PREM 19/2361

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PART 14

SECRET

Confidential filing

The Steel Industry

NATIONALISED INDUSTRIES

Pt 1: JUNE 1979

Pt 14: SEPTEMBER 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PREM 19/2361

PART 14 ends:-

J. HOLROYD TO CDP 25.9.87

PART 15 begins:-

CDL TO PM 2.10.87

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(85) 35th Meeting, item 3	05/12/1985
CC(85) 34th Meeting, item 4	28/11/1985
CC(85) 33rd Meeting, item 4	21/11/1985
CC(85) 31st Meeting, item 3	07/11/1985
CC(85) 30th Meeting, item 3	31/10/1985

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 10/3/2016

PREM Records Team

Tg 02971

MR POWELL, (10 Downing Street)

CDP 25/9.

STEEL : COUNCIL OF INDUSTRY MINISTERS 21 SEPTEMBER

The Chancellor of the Duchy of Lancaster has minuted the Prime Minister and other members of E(A) to report on the discussions on steel in the Industry Council on Monday last.

The course of action taken by the United Kingdom follows the lines of agreement amongst officials in EQO. The United Kingdom is in a strong position in the negotiations in Brussels since, if push came to shove, BSC is probably in a better position to survive than its continental competitors in a free market. Indeed getting BSC to stand on its own commercial feet is a necessary pre-condition for privatisation. But while there is substantial over-capacity in other parts of Europe - perhaps 20-30 million tonnes needs to be removed to bring supply and demand back into balance - the case will be pressed for continuing quotas. This would be better than the reintroduction of wholesale national subsidies and thus we could put up with quotas for a further period as long as, to quote the highly satisfactory conclusions of the meeting, they "would be conditional on adequate restructuring being offered by the steel industry."

At this stage there is nothing more needed than to note the Chancellor of the Duchy's minute and ask for colleagues to be kept in the picture as the actual possibilities for closures of steel making plant become clearer.

J H HOLROYD

25 September 1987

10 DOWNING STREET

Prime Minister

DTI expect to be able to circulate in early October a note about the future options at BSC, taking into account BSC's own thoughts.

DRN
24/9.

CDP
To see these two minutes.
DRN

Then pa.

TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

24 September 1987

STEEL: COUNCIL OF INDUSTRY MINISTERS, 21 SEPTEMBER

1 Since there is no Cabinet this week I am writing to you about the discussions on the future European steel regime at Monday's Council of Ministers in Brussels.

2 The present European steel regime of quotas for most categories of product is due to end in December 1987. It is the latest phase of the Davignon policy of producing "an orderly market" whilst "restructuring" can take place. That policy is running out of steam. Everyone in the steel industry is agreed that there is still a huge surplus of steelmaking capacity in the Community as a whole. Some producers would like to establish the regime as a permanent officially-sanctioned cartel in which prices are kept artificially high to ensure that all producers can keep in business at below viable capacity levels.

3 In my opinion the system already imposes higher costs on consumers of steel and European taxpayers than there would be in a free market. If the regime continued it would run the risk of collapsing at any time as Governments and producers broke ranks in response to short term pressures. Such a permanent "milk quota" regime would not be in the interests of BSC, British industry or the British Government, particularly as we prepared for the "completion of the internal market" in 1992. We must therefore press hard for significant capacity reductions to put European steelmaking on a fully commercial basis.

4 The discussions on Monday were protracted and revealed a wide range of views about the Commission's proposed package of measures. These include a prolongation of the production quota system for three more years, conditional on more commitments to "restructuring" (closure of excess steelmaking capacity); a linked system of financial incentives to encourage capacity cuts; and accompanying regional and social measures.

5 More progress was made in a desirable direction than I expected. There was eventually unanimous agreement that there remains substantial excess capacity in Europe as a whole. More surprisingly, there was also unanimous agreement that no new quota arrangements should be established unless enough guarantees of capacity cuts could be secured to make an early

return to a free market possible. There is no prospect at all of political discussions between Ministers producing such guarantees from a cold start. We therefore agreed that the Commission, after consultation with the Council, should appoint "Three Wise Men" to advise and report to us by mid November on how adequate commitments might be obtained. Viscount Davignon is the strongest contender as the leader of this body.

6 After this further work, it will not be easy to secure a satisfactory outcome from the next Council meeting on 8 December. Many Governments will back away from commitment to close loss-making and unviable centres of production. Some Ministers will want to roll-over the present quota regime to secure an expensive system of market support. However last Monday's agreement will provide some bargaining levers to exert pressure upon them.

7 We would benefit from the earliest possible return to a free market provided this did not result in a collapse into loss-making prices and state subsidies. BSC can only take full advantage of its present profit making position if the European market is opened up to it on sensible terms.

8 On the other hand, it cannot be assumed that three men, if they are indeed wise, will not identify some spare capacity in Britain as part of their response in November. We do not even know yet whether they will give advice on any specific plants or tonnages. However we will not get recommendations on substantial closures in Germany, Italy and France, which are needed, without some consideration of the British position. They are quite clearly only advising and most definitely not deciding on these matters. Each country will need to prepare its response.

9 This means that we must decide by December on the British position and the interests of the Government and BSC. I remain in close and regular contact with Bob Scholey and BSC as they consider their position for the next few years. I will report back to colleagues when I have firm proposals to make.

10 I am sending a copy of this minute to E(A) colleagues.

KENNETH CLARKE

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SUBJECT CC MASTER

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DCACBE

MTG RECORD

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

28 July 1987

BRITISH STEEL CORPORATION: STRATEGIC ISSUES AND PRIVATISATION

The Prime Minister yesterday held a meeting to discuss steel on the basis of the Chancellor of the Duchy's minute of 24 July. There were present the Chancellor of the Duchy of Lancaster, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and Mr. George Guise (No.10 Policy Unit).

Summing up a brief discussion the Prime Minister said that the proposed enterprise company which might be set up if Ravenscraig closed would be worth pursuing to the next stage. However no further work should be done until September. In the first week of September Trade and Industry Ministers should make it clear to British Steel that if as one of their options they intended to propose closure of Ravenscraig or any other steel works they should accompany that recommendation with imaginative proposals for helping the areas affected. Trade and Industry Ministers might say that considerable sums of money might be available in those circumstances, but no figures should be mentioned. The right stage at which to involve a wider group of colleagues would be when British Steel presented their options to Government.

I am copying this letter to Tim Walker (Department of Trade and Industry) and Tony Kuczys (HM Treasury).

(D.R. NORGROVE)

Peter Smith, Esq.,
Chancellor of the Duchy of Lancaster's Office.

PRIME MINISTER

RAVENSCRAIG

You will remember that Bob Scholey is reviewing the options for British Steel, and Ravenscraig in particular, with a view to a report to Ministers in mid/late September. Lord Young and Mr. Clarke argued that a well-funded enterprise company would open the way to closure of Ravenscraig, and Mr. Clarke's minute below sets out the results of their further work.

The description in Mr. Clarke's minute does not in fact add much flesh to the proposal. The main new details are the suggestion that perhaps up to £50 million a year might be committed to the company and that it would operate for a set period of, say, seven to ten years.

The key questions for the meeting seem to be:

(i) if the proposal were worked up in greater detail, would it offer a credible basis for an announcement in due course that Ravenscraig was to be closed;

(ii) has the time now come for wider consultation with colleagues (one possibility would be for Mr. Clarke to consult the Lord President this side of the summer holidays and, subject to his views, for Mr. Rifkind and perhaps Mr. Fowler to be brought in early in September)?

DGN

David Norgrove
27 July 1987
DG2ALR

SECRET

TO:
PRIME MINISTER

FROM:
KENNETH CLARKE

24 July 1987

Prime Minister, cc FCO
Agree a meeting next week without the Rifkind?
Yes
DRN 24/7.

BRITISH STEEL CORPORATION : STRATEGIC ISSUES AND PRIVATISATION

I promised to let you have some further thoughts about how we might handle the consequences of restructuring BSC in Scotland, should that be the preferred option arising from Bob Scholey's current review.

2 Understandably, some will represent any substantial reduction in steelmaking at Ravenscraig as a major blow to Scottish industry. In fact it will provide an opportunity to look to future economic growth rather than rely on the declining industrial structure of the past. A rationalisation in steel capacity would increase the net worth of BSC; as we suggested at our previous meeting, part of the increased proceeds from privatisation could be used to offset the cost of stimulating and supporting the necessary change.

3 However the advantages of such an approach would be lost if we do not take the initiative well before any closure is formally announced, let alone implemented. This means committing substantial funds - perhaps up to £50 million per annum - in advance of receiving any proceeds from the sale. I attach a very brief outline of a possible proposal. It is only a first stab at what we might do and obviously needs

...

KC1ABE

working-up further. As soon as possible we would want to sit down with one or two substantial Scottish industrial figures to produce a well-judged plan and decide exactly how we are going to attract significant new business activity to the area. We will need to consider possible names of a handful of very prominent industrialists who might be involved. We need to be able to call on substantial private sector resources and commercial expertise to have any prospect of success.

4 I do not think that it is possible to go much further with the detail without bringing Malcolm Rifkind into the discussions. He may well be concerned that even to discuss an enterprise initiative in Scotland may be to concede effectively that plants will close. I think it will be important to convince him that our discussions on BSC strategy must be based on a commercial evaluation of the various options open to BSC and that the initiative outlined above represents a real opportunity for Scotland. He will be well placed to suggest individuals who might be sympathetic to this approach. If we wait until the results of the Scholey review are complete, it may well be too late to put the necessary preparation in hand. On the other hand to approach people too much in advance runs the risk of premature disclosure. You will wish to consider how to take the matter further. I should of course be pleased to attend a further short meeting if you would find this helpful.

5 I am copying this minute to Nigel Lawson and David Young.

K C

KC1ABE

DEPARTMENT OF TRADE AND INDUSTRY

THE SCOTTISH ENTERPRISE COMPANY

Form

1. An Enterprise Company - limited by guarantee - would operate for a set period (say 7-10 years) in the West Central belt of Scotland. It would be headed by a private sector (Scottish) Executive Chairman and would have relatively few staff, instead making extensive use of existing agencies and private sector skills. The Company would channel significant private and public funds, including any relevant EC assistance, and - without duplicating mechanisms already in place (e.g. the SDA, BSC (Industry), Enterprise agencies) - provide a focal point for activities to alleviate the problems arising from the closure of Ravenscraig.

Tasks

2. Its main aim would be to bring together all the activities which could generate new business in the area, and assist existing businesses to expand. As a priority, the company would, therefore, seek to secure the involvement of the private sector in the economic development of the area.

3. Its first task would be to assess the characteristics of the workforce (e.g. age, skills, sex, etc), since these clearly influence the type and scale of programme to be provided. This process would include an assessment not just of those directly employed at Ravenscraig, but also of those affected indirectly by the closure.

4. The Company would provide support to BSC and other affected businesses in counselling individuals made redundant (perhaps using a private agency such as FOCUS). It would then offer a variety of forms of assistance to act as a catalyst in the revitalization of the area:-

(i) **Training**

The Company would promote training in relevant skills - preferably working with potential employers - by linking MSC funded training to specific vacancies;

(ii) **Encouraging self-employment**

The Company would aim to maximize the contribution to promoting self-employment made by the Government's Enterprise Allowance Scheme;

(iii) Advice to new businesses

The Company would provide advice to new small businesses, for example by working through local Enterprise Agencies and Business Innovation centres;

(iv) Finance for small companies

The Company would encourage the provision of finance through loan and equity to small businesses, through the development of new local equity funds, and through 'marriage bureaux' (perhaps of the type set up by LENTA) which would link potential investors to people wishing to set up new projects;

(v) Developing new business ideas

The Company could seek to facilitate the generation of ideas for new business by capitalizing on innovations developed by larger companies which do not themselves wish to exploit them;

(vi) Encouraging Inward Investment

The Company would seek to promote inward investment, perhaps through the designation of an Enterprise Zone, and by

drawing upon existing SDA powers;

(vii) **Encouraging industry/education links**

As a longer term strategy to inculcate more enterprising attitudes, the Company would seek to forge closer links between the worlds of education and industry.

(viii) **Encouraging small workshop developments**

The Company would oversee, in conjunction with the SDA, the building and management functions of small workshop developments.

(ix) **Providing work experience**

The Company could help to cushion the impact of unemployment for those who did not immediately find new jobs by providing work experience on the Community Programme.

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

9 July 1987

BRITISH STEEL CORPORATION: STRATEGIC ISSUES AND PRIVATISATION

On re-reading my record of the meeting the Prime Minister held yesterday to discuss the possible privatisation of the British Steel Corporation, there are two points I would wish to add.

First, the point was made that steel production at Ravenscraig offered a very uncertain future for those employed there. The jobs provided in the private sector through the efforts of an enterprise company would offer better prospects for jobs which would last in a more diverse local economy. Secondly, though this hardly needs saying, the Prime Minister made it clear that the Secretary of State for Scotland should be put in the picture at an early stage.

I am copying this letter to Timothy Walker (Department of Trade and Industry) and Tony Kuczys (HM Treasury).

D R NORGROVE

Peter Smith, Esq.
Office of the Chancellor of the Duchy of Lancaster

SECRET

SECRET 4

File
ARWSYM
bc. G.G.

meeting record

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 July 1987

Dear Peter,

BRITISH STEEL CORPORATION: STRATEGIC ISSUES AND PRIVATISATION

The Prime Minister this morning held a meeting to discuss the possible privatisation of the British Steel Corporation on the basis of the Chancellor of the Duchy's minute of 6 July. There were present the Chancellor of the Duchy, the Secretary of State for Trade and Industry, the Chancellor of the Exchequer, and Mr. George Guise (No.10 Policy Unit).

The Chancellor of the Duchy said that Sir Robert Scholey was now considering the options for the future of BSC and would be making proposals in September. Scots tended to see the Government's commitment to steel and shipbuilding in Scotland as a measure of its commitment to Scotland as a nation. Ravenscraig was, however, losing more than £100 million a year, and Clydesdale another £23 million a year. (It was later suggested that privatisation of BSC without Ravenscraig could add as much as £700 million to privatisation receipts.) Sir Robert was likely to conclude that the right option would be to end steel-making in Scotland. It would be right now to consider how some of the resources which would be saved by closure of Ravenscraig in due course could be applied to help those who would be affected by closure. This would mean setting up a well-funded enterprise company a good long time ahead of closure, perhaps as early as this autumn, whose aim would be to give direct help to steel employees who would lose their jobs. It would not be enough to start the effort after the works had been closed and then to run it in a way which would not directly help those who had lost their jobs. Those made redundant would also need to be paid capital sums and older steel workers would receive early payment of pension.

In discussion it was suggested that it would be appropriate for the cost of the measures proposed by the Chancellor of the Duchy to be met by BSC, with an appropriate change in the BSC EFL, rather than by the Government directly. It would be useful to hold very private discussions with Chairmen, who would preferably be Scottish, of some major companies, to see what might be achieved through the proposed enterprise company. If the proposal went through it would be necessary to explain why Ravenscraig was receiving more generous treatment than had been the case for other closures.

Concluding the discussion, the Prime Minister invited the Chancellor of the Duchy to work up a proposal of the kind he had outlined. The initiative should be private-sector driven, bringing in private companies, rather than public-sector led. It would be vital to avoid another Linwood. If such a package were to be announced in due course, every effort should be made to gather other announcements which could form part of it. There could, however, be no question of taking any decision until BSC had produced its analysis. It must be made clear to Sir Robert Scholey that his studies should include all possible options for the future of Ravenscraig.

I am copying this letter to Timothy Walker (Department of Trade and Industry) and Tony Kuczys (HM Treasury).

Yours,

David.

(DAVID NORGROVE)

Peter Smith, Esq.,
Office of the Chancellor of the Duchy of Lancaster

PRIME MINISTER

BRITISH STEEL CORPORATION: STRATEGIC ISSUES AND PRIVATISATION

This meeting is intended to allow the new DTI Ministers to hear your first reactions on the possibility of privatisation. The Government's assurance on Ravenscraig expires in August 1988, and the future of Ravenscraig will become a live issue at least from the Autumn.

Merchant bank advice is that privatisation by means of a public offer for sale would be possible provided:

(i) there is a stable European market, which would require clear commitments to further restructuring (not just further quotas);

(ii) BSC profits of around perhaps £300 million a year and rising.

With these conditions, privatisation in the Summer of 1990 is thought to be probably the earliest feasible date, though Summer of 1989 is a possibility.

£300 million profit levels are a "best case" BSC forecast. But to make them more robust, the Corporation is considering:

- closing the Ravenscraig hot strip mill in due course;

- complete closure by the early 1990s;

- they may well also build a new plate mill at Scunthorpe, which would mean closing Dalzell (near Ravenscraig);

- the Clydesdale pipe mill is "seriously at risk in the short term".

A BSC assessment of the options may well be available in mid/-late September.

Total BSC employment in Scotland is 6,050. Employment in the mills mentioned above is:

Ravenscraig	3,090
Dalzell	780
Clydesdale	1,380
	5,170

In other words, these changes would involve almost complete closure of BSC's steel-making operations in Scotland.

Clearly, no firm decisions can or should be taken until the BSC assessment is available. But obvious immediate questions include:

(i) is it remotely believable that all these changes together would be acceptable politically;

(ii) if not, would acceptance of some of the changes make BSC privatisable, eg retain all or part of Ravenscraig, but close Dalzell and Clydesdale;

(iii) are there any other plants which could be closed, whilst retaining Ravenscraig, to make BSC privatisable; would such action be acceptable;

(iv) is there other work which could be built up at Ravenscraig to allow its steel-making capacity to be closed;

(v) if Ravenscraig has to be retained as an integrated plant, and no other plant can be closed in its place, how real is the prospect that BSC might be privatised as a whole in this Parliament;

(vi) what are the prospects for piecemeal privatisation?

If you were to decide in the autumn that there is no prospect of closing Ravenscraig two options would be:

(a) allow closure of Dalzell and Clydesdale, and other changes, to go ahead in the hope that privatisation as a whole would later be found to be feasible even with Ravenscraig;

(b) consider piecemeal privatisation.

DRN

D R NORGROVE
7 July 1987

DASAJP

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PRIME MINISTER

7 July 1987

BSC PRIVATISATION - DTI PAPER OF JULY 6th

There is approximately 100 million tonnes of overcapacity in the non-Communist world steel industry, which represents average capacity utilisation of below 70%. The problem is exacerbated by increasing crude steel production from developing countries. (Table 1)

With the Japanese, American and much of the European steel industry in loss, BSC stands out having achieved a positive PBIT of £226 million for 86/87. The key achievement has been to get operating procedures and manning levels to the point where only 6.2 man-hours are required to produce a tonne of liquid steel. This is comparable with leading Japanese and Korean steelmakers. I attach a tabulation from BSC's latest annual report published today showing how the Corporation's performance has improved over 10 years (Table 2).

The Commercial Case

The steel industry is capital intensive with a high level of fixed costs. Integrated plants must run continuously if they are to maintain the cost advantage which justified their huge capital investment. The present configuration of BSC, with its five integrated steel plants, means that steel making capacity exceeds the available profitable market outlet for finished steel products by some 30%.

There is therefore pressure to sell the surplus at any price which covers variable costs and so makes some contribution towards fixed costs. This leads to prices being accepted which are substantially below those ruling in the prime markets. This has the ultimate effect of distorting prime markets because competitors in secondary markets where BSC does sell products at low prices will retaliate in BSC's

prime markets. These low margin sales are typically in unsophisticated "commodity" steel products, such as reinforcing bars or coils, where third world producers compete on the basis of artificially low labour and raw material costs as a result of heavy state subsidies.

By contrast, if secure and profitable outlets exceeded BSC's basic steel making capacity, the necessary shortfall in basic steel could be readily imported from other producers for conversion in BSC's finishing plants to high value added end products. BSC could thereby reverse the gambit and pay only the seller's marginal costs, thus pushing the inadequate profit contribution on to the seller. This is the situation which any good industrialist in charge of a modern steel business would automatically seek. However, the steel market is not growing at anything like the rate necessary to bring about such conditions. For BSC, the only way to achieve this position is by reducing steel making capacity to a level at or below available profitable market outlets.

BSC would ideally like to concentrate its strip business at the integrated plants of Port Talbot and Llanwern with the general steel business located at Teeside and Scunthorpe. This means closing Ravenscraig which BSC claim would add some £100 million per annum to operating profit and put the corporation in a strong position for privatisation. Indeed, Barclays have advised BSC that its value as a public company is unlikely to exceed £1.3 billion if Ravenscraig is kept open, unless pre-tax profits could sustainably exceed the £300 million mark. By contrast, without Ravenscraig, not only do the earnings become more secure, but their actual value increases. This has a double effect on capital value and the valuation would rise to approximately £2 billion.

These arguments are based on the assumption that BSC were to be privatised as a single entity. Before accepting the latter, we need to examine the separate but related arguments:

a) BSC is not a monopoly because it is too small to dominate its EEC competitors, and
b) BSC should extend its network of tied steel distributors in order to compete on equal footing with its European competitors.

These are two matters which we should ask to be covered in the assessment mentioned in Kenneth Clarke's paragraph 7.

My instinct is that it is not really possible to behave as a monopolist in a grossly over supplied market. With the closure of Ravenscraig, BSC would be one of the strongest steel companies in Europe and could possibly be capable of some monopoly behaviour. However, while there is excess capacity in the rest of Europe, it is improbable that a streamlined BSC could make monopoly profits. It is more likely that it would keep the European steel industry on its toes and lead to generally lower steel prices.

There is therefore a strong prima facie argument for privatising British Steel as a single entity. It would also be an "own goal" politically to go through all the traumma of a partial privatisation of British Steel and have HMG left with several heavy loss making plants employing thousands.

The Political Case

The Conservatives have done badly in Scotland and it is arguable that the principal attitudinal change towards wealth generation has not yet taken root in Scotland as it has in England. However, this Government's success has been

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in facing such fundamental issues directly and fearlessly. To some extent our revolution hasn't really begun in Scotland. Every last argument, including a completely uneconomic Chinese shipbuilding contract, was advanced for Govan and, as we have discussed, the Fast Breeder activity in Dounreay is not really research at all. It is mere political science because 3000 people are employed.

Those who claim that issues such as Ravenscraig, Govan and Dounreay cannot be addressed now because of the political danger must be given the counter argument that this is the very best time to address them. The slate would be wiped clean at a time of low popularity. Over the next few years Scotland would then build up truly profitable activity and participate along with the rest of the nation in the permanent fruits which that will bring.

Conclusion and Recommendation

BSC has been able to make better profits than its principal competitors despite overcapacity because its five integrated plants are in common ownership. In the present steel market, the overcapacity can be managed, although the level and security of profit is still not adequate for privatisation. The threats to the steel market are worsening overcapacity and exchange rate fluctuations. If BSC is to be robust in the face of these, it needs a capacity level which balances its market for finished products.

Ravenscraig has been given a guaranteed existence until August 1988. This deadline should not be extended and BSC's plans for internal restructuring should be supported. The enhanced capital proceeds from a sale of BSC with Ravenscraig closed are likely to exceed half a billion pounds. Some of this could be earmarked for special start up funding in the Glasgow area.

GEORGE GUISE

Ten year figures 1977/78 to 1986/87

	1977/78 £m	1978/79 £m	1979/80 £m	1980/81 £m	1981/82 £m	1982/83 £m	1983/84 £m	1984/85 £m	1985/86 £m	1986/87 £m
Turnover:										
Home	2,356	2,477	2,321	2,159	2,402	2,197	2,336	2,561	2,566	2,276
Export	654	689	650	665	822	793	803	893	936	999
Overseas	144	122	134	130	219	241	219	282	233	186
Total	3,154	3,288	3,105	2,954	3,443	3,231	3,358	3,736	3,735	3,461
Cost of sales:										
Materials	1,562	1,468	1,582	1,484	1,602	1,640	1,627	1,908	1,877	1,725
Other external charges	484	538	539	599	687	621	645	670	644	518
Employment costs	1,075	1,130	1,081	1,113	1,097	948	915	910	889	754
Other costs	214	165	184	162	178	205	211	201	122	145
Depreciation	98	111	87	92	126	94	86	111	112	129
Total	3,433	3,412	3,473	3,450	3,690	3,508	3,484	3,800	3,644	3,271
Trading profit/(loss) after depreciation	(279)	(124)	(368)	(496)	(247)	(277)	(126)	(64)	91	190
Investment income	30	21	18	19	24	2	21	22	39	36
Profit/(loss) on ordinary activities before interest and exceptional items	(249)	(103)	(350)	(477)	(223)	(275)	(105)	(42)	130	226
Interest	(197)	(208)	(188)	(183)	(104)	(108)	(69)	(72)	(54)	(20)
Profit/(loss) on ordinary activities after interest but before exceptional items	(446)	(311)	(538)	(660)	(327)	(383)	(174)	(114)	76	206
Exceptional items	(65)	(39)	(1,236)	(353)	(165)	(483)	(79)	(264)	(34)	(29)
Profit/(loss) (including exceptional items) on ordinary activities before taxation	(511)	(350)	(1,774)	(1,013)	(492)	(866)	(253)	(378)	42	177
Taxation and minority interests	(2)	(7)	(10)	(7)	(12)	(3)	(3)	(5)	(4)	1
Profit/(loss) for year	(513)	(357)	(1,784)	(1,020)	(504)	(869)	(256)	(383)	38	178
Liquid steel production (M tonnes)	17.4	17.3	14.1	11.9	14.1	11.7	13.4	13.0	14.0	11.7
Steel deliveries product tonnes (M tonnes):										
Home	10.2	9.6	8.0	7.2	8.0	6.8	7.5	7.8	7.7	6.6
Export	3.2	2.9	2.5	2.3	2.7	2.5	2.9	2.8	3.0	3.7
Total	13.4	12.5	10.5	9.5	10.7	9.3	10.4	10.6	10.7	10.3
Capital expenditure (£m) (net of grants claimed)	401	267	261	148	164	122	164	210	220	269
No of UK employees at year end (000s)	196.9	186.0	166.4	120.9	103.7	81.1	71.1	64.5	54.2	52.0
Productivity for ECSC activities (man hours per tonne liquid steel)	15.3	14.3	13.2	14.5	9.4	9.3	7.1	7.0	6.3	6.2
External financing:										
Limit (£m)	950	875	700	1,121	730	575	321	343	414	26
Actual (£m)	806	752	579	1,119	694	569	318	523	411	24

cc GG and return pse

TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

BRITISH STEEL CORPORATION: STRATEGIC ISSUES AND PRIVATISATION

1. In his minute of 13 February Paul Channon reported that the Department had appointed Samuel Montagu to advise the Government on BSC's privatisation and that BSC had appointed Barclays de Zoete Wedd.

2. Both banks reported in late March. They concluded that it should be possible to privatise BSC by means of a public offer for sale provided that there is a stable market within Europe and provided that BSC is making profits significantly higher than at present. The minimum profit level required is difficult to define partly because it depends critically on tax assumptions which cannot easily be tested at this stage. Montagu believed that profits of at least £300 million on a rising trend would be needed whilst Barclays

talked of a slightly lower level. A flotation in the Summer of 1990 was thought to be probably the earliest feasible timescale though the Summer of 1989 remains a possibility.

3. The banks also strongly believed that it is desirable to privatise BSC as a single entity, essentially because they considered that to break up the Corporation would weaken it in competitive terms; reduce the sale of proceeds and almost certainly leave the Government with a substantial unsaleable rump.

4. The requirement for a stable market is unlikely to be met until the bulk of the remaining excess steel making capacity in Europe has been removed. A further extension of the Community quota system beyond 1987 (likely to be proposed by the Commission) without clear commitments to further restructuring in Europe would not provide an adequate basis for privatisation. This highlights the importance of decisions to be taken in Brussels over the next few months, and I shall be attending the next Council on 21 September to discuss the Commission's proposals.

5. Tomorrow (7 July) BSC will announce a profit of £178 million. This is an impressive achievement given the difficulties of recent years but falls short of the level of profitability required for privatisation. On the current plant configuration of 5 integrated steelworks, BSC's best case projections show profit levels of around £300 million in 1990 and 1991. But the assumptions underlying the "best case" may not be wholly realistic, and in any case there are substantial commercial risks. Even in a stable steel market, the prospects for privatisation will only be robust if a further major cost reduction programme is undertaken.

6. The Corporation is now considering a number of strategy options some of which will involve the closure of the Ravenscraig hot strip mill in due course and probably the complete closure of steelworking at Ravenscraig by the early 1990s. BSC's plans may well also involve building a new plate mill at Scunthorpe to replace the obsolescent mills at Scunthorpe and Dalzell (near Ravenscraig). The Clydesdale pipe mill (also in Scotland) is also seriously at risk in the short term.

7. I met Bob Scholey recently to discuss how BSC's strategy and possible privatisation should be handled over the next few months. I told him that we needed to consider a wide range of options including some which provide for the maintenance of a major presence in Scotland before we could begin to address these strategic issues. Bob Scholey fully understood this and has undertaken to provide a preliminary evaluation of BSC's strategic options. This assessment may well be avilable in mid/late September.

8. I think that it is important to form a clear idea of our intentions as soon as possible if I am to have any chance of remaining "ahead of the game" and avoiding being buffetted by inevitable crises. Both the Government and the Corporation will need to be in a position to announce decisions on future strategy well before August 1988 when the present strategy - widely seen as a "guarantee" for Ravenscraig expires. In any event the requirements of our broader privatisation programme may make it important to keep open the possibility of a Summer 1989 flotation.

9. I do not propose to make any announcement about BSC's present review of strategy. I have asked Bob Scholey to try to ensure that any work that he wants done is carried out as discreetly as possible by headquarters management only. However the work involved is of great political sensitivity and the risk of public speculation is ever present. Tomorrow's results will excite fresh interest and speculation. Although no final decision need be taken until we have seen what Bob Scholey has proposed, and I have no intention of departing from restatements of our present strategy at the moment, I welcome the prospect of an early meeting with you, the Chancellor and David Young to discuss the broad direction of policy for this Parliament.

10. I am copying this minute to Nigel Lawson and David Young.

K C

6 July 1987

NAT IND

STREL

PT14

RLE

DS2 ACD

cc Policy Unit

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 June 1987

ALLIED STEEL AND WIRE

Sir Trevor Holdsworth telephoned this afternoon to report the latest position on Allied Steel and Wire in view of the Prime Minister's continuing interest, expressed on various occasions when they have met in the past.

A management buy-out was one possibility. However, the values were not satisfactory to GKN: the offer fell £30 million or nearly 20 per cent short of net asset value (£185-200 million) which GKN believed would represent a fair price. GKN would have to say that an MBO was not on. The intention would be to proceed to a proper flotation as soon as possible.

Sir Trevor said he would not want anyone to think that GKN was unenthusiastic about the privatisation. The company was not holding back, but they wanted a reasonable value. They wished now to go for a direct route.

I am copying this letter to Tony Kuczys (HM Treasury).

D R NORGROVE

Timothy Walker, Esq.
Department of Trade and Industry

cc DG

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

From the Minister of State for Industry

GILES SHAW MP

Christopher Chope Esq MP
Parliamentary Under Secretary of
State
Department of the Environment
2 Marsham Street
London
SW1P 3UB

18 May 1987

NBPM.

Dear Chris

FASLANE PROJECT: STEEL SUPPLIES

at flap.

Thank you for your letter of 7 May, recording the outcome of discussions between the leading tenderer and BSC on steel supplies for this project; the outcome is, as you say, very satisfactory. It is indeed welcome to know that the technical and pricing problems which originally appeared somewhat intractable have been overcome, enabling the British steel industry to contribute to a significant Government project. I am most grateful to you and PSA staff for the work you have done to help make this possible.

Copies of this letter go to the Prime Minister, George Younger, Malcolm Rifkind and Sir Robert Armstrong.

Yours
Giles

GILES SHAW

JO7ASA

999-7

2

PRIME MINISTER

ALLIED STEEL AND WIRE

Sir Trevor Holdsworth telephoned this afternoon to report the latest position on Allied Steel and Wire in view of your continuing interest, expressed on various occasions when you have met in the past.

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Sir Trevor said he would not want anyone to think that GKN was unenthusiastic about the privatisation. The company was not holding back, but they wanted a reasonable value. They wished now to go for a direct route.

DRN

D R NORGROVE
23 June 1987

DS2ACE

Nat. Indi. Steel PT14.

cc BG

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref: C/PSO/51138/86

Your ref:

CONFIDENTIAL

7 May 1987

v BM

Dear Giles,

FASLANE PROJECT: STEEL SUPPLIES

w-flap

You will recall our correspondence of last Autumn on this subject, which culminated in your letter of 22 December. Since then the letting of this contract has been delayed by completion of the very complex nuclear safety justifications for the shiplift and other facilities in this contract package, but we are now close to being able to proceed.

I am pleased to say that the time seems to have been used to very good advantage on the matter of steel supplies. In December it seemed that the contractor would need to look abroad for the steel supplies he needed. But discussions between the tenderer and BSC have continued and I can now report that the tenderer has told us that he firmly expects to use British steel at no extra cost, subject only to BSC's providing the quality, delivery and price which they have been able to indicate to him. I am sure you will agree this is a very satisfactory outcome. We intend to issue an Instruction to Proceed on this contract in the next few days.

In view of the Prime Minister's expressed interest in this matter I am sending a copy of this letter to No 10. Copies go also to George Younger and Malcolm Rifkind and to Sir Robert Armstrong.

Yours ever
Christopher

CHRISTOPHER CHOPE

Giles Shaw Esq MP

NAT IND — Steel Pl 14

4367/54

CONFIDENTIAL AND MARKET SENSITIVE

CC BG

nb pm

Treasury Chambers, Parliament Street, SW1P 3AG

13 April 1987

The Rt Hon Paul Channon, MP
Secretary of State for Trade & Industry
Department of Trade & Industry
Ashdown House
1 Victoria Street
LONDON
SW1

Dear Paul

ALLIED STEEL AND WIRE

I have seen your minute of 8 April to the Prime Minister, and the reply from her office.

This is simply to record that I too am content with the proposals for a buy-out of Allied Steel and Wire.

I am sending a copy of this letter to the Prime Minister.

Yours

NORMAN LAMONT

NAT IND: Steel PT14

014/2769

cc BG

nbpm

Treasury Chambers, Parliament Street, SW1P 3AG

Giles Shaw Esq MP
Minister of State for Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

13TH April 1987

Dear Giles,

BRITISH STEEL CORPORATION PAY

Thank you for your letter 7 April. at flap

I am very pleased that BSC have negotiated a deal which adds only 2 per cent to basic rates and that the 2½ per cent consolidation of bonuses will be achieved at no additional cost. I note that the entire package is dependent upon negotiation of new local productivity schemes by 16 May; perhaps by then you will be able to give an indication of the average earnings effect of the deal.

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

Yours ever,

John

JOHN MacGREGOR

Nat Ind: Steel PT14

file

CONFIDENTIAL AND MARKET SENSITIVE

cc BG.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 April 1987

ALLIED STEEL AND WIRE

Your Secretary of State's minute to the Prime Minister of 8 April set out proposals for an institutional buy-out of Allied Steel and Wire. The Prime Minister is content with these proposals, subject to the Financial Secretary's views.

I am copying this letter to Jeremy Haywood (Financial Secretary's Office)

(David Norgrove)

Tim Walker, Esq.,
Department of Trade and Industry.

CONFIDENTIAL AND MARKET SENSITIVE

cc BG

CONFIDENTIAL & MARKET SENSITIVE

Prime Minister
George Guise believes this deal to be satisfactory.
Content, subject to the Financial Secretary's views?
Yes
DRN
9/4.

PRIME MINISTER

ALLIED STEEL AND WIRE

In my minute to you of 19 February, I reported that proposals had been made for an institutional buyout of Allied Steel and Wire organised by Warburgs, and that discussions were taking place about BSC's wish to retain a minority interest in the company.

2 After detailed negotiations between BSC, GKN and the ASW management, agreement has now been reached that BSC should retain a 20% shareholding in ASW after the buyout, and the right to nominate a director. These arrangements, together with the billet supply agreement which has been negotiated, should safeguard BSC's major sales interest in ASW; this is of particular importance as we begin to plan for BSC's own privatisation, as Norman Lamont pointed out in his letter of 3 March (attached). These arrangements should also be of significant benefit to ASW's own future prospects: Sir Trevor Holdsworth told me last week that he and GKN believed that this arrangement would both help the sale to institutional investors now, and be of genuine help to ASW in the longer term.

3 Warburgs are now working out a firm price with the present shareholders and institutional backers, starting from the indicative figures prepared by Warburgs and accepted by BSC and GKN earlier this year as a basis for negotiation. This should take about a month, followed by a further month to complete the sale assuming no further unforseen delays. A public announcement will probably be made once GKN and BSC

JG2BCF

have agreed a price with the institutions, though GKN are still considering this in relation to Stock Exchange requirements: meanwhile the whole issue remains highly confidential.

4 More generally, BSC have continued to pursue other disposals since my private secretary's letter of 24 November. They have sold two small businesses so far this year and, in addition to ASW, they hope to conclude the sale of Fox Wire Ltd, a specialist wire producer, in the next three months. Other possibilities are under active discussion. In parallel, we are of course discussing the wider issue of privatisation of BSC as a whole (whether as a single entity or in parts), and I will report to you later this month.

5 I am sending a copy of this minute to Norman Lamont.

P.C.

PAUL CHANNON
8 April 1987

DEPARTMENT OF TRADE & INDUSTRY

JG2BCF

NAT. IND: Steel: Pt. 14

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon, MP
Secretary of State for Trade & Industry
Department of Trade & Industry
Ashdown House
1 Victoria Street
LONDON SW1

3 March 1987

Dear Paul

ALLIED STEEL AND WIRE

I have seen your minute of 19 February to the Prime Minister, copied to the Chancellor.

I agree with you that BSC should retain a 20-25% stake in ASW, with the right to nominate a Director, and with a suitable supply agreement. I understand that Lazards have advised that a sale without these safeguards would be likely to affect BSC's own privatisation prospects adversely. Now that privatisation of the whole is a real possiblity I am sure that it is right to look at individual proposals with that goal firmly in mind.

I am sending a copy of this letter to the Prime Minister and to the Chancellor.

Yours ever
Norman

NORMAN LAMONT

CCBG

DEPARTMENT OF TRADE AND INDUSTRY
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Copies to:
PS/Secretary of State
PS/Mr Butcher
PS/Sir Brian Hayes
Mr Mountfield
Mr Murray MM
Mr Butcher TP
Mrs Hamilton MM
Mr Parsons GP
Mr Norgrove MM
(with pprs)

From the Minister of State for Industry

GILES SHAW MP

The Rt Hon John MacGregor OBE MP
Chief Secretary of the Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

7 April 1987

Dear John

vBBR

BRITISH STEEL CORPORATION PAY

My letter to you of ~~15~~ 17 March set out details of the stance BSC proposed to adopt during forthcoming pay negotiations with its workforce. I can now report that the Corporation has reached an agreement with the main union, the Iron and Steel Trades Confederation (ISTC).

The settlement is for a 2% increase in base rates, effective from 1 April 1987, plus a 2½% consolidation into base rates from existing local lump bonus schemes. In addition, manual grades are being given an extra day's holiday a year, as are all other employees with 15 or more years' service, and there will be some improvements to BSC's voluntary retirement purposes, depending on length of service. A key feature of the settlement is the signing by the ISTC of a training agreement, designed to increase individuals' flexibility and to improve the quality of product and works performance. The entire package is dependent upon the negotiation by 16 May of new local productivity schemes and will be paid for by planned manpower reductions and new performance improvements.

TUEBWC

999-7

NAT IND: Steel PT14

I think the Corporation is to be congratulated upon reaching this level of agreement, involving only 2% of new money, at a time when it is common knowledge that profits for the year just past are expected to be substantially greater than those recorded in 1986/86. BSC is in the process of putting the package to its other unions, and expects no real difficulty there.

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

Yours
Giles.

GILES SHAW

TUEBWC

999-49

Please attach to the letter of 27th March from Malcolm Rifkind to Paul Gannon on Ravenscraig Apologies for ommission LG 31/3/87

With the Compliments

of the

Secretary of State

Scottish Office,
Dover House,
Whitehall,
London, S.W.1 A 2AU

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
1 Victoria Street
LONDON
SW1H OET

27 March 1987

NBPM. DN o/r

Dear Paul,

RAVENSCRAIG

WILL REQUEST IF REQUIRED

Thank you for your letter of 12 March.

I remain very unhappy about the subject of our recent discussions. Although a commercial case for BSC's decisions on Ravenscraig's loadings for next year is now starting to emerge - belatedly and only after disproportionate effort - I still find the justification for a switch at this time less than convincing. If the commercial reasons now given are valid, BSC seems to have seriously miscalculated its future loading arrangements at the time of the Scottish Affairs Committee inquiry in 1985, only some 12 to 15 months in advance of their implementation.

It is also of great concern to me that BSC management seems to believe it can disregard the assurances given about future levels of supply from Ravenscraig to Shotton. You say you do not consider BSC's evidence to the Select Committee to have been as unqualified as I do. Frankly, I do not see how else it is possible to interpret the type of statement in the attached extract from pages 24 and 25 of BSC's additional memorandum to the Committee. Of course BSC is in a volatile market, and I would have no difficulty in making allowances for some deviations from the targets which BSC set itself. In this case, however, there has been a wholesale change of course as a result of circumstances which I believe BSC should have foreseen. BSC must have been aware of the impression their statements were making, and should have taken the necessary steps to correct any errors or reinforce the qualifications which they claim to have made.

NSR attached

I have made it clear to Mr Scholey and Mr Llowarch that I believe this attitude stands to damage the Corporation's reputation. It is very unsatisfactory that the change only came to light through the coincidence of having to brief for a Ministerial visit.

E.R.

I take no comfort from the fact that the adverse publicity arising from the decision has not so far been as great as it might have been. For as long as BSC continues to plan on the basis of present loadings, I will not be seeking to add to that publicity. But if the issue is raised by other interests, as it could be. in order to question BSC's commitment to its Scottish operations, then at the least it will be necessary to use the provisional figures for 1988/89 which show Ravenscraig's supplies to Shotton increasing again. To do otherwise risks further damage to the Government's position and credibility in Scotland. In any event Bob Scholey did not appear concerned about such use of these figures when he came to see me.

When we met on 23 February, it was agreed that if we could not resolve this issue it should be put to colleagues. I am still dissatisfied with many aspects of this issue, and you should be aware that I will be unable to defend BSC's position and will be bound to make it clear that on the basis of the information available to me it appears that the Corporation have reneged on a firm commitment given at the time of the Gartcosh closure if the issue becomes public. This episode has highlighted two important points - first, the continuing sensitivity over the future of the steel industry in Scotland and the widespread distrust about BSC's longer term intentions and second the important role which Ravenscraig has to play in BSC's current operations. I am, however, prepared to let the issue rest where it is, as you suggest, for the present.

Copies of this letter go to the Prime Minister, to other members of E(A) and to Sir Robert Armstrong.

Yours ever,

Malcolm

MALCOLM RIFKIND

EXTRACT FROM: BRITISH STEEL CORPORATION
ADDITIONAL MEMORANDUM OF EVIDENCE
ON THE PLANNED CLOSURE OF GARTCOSH
COLD ROLLING MILL
SCOTTISH AFFAIRS COMMITTEE

DATE: NOVEMBER 1985

5. The Future of Ravenscraig (without Gartcosh) as an integral part of a larger business

As indicated previously coated products are the only sector in the Strip Products area in which any significant market growth can reasonably be expected. Shotton is the largest and most modern coated products complex in Europe and the closure of Gartcosh will enable the further strengthening of the technical and operating link between Ravenscraig and Shotton, whereby Ravenscraig will supply 70% of Shotton's hot rolled coil (HRC) requirement and over 50% of Ravenscraig's HRC output will go to Shotton. This compares with a situation pre-Gartcosh closure whereby only 25% of Ravenscraig HRC output goes to Shotton, representing less than 50% of Shotton's HRC requirement.

The increased HRC supply to Shotton, combined with HRC supplies to Tinplate and Electrical Steels and direct to the market, ingot and slab transfers to Dalzell, and slab sales, all continuing at a level similar to the present, will give the Ravenscraig Steelplant a loading of 1.7 million tonnes a year or 29½% of the total liquid steel made in the Strip Products Group (SPG). This compares with Ravenscraig's proportion of SPG steelmake in previous years: 1982/83 - 29½%, 1983/84 - 28½%, 1984/85 - 28.75% and represents a loading of 87% of Ravenscraig's slabmaking capability.

The Gartcosh closure, therefore, does not reduce Ravenscraig's share of SPG steelmake but does provide a potentially more secure outlet for its product. Further, there are a number of opportunities for slab sales being actively followed up which can best be satisfied by Ravenscraig's slab geometry.

010

PAY IN CONFIDENCE

CCBG

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

From the Minister of State for Industry

GILES SHAW MP

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

5 March 1987

Dear John

BRITISH STEEL CORPORATION PAY

BSC have recently written to the Department, under the early-warning system, with details of the negotiating stance they propose to adopt at their forthcoming pay meetings with the ISTC and other unions (the first of which is due to be held on 4 March).

Although recognising that it may be more difficult to secure agreement this year, as their profits continue to grow, BSC will maintain its policy of avoiding as far as possible any unfunded general increases in pay rates, and of developing instead the local lump sum bonus schemes which award increases in pay for improvements in performance. For the coming round, BSC propose however to negotiate up to a maximum general increase of 3%, together with a 2% consolidiation from current lump sum bonus payments. The introduction of these increased rates will be dependant upon revised lump sum bonus schemes being agreed before June at local level, and their costs will be covered by planned manpower reductions and the new performance improvements to be written in to the local schemes.

FRIBOO

The Corporation are also prepared to concede, should it prove necessary, a number of changes to their conditions of employment, including further selective early retirement and some increase in holidays with pay for manual grades.

This package seems reasonable to me given the Corporation's expected profit levels this year; and I hope you are able to agree that negotiations should begin on the basis BSC have set out.

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

Yours ever
Giles

GILES SHAW

FRIBOO

999-49

4375/30 **CONFIDENTIAL AND MARKET SENSITIVE**

CCPO

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon, MP
Secretary of State for Trade & Industry
Department of Trade & Industry
Ashdown House
1 Victoria Street
LONDON SW1

3 March 1987

Dear Paul

NBM

ALLIED STEEL AND WIRE

I have seen your minute of 19 February to the Prime Minister, copied to the Chancellor.

I agree with you that BSC should retain a 20-25% stake in ASW, with the right to nominate a Director, and with a suitable supply agreement. I understand that Lazards have advised that a sale without these safeguards would be likely to affect BSC's own privatisation prospects adversely. Now that privatisation of the whole is a real possiblity I am sure that it is right to look at individual proposals with that goal firmly in mind.

I am sending a copy of this letter to the Prime Minister and to the Chancellor.

Yours ever
Norman

NORMAN LAMONT

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STEEL
PTY LTD

D10

8/99

CONFIDENTIAL

MARKET SENSITIVE

Prime Minister 2

DCW 20/2

PRIME MINISTER

ALLIED STEEL & WIRE

In addition to the work on privatisation of BSC as a whole, on which I have minuted you separately you may like to know that proposals have now been put forward for an institutional buy-out of Allied Steel & Wire, organised by Warburg, on terms which are acceptable financially both to GKN and BSC. GKN will dispose of the whole of their 48 per cent shareholding in ASW.

2 ASW are very large customers for steel billets from BSC's Scunthorpe plant and BSC naturally see it as essential that there should be a continuation of a satisfactory billet supply agreement with ASW. BSC would really have preferred not to reduce their holding in ASW, because of its importance for Scunthorpe, but Bob Scholey is now personally committed to doing so. They have however expressed a wish to retain 20-25 per cent holding in ASW together with a right to nominate a Director. This condition, together with the need for a satisfactory supply agreement is now under discussion between GKN, BSC and ASW who are trying to reach a mutually acceptable solution. I will report back when things are clearer.

DTI think this would increase the attractiveness of BSC in privatisation.

CONFIDENTIAL

MARKET SENSITIVE

DW4BZK

999-49

3 I expect a decision on the sale of ASW by the end of this month. The imminence of a decision on an institutional buy-out is market sensitive information, and GKN especially attach the highest importance to complete confidentiality about it.

4 I am copying this minute to the Chancellor of the Exchequer.

P.C.

PAUL CHANNON

19 February 1987

DEPARTMENT OF TRADE & INDUSTRY

010

cc: BG

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Timothy Walker Esq
Private Secretary to the
Secretary of State for Industry
Department of Trade & Industry
1 Victoria Street
LONDON

NBPM.

18 February 1987

Dear Tim

RAVENSCRAIG

My Secretary of State and Mr Ian Lang (Parliamentary Under Secretary of State) met your Secretary of State and your Minister of State for Industry here this afternoon for a further discussion on this subject following yesterday's meeting (my letter of yesterday to Malcolm McHardy refers). Mr Murray (DTI) and Mr Scott (IDS) were present.

My Secretary of State referred to BSC's commitment at the time of the decision to close the Gartcosh cold mill that Ravenscraig would meet 75% of Shotton's requirement for coil. That undertaking had been prayed in aid repeatedly by Ministers, BSC (in written and oral evidence to the Scottish Affairs Committee and on other occasions) and others to refute allegations that the closure of Gartcosh undermined the future of Ravenscraig. BSC's decision to go back on their commitment not only called into question their credibility but put Ministers in a very difficult position. He hoped that DTI would be prepared to act to hold BSC to the commitment they had given. It was not a matter of Government intervention in the day to day running of the steel industry but rather the need to ensure that a public sector undertaking kept its word.

Scottish Office Ministers who, in common with a wide range of Scottish interests, had grave reservations about BSC's longer term intentions for Ravenscraig - had repeatedly defended BSC decisions (eg on investment at Ravenscraig) which others had interpreted as proof of BSC's aim eventually to secure closure of the plant. However, they could not reasonably seek to justify a decision which departed so markedly from BSC's firm undertaking of little more than a year ago. The market for hot rolled strip steel had expanded yet the loading of the Ravenscraig mill was to be reduced. Scotland had a number of industrial problems but the future of Ravenscraig was by far the most significant political issue in the industrial sphere. The closure of Gartcosh had had severe political repercussions; the damage would have been worse had it not been for the repeated assurances that closure would, rather than hinder Ravenscraig in the longer term, improve its position by allowing it to be linked more closely to Shotton - a plant whose long term future was secure. Any steps taken by BSC which undermined - or appeared to undermine - Ravenscraig's position would be impossible to defend in

Scotland and would be most damaging politically. DTI had intervened to prevent BSC making commitments in the Eurofer negotiations which would be inconsistent with the current strategy approved by Government; BSC's departure from its commitment on Ravenscraig raised similar difficulties for Government and he hoped that DTI would again intervene.

Your Secretary of State said that he was fully aware of the sensitivity surrounding the future of Ravenscraig. The current strategy for steel meant that all 5 integrated sites were secure until 1988 at least. BSC were committed to taking no action before then which would undermine the position of any of the plants. BSC's evidence to the Scottish Affairs Committee did not appear to him to be as unequivocal as my Secretary of State had made out. The Chairman had qualified the undertakings by reference to commercial considerations and the need to take account of market conditions. He was advised that the decision to divert some of Ravenscraig's hot mill's output from Shotton to tin plate and electrical steels was a temporary one which had been taken for sound commercial reasons. He understood that BSC would review the position once the Llanwern concast capacity became available at which time it was likely that Ravenscraig would again supply the major share of Shotton's requirements. BSC had to have the flexibility to respond to changes in market conditions. He would be most reluctant to instruct them to load plants in a manner which went against their commercial judgement.

Your Minister of State and Mr Murray said that BSC management at Ravenscraig had, earlier in the day, met the trade unions and had discussed the planned loadings for the coming year. They had explained the reasons for reducing Ravenscraig's share of the Shotton requirement and had pointed out that this was likely to be a temporary phenomenon and that the normal pattern of supply would be resumed once the Llanwern concast capacity became available.

My Secretary of State said it would be very helpful if Ravenscraig trade unions accepted BSC management's explanation of the loading decisions at face value but such an outcome was unlikely. If, as expected, the unions were to react adversely Scottish Ministers would find it impossible to defend the BSC decision. He hoped that your Secretary of State would even now review the position: it was a question of balancing the importance of a marginal financial benefit to BSC against the honouring an explicit commitment given on a highly sensitive issue. Your Secretary of State undertook to review the issue further as a matter of urgency but without commitment to taking any action with BSC. It was agreed that if our Ministers could not resolve the problem it should be put to their colleagues. It was also agreed that if there were an adverse reaction from the unions and Scottish Office Ministers were asked to comment they would, for the present, simply offer a holding reply to the effect that the figures were being studied.

I am copying this to David Norgrove (No 10), Malcolm McHardy (DTI) and Ian Jardine (here).

Yours ever

Robert Gordon

Robert Gordon
Private Secretary

HMP05002

CGBG

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Malcolm McHardy Esq
Private Secretary to the Minister of State
for Industry
Department of Trade & Industry
1 Victoria Street
LONDON

NBPM at this stage

17 February 1987

Dear Malcolm

RAVENSCRAIG

My Secretary of State and Mr Ian Lang (Parliamentary Under Secretary of State) met your Minister (accompanied by Mr Murray and Mr Rogers) in the House of Commons this afternoon to discuss my Secretary of State's letter of 10 February to the Secretary of State for Trade and Industry and his reply of 13 February.

My Secretary of State said that he had been most concerned to learn that BSC appeared to be going back on their commitment, given at the time of the decision to close the Gartcosh cold mill, that Ravenscraig would in future meet between 70% and 75% of Shotton's requirement for coil - thus assuring the future of Ravenscraig's hot strip mill. The closure of Gartcosh had been the most traumatic industrial issue in Scotland since 1979. The Government had come under attack from all shades of political opinion in Scotland - including many of its own supporters. The Prime Minister, Industry Secretary and Scottish Office Ministers had all defended the Gartcosh decision on the grounds that it had no adverse implications for the future of Ravenscraig; the firm intention that Ravenscraig should meet some 70% of Shotton's requirements following the Gartcosh closure (against the previous 47%) had been prayed in aid repeatedly in support of this assertion.

BSC's written evidence to the Scottish Affairs Committee and Sir Robert Haslam in his oral evidence had referred explicitly to the closure of Gartcosh leading to the establishment of closer links between Ravenscraig and Shotton whereby Ravenscraig would supply 70/75% of Shotton's hot rolled coil requirement and over 50% of Ravenscraig's hot rolled coil output would go to Shotton. BSC's monthly newsletter had also referred, in terms, to this commitment. The Industry Secretary (in his letter of 13 February) had sought to relegate the BSC statements to indications of their intentions but there was no doubt in my Secretary of State's mind - and across the political spectrum in Scotland - that they represented unequivocal undertakings. BSC's proposal to reduce Ravenscraig's share of Shotton's coil receipts to under 50% by the end of 1987 could not but be regarded as a categorical repudiation of the earlier undertaking. It was accepted that Ravenscraig's output of concast strip

for tin plate and electrical steels was to increase but there was no certainty that these markets would provide long term business for Ravenscraig and the more diverse the Ravenscraig hot strip mill's outlets became the easier it would be for BSC - who were widely believed in Scotland to be intent on closing Ravenscraig - to supply its customers from other plants.

Your Minister referred to the Government's present strategy which required BSC to keep all 5 integrated sites in operation until 1988 and to avoid taking decisions which would prejudice that strategy. The Eurofer proposals currently under consideration appeared not to be compatible with the strategy and for that reason the Industry Secretary had had no hesitation in reminding BSC of their obligation; they had now withdrawn from the Eurofer negotiations. However, within the overall strategy it was up to BSC to utilise all their plants to best commercial advantage. Ravenscraig did not appear to have been disadvantaged by the closure of Gartcosh: its strip mill would continue to produce at a level of about 21,000 tonnes per week. Although it would not meet 70% of Shotton's requirements it would have access to the tin plate and electrical steels markets. It was important to remember that markets did not remain static; new and different requirements emerged over time; BSC had to be allowed the flexibility to respond to market requirements. The level of output of individual plants was bound to vary over time.

My Secretary of State said that in his view BSC had given firm undertakings in order to secure agreement to the unwelcome closure of Gartcosh; their stance was very similar to that adopted by the then Guinness management during their takeover bid for Distillers. A number of commitments had been entered into which the company had subsequently found it convenient to overlook. He understood that in late 1986 Ravenscraig had been supplying about 70% of Shotton's coil requirement. He accepted that there were bound to be marginal fluctuations over time but a decision to reduce Ravenscraig's share of the Shotton market to almost the same level as had been supplied before the Gartcosh closure was a very significant departure from the undertakings given.

Your Minister argued that within a declining overall market for steel it was inevitable that over time product mix would change. DTI did not regard BSC's statements in evidence to the Scottish Affairs Committee and elsewhere at the time of the Gartcosh closure as firm commitments. Moreover, the Department did not seek to influence the BSC Board's day to day decision taking. It was also relevant that the current strategy was to be reviewed in 1988 and that the Government had set BSC the important objective of achieving an adequate level of profitability to permit privatisation at the earliest opportunity.

In further discussion Mr Murray referred to the fact that some of Shotton's coated products could be made from ingot cast steel thus providing a market for a significant share of Llanwern's current output. The tin plate and electrical steels markets required stip made from continually cast slab which could be supplied from Ravenscraig. In his view it was in Ravenscraig's interest to break into new markets.

My Secretary of State said that it was unacceptable for a nationalised industry to go back on a commitment given at the height of a major

political controversy. He hoped that DTI would take whatever steps were open to them to persuade BSC to honour their commitment. The Department had intervened to remind BSC of its obligation during the Eurofer negotiations and there appeared to him to be an equally strong case for intervention now. If BSC went ahead as proposed Scottish Office Ministers would be placed in an intolerable position and would be forced to say that BSC appeared to have reneged on their commitment towards Ravenscraig. They could not hope to duck the issue by claiming that it was a matter for BSC management and they could not reasonably be expected to defend BSC.

Your Minister said that he took note of the strength of Scottish Ministers' feeling. He would need to consider further with his Department the terms of the commitment given by BSC. There was a problem of timing. BSC management at Ravenscraig were due to meet trade union representatives tomorrow (18 February). If that meeting were postponed suspicions would be aroused. It seemed better to allow that meeting to proceed. My Secretary of State agreed but on the basis that management would present the tonnages which Ravenscraig would supply to Shotton as proposals rather than firm decisions. Your Minister undertook to pursue this point.

In conclusion, my Secretary of State thanked your Minister for coming to see him. He hoped the matter could be resolved quickly before the visit by your Minister and Mr Lang to Ravenscraig on 23 February. If DTI and the Scottish Office could not resolve the problem he would feel obliged to bring the matter to the Prime Minister's attention.

I am copying this to David Norgrove (No 10), Tim Walker (DTI) and Ian Jardine (here).

Yours sincerely

Robert Gordon

Robert Gordon
Private Secretary

NAT IND - Steel pt 14

cc BG
B/WP

CONFIDENTIAL

PRIME MINISTER

BRITISH STEEL CORPORATION : PRIVATISATION

I am writing to let you know the way things are developing on the preparations for privatisation of BSC, about which you have asked for a report by the end of April.

2 BSC have appointed Barclays de Zoete Wedd as their advisers on privatisation, and we have appointed Samuel Montagu to advise the Government. Although both merchant banks are at a very early stage of their work, it is clear that the difficult issue of the future of the Ravenscraig steelworks will need to be addressed in any realistic assessment of BSC's privatisation prospects.

3 I have made it clear to the BSC Chairman, Bob Scholey, and to the members of the BSC Board, that there can be no question of reopening the Government's decision, announced in August 1985, that the future of steelmaking at all five integrated steelworks was guaranteed for at least three years, i.e until August 1988. I have also indicated that the Government will not wish to take any decisions about the future of Ravenscraig before the Election.

4 BSC expect to make profits of at least £160m in their current financial year, ending March 1987. This is a tremendous achievement but will not be enough for privatisation. Substantial further improvements will need to be secured. BSC will need to discuss with the merchant bank advisers the ways in which further improvements can be

JF5BRN

CONFIDENTIAL

achieved. The options examined are bound to include some major closures, including that of Ravenscraig. But we intend to ensure that no recommendation from either merchant bank about the future profitability of BSC makes specific reference to the future of Ravenscraig.

5 BSC are disappointed that the Government are not prepared to reopen the Ravenscraig issue in present circumstances: they had hoped to offer the closure of hot strip mill capacity equivalent to that at Ravenscraig under the current exercise being undertaken by the major European Steelmakers Federation, Eurofer, to identify further capacity closures in Europe. BSC's enthusiasm for the Eurofer initiative stems from their fear of a further price war in Europe because of continuing over-capacity, and the damage this would do to their prospects of privatisation, which they strongly advocate. Nevertheless, at my request, BSC have dropped the idea of offering hot strip capacity in the Eurofer initiative. The five-site commitment will inevitably affect the timing of privatisation.

6 For the moment I am copying this minute only to the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster.

P.C

PAUL CHANNON

13 February 1987

DEPARTMENT OF TRADE AND INDUSTRY

PRIME MINISTER

JF5BRN

cc BG

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
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GTN 215) 5422
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL

13 February 1987

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
LONDON
SW1A 2AU

Prime Minister?
This should reassure Mr Rifkind.
DCW
13/2

Dear Malcolm.

RAVENSCRAIG

Your letter of 10 February drew to my attention BSC's plans for 1987/88 in relation to Ravenscraig's supplies of hot rolled coil to Shotton. As you indicated, your officials have supplied mine with figures obtained from BSC locally, which have been confirmed by senior BSC management. We have discussed with BSC the reasons for the changes compared with what had been forecast in 1985. There are a number of points to make, which may help towards an understanding of the position; and, while I am always glad to discuss matters of common interest, I hope you will agree that a meeting should not be necessary given the situation outlined below.

The figures indicate an increase in steelmaking at Ravenscraig, combined with a marginal reduction in output from the strip mill, compared with the 1985 forecast. Moreover, as Ministers repeatedly said at the time of the Gartcosh closure, the loading of particular works must be a commercial and operational matter for BSC, provided that it does not call into question the agreed strategy covering the five integrated works. I believe we should maintain the position, if it is raised, that it is for BSC to explain why the detailed calculations made in 1985 are no longer appropriate.

BSC regard themselves as committed to the present strategy, and to the proposition that Ravenscraig should not be disadvantaged by the closure of Gartcosh. Detailed figures given by BSC at the time of the Gartcosh debate in 1985 were designed to illustrate their

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intentions in support of the strategy as a whole. The figure of 75 per cent of Shotton's input from Ravenscraig, mentioned by Sir Robert Haslam - a slightly higher figure than the one BSC published - was such a forecast. The revised figures now planned by BSC represent their view of the optimal spread of loadings in support of the same overall strategy. In the end, BSC must have the flexibility it needs to run an efficient industry.

The position - based on BSC's comments - is as follows:

i Shotton has developed a market for thin-gauge products which (because of the need for close shape and dimensional control) can only be made on the newly-modernised strip mill at Port Talbot.

ii The tinplate and electrical steels works, by contrast, have developed markets which require strip made from continuously-cast slabs, which can by supplied by Ravenscraig.

iii Both of these developments are relatively recent, and underline the fact that time and specifically BSC's product mix, do not stand still. The trend in the figures during the four quarters of 1987/88 arises for the same reason. The variations in relation to total output are modest, and the changes between 1986/87 and 1987/88 are in line with normal changes from year to year. Indeed the figure of 75 per cent (or 70 per cent) as Ravenscraig's share of Shotton's input has not, at least up to now, been reached. Equally the figures may move in other directions, increasing Ravenscraig's share at Shotton, in future years.

iv A wide range of Shotton's coated products can still be made from ingot cast steel, which enables Llanwern to avoid a major loss of output.

v The effects in terms of hot rolled coil are what one would expect: Port Talbot has gained slightly at the expense of both Llanwern and Ravenscraig, and Llanwern (which does not yet make concast slabs) has lost more than Ravenscraig - about twice as much.

vi Ravenscraig's strip mill will still produce at 21-22,000 tonnes per week, which BSC regard as illustrating Sir Robert Haslam's assurance to the Scottish Affairs Select Committee that Ravenscraig would not be 'disadvantaged' by the Gartcosh closure during the strategy period.

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vii Ravenscraig's output will be almost 200,000 tonnes higher than forecast in 1985. A significant part of Ravenscraig's output is expected to be sold as slab, but - as the abortive negotiations with US mills a few years back showed - making high-grade concast slab is perhaps Ravenscraig's strongest area, and in a world beset by excess capacity BSC must take orders where it can.

BSC are, of course, ready to go over these points on 18 February when the next year's plans are presented to the unions. It may be that the unions will accuse BSC management of misleading others at the time of the Gartcosh closure (though whether they will argue that Llanwern should be made to pay the whole price is less apparent). I am not convinced, however, that there is an issue here in which the Government needs to intervene, although no doubt Giles Shaw and Ian Lang will need to be ready to deal with criticism in the course of the visit which they are due to make on 23 February.

I am copying this letter to the recipients of yours.

Yours,

Paul

PAUL CHANNON

DW1CQA

NAT IND Steel Pt 14

CONFIDENTIAL

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister

The Rt Hon Paul Channon MP
Secretary of State for Trade
and Industry
1-19 Victoria Street
LONDON

10 February 1987

Dear Paul,

RAVENSCRAIG

As you will know, Ian Lang and Giles Shaw are to visit Ravenscraig and other steel works in Scotland on 23 February. I am very concerned to learn that, in the course of preparations for the visit, it has emerged that the British Steel Corporation is planning changes in the workload allocation to Ravenscraig which seem to me to call into question a key assurance given when it was announced in 1985 that the Gartcosh cold mill was to close.

When it was announced that Gartcosh was to close, with the loss of an outlet for a substantial proportion of Ravenscraig's hot mill output, a major defensive point was that, in compensation for this loss, the link between Ravenscraig and Shotton would be expanded, to provide for some security of supply for Ravenscraig's hot strip mill. It was envisaged that Ravenscraig's share of Shotton coil receipts would increase to 75%. This was a line used strongly by George Younger and by others speaking on behalf of the Government during the period from August 1985; it was stated to us by BSC representatives; and indeed Sir Robert Haslam told the Scottish Affairs Committee that Ravenscraig would in due course be supplying 75% of Shotton's needs.

It now appears that BSC plan a much diminished role for Ravenscraig in supplying Shotton next year - 409,000 tonnes compared with previously published figures of 558,000 tonnes. This is equivalent to about 50% of Shotton's needs, but of special concern is that the relevant figures show a marked decline over the four quarters of 1987/88.

I need hardly say that such figures, which I understand it is proposed to make available to the unions next week and which would subsequently become more widely published as a result, are bound to cause great disquiet in Scotland and revive the suspicions that, for all practical purposes, a decision to pursue the closure of Ravenscraig had already been taken. The fact that there may be some off-setting increases in other aspects of Ravenscraig's output is not likely to be regarded as compensation. In particular, it appears that Ravenscraig may now be undertaking most of BSC's marginal orders for slab sales.

Your remarks in the House on 28 January in connection with BSC's scope for offering capacity reductions under the Eurofer proposals, which indicated that BSC were not only not free to offer reductions which were inconsistent with the agreed strategy but also were not permitted to make proposals which might prejudice consideration of future strategy were

ry welcome. It was a very important reassurance, which I regard as helpful to preserving the Government's position on the steel industry in Scotland at this time. The BSC proposals, conversely, are likely seriously to undermine this assurance and earlier statements, and risk serious damage to our credibility at a crucial time.

My officials have provided yours with more detailed information on this issue. I regard it as very important, and therefore draw it to your personal attention. It seems to me to involve, if not outright prevarication, then at least a substantial, and unannounced, change by BSC from a position which we have previously supported and upheld. I believe we should seek an immediate explanation and aim urgently to persuade BSC, even at this late stage, to revert to their original plans. If you were to feel unable to proceed in this way I should welcome an urgent discussion - tomorrow or on Thursday - with you.

I am copying this to the Prime Minister, to other members of E(A) and to Sir Robert Armstrong.

Yours ever,

MALCOLM RIFKIND

CONFIDENTIAL

CC BG

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

From the Minister of State for Industry

GILES SHAW MP

Christopher Chope Esq MP
Parliamentary Under Secretary
of State
Department of the Environment
2 Marsham Street
London
SW1P 3UB

22 December 1986

NBPI at this stage

Dear Chris

FASLANE PROJECT: STEEL SUPPLIES

Thank you for your letter of 27 November about steel supplies for the second stage of the Faslane project. I have also seen Malcolm Rifkind's letter of 3 December and the letter of 28 November from the Prime Minister's Private Secretary.

We share a common view, I think, of the sensitivity of this contract, and I welcome your invitation to join you in considering the best way to proceed before it is finally placed. I understand that this is likely to be early in the New Year when PSA has completed the detailed evaluation of the tenders.

I very much hope that you evaluation process will lead naturally to a solution which allows the use of British steel. According to BSC there is some doubt as to whether the machine envisaged for use in the spiral welding process, which would use imported steel, could in fact successfully handle material of the heavier thicknesses required. There must also be some room for doubt about security of supplies, particularly if the work is to be carried out by a single machine operating from what will, in effect, be a temporary base.

In the event, however, of the tender based on the spiral welded method being successful, BSC have informed DTI that it manufactures 16mm sheet coil to the required specification and that this has already been offered to the bidders. This thickness

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NAT IND Steel PT14

represents a major part of the requirement (7,575 tonnes out of a total of 13,275 tonnes). For the other two thicknesses, BSC can supply plate which can be cross-welded into long lengths. This may lead to additional cost but is, I understand, normal practice in cases like this. BSC have also indicated that they would be happy to respond to any queries from PSA or other interested parties.

I fully accept our international obligations not to discriminate against non-UK suppliers on the grounds of nationality alone. But I am also concerned to ensure that BSC is given every reasonable opportunity to prove that it can provide the steel for the contract competitively.

I am ending copies of this letter to the Prime Minister, George Younger and Malcolm Rifkind.

Yours
Giles

GILES SHAW

TUEBQO

000.40

CBG

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Christopher Chope Esq MP
Parliamentary Under-Secretary of State
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

N BPM

3 December 1986

Dear Chris,

FASLANE PROJECT: STEEL SUPPLIES

Thank you for copying to me your letter of 27 November to Giles Shaw.

I am encouraged by your recognition of the problem over Ravenscraig and by your assurance of thorough exploration of all the options, including the costs and feasibility of using Ravenscraig and Scott Lithgow, before any decision is taken. I look forward to involvement in consideration of these issues with you as soon as the PSA evaluation is complete.

Copies of this letter go to the Prime Minister, Giles Shaw and George Younger.

Yours ever,

MALCOLM RIFKIND

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NAT IND: Steel: Pt 14.

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cc BG

10 DOWNING STREET

From the Private Secretary

1 December 1986

BSC PRIVATISATION

The Prime Minister has seen your letters to me of 14 November and 24 November about BSC privatisation. She was grateful for these full reports on the positon reached so far. She has noted the further work going forward on proposals for disposal of parts of BSC's business, and, in due course all of it. She has asked to see by April BSC's recommendations on whether the Corporation should be privatised as a whole, or whether it would be more sensible to privatise individual self-sustaining businesses.

BF

I am copying this letter to Alex Allan (H M Treasury).

DAVID NORGROVE

Michael Gilbertson, Esq.,
Department of Trade and Industry

CONFIDENTIAL

Prime Minister
Agree to write as proposed?
DRN
28/11

PRIME MINISTER 28 November 1986

File with DRN

STEEL PRIVATISATION

(DTI letters to David Norgrove dated 14 and 24 November).

These memoranda are a response to your request for an up-date on privatisation, including details of all bids received. They give an impression of great activity. Many of the identified businesses are quite peripheral to BSC and there is little evidence that they are dragging feet on disposing them. However, they are generally small businesses with indicated values below £1m.

Main Strategic Issues for Privatisation

The 'long legs' businesses which are part of BSC's marketing machinery are another matter. BSC have two arguments for retaining an interest in them:-

1. The need to retain and increase access to the end market for finished steel.
   The principal competitors in Europe have their own finishing facilities and their own distribution outlets. The main EEC competition own about 70% of the steel stockholders in Europe, whereas British Steel only owns 12% of the steel stockholders in the UK. BSC claim that in order to compete adequately it needs to sell directly to the end market rather in the intermediate semi-finished product markets, such as billets. BSC believes that it should increase its end market penetration by extending its distribution network in the UK while developing one in Europe where its market share is low.

This may be a sound argument. Certainly my own experience in the US steel industry in the 1970s was that the divorce of distribution and production led to healthy profits in distribution companies who could rapidly adjust to market conditions by changing their inventory levels. By contrast, some big steel mills faced bankruptcy because they were unable to respond to economic swings.

For example, in the case of Scunthorpe, if billet offtake to Allied Steel and Wire were to fall, sales elsewhere would be hard to find without a secondary processing and distribution network. This argument is especially true in Europe where the supplying mills control most of the ultimate sales through their ownership of big distributors.

BSC believes that no recourse to public funds will be needed in acquiring distributors because private investors would acquire up to 50% of the equity of BSSC (the steel stockholding arm of BSC). Conventional banking funds could then be raised in order to finance an acquisition programme. This is a logical argument because steel distribution is a low risk business. Most of the assets are in the form of finished inventory, rather than fixed plant, and should therefore be readily bankable.

2. Overcapacity at five sites cripples BSC's underlying competitiveness.

BSC would ideally like to concentrate its strip business at the integrated plants of Port Talbot and Llanwern with the general steel business located at Teesside and Scunthorpe. This would mean closing Ravenscraig: but this is impossible before 1988.

Scholey claims that the closure of Ravenscraig would add some £100m per annum to his operating profit and therefore put the whole corporation in a strong position for privatisation, either as a single entity or divided into the two main product groups.

Drawing these arguments together, BSC's case is that if all five integrated plants are in common ownership and Ravenscraig remains open, the over capacity can be managed. By contrast, if all five were separately owned there would be price wars with over capacity causing all to be unprofitable.

Immediate plans at BSC

In the case of Allied Steel and Wire however, BSC are now making serious plans to dispose of it. Two highly conditional offers have been made by Charterhouse and Lloyds Merchant Bank to finance a management buy-out and these have to be set against the possiblity of flotation of the business. The other main shareholder, GKN, will follow the lead of BSC but would be reluctant to accept a significantly lower price than book value (approximately £160m). Warburg's have been retained to advise on the disposal of Allied and their report is due in mid-January.

The plea from British Steel is to wait for that report without pre-judgement. Provided there is no collapse in the steel market, and that BSC negotiates a secure supply contract for the Scunthorpe billets, the sale of Allied can be anticipated. The matter has attained such high profile that I do not believe Scholey or his top management dare frustrate it.

On the broader front of privatisation of BSC as a whole, eight merchant banks have been invited to attend BSC presentations in early December and to report back with specific work plans by the middle of December. At the end of December, one, or possibly two, banks will be selected to make a detailed investigation of the best privatisation route for all the assets. This activity will take some three months and be ready by the end of March in time for BSC's corporate plan in April.

Faslane Project — Departments know your very strong interest in this.

You have been copied correspondence between Christopher Chope, Malcolm Rifkind and Giles Shaw on whether British Steel should supply steel for the second stage of the Faslane project to build Trident submarine bases. If it does go to British Steel, the natural source would be Ravenscraig. DoE is evaluating whether BSC steel can be bought competitively, and, if not, the additional costs of using BSC.

In advance of the outcome BSC has indicated to me in confidence that Ravenscraig currently has an ex works cost disadvantage compared to the other BSC mills of £2 per tonne. This will rise over the next three years to some £12 per tonne as improvements are achieved at the other mills. These figures will be refined as the investigation proceeds, and put on an international competitive basis.

Conclusion and Recommendations

BSC is at last taking privatisation seriously. It is currently operating under constraints which it seeks to address prior to privatisation. It will advance proposals for overall privatisation by April, and earlier for the

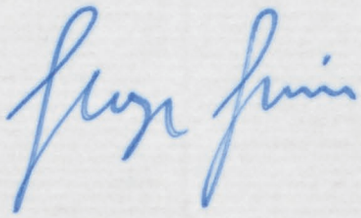
disposal of specific businesses including Allied Steel and Wire.

We need however to keep a close eye on their progress and I recommend that:

(1) We accept these two reports as interim position papers,

(2) We note the specified actions proposed on total privatisation, and

(3) We look forward to seeing BSC's overall recommendations by April, in particular, whether the Corporation should be privatised as a whole or as individual self sustained businesses.



GEORGE GUISE

Footnote: BSC recently declared satisfactory profits in the six months ending September (£68m). Even more significantly, the man-hours required to produce a tonne of liquid steel has fallen from 15.3 in 1977/78 to 6.3 in 1985/86. This figure is comparable with European and Japanese mills and is better than many in the United States.

CONFIDENTIAL

MD2 COL

cc BG

10 DOWNING STREET

LONDON SW1A 2AA

28 November 1986

From the Private Secretary

FASLANE PROJECT: STEEL SUPPLIES

The Prime Minister has seen your Minister's letter of 27 November to the Minister of State for Industry at the Department of Trade and Industry about steel supplies for the Faslane project.

The Prime Minister has as you know been taking a very close interest in this issue and would wish to express her views before a decision is reached on where the contracts will be placed.

I am copying this letter to John Howe (Ministry of Defence), Robert Gordon (Scottish Office) and Malcolm McHardy (Department of Trade and Industry).

David Norgrove

Nigel Ledgerwood Esq
Department of the Environment

CONFIDENTIAL

K

CCBG

Prime Minister
This seems OK as far as it goes, but I shall record again your very strong interest. DRN 27/11

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref: C/PSO/50110/86
Your ref:

27 November 1986

CONFIDENTIAL

mb

Dear Giles,

FASLANE PROJECT: STEEL SUPPLIES

Thank you for your letter of 3 November about the possible use of BSC steel in the second stage of the Faslane project. Malcolm Rifkind, in his letter of 19 November, has also written to me on the same subject.

I very much take the fundamental point you have both made of finding a way to use steel from the Ravenscraig Works if we can and indeed I can confirm that orders for some 15,000 tonnes or so of British steel have already been placed on earlier stages of the Faslane work. But it is important to remember that the steel for the latest order forms one relatively small part of a very significant contract covering the supply, installation and commissioning of the shiplift required to handle the Trident submarines at Faslane. The whole shiplift contract, which is on the critical path of the Trident programme, is worth some £110m and, because nuclear safety is involved, is subject to very stringent Safety and Availability criteria. It is for such reasons that we have taken pains not to divide the contractual responsibility in any way and have not therefore ordered the steel separately in this case.

The steel, which amounts to some 13,000 tonnes of 50 grade normalised in three different thicknesses, is required essentially for the shiplift piled foundations. As usual the specification for the piles gave the sizes and tolerances required but left tenderers to choose their own manufacturing methods. Two methods are possible: by bending and welding steel plate and by spirally winding from steel coil. The front-running tenderer quoted on the latter basis and could not choose a British source because BSC does not manufacture in coil form for the three thicknesses required. He also proposes to set up in the Scott Lithgow yard on the Clyde the spiral winding and associated welding machinery.

We are now evaluating tenders in detail. As part of this process, which could take another six or seven weeks to complete, PSA will be establishing the pros and cons of the different methods of ordering and manufacturing the steel piles and it may be that a solution dependent on British steel will emerge naturally as a result. If not, PSA will ascertain what the extra

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costs, if any, will be of using steel sourced from Ravenscraig and whether the proposal to install winding and welding machinery at Scott Lithgow would give sufficient reliability to achieve the key programme dates and Safety and Availability criteria. I have asked PSA to report back to me when they have evaluated the tenders so that I can take a view with you on the best way of proceeding before any contract is finally placed. We shall of course have to take account of our international obligations not to discriminate against non-UK suppliers on the grounds of nationality alone.

I am copying this to the Prime Minister, to George Younger and to Malcolm Rifkind.

Yours ever,

Chris

CHRISTOPHER CHOPE

Giles Shaw Esq MP

NAT. IND: Steel: Pt 14

cc BG

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PS/ Secretary of State for Trade and Industry

CONFIDENTIAL

24 November 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

B/F Friday please

Dear David,

BSC PRIVATISATION

In my letter of 14 November, I promised to let you have a further report in response to your letter of 31 October, dealing with bids received by BSC since 1979, and with ASW.

at Flat

In your letter of 31 October you required a list of approaches received by BSC since 1979 for its holdings in companies. I enclose a copy of a paper prepared by BSC. The reasons why the approaches in question were not pursued will vary from case to case; no doubt the list contains a large proportion of approaches which either were not soundly based, or which failed in the course of discussion when difficulties emerged. Taken together with the disposals which have been carried to fruition, and those on which discussions are continuing - on which this latest note provides further information - this suggests an overall picture of considerable activity since 1979, with BSC responding in a realistic and commercial way to the approaches made. We will discuss with BSC the reasons for bids being abandoned where they are not already clear. There do not, however, seem to be any which obviously failed other than for commercial reasons, including in a few cases the 'long legs' considerations on which further action is in hand as set out in my letter of 14 November.

On ASW, my Secretary of State's meeting with Mr Scholey and Sir Trevor Holdsworth (GKN) did not take place as envisaged in my previous letter, owing to illness on Sir Trevor's part. However, the Secretary of State did see Mr Scholey, and Mr Shaw has had a separate meeting with the Chairman of ASW, Mr George Duncan.

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The present position is as follows. Largely as a result of pressure from BSC, BSC, GKN, ASW and their merchant bank advisors (Warburgs) have agreed to aim for a flotation of ASW in March 1987. We shall very shortly receive from BSC a detailed flotation programme prepared for ASW by Warburgs. This is of course a very tight timetable, and there can be little room for slippage : but Mr Scholey is clearly intent on driving matters forward.

ASW have also received approaches from Charterhouse and Lloyds Merchant Bank (LMB) about possible consortium/management buyouts. While it seems on balance less likely that these options would yield as good a price as a flotation, or any significantly earlier completion date than March, Mr Channon has emphasised to Mr Scholey the need to compare all the different options in an evenhanded way. Mr Duncan has told Mr Shaw that he will consider with Warburgs the possible ways of doing this, consistent with Stock Exchange prospectus rules (we shall be getting separate advice on this issue from our own merchant bank advisors, Hill Samuel).

Subject to further merchant bank advice, it seems likely that decisions on the preferred option will be needed by late January (and for practical reasons will not be possible much before then). My Secretary of State and Mr Shaw will of course be keeping closely in touch with developments.

I should perhaps add that since BSC only hold 48 per cent of the shares of ASW, flotation or sale by other means of a controlling interest in the company is only possible with the agreement of the other shareholders (GKN and the Norwegian company Elkem). Achievement of a sale in early 1987 is therefore conditional on the realisable price being acceptable to them as well as to BSC and the Government.

I am copying this letter to Alex Allan (Treasury).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

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British Steel Corporation
Bids and Approaches for Assets and Investments in the period from 1979 to date.

Current Position

The current status of negotiations on disposals and joint ventures of BSC activities was set out in the letter of 10th November from the Chairman to the Secretary of State and in the accompanying paper "BSC Privatisation Status Report", November 1986.

Reference was made to current discussions/negotiations with 3rd parties relating to:

	BSC's % shareholding in Companies Act Companies
Allied Steel and Wire Limited	48%
Sheffield Forgemasters Limited	50%
Fox Wire Limited	100%
Tinsley Bridge Limited	100%
Alloy Steel Rods Limited	100%
Seamless Tubes, including STL(75%) and CDTL(25%)	n.a.
Cookley Stamping Works	n.a.
Sarclad International Limited	10%
The Victaulic Company Plc	30%
Heckett (BSC) Ltd and its subsidiaries	51%
Concast Holding AG (Switzerland)	22%
Dorman Long and Amalgamated Engineering Ltd (Nigeria)	40%
Zisco (Zimbabwe)	1-2%
Stewarts and Lloyds of India	40%

The future sale of BSC's shares in Staveley Chemicals Ltd (45%) and Benzole Producers Ltd (26%) are under active consideration.

Strictly speaking BSC has not received any "bids" for these activities (i.e. has not received unconditional offers to buy which, if accepted, would be legally binding). It is the rare exception for a bid to be received in this fashion. Rather, discussions proceed, often based on an initial expression of interest, over a very long period of time and sometimes involving long intervals of inactivity on the part of the potential purchaser.

This paper deals with bids and approaches relating to activities presently 100% owned by BSC, and also with BSC's investments in Associated Companies. It does not cover approaches relating to activities which have previously been sold.

Turning to specific cases, the position on Allied Steel and Wire and Seamless Tubes is described in Appendix 2 to the November 1986 Status Report. The Chairman of Sheffield Forgemasters Limited (SF) has recently approached BSC to see if it would be interested in disposing of part of its shareholding in the company. BSC's willingness to sell its entire interest in SF had already been indicated to SF's financial advisors. A more definite proposal from SF's Chairman is likely to be forthcoming once the government guarantee has been put in place. In addition, SF has recently asked BSC to consider transferring all or part of its 15% holding in Midland Rollmakers Ltd to SF. This is largely a tax matter as SF already owns 70% of Midland Rollmakers Ltd.

The nearest we are to a bid position in the other deals is as follows:

(1) Sarclad International Limited. Here, an offer worth about £210k (but in the form of shares of the acquiring company) has been made. BSC does not wish to retain ownership of these shares and arrangements are being examined to place them. The net yield to BSC could be of the order of £200k.

(2) A very conditional offer has been received from United Engineering Steels Ltd for Alloy Steel Rods (ASR). This is being considered and discussed although it is hoped that at least one other offer will be forthcoming. There are close trading and supply relationships betwen BSC Stainless/UES and ASR and ASR and Fox Wire (see next item) so that decisions concerning either of ASR and Fox Wire should not be taken in isolation.

(3) An highly conditional offer, indicative as to price, has just been received from TWIL Limited for Fox Wire after many months of investigation and deliberation on the part of TWIL. This is best seen as a stage in the negotiating process rather than a firm "bid". It is being actively pursued.

(4) Protracted discussions have also been held in 1985 and 1986 with Glynwed on ASR and Fox Wire but they have now indicated that they are unlikely to proceed.

(5) Talks were in progress with Jonas Woodhead Ltd on their possible acquisition of Tinsley Bridge Ltd (TBL). Jonas Woodhead Ltd called these talks off in the light of the 'friendly' bid made for their company but have since indicated that they will shortly wish to resume discussions. Discussions reached an advanced stage with Jonas Woodhead several years ago before they withdraw to pursue other issues. The possibility of a management buyout has also been considered, since the first Jonas Woodhead talks broke down but so far bank backing has not been forthcoming. In the last few days, an enquiry has been received from a firm of Accountants on behalf of an undisclosed client, and this is being followed up.

(6) Negotiations were at an advanced stage in early 1985 for GKN Sankey to acquire the Cookley Stamping Works when Kienle and Spiess, a West German company, acquired Sankey Laminations from GKN. Kienle and Spiess has now indicated to BSC that it is ready to pursue detailed negotiations to acquire Cookley Stamping Works. It would not be sold as a going concern but Kienle and Spiess have offered £350k for the plant plus audited value for stocks and work in progress. This matter is being actively progressed.

(7) In the past few days BSC has received an enquiry from Davy (Stockton) on the possibility of acquiring BSC's 45% shareholding in Vacmetal (UK) Ltd. This could be a complicated proposition because of licensing arrangements but it is being actively pursued.

Past approaches since 1979

A rapid review has been undertaken of approaches made for other activities still owned by BSC. It must be emphasised that since 1979 there have been many changes in the BSC senior management (including four Chairmen and four Managing Directors, Finance) principally involved in these matters. Also, during this time responsibility for BSC businesses has been on a devolved basis. Given this situation, although every reasonable attempt has been made to ascertain all relevant facts about each approach from current senior management, it is not possible to guarantee that the information set out below is absolutely complete. It is also possible that approaches have been made to the Government without the knowledge of BSC.

The results of the rapid review that has been undertaken are set out under the BSC businesses.

1. BSC General Steels

(a) Phoenix II

In the course of the Phoenix II discussions, which spread over 5 years, several companies other than BSC and GKN were involved at various times and various schemes of organisation and reorganisation were considered but not pursued.

Specifically, the inclusion of
Brinsworth Hot and Cold Mills and
Alloy Steel Rods
were considered and thought was given to an even wider company to include some of the other Sheffield based activities. The participation of the independent F.H. Lloyd in UES Ltd was considered as was participation by Lonhro. At an earlier stage there were major negotiations with Duport and with TI on Round Oak, which at one stage was seen as in input into Phoenix II.

(b) Plate Mills

In the early 1980's the Corporation opened up discussions with Hoogovens about the possibility of a joint venture, for the combined development of the respective plates businesses. In the event Hoogovens were unable to pursue this matter.

(c) Skinningrove Works

In 1982 Darlington and Simpson Rolling Mills made an approach to acquire the Skinningrove Works, the outcome of which was in fact a collaboration agreement of commercial benefit to both parties.

2. BSC Strip Products

(a) Ravenscraig

Discussions were held on the prospects of forming a joint venture with US Steel which would have included their Fairless Works and Ravenscraig iron and steel facilities as a slab supplier.

(b) Shotton

BSC was approached at about the time of the BSC strike in 1980 by Mr. Derek Norton acting for Lonhro Plc on the possibility of buying the then integrated Shotton Works.

(c) Llanwern

BSC was approached in 1983 by the Angelopoulous family, who indirectly controlled Alpha Steel, about the possibility of a takeover of, or merger with, Llanwern.

(d) Ayrton, Godins and Landore

In the early 1980s BSC had several approaches on Ayrton (then located in Middlesbrough) and there have been approaches on Godins and Landore (near Swansea), all of which were supplied by Whiteheads. Given that these approaches were not pursued by those initially showing interest, these activities have since been part of a wider rationalisation with Whitehead (Narrow Strip) Ltd and have largely been absorbed into its Newport based operation. Very recently an approach has been received concerning the residual activities physically located at Landore which is being followed up.

(e) Whitehead (Narrow Strip) Ltd

Glynwed approached BSC in the early 1980s on the possible acquisition of this company but then asked for the matter to be deferred because of other Glynwed priorities. This was before the Stronge report on the industry.

(f) Newton Aycliffe

Approaches have also been received from time to time concerning the profiling activities at Newton Aycliffe. None is currently active.

3. BSC Tubes

In 1984/85 the Corporation launched an extensive exercise to find a buyer or joint venture partner for BSC Tubes, who was prepared to continue the business. Discussions took place with all the major European and Japanese tubemakers. None of these approaches was followed up by the foreign companies concerned.

Additionally, there have been 2 or 3 tentative approaches concerning the fittings and flanges activity at Coombs Wood and a number of approaches concerning the now small extended surface tubes business. None is currently active.

NGT (the Caparo group) has made approaches concerning welded tubes and several stockholders have expressed interests which they have not pursued in British Tubes Stockholding Limited.

4. BSC Holdings/Diversified Activities

(a) Railway and Ring Rolled Products Ltd

GEC Plc expressed an interest in the railway wheels and axles business in 1980/81 and in 1984 exploratory discussions were held with Creusot Loire on a form of joint venture.

Extensive negotiations orchestrated by Lazard Brothers & Company Ltd were held in 1984 with two private sector companies, Inco Alloy Products Ltd and Woodhouse & Rixson Plc, to form a joint venture in this product area. The negotiations failed when market prospects suddenly deteriorated and Inco withdrew from negotiations.

Prior to this consideration had been given to an amalgamation with Gloucester Railway Carriage & Wagon Company Ltd (a subsidiary of the Babcock Group). After discussions Babcock withdrew its interest.

Recently, Woodhouse & Rixson have indicated that they might be interested in a part of this business in the future if they had funds available.

(b) Clyde Shaw Limited

Consideration was given in 1985 to a possible deal with North British Steel Group (Holdings) Plc. Christopher Shaw has also floated the possibility of buying out the Corporation's interest but has not pursued this.

(c) Renishaw Foundry

Discussions were held in 1985 on the possible acquisition by Tarmac Plc. After preliminary financial evaluations Tarmac withdrew. UES has indicated a possible interest. J.F.B. has also expressed a tentative interest which was not pursued.

(d) Specialty Narrow Strip

There were discussions over a period of years in the early 1980s with J B & S Lees and GKN. Arthur Lee & Sons Plc have evinced an interest from time to time.

(e) Tinsley Bridge Limited

The current position is described in the first part of this paper. Apart from that abortive discussions have been held with several parties on a number of occasions since 1980, principally because the prospective purchasers could not fund the necessary cost of rationalisation.

(f) Fox Wire Limited

The current position is described in the first part of this paper. Abortive discussions have been held with several other parties over the past few years.

(g) Cumbria Engineering

Two tentative approaches were received in 1985 and earlier this year concerning this business. Following the sale of DEC to Davy BSC is now initiating the sale of this business.

(h) Roll-making interests

In the formative years of Sheffield Forgemasters, discussions took place with Davy Corporation Plc with a view to combining the roll-making interests of the two groups.

5. BSSC Ltd

(a) BSC has held talks with Glynwed over a period of years on possible acquisitions, disposals or exchanges of businesses over a limited part of BSSC's product range.

(b) Kaye Steel Stockholders Ltd approached BSSC on several occasions on the possible acquisition of its Coated Products division. W. King has also made an approach concerning this business.

(c) Mr. Swraj Paul of Caparo Industries Plc has had discussions with BSSC but was more interested in selling than buying.

None of these approaches is current.

6. Associate Companies

(a) Templeborough Rolling Mills (TRM)/TWIL/Bridon

There have been discussions, over a period of years, on rearrangements of shareholdings among the various partners in these companies. Other companies including Allied Steel and Wire Ltd, Sheerness Plc and Manchester Steel Ltd (since acquired by ASW Ltd) have also been involved in discussions on TRM.

(b) Catena Ltd

Prior to the liquidation of this company discussions were held with Cromarty Firth Engineering Ltd and Highland Fabrications Ltd.

(c) Darlington and Simpson Rolling Mills Plc (DSRM)

BSC has not had any direct approaches for its shares in DSRM as yet.

(d) Scunthorpe/Teesside Slag

Tentative discussions have been held recently with Tarmac Plc on a possible restructuring of shareholdings but not for a complete withdrawal by BSC.

7. Miscellaneous

BSC has had discussions from time to time on the sale or transfer of shares in dormant companies and sales of company names.

BSC has also been approached from time to time in a general way by companies or professional advisors asking to be kept informed of any prospective disposals or asking to act for BSC in seeking possible purchasers for BSC activities.

This has not been an easy exercise to mount in a short time scale, but to the best of the current management's knowledge and belief the information given in this paper is correct. It should also be emphasised that many of the approaches mentioned were tentative, on the part of potential purchasers, who in the event did not pursue their interest in the acquisition in question.

20th November, 1986

NAT IND Steel PT14

CC BG

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Christopher Chope Esq MP
Parliamentary Under-Secretary of State
Department of the Environment
2 Marsham Street
LONDON SW1

19 November 1986

NBPM.

Dear Chris,

FASLANE PROJECT: STEEL SUPPLIES

Giles Shaw sent me a copy of his letter of ~~3~~ WITH DN November to you on this subject. I am sorry not to have reacted before now, but the original copy of his letter went astray, and I have only now become aware of what he said.

I very much hope that you can agree to his request to consider contracting directly for the steel requirements for this project. The future of Ravenscraig is a long-standing issue of great sensitivity in Scotland, and any failure on the part of Government Departments not to provide full opportunity for Ravenscraig steel to be used in a project of this type will be seized upon by those who want to argue that the Government have already dismissed the steelworks as having no future, especially as Ravenscraig's neighbouring steel plate mill, the Dalzell works, also the subject of speculation about its future, would also stand to benefit from the work. The fact that if Ravenscraig steel is not used the alternative seems to be imported steel, very probably sold at less than manufacturing cost, will simply add to the resentment that this decision will provoke and will also exacerbate the opposition with which the whole Faslane project is faced.

Copies of this letter go to the Prime Minister, Giles Shaw and David Trefgarne.

Yours ever,

Malcolm

MALCOLM RIFKIND

HMP32309

CCBa

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Secretary of State for Trade and Industry

PS/

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14 November 1986

Any P Comments?

D Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON,
SW1

Dear David,

BRITISH STEEL PRIVATISATION

Thank you for your letter of 31 October recording the Prime Minister's views on the privatisation of the Phoenix companies.

My Secretary of State has been in close contact with Mr Scholey, about the general issue of BSC privatisation and about disposal of its holdings in associated companies. He agrees strongly that the momentum towards privatisation must be kept up.

Mr Channon will be holding a meeting next week with Mr Scholey and Sir Trevor Holdsworth of GKN to review progress on ASW, and I will report to you further after that meeting. I should also by then be able to let you have the list of all approaches received by BSC since 1979 for its holdings in companies. BSC is trawling its various businesses to make sure the list is as comprehensive as possible and we expect to receive it next week.

In the meantime, I enclose a report prepared by BSC at my Secretary of State's request. It lists businesses where discussions with a view to disposal are currently in progress. Serious discussions or active negotiations relating to eight of BSC's activities, including Allied Steel and Wire Ltd, are in progress. Consideration is also being given to the early flotation of Victaulic (BSC share: 30 per cent) and to disposal of BSC's shareholdings in Sheffield Forgemasters (50 per cent) and Staveley Chemicals (45 per cent).

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Until now, BSC have been cautious about disposing of those associated companies which buy semi-finished products from the Corporation. At present, 20 per cent of the sales of semi-finished products from BSC's General Steels Group are sold to associated companies. Mr Scholey fears that disposal of these companies could lead to changes in their sourcing policy, with consequent difficulties for BSC's mainstream business, and hence for overall privatisation prospects.

However, on Allied Steel and Wire, Mr Scholey has now committed himself to disposal of the majority of the shares. My Secretary of State hopes that alternative methods of protecting BSC's commercial interests can be found which would unblock the position on these other "long legs". This is a point we shall be following up hard. My Secretary of State will also keep close watch on the progress of discussions about other disposals, although it is difficult to prescribe deadlines when successful completion depends on the willingness of buyers to invest in activities whose past record is not always attractive.

By way of background, I should mention that in the past 6 years BSC has made about 50 disposals and 12 joint ventures with combined book value of £600m and involving some 21,000 employees. This is in addition to property sales worth £80m. In the current financial year, BSC has already raised £25m from the sale of all its shares in a Canadian steel company, its remaining interests in Stanton and Staveley, and a stockholding depot.

I am copying this letter to Alex Allan (Treasury).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

JF6AJF

PRIVATE & CONFIDENTIAL

British Steel Corporation

BSC PRIVATISATION STATUS REPORT

NOVEMBER 1986

PRIVATE AND CONFIDENTIAL

BRITISH STEEL CORPORATION

BSC PRIVATISATION - STATUS REPORT

INTRODUCTION

BSC has produced papers for the DTI in December 1983 and July 1985 which reviewed its policy towards, and progress with, privatisation. The Corporation's general policy, described in those papers, still stands at this time.

In the July 1985 paper it was reported that in the five years from 1980/81 to 1984/85 substantial progress had been made in the implementation of this policy. During that time the Corporation completed 41 outright disposals and put other assets and activities into a total of 11 joint venture companies. The assets and employees involved in these transactions totalled £349 million and 14,200 respectively. In addition, a substantial amount of surplus property had been sold realising £74 million, whilst certain wholly-owned activities were put into Companies Act Companies.

In the financial year 1985/86 a further 8 disposals were completed. In addition the "Phoenix II" project was finally brought to fruition with the creation of United Engineering Steels and BSC's special steels activities in Rotherham, Sheffield and Wolverhampton were transferred to this private sector company on 24th March 1986. Property worth £6 million was sold.

So far in 1986/87 BSC has sold its shares in the Canadian specialy steels producer, Slater Steels Corporation, and its remaining 25% holding in Stanton and Staveley. A depot of British Steel Service Centre's Herringshaw special steels division has also been sold. Together these disposals have realised about £25m. Two other overseas companies have been wound up.

These transactions have brought the total book value of assets involved in the privatisation programme to about £600 million. In addition sales of land have reached an aggregate of over £80 million.

The activities disposed of, or put into joint ventures, over the period 1980/81 to 1985/86 are set out in Appendix 3. The first three stages of BSC's disposal programme are now substantially complete, namely:

(1) The sale of the activities that comprised BSC's Chemicals Division.

(2) The sale of those activities that comprised BSC's construction and fabrication division.

(3) The sale of overseas activities other than those directly related to BSC's export programme.

Very substantial progress has also been made with two further stages of the programme:

(4) Virtual removal, through disposals or joint ventures, of the overlap between BSC and the UK private sector steel companies. (The remaining overlap areas in BSC are largely in Companies Act Companies.)

(5) Disposal of peripheral activities that are not related to the "core" iron and steel businesses.

In implementing this policy the Corporation has had to be mindful of the impact on its core business. Advantage has therefore been taken of achieving restructuring with private sector steel companies, whenever possible, in a way which enhances the viability and future profitability of both BSC's core and the private sector companies.

Similarly, the decisions on activities available for disposal must take into account the Corporation's overall business strategy and, in particular, the target to achieve an acceptable level of activity and hence profitability for the Corporation's integrated works and major steel businesses. This becomes of even greater relevance given the prospects of free market conditions in Europe with continuing overcapacity. In these circumstances it is even more important for BSC to retain its interests in directly linked downstream activities both in-house and those held through associated companies. Significantly this structure mirrors the organisation of the Corporation's major European competitors.

The continuing relationship with associate companies is especially vital for the General Steels Group. It is estimated that, without the sales to associate companies The General Steels Group's result would have been worsened by about £73m in 1985/86 and, furthermore, a major integrated works would have been severely underloaded and hence not viable.

PROGRESS MADE SINCE THE JULY 1985 PAPER

It was noted in Sir Robert Haslam's covering letter to the 8th July 1985 paper that, as the remaining peripheral activities become fewer and inevitably involve the less attractive activities, further disposals become progressively more difficult. Nonetheless, in addition to the formation of UES and the sale of BSC's Canadian interests, many of the other activities listed in the 1985 paper have now been sold, including Distington Engineering Contracting, and BSC's shares in Cromdane and Grundy Auto Products. The latter is a case where an investment was made and retained while it represented an important marketing outlet, but was disposed of when market conditions changed (i.e. the movement away from stainless to hybrid exhaust systems).

In other cases, talks taking place in 1985 came to nothing or were suspended because the prospective purchasers turned their attention to other priorities. However, BSC is currently in serious discussions or active negotiations concerning its interests in:-

- Allied Steel & Wire Limited (48%)
- BSC Seamless Tubes business including STL (75%) and CDTL(25%)
- Tinsley Bridge Limited (100%)
- Fox Wire Limited (100%)
- Alloy Steel Rods Limited (100%)
- Cookley Stamping Works
- Hecketts (BSC) Limited (51%)
- Sarclad International Limited (10%)

Consideration is also being given to the early flotation of The Victaulic Company Plc and to activating the sale of the Corporation's shareholdings in Sheffield Forgemasters Limited and Staveley Chemicals Limited. Further details of these matters are set out in Appendix 2.

Tidying up operations are also continuing relating to the remnants of BSC's foreign manufacturing companies. The current position on these activities is summarised in Appendix 2.

STATUS OF REMAINING BSC ASSOCIATED COMPANIES

As represented earlier in this memorandum, the retention of a shareholding in a company with which BSC has a strong trading relationship and interfaces directly with the market is seen to be a vital aspect of commercial strategy. It is one way of achieving the benefits that arise from a small scale, self-standing activity, but at the same time maintaining upstream business and sharing in the profitability of the activities immediately downstream from the steel works. This is of particular importance as has been shown for the General Steels Group where a substantial proportion - some 35% - of its output is sold in relatively low value semi-finished form. By contrast, Strip Products Group retains ownership of high value added operations in coatings which contribute significantly to its profitability.

In the case of the Strip Products Group, it is not considered essential that the Corporation retains 100% of Whiteheads indefinitely but the same case is made for the retention of some shareholding. Similarly, BSC has been able to share in the profits of some of its heavy end by-products by forming joint ventures with private sector companies for their further processing, often on BSC sites.

Appendix 1 lists the remaining active BSC associated companies, distinguishing those where some shareholding should be retained for strategic and commercial reasons from those where BSC's holding is for sale if a buyer can be found.

STATUS OF REMAINING BSC ASSOCIATED COMPANIES

A. INVESTMENTS WHICH IT IS INTENDED TO RETAIN SOME SHAREHOLDING

"Long Legs" of General Steels Group

	Shareholding
* Allied Steel and Wire Ltd	48%
+ Bridon Ltd	10%
* Darlington and Simpson Rolling Mills Ltd	50%
*+ Templeborough Rolling Mills Ltd	50%
+ TWIL Ltd	20%
* United Merchant Bar Ltd	25%
Flixborough Wharf Ltd	25%
Tuscaloosa Steel Corporation	9.7%

* These companies are expected to buy 940kt of commercial billets from GSG in 1986/87, accounting for 84% of GSG's external UK billet sales.

Tuscaloosa Steel Corporation is expected to buy about 200kt of slabs this year, increasing in subsequent years.

\+ Both Bridon and TWIL are major purchasers of rod from Templeborough Rolling Mills.

"Long Legs" of Strip Products Group

* Whitehead (Narrow Strip) Ltd	100%
Afon Tinplate Company Ltd	50%

* Only a partial interest to be retained.

In 1986/87 Whiteheads is expected to take some 94kt of steel (mainly HR coil) from the South Wales integrated works, representing some 21% of total UK prime HR coil sales for the Group. Afon Tinplate's expected take of 27kt of sub-prime tinplate represents about 50% of the total UK market for sub-prime tinplate.

Investments directly associated with Heavy End Operations and/or crucial to Operating Control of BSC's Blast Furnaces

Air Products Llanwern Ltd	50%
Appleby Slag Company Ltd	33%
Appleby Slag Reduction Ltd	33%
Colvilles Clugston Shanks (Holdings) Ltd	33%
Hobbs (Cornelly) Ltd	50%
Scunthorpe Slag Ltd	40%
Teesside Slag Ltd	50%
Vacmetal (UK) Ltd	45%

B. INTERESTS AVAILABLE FOR SALE

Other UK interests which are all available for sale

United Engineering Steels Limited(UES)
British Bright Bar Limited

These companies are no longer long-legs of the BSC and as soon as sufficient progress has been made by UES BSC and GKN are committed to seeking a market flotation or other effective means of realising their investments.

Offshore Castings Ltd

Any ongoing interest to BSC is only on account of BSC's shareholding in Sheffield Forgemasters.

Clyde Shaw Ltd

BSC's 50% shareholding is for sale. The company is progressing reasonably well and an eventual management buyout may be an alternative.

Benzole Producers Ltd

BSC has a 26% shareholding in this company which handles sales and marketing arrangements for Benzole. BSC's shareholding will be reviewed in line with that of its holding in Staveley Chemicals.

GR Stein Refractories Limited

In principle BSC's 22% shareholding is for sale although BSC's partners and majority shareholders have requested that the company is allowed an initial period of stability.

CURRENT POSITION ON PRIVATISATION

A. Disposals completed so far this year

1. Stanton and Staveley Ltd

BSC's remaining 25% shareholding was sold to Pont-a-Mousson. This had been planned but took place earlier than originally expected.

2. British Steel Service Centres Ltd - sale of depot

As part of a rationalisation of its special steels division (Herringshaws) BSSC sold its depot at Thornbury to British Bright Bar Ltd. Thornbury's major product area is bright bars and the acquisition complements British Bright Bar's stockholding business.

3. SPL-Stanton Pipes Investments Limited (Canada)

In addition to Stanton Pipes Ltd, which was sold in December 1985 to Canron, SPL-Stanton Pipes Investments Limited held just over 50% of the shares of the Canadian special steels company, Slater Steels Corporation. This shareholding was sold in May 1986.

4. Canped Pipework & Mechanical Contractors Inc (Canada)

This company has ceased operations and has been merged with BSC Canada to obtain benefit from past tax losses.

5. Ostrimet S.A. (Argentina)

This company is now in liquidation.

B. Activities currently the subject of disposal or joint venture negotiations

1. Allied Steel & Wire Limited (ASW)

A report has been commissioned from Financial Advisers on the timing, means and likely proceeds of a market floatation of ASW. As soon as the report is available the prospects for floatation will be compared with the proposal recently considered for a sale to institutions. Care must be taken, as has been emphasised, to maintain BSC's marketing relationship and this is likely to require the retention of some shareholding by the Corporation. In preparation for the floation the shareholders have commissioned Warburgs to report on the restructuring of ASW's balance sheet and this report is now to hand.

2. Sheffield Forgemasters Limited

BSC's 50% interest in this company is for sale. No outside purchasers are apparent but the Chairman of the company has expressed an interest in acquiring all or part of BSC's shareholding and this will be pursued when the Government guarantee for bank loans is in place.

3. Fox Wire Ltd

The speciality wire division of BSC Light Products was put into a Companies Act Company (CAC) in April 1985. Initial discussions on the sale of this company failed to produce any offers but the Corporation is currently in negotiations with two prospective purchasers although no firm bids have been received to-date.

4. Tinsley Bridge Ltd

This activity was also incorporated as a CAC in April 1985. Significant rationalisation has taken place and talks are being pursued both on a possible acquisition by a private sector company and on the possibility of a management buyout.

5. Alloy Steel Rods Ltd

This company has acted as a hire-roller of products produced by BSC Stainless and United Engineering Steels and further processed by Fox Wire Ltd. Its disposal is now being discussed with several companies, either in conjunction with Fox Wire or separately but with a trading agreement in place.

6. Seamless Tubes

The business of seamless tubes was doubly hit by major expansions in world capacity that came on stream at the time of the drop in oil prices and hence slump in demand for a major part of the product range. BSC recognises that rationalisation in this product area must take place on a European basis and accordingly has initiated negotiations for a joint venture with the leading French seamless tube producer, Vallourec. Even if these negotiations are successful, however, the deal will mean significant closures of capacity, including the Clydesdale No. 1 mill and the Wednesfield site of Seamless Tubes Ltd in which BSC has a 75% shareholding. It is anticipated that Cold Drawn Tubes Ltd (in which BSC has an interest of 25%) will also be included in any Joint Venture. Negotiations are at an early stage but both parties recognise the need for rationalisation measures to be agreed and implemented as soon as possible. Terms for the joint venture company have yet to be formulated.

7. Cookley Stamping Works

Negotiations for the sale of Cookley Stamping Works to GKN Sankey were suspended when Sankey was acquired by the West German company, Kienle and Spiess. The talks have just been resumed with Kienle and Spiess and are being actively pursued.

8. Renishaw Iron Foundry

Talks on the disposal of this activity were unsuccessful because the potential purchaser backed out. The future of BSC's three remaining iron foundries is being reviewed. As no purchasers are currently in prospect rationalisation measures may need to be implemented.

9. Coated Electrodes (Holdings) Ltd

BSC's interest in this company was sold to the management in two tranches in 1983/84 and 1984/85. This year, the company achieved a successful floatation on the USM.

10. Sarclad International Ltd

BSC holds a shareholding of approximately 10% in this company and negotiations are proceeding to dispose of this to Coated Electrodes. The payment would be in Coated Electrodes shares but arrangements are being examined for an immediate placement of the shares that BSC would receive.

11. Staveley Chemicals

BSC's 45% shareholding in this company is, in principle, for sale and the appropriate timing of, and strategy for, disposal has been kept under review. Unfortunately, the drop in the oil price added significantly to the uncertainty of the prospects for Staveley Chemicals but discussions will be held with the other major shareholder, British Coal, on possible joint action for sale.

12. Railway and Ring Rolled Products Ltd

This CAC is, in principle, available for sale or possibly for a management buyout. The internal rationalisation implemented when earlier negotiations for its disposal broke down is well under way. Once the benefits of this rationalisation, involving expenditure of over £3m, have been illustrated, further active efforts will be made to effect the disposal.

13. The Victaulic Company Plc

Preliminary discussions have been held with financial advisors on the action necessary to prepare this company, in which BSC has a 30% shareholding, for a market floatation. The appropriate measures leading to a floatation perhaps some time in 1987 are currently under consideration.

14. Heckett (BSC) Ltd and its 100% subsidiaries
: Llanwern Slag Ltd
: Scrap Processors Ltd
plus its 50% associate company
: Margam Slag Ltd

Negotiations are in progress to restructure the shareholdings in these inter-related companies. If these negotiations are successfully concluded BSC's shareholding of 51% will be sold to its partner in Heckett (BSC) Ltd and a new processing contract will be put into place on terms that will give BSC an overall cost reduction.

15. Concast Holdings AG

BSC is currently seeking to sell its 22% shareholding although it may prove possible to realise a higher sum from liquidation of this company's assets and the distribution of the proceeds to shareholders.

16. Dorman Long and Amalgamated Engineering Ltd (Nigeria)

Discussions are continuing with a company interested in acquiring BSC's 40% shareholding in this company (book value zero) but, even if successful, any proceeds will be purely nominal.

17. ZISCO

BSC's shareholding has been further diluted and is now less than 2%. It has a zero value but discussions are still being pursued with a view to the Zimbabwe Government taking it over.

18. Stewarts and Lloyds of India

Pressure has been maintained to obtain Indian Government approval for the transfer of BSC's 40% interest in this company to Babcock Power as part of the arrangements relating to PED. Conditional approval have been received from the Reserve Bank of India and discussions are proceeding with the Indian tax authorities.

Appendix 3

Progress to privatisation 1980/81 - 1985/86

	Disposals	Joint Ventures
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%)
1984/85	*UK Wholly Owned* **Pipework Engineering (PED) Limited** **Stanton and Staveley Limited** (75%) *UK Partly Owned* **Coated Electrodes (Holdings) Limited*** (Balance) **RGC Offshore plc** *Overseas Interests* **Genrec Pipework Engineering Developments (Pty) Limited** (South Africa) **Lancashire Steel (Private) Limited** (Zimbabwe)	**Afon Tinplate Company Limited** (Merger with Wolff Steel Limited of Lye Tinplate for recovery of prime for non-prime tinplate. BSC share 50%) **United Merchant Bar plc** (Merger with Caparo Industries plc of Scunthorpe No. 1 Rod Mill for production of steel flats and light sections. BSC share 25%) **GR-Stein Refractories Limited** (Merger with GR-Stein Refractories Limited a subsidiary of Hepworth Ceramic Holdings plc, of BSC's refractory interests. BSC share 22%)
1985/86	*UK Wholly Owned* **Distington Engineering Contracting** **Constrado** *UK Partly Owned* **Cromdane Steels (UK) Ltd** **Grundy Auto Products Ltd** **Round Oak Properties Ltd** — property portfolio *Overseas Interests* **Stanton Pipes Ltd** — manufacturing activities **Concast Service Union A.G.** **Cindu Chemicals B.V. (Holland**	**United Engineering Steels Ltd** (Merger, with Guest Keen & Nettlefolds Plc, of Special Steels business in Sheffield, Rotherham and Wolverhampton)

*Management/Employee buyout

Steel: NAT IND.
Pt 14

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

12 November 1986

Dear John,

Thank you for your letter of 17 October about the refurbishment of the Durgapur steel plant.

I was grateful to be alerted that the Indians were once again showing active interest in this project, although I understand that it raises a number of very difficult issues. I can assure you that the interests of Babcocks - and other British companies - will be taken fully into account when we reach the point of decisions.

With best wishes,

Yours ever

Margaret

The Lord King of Wartnaby.

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PS/ *Secretary of State for Trade and Industry*

6 November 1986

Charles Powell
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A 2AA

Dear Charles,

Thank you for your letter of 20 October to Tim Walker enclosing Lord King's letter of 17 October about the Durgapur steel works project in India. The enclosed draft reply to Lord King has been prepared in consultation with ODA.

The Durgapur steel plant was built by UK contractors and partly financed with British aid over 25 years ago and is now badly in need of modernisation. An offer of aid for Durgapur was first made by Kenneth Baker in September 1983 (an offer that was subsequently repeated by the Prime Minister and Mr Tebbit) but was not taken up largely because the Indian authorities were still reviewing their steel sector priorities. In recent months, however, the project has resurfaced and the Ministry of Steel and the Steel Authority of India (SAIL) have now indicated that they regard Durgapur as a priority project within the steel sector. The attitude of the Indian Department of Economic Affairs remains unclear. The Prime Minister will recall that earlier Ministry of Steel proposals for a brand new steel works fell foul of the Indian central financial and planning authorities and it remains to be seen what they will decide in this case. The Indian steel sector has substantial problems. Much of it, including Durgapur, is in the public sector and has operated well below capacity and at a loss, thus requiring substantial Government subsidies.

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A number of UK companies, notably a consortium of Babcock and Davy McKee (although for some parts there are other competing UK interests), have taken the initiative in formulating proposals to undertake the project which they see as representing a major export opportunity with a UK content of up to £400m and about 15,000 man-years of work. (As usual with India, which potentially has the capacity to supply much of the fabrication work required, it is yet to be seen to what extent they will wish to have their domestic supplier involved. The extent of purchase from UK will, however, be influenced by the level of any financial support we make available.)

British companies are lobbying hard for HMG to make an early offer of aid to encourage the GOI to look exclusively to the UK to undertake the modernisation programme. However, it would be wrong to make any such offer yet. We must see the outcome of a study being undertaken by BSC (Overseas Services) on behalf of SAIL, which is likely to determine the future shape of the investment including its capital cost and internal rate of return. This study, which is nearing completion, will also provide us with a basis on which to assess the economic, financial and technical case for aid support. This case will need particularly careful attention in view of the size of this proposal in relation to our aid resources and the difficulties that the economic case may present. We shall also need to be thoroughly satisfied that the arrangements for implementing a project of this complexity are sound and effective.

If the project emerges as a suitable candidate for aid, it will be considered inter-departmentally under the usual procedures and the case would only be referred to EX Committee if agreement could not be reached.

I am copying this letter and enclosure to Robert Culshaw (FCO) and Martin Dinham (ODA).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

JG5AAM

Lord King of Wartnaby
Chairman
Babcock International plc
Cleveland House
St James's Square
London SW1Y 4LN

COY

Thank you for your letter of 17 October about the refurbishment of the Durgapur steel plant.

This is a major and complex project which poses special difficulties, not least of implementation, of which the Indian authorities are fully aware. The Government will of course be discussing the prospects for the project carefully with the Indian authorities.

I was grateful to be ~~alerte~~ alerted that the Indians were

I can assure you that the interests of Babcocks and other British companies will be taken fully into account when we reach the point of ~~make a final~~ decision ~~about the project~~.

with best wishes.

once again showing active interest in this project, although I understand that it raises a number of very difficult issues.

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From the Minister of State for Industry

GILES SHAW MP

Prime Minister
No copies of this letter were circulated earlier, and this copy reached here today.
I shall pursue.
DLW 20/11

Christopher Chope Esq MP
Department of the Environment
2 Marsham Street
London
SW1

3 November 1986

Spoke Chope's office. B/F Monday.
DLW 21/11

Yes please do.
vigorously
MT

Dear Chris

FASLANE PROJECT: STEEL SUPPLIES

The British Steel Corporation have told us that a major opportunity for steel sales from BSC's Ravenscraig works could well be lost in the second stage of the Faslane project to build Trident submarine bases. The Property Services Agency have confirmed that the front running contractor probably intends to import substantial tonnages of low priced steel for the second stage. The products involved are tubular steel piling and sheet piling. Final decisions are expected towards the end of the year.

The potential embarrassment to the Government of missing a major opportunity for the Ravenscraig steelworks - which could supply most of the steel involved - is considerable. As you may know, the future of Ravenscraig is a sensitive issue, particularly in Scotland, and much would be made of the proximity of Faslane to Ravenscraig, and the familiar view that any other country would have "known what to do".

Although it is perhaps a subsidiary point, I should also mention that, dependent upon the origin of the steel which the favoured contractor intends to use, the price involved could involve a breach of ECSC rules relating to steel imported either from other EC memberr states or from third countries, with whom the Community has Voluntary Restraint Arrangements. Without knowing the details it is difficult to establish in advance whether this problem will materialise, but if the cost of the steel is a major reason for

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the low tender in this case, it is obviously a possibility. Thirdly, BSC have suggested that any need for on-site inspections by foreign steel suppliers could have security implications; DTI are not in a position to comment on this.

These problems did not arise in the first stage of the project, for which PSA contracted directly for the steel requirements. I wonder whether this could still be considered for the second stage, despite the delay it could involve. In any event, the most careful consideration needs to be given to the political implications of steel sourcing in this case.

In accordance with normal practice concerning potentially sensitive public purchasing issues, I am copying this latter to the Prime Minister and also Malcolm Rifkind and David Trefgarne.

Yours ever
Giles

GILES SHAW

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COMMERCIAL IN CONFIDENCE

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

31 October 1986

BRITISH STEEL PRIVATISATION

The Prime Minister is aware that your Secretary of State has been pressing BSC hard to privatise some of the Phoenix companies. She has noted that this was an objective set for Bob Scholey in his terms of appointment and has asked to see the plan which was required by them. In particular she understands that there have already been bids for some of the companies and has asked to see details of all the bids which have ever been received by BSC.

The Prime Minister has said that she expects to see more than one of the Phoenix companies sold within the next six months.

I am sending a copy of this letter to Alex Allan (HM Treasury).

(D. NORGROVE)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

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cc BJP

PRIME MINISTER 30 October 1986

BRITISH STEEL PRIVATISATION

In 1980, faced with over capacity in the steel industry, a strategy of merging public and private sector assets into jointly owned Phoenix companies was established with the aim of rationalising them into viable specialist companies. The new companies were to operate on an arms length basis from BSC. They were clearly stated to be only an interim solution before full privatisation which would occur as soon as they became profitable. Several of these companies have now become profitable, including Darlington & Simpson (which you have visited) and Allied Steel & Wire (ASW). It is time they were sold.

Like most nationalised industries, BSC has wanted to crush competition and control the whole of the market in which it operates. In BSC's case this has been achieved not just through direct ownership and the Phoenix companies, but also through lesser shareholdings and long term supply agreements. Despite the Government's declared policy of selling the Phoenix companies, BSC are wholly opposed to such action. After a battle with the DTI, the sale of the Phoenix companies (and other peripheral activities) were included prominently in Bob Scholey's terms of reference on his appointment last year (attached).

Knowing that BSC had suppressed previous bids for Phoenix companies, with DTI Ministers agreement, I arranged for bids to be made for ASW earlier this year. BSC entirely suppressed the first of these bids (from Charterhouse). Bob Scholey did not even own up to it in a meeting specifically on privatisation with the Secretary of State. BSC also failed to inform the Secretary of State about the second bid (from Lloyds Merchant Bank) until after he had heard of it

from othe sources. BSC, with help from officials, are presently working their way through all the standard ruses for delaying and killing unwelcome bids.

Privatisation of BSC as a whole is inconceivable this side of an election, and in any case could not be done without resolving the future of Ravenscraig. (But beware, privatising BSC as a whole is one of the red herrings officials are deploying to take Ministers eyes of the achievable targets). If inroads are to be made into BSC's publicly funded stranglehold on the steel industry it is essential that some privatisations are achieved. If BSC are allowed to prevail then the Phoenix companies will have proved to be nationalisations and not privatisations.

Paul Channon is doing what he can, but it would help him if you were also seen to be keen to make progress. I recommend you write saying that you understand that the Secretary of State is pressing hard to privatise some of the Phoenix companies, that you would like to see BSC's plan for achieving this as promised in Bob Scholey's terms of appointment, and that you would expect to see more than one Phoenix company sold within the next six months.

Peter Warry

PETER WARRY

BSC OBJECTIVES 1986-1991

1. To transfer BSC's assets and activities to the private sector as quickly as practicable. Immediate consideration is to be given, in consultation with Government, to developing options for the privatisation of bulk iron and steelmaking activities. Early action should also be taken, where appropriate, to dispose of activities other than bulk iron and steelmaking. A programme of disposal of shareholdings in partly owned companies should be developed in agreement with the Government. A review of the action taken and of options identified should be presented to the Government by June 1986. Where necessary, joint ventures may be established between BSC and the private sector as a stepping stone to full privatisation. Where the Corporation remains in competition with the private sector, BSC should ensure that competition is at all times fair and can be seen to be fair. Where any of BSC's activities which compete with the UK private sector are not likely to become profitable within two years, the Corporation should dispose of those activities or, if they cannot be disposed of, withdraw from them.

2. In pursuit of the objectives set out above, and within the framework of the strategy agreed between the Government and the Corporation and announced in August 1985, to operate as a commercial enterprise and to reach, as quickly as practicable, a state of enduring profitability so that the Corporation will be able to maintain a real rate of return on its net assets, pay interest at commercial rates on its borrowings, and pay a dividend on its capital; to manage its cash resources prudently and to generate sufficient

profits to finance its activities without recourse to net borrowing by 1988/89; and to keep within External Financing Limits set by the Government.

3. To pursue a vigorous programme of improvements in BSC's performance by reducing costs, including productivity improvements and more efficient use of materials, equipment and energy, designing and developing new products and processes, and developing markets, with the aim of keeping BSC's cost structure and profitability in line with that of the most efficient European producers, and where possible taking the lead by at least matching cost improvements elsewhere in Europe.

4. To provide to the Government, normally by April of each year, a Corporate Plan which should set firm targets for attaining the objectives set out above.

Lord KING
3/11

04/11

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 October 1986

I enclose a copy of a letter to the Prime Minister from Lord King about the refurbishment of the Durgapur steel plant in India. He seeks the Prime Minister's support when the project comes before her for approval.

I am not sure in what context and at what stage this project is likely to be submitted for approval but I should be grateful for a draft reply in consultation with the ODA.

I am copying this letter and enclosure to Robert Culshaw (Foreign and Commonwealth Office) and Martin Dinham (ODA).

(CHARLES POWELL)

Timothy Walker, Esq.,
Department of Trade and Industry.

Babcock International plc
Cleveland House, St. James's Square, London SW1Y 4LN
Telephone: 01-9309766

Lord King of Wartnaby
Chairman

17th October, 1986

The Rt. Hon. Margaret Thatcher, MP,
The Prime Minister,
10 Downing Street,
London, S.W.1.

PZ010

Dear Prime Minister

I am sure you will know that the refurbishment of the Durgapur steel plant in India is a very very important project for a number of U.K. industries and I write to seek your support when the project comes before you for approval.

I hope you are well and to see you again soon.

Yours ever

John

file CF? BM

cc DTI

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

18 September 1986

B. Steel file?

Dear Sir Ronald,

Thank you for your letter of 15 September about your visit to Canada. It was kind of you to let me know about this and I was glad to hear that Mr. Mulroney seems likely to be helpful to British Steel over the import of steel into Canada.

With best wishes,

Yours sincerely

Margaret Thatcher

Sir Ronald Halstead, C.B.E.

ECL

CDP

37, EDWARDES SQUARE,
LONDON, W8 6HH
01-603 9010

RH/BMcA

15th September, 1986

R17

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

Dear Mrs Thatcher,

I visited Canada in August, primarily to participate in a ceremony with the Canadian Prime Minister, Brian Mulroney, to celebrate the shipment of 50 million tons of iron ore to British Steel from Sept-Isles on the St. Lawrence River.

We had our 175,000 ton iron ore carrier, "British Steel", at the dockside for the ceremony, and it was a very impressive affair. I took the opportunity to discuss with Brian Mulroney the importation of steel into Canada, and he was very sympathetic to British Steel's position, especially compared with the dumping activities of some of our overseas competitors. He said he would personally deal with the matter, and it looks as though he is going to be very helpful to our cause.

He is a great fan of yours, and he asked me to pass on his kindest regards.

With very best wishes.

Yours sincerely,

Ron

Sir Ronald Halstead

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ccBG

Treasury Chambers, Parliament Street, SW1P 3AG

Malcolm McHardy, Esq
Private Secretary to
The Hon Peter Morrison MP
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H 0ET

NBPM

26 June 1986

Dear Malcolm,

SHEFFIELD FORGEMASTERS

The Chief Secretary has seen your letter of 20 June to David Norgrove and his reply of 25 June.

The Chief Secretary is content that the guarantee should be put in place subject to the detailed terms and conditions you negotiate with the company, its bankers and the institutions being consistent with those worked out between our two Departments and the No 10 Policy Unit (see for example John Mogg's letter of 20 September and Richard Broadbent's of 23 September both to David Norgrove).

I am copying this letter to David Norgrove (No.10).

Yours sincerely

Jill Rutter

JILL RUTTER
Private Secretary

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NAT IND : Steel : Pt 14

CONFIDENTIAL FILE

DA (67)

cBG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 June 1986

SHEFFIELD FORGEMASTERS

The Prime Minister has seen your letter to me of 20 June and agrees, subject to the Chief Secretary's views, that there is now no realistic alternative to offering a guarantee to Sheffield Forgemasters.

I am copying this letter to Jill Rutter (Chief Secretary's Office).

(DAVID NORGROVE)

Malcolm McHardy, Esq.,
Department of Trade and Industry.

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273/6. (PW) N/T CF GR

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From the Minister of State for Industry

GR
CF

Does Peter Warry have any comments?
DRN 27/6.

Private Secretary to
THE HON PETER MORRISON MP

David Norgrove Esq
PS/Prime Minister
10 Downing Street
London
SW1

20 June 1986

Prime Minister

Agree that the guarantee should now be approved? (Peter Warry believes there is now no realistic alternative.)

DRN 24/6

Yes mt

Dear David

SHEFFIELD FORGEMASTERS

Your letter of 19 May to Mike Gilbertson sought a draft reply for the Prime Minister to send to the letter from Mr Kenny (Chairman, Sheffield Forgemasters) of 13 May.

Mr Kenny's letter followed the Prime Minister's letter of 1 May which promised early conclusions on the question of the proposed Government guarantee for Sheffield Forgemasters, but also floated the possibility that the company's improved performance since last autumn might mean that the company no longer needed to guarantee and that a normal banking solution might be possible. Despite the negative reaction to this idea in Mr Kenny's letter of 13 May, we persuaded Mr Kenny and Lazards (his merchant bank advisers) to explore the possibilities. The Deputy Chairman of Lazards (Mr Peter Grant) has now advised that the company's bankers have rejected the various proposals discussed with them for the provision of additional facilities unsupported by a guarantee and that there is no prospect of bringing in new sources of external finance at this stage in the company's recovery; and that the guarantee should now be put in place.

Meanwhile, the DTI's Industrial Development Unit has concluded that the company has good prospects of viability, and that putting the guarantee in place would help the company to win

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additional business which would otherwise have mainly gone overseas, as requested by Richard Broadbent in his letter of 17 January. Treasury officials have been involved in the re-assessment of viability, and are content.

In the light of these developments, Mr Morrison and my Secretary of State have come to the view that the proposed guarantee should now be put in place. They think it is unfortunate that this should be necessary in view of the improved performance of the company over the last year. But they believe that the risks involved in the only other option now available - withdrawal of the offer of the guarantee originally made last year (subject to a series of conditions approved by the Prime Minister and subsequently met in full or bettered), and which has been widely publicised - are unacceptable:

i) Withdrawal would result in the collapse of the refinancing package (of which the guarantee was part) agreed last autumn, and would subject the company to immediate additional liabilities of around £4½m. Taken together with the effects of a probable loss in confidence on the part of customers and suppliers, the result would be to take the company close to or through its present borrowing limits, with consequent risks of liquidation or heavy pressure on the Government to change its mind a second time to avert this outcome (and a consequent loss of up to 3000 jobs, mostly in Sheffield).

ii) Withdrawal of the offer would also expose the Government to criticism from the company and others for breaching moral undertakings, given publicly and in writing by Ministers at the turn of the year, that the guarantee would be put in place if the company were demonstrated to have good prospects of viability.

DTI Ministers therefore intend that the company should be told next week that Ministers have agreed in principle that the guarantee should be put in place. A final round of negotiations with the company, its bankers and the institutions on the detailed terms and conditions will follow. When that is complete, we will let you have a short draft letter for the Prime Minister to send to Mr Kenny, in reply to his letter of 13 May.

I am sending a copy of this letter to Jill Rutter (Treasury).

Malcolm McHardy

MALCOLM MCHARDY

1TUBUU

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file LPO
CDT.

10 DOWNING STREET

THE PRIME MINISTER

4 February 1986

Dear Mr. Wilson,

Thank you for your letter of 17 January about the British Steel Corporation's planned closure of the Gartcosh steel rolling mill.

The Government fully recognise the strength of feeling in Scotland about this, and naturally I very much regret the loss of jobs affecting no doubt some of your own members as well as others. The experience of the past few years has shown, sadly, that measures of this kind are sometimes inevitable in order to help preserve the future of the steel industry in the United Kingdom - and the same is happening in many other countries.

You will be aware that, following many representations made to Ministers and an enquiry by the Parliamentary Select Committee on Scottish Affairs, the Government examined all the points made and the evidence put forward in order to establish whether the closure of Gartcosh was inconsistent with the BSC strategy announced last August, which envisages the continuation of all five BSC integrated works, including of course Ravenscraig. Where the arguments, including those mentioned in your letter, were essentially of a commercial nature we naturally took account of the responses provided by BSC.

/On the

On the particular points you raised, BSC have made it clear that their recent setback in market share was due to the effects of exchange rate movements on prices and the result of the recent increase in United States protection against steel imports, and covered a much wider range of products than those made at Gartcosh. I understand that BSC's order book is now beginning to recover. On the question of accreditation, there is no reason to suppose that recent changes in accreditation by Ford, a normal commercial practice which depends on many factors, rather than the existence of any particular works, will lead to any significant loss of business to BSC. BSC have indeed said that they do not expect any major loss of business; and no major customers, despite the rumours to the contrary, have expressed concern about the quality or security of future steel supplies.

The Government said in reply to the Select Committee, and confirmed in the Commons debate on 23 January, that no convincing evidence had been produced to show that the closure was inconsistent with the BSC strategy, and that accordingly it would not be right for the Government to intervene in this commercial decision by BSC. The Government's highest priority for BSC - in common with other Governments throughout Europe in respect of their own steel producers - is for it to achieve a level of sustained profitability which will render it financially self-sufficient and able to finance investment in its future. The European Commission, on advice from independent experts, have confirmed that this is achievable under the strategy announced last August. It is, however, clear that BSC has very little room for manoeuvre. The prospects for the steel market in Europe, though improving, still give cause for concern and we do not want to repeat the mistakes of the 1970s.

/I am sorry

I am sorry that in these circumstances BSC found it could no longer afford to keep Gartcosh in operation, and I understand that preparations for its closure are now in hand. I hope that your union will now turn its attention to securing appropriate redundancy or transfer arrangements for those members affected, and that the efforts by BSC (Industry), the Scottish Development Agency and others will prove helpful in attracting new sources of employment to the area.

Yours sincerely

Margaret Thatcher

G. M. Wilson, Esq.

BF3

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1-19 VICTORIA STREET
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PS/ Secretary of State for Trade and Industry

30 January 1986

D Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David,

I enclose a draft reply for the Prime Minister's signature to the Scottish Branch of the Steel Industry Management Association (SIMA) which you sent under cover of your letter of 23 January.

Press reports indicate that the unions and workforce at Gartcosh have now called off their campaign to save the works, following the Government's response to the Scottish Select Committee on 15 January, BSC's subsequent announcement that the closure would proceed, and the Commons debate on 23 January which was widely seen as the last chance to persuade the Government to intervene. The final closure is due to take place at the end of March, and BSC are taking preliminary measures in order to allow time for redundancies, redeployment and cross-matching of jobs to be carried out effectively.

In the circumstances it would be possible to send a shorter reply than the draft enclosed, but the Prime Minister may feel that, as members of the Scottish Branch of SIMA will be directly affected, a more substantial reply is appropriate.

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

DW4ANV

1786 1986 BOARD OF TRADE BICENTENARY

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Please type for PM signature.

~~DRAFT~~ REPLY FOR THE PRIME MINISTER TO SEND TO:

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

LO4AAP

Thank you for your letter of 17 January, about the British Steel Corporation's planned closure of the Gartcosh steel rolling mill.

The Government fully recognise the strength of feeling in Scotland ~~over the past few months on~~ about this ~~issue~~, and naturally I very much regret the loss of jobs ~~at Gartcosh~~, affecting no doubt some of your own members as well as others. The experience of the past few years has shown, sadly, that measures of this kind are sometimes ~~necessary~~ inevitable in order to help preserve the future of the steel industry in the United Kingdom, and the same is happening in many other countries.

DW4ANW

You will be aware that, following many representations made to Ministers and an enquiry by the Parliamentary Select Committee on Scottish Affairs, the Government examined all the points made and the evidence put forward, in order to establish whether the closure of Gartcosh was inconsistent with the BSC strategy announced last August, which envisages the continuation of all five BSC integrated works, including of course Ravenscraig. Where the arguments, including those mentioned in your letter, were essentially of a commercial nature we naturally took account of the responses provided by BSC.

On the particular points you raised, BSC have made it clear that their recent setback in market share was due to the effects of exchange rate movements on prices and the result of the recent increase in United States protection against steel imports, and covered a much wider range of products than those made at Gartcosh. I understand that BSC's order book is now beginning to recover. On the question of accreditation, there is no reason to suppose that recent changes in accreditation by Ford, a normal commercial practice which depends on many factors, rather than the existence of any particular works, will lead to any significant loss of business to BSC. BSC have indeed said that they do not expect any major loss of business; and no major customers, despite the rumours to the contrary, have expressed concern about the quality or security of future steel supplies.

DW4ANW

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I am sorry that in these circumstances ~~Gartcosh has proved to be one work which~~ BSC found it could no longer afford to keep Gartcosh in operation, and I understand that preparations for its closure are now in hand. I hope that your union will now turn its attention to securing appropriate redundancy or transfer arrangements for those members affected, and that the efforts by BSC (Industry), the Scottish Development Agency and others will prove helpful in attracting new sources of employment to the area.

DW4ANW

NAT IND PT 14

Steel

10 DOWNING STREET

From the Private Secretary

23 January, 1986.

I attach a copy of a letter the Prime Minister has received from Mr. G.M. Wilson of the Scottish Group Branch of the Steel Industry Management Association.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, to reach me by 8 February please.

BF

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

COMMERCIAL IN CONFIDENCE

DA

CF file

CCBG

10 DOWNING STREET

From the Private Secretary

23 January 1986

Dear Duncan

SHEFFIELD FORGEMASTERS

The Prime Minister has seen and noted your letter of 7 January which described the industrial action at Sheffield Forgemasters, and the risk that the company might be put into liquidation at short notice. She has also noted that your Minister would intend to take the line that the Government would not then intervene further to save the firm.

I am sending copies of this letter to Richard Broadbent (HM Treasury), John Lambert (Department of Employment), Crispin Hain-Cole (Ministry of Defence) and John Bartlett (Bank of England).

Yours ever

David

(David Norgrove)

Duncan Guy, Esq.,
Department of Trade and Industry.

COMMERCIAL IN CONFIDENCE

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

TELEPHONE: EAST KILBRIDE 39685

17 JANUARY 1986

THE RT. HON. MARGARET S THATCHER P.M. P.C.
(VIA THE RT. HON J.P. POW)
10 DOWNING STREET
LONDON
EC3

Dear Madam,

Part 12 below.

You may recall that this Association had occasion to write to you on 12 May 1983 regarding the future of operations at Ravenscraig and Gartcosh when we were then under threat from the MacGregor regime of the BSC.

Thankfully our arguments of that date were sufficiently sound to secure our continued existence under the 3 year guarantee to the 5 major integrated sites.

At least we thought that our future had been secured under that guarantee. However this was a false assumption as we discovered on August 6 of last year when the BSC summarily announced that our Cold Mill at Gartcosh would close on 31 March 1986.

This we took to be a clear breach of the assurances given by the Government and since that time we have conducted a forceful, but formal, campaign against the Higher Management of the Corporation regarding the proposed closure.

This campaign, which included detailed discussion with the BSC as well as your Minister for Industry and more recently the newly appointed Secretary of State for Scotland, has been received with both courtesy and patience but with no positive consequence to the fate of our Cold Mill which we continue to see as a fully integrated element in the structure of this complex.

Our case has been fought from the outset on the basis that this Association considers the removal of the Gartcosh Works to be incorrect for the BSC and fatal for the future of the Steel Industry in Scotland.

We believe that our case remains sound despite the several attempts by the BSC to counter our arguments and we note with no great satisfaction that our predicitions on loss of market as a consequence of the closure of Gartcosh are already very much in evidence with a distinct drop in the BSC order book for Cold Reduced product, while imports of the same materials surge ahead from Continental suppliers.

/over

These are no longer matters of conjecture or prediction but are now plain hard facts which we feel should not be allowed to be simply dismissed by the BSC.

Only two Cold Mills are accredited suppliers of skin panel materials for the Autobody Industry in this country at this time, ie Llanwern and ourselves.

How can you condone the closure of Gartcosh when two of the countries major consumers of skin panel materials (Ford and Austin Rover) have now withdrawn accreditation from Llanwern for the supply of coil for these critical surface panel applications?

We do not derive any satisfaction from the current problems being encountered by Llanwern but we fail to see how anyone can countenance the loss of the only other Mill in the UK with a proven track record of quality in this field.

Significant tonnage is being lost to the Continental Mills as a consequence of this action and we continue to contend that the closure of Gartcosh Cold Mill will represent a serious loss of business to the BSC and to the revenue of this country as well as damage our International prestige.

We would be grateful therefore if you would privilege us with an early meeting to press our case for the retention of the Gartcosh Cold Mill.

Yours faithfully

G.M. Wilson

G.M. WILSON
(SECRETARY)

NAT IND: Steel: Pt14

006/1287

CONFIDENTIAL

GBG

Treasury Chambers, Parliament Street, SW1P 3AG

Duncan Guy Esq
Private Secretary to
The Minister of State for Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

NBPM

17 January 1986

Dear Duncan

SHEFFIELD FORGEMASTERS

Thank you for copying your letter of 7 January to me. The Chief Secretary agrees with the approach your Minister proposed to take should there be any moves to put Sheffield Forgemasters into liquidation.

The current industrial action may well have damaged the company's prospects. Even if the present industrial action is brought to an end, the Chief Secretary thinks it will be necessary to reassess the company's future prospects for cashflow and viability before any guarantees are put in place. It would be helpful if Treasury officials could be involved in this reassessment.

I am copying this letter to David Norgrove (No.10), Leigh Lewis (Employment) Crispin Hain-Cole (Defence) and John Bartlett (Bank of England)

Yours sincerely

Richard Broadbent

R J BROADBENT
Private Secretary

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Nat Ind: Steel Industry Pt 14.

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From the Minister of State for Industry

THE HON PETER MORRISON MP

D Lambie Esq MP
Chairman
Select Committee on Scottish
Affairs
House of Commons
London
SW1A OAA

15 January 1986

Dear David

As we agreed on the telephone on Monday and in view of the widespread interest in the Government response to the Committees report I have decided to make a short statement in the form of an answer to a Parliamentary Question today. I am copying this letter to the other members of the Committee.

Yours

PETER MORRISON

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From the Minister of State for Industry

THE HON PETER MORRISON MP

D Lambie Esq MP
Chairman
Select Committee on Scottish
Affairs
House of Commons
London
SW1A OAA

15 January 1986

Dear David

Thank you for sending me the Committee's report dated 18 December 1985 on the closure of Gartcosh.

The Government have examined carefully the Report, together with the evidence presented to the Committee which you kindly made available on 20 December. While naturally we accept that there is always scope for alternative forecasts of demand and interpretations of the commercial background, the Government do not regard the arguments in the Report and evidence as justifying intervention in BSC's decision to close Gartcosh. We do not see a case for re-examining the issues after the comprehensive critical analysis which they have already received from the Committee and others, and which have failed to establish that the closure of Gartcosh would be inconsistent with the strategy agreed between BSC and the Government.

In late 1982, Patrick Jenkin, then Secretary of State for Industry, made it clear to the House that as a matter of policy any closure of steelmaking at one of the five main integrated steel-works would have to be considered in conjunction with the Government, while BSC management had the general responsibility to return the business to profitability. The BSC strategy announced on 7 August 1985 was agreed between BSC and the Government against that policy background. It included the statement that, barring unforeseen changes in underlying market conditions, all five f BSC's main integrated sites would continue in operation for at

least the next three years. Ravenscraig is one of those sites while Gartcosh is not and despite its dependence on Ravenscraig (as opposed to the reverse) is separate from the Ravenscraig complex).

The commercial merits of closing Gartcosh are therefore a matter for BSC. The only issue which could justify Government involvement is whether the closure of Gartcosh makes it impossible for any of the five integrated works to continue operation, as provided for by the agreed strategy. It was on this issue that the Committee understandably focussed much of its attention.

As the Report indicates, the main arguments for retaining Gartcosh turned on the demand for steel products. In the Government's view, no convincing evidence has been produced to demonstrate that, as the Report puts it, demand for cold reduced products in the period to 1990/91 is likely to exceed BSC's forecast. BSC's forecast for liquid steel production is broadly in line with the consensus of published forecasts. While it is possible for any forecast to be proved wrong by unforeseen events, that is not an assumption upon which realistic plans can be based.

One argument, associated with high market expectations, was that the closure of Gartcosh would create an imbalance between BSC's capacity for producing hot rolled coil and its capacity for cold reduced strip, resulting in insufficient finishing capacity. However, BSC's demand forecasts provide a reasonable load for the hot strip mills and there is ample cold mill capacity for it. If, therefore, market conditions turn out to be even better than BSC's forecast, the position of the hot strip mills will be improved, not the reverse.

BSC have never suggested that their prospective levels of capacity utilisation in the production of hot steel strip, or indeed in most other sectors of the steel market are ideal. BSC have however recognised, as the Government do, that market conditions can change, and that the very major operations at each of the five integrated works should be retained as long as BSC's performance and market prospects justify it. BSC's analysis shows that aided by the purchase and closure of Alphasteel's hot strip business financial self-sufficiency can be achieved within the present range of projections with steelmaking continuing at all five integrated works, and the Government (and the EC Commission) accept this.

Similar arguments also apply to BSC's operations outside the integrated works, including some cold rolling, but the magnitude of these operations is generally much smaller. If BSC were to accept the argument that Gartcosh should be retained against the possibility that BSC's forecasts are seriously over-pessimistic, they would be left with no means of achieving the cost savings which result from this and other closures in hand.

Moreover, less than one-third of Ravenscraig's present hot strip output is sold as cold-reduced via Gartcosh; the rest goes to a variety of applications within BSC or for direct sale. Some of these are either more profitable than cold-reduced sales or are in more rapidly expanding markets. If overall demand were to grow more rapidly than BSC have forecast, much of the growth would be likely to come from these other markets. This would benefit Ravenscraig, by increasing the overall loading of BSC's strip mills. The main point remains however that BSC's forecasts are seen to be realistic and the Government would not expect their strategy to be based otherwise.

BSC have also given the fullest consideration to various other arguments designed to demonstrate that Ravenscraig is operationally dependent on Gartcosh. BSC argued strongly in their evidence to the Committee that Shotton offers an outlet for Ravenscraig which is at least as good as Gartosh, and in some ways better.

The Government's view remains that the issues raised by BSC's decision to close Gartcosh are commercial, managerial and technical, rather than strategic, and that these issues are properly a matter for BSC. The Government naturally regrets the effect of the closure on those whose jobs will be lost and BSC and others are doing what they can to alleviate the effects.

The closure of Gartcosh as well as other reductions in capacity and manpower within the strategy announced on 7 August last year are necessary to improve BSC's competitive position and to help it attain financial self-sufficiency. BSC have very little room for manoeuvre if it is to achieve this objective, which the Government regards ad the highest priority for BSC.

PETER MORRISON

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

From: James Harrison, Assistant Private Secretary

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

D/MIN/NL/1/6

CF
Any T comments
on DTI letter 7/1?

13th January 1986

DCN
13/1

Dear Mr Guy,

at Rap

Thank you for sending me a copy of your letter of 7th January to David Norgrove at No 10. The situation at Sheffield Forgemasters is of interest to the Ministry of Defence as some of the constituent divisions of the company supply components for equipment for all three Services. The most significant contribution of Sheffield Forgemasters to the Defence programme is the supply of large castings and forgings used in the submarine programme, incuding the new construction Trident and UPHOLDER Classes. In some cases, for example for parts of the nuclear steam raising plant and hull structure of Trident submarines, Sheffield Forgemasters is the sole United Kingdom source. Disruption in supply of such components, for example in a prolonged strike or in the wake of liquidation, clearly creates a risk to the construction programme of individual submarines. In the worst case, alternative suppliers would have to be found, some of whom would probably be foreign, with the risk of potential delays of the order of some months. However, at the moment our estimate is that such delays would not be an inevitable consequence of the company's demise, though the risk would be real.

You might wish to make your Minister aware of this, not least to help form an overall picture of the publicity that could be engineered by either the company or its work force, to influence your judgement on the putting in place of the guarantee on additional bank borrowing.

I am sending copies of this letter to David Norgrove (No 10), Richard Broadbent (HM Treasury), Leigh Lewis (Department of Employment) and John Bartlett (Bank of England).

Yours,

James Harrison

Duncan Guy Esq,
APS/The Hon Peter Morrison MP,
Department of Trade and Industry.

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COMMERCIAL IN CONFIDENCE

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STEEL.

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5186

COMMERCIAL IN CONFIDENCE
From the Minister of State for Industry

2

Prime Minister,
See next page. The Government offered guarantees, but they have not been put in place because of a strike. The company may go into liquidation. DRN 22/1

Assistant Private Secretary to
THE HON PETER MORRISON MP

David Norgrove Esq
PS/Prime Minister
10 Downing Street
London
SW1

7 January 1986

Dear David,

SHEFFIELD FORGEMASTERS

Your letter of 24 September at flap to Michael Gilbertson authorised the offer of a guarantee to Sheffield Forgemasters (SF) subject to a series of conditions specified in John Mogg's letter of 20 September and in the letter from Richard Broadbent (Treasury) of 23 September.

These conditions, which involved intensive negotiations with the banks, the institutional lenders to the company, and its shareholders (BSC and Johnson Firth Brown), were met and indeed bettered by the middle of November. But the guarantee has not in fact been put in place because of a strike - essentially concerning the extent of shop steward involvement in the management of the company - which broke out at the Atlas works (one of the company's two principal sites) in October, and which remains unresolved. The circumstances in which the guarantee could be put in place are set out in the attached letter of 30 December from Mr Morrison to the company chairman, Mr Kenny.

Please attach

Since the New Year, the strike seems effectively to have spread to the River Don works, the company's other principal site (the bulk of the workforce are not prepared to cross the picket lines now installed there). The company are of course continuing to do what they can to bring matters to a satisfactory outcome, and are currently exploring the possibilities of legal action, and of recruiting afresh to replace the original strikers (who were dismissed last month).

However, the company's already fragile financial situation coupled now with the loss of output at both the company's principal sites, and signs of increasing restiveness among at least some of the company's bankers, means that the company may be put into liquidation at short notice, at the initiative of either its directors or its bankers. If this should happen - and it is by no means certain that it will - my Minister intends to take the line that the Government will not intervene further to save the firm, eg by putting the guarantee in place straighaway. We should rather stick to the conditions in his letter of 30 December to Mr Kenny; if they cannot be met, the firm should be allowed to go into liquidation (receivership is not an option).

I am sending copies of this letter to Richard Broadbent (Treasury) Leigh Lewis (Employment), Crispin Hain-Cole (MoD) and John Bartlett (Bank of England).

Yours Sincerely

Duncan Guy

DUNCAN GUY

NAT IND PT 14
STGBL.

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5186

From the Minister of State for Industry

THE HON PETER MORRISON MP

Thomas Kenny Esq
Chairman
Sheffield Forgemasters
Brettenham House
Lancaster Place
London
WC2E 7EN

30 December 1985

Dear Tom Kenny,

SHEFFIELD FORGEMASTERS

In view of the protracted strike which has taken place at Sheffield Forgemasters this autumn, and the statements in the press about possible further Government financial assistance for the firm, I thought it would help to clear the air if I set down in writing the Government's present position.

As you know, last September the Government was prepared to offer Sheffield Forgemasters a guarantee on additional bank borrowing of up to £10m, reducing to zero over 3 years. This offer was subject to a series of conditions to be met by SF and by the banks, shareholders and other institutional lenders involved. The offer was also made on the basis of this Department's assessment of SF's prospects for profitability and viability, taking into account your plans for further restructuring of the business.

By the time the original conditions attached to the offer of the guarantee had been met by the banks and other parties involved, the strike at the Atlas works had already been running for several weeks. In view of the uncertainty this causes for the commercial and financial prospects of the business and hence its future viability, the guarantee has not as yet been put in place.

The present position is therefore as follows. I am aware of the considerable efforts which have been made to resolve the strike at Sheffield Forgemasters, and I hope that matters can now be brought to a successful conclusion. But there is no question of the

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guarantee being put in place until such time as all the major facilities of SF are producing at normal levels of output (unless any are to be closed permanently). The Department will then need to reassess the company's future prospects for profitability and viability in the light of the effects of the strike, and including your latest intentions on restructuring. Only if this reassessment yields a positive result would we then be able to put the guarantee in place.

Yours ever,

Peter

PETER MORRISON

1TUAZR

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From the Minister of State for Industry

Private Secretary to
THE HON PETER MORRISON MP

David Norgrove Esq
Prime Ministers Office
10 Downing Street
London
SW1

6 January 1986

pp

Dear David

Thank you for sending a copy of your letter of 30 December to Andy Rinning to Mike Gilbertson here.

We have agreed with the Scottish Office that this Department should deal with the request for a meeting from the Ravenscraig shop stewards. My Minister, Mr Morrison has written to offer a meeting and I enclose a copy of his letter for information.

Yours sincerely

Duncan Guy

DUNCAN GUY

1786 1986 BOARD OF TRADE BICENTENARY

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10 DOWNING STREET

From the Private Secretary

30 December 1985

RAVENSCRAIG GARTCOSH

I took a call this morning from a Secretary at the Scottish TUC. She said the STUC were calling on behalf of the Ravenscraig Joint Shop Stewards Committee to ask the Prime Minister to receive a deputation representing Ravenscraig and Gartcosh workers on the afternoon of 14 January.

I do not think the Prime Minister would wish to receive a deputation of this kind, and I should be grateful if you or the Department of Trade and Industry could reply on her behalf, offering to receive a deputation yourselves if you feel that would be appropriate.

I am copying this letter to Michael Gilbertson (Department of Trade and Industry).

(David Norgrove)

Andy Rinning, Esq.,
Scottish Office.

OA

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From the Minister of State for Industry

THE HON PETER MORRISON MP

T Brennan Esq
Trade Union Convenors Office
BSC Ravenscraig Works
Motherwell
Strathclyde

3 January 1986

Dear T. Brennan.

I am responding to a telephone call made on your behalf last week to the Prime Minister's office seeking a meeting to discuss the closure of Gartcosh.

Following this request, my office spoke to you to offer an early meeting in Glasgow on Monday next, 6 January, which you were unable to accept. Nevertheless as I have made quite clear on several occasions I remain very willing to meet you at a convenient time.

It has, of course, been some five months since the closure was announced during which there has been a full and lengthy debate about the Corporation's decision. BSC is planning to close Gartcosh by the end of March, as announced, and this date is fast approaching.

I look forward to hearing from you.

Sincerely

PETER MORRISON

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ce Q/
TF
Press
DN.

STATEMENT BY THE SECRETARY OF STATE FOR SCOTLAND

1. WITH YOUR PERMISSION MR SPEAKER I WILL MAKE A STATEMENT ABOUT MATTERS RELATING TO THE STEEL INDUSTRY IN SCOTLAND, AND PARTICULARLY ABOUT THE GARTCOSH COLD-ROLLING MILL AND THE RAVENSCRAIG WORKS.

2. ON 7 AUGUST THE GOVERNMENT ANNOUNCED THE RESULTS OF THE STRATEGY REVIEW WHICH IT HAD CONDUCTED WITH THE BRITISH STEEL CORPORATION. THE MOST IMPORTANT OUTCOME OF THIS REVIEW WAS THAT STEEL MAKING WOULD CONTINUE AT ALL 5 OF THE CORPORATION'S MAJOR SITES, ONE OF WHICH IS RAVENSCRAIG, FOR AT LEAST THE DURATION OF THE PRESENT PLANNING PERIOD, THAT IS UNTIL 1988, UNLESS THERE SHOULD BE A MAJOR AND UNFORESEEN DOWNTURN IN DEMAND. AT THE SAME TIME THE CORPORATION ANNOUNCED AS A MANAGERIAL DECISION, AND NOT SUBJECT TO SPECIFIC GOVERNMENT APPROVAL, THAT IT INTENDED TO CLOSE FROM 31 MARCH 1986 THE GARTCOSH COLD ROLLING MILL. GARTCOSH IS ABOUT 10 MILES FROM RAVENSCRAIG AND DRAWS ITS SUPPLIES OF HOT-ROLLED STEEL FROM RAVENSCRAIG.

3. THE CORPORATION'S DECISION ON GARTCOSH WAS THE SUBJECT OF CONTROVERSY IN SCOTLAND. THE GOVERNMENT WAS URGED TO INTERVENE TO PREVENT THE CLOSURE, MAINLY ON THE GROUND THAT GARTCOSH IS AN INTEGRAL PART OF THE RAVENSCRAIG WORKS, AND THAT ITS CLOSURE WOULD LEAD INEVITABLY TO THE CLOSURE OF RAVENSCRAIG. IT WAS ARGUED THAT THIS WOULD PUT IN DOUBT THE JOINT CONCLUSION OF THE GOVERNMENT AND THE CORPORATION THAT RAVENSCRAIG SHOULD REMAIN IN OPERATION. I HAVE RECEIVED A CONSIDERABLE NUMBER OF WRITTEN REPRESENTATIONS ABOUT THE CLOSURE OF GARTCOSH, TO WHICH I HAVE REPLIED, AND I HAVE ALSO MET A NUMBER OF DEPUTATIONS.

4. THE MOST SIGNIFICANT OF THE REPRESENTATIONS WHICH I RECEIVED WERE THOSE FROM THE RAVENSCRAIG TRADE UNIONS COMMITTEE. ON 9 OCTOBER THE COMMITTEE ASKED ME TO MEET THEM

SO THAT THEY COULD PUT TO ME THEIR VIEWS ON THE MATTERS I HAVE JUST DESCRIBED. I AGREED TO DO SO AS SOON AS CONVENIENTLY POSSIBLE, AND WE MET IN EDINBURGH ON 21 OCTOBER. WHEN THE HOUSE RESUMED AFTER THE SUMMER RECESS THE SELECT COMMITTEE ON SCOTTISH AFFAIRS BEGAN AN INVESTIGATION INTO THE BRITISH STEEL CORPORATION'S DECISION TO CLOSE GARTCOSH. THESE 2 MATTERS, THE CASE PUT TO ME BY THE RAVENSCRAIG TRADE UNIONS COMMITTEE, AND THE SELECT COMMITTEE'S INVESTIGATION, WERE AND ARE QUITE SEPARATE, THOUGH OBVIOUSLY THEY RELATE TO THE SAME ISSUE.

5. HAVING CONSIDERED THE MATTER AGAINST THE BACKGROUND OF THE SELECT COMMITTEE'S INTENTION TO RESTRICT ITS TAKING OF EVIDENCE, AND TO REPORT AS QUICKLY AS POSSIBLE, I DECIDED TO AWAIT THE COMMITTEE'S REPORT BEFORE REPLYING TO THE RAVENSCRAIG TRADE UNIONS COMMITTEE. THAT REMAINED THE POSITION UNTIL THE BEGINNING OF THIS WEEK.

6. THERE WAS THEN NO CERTAINTY WHETHER OR WHEN THE COMMITTEE WOULD REPORT, AND THE ALREADY LENGTHY DELAY IN REPLYING TO THE TRADE UNION COMMITTEE BEGAN TO APPEAR DISCOURTEOUS, ESPECIALLY AS THE CHRISTMAS RECESS WAS IMMINENT. I CAME TO THE CONCLUSION THAT I COULD WAIT NO LONGER, AND MY PRIVATE SECRETARY THEREFORE WROTE ON MY BEHALF TO THE RAVENSCRAIG TRADE UNIONS COMMITTEE'S CONVENER ON 18 DECEMBER, CONVEYING MY VIEWS ON THE MATTERS PUT TO ME BY HIS COMMITTEE. ON 19 DECEMBER, IN REPLY TO A QUESTION BY MY HON FRIEND THE MEMBER FOR EDINBURGH CENTRAL, A COPY OF THE CORRESPONDENCE WAS PLACED IN THE LIBRARY OF THE HOUSE.

7. MY CONCLUSION WAS THAT THE GOVERNMENT WOULD NOT BE JUSTIFIED IN CHANGING THEIR VIEW, THAT THE DECISION TO CLOSE GARTCOSH WAS A MATTER FOR THE COMMERCIAL JUDGEMENT OF THE CORPORATION, THAT THE ISSUES RAISED BY THE PROPOSED CLOSURE ARE COMMERCIAL, MANAGERIAL AND TECHNICAL, RATHER THAN STRATEGIC, AND THAT THESE ISSUES ARE PROPERLY A MATTER FOR DECISION BY BSC, AND NOT BY THE GOVERNMENT. THE CORPORATION HAS SATISFIED ME AND MY COLLEAGUES THAT THE CLOSURE PROPOSAL IS CONSISTENT WITH THE STRATEGY AGREED FOR THE CORPORATION

OVER THE NEXT 3 YEARS, PARTICULARLY IN RELATION TO CONTINUATION OF STEEL MAKING ON THE 5 MAJOR SITES, INCLUDING RAVENSCRAIG.

8. ON 18 DECEMBER THE SELECT COMMITTEE AGREED ON A REPORT, AND I UNDERSTAND THAT THAT REPORT IS EXPECTED TO BE AVAILABLE LATER TODAY. AS IS THE USUAL PRACTICE, THE GOVERNMENT, WILL IN DUE COURSE GIVE ITS VIEWS ON THE SELECT COMMITTEE'S REPORT AND RECOMMENDATIONS.

PRIME MINISTER

EC: US Steel

You will recall that Mr. Lubbers raised this with you yesterday.

BSC are talking to the Americans in Washington, and some progress is being made. It looks reasonably promising, but Mr. Brittan wants to give BSC another 24 hours to achieve the best result they can. This would mean postponing the planned Council of Ministers from Wednesday to Thursday. If it goes ahead on Wednesday as planned, we would not be able to lift our reserve. Peter Morrison has telephoned the European Commissioner responsible (Mr. de Clercq) to tell him this.

You might like to find a moment to say to Mr. Lubbers that you have checked on the position, the omens are reasonably encouraging, but we need just a little longer to try to finalise all the elements. We will be ready for a Council on Thursday when we hope to be able to lift our reserve. It would be helpful if ~~you~~ he were not to raise the matter in the current European Council.

CDP

CDP

3 December, 1985.

GRS 628

CONFIDENTIAL
FRAME EXTERNAL
FM FCO
TO DESKBY 030600Z LUXEMBOURG
TELNO 185
OF 021830Z DECEMBER 85
INFO IMMEDIATE UKREP BRUSSELS WASHINGTON
FRAME EXTERNAL
FOLLOWING FOR PRIME MINISTER'S PARTY
EC/US STEEL: SUPPLEMENTARY BRIEF FOR EUROPEAN COUNCIL

INTRODUCTION

1. EMBASSY WASHINGTON HAVE ALREADY BEEN INSTRUCTED TO REPORT ON THE FIRST DAY OF THE TALKS BETWEEN USTR AND BSC AND LATEST US POSITION ON RETALIATION, DESKBY 030800Z, REPEATED DESKBY 030600Z LUXEMBOURG. IF THIS REPORT PROVIDES SUFFICIENT INDICATION OF PROGRESS TO ENABLE MR BRITTAN TO CONCLUDE THAT IT WILL BE POSSIBLE TO LIFT THE UK RESERVE, WE SHALL INFORM DELEGATION BY TELEPHONE. IF THE WASHINGTON TALKS HAVE NOT PROGRESSED FAR ENOUGH TO PERMIT SUCH A CONCLUSION TO BE DRAWN, WE SUGGEST THAT THE PRIME MINISTER SHOULD DRAW ON THE FOLLOWING BRIEF WHEN THE MATTER IS RAISED.

OUR OBJECTIVE

2. TO MAINTAIN UK RESERVE ON PROPOSED NEW EC/US CARBON STEEL ARRANGEMENT WITHOUT INCREASING OUR EC PARTNERS' IMPATIENCE WITH UK TACTICS.

OTHERS' OBJECTIVE

3. TO PUT PRESSURE ON UK TO LIFT RESERVE AS SOON AS POSSIBLE.

POINTS TO MAKE

4. FULLY AWARE OF URGENCY. IT TOOK MORE THAN TWO WEEKS FOR US TO RESPOND TO COMMISSION REQUEST FOR CLARIFICATION. MEETING NOW UNDERWAY BETWEEN USTR, TUSCALOOSA STEEL COMPANY AND BSC TO OBTAIN FURTHER ESSENTIAL CLARITY. HOPE MEETING WILL TAKE MATTERS TO RAPID CONCLUSION.

TACTICAL RESPONSES

6. (IF LUBBERS, OR OTHER HEADS OF GOVERNMENT RAISE US RETALIATION) EC SHOULD NOT BE UNNERVED BY US THREATS. MUST KEEP COOL AND STAND UP TO THEM.

- CHANGE IN CUSTOMS PROCEDURES OF LITTLE SIGNIFICANCE: DELAYS OF HOURS OR DAYS ONLY.
- WOULD BE QUITE UNREASONABLE FOR US TO IMPLEMENT FURTHER RETALIATION WHILE TALKS STILL IN PROGRESS.
- MEASURES ANNOUNCED CAN BE QUICKLY REVOKED IF DEAL IS CONFIRMED.

7. (IF PRESSED TO AGREE TO REST OF ARRANGEMENT AND CONTINUE TO NEGOTIATE ON SEMIS SEPARATELY) HAVE MADE REPEATEDLY AND EXPLICITLY CLEAR IN THE COUNCIL OVER MANY MONTHS THAT SATISFACTORY SOLUTION ON SEMIS WAS NECESSARY IF UK TO ACCEPT NEW ARRANGEMENT.

BACKGROUND

8. LUBBERS WILL RAISE IF UK CANNOT INDICATE THAT WE SHALL BE ABLE TO LIFT RESERVE. TIMING IS AWKWARD, AS TALKS ARE NOW IN PROGRESS IN WASHINGTON.

9. UK BLOCKING EC AGREEMENT TO NEW EC/US CARBON STEEL (EXPORT RESTRAINT) ARRANGEMENT UNTIL US OFFERS SATISFACTORY ACCESS FOR SEMI-FINISHED PRODUCTS FOR BSC'S CONTRACT TO SUPPLY TUSCALOOSA STEEL UP TO 1989. BSC CONTRACTED TO SUPPLY 300,000 TONS IN 1986, RISING TO 600,00 IN 1989.

10. USTR/BSC/TUSCALOOSA DISCUSSIONS (FOR 'CLARIFICATION' TO PROTECT US FROM CHARGE OF NEGOTIATING BILATERALLY ON MATTERS FOR WHICH COMMISSION ARE RESPONSIBLE: COMMISSION ARE IN THE PICTURE) BEGAN ON 2 DECEMBER. US OFFERING (ON 29 NOVEMBER) 200,000 TONS FOR TUSCALOOSA FOR 1986, PLUS POSSIBLE 'SHORT SUPPLY' CLAUSE AND FURTHER CONSIDERATION OF LEVELS IN 1987 AND BEYOND.

11. INCREASING IMPATIENCE FROM COMMISSION AND OTHER MEMBER STATES IN VIEW OF US THREATS OF RETALIATION. BUT ALTHOUGH SOME MINOR US CUSTOMS HARASSMENT OF STEEL SHIPMENTS WAS INTRODUCED ON 28 NOVEMBER, NO EVIDENCE THAT US HAVE SET DATES FOR OTHER THREATENED ACTION (IMPOSITION OF 33,000 TONS SEMIS QUOTA FOR DECEMBER 1985, SUBTRACTION OF 100,000 TONS OF PIPE FOR ALL-AMERICAN PIPELINE FROM 1986 QUOTA). EVEN IF THEY DO, MEASURES CAN BE REVOKED IF AGREEMENT IS SUBSEQUENTLY REACHED.

12. SPECIAL COUNCIL CALLED FOR 4 DECEMBER, TO MAXIMISE PRESSURE ON UK TO LIFT RESERVE.

13. SIR GEOFFREY HOWE MADE CLEAR TO M. POOS ON 29 NOVEMBER THAT AGREEMENT ON SEMIS HAD ALWAYS BEEN A PRECONDITION OF UK AGREEMENT TO ARRANGEMENT NOTED IN MINUTES OF 6 AUGUST INDUSTRY COUNCIL.

HOWE

OCMIAN 0942

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bc PC

10 DOWNING STREET

From the Private Secretary

22 November 1985

EC/US STEEL NEGOTIATIONS

The Prime Minister has reflected further on the question of whether she should send a message to President Reagan on this subject. She has concluded that, after the unhappy experience with Ptarmigan, it would be better not to commit a message of this sort to paper. She is ready to raise the matter with Mr. McFarlane tomorrow night but thinks, that apart, that it must be for Ministers to do everything possible to arrive at a satisfactory conclusion with their American opposite numbers.

I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office) and Michael Stark (Cabinet Office).

(Charles Powell)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

SPW

CONFIDENTIAL

PRIME MINISTER

EC/US STEEL NEGOTIATIONS

You were not keen on the idea of a message to President Reagan though Mr. Brittan and Oliver Wright remain attached to it. I attach a copy of a draft which has been prepared.

The alternative is simply to raise it with Budd McFarlane on Saturday. But he does not carry much weight on this sort of issue.

Personally I do not see any strong objection to a short and uncontentious message of the sort proposed, simply asking the President to look at the problem himself.

Agree to a message?

No — after Pharmigan, my credit must be low. Ministers must see their opposite numbers not

C.D.P.

CHARLES POWELL
21 November 1985

CONFIDENTIAL

010

ccPC

Foreign and Commonwealth Office

London SW1A 2AH

21 November 1985

Dear Charles,

attached with cc

EC/US Steel Negotiations

The Foreign Secretary has seen Michael Gilbertson's letter of 20 November proposing that the Prime Minister should raise the Tuscaloosa issue with President Reagan. He has also seen your reply.

The Foreign Secretary fully agrees with the Secretary of State for Trade and Industry that the proposed export restraint arrangement between the EC and US fails to protect BSC's contract to supply semi-finished steel to Tuscaloosa. He does not think the omens are good. But he agrees with Mr Brittan that a personal intervention by the Prime Minister now could help to persuade the US Administration to be more flexible. He believes however that the best course would be for the Prime Minister to communicate her views not to President Reagan himself, but instead to Mr McFarlane when he comes to Chequers at the weekend. He advises against handing over any text, since that would risk there being a leak in Washington.

I am sending a copy of this letter to Michael Gilbertson (DTI).

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

DRAFT MESSAGE TO PRESIDENT REAGAN

As you will know, the European Community are in the process of deciding whether to accept a successor arrangement to the 1982 Carbon Steel Arrangement with the United States.

The proposals which your side have made for imports of semi-finished steel products from the European Community cause Britain very considerable difficulty. No immediate restrictions have been proposed, but your people have made clear that the US will in future restrict imports of semis from the EC to low levels. These will not leave room for the tonnages that the British Steel Corporation contracted in June 1984 to supply to a new steel project, at Tuscaloosa Steel, Alabama. It causes a very real problem for us.

I know how many important problems you have on your mind at present but I would be very grateful if you could find time to look yourself at this one and see whether you agree that we have a fair case.

Your briefing of the Allies was masterly and had a very good effect.

EL3ASJ

CONFIDENTIAL

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

PS/
Secretary of State for Trade and Industry

21 November 1985

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Charles,

EC/US STEEL NEGOTIATIONS

... Further to your letter of 20 November, I attach a short message which my Secretary of State suggests the Prime Minister may wish to send to President Reagan. As I said in my letter of yesterday, Sir Oliver Wright also recommends that the Prime Minister raise the issue directly with the President, partly because not to do so might detract from the credibility of the strong line we have taken to date.

2 I am copying this letter to Colin Budd (FCO).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

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DRAFT MESSAGE FROM THE PRIME MINISTER

TO PRESIDENT REAGAN

EC/US CARBON STEEL ARRANGEMENT 1986/9

~~You will know that we, like our other~~ As you will know, the European Community ~~partners,~~ are ~~at present considering the deal negotiated between the Commission and the US team for~~ in the process of deciding whether to accept a successor arrangement to the 1982 Carbon Steel Arrangement with the United ~~States.~~ States.

~~The UK have very considerable difficulties with~~ The proposals ~~the~~ which your side ~~US~~ have made for imports of semi-finished steel products from the European Community (cause Britain very considerable difficulty). No immediate restrictions have been proposed, but your ~~Administration have given clear indications~~ people have made clear that the US will restrict imports of semis from the EC to low levels. ~~which~~ These will not ~~accommodate~~ leave room for the tonnages that the British Steel Corporation contracted in June 1984 to supply to a new steel project, at Tuscaloosa Steel, Alabama. ~~I was very disappointed to hear that this was where matters now stand, both because of the favourable signals we have had about your Administration's attitude to the project, and in the light of the comparatively favourable treatment given to other US trading partners, including Brazil.~~ It causes a very ~~so~~ real problem for us.

I know how many important problems you have on your mind at present. ~~But~~ I would be very grateful if you could find time to look yourself at this ~~particular problem~~ one and ~~if you could see whether anything more can be done to find a mutually acceptable solution.~~ see whether you ~~to~~ ~~does~~ agree that we have a fair case.

Your briefing of the Allies was masterly & had a very good effect.

MT

10 DOWNING STREET

Prime Minister

This is Mr. Brittan's recommendation that you should raise EC/US steel with President Reagan tomorrow. You have already said no.

You might consider a very brief message to the President back in Washington simply asking him to look at the problem personally.

You might also mention it to Bud McFarlane on Saturday.

MT

CDP 28/4

ID3 AFG

CONFIDENTIAL

10 DOWNING STREET

20 November, 1985.

From the Private Secretary

EC/US Steel Negotiations

Thank you for your letter of 20 November explaining the continuing difficulties with the United States over semi-finished steel, and conveying the Trade and Industry Secretary's recommendation that the Prime Minister should raise the matter with President Reagan in the margins of the NATO meeting in Brussels tomorrow.

The Prime Minister does not expect the NATO briefing to offer any opportunity for her to have a private word with President Reagan. In any event, she feels that the occasion would be wrong, and she has reservations about appealing to the President on this sort of issue in the light of the unfortunate experience over PTARMIGAN.

I think that the Prime Minister might be prepared to send a message to the President on the direct link to the White House. But it would have to be very carefully drafted: doing no more in effect than drawing his attention to the fact that there was a very difficult problem affecting us (without giving any detail), and asking him to find time to look at it and satisfy himself that everything reasonable was being done to find a solution. It would be helpful to have a draft brief message on these lines as soon as possible.

I am sending a copy of this letter to Colin Budd (Foreign and Commonwealth Office).

C.D. Powell

Michael Gilbertson, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

cc (1)

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

JU688

Secretary of State for Trade and Industry

20 November 1985

CONFIDENTIAL

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister
The tone of the aide-memoire is semi-hysterical & will get us nowhere.
Agree my note attached?
attached CDP 20/xi

Dear Charles,

EC/US STEEL NEGOTIATIONS

The Prime Minister will recall that at Cabinet on 7 November my Secretary of State described the outcome of recent negotiations between the EC Commission and the USA for renewed restrictions on EC exports of steel to the US from 1987 to 1989. The deal negotiated by the Commission was broadly acceptable on most points, but wholly unacceptable to us on the major political point of concern to us. This is BSC's long term contract - worth around £50m next year and around £100m in 1989 - to supply semi-finished steel to Tuscaloosa Steel, a new US steel firm in which BSC has a minority equity stake. The steel in question - 300,000 tons next year and up to double that by 1989 - would come from BSC's Teesside works, and would help to safeguard the future of BSC's plant there, and indeed BSC's overall commercial prospects.

The proposed new EC/US deal would put this contract very seriously at risk. Although no restrictions would be introduced now, the US clearly intend to limit total imports of semis from the EC to around 400,000 tons per year whereas Tuscaloosa's needs alone will be more than that from 1987 onwards. The UK has therefore made it clear that it cannot accept the entire deal for the time being, as a means of exerting pressure on the US to come up with an acceptable solution on Semis. Sir Oliver Wright and David Hannay have made our position very clear in Washington and in Brussels, and Commissioner de Clercq has promised the Commission's help.

So far, however, the US Trade Representative, Dr Yeutter, has failed to produce the proposals which he promised to Commissioner de Clercq nearly two weeks ago. Mr Brittan spoke again to Yeutter yesterday to ensure he understands our position.

If the issue is not resolved satisfactorily, we shall either have to accept a thoroughly unsatisfactory position on semis, or run the risk of provoking an EC/US trade war in steel after 31 December when the present Arrangements expire. Our best lever on the US is precisely to expose them to this risk, which would not help their overall trade policy posture internationally, particularly in the context of a new GATT round, where they look to us especially for support in the EC and with developing countries.

Against this background, my Secretary of State considers that at this stage we are unlikely to force the Americans to make the necessary proposal unless President Reagan is personally involved. The best way to do this would be for the Prime Minister to raise the Tuscaloosa issue with him in the margins of the NATO meeting in Brussels on 21 November.

Sir Oliver Wright also recommends this course, partly because not to do so might detract from the credibility of the strong line we have taken on this issue to date. Sir Oliver has already raised the issue with Donald Regan on two occasions, so the White House staff are aware of the significance of the matter to us. Confirmation of the Prime Minister's personal involvement would, however, make the point even more strongly. I attach an aide memoire on which she might draw, and which she might hand to the President.

I am sending a copy of this letter to Colin Budd (FCO).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

AIDE MEMOIRE

EC/US Carbon Steel Arrangement 1986/9 - UK concerns re exports of semifinished steel to Tuscaloosa Steel, Alabama

USTR and the EC Commission recently negotiated a successor to the 1982 Carbon Steel Arrangement, which limits EC exports of steel to the USA. The new Arrangement, which has yet to be ratified by EC Governments, fails to deal with the issue of major political concern to the UK.

In June 1984, the British Steel Corporation (BSC) concluded a long term contract to supply semifinished steel to Tuscaloosa Steel, Alabama (a joint venture in which BSC holds a minority stake). The ad referendum deal negotiated by USTR with the EC Commission places no immediate limitations on US imports of semifinished steel from the EC, but it was accompanied by clear indications of US intentions to restrict imports from the EC to low levels, which could not accommodate the Tuscaloosa contract.

The British Government is greatly disappointed that the US Administration has totally failed to take account of our concerns, of which they had been aware for more than a year. This disappointment is all the stronger following the outcome of the DOD's competition for the battlefield communication system.

The latest US position seems to attach little importance to all the favourable Administration signals given to Tuscaloosa and ourselves over the last year or so. The partners in Tuscaloosa Steel took the decision to build this new plate rolling mill at a cost of some $75m, and to give an exclusive supply contract for semifinished steel to BSC on the basis of these favourable signals. The apparent change of mind by Administration officials could now kill the project just as production is beginning.

This position is all the more puzzling given the generous quotas for semifinished steel which have been given to other suppliers, most notably Brazil. Some of these suppliers have no history of trade in semifinished steels with the USA; others have taken a much less constructive attitude towards trade policy issues of concern to the USA (eg a new GATT round) than the EC and the UK.

A satisfactory outcome on this issue is essential if the UK is to be able to assent to the new Carbon Steel Arrangement as a whole. The Administration should be in no doubt as to the importance of this to the Government as a whole and to me personally.

M.T.

BB2AAJ

010

Reference.....

TO:

Mr Pearcey IDl

FROM:

ANDREW ADAMS
MOS Office (Mr Morrison)
Rm 711, 1 V/S
215 5186

19 November 1985

cc PS/Prime Minister
PS/Brian Hayes
Mr Mountfield
Mr Dell
Mr Murray MM
Mr Cammell ID/D/NWRO
Miss Davis TLO

Mr Morrison has agreed to meet Councillor John Flanagan Chairman of the Economic Development Committee as well as other representatives of Manchester City Council on Monday 2 December at 2.30 to discuss Manchester Steel.

I should be grateful for briefing and names of officials who will attend by noon Thursday 28 November.

ANDREW ADAMS

CODE 18-77

1TUATT

DN to note

TJM : This BSC ad went in Scots papers Friday. Any interest? John

BRITISH STEEL IS NOT TURNING ITS BACK ON GARTCOSH...

The decision to close Gartcosh Cold Rolling Mill next March has been taken. The commercial, financial and operational case for closure is strong. Gartcosh has no unique products. They can all be made elsewhere more efficiently, more economically and without the £20 million needed to raise it to the standards of the other cold reduction mills in British Steel — all of which are under-employed.

The future of Ravenscraig does NOT depend on Gartcosh. Ravenscraig is getting £15 million investment and will switch to supplying a modern cold mill which has better market prospects than Gartcosh. Meantime, Ravenscraig has a three-year operational guarantee — just like the other four steelmaking centres in British Steel.

But British Steel will not abandon its Gartcosh employees, or the Gartcosh community. It is committed to a programme which will try to help individuals and the community to overcome the effects of the closure when it takes place in five months' time.

These are some points from that programme and how they will help these two important groups:

THE EMPLOYEE

- Redeployment: Where possible, redundant employees will be offered alternative jobs within British Steel — either existing vacancies or, more probably, the jobs of others who wish to volunteer for redundancy. If the alternative job pays less, earnings will be made up for a minimum of 90 weeks and help will be given with expenses involved in removal, or additional daily travelling costs.
- Redundancy Pay: British Steel pays a supplement over and above statutory redundancy pay. And like past closures it has had to carry out, it can negotiate additional severance payments for an early closure which reduces losses.
- Early Retirement: Male employees who are over 55, and women who are over 50 can choose early retirement and an immediate, index-linked pension.
- Additional Redundancy Benefits — which can be payable for up to two-and-a-half years, depending on age:

  — earnings make-up in new employment — including self-employment — if earnings are below those while employed by British Steel.

  — financial support for redundant employees who get BSC approval to undergo re-training for a different type of job.

  — flat rate benefit in addition to State Unemployment Benefit.

  — extra benefits, including earnings make-up if unemployed, or an additional pension for men over 55 and women over 50.
- A counselling service on all benefits available to employees.

THE COMMUNITY

- Investment of the know-how of its pioneering job-creation subsidiary, BSC (Industry), whose expertise has created over 30,000 jobs in steel closure areas.
- Investment of £500,000 in a Workshops Complex on the lines of the successful workshops created on the site of the former Clyde Iron Works. The initial target for the new Workshops: 100 new jobs.
- Investment totalling £225,000 over three years in LIFE, the Lanarkshire Industrial Field Executive — one of the enterprise agencies backed by BSC — to add to the £700,000 already provided by BSC (Industry) for job creation in the area.
- Investment of £70,000 in an investigation into whether the area could benefit from a completely new initiative — the creation of a Business Innovation Centre which would supplement the other techniques of job creation. Such a Centre could qualify for an injection of EEC cash if it was accepted by the Community.

These are some things British Steel can do for Gartcosh employees and the local community. The terms of the severance payment depend on how soon the agreement is reached. So far, the unions have refused to discuss any of them. Three of the eight months closure notice have passed. Time is running out.

BRITISH STEEL CORPORATION

DSS

10 DOWNING STREET

From the Private Secretary

24 September 1985

Dear Michael,

SHEFFIELD FORGEMASTERS

The Prime Minister has seen your letter to me of 20 September and Richard Broadbent's of 23 September.

She has endorsed the tougher terms now proposed by DTI for the guarantee (paragraph 6 of your letter) and the Treasury's proposals on security. She has asked that if the banks refuse these terms, DTI should report back before making any further concessions.

In the light of this affair, the Prime Minister believes that it is important now to make progress on privatisation. She has asked that BSC's agreement should be sought to a sale of their shares in Allied Steel and Wire as soon as possible, and certainly before the end of next year.

I am copying this letter to Richard Broadbent (Chief Secretary's Office, H.M. Treasury).

Yours sincerely,

David.

David Norgrove

Michael Gilbertson, Esq.,
Department of Trade and Industry.

Ecu

Prime Minister

Agree to write as proposed by Peter Walker?

DRN
23/9.

Yes

PRIME MINISTER

23 September 1985

SHEFFIELD FORGEMASTERS

Sheffield Forgemasters, the joint venture 'phoenix privatisation' of BSC and Johnson Firth Brown's heavy forgings business, wants a further £10m of overdraft guarantees from the Government. This follows the £35m it originally cost to set up in 1982 and the further £5m guarantee given last year. Forgemasters employs 3,250 people mainly in the Sheffield area. In reponse to your request last week DTI and Treasury have now made further submissions.

See also para 11 on the general question whether a guarantee should be given at all.

The substance of the DTI's note is in paragraph 6: it concedes the main improvements in the guarantee terms that we wanted so as to ensure money would go to SF rather than to bail out the banks. The banks will pay for the guarantee by waiving £2½m of outstanding interest, give an interest holiday on the main £20m loan for the duration of the guarantee, and not use the money to repay any of their existing loans. If support is given to SF then these terms now seem satisfactory.

The Treasury rightly highlight the likelihood of the guarantee proving insufficient and the difficulty of then withdrawing (or not extending) the guarantee. Taking a charge on SF's assets such that, if necessary, DTI could

appoint a receiver instead of a liquidator would be a sensible improvement if it can be negotiated with the banks.

There is evidence that the SF's financial performance is improving, and could improve further under the new management. However Kenny (the new Chairman) is not especially regarded in the City and his companies have had their problems. But improvement does not equate to viability - when the losses are running at some 20% of turnover they can do little but improve. We share the Treasury's doubts that the business will ever be truly viable as presently constructed, but even if it were to become so, it seems highly unlikely that this could happen as quickly as envisaged.

I have spoken to John Carter of Darlington and Simpson who thought, despite commercial logic being against SF's survival, that with first rate management it could be turned round (although at least 1,000 further redundancies would be necessary). He reasoned that many people, himself (and myself!) included, had made good profits from buying such loss-making engineering companies. But it is one thing to transform and motivate a company of, say, 500 employees, and quite another to do so with 3,000 employees where it just isn't possible to make direct contact with all the workforce.

John Carter said there would be considerable interest in buying parts of SF if it is liquidated. Indeed, he proposes

to make an offer for two of SF subsidiaries whatever happens. But inevitably some bits of SF would be unsaleable (although in logic, much of these ought probably to close even if SF continues). Liquidation would be politically difficult and having got the banks thinking about more guarantees, it would be awkward (but not impossible) to change horses now.

One lesson is clear: these Phoenix joint ventures between the public and private sectors result not in privatisation of the public sector company, but in nationalisation of the private sector one. Even though BSC own only 50% of SF, there is no way the Government can escape blame if SF collapses. It is probably too late to stop Phoenix 2 (the £55m joint venture with GKN approved in July) but we should certainly hasten the sale of BSC's shareholding in Phoenix 1 - the now profitable Allied Steel & Wire.

Recommendation

The guarantee is almost certain to make SF a long-term pensioner on the State. Nevertheless, with the closure of Gartcosh and of BSC's Tinsley Park works in Sheffield, it will be very difficult not to support SF. If support is given, we should make the most of it by:

1. endorsing the tougher terms now proposed by DTI for the guarantee and the Treasury's proposals on security.

Mr Brittan wants his negotiators to have latitude to settle on the undertaking proposed by IDAB. There is a risk that the banks would pull the plug – but on balance it seems unlikely; they have too much to lose.

para 6 of the DTI letter.

(If the banks refuse these terms DTI should report back before making any further concessions).

2. asking DTI to try and get BSC's agreement to sale of their shares in Allied Steel and Wire by the end of 1986, and thereby convert at least one phoney privatisation into a reality.

Peter Warry

PETER WARRY

008/1282

CONFIDENTIAL

cc PU

cc M Gibbons DTI

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

23 September 1985

Dear David,

SHEFFIELD FORGEMASTERS

WITHDRN

The Chief Secretary has seen John Mogg's letter to you of 20 September. Like the Chancellor (in his letter of 3 September - copy attached) the Chief Secretary has substantial doubts about the future prospects of Sheffield Forgemasters, and in particular the short time in which the projections assume that the Company will trade profitably. This future profitability depends critically on a combination of rapid growth in turnover, while profit margins are improved. It also assumes that the workforce will accept changes in their conditions of employment.

As the IDAB concluded, the Government are being asked to "take a flyer on the management", but it is not clear to the Chief Secretary that the new management team warrants the commitment. It lacks a Finance Director, the Chairman and Deputy Chairman have apparently not had experience of turning round loss-making companies, and he is not aware that they have previously worked with the new Managing Director.

The Chief Secretary concludes that there is a real risk that the Company will require further cash injections before achieving viability. He notes the Secretary of State's assurance that there will be no more drip-feeding. But if the Company does run out of cash it will be even more difficult then to refuse additional assistance, not least because it will be assumed that the Government is standing behind the Company.

The Chief Secretary considers that if the guarantee is given, the Government's position would be best protected if there was scope to call in a Receiver-Manager at any time in the guaranteed period, so that, if necessary, those parts of the business which were viable could be kept going. John Mogg's letter points out that the terms of the £20 million convertible unsecured loan stock preclude any

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charge on the assets, which is a pre-condition of appointing a receiver. The Chief Secretary considers that this position should be unlocked, as a condition of giving the guarantee. Ideally the loan stock should be capitalised - it is a non-performing debt. This would also have the advantage of strengthening the balance sheet and demonstrating the commitment of the stockholders to the Company. But any change to the loan stock conditions, to allow for part of the overdraft (preferably that guaranteed by the Government) to be secured would achieve the purpose. It would give value to the condition that the Government could cancel the guarantee at any time.

As the Chancellor said in his letter of 3 September, if a guarantee were to be given, and then called, the question would have to be addressed of where within DTI's provision such expenditure could be funded. The Chief Secretary feels that there can be no question of a call on the Reserve.

John Mogg's letter suggests (paragraph 8) that the institutional loan stock holders would not agree to change the terms of the stock. Yet it is assumed that they are likely to agree to a waiver of interest; and the only prospect for the stockholders of recovering some of their advances would be if the Company survives. The Chief Secretary therefore considers that if a guarantee is to be given the stockholders should be pressed hard to change the terms of the stock.

Yours sincerely

R J BROADBENT
Private Secretary

STEEL INDUSTRY PT 1 4

VP77

cc CST
FST
MST
EST
Sir P. MIDDLETON
Sir T. BURNS
Mr BAILEY
Mr ANSON
Mr MONCK
Mr BURGNER
Mr MOORE
Mr PERRY
Mr J. WILLIAMS
Mr MacPHERSON
Miss HENDERSON
Mr PERFECT
Mr DOLAN
Mr HEAVER
Mr ANSTEE
Mr COGHLAN

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

3 September 1985

The Rt Hon Leon Brittan QC MP
Secretary of State for
Trade and Industry
Department of Trade and Industry
1 Victoria Street
London SW1

Dear Leon

SHEFFIELD FORGEMASTERS

Norman Lamont wrote to me on 22 August seeking approval to a Government guarantee for additional bank borrowing by Sheffield Forgemasters, following up Norman Tebbit's letter of 8 August.

I understand the reasons for wanting to give the new management additional time to bring the company back into profitability. But I have grave doubts about the economic viability of Sheffield Forgemasters. If a guarantee is given there still seems to be a distinct risk that the company's other creditors might precipitate liquidation in the next year. So much depends on whether the projected figures for increased turnover and a return to profit by the end of this year are achieved. Although I note there has been some increase in the company's order books, the evidence for the management's claims is thin.

Allowing the company to fold now would clearly be an embarrassment, but the failure of the company next year after we have given a guarantee hard on the heels of the earlier BSC guarantee would be even worse. In addition, the cost to the taxpayer could well exceed £10 million as the Government might have to pay off other uncovered debts if the company continued to trade under a Government guarantee. Moreover, I do not regard current provision for section 7 grant aid as available for rescue cases of this exceptional kind. This would leave the question to be addressed, if a guarantee were given and called, of where within DTI's provision such expenditure could be funded. There could be no question of calling on the Reserve.

There is also a potentially worrying Parliamentary dimension. The PAC is due to publish its report on BSC/Phoenix on 24 September which will include evidence taken on SF back in March. I understand that this report may be critical of the present financial

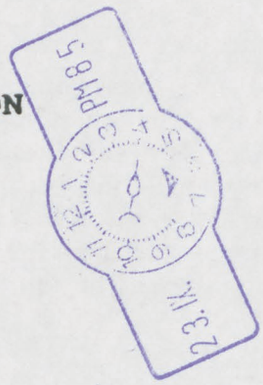
arrangements. If a guarantee were given, the PAC would inevitably scrutinise the circumstances in which it was given very carefully, and should the company fail, we would not come out of a PAC examination unscathed.

Last year, when seeking agreement to the BSC guaranteeing £5 million, Norman Lamont supported that proposal on the basis that it had "reasonable prospects of a once and for all settlement of the Forgemasters' problem". That guarantee has not worked; we must now be in danger of further drip-feeding an ailing patient with no clear prospect of recovery.

I should, therefore, be grateful if you would personally reconsider whether the giving of a further guarantee is the best course of action in the longer term. We need to be convinced on economic grounds that the company is viable. The apprent lack of enthusiasm of the banks and BSC to give the company further assistance is worrying. The prospect and form of a long term financial reconstruction - which is absolutely essential for SF's survival - is clouded with uncertainty. The track record of a new management team cannot alone be an adequate basis for giving a guarantee. If we are not convinced that the company can be viable we ought not to give a guarantee.

Yours
Nigel

NIGEL LAWSON



cc. P Unit.

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JU108
Secretary of State for Trade and Industry

20 September 1985

CONFIDENTIAL

David Norgrove Esq
Private Secretary to the
Prime Minister 10 Downing Street
London SW1

Dear David,

SHEFFIELD FORGEMASTERS

file without

Thank you for your letter of 16 September.

2 Officials here have had further discussions with Mr Warry of the Policy Unit and the Treasury in the light of the questions you raised. I enclose a note for the Prime Minister which summarises my Secretary of State's views on the reasons why Sheffield Forgemasters can be viable; the Policy Unit have already had the full paper on the company and its prospects prepared for the Department's Industrial Development Advisory Board.

3 Turning to your other points, it may be helpful if I set out the conditions which the Industrial Development Advisory Board agreed should be attached to the proposed guarantee.

a Guarantee of £10 million in favour of the Company's four bankers for twelve months, reducing to £7.5 million for a further twelve months and £5 million for the third and final year. At the end of three years the guarantee to be cancelled;

b the banks agree to make additional facilities available supported by the Government guarantee;

c no payment of deferred interest to be made to loan stockholders preferably for the lifetime of the guarantee but at a minimum during the first twelve months;

d monthly management accounts as required by the banks to be submitted to and carefully monitored by the Department of Trade and Industry with particular regard to explanations being given for significant budget variances;

e officials from the Department to be involved in regular review meetings with the bankers and the Directors of the Company;

f a full review to be undertaken by the Department at the end of the first twelve months incorporating an analysis of 1985/86 results against budget and an assessment of future prospects. The banks will conduct their own review and the removal of facilities would of course be their decision;

g a requirement that on the appointment of additional Directorate, particularly a Finance Director, the Department will wish to have a three year corporate plan submitted along with much more detailed short term forecasts. We would expect this information to be provided with some alacrity once the new Finance Director is in situ.

IDAB also suggested that the Department should consider incorporating into the guarantee the right to pull the plug on SF's business within the three year lifetime of the guarantee. Our Ministers agree that this provision should be included.

4 In discussions with the Number 10 Policy Unit, a number of possible extra conditions have been suggested, designed to ensure still more that the shareholders and banks do not gain from the guarantee. Before commenting on these, I should stress that the banks start from the position that the conditions recommended by IDAB are themselves unwelcome. If Ministers wish to save the company but also wish to impose further conditions, the risk increases of the company nonetheless going into liquidation because of the lack of agreement with the banks in the very short time available.

5 It is true that the banks - and other creditors - would "gain" if a Government guarantee were given in the sense that they would not suffer the immediate losses which would result from the alternative of immediate liquidation. But during the critical first months of any guarantee, the banks' position would in fact be weakening. The banks have been told that there is no question of our guarantee coming into play until all Sheffield Forgemasters' existing unsecured borrowing facilities are fully used, as well as the borrowing facilities guaranteed by BSC. At the same time, these unsecured facilities will be left further exposed by the revaluation of the company's net current asset base to more realistic levels which the new management are now carrying out.

6 In the light of the difficulties which already exist, therefore, the DTI's Industrial Development Unit has considered the extra conditions suggested by the Policy Unit. The proposal for a waiver of the deferred interest (of £2.57 million) which

falls due on 30 September on the £20 million Convertible Unsecured Loan Stock held by BSC, four banks and twenty City institutions, and a further interest holiday for the duration of the guarantee, is one which the IDU believe may be acceptable, since it is likely that the holders will already be writing off this stock in their books. There could well be difficulties, however, in bringing all the City institutions (who hold a quarter of the Stock) into line. Secondly, it has been suggested that the banks should not be repaid their £5 million term loan during the lifetime of the guarantee. There is a good chance that this condition could also be negotiable, particularly since the repayments do not fall due until 1987/88, which is the final year of the proposed guarantee's life. My Secretary of State is willing to accept that we should press hard for these two additional conditions in negotiating the terms of the guarantee; with the proviso that our negotiators must have some latitude and be free to settle for the conditions recommended by the Industrial Development Advisory Board if the new terms prove non-negotiable in the limited time available. However, there can obviously be no question of seeking to prevent the banks receiving their regular interest payments on the term loan or on the outstanding overdraft.

7 As regards the other suggestions made by the Policy Unit, we see no possibility of constructing an arrangement which would be acceptable to other creditors whereby any borrowings guaranteed by the Government were treated preferentially to other borrowings or creditors in the event of the liquidation of Sheffield Forgemasters. Any proposal to charge (either now or in the event of a capital reconstruction) for the Government guarantee would have the undesirable effect of making Sheffield Forgemasters less marketable as and when the business is turned round - whereas our objective is for the company, and BSC's holding in particular, to be disposed of as a going concern as soon as practicable.

8 Our officials have also discussed the question of liquidation, and particularly the possibility of putting the company into receivership instead of liquidation, with the Policy Unit: this has a bearing on the questions you raise about whether any part of Sheffield Forgemasters might be saved under new ownership if no Government guarantee were given. These are questions which have also been addressed by the Industrial Development Advisory Board. We have sought expert advice on these points, which confirms our view that liquidation is the only realistic option. This is for two main reasons: first, the terms of the Convertible Unsecured Loan Stock specifically rule out any security being granted to other creditors, and without that security nobody has the right to appoint a receiver. Secondly, our advice - from Sheffield Forgemasters' auditors (Deloitte's) and their merchant bank advisers - is that even if there were a

choice between liquidation and receivership, the proceeds of a receivership would be unlikely to be very much greater than those from liquidation. This means that there is no incentive for the institutional Convertible Unsecured Loan Stock holders (all of whose claims are subordinated to all other creditors and who would stand to receive nothing in the event of either liquidation or receivership) to agree to a change in the terms governing the Stock which might allow a receiver to be brought in. In any case, the legal complications mean that there is not enough time available to arrange this even if there were some prospect of advantage.

9 In the event of liquidation, there would be difficulties in disposing quickly of any but a small portion of Sheffield Forgemasters' business. Deloitte's view (which confirms the information which the Department has) is that buyers could probably be found only for the roll-making business (about 10% of turnover, employing around 700 people in Crewe, Glasgow and Edinburgh) and for the Staybrite division which makes rerolled bars, accounting for around 5% of turnover and employing some 160 people in Sheffield. The bulk (in terms of employment and turnover) of the core business in Sheffield could not be disposed of easily in discrete units, partly because of the current organisational structure but mainly because of the particular, often unique, nature of the business; and it is unlikely that an outside buyer could be found for it at this stage, given its poor past track record.

10 Lastly, you ask for an assurance that this guarantee would constitute the last of the Government's support for Sheffield Forgemasters. As my Secretary of State made clear in his letter of 11 September to the Chancellor, there is no question of further drip-feeding and Mr Kenny (the SF Chairman) understands and accepts this fully. If your question is whether a £10 million guarantee is enough, this was a matter specifically addressed by the Industrial Development Advisory Board who, after consideration, agreed that the arrangement as set out in (a) of paragraph 3 provided an appropriate level of support with an adequate contingency margin.

11 I hope this deals satisfactorily with all the detailed questions raised in your letter. My Secretary of State has asked me to emphasise that in his view the choice is relatively simple, if stark. Either we back the new SF management in their judgement that the business can be turned round (which the Industrial Development Advisory Board support) by providing the three year tapered guarantee; or we face the high probability that the firm goes into liquidation with the immediate loss of the great majority of the 3200 jobs involved, mainly in the Sheffield area.

12 I am sending a copy of this letter to Rachel Lomax in the Chancellor of the Exchequer's office.

Yours sincerely

John Mogg.

J F MOGG
Private Secretary

SHEFFIELD FORGEMASTERS

VIABILITY

The case on Sheffield Forgemasters' viability is examined in detail, with such supporting financial projections which the new management were able to prepare in the timescale, in the paper presented to the DTI Industrial Development Advisory Board on 15 August and the minutes of that discussion (copies of which have been provided to the No 10 Policy Unit and the Treasury).

2 The following considerations are relevant in support of the view that Sheffield Forgemasters can be viable:

Management

The company's chairman (Mr Tom Kenny, Chairman of GEI International) and deputy chairman since 1 January have made or planned far-reaching organisational and personnel changes. Since the arrival of a new managing director in late May (Mr Phillip Wright, a 43-year-old former main board director of Aurora, and experienced in the steel industry), Sheffield Forgemasters have announced 520 more redundancies, half involving the very expensive central services operation; reorganised the highly centralised internal structure into separate, accountable profit centres; overhauled uncommercial costing and pricing systems; begun to reduce the high level of excess stocks; greatly improved trading performance (see attached table).

Peter Warry reports not.

3 Mr Kenny has the confidence of the City (who were actively involved in his appointment in 1984). He and his team are confident that, if they are able to implement their plans, Sheffield Forgemasters can be turned round and made viable with a view to a capital reconstruction in the medium term. But they have not come to this view on the basis of unrealistically over-optimistic projections (as is indicated by comparing the actual trading loss for July 1985 of £234,000 with their projected loss for that month of £673,000).

Market prospects

4 Sheffield Forgemasters' management believe that their turnover can be increased by 40% over the next three years. This apparently large increase, in a slow growing market (mainly capital goods) which may be nearing the top of the cycle, is explained by

i. new pricing policies (new orders - many of which have very long lead times - have been found able to bear substantially higher prices than those secured under the previous regime);

ii. more aggressive marketing (new managing director; devolution of accountability for performance);

iii. better performance on delivery and customer services.

The firm's sensitivity to changes in the market will be much reduced by further increases in labour productivity and by renegotiated pay arrangements, so that employees are only paid for hours worked, rather than on the guaranteed weekly wage system inherited from BSC.

Industrial relations

5 The company's industrial relations under the previous management were poor. Since a strike in March (shortly after Mr Kenny's appointment and his announcement of proposed organisational changes and some additional redundancies), they have improved. The new managing director has kept trade unions and shop floor workers informed about the company's position. There was no strike when 520 further redundancies were announced in July; the unions have agreed to withdraw this year's pay claim and to negotiate on the flexible arrangements noted in 4 above. While Mr Kenny believes there is a small risk of a strike when the 520 redundancies are implemented, he judges that any strike would be short-lived.

Financial

6 Sheffield Forgemasters have produced detailed projections to cover their financial year July 1985 - June 1986; and more general forecasts for the three years of the proposed guarantee. The 1985/86 figures show a positive cash flow from January 1986, the month in which the company's overdraft is expected to peak. In summary, the three-year forecasts show

	1985/86 £m	1986/87 £m	1987/88 £m
Profit before interest	0.26	8.75	14.25
		(worst case : 4.5)	
Overdraft at year end	11.7	11.4	7.9
		(worst case : 13.5)	

SHEFFIELD FORGEMASTERS GROUP

	Loss Before Interest £000		Orders £000	
	1985	1984	1985	1984
January	352	850	13,921	8,116
February	373	827	12,338	11,315
March	835*	693	13,339	8,523
April	451	557	11,347	7,987
May	248	549	8,685	9,428
June	156	563	9,670	7,561
July	234	579	11,116	9,243
	2,649	4,618	80,416	62,173
An Improvement of	42%		29%	

* A strike

Steel Pt 14

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From the Minister of State for Industry

THE HON PETER MORRISON MP

NBPM.

J Milne Esq
General Secretary
Scottish Trades Union Congress
Middleton House
16 Woodlands Terrace
GLASGOW G3 6DF

16 September 1985

Dear J. Milne,

GARTCOSH AND RAVENSCRAIG STEELWORKS

Thank you for your letter of 22 August to Norman Tebbit requesting a meeting about BSC's decision to close Gartcosh steelworks.

Since you wrote you have of course had a meeting on this subject with the Prime Minister and the Secretary of State for Scotland. Under those circumstances it may be that your request for a meeting with a Minister from this Department has been reviewed.

I look forward to hearing from you.

Yours sincerely

PETER MORRISON

JO2AFR

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File

DG210A

10 DOWNING STREET

From the Private Secretary

16 September 1985

Dear John,

SHEFFIELD FORGEMASTERS

The Prime Minister has seen your Secretary of State's minute of 11 September to the Chancellor, and the Chancellor's of 3 September.

The Prime Minister wishes to consider this further after her return from the Middle East.

Could you please let me have for the weekend a fuller report on the Company and its prospects? The Prime Minister will no doubt wish to see as complete an analysis as possible to support the view that the Company can be viable. Can an assurance be given that no further Government support will be needed in the future? It would also be useful to have an assessment of how far parts of the Company would continue in being with new owners if Sheffield Forgemasters went into liquidation.

If a guarantee is eventually given, can it be arranged so that the banks and shareholders do not gain from it (for example, by making it a preferential creditor on liquidation and making a charge for granting the guarantee)? Would it be possible for DTI also to retain the right to withdraw the guarantee so as to limit the Government's eventual liability?

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

Yours sincerely,

David

David Norgrove

John Mogg, Esq.,
Department of Trade and Industry.

D88

I seem to remember Mr. Carlisle who has revolutionised Darlington — Simpson steel works in Darlington making some comment about this. I believe he could make a job of it. A telephone call to him for advice would be helpful. I visited his firm on Wed. It is doing very well with half the workforce it had when I was in 1977. Such is modern good management.

PRIME MINISTER

SHEFFIELD FORGEMASTERS

Sheffield forgemasters, a heavy forgemastering business in Sheffield, is seeking a further £10 million of overdraft guarantees from Government to stay afloat. Correspondence between Leon Brittan and the Chancellor is at Flag A.

Forgemasters employ 3,250 (four times the number at Gartcosh). The prospect of closure comes at a bad time, after Gartcosh and Handsworth; and immediately before the Party Conference.

The Chancellor wants to be assured that the company is viable before any further guarantee is given. DTI are not absolutely clear on this but say a guarantee will only be given on the clear understanding there was no more drip-feeding to come.

Peter Warry (Flag B) recommends that the company be allowed to go into liquidation. But he also recommends, if the Government do wish to offer further support, that this should be tied to a number of preconditions set out in his note. DTI are concerned that these conditions will be unacceptable to the company, the banks and to BSC. They think, if you ask them to operate to that remit, they will be left with an unworkable basis on which to negotiate, at a time when you are out of the country.

If you believe the political reasons for keeping the company open are compelling, you may as well agree now that DTI should give the guarantee on the basis they propose. (Though you might also ask them to consider, in consultation with the Treasury, the possibility of introducing the kinds of conditions Peter Warry mentions.)

Or, you could say you are not prepared to decide now, but wish to have a fuller report, with the arguments fully set out on both sides, for your return from the Middle East. It is possible, though unlikely, that the company could go into

Agreed. Carlisle see draft

liquidation before then. So this course runs a slight risk of early closure.

Finally, you may decide it would be better now to make clear that there is no further Government money available. It seems clear that an announcement of closure would follow quickly.

Which course would you prefer?

Mark Addison

MARK ADDISON

13 September 1985

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B

PRIME MINISTER 13 September 1985

SHEFFIELD FORGEMASTERS

Sheffield Forgemasters, the joint venture 'privatisation' of BSC and Johnson Firth Brown's (JFB) heavy forgings business, wants a further £10m of overdraft guarantees from the Government. This follows the £35m it originally cost to set up in 1982 and the further £5m guarantee given at the time of last year's Party Conference. Forgemasters employs 3,250 people mainly in the Sheffield area, but 500 of these will be made redundant irrespective.

Foregemasters has consistently lost money and the business environment in which it operates is not expected to change. But new management, brought in earlier this year, are restructuring the company and claim this will turn the losses into profits if only the Government will tide them over with guarantees.

Clearly the City are sceptical otherwise they would finance it themselves. BSC and JFB are equally reluctant to back it. Leon relies on the Industrial Development Advisory Board's view that it could be viable, but IDAB in turn were relying on the views of DTI officials. Indeed, even though Forgemaster's merchant bank adviser is a member of IDAB, they expressed some scepticism, and that they were being 'asked to take a flier' (with the taxpayers money).

It is the old DTI tune of a few dollars more and it will be alright. Last year's £5m has already disappeared. The new management may be good, but then presumably DTI were equally happy with the previous management when giving the original £35m of taxpayers money. It would be unfortunate for Leon to commence his tenure at the DTI on such a note.

If DTI are honest in claiming that these Phoenix companies are privatisation and not nationalisation, then Foregemaster should be treated as any other bankrupt private sector company. Realistically it has little chance of viability and DTI money - particularly if it is to come from the reserve - could be better spent elsewhere.

We recommend that the company be allowed to go into liquidation then, if there is a genuinely viable core business, it can rise as a true Phoenix from the ashes. (This was IDAB's preference but they were persuaded by DTI that as soon as the business was interrupted all the customers would be lost. This seems unrealistically pessimistic).

However, if in view of Gartcosh, you feel the Government cannot pretend that Foregemasters is a true private sector company, and that it must therefore be supported, then there are some sensible preconditions:

1. DTI should confirm that they believe that the business will be viable and that no further government support, in any form, will be needed in the future.

2. The guarantee should be so arranged that the banks and shareholders do not gain from it. (For example by making it a preferential creditor on liquidation and making a charge for granting the guarantee). DTI should also retain the right to withdraw the guarantee so as to limit the Government's liability if at any time Forgemasters becomes hopelessly unviable.

3. To put an end to these phoney privatisations, DTI should undertake to try and secure BSC's agreement to the sale by the end of 1986 of their shares in the profitable Allied Steel and Wire.

Peter Warry

PETER WARRY

A

CONFIDENTIAL

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

11 September 1985

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

Dear Nigel,

SHEFFIELD FORGEMASTERS

Thank you for your letter of 3 September.

2. I have looked carefully at all the papers about this case myself in the light of the reservations about the proposed Government guarantee you express in your letter. Peter Morrison has met Mr Tom Kenny, Sheffield Forgemasters' Chairman, and his merchant bank adviser Mr Peter Grant of Lazards. Peter explored with them the company's prospects for increased orders and profitability and their views on a capital reconstruction. He heard Mr Kenny's and Mr Grant's explanations of why neither the existing shareholders nor the banks and City institutions are willing to assist further. Peter tells me that it was quite clear from his discussions that, if we did not provide a guarantee, Mr Kenny would put the company into liquidation in the next few weeks.

3. I recognise all the difficulties in this case. However, I am convinced by what I have read and heard that Sheffield Forgemasters can be viable: the views of the Industrial Development Advisory Board are important in this respect. If this judgement is proved right, there are reasonable prospects for the financial reconstruction which I agree is essential for the longer term, even if its form is not yet clear. Without the guarantee now, SF has no future prospects at all.

4. I believe that the social and political consequences of not providing the guarantee (on the conditions the Industrial Development Advisory Board advised we should impose) are significant enough to cause real problems in an area already hard hit by major closures, particularly at a time when we face difficulties elsewhere in steel because of BSC's plans for Gartcosh.

JF2ACJ

CONFIDENTIAL

5. Turning now to specific points in your letter, you ask where the money would come from if the guarantee - or more precisely that part of it used to back additional borrowings - were called. If (as is very unlikely indeed) that were to happen this year, it would probably be so close to the end of the financial year that the prospects of my finding the money would be remote. For next year and beyond, I would of course be prepared to look for offsetting savings, but you will agree that, just before we embark on the PES round, it is impossible to make any promises when I do not know what my Department's provision will be.

6. You make two points about the risks to which you say we would be exposed if we gave a guarantee. I do not accept that other creditors might precipitate liquidation, in the next year or later. This could only happen if a creditor were not paid on time - which itself should not happen if the firm is enabled to raise additional overdraft - and if he were then able to secure an unsatisfied judgement debt from the county court. In that event, the Directors would either see to it that payment was made, or, from what we know of them, would already have put SF into liquidation themselves. On the matter of Government liability extending beyond £10 million in the event of SF's failure, I accept that some moral pressure could be exerted on the grounds that creditors had extended further support in the knowledge that the Government stood behind the company. But there is no question of the Government entering into a legal obligation of any sort; we have lived with this situation in every case where guarantees have been provided, and I see no reason to try in this instance to cross a bridge when we judge that we are unlikely even to come to it.

7. You also rightly draw my attention to the forthcoming PAC report. If that report is critical, the criticism will be based on the argument that SF's financial arrangements do not conform strictly to guidelines established in 1980 for the financing of Phoenix companies. But, as Sir Brian Hayes explained in his evidence to the Committee, these guidelines were never intended to be immutable rules. I am sure you would accept that we should be open to far stronger Parliamentary and political criticism if, given IDAB's judgement as well as our own on SF's prospects for viability, we were to bring about SF's collapse on the basis of a rigid adherence to these guidelines.

8. I conclude, therefore, that I should give a guarantee to Sheffield Forgemasters on the clear understanding - accepted by Mr Kenny without question - that there can be no more drip-feeding.

9. In view of the wider issues involved, I am sending a copy of this letter to the Prime Minister.

Yours, Leon

JF2ACJ

LEON BRITTAN

999-49

CCND

RESTRICTED

Prime Minister
Agree to write?
NBPM
JDW
6/9

JU950

PRIME MINISTER

RAVENSCRAIG

I have seen a copy of George Younger's minute to you of 20 August and the reply of 27 August, indicating that you see no need for a meeting at this stage. It may be helpful if I add a few comments.

2 I believe that we and BSC must simply accept the need for patient repetition of the case for closing the Gartcosh cold rolling mill. The commercial details are essentially a matter for BSC. But so long as this closure is, however misguidedly, linked in public debate with the future of Ravenscraig we shall need to support BSC in explaining that it is more likely to be beneficial than harmful to Ravenscraig.

3 BSC are confident that they are providing convincing answers to all the points that are being put to them about Gartcosh. BSC have provided the additional material which George Younger requested. This, together with the general line spelled out in George Younger's minute, makes a powerful case in support of the contention that the decision is sound and is not a first step

RESTRICTED

towards closing Ravenscraig.

4 I am sending copies of this minute to the Secretary of State for Scotland and the Lord President.

L. B.

L B

6 September 1985

Department of Trade & Industry

NAT IND PT 13

STEEL

VP77

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

3 September 1985

The Rt Hon Leon Brittan QC MP
Secretary of State for
Trade and Industry
Department of Trade and Industry
1 Victoria Street
London SW1

Dear Leon

SHEFFIELD FORGEMASTERS

Norman Lamont wrote to me on 22 August seeking approval to a Government guarantee for additional bank borrowing by Sheffield Forgemasters, following up Norman Tebbit's letter of 8 August.

I understand the reasons for wanting to give the new management additional time to bring the company back into profitability. But I have grave doubts about the economic viability of Sheffield Forgemasters. If a guarantee is given there still seems to be a distinct risk that the company's other creditors might precipitate liquidation in the next year. So much depends on whether the projected figures for increased turnover and a return to profit by the end of this year are achieved. Although I note there has been some increase in the company's order books, the evidence for the management's claims is thin.

Allowing the company to fold now would clearly be an embarrassment, but the failure of the company next year after we have given a guarantee hard on the heels of the earlier BSC guarantee would be even worse. In addition, the cost to the taxpayer could well exceed £10 million as the Government might have to pay off other uncovered debts if the company continued to trade under a Government guarantee. Moreover, I do not regard current provision for section 7 grant aid as available for rescue cases of this exceptional kind. This would leave the question to be addressed, if a guarantee were given and called, of where within DTI's provision such expenditure could be funded. There could be no question of calling on the Reserve.

There is also a potentially worrying Parliamentary dimension. The PAC is due to publish its report on BSC/Phoenix on 24 September which will include evidence taken on SF back in March. I understand that this report may be critical of the present financial

arrangements. If a guarantee were given, the PAC would inevitably scrutinise the circumstances in which it was given very carefully, and should the company fail, we would not come out of a PAC examination unscathed.

Last year, when seeking agreement to the BSC guaranteeing £5 million, Norman Lamont supported that proposal on the basis that it had "reasonable prospects of a once and for all settlement of the Forgemasters' problem". That guarantee has not worked; we must now be in danger of further drip-feeding an ailing patient with no clear prospect of recovery.

I should, therefore, be grateful if you would personally reconsider whether the giving of a further guarantee is the best course of action in the longer term. We need to be convinced on economic grounds that the company is viable. The apprent lack of enthusiasm of the banks and BSC to give the company further assistance is worrying. The prospect and form of a long term financial reconstruction - which is absolutely essential for SF's survival - is clouded with uncertainty. The track record of a new management team cannot alone be an adequate basis for giving a guarantee. If we are not convinced that the company can be viable we ought not to give a guarantee.

Yours
Nigel

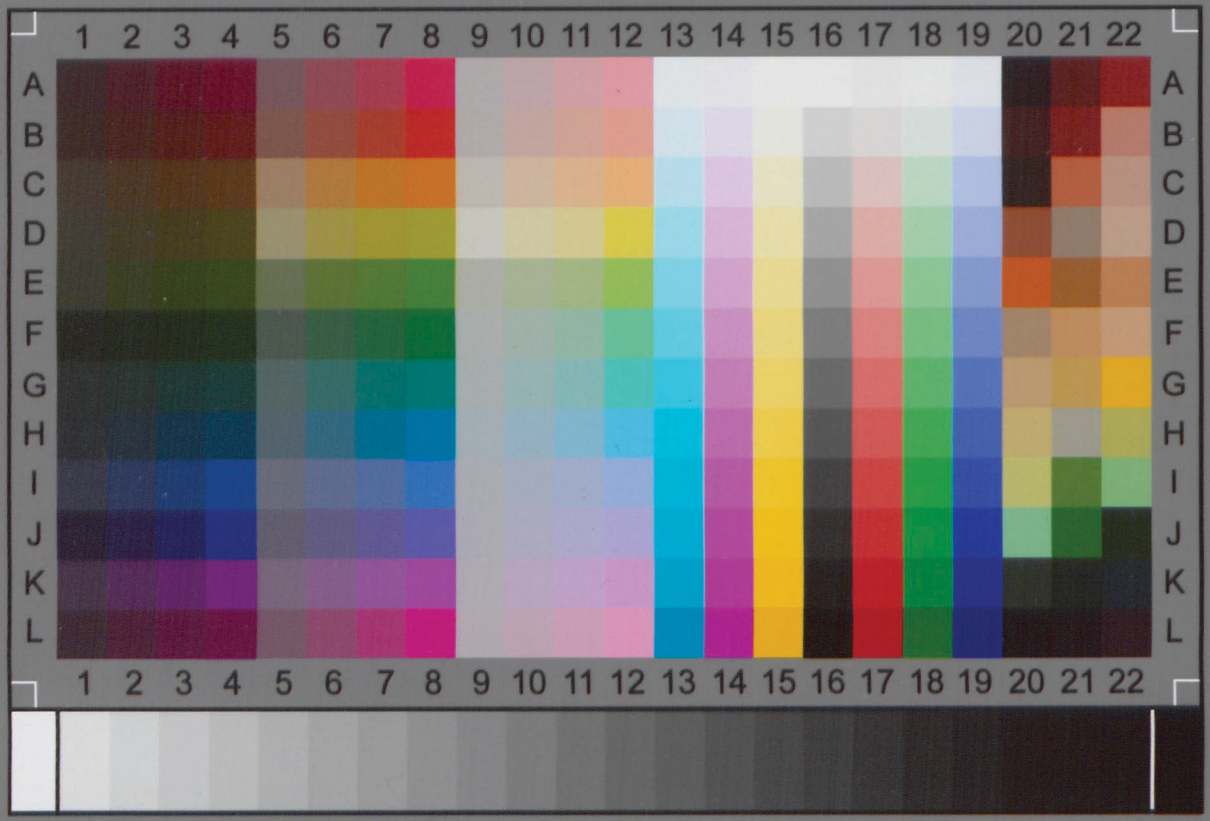
NIGEL LAWSON

PART 13 ends:-

MEA to Scottish Office 27.8.85

PART 14 begins:-

Ch/Ex to SS/DTI 3.9.85



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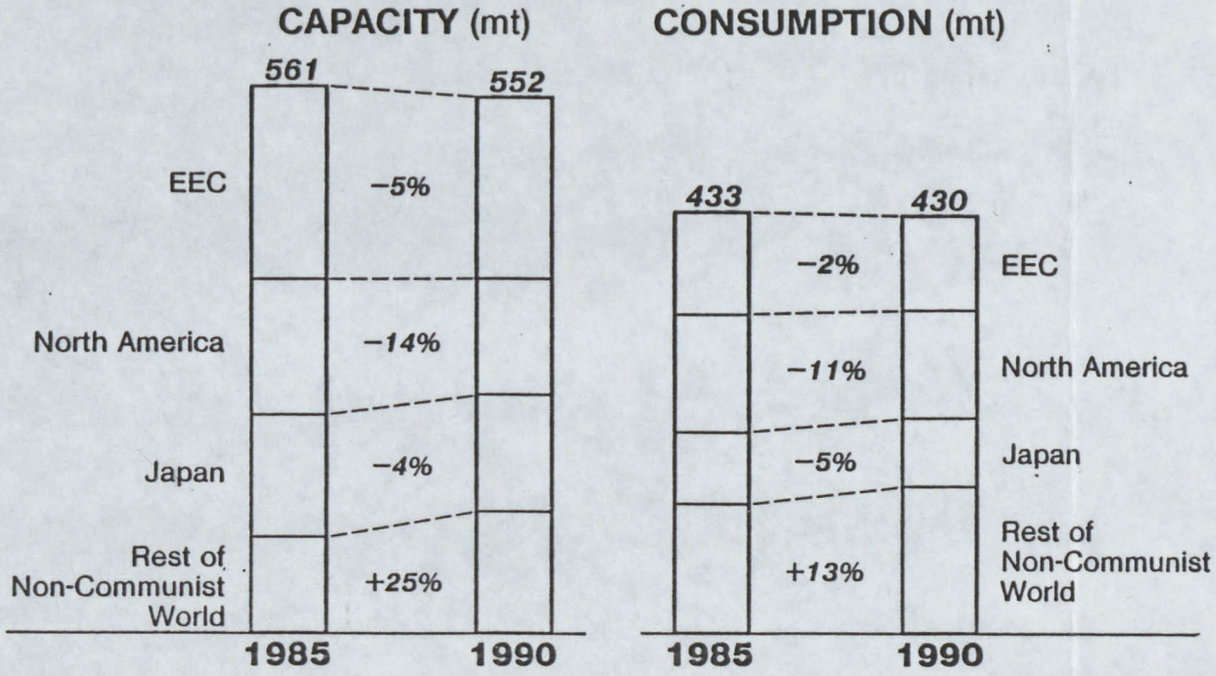
WORLD STEEL SUPPLY AND DEMAND OUTLOOK



Source: International Iron & Steel Institute