equipment they need to maintain and improve their competitive position. The concast equipment at Llanwern will enable it to provide the customer with the quality that is required if the works is to consolidate its share of the market, as it amply deserves to do following its outstanding performance improvement over the last four years. The installation of a second reheat furnace completes BSC's investment for production of hot strip at Port Talbot.

The aim is to enable the BSC strip group to remain competitive over the years, and I am confident that the two great South Wales plants will play their part on the basis that they are among the very best in Europe. There will continue to be substantial demand for Welsh indigenous coal at both the integrated plants in South Wales.

The purchase of Alphasteel's hot strip mill is part of the process of securing the commercial future of BSC strip mills. I am pleased to be told there will be no enforced redundancy at Alphasteel and that other employment may be found there.



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SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Miss Maureen Dodsworth
Private Secretary to the Secretary
of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H QET

6 August 1985

Dear Miss Dodsworth

BSC STRATEGY: ANNOUNCEMENT

Mr Younger has seen your letter of 2 August to Andrew Turnbull at No 10 covering the texts of announcements to be made on Wednesday 7 August about BSC's strategy.

Mr Younger is content with the approach adopted, and the way in which the various decisions and the supporting material is presented. There are three points which he suggests could be re-examined.

The first is in the main BSC statement under the heading 'Steelmaking Capacity'. The continuation of steelmaking at all five integrated steelworks sites is said to be 'subject to the market and to BSC's performance'. This changes and dilutes the form of words we agreed at E(A), when we said that steelmaking would continue 'short of very radical unforeseen changes in underlying market conditions'. The phrase about the market and BSC's performance related to the 'main facilities' at each site. It would be better to go back to original formulation, so as to stress that steelmaking is secure unless something quite exceptional takes place. For the Government and the Corporation to use different forms of words will simply prompt further questions.

The second point is the last sentence of the comments to be made by the BSC Chairman. Is it really necessary for him to go out of his way to express doubts about the efficacy of the measures now being announced? This sentence will almost certainly be interpreted in Scotland as meaning that the Corporation would still like to close Ravenscraig, despite

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E.R.

what the Government has decided, and that BSC is still restive about this. The sentence should be omitted: omission would not detract from the force of what Sir Robert says.

The third point is related to the first, and relates to the first sentence of the fifth paragraph of Mr Tebbit's statement "the decisions announced today cannot, however, mean that any particular works or plant is permanently safe". Again this will be seen as directed particularly at Ravenscraig, and Mr Younger suggests that this sentence and the following phrase ("the steel industry is subject to risk .....") should be omitted so that that paragraph begins, unexceptionably, "The future of BSC's plants .....".

I am sending copies of this letter to Andrew Turnbull at No 10, Colin Williams at the Welsh Office, and to Rachel Lomax at the Treasury.

Yours sincerely

D. Lamberton

J S GRAHAM
for Private Secretary

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10 DOWNING STREET

From the Private Secretary

5 August 1985

BSC STRATEGY: ANNOUNCEMENT

The Prime Minister has seen your letter to me of 2 August and, subject to the views of the Secretaries of State for Scotland and Wales, is content with the announcements to be made by BSC and your Secretary of State.

I am copying this letter to Rachel Lomax (H.M. Treasury), John Graham (Scottish Office) and Colin Williams (Welsh Office).

(Andrew Turnbull)

Miss Maureen Dodsworth,
Department of Trade and Industry.

CONFIDENTIAL

Andrew Turnbull, PS/No.10

DEPARTMENT OF TRADE & INDUSTRY
1-19 Victoria Street
London SW1H OET

BSC: STATEMENT.

Telephone (Direct dialling) 01 215)
GTN 215)5422
(Sitchboard) 215 7877

Attached are copies of our question + answer brief and BSC's list of possible questions with our suggestions for thus responses where appropriate.

With the Compliments of the

Private Secretary to the
Secretary of State for Trade
and Industry

Maureen Dodsworth

PS / SofS

DTI

5/8/85.

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NOTES FOR SUPPLEMENTARIES: GOVERNMENT ASPECTS

Cost of Alphasteel?

Details of the agreement are for BSC. [Not for use. The cost of acquisition is regarded as commercially confidential and will not be given by BSC].

But the taxpayer will be paying for the acquisition?

Effect on EFL will be considered and announcement made later in the year.

Alphasteel deal non-commercial?

BSC board recommended the deal on the basis of its financial return.

Where is Corporate Plan?

Corporate Plan for Commission in preparation: likely to be completed later in August.

But Government has taken decisions before seeing Corporate Plan?

Perfectly normal for strategy to be decided in this way. Consultation covered the options very fully.

Why no statement in Parliament before the recess? Was Parliament misled?

The Government made no secret of the fact that discussions on strategy were taking place. To have referred openly to negotiations in progress would have jeopardised their success. We are now taking the first possible opportunity to announce what has been decided.

Will Corporate Plan be published/debated

Decisions on whether or not to publish would be for BSC, but the plan is likely to contain commercially confidential information, which would prevent it being published in full. There will no doubt be opportunities for debate in the next session of Parliament if the House wishes to have one.

If no aid after 1985, why references to external funding?

Aid for operations or investment will be prohibited. But interest-bearing finance on the private sector model will not be regarded as aid. BSC will for some years need external finance - though on a reducing path - to contribute towards its capital needs.

South Wales investments approved by Government?

Government has agreed that strategy should be planned on the basis of these investments going ahead but, where appropriate, specific consents will be given in the normal way to detailed project plans.

What if Commission doesn't approve BSC plan?

That is hypothetical. I have every confidence that the plan will meet the required standard.

Closing Ravenscraig could have saved taxpayers and steel users £100 million a year

There is no certainty about the future. BSC believe they can be profitable in the next 3 years on the basis of this plan. They are already in a better position than in 1982 when the Government last reviewed their overall strategy.

Has the Government turned down a proposal by BSC to close Ravenscraig?

No. The decisions announced represent an agreed strategy, decided after full discussion of a wide range of possibilities.

What other options considered?

Details of the discussion of strategy are confidential.

Alphasteel deal is a reversal of privatisation policy?

The Govsernment's policy remains to privatise as much of BSC as is practicable as soon as possible. But, as far as bulk steelmaking is concerned, it is necessary to achieve a secure level of commercial viability first. The ASlphasteel deal will make a major contribution to this, and facilitate eventual privatisation.

Purchase of Alphasteel directed by Brussels

No. I expect the policy announced to find favour in Brussels, but it is designed to meet our own objectives.

What about the competition/OFT aspects of the Alpha deal?

The arrangement has been submitted to both the EC Commission and the Office of Fair Trading for consideration in the usual way.

What will be BSC's funding requirements as a result of the decision?

To b descided in the course of the normal public expenditure review later this year.

Did BSC force Alpha to sell, abusing its dominant position?

The arrangement was freely negotiated.

INTERNATIONAL

If the EC still has more than 20 mt of excess capacity, doesn't this mean that the UK will have to close a lot more capacity? Ravenscraig?

UK has played a full part in closing excess capaciaty under the present regime - about 5mt out of an EC total of 30 mt. The closure of Alphasteel will be another substantial contribution towards cutting out excess capacity. NB UK accounts for less than 15% of the Community's steel industry.

Has the Commission approved the Alpha deal?

BSC are seeking Commission approval for the deal undesr the Competition articles of the ECSC Treaty and will be seeking approval also for the South Wales investment projects.

What will happen to Alphasteel's quota?

In accordance with the normal Community rules, the quota rights will be transferred to BSC.

Other member states have not carried out the capacity cuts required of them under the Davignon plan agreed in 1983

We are fully confident that 11 member states will have carried out the necessary reductions in capacity by the end of 1985. Several have already exceeded the minimum required. As counterpart to recent approval of additional aids under the current aids codes the Commission have also identified another 2m tonnes capacity cuts, none of which is in the UK.

What is HMG's policy on the EC aids regime after 1985?

HMG does not intend to pay aid to BSC after the end of this year. We shall be seeking Community agreement, in line with the views of recent Councils of Ministers, on a regime that prevents other member states from subsidising their steel industries too.

If other member states are allowed to pay aid will not BSC be at a competitive disadvantage?

That is whay we want a strict EC regime to prevent this happening.

Will the French industry really be viable next year?

The French industry has to obtain the Commission's agreement to a viability plan it if is to receive the final tranche of aid under the existing aids code. The plan will be subjecst to the same criteria as BSC's plan. ~~will be subject to the same criteria as BSC's plan.~~

Do you really believe BSC can be viable without closing Ravenscraig?

Yes. BSC's performance has improved enormously over the past few years, and the decisions announced today will further improve its profitability.

BSC has been constrained by the quota system more than its competitors on the continent.

The quota system is designed to restrict the activities of the companies subjected to it, in the overall interest. It is true that BSC has had particular difficulties in the last year or two as a result of the relative strength of the UK market. BSC and the Government have successfully negotiated a series of measures to rectify this situation. We shall be looking for further improvements after 1985.

<u>If the quota system were abolished now, BSC would open up new markets and be able to produce to higher levels.</u>

Abolishing the quota system now would be premature. The problem of excess capacity in the EC still exists and early removal of quotas would run a serious risk of a collapse in prices and a return to heavy losses. That is why the Steel Council on 25 July agreed in principle to a further period of quota restrictions.

<u>Where will Alphasteel's slab and billet production go?</u>

You should address that question to the management of Alphasteel. As you can see in the statement, the production is for export.

DV3AAH

PHOENIX II: Q & A FOR PRESS OFFICE

Q 1. <u>When should Phoenix II start to function as an independent company?</u>

A 1. Subject to satisfactory resolution of arrangements between the parties, expected to commence trading by 1 April 1986.

Q 2. <u>Why so long to decide?</u>

A 2. The proposals submitted in November 1984 needed careful consideration; decision needed to be made in conjunction with wider questions on BSC strategy.

Q 3. <u>Was the announcement of closure of Tinsley Park a Government prerequisite to approval of Phoenix II?</u>

A 3. No. BSC have made it clear that the closure was necessary whether or not Phoenix II went ahead.

Q 4. <u>What is to be done between now and when Phoenix II starts trading?</u>

A 4. GKN and BSC have to update the project, fully develop the proposals, and settle the financial details; appoint a board and key executives; and make legal arrangements/finalise shareholders' agreement.

Q 5. How much public money?

A 5. Financial and other contributions to Phoenix II not yet finally settled. Form and amount of HMG finance through BSC to be agreed once final evaluation and negotiations satisfactorily completed.

BSC's contribution in cash, like its contribution in assets, will be reflected in its holding in the new company.

Q 6. Is it true that HMG are providing [£150] million for Phoenix II?

A 6. The financial arrangements have not been settled. [£150] million very wide of the mark/a substantial exaggeration.

Q 7. What are the asset contributions of GKN and BSC to Phoenix II?

A 7. They are not yet finalised.

Q 8. Will the BSC asset contribution be a gift of valuable public assets to the private sector?

A 8. No: the shareholdings in Phoenix II will reflect what each partner puts in, by way of assets and cash.

Q 9. Phoenix II is a back-door way of achieving further closures

A 9. Much too early to say what, if any, further closures might take place. Matter for the Phoenix II management.

Q 10. Has the Government stipulated further rationalisation?

A 10. Any further rationalisation will be decided by Phoenix II management.

Q 11. Who will manage Phoenix II?

A 11. Shareholders will be keen to appoint first-rate board and top executives. Nobody has been named yet.

Q 12. What will the investments be, and where?

A 12. Phoenix II has no board yet, so no investments can yet be sanctioned.

Q 13. When will continuous casting be put in at Rotherham?

A 13. The partners recognise the need for investment in continous casting. But Phoenix II will need to decide when and where the investment should be: would expect them to give this early consideration.

Q 14. Will Brymbo be at risk when Rotherham gets continuous casting?

A 14. [See 13] Hypothetical question. Phoenix II will make its own decisions on investment and rationalisation.

Q 15. <u>Phoenix II will be only UK engineering steels company - no competition</u>

A 15. Some small UK producers compete on some of Phoenix II's likely range. But plenty of competition from imports; main hope of stemming these comes from establishing a competitive UK supplier, ie Phoenix II.

Q 16. <u>Monopoly producer will mean UK business lost abroad</u>

A 16. Independent assessment by Coopers and Lybrand suggests the amount of business that could go abroad would be very small.

Q 17. <u>Phoenixes are unsuccessful - look at Sheffield Forgemasters</u>

A 17. Sheffield Forgemasters has had problems which are particular to that sector and that company. Allied Steel and Wire - a GKN/BSC venture, like Phoenix II - has performed exceptionally well.

Q 18. <u>Is this really privatisation?</u>

A 18. Yes. Phoenix II will be an independent free-standing company in the private sector, jointly owned ~~controlled~~ by BSC and GKN. It will privatise about a tenth of BSC (by tonnage).

Devil's Advocate

GENERAL

Matter for BSC 1. BSC has campaigned for a reduction in electricity charges. What is the up-to-date position, especially with regard to the Sheffield plants?

2. Will the costs incurred by Alpha, Phoenix II, and Gartcosh prevent the Corporation from showing an overall profit at the end of this financial year? - The Government expects BSC to earn a profit on its ordinary activities.

For BSC 3. What is the status of the plate order book?

4. Does the Corporation believe that Ravenscraig, Llanwern and Port Talbot can ever be privatised? - HMG believes that all BSC activities can eventually be privatised. Need however to reach a secure level of commercial viability first. Present decisions an essential step on this path.

5. How can BSC be expected to become profitable if it has to go on bearing heavy burdens of closure and privatisation costs? - Decisions announced today are all consistent with a strategy designed to increase BSC's profitability.

For BSC 6. Are the tube works in Scotland making a profit?

For BSC 7. Is the 'clear operating profit' of the first quarter of the current financial year being maintained?

For BSC 8. What is the estimated out-turn result for this year?

Devil's Advocate

ALPHA

For BSC 1. How long will it take to transfer the Alpha concast to Llanwern?

For BSC 2. Will Alpha employees be transferred to Llanwern to run concast?

For BSC 3. How many employees at Alpha?

For BSC 4. Have the plans for Alpha been discussed with the unions?

For BSC 5. How much has BSC had to pay for Alpha?

6. Did HMG have to sanction BSC's negotiations for the purchase of this private sector company? - **Consent not needed for purchase of assets, but deal is part of a package of measures discussed with HMG in deciding the basis for BSC's future strategy.**

ForBSC/Alpha 7. Is Alpha making a profit?

8. Will BSC be taking over Alpha's EEC production quota? - **Yes.**

For BSC 9. What will it cost to modernise and transfer the Alpha concast plant to Llanwern?

10. Is the Alpha concast plant ideally suited to Llanwern or is the transfer going to mean a second-best solution? - **BSC's decision to use Alpha plant reflects BSC Board' proposed measures.**

ALPHA 2

For BSC 11. Will the Alpha order book go entirely to BSC's South Wales strip mills?

For BSC 12. How much of Alpha's order load is expected to disappear overseas?

13. Does the closure of Alpha strip mill mean a permanent reduction in UK hot-rolling capacity? **- Yes**

For BSC 14. Will it be more profitable for BSC to process the slabs it currently sells to Alpha?

15. Will the commercial consequences of the Alphasteel purchase ever justify its cost? **- Yes. BSC recommend the deal on the basis of its prospective financial return.**

16. Sir Robert Haslam has said that the Corporation put forward a number of options for the Government's consideration. Was the closure of Alpha a Corporation or a Government suggestion? **- Course of action agreed was proposed by BSC Board.**

For BSC 17. Over what period did the Alphasteel negotiations take place?

For BSC 18. Was there reluctance on the part of the owners to sell Alpha?

For BSC 19. To which unions do the Alpha employees belong?

ALPHA 3

20. Was the solution designed by BSC to save the Government from having to agree to the closure of Ravenscraig? - **BSC Board was free to make whatever proposals it thought best for the Corporation. The package agreed is commercially justifiable in its onw right.**

Devil's Advocate

RAVENSCRAIG/GARTCOSH

For BSC 1. What are the expected savings consequent on the closure of Gartcosh?

For BSC 2. What will happen to Gartcosh plant?

3. In closing Gartcosh, is BSC not relegating Ravenscraig to a role only one step away from that envisaged by Ian MacGregor - i.e. a semis producer?

For BSC, but Government does not believe this to be the case.

For BSC 4. How much of Ravenscraig's total output will now go for further processing outside Scotland?

For BSC 5. With the closure of Gartcosh, Scottish steel will be excluded from the CR sheet market: where will the Gartcosh order book go?

For BSC 6. If the work for 700 Gartcosh employees is to be transferred to South Wales(?), can Scottish steelworkers expect BSC to make some compensating commitment to Scotland?

7. Does the closure of Alphasteel mean that the threat to Ravenscraig is removed - or merely postponed?

Government steelmaking to continue at Ravenscraig - & other integrated sites - for at least 3 years, but the steel industry is subject to risk and there is no permanent guarantee.

For BSC 8. When Gartcosh is closed, what changes will there be in the routing of Ravenscraig's output?

For BSC 9. Will this lead to a reduction in demand on Ravenscraig?

10. Since today's announcement means that Ravenscraig will be denied access to a major part of the market for which the works was designed, does it not also indicate there is no long-term future for Ravenscraig?

For BSC, Government do not believe that if eventual future of Ravenscraig - or any other works - is prejudged by present decisions.

For BSC 11. Does today's announcement mean that a higher overall tonnage will be processed by Shotton?

For BSC 12. Is any outlet envisaged for Ravenscraig steel, other than for plates or for cold-rolling at Shotton?

For BSC 13. Will there be any job reductions at Ravenscraig as a result of today's announcement?

14. Could BSC contemplate the **complete** closure of Ravenscraig within the next five years? **Government sees no reason to anticipate the possibility, The present announcement covers three years**

15. The Scottish Secretary was reported as having threatened resignation if Ravenscraig were closed - did he discuss the closure of Gartcosh with BSC? **Closure of Gartcosh - although in itself a matter for BSC to decide - was covered in strategy discussions betwwen Government and BSC.**

16. Apart from Alpha and Gartcosh what other moves are afoot to reduce strip mill capacity? **Government is not aware of any further impending reductions. But, with the agreed strategy framework, BSC free to take action where necessary to cut costs.**

17. Unions claim that Ravenscraig coke ovens need to be renewed. Will this be done? If not, what other methods will be used?

For BSC; Government satisfied that BSC's coke policy is compatible with announced strategy.

For BSC 18. Ravenscraig steel is said to be high-cost steel. Will the Gartcosh closure affect this?

For BSC 19. Shotton: what percentage of steel is supplied by Ravenscraig and how much by Llanwern?

For BSC 20. How far behind Continental concast proportions will BSC be when Llanwern gets concast for the first time?

For BSC 21. Does Ravenscraig have any hope of slab exports?

22. Will the Port Talbot mill refurbishment bring an inevitable increase in hot-rolled capacity at that plant even though the prime objective is to raise product quality? **Yes, but within content of overall reductions; therefore acceptable within ECSC rules.**

For BSC 23. What capacity utilisation can be expected in BSC's strip mills after the closure of Alphasteel?

For BSC 24. Will Llanwern's continuous casting improve that works' expectations at the expense of Ravenscraig?

25. What is the estimated annual cost of BSC of maintaining excess strip mill capacity? **Need to take long view whether capacity at a spsecific works is "excess" depends on operating patterns and one's view of future market developments.**

26. It has been stated by the Corporation that it needs only two strip mills so why retain three? **One strip mill - Alphasteel is to be closed. This creates a new situation.**

27. Does BSC regard the continuation of its three wide strip mills as the result of Government interference? **Announced strategy is agreed.**

For BSC 28. What proportion of Llanwern's steel will the transferred Alpha concast plant be able to process?

29. Will the transference of the Alpha concast plant to Llanwern mean that Llanwern's separate application for concast is dropped?

For BSC to make proposals. The Governemnt understands that no further investment envisaged at present.

For BSC 30. Does BSC plan any additional concast at Port Talbot or Llanwern?

For BSC 31. What quota tonnage will BSC obtain as a result of the Alpha acquisition?

For BSC 32. Since Alpha's quota is for hot-rolled coil production, will BSC attempt to persuade the EEC to change this to quota for the more profitable cold-reduced material?

BSC

Devil's Advocate

PHOENIX II

1. Was the announcement of the closure of Tinsley Park a Government prerequisite to the formation of Phoenix II? - No. Details a matter for BSC, but HMG aware that it did not affect the decision on Phoenix II.

2. What are the asset contributions of the two parent organisations of Phoenix II?
Not yet finalised.

3. Does this amount to a donation to the private sector of valuable public assets? **No. Shareholdings in Phoenix II will reflect what each partner puts in.**

4. How much is the Government putting into Phoenix II?
Not yet finalised. Form and amount of finance from HMG through BSC to be settled once final evaluation and negotiation completed. BSC's contribution in cash, like its contribution in assets, will be reflected in its holding in the new company.

5. Is there any Government stipulation about further rationalisation? **Any further rationalisation will be decided by Phoenix II management.**

6. How soon will continuous casting be put in at Rotherham? **Partners recognise need for continuous caster investment. New company to decide when and where: would expect them to give early consideration.**

7. Will Brymbo be at risk when the Rotherham works of Phoenix II have continuous casting?
Hypothetical question (see 6). Phoenix II will make its own decisions on investment and rationalisation.

For BSC 8. How many current BSC employees will be affected by Phoenix II?

For BSC 9. Will there be further closures in Special Steels?

CONFIDENTIAL

cc PW

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DW373

Secretary of State for Trade and Industry

2 August 1985

CONFIDENTIAL

Andrew Turnbull Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister (1)
Content subject to clearance with Ch/Ex and S/S Scotland and Wales?
AT 2/8

Dear Andrew,

BSC STRATEGY : ANNOUNCEMENT

BSC intend to make their announcement of future strategy at 11.00 am on Wednesday 7 August. I enclose a copy of their planned statement, agreed by the Board, and the draft of a statement which, as agreed by Ministers collectively, will be made by my Secretary of State endorsing the new basis for BSC's planning.

2. The announcement will no doubt attract questions about the Government's role in deciding on BSC's strategy, policy towards privatisation, and other matters. We are co-ordinating with BSC our line in response to such questions.

3. Because of the sensitivity of the Alphasteel arrangement, BSC are waiting until early next week before they inform the trade unions about the planned announcement. Sir Robert Haslam is also making arrangements to brief the Secretaries of State for Scotland and Wales on Tuesday about BSC's plans.

4. I am sending copies of this letter to Rachel Lomax (Treasury).

Yours sincerely
Maureen Dodsworth

MAUREEN DODSWORTH
Private Secretary

999-1

Press Announcement

EMBARGO: Not for publication before 11 a.m. on Wednesday, August 7th, 1985.

BSC: the Future.

British Steel Corporation Chairman, Sir Robert Haslam, today (Wednesday, August 7) announced that BSC has agreed with Government, subject to the necessary specific formal approvals from the European Commission, the basis on which the Corporation's configuration will be planned for the immediate future. It incorporates the following features:

- An agreement reached with Alphasteel Limited, Newport, South Wales, as a part of the necessary further restructuring in the European Community steel sector, for the acquisition by BSC in 1986 of Alpha's hot strip mill.

- The installation in Llanwern, following their acquisition from Alphasteel, of two continuous slab casting machines; and the completion of the Port Talbot hot strip mill refurbishment through the provision of a second new reheat furnace, thereby enabling the full benefits of that development scheme to be attained.

- The closure of BSC's Lanarkshire based Gartcosh cold rolling mill and, in due course, of Alphasteel's hot strip mill, to assist the process of bringing capacity and demand more into balance in these two product sectors.

- No intention to make investments in new coke ovens at this stage.

- Maintaining steelmaking at BSC's five integrated steelworks sites, for at least three years from now, but subject to market demand and BSC's performance.

- Agreement, in principle, for Government funds to support establishment of the Phoenix II business with GKN, thereby restructuring the UK engineering steels sector for the future.

These features are commented on more fully below and BSC's configuration, allowing for these measures, will be the basis on which the plan for BSC will be submitted to the European Commission.

BSC/ALPHASTEEL

The present and forecast demand and consequential substantial excess capacity for wide hot rolled coil both in the UK and in the rest of the European Community have led the European Commission to call for further significant rationalisation of existing wide hot strip mill capacity in the Community.

As part of this restructuring, ~~which is~~ and subject to the formal approval of the European Commission, BSC and Alphasteel have agreed that as from 15th January, 1986, BSC will acquire a section of Alphasteel's existing business, comprising the totality of its wide hot rolled coil/sheet operations together with the production and delivery quotas pertaining thereto.

Alphasteel is a UK limited liability company, with its works in Newport. Based on electric arc steelmaking, it currently produces and sells wide hot rolled coil, billets, and slabs. The plant which will be acquired by BSC comprises two single-strand continuous slab casters and a semi-continuous wide hot strip mill. The strip mill has a maximum capacity of over 1 million tonnes per annum, but is currently producing at a low level of capacity utilisation, due to the extremely low quotas allocated by the European Commission.

After modification and modernisation, BSC will install the two continuous slab casters as a twin-strand caster in its Llanwern Works, which will improve operating efficiency and enable Llanwern to meet the increasing demand on BSC for continuously cast steel qualities. It is envisaged that, in due course, the Alphasteel wide hot strip mill will be closed and sold outside the European Economic Community.

Alphasteel will retain and continue to operate its steel-making furnaces for billet and slab production for export.

Alphasteel have stated that there will be no enforced redundancy and every effort will be made for the workforce affected to continue further employment in billet and slab production.

GARTCOSH COLD MILL

BSC intends to close its cold strip rolling facility at Gartcosh in Lanarkshire on 31st March, 1986, allowing the Corporation more effectively to load its other, more modern, cold mills at Shotton, Llanwern and Port Talbot, and thereby maintaining service to customers.

The closure will improve overall cold mill productivity, reduce surplus capacity, cut overhead costs and, against limited cash resources, avoid the substantial capital investment otherwise needed at Gartcosh to improve cost competitiveness and product quality.

Ravenscraig will continue to be the main supplier of hot rolled coil to BSC's modern cold rolling and finishing plant at Shotton. As a result of the closure of Gartcosh this line of supply will be increased and, combined with supplies to BSC's tinplate plants and direct to customers, will be the main outlets for the product of the Ravenscraig hot strip mill.

This closure will result in the loss of 550 jobs at Gartcosh and 160 jobs elsewhere in the Scottish works involved in servicing the Gartcosh operation. Discussions with trade union representatives will commence immediately. The usual full counselling services will be provided at the site and every effort will be made to redeploy personnel to other BSC works and to provide assistance from BSC Industry plc.

INVESTMENT IN COKEMAKING

Coking capacity within the Corporation is adequate to support current ironmake. However, by the early 1990's there will be a deficit equivalent to some 20 per cent of estimated consumption.

A number of ways of diminishing the estimated deficit are currently being actioned:

- Coke oven repairs - The recently developed silica welding technique has been used successfully at several of the Corporation's ageing coke oven batteries including extensive application at Ravenscraig and Llanwern. As a consequence, oven lives are being progressively extended.

- Coal injection into blastfurnaces - Operating experience in the industry to date has shown that it should be feasible to replace 20% or more of total coke usage with crushed coal injected through the tuyeres of the blast furnace.

- Coal injection into BOS vessels - Trials are ongoing with the objective of increasing the usage of scrap, thereby reducing iron usage in steelmaking and consequently the blast furnace coke requirement.

Until the practical potential from these developments is clearer, and because of greater investment priorities (e.g. continuous casting) and limited financial resources, the extent and timing of further coke oven investment is uncertain. It is possible that the final overall coke deficit will be too small to justify new coke oven development and purchases may prove the most economic way of providing the shortfall, particularly if the technological developments are highly successful and therefore limit world metallurgical coke demand.

STEELMAKING CAPACITY.

The Government and BSC have agreed that the Corporation should plan on the basis that steelmaking continues at all five of BSC's integrated steelworks sites for at least three years from now, subject to the market and to BSC's performance.

The closure of Alpha's hot strip mill, following its acquisition in 1986, would reduce the UK's hot strip mills from four to three. That will represent a step forward in the restructuring still required in this product area and will also help to improve the Corporation's financial position.

PHOENIX II

As stated in a joint announcement in the following terms today, British Steel Corporation and Guest, Keen and Nettlefolds plc have reached agreement in principle with the Department of Trade and Industry (DTI) on proposals for a jont venture in engineering steels, code-named Phoenix II. Clearances have still to be obtained from the European Commission and the Office of Fair Trading.

BSC and GKN will now reopen their earlier discussions with a view to the formation of a jointly-owned Company and with the objective of the new Company commencing trading by 1st April, 1986. Detailed arrangements have still to be fully developed, but the new Company will include manufacturing activities of the BSC Special Steels business and GKN's special steels and forgings operations. The forgings operation will continue to be managed and technically supported under special arrangements with GKN.

The DTI has stated that it is willing to make finance available to the joint venture through BSC and subject to finalisation and joint agreement of the detailed arrangements.

The new Company will occupy a leading position in the European engineering steels' industry and be competitive with other large European integrated steel and forging companies. The proposed merger is consistent with the European Commission's aim of achieving a restructured and strengthened Community steel industry.

Separate announcements are being made to the employees concerned and further public announcements will be made in due course.

Commenting on the announcement, the Chairman said:

> 'The decisions embodied in this statement represent the way ahead for BSC in the immediate future. BSC and the Government fully recognise and appreciate the efforts of the workforce and management in improving the Corporation's performance and efficiency. I am pleased, therefore, that it is now possible for BSC to make further progress through the understanding and helpful co-operation of Alphasteel in reaching agreement with us on their hot strip mill operations.

"Nevertheless, decisions on the longer term future will depend on market developments and BSC's ongoing performance, and it is vital for the Corporation to avoid new borrowing in the face of the modest growth for the steel industry and the Community as a whole, foreseen by both BSC and the European Commission. In this situation, the key question is whether, in fact, there will be sufficient good margin business to enable BSC to achieve fuller utilisation of our potential capacity, and thereby generate sufficient cash from profits to renew and continuously to modernise our equipment. Only through doing this can we maintain the core of BSC's business in a fully competitive state whilst providing customers with competitively based products. The Corporation continues in its belief that it remains to be seen whether the steps now being announced will be sufficient to meet these objectives."

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The Secretary of State for Trade and Industry, commenting on Sir Robert Haslam's statement, said that the decisions announced by BSC had been taken after consultation with the Government and represented a strategy agreed between BSC and the Government for the next three years.

The Secretary of State for Trade and Industry said "The Government's objective is that BSC should be restored to commercial viability and, eventually, privatised. I welcome the establishment of an agreed planning basis for the next three years which will put BSC on course to meet these objectives. In particular, I welcome the prospect of a further significant privatisation of BSC in the area of overlap between the Corporation and the private sector. While regretting the loss of jobs which result from the decision to close Gartcosh, the Government accepts that this decision is properly a matter for BSC management to take, and is compatible with the agreed strategy.

From the Government's point of view, the essential feature of the agreed strategy is that, barring unforeseen changes in underlying market conditions, steelmaking will continue at all five of BSC' main integrated sites for at least the next three years. It is simply not possible to see further ahead than that in the present uncertain market. Within this framework, BSC will continue to be free to take management action to cut costs where necessary.

I join with Sir Robert Haslam in recognising the efforts of BSC's workforce at all levels from shop floor to Boardroom in improving the Corporation's performance and efficiency. The agreement with Alphasteel Ltd will enable the Corporation to make further improvements in its performance, and produce a plan which I am confident will demonstrate its viability.

The decisions announced today cannot, however, mean that any particular works or plant is permanently safe. The steel industry is subject to risk, and the future of BSC's plants will depend on future market developments, on their being operated to the highest efficiencies, and on the Corporation's overall financial performance. In particular, if the Community agrees, as we hope it will, on a ban on extensive state aid after 1985 to eliminate unfair competition any major and sustained shortfall in BSC's financial performance would require prompt corrective action.

JF5ABV

Background

BSC planning since 1982 has been on the basis of the Government statement of 20 December 1982, when the Government asked BSC to prepare its plan for the next three years on the basis that steelmaking would continue at all five major integrated sites. BSC accepted the aim of breaking even before interest in 1984/85, and it remained 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. But for the miners' strike, BSC would have made a profit after interest in 1984/5, and the Corporation is currently trading profitably. The Government expects it to earn a profit after interest in 1985/86.

It is now the third year of the three year plan produced by BSC on the basis of the Government's 1982 announcement. Last year, BSC's planning process was interrupted by the miners's strike, and it has only been with the ending of the dispute and the ressumption of normal trading and supply conditions that BSC and the Government have been able to discuss future strategy.

In addition, the EC rules on state aids for the steel industry mean that BSC has to draw up a plan this year demonstrating its viability in 1986 and beyond. Approval by the Commission of the BSC plan is necessary to enable the Government to pay the remainder of the aid BSC requires this year, and to enable BSC's external finance needs after 1985 to be seen as not involving further subsidy. The BSC plan is being prepared on the basis that steelmaking will continue at all five main integrated sites or at least the next three years, barring very radical unforseen changes in underlying market conditions. (The Government is confident that, taking into account the effects of the decisions announced by BSC today, the plan will demonstrate BSC's future viability).

The Community steel regime exerts a major influence on conditions in the European steel market The period since 1982 has seen some recovery in the performance and prospects of the European steel industry, helped by the Community's anti-crisis measures Considerable progress has been made in removing excess capacity throughout the Community, and by the end of this year, more than 30 million tonnes of capacity will have been shut since 1980. But the Commission estimate that a further 20 million tonnes will need to close over the next few years if the Community industry as a whole is to become securely viable.

JF5ABV

Against this background of considerable but incomplete progress in solving the problem of overcapacity, the Council of Ministers agreed on 25 July that the Community's market organisation measures should continue for a further period of up to 3 years, but modified in ways to permit a smooth transition back to a free market by the end of this period. This should help to sustain market stability in the fact of continued overcapacity. In addition, the Council of Ministers will need to decide later this year what limited, if any, state aids should be permitted for the steel industry after expiry of the present regime at the end of 1985. The Government intends to pay no further subsidies to BSC after that date, and regards it as essential that the Community should not permit payment of extensive state aids by other member states which could disadvantage the BSC and UK private sector steelmakers.

The decisions announced by BSC concerning the closure of Gartcosh and future investment in coke ovens do not concern matters which are subject to specific Government approval, but the Government have been aware of BSC's intentions as part of the overall review of strategy. While regretting the loss of jobs resulting from the Gartcosh closure, the Government believes that the decisions are properly matters for BSC's judgment, and that BSC has taken them only after very careful consideration. The Government is satisfied that the decisions announced are compatible with the agreed strategy.

The Government have agreed in principle that Phoenix II, BSCs and GKN's joint venture in engineering steels, should go ahead. Further work remains to be done before the new company can be in operation.

The fiancial consequence of these decisions will be reflected in External Financing Limits for BSC to be announced later this year. They will result in BSC earning a profit after interest this year, and increasing profits thereafter.

NBPM AT 31/7 CCNS

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DW325

Secretary of State for Trade and Industry

30 July 1985

Andrew Turnbull Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew,

BSC AND MEXICO

We spoke on Wednesday about the suggestion in your letter of 13 June that the Mexican's decision not to go ahead with the further stage of the Sicartsa project may create export opportunities for BSC.

Officials here have investigated the possibilities on this front. The decision not to go ahead with the further stage of Sicartsa was taken because the projects which were to use the extra steel produced were cancelled. Mexico will continue to have excess steelmaking capacity following the cancellation of the Sicartsa plate mill. There is therefore no prospect of arranging an export deal for BSC.

If you need anything further please let me know.

Yours sincerely
Maureen Dodsworth.

MAUREEN DODSWORTH
Private Secretary

NAC IND: Steel

Reference No E080

PRIME MINISTER

BSC Strategy

E(A)(85)45 & 50

BACKGROUND

E(A) will be resuming discussion of the proposal in the Secretary of State for Trade and Industry's paper (E(A)(85)45) on the strategy to be pursued by the British Steel Corporation (BSC). The meeting will also have before it a Note by Officials which responds to the Sub-Committee's request for further information on BSC's financial prospects, and on the possible implications of alternative strategies for the future of Ravenscraig.

MAIN ISSUES

FLAG A

2. The main issues, and the questions to be settled, remain as set out in the Cabinet Office brief for last week's discussion.

BSC Cash Flow in 1986/87

FLAG B

3. The Note by Officials explains the reasons for the change between the picture as presented in Mr Tebbit's letter to Mr Lawson of 12 June and that set out in Mr Tebbit's Paper. Essentially the change reflects the changed timing of BSC's payments for the purchase of the Alphasteel hot strip mill.

Alphasteel

4. Officials considered whether there could be advantage to BSC in not going ahead with the Alphasteel purchase, which would reduce BSC's requirements for cash this year and next. They have also considered whether any steps could reasonably now be taken which would assure the long-term future of steel-making at Ravenscraig. Two specific new Options have been examined:

(i) New Option A, under which the Alphasteel deal does not go ahead, there is no investment in concasters at Llanwern, and Llanwern becomes the 'swing' steel producer, with Ravenscraig fully utilised.

(ii) New Option B, under which the Alphasteel purchase and closure, and the transfer of concasters to Llanwern, go ahead, but instead of closing Ravenscraig completely only the hot strip that is closed in 1988, with a substantial level of steel production being retained there.

5. A financial projection is shown of the two new Options, compared with the base case, the previous Option 1 (closure of Alphasteel) and the previous Option 2 (closure of Alphasteel and complete closure of Ravenscraig). The following points are relevant to a decision:

(i) Both the new Options require the closure of the Ravenscraig hot strip mill. In the case of Option A, under which Alphasteel continues in independent operation, the impending closure would become public knowledge in the near future.

(ii) If Alphasteel continued in operation, BSC would nevertheless want to install concasters at Llanwern, whatever the future of steel-making at Ravenscraig. In BSC's view concasters represent a good investment, and failure to installat Llanwern would severely handicap the future operation of the works there. (The reasons why BSC consider Ravenscraig a much stronger candidate for closure than Llanwern are set out at Annex 2 to the Report on BSC Strategy attached to Mr Tebbit's paper.)

(iii) A final decision is not required in the near future on the closure of the Ravenscraig hot strip mill, or on the closure of that works as a whole. Although it is impossible to foresee a long-term future for the strip mill, there is a real prospect of keeping steel-making going there after 1988.

(iv) The projections rely on BSC's analysis of the future market, and on the Corporation's financial model of their business. There remains a serious risk of prices weakening when and if EC quota controls are removed, and this could result in a far worse financial performance by BSC than any of the projections discussed in these papers.

(v) The continued independent operation of Alphasteel puts downward pressure on prices and tends to weaken BSC's market position. If there were a clear prospect of the Ravenscraig hot strip mill closing, while present quotas or something like them remained, there would be a prospect of BSC securing Alphasteel on better terms than are currently available. But if quotas were lifted, the threat represented by Alphasteel would be much greater, and it would be more difficult for BSC to buy out the company's strip-milling operations.

Ravenscraig

6. Officials have not found a complete solution to the Scottish Secretary's political problem. The only way to give a clear guarantee to the long-term future of the works seems to be to run-down Llanwern, which would simply transfer the political problem to Wales while seriously damaging BSC's business. It appears, however, that there is a real prospect of steel-making continuing at Ravenscraig after 1988 even though the hot strip mill would almost certainly have to close (as well as the Gartcosh cold rolling mill from whose closure in a few months time there has been no dissent).

Coke Ovens

7. Replacement of the existing coke ovens at Ravenscraig is not a necessary condition for the continuation of steel-making there. For the reasons explained in the Note by Officials, there is no economic case for spending £90 million on total replacement of the Ravenscraig ovens; and it seems very doubtful whether some much more limited investment would carry conviction without specific assurances being given on the future of the works as a whole. If assurances were to be given, it would be better to avoid compounding the problem by unnecessary investment expenditure on the coke ovens there.

Phoenix II

8. The Sub-Committee were inclined at last week's discussion to approve Mr Tebbit's proposals, subject to further appraisal of the costs in terms of the joint venture arrangement. The Welsh Secretary was concerned that this would imply the eventual closure of the GKN Brymbo plant at Wrexham; but he did not contest the point that this plant has no long-term future, since it could not be developed through the installation of new bloom casting facilities to take the place of the BSC Aldwarke plant. Although the Chief Secretary, Treasury did not specifically object to the additional requirement for cash in 1986/87 which the terms of the joint venture would require BSC to provide, it is possible that he might seek to reopen the issue on this occasion in the light of the overall position on the nationalised industries' investment and financing review. It is very doubtful whether a satisfactory alternative is available to the joint venture in its present form; failure to go ahead could result in BSC either having to undertake more expensive investment entirely on their own account, or in eventual total closure of UK capacity to produce engineering steels. It may be sufficient to agree the joint venture in principle, and leave the Treasury to discuss with the DTI in the context of the IFR the best way of minimising its financing costs, in the light of the further appraisal of the costs and terms of the deal.

HANDLING

9. You may wish to invite the Secretary of State for Trade and Industry to comment on the new material presented in the Note by Officials; the Secretary of State for Scotland will wish to assess the implications for Ravenscraig, and the Secretary of State for Wales will wish to make his position clear. The Chief Secretary, Treasury may wish to state his view point. Other Ministers may wish to comment on the political aspects of these decisions, and notably on the future of Ravenscraig.

CONCLUS(ONS

10. Given that the Alphasteel question must be settled by 2 August, it remains desirable for the Sub-Committee to reachfirm conclusions on

(i) Whether or not BSC should acquire and close in 1985 the Greek-owned Alphasteel strip steel mill subject to necessary assurances from the Commission on the acceptability of a Corporate Plan providing for retention of all BSC's present integrated steelworks.

(ii) Whether the two Alphasteel casters should be installed at BSC's Llanwern steelworks, and a second reheat furnace be installed at Port Talbot.

(iii) Whether BSC should close the Gartcosh cold rolling mill.

(iv) Whether or not to agree in principle that BSC and GKN should undertake the Phoenix II joint venture in engineering steels, subject to satisfactory further appraisal of the costs and the terms of the deal, and the prospects for the proposed new company.

JW

A J WIGGINS

Cabinet Office.

22 July, 1985

CONFIDENTIAL

22 July 1985

PRIME MINISTER

BRITISH STEEL

Even with Alpha closed, BSC amazingly now want to make 1.5mt of steel per annum at Ravenscraig. On our Alpha open strategy, this rises to 1.7mt per annum out of a total capacity of around 1.8mt per annum. This new demand apparently comes mostly from exporting Ravenscraig slabs abroad and, whilst highly desirable, should be treated with extreme scepticism.

Perhaps because of this new demand, even with slabs supplied from Ravenscraig, BSC still want to invest in concasters at Llanwern. This should be resisted until it is proved that Ravenscraig cannot meet the demand.

Our preferred strategy is Option 2 ie New Option A in tables 1 and 2 of the paper. The comparisons are questionable and particularly distorted by two elements.

1. Options 3, 4 and 5 are given the improbable £50m per annum benefit (plus consequential interest) due to Alpha's closure. Alpha remains open throughout on our Option 2, although we would expect it to close of its own accord.

2. Although our Option 2 and the new BSC Option 4 close Ravenscraig's hotstrip, contrary to earlier DTI expectations, this saves only £20m per annum. This implies that steelmaking contributes the other £80m of losses at Ravenscraig, which makes BSC's new-found desire to keep such steelmaking going surprising. Moreover, if it does make economic sense to keep steel-making at Ravenscraig - albeit only until, say, 1990 - then by definition it does not cost money to do so.

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Despite these distortions the 5 year cashflow for the three politically possible plans (2,3 and 4) is remarkably similar. Without the Alpha distortion, our option would be £250m better; and, with more realistic assumptions on steel-making at Ravenscraig, Option 5 would be £200m worse.

There remains no economic case for investment in Ravenscraig coke ovens which, including support services, employ some 350 people. If money were spent, it would be better to spend £20m relining the older ovens rather than £90m completely rebuilding the lot.

Peter Warry

PETER WARRY

E(A) Folder

CONFIDENTIAL

Can we do anything more - on the basis of this paper? MT

(2) This subject will come back to E(A) on Tuesday AT 19/7

PRIME MINISTER

19 July 1985

ALPHASTEEL AND RAVENSCRAIG

DTI have now discussed with BSC our alternative ("non-Alpha") plan of Ravenscraig supplying slabs for hotrolling at Llanwern. It will work and, interestingly, is similar to what BSC would themselves propose if Alphasteel is ruled out. Indeed, even with Alpha, they now think they may want to keep Ravenscraig going on this basis for a number of years.

Whatever happens, the hotstrip mill at Ravenscraig has to close: with Alpha, BSC would want to announce it in 1987 for closure in 1988 (although this could be deferred at a cost); and without Alpha, the announcement may have to be in 1986 again for closure in 1988. An announcement in 1986 may in fact be better than in 1987 - if it can be coupled with a positive message about the rest of Ravenscraig. The most difficult course is to make no announcement and yet avoid giving any pledges during the Election campaign.

It will, however, be argued that BSC's plan will be leaked when it goes to the Commission later this year, thereby causing disruption to supplies from Ravenscraig which are vital for BSC until investments in South Wales are completed early in 1986. But surely it is not beyond our wit to prevent such a leak; and to go for the Alpha plan because of such a threat would be to make a nonsense of Government.

DTI may also argue that Alpha's purchase makes financial sense even if Ravenscraig's hotstrip is closed. This is nonsense; their argument has three elements. Firstly, that Alpha will engage in a price war costing BSC £20m per annum - but Alpha are already bankrupt (accounts attached); they could not sustain such a war; and have nothing to gain as they are already selling (through BSC!) their full quota limit. Secondly, the transfer of Alpha's quota to BSC is worth £20m pa - this may be true but surely we could agree

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in advance with the Commission that, in return for closing the much larger Ravenscraig hotstrip, if Alpha closes (which it assuredly will) then BSC would take over Alpha's quota. The third element, worth £10m pa, of reutilising Alpha's concasters no longer applies.

Nevertheless, it may be tactful to leave a future purchase of Alpha open. Once the closure of Ravenscraig hotstrip mill is announced, Alpha's negotiating position (if they're still in business) will be desperate, and a purchase way below £150m should be possible.

The decision is therefore now essentially a political one: convincing George Younger that an early decision to close the Ravenscraig hotstrip mill is worthwhile if it can secure a more certain future for the rest of the plant. Additional investment in the Ravenscraig coke ovens can only be justified on political grounds: they employ 250 people, use no Scottish coal, and do not affect the viability of the rest of the plant.

Without Alpha, Nicholas Edwards will not get the planned growth at Llanwern, but he is saved a very difficult explanation on the Alpha purchase and is still able to announce more investment at Port Talbot. If Phoenix II (which neither we nor the Treasury support) did not proceed, then the closure of the Brymbo works at Wrexham would be avoided - as would the Government's £55m contribution to the joint venture.

If agreement can be secured for the non-Alpha plan, then Norman Tebbit can make a sensible and positive announcement on BSC's future; avoid the embarrassment of justifying the Alpha purchase; improve BSC's profitability by a little under £100m pa by closing the hotstrip mill; and in addition save £190m that would have been spent on Alpha and refurbishing its concasters.

PETER WARRY Peter Warry

ALPHASTEEL LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 1983

	Notes	1983		
		£	£	£
TURNOVER	2		53,606,848.30	
OPERATING EXPENSES				
Change in stocks of finished goods and work in progress		7,297,340.00		(444,220.00
Raw materials and consumables		(36,349,714.40)		(16,920,586.17
Other external charges		(8,253,809.64)		(5,985,763.70
Staff costs	3	(3,459,800.07)		(2,863,829.44
			(40,765,984.11)	
OPERATING PROFIT	4		12,840,864.19	
Interest payable and other similar charges	5	(11,117,831.70)		(10,525,859.92
Exchange losses	6	(6,306,101.08)		(3,967,406.66
Interest receivable and other similar income		428,201.52		634,943.62
Stamp duty on share capital		(50,000.00)		(100,000.00
			(17,045,731.26)	
LOSS ON ORDINARY ACTIVITIES			(4,204,867.07)	
BALANCE BROUGHT FORWARD			(52,804,143.04)	
BALANCE CARRIED FORWARD			£(57,009,010.11)	

Auditor's report on page 3.

The notes on pages 7 to 12 form part of these accounts

RAWLINSON and HUNTER
CHARTERED ACCOUNTANTS
P. O. BOX NO. 4SR
ONE HANOVER SQUARE · LONDON W1A 4SR

REPORT OF THE AUDITORS

TO THE MEMBERS OF

ALPHASTEEL LIMITED

1. We report on the accounts set out on pages 4 to 12 which have been prepared under the historical cost convention. Our audit has been carried out in accordance with approved Auditing Standards.

2. As stated in note 1 to the accounts, no provision is made for the depreciation of fixed assets. This is not in accordance with the provisions of the Companies Act 1981 or Statement of Standard Accounting Practice No. 12. On the basis of depreciation rates estimated to write off the cost of the assets over their expected working lives, the depreciation charge for the year and accumulated depreciation at 31st December 1983 would have been approximately £5,245,090 and £27,884,813 respectively. The effect of this would be to increase the loss for the year from £4,204,867 to £9,449,957 and to increase the accumulated deficit at 31st December 1983 from £57,009,010 to £84,893,823. Accordingly, the carrying value of fixed assets is overstated in the balance sheet by £27,884,813.

3. Because of the significance of the matter set out in paragraph 2 above, in our opinion the accounts do not give a true and fair view of the state of affairs of the Company at 31st December 1983 or of the loss and source and application of funds for the year then ended. In all other respects the financial statements comply with the Companies Acts 1948 to 1981.

4. Supplementary Current Cost Accounts have not been prepared by the company which is contrary to the requirement of Statement of Standard Accounting Practice No. 16.

Rawlinson & Hunter

31. October 1984

PRIME MINISTER ② AT 18/7

18 July 1985

BRITISH STEEL CORPORATION

In 10 years, BSC has cost £7,000 million (EFLs). The money has been spent in the name of defending jobs and steel production.

Yet in 10 years the workforce has fallen from 210,000 to 64,000 - a fall of 70%. And output is well down.

The strategy of keeping the UK steel industry whole and gradually adding Phoenix investments in a rationalised (ie cut) private sector has failed.

So when backing Peter Warry's excellent alternative to Alphasteel nationalisation, why not press for a different policy? The way forward is to split up the Corporation, introducing new management, capital and opportunities.

Why not ask that the overseas companies, some of the investments in metal recovery and steel stockholding, and the investments in UK building, construction, civil engineering and chemicals be sold?

Sell Allied Steel and Wire, Darlington and Simpson Rolling Mills, and TWIL Ltd (all good profit makers).

Develop a strategy to spin off plants and companies as freestanding private companies, preferably involving managers and employees as shareholders. Dowries should be considered.

Only getting all or part of these businesses out of Government hands will succeed in stemming the cash and job losses.

Scott Lithgow shows that loss makers can be privatised. National Freight shows how employee buy-outs can reverse years of losses and decline.

John Redwood

JOHN REDWOOD

CONFIDENTIAL

PRIME MINISTER   16 July 1985

BRITISH STEEL

DTI are recommending the purchase and closure of most of Alphasteel's assets as a means of deferring a decision on Ravenscraig. The EC now want to raise European hotstrip capacity utilisation from 66% to 80%, which makes further cutbacks unavoidable, and DTI say closure is "almost certainly inevitable". BSC would like to close Ravenscraig in 1988 and are to close its Gartcosh works (700 jobs) whatever happens.

Government funding for BSC, Actuals and PES baselines, is as below (£m):

1981-2	1982-3	1983-4	1984-5	1985-6	1986-7
694	569	318	523	360	171

Only a month ago you authorised negotiations with Alphasteel on the understanding that BSC would adhere to the 1986/7 EFL baseline but NT is now asking for an additional £74m, with little offsetting saving in other years. This inspires little confidence, and in the light of this substantial additional cost, the Alpha decision should be re-examined.

See page 3 of Mr Tebbit's letter of 12 July.

Why?

Alpha does not remove the need or the inevitability of closing Ravenscraig. We have already minuted our objections to Alpha on financial and political grounds. Even on grounds of expediency, it can only be justified:

CONFIDENTIAL

1. If Alpha was necessary to get BSC through the EC state aids hoop - but other countries who have closed less look like getting by with just secret undertakings to the Commission - surely NT could do the same.

or 2. If Alpha could defer the announcement of Ravenscraig closure - but there is no commercial linkage. If EC agreement can be secured as above, then there is no political necessity either.

or 3. If Alpha disguised BSC's plans for Ravenscraig - but because of the resultant investments at Llanwern and Port Talbot, if anything, the Alpha decision will advertise BSC's future intentions and the lack of any future requirement for Ravenscraig.

Alpha really doesn't achieve anything - only the prospect of purchase by BSC keeps it open. The announcement of Alpha's nationalisation and part closure during the recess has the makings of a first-rate political row, even without subsequent follow-up by the PAC.

A Better Way

£100

There is a better way. Why not close just the hotstrip mill at Ravenscraig (750 jobs in a total of 3,500) and use its blast furnaces and concasters to supply slabs to South Wales (similar to the MacGregor plan to supply slabs to

America)? This would save £50m on a new concaster at Llanwern (or £40m modifying Alpha's concaster) and would make BSC's limited intentions even for the hotstrip mill at Ravenscraig less transparent. Surely an understanding could be reached with the EC to do this in 1988 _if_ by then demand had not substantially increased?

Phoenix II

Allworks Brinsworth – no further investment.

BSC also want to spend £55m of taxpayers' money as a contribution to Phoenix II - a 50:50 joint venture rationalisation of the engineering steels sector. BSC will contribute only £8m and GKN just £10m, BSC will also contribute the lion's share of the assets. This creeping nationalisation can only be justified if it really does lead to privatistion. The track record is bad: Phoenix III (Sheffield Forgemasters) has come back for more money, whilst BSC are reluctant to sell Phoenix I - the now profitable Allied Steel and Wire - because they wish to retain control, not just of primary manufacture, but all UK steel reprocessing.

300 BSC

Surely our policy should be to minimise the cost of withdrawal from state involvement in steel, not a socialist ideal of maximising the size of the steel industry through intervention and the elimination of competition. And if it were the latter, what evidence is there that this creates either jobs or industry? Wouldn't it be better to let BSC and GKN fight it out in the market place, co-operating as necessary? Giving them money is unlikely to achieve more. (It is no surprise that GKN have been prepared to wait so long in the hope of catching this gravy train.)

Recommendations

1. We would prefer the Alpha deal to be dropped; agreement should only be given if NT sticks to his original undertaking on EFLs.

2. If Alpha does not proceed, then NT should be told to negotiate a covert deal with the EC (as other nations appear to be doing) that would close only the hotstrip mill at Ravenscraig and only if demand does not pick up.

Yes but would it be GKN rather than BSC that was forced out?

3. Let market forces resolve the engineering steels sector but, at the very least, insist Allied Steel and Wire is sold before any funding is provided for a Phoenix II-type venture.

Peter Warry

PETER WARRY

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P 01595

PRIME MINISTER

BSC Strategy
E(A)(85)45

BACKGROUND

Provisional figures suggest BSC will make a notional profit - after allowing for the cost of the miners' strike - of £40 million after interest for 1984-85 - a better performance than their target for 1984-85 of break-even before interest. But external finance from Government in 1984-85 (which reflected the circumstances of the strike) amounted to £523 million and BSC is still far from full commercial viability; it will need bigger profits (around £300 million a year, suggests Mr Tebbit) if it is to be fully commercially viable and ripe for privatisation. The Secretary of State for Trade and Industry's

FLAG C. — Memorandum (E(A)(85)45) suggests a future strategy for BSC towards this goal.

Proposals

2. Mr Tebbit proposes:

£100m (a) that BSC should acquire and close in 1985 the (Greek owned) Alphasteel strip mill at Newport, subject to assurances from the EC Commission;

(b) that Alphasteel's two casters be installed at BSC's Llanwern steelworks and that a second reheat furnace be installed at Port Talbot at a cost of about £15 million to enhance the capacity of the strip mill currently being modernised there;

(c) that BSC close the Gartcosh cold rolling mill near Ravenscraig, with the loss of about 700 jobs;

(d) to agree in principle that BSC and GKN undertake the Phoenix II joint venture in engineering steels, subject to further appraisal of the costs and terms of the deal.

MAIN ISSUES

3. The main issues now are:

(a) Alphasteel;

You discussed this with Mr Tebbit and Chancellor on 13/6. BSC were authorised to negotiate up to limit of £150 million. Policy Unit – see note – continue to argue that this is a poor deal and that you should reopen, particularly as Mr Tebbit is bidding for £74 million more in 1986-87. But PU approach loses 750 jobs at Ravenscraig, in addition to the 700 at Gartcosh which will close in all scenarios.

(b) Gartcosh;

(c) the Phoenix II joint venture with GKN;

(d) European Community considerations;

(e) Financial Considerations;

(f) Presentation of Decisions.

Alphasteel

4. BSC still wish to close Ravenscraig in the longer run; but the acquisition and closure of Alphasteel would be sufficient to meet EC quota restrictions, thus permitting Ravenscraig to remain in operation for the time being. Alphasteel is a Greek-owned steel company (strip products), operating in Newport employing 300. Alphasteel has never produced at even ½ capacity, has made losses, and is dependent upon the collaboration agreement with BSC to market its products. With your agreement and that of the Chancellor of the Exchequer, Mr Tebbit authorised BSC to negotiate the purchase of the company within a limit of £150 million. BSC has agreed on a purchase price of £130 million plus £2 million a year for eight years. Agreement is required from the BSC Board, the Government and the EC Commission by 2 August if the deal is not to lapse.

5. BSC have set three preconditions to the deal. These are:

(a) installation at Llanwern of the Alphasteel slab casters, so as to give Llanwern a secure basis as a supplier of concast steel;

(b) installation of a second new reheat furnace at Port Talbot in order to make full use of the hot strip mill currently being modernised there; and

(c) closure of the cold rolling mill at Gartcosh in Scotland at a cost of about 700 jobs.

6. The case for this further investment in South Wales is that it is needed to assure the efficiency and competitiveness of the two Welsh steelworks, and to ensure that they have the capacity needed to service Ravenscraig's customers when and if that works closes. Without the investment closure of Ravenscraig would result in a loss of business and future profitability for BSC. Meanwhile the Alphasteel deal does not close off any longer-term options about the future of Ravenscraig; and the new investment in South Wales would enable Ravenscraig to be closed quite quickly in 1988 without damage to BSC's business.

Gartcosh

7. BSC wish to close Gartcosh in 1985 or early in 1986. It is not part of Ravenscraig, and is so outdated that the Ravenscraig workforce is said not to object to its closure. If Gartcosh is closed, Ravenscraig's output would go to modern mills such as Shotton or South Wales for cold-rolling, thus producing a better product. On the other hand, the closure could be seen as a first step towards the closure of Ravenscraig. The Secretary of State for Scotland may therefore have doubts about this proposal.

8. The Iron and Steel Trades Confederation is pressing for investment of £90 million in new coke ovens at Ravenscraig. Because of their doubts about the works' long term future BSC do not propose to undertake this investment. They intend to use present coke ovens for as long as possible, even bringing in coke from elsewhere if necessary.

Phoenix II

9. The proposed Phoenix II joint venture between BSC and GKN in engineering steels would bring together all BSC's special steel activities in the Sheffield and Rotherham area into an independent company, with BSC and GKN each having 50 per cent of the voting equity. The company would have an annual turnover of £575 million, 12,000 employees; its strength would be a boost to the area, and with luck the companay could be ripe for privatisation in the early 1990s.

10. BSC's wish to go ahead with Phoenix II presupposes the acquisition and closure of Alphasteel. Failing that, they would wish to switch some engineering steel production from Rotherham to the spare capacity they would have at Scunthorpe and Teesside. The proposals have now been under consideration for two years, and GKN are pressing for an early decision. Phoenix II as now presented would involve early new capital investment in a continuous concaster at BSC's Aldwarke mill at a cost of £67 million. The estimated cash required for Phoenix II is £55 million over the two years 1986/87 and 1987/88. Because BSC would require about £25 million for their engineering steels business over these years if Phoenix II did not go ahead, the net increase in BSC's external financing requirement is £30 million.

11. Mr Tebbit argues that Phoenix II could represent a significant 'privatisation' of BSC's steel activities against the 'nationalisation' of the Alphasteel acquisition. The Treasury, however, are concerned about the additional bid for external finance, given the difficult overall position set out in the IFR; and they consider that if the Government refused to provide the £55 million sought for the joint venture, BSC and GKN could devise an alternative arrangement, with private sector finance being secured to cover the costs of a rather smaller new investment in continuous casting facilities. The DTI consider that the proposed joint venture represents the best prospect for maintaining an internationally competitive engineering steels business in the UK, and that it would be

cheaper for the Government in the longer run than the alternatives of developing BSC's capacity separately or running the BSC business down. If the joint venture went ahead, it would clearly be important that it should only do so on the basis of a satisfactory financial appraisal, in the light of the latest assessments of market prospects and the detailed plans for investment, production and financing.

European Community Considerations

12. BSC has to satisfy the EC Commission that it has a plan for viability without subsidy as from the beginning of 1986. The criteria are rigorous and few European steel producers will be able to meet them. In practice, therefore, the Commission will be pressing for the most stringent improvements it can negotiate. The DTI are confident that it would accept a BSC plan including the acquisition and closure of Alphasteel. If Alphasteel were not acquired and closed, matters would be more difficult. The UK would have to point to favourable steel demand and optimistic price assumptions, but BSC would not regard five integrated steelworks without the closure of Alphasteel as a sensible way forward.

Financial Considerations

13. A table showing BSC's profit projects and cash requirements until 1989-1990 under the various projections (including a Ravenscraig closure) is attached to Mr Tebbit's memorandum. If Alphasteel is purchased and the first instalment of £65 million paid, BSC would require £395 million. Mr Tebbit and the Chancellor have agreed to defer any adjustment until later in the year because BSC's current financial performance is better than expected. For 1986/87, the second instalment of £65 million plus the requirements of Phoenix II would take BSC to an EFL of £245 million, some £74 million above baseline. Treasury officials are briefing their Ministers to press for offsetting savings to be found. Beyond 1986/87, there should be savings - £40 million below baseline in 1987/88 and larger savings afterwards.

Presentation of Decisions

14. BSC wish the Government to avoid issuing a statement about BSC strategy before the Summer Recess, even though there is pressure on the Government to do so. Instead BSC would like to make a full statement early in August covering the Alphasteel deal and the framework of their future Plan. This statement would be agreed in advance with Mr Tebbit, who would then make a statement in support of the BSC announcement. This would avoid immediate awkward questions in the House about Ravenscraig; but it invites the accusation that the Government is depriving Parliament of the opportunity to discuss matters of concern to Members. BSC, the DTI and the Treasury are all agreed on the need to ensure that the terms of the announcement avoid any long-term commitment to the continued operation of Ravenscraig; that would be said to be dependent on the future evolution of the market.

Lord Privy Seal should advise on this.

HANDLING

15. You will wish to invite the Secretary of State for Trade and Industry to present his paper. The Chancellor of the Exchequer and the Chief Secretary, Treasury may wish to respond on public expenditure implications. The Secretaries of State for Scotland and Wales will wish to comment on the implications of the proposals for steel communities in their areas.

CONCLUSIONS

16. You will wish to reach conclusions on:

(i) whether or not BSC should acquire and close in 1985 the Greek-owned Alphasteel strip steel mill subject to necessary assurances from the Commission on the acceptability of a Corporate Plan providing for retention of all BSC's present integrated steelworks.

(ii) Whether the two Alphasteel casters should be installed at BSC's Llanwern steelworks, and a second reheat furnace be installed at Port Talbot.

(iii) Whether BSC should close the Gartcosh cold rolling mill.

(iv) Whether or not to agree in principle that BSC and GKN should undertake the Phoenix II joint venture in engineering steels, subject to satisfactory further appraisal of the costs and the terms of the deal, and the prospects for the proposed new company.

J B UNWIN
Cabinet Office.
16 July, 1985

Best Plan

Prime Minister

Do you want to seek reactions to this?

1. Don't buy Alpha
2. Close hot strip at Ravenscraig (750 jobs) but keep its blast furnaces and concasters open (300 jobs)

3. R's capacity is roughly half of that of Llanwern so R could then supply slabs to L whilst still allowing L to keep some steel making

4. L would takeover all of R's hot strip rolling

5. This should meet EC requirements

L+30:

12

(P Warry)

CONFIDENTIAL

File

MR TURNBULL

18 June 1985

ALPHASTEEL

John Redwood recently voiced his concern over the Alphasteel decision to the Prime Minister, who asked that we take up the issue with you. We are worried that if the decision comes under informed and hostile questioning in the House, it will be difficult to satisfactorily defend. It could also give rise to a PAC investigation which might produce a report in the early part of 1987. Bob Haslam (BSC's Chairman), is appearing before the Select Committee on Trade and Industry today and could innocently provide further ammunition for the Government's critics.

I assume that any statement by Norman Tebbit would outline the substance of the deal, indicating that it was necessary to meet EC capacity reduction requirements and was financially justified on the basis of the transfer of Alphasteel's quota, the avoidance of a price war and the re-utilisation of Alphasteel's concasters at Llanwern.

The attachment sets out the worst questions that I think might be asked, either in the House or by the PAC, and the core of the answer that could be given (although it will obviously be for DTI to propose in the first instance). For the sake of clarity, I have used a little licence in formulating the questions, but no more than I would expect to occur in the House.

Peter Warry

PETER WARRY

CONFIDENTIAL

1. **Question:** France and Italy do not appear to be reducing capacity in line with EC policy. Why is it just Britain that is paying out huge sums of money to destroy jobs?

   Answer: European countries have been moving at different rates - the UK is in the middle of the pack.

2. **Question:** the ending this year of the EC state aids regime means that loss making steel plants have to close. Is Ravenscraig making a loss and does the Alphasteel purchase mean that closure of Ravenscraig is prevented for all time, or merely deferred until after the election?

   Answer: no such guarantee can ever be given. The future of Ravenscraig will depend upon its financial viability.

3. **Question:** if Alphasteel's concasters are to be re-utilised at Llanwern, this means that BSC could meet all future demands merely through Port Talbot and Llanwern. Does this not signal the end of Ravenscraig?

   Answer: for Llanwern to be profitable it needs up-to-date continuous casting facilities.

4. **Question:** the latest published accounts for Alphasteel show accumulated losses of £57 million. The auditors say that this is not a true and fair view and that the loss would be nearer £85 million on a proper accounting basis. Given these appalling financial figures, why do the Government believe that Alphasteel will not close of its own accord, as surely the only thing keeping Alphasteel open is the prospect of BSC buying it?

   Answer: whilst it is possible that Alphasteel would close, it is not thought that this would occur in any reasonable timescale.

5. **Question:** what is the nationality of the ultimate owners of Alphasteel - the people who will benefit from £150 million.

Answer: Greek.

6. **Question:** in other industries (BL for example), it is said that selling a company below asset value would be to short-change the nation. Here the Secretary of State is proposing to pay £150 million for a company that has an asset value of minus £17 million, how does he reconcile these two positions?

Answer: the value of Alphasteel to BSC is higher than the figures shown in the company's books.

7. **Question:** is it not true that BSC currently provides Alphasteel with slabs for its hot rolling mill and also markets the resulting strip on behalf of Alphasteel, and is it not true that both Alphasteel and BSC are constrained by their existing quotas from increasing the amount of steel they sell? In these circumstances why might Alphasteel be expected to indulge in a price war when it could gain no market share as a result?

Answer: Alphasteel's quality is inferior to BSC and the absence of market outlets means that they would then have to drop their price to sell their steel.

8. **Question:** what grounds are there for believing that Alphasteel could sustain a price war, (from which they could gain nothing), for a sufficient number of years to recoup the millions paid for the company? How long a price war has been assumed in the financial evaluation?

Answer: in BSC's judgement, three years.

9. **Question:** part of the benefits of purchasing Alphasteel are meant to come from acquiring their quota, but doesn't the EC quota regime end this year?

Answer: yes, but a new regime is anticipated.

10. **Question:** isn't the elimination of Alphasteel by BSC anti-competitive and abhorrent to Conservative free market principles?

Answer: this is the EC regime

11. **Question:** would not the closure of the hot strip mill at Ravenscraig be a more commercially sensible alternative? Closing Alphasteel temporarily secures only 750 jobs at Ravenscraig at a cost of £200,000 for each job, and in fact more if one takes into account the resulting redundancies at Alphasteel.

Answer: That is your calculation.
[We cannot say that all possibilities have been properly investigated because if the PAC ever examines the history it will discover that this option was never looked at].

12. **Question:** if the partial closure of Ravenscraig took place, would the Secretary of State then expect Alphasteel to close of its own accord without the necessity of spending £150 million of the taxpayers money?

Answer: this is not a route we have chosen to follow.

13. **Question:** did the same merchant bank advise on Alphasteel as helped the Government on BL?

Answer: yes, Baring Brothers.

14. **Question:** has the Secretary of State consulted his Cabinet colleagues before spending this £150 million, in view of Government cuts widely forecast for other areas?

Answer: such colleagues have been consulted as is appropriate for a matter of this type.

005/112

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~~SC~~ NO

NBPM

AS

19/6

Treasury Chambers, Parliament Street, SW1P 3AG

John Mogg Esq
Private Secretary to
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London SW1E 6RB

18 June 1985

Dear John

ALPHASTEEL

Andrew Turnbull's letter of 13 June records that the Prime Minister has agreed BSC should enter into negotiations with Alphasteel on the understanding that the price will be at most £150 million and that the increase in their EFL in 1985-86 should not exceed £45 million.

I understand our officials have already discussed the details and the Chief Secretary has asked me to write to you to underline the following points.

He has noted that we will need to look at the case for increasing the EFL for 1985-86, within the maximum of £45 million, in the light of the purchase price finally agreed and of BSC's financing requirements as they become clearer during the course of the year. Their present EFL of £360 million includes a large provision for contingencies and it could turn out that they will be able to use some of it to offset the Alphasteel costs.

The Chief Secretary has noted your Secretary of State's estimate - in paragraph 10 of his letter of 12 June - that, assuming phasing of the price paid to Alphasteel, BSC would be able to stick to their 1986-87 baseline of £171 million, to save £30 - £35 million on their 1987-88 baseline, and to make larger savings in the later years. He has commented it follows that if the deal goes ahead as planned, these figures will now be the <u>ceilings</u> for BSC's financing requirements. In the course of the negotiations on the IFR, our Departments can then examine how far there is

CONFIDENTIAL

a case for reductions below those ceilings, and what the figure for 1988-89 should be, since by that time the savings on the present baseline of £139 million should be very substantial indeed.

All these estimates are based on the assumption that the purchase price will be phased. We understand that this is what the Greeks suggested themselves at an earlier stage and provided it does not lead to an indefensibly expensive method of financing, we would naturally prefer phasing in the interests of reducing the impact on the Government's public expenditure plans.

I am sending a copy of this letter to Andrew Turnbull at No. 10.

Yours sincerely
Richard Broadbent

R J BROADBENT
Private Secretary

Steel: Nat. Ind. Pt 13

Subject.
cc Master.

File

SRWACX (SLH)

10 DOWNING STREET

13 June 1985

From the Private Secretary

ALPHASTEEL

The Prime Minister discussed this afternoon with your Secretary of State and the Chancellor BSC's proposal to buy and close Alphasteel. Your Secretary of State said he would shortly be discussing with the Commission the basis on which BSC's plans would be drawn up. If Alphaasteel were not acquired he doubted if he could reach agreement with the Commission on capacity without entering into a clear undertaking to close Ravenscraig. He felt the decision could be justified publicly and defended to the PAC. Alfasteel employed about 400 people, some of whom would be taken on by BSC. The Chancellor argued that Alfasteel should be acquired only if, in practice, it enabled an agreement on capacity to be reached with the Commission.

Summing up this part of the discussion, the Prime Minister said it was agreed that BSC should enter into negotiations with Alfasteel. They should seek to negotiate a price below £150 million and should not be authorised to exceed it. The increase in the EFL in 1985/86 should not exceed £45 million.

The Prime Minister said the Mexicans were not proceeding with the further stage of the Sicartsa steel project. She wondered whether this would create export opportunities for the British steel industry and, if so, whether a deal could be reached under which loans to Mexico would be written down in return for an undertaking to buy steel from BSC. Your Secretary of State agreed to investigate this.

I am copying this letter to Rachel Lomax (H M Treasury).

Andrew Turnbull

John Mogg, Esq.,
Department of Trade and Industry

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MR TURNBULL 13 June 1985

ALPHASTEEL

There are no easy options, each route carries either commercial, political or EC penalties. The principal choices are:

1. **Do nothing on Alphasteel or Ravenscraig:** politically good, commercially poor and could result in an EC row, but may be sustainable.

2. **Close just the hot rolling mill at Ravenscraig:** politically bad (an extra 750 redundancies in a workforce of 4,000). Commercially sensible, EC good.

3. **Buy Alphasteel:** politically difficult, commercially doubtful, EC satisfactory. (But this would only defer a decision on Ravenscraig, not avoid it).

Alphasteel has lost huge amounts of money (accounts to end 1982 attached), and is only kept open by the prospect of being purchased by BSC. The financial justification for buying (even if one does not expect it to close of its own accord) is questionable. The main constituents are: quota - £18m a year (but this assumes that the quota regime will continue and if Alpha closed of its own accord, BSC would get none of it), and avoiding a price war - £22m a year (but only a nationalised industry could suffer losses on this scale year after year!)

Politically it would be very difficult to justify paying £150m to buy such loss-making assets, only then to scrap most of them. (When BL wants to sell companies below asset value this is difficult - Alphasteel has a negative asset value of £18m!). The PAC will have a field day.

Yet doing nothing (which we might get away with) would place the UK amongst the laggards in Europe on steel. Alphasteel would then probably close of its own accord.

The judgements that have to be made are:

1. Could we avoid EC infraction procedures if we do nothing? Would it be better to fight against the quota regime?

2. Could the hot strip mill at Ravenscraig be closed without political consequences significantly worse than the row that the Alphasteel purchase and closure will cause?

3. Should we rely on BSC's calculation of Alphasteel's worth?

On balance, we favour not buying Alphasteel, and in any event would recommend that no final decision be made until Bob Haslam has completed his negotiation.

Peter Warry

PETER WARRY

ALPHASTEEL LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 1982

	Notes	1982	1981
TURNOVER		£ 30,411,907.75	£ 21,427,075.97
OPERATING PROFIT/(LOSS)		2,434,174.31	(2,430,860.25)
Less: EXCHANGE DIFFERENCES		(3,967,406.66)	130,560.43
INTEREST ON PROMISSORY NOTES	5	(8,092,663.50)	(7,955,914.76)
LOSS FOR THE YEAR	2	£ (9,625,895.85)	£(10,256,214.58)

STATEMENT OF ACCUMULATED DEFICIT

ACCUMULATED REVENUE DEFICIT AT 1ST JANUARY 1982	(43,178,247.19)	(32,922,032.61)
LOSS FOR THE YEAR	(9,625,895.85)	(10,256,214.58)
ACCUMULATED REVENUE DEFICIT AT 31ST DECEMBER 1982	£(52,804,143.04)	£(43,178,247.19)

The notes on pages 9 to 12 form part of these Accounts.
Auditors' report page 4.

ALPHASTEEL LIMITED

BALANCE SHEET

31ST DECEMBER 1982

	Notes	1982		1981	
FIXED ASSETS AT COST	3		83,707,003.65		83,677,553.65
CURRENT ASSETS					
Stock	4	3,853,639.78		5,420,264.66	
Debtors		3,991,867.42		4,916,337.62	
Cash		2,275,155.98		3,884,379.68	
Bills receivable		4,968,971.77		1,476,511.53	
		15,089,634.95		15,697,493.49	
CURRENT LIABILITIES					
Bills payable		302,869.28		302,869.29	
Short term loans	5	2,181,060.04		-	
Creditors		2,416,054.27		2,564,393.71	
		4,899,983.59		2,867,263.00	
NET CURRENT ASSETS			10,189,651.36		12,830,230.49
			93,896,655.01		96,507,784.14
LESS: DEFERRED LIABILITIES					
Loans	5		(111,700,798.05)		(114,586,031.33)
			£(17,804,143.04)		£(18,078,247.19)
SHAREHOLDERS' FUNDS					
Share Capital	6		35,000,000.00		25,100,000.00
Accumulated deficit			(52,804,143.04)		(43,178,247.19)

Directors: M Williams T. Shah

Approved by the board:- 15th. Dec. 1983

	£(17,804,143.04)	£(18,078,247.19)

The notes on pages 9 to 12 form part of these accounts.
Auditors' report on page 4.

REPORT OF THE AUDITORS

TO THE MEMBERS OF

ALPHASTEEL LIMITED

1. We report on the financial statements set out on pages 5 to 12 which have been prepared under the historical cost convention. Our audit has been carried out in accordance with approved Auditing Standards.

2. As stated in note 3 to the financial statements on page 9, no provision is made for the depreciation of fixed assets. This is not in accordance with Statement of Standard Accounting Practice No. 12. Based on depreciation rates estimated to write down the assets over their expected useful working lives, the depreciation charge for the year should have been £5,243,082 and accumulated depreciation at 31st December 1982 £22,639,723. The effect of this is to decrease the loss for the year from £14,868,978 to £9,625,896 and to decrease the accumulated deficit to date by £22,639,723. The fixed assets are correspondingly overstated in the balance sheet.

3. As stated in note 1 to the financial statements on page 9, the financial statements have been prepared on a going concern basis. However, we have been unable to satisfy ourselves that, in the event that the company ceased to trade, the fixed assets would realise their net book value of £83,707,004.

4. For the reasons set out in paragraphs 2 and 3 above, in our opinion the financial statements do not give a true and fair view of the state of affairs of the Company at 31st December 1982 or of the results and source and application of funds for the year then ended. In all other respects the financial statements comply with the Companies Acts 1948 to 1981.

5. Supplementary Current Cost Accounts have not been prepared by the company as required by Statement of Standard Accounting Practice No. 16.

15. December 1983

London

Robson Rhodes

Chartered Accountants

10 DOWNING STREET

Prime Minister (1)

Mr Tebbit seeks authority for BSC to complete negotiations with Alphasteel for purchase at around £150 million.

You may like to discuss first with Mr Tebbit and Chancellor. A slot is available at 18.00 tomorrow. The meeting could also consider the final points on the BL/Honda deal, on which a minute is is expected tomorrow.

Agree a meeting?

AT

12/6

Yes MT

B CAO

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

12 June 1985

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Chancellor,

WHAT?

Yesterday I sent you a copy of my minute to the Prime Minister advising you that negotiations with the Greek owners of Alphasteel were again underway.

cc BL Holder.

2 You will recall that Norman Lamont wrote to Peter Rees on 25 March about BSC strategy, and supported the BSC Board's view that they should be empowered to buy and close the Alphasteel mini-mill in South Wales. Since that letter there have been more detailed discussions at official level, and I have also spoken further to Sir Robert Haslam about the strategic basis for BSC's next plan.

3 The main advantages we hope to gain by closing Alphasteel, which is ultimately owned by a Greek family and employs some 350 people, are:

- improving the loading at BSC's strip works by transferring Alphasteel's production and quota;
- protecting BSC against destructive price cutting;
- enabling Alphasteel's continuous casters to be transferred to BSC's Llanwern works and a new reheat furnace to be installed at Port Talbot;
- enabling us to present to the European Commission a plan for BSC which we think would meet their viability requirements and secure the release of essential funding for BSC;
- allowing us greater flexibility in dealing with the problem of Ravenscraig.

JH3BVO

CONFIDENTIAL

4 Over the last year the owners of Alphasteel have indicated to BSC that the works might be for sale, but at an unacceptably high figure. Shortly before Whitsun, however, the owners said that they were not willing sellers. We seemed to be facing a difficult situation: either having to take precipitale decisions on Ravenscraig or having an extremely serious row with the European Commission and quite possibly helping to undermine the discipline imposed on steel industries in other Member States.

5 It was not clear to me whether the "not for sale" message from the owners of Alphasteel was genuine or a ploy, and I asked Sir Robert Haslam to make it plain to them that I would need to indicate to the European Commission on 24 June the strategic basis on which BSC's plan would be drawn up. Thereafter, it would not be possible to turn back.

6 This has produced an immediate reaction, and a reduction in the price being asked. The owners have said that they will sell the hot strip mill and continuous casters to BSC for £150 million. They would retain steelmaking and billet casting facilities, but only use them for export.

7 BSC need to explore this proposal in far more depth. But it is clear that it gives them most if not all of what they wanted from the purchase. The hot strip mill is the important contributor to overcapacity and its closure would both protect BSC's commercial position and represent a major contribution to the Commission's objectives. The continuous casters can be installed at Llanwern, which needs continuous casting to safeguard its own future. Installing new casters could arouse widespread and vocal concern that the Government had already taken their decision to close Ravenscraig. The reduction in capacity would enable the Commission to sanction the new reheat furnace at Port Talbot which is needed to get full value from the refurbishment of the hot strip mill there.

8 The price for Alpha is higher than BSC's calculation of the price which would be justified on purely commercial grounds, but the gap is not large and is worthwhile in return for additional strategic flexibility. BSC would, of course, hope to be able to reduce the price further.

9 However, before Sir Robert Haslam can pursue detailed discussions he needs to have negotiating authority. I should be grateful for your agreement by close of play Friday, 14 June to his being empowered to make an offer within £150 million. I regret having to seek such a quick response but Sir Robert has to move quickly in his discussion so that the deadline I set (of 24 June) can be met.

10 We have made an estimate of the public expenditure effects of the purchase of Alphasteel. Assuming some phasing of the purchase

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price - and also for illustrative purposes assuming that Phoenix II goes ahead - BSC would need a £45 million increase in their EFL in 1985/86, would be able to stick to the baseline in 1986/87 and would save £30 - 35 million compared with baseline in 1987/88. Larger savings would be available in later years.

11 The Alphasteel deal, if it comes off, relieves our most acute problem over steel strategy. But we will still need to consider what guidance can be given to BSC concerning their future planning. The Board themselves have earlier indicated their view that, in the long term retention of Ravenscraig is not compatible with the present objectives of full commercial viability.

12 I am copying this letter to the Prime Minister.

Yours sincerely,

John Mogg

pp NORMAN TEBBIT

(Agreed by the Secretary of State and signed in his absence)

JH3BVO

CC JR

Prime Minister (2)

As we suspected, the proprietors of Alphasteel are mainly interested in being bought out and a little bit of "hard to get" by BSC has improved the negotiating climate.

AT 4/6

CONFIDENTIAL

PRIME MINISTER

BSC STRATEGY

I mentioned to you at the end of May the problem we faced over BSC's future strategy. The BSC Chairman, Sir Robert Haslam, and the Board are firmly of the view that Ravenscraig has no long term future. BSC had proposed to me that they should acquire and close a Greek owned works, Alphasteel, situated in Newport. This proposed purchase and closure would lead to improved loading of BSC's three strip works, get us out of the immediate difficulties we face with the Commission who need to be provided with a plan demonstrating that BSC are on the road to viability, and enable a decision on the future of Ravenscraig to be deferred although investment decisions which will have to be taken in the near future will constitute signals that the future of Ravenscraig will be jeopardy within the next few years.

2 At the time I spoke to you, it seemed that the Greek owners of Alphasteel were not prepared to do a deal with BSC except at a price which neither we nor BSC were prepared to accept. However, Sir Robert Haslam has had further contact with the Greek owners, at my request, to point out to them that if a deal cannot be concluded by 24 June (when I am due to visit Brussels) it would unlikely that BSC would be interested in a deal after that date.

3 This further approach has had an immediate effect. The Greeks have come back with a more reasonable offer which BSC are currently examining. I will be having urgent discussions

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CONFIDENTIAL

about it with Sir Robert Haslam this week. I hope to be in a position to seek agreement quickly to give BSC authority to conclude a deal to purchase Alphasteel or the essential parts of its UK business. I will write further with details of the position, and seeking agreement to the necessary authority, in a day or two.

4 I am sending a copy of this letter to Nigel Lawson.

NT

N T

11 June 1985

Department of Trade and Industry

JH2AUZ

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1. ~~FERB~~ PERB
2. CF

7

NOTE FOR THE RECORD

cc John Redwood

BSC

Mr Tebbit reported to the Prime Minister on Friday afternoon on the outlook for the steel industry. BSC believed that commercial considerations dictated a progressive closure of Ravenscraig. Its current level of output was being maintained temporarily while modernisation was being undertaken at Port Talbot. The rolling mill would be closed in autumn 1985 and the output transferred to Shottom. If this transfer were delayed expenditure of £10-15 million would be incurred on refurbishing the rolling mill facilities at Ravenscraig. This could not be justified on a long term basis. In May 1986 hot strip output would be cut by half and transferred to South Wales when the modernisation work was complete. At this point the final closure of Ravenscraig would have been clearly signalled. Ravenscraig would finally be closed in mid 1988. To maintain five plant operation would cost the Corporation an extra £100 million a year.

BSC's difficulties in achieving break even had suffered a set back with the breakdown of negotiations with Alphasteel. BSC had been planning to acquire Alphasteel and then to close it, having taken over its quota. The proprietors of Alphasteel were demanding a price which was too high. The Prime Minister noted that Alphasteel was losing money and that its proprietors might be keeping it open solely in the hope of securing a substantial sale price for the quota. If this were the case the best course might be to withdraw from the negotiations and let Alphasteel fold. The Secretary of State doubted whether the company would fold at all quickly.

The Prime Minister said the political case for keeping Ravenscraig open was strong. Workers there had fought to protect their jobs when the going was rough during the miners' strike. To close the plant would vindicate the taunts of the militants that the Government supported steelworkers only when it suited them. It was also noted that the timing of closure suggested by BSC was particularly difficult in relation to the election.

The Secretary of State for Trade and Industry said it would be difficult to secure the agreement of the Commission to continuing five plant operation. The Commission were seeking an early end to operating subsidies which were contrary to the Treaty. While it was true that Britain had closed more steel capacity than other Community countries, this was not necessarily true if the comparison was made from the start of the current steel regime. Under pressure from the Commission other countries were now making significant closures. It was thought difficult to disguise the losses for which five plant operation would entail.

The Secretary of State for Trade and Industry agreed to examine further how Ravenscraig could be kept open, at least for a number of years, in a way which would secure the agreement of the Commission.

AT

3 June 1985

PRIME MINISTER 30 May 1985

BRITISH STEEL

If BSC's finances are to be brought under control in time for the ending this year of the EC state aids regime, then one steel works has to close. The principal questions are:

1. **Will there by any flexibility for state aid beyond 1985?**
   Very probably: it is a game of chicken, the French (and to a lesser extent the Italians) are in a worse position than ourselves. Whatever happens state finance will have to continue and this can hide compromises and covert deals with the Commission.

2. **Does it have to be Ravenscraig?**
   Llanwern is an alternative: financially less attractive but much better than no closures at all.

3. **Could the purchase and closure of the privately owned Alphasteel do instead?**
   This is something of a red herring: it would help but BSC believe Ravenscraig has to be closed as well. In any event paying £150 million to nationalise and then close a gigantic loss-maker is politically very difficult. The PAC would have a field day.

4. **Need it be a total closure of Ravenscraig, and need it occur just when an election could be anticipated?**
   Although second-best, closing the hot strip mill and one of the blast furnaces would reduce both

capacity and cost. Subject to the state aid regime, this could perhaps be done sooner and without closing the whole works.

Alphasteel

Alphasteel has been losing huge amounts of money and there is no hope of it ever making a profit. In a rational world only the prospect of being bought by BSC can be keeping Alphasteel open.

Alphasteel has two marketable points:

i. 220,000 tonnes of quota (compared to BSC's total of more than 5 million tonnes for the half of its business that is quota-regulated) and

ii. the threat of competition to a monopolistic BSC and disturbance to its 'orderly' marketing.

BSC is the only realistic purchaser as the European producers are not limited by quota to the same extent as BSC. If BSC were to genuinely break off purchase negotiations, (particularly if this were coupled to an announcement on Ravenscraig), then it seems inevitable that Alphasteel would fold. True, it might start a price war but this would only add to its losses and accelerate the closure once it became clear BSC meant business. On a closure, its quota would be re-allocated and BSC could well obtain the lion's share.

Having successfully negotiated BSC up to an offer of £150 million, Alphasteel are now saying they are no longer interested in selling. We should take them at their word and call their bluff.

Phoenix II

Phoenix II is the rationalisation of the special steels sector at a cost of £55 million primarily involving BSC and GKN. Because it involves the creation of some new steel manufacturing capacity and a consequent reduction in demand on BSC, BSC do not favour it unless Ravenscraig and Alphasteel are closed. DTI on the other hand would like to tidy this sector (at the taxpayers expense) even without other closures.

To date Phoenix I (Allied Steel and Wire) and Phoenix III (Sheffield Forgemasters) have only achieved nationalisation of private sector steel. Privatisation will only occur when all shares are sold and they pass out of BSC control, and away from recourse to the public purse (as happened with Sheffield Forgemasters last autumn).

We need to decide whether the priority is to minimise the cost of privatising BSC (eg non-Phoenix route) or to maximise the size of the viable steel industry (Phoenix route). And whether as much of BSC should be privatised as quickly as possible or whether they should retain their 'long legs' (ie the steel processing companies such as Allied Steel and Wire) until a grand full scale privatisation is possible.

Recommendations

1. The DTI could be asked to give their predictions of what will follow the official ending of state aids this year, such that decisions on BSC can be made in the light of these expectations.

2. Detailed proposals on the partial closure of Ravenscraig could be worked up, including options on timing of both announcement and closure.

3. Alphasteel should be told that the Government are not interested in their purchase at <u>any price</u>.

4. Decisions on Phoenix II should be deferred until the future of Ravenscraig has been decided.

5. The 'long legs' of the business should be further shortened by sale of businesses to raise cash and reduce risk. In particular if approval were given for Phoenix II it should, in part, be financed by the sale of Allied Steel and Wire.

Peter Warry

PETER WARRY

CONFIDENTIAL

File

MR TURNBULL 9 January 1985

BRITISH STEEL CORPORATION

The DTI note unknowingly highlights the BSC paradox-whilst they are working genuinely hard towards privatisation through the formation of joint venture companies; these very same joint ventures actually increase the amount of British industry in quasi-public ownership until they are sold: and they are not for sale!

BSC believe they must not only retain the core steelmaking businesses but also control of the 'long legs' through which the basic product is processed for sale to the ultimate customer. Thus whilst DTI praise the formation of the now profitable and saleable Allied Steel and Wire (Phoenix 1), BSC will resist its sale. And with DTI support the familiar ritual of "don't sell it this year because it will fetch more in a few years time" is about to start.

The same 'not for sale' applies to most of the other joint ventures the note enumerates and will also apply to the Phoenix 2 quasi-nationalisation of GKNs special steels operation (at a cost of £81 million) if it succeeds.

Sheffield Forgemasters has clearly demonstrated that this sort of joint venture 'privatisation' only removes them from the public books, not the public trough.

The policy issues remain (1) what to do about the big strip mills - the arguments for keeping Llanwern open rather than Ravenscraig are not overwhelming, particularly if the effective coal strike were to continue in South Wales long after Scotland. And (2) true privatisation of the peripheral businesses including the long legs. We ought to have a timetable for this.

Peter Warry

PETER WARRY

CONFIDENTIAL

Await Policy Unit ~~CC~~ NO
2.

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

27 December 1984

Andrew Turnbull Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON SW1

Prime Minister

28/12

Dear Andrew,

BRITISH STEEL CORPORATION

Your letter of ~~29~~ November asked for a state of play report on negotiations and future plans for disposals of BSC businesses outside the main steelmaking plants.

2 In total, the scale of activity so far has been considerable, especially in view of the difficulty of attracting private capital into bulk steelmaking in its present state. By December 1983, privatisation and disposals activity had affected 11% of BSC's workforce and almost 15% of its net asset value. It had also created some substantial private sector companies, such as Allied Steel and Wire, with a turnover of £222m and a workforce of over 4,000 in 1983. Since then, there has been further progress, including the disposal of BSC's 91% shareholding in RGC (Offshore) Ltd to Trafalgar House for £15m and the agreement to dispose of 75% of Stanton and Staveley, which had a turnover of £96m in 1983/84.

3 As your letter recognises, the future of the main steelmaking plants remains to be determined when it becomes possible to determine BSC's long-term strategy. And proposals have been submitted to Ministers for the Phoenix II privatisation venture, covering almost all the Special Steels part of BSC's General Steels Division. These proposals, which are currently being appraised, envisage an asset contribution by BSC of £275m, and if implemented they would result in 10% of BSC's present tonnage moving to the private sector.

4 Of the other businesses, the Associated Products Group and the Light Products Group comprise a variety of smaller scale activities at a number of sites which are being privatised when purchasers or partners can be found. Some of the activities are carried out at sites, or concern products, whose future is bound up with the Phoenix II proposals; because of constraints on management time the

JH3BHE

future of those parts will be considered after decisions are taken on Phoenix II. Other activities which are not connected with Phoenix II are subject to review and internal rationalisation when private sector purchasers or partners cannot be found.

5 In the Tubes area, two joint ventures have been formed with TI during the past year to make small and medium diameter seamless tubes. BSC's plan is to improve the feedstock for all seamless tubes through a £40 million capital expenditure programme which was approved in 1983 as part of their Corporate Plan, so that the whole seamless tubes business can be floated in a few year's time.

6 In addition, BSC Refractories is in the course of being put into a joint venture, and another large peripheral business - Pipework Engineering - will have been disposed of by the end of this financial year.

7 On the overseas side, most of BSC's remaining interests are either sales and stockholding companies which are to be retained to support export business, or historical holdings in operating companies for which buyers have not yet been found. Even when current disposal activity is complete, BSC will retain a 40% interest in both Ostrimet (Argentina) and Dorman Long and Amalgamated Engineering (Nigeria). Both these holdings are worthless: the companies make losses and have financing problems. BSC do not support these companies, but the Governments in the countries concerned will not allow them to close.

8 Finally, BSC will retain a 42% holding in Sidbec-Normines after the closure of the Firelake mine and the repayment of the capital debt of the Firelake project. The investment will be carried at zero value in their books, but will secure a supply of high quality iron ore.

9 I attach five Annexes which give more detailed information on the points covered in this letter. They are as follows:

Annex A: a list of disposals and joint ventures from April 1980 to March 1984 which was published with BSC's accounts for 1983/84.

Annex B: an overall list of BSC's businesses. Core businesses are marked with a C.

Annex C: an account of progress since April 1984 on the disposal of BSC's overseas interests.

Annex D: an account of progress since April 1984 on the disposal of BSC's peripheral activities.

Annex E: an account of two joint ventures currently under review.

10 I am copying this letter to Richard Broadbent (Chief Secretary's office) and Peter Gregson (Cabinet Office).

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

ANNEX A

Prog: ess to privatisation 1980–1984

	Disposals	Joint Ventures
1980/81	*UK Wholly Owned* **The Unit Inspection Company Limited** **Orkot Engineering Industrial Plastics Limited*** **Teesside Galvanising** *UK Partly Owned* **The Bamburgh Shipping Company Limited** **John Finlan Limited** **Kiveton Park Steel & Wire Works Limited** *Overseas Interests* **Tubemakers of Australia Limited** **Pacific Steel Limited** (New Zealand) **Steel & Tube Holdings Limited** (New Zealand) **Ostrilion** (Argentina)	
1981/82	*UK Wholly Owned* **Redpath Dorman Long Limited** **Hamilton Foundry*** *UK Partly Owned* **Lee Bright Bars Limited** *Overseas Interests (all South Africa)* **Consolidated Metallurgical Industries Limited** **Dorbyl Limited** **International Pipe & Steel Investments South Africa (Pty) Limited** **Pipe Couplings (Pty) Limited** **Stewarts and Lloyds of South Africa Limited**	**Allied Steel and Wire (Holdings) Limited** (Merger with Guest Keen and Nettlefolds plc of rod, bar and reinforcement engineering activities. BSC share 50%)
1982/83	*UK Wholly Owned* **Port Clarence and Totton Works** **Fluorspar Mining** **Scunthorpe Open Cast Ore Mining** **The Victaulic Company Limited*** (Employees 40%, institutions 30%, BSC 30%) *UK Partly Owned* **Bitmac Limited** **Britflex Resin Systems Limited*** **Six Hundred Metal Holdings Limited** **Colvilles McKinney Limited** *Overseas Interests* **The Indian Tube Company Limited**	**British Bright Bar Limited** (Merger with GKN and Brymill of bright drawing and bright products stockholding. BSC share 40%) **Sheffield Forgemasters (Holdings) plc** (Merger of River Don Works with Johnson, Firth Brown's Atlas works and other activities. BSC share 50%)
1983/84	*UK Wholly Owned* **Coated Electrodes Limited*** (part only) **The Unit Superheater and Pipe Company Limited*** *UK Partly Owned* **Sarclad International Limited*** **Samuel Groves & Company Limited** *Overseas Interests* **Iisco-Stanton Pipe and Foundry Company Limited** (India) **AB Dalforsan** (Sweden)	**Cold Drawn Tubes Limited** (Merger with TI of Cold Drawn business. BSC share 25%) **Seamless Tubes Limited** (Merger with TI of Hot Finished Small Seamless business. BSC share 74.5%) **Clyde Shaw Limited** (Merger with W Shaw Limited of Craigneuk foundry. BSC share 50%) **Hadfields (Holdings) Limited** (With GKN and Lonrho to acquire Hadfields Limited as part of Phoenix II arrangements. BSC share 37.5%) **Flixborough Wharf Limited** (Merger with Faber Prest Holdings plc. BSC share 25%)

ANNEX B

BSC'S BUSINESSES

General Steels Division

		1983/84 turnover
c	Sections and Commercial	£618M
c	Plates	£160M
	Special Steels	£374M

Strip Products Group-

c	Strip Mill Products)	
c	Tinplate)	£1138M
	Associated Products Group)	

BSC Holdings Group

c	Forges, Foundries and Engineering	£35M
c	Cumbria (track products)	£70M
c	Stainless	£137M
	Light Products	£35M
	Refractories	£3M

Tubes Division

c	Welded Tubes	£148M
	Seamless Tubes	£125M
c	British Tubes Stockholding Ltd	£17M

Stockholding

c	British Steel Service Centres	£165M

ANNEX C

DISPOSAL OF OVERSEAS INTERESTS - PROGRESS IN 1984/85

BSC has a number of overseas interests which fall into two main categories: first, sales and stockholding companies to support exports which are to be retained and secondly the remaining historical holdings in operating companies which have been difficult to dispose of. During 1984/85, the following disposals of the second category have taken place:

Lancashire Steel (Private) - Zimbabwe (100%)

50% sold to the Industrial Development Corporation of Zimbabwe.

50% sold to the Zimbabwe Iron and Steel company thereby reducing BSC's holding in the latter to a nominal 8%.

Cindu - Holland (70%)

Agreement in principle reached with Hoogovens (£1.9M)

Stewart and Lloyds of India (40%)

Agreement in principle to sell to Babcock (£350,000).

Genrec - South Africa (40%)

Sold with PED to Babcock

Stanton Pipe - Canada (100%)

Three merchant banks looking for purchaser, one US company known to be interested

Canped Pipework and Mechanical Contractors - Canada (100%)

Negotiations under way; if they fail this business will be liquidated.

Concast - Switzerland (20%)

This holding is associated with the licence to install proprietary concast systems which is assigned to the Distington Engineering Company (DEC) (part of BSC Holdings). The concast partners have now agreed that the licence can be assigned to a purchaser of DEC, and this company is therefore being marketed.

DISPOSAL OF PERIPHERAL UK BUSINESSES - PROGRESS IN 1984/85

SIZEABLE DISPOSALS

RGC Offshore plc - BSC's 91% sold to Trafalgar House.

Stanton and Staveley Ltd - 75% being sold to Pont-a-Mousson, 25% retained by BSC at Ministerial request.

Pipework Engineering (PED) Ltd - 100% sold to Babcock.

Refractories - Heads of agreement are due to be signed in a deal which will reduce BSC's shareholding to 22% of a joint venture.

MINOR AREAS OF ACTIVITY

Springs business - joint venture negotiations have broken down. BSC is proceeding with in-house rationalisation.

Railway and Ring Rolled Products Ltd - BSC are reviewing the future of this business, following a failed attempt to put it into a joint venture.

Cookley Stamping Works - Negotiations are at an advanced stage with GKN Sankey.

Port Clarence - a litol plant - BSC seeking purchasers.

Tinplate Processing - a 50/50 joint venture established between BSC's 100% owned operation and Afon Tinplate Ltd in which BSC owned 40%.

ANNEX E

JOINT VENTURES WITH THE PRIVATE SECTOR - PROGRESS IN 1984/8

1 United Merchant Bar

Agreement to be signed this month for a 75% Caparo/25% BSC new joint venture in light sections. BSC assets up to £1.3M.

3 Phoenix II

Revised BSC/GKN proposals for a 50/50 joint venture in engineering steels submitted to Ministers last month. Now under appraisal by officials. (£81M HMG finance sought). Proposed BSC asset contribution £275 million.

Nat Ind: Steel Pt 13.

CONFIDENTIAL

NBPM AT

CE NO 7/12

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

7 December 1984

Norman Lamont Esq MP
Minister of State for Industry
Department of Trade and Industry

Dear Minister,

BSC PAY NEGOTIATIONS

You wrote to me on 5 December about the line Bob Haslam proposes to take in the BSC pay negotiations.

As a general rule, we should be pressing for lower settlements in the public trading sector in this pay round than in 1983-84, as I indicated in my letter of 3 December to Norman Tebbit. I am not clear whether BSC's proposals would achieve that. But under all the circumstances, I would not wish to object to the line you have taken.

However, in the absence of a pay settlement with the coalminers, the BSC settlement will attract attention as the first major public trading settlement of the 1984-85 pay round. Presentation is, therefore, particularly important and it will be most helpful if the final offer can be presented as worth only 3 per cent. But if that cannot be done, we must ensure it is presented as a shade below 5 per cent.

I should be grateful if you would consult me again if BSC propose to change their final offer.

Copies of this letter have gone to the Prime Minister, the other members of E(PSP), to George Younger and Nicholas Edwards and to Sir Robert Armstrong.

Yours sincerely,

Philip Wynn Owen

pp NIGEL LAWSON
(approved by the Chancellor and signed in his absence)

NAT IND : Steel : Pt 13

810

NAPM

AS 5/12

AT

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

5 December 1984

Dear Nigel

BSC PAY NEGOTIATIONS

I am writing to inform colleagues of the line Bob Haslam is proposing to take in BSC's 1985 pay negotiations.

In discussions so far, union demands have centred on a substantial increase of between 5 and 10 per cent. BSC have replied by emphasising the need to be free of state aids by end-1985 whilst maintaining their competitive position in the face of continuing over-supply. The next meeting with the unions will take place on 10 December. BSC feel they must put an offer on the table then.

In line with practice in recent years, BSC propose to offer a consolidation of productivity bonuses of 3 per cent, coupled with further development of local bonuses. They expect to be unable to hold this line because the unions will argue strongly that not only have they accepted very modest settlements in recent years, closely linked to productivity increases, but the steelmen's loyalty during the miners' dispute deserves recognition in the form of a national pay increase. BSC propose as a fall-back to offer a 3 per cent national increase and, if necessary, a 2 per cent consolidation of existing bonuses.

Bob Haslam believes that the total offer of 5 per cent is reasonable. He expects the unions to accept it and has no intention of moving further. He recognises that it is essential for BSC to maintain the competitive position they have worked so hard to achieve and he does not think that the absence of a formal link between 3 per cent and productivity improvements will prevent BSC offsetting most of its increase through improved efficiency.

1WEAEY

I have reluctantly accepted Bob Haslam's proposal. The final offer could be presented as a real increase of only 3 per cent. The BSC workforce accepted no national increase in 1982 and only 0.8 per cent in 1983, with productivity bonus consolidations of 3 per cent in both years. They have been loyal throughout the miners' dispute and I need hardly draw colleagues' attention to the potential seriousness the loss of this loyalty would have.

I am copying this letter to the Prime Minister, members of E(PSP), George Younger, Nicholas Edwards and Sir Robert Armstrong.

Yours ever

Norman

NORMAN LAMONT

5 DEC 1984

1WEAEY

J1750

Prime Minister

To note. I will establish whether this something to be raised during your visit to Washington.

AT 30/11

PRIME MINISTER

EC/US STEEL: PIPES AND TUBES

1. On Tuesday, the US Administration announced that they were taking unilateral action, with effect from 30 November, to limit their imports of steel pipes and tubes from the EC to a 5.9% share of their market. In practical terms this will mean a cessation of EC deliveries until the end of this year (as the limit has already been exceeded), with a resumption, within the 5.9% ceiling, from 1 January. UK exports (by BSC and TI) worth a little over £15 million a year are at stake.

2. The problem has been brewing for some time. In 1982 the EC and US exchanged (ambiguously worded) letters which set a target, but not a binding limit, for Community exports, of 5.9% of the US market. Since then EC (but not UK) exporters have behaved irresponsibly, and the US began consultations aimed at bringing the situation under control. The Industry/Steel Council on 22 November agreed on a mandate for the Commission to negotiate a binding restraint arrangement. But the US have now rejected the proposed terms.

3. It is too early to assess the wider implications. But the EC is likely to seek compensation and, if necessary, proceed to retaliation in GATT (as it did in respect of the US action on special steels in 1983). I will report further when the situation is clearer.

4. I am sending a copy of this minute to members of OD(E) and to Sir Robert Armstrong.

P.C.

PAUL CHANNON

29 November 1984

30 NOV 1984

CONFIDENTIAL

Jlv

10 DOWNING STREET

From the Private Secretary 29 November 1984

BRITISH STEEL CORPORATION

While the miners' strike has continued, it has not been possible to consider BSC's longer-term strategy. The Prime Minister is concerned, however, that progress should continue to be made with the policy of privatising parts of BSC outside the main steel making plants, particularly the overseas and non-Phoenix businesses. She would be grateful for a state of play report on negotiations and future plans for such disposals.

BF

I am copying this letter to Callum McCarthy (Department of Trade and Industry), Richard Broadbent (Chief Secretary's Office) and Peter Gregson (Cabinet Office).

(ANDREW TURNBULL)

E. Hosker, Esq.,
Department of Trade and Industry.

CST

E.R.

file

MR TURNBULL 28 November 1984

BRITISH STEEL

Two thirds of BSC's manpower lies outside the strip products group. Some efforts are being made to privatise small bits of this but little urgency is apparent. You could start by asking for a status report on their current disposal negotiations and their future plans, particularly for the overseas and non-Phoenix businesses.

The attached photocopy from the 1983/4 accounts lists those parts of the business that have been formed into limited companies. At the time of the last election Patrick Jenkin set out a clear strategy designed to cut BSC's activities down by disposals. (See Annex). What progress is DTI making?

Allied Steel & Wire (Phoenix 1) is now profitable and BSC's 50% holding could be placed for, say, £10 million. Their merchant bank advice is likely to be to wait for a better track record; bitter experience suggest this is unwise.

Problems at Sheffield Forgemasters (Phoenix 3) seem to have been staved off for a year but possibly only for that long.

Negotiations on Phoenix 2 (Engineering Steels) are still continuing. The bill for this quasi-nationalisation was to be £81 million, but bigger, better and more expensive projects are now being considered. The alternative is closures (some in the Yorkshire coal fields) which are claimed to be even more expensive. A decision is needed soon.

On the Strip Products Group BSC are now considering that if it is impossible to close Ravenscraig then Llanwern could be almost as good.

Finally, in the light of the uncertain future for BSC, what approval for capital expenditure has DTI given it?

Peter Warry

PETER WARRY

Subsidiary companies and investments

This list shows as at 31st March 1984:
(i) all subsidiary companies of British Steel Corporation except for those which are inactive or are in course of liquidation;
(ii) all companies in which the Corporation holds 10 per cent or more of the equity capital.

The first part of the statement sets out United Kingdom companies by activities, and the second part the overseas companies on a geographical basis.

Shares in companies marked 'a' are owned directly by British Steel Corporation; and, in companies not so marked, are owned by a subsidiary or subsidiaries of British Steel Corporation. The percentage holdings shown below represent the ultimate interest of British Steel Corporation.

Companies marked 'b' are treated as related companies for accounting purposes (see general note IV).

The accounts of companies marked 'c' are not audited by Coopers & Lybrand.

UNITED KINGDOM COMPANIES
Unless otherwise stated, all companies are registered in England.

NAME OF COMPANY		EQUITY PERCENTAGE
Holding companies		
British Steel Corporation (International) Limited	a	100
British Steel Corporation (U.K.) Limited	a	100
British Steel Corporation (Investments) Limited	a	100
British Steel Corporation Liaison Services Limited	a	100
Brierley Hill Investments Limited	a	100
Stanton and Staveley (Overseas) Limited		100
Stewarts and Lloyds (Overseas) Limited (registered in Scotland)		100
T. A. Holdings Limited		100
The Lancashire Steel Corporation (Overseas) Limited (also 100% of Preference Shares)		100
Steel producing, further steel processing and allied activities		
Afon Tinplate Company Limited	abc	40
Air Products Llanwern Limited	abc	50
Allied Steel and Wire (Holdings) Limited (also 68% of Preference Shares)	ab	50
Alloy Steel Rods Limited	a	100
Bridon Limited	ac	10
British Bright Bar Limited (also floating rate subordinated loan notes 1993 held 43%)	b	40
British Steel Service Centres Limited	a	100
British Tubes Stockholding Limited	a	100
Catena Limited	ab	50
Coil Plant Sales Limited	b	49
Cold Drawn Tubes Limited	ab	25
Clyde Shaw Limited (also 100% of Preference Shares)	ab	50
Cromdane Steels Limited	b	50
Darlington & Simpson Rolling Mills Limited	abc	50
Eurovalve Limited	bc	50
Firth Brown Fox Limited	ac	50
Grundy Auto Products Limited	ab	49
Hadfields Holdings Limited	a	38
Hadfields Limited		38
London Works Steel Company Limited		100
Marton Steels Limited		38
Offshore Castings Limited	abc	50
Railway & Ring Rolled Products Limited	a	100
Round Oak Steel Works Limited		100
Seamless Tubes Limited	a	75
Sheffield Forgemasters Holdings plc (also 13% conv. sub. unsecured loan stock held 50%)	bc	50
Sheffield Forgemasters Limited	bc	50
Stanton and Staveley Limited	a	100
The Templeborough Rolling Mills Limited	abc	50
The Victaulic Company plc (also 50% of Preference Shares)	b	30
TWIL Limited (also 25% of Preference Shares)	bc	20
Whitehead (Narrow Strip) Limited	a	100
Metal recovery and slag processing		
Appleby Slag Company Limited	abc	33
Appleby Slag Reduction Limited	abc	33
Colvilles Clugston Shanks (Holdings) Limited (registered in Scotland)	abc	33
Heckett (BSC) Limited	abc	51
Hobbs Cornelly Limited	abc	50
Llanwern Slag Limited	bc	51
Margam Slag Company Limited	bc	25
Scrap Processors Limited	bc	51
Scunthorpe Slag Limited	abc	40
Teesside Slag Limited	abc	50
Building, construction and civil engineering		
Midland Rollmakers Limited	bc	50
PED (Overseas Projects) Limited		100
Pipework Engineering (PED) Limited	a	100
Pipework Support Technologies Limited		100
RGC Offshore plc	a	91
Redpath Offshore Design Associates Limited	ab	50
S. & L.T. Developments Limited	ac	50
Sarclad International Limited	a	10
Vacmetal (U.K.) Limited	ac	45
Chemicals and chemical by-products		
Benzole Producers Limited (also 41% of Preference Shares)	ac	26
Coated Electrodes Holdings Limited	ab	48
Staveley Chemicals Limited (also floating rate unsecured debentures 1999 held 45%)	ab	45
Selling and other companies		
British Steel Corporation (Exports) Limited	a	100
British Steel Corporation (Tubes) Exports Limited	a	100
British Steel Corporation (Overseas Services) Limited		100
British Steel Corporation (Industry) Limited	a	100
British Steel Corporation (Property) Limited	a	100
British Steel Corporation (Spain) Limited		100
British Steel Corporation Liaison Services (India) Limited		100
BSC Brokers Limited	a	100
BSC Pension Fund Trustee Limited	ac	100
Flixborough Wharf Limited	ab	25
Round Oak Properties Limited (also 73% of Preference Shares)	a	73
Stanton and Staveley (Exports) Limited		100
Workington Welfare Hall Limited	a	50

Subsidiary companies and investments

NAME OF COMPANY		EQUITY PERCENTAGE
Companies registered under the industrial and provident societies acts, housing companies and statutory undertakings		
Appleby-Frodingham Cottage Trust Limited	a	33
Corby (Northants) and District Water Company	a	100
Ickles Cottage Trust Limited	a	33
The Stanton Housing Company Limited		100
The Stocksbridge Railway Company (also 100% of Preference Shares)	a	100
Stocksbridge Works Cottage Trust Limited	a	33
Swinden Housing Association Limited	a	99
Workington Cottage Trust Limited	a	33

OVERSEAS COMPANIES
Each company is incorporated in the country under which it appears. The year end of subsidiaries marked with an asterisk is 31st December 1983.

NAME OF COMPANY		EQUITY PERCENTAGE
Argentina		
Ostrimet Sociedad Anonima		40
Canada		
British Steel Canada Inc.		100
Canped Pipework & Mechanical Contractors Inc.		100
HM Long Inc.		100
IPSCO Inc.	bc	10
Sidbec-Normines Inc.	bc	42
Slater Steel Industries Limited		51
Slater Steel International Inc.		51
SPL – Stanton Pipes Investments Limited		100
Stanton Pipes Limited		100
Stanton Pipes Holdings Limited		100
Stanton Foundry Limited		100
Tipton Mechanical Contractors Inc.		100
Eire		
British Steel Corporation (Ireland) Limited		100
Stewarts and Lloyds of Ireland Limited		100
Netherlands Antilles		
KDMP Company NV		100
France		
British Steel Corporation (France) SARL		100
BSC Stainless SARL		100
Germany		
Walter Blume GmbH*		100
British Steel Corporation (Deutschland) GmbH		100
BSC Stainless GmbH		100
Minerale Handelsgesellschaft TEBU GmbH*		70
Holland		
Cindu Chemicals BV*		70
Slater Steel Holdings BV		51
Hong Kong		
British Steel Corporation (Hong Kong) Limited	b	50
India		
Stewarts and Lloyds of India Limited	bc	40
New Zealand		
British Steel Corporation (N.Z.) Limited		100
Nigeria		
Dorman Long and Amalgamated Engineering Limited		40
Norway		
BSC Norge A/S		100
South Africa		
The British Steel Corporation of South Africa (Proprietary) Limited	a	100
British Steel Corporation (South African Sales) (Proprietary) Limited		100
Genrec Pipework Engineering Developments (Pty) Limited	b	40
Sweden		
British Steel Corporation Svenska AB		100
Switzerland		
Concast Holdings AG	bc	22
Concast Service Union AG	bc	16
U.S.A.		
British Steel Corporation Inc.		100
Steel Consultants Inc.		100
Slater Steel Inc.		51
Zimbabwe		
Lancashire Steel (Private) Limited	c	100
Salwire Manufacturers (Private) Limited	c	100
Salwire Fencing (Private) Limited	c	100
The Zimbabwe Iron and Steel Company Limited	c	16

CONSERVATIVE PARTY

Conservative Central Office

32 Smith Square Westminster London SW1P 3HH
Tel. 01-222 9000 Telex 8814563 Fax. 01-222 1135

BSC

Peter W Lee Esq.,
President,
British Independent Steel
Producers Association,
5, Cromwell Road,
LONDON
SW7 2HX

20 May 1983

Dear Mr Lee,

Thank you for your letter of 12 May.

The Government is of course acutely aware of the severe difficulties facing the private sector in steel. That is why, in 1981, I introduced the Private Sector Steel Scheme to help with the rationalization of the industry. We have earmarked over £50m for the sector and we have received applications which, if approved, should absorb virtually all the money available.

In the longer term, it remains our objective to free the British Steel Corporation from dependence on the taxpayer, so that the Corporation, whether as a single enterprise or as a number of separate independent enterprises, can compete in the market without subsidy, looking to the market for new finance.

In the shorter term, until this target can be reached, we will continue to seek conditions for fairer competition between the public and the private sectors. We will take steps -

(a) to ensure that the BSC continues its programme of privatizing identifiable and separate businesses where buyers can be found;

(b) where this is not possible, we shall continue to promote more "Phoenix" schemes whereby independent private sector companies are set up by private firms and the BSC in partnership. In the present situation, a major obstacle both to privatization and the creation of "Phoenix" companies has been the difficulty of finding buyers able to put up money on the right commercial terms. We will continue to press BSC to dispose of assets on realistic terms that the private sector can afford; and I hope that you and your members will for your part press BSC to identify suitable opportunities;

(c) where businesses within the BSC compete with the private sector, we shall ensure fairer competition by requiring these businesses to be formed as separate Companies Act companies (where this has not already been done) and will ensure fair transfer pricing in order to avoid distorting competition;

Where "Phoenix" companies are set up, as with Allied Steel and Wire and Sheffield Forgemasters, we will ensure that they are run independently of the BSC, and that they are seen by the market and by the authorities (including the EEC) as private sector companies, not in any way controlled by BSC. We will consider, in consultation with the private sector partners, transferring BSC's shareholdings in "Phoenix" companies from BSC to the Government as a first step to complete privatization.

We stand prepared to use the good offices of the Department to encourage further rationalization within the private sector and are prepared to meet the cost of consultants' studies aimed at bringing about such rationalization. It is particularly important that the areas of rationalization include the areas of overlap. We will ensure that in negotiating terms for rationalization BSC does not abuse its position as a Corporation funded by the tax-payer.

We will continue to seek the extension of the product list in the ECSC Treaty to include certain engineering and special steels. We shall continue to seek fairer trading arrangements with the United States of America.

On imports, we will continue to ensure that the Commission enforces strictly the VRA and quota arrangements applied to third countries and will seek to maintain stability in the steel markets within the Community. In particular, to help some of the small UK companies, we are seeking more flexibility - should the Community decide to renew the quota arrangements for a further period.

I hope very much that all this goes some way to relieve the very real concerns which you have expressed. I am happy that you should use this letter in any way you choose, including publication in any BISPA circular.

Yours ever

Patrick Jenkin

PATRICK JENKIN

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

7e JR
bc RY

10 DOWNING STREET

From the Private Secretary

10 October 1984

Dear Callum.

SHEFFIELD FORGEMASTERS

The Prime Minister has seen your Secretary of State's minute of 9 October setting out the difficulties facing Sheffield Forgemasters. She has also noted the Chief Secretary's views as recorded in his letter to Mr. Lamont of the same date.

The Prime Minister believes that, as part of a rescue package, BSC should be able to offer a guarantee of £5 million of additional bank finance. She expects, however, that any additional breathing space this provides should be used to pursue a long-term financial reconstruction.

I am copying this letter to David Peretz (HM Treasury), Michael Reidy (Department of Energy), Richard Mottram (Ministry of Defence), John Graham (Scottish Office), David Normington (Department of Employment), and Richard Broadbent (Chief Secretary's Office).

Yours sincerely

Andrew Turnbull

(ANDREW TURNBULL)

Callum McCarthy, Esq.,
Department of Trade and Industry.

B

MR. TURNBULL

SHEFFIELD FORGEMASTERS STEEL COMPANY

The following summarises what we know about Sheffield Forgemasters (SF).

1. The Company (originally Phoenix III) is a merger of certain BSC assets* and the former Johnson Firth Brown. It specialises in heavy forgings in Aerospace quality steels, and is the only UK company with that capability.

* the old River Don works

The merger cost £35m two years ago. The equity is owned 50/50 by BSC and JFB. There are loans and loan stock on top - £10m from BSC, £10m from the institutions, and a bank overdraft of £5m. In the twelve months ended June 1984 SF lost £10m net on sales of £92m. In present trading conditions the Company is expected to reduce its losses to £3m this year.

2. The Rescue Package

This is led by Lazards who rely on Bank of England influence too. The deal would:

- defer interest on loans and loan stock for three years (worth £10m);

- subject to certain performance criteria capitalise the deferred interest and loans;

- require a further unsecured commercial overdraft;

- require a public sector guarantee of £5m.

BSC are willing to provide the guarantee, and strictly speaking can do so without Treasury approval. But they are reluctant to move without Treasury blessing, and Treasury are not happy because they see no secure commercial future for SF.

The JFB Board are very ready to put the Company into voluntary liquidation. BSC are much less happy - partly because they do not want to lose the value of their supplies to SF (about £60m per annum) and partly because they think Ministers actually want them to support a rescue.

There are no "strategic" arguments to draw on in support of a rescue. The necessary materials are obtainable from Europe.

3. The Options

Norman Tebbit is suggesting non-intervention unless this becomes absolutely necessary (!). After all, it is possible that, even without Treasury support, BSC will offer the guarantee; and that even without the guarantee the Bank of England might persuade the other institutions to go ahead.

now unlikely

Given all that has been sunk into SF, we see political advantage in keeping SF afloat for now, up to, but not beyond, authorising BSC to issue the guarantee. The employment implications are significant, and so is the timing. The guarantee may not be called, and is small relative to what the taxpayer has already donated. SF may not survive long term; but if it stays alive now, Government has some degree of control over its later failure.

We think the Prime Minister could informally advise Norman Tebbit to make sure, through use of the BSC guarantee, that SF does not go under in the near future.

She could also ask why the crisis appears to have blown up at no notice.

R.Y.

ROBERT YOUNG
9 October 1984

010

cc Bob Young

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CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

PRIME MINISTER

SHEFFIELD FORGEMASTERS

You should be aware of the possible failure, on Thursday or Friday of this week, of Sheffield Forgemasters - a steel producer employing 3,500 people in Sheffield and a further 800 in Crewe, Glasgow and Edinburgh.

2 Forgemasters' failure risks causing some embarrassment to the Government. It is the sole UK supplier of very heavy steel forgings and castings, with Rolls Royce, CEGB and GEC amongst its customers. And the company was set up only two years ago as a Phoenix privatisation venture jointly owned by BSC and its former private sector competitor Johnson and Firth Brown.

3 Faced with an unexpectedly prolonged recession in its largely capital goods market, Forgemasters borrowed heavily to offset losses and now bears a crippling interest burden. Over the past few weeks there have been considerable efforts mounted towards a rescue and it is still possible that short term financing arrangements can be agreed between BSC and the four principal banks involved. These re-financing arrangements will allow more talks to take place to find ways of giving Forgemasters several

more years in which to prove itself. If either the short or medium term financial packages cannot be agreed the company will go into liquidation where little is expected to be salvaged.

4 Clearly I should prefer to avoid this: apart from the embarrassment, and the industrial case, there are some signs that past restructuring is now coming through in better results. But I do not consider that we should intervene directly in the rescue plan: this is properly the responsibility of the shareholders and current investors, and I do not believe I should go beyond the £10m rationalisation assistance which my Department has already provided. In strictly commercial terms, the case for further aid is not strong. I have looked to the British Steel Corporation to provide a guarantee for an additional bank loan necessary to help the company through its proving period. Even this has still to be agreed between the Chief Secretary and Norman Lamont.

CST opposes a BSC guarantee other than one which is fully justified commercially.

5 My Department will continue to support the Bank of England's determined efforts to rally City support and reach agreement on the short and medium term financing requirements. If there is a serious deterioration in the prospects of finding a way of avoiding the Company's liquidation I will advise you immediately.

6 I am sending copies of this minute to Nigel Lawson, Peter Walker, Michael Heseltine, George Younger and Tom King.

NT

~~NT~~

9 October 1984

Department of Trade & Industry

PRIME MINISTER

Sheffield Forgemasters

Mr. Tebbit's minute - flag A - reports the threat of a major industrial failure at Sheffield Forgemasters, with over 4,000 redundancies. Bob Young's note - flag B - sets out the background. Further details are available in the attached exchange of correspondence between DTI, Treasury and BSC.

The Board of SF is meeting on Thursday and will be faced with a choice between:

(i) Adopting a package which includes an offer by BSC to guarantee £5 million of bank loans (the other 50 per cent shareholder, JFB, is not prepared to offer any guarantees, though BSC, with £60 million of sales to SF, has more at stake).

(ii) Putting the company into liquidation.

All parties agree that in strict commercial terms the long term future of SF is highly problematical. The BSC attitude is ambiguous but they appear to believe that some further support for SF is justified on wider grounds, though it is not clear how far this is reflecting DTI pressure.

The Treasury oppose an offer by BSC of a guarantee as they feel, perhaps rightly, that this will ultimately be reflected in a bid for an expansion of BSC's EFL.

Though he is not prepared to do so openly, Mr. Tebbit would like to see help given to SF via BSC.

There is no doubt that the declaration of 4,300 redundancies, most of them in Sheffield, would come at a very difficult time for the Government. (In scale, this is broadly on a

/par

E.R.

par with Scott Lithgow.) It is possible that the Board may feel that it is not worth persevering even with the package, in which case there is little more that can be done. You may feel, however, that a closure of this magnitude should not be allowed to go ahead without every effort having been made to avoid it or to allow time for a longer term solution to be devised.

Do you take the view:

(i) that no further assistance should be made available from the public sector; or

(ii) that BSC should be allowed to offer a guarantee of £5 million on the under-standing that the time which this buys is used to pursue a longer term solution?

AT

Come (ii)

MT

ANDREW TURNBULL

9 October, 1984

File

FROM: J G COLMAN
DATE: 9 October 1984

CHIEF SECRETARY

I approve the draft. PR

cc Principal Private Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Bailey
Mr Monck
Mr Burgner
Mr Scholar
Mr Lovell
Mr Ridley
Mr Lord

SHEFFIELD FORGEMASTERS

Mr Norman Lamont's letter of 8 October calls for an extremely urgent reply. It seeks your agreement to BSC's participation in a rescue package for Sheffield Forgemasters, including a guarantee by BSC of £5m bank loans for Forgemasters. If you were to agree, BSC would need to be able to commit themselves this afternoon. If they do not do so Forgemasters will go into liquidation on Thursday or Friday.

2. The background to this case was set out fully in Mr R H Wilson's submission of 27 September. In your letter of 28 September you questioned in strong terms the wisdom of the proposed package and guarantee, concluding that the guarantee should not be offered "unless BSC themselves strongly represent that it is in their interests as a major shareholder to maintain [Forgemasters] in being".

3. Since you wrote two developments have taken place:

a. the banks' reaction to the long-term rescue package has been unfavourable, so BSC are now trying to negotiate a very short-term package to keep Forgemasters afloat while another attempt is made to devise a long-term package.

Comment. A short-term guarantee, strictly time-limited, is somewhat less objectionable than the original proposal for a long-term one, but it is still not clear that the guarantee would indeed be short-term. Once given, in connexion with the short-term package, it would be hard for BSC to withdraw it in any long-term package. Indeed there is a risk that that package could call for a even large guarantee.

b. the chairman of BSC has written to DTI and had a discussion with DTI officials. BSC's misgivings that they should be required to give the guarantee rather than the Government are clear; their reluctance is made explicit. Nevertheless the outcome of the discussion was apparantly, that BSC considers it in their interests as a major shareholder to maintain Forgemasters in being for a further proving period, despite seeing no "suitable commercial justification".

Comment. BSC's attitude falls a very long way short of the strong representations that you stipulated should be required. For the BSC to give this guarantee as a result of behind the scenes arm-twisting by DTI Ministers is objectionable for the reasons described in Mr Haslam's own letter.

Conclusions

4. The original case for rescuing Forgemasters was political not commercial. The case now for a short-term package is, bluntly, to avoid the company collapsing this week.

5. You are recommended to repeat your objections to the proposed guarantee. A draft is attached.

J.G.C.

J G COLMAN

109/024

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Norman Lamont MP
Minister of State for Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

9 October 1984

Dear Minister

SHEFFIELD FORGEMASTERS

Thank you for your letter of 8 October.

I am sorry to say that the proposal that BSC should offer a £5m guarantee as part of a rescue package does not strike me as any more attractive now than it did 10 days ago when I wrote to you. Mr Haslam's letter makes plain that BSC can provide no suitable commercial justification for giving the guarantee, and that they are proposing to give it only because they understand that Ministers wish them to.

This falls a long way short of the strong representations from BSC that I considered to be necessary before we should agree to their participation in the rescue package. If BSC were insisting that in their commercial judgement a guarantee was needed I would recognise that we could not in the end prevent them from giving it. But if their motives are not primarily commercial I do not believe it is BSC's business to rescue Forgemasters.

Yours sincerely

Richard Broadbent

for PETER REES

[Approved by the Chief Secretary]

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 5186
(Switchboard) 215 7877

From the Minister of State for Industry

CHIEF SECRETARY
- 8 OCT 1984
Mr ~~R Wilton~~ Coleman
PPS KSLE81
MST.
Sir P Middleton
Mr Bailey
Mr Monck
Mr Burgner.
Mr Scholar.

Mr Lovell
Mr Ridley
Mr Lord
Mr NJ King

Norman Lamont MP

Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
LONDON SW1

8 October 1984

Dear Chief Secretary,

Thank you for your letter of 28 September about Sheffield Forgemasters.

Since I last wrote to you the banks have outlined their preliminary reaction to the Lazards financing proposal. It is not encouraging and discussions are continuing between BSC and the banks tomorrow afternoon (9 October) to try to find ways of providing a short term arrangement - lasting only a few weeks - to allow further soundings to be made about a longer term re-financing proposal.

The issue is therefore both urgent and extremely delicate. If agreement cannot be reached by Thursday or Friday this week (11/12 October) the Forgemasters Board has said that it will put the company into liquidation.

Such timing is, of course, most unfortunate. The extent and location of the resulting unemployment (3,500 jobs in Sheffield alone) also have serious implications.

In these circumstances I propose therefore to tell the Corporation that they can go ahead with the guarantee which they wish to provide in respect of further bank financing in order to secure the company's future. My officials have discussed the position with the Corporation in the light of Mr Haslam's letter of 28 September, ... a copy of which I attach. In my officials' reply to Mr Haslam's letter you will notice in particular that despite the risks and commercial uncertainties involved the Corporation considers it in their interests as a major shareholder in the company, to maintain it in being for a further proving period.

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I must, however, sound a serious warning. Despite the possibility of a guarantee from BSC, there is no certainty that Forgemasters will avoid liquidation. Unless the banks involved are willing to agree to a financial package which provides sufficient time to permit Forgemasters to return to viability the Corporation will agree neither to the guarantee nor to the other aspects of the financial proposal made by Lazards.

Your officials have been advised that Norman Tebbit is writing separately to the Prime Minister to advise her of the present perilous position faced by Sheffield Forgemasters.

Yours sincerely
Edmund Hosker

for NORMAN LAMONT
(Approved by the Minister and signed in his absence)

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BRITISH STEEL CORPORATION

ROBERT HASLAM
CHAIRMAN

28th September 1984

Mr. Robin Mountfield,
Deputy Secretary,
Department of Trade & Industry,
Ashdown House,
123 Victoria Street,
London SW1.

Dear Robin,

SHEFFIELD FORGEMASTERS

In our telephone conversation last weekend you pressed me to accept Ministers' wishes that the £5m guarantee of the further overdraft facilities required by Forgemasters from the Banks should be provided by British Steel Corporation instead of Government as had been requested by Lazard Bros. & Co. Ltd., Forgemasters' financial advisers.

Factors Relevant to the Current Situation.

We have considered the matter carefully and believe the following factors to be relevant to the situation:-

- Forgemasters was formed less than two years ago as a private sector company and became a member of BISPA. Its initial capital structure was deliberately organised to preclude the company from being controlled by BSC and thereby becoming a public sector entity.

- Until recently, Forgemasters has fallen well short of achieving its successive financial projections. Whilst the unprecedented length and depth of the recession and the consequent shortfall in turnover has been the major factor underlying the company's failure to achieve its projections, Forgemasters has not performed as well as it would have wished in the market place. It has, however, moved fast in achieving an extremely complex series of rationalisation measures and but for the determination of Forgemasters' management in this respect and the fact that far more has been achieved than was originally envisaged, its financial track record would have been far worse. The other

continued/

shares at the end of the period, in addition to the conversion of the existing unsecured loan stock into such shares at the same time. Without acceptance by the City of the non-payment of interest for the next 3 years, the company would undoubtedly fail now. This treatment of interest and unsecured loan stock, which does not involve any contribution from Johnson Firth Brown, is forecast to result in ownership of the equity of Forgemasters at 30th June 1987, as to 49.9% by BSC, 19.5% by the banks and institutions, and 35% by JFB (reduced from its present 50% holding). On implementation of these proposals, Forgemasters' gearing would be reduced to a more acceptable level of 30% of equity.

- In terms of the company's financial projections and needs we have concluded from Mr. Stronge's report that:-

  - Forgemasters needs a further £5m of bank facilities in 1984/85, without which adequate cover for any delay in achieving further cost and working capital reductions and any shortfall in profit improvement would not exist.

    - the company's projections show a steady state profit after the 3 year proving period barely sufficient to meet its ongoing cash needs, particularly if capital expenditure much in excess of historic cost depreciation should prove necessary.

    - the return on assets and cash flow of the company after 3 years would still be relatively poor and unexciting in terms of investors' expectations.

    - a steady recovery in the capital goods market and in Forgemasters' share of that market are both crucial to attainment of its forecasts.

  We do not believe the company's management, JFB, Lazards, or Mr. Stronge himself would dissociate themselves significantly from any of these views.

- Financially, therefore, the company remains a poor risk and it is not possible to justify financial support for it on any normal, commercial basis. JFB have no money to support their existing investment: on any similar basis of reckoning, neither does BSC.

continued/

Forgemasters has not had sufficient time, I believe, to prove itself. In my view, it deserves that chance not least having regard to the value of its assets to UK and the fact that all of the organisations involved in its formation, including DTI, have lessons to learn from over-gearing an already difficult and sickly child. In expressing my willingness to follow this course, I am doing so on your assurance that there is no other way open to the Government to provide the required support.

Understandings Required for BSC to give the Guarantee

I feel, however, that our help in this way requires the following understandings between us, namely that:-

- should the guarantee be called, the consequent cash outlay will be made good by additional EFL to BSC, so that we do not have to restrict BSC's operational cash needs in any way in the event of the future failure of Forgemasters;

- BSC will have the right to appoint a new Forgemasters' Chairman of its choosing and will support him in securing a satisfactory Board of Directors for the company;

- to assist the process of distancing Forgemasters from BSC, you should support and seek the partial divestment of BSC's interests in Forgemasters to other public concerns which have an interest in the preservation of its strategic, heavy goods manufacturing capability in UK.

- this action is "one-off" and is not to be taken as creating any form of precedent as regards any of BSC's other interests in private sector companies.

I am sorry this has turned into such a long letter, but we felt it was important that the mood and background of our discussions should be recorded, and we would welcome your assurance that Ministers accept the principles we have outlined.

Yours sincerely

Bob

28th September 1984

File

BRITISH STEEL CORPORATION

ROBERT HASLAM
CHAIRMAN

5 October 1984

Dr. Jeremy Bray, MP
House of Commons
London SW1A OAA

Dear Jeremy,

Thank you for your letter of 28th September regarding various newspaper reports. Whilst your letter concentrates entirely on the Ravenscraig scene the press briefing was general in nature and ranged across the whole spectrum of the Corporation's activities.

It was in this broader context that the BSC views regarding movement of material by road and its longer term configuration were discussed.

BSC management is now satisfied with its proven ability to deliver large volumes of raw material by road. The pros and cons vary across the major steelmaking regions; well developed motorway networks in some areas, facilitating more easily road transport movement. Given a regular flow of material the cost of road transport compares not unfavourably with that of rail. The point being made during discussion was simply that this new dimension would need to be assessed as part of the Corporation's immediate and long term transport strategy to achieve competitive costs.

We must remind ourselves that if the Railwaymen and Miners had their way Ravenscraig would be operating on a care and maintenance basis with all that implies. The only reason this has been avoided has been the commitment of certain road haulage firms and their lorry drivers. Against this background of conflicting loyalties it would be clearly prudent for the BSC to keep some traffic on the road.

Given the ongoing over capacity problems in Europe the Corporation will come to a firm view as to which are its priority objectives once the present coal strike has been settled and its long term effects assessed. As you are aware although there has been some improvement in UK steel consumption in recent months, the capacity of both public

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9 Albert Embankment London SE1 7SN Telephone: 01.735 7654 Telex No. 916061

Dr Jeremy Bray, MP   5 October 1984

and private steelmaking, still outweighs likely demand. Comments made during our press briefing were in line with those made to the last Select Committee.

As regards your last paragraph the terms you mention have not yet been formally discussed by Management and Trade Unions at Ravenscraig. It seems to me that in the end all the Unions involved were not able to agree collectively to the approach worked out by two of them.

I would add that the local settlement which lead finally to a resolution of the National Dock Strike was confined strictly to a clarification of the arrangements for the provision of tugboat and boatmen services at Hunterston.

Given the constant attack the Corporation has been under from a dispute it had no connection with, I must take exception to the remarks made in your last paragraph. Management and their employees at all our locations have worked well together and have been innovative in keeping our production going and our customers supplied.

I personally have been gratified by the dedication and commitment of BSC employees at all levels and our Unions during this difficult time. Their unified efforts have been commendable.

Yours sincerely,

Bob Haslam

Copy to: The Prime Minister's Office
The Secretary of State's Office

C

7/5/10.

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ASHDOWN HOUSE
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R Haslam Esq
Chairman
British Steel Corporation
9 Albert Embankment
London SE1 7SN

4 October 1984

Dear Bob.

I was most grateful for the opportunity to discuss Sheffield Forgemasters with you yesterday, on the basis of your letter to me of 28 September. Our discussion gave me the opportunity of explaining to you the position of my Ministers rather more fully than I had been able to do so far; and allowed you to set out the background to the position taken by the Corporation on Lazards' financing proposals for Sheffield Forgemasters.

2. We agreed that, in my response to your letter, I should try to set down the main points emerging from yesterday's meeting. In doing so, however, I should record the fact that discussions are still going on between the Treasury and ourselves and I may need to make further contact should any other difficulties arise.

3. During our meeting I explained that in declining to provide a government guarantee it was never the intention of my Ministers then to press the Corporation to act in any way against its own interests. My Ministers are fully aware of the difficult judgement that has already been exercised by the Corporation in providing to Forgemasters further financial assistance over the past few months to tide them over their liquidity problems. The wider issues have also been set out very fully in your letter to me. They were reiterated during our meeting and you were kind enough to amplify a number of the comments. It might be useful if I record my understanding of the Corporation's position and, in particular, the points emerging from the final paragraph on page 4 of your letter.

4. It was emphasised that we were mutually concerned that the particular problems faced by Sheffield Forgemasters should be set in a wider strategic context. Job losses of 4,300 at this time could have a severe impact on the general industrial relations scene particularly during the miners' strike. It was also recognised that a failure of an early steel-based joint venture could deter private sector interests from investing in further projects.

You repeated and amplified your judgement that Forgemasters deserved a further proving period after two years of major restructuring effort, in the teeth of an unexpectedly prolonged recession in the company's markets. You also mentioned that the company has unique facilities in the UK. Forgemasters are, for example, the single potential source of large forgings for atomic power applications.

The comments made in our discussions - which, of course, I have only recorded in summaryform - were most helpful in reassuring the Department that, despite the risks and the commercial uncertainties involved, and the other factors identified on page 4 of your letter, the Corporation considers it in their interests, as a major shareholder in the Company, to maintain it in being for a further proving period. Against this background I was able to consider, with you, the four points listed at the conclusion of your letter. It would be sensible if I take each in turn in the order you give them on page 5 of your letter.

6. On the first point I explained that it was not possible for any such undertaking to be given but the consequences for the BSC if this guarantee were ever called would of course be a factor to be considered in future discussions on EFL's.

7. On your second point, I confirm that we here regard the choice of Forgemasters' new Chairman as a matter for the BSC, the other shareholder and other investors.

8. On the third point we recognised how difficult it would be to secure an injection of equity from the CEGB or any other public concern. We explored other possible means of supporting Forgemasters including some assistance from their customers towards the R&D effort. We can return to this point at a later, more appropriate, time.

9. On your final point I am entirely in agreement that BSC's support by means of a guarantee should in no way be taken as a precedent for assisting any of BSC's interests in the private sector; indeed I regard this as crucial. Moreover, you will no doubt be seeking to ensure that the guarantee given in this case is strictly time limited thereby signalling the Corporation's clear wish to relieve itself of this commitment.

Yours sincerely

Robin Mountfield

ROBIN MOUNTFIELD.

cc Mr Murray
Mr Mogg
Mr Worman
Mrs Rhodes

CONFIDENTIAL

cc: PPS
FST
MST
EST
Sir P Middelton
Mr Bailey
Mr Monck
Mr Burgner
Mr Scholar
Mr Lovell
Mr Ridley
Mr Lord
Mr R H Wilson

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Lamont MP
Minister of State
Department of Trade and Indusry
1-19 Victoria Street
London
SW1

28 September 1984

Dear Minister of State

SHEFFIELD FORGEMASTERS

Thank you for your letter of 21 September seeking my agreement to BSC's participation in a rescue package for Sheffield Forgemasters, in particular the giving by BSC of a guarantee for £5 million of bank loans.

2 I must say that the background to this case is depressing. Phoenix III was set up in 1982 on the basis of anticipated trading profits in 1985 of £11.8 million, after all restructuring costs. The latest consultants' forecast projects a trading loss of £844,000, before restructuring costs for that year of over £3 million. This is indeed a remarkable deterioration in the forecast performance over a very short period. It would appear that the venture was set up on the basis of seriously over-optimistic expectations not only about the strength of the market but also about the costs and benefits of restructuring. Whatever decisions we arrive at on this case, I am sure you will agree that there are important lessons here for the future construction of combined privatistion and rationalisation packages in the steel industry.

3 Turning to the present proposition I agree with your general view that it is undoubtedly commercially unattractive. Even with the proposed rescue package, Forgemasters will, as you say, remain precarious.

4 It is of course of particular concern that Forgemasters was so recently set up as part of the Government's privatisation policies for steel. A guarantee by BSC will be a serious set back for these because it strikes at the heart of the philosophy of privatisation. I cannot rule out, that as far as the statistical authorities are concerned it may even call in question the present classification of Forgemasters to the private sector.

5 There are as you say no very strong defence reasons for preserving this part of the forgings industry. As far as industrial policy is concerned it is difficult to see why the heavy forgings part of the capital goods sector should merit special treatment over other equally troubled parts of manufacturing or,indeed any other part of British industry.

6 I am sensitive to the employment consideration of course. But it is not part of our policy to maintain precarious jobs indefinitely, least of all when to do so flies in the face of so much of our general policies for economic regeneration.

7 As far as I can judge there is no guarantee that, if we were to agree to the present package, we should not find ourselves in the same kind of dilemma having to contemplate another rescue operation in 2 or 3 years time. Serious though the potential employment implications for Sheffield are, I think we need to ask whether it will be any easier to face this dilemma later than it is now, particularly against the background of other possible closures by BSC in the Sheffield area.

8 Finally, I agree with your wish to avoid being seen as drip feeding a free-standing company but is this not precisely what we are getting sucked into?

9 For these reasons I have strong doubts about the merits of the present rescue package. I am clear, as I think you are, that it would be quite wrong for the Government itself to become directly involved. By the same token there should be no question surely of seeking to press BSC to act contrary to its own perception of its commercial interests. Even so I am concerned about the prospect of BSC providing a guarantee, particularly one which does not appear to be tightly limited in time and in a situation where it appears that Forgemasters' other creditors could decide to go for liquidation at any point in the future. A guarantee will need to be noted in BSC's accounts and will inevitably come to the attention of people who will question whether the public sector should be

propping up in this way a private sector concern and one moreover of which a large element has only recently been privatised. Any guarantee by BSC in its present loss-making condition must so clearly be authorised by the Government that these questions are bound to arise acutely. My view is therefore that unless BSC themselves strongly represent that it is in their interests as a major shareholder of this company to maintain it in being, the guarantee should not be offered.

Yours sincerely

JSI. Gieve

f.. PETER REES

[Approved by the Chief Secretary]

File

CONFIDENTIAL

I agree with my comm.

From: R H Wilson
27 September 1984

CHIEF SECRETARY

cc PPS
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Bailey
Mr Monck
Mr Burgner
Mr Scholar
Mr Lovell
Mr Ridley
Mr Lord

SHEFFIELD FORGEMASTERS

The proposal in Mr Lamont's letter to you of 21 September, that BSC should help to rescue Sheffield Forgemasters with a guarantee of £5 million of its borrowings, is decidedly unattractive.

2. The reasons why are set out in the attached draft reply.

3. Sheffield Forgemasters was set up in 1982 as a combination of Johnson Firth Brown's, and BSC's, heavy forgings businesses. It was thus one of the Phoenix projects for privatising and rationalising parts of the steel industry. These projects of which two have been accomplished so far (Phoenixes I and III) and a further one is on the stocks, have always been highly problematic given the heavy over-capacity worldwide which exists in the steel industry and which affects both the public and the private sectors in the UK. It is now clear that this particular exercise was based on seriously over-optimistic projections of future viability.

4. The proposal is that BSC should participate substantially in a rescue package with Forgemaster's banks and should, as the 50 per cent shareholder, bear the risk.

5. Mr Lamont in his letter admits that even after the rescue package Forgemasters will be precarious. He also accepts that the present proposition is "undoubtedly commercially unattractive". We agree.

6. We are particularly concerned with the proposal for the guarantee since this clearly brings back Forgemasters into the area of public sector support. There have so far been few precedents of privatised companies getting into trouble and coming back for public sector assistance. The only relevant one is Hoverspeed where Treasury Ministers took a strong line against the offer of a guarantee by British Railways to keep Hoverspeed going. (In the event BR adopted a different course).

7. However, until the Nationalised Industry Bill is passed, neither we nor the Secretary of State for Industry actually has the power to prevent BSC giving a guarantee which it perceives to be in its own interests commercially. It is unclear whether BSC will so perceive the situation in this case.

8. There are substantial employment implications for Sheffield, particularly since it is possible that in the next year or so BSC itself will close another major plant there. Nevertheless there is only limited point even in employment terms in preserving precarious jobs, and it seems clear that Forgemasters could well be in trouble again in two or three years time or perhaps even more shortly. It is questionable therefore whether a lot is to be gained by preserving these jobs particularly since it will be no easier to face the present dilemma in two years than it is now.

9. The proposals have little industrial or strategic merit.

10. I understand from officials that talks with the bankers are unlikely to come to a head on the rescue package until October 12th. There is therefore still time for the Treasury to challenge the assumptions on which Mr Lamont's proposal is based.

11. I recommend you to do so in the terms of the attached draft. This does not wholly foreclose the possibility that BSC may indeed end up giving a guarantee and joining in the rescue package. Indeed, as explained, we could not in the last resort prevent that. But it exposes the very real questions which this case gives rise to and which Mr Lamont's approach has too readily glossed over. In the interests of injecting a measure of rationality into the continual drip

of DTI's proposals for industrial support and also of trying to prevent further proposals of this kind in the steel field, we believe it would be well worth probing on these lines.

R.H.G.

R H WILSON

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From the Minister of State for Industry

Norman Lamont MP

CHIEF SECRETARY
REC. 21 SEP 1984
ACTION Mr R.H. Wilson
COPIES TO PPS, FST, MST, EST
Sir Peter Middleton
Mr Bailey, Mr Monck
Mr Burgner, Mr Scholar
Mr Ridley, Mr Lord
Mr N.J. King Mr Lovell

CONFIDENTIAL

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

21 September 1984

Dear Chief Secretary

I am writing to seek your urgent agreement to the provision of a BSC guarantee for £5m further bank borrowings by Sheffield Forgemasters, a company which currently appears on the Treasury's Z list.

Forgemasters was one of the first steel privatisation ventures, formed in 1982 from the merger of BSC and Johnson and Firth Brown's heavy forgings and castings businesses. It was recognised at its inception that the new company was operating in a difficult but industrially important sector and that the financial arrangements agreed for the company were very tight. Events had proved this to be so. Although the company has managed to reduce both capacity and losses, the recession in heavy capital goods has been deeper than expected and the company has been forced to borrow heavily to offset losses. Nevertheless, if the financial package put together by Lazards, with Bank of England help, can be agreed by the investors, the company's projections (which have been examined by Deloittes and found to be calculated on a reasonable basis) indicate that Forgemasters could, after a three year proving period, move into (modest) profit.

The urgency of the case stems from the expectation that Forgemasters will run out of cash in the very near future. The immediate difficulty results from an accelerating loss of confidence amongst its bankers as the extent of the company's financial problems becomes known. Forgemasters badly needs a complete equity reconstruction but is in too weak a position to command further unguaranteed financing. Against this background

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Lazards have drawn up a draft rescue package designed to allow the company a three-year proving period without the full burden of debt servicing and with the benefit of rationalisation working through. The plan proposes:

(a) interest deferment: the holders of the £20m convertible unsecured loan stock (CULS) to defer interest payments for three years. BSC would similarly defer interest on the £5m trading facilities (paragraph c) and the banks on earlier loans. This would total £9.65m interest deferment of which BSC would bear £4.75m.

(b) a new bank facility of £5m for Forgemasters, which Lazards propose should be guaranteed by HMG to cover further necessary rationalisation projects.

(c) trading facilities of £5m to be provided by BSC (already in place).

(d) debt factoring facility for £2m from commercial sources (under negotiation but BSC think conditional on the other elements being in place).

(e) if certain (as yet undefined) performance criteria are met at the end of 1987, the holders of the CULS to agree to automatic conversion of the whole of the loan stock and deferred interest into new preferred ordinary shares of Forgemasters. (A total conversion of £29.65m, of which BSC to convert £14.75m.)

Lazards have provided financial information based on Forgemasters' projections which indicate that, after three years, trading profits of around £8.5m could be achieved, leaving a (small) profit of £0.5m after rationalisation costs. In the face of an undoubtedly unattractive commercial proposition, neither Lazards nor the Bank of England (who are closely involved) see any prospect of the four banks and twenty institutional investors agreeing to the proposal unless further (ie guaranteed) funds are made available. BSC is however prepared to meet the obligations set out in the Lazards proposal (but not the guarantee) without a specific adjustment to its EFL. Nor do officials here, who have taken advice from Hill Samuel, consider that any significant alternative sources of funds can be found within the fierce deadline faced by the company. Failing further support, it is unlikely that the company's banks or the Forgemasters directors would hold off from putting it into liquidation - in which case immediate closure is anticipated. On the basis of the advice we have received from the Bank of England, from Deloittes and from Hill Samuel, it is highly doubtful whether any part of Forgemasters, least of all its heavy end, would survive liquidation as a going concern although one or two of its smaller operations might in time find purchasers.

I recognise that Forgemasters is still likely to be a risky and precarious business. I also recognise that the company was expressly (but not publicly) established to be free-standing only two years ago. Nevertheless, both Norman Tebbit and I consider that the political and industrial consequences of its failure require the provision of a £5m guarantee on three main grounds:

(i) Employment: the company employs 3,500 people in Sheffield and a further 800 in Crewe, Edinburgh and Glasgow. Closure of Forgemasters could well be followed very quickly by a further, unrelated, major closure in BSC's engineering steels whether or not Phoenix II goes ahead (this would involve around 1,200 jobs in Sheffield). Such large job losses in South Yorkshire would undoubtedly worsen the industrial climate. It is also worth making the point that in cost per job terms the £5m guarantee sought - if Forgemasters survives - is cheap.

(ii) Industrial consideration: Forgemasters is the sole UK source of supply for heavy forging ingots, heavy forgings and castings, which would otherwise have to be purchased from abroad. Although preliminary enquiries with MoD do not indicate that Forgemasters is considered of overwhelming strategic importance, it is a major source of capital goods components. The immediate balance of payments effect of its failure is roughly estimated by the company and its advisers at £60 million per annum.

(iii) Privatisation policy: an early failure, arguably before the company has had time to prove itself, can be expected to hinder the delicate process of attracting private sector interest in further such ventures. The timing would be particularly unfortunate if we decide to proceed with the creation of Phoenix II.

Norman Tebbit and I prefer that BSC should provide the £5m guarantee sought rather than the Government, and that, should the guarantee be called, it should be met from within BSC's future EFL limits when they are finally agreed between us. We here are firmly of the view that responsibility for Forgemasters lies with BSC and that the Government must avoid being seen as drip feeding a company established only two years ago on a free standing basis. BSC are, however, hostile to this proposal but are currently considering their position. We shall continue to impress upon them that the provision of the guarantee is on the clear understanding that formal approval of Lazards proposal is given by the board of Forgemasters and its shareholders and that BSC themselves are satisfied that the package has reasonable prospects of a once and for all settlement of the Forgemasters' problem. I also believe that we should ensure that, as the investors themselves and the Bank of England foresee, there should be the appointment of a new chairman who will no doubt carefully examine the composition of the Forgemasters board.

I should be grateful for an urgent indication that you are content with the approach outlined above and that, assuming they agree, no objections should be raised to the Corporation offering a guarantee for the £5m proposed in the Lazards package.

Yours Sincerely

Stuart Gill

NORMAN LAMONT
(Approved by the Minister and signed in his absence)

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[redacted] 22
[redacted] 11

DEPARTMENT OF TRADE AND INDUSTRY
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JF7188

PS / Secretary of State for Trade and Industry

10 August 1984

- S E C R E T -

15/8

Michael Reidy Esq
Private Secretary to the
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

Dear Michael,

BSC : DISPUTE AT HUNTERSTON

As you know, BSC and the Clyde Port Authority (CPA) were meeting the TGWU at Hunterston this morning to continue negotiations over the unloading of a ship carrying coal for Ravenscraig.

2 BSC have just told us that the talks have broken down. The TGWU made clear that their overriding aim was to end the system of lorry convoys, which was proving increasingly provocative (in their terms). They proposed that BSC should accept a return to the "Triple Alliance" method of supplying Ravenscraig which operated until mid-May - i.e 18,000 tonnes of coal a week carried by train. But this proposal was qualified: the TGWU said that, if BSC accepted it, the NUM would have to give the green light and, more particularly, the NUR and ASLEF would have to agree to run the trains.

3 BSC argued that 22,500 tonnes of coal weekly was the minimum acceptable: they had tried to live with 18,000 tonnes under the earlier regime but this had led to growing problems with the blast-furnaces which threatened the sort of hot metal break-out recently suffered for similar reasons at Scunthorpe. In any case the "Triple Alliance" method of supply had been bedevilled by uncertainty and interruption.

/4 In ...

4 In these circumstances the meeting ended, with the TGWU warning that any unilateral attempt by BSC to bring in a coal-ship would breach the Dock Labour Scheme and risk another national dock strike. The unions then told the press that a reasonable offer had foundered on the intransigence of BSC management.

5 BSC themselves are now saying publicly that the tonnage was inadequate to avoid damage to vital equipment; that the offer to revert to the earlier unsatisfactory arrangements was anyway conditional on agreement by the miners and railmen; and that the question whether bringing a coal-ship in would breach the DLS has been referred, by BSC and the CPA jointly, for review by the Clyde Dock Labour Board. Attempts are being made to arrange an emergency meeting of the Board tomorrow morning (Saturday). Otherwise, it will meet on Monday. If the decision is unsatisfactory, BSC will then seek an immediate review by the NDLB in London. BSC are also saying that the disruption severely threatens Ravenscraig and could even cause it to "bleed to death".

6 These developments are clearly unwelcome but seem to call for no action before Monday at the earliest. But BSC have asked us to warn the NDLB to be on stand-by from Monday afternoon in case the issues have to be referred to them urgently. It would be very helpful if Peter Smith in Mr King's office and Henry Derwent in Mr Ridley's office could make sure the NDLB is aware of the urgency: as you know if the case is not resolved very quickly there is a risk that production at Ravenscraig will have to cease.

7 I am copying this letter to the Private Secretaries to other Ministers on MISC 101.

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

MISC 101

11 Prime Minister
10 Dowing Street
LONDON
SW1

12 Lord President
Privy Council Office
Whitehall
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13 Home Secretary
Home Office
50 Queen Anne's Gate
LONDON SW1

14 Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
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15 Secretary of State for Energy
Department of Energy
Thames House South
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16 Secretary of State for Defence
Ministry of Defence
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17 Secretary of State for Scotland
Scottish Office
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18 Secretary of State for
Employment
Department of Employment
Caxton House
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19 Secretary of State for Transport
Department of Transport
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20 Attorney General
Royal Courts of Justice
LONDON
WC2

21 Sir Robert Armstrong
Cabinet Office
70 Whitehall
LONDON SW1

SECRET

Steel file

APPENDIX 6.5

5

ANALYSIS OF PROFIT BEFORE INTEREST OF MAINSTREAM CORE BUSINESSES BY OPTION

£ Millions	84/85	85/86	86/87	87/88	88/89	Total Five Years	1990 Trend Year	1990 BSC Objectives
PROFIT/(LOSS)								
Option: Base								
General Steels	18	53	46	59	68	243	105	96
Strip Products	(27)	(17)	6	17	22	1	42	198
Others	(4)	9	18	29	35	87	45	60
Total	(13)	45	69	105	125	332	192	354
Option: 5 Plant - Alpha closed								
General Steels	29	72	75	92	103	372	143	99
Strip Products	(16)	(1)	31	42	49	105	60	198
Others	(2)	13	21	33	38	103	49	60
Total	11	84	127	167	191	580	252	357
Option: 4 Plant - Alpha closed								
General Steels	28	76	84	116	127	432	169	97
Strip Products	(16)	(2)	60	108	108	258	135	164
Others	(3)	12	20	30	38	98	47	60
Total	10	86	165	254	273	788	351	321
Option: 4 Plant - Alpha open								
General Steels	18	53	53	68	78	270	114	97
Strip Products	(27)	(14)	42	96	94	191	120	164
Others	(5)	9	17	27	35	84	44	60
Total	(14)	48	112	191	207	544	278	321
Option: 3 Plant (2SPG)								
General Steels	18	45	14	111	120	308	159	63
Strip Products	(27)	(14)	41	114	130	244	146	169
Others	(4)	8	16	20	28	69	35	60
Total	(13)	39	71	245	278	621	340	293
Option: 3 Plant (2GSG)								
General Steels	18	47	53	72	115	304	157	98
Strip Products	(28)	(18)	26	86	131	197	145	124
Others	(4)	8	17	30	28	79	36	58
Total	(14)	37	95	188	274	580	338	280

For analysis of reasons for change see the following Appendices:

Base Case from Year to Year: Appendix 6.9
1990 Trend Year: Options vs. Base Case Appendix 6.10

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APPENDIX 6.6

ANALYSIS OF CASH INFLOW/(OUTFLOW) OF MAINSTREAM CORE BUSINESSES BY OPTION

£ Millions	84/85	85/86	86/87	87/88	88/89	Total Five Years	1990 Trend Year
CASH INFLOW/(OUTFLOW)							
Option: Base							
General Steels	23	(71)	23	36	36	48	70
Strip Products	(103)	(114)	(55)	(68)	(47)	(387)	(47)
Others	(67)	(30)	1	7	12	(76)	23
Total	(146)	(215)	(30)	(25)	0	(415)	46
Option: 5 Plant - Alpha closed							
General Steels	34	(45)	29	69	70	158	107
Strip Products	(110)	(124)	(53)	(20)	14	(292)	(29)
Others	(65)	(26)	6	11	15	(60)	27
Total	(140)	(195)	(18)	60	100	(194)	105
Option: 4 Plant - Alpha closed							
General Steels	30	(66)	41	106	93	205	134
Strip Products	(114)	(133)	(28)	37	30	(207)	70
Others	(66)	(27)	5	8	15	(66)	25
Total	(150)	(225)	19	151	138	(67)	230
Option: 4 Plant - Alpha open							
General Steels	22	(58)	15	44	49	72	78
Strip Products	(121)	(145)	(43)	19	16	(274)	55
Others	(68)	(31)	2	5	12	(80)	22
Total	(167)	(234)	(26)	69	77	(282)	155
Option: 3 Plant (2SPG)							
General Steels	28	(23)	(13)	91	82	165	140
Strip Products	(120)	(168)	(84)	11	71	(289)	80
Others	(67)	(31)	1	(7)	6	(98)	14
Total	(159)	(221)	(96)	95	159	(222)	235
Option: 3 Plant (2GSG)							
General Steels	23	(66)	(10)	22	88	57	123
Strip Products	(120)	(186)	(113)	(37)	164	(292)	107
Others	(67)	(30)	1	4	6	(86)	17
Total	(164)	(282)	(122)	(11)	258	(321)	247

Detail by item is shown on Appendix 6.7

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APPENDIX 6.7

BSC - 1984 CORPORATE OBJECTIVES

BSC CORE

CASH FLOW ANALYSIS

£M Inflow/(Outflow)	84/85	85/86	86/87	87/88	88/89	Total Five Years	1990 Trend Year
Base							
Capital Expenditure	(169)	(162)	(114)	(172)	(174)	(791)	(186)
Working Capital	38	(139)	(60)	(40)	(34)	(236)	(55)
Redundancy, etc	(70)	(33)	(16)	(4)	(4)	(127)	0
Operations	55	118	160	192	213	740	286
Total	(146)	(215)	(30)	(25)	0	(415)	46
5 Plant - Alpha closed							
Capital Expenditure	(188)	(198)	(127)	(143)	(134)	(790)	(186)
Working Capital	39	(122)	(95)	(50)	(44)	(273)	(56)
Redundancy, etc	(70)	(33)	(16)	(4)	(4)	(127)	0
Operations	79	158	220	258	282	997	346
Total	(140)	(195)	(18)	60	100	(194)	105
4 Plant - Alpha closed							
Capital Expenditure	(190)	(228)	(132)	(170)	(174)	(893)	(160)
Working Capital	41	(109)	(82)	(6)	(38)	(193)	(55)
Redundancy, etc	(78)	(47)	(33)	(12)	(9)	(178)	0
Operations	76	158	265	339	359	1197	444
Total	(150)	(225)	19	151	138	(67)	230
4 Plant - Alpha open							
Capital Expenditure	(187)	(208)	(126)	(170)	(174)	(864)	(160)
Working Capital	45	(99)	(80)	(23)	(36)	(193)	(55)
Redundancy, etc	(78)	(47)	(33)	(13)	(5)	(174)	0
Operations	52	120	212	274	291	950	370
Total	(167)	(234)	(26)	69	77	(282)	155
3 Plant (2SPG) - Alpha open							
Capital Expenditure	(192)	(248)	(175)	(173)	(130)	(918)	(133)
Working Capital	55	(39)	(61)	34	(59)	(70)	(50)
Redundancy, etc	(78)	(47)	(32)	(84)	(6)	(246)	0
Operations	55	113	173	319	354	1013	418
Total	(159)	(221)	(96)	95	159	(222)	235
3 Plant (2GSG) - Alpha open							
Capital Expenditure	(176)	(262)	(189)	(179)	(131)	(937)	(139)
Working Capital	36	(84)	(92)	(35)	73	(102)	(45)
Redundancy, etc	(78)	(47)	(33)	(75)	(45)	(278)	0
Operations	54	111	192	278	361	996	431
Total	(164)	(282)	(122)	(11)	258	(321)	247

Note: Capital expenditure is shown net of RDG's in 1984/85.

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Note redundancy costs similar.

E.R.

4

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PRIME MINISTER

31 July 1984

BRITISH STEEL

1. The Recent Past

Since the first full year of your first administration, BSC has had nearly £3 billion:

£1119 million in 1980/81

£766 million in 1981/82

£568 million in 1982/83

£321 million in 1983/84

£2774 million

The EFL for 1984/85 is £275 million, but an overshoot seems certain.

Mr Lamont has recently gained approval to raise BSC's borrowing ceiling from £3 billion to £3.5 billion. In fact, BSC's borrowings would be closer to £7 billion but for capital write-offs of over £3.5 billion provided by the Iron and Steel Act 1982.

Yet the billions have bought neither a flourishing BSC nor secure employment. Since its formation in 1967, BSC has cut back its workforce from over a quarter of a million to below 80,000. In the late 1960s it was producing around 25 million tonnes of liquid steel annually; last year it produced under 12 million. Down the years, when demand was strong, BSC hung on to high cost capacity. When demand was weak, it shed too little.

Capital investment was either misapplied or failed to bring adequate productivity or other cost gains. Ian MacGregor in 1980 inherited a lower output of crude steel per man year than was the case in 1970. So, despite steady retrenchment, BSC:

i. is still saddled with too much capacity;

ii. sustains its 50% share of the UK market on the back of a European cartel which is due to be phased out.

Apart from the fact that it is sheer nonsense for the state to be engaged in steelmaking anyway, there is no case - strategic, economic or social - for preserving a British steel industry bigger than the market requires. Most pressing of all, Government's instruction to BSC is to break even before interest in 1984/85; and the EC's directive to all European steelmakers is to abandon state aids by 31 December 1985. BSC seems light years away from all this.

2. What are BSC proposing?

The Corporation is taking a cautious view of the market (ie principally the UK market) - a more or less static demand, with BSC holding a static share but with exports rising steadily throughout the decade. BSC forecast that sales of finished products will rise from 9 million tonnes last year to 9.7 million tonnes in 1990. They are also assuming (prudently in our view) that the ending of Article 58 Quotas in 1985 will make the European market more volatile and that European steelmaking capacity will still exceed demand by 1990.

BSC concentrate therefore on further capacity reduction. Their plan takes the five main steel making plants - Ravenscraig, Llanwern and Port Talbot in the Strip Products Group, and Redcar and Scunthorpe in the General Steels Group - as a proxy for total capacity; and evaluates in profit and cash terms the effects of keeping all five open, then of going from five to four and from four to three.

There are two nasty twists to the evaluation. One is BSC's desire to buy up a private sector steel maker, Alphasteel in Newport, to take on its EC quota, and then close it. On the face of it, this looks indefensible - at a cost of £100 million, too. The second is BSC's intent to buy out its share of a Canadian iron ore mining and pelletizing operation (Firelake) for £140 million.

Compared with the PES provision of £483 million cash over 3 years, the BSC projections over 5 years are startling:

£ million 1984/5 to 1988/9	Profit (loss) after Interest	Cash Outflow
1. As now	(193)	1052
2. As now but close Alphasteel	198	930
3. Close Ravenscraig, close Alphasteel	435	795
4. Close Ravenscraig, but Alphasteel open	195	905
5. Close Ravenscraig, and one other BSC plant, but Alphasteel open	230/290	820/850

Nor is that the whole of the story. You need to add £150 million for the disposal or restructuring of Special Steels, and well over £50 million on their figures for the effects of the miners' strike.

The BSC Board under Bob Haslam are unanimous in their view that BSC must proceed quickly to four plants, and not obstruct the possibility of going to three thereafter. They also insist that Ravenscraig must be the first of any plants to close. The second plant closure is for debate: either Llanwern or one of the General Steels plants.

3. What is Mr Tebbit proposing?

While the miners' strike is on, he is seeking neither discussion nor decision. We fully recognise the damage which could result from a leak. On the other hand, if Ministers are not aware of BSC's intentions while the NUM is still on strike, they might accidentally underwrite the future of steel plants which should close.

Secondly, delays on decisions about BSC are in themselves very costly.

Thirdly, Mr Tebbit is warning of heavy cash calls rather than trying to head them off. We think that, even at this stage, he could challenge more of the figures.

Fourthly, it appears that he is content to approve BSC's purchase and closure of Alphasteel. On present evidence, we dissent.

All in all, we see a need for more than merely taking note and deferring further work. Having had sight of the complete plan, we set out below some observations in the form of questions which you could ask Mr Tebbit to work on.

4. Policy Unit Observations

i. Profit and Cash

All the options except 'do nothing' put BSC back into profit after interest. Yet the cash calls are appalling, mainly because fixed capital expenditure runs way above profit generation. And despite nearly static sales, BSC are proposing to add nearly £200 million to their working capital.

What justification can BSC provide for their capital investments?

ii. General Steels vs Strip Products

BSC's profit and loss and cash flow statements make it clear that Strip Products drain far more cash than General Steels yet contribute lower profits.

Why do BSC want to stay in Strip Products, let alone invest heavily in them?

iii. Alphasteel

Alphasteel has been making losses for at least four years, and is thought to have an accumulated deficit of nearly £60 million, coupled with negative net worth. BSC do not know why the Greek owners keep it going. In these circumstances, we fail to see why BSC should pay £100 million of money they do not have to buy Alphasteel and close it down. Financially and presentationally, this looks terrible.

Why cannot BSC concentrate on closing its own excess capacity and leave Alphasteel to the mercies of its owners?

iv. How Many Plants?

BSC face up to the prospect of closing two major plants rather than one, but Mr Tebbit's note drives on without stopping at this point. Why?

v. Privatisation

BSC are proposing (and DTI appear to be supporting) the long haul route to privatisation - a gradual return to profitability bought by high cost investment, with plant closures and redundancies at the taxpayer's expense. Why don't we contemplate inviting private sector bids for all or parts of BSC, with a dowry lower than the costs forecast by BSC?

The key task is to remove the burden of BSC upon the wider economy. Ministers and others may protest that that kind of objective is financially sound but 'politically unwise'. Not so. This Government's political aims are to reduce public expenditure, to make public sector corporations behave commercially, and to obtain value for the money that the taxpayer has to contribute. In this case, political and financial aims are identical.

R.Y.

ROBERT YOUNG

File

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Prime Minister (2)

This minute provides advance warning of the difficult decisions ahead. No action is called for at present - Policy Unit not attached.

AT 2/8

PRIME MINISTER

BRITISH STEEL CORPORATION : FINANCIAL IMPLICATIONS OF THE STRATEGIC OPTIONS EXERCISE

I have already mentioned to you the industrial and political considerations which BSC's recommendations on strategic options will pose for us. I have now told Mr Haslam (the Chairman) that, because of the uncertainties created by the miners' strike, there is no sensible basis at present on which colleagues can consider the Corporation's longer-term strategy. I have asked him to review his recommendations once the dispute ends and to resubmit them to me then.

2 Meanwhile, I think you should have an indication of how BSC see the serious financial implications of the options exercise, in both profit/loss and cash terms. I must stress that these figures have not yet been scrutinised by Departments: they reflect BSC's own projections. But it is already clear that there will be a significant further cash call on Government, whichever option is pursued.

JH4AEK

THE STRATEGIC OPTIONS

3 BSC have assessed whether various plant configurations achieve the level of profit which they consider necessary to meet the objectives set. These are, first, to achieve break-even before interest in 1984/85 (which will almost certainly now be prevented by the effects of the miners' strike), and second, to move to enduring profitability (with the object of, initially, respecting the EC deadline for an end to state aids by December 1985 and, ultimately, allowing privatisation of the bulk steelmaking business). As the table at Annex III shows, they have interpreted these objectives as requiring a substantial level of profit - a build-up to £200 million a year and more by the end of this decade. It is against this background that the cash projections discussed below have to be seen.

4 The options are as follows:

<u>Base case</u>:	No change in the BSC core plant configuration. (NB: The core excludes Special Steels, and

peripheral businesses due for disposal this year.)

<u>5 plant - Alpha closed</u>: No change in the BSC core plant configuration. Alphasteel, the Newport-based private sector producer of strip products, is bought by BSC and closed. BSC's obligations in respect of an onerous investment in a Canadian iron-ore producer - Firelake - are bought out. A brief description of these two issues is at Annexes I and II.

<u>4 plant - Alpha open</u>: Ravenscraig is shut in 1987. Alpha remains open. Firelake is bought out.

<u>4 plant - Alpha closed</u>: Ravenscraig is shut in 1987. Alpha is closed and Firelake bought out.

BSC have prepared two further options (not considered here), proposing the closure of both Ravenscraig and either

Llanwern or Teeside.

5 The BSC Board have firmly recommended the 4 - plant option with Alpha closed.

THE ECONOMIC BASIS OF BSC's ANALYSIS

6 BSC have deliberately based their assessment of the options on stringent economic assumptions, particularly about steel demand, exchange rates, prices and costs. This is a sensible starting-point, but at our request BSC have also evaluated the profit/loss implications, for two options, of alternative, more optimistic economic assumptions which are a closer reflection of Government forecasts: the "Upper Case".

7 The marked improvements of the Upper Case (illustrated in the table at Annex III) represent the best outcome that could be expected if all key variables go right. But there are clearly downside risks. BSC would argue, with some justification, that failure to take out strip capacity in the UK would add to the threat of recurrent market instability in Europe. And even on the best outcome, unless there is at least the closure of Alphasteel, it would be

difficult to argue that BSC are on track towards full viability and so to justify further significant investment in the Corporation's plants.

8 We also need to consider the EC dimension. The Commission have so far been understanding about the delay which the miners' strike imposes on decisions about BSC's strategy. But they will still require us to give them a Plan which is clearly viable. Failure to do so would not only lead to direct difficulties over continued funding for BSC but, more widely, might encourage other Member States to drag their own feet and so threaten the whole anti-subsidy regime.

CASH PROJECTIONS

9 These are set out in Annex IV. The following points should be noted:

(i) Like the profit/loss projections, the cash figures are based on the stringent economic assumptions in BSC's central case.

(ii) Even in the Base option, BSC's cash requirements in 1985/86 and 1986/87 are well in excess of the existing PES baseline. This is mainly because of the revised economic assumptions. But it also reflects, in 1985/86, a significant increase in working capital (which will need close scrutiny). For 1986/87 the baseline entry was notional, since BSC's last Corporate Plan did not cover that year.

(iii) Any costs involved in dealing with Alpha and Firelake (see Annexes I & II) accelerate and strengthen BSC's move into profitability. While a call for total or partial repayment on Firelake is not completely in BSC's hands, they might be able to arrange for payments to be spread (eg by short-term refinancing of loans). The sums needed are in no sense further subsidies to cover operating losses.

(iv) The cash costs of all the options are understated by up to £30 million a year since they exclude cash requirements for the Special Steels business, either as part of Phoenix II if that goes ahead, or as a continuing BSC business if it does not.

(v) In 1984/85, none of the options include the costs to BSC of the miners' strike. These totalled about £38 million in April-June, and are currently running in the range of £3-£5 million a week.

CONCLUSION

10 I thought it right to warn you of what is clearly a gloomy prospect for public expenditure. I shall examine very closely the possibilities of achieving savings, both on the major issues of Alphasteel and Firelake and in the areas conventionally scrutinised by nationalised industry sponsoring Departments (capital expenditure, working capital, operational efficiency, etc). In recent years, BSC's cash costs have certainly come down substantially: even on the unrefined figures, none of the options proposed for the next five years would cost as much as the funding we had to provide the Corporation with in the one year 1980/81. But I have to say that I see no prospect of BSC's cash requirement being held to the figures in the present PES baseline for 1985/86 and 1986/87.

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11 I am sending a copy of this minute to Nigel Lawson only. I cannot stress too strongly the importance I attach to restricting the circulation of the information in this minute; I would be grateful therefore if you and Nigel could ensure that no copies are taken, and that it is only shown to those who need to see it.

NT

N T

26 July 1984

JH4AEK

ANNEX 1

ALPHASTEEL

Background

Alphasteel, which produces strip steel products, has a nominal capacity of about 1 million tonnes a year which clearly adds to overcapacity in the strip market. The company has the potential (and has tried in the past) to disrupt the UK market by lowering prices to gain market share. Although Alpha currently has an agreement with BSC designed to avoid this, the agreement expires at the end of this year and the company has already been seeking extra quota from the EC Commission. BSC believe that the only way they can avoid being drawn into destructive competition, at an estimated annual cost of £25 million is to acquire and close the company, so preventing such losses and bringing added benefits from the acquisition of Alpha's orderbook and quota entitlement.

2 BSC have been told to explore the scope for such a deal, on the strict understanding that the Government have taken no decision on whether a buyout would be acceptable, either in principle or in detail. The estimated cash costs and benefits of a successful deal, assuming a price of £100m, are shown in Annex IV. Subject to further information, BSC consider that a price in the range £75-£125 million would be justifiable in terms of the return and might prove negotiable. There may also be scope for BSC to negotiate either further phasing or partial payment in a form other than cash (eg by taking over some of Alpha's debt; or by offering the Greek owners a share in one of BSC's businesses).

Comment

3 There are political and presentational difficulties in a nationalised industry taking over and closing a private sector company. But they should not be over-estimated. Alphasteel's very shaky commercial and financial position means that it could not be claimed that a healthy part of the UK private sector steel industry had been sacrificed to BSC's interests. Indeed the company itself seems willing to contemplate closure, providing an acceptable price can be negotiated.

4 We shall of course press BSC hard to negotiate a deal as close as possible to their lowest figure but the benefits to BSC cannot be measured against any normal acquisition criteria. In essence, the acquisition would reduce over-capacity, stabilise the UK market, improve BSC's plant loading and enhance their profit and loss and cash position. Most importantly, if a decision to close Ravenscraig or one of the other integrated plants were judged impossible, we shall not be able to persuade the EC Commission that BSC will be viable on its present plant configuration. Closure of Alpha, so improving BSC's prospects and reducing UK strip capacity, would give us a negotiating hand.

ANNEX II

FIRELAKE

1. Firelake is an iron ore mine in Canada. BSC hold 42% of the shares in a joint venture called Sidbec - Normines Inc which owns the mine and an iron ore pelletising plant. The other shareholders are Sidbec (a steel company wholly owned by the Quebec Government) with 50% and Quebec Cartier Mining Company (owned by US Steel), which also operates the joint venture, with 8%.

2. The joint venture was set up in 1975 in order to safeguard iron ore supplies in the face of a forecast world shortage. However, in practice iron ore is now plentiful and cheap, so that the prices for pellets needed by the joint venture to cover its costs are roughly double the level of world prices. The participants are required under their agreement to buy, in amounts proportional to their shareholding, the output of the joint venture at the higher price, or make good directly the losses of the joint venture. This is known as the take-or-pay agreement. In addition they have guaranteed payments of interest and repayment of principal to the holders of long-term bonds used to finance the joint venture.

3. The excess costs of this arrangement to BSC are currently about £35 million a year. The commitment will not expire until 1999.

4. The participants have been discussing possible ways of reducing their losses. The proposal which has received most attention is that the mine should close but that the pelletising plant should continue, using ore from another deposit owned by US Steel. The Quebec Government would cover the operating losses of the pelletising plant and the participants would buy pellets at world prices. This would eliminate the cost penalty borne by BSC.

5. An arrangement of this sort would require the agreement of all the participants If it were implemented, BSC would be expected to meet their share of the mine closure costs. More significantly, the long-term bonds would become repayable at the discretion of the bondholders. It is thought likely that the holders would demand repayment since the interest earned on the bonds

is not high by current standards. BSC's share of closure costs and bond repayments amounts to the equivalent of £140 million. This is assumed in BSC's planning projections to be paid in a lump sum in 1984/85, although in practice BSC might be able to spread the impact of the bond repayments over two or three years by raising the cash from new overseas borrowing.

6. The buying out of the onerous element of the Firelake commitment, on the lines suggested above, appears to be an attractive option provided that the initial finance can be found. However, this option cannot be exercised by BSC alone but requires the agreement of the other parties. BSC are currently awaiting proposals from the other participants.

BRITISH STEEL CORPORATION STRATEGY

PROFIT/(LOSS) AFTER INTEREST BUT BEFORE EXCEPTIONAL COSTS (£ MILLIONS)

1983/84	Options	84/85	85/86	86/87	87/88	88/89	Trend Year 1990	BSC's definition of profit required in trend year
	CENTRAL CASE (1)							
(174)	Base	(88)	(22)	(53)	(26)	(4)	64	268
	5 plant - Alpha closed	(64)	52	36	71	102	159	270
	4 plant - Alpha open	(89)	16	32	107	128	198	240
	4 plant - Alpha closed	(65)	55	84	169	193	270	239
	UPPER CASE (2)							
	Base	(74)	17	21	68	94	182	268
	5 plant - Alpha closed	(50)	95	117	173	203	283	270

Notes: 1. The Central Case projections have been produced by BSC on the basis of only slight growth in UK steel demand to 1990; and price increases 2½% below UK inflation until 1986/87 and thereafter moving in line with inflation.

2. The Upper Case projections have been produced at our request by BSC assuming:

(a) advantage is taken of a projected decline in the value of the £, to DM2.90 by 1990, which would permit selling price increases broadly in line with UK inflation; and

(b) by 1990 UK steel demand is 7% higher than the Central Case.

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ANNEX III

BRITISH STEEL CORPORATION STRATEGY

EXTERNAL FINANCING REQUIREMENT (£ MILLIONS)

Options	84/85	85/86	86/87	87/88	88/89	Total
Present EFL/PE baseline	(273)	(135)	(75)	-	-	(483) -
Base case	(266)	(300)	(165)	(169)	(152)	(1052) Spec Steels (50)
Five plant with Alpha closed (1) and Firelake bought out (2)	(461)	(285)	(122)	(50)	(13)	(931)
Four plant with Alpha open and Firelake bought out (2)	(428)	(284)	(139)	(29)	(26)	(906)
Four plant with Alpha closed (1) and Firelake bought out (2)	(470)	(315)	(96)	52	34	(795)

Notes:

	84/85	85/86	86/87	87/88	88/89
1. Alphasteel (figures included as appropriate)					
Assumed purchase price	(60)	(40)	-	-	-
Benefit with 5 plants	6	20	12	85	100
Benefit with 4 plants	17	9	45	82	61
(The difference in the phasing and total of the benefits results from a difference in the timing of investment in continuous-casting in South Wales as between the 4 and 5 plant options).					
2. Firelake (figures included as appropriate)					
Cost of buy-out	(140)	-	-	-	-
Benefits	-	36	34	38	40
3. Phoenix II					
BSC's share of the estimated profits (included in all options), which would be foregone if the venture did not take place.	7	14	12	12	22
Rough estimate of additional BSC funding to establish the venture (excluded from all options)	(24)	(30)	(10)	(11)	-
Rough estimate of BSC costs if the venture did not go ahead (excluded from all options)	(103)				-

4. Disposals The figures in this table do not include any receipts or payments arising from disposals of, or investments outside, BSC's core businesses.

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NBPM AT 23/7 cNØ

DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

20 July 1984

David Morris Esq
Private Secretary to the
Lord Privy Seal
Privy Council Office
Whitehall
London SW1

Dear David

BSC BORROWING POWERS: DEBATE, 23 JULY 1984

As you will be aware, there is to be a debate on an Order to increase the borrowing powers of the British Steel Corporation on 23 July. The debate will be taken by Mr Lamont.

2 In view of the difficulties last week over disclosure of British Shipbuilders' Corporate Plan to the Select Committee, it seems possible that questions may be asked about the proposed treatment of BSC's Corporate Plan. I would be grateful for clearance from you and others to whom I am copying this letter for the following line, which my Secretary of State would like to adopt (subject to Mr Lamont's views, which we are seeking over the weekend):

> To date, I understand that no formal request has been made by the Committee for BSC's Corporate Plan. I know, however, that the Chairman of the Committee has been in touch with the Chairman of BSC and that they have discussed the matter. I see no purpose in trying to anticipate the outcome of these discussions.

If he is further pressed, Mr Lamont would respond along the lines of the note agreed for use by the Prime Minister last Thursday.

3 I am sending a copy of this letter to the Private Secretaries to the Prime Minister, the Lord President, the Chancellor of the Exchequer, the Secretaries of State for Energy and Transport, and the Chief Whip. I would be grateful if any suggested amendments could be relayed direct to Mr Lamont's office, in view of the short time available, by 6.00pm on 23 July.

Yours sincerely,

Ruth

RUTH THOMPSON
Private Secretary

JH3ATF

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Ref. No: T&I(84)15
20.7.84

A BRIEF FOR THE DEBATE ON THE BRITISH STEEL CORPORATION (BORROWING POWERS) ORDER

HOUSE OF COMMONS
MONDAY, 23RD JULY 1984

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The Order

The British Steel Corporation (BSC), like all nationalised industries, looks to the Treasury for external finance which it usually receives in the form of loans and public dividend capital. Under the Iron and Steel Act 1982 a limit for this finance was at £3,500 million. This could be increased by Order with the consent of the Treasury up to a maximum not exceeding £4,500 million. The initial limit was reduced to £3,000 million by the British Steel Corporation (Reduction of Capital) Order 1982. This present Order increases that limit from £3,000 million to £3,500 million. This increase is necessary to see BSC through a period of continued restructuring when there is still an excess of productive capacity in Europe and the world in general.

Objectives

The Government's objectives for BSC are as follows:

- to break even before interest in 1984/85, and to be free from the requirements of state aid in 1986/87.
- to bring the cost structure of their businesses into line with their major European competitors and to dispose of businesses or plants which in the long run are unable to meet this objective.
- to privatise BSC as soon as is practicable; priority is to be given to those areas of the business which overlap with the private sector and to activities outside the maintenance of BSC's steel businesses.
- to establish, wherever possible, BSC's continuing activities as separate companies under the Companies Act to increase their financial 'visibility', particularly where they are competing with the private sector.

(Source: BSC Annual Report 1983/84)

Background

BSC is now the third largest steel company in the world. Since nationalisation in 1966 the Corporation has received support by external financing of £12,386 million at 1982-83 prices.

In December 1981 the Corporation put forward its Corporate Plan based on an assumption of liquid steel production of 14.5 million tonnes in 1982-83. During that year there was a worldwide slump in the demand for steel. In the event actual liquid steel production in that year only totalled 11.7 million tonnes. The External Financing limit (EFL) was raised from £365 million to £575 million in the light of this deterioration. A cost cutting programme involving a reduction in manpower by 22,000, short-time working, temporary plant shut-downs and minor plant closures, was set in train.

Finance

In 1983/84 BSC achieved the best financial result since 1976/77 with a loss of £174 million after interest. This compares with a budgeted loss for the year of £181 million and a considerable improvement over the loss of £383 million in 1982/83. Much of this progress was achieved through higher than expected sales volumes and improved efficiency amongst the workforce. As the Select Committee on Trade and Industry noted:

> 'The Corporation ... has made reasonable and commendable progress towards financial viability. Workers, management and trade unions have accepted the challenge to become as efficient as their strongest competitors. They all deserve warm praise for their dedication to work together as a team. Although further progress must still be made, in terms of quality, price and delivery, many of BSC's products are now amongst the best available on the world market' ('British Steel Corporation's Prospects', 21st March 1984).

As a result of these developments the Corporation's external financing requirments of £318 million last year, were the lowest since 1974/75 and within the limit set by the Government. BSC has been set an EFL for 1984/85 of £275 million.

Output and efficiency

By Autumn 1980, demand for steel had dropped so far that the European Community declared a state of 'manifest crisis' in the industry. Part of the scheme instituted by Commissioner Davignon to deal with this situation was that the payment of state subsidies would only be allowed, in future, in return for restructuring plans to reduce the overcapacity in European industry. The central objective was to reduce capacity by 30 million tonnes by 1985; at that time subsidies would be withdrawn altogether. Capacity reductions of 26.7 million tonnes have been requested to date; of this the UK share is 4.5 million tonnes. 4 million tonnes of UK capacity have already been taken out and in January 1984 the Government and Commission agreed to a further 500,000 tonnes reduction in return for approval of aid, worth £355 million, to be given to BSC.

Mr Haslam has stressed the importance of such rationalisation. He has said:

> 'Irrespective of what happens in the rest of the Community, it is important that the Corporation should be in the best possible shape to benefit from the removal of the EEC quota regime at the end of 1985, particularly as this coincides with the removal of state aid. We are determined to grasp the new opportunities that this will provide and confident that we can achieve the performance necessary to compete effectively' (ibid).

SUMMARY OF COMMISSION'S DECISIONS OF 29 JUNE 1983 ON AIDS AND RESTRUCTURING

Member State	*Capacity in 1980 '000 tonnes*	*%*	*Cuts already undertaken or promised in return for aid authorisation '000 tonnes (A)*	*Further cut required by Commission '000 tonnes (B)*	*Total (A & B) '000 tonnes*
Germany	53 117	31.6	4 810	1 200	6 010[1]
Belgium	16 028	9.5	1 705	1 400	3 105
Denmark	941	0.6	66	—	66
France	26 869	15.9	4 681	630	5 311
UK	22 840	13.5	4 000	500	4 500
Italy	36 294	21.5	2 374	3 460	5 834
Ireland	57[2]		—	—	—
Luxembourg	5 215	3.1	550	410	960
Netherlands	7 297	4.3	250	700	950
Greece[3]	—	—	—	—	—
EC	168 601	100	18 436	8 300	26 736

Notes: [1] Does not take into account the particular case of one company.
[2] The information on which the Commission based its Decision is not sufficient to provide precise figures.
[3] No figures available, since Greece was not a member of the EC in 1980.

(Source: D.T.I.)

Manpower and Productivity

Capacity reductions have involved cuts in manpower; the number of employees has fallen by approximately 95,000 since 1979/80. This, in turn, has led to dramatic improvements in the operating efficiency in plants. Since 1979 productivity in the UK steel indsutry has risen by 65 per cent; output per man is now higher than in the industries of our two major European competitors, West Germany and France.

Tonnes per man year

	1982	1984 (March)
UK	176	271
West Germany	208	259
France	191	225

(Source: Annual Report)

State of the Market

Demand in the UK market increased by 4 per cent in 1983/84; however, world output remained some 6 per cent below the level pertaining in 1974. Although there was some increase in activity in the USA, the situation in Japan and the EEC declined further. Against this background the UK achieved a marginally higher share of the world market and increased its share of the EEC total from 12.3 per cent to 13.7 per cent.

BSC liquid steel production in 1983/84 totalled 13.4 million tonnes, an increase of almost 15 per cent on the previous year. This represented 93 per cent of total manned capacity of 14.4 million tonnes.

New Investment

In the last ten years BSC has spent £2,756 million in new capital equipment. BSC's investment policy is to concentrate on schemes which improve plant efficiency and product quality and so enhance their prospects of improving market share. Government approval of the 1983-86 Corporate Plan included capital expenditure worth £224 million in 1983/84, of which £91 million related to major new schemes on which total expenditure over the next few years is expected to amount to £265 million. These schemes include the modernisation of the Port Talbot Hot Strip mill (costing £171 million) and the provision of continuously cast feedstock for medium-range seamless tube production at Clydesdale in Scotland (total cost £36 million). On 8th June BSC approved a proposal to spend more than £50 million to improve its blast furnace at Redcar.

Privatisation

The Government has made available £50 million to assist the private sector of the industry to rationalise its activities where there is an overlap with those of BSC. The joint venture/ Phoenix route to privatisation has been adopted largely in circumstances where the private sector participants have lacked the funds to be able to buy out the relevant part of BSC. In some cases this is because BSC has, over the years, become the dominant producer and there is a large imbalance between the assets contributed by BSC and those contributed by the private sector. In other cases, it is a reflection of the very poor trading conditions which have faced all iron and steel producers in recent years. Despite these difficulties, however, a number of joint ventures have been set up usually on the initiative of the private sector. The total book value of assets disposed since 1980 has been £274 million. At present the main activity has been the negotiations with GKN plc on the proposed rationalisation of the engineering steel sector, commonly known as Phoenix II. BSC would merge a large part of its special steels business with that of GKN, reducing excess capacity. (See Annex II).

Assistance for redundant workers

A great deal of assistance has been devoted to offset the effects of steel closures. Total payments to redundant British steel workers under the European Communities iron and steel readaptation benefits scheme has totalled over £305 million since 1979; the cost of the schemes is borne jointly by the UK Government and the European Coal and Steel Community.

In addition BSC established a company, British Steel Corporation (Industry) Ltd., to help create new jobs in 18 areas most affected by rationalisation within the industry. Since 1978 1,400 companies have been assisted to start up, expand or relocate. These have forecast the creation of 36,000 new jobs by March 1986.

Prospects

The Corporation has been moving in the right direction; as Mr Norman Lamont has said:

> 'Import penetration is very low and has been going down. Imports last year were 25 per cent, whereas a few years ago they were 27 per cent. This compares with imports of 46 per cent in France and 32 per cent in Germany. The position is getting better. The regime and the policies we have followed have enabled us to recapture our markets and improve our industry' (Hansard, 2nd May 1984, col. 337).

The progress made by BSC and its propsects for the future were put in perspective by those people on whom that future depends; its major customers.

Mr Michael Rawlins, Executive Director of the National Association of Steel Stockholders has stated that:

> 'As BSC customers we are impressed by the delivery and service the Corporation has maintained throughout these difficulties. British Steel has recovered its reputation during the last two years as a reliable supplier, after a spell when its record was far from perfect. It would be tragic if BSC was forced to stop production and yield its markets to another influx of foreign steel' (Steel News, June 14th, 1984).

And Mr John Safford, Director of the British Iron and Steel Consumers Council has said:

> 'There have been no adverse effects so far from the coal dispute on British Steel's ability to supply its British customers. British Steel has now made itself one of the most competitive suppliers in Europe. That advantage would be thrown away if there was further disruption of steel production arising from the miners' strike' (ibid).

Ten year figures 1974/75 to 1983/84

	1974/75 £m	1975/76 £m	1976/77 £m	1977/78 £m	1978/79 £m	1979/80 £m	1980/81 £m	1981/82 £m	1982/83 £m	1983/84 £m
Turnover:										
Home	1,823	1,818	2,308	2,356	2,477	2,321	2,159	2,402	2,197	2,336
Export	308	396	552	544	585	542	574	653	684	660
Overseas	125	143	199	251	226	242	221	388	350	362
Total	2,256	2,357	3,059	3,151	3,288	3,105	2,954	3,443	3,231	3,358
Cost of sales:										
Materials	874	1,039	1,286	1,562	1,468	1,582	1,484	1,602	1,640	1,627
Other external charges	299	315	450	484	538	539	599	687	621	645
Employment costs	681	882	992	1,075	1,130	1,081	1,113	1,097	948	915
Other costs	176	113	175	214	165	184	162	178	205	211
Depreciation	101	101	99	98	111	87	92	126	94	86
Total	2,131	2,450	3,002	3,433	3,412	3,473	3,450	3,690	3,508	3,484
Trading profit/(loss) after depreciation	125	(93)	57	(279)	(124)	(368)	(496)	(247)	(277)	(126)
Interest payable, investment income etc	19	7	3	13	4	(7)	(25)	(14)	(41)	(2)
Profit/(loss) on ordinary activities before tax	144	(86)	60	(266)	(120)	(375)	(521)	(261)	(318)	(128)
Taxation, minority interest and interest on long term indebtedness	(71)	(96)	(150)	(182)	(198)	(173)	(146)	(78)	(68)	(49)
Profit/(loss) before exceptional items	73	(182)	(90)	(448)	(318)	(548)	(667)	(339)	(386)	(177)
Exceptional items	(3)	(86)	(27)	(65)	(39)	(1,236)	(353)	(165)	(483)	(79)
Profit/(loss) for year	70	(268)	(117)	(513)	(357)	(1,784)	(1,020)	(504)	(869)	(256)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
Liquid steel production (M tonnes)	20.8	17.2	19.7	17.4	17.3	11.4	11.9	14.1	11.7	13.4
Steel deliveries product tonnes (M tonnes):										
Home	13.0	10.5	11.0	10.2	9.6	8.0	7.2	8.0	6.8	7.5
Export	2.1	2.2	2.7	3.2	2.9	2.5	2.3	2.7	2.5	2.9
Total	15.1	12.7	13.7	13.4	12.5	10.5	9.5	10.7	9.3	10.4
Capital expenditure (£m) (net of grants claimed)	273	162	194	401	267	261	148	164	122	164
No of UK employees at year end (000s)	228.3	210.2	207.9	196.9	186.0	166.4	120.9	103.7	81.1	71.1
Productivity for ECSC activities (man hours per tonne liquid steel)	14.2	16.4	14.4	15.3	14.3	13.2	14.5	9.4	9.3	7.1
External financing:										
Limit (£m)	N/A	N/A	950	950	875	700	1,121	730	575	321
Actual (£m)	305	659	949	806	752	579	1,119	691	569	318

Note: Figures have been restated where necessary in accordance with current accounting policy and classification.

ANNEX II

Progress to privatisation 1980–1984

	Disposals	Joint Ventures
1980/81	*UK Wholly Owned* **The Unit Inspection Company Limited** **Orkot Engineering Industrial Plastics Limited*** **Teesside Galvanising** *UK Partly Owned* **The Bamburgh Shipping Company Limited** **John Finlan Limited** **Kiveton Park Steel & Wire Works Limited** *Overseas Interests* **Tubemakers of Australia Limited** **Pacific Steel Limited** (New Zealand) **Steel & Tube Holdings Limited** (New Zealand) **Ostrilion** (Argentina)	
1981/82	*UK Wholly Owned* **Redpath Dorman Long Limited** **Hamilton Foundry*** *UK Partly Owned* **Lee Bright Bars Limited** *Overseas Interests (all South Africa)* **Consolidated Metallurgical Industries Limited** **Dorbyl Limited** **International Pipe & Steel Investments South Africa (Pty) Limited** **Pipe Couplings (Pty) Limited** **Stewarts and Lloyds of South Africa Limited**	**Allied Steel and Wire (Holdings) Limited** (Merger with Guest Keen and Nettlefolds plc of rod, bar and reinforcement engineering activities. BSC share 50%)
1982/83	*UK Wholly Owned* **Port Clarence and Totton Works** **Fluorspar Mining** **Scunthorpe Open Cast Ore Mining** **The Victaulic Company Limited*** (Employees 40%, institutions 30%, BSC 30%) *UK Partly Owned* **Bitmac Limited** **Britflex Resin Systems Limited*** **Six Hundred Metal Holdings Limited** **Colvilles McKinney Limited** *Overseas Interests* **The Indian Tube Company Limited**	**British Bright Bar Limited** (Merger with GKN and Brymill of bright drawing and bright products stockholding. BSC share 40%) **Sheffield Forgemasters (Holdings) plc** (Merger of River Don Works with Johnson, Firth Brown's Atlas works and other activities. BSC share 50%)
1983/84	*UK Wholly Owned* **Coated Electrodes Limited*** (part only) **The Unit Superheater and Pipe Company Limited*** *UK Partly Owned* **Sarclad International Limited*** **Samuel Groves & Company Limited** *Overseas Interests* **Iisco-Stanton Pipe and Foundry Company Limited** (India) **AB Dalforsan** (Sweden)	**Cold Drawn Tubes Limited** (Merger with TI of Cold Drawn business. BSC share 25%) **Seamless Tubes Limited** (Merger with TI of Hot Finished Small Seamless business. BSC share 74.5%) **Clyde Shaw Limited** (Merger with W Shaw Limited of Craigneuk foundry. BSC share 50%) **Hadfields (Holdings) Limited** (With GKN and Lonrho to acquire Hadfields Limited as part of Phoenix II arrangements. BSC share 37.5%) **Flixborough Wharf Limited** (Merger with Faber Prest Holdings plc. BSC share 25%)

*Management/employee buy-out

N. 1 Brit Skel

CE NO

N BPM

AP 4/7

01 211 6402

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

4 July 1984

Dear Peter

BSC's STATUTORY BORROWING LIMIT

Your letter of 29 June drew attention to the timing considerations in relation to the coal dispute which are raised by the proposal to increase BSC's statutory borrowing limit before the recess.

It would have been preferable to defer introducing the Order until November if this was practicable. It seems however that BSC may need the increase in headroom in August. In the circumstances it seems better to introduce the Order than for BSC to resort to visible measures to save cash which would impact on both private and public sector suppliers. Such action seems likely to stimulate more damaging suggestions about the financial effects of the strike than would the Order itself, carefully handled.

DTI's presentation of the need for the Order - as routine and expected, not arising directly from the strike - will be important. They will no doubt also point to the improvement in BSC's finances in 1983/84, resulting in part from Iam MacGregor's work.

As far as timing is concerned, it would be useful if possible to delay introduction of the Order until after the NUM's Special Delegate Conference on 11-12 July.

I should be grateful if DTI officials would keep mine in touch as the Order progresses.

I am copying this letter to the Prime Minister, Norman Lamont and to Sir Robert Armstrong.

Yours
Peter

PETER WALKER

4 JUL 1984

pa
DWB
8/8

10 DOWNING STREET

Prime Minister (4)

This note sets out some of the problems ahead on steel.

Before calling for collective discussion of BSC you might want to consult Mr Tebbit on the tactics.

AT
4/7

M

2A

SECRET

PRIME MINISTER

3 July 1984

c Mr Redwood

BRITISH STEEL

John Redwood suggested I send you some condensed background information on BSC following Mr Tebbit's forewarning of serious problems at E(A) this morning.

1. Finance

Since the first full year of your first administration, BSC has had nearly £3 billion:

£1119 million in 1980/81

£766 million in 1981/82

£568 million in 1982/83

£321 million in 1983/84

£2774 million

The EFL for 1984/85 is £275 million, but an overshoot seems certain.

Mr Lamont is at this moment seeking approval to raise BSC's borrowing ceiling from £3 billion to £3.5 billion - a figure which would be closer to £7 billion but for capital write-offs of over £3.5 billion provided by the Iron and Steel Act 1982.

All this seems light years away from the Government's requirement for BSC to break even before interest in 1984/85 and from the EC's directive that state aids to steel making should end by 31 December 1985.

2. Operations

The billions of pounds poured in have bought neither a viable BSC nor secure employment. Since its formation in 1967, BSC has cut back its work force from over a quarter of a million to 70,000. In the late 1960s it was producing around 25 million tonnes of liquid steel annually; last year it produced 12 million.

Down the years, when demand was strong, BSC hung on to high cost capacity. When demand was weak, it shed too little.

Capital investment was either misapplied or failed to bring in productivity or other cost gains. Ian MacGregor in 1980 inherited a lower output of crude steel per man year than was the case 1970. So, despite steady retrenchment, BSC:

i. is still saddled with far too much capacity;

ii. sustains its 50% share of the UK market on the back of a European cartel;

iii. is in regular conflict with private sector steel finishers.

Putting aside the fact that the state should not be engaged in steel making anyway, there is no case - strategic, economic or social - for preserving a British Steel industry bigger than the market requires.

The main task is to remove the burden of BSC upon the wider economy. Ministers and others may protest that an objective like that is financially sound, but "politically unwise". Not so. For this government, and particularly in this case, political and financial aims are entirely synonymous. The problems are presentational.

3. BSC's proposed objectives

BSC have tabled 'draft objectives' for the five years to 1988/89. Their document is short on market assessment, but robust on capacity. It takes the five main steel making plants - Ravenscraig, Llanwern and Port Talbot in the Strip Products Group, and Redcar and Scunthorpe in the General Steels Group - as a proxy for total capacity; and evaluates in profit and cash terms the effects of keeping all five open, then of going from five to four and from four to three.

There are two nasty twists to the evaluation. One is BSC's desire to buy up a private sector steel maker, Alphasteel in Newport, to take on its EC quota, and then close it. On the face of it, this looks indefensible - at a cost of £100 million, too. The second - easier to defend but appalling to contemplate - is BSC's intent to buy out its share of a Canadian iron ore pelletizing operation (Firelake) for £140 million.

The profit profiles vary widely, but none of the options is attractive in cash terms:

£ million 1984/5 to 1988/9	Profit (loss) after Int.	Cash Outflow
1. As now	(193)	1052
2. As now but close Alphasteel	198	930
3. Close Ravenscraig, close Alphasteel	435	795
4. Close Ravenscraig, but Alphasteel open	195	905
5. Close Ravenscraig, and one other BSC plant, but Alphasteel open	230/290	820/950

The main differences between the profit projections and the cash outflows are capital expenditure, increases in working capital (!) and exceptional items such as Firelake and Alphasteel.

The BSC Board under Bob Haslam are unanimous in their view that BSC must proceed quickly to four plants, and not obstruct the possibility of going to three thereafter. They also insist that Ravenscraig must be the first of any plants to close. The second plant closure is for debate: either Llanwern or one of the General Steels plants.

4. A Policy Unit view

BSC's proposals are indeed sensitive, but we see every reason for Ministers to be aware of BSC's thinking while the coal dispute is on. So we recommend that Mr Tebbit should brief you, and/or a meeting of Ministers in the near future.

There are some searching questions to be asked:

i. can BSC give you a better account of their expensive thinking on Alphasteel and Firelake? In particular, why won't Alphasteel close by itself if it is heavily loss making?

ii. what more can BSC do to improve their cash performance? Is the price of plant closure extravagant investment in the others?

iii. what are the implications of a three plant BSC with Alphasteel closing itself?

iv. is the cost to BSC of the coal dispute really £5 million per week? That is nearly as large as the whole EFL for the year.

In any evaluation, we recommend you to stick to the same firm financial line that you took at E(A) this morning.

The coal dispute does not alter fundamental truths about steel making. At worst it may complicate presentation. The future of coal, despite the lawlessness of the dispute and Scargill's attempts to turn it into a "political" fight, is a straightforward commercial matter. The NCB (and Government) are on strongest ground when they stick to presenting the commercial realities. Exactly the same applies to steel.

R.Y.

ROBERT YOUNG

Steel

CCNO

NBPM

HF 2/7

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
Minister of State for Industry
Department of Trade & Industry
1 Victoria Street
LONDON
SW1E QET

29 June 1984

Dear Minister,

BSC's STATUTORY BORROWING LIMIT

Thank you for your letter of 19 June which seeks my approval to a £500 million increase in BSC's statutory borrowing limit from 1 August.

The increase you propose seems generous on the basis of BSC's current financial projections although I accept that the outlook for BSC's finances is uncertain and there is a risk that BSC's borrowing requirements may turn out to be larger than they currently expect.

Much depends on strategic decisions which will lie ahead, including Firelake and Phoenix 2, and the present round of IFR discussions and the level of future EFLs. The consequences of the NUM dispute will also be relevant.

Immediately however there is the question of timing. Peter Walker may wish to comment on this in relation to the miner's dispute and, for that reason, I am sending a copy of this letter to him. I understand that BSC has no powers to accept monies from Government in excess of its financing limit in S.19 of the Iron and Steel Act. This being so the only alternative to presenting an order before the recess would be if BSC could find ways of keeping its cash requirements below the limit until November. I imagine this could place a heavy burden on its main suppliers particularly in the public sector. This is something Peter may particularly wish to comment on.

I am personally doubtful whether it is possible to avoid a BSC borrowing order before the recess, in which case I would agree it would be best presented as a normal increase on the lines you propose. Before finally agreeing however I would be grateful to know that colleagues involved in the miners' action are content.

I am therefore copying this letter to the Prime Minister and the Secretary of State for Energy, and to Sir Robert Armstrong.

Yours Sincerely

Paul Pegler

p PETER REES

(approved by the Chief Secretary and signed in his absence)

Nat'l. Ind Steel.

NBPM
AT 29/6

CONFIDENTIAL

MR TURNBULL 29 June 1984

c Mr Redwood

BSC'S BORROWINGS

1. This minute is for your use only, and refers to Norman Lamont's letter of 19 June, which was copied to you, rather than to the Prime Minister.

2. Raising BSC's borrowing ceiling by £½ billion should surely be more than the minor administrative matter which Mr Lamont suggests? Of course there is logic in allowing the borrowing ceiling to accommodate the EFL set for 1984/85. There may be merit in applying a bit of margin as well. But this is a long way from underwriting the cost of the miners' strike to BSC and giving them plenty of headroom for the next couple of years as well. If we put aside the fact that BSC is very bust indeed (assets of £2 billion, borrowings of nearly £3 billion and continuing cash outflow of £300-400 million per annum) the fact remains that a commercial banker would use a borrowing limit to enforce better behaviour on the part of his client. Why does not Government do so?

3. The right way of determining BSC's future financing is to get the surrogate Corporate Plan before E(NI). Although Norman Tebbit has mentioned this document to MISC 101, and Norman Lamont refers to it in his letter, DTI are being tight about processing it, on grounds of sensitivity while the coal dispute is going on. But tightness must not become an excuse for tardiness. In any event, surely Ministers should know <u>while</u> the coal dispute is on what BSC are thinking?

4. If you are minded to raise this with the Prime Minister, we would suggest an increase in the borrowing ceiling of no more than £250 million, <u>and</u> a call for an early E(NI) or meeting of Ministers to debate BSC's document of 11 June.

R.Y.

ROBERT YOUNG

JMGAAR

CONFIDENTIAL

CL/NO

NBPM AT 26/2

CONFIDENTIAL

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From the Minister of State for Industry

Norman Lamont MP

cc PS/Prime Minister
PS/Peter Walker MP
PS/Sir R. Armstrong.
- in view of NCB deficit grant limit

Rt Hon Peter Rees QC MP
Chief Secretary
H M Treasury
Parliament Street
LONDON
SW1P 3AG

19 June 1984

Dear Peter

BSC'S STATUTORY BORROWING LIMIT

As your officials are aware, we have reached the time when BSC need an increase in their borrowing limit. The current limit of £3,000 million was set at the end of 1982 by means of the Iron and Steel Act 1982 and the British Steel Corporation (Reduction of Capital) Order 1982. The limit may be varied by order, subject to affirmative resolution in the House of Commons, within an overall ceiling of £4,500 million. When the last order was debated it was envisaged that the limit then being set might last for about 18 months, so that a fresh order would be needed in the 1984/85 financial year. We are now fulfilling this prediction.

At the end of March 1984, BSC's borrowings against the statutory limit were £2,870 million. Thus they started 1984/85 with headroom under the limit of £130 million. Until recently this had been expected to last until early September, but the cost to BSC of the miners' strike (estimated at £40 million to the end of May and now running at some £5 million per week) means that BSC now expect to be close to the limit by the end of July. In any event it is necessary to seek Parliamentary authority to increase the limit before the summer recess. A debate in mid/late July, after the publication of BSC's accounts for 1983/84 (which will show a marked improvement over previous years), with the increase to take effect from 1 August, seems the best time to aim for.

I propose that the limit should be increased by £500 million to £3,500 million. As mentioned above BSC had £130 million headroom within the limit at the start of 1984/85. Their EFL for 1984/85 is £275 million. If they stay within this figure they would then use up £145 million of the headroom given by the new order in 1984/85, leaving £355 million available for 1985/86 and later years. We

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have recently received BSC's own projections for these years in the context of their strategy review. These envisage a cash outflow of between £271 million and £315 million in 1985/86 depending on the strategy adopted. More substantial differences between the cash costs of the different options do not emerge until 1986/87.

While, of course, we have yet to consider collectively our approach to the strategic options and look in detail at the figures, I believe we can present an increase of £500 million as necessary to cover the remainder of this year's EFL, and to meet the estimated cash requirement in 1985/86, leaving £50 million or so to cover the beginning of 1986/87. Thus, on the basis of these figures, a new order would be needed in about two calendar years' time, which is the normal interval expected between orders of this sort.

However, we also need to bear in mind that the headroom given by a £500 million order may in practice run out more quickly than envisaged above. First, it may be that the costs of the miners' strike to BSC cannot be contained within EFL. Also, there are a number of proposals afoot which could lead to additional funding of BSC counting towards the statutory limit. These include Phoenix II and the buying out of the onerous Firelake obligation. For these reasons BSC would prefer an increase in the statutory limit of something more like £750 million. I think this is too much, and would be difficult to explain to Parliament. However, without wishing to prejudge proper consideration of these proposals, I think that if we go for a sum of less than £500 million now we run the risk of needing a further increase quite soon afterwards at a time which may not be appropriate for further debate on future financing needs.

I am therefore seeking your agreement to an increase to the statutory limit of £500 million, which can be explained with reference to normal cash requirements, without prejudging strategic decisions, plus the known effects of the miners' strike.

I am sending a copy of this letter to John Wakeham.

Yours ever

Norman

NORMAN LAMONT

J01AAU

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SWIA OAA
01-219 5469 (Direct Line) /5776/5777/5779
01-219 3000 (Switchboard)

TRADE AND INDUSTRY COMMITTEE

DR
13/4

INFORMATION FOR THE PRESS

Report on the British Steel Corporation's Prospects

On Thursday 26th April at 4.00 p.m. the Trade and Industry Committee will publish a Report on the British Steel Corporation's Prospects. The Chairman of the Committee, Mr. Kenneth Warren, will hold a press conference at 4.00 p.m. in Committee Room 16 at the House of Commons to coincide with publication.

Confidential Final Revise copies of the Report (to be published as the Committee's First Report for 1983-84 (H.C. Paper No. 344)) will be made available to the Press, to witnesses and Government Departments at noon on Wednesday 25th March in the Committee Office, House of Commons, on the clear understanding that no public use is made of them before the time of publication.

Mrs. S.A. de Ste. Croix,
C.M.H. Wookey,

Clerks to the Committee.

12th April 1984

Pie 6 2

10 DOWNING STREET

From the Private Secretary

cc MASTER SET.
POST & TELECOM
Future Pt 8-

21 March 1984

Industrial Issues

Your Secretary of State called on the Prime Minister today to give her advance warning of a number of difficult issues which were coming up.

He said that Mr. Haslam's preliminary look at BSC's Corporate Plan showed that the objective of freeing BSC from Government assistance by 1986 would certainly require closure of one major plant, probably Ravenscraig. If BSC were to be made sufficiently profitable to be privatised closure of two and even three plants might be necessary. He had warned Mr. Haslam that Government was unlikely to contemplate the most drastic closures and he had suggested that the Corporate Plan concentrate on a narrower range of options. The Prime Minister agreed, Even if world trade recovered very rapidly, there would still be a great deal of surplus capacity in the world steel industry, making it difficult to achieve a complete withdrawal of Government aid.

Your Secretary of State said that Mercury was in serious difficulties. These stemmed from the way it was financed and the way it was managed. There was a dispersion of responsibility and a lack of clear leadership. It was failing to attract customers. These difficulties would shortly become apparent thought it might be possible to get the bill through the House before they did.

There were several responses. First, a new Chief Executive could be appointed. One possibility was to establish the job as a stepping stone to the Chairmanship of Cable and Wireless when Sir Eric Sharp retired. Second, additional shareholders could be brought in. AT&T had once expressed an interest but this had since been dropped. Pacific Bell were now thought to be interested but a shareholding by or sale to an American company raised problems of a kind with which you will be familiar.

Your Secretary of State mentioned that Sir William Duncan of Rolls Royce might ask to see the Prime Minister. Sir William accepted that the launch aid provided for the V2500 engine was

/adequate

adequate for the project but insufficient to allow Rolls Royce to build up its balance sheet for privatisation. If the Government were serious about the latter, further aid would be needed. The Prime Minister remarked that privatisation of Rolls Royce was a project which would take some time.

I am not copying this widely and I assume you will be doing the same.

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry.

cc POST + TELECOM.
Future
Pt 8

1

SECRET

PRIME MINISTER

Mr. Tebbit is coming to see you tomorrow to talk about:

(i) BSC Corporate Plan

He wants to warn you of the very difficult decisions which lie ahead and to seek your reaction to various courses of action;

(ii) Mercury

The Government's telecommunications policy depends on the successful development of the duopoly. The second leg is not thriving. This raises the question of whether additional backers should be found. If these included American companies, difficult questions of security could be raised. There will also be difficult decisions on channelling Government business through Mercury;

(iii) Middle East Contract

Although Mr. Tebbit told BAe not to pursue the contract he mentioned to you, it has resurfaced in an even larger and more lucrative form. With the politics of the Middle East, and particularly the Lebanon, constantly changing, Mr. Tebbit will want to check whether we should continue to turn this deal down;

(iv) A "Ministerial matter".

AT

20 March 1984

SECRET

cc NO.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 5422
(Switchboard) 215 7877

JH 788

PS/ *Secretary of State for Trade and Industry*

2 February 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister.
Mr Tebbit
reported on this
at Cabinet
AT 3/2

Dear Andrew,

SHEERNESS STEEL

Callum McCarthy wrote to you on 30 January about developments concerning Sheerness Steel.

2 I am pleased to report that, following further discussions by Sheerness and DTI officials with the Commission, the quota fines problem has been satisfactorily resolved. The agreements with Brockhouse and F H Lloyd were completed in the early hours of this morning and the restructuring and rights issue are being announced later today.

Yours ever,
Ruth

RUTH THOMPSON
Private Secretary

Nat Ind. PT 13

Steel.

10 DOWNING STREET

From the Private Secretary

Prime Minister

This came up about a year ago. You commented that this case would influence Britain's view of the EC and asked that Viscount Davignon be told of your personal interest.

A year later, Sheerness's restructuring proposals are in jeopardy because the Community threat has not been lifted.

Agree I express your dissatisfaction with this?

AT 1/2

Yes - very much so - - M

Note This has been resolved. Fine set at ECU 300,000; restructuring to go ahead. Announced at Cabinet 2/2 by Mr Tebbit when reporting a Steel Council AT 2/2 a/DO

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JH 734

PS/ *Secretary of State for Trade and Industry*

30 January 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Andrew,

SHEERNESS STEEL

I am writing to bring you up to date on developments concerning Sheerness Steel, in which the Prime Minister has expressed a continuing interest.

2 The company have proposed a major restructuring of their light steel sections side of their business, involving £14.7 million incremental capital expenditure and the closure of three mills in the West Midlands (Brockhouse District and two F H Lloyd subsidiaries, John Bagnall and Lloyds Dudley) with the consequential loss of around 500 jobs. The shareholders and financial institutions (including Investors in Industry) have agreed, provided the restructuring goes ahead, to raise £2.5 million additional equity and to reschedule the company's £24 million debt. The Department proposes to offer £5 million under the Private Sector Steel Scheme towards the closure and restructuring costs.

3 The restructuring is, however, conditional on a satisfactory resolution of the long-standing threat of Commission fines (estimated at more than £5 million) on Sheerness for alleged past transgressions of ECSC production quota. Vice President Davignon has repeatedly confirmed the Commission's political will to help Sheerness, most recently when my Secretary of State met him in Brussels on 26 January. Nevertheless, major technical obstacles still remain. At present there is a real risk that no sufficiently secure assurance on fines will be forthcoming for the Commission to enable the company to issue the prospectus for the additional equity subscription as planned on 1 February. This could place the whole rationalisation package in jeopardy. Without the restructuring, Sheerness' future is insecure, and despite recent improvements in performance - which have enabled the company to make some overdue repayments of loan capital -

bankruptcy could ensue within the next two years. If the fines were imposed, liquidation would probably follow.

4 Officials and the company remain in close contact with the Commission. I shall advise you of developments later this week.

Yours ever,

Callum

M C McCARTHY
Private Secretary

NAT IND
Steel Pt 13

4.

Prime Minister

(2)

Qz.03539

MR COLES A.J.C. 13/1

UNITED STATES MEASURES AGAINST SUPPLY OF SPECIAL STEELS FROM THE EUROPEAN COMMUNITY

The Prime Minister is aware from earlier discussions in Cabinet of the United States' restrictions on special steels. I think that you may wish, however, to draw her attention to telegram No. 75 of 12 January from UKREP Brussels which indicates that the Community is now going to notify GATT of its intention to retaliate. The United States has not made a substantial improvement in its offer and the Community's decision is therefore justified.

I am sending copies to Roger Bone (FCO), Callum McCarthy (DTI) and Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

13 January 1984

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CABINET OFFICE MR D WILLIAMSON MR G STAPLETON MISS S J LAMBERT	DTI (Victoria St) MR R GRAY MR GR SUNDERLAND, OT2 MR. R. WILLIAMS MR. HEALEY MR. BOURKE MR. MOGG MR. BENDER.	ODA MR D L STANTON
H.M. TREASURY MR J G LITTLER MS JE COURT	M A F F PERMAMENT SECRETARY	

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FM UKREP BRUSSELS 121523Z JAN 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 075 OF 12 JANUARY

INFO PRIORITY UKMIS GENEVA, UKDEL OECD, WASHINGTON

COREPER (AMBASSADORS) : 12 JANUARY

EC/US SPECIAL STEELS

SUMMARY

1. EC TO NOTIFY GATT OF ITS INTENTION TO RETALIATE.

DETAIL

2. IN A BRIEF REPORT LUYTEN (COMMISSION) SAID THAT THE U S HAD NOT MET THE CONDITION LAID DOWN BY THE NOVEMBER FAC OF A SUBSTANTIAL IMPROVEMENT IN THE U S OFFER. THE COMMISSION THEREFORE SAW NO OPTION BUT TO NOTIFY THE GATT OF THE EC'S INTENTION TO RETALIATE. THIS WOULD BE DONE TOMORROW EVENING 13 JANUARY. THE NECESSARY IMPLEMENTING REGULATIONS WOULD HAVE TO BE AGREED BY THE COUNCIL BY MID-FEBRUARY FOR RETALIATION TO TAKE EFFECT ON 1 MARCH. THESE WILL BE DISCUSSED BY 113 (DEPUTIES) TOMORROW.

3. NO-ONE DISSENTED.

FCO ADVANCE TO:

FCO - CROWE, WARREN

DTI - GRAY, R WILLIAMS, SUNDERLAND, HEALEY, BOURKE, MOGG, BENDER

BUTLER

2

DEPARTMENT OF TRADE AND INDUSTRY

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NBPM
MHS 26/7

JF4025

PS/Secretary of State for Trade & Industry

26 July 1983

1) ~~Mr Scholar~~

2) Prime Minister

J

26/7

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

Dear Michael,

STEEL COUNCIL : 25 JULY

As you should know, my Secretary of State will be making a statement on the outcome of the Steel Council in Brussels yesterday at 3.30pm this afternoon. I attach the text of his statement.

2 I am sending copies of this letter and attachment to Private Secretaries to Members of the Cabinet, to Murdo Maclean, Michael Simmons (Lord Belstead's Office) and Bernard Ingham (No 10).

Yours sincerely,

Jonathan Spencer.

J P SPENCER
Private Secretary

Encl

V5887

STATEMENT ON EC STEEL COUNCIL

WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT ABOUT YESTERDAY'S MEETING OF THE EUROPEAN COMMUNITY STEEL COUNCIL.

MY HON FRIEND THE MINISTER OF STATE FOR INDUSTRY AND I ATTENDED THE COUNCIL.

THE CENTRAL ISSUE WAS WHETHER TO PROLONG THE ARRANGEMENTS MADE UNDER ARTICLE 58 OF THE EUROPEAN STEEL AND COAL COMMUNITY FOR MANDATORY PRODUCTION QUOTAS. MINISTERS WERE AGREED THAT IN ORDER TO PROVIDE THE COMMUNITY WITH MARKET STABILITY, IT WAS DESIRABLE TO PROLONG THE QUOTA ARRANGEMENTS TO THE END OF 1985.

THE ITALIAN MINISTERS, HOWEVER, REPRESENTING A CARETAKER GOVERNMENT, FELT UNABLE TO IMPOSE SUCH A LONG TERM LEGALLY BINDING OBLIGATION ON FUTURE GOVERNMENTS. BECAUSE OF THAT THE COUNCIL'S FORMAL DECISION WAS TO PROLONG THE ARRANGEMENTS TO 31 JANUARY 1984, WITH A UNANIMOUS DECLARATION OF POLITICAL INTENT TO AGREE A FURTHER RENEWAL TO THE END OF 1985.

THE MINISTERS ACCEPTED THE NEED FOR MEMBER STATES TO USE THIS PERIOD OF MARKET STABILITY TO RESTRUCTURE THEIR STEEL INDUSTRIES, IN ACCORDANCE WITH THE COMMISSION'S DECISIONS OF 29TH JUNE. THOSE DECISIONS RECOGNISED THE BRITISH ARGUMENT THAT WE HAD MADE THE MAJOR CONTRIBUTION TO REDUCING EUROPEAN STEEL CAPACITY, AND THAT IT IS NOW THE TURN OF OTHERS TO MATCH THOSE ACHIEVEMENTS.

THE NEW PRODUCTION QUOTAS ALSO RECOGNISE WHAT THE BRITISH STEEL INDUSTRY HAS ALREADY ACHIEVED. OUR QUOTA IS TO BE INCREASED BY 380,000 TONNES OF STEEL PER YEAR, AND THAT WILL BENEFIT BOTH THE BRITISH STEEL CORPORATION AND THE PRIVATE STEEL COMPANIES.

MINISTERS ALSO AGREED TO GREATER FLEXIBILITY FOR PRIVATE PRODUCERS WHO FACE DIFFICULTIES AS A RESULT OF SEVERE QUOTAS. THAT SHOULD HELP OUR WIRE ROD SECTOR PARTICULARLY. WE ALSO AGREED TO MORE EFFECTIVE MONITORING AND POLICING OF THE QUOTA SYSTEM.

THE COMMISSION WILL APPLY ITS PRICE RULES MORE FIRMLY SO AS TO TACKLE UNFAIRLY LOW PRICED IMPORTS FROM OTHER MEMBER STATES.

ANOTHER BENEFIT TO BRITAIN IS THAT WE HAVE BEEN ABLE TO SAFEGUARD BRITISH STEEL'S EXPORTS OF HEAVY STEEL SECTIONS, WHICH MIGHT OTHERWISE HAVE BEEN CUT DOWN BY QUOTAS.

WHILE IN BRUSSELS I RAISED THE PORT TALBOT INVESTMENT PROJECT WITH VICE PRESIDENT DAVIGNON, AND I AM PLEASED TO TELL THE HOUSE THAT HE GAVE ME A CATEGORICAL ASSURANCE THAT APPROVAL FOR IT WOULD BE GIVEN AT THE END OF THIS WEEK.

MR SPEAKER, THE GOVERNMENT HAS LITTLE LOVE FOR MARKET CARTELS, BUT THERE IS LITTLE DOUBT THAT A FAILURE TO REACH AGREEMENT YESTERDAY ON THE QUOTA REGIME WOULD HAVE LED TO DAMAGING UNCERTAINTY IN THE STEEL MARKET. I BELIEVE THAT THE OUTCOME OF THE COUNCIL IS A VERY SATISFACTORY ONE, WHICH WILL HELP BOTH BRITISH STEEL'S PROGRESS TOWARDS FINANCIAL VIABILITY AND OUR PRIVATE SECTOR STEEL INDUSTRY.

ZZ WASHINGTON
GRS 265
RESTRICTED
FM D O I 071358Z JUL 83
TO FLASH WASHINGTON
TELEGRAM NUMBER INDUS 81 OF 7 JULY
AND TO PRIORITY ALL EC POSTS, UKMIS GENEVA, TOKYO.

MS

PLEASE PASS TO MR BROCK, US TRADE REP.
FROM PARKINSON, SOS/INDUSTRY

MANY THANKS FOR YOUR KIND LETTER OF 24 JUNE AND YOUR CONGRATULATIONS ON MY NEW POST. IT WAS KIND OF YOU TO WRITE AND I MUCH APPRECIATE IT.
I WILL REPLY SHORTLY TO THE SPECIFIC POINTS YOU RAISE. BUT I MUST LET YOU KNOW RIGHT AWAY OF OUR GREAT DISAPPOINTMENT AT THE PRESIDENT'S DECISION OF 5 JULY TO IMPOSE TARIFFS AND QUOTAS ON IMPORTS OF SPECIAL STEELS. COMING SO SOON AFTER THE WILLIAMSBURG DECLARATION, THIS IS A VERY GREAT PITY. THE ADDITION OF AN 8 PERCENT TARIFF TO THE 19.3 PERCENT COUNTERVAILING DUTY ALREADY IN FORCE ON BSC'S EXPORTS OF STAINLESS STEEL PLATE IS A DOUBLE PENALTY WHICH WE FIND PARTICULARLY UNREASONABLE.

WE KNOW THAT YOUR STEEL INDUSTRY IS IN DIFFICULTY, BUT WE FIND IT HARD TO ACCEPT THAT IMPORTS ARE THE MAIN CAUSE. MEASURES OF THIS KIND DO NOT HELP OUR DETERMINED EFFORTS TO RESTORE THE HEALTH OF OUR OWN STEEL INDUSTRY SMI COLON AND THEY WILL APPEAR PARTICULARLY UNJUST IN A WEEK IN WHICH BSC'S PRODUCTIVITY RECORD HAS BEEN RECOGNIZED AS PRE-EMINENT IN EUROPE. AND MUCH OF THE TRADE IS IN THE HANDS OF OUR PRIVATE SECTOR PRODUCERS, WHOM YOUR OWN INVESTIGATIONS HAVE FOUND TO BE FREE FROM SUBSIDY.

THIS DECISION WILL NOT MAKE IT ANY EASIER FOR US TO DEFEND OUR FIRM COMMITMENT TO THE OPEN TRADING SYSTEM.

YOU WILL REALIZE THAT WE MUST NOW CONSIDER WITH OUR COMMUNITY

PARTNERS HOW TO RESPOND TO THE PRESIDENT'S DECISION, CONSISTENTLY WITH OUR RIGHTS UNDER THE GATT.

MINIMAL
TRED
NAD
ECD (E)

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DTI
ASHDOWN HOUSE
MR WILLIAMSON
CABINET OFFICE
NO 10 DOWNING STREET
MR SUNDERLAND
OT 2/DTI
MR HEALEY
OT 2/DTI

PART 12 ends:-

CC(83) 21st Item 3

PART 13 begins:-

CC(83) 22nd Item 3

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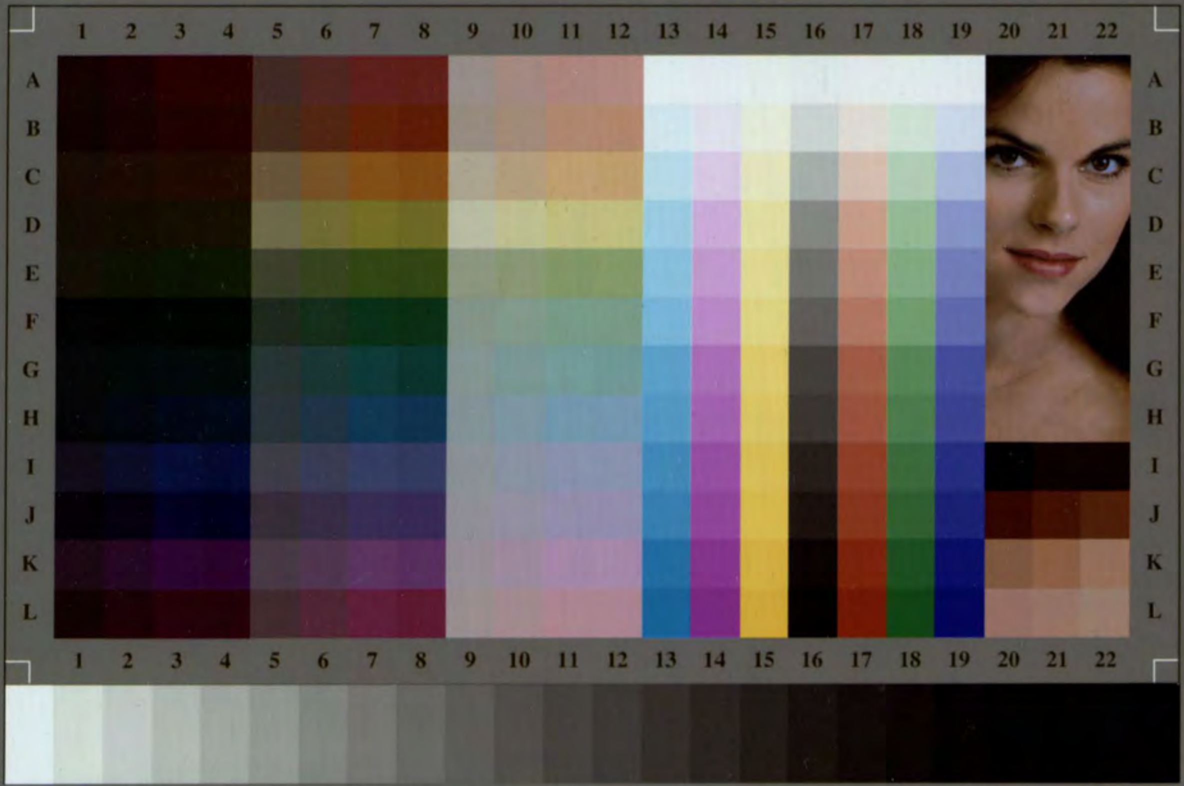

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