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PREM 19/2362

PART 15

MT

SECRET

CONFIDENTIAL FILING

# THE STEEL INDUSTRY

NATIONALISED INDUSTRIES

PART 1: JUNE 1979

PART 15: OCT 1987

PREM 19/2362

| Referred to | Date | Referred to | Date | Referred to | Date | Referred to | Date |
|---|---|---|---|---|---|---|---|
| ~~2.10.87~~ | | ~~10.11.88~~ | | | | | |
| ~~8.10.87~~ | | ~~21.11.88~~ | | | | | |
| ~~16.10.87~~ | | 23.11.88 | | | | | |
| ~~23.10.87~~ | | | | | | | |
| ~~27.10.87~~ | | | | | | | |
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| ~~11.11.87~~ | | | | | | | |
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| ~~31.10.88~~ | | | | | | | |
| 25.11.88 | | | | | | | |

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PART 15 ends:-

DT → HMT 23-11-88

PART 16 begins:-

PG & PM 2-12-88

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the department for Enterprise

~~SECRET AND MARKET SENSITIVE UNTIL 11.30 am ON 25/11/88~~ (then CONFIDENTIAL)

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

(1) Alex Allan Esq
Principal Private Secretary to
the Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CF-PM.
RHC
29/11

**Department of Trade and Industry**

1-19 Victoria Street
London SW1H 0ET

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Direct line 215 5422
Our ref PS2BPF
Your ref
Date 23 November 1988

Copy No 2 of 10

Dear Alex

**BRITISH STEEL PRICING AND THE OCTOBER TRADE FIGURES**

We discussed briefly on the telephone the line the Secretary of State might take on and after this Friday about the relationship between the trade figures and the Government's decision on the price of the British Steel issue. I thought it would be helpful if I set out more fully how my Secretary of State sees the position.

Following the meeting at Number Ten on 20 November my Secretary of State has been advised by the Solicitor General that taking the trade figures into account in his decision on the price for the British Steel offer would not imply a duty to disclose; indeed it was important to take the figures into account:

(1) to avoid allegations of bad faith;

(2) to establish the reasonableness of the price fixed.

As my separate record of his meetings with the Financial Secretary on 21 and 22 November shows, in seeking to ensure a successful sale my Secretary of State therefore took account not only of advice from external advisers, but his assessment of the market conditions likely to prevail during the offer period, including an assessment of the possible impact of the known October trade figures.

dti

the department for Enterprise

My Secretary of State fully accepts the Chancellor of the Exchequer's advice on the line to take between now and Friday. In the light of the Solicitor General's advice, however, he feels it important that he should be able to confirm on or after Friday, if pressed, that he had indeed taken account of the trade figures when he set the British Steel price. Much of course depends on the market: the less marked any downturn in response to the figures, the less likely we are to be under pressure from underwriters or others. But if in the extreme case we were subsequently to find ourselves defending against legal claims or accusations of bad faith, we would then need to assert - as was the case - that account was taken of the fact that the trade figures were far worse than expectations. My Secretary of State believes that we cannot dissemble if pressed in the meantime, without undermining that eventual defence. He would of course stand by the normal practice of not discussing the trade figures themselves and will give no indication of the quantum of any adjustment to the price.

My Secretary of State is concerned about defending the Government's good faith in proceeding with underwriting the issue with foreknowledge of the trade figures. It is evidently for the Law Officers to comment on the legal implications, if any, of confirming when necessary that the Secretary of State took account of the trade figures in setting the British Steel price. But unless there is legal advice against such confirmation he does not believe that, once the trade figure are out, he could tenably decline to answer a straight question as to whether he had or had not taken them into account in setting the issue price.

I have asked our officials to contact their opposite number in the Treasury and the Law Officer's Department urgently to discuss this.

Copies of this letter go to Paul Gray (Number Ten) and to Justin Gregg (Law Officer's Department), Robert Satchwell (PS/Mr Lamont) and David Moore in the Treasury.

Yours sincerely,

pp NEIL THORNTON
Principal Private Secretary

cc
Mr Mogg, IMM
Mr Whiting, EC2
Mr Moorey, Inf
Mr Higgins, Sols

the Enterprise initiative

**P&O**

With the Compliments of

Sir Jeffrey Sterling, C.B.E.
**Chairman**

Sir Jeffrey currently in Tokyo and has asked that I pass this on to you for information.

Grace Alcock

The Peninsular and Oriental Steam Navigation Company
79 Pall Mall, London SW1Y 5EJ
Telephone: 01-930 4343 Telex: 885551 Fax: 01-930 8572

Prepared

for

Sir Jeffrey Sterling CBE
as Special Advisor

to

the Secretary of State for
Trade & Industry

**Status Report on the Sale of Shares in Japan upon the Privatisation of British Steel**

November 21, 1988

International Finance Dept.

The Nomura Securities Co., Ltd.

## Outline of Offering

| | | |
|---|---|---|
| 1. | Number of offered shares: | two billion |
| 2. | Expected aggregate amount of offering: | approx. £2.5 - 2.8 billion |
| 3. | Japan portion: | 10% (200 million shares)<br>7.5% (150 million shares)<br>after 25% claw back |
| 4. | Claw back: | approx. 25% |
| 5. | Offering price: | to be determined on 23rd November. The price is translated into Yen denominated offering price on 5th December. |
| 6. | Prospective investors: | Residents of Japan and overseas based Japanese investors (except for U.S., Canada & Europe) |
| 7. | Offering period in Japan: | 5th December - 8th December |
| 8. | Unit of offering: | 1,000 shares |
| 9. | Trading starts: | 14:30 of 5th December (LDN) |
| 10. | Force Majoure: | None (applied if and only if the U.K. underwriting agreement is terminated) |

Expected > 7% yield
4 P/E
→ 140p

(Nippon Steel 193 P/E ratio) – next yr 60
Sumitomo 1490

# Timetable

| Date | U.K. | Japan |
|---|---|---|
| 22 Nov. | Signing of the Underwriting agreement and other related agreements | Signing of Agreement among underwriters |
| 23 Nov. | Impact Day | Public Holiday |
| 25 Nov. | | Signing of sub-underwriting agreement |
| 26 Nov. | | File 1st amendment to Securities Registration Statement |
| 29 Nov. | | Preliminary prospectus distributed in Japan |
| 2 Dec. | Payment from UK primary & sub-underwriters for firm placed shares | |
| 3 Dec. | (2 Dec. in London) Final allocation | File 2nd amendment to SRS |
| 5 Dec. | Trading starts | Registration becomes effective Offering strats |
| 8 Dec. | | Offering ends |

# NOMURA'S MARKETING STRATEGY

## As a British Privatisation Progrmme

a) Favourable image among Japanese investors toward the British privatisation programmes. All the privatisation programmes lead managed by Nomura have been successfully completed.

b) Since the payment is made in two installments, the effective dividend yield would be doubled to investors.

## As a British Company

a) Japanese nationals' respect and admiration toward Mrs. Thatcher's successful economic policies

b) EC unification works in favour of enlargement of business opportunities for British companies as a whole.

## As an Industry

a) British steel industry as one of the successful examples of Britain's recovered competitiveness against other European competitors

b) Appreciation of shares of Japanese steel industry. Extensive appetite to steel industry shares by investors.

## As a Company

a) High productivity

b) Growth prospective

c) Dominant supplier in Northern Europe

d) Experienced management capable of exploiting opportunities

SUBJECT CE MASTER

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FILE JD

# 10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

20 November, 1988.

**BRITISH STEEL AND THE OCTOBER TRADE FIGURES**

The Prime Minister held a meeting this morning to discuss the joint paper by officials dated 19 November. Those present were the Chancellor of the Exchequer, your Secretary of State, the Chancellor of the Duchy of Lancaster, and the Solicitor General.

I should be grateful if you and copy recipients would ensure that no other copies of this letter are taken without authority from this office.

Summing up the discussion the Prime Minister said it was agreed that Options 1, 2 and 4 in the paper by officials were not acceptable. The approach to be followed should be based on Option 3. The Government should proceed with the flotation of British Steel on the existing timetable, with nothing being said to the underwriters about the trade figures. It was agreed that the issue of disclosure of the trade figures was separate from whether they were material and that, based on the appropriate construction of Clause 6(d) of the Underwriting Agreement, there was a respectable and honourable legal case for proceeding with the offer without contemplating any payment of compensation to the underwriters; that would only arise if a legal case against the Government was established. It would, however, be appropriate in fixing the issue price for account to be taken of the need to ensure that the issue should be a success; further consideration should be given in consultation with the Law Officers to the way in which that action should be recorded. The meeting had also noted that the final decision on whether or not to pull the offer need not be taken until 3 December, by which time market reaction to the trade figures would be clearly visible. Although there was no question of changing the form of the Underwriting Agreement for the purposes of the British Steel flotation, there was a case for considering whether its form should be changed for the purposes of future privatisations.

NOK
Neil Thornton subsequently told me no deadline was 2 December. = we agreed there was no need to amend the formal record.
RCC 24/11

Copies of this letter go to the Private Secretaries of those present at the meeting.

(PAUL GRAY)

Neil Thornton, Esq.,
Department of Trade and Industry.

PERSONAL - SECRET AND MARKET SENSITIVE

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10 DOWNING STREET
LONDON SW1A 2AA

*From the Private Secretary*

20 November 1988

I enclose a draft record of today's discussion. Before I issue this, I should be grateful for any comments you have. It would be helpful to have these during the course of the morning.

PAUL GRAY

Michael Saunders, Esq.,
Law Officers' Department

PERSONAL - SECRET AND MARKET SENSITIVE

PRIME MINISTER

BRITISH STEEL AND THE OCTOBER TRADE FIGURES

I attach the paper for tomorrow's meeting that has been prepared jointly during the day by DTI and Treasury officials.

Meeting arrangements

I have asked the Chancellor to be here by about 9.45 am, so that you can have an initial word with him. I suggest you use this not to talk primarily about the British Steel options, but rather to discuss the right response to the trade figures; should we be putting up interest rates by a further 1% and if so when?

I am not sure what the Chancellor's latest thinking on this is. But my impression is that, although his initial instinct was to go for an interest rate increase concurrent with the trade figures announcement, he is now thinking it would be better to wait for the market reaction to the figures.

I am hoping to get a view from Eddy George before tomorrow's meeting of his preferred approach.

As we discussed yesterday, my present view is that we should be seriously considering a 1% interest rate increase. And if so, it would be important to avoid waiting too long.

The main meeting is scheduled for 10.15 am. Others joining then are Lord Young, Mr Newton and the Solicitor General. I have asked the Solicitor to discuss the position with the Attorney General, so that he will be speaking on their joint behalf. You will need to leave by, say, 11.35 am for your Dulwich appointment.

The British Steel problem

The note by officials identifies four Options, and sets out the pros and cons. The Law Officers' views are clearly going to be crucial.

You might like to handle the discussion in the following way:

- Start with Option 4 - amending the legal agreements. This does not seem to be a starter and can be quickly disposed of.

- Then go through Options 1, 2 and 3 in that order.

- The more I look at Option 1, the more difficult it looks. I gather Lord Young was initially attracted to this but now sees problems. The Chancellor is likely to be vehemently opposed to it. It would however fully meet the Law Officers' concerns.

- Option 2 - postponing the offer for a period - also raises major problems. It, too, would meet the Law Officers' concerns, but however it was handled it would be bound to cause the market to fear the worst on the trade figures. Management of the markets could be extremely difficult.

- That leaves Option 3 - proceeding with the offer, but with some sort of intention either to pull the offer later or offer compensation if market circumstances required it. This is the Option that will worry the Law Officers, and you will need to see on what terms they would find it acceptable. I think this is now clearly Lord Young's preferred Option and he will be reasonably relaxed about contemplating compensation. Conversely, this aspect is what will worry the Chancellor. But it does seem to me that some variant of Option 3 is the front runner; not because of its inherent attractions but because it is less bad than all the others.

Derek Ken

Duty Clerk

PAUL GRAY
19 November 1988

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Derek Ken
Duty Clerk

PAUL GRAY
19 November 1988

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COPY NO 1 OF 19.

SECRET AND MARKET SENSITIVE
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BRITISH STEEL AND THE OCTOBER TRADE FIGURES

Paper by Officials

The Problem

The British Steel privatisation timetable requires the price to be set and underwriting to be completed during Monday - Wednesday next week. The October trade figures are published on Friday. It is now known to Government that these figures will show a record current account deficit of £2.4 billion. The Solicitor General's preliminary advice is understood to be that, because this is outside the range reasonably expected in the market, the legal agreements associated with the sale impose on the Government an obligation to disclose these figures to the underwriters and others (copy of relevant clause 6(d) attached at Annex A). This disclosure would however conflict with the established principle that no one outside Government can be put in a position where they have this market-sensitive information, unless it is released to the market as a whole.

The Options

2. Four options are set out in the annexes:

Option 1 Bring forward the public release of the main features of the October trade figures to Monday 21 November.

Option 2 Announce postponement of the offer for a week or, more probably, until next year.

Option 3 Proceed to offer on current timetables but with intention to pull offer or compensate if market circumstances so require.

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Option 4 Seek to amend the legal agreements.

Background

3. The present timetable is as follows:

Monday 21 November Presentation to primary underwriters. Substantive pricing discussions with advisers.

Tuesday 22 November Price to be set by about 3 pm, followed immediately by primary underwriting competiton. All legal agreements to be signed by about 8pm.

Wednesday 23 November Impact Day. Press Conference at 10.30 am, when the Secretary of State will announce the price.

Friday 25 November October trade figures released at 11.30 am. Prospectus widely available. Application forms in Press.

Friday 2 December 10.00 am Offer closes: latest point for pulling the offer.

Monday 5 December Dealings start.

Monday 12 December Renounceable Letters of Acceptance (enabling private shareholders to deal) despatched.

4. In assessing the options:

(i) Officials have taken it as axiomatic that there can be no selective disclosure of the trade figures.

(ii) Officials have of course been precluded from consulting financial advisers on the privatisation.

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(iii) Officials have not had final advice from the Law Officers on Option 3.

Department of Trade and Industry
HM Treasury
19 November 1988

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Option 1

Bring forward public release of the trade figures to Monday 21 November

- Imports, exports, trade balance, invisibles balance and the current account could be placed directly on the Topic screen and given to news agencies as early as possible on Monday.

- Early and exceptional release of the trade figures would be explained by the Government's obligation under the terms of the British Steel flotation to disclose any knowledge which may be material to the flotation.

The announcement on Topic and to the news agencies could read:

"DTI is issuing a press release which reads as follows:

Trade Figures

Because of the Government's obligation under the terms of the legal agreements relating to the British Steel flotation to disclose any knowledge which may be material to the flotation, the Government is exceptionally announcing the aggregate trade figures ahead of the due release date. The current account for October, seasonally adjusted, is estimated to have been in deficit by £2.4 billion. Exports, seasonally adjusted on a balance of payments basis, were valued at £6.8 billion and imports at £9.7 billion so that trade in goods was in deficit by £2.9 billion. The balance on invisibles is projected to have been in surplus by £0.5 billion. The detailed disaggregated trade figures will be published, as usual, at 11.30 am on Friday 25 November."

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PROs

- Allows the flotation to go ahead at a price reflecting market conditions after announcement of the trade figures.

- Honours beyond all doubt the Government's obligations to the underwriters, the company and its directors in the legal agreements, without incurring the legally and morally unacceptable disadvantages of selective disclosure.

- Absolves the Government from accusations of bad faith, particularly in the event of the underwriters being left with the stock.

CONS

- Risk that the early and exceptional release of very bad trade figures, despite the explanation, could destabilise both the equity and foreign exchange markets, perhaps severely.

- Risk that destabilised markets could result in the failure of the flotation to be underwritten with the consequent postponement of the flotation.

- The price would have to be fixed before the market settled, and might be at a level which over-compensated for the effect of the trade figures to ensure successful underwriting.

- Despite use of the Topic screen and news agencies, accusations that departure from the long-pre-announced release date had unfairly disadvantaged some investors.

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- Timing ahead of State Opening of Parliament

- Would intensify pressure on Government to give advance indication of economic statistics, especially during periods of economic uncertainty. Might oblige Government to consider disclosure of all bad economic news ahead of sales of any kind eg gilts.

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Option 2

Announce Postponement of the Offer

There could be an announcement on Monday that, for what we would have to describe as "technical" reasons, the offer was being postponed for a week or more probably, until next year. The Government would reaffirm its commitment to privatise British Steel.

PROs

1. There could be no accusation of bad faith from, or threat of, litigation by the underwriters.

2. In the case of a week's delay the market would be given slightly more time to settle should there be severe disruption as a result of the figures.

CONs

3. There would be damage to the confidence in the privatisation programme.

4. Postponement would undermine the confidence of the underwriters and the sponsor to the offer (Montagu's) and could undermine the market's confidence in the offer.

5. The announcement of postponement could excite speculation about poor trade figures possibly precipitating severe market volatility.

6. Since there could be no reference to the trade figures we could offer no credible explanation for the delay.

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7. A week's delay would present severe logistical problems. We might find on advice that it is indeed impossible. It would risk severe criticism since many investors might be unable to deal for up to three weeks (renounceable letters of acceptance would be despatched on or around 19 December).

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Option 3

Proceed to offer without early announcement of trade figures but taking them into account in setting the price and declaring that all relevant factors have been taken into account.
In order to provide a defence against subsequent charges that the Government had acted in bad faith, the Government would need to have it in mind that, if the market's reactions to the trade figures so required, it would either pull the offer or introduce a scheme of compensation.

In addition, the Secretary of State would

(a) in answer to questions at the Impact Day press conference on Wednesday, say that all relevant factors had been taken into account in setting the price. If asked if these included the forthcoming trade figures, he would reply that the trade figures were obviously among the many factors tkaen into account;

(b) when the trade figures are announced on Friday, say that he had lowered the price, possibly by a specific amount, in relation to the figure that would otherwise have been chosen, in order to take the trade figures fully into account.

PROs

1. Little likelihood of destabilising the equity and foreign exchange markets.

2. We have a good chance of getting the issue underwritten.

3. The announcement of the trade figures would be unchanged.

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4. In the event of a less severe reaction to the trade figures from the Stock market, there is a fair chance of the sale proceeding satisfactorily provided the market perceives the price as reasonable in all the circumstances.

CONs

1. The underwriters could still accuse the Government of bad faith and breach of obligations under the legal agreements.

2. If the markets react very unfavourably to the trade figures, the underwriters would very probably seek to invoke the termination procedures.

3. Any subsequent pulling of the offer would be damaging both to British Steel's prospects for privatisation and to the prospects of underwriting future sales.

4. HMG's exposure in any compensation scheme could be very large - and sub-underwriters who are also institutional investors would have every interest in maximising it. At 125p the proceeds would be £2.5 billion. A 5% fall could cost £125 million. The practical details of a compensation scheme would need to be worked over in considerable detail.

5. The offer period may well coincide with a period of maximum market turbulence if the market picked up subsequently and HMG could be accused of overcompensating the underwriters.

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Option 4

Amend the Legal Agreements

We could seek to amend the legal agreements so as to exonerate HMG from any obligation to disclose the trade figures in advance of publication. The Solicitor General's advice is that explicit reference would have to be made to the trade figures in the agreements themselves.

PROs

1. Satisfactory amendments, provided they are agreed, would allow the flotation to proceed.

CONs

1. It is extremely unlikely that at this late stage, the agreement of all the other parties could be secured.

2. Other parties could hardly fail to realise from our seeking to amend the agreement that the trade figures were bad.

3. This would amount to selective disclosure.

4. When the trade figures were announced, there would be accusations of Government bad faith.

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Secretary of State and the Company with respect to such costs, charges or expenses.

5.05 If VAT is properly chargeable on any payment by the Secretary of State under Clause 5.04, the Secretary of State agrees that the amount of such payment shall be an amount exclusive of VAT and that the Secretary of State shall in addition pay an amount representing VAT thereon.

6. WARRANTIES BY THE SECRETARY OF STATE

The Secretary of State warrants and represents to and undertakes with each of the Underwriters (to the intent that such warranties, representations and undertakings shall remain in full force notwithstanding completion of the Offers and/or the UK Offer and the sale of the Offered Shares and/or the UK Offered Shares pursuant thereto, and notwithstanding the provisions of paragraph 3(k) of the section of Part XII of the Prospectus headed "Terms and Conditions of Application") that:

(a) each of the Offered Shares will, subject to any interest of, or derived from, any purchaser of such shares from the Secretary of State under the Offers, be beneficially owned by the Secretary of State, free of any mortgage, charge, lien or encumbrance until the Allocation Announcement;

(b) the Secretary of State has the power:

(i) to make the UK Offer (through the agency of Samuel Montagu) and to perform the obligations on his part arising thereunder;

(ii) to enter into and perform the obligations on his part contained in this Agreement and in connection with the Offers; and

(iii) to authorise Samuel Montagu to act on his behalf for the purpose of, and in connection with, the making of the UK Offer and the co-ordination and supervision of the Offers and for all purposes which are reasonably incidental thereto;

(c) all statements of fact contained in the parts of the Prospectus for which the Secretary of State alone accepts responsibility, as specified in section 22(x) of Part XI of the Prospectus, are true and accurate in all material respects and are not misleading in any material respect and all statements of intention by HM Government in such parts of the Prospectus are honestly made;

(d) there is no fact known (or which should on reasonable and proper enquiry within HM Government have been known) to the Secretary of State which is not disclosed in the Prospectus and which renders the Prospectus or any statement in it untrue or misleading to a material extent or which, in the reasonable

M

opinion of the Secretary of State, having regard to his knowledge of the Company and its subsidiaries and to matters which should on reasonable and proper enquiry within HM Government have been known to him, is or is likely to be material for disclosure to a prospective purchaser of Ordinary Shares pursuant to the UK Offer; and

(e) all necessary consents, approvals, authorisations and other orders of any Minister of the Crown and of all regulatory authorities in the United Kingdom (other than as referred to in Clause 2.01) required for or in connection with the Offers have been given.

7. INDEMNITIES BY THE SECRETARY OF STATE

7.01 The Secretary of State hereby undertakes with each of the Underwriters (for themselves and for the benefit of the several Priority Applicants and, in the case of liabilities arising pursuant to the matters referred to in paragraph (v) below, each person who controls any Underwriter (or Priority Applicant) within the meaning of either Section 15 of the Securities Act of 1933 or Section 20 of the Securities Exchange Act of 1934 of the US) to hold each of the persons to or for whose benefit such undertaking is given fully and effectively indemnified from and against:

(a) any and all losses, liabilities and damages which such person may suffer and all costs and expenses (other than those comprised in (b) below) which such person may properly and reasonably suffer or incur; and

(b) all liability in respect of any claim or action which may be brought or threatened to be brought against such person (whether or not such claim or action is successful, compromised or settled) including (but without prejudice to the generality of the foregoing) all costs and expenses which such person may properly and reasonably suffer or incur in disputing any such claim or action,

in each case arising out of, in relation to, or by reason of:

(i) the Prospectus not containing (or in the case of the indemnity specified in Clause 7.01(b) being alleged not to contain) in the context of the UK Offer all material information with regard to the Company and its subsidiaries or any statement therein being (or in the case of the indemnity specified in Clause 7.01(b) being alleged to be) untrue, incorrect or misleading in any material respect;

(ii) any misrepresentation (or in the case of the indemnity specified in Clause 7.01(b) any alleged misrepresentation) (by whomsoever made) contained in the Prospectus;

(iii) any breach (or in the case of the indemnity specified in Clause 7.01(b) any alleged breach) of the warranties, representations or

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the department for Enterprise

COPY NO 1 OF 19.

SECRET AND MARKET SENSITIVE

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# BRITISH STEEL AND THE OCTOBER TRADE FIGURES

## Paper by Officials

## The Problem

The British Steel privatisation timetable requires the price to be set and underwriting to be completed during Monday - Wednesday next week. The October trade figures are published on Friday. It is now known to Government that these figures will show a record current account deficit of £2.4 billion. The Solicitor General's preliminary advice is understood to be that, because this is outside the range reasonably expected in the market, the legal agreements associated with the sale impose on the Government an obligation to disclose these figures to the underwriters and others (copy of relevant clause 6(d) attached at Annex A). This disclosure would however conflict with the established principle that no one outside Government can be put in a position where they have this market-sensitive information, unless it is released to the market as a whole.

## The Options

2. Four options are set out in the annexes:

Option 1 Bring forward the public release of the main features of the October trade figures to Monday 21 November.

Option 2 Announce postponement of the offer for a week or, more probably, until next year.

Option 3 Proceed to offer on current timetables but with intention to pull offer or compensate if market circumstances so require.

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Option 4 Seek to amend the legal agreements.

Background

3. The present timetable is as follows:

Monday 21 November Presentation to primary underwriters. Substantive pricing discussions with advisers.

Tuesday 22 November Price to be set by about 3 pm, followed immediately by primary underwriting competiton. All legal agreements to be signed by about 8pm.

Wednesday 23 November Impact Day. Press Conference at 10.30 am, when the Secretary of State will announce the price.

Friday 25 November October trade figures released at 11.30 am. Prospectus widely available. Application forms in Press.

Friday 2 December 10.00 am Offer closes: latest point for pulling the offer.

Monday 5 December Dealings start.

Monday 12 December Renounceable Letters of Acceptance (enabling private shareholders to deal) despatched.

4. In assessing the options:

(i) Officials have taken it as axiomatic that there can be no selective disclosure of the trade figures.

(ii) Officials have of course been precluded from consulting financial advisers on the privatisation.

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(iii) Officials have not had final advice from the Law Officers on Option 3.

Department of Trade and Industry
HM Treasury
19 November 1988

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Option 1

Bring forward public release of the trade figures to Monday 21 November

- Imports, exports, trade balance, invisibles balance and the current account could be placed directly on the Topic screen and given to news agencies as early as possible on Monday.

- Early and exceptional release of the trade figures would be explained by the Government's obligation under the terms of the British Steel flotation to disclose any knowledge which may be material to the flotation.

The announcement on Topic and to the news agencies could read:

"DTI is issuing a press release which reads as follows:

Trade Figures

Because of the Government's obligation under the terms of the legal agreements relating to the British Steel flotation to disclose any knowledge which may be material to the flotation, the Government is exceptionally announcing the aggregate trade figures ahead of the due release date. The current account for October, seasonally adjusted, is estimated to have been in deficit by £2.4 billion. Exports, seasonally adjusted on a balance of payments basis, were valued at £6.8 billion and imports at £9.7 billion so that trade in goods was in deficit by £2.9 billion. The balance on invisibles is projected to have been in surplus by £0.5 billion. The detailed disaggregated trade figures will be published, as usual, at 11.30 am on Friday 25 November."

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PROs

- Allows the flotation to go ahead at a price reflecting market conditions after announcement of the trade figures.

- Honours beyond all doubt the Government's obligations to the underwriters, the company and its directors in the legal agreements, without incurring the legally and morally unacceptable disadvantages of selective disclosure.

- Absolves the Government from accusations of bad faith, particularly in the event of the underwriters being left with the stock.

CONS

- Risk that the early and exceptional release of very bad trade figures, despite the explanation, could destabilise both the equity and foreign exchange markets, perhaps severely.

- Risk that destabilised markets could result in the failure of the flotation to be underwritten with the consequent postponement of the flotation.

- The price would have to be fixed before the market settled, and might be at a level which over-compensated for the effect of the trade figures to ensure successful underwriting.

- Despite use of the Topic screen and news agencies, accusations that departure from the long-pre-announced release date had unfairly disadvantaged some investors.

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- Timing ahead of State Opening of Parliament

- Would intensify pressure on Government to give advance indication of economic statistics, especially during periods of economic uncertainty. Might oblige Government to consider disclosure of all bad economic news ahead of sales of any kind eg gilts.

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Option 2

Announce Postponement of the Offer

There could be an announcement on Monday that, for what we would have to describe as "technical" reasons, the offer was being postponed for a week or more probably, until next year. The Government would reaffirm its commitment to privatise British Steel.

PROs

1. There could be no accusation of bad faith from, or threat of, litigation by the underwriters.

2. In the case of a week's delay the market would be given slightly more time to settle should there be severe disruption as a result of the figures.

CONs

3. There would be damage to the confidence in the privatisation programme.

4. Postponement would undermine the confidence of the underwriters and the sponsor to the offer (Montagu's) and could undermine the market's confidence in the offer.

5. The announcement of postponement could excite speculation about poor trade figures possibly precipitating severe market volatility.

6. Since there could be no reference to the trade figures we could offer no credible explanation for the delay.

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7. A week's delay would present severe logistical problems. We might find on advice that it is indeed impossible. It would risk severe criticism since many investors might be unable to deal for up to three weeks (renounceable letters of acceptance would be despatched on or around 19 December).

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Option 3

Proceed to offer without early announcement of trade figures but taking them into account in setting the price and declaring that all relevant factors have been taken into account.
In order to provide a defence against subsequent charges that the Government had acted in bad faith, the Government would need to have it in mind that, if the market's reactions to the trade figures so required, it would either pull the offer or introduce a scheme of compensation.

In addition, the Secretary of State would

(a) in answer to questions at the Impact Day press conference on Wednesday, say that all relevant factors had been taken into account in setting the price. If asked if these included the forthcoming trade figures, he would reply that the trade figures were obviously among the many factors tkaen into account;

(b) when the trade figures are announced on Friday, say that he had lowered the price, possibly by a specific amount, in relation to the figure that would otherwise have been chosen, in order to take the trade figures fully into account.

PROs

1. Little likelihood of destabilising the equity and foreign exchange markets.

2. We have a good chance of getting the issue underwritten.

3. The announcement of the trade figures would be unchanged.

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4. In the event of a less severe reaction to the trade figures from the Stock market, there is a fair chance of the sale proceeding satisfactorily provided the market perceives the price as reasonable in all the circumstances.

CONs

1. The underwriters could still accuse the Government of bad faith and breach of obligations under the legal agreements.

2. If the markets react very unfavourably to the trade figures, the underwriters would very probably seek to invoke the termination procedures.

3. Any subsequent pulling of the offer would be damaging both to British Steel's prospects for privatisation and to the prospects of underwriting future sales.

4. HMG's exposure in any compensation scheme could be very large - and sub-underwriters who are also institutional investors would have every interest in maximising it. At 125p the proceeds would be £2.5 billion. A 5% fall could cost £125 million. The practical details of a compensation scheme would need to be worked over in considerable detail.

5. The offer period may well coincide with a period of maximum market turbulence if the market picked up subsequently and HMG could be accused of overcompensating the underwriters.

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Option 4

Amend the Legal Agreements

We could seek to amend the legal agreements so as to exonerate HMG from any obligation to disclose the trade figures in advance of publication. The Solicitor General's advice is that explicit reference would have to be made to the trade figures in the agreements themselves.

PROs

1. Satisfactory amendments, provided they are agreed, would allow the flotation to proceed.

CONs

1. It is extremely unlikely that at this late stage, the agreement of all the other parties could be secured.

2. Other parties could hardly fail to realise from our seeking to amend the agreement that the trade figures were bad.

3. This would amount to selective disclosure.

4. When the trade figures were announced, there would be accusations of Government bad faith.

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Secretary of State and the Company with respect to such costs, charges or expenses.

5.05 If VAT is properly chargeable on any payment by the Secretary of State under Clause 5.04, the Secretary of State agrees that the amount of such payment shall be an amount exclusive of VAT and that the Secretary of State shall in addition pay an amount representing VAT thereon.

6. WARRANTIES BY THE SECRETARY OF STATE

The Secretary of State warrants and represents to and undertakes with each of the Underwriters (to the intent that such warranties, representations and undertakings shall remain in full force notwithstanding completion of the Offers and/or the UK Offer and the sale of the Offered Shares and/or the UK Offered Shares pursuant thereto, and notwithstanding the provisions of paragraph 3(k) of the section of Part XII of the Prospectus headed "Terms and Conditions of Application") that:

(a) each of the Offered Shares will, subject to any interest of, or derived from, any purchaser of such shares from the Secretary of State under the Offers, be beneficially owned by the Secretary of State, free of any mortgage, charge, lien or encumbrance until the Allocation Announcement;

(b) the Secretary of State has the power:

(i) to make the UK Offer (through the agency of Samuel Montagu) and to perform the obligations on his part arising thereunder;

(ii) to enter into and perform the obligations on his part contained in this Agreement and in connection with the Offers; and

(iii) to authorise Samuel Montagu to act on his behalf for the purpose of, and in connection with, the making of the UK Offer and the co-ordination and supervision of the Offers and for all purposes which are reasonably incidental thereto;

(c) all statements of fact contained in the parts of the Prospectus for which the Secretary of State alone accepts responsibility, as specified in section 22(x) of Part XI of the Prospectus, are true and accurate in all material respects and are not misleading in any material respect and all statements of intention by HM Government in such parts of the Prospectus are honestly made;

(d) there is no fact known (or which should on reasonable and proper enquiry within HM Government have been known) to the Secretary of State which is not disclosed in the Prospectus and which renders the Prospectus or any statement in it untrue or misleading to a material extent or which, in the reasonable

opinion of the Secretary of State, having regard to his knowledge of the Company and its subsidiaries and to matters which should on reasonable and proper enquiry within HM Government have been known to him, is or is likely to be material for disclosure to a prospective purchaser of Ordinary Shares pursuant to the UK Offer; and

(e) all necessary consents, approvals, authorisations and other orders of any Minister of the Crown and of all regulatory authorities in the United Kingdom (other than as referred to in Clause 2.01) required for or in connection with the Offers have been given.

7. INDEMNITIES BY THE SECRETARY OF STATE

7.01 The Secretary of State hereby undertakes with each of the Underwriters (for themselves and for the benefit of the several Priority Applicants and, in the case of liabilities arising pursuant to the matters referred to in paragraph (v) below, each person who controls any Underwriter (or Priority Applicant) within the meaning of either Section 15 of the Securities Act of 1933 or Section 20 of the Securities Exchange Act of 1934 of the US) to hold each of the persons to or for whose benefit such undertaking is given fully and effectively indemnified from and against:

(a) any and all losses, liabilities and damages which such person may suffer and all costs and expenses (other than those comprised in (b) below) which such person may properly and reasonably suffer or incur; and

(b) all liability in respect of any claim or action which may be brought or threatened to be brought against such person (whether or not such claim or action is successful, compromised or settled) including (but without prejudice to the generality of the foregoing) all costs and expenses which such person may properly and reasonably suffer or incur in disputing any such claim or action,

in each case arising out of, in relation to, or by reason of:

(i) the Prospectus not containing (or in the case of the indemnity specified in Clause 7.01(b) being alleged not to contain) in the context of the UK Offer all material information with regard to the Company and its subsidiaries or any statement therein being (or in the case of the indemnity specified in Clause 7.01(b) being alleged to be) untrue, incorrect or misleading in any material respect;

(ii) any misrepresentation (or in the case of the indemnity specified in Clause 7.01(b) any alleged misrepresentation) (by whomsoever made) contained in the Prospectus;

(iii) any breach (or in the case of the indemnity specified in Clause 7.01(b) any alleged breach) of the warranties, representations or

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The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

SECRET AND
MARKET SENSITIVE

NAMED DISTRIBUTION ONLY

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Duty Clerk
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London SW1


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Direct line
Our ref
Your ref
Date Saturday 19 November

BRITISH STEEL AND THE OCTOBER TRADE FIGURES

I enclose two copies of the paper prepared by officials for discussion at the Prime Ministers meeting tomorrow morning.

As arranged, copies are also enclosed for:

Chancellor of the Exchequer (x4) 1 sent by driver. 3 for J. Taylor.
Solicitor General (to await arrival) ✓
Chancellor of the Duchy ( -- ) ✓
Sir Peter Middleton ✓

Yours ever,

Neil Thornton

(N. R. THORNTON)

the Enterprise initiative

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TPM file

PRIME MINISTER

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PENSIONERS, STEEL AND TRADE

We discussed earlier this afternoon the major awkwardnesses on these three inter-related subjects next week.

I now attach a note the Chancellor has sent you detailing his proposals on assistance for poorer pensioners. As expected, he proposes an announcement during the Debate on the Queen's Speech. The note does I think clarify the position on housing benefit, but it is singularly unpersuasive on why, if an announcement is made in November 1988, it is not possible to implement before October 1989.

On the trade front, we do not have any firmer figures yet than those discussed with you earlier.

But there have been further developments on the steel front. Some of the DTI's lawyers are apparently taking the view that disclosure requirements in relation to steel necessitate indicating before next Wednesday broadly what the trade figures will be. That would point to bringing forward the trade figures announcement to Tuesday - which would then of course clash directly with your speech in the Debate on the Address. I have suggested to DTI and the Treasury that, if there is any doubt about the legal position, they should urgently consult the Attorney General over the weekend.

All this reinforces the case for you to have an early word with the Chancellor about the three inter-related issues. I gather he will be returning from Leicestershire to No 11 at about 8.00 pm on Sunday, and would be happy to see you that evening if you wished. Alternatively, you could see him on Monday afternoon. Perhaps we could have a word about which option you would prefer at lunchtime on Sunday so that I can then pass a message to the Chancellor before he leaves Leicestershire.

PAUL GRAY

18 November 1988

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E.R.

~~PRIN PS~~
PS FCO
PS ~~TSY~~
~~PS PARLY~~
~~PS HOME~~
~~PS DIARY~~

PRIVATE OFFICE ✓
PROFESSOR GRIFFITHS
MR. INGHAM
MR. WHITTINGDALE
MRS. RICHARDS
MISS MORRIS

**BRITISH STEEL FLOTATION**

I should be grateful if you could draw to the attention of all your staff the letter attached from John Stevens in the cabinet Office containing guidance to staff regarding investments in the forthcoming British Steel flotation. If any member of staff wishes to discuss the application of this guidance to their own personal circumstances, they should not hesitate to be in touch with me.

N.L.W

N. L. WICKS

18 November 1988

S.03626

# CABINET OFFICE

**Government Offices Great George Street London SW1P 3AL Telephone 01-270** 6030

*Principal Establishment Officer and Principal Finance Officer*

N L Wicks Esq CBE
Principal Private Secretary
10 Downing Street
LONDON SW1

17 November 1988

Dear Nigel

**BRITISH STEEL FLOTATION**

I am not sure to what extent you and your people are involved in the flotation of British Steel. But I thought it would be helpful to send you the updated Code paragraphs about 'Shareholdings' which are to be issued shortly, so that you could pass them on to your staff as you consider necessary.

Yours ever

John

J W STEVENS

SHAREHOLDINGS

9874 There is no objection to civil servants holding private investments. If, however, a shareholding might raise a question of possible conflct with the interests of the officer's department the officer should consult their Establishment Officer about the desirability of acquiring it or retaining it.

9875 Subject to the detailed provisions of the Company Securities (Insider Dealing) Act 1985 and the Financial Services Act 1986 it is an offence for an officer who has obtained information in their official capacity which, if published, would be likely materially to affect the price of the securities of a particular company, either to deal in those securities, to counsel or procure such a deal, or to impart information which they know or have reasonable cause to believe will be used for the purpose of dealing or counselling or procuring another person to deal. Any officer who has doubts about their position should consult their Establishment Officer.

S.03626

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the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon Lord MacKay of Clashfern
Lord Chancellor
House of Lords
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Our ref PS4BMM
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Date 11 November 1988

Dear John,

**BRITISH STEEL PRIVATISATION**

As you know, shares in British Steel Plc are shortly to be offered for sale to the public. A Pathfinder prospectus was issued on 28 October, and the price of the Shares will be announced on 23 November. The offer will close on 2 December, with dealings commencing on 5 December.

An area of concern in relation to the privatisation is the legality and propriety of Ministers purchasing and holding shares in British Steel Plc. The advice in Annex A addresses this question and has been prepared in consultation with Sir Robin Butler's Office. I would be grateful if colleagues could follow these guidelines when deciding whether they should buy shares. It is of course equally important to avoid the appearance of conflict of interest and if in doubt it is obviously best to err on the side of safety.

Could I also remind colleagues of the continued need to ensure tight control over the release of information relating both to the offer and to British Steel. I would be grateful if all Ministers could continue to follow the guidelines attached to my letter of 10 October.

Yours

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Copies of this letter go to all Cabinet colleagues, to Sir Patrick Mayhew, Sir Nicholas Lyell and David Waddington, and to Sir Robin Butler. I would be grateful if colleagues could circulate this guidance to all Ministers within their Departments.

Yours ever,

Norman

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ANNEX A

CONFIDENTIAL

**PURCHASE OF SHARES BY MINISTERS**

There are two points for consideration:

(a) whether it is proper for Ministers to purchase shares in the British Steel offer;

(b) what are the constraints, either legal or of propriety in respect of the holding of British Steel shares.

(a) Applications for shares in the British Steel offer

On the first question, it would clearly be ill-advised for DTI or Treasury Ministers to purchase shares in the forthcoming British Steel offer, or for 12 months thereafter. This is because of the potential conflict of interest where Ministers are both shareholders themselves and are responsible for, or associated directly with, decisions which will affect the circumstances of shareholders immediately following the offer, either through the share price, or matters affecting British Steel, its competitors or the steel industry generally.

The position is less clear-cut in the case of Ministers not directly concerned with the British Steel offer. The guiding principle is that laid down in Questions of Procedure for Ministers that Ministers "must so order their affairs that no conflict arises, or appears to arise, between their private interest and public duties" and specific guidance on shareholdings is contained in paragraphs 74 to 78.

Paragraph 77 says that Ministers should "scrupulously avoid speculative investments in securities about which they have, or may be thought to have, early or confidential information likely to affect the price of those securities". To the extent that Ministers might have had, or might be thought to have had, access to inside knowledge, there is risk of embarrassment. The safest course would be for Ministers not to apply for shares during the share offer.

(b) Subsequent holding of British Steel shares

Here the issues are very like those which would apply to the holding of any securities, but particularly shares held in any company where the Government continued to have substantial contractual and regulatory dealings. The legal issues are quite straightforward in broad outline:

(i) it is a criminal offence ("insider dealing") for a Crown servant (ie, a Minister or a civil servant) who has,

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because of his position, price-sensitive information about a company's securities, to deal in them, whether or not on the Stock Exchange (here or abroad), unless he can prove he did not intend to take advantage of the information so as to make a profit or loss. Actually applying for British Steel shares in the share offer does not fall within this (because, in the view of our solicitors, it is not "a dealing" but is, rather, a direct contract with the Secretary of State). However, it is most unlikely that a Minister (or civil servant) other than one concerned with the regulation of or contracts with British Steel will have such information because of his position per se;

(ii) if Ministers (or civil servants) are concerned in the regulation of British Steel or one of its competitors, or the steel industry generally, a shareholding in British Steel may well be evidence of bias in particular regulatory decisions. Bias invalidates administrative acts and may well found an action in damages against the Crown.

Here again the advice contained in Questions of Procedure, and particularly in paragraphs 74 and 78, is relevant.

Ultimately, Ministers must decide for themselves whether to purchase British Steel shares. They will want to bear in mind that it is as important to avoid the appearance of conflict of interest as to avoid actual conflict.

9 November 1988

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The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

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31/10

Jonathan Taylor Esq
Private Secretary to the
Chancellor of the Exchequer
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Our ref PS1BRG
Your ref
Date 31 October 1988

Dear Jonathan,

BRITISH STEEL PRIVATISATION : PUBLICITY

As you know, the Government's preparations for the privatisation of British Steel are continuing and the Pathfinder Prospectus was published on 28 October.

It is now necessary to issue guidance about the release of information relevant to the sale during the period between now and the opening of dealings on 5 December.

... I therefore attach a note which has been prepared by this Department about the release of such information by the DTI.

Following precedent, and because of the need to exercise tight control over the release of such information, it is necessary that release of information relevant to the sale should be limited within Whitehall to the DTI. My Secretary of State would be grateful if his colleagues in charge of other Departments would arrange for any enquiries which their Departments might receive which are relevant to the British Steel sale to be directed to the DTI.

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This arrangement should be brought into effect as soon as possible.

I am copying this letter and enclosures to the Prime Minister's Private Secretary, Private Secretaries to other Ministers in charge of Departments and to Sir Robin Butler.

Yours

GARETH JONES
Private Secretary

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**BRITISH STEEL: PUBLICITY**

Note by IMM Division

1. HMG proposes to sell its existing shareholding in British Steel at the end of November.

2. The Offer will be made by means of a Prospectus to be available from 25 November, the price of the shares having been announced on 23 November. A "pathfinder" or draft Prospectus was published on 28 October. This is expected to be almost identical to the final Prospectus, except that it does not price the shares.

3. The purpose of this note, which has been prepared by IMM Division, in consultation with the Department's solicitors, is to establish Guidelines for the release of information which might be relevant to the share offer by the DTI to anyone outside Government, whether the general public or a particular person. This Guidance is effective from now until the commencement of dealings on 5 December. It should, however, also be taken to cover matters which are being considered before that date but which are not expected to become public until after that date.

Relevant information

4. Relevant information is information which -

(a) in any way relates to the offer for sale, its timing, terms or mechanics; or

(b) reflects on the merits of British Steel ie relates to British Steel's operations, finances or prospects, or to the steel industry generally, and any other information capable of influencing an investor's decision to acquire shares in British Steel; or

(c) encourages or otherwise affects interest in the sale.

5. Answers given to written Parliamentary Questions are also covered by this note where they relate to British Steel or might in any way relate to the Offer of Shares in the company.

6. Within the DTI only authorised persons (see paragraph 7 below) may disclose information, and disclosure may not be made by them without prior clearance with one of the following officials of IMM Division: Richard Rogers, David Saunders or Peter Waller. They will consult the Department's solicitors and the Company as necessary.

Disclosure by authorised persons

7. The channels of communication from DTI are limited to Ministers and specified staff in the Press Office. This means they



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and no other staff are authorised to release information. It has been agreed that disclosure within Whitehall shall be limited to the DTI to which other Departments are being requested to direct enquiries.

## Detailed guidance

8. Information released by those authorised to do so will be factual in nature and avoid any expression of opinion about the prospects of the Offer or the merits of British Steel. It will refer to the fact that a prospectus will be issued which will contain details of the offer and the business and activities of British Steel and enquirers will be recommended to read it or, until the Prospectus is issued, the Pathfinder. They will be told where copies of these documents may be obtained and no additional information will be given. At no time will any information be given as to the amount of cash expected to be raised.

9. At all times care will be taken not to release information that might prejudice the success of the Offer or amount to HMG's endorsement of British Steel as "a good investment". Nor will information be released which is not in or which is inconsistent with the Prospectus.

IMM Division
October 1988

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the department for Enterprise

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Prime Minister 2

The usual warning.

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon Lord MacKay of
Clashfern
Lord President of the Council
Privy Council Office
68 Whitehall
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Our ref PB1AAA
Your ref
Date 10 October 1988

Dear Lord President,

**SALE OF SHARES IN BRITISH STEEL PLC: MINISTERIAL STATEMENTS**

I am writing about the offer of shares in British Steel plc to investors, which is planned to take place in late November. As we get closer to the time of the offer, and during the offer period itself, colleagues will need to consider carefully any references they may wish to make to the company or the share offer.

Unguarded or unverifiable statements in speeches, or in response to questions from the media or constituents, could have very serious consequences for the share offer, and could even make it necessary for us to postpone the offer. If at all possible, therefore, colleagues should sidestep questions about the share offer. Annex A sets out guidelines for dealing with such questions, together with a series of Questions and Answers to illustrate how the guidelines should be interpreted in practice. You will see from this material that the rules have been tightly drawn, but this approach is absolutely necessary in the circumstances. Any public statement referring to British Steel to be made in the UK or abroad must be specifically cleared in advance with my Department.

I am copying this letter and attachments to the Prime Minister and to all other members of the Cabinet: I should be grateful if they would circulate it to Ministerial colleagues within their Departments. I am also copying it to Sir Robin Butler.

Yours sincerely,
Gareth Jones

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

the Enterprise initiative

ANNEX A

**STATEMENTS ON BRITISH STEEL SHARE SALE**

There are four basic rules which must be followed:

(i) anything said about the share offer, British Steel itself or British Steel's trading environment must be factual, accurate and fair;

(ii) statements made outside the UK must have specific regard to the requirements of the local regulatory laws. the offer is also being made overseas in the USA, Canada, Europe and Japan;

(iii) although comments about the general benefits of privatisation and expressions of the belief that British Steel will benefit from it are acceptable, no opinion should be expressed, and no prediction made, about the prospects for the shares or for British Steel's business or about British Steel's competitors or the steel industry generally (beyond whatever forecasts are set out in the Prospectus after its publication - and even these statements must be set in context);

(iv) enquirers should be urged to obtain their own copies of the Prospectus, once it has been published, and to make up their own minds after reading it. No statements should be made which could be interpreted as an inducement or recommendation to buy British Steel shares.

**RESPONSES TO QUESTIONS**

**1. Why is the Government selling British Steel shares?**

The British Steel share sale is part of the Government's overall privatisation programme. We believe that British Steel is now in a position to benefit from a return to the private sector.

**2. When will the shares be offered for sale?**

In the second half of November. Both the full Prospectus and a shortened version of the Prospectus will be widely available at that time.

**3. Why is the Government advertising the sale? Does the advertising reflect a lack of confidence that the public will buy shares?**

The advertising is designed to inform people who might be interested in buying shares how they can get the information they need to make their choice. It is up to individual investors to decide on the basis of the information in the Prospectus which is available to them whether they want to invest in British Steel shares or not.

BL2ACX

4. **Should I buy British Steel shars? Will they go up in value?**

Your must decide for yourself. Shares can go down in price as well as up.

5. **How much is this sale going to cost Government by way of fees, advertising etc?**

All the costs of the flotation will be presented to Parliament after the sale.

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Para 6 c is DTI covering themselves against the possibility of something going wrong. To do anything other than proceed as planned at this stage is surely unthinkable. RACG 3/9

PRIME MINISTER

**BRITISH STEEL PRIVATISATION**

1 The British Steel flotation campaign is due to be launched next week, probably on Thursday 6 October.

2 I regard British Steel as one of the great successes of our economic turn-around. Its losses at the end of the last decade and the beginning of this have entered the history books. Yet they are now poised to rejoin the private sector as a major and successful company.

3 This is also a key step in our broader privatisation programme. British Steel is of course the first privatisation since the events of last October. It is of primary importance that the flotation should be a success, that it should restore confidence in our privatisation programme and pave the way for the even larger privatisations which lie ahead.

4 There remain, however, real uncertainties associated with the sale. Stock Market conditions remain extremely difficult and uncertain, and these have represented the backcloth against which all the key decisions on the flotation have had to be taken. In these circumstances, the extent of retail interest in the sale is very hard to gauge, but I very much hope that the offer will appeal to a significant number of private investors.

5 Other potential problems seem to have been satisfactorily resolved. Industrial action in the postal service would have raised severe difficulties, but it does look as if that dispute has now been settled. There was always uncertainty about what would happen following the removal of steel quotas in Europe in

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June; but developments there have been very encouraging - demand remains strong and prices are broadly steady.

6 We have had a difficult backcloth against which to take the decision to proceed. I can in no sense at this stage guarantee a successful flotation. But I am sure we should proceed. Though there are real risks, some of which could in principle force us to abandon the sale, I believe that the prospects for success are very encouraging. The offer is scheduled to open on 22/23 November, and close at the end of the following week. I have every hope that by Christmas British Steel will be in the private sector.

7 I am copying this minute to Nigel Lawson, Geoffrey Howe, Peter Walker, Cecil Parkinson, Nicholas Ridley, Malcolm Rifkind, Norman Lamont and Sir Robin Butler.

D Y

28 September 1988

DEPARTMENT OF TRADE & INDUSTRY

the enterprise initiative

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01-270 0538 (Llinell Union)
*Oddi wrth Ysgrifennydd Gwladol Cymru*

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 0538 (Direct Line)
*From The Secretary of State for Wales*

**The Rt Hon Peter Walker MBE MP**

9 September 1988

Dear Chancellor

**BRITISH STEEL CORPORATION**

Thank you for copying to me your letter of 23 August to Ian Lang about the announcement of investment in further continuous casting capacity at British Steel's Port Talbot plant.

I understand that the announcement is to be made by British Steel Press Release next Tuesday, 13 September and that you will not be commenting except in response to Press enquiries.

While I welcome - of course - this announcement, you will understand that I would wish to minimise any concern that it might arouse about the future of Llanwern. I think therefore that an additional speaking note should be added to the briefing which our officials have been discussing. I attach a suggested text which I should explain has been drafted in advance of our having sight of the text of the British Steel announcement.

I am copying this letter to the Prime Minister, Nigel Lawson, David Young and Ian Lang.

Yours sincerely

Kenneth Davies

Approved by the Secretary of State and signed in his absence.

Rt Hon Tony Newton OBE MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1-19 Victoria Street
London SW1H 0ET

ANNEX

LLANWERN

What are the consequences for Llanwern of this new investment at Port Talbot?

The future of steelmaking at Llanwern has been secured by the major investment in continuous casting facilities at that Plant which is now on the brink of being fully commissioned.

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The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

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Ian Lang Esq MP
Minister of State
Scottish Office
Whitehall
LONDON
SW1A 2AU

Direct line 215 5147
Our ref
Your ref
Date 23 August 1988

Dear Ian,

Thank you for your letter of 5 August about the request from British Steel for approval for investment in further continuous casting capacity at their Port Talbot plant.

I fully understand your concerns about the presentation of any announcement. I have not yet given formal approval for the proposal but am minded to do so shortly. Once I have done so, I will be asking my officials to discuss the handling of the announcement with British Steel in detail and to advise me accordingly. I have asked that your officials be kept in close touch with these discussions so that we can do what we can to minimise the potential political difficulties the announcement will cause. As you note in your letter, the investment has no direct implications for Scotland, and I see no difficulty in making the defensive points you suggest, though the chances of escaping without a political row of some sort are perhaps remote.

Any firm decisions on the nature of the announcement must await discussions with British Steel. You should be aware however that we are currently inclined to an earlier rather than later announcement, so that any political debate takes place ahead of

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the prospectus period. I am also rather inclined to think we have nothing to lose (and in the privatisation context much to gain) by making the announcement as positive as possible. Certainly we must not give any impression that we are expecting the investment to be unfavourably received - it is essentially good news. Indeed, it is worth noting that at the time of last December's announcement Kenneth Clarke was pressed to make sure that British Steel increased their investment in concast facilities, and his positive response at that stage usefully foreshadows the current announcement.

I am copying this letter to the recipients of yours, and to Peter Walker in view of the Welsh implications.

Yours ever.
Tony

TONY NEWTON

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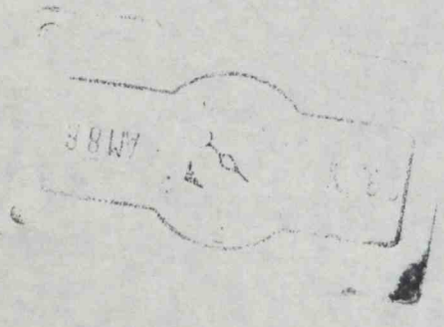
NASA (NRD: Steel Pt 5.



FROM THE MINISTER OF STATE **CONFIDENTIAL**

SCOTTISH OFFICE

WHITEHALL, LONDON SW1A 2AU

Rt Hon Antony Newton OBE MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1

5 August 1988

Dear Tony,

BRITISH STEEL CORPORATION

Malcolm Rifkind, who is currently on holiday, has asked me to write to you about a proposal you currently have under consideration from the British Steel Corporation to install new continuous casting capacity at the Port Talbot works in South Wales at a cost of some £75 million.

Your officials have very helpfully kept mine in touch with developments in this case, and my officials have already stressed the considerable sensitivity of this issue in Scottish eyes. Malcolm and I would want to reinforce this point most strongly in relation to how the expected approval becomes public in due course and how the inevitable criticism is handled.

There are, I accept, positive aspects to the decision for the Corporation as a whole, since it will increase the proportion of concast production, which I believe to be relatively low by international standards, and it should therefore be possible to present the proposal favourably in terms of BSC's overall efficiency and competitiveness. Our experience last month, following injudicious remarks by the Corporation Chairman about the future of the Ravenscraig hot strip mill, has shown however that it takes very little to revive the doubts about the Corporation's intentions towards its Scottish works. Last month's events will, I am sure, strengthen the probability of a fresh outcry when the news of a decision on South Wales investment becomes public, as it will be seen as further evidence of a policy to put in place facilities which will make the Scottish works redundant. On this occasion, it will cast doubt on the Corporation's statements about its need for Ravenscraig's steelmaking facilities. As usual, the greatest attention seems likely to come from the Scottish media, and Malcolm and I will again come under pressure. We must therefore have a strong defence ready, and I hope you can agree that this includes reassurance both that the statements by the Corporation last December took into account the likelihood of expansion of continuous casting in South Wales; and that the investment decision is not based on any calculations which assume any contraction of steelmaking at Ravenscraig. I have no wish to highlight any negative effects

elsewhere, but I suggest we must also be prepared to draw attention to the fact that there will be a reduction in steelmaking at Llanwern.

We shall also need a persuasive response to criticism that approval was deliberately postponed until the British Steel Bill had completed all its Parliamentary stages. It will not be enough to say that the timing of the decision was determined by the timing of the submission of BSC's proposal. This invites the accusation that BSC may have withheld its submission, with or without the Government's agreement, in order to avoid raising the issue during the Bill's passage and creating unwelcome Parliamentary difficulties, not least in the Lords, where Scottish interests were particularly vociferous.

I understand that it is not normal practice to make any special announcement of investment decisions, even of this size; that the Corporation would normally be left to decide how to go about breaking the news; and that it normally aims to reach the necessary agreements with the trades unions on the implications of new facilities before any announcement is made. I suggest, however, that, in present circumstances, to leave these matters solely in the hands of BSC risks more political difficulties. We cannot afford to have more unscripted or careless remarks from the Chairman at a time not of our choosing, or the creation of renewed controversy which may cast a shadow over the flotation. I would therefore ask you to consider an arranged announcement at an appropriate time once the proposal has been approved. If you can agree this, our officials can consider the detailed implications nearer the chosen time.

Copies of this letter to to the Prime Minister, Nigel Lawson and David Young.

Yours ever,

IAN LANG

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CC(C).

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

NMM

RRCB

18/3

18th March 1988

Dear Chancellor,

BRITISH STEEL CORPORATION (BSC)

Thank you for your letter of 9 March about the stance BSC propose to adopt.

I am content with the proposed two year deal worth up to 5 per cent on basic rates in the first year and 4 per cent in the second with a 2 per cent consolidation of lump sum bonus payments each year. That is on the understanding that the cost over 5 per cent will be fully met from productivity gains. To reduce risks of repercussions I would be grateful if such a deal was presented as basically 5 per cent followed by 4 per cent. As you say, in the recent past, the Corporation has had a good record on pay and productivity.

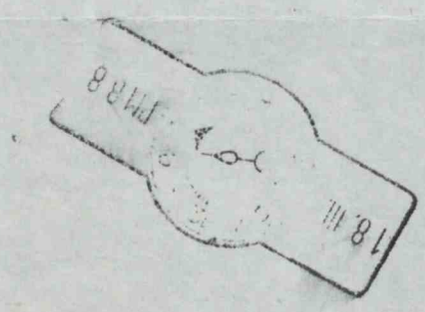
I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robin Butler.

Yours sincerely

JOHN MAJOR

(Approved by the Chief Secretary and signed in his absence)

NAT IND : Steel PTTS



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The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

.Rt Hon John Major MP
Chief Secretary
HM Treasury
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Direct line 215 5147
Our ref
Your ref
Date 9 March 1988

Dear John,

**BRITISH STEEL CORPORATION (BSC)**

BSC have written to my Department, under the early warning system, with details of the negotiating stance they propose to adopt at their forthcoming meetings with the ISTC and other unions.

The Corporation recognises that the coming pay round may present a more difficult series of negotiations than has been experienced in recent years. The unions are likely to press for a greater share of the record profits now being achieved, and may also seek to take advantage of BSC's clear need for an untroubled run-up to privatisation. BSC however have decided to follow the pattern of negotiation they have adopted since 1981; that is to develop further the concept of local lump sum bonus schemes under which pay increases are funded out of improved business performance brought about by productivity gains and other employee-related cost reductions. As you know, this policy has been quite successful in the past and central pay awards have been generally limited to 3% or less.

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Given the different background against which negotiations will proceed this year, the Corporation is proposing a 2-year package, in an attempt to achieve a period of stability up to and through privatisation, and to allay the unions' reported concerns that there will be a deterioration in conditions of employment post-privatisation. The package consists of a general increase of up to 5% in the first year, together with a 2% consolidation into base rates from current lump sum bonus payments; implementation of these increases will be dependent upon the unions agreeing revised local bonus schemes before a target date in May. This format would be repeated in the second year, except that the general increase will be limited to 4%. BSC will offset as much of the cost of these general increases as possible through improvements at local level of cost and quality performance.

This package seems reasonable to me, given the expected level of profits this year. In the interests of securing a settlement to see BSC through privatisation, I hope you can agree that this represents a sound basis for negotiation despite the slightly higher than usual general increases proposed.

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

KENNETH CLARKE

MA3ADH

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The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Wakeham MP
Lord President of the Council
and Leader of the House of Commons
Privy Council Office
68 Whitehall
LONDON
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Our ref
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Date 29 January 1988

Dear John,

**SCRUTINY DEBATE ON EUROPEAN COMMUNITY DOCUMENTS ON STEEL**

The House of Commons Select Committee on European Legislation has recommended for debate by the House three deposited documents and four additional explanatory memoranda concerning steel. Of particular importance is document 8560/87 concerning ECSC steel measures, but other areas included are EC/US steel trade, state aids, and Spanish and Portuguese steel deliveries to the Community. Full details are included in the draft motion below. I am writing to seek your agreement to the handling and timing of a debate covering these documents.

The Scrutiny Committee recommended one - the Steel Policy document - for debate prior to adoption. It was essential to reach decisions on the Commission proposals before the end of the year when the previous quota regime expired. Accordingly I agreed to adoption of these proposals at the 22 December Industry Council, before a debate could be arranged. I have, however, undertaken to make efforts to arrange an early debate. The Chairman of the Committee has now written to me again, pressing me to do so. The Scrutiny Committee recommended that 8993/86 on state aids, the two unnumbered memoranda on EC/US steel trade and the memorandum on Spanish and Portuguese deliveries should be considered on the occasion of a debate on steel. They have made no recommendation for consideration in standing committee.

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My strong preference would be to combine the debate which the Scrutiny Committee has requested with the Second Reading debate on the British Steel Bill - which I am hoping will take place towards the end of February or very early in March. I intend to circulate a memorandum seeking approval to introduce the Bill in time for the meeting of L on 10 February. I recognise that the Scrutiny Committee are not likely to welcome this. However, in any steel debate at present there will inevitably be some overlap between consideration of privatisation and the European steel regime, and my proposal will avoid the need for two debates on similar issues within a very short period of time. I do not think we should seek further to delay the Committee's request for a debate.

I should therefore be grateful for your agreement to a combined debate with the Second Reading of the British Steel Bill. For the EC documents I propose an expanded take note motion along the following lines:

> "That this House takes note of European Community document 8560/87, a communication by the Commission to the Council concerning Steel Policy, plus a supplementary memorandum from the Department of Trade and Industry of 1 December 1987 reporting amendments to document 8560/87 in respect of quotas; of Community document 8803/86, a proposal for a Decision regulating Community trade in steel products with the United States of America, plus explanatory memoranda from the Department of Trade and Industry dated 7 July and 15 July 1986; of Community document 8993/86, a report from the Commission to the Council on the application of the rules on aids to the steel industry (1984-1985); and of an explanatory memorandum from the Department of Trade and Industry dated 19 October 1987 on a proposal for a Decision establishing the delivery levels of ECSC steel products of Spanish and Portuguese origin onto the rest of the Community market; supports the Government's commitment to a Community steel regime which provides a framework for a steady return to free market conditions, and endorses the Government's agreement to measures which place a temporary limit on steel exports to the USA thus safeguarding access to the American market."

On the main issue I would propose that the line taken in the debate would follow that spelled out in my Parliamentary announcement following the 22 December Council: namely that the agreement provides a clear framework for a steady return to free

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market conditions. On the second main theme, EC/US steel trade, the agreement enables the UK to send more semi-manufactured steel products than was possible under the (US) unilaterally imposed quotas. The agreement, like the remainder of the EC/US Steel Arrangement, expires 30 September 1989.

I am copying this letter to members of L and OD(E) Committees and Sir Robin Butler.

KENNETH CLARKE

JA7ABN

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THE SCOTSMAN

No. 45,014 ★ ★ ★ Friday, December 4, 1987

# Rifkind wins lifeline for Ravenscraig

By KEITH AITKEN and EWEN MacASKILL

THE Ravenscraig steel complex was given a qualified seven-year lease of life yesterday, as the Government announced that the British Steel Corporation is to be privatised early in 1989.

The assurance that Ravenscraig would stay in business for that period "subject to market conditions" was won by the Scottish Secretary, Mr Malcolm Rifkind, in a fierce Ministerial battle resolved in the past few days and finalised in Cabinet yesterday morning.

But the lifeline was being seen last night by Opposition MPs and unions as notably weaker than the three-year guarantees secured by Scottish Ministers in 1982 and 1985 for the plant, which employs 3,300 and is regarded by many as a keystone of the Scottish economy.

The sell-off was announced by the Industry Secretary, Lord Young, as British Steel reported a half-yearly pre-tax profit of £190 million. It compares with a profit of £178 million for the whole of last year and with annual losses in excess of £1 billion less than a decade ago.

The results, which had been expected, persuaded Ministers to push British Steel up the privatisation queue in the hope of restoring confidence in a sell-off programme which has suffered badly from the BP debacle and which faces mounting difficulties over the proposed electricity flotation.

Ministers considered a separate sale of the Scottish operation but were convinced by the widespread view in the industry that British Steel should remain a single entity. There is likely to be a special arrangement to encourage BSC employees to become shareholders.

A Bill is expected soon after Christmas and the earliest possible date for the sale is a year from now, though it is more likely to take place early in 1989.

Editorial — Page 14
City view — Page 17

The carefully-worded assurances for Ravenscraig emerged from intense negotiations, both between Scottish Ministers and their Industry department colleagues, and between Ministers and the British Steel chairman, Sir Robert Scholey. Sir Robert was reportedly presented with the assurances as the price for privatisation.

In the Commons, the Industry Minister, Mr Kenneth Clarke, said steel-making would continue at BSC's five integrated plants, which include Ravenscraig, for "a number of years" and that BSC foresaw retention of the Scottish plant for at least the next seven years.

But he also made clear that this was subject to several qualifications:

- principally, the projection depended on "market conditions;"
- plate-rolling at the Dalzell works was subject to "commercial considerations;"
- the Ravenscraig strip-mill, in common with its counterparts elsewhere in BSC, could only be guaranteed a future until 1989. That operation employs about 700 but is widely regarded as integral to Ravenscraig.

Mr Clarke said that if BSC should wish to close the plant, it had agreed it would consider, on a commercial basis, any private sector offer to buy it.

Mr Donald Dewar, the Shadow Scottish Secretary, said last night: "There is no guarantee here for Ravenscraig. What is offered is no more than a business projection subject to market considerations and specifically allowing the new owners to sell or close the plant at will."

He noted Mr Clarke's emphasis on over-capacity in BSC's strip division and claimed that the assurance given to Ravenscraig was good for one year only. Privatisation, Mr Dewar said, could only bring the plant uncertainty.

Continued on Page 4, Col 8

Continued from Page 1

But Mr Rifkind, who fought for the seven-year assurance, insisted that the announcement was "superb news", that the seven-year assurance was based on "good commercial reasons" and that it was "frankly better than many might have hoped."

He maintained that the previous guarantees given to the plant had also been market-dependent. "We were told these were worthless then but in fact they have been honoured," he said. But last night few recalled the qualifications then being so heavily stressed.

Mr Campbell Christie, Scottish TUC general secretary, voiced deep concern that the seven-year assurance did not cover the hot-strip mills: "This clearly threatens Ravenscraig's survival as an integrated plant and Ravenscraig will remain at risk while the future of the strip-mill is in jeopardy."

The Liberal Industry spokesman, Mr Malcolm Bruce, welcomed the Ravenscraig assurance, but said it fell short of the necessary "forthright defence" and that major new investment in the plant was needed to ensure that it could flourish under any conditions.

For the SNP, Mrs Margaret Ewing said Mr Clarke's statement left a large question mark over Ravenscraig by implying that it could be reduced to only a slab-making capacity: "The constant reference to leaving the industry to 'market forces' is a total abrogation of economic and social responsibility," she said.

But Scots Conservative MPs welcomed the announcement. Sir Hector Monro, a former Scottish Office Minister, said it was "wonderful news for Scotland," while Mr Nicholas Fairbairn, MP for Perth and Kinross, said the plant was staying alive because it was successful, not because it was Scottish.

That optimism was not shared by the Labour MP whose constituency includes Ravenscraig, Dr Jeremy Bray, who said privatisation would plunge the plant into uncertainty; nor by the Labour MP for Dundee East, Mr John McAllion, who questioned the focus on the future of Ravenscraig rather than other plants.

# Clarke denies running for cover with privatisation of steel

By STUART TROTTER
Political Correspondent

INDUSTRY Secretary Mr Kenneth Clarke told his critics in the Commons yesterday that BSC based its assurances on its future plans "on good commercial reasons."

The seven and two year periods that had been fixed were because that was as far ahead as could be reasonably foreseen.

Opposition MPs are suspicious that BSC is being put on the market, where it could raise as much as £1000m plus, so quickly because a delay in electricity privatisation is expected and there is the danger of the Government having to buy back large quantities of BP shares if they fall below the price set by the Chancellor of the Exchequer, Mr Nigel Lawson.

The sale of BSC as a single entity will thus add much needed funds for the Chancellor's coffers.

Mr Clarke said Ministers had considered selling BSC in separate units but had decided that it would "damage the industry and minimise the return."

He said that if the privatised company ever decided it had no use for Ravenscraig it had agreed to offer the plant to Scottish or other buyers. Mr Rifkind described this as "a quite unique undertaking."

But most Opposition politicians, although recognising the great progress made by BSC in getting itself into profitabilty, believed that privatisation offered the Government a way of abdicating responsibility for the future of the industry especially in Scotland.

Mr Dewar said: "This is a Government running for cover. The aim is to shed responsibility and leave the future of the industry to the market and to private profit." Mr Malcolm Bruce, the Liberal spokesman, said the guarantees were welcome but "definitely qualified".

Mrs Margaret Ewing, SNP parliamentary leader, said Ravenscraig again had a large question mark over it. The Government was washing its hands of responsibility for the Scottish steel industry.

Mr Dewar said there must be concern that BSC might be planning to keep Ravenscraig on to produce slab steel until it had decided whether to build its new plate mill at Dalzell in Scotland or on Teeside.

Other Scottish MPs forecast that if the hot strip mill were to close the future of the main Ravenscraig plant, employing nearly 3000 workers, must be called in question.

Privatisation was announced on the day that BSC declared a half year profit of £190m for 1987-88 compared with £178m for the whole of 1986-7.

Mr Clarke told MPs that with equally good results expected for the second half that took the corporation over the £300m a year profit mark which the chairman, Sir Robert Scholey, had indicated was required for a successful floatation.

Legislation will be introduced early next year and the sale will be either at the end of 1988 or the beginning of 1989. The exact price the corproation will fetch depends the arrangements Ministers make for writing off existing debts but it will not be under £1000m.

Mr Clarke pointed out to worried Scottish Opposition MPs that the "market conditions" qualification had also applied when the Government gave three-year guarantees to Ravenscraig in 1982 and 1985.

It had been derided then as providing a let out, but the plant had been preserved through difficult times until it had won its way to success.

However, he said that all BSC strip mills were currently under-utilised but BSC "having reviewed the situation thoroughly" had decided "on commercial grounds" that all would be operated at least until 1989.

Mr Rifkind said that in view of the glut of hot strip production in Europe that decision would be a great relief to the 700 workers at the mill.

Labour's Shadow Trade and Industry Secretary, Mr Bryan Gould, called the guarantee "weasel words." It was another case of the taxpayer picking up the bill to help an industry to recover and the City picking up the profits.

Mr John McAllion (Dundee East - Labour) said Scots would find it suspicious that Ravenscraig had been singled out in the Minister's statement as the only plant which BSC could sell off if they had no use for it.

Mr Clarke replied: "Every time I go to Scotland the people will talk about nothing else but Ravenscraig." Mr Rifkind said the Opposition would have created a great fuss if Ravenscraig had not been specially mentioned.

Dr Jeremy Bray (Motherwell South - Labour) said it looked as if BSC would close the hot strip mill in 1989 and then run down the remainder of the steel making at Ravenscraig over seven years.

But Sir Hector Monro (Dumfries - Conservative) said the length of the guarantee was "wonderful news for Scotland" and far better than expected.

Mr Clarke emphasised that the assurances were being given not by the Government but by BSC and that they covered "at least" the timescales mentioned in his statement.

He assured MPs that he expected to be approving new investment for BSC during the period in which remained in public ownership.

Mr George Robertson (Hamilton — Lab) said steelworkers would regard this as "a Government of political spivs selling off the last of the family silver."

There were angry shouts from Scots MPs as Tory Mr Bowen Wells (Hertford) said the Welsh plants were clearly the profitable ones.

But the doubts among many Scots MPs about the future intentions of the privatised BSC towards Ravenscraig were perhaps summarised by Mr Dewar.

He said anyone who reread the "hostile evidence" given by Sir Robert Scholey to the Scottish Select Committee investigating the proposed closure of the now closed Gartcosh Plant "will recognise the storm warnings."

ADVERTISEMENT FEATURE

GLASGOW HERALD FRIDAY 4 DECEMBER 1987

GLASGOW HERALD FRIDAY 4 DECEMBER 1987

# Ravenscraig wins a mini-reprieve

By ALF YOUNG and ROY ROGERS

THE Ravenscraig plant has been given a qualified guarantee that it will continue to make steel for the next seven years. But Ravenscraig's hot rolling mill, with 700 of the 3100 workforce, faces a more uncertain future.

British Steel, with considerable over-capacity in hot strip steel, will guarantee its life only until 1989, four months after the existing Government guarantee on Ravenscraig's future runs out.

Yesterday's announcement, welcomed by Scottish Secretary Mr Malcolm Rifkind as "superb news for Scotland", came in the Commons when Industry Minister Mr Kenneth Clarke told MPs that British Steel is to be privatised as quickly as possible, around a year from now.

The corporation, which announced six month profits of £190m against £178m in the whole of last year, is to be sold in one piece. Although detailed decisions have still to be taken, shares in BS will almost certainly be offered to the public. Legislation to make BS a private company will be needed before the sale.

British Steel's promise to the Government that iron and steelmaking at all five of its main plants, including Ravenscraig, Motherwell, will continue for at least seven years is dependent on markets remaining buoyant. If conditions changed and BS wanted to close Ravenscraig earlier, it would consider bids for the plant from others in the private sector.

That caused opposition MPs to denounce the assurances. Shadow Scottish Secretary Mr Donald Dewar called them "fraudulent" and Mrs Margaret Ewing, the SNP's parliamentary leader accused the Government of washing its hands of the Scottish steel industry.

The immediate fear is for Ravenscraig's hot mill. Since the closure of the Gartcosh cold rolling mill in 1985 with the loss of 700 jobs there has been mounting speculation that BSC's senior management wanted the hot mill shut as well.

While yesterday's Commons statement gave the Dalzell plate mill in Motherwell the same qualified seven-year guarantee as steelmaking at Ravenscraig, what Mr Clarke had to say about the hot mill was much more guarded.

"There is clear surplus capacity in BSC, as throughout Europe, in hot strip. BSC's strip mills are currently running at below 70% of their potential capacity, which is among the lowest level of utilisation of strip mills anywhere in Europe.


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"However having reviewed the situation thoroughly, the corporation has decided on commercial grounds that all their present mills, including the Ravenscraig mill, will continue to operate at least until 1989."

The general secretary of the STUC, Mr Campbell Christie called the proposals a one-legged stool. Giving half a cheer for the reprieve for steelmaking, he went on: "I welcome the retention of steelmaking at Ravenscraig. But steelmaking without the strip mill is a one-legged stool which will threaten the survival of steelmaking there in the longer term."

Scots Industry Minister Mr Ian Lang, echoing Mr Rifkind's view that the mini-reprieve for the strip mill would be "a great relief" to the workforce there, expressed the hope that Ravenscraig would continue to look for overseas markets for its unrolled slab. The plant currently exports slab as far away as Korea.

Mr Dewar alleged that BSC might be keeping Ravenscraig on as a slab producer to supply the Dalzell plate mill until the corporation makes up its mind whether to build a new plate mill there or on Teeside.

Future market conditions for steel will become clearer next Tuesday when Mr Clarke joins other EEC steel ministers to discuss a Commission plan to scrap steel production quotas as a way of tackling overcapacity.

Ravenscraig, which has twice before been reprieved for three-year periods by the Government overruling BSC, has recently been breaking production records. Mr Rifkind and Mr Lang both paid tribute to that. Mr Rifkind said the Ravenscraig workforce had made "a significant contribution" to BSC's present buoyancy which had made an early privatisation possible. Greatly improved half-year profits were disclosed yesterday by British Steel hours before the privatisation was announced in the Commons.

Revealing a six-month profit of £190m after all charges, BSC chairman Sir Robert Scholey said it was "a further and impressive step forward for the BSC".

The half-year figure was more than the £178m full profit for 1987-88 which in itself was a vast improvement on the previous year's £38m profit, the corporation's first for 10 years.

By their statement yesterday the Government and BS sent a clear message to the European steel industry that Britain had no intention of instigating any further steel capacity reductions and that other European coutries would be expected to act to reduce the EEC's over-capacity.

Mr Tommy Brennan, convener of shop stewards at Ravenscraig, said last night: "Our priority is to see the hot strip mill remains. What we are seeing now is an extension of one year as far as it is concerned.

"We said the Gartcosh closure was the start of a three-phase closure of Ravenscraig. If the hot strip mill went, that would be the second phase of it."

GLASGOW HERALD
ESTABLISHED 1783
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# A deal full of loopholes

THE decision to bring forward the privatisation of British Steel on the back of yesterday's sparkling £190m interim profit gets the Government off a nasty hook.

By returning BSC to the private sector later next year, Ministers will be absolved of taking decisions about Ravenscraig's future when their present guarantee of survival runs out next August. Mrs Thatcher will avoid dishing out redundancy notices personally to steelmen who worked on so doggedly when faced with massed picket lines during the miners' strike. A political hot potato will be passed to other, commercial hands.

Clever stuff. But what does it mean for the long-term future of the Scottish steel industry?

British Steel has made a commercial commitment to the Government that it will retain iron and steel making at all five of its integrated plants, including Ravenscraig, for the next seven years. A similar commitment covers the plate mill at Dalzell. The assurances are subject to changing market conditions and, as assorted Ministers and Sir Robert Scholey have long been fond of telling us, seven years is too far ahead in this industry for anyone to claim predictive accuracy. Was anyone, seven years ago, predicting that BSC would become one of the world's most profitable steelmakers? So, if the present boom in steel demand falters, as it could if a post-quotas price war breaks out in Europe, BSC is committed to looking for a buyer for any surplus plant before it thinks of putting the locks on the gate.

But the real rub in the privatisation arrangements concerns Ravenscraig's hot strip mill. There, because of an overcapacity which apparently puts BSC's Strip Products group near the bottom, not the top, of the European league, the guarantee only stretches to 1989. Having lost its cold finishing end at Gartcosh, it looks, reading between the lines of what is proposed, as if Ravenscraig's survival into the nineties will be at a price. The loss of its hot finishing side and, with it, another 700 jobs.

Reduced to the status of raw steel producer, Ravenscraig's survival looks as precarious as ever. It will survive if other mills, elsewhere in BSC or around the world, want to buy its slabs. It will have no finished products of its own to sell to car makers or other end users of steel. Its reputation as a supplier of quality slabs will survive for as long as it takes the rest of the world's steelmakers to instal their own modern techniques. The substance of yesterday's announcement is that integrated steel making in Scotland will probably be dead by 1990.

Ravenscraig is more than a steel plant. Its survival has become a symbol of commitment to our collective economic future. To its credit, the Thatcher Government recognised that when, in 1982, and again in 1985, it prevented British Steel from closing it. But no longer. Yesterday's deal is so full of loopholes that British Steel can still dispose of Ravenscraig when the time is right and shareholders, not Ministers, can take the blame. It is more subtle than the blunt instrument Ministers have been wielding on the Scottish psyche in recent weeks. But it is hardly, as Mr Rifkind would have us believe, superb news for Scotland.

# Rifkind's role in fight for survival

By GEOFFREY PARKHOUSE and STUART TROTTER

SCOTTISH Secretary Mr Malcolm Rifkind discovered six weeks ago that British Steel was moving into handsome profit and becoming ripe for privatisation sooner than expected. He immediately began working to extend the guarantee on the survival of Ravenscraig beyond the existing five months remaining to the plant.

Yesterday the Cabinet endorsed senior Ministerial support for the idea that a privatised British Steel will be obliged to find a buyer for Ravenscraig if the plant is considered to be surplus to the requirements. The key point is that the privatised company will be obliged to sell to a potential competitor if necessary.

This is the basis of what the Government yesterday was describing as an ongoing future for Ravenscraig for at least seven years.

The Scottish Secretary's proviso, which has not been achieved before, went to the Cabinet Economic Committee on Monday, after a series of informal meetings involving Mr Rifkind, Industry Minister, Mr Kenneth Clarke and Treasury Ministers. The Prime Minister gave her support, recalling that the Ravenscraig workers defied miners' pickets during the year-long strike.

Another Ministerial meeting on Wednesday reviewed British Steel's half year profits of £190m, to which Ravenscraig has made a contribution, and decided that legislation could be forced into the busy parliamentary programme which has three major Bills to cope with already. The steel flotation is likely to take place about this time next year.

Last night the Scottish Ministers were delighted with what they regarded as a major success by Mr Rifkind who appears to have been able to add a codicil to the privatisation process which no other steel plant in Britain enjoys.

Should the privatised company wish to close down Ravenscraig in five or seven years time, Scottish industry will be faced with the challenge of putting in a bid for the efficient plant employing 3300 workers. If the optimism of both the Government and BSC is fulfilled over the next five to seven years Ravenscraig will be in a position to compete with the rigours of market forces which underline the Government's whole strategy.

THE SCOTSMAN

No. 45,014 ★ ★ ★ Friday, December 4, 1987

# Rifkind wins lifeline for Ravenscraig

By KEITH AITKEN and EWEN MacASKILL

THE Ravenscraig steel complex was given a qualified seven-year lease of life yesterday, as the Government announced that the British Steel Corporation is to be privatised early in 1989.

The assurance that Ravenscraig would stay in business for that period "subject to market conditions" was won by the Scottish Secretary, Mr Malcolm Rifkind, in a fierce Ministerial battle resolved in the past few days and finalised in Cabinet yesterday morning.

But the lifeline was being seen last night by Opposition MPs and unions as notably weaker than the three-year guarantees secured by Scottish Ministers in 1982 and 1985 for the plant, which employs 3,300 and is regarded by many as a keystone of the Scottish economy.

The sell-off was announced by the Industry Secretary, Lord Young, as British Steel reported a half-yearly pre-tax profit of £190 million. It compares with a profit of £178 million for the whole of last year and with annual losses in excess of £1 billion less than a decade ago.

The results, which had been expected, persuaded Ministers to push British Steel up the privatisation queue in the hope of restoring confidence in a sell-off programme which has suffered badly from the BP debacle and which faces mounting difficulties over the proposed electricity flotation.

Ministers considered a separate sale of the Scottish operation but were convinced by the widespread view in the industry that British Steel should remain a single entity. There is likely to be a special arrangement to encourage BSC employees to become shareholders.

A Bill is expected soon after Christmas and the earliest possible date for the sale is a year from now, though it is more likely to take place early in 1989.

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The carefully-worded assurances for Ravenscraig emerged from intense negotiations, both between Scottish Ministers and their Industry department colleagues, and between Ministers and the British Steel chairman, Sir Robert Scholey. Sir Robert was reportedly presented with the assurances as the price for privatisation.

In the Commons, the Industry Minister, Mr Kenneth Clarke, said steel-making would continue at BSC's five integrated plants, which include Ravenscraig, for "a number of years" and that BSC foresaw retention of the Scottish plant for at least the next seven years.

But he also made clear that this was subject to several qualifications:

- principally, the projection depended on "market conditions;"
- plate-rolling at the Dalzell works was subject to "commercial considerations;"
- the Ravenscraig strip-mill, in common with its counterparts elsewhere in BSC, could only be guaranteed a future until 1989. That operation employs about 700 but is widely regarded as integral to Ravenscraig.

Mr Clarke said that if BSC should wish to close the plant, it had agreed it would consider, on a commercial basis, any private sector offer to buy it.

Mr Donald Dewar, the Shadow Scottish Secretary, said last night: "There is no guarantee here for Ravenscraig. What is offered is no more than a business projection subject to market considerations and specifically allowing the new owners to sell or close the plant at will."

He noted Mr Clarke's emphasis on over-capacity in BSC's strip division and claimed that the assurance given to Ravenscraig was good for one year only. Privatisation, Mr Dewar said, could only bring the plant uncertainty.

Continued on Page 4, Col 8

Continued from Page 1

But Mr Rifkind, who fought for the seven-year assurance, insisted that the announcement was "superb news", that the seven-year assurance was based on "good commercial reasons" and that it was "frankly better than many might have hoped."

He maintained that the previous guarantees given to the plant had also been market-dependent. "We were told these were worthless then but in fact they have been honoured," he said. But last night few recalled the qualifications then being so heavily stressed.

Mr Campbell Christie, Scottish TUC general secretary, voiced deep concern that the seven-year assurance did not cover the hot-strip mills: "This clearly threatens Ravenscraig's survival as an integrated plant and Ravenscraig will remain at risk while the future of the strip-mill is in jeopardy."

The Liberal Industry spokesman, Mr Malcolm Bruce, welcomed the Ravenscraig assurance, but said it fell short of the necessary "forthright defence" and that major new investment in the plant was needed to ensure that it could flourish under any conditions.

For the SNP, Mrs Margaret Ewing said Mr Clarke's statement left a large question mark over Ravenscraig by implying that it could be reduced to only a slab-making capacity: "The constant reference to leaving the industry to 'market forces' is a total abrogation of economic and social responsibility," she said.

But Scots Conservative MPs welcomed the announcement. Sir Hector Monro, a former Scottish Office Minister, said it was "wonderful news for Scotland," while Mr Nicholas Fairbairn, MP for Perth and Kinross, said the plant was staying alive because it was successful, not because it was Scottish.

That optimism was not shared by the Labour MP whose constituency includes Ravenscraig, Dr Jeremy Bray, who said privatisation would plunge the plant into uncertainty; nor by the Labour MP for Dundee East, Mr John McAllion, who questioned the focus on the future of Ravenscraig rather than other plants.

Mr Neil Kinnock, Labour leader, said privatisation of BSC was a bad deal for the British people, who had spent £6 billion to turn the industry around from the "shambles" it was in when it was first nationalised in 1965. Asked if Labour would re-nationalise it, he replied that Labour would provide "the appropriate and necessary degree of support for a national steel industry."

The privatisation announcement comes as Mr Clarke prepares to do battle next Tuesday at the EEC Council of Ministers to end the quota system for Community steel producers. He believes the revived BSC can thrive in a free EEC market, but several other Community countries fear the consequences for their steel industries of an end to quotas

The CBI in Scotland last night welcomed the Government's announcement.

Mr Bill Hughes, chairman, said it was good news for Scotland and would be welcomed by everyone in the Scottish business community. He singled out the Secretary of State, Mr Rifkind, for praise for pulling off what he described as a "tremendous coup".

Mr Hughes said that undoubtedly the government had taken into account, among other factors, that over the past few years the Ravenscraig work force and management had performed exceptionally well. The dramatic improvements in productivity at the plant, which he was sure would continue, would make it viable and attract further investment in the future.

Prime Minister

DRW 4/12.

# Clarke denies running for cover with privatisation of steel

By STUART TROTTER
Political Correspondent

INDUSTRY Secretary Mr Kenneth Clarke told his critics in the Commons yesterday that BSC based its assurances on its future plans "on good commercial reasons."

The seven and two year periods that had been fixed were because that was as far ahead as could be reasonably foreseen.

Opposition MPs are suspicious that BSC is being put on the market, where it could raise as much as £1000m plus, so quickly because a delay in electricity privatisation is expected and there is the danger of the Government having to buy back large quantities of BP shares if they fall below the price set by the Chancellor of the Exchequer, Mr Nigel Lawson.

The sale of BSC as a single entity will thus add much needed funds for the Chancellor's coffers.

Mr Clarke said Ministers had considered selling BSC in separate units but had decided that it would "damage the industry and minimise the return."

He said that if the privatised company ever decided it had no use for Ravenscraig it had agreed to offer the plant to Scottish or other buyers. Mr Rifkind described this as "a quite unique undertaking."

But most Opposition politicians, although recognising the great progress made by BSC in getting itself into profitabilty, believed that privatisation offered the Government a way of abdicating responsibility for the future of the industry especially in Scotland.

Mr Dewar said: "This is a Government running for cover. The aim is to shed responsibility and leave the future of the industry to the market and to private profit." Mr Malcolm Bruce, the Liberal spokesman, said the guarantees were welcome but "definitely qualified".

Mrs Margaret Ewing, SNP parliamentary leader, said Ravenscraig again had a large question mark over it. The Government was washing its hands of responsibility for the Scottish steel industry.

Mr Dewar said there must be concern that BSC might be planning to keep Ravenscraig on to produce slab steel until it had decided whether to build its new plate mill at Dalzell in Scotland or on Teeside.

Other Scottish MPs forecast that if the hot strip mill were to close the future of the main Ravenscraig plant, employing nearly 3000 workers, must be called in question.

Privatisation was announced on the day that BSC declared a half year profit of £190m for 1987-88 compared with £178m for the whole of 1986-7.

Mr Clarke told MPs that with equally good results expected for the second half that took the corporation over the £300m a year profit mark which the chairman, Sir Robert Scholey, had indicated was required for a successful floatation.

Legislation will be introduced early next year and the sale will be either at the end of 1988 or the beginning of 1989. The exact price the corproation will fetch depends the arrangements Ministers make for writing off existing debts but it will not be under £1000m.

Mr Clarke pointed out to worried Scottish Opposition MPs that the "market conditions" qualification had also applied when the Government gave three-year guarantees to Ravenscraig in 1982 and 1985.

It had been derided then as providing a let out, but the plant had been preserved through difficult times until it had won its way to success.

However, he said that all BSC strip mills were currently under-utilised but BSC "having reviewed the situation thoroughly" had decided "on commercial grounds" that all would be operated at least until 1989.

Mr Rifkind said that in view of the glut of hot strip production in Europe that decision would be a great relief to the 700 workers at the mill.

Labour's Shadow Trade and Industry Secretary, Mr Bryan Gould, called the guarantee "weasel words." It was another case of the taxpayer picking up the bill to help an industry to recover and the City picking up the profits.

Mr John McAllion (Dundee East - Labour) said Scots would find it suspicious that Ravenscraig had been singled out in the Minister's statement as the only plant which BSC could sell off if they had no use for it.

Mr Clarke replied: "Every time I go to Scotland the people will talk about nothing else but Ravenscraig." Mr Rifkind said the Opposition would have created a great fuss if Ravenscraig had not been specially mentioned.

Dr Jeremy Bray (Motherwell South - Labour) said it looked as if BSC would close the hot strip mill in 1989 and then run down the remainder of the steel making at Ravenscraig over seven years.

But Sir Hector Monro (Dumfries - Conservative) said the length of the guarantee was "wonderful news for Scotland" and far better than expected.

Mr Clarke emphasised that the assurances were being given not by the Government but by BSC and that they covered "at least" the timescales mentioned in his statement.

He assured MPs that he expected to be approving new investment for BSC during the period in which remained in public ownership.

Mr George Robertson (Hamilton — Lab) said steelworkers would regard this as "a Government of political spivs selling off the last of the family silver."

There were angry shouts from Scots MPs as Tory Mr Bowen Wells (Hertford) said the Welsh plants were clearly the profitable ones.

But the doubts among many Scots MPs about the future intentions of the privatised BSC towards Ravenscraig were perhaps summarised by Mr Dewar.

He said anyone who reread the "hostile evidence" given by Sir Robert Scholey to the Scottish Select Committee investigating the proposed closure of the now closed Gartcosh Plant "will recognise the storm warnings."

ADVERTISEMENT FEATURE

GLASGOW HERALD FRIDAY 4 DECEMBER 1987

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# Ravenscraig wins a mini-reprieve

By ALF YOUNG and ROY ROGERS

THE Ravenscraig plant has been given a qualified guarantee that it will continue to make steel for the next seven years. But Ravenscraig's hot rolling mill, with 700 of the 3100 workforce, faces a more uncertain future.

British Steel, with considerable over-capacity in hot strip steel, will guarantee its life only until 1989, four months after the existing Government guarantee on Ravenscraig's future runs out.

Yesterday's announcement, welcomed by Scottish Secretary Mr Malcolm Rifkind as "superb news for Scotland", came in the Commons when Industry Minister Mr Kenneth Clarke told MPs that British Steel is to be privatised as quickly as possible, around a year from now.

The corporation, which announced six month profits of £190m against £178m in the whole of last year, is to be sold in one piece. Although detailed decisions have still to be taken, shares in BS will almost certainly be offered to the public. Legislation to make BS a private company will be needed before the sale.

British Steel's promise to the Government that iron and steelmaking at all five of its main plants, including Ravenscraig, Motherwell, will continue for at least seven years is dependent on markets remaining buoyant. If conditions changed and BS wanted to close Ravenscraig earlier, it would consider bids for the plant from others in the private sector.

That caused opposition MPs to denounce the assurances. Shadow Scottish Secretary Mr Donald Dewar called them "fraudulent" and Mrs Margaret Ewing, the SNP's parliamentary leader accused the Government of washing its hands of the Scottish steel industry.

The immediate fear is for Ravenscraig's hot mill. Since the closure of the Gartcosh cold rolling mill in 1985 with the loss of 700 jobs there has been mounting speculation that BSC's senior management wanted the hot mill shut as well.

While yesterday's Commons statement gave the Dalzell plate mill in Motherwell the same qualified seven-year guarantee as steelmaking at Ravenscraig, what Mr Clarke had to say about the hot mill was much more guarded.

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"However having reviewed the situation thoroughly, the corporation has decided on commercial grounds that all their present mills, including the Ravenscraig mill, will continue to operate at least until 1989."

The general secretary of the STUC, Mr Campbell Christie called the proposals a one-legged stool. Giving half a cheer for the reprieve for steelmaking, he went on: "I welcome the retention of steelmaking at Ravenscraig. But steelmaking without the strip mill is a one-legged stool which will threaten the survival of steelmaking there in the longer term."

Scots Industry Minister Mr Ian Lang, echoing Mr Rifkind's view that the mini-reprieve for the strip mill would be "a great relief" to the workforce there, expressed the hope that Ravenscraig would continue to look for overseas markets for its unrolled slab. The plant currently exports slab as far away as Korea.

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Ravenscraig is more than a steel plant. Its survival has become a symbol of commitment to our collective economic future. To its credit, the Thatcher Government recognised that when, in 1982, and again in 1985, it prevented British Steel from closing it. But no longer. Yesterday's deal is so full of loopholes that British Steel can still dispose of Ravenscraig when the time is right and shareholders, not Ministers, can take the blame. It is more subtle than the blunt instrument Ministers have been wielding on the Scottish psyche in recent weeks. But it is hardly, as Mr Rifkind would have us believe, superb news for Scotland.

# Rifkind's role in fight for survival

By GEOFFREY PARKHOUSE and STUART TROTTER

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Ref. A087/3416

PRIME MINISTER

## Steel Privatisation

Cabinet is to take a final decision tomorrow about the Government's policy on the privatisation of the British Steel Corporation (BSC) and what should be said about the future of Ravenscraig in the statement which the Chancellor of the Duchy of Lancaster wishes to make in the afternoon.

BACKGROUND

2. The papers circulated for this item are the E(A) papers by the Chancellor of the Duchy of Lancaster (E(A)(87) 37) and the Secretary of State for Scotland (E(A)(87) 38), and the minute to you of 30 November from the Secretary of State for Defence. The minutes of E(A) on 1 December have also been circulated, recording the Secretary of State for Scotland's dissent.

3. E(A) on 1 December endorsed the proposal by the Chancellor of the Duchy that he should tell the House on 3 December that:

i. Work would be put in hand to privatise BSC within the next two years;

ii. legislation would be introduced later this Session;

iii. the BSC expected, subject to market conditions, to maintain steelmaking at Ravenscraig for at least 7 years;

iv. BSC had concluded that the hot strip mill at Ravenscraig should close, and the Government agreed with this.



BRIABJ

4. The Sub-Committee asked the Chancellor of the Duchy to explore urgently with the Secretary of State for Scotland whether any changes could be made in the drafting of the statement that might help to meet the latter's concern; and to report the Sub-Committee's conclusions and the outcome of these further consultations to Cabinet.

THE ISSUES

5. At E(A) the Secretary of State for Scotland said that there was no difference of view about the desirability of early privatisation of BSC and that he was prepared to accept the case for legislation in this Session if that was the view of his colleagues. The timetable for privatisation may therefore no longer be at issue.

6. The central question is how far, if at all, Mr Clarke feels he can move in order to meet the three proposals which the Secretary of State put to E(A) for easing the political impact of the announcement in Scotland. These proposals are broadly the same as those put forward by Mr Younger in his minute of 30 November.

7. First, Mr Rifkind proposed that closure of the hot strip mill at Ravenscraig should not be announced in the privatisation statement, but that the Government should take the line in that the future of the mill should be decided after privatisation. We understand that Mr Clarke is considering amending his statement to say only that BSC has decided on commercial grounds to continue to operate the hot strip mill at least until 1989; and that BSC are prepared to agree to this. You will wish to consider whether this would be politically tenable. Members of E(A) were inclined to think not. The point was made that it would be better to be open about the future of the hot strip mill right from the start rather than to have an admission reluctantly forced from the Government about it. On the other

hand it is clearly a point of importance to Mr Rifkind.

8. Secondly, Mr Rifkind said that the assurance of steelmaking at Ravenscraig would not be credible since it did not mention the level of output or employment there. You will wish to explore whether Mr Clarke considers that anything can be said to strengthen this assurance. The qualification "subject to market conditions" seems bound to have remained. But it might perhaps be possible to say that employment on steel-making at Ravenscraig will continue at present levels for four to five years. The difficulty with such an assurance is that it would reduce the period of the undertaking from seven years to four or five years.

9. Thirdly, Mr Rifkind proposed that BSC should be required to keep open the option of a sale elsewhere, perhaps to Scottish interests, if they decided they wished to close Ravenscraig. This proposal raises several difficulties. A buyer would probably be interested in Ravenscraig only at a knockdown price, and only if he wanted to get into the UK steel market to compete with BSC. Separate ownership of Ravenscraig would also complicate the task of dealing with surplus capacity. Nonetheless it is a point to which Mr Rifkind attaches importance and his discussions with Mr Clarke about it are still continuing. We understand that BSC are reluctant to concede anything on the point but Mr Clarke will be seeing Sir Robert Scholey this evening to discuss it further. The sort of formula which might perhaps be considered is that if BSC were to wish to close Ravenscraig completely they would invite and consider any offer for its facilities as an alternative to closure; but that any bid would not be financed by public money. I suggest you see Mr Clarke says in the light of his talk with Sir Robert.

HANDLING

10. You will wish first to ask the Chancellor of the Duchy of Lancaster to report to Cabinet the conclusions of E(A) and the outcome of his further consultations since E(A). The Secretary of State for Scotland might then be invited to explain his concerns, which are largely shared by the Secretary of State for Defence. The Chancellor of the Exchequer will be interested in the management of the privatisation programme, and the Lord President and the Lord Privy Seal in the Parliamentary handling.

RS Wadley

ROBERT ARMSTRONG

2 December 1987

DRAFT STATEMENT ON BSC

With permission, Mr Speaker, I should like to make a statement on the British Steel Corporation.

2 The Corporation today announced its half year results for 1987/88. These show a bottom line profit of £190m. This compares to £178m for the whole of 1986/87. This is an impressive improvement in the Corporation's performance and I am sure that the House will join me in congratulating the corporation and all its employees on such an impressive achievement.

3 As the House is aware, this Government is committed to returning successful State industries such as steel to the private sector as soon as practicable. It is quite apparent that the British Steel Corporation has now reached the stage where it would benefit from a return to a fully commercial environment. I am therefore pleased to announce that I [my Rt Hon Friend the Chancellor of the Duchy of Lancaster] am setting in hand the work necessary to privatise the Corporation as soon as possible subject to market conditions within the next two years.

4 Legislation will be required to turn the Corporation into a private company. This will be introduced later in the current session.

5 In accordance with the previous commitments given by the Government, the Corporation will continue with five integrated plants until August 1988. [My Rt Hon Friend has] I have been reviewing this with the Corporation in the light of the current market position. They will require steel making at all five plants for a number of years. Scottish Members will be pleased to hear that the Corporation will be putting out a statement today making clear that subject to market conditions there will continue to be a commercial requirement for steel making at Ravenscraig (and Dalzell) for at least the next seven years. This therefore gives assurance to Ravenscraig's iron and steel making facilities for a considerable period - indeed for a period much longer than the three year commitments that the Government have been able to give in each of the two previous reviews in 1982 and 1985. The Corporation have also indicated that even if they should wish at some stage because of market conditions to close their steel-making facilities in Ravenscraig they would consider, on a commercial basis, any wholly private sector offer for those facilities as an alternative to closure.

6 There is clear surplus capacity in BSC, as throughout Europe, in hot strip. BSC's four strip mills are currently running at below 70% of their potential capacity, which is among the lowest level of utilisation of strip mills anywhere in Europe. However having reviewed the situation thoroughly, the Corporation has decided on commercial grounds that all their present mills, including the Ravenscraig mill, will continue to operate at least until 1989.

7 The Government's consistent aim has been to achieve a strong competitive British steel industry capable of performing well against international competition. This is in the best interests of the workforce of British steel and of all their customers and in particular of steel users in the rest of British industry. The British Steel Corporation has already achieved a quite remarkable recovery and is now one of the most successful steel makers in western Europe. I believe that early privatisation and full commercial freedom will enable the Company and its workforce to be best placed to go on to further achievements and to secure a firmly based competitive industry with a long term future.

**10 DOWNING STREET**

Prime Minister

Just in case ...

DCV
2/12

Marvellous

very much

MO

ARGUMENTS FOR USE WITH MR RIFKIND IF NECESSARY

- You proposed that all decisions on plant closures should be left until after privatisation. That was agreed, but you then looked for a different solution.

- You wanted undertakings on Ravenscraig liquid steel-making. That has now been agreed for seven years, subject to the market. [This will put Ravenscraig in unique position.]

- You wanted no announcement on closure of hot strip. That is now agreed, with an undertaking not to close before 1989.

- You wanted a form of words which would make it clear that a sale of Ravenscraig was not ruled out if eventually BSC wished to dispose of it. That has now been agreed.

We cannot give you a guarantee of continued steel-making at Ravenscraig. To do so would put the BSC Board and the Government in an impossible position. But just look at how far we have gone to try to help you.

You do not know when and if Ravenscraig will close. No-one in 1980 would have believed that Ravenscraig would still be producing steel in 1994.

[If relevant] You will look very foolish if you resign and Ravenscraig is still successfully producing steel at the turn of the century. If you decide to resign, so be it. But I ask you to consider the consequences for the Union. England won't suffer. But Scotland certainly will.

DASAEU

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930 7022

MO 26/3/3V

2nd December 1987

Dear Daniel,

My Secretary of State's minute of 30th November to the Prime Minister and to other members of E(A) on Steel was classified SECRET, but I understand that all other papers on this subject are being treated as CMO until 29th February 1988. I should be grateful if you and those to whom I am sending copies of this letter would ensure that your copy of the Defence Secretary's minute is marked "CMO UNTIL 29TH FEBRUARY 1988" and handled accordingly.

amended.

Copies of this letter go to the Private Secretaries to all other members of E(A) and to Trevor Woolley in the Cabinet Office.

Yours sincerely

(I C F ANDREWS)
Private Secretary

David Norgrove Esq
10 Downing Street

CC(87) 31

P 02943

PRIME MINISTER

E(A) 1 December: Steel

E(A)(87)37 - Memorandum by the Chancellor of the Duchy of Lancaster
E(A)(87)38 - Memorandum by Secretary of State for Scotland

BACKGROUND

The purpose of this meeting is to decide the Government's policy on privatisation of the British Steel Corporation (BSC) and what should be said in that context about the future of Ravenscraig.

The Issues

2. The paper by the Chancellor of the Duchy proposes that he should tell the House on 3 December that:

- work will be put in hand to privatise BSC within the next two years, preferably November or December 1988;

- legislation will be introduced later this Session;

- the BSC expect, subject to market conditions, to maintain steelmaking at Ravenscraig for at least 7 years;

- the BSC have concluded that the hot strip mill at Ravenscraig should close, and the Government agree.

3. The paper by the Scottish Secretary argues that:

(a) Early privatisation will be unexpected and arouse suspicions. If it is to take advantage of a window of opportunity the market will realise that too. On this Mr Clarke argues that early privatisation will:

- keep up the momentum of the privatisation programme and avoid a clash with electricity and water;

- come before major plant decisions have to be taken, so that they can be left to the private company;

- come when steel demand is high enough to allow BSC to give the assurance on steelmaking at Ravenscraig;

- come well before the next Election.

(b) Privatisation in the form proposed will be enormously controversial in Scotland. Mr Rifkind argues that the best solution would be for BSC to refurbish or build a new plate mill in Scotland. On this Mr Clarke argues that it would:

- cost BSC £45m a year for 30 years compared with the alternative which they are likely to favour of a new plate mill at Teesside or Scunthorpe;

- commit them to steelmaking at Ravenscraig for 30 years;

- be at the expense of the North East.

(c) Another less satisfactory option would be separate flotation of BSC's Scottish interests, which could then sink or swim according to their success in the market. On this, Mr Clarke argues that:

- it would be hard to find a buyer;

- BSC Scotland would depend on sales to the England and Wales company which would soon develop its own cheaper supplies;

- BSC Scotland would lose the central services and expertise developed by the national BSC;

- it would leave the problem of excess capacity unresolved;

- it would delay privatisation.

Specific points by Mr Rifkind

4. Mr Rifkind also raises two new points:

(a) BSC have declined to propose necessary new investment at the Clydesdale tube mill. This is important since there are more jobs at stake there (1780) that at the Ravenscraig hot strip mill (700) at the Dalzell plate mill (570) put together. Would BSC be prepared to give a medium term assurance about production at Clydesdale?

(b) He wants to consider mothballing the hot strip mill. You may want to ask Mr Clarke whether this would be practical. It might encourage a permanent campaign to start up production again. More than that, the plant would become obsolescent, and mothballing would not count as capacity reduction for EC purposes.

Legislative Programme

5. The Lord President and the Lord Privy Seal will be able to speak about the implications for the legislative programme. Our understanding is that if a Bill on steel privatisation is essential this Session they will accept that it must be fitted in; but they are unlikely at this stage to be prepared to give an assessment at E(A) as to which other Bills will be affected. An overspill to the end of next November must be a real possibility.

The announcement

6. Once the policy is agreed, you may want E(A) to consider the terms of the announcement. There are a number of points.

- It refers to privatisation within the next two years, although the 'window' is seen as opening in about a year. This is presumably to give flexibility.

- No firm date is given for the 'eventual' closure of the hot strip mill. BSC will continue to operate it until 1989 at least. This may reassure Scottish opinion, but might it also encourage a campaign against closure ever taking place?

- Paragraph 6 says that Mr Clarke agrees with the BSC that, on commercial grounds, the hot strip mill should close. Is it necessary to say that?

- There is no reference to establishing an enterprise company in the area affected. Mr Clarke earlier saw this as an important part of the statement. It seems a surprising omission.

7. The Secretary of State for Trade and Industry wants to make a statement in the Lords. The business managers will need to ensure that this does not precede the Commons statement.

Handling

8. You may wish to invite the Chancellor of the Duchy of Lancaster followed by the Secretary of State for Scotland to speak to their papers. Thereafter you may wish to call on the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and the Secretary of State for Wales. The Lord President and the Lord Privy Seal could be asked about the legislative programme. Other Ministers may wish to speak, as appropriate.

Cabinet

9. You may wish to arrange for endorsement by Cabinet on 3 December before the statement is made.

R T J WILSON
Cabinet Office
30 November 1987

MO 26/3/3L

PRIME MINISTER

STEEL

1. I had hoped to be able to attend the meeting of E(A) on Tuesday 1st December at which the future of the steel industry is to be discussed but I must be in Brussels for a meeting of the NATO Defence Planning Committee. I am very concerned indeed about the issues to be discussed as they affect Ravenscraig.

2. I fully understand that some rationalisation may be necessary, although I would hope that colleagues would feel able to stretch every point they can to take the Scottish economic and political interests into account.

3. This is not just another steel closure like several elsewhere. It would symbolise the end of heavy industry in Scotland, and would leave a gaping hole in a very sensitive area in the heart of the Scottish population. Its closure would not only create massive job losses but would threaten the economics of other sectors of the economy such as electricity and British Rail, both of which would lose their largest customers. I hope no-one will underestimate the severe political shock to the Government's already fragile support in Scotland. It would be very serious indeed. I hope colleagues will appreciate what an extremely difficult position the Secretary of State for Scotland would be in if this were to happen.

4. If closure of the strip mill is inevitable I hope some positive strategy might accompany this event. Although I am not up to date in the background, I would suggest the following possibilities:

(i) An unbreakable commitment to keep basic steel-making for at least a certain number of years (perhaps 7?)

(ii) A commitment by British Steel to concentrate plate capacity on Ravenscraig and Dalzell. The latter has a strategic importance as the only plant in Britain that can at present produce suitably treated steel for Trident submarines.

(iii) An undertaking that if eventually British Steel did decide to abandon Ravenscraig they would be prepared to accept a private Scottish-based buy out. I realise the capacity problems this would cause, but it would be important politically for the Secretary of State for Scotland who could point to this as a future fall-back position which would enable Scotland, if it put up the money, to buy back the steel industry which was stolen from it when the Labour Government nationalised it against Scottish interests. I earnestly hope that any decision that has to be taken will only be taken after a full realisation of the enormous political disaster that it could well be if it is not very carefully balanced, and that this could well eventually lead to a constitutional crisis which we would all wish to avoid.

5. I am sending copies of this minute to other members of E(A) and to Sir Robert Armstrong.

G.Y.

Ministry of Defence
30 November 1987

SECRET

PRIME MINISTER

STEEL

The Chancellor suggested that you might consider further his idea of allowing him to talk to Sir David Nickson about the CBI attitude on steel. Do you want him to do this?

I will have a word with him on Monday MT

DRN

D R NORGROVE
27 November 1987

SECRET

SECRET

PRIME MINISTER

STEEL

These papers will be very largely familiar to you. I suggest that you read paragraphs 12-15 of Mr Clarke's paper, about the proposal for a separate Scottish company, and particularly Annexes A and B which are his proposed statement to the House and draft press notice by BSC. Mr Rifkind's rambling paper is also familiar territory. The only new suggestion is that it may be worth looking at the possibility of mothballing the hot strip mill at Ravenscraig, given the difficulty of predicting demand in seven years' time.

DKW

D R NORGROVE
27 November 1987

SECRET

DASAEJ

CONFIDENTIAL

10.

CCBG

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 5147
(Switchboard) 01-215 7877

*From the Chancellor of the Duchy of Lancaster and Minister of Trade and Industry*

**THE RT HON KENNETH CLARKE QC MP**

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

27 November 1987

Dear David, NSM

**BSC: DEFENSIVE BRIEFING**

Further to our telephone conversation earlier this week, I attach a set of defensive questions and answers in the event of any press speculation on BSC over the coming few days.

Yours,

Peter

PETER SMITH
PRINCIPAL PRIVATE SECRETARY

NO6ACG

Q Is the Government looking at the option of splitting BSC up and privatising it in two parts, one North, one South of the border?

A All options for privatisation would naturally be carefully considered. Our aim must, however, be to end up with a British steel industry in the best possible position to compete successfully in world markets.

Q Will the Government extend its present guarantee to Ravenscraig beyond August 1988?

A The Government has not yet reached a decision, but will announce it as soon as it can. However, the best guarantee of Ravenscraig's future is continued success in the marketplace.

Q Is the Government considering closing the hot strip mill at Ravenscraig?

A The future configuration of BSC is a matter for the Corporation. The Government would, however, expect the Board to pursue the most commercial options open to them.

Q Isn't Ravenscraig performing much better? Doesn't that rule out any change to plant configuration?

A It's good news that BSC as a whole is performing so much more strongly. But in the fiercely competitive environment in which BSC operates, it is crucial that it continues to seek to improve its performance still further.

JH2AAE

Q What are the implications for the British steel industry of the European Commission's proposals to cut excess capacity? Will Ravenscraig have to close?

A Decisions about the future configuration of BSC will be taken in Britain, not Brussels. Furthermore, the British steel industry has probably done more to restructure than any other European competitor. The Germans and the Italians, for example, all need to do a lot more to put their house in order than we do.

Q What will Britain's negotiating position at Brussels be therefore?

A We will be arguing for an end to quotas and a rapid return to a free market in steel. This reflects the strength of BSC and the fact that they are in a far better shape to face up to competition than other European steel industries.

Q What are the Government's plans for privatising BSC?

A We have always said that it is our aim to restore the steel industry to the private sector as soon as is practicable. Obviously the better BSC performs, the more attractive it becomes to potential investors, and the more feasible privatisation becomes.

JH2AAE

SECRET

PRIME MINISTER

STEEL

These papers will be very largely familiar to you. I suggest that you read paragraphs 12-15 of Mr Clarke's paper, about the proposal for a separate Scottish company, and particularly Annexes A and B which are his proposed statement to the House and draft press notice by BSC. Mr Rifkind's rambling paper is also familiar territory. The only new suggestion is that it may be worth looking at the possibility of mothballing the hot strip mill at Ravenscraig, given the difficulty of predicting demand in seven years' time.

D R NORGROVE
27 November 1987

SECRET

DASAEJ

SECRET 27 28

file 015

**PRIME MINISTER**

**STEEL**

The Chancellor suggested that you might consider further his idea of allowing him to talk to Sir David Nickson about the CBI attitude on steel. Do you want him to do this?

D R NORGROVE
27 November 1987

SECRET

File

DSG 23

SUBJECT cc MASTER

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

26 November 1987

**STEEL**

The Prime Minister this afternoon met the Lord President and the Chancellor of the Duchy of Lancaster to discuss the timetable for the possible announcement on steel privatisation.

The Prime Minister expressed concern that if the Government were to announce closure of the Ravenscraig hot strip mill before the Industrial Council meeting on 8 December, some in the House would accuse the Government of having sold out to the European Commission and other European countries. They would argue that had we not agreed to close our mill, an Italian or German mill would have closed instead. The Chancellor of the Duchy in reply argued that it would be important to make it clear that the decision to close the mill would strengthen British Steel and was necessary regardless of the European dimension.

The Chancellor of the Duchy of Lancaster then outlined the statement he would make if E(A) and Cabinet agreed the policy and timetable. This would point to the strength of BSC's financial performance and to the way in which this had opened up the possibility of privatisation. Discussion of plant closures would probably come towards the end of the statement, and would be along the lines that BSC had made proposals about the plant configuration which it wished to see after the expiry in August 1988 of the undertaking on Ravenscraig. It would be important to stress first that the future of Ravenscraig liquid steel making was secure, subject to the markets, for seven years, ensuring 3,000 jobs. On hot strip capacity, the statement would point to the need to retain the two Welsh plants and argue that it would be preferable to close Ravenscraig hot strip rather than Lackenby. This was BSC's own commercial view. The statement would probably say that the intention would be to privatise BSC in twelve to eighteen months' time. The Lord President asked that it should also make clear that the intention was to introduce the necessary legislation in this Session.

It was noted that the Secretary of State for Trade and Industry wished to repeat in the Lords the statement which the Chancellor of the Duchy would make in the Commons. To ensure

that the statement in the Lords did not precede that in the Commons it would be necessary for Business Questions to be made a statement.

The Prime Minister asked to see a draft of the Chancellor's statement at a suitably early stage.

There was a brief exchange about the possibility of special support for enterprise at Ravenscraig to be announced on Thursday. It was noted that Mr. Rifkind was conscious that there would be a need for such support elsewhere in the Glasgow area if Govan were to close. If money were to be provided in either place, the Treasury would wish it to be channelled through BSC (Enterprise), whereas Mr. Rifkind would prefer the Scottish Development Agency to be the channel.

I am copying this letter to Mike Eland (Lord President's Office) and Trevor Woolley (Cabinet Office).

David Norgrove

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

EL3CHT SECRET

CC B/JP

26

PRIME MINISTER

STEEL

You are meeting the Lord President and Mr. Clarke to discuss the timing of an announcement on steel.

Mr. Clarke envisages an announcement on Thursday 3 December, ahead of the Industry Council on 8 December. You and the Lord President were concerned at appearing to announce closures here before other European countries had made their contribution.

A point to bear in mind is that E(A) is now on course for Tuesday, though it could of course be rescheduled, with some risk of leaks. The worst course would probably be to hold E(A) on Tuesday and then delay an announcement beyond 3 December. This could not be made on Thursday 10 December because it would be only two days after the Industry Council, and Thursday 17 December is getting very close to Christmas both in terms of appearing scared of Parliamentary pressure and also of announcing redundancies so close to Christmas itself. The announcement could not then be made until mid January. Thus there would be six weeks or more in which leaks could take place.

Despite the disadvantages, there is much to be said for keeping up the momentum now with E(A) on Tuesday and the announcement on Thursday. Apart from anything else this would leave minimum time for Mr. Rifkind to gather his forces.

On a different point, Mr. Younger will be in Brussels on Tuesday so cannot be at E(A). He was however seen deep in conversation with Malcolm Rifkind this afternoon in the House so there is a good chance that they are now cooperating over Ravenscraig. You might want to have a further word with the Lord President about this.

DN

DAVID NORGROVE

25 November 1987 SECRET

mtg record

file SLwBCL 25

SUBJECT

CC MASTER

# 10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

24 November 1987

**STEEL**

The Prime Minister today held a meeting to discuss steel on the basis of the Chancellor of the Duchy's minute of 19 November and the Scottish Secretary's minute of 23 November. There were present the Lord President of the Council, the Chancellor of the Exchequer, the Secretaries of State for Wales and Trade and Industry, the Chancellor of the Duchy of Lancaster, the Secretary of State for Scotland, Mr. Richard Wilson and Mr. George Monger (Cabinet Office), and Mr. George Guise (No.10 Policy Unit).

The Chancellor of the Duchy said that in his view the Government should now work towards privatisation of the British Steel Corporation (BSC) in late 1988. As far as Ravenscraig was concerned, he would prefer to do so on the basis he had originally proposed: early closure of the hot strip mill and a medium term assurance about the future of steelmaking there. But he was prepared to accept the alternative of taking neither action before privatisation and leaving plant decisions to be taken by the BSC thereafter, if that were judged to be politically easier in Scotland. He was however firmly opposed to any delay in privatisation and also to separate flotation of BSC's Scottish interests, since he believed that to be quite impractical.

The Secretary of State for Scotland said that public opinion, especially in Scotland, would be surprised by privatisation of the BSC by the end of 1988, when it had not been mentioned in the Manifesto or The Queen's Speech, and would disrupt an already congested legislative programme this Session. If the Government could see that there was only a small window of opportunity, so could the market. The alternative of separately floating a Scottish private sector steel company centred on Ravenscraig should be given very serious consideration. If BSC regarded Ravenscraig as a liability, they should be glad to get rid of it. A Scottish steel company could test its own future. If it collapsed - and there could be no question of subsidies - Scottish opinion

would have to accept it. It would be quite different from a closure by the Government or BSC. The other possibility, if this alternative was not thought to be attractive, was to locate the new plate mill in Scotland: option 4 in Sir Robert Scholey's letter of 20 October. BSC's own figures showed that this would improve their profitability by £80 million a year.

In discussion the following were the main points made:

a. Early privatisation of the BSC should not be regarded as so surprising. It had not been specifically mentioned in the Manifesto, but the Government had made it clear that it was their ultimate objective and had said in the Campaign Guide that they intended to achieve it during this Parliament.

b. Location of the new plate mill in Scotland, as in Option 4 of Sir Robert Scholey's letter of 20 October, would reduce profits by £45 million a year compared with the BSC's preferred Option 2, and lose jobs in the North-East. Instructing BSC to take this course would be clearly a political rather than a commercial decision.

c. Separate privatisation of BSC's Scottish interests would damage the operations and profitability of the BSC as a whole, and would have to be based in the first instance on allocating out BSC's quotas. It was unlikely to attract investors. The Scottish business would certainly fail in the end, but the rest of the steel industry would have been greatly undermined in the meanwhile. On the other hand, it would have the advantage of taking decisions about the future of the Scottish steel industry away from BSC, who had already shown that they wanted to close it, and put them in the hands of the market, in line with the Government's general policy.

d. Privatisation of BSC as a single entity would not create a private sector monopoly: imports would continue to exercise substantial competitive pressure.

e. It would not be practical politics for the Government if pressed during the privatisation debate about the future of Ravenscraig, to say only that it was a matter for the BSC. The medium term assurance on steelmaking at Ravenscraig earlier proposed had therefore been devised as a way of answering such questions which would at the same time reassure Scottish opinion. It still seemed the best way of doing so.

f. The Government had tried for some years to protect the Scottish steel industry against rationalisation. The attempt had been expensive for the UK as a whole and was not in Scotland's own interest since there was no longer-term future in perpetuating an uneconomic distribution of resources. In the long run the prosperity of Scotland, and Wales, could be assured only by diversifying them away from dependence on heavy industry, and indeed this had already happened to a

considerable extent: fewer than 2% of those in employment in Scotland were now employed in coal, steel and shipbuilding.

The Prime Minister said that an early meeting of E(A) would be necessary to resolve the issue. She invited the Chancellor of the Duchy of Lancaster and the Secretary of State for Scotland to circulate papers, classified SECRET and CMO, for this meeting.

I am copying this letter to the Mike Eland (Lord President's Office), Alex Allan (HM Treasury), Jon Shortridge (Welsh Office), Alison Brimelow (Department of Trade and Industry), David Crawley (Scottish Office), Richard Wilson and George Monger (Cabinet Office) and George Guise (Policy Unit).

(DAVID NORGROVE)

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

SECRET

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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*From the Chancellor of the Duchy of Lancaster and Minister of Trade and Industry*

**THE RT HON KENNETH CLARKE QC MP**

cc GG + others.

David Norgrove Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1A 2AA

23 November 1987

Dear David,

**BRITISH STEEL CORPORATION**

As recorded in the minute from the Chancellor of the Duchy to the Prime Minister of 19 November, he has met Sir Robert Scholey to discuss the position following the Prime Minister's meeting on 12 November. Sir Robert then wrote to the Department setting out his more considered comments. These were reflected in the Chancellor's minute but the Chancellor feels colleagues might find it helpful to have a copy of Sir Robert's letter which I am therefore attaching.

I am copying this letter to Alex Allan (HM Treasury), Mike Eland (Lord President's Office), Alison Brimelow (DTI), David Crawley (Scottish Office) and to Trevor Woolley (Cabinet Office).

Yours sincerely,

Peter

PETER SMITH
PRINCIPAL PRIVATE SECRETARY

EC3ADE

A

# BRITISH STEEL CORPORATION

Private and Confidential

SIR ROBERT SCHOLEY, CBE, D.Eng

17th November, 1987

Mr. J. F. Mogg,
Department of Trade and Industry,
Ashdown House,
123 Victoria Street,
London SW1E 6RB

Dear John

At my meeting with the Chancellor of the Duchy of Lancaster on Thursday, 12th November, he informally told me of the Government's latest thinking on the question of a 'solution for Scotland' and its relationship to the early privatisation of the British Steel Corporation.

Before this conversation, we had been encouraged to work on a 'solution for Scotland' which could be politically acceptable and clear the way for the subsequent privatisation of the British Steel Corporation. At the 12th November meeting however, I was told that the scene had changed, and that consequently there was an acceptance that the British Steel Corporation's privatisation could be proceeded with at once, a space having been found in the Parliamentary programme during 1988, but I should reconsider some of the points set out in my letter of 20th October, 1987.

I undertook to reflect on this and, as you are aware, have consulted my Executive colleagues. The prime point is that after privatisation the 'private' company would be free to act commercially in its own interests, and in this connection I took the point made by the Chancellor that there was no reason why the Prospectus should be in any way inhibited by political undertakings referring to the post-privatisation era.

Having regard to the Prospectus it is our current view that in dealing with the Scottish scene it could state that it is the Corporation's intention to continue steelmaking at Ravenscraig beyond August 1988 and, as seen now, for a few years into the early 1990s, subject always to market demand. The plate mill at Dalzell is supplied by Ravenscraig and its future should be reasonably assured whilst steelmaking continues there.

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

(While the Ravenscraig hot strip mill will certainly be retained in the period prior to privatisation we cannot give a similar commitment to it. I have already referred to this problem in detail in my letter of 20th October to the Chancellor but as you know the Corporation has considerable excess hot strip mill capacity of better quality against foreseeable demand - proportionally amongst the highest in Europe. Excess hot strip mill capacity is the biggest problem for the steel industry in Europe and it must be addressed if it is to become truly competitive and the Corporation is to maintain its competitive position. Accordingly, it would not be in our commercial interests, both short and long term, to give an assurance for the Ravenscraig hot strip mill beyond the proposed privatisation timetable. This is particularly relevant currently and our European competitors would view any suggestion of a prolonged life with the greatest suspicion.)

The Seamless Tubes business, mainly located at Clydesdale, remains very fragile although not an immediate problem. The Corporation will continue to keep the business under review as it is particularly susceptible to market conditions.

Given the above, I would be prepared to put this proposition to a specially convened Board when in receipt of more formal accord from the Government, provided we can be clear on the following points:-

1) We can proceed with our Port Talbot investment in a new continuous caster, as we were intending under the previous scenario, and which will probably be submitted to Government in Spring 1988;

2) Although politically our case is arguably weakened in Brussels, by not being in a position immediately to offer strip mill capacity in relation to the 8th December and any following Councils, nevertheless, during the interregnum, the Government would maintain its current vigour in respect of securing increased quota under any extension of the quota regime. This is especially important to privatisation in the formulation of our Prospectus;

3) In the event of their being unforeseen delay on the privatisation programme, for whatever reason, beyond, say, mid 1989, we would be free to submit plans to HMG for any actions which had been delayed during the process of privatisation but which could then be commercially necessary.

I should be grateful if you would transmit these views to the Chancellor. I shall then await a response which will make it possible to put in hand the arrangements for convening a Special Board which will be necessary before 3rd December. I would like to re-emphasise my concern about the future use of assurances and would welcome hearing from you how it is intended they might, or might not, be used. In referring to a date I am assuming that the 3rd December is the preferred day in your mind for an appropriate political announcement preceded by the announcement of our half-yearly results a day or two earlier. On this latter point, I would wish you to discuss either with me, or Mr. M.E. Llowarch, the necessary co-ordination of media presentation at that time.

Yours sincerely,

Bob Scholey

NOTE FOR FILE 23 November 1987

c Mr Norgrove

**BSC CAPITAL EXPENDITURE - CONTINUOUS CASTING/PLATE MILL**

The modern method of producing steel is by continuously casting semi-finished products such as billets and slabs directly from molten raw steel as it is made. This obviates the need for handling and reheating intermediate products such as ingots for reprocessing into semi-finished products. British Steel must therefore aim towards a hundred percent of its output from continuously cast steel.

At present there are continuous casters (concasters) at Port Talbot (2.3 MTPA), Ravenscraig (1.6 MTPA), and at Teeside (1.6 MTPA). Total concast capacity is therefore 5.5 MTPA. In addition there is a new concaster being installed at Llanwern with a capacity of 1.7 MTPA to be ready by the end of 1989. Total concast capacity will then be 7.2 MTPA.

British Steel plans to build a further concaster at Port Talbot with a capacity of approximately 2 MTPA to be ready by 1992. This will cost between £60 and £80m and is therefore in excess of the £50m limit which the BSC Board can decide without reference to Government. Once the new Welsh concast capacity is installed, there will be no need to transport slabs from Ravenscraig for hot rolling in South Wales.

The primary steel will be produced at Port Talbot and continuously cast on the spot. Output constraints are dependent upon casting and rolling capacity rather than raw steel making which can be increased, leading to lower specific overheads per tonne. BSC capital expenditure plans

therefore include replacement of the Ravenscaig concaster by a slightly higher capacity installation at Port Talbot. Once this is finally in operation there will be no need for continued raw steel making at Ravenscraig.

The other prong of BSC's capital programme is a new plate mill which they intend to build at Scunthorpe. Capital investment will be some £170m and, it is argued, will result in more commercially acceptable plate quality as required by the oil platform industry. The location of this new plate mill is a principal subject of contention by the Scottish Office who would like to see it put at Dalzell. This would guarantee Scotland a role in steel making for the next 30 years by providing a rationale for both Dalzell and Ravenscraig. The economic consequence of that decision would be to reduce the possible profit level of BSC overall by some £50m per annum in perpetuity.

GEORGE GUISE

SECRET

Prime Minister

**STEEL**

I have seen the Chancellor of the Duchy's minute of 19 November recording his discussions with Bob Scholey and myself.

It is encouraging that Bob Scholey accepts that there is no immediate need to close the hot strip mill at Ravenscraig and that its future can be determined after privatisation.

You will recall however my surprise and concern at learning at our last meeting that Kenneth wished to promote legislation in the current session to privatise the steel industry. While I am delighted that it will now be possible to privatise BSC much earlier than we had expected, I believe that to contemplate immediate legislation would be seen as irresponsible and indicative of a lack of confidence in the longer term future of the industry.

There was no reference to the privatisation of the steel industry either in our manifesto or in the Queen's Speech for the current session. To use BSC's half-year results as a justification for a sudden and entirely unexpected announcement that we are to go for immediate privatisation with a major Bill added to an already congested legislative programme would not be seen as the action of a responsible Government.

It will be assumed that either we had a "hidden manifesto" on this issue and that we misled the electorate or that we have, in the space of a few weeks, launched into a completely new strategy on the privatisation of the industry.

Kenneth refers to his concern that if we do not go for immediate legislation "the window of opportunity would have been missed". It has

to be said that if DTI see BSC's current profitability as only a "window of opportunity" then there is no reason to assume that either the market or potential investors will see it any differently. If, on the other hand, we believe that our policies have led to a much stronger British steel industry then we should move to privatisation in a measured and responsible manner.

Kenneth also refers to my discussions with him about the possibility of floating a Scottish private sector steel company centred on Ravenscraig. I believe very strongly that if privatisation is now an early objective this option must be given very serious consideration on both economic and political grounds.

Privatisation will be acceptable in Scotland insofar as it allows the possibility of a long term future for the steel industry north of the Border. Sadly, there is unlikely to be any such future while it is part of BSC. As we know, Bob Scholey wishes to close the hot strip mill as soon as possible and the remainder would be likely to follow once more concast capacity is installed in South Wales.

A Scottish private sector steel company would, on the other hand, be owned and managed by those who wanted it to succeed and whose efforts were directed to that end. If it survived and prospered that would be excellent but, even if it failed, responsibility could not be laid at the door either of Government or of a hostile BSC.

Kenneth is against a Scottish flotation on the grounds that it would weaken BSC in competitive terms. I find this a curious argument. We are constantly told that Ravenscraig is a burden on BSC and limits its profitability. We cannot at the same time be asked to accept that hiving off Ravenscraig would damage BSC's competitiveness. Likewise, it is suggested that a Scottish steel company would lead to "two inefficient and non viable producers". If Ravenscraig can win and hold markets then it should be permitted to do so. If it can't, it would go to the wall and BSC would resume its monopoly.

This is surely the crunch issue. We normally take great pains to ensure that privatisation does not mean replacing a state monopoly by a private one. BSC is, in effect, a monopoly producer of most steels at the

present time. That is unhealthy and, if possible, should not be continued.

We cannot, at this moment, say for certain whether the flotation of a private sector Scottish steel company is a realistic option. There is every reason to find out whether it is as it would ease very considerably the political and industrial problems that privatisation inevitably involves.

There is one further option if the flotation of a Scottish steel company is unattractive to BSC. My main interest is a long term future for the steel industry in Scotland. That would be guaranteed if, in accordance with its single plate mill strategy, BSC decided to refurbish or to construct a new plate mill at Dalzell or Ravenscraig. By BSC's own reckoning, this option, although not the most profitable, would improve its annual performance by £80m and, under current proposals, is achievable earlier than if a single plate mill were located elsewhere.

If BSC is committed to wishing a long term future for its Scottish steel industry then this option should commend itself to the Corporation. If it is not, BSC should not stand in the way of a Scottish steel industry trying to create a long term future for itself by its own exertions in the market.

I am copying this minute to Willie Whitelaw, Nigel Lawson, David Young and Kenneth Clarke.

MR

**M R**

23 November 1987

PMMALA

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PRIME MINISTER

STEEL

Mr. Rifkind has spoken to the Lord Chancellor who in turn has been to see the Lord President. The Lord Chancellor said that he did not wish to be involved in discussions of the issue, but he wanted the Lord President to know that it would be difficult in Scotland. He hoped that the Scottish Secretary would be given a chance to pursue his option for a Scottish solution. It would be a pity not to have a good look at it.

The Lord President has commented that Mr. Rifkind has done a good job in selling his case to the Lord Chancellor. (The Lord Chancellor of course does not know the costs of the Scottish option. I have asked that the Chancellor of the Duchy should be fully briefed on the figures before tomorrow's meeting.)

The precedents for allowing a Cabinet Minister to go off to pursue a solution not favoured by most of his colleagues are unhappy. It would be far preferable if alternative options could be dismissed tomorrow.

Your objective will presumably be to try to put Mr. Rifkind in a position where he faces a clear choice between his own option and Mr. Clarke's option. If he chooses his own option he must understand that:

(i) the Bill will be introduced this Session;

(ii) a decision on a new concast facility is likely to be taken in the Spring in favour of South Wales;

(iii) Government Ministers while the Bill is going through the House will have to be able to say that, whilst the decision on the hot rolling mill at Ravenscraig is a matter for the British Steel Corporation, no guarantee about its future can be given.

DRN

D. R. Norgrove
23 November 1987

SECRET

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PRIME MINISTER

STEEL

Minute of 19 November from the
Chancellor of the Duchy of Lancaster

When the Group last met on 12 November it discussed the proposal by the Chancellor of the Duchy that before privatisation the hot strip mill at Ravenscraig should be closed, but that a medium-term assurance should be given about steelmaking there. The Secretary of State for Scotland suggested that it might be politically easier in Scotland if neither action was taken before privatisation. He proposed instead that the Government should follow the general line that all decisions about the structure of the industry would be for the BSC to take after privatisation. The Group saw considerable attraction in this alternative and asked the Chancellor of the Duchy to consider it further with the Secretary of State for Scotland, to consult Sir Robert Scholey and to report back.

2. The Chancellor of the Duchy's minute of 19 November reports the outcome of this further consideration. His own first preference is still as he proposed in his minute of 6 November. But he says that if the alternative approach really is Mr Rifkind's preferred option he is prepared to take it. The question to be decided now is whether this option should be chosen.

The main issue

3. The main issue is whether it would be politically realistic to expect the Government, all through the privatisation debate, to be able to get away with saying only that the future of Ravenscraig would be settled after privatisation by the BSC. Mr Clarke's minute illustrates the difficulties with this approach:

a. He says (para 3) it will be crucial in the prospectus to "satisfy potential investors that the current configuration is a sound starting point for the business". How can this be done if the current configuration includes Ravenscraig?

b. He also says (para 3) that potential investors will have to be convinced in the prospectus "that the Board's commercial judgment will not in future be restricted by any constraints imposed by Government". Will this be taken as a signal that BSC will close the hot strip mill and perhaps other facilities at Ravenscraig? Mr Clarke himself says (para 10) that most people would predict an early announcement after privatisation that the hot strip mill would close.

c. Mr Clarke says (para 9) that the BSC will be willing to give assurances on Ravenscraig steel-making and the Dalzell plate mill. Might this throw into relief their failure to do the same on the hot strip mill?

4. Nevertheless, since it was Mr Rifkind's own proposal that this alternative approach should be adopted, you might prefer to leave the choice to him. The starting point of the discussion is that he has put forward a proposal which Mr Clarke has explored and is prepared to accept. The presumption therefore is that this is the approach which should be followed. But if Mr Rifkind now judges on further reflection that it is politically too difficult it would be open to him to ask the group to go back to Mr Clarke's earlier approach.

A separate flotation

5. Mr Clarke's minute mentions that Mr Rifkind proposed a separate flotation for BSC's Scottish interest. This does not seem a practical alternative for the reasons Mr Clarke gives. It

would seem hard to convince potential investors that BSC Scotland would by itself be profitable enough to be attractive.

6. Mr Clarke does not mention the earlier idea, promoted by Sir Ian McGregor, that Ravenscraig, or just the hot strip mill should be sold to an overseas customer, and its product exported. This idea has been considered and rejected before and you may prefer not to start any new hares running.

The announcement

7. Mr Clarke proposes an early announcement, as follows.

a. The Government has decided that privatisation is practical.

b. It will not extend the 'guarantees' for the major plants which expire in August 1988 but BSC believe there is no immediate need for further rationalisation.

c. Nothing would be said about legislation until the New Year.

8. Once basic policy is settled, you will want to consider the proposed content of the announcement. In particular there is no reference to the likely timing of privatisation. Without such a reference the statement that there is no immediate need for rationalisation is a little open-ended.

Legislation

9. Mr Clarke seeks approval to give early instructions to Parliamentary Counsel. Subject to the Lord President's views, you will probably wish to agree to this.

Next Steps

10. You will want to consider how to arrange formal collective consideration. Mr Clarke wants to make a statement, perhaps on 3 December, before the Industry Council meets on 8 December. This would indicate Cabinet on 3 December, perhaps preceded by an E(A).

R T J WILSON
Cabinet Office
20 November 1987

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SECRET

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TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

22 October 1987

**BRITISH STEEL CORPORATION**

1 In my minute of 12 October WITH ON I set out the BSC Board's assessment of their future strategy, and reported my own favourable reaction to their proposals. I have now received (copy attached) a helpful letter from Sir Robert Scholey which sets out some useful background for our meeting on 27 October.

2 BSC is continuing to work on the detailed analsis on which formal confirmation of this proposed strategy depends. But there are a number of issues on which we need to take a preliminary view before we discuss the issue more fully with Malcolm Rifkind.



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(i) I believe that we should endorse the Board's commitment to work for the Corporation's early privatisation (November or December 1988) and find space in the current Legislative Programme for the necessary BSC Bill.

(ii) We and the Corporation should be prepared to make an early announcement of the decision to close the Ravenscraig Hot Strip Mill after August 1988. I accept the Corporation's commercial case for retaining Ravenscraig steelmaking - and the Dalzell plate mill - and I fully expect the Board to make clear (and repeat in the prospectus) its expectation that steelmaking at Ravenscraig, and possibly the Dalzell plate mill, will continue for at least 4 years.

(iii) It is important that if possible I should have announced these decisions to Parliament before the next Industry Council on 8 December, in order to avoid the risk of appearing to react to European pressure to close the mill. Other European steel producers know that the mill is surplus to any commercial requirement and there is a real risk that that sensible opinion will be pressed at the Council. If we have made our own decision ahead of the Council, I will be in the best possible position to seek to secure closure commitments from other Member States and the



999-49

best possible terms for BSC in a future quota regime. The achievement of these objectives is a necessary part of the preparations for privatisation.

(iv) Although there are some commercial pressures to invest in a new plate mill, the Corporation have decided to postpone consideration of this issue. I think we should live with this delay particularly if, as they have agreed, location in Scotland is not ruled out at this stage. However we must recognise that the building of a South Wales concaster and the closure of the Hot Strip Mill will signal to informed Scottish opinion that the plate mill will, in all probability, be sited elsewhere.

(v) Although BSC's Seamless Tubes business is not strictly related to the wider issue, Scottish opinion will probably be concerned about the future of the Clydesdale mill. It is 10 miles from Ravenscraig and provides 1780 jobs. BSC have made clear that this business is extremely fragile. I think we should support the Corporation remaining free to take a strictly commercial approach to this problem even in the face of the obvious political problems that it would create. I would hope the Board might decide to leave open any decision about the future of Clydesdale until after privatisation although this may not



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be possible if there were a significant downturn that would result in major losses. I have, however, asked the Corporation to continue to look for any option which might provide an alternative to the eventual closure of Clydesdale and which has prospects of viability. We can, if necessary, return to this issue when we have discussed the position with Malcolm.

(vi) I believe that an attractive package of enterprise measures, involving a co-ordinated approach to shipbuilding and steel redundancies in Scotland, remains necessary and will provide a clear demonstration of our commitment to regenerating the Scottish economy. I hope that Malcolm can be brought in quickly to develop these preliminary thoughts. I have also asked my officials to examine whether a similar idea (based on an Enterprise Company) might be used in the North East.

3 Copies of this minute and its attachment go to Willie Whitelaw, Nigel Lawson, and David Young.

Julian Farrel

pp KENNETH CLARKE
(Approved by the Chancellor and signed in his absence)

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# BRITISH STEEL CORPORATION

SIR ROBERT SCHOLEY, CBE, D.Eng

20th October, 1987

STRICTLY PRIVATE AND CONFIDENTIAL

The Rt. Hon. Kenneth Clarke QC MP,
Chancellor of the Duchy of Lancaster
and Minister of Trade and Industry,
Department of Trade and Industry,
1 - 19 Victoria Street,
London SW1H OET

Dear Chancellor

When Merchant Bankers made their presentations to Paul Channon in April this year it was clearly established that the announcement of a significant cost cutting exercise affecting basic configuration was a major pre-requisite to establishing a sufficiently robust level of profit to permit privatisation to take place.

Given the sensitivity of this issue for Government and ourselves, Paul Channon requested the Corporation to advise him if there might be more than one way of achieving the cost cutting objective.

Since that time we have developed the exercise and looked overall at some 16 options. The summary of the features of the main options considered is given in Attachment I, whilst Attachment II provides a qualitative appreciation of the relative benefits and disadvantages.

In the next stage of the work we considered whether each of these options:

- undermined efficient production and competitiveness;
- required investment disproportionate to benefits;
- restricted flexibility in the longer term.

In the best interests of the Corporation we were determined that we should not endorse any solution which might solve immediate problems and have shorter term attractions but created new longer term problems in any of the above respects.

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

We concluded that a number of the options could be readily discarded on a qualitative assessment which would not require evaluation to determine their exclusion. On this basis, the choice was narrowed down to four which we decided to evaluate, in broad terms, to establish orders of magnitude of financial difference. The four configurations selected were:-

| | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| Strip Mill Closure Location | Ravenscraig | Ravenscraig | Lackenby | Ravenscraig |
| Blast Furnaces Closed | None | Ravenscraig(2) | Scunthorpe(1) | Ravenscraig(1) Scunthorpe(1) |
| Extra Concast in South Wales | No | Yes | Yes | Yes |
| New Plate Mill Facilities | Teesside or Scunthorpe | Teesside or Scunthorpe | Teesside | Ravenscraig |

The first, which involves the early closure of Ravenscraig Hot Mill (jobs involved 700) and transfer of concast slabs to South Wales for rolling in the hot strip mills there, is regarded as a stepping stone to number 2 - the eventual complete closure of the rest of Ravenscraig, when appropriate (a further 2370 jobs involved). In the third case the Lackenby coil plate mill is closed and a new plate mill installed at Teesside (net jobs: 1440). In the fourth configuration Ravenscraig Hot Mill is closed and a new plate mill installed at Ravenscraig (net jobs: 2340).

We recognise that Scottish interests would be likely to press for consideration of retention of the hot strip mill in Ravenscraig, as well as the addition of a new plate mill there. However, that course of action is not a serious runner as it would jeopardise not one, but two, other integrated works (i.e. Scunthorpe, and either Teesside or Llanwern) whilst being far less robust from BSC's best-case viewpoint. (We can fill out this view for your officials without difficulty).

Most of the considerations as to which steel works should be closed have not altered fundamentally from the time of the 1985 review and have if anything hardened since that time. Although I appreciate the need to update the detail supporting this view the key points from the appendix to that review, at Attachment III, set out the reasons as between the two Strip Mill works we consider to be most at risk : Llanwern and Ravenscraig. (Being a coastal site and with its substantial modern investment Port Talbot is unarguably the banker plant of the three integrated works in the Strip Products Group. The Lackenby Coil Plate Mill is the lynch pin of adequate volume to sustain Teesside's highly efficient low cost steelmaking. Moreover the closure of the Corby steelworks was dependent on forging a new steel supply for its major and efficient welded tube interests and Lackenby was strategically determined as that link).

The following table sets out the results of the broad evaluation of the four options. It is important to appreciate that at this stage the profit figures represent only the annual incremental benefits from each option when all the changes involved in bringing it about would have occurred. The cash figures are confined to the capital expenditure over and above our normal projected programme to bring the changes about and the one-off costs of associated manpower reductions. Both of these sets of financial figures represent the better profit or increased cash cost of change when measured against the "do-nothing" base case, as included in the Financial Projections on which our Merchant Bankers reported in April.

| | Options | | | |
|---|---|---|---|---|
| | 1 | 2 | 3 | 4 |
| | £ Million | | | |
| Increased profit over base case level | 35 | 125 | 65 | 80 |
| Additional capital expenditure over base case level | 110 | 170 | 240 | 190 |
| Redundancy costs of manpower rationalisation | 10 | 40 | 30 | 35 |
| Total cash requirements in excess of Base Case | 120 | 210 | 270 | 225 |

As will be seen, the incremental profit return is substantially the best in case 2 which also represents the best return on the incremental cash outlay. This position is the same as was apparent from evaluation of the many options considered at the time of the last strategy review in March 1985, and the best course for BSC would remain the completion of actions recommended by the Board at that time.

I said at the beginning of this letter that the objective of the cost cutting exercise was to find the means of achieving the major increase in profits necessary to make privatisation possible. Since April 1987, there has been a dramatic improvement in the Corporation's financial position with a very pronounced step change in profits. Whilst further work is necessary to confirm that our profit can be maintained on this higher path over the next few years, the Corporation's advisers agree that the economic assumptions on which the Corporation is presently basing its future forecasting work make this a reasonable expectation, and are not unduly optimistic. The Board accepts this advice. (Incidentally, the assumptions I here refer to are more current than those on which the Financial Projections the Merchant Banks reported on were based. Nonetheless, I would not expect their application to result in any significant change in the relationship or the order of magnitude of the incremental profit and cash positions as between the four options).

As a consequence, the cost reduction exercise stemming from the options is no longer a fundamental prerequisite to achieving privatisation profit levels. In fact the higher levels of demand which have been a key factor behind the profit step change mean that consideration has to be given to revising the timing in which configuration changes could now take place. This is because, although the Ravenscraig option (Options 1 and 2) would still be the right one to pursue in the Corporation's best commercial interest, it would take time to implement and cannot now be contemplated at one fell swoop in the short term. Whilst the hot strip mill could in practice be closed within six months of a decision, the combination of higher demand levels, and the rate at which the market is demanding continuously cast products, together necessitate the retention of Ravenscraig steelmaking at least until another continuous casting machine has been built and worked up in South Wales - 3 years at the minimum from the date of a decision to proceed, and possibly even longer.

We consider it essential to deal with our hot strip mill problem because:-

- in contrast to other product areas historically our utilisation rate in this particular process has been below 70% and amongst the lowest in the EEC. (This contrasted sharply with our relatively much higher utilisation of plate and sections mills both in actual terms and in comparison with other EEC producers).

- BSC's actual hot strip mill capacity is substantially higher than the level registered with the European Commission and even with current high output levels, well in excess of quota, our true excess capacity is some 2 million tonnes in this product.

- We are currently not able fully to utilise our most modern facilities with consequent adverse effects both on product consistency and cost performance.

Not only is an early decision to tackle this problem necessary, but it would in my view also lend considerable force to your position in the Council of Ministers, which is otherwise somewhat difficult in this respect especially when there is so little to bargain with in support of the very firm line on restructuring and quotas you have quite properly been taking.

From our point of view as an employer (not only in Scotland) my Board and I are acutely aware of the difficult nature of the Scottish situation and of the need to react in a responsible way as regards the local community. Principally for this reason we believe we can postpone a decision on a new plate mill for at least a limited period of time. There is, of course, a direct and very satisfactory link between Ravenscraig as a steelmaker and the adjacent Dalzell plate mill which would not be threatened while steelmaking continued at Ravenscraig. We are keen to avoid the Dalzell plate mill being seen to be at risk although we would wish to make it quite clear that no view has been taken on the siting of a new plate mill were the Board to approve that investment in due course. However, I should emphasise that amongst the considerations that would have to be borne in mind in siting a new plate mill would be the following:-

- It would be totally uneconomic to perpetuate five integrated sites in the long term;

- It would be ill advised and unnecessarily costly to spread our constructional steels business over three main sites;

- The scale of operation in Ravenscraig as an integrated plant with a plate mill, but no hot strip mill, would put a new plate mill at a significant cost disadvantage from the outset and negate much of the cost reduction otherwise attainable from such new investment.

We believe that actions are possible which could give reasonable prospects for the future of Dalzell for some years to come and, if this proves to be the case, an appropriate statement could be made publicly. I should emphasise, however, that for this strategy concerning Dalzell to be followed successfully it is important that we are able to buy plate quota in any extended quota scheme and also, for reasons of customer satisfaction, to consider the means of attaining a source of accelerated cooled plate pending the provision of our own new mill.

In the interests of completeness, I should draw your attention to the fact that the Board remains very concerned about the fragility of our Seamless Tubes business because of the obsolete tube mills in Clydesdale. Whilst not the most immediate problem, without investment in its mills Clydesdale (1780 people currently employed) would be in jeopardy at some point in time and this could in turn spill over to affect the Midlands seamless plants at Bromford, Wednesfield and Corby (involving a further 1550 jobs). Although investment of the order of £65 to £75 million would correct the problems of the Clydesdale mills, because of the major excess capacity worldwide in this product, exacerbated by the provision of significant Japanese new capacity installed since 1980, the business would still have to compete in a sector where profit prospects and the return on any new investment would at best be modest. As I said this information is presented to complete the picture but I am not making any proposals on Clydesdale at this point in time.

It would seem that our present trading position and prospects open up the potential for privatisation earlier than the target of mid 1989 as we had been previously advised. My reasons for taking this view are that:-

- Profits are now at a level to attract investors to BSC as an income stock.

- The economic indicators for U.K. manufacturing (our biggest market) and exporting are favourable to us.

- The major financial losses incurred by our continental competitors in the last year or so appear to have created a climate in which companies are less inclined to put themselves at risk through unnecessarily disruptive market practices. The prospects for a more orderly scene in Europe are therefore rather better.

- UK steel demand, which is estimated to be at a peak in 1987 and 1988, is expected to have some, albeit modest, cyclical regression in 1989 and this could impact adversely on the attractiveness of privatisation in 1989/90.

Further advantages flowing from privatisation in such a timescale are:-

- A flotation in the near future would be distanced from the actual major configuration change if, as is likely, this can be deferred for some five years.

- By distancing privatisation from operational and investment issues (e.g. plate mills, further concasting etc. - all of which will come to the fore in the period beyond 1988) the Corporation will have optimum plant and commercial flexibility.

- An early privatisation would enable total commercial freedom without regard to political considerations in the first instance (e.g. increased UK distribution outlets). (No business can be adequately robust unless its Board and management are free to move in what they regard as its best commercial interests.)

- I understand there may well be a limit to the availability of funds for investment in new issues and a clash with electricity or water later in the current Parliament. This could result in a later BSC flotation being crowded out of this Parliament altogether.

- Last, but by no means least, early privatisation is very important to maintaining the current high level of motivation in management and workforce and to retaining (and recruiting) able young management who are not only attracted to the prospect but are also highly marketable with our increasing success.

For all these reasons, which our advisers Barclays de Zoete Wedd strongly support, it seems to me and the Board highly desirable that we should aim at privatisation in late November/early December 1988.

I have sought in this letter to bring together the need to address the issue of options and a solution to the difficulties in Scotland in a way which would gain broad acceptance from many points of view while being consistent with fulfilling my remit and yet dealing with BSC's problems in the best commercial way. I feel I should underline the Board's strong commitment to privatisation not only in the context of my remit as Chairman but also, more particularly, having regard to the step jump in profits recently attained which there is every indication can be maintained.

I have not dealt with the issue of alternative job creation although you are aware of my views on this, and of the considerable and well acknowledged efforts of BSC Industry in these respects and our clear commitment to join in and support any new initiative for the areas that would be affected. Indeed, the way in which it is possible to distance the announcement of decisions from the actual events bringing about job losses provides a unique time frame in which to launch a significant job creation initiative well in advance.

Yours sincerely

Rob Scholey

## SUMMARY OF MAIN OPTIONS

| Option: | Base Case | Ravenscraig HSM closed | Ravenscraig Plate mill options | | | Teesside Plate mill options | | Ravenscraig full closure | | Llanwern closure except cold mill |
|---|---|---|---|---|---|---|---|---|---|---|
| Note: Options rejected are marked [] | [a] | b | [c] | [d] | e | [f:0] | f:1 | g | [h] | [i] |
| MILLS | | | | | | | | | | |
| NEW PLATE MILL, sited at | NONE | EAST SIDE | RAVENSCRAIG | RAVENSCRAIG | RAVENSCRAIG | TEESSIDE | TEESSIDE | EAST SIDE | RAVENSCRAIG ("island" site) | EAST SIDE |
| STRIP MILL CLOSURE, at | NONE | RAVENSCRAIG | RAVENSCRAIG | RAVENSCRAIG | RAVENSCRAIG | LACKENBY | LACKENBY | RAVENSCRAIG | RAVENSCRAIG | LLANWERN |
| BLAST FURNACES IN USE: | | | | | | | | | | |
| RAVENSCRAIG | 2 | 2 | 2 | 1 | 1 | 2 | 2 | - | - | 3 |
| LLANWERN (Large/Small) | 1(L) | 1(L) | 1(L) | 1(L) | 2(L+S) | 1(L) | 2(L+S) | 2(L+S) | 2(L+S) | - |
| SCUNTHORPE | 3 | 3 | 2 | 3 | 2 | 3 | 2 | 3 | 3 | 3 |
| EXTRA NEW SOUTH WALES CASTERS | - | - | - | - | 1 | - | 1 | 1 (second caster is a possible variant to these options) | 1 | 1 |
| SLAB TRANSFERS: | | | | | | | | | | |
| Ravenscraig to South Wales | Minor | Major | Major | - | - | - | - | - | - | - |
| Teesside & Scunthorpe to S/Wales | - | - | - | Major | - | Major | - | Minor (eliminated with a 2nd caster) | Minor | - |
| Scunthorpe to Ravenscraig | - | - | - | - | - | - | - | - | Major | - |
| SLAB PURCHASES | - | - | 0.5mtpa | 0.5mtpa | - | - | - | - | - | - |
| SELECTED OPTIONS (revised designations): | | OPTION 1 | | | OPTION 4 | | OPTION 3 | OPTION 2 | | |

ATTACHMENT I

## BENEFITS AND DISADVANTAGES OF INDIVIDUAL OPTIONS

| Options. For descriptions, see Figure 1 (Note. Options rejected are marked [ ]) | Base Case | Ravenscraig HSM closed | Ravenscraig Plate mill options | | | Lackenby Plate mill options | | Ravenscraig full closure | | Llanwern closure except Cold mill |
|---|---|---|---|---|---|---|---|---|---|---|
| | [a] | b | [c] | [d] | e | [f:0] | f:1 | g | [h] | [i] |
| 1. Ability to meet market requirements | No (plates) | Yes | Yes, with support from imported slabs. | | Yes | Yes | Yes | Yes | Yes | Yes, with major investment at Ravenscraig |
| 2. Elimination of Plate mill weaknesses | No | Yes | Yes technically but would not be in world's top league costwise because of Ravenscraig's relatively high steelmaking costs. | | | Yes | Yes | Yes | Yes technically but would suffer on cost grounds | Yes |
| 3. Utilisation of hot strip mill capacity | 70% | 90% | 90% | 90% | 90% | 87% | 87% | 90% | 90% | 90% |
| 4. Utilisation of upstream capacity | Heavily under-utilised | Heavily under-utilised | Minor improvement with one blast furnace closure | | Significant improvement | Heavily under-utilised | Some improvement | Optimum utilisation | Optimum utilisation | Optimum utilisation |
| 5. Imbalances in works' production flows requiring costly transfers of slabs | Minor transfers to South Wales | Major transfers of slabs from R'craig/Scunthorpe to South Wales detracts from improved utilisation benefits | | | None | Significant slab transfers from Scunthorpe | None | None | Significant slab transfers from Scunthorpe | None |
| 6. Location of Hot strip mills for optimum distribution | Relatively poor (Ravenscraig) | Good | Good | Good | Good | Poor , with increased sourcing from Ravenscraig and more distant transfers to Corby | | Good | Good | Good |
| 7. Avoidance of costly "island" sites | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | No (Plate mill) | No (Llanwern CRM) |
| 8. Maintenance of individual sites' optimum product costs | | | Scunthorpe costs undermined | | Scunthorpe costs undermined | | Scunthorpe costs undermined | | | |
| 9. Restrictions on operational flexibility | No | | Potential lack of flexibility one BF/mill configuration | | | | | | | |
| 10. Requirements for capital expenditure additional to the new Plate mill which is in all options. (compared to Base Case) | | Modest requirements | Modest requirements | Modest requirements | Extra caster | Major refurbishment of Ravenscraig HSM, partly offset by saving from L'by CPM closure | Extra caster | Extra caster | Extra caster | Major investment at Ravenscraig for volume as well as quality |
| 11. Employment implications | | Impact on Ravenscraig | Significant impact on Scunthorpe | Significant impact on Ravenscraig | Significant impact on R'craig and Scunthorpe | | Significant impact on Scunthorpe | Major impact on Ravenscraig | | Major impact on Llanwern |
| 12. Potential implementation problems | | | Possible delays if new Plate mill has, because of lack of space, to replace hot strip mill (Lackenby or Ravenscraig) in situ | | | | | | | |
| 13. Committed retention of 5 steelmaking sites | Yes (support for all hot strip mills) | Possible stepping stone to full closure | Yes | Yes | Yes | Yes | Yes | No | No | No |
| 14. Economic stability of configuration and elimination of uncertainties to potential investors | | | | | | | | Yes | Yes | Yes |
| 15. Sensitivity politically | | | | | | | | Very significant politically | | |

ATTACHMENT II

ATTACHMENT III

## Factors adversely affecting Ravenscraig.

| | | | |
|---|---|---|---|
| 1. | Market Considerations. | : | Customer preference for South Wales Works. |
| 2. | Location | : | Less than 3% of Ravenscraig total deliveries to Scottish customers, therefore increased carriage costs. |
| 3. | Harbour | : | Heavily underutilised with resulting excess costs. |
| 4. | Plant Considerations | : | Compares adversely with South Wales plants in terms of:-<br>- scale and logistics; and<br>- modernity. |
| 5. | Cost Base | : | Inherently higher than other integrated plants. |
| 6. | Headroom | : | Constrained by comparison with other integrated strip mill works. |

cc BVp

20

SECRET

PRIME MINISTER

STEEL

Monday's meeting does not include Mr Rifkind. As the purpose is to discuss the tactics of dealing with Mr Rifkind at a meeting on Tuesday which will include him.

The essential question is whether Mr Rifkind is to be compelled to stick to the position he adopted at the last meeting, from which he is now backsliding, or whether the aim is to manoeuvre him towards Mr Clarke's position.

My own recommendation would be to start by making Mr Rifkind recognise that he made his proposal in full knowledge of all the relevant facts. Nothing has changed since the meeting, except his perception of them. Against that background, it would be more difficult for him to resist Mr Clarke's position. I do not believe that Mr Rifkind's own proposal is tenable. Indeed, the attempt to pursue it could prove very damaging to the Government.

You might also have a word about the timing of any announcement. The choice lies between Thursday 26 November and Thursday 3 December. There is something to be said for the earlier date if it can be achieved, but the timetable would be tight. A paper would be circulated to E(A) on Wednesday for a meeting on Thursday before Cabinet. Cabinet would take note of the decision reached by E(A), before a statement on Thursday afternoon. The advantage of this rapid timetable would be to reduce the risk that the news would trickle out, and it would also distance the announcement from the Industry Council on 8 December. An announcement on 3 December would increase the risk of leaks, but it would allow more time to prepare a few more colleagues.

DRN

D R NORGROVE

20 November 1987

DASAEE

SECRET

SECRET

TO:

Prime Minister

FROM:

Kenneth Clarke

19 November 1987

BRITISH STEEL CORPORATION

Following our meeting last week, I have now discussed with Bob Scholey the alternative way forward proposed by Malcolm Rifkind. I have also had further discussions with Malcolm.

2 I explained to Bob Scholey that the strategy we were considering was that the Government would work for privatisation in November/December 1988, making it clear that, following privatisation, the structure of the Corporation's business would be a matter for the Board's commercial judgement. He believes that it will be possible to proceed in the manner proposed although he would naturally have preferred to move towards the closure of the Ravenscraig hot strip mill in the short term. He



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has not at this stage been able to discuss the issue with his Board or his merchant bank advisers. The Board's support should not be taken for granted, but he believes that they will come to support his views.

3 My officials have also discussed the proposed way forward with our merchant bank advisers. Their preliminary assessment is that it should be possible to construct a satisfactory prospectus on this basis. It will be necessary to satisfy potential investors that the current configuration is a sound starting point for the business, and it will be crucial to demonstrate that the Board's commercial judgement will not in future be restricted by any constraints imposed by Government.

4 Although it is not my first preference, I am content to work for early privatisation on this basis. It will make it all the more essential to move quickly because key investment and plant configuration decisions will be delayed until privatisation. BSC and I will still want to argue for investment in a new concast facility in South Wales next Spring.

5 When I met Malcolm again, he asked whether there was any prospect of a separate flotation of BSC's Scottish interests as an alternative.



999-49

6 We in fact considered such an approach with our advisers, Samuel Montagu, at an earlier stage. The Corporation and its advisers, Barclays de Zoete Wedd, have considered it in detail too. Their strong advice was that to divide BSC in this way would be to weaken it in competitive terms, and would be unlikely to promote efficiency. A Scottish company would be forced both to compete with BSC and to supply to BSC. BSC could negotiate a commercial contract for a few years to purchase the output it required from the Scottish plant. But the essential problem of excess capacity would remain untackled. Any fresh investment and improved performance by BSC would put the Scottish company at risk. In the short term we would have to divide European quotas between them to inhibit competition and give a chance of survival for a time. We would probably end up with two inefficient and non-viable producers operating in a fiercely competitive international market once quotas were ended. In short, my clear conclusion is that it would be unacceptable to divide the Corporation and sell it in separate parts. I suspect that most would-be investors north and south of the border would share my conclusion.



999-49

7 I would strongly oppose any more delay for further studies of the separate Scottish flotation idea. We would risk losing the opportunity for privatisation now at a time when some years of steel-making at Ravenscraig can be guaranteed. We would presumably have to delay all investment, closure and plant configuration decisions whilst studies proceeded. The business could start to decay again and the window of opportunity would have been missed.

8 If we proceed with last week's agreement, we need to begin detailed planning now, including the formal appointment as soon as possible of a merchant bank and other advisers for the flotation itself. We will need to indicate publicly that such planning is underway. I propose therefore, that I should make a short statement (perhaps on 3 December) on the back of the BSC half year results. I would announce that the Government now believes that privatisation of BSC is feasible and that certain preliminary steps are being taken accordingly.

9 Such an announcement will immediately raise questions about Ravenscraig and in particular the position after August 1988 when the current strategy expires. I would therefore also say in my statement that, in current trading conditions the Government does not propose to extend the plant "guarantees" which will expire in



999-49

August 1988, but that BSC has indicated that there is no immediate need for further plant rationalisation. BSC would be content to give a clear indication in statements and in the prospectus that they will continue to require Ravenscraig's steel-making for a few years into the early 1990s subject always to market demand. They would give similar indications in respect of the Dalzell plate mill. They could give no such assurance on the Ravenscraig hot strip mill.

10 Bob Scholey would be content to keep the hot strip mill open for the period prior to privatisation. Most people would accurately predict an early announcement of closure thereafter. There would then be a run-down period of some six months before full closure. If this really is Malcolm's preferred option as the route to early privatisation, I would be prepared to stick to it.

11 We need to make further progress on legislation. Specifically, we need to give early instructions to Parliamentary Counsel on a BSC Bill and I would be grateful for your approval to proceed on that basis. No statements on the legislation would, however, be made until the New Year.



999-49

12 I am copying this minute to Willie Whitelaw, Nigel Lawson, David Young and Malcolm Rifkind.

K C



999-49

SECRET

Mr Wilson
You may like to be aware.
RPJ 18/11

Reference No E 0446
MR WILSON

cc Dr Walker

Steel

Mr Rogers of DTI tells me that Mr Clarke has seen Sir Robert Scholey and Mr Rifkind and will minute the Prime Minister tonight or tomorrow morning.

2. Sir Robert Scholey said he could accept the new approach discussed last Thursday. But if it were adopted he would not be willing to give any assurance about hot rolling at Ravenscraig. Indeed, BSC would want to close the strip mill as soon as they could, after privatisation.

3. Mr Rifkind said he could not accept this. The implication of this is that he has now got into the position of saying that if the new approach is to work politically, there must be assurances by the BSC rather than by the Government on maintaining capacity. But Mr Rogers was not at the meeting and this may be jumping to conclusions.

4. Mr Rifkind suggested the alternative of floating BSC's Scottish operations separately, but Mr Clarke will argue that this is not practical. (Mr Rifkind did not mention, and neither will Mr Clarke, the earlier idea, promoted by Sir Ian McGregor, that the hot strip mill could be sold to an overseas buyer, and the product directly exported).

5. Mr Rifkind also suggested that privatisation should be postponed. Mr Clarke will not even mention this.

6. Mr Clarke's minute will conclude that he believes that the new approach is right, but that he has been unable to reach agreement with Mr Rifkind.

G W MONGER

Economic Secretariat
18 November 1987

SECRET

Nat Ind : Steel.

10 DOWNING STREET

12.11.87.

Dear [illegible] pp. NRBM.

I have filled George Guise in on the situation.

Please use the attached as - when you think appropriate.

NRB

SECRET

MR NORGROVE

12 November 1987

**STEEL**

Despite the superficial attraction of Malcolm Rifkind's offer in getting us off the hook of an immediate announcement, it is difficult to see what we will ultimately gain from postponing the inevitable - and indeed the politics could be much more difficult.

- There appears to be no doubt that the Ravenscraig Strip Mill will have to close to reduce overcapacity, since British Steel are adamant that any other option would put at risk the move towards efficient, integrated plants at other locations. The only question is timing.

- As was pointed out, if we delay an announcement the question of how British Steel will deal with overcapacity in hot strip will inevitably be raised during privatisation. We therefore have the possibility of lengthy publicity about the unwillingness of Government or BSC to make guarantees - and the likely probability that closure of Ravenscraig Strip Mill will follow privatisation - which would allow all kinds of emotions and pressure groups to develop. If this is then followed by a closure announcement immediately afterwards (early 1989), the Government and BSC managements' equivocation will be held up as cynical deception - since it would be said that both parties must have known that immediate closure was planned.

- A closure announcement now, though difficult, can still be distanced from Government as a commercial management decision - although some will claim it has been accelerated by privatisation plans; however, a decision announced after privatisation could more directly be held

up by our opponents as a demonstration of the anti-social consequences of privatisation itself. Delay would therefore be more likely to weaken rather than strengthen the case for Thatcherism in Scotland.

- We also need to consider the possibility that if - for whatever reason - privatisation next autumn turns out to be infeasible, failing to act now may leave the Ravenscraig issue hanging round our neck for much longer.

- In summary, a small but painful announcement now will be replaced by over a year's worth of uncomfortable debate in which the Government will be continually embarassed by having to evade the issue. The political fallout would also be that much closer to the next election. Postponing the inevitable is surely nearly always bad politics.

At the end of the meeting Mr Rifkind - who had obviously not thought this through in the context of an immediate privatisation - retreated slightly in saying he would need time to think this through more carefully. It might be sensible to find an opportunity for him to run through these arguments again soon - enabling him to come round to suggesting that an immediate announcement may in fact better serve his needs.

NRB

NORMAN BLACKWELL

SECRET

SUBJECT

CC MASTER

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

12 November 1987

**BRITISH STEEL CORPORATION**

The Prime Minister today held a meeting to discuss privatisation of the British Steel Corporation on the basis of the Chancellor of the Duchy of Lancaster's minute of 6 November. There were present the Lord President, the Chancellor of the Duchy, the Chancellor of the Exchequer, the Secretaries of State for Employment and Scotland, Mr. Richard Wilson (Cabinet Office) and Mr. Norman Blackwell (No.10 Policy Unit).

The Chancellor of the Duchy said that the current improvement in the financial performance of the British Steel Corporation (BSC) made early privatisation possible. He proposed that the Government should aim at privatisation in November or December 1988. The BSC themselves were strongly in favour of this. At the same time early action should be taken to reduce the current surplus of hot rolling capacity, both in the interest of greater efficiency and to demonstrate, in the context of privatisation, the BSC's commitment to a fully commercial policy. The most cost effective way to reduce the surplus was to close the hot strip mill at Ravenscraig, and this was what he proposed. To help reassure Scottish opinion, he had however obtained Sir Robert Scholey's agreement that the BSC would make clear publicly that it expected steelmaking to continue at Ravenscraig for at least four years from 1988. He could probably persuade Sir Robert Scholey to extend this assurance to seven years. His recommendation was that all these decisions should be announced before the Community's Industry Council meet on 8 December.

The Secretary of State for Scotland said that it was wrong to consider hot rolling capacity in isolation. Decisions should be based on a proper assessment of the needs of the BSC as a whole, including for example their requirement for plate capacity. Early action on hot rolling capacity alone would be seen as a response to Community pressure, and would prejudice our negotiating position in the Community. We had already done more to reduce our surplus for this product than most other Community countries. Closure of the hot strip mill at Ravenscraig would also be hard to reconcile with the

assurances given when the Gartcosh mill was closed. The medium term assurance now proposed on steelmaking at Ravenscraig would carry no conviction in Scotland, since closure of the hot strip mill would be rightly seen as leading inevitably to the eventual closure of the whole plant. It might well be better to take no action on the hot strip mill and give no assurances about steelmaking before privatisation, but to adopt the line that decisions on all such matters would be for the BSC to take thereafter.

In discussion the following main points were made:

(i) The assurances given at the time of the Gartcosh closure would not be called into question by closure of the hot strip mill. That resulted essentially from the need to deal with the surplus of hot rolling capacity. It was also argued however that closure was inconsistent with the spirit of those assurances when the financial performance of Ravenscraig, and of the BSC as a whole, had improved substantially since they were given.

(ii) Sir Robert Scholey had accepted that the BSC's financial position was now such that major cost reductions were no longer necessary to ensure a successful privatisation. On the other hand, there were bound to be uncertainties about their future prospects, especially since the current high rate of growth in the economy could not be expected to last. It was essential therefore not to relax the effort to cut costs, especially when the need was as clear cut as it was in the hot rolling sector.

(iii) Legislation in this session would increase the difficulties of an already crowded programme. It would also give the appearance of rushed decision-making. On the other hand, the Government's policy had always been to privatise the BSC when possible. The recent improvement in their financial performance had now made privatisation possible, and immediate action to carry it through would be generally understood. The present combination of favourable circumstances might not occur again, and the legislative programme would have to be adjusted to allow advantage to be taken of them.

The Prime Minister, summing up the discussion, said that the meeting had identified a possible alternative to closing the hot strip mill at Ravenscraig and giving a medium term assurance on steelmaking there. This was to take neither action before privatisation but to follow the general line that all decisions about the structure of the industry would be for the BSC to take after privatisation. This was the better course to follow in the interests of getting the right commercial decisions made and it had been suggested that it would reduce the political difficulties in Scotland. However, there was bound to be intense pressure during the privatisation debate for some assurances to be given about the future of Ravenscraig, and

the Group needed to consider further exactly what would be said in the privatisation prospectus and the debates on the Bill. The Chancellor of the Duchy of Lancaster should consider this in consultation with the Secretary of State for Scotland. He should also consult Sir Robert Scholey as to what the BSC would say, for example in the privatisation prospectus. He should then report his conclusions to the Group. Time was short, given the need also for more formal collective consideration before the Industry Council on 8 December.

I am sending a copy of this letter to Alex Allan (HM Treasury), Mike Eland (Lord President's Office), David Crawley (Scottish Office) and to Trevor Woolley (Cabinet Office).

(DAVID NORGROVE)

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

23/4

Mr Nagone:

I have only just seen the Rippmd paper. Rather than make a detailed rebuttal of its many false "economic" arguments, I suggest that you re submit this paper which deals with most arguments especially the monopoly one.

George Guise

PRIME MINISTER 11 November 1987

STEEL

The logic is relentless. It cannot be to Scotland's ultimate benefit to weaken the UK industrial base as a whole. As a crucially important component of that industrial base, British Steel must structure itself in order to achieve the greatest competitive advantage in the very difficult European and international market where it operates.

The Scottish Office Case

Rifkind's point that closure of the hot strip mill will only harm BSC profitability by some £20m per annum is the start of the false argument that leads to nationalised industries collapsing. Once profit and return on capital are placed second to short term political advantage the rot that led to the miners strike and the collapse of the UK car industry has taken firm hold.

Rifkind goes on to suggest that BSC's new plate mill should be located, by Government edict, at Dalzell as a 30 year insurance policy for Ravenscraig. That this would increase capital costs and, moreover, result in perpetually reduced annual profits of £45m are considered secondary arguments. This is naked 'MacMillanism'. Whatever the case in the 1960s for perpetuating the spread of manufacturing capacity over five sites, there is no case at all for it today. Indeed, the successful steel industries tend to be concentrated on few, if not single sites where overhead, capacity utilisation, and transport arrangements can all be optimised. I repeat below some previous comments on British Steel and its privatisation.

British Steel Profit Levels

BSC's profit projections are now substantially higher than in April. The minimum secure level for successful privatisation has been estimated at £300m by both sets of bankers. We were previously told that this profit level could only be achieved by complete closure of Ravenscraig steel-making and hot-rolling.

By contrast, the present argument is that British Steel can generate a profit level of £350m with continued primary steel-making at Ravenscraig although the hot-rolling capacity would need to be closed at the cost of 700 jobs. This is a far more palatable proposal.

However, it is crucial that these profits are sustainable and will not collapse if the market weakens after privatisation. I have therefore asked for some sensitivies which show that a 10% fall in steel prices would reduce profits by half. Furthermore, a 10% fall in the deutchmark coupled with a 10% rise in input costs (iron ore and coking coal which are normally sold in US dollars) would jointly cause profit reduction of some £80m. Reductions in sales volumes, without price reductions, would have less harmful effects provided that BSC had taken some steps to reduce over-capacity. It has been able to make better profits than its competitors despite over-capacity because its five integrated plants are in common ownership. In the present steel market the over-capacity can be managed.

The above sensitivities show the major threats to BSC are increased over-capacity and exchange rate fluctuations. Therefore if BSC is to be robust it must work towards a capacity level which balances its market for finished products. Much of the recent optimism from British Steel comes from enhanced domestic sales due to improved UK economic activity. It is faith in this being sustained

which enables it to put forward a programme which will continue primary steel making at Ravenscraig to provide semi-finished products for Llanwern while the latter is installing continuous casters.

In July we were told that BSC had a capital value of some £1.3 bn with Ravenscraig open, rising to £2 bn with Ravenscraig closed. The argument was that without Ravenscraig not only would the earnings increase but their quality would be enhanced leading to a higher multiple in their capital valuation. The present valuation of £1.7bn is based on the conservative multiple of 5 times applied to an earnings level of £350m. Because BSC has tax losses of some £2.5 bn coupled with unused capital allowances of £1.3 bn, it will pay no tax for at least 7 years. If earnings are lower than £350m the length of this 'tax holiday' will increase. This means that for the foreseeable future the profit after tax and the profit before tax for BSC are the same number. Whatever this may imply about past performance, from a privatisation viewpoint it is positive because shareholders will be able to receive dividend out of untaxed income for many years. Indeed, the above figures, after allowing for a capital expenditure programme of £250m per annum, indicate that BSC would be able to pay a dividend equivalent to a yield of 7%. This should ensure a good take up by individuals and institutions seeking income stocks.

The Structure of a Private BSC

The DTI paper does not address the ideal configuration for a privatised BSC. I suspect that future successful steel makers will be single site, single generic operations based on electric arc furnaces. British Steel with its five integrated plants is quite the opposite. Its ideal shape is probably as three businesses with regional headquarters and no London office. The strip-steel business, the general

steels business, and the stainless steel business are really separate activities with little customer, production or management overlap, although there may be economies in joint raw material purchasing.

However, to force British Steel to privatise as three such businesses would almost certainly meet intense management resistance and not be achievable in the timescale now proposed. Although there might be some enhanced capital value, it is impossible to quantify with confidence and it will serve no good purpose to reopen these arguments now. In any case, it is not the function of Government to decree the ideal shape for a steel industry. After privatisation market forces wil ultimately decide through the driving out of inefficient practices!

What is important, particularly with privatisation in mind, is that British Steel does not make monopoly profits because the market place does not allow it to operate as a monopoly. Over a third of its sales are overseas and nearly a third of steel consumed within the UK is imported. We would not 'lock in' monopoly profits by privatising BSC as a single entity and would not therefore be open to the criticisms associated with British Telecom or British Gas. The kind of debate we have been having about the electricity industry is therefore not relevant to British Steel.

Conclusion and Recommendations

1. Rifkind must be given the argument that the BSC configuration has to be optimised in order for the industry to prevail in a very difficult market. This is a separate argument from privatisation proposals. The fact that an efficient business is more readily privatised is a consequence not an objective.

2. The long term interests of Scotland will be addressed, but not by perpetuating an inefficient business structure in the steel industry. Indeed, to have Ravenscraig and Govan limping along for ever more will probably not gain one Conservative seat. It is more likely to continue focussing attention on the running sores and uncertainty which they both represent.

3. The closure of Ravenscraig hot rolling capacity should be announced prior to 8 December as a free BSC decision. It would be weak politically to have this represented as the result of EEC pressure. Britain's stance in EUOFER would be greatly enhanced if we have independently taken action on our own hot strip capacity before arguing the wider EEC restructuring as the necessary path to a real free market without quotas.

Norman Blackwell

pp. GEORGE GUISE

14

PRIME MINISTER

STEEL

Three points to note on these papers:

(i) Mr. Clarke has discussed with Mr. Scholey the commitment to Ravenscraig and Scholey is prepared to recommend a seven year commitment to his board; this has not been revealed to Mr. Rifkind;

(ii) the Treasury and DTI have not yet agreed amounts of money which might be made available to an enterprise company; Mr. Rifkind should be brought into that discussion;

(iii) regardless of what is agreed in this round of discussions, something will have to be said before too long about Ravenscaig as expectations build up about the expiry next summer of the existing commitment.

DRN.

DAVID NORGROVE
11 November 1987

EL3CGX

SECRET

CCB/AP 13

PRIME MINISTER 11 November 1987

**STEEL**

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The Structure of a Private BSC

The DTI paper does not address the ideal configuration for a privatised BSC. I suspect that future successful steel makers will be single site, single generic operations based on electric arc furnaces. British Steel with its five integrated plants is quite the opposite. Its ideal shape is probably as three businesses with regional headquarters and no London office. The strip-steel business, the general

steels business, and the stainless steel business are really separate activities with little customer, production or management overlap, although there may be economies in joint raw material purchasing.

However, to force British Steel to privatise as three such businesses would almost certainly meet intense management resistance and not be achievable in the timescale now proposed. Although there might be some enhanced capital value, it is impossible to quantify with confidence and it will serve no good purpose to reopen these arguments now. In any case, it is not the function of Government to decree the ideal shape for a steel industry. After privatisation market forces wil ultimately decide through the driving out of inefficient practices!

What is important, particularly with privatisation in mind, is that British Steel does not make monopoly profits because the market place does not allow it to operate as a monopoly. Over a third of its sales are overseas and nearly a third of steel consumed within the UK is imported. We would not 'lock in' monopoly profits by privatising BSC as a single entity and would not therefore be open to the criticisms associated with British Telecom or British Gas. The kind of debate we have been having about the electricity industry is therefore not relevant to British Steel.

Conclusion and Recommendations

1. Rifkind must be given the argument that the BSC configuration has to be optimised in order for the industry to prevail in a very difficult market. This is a separate argument from privatisation proposals. The fact that an efficient business is more readily privatised is a consequence not an objective.

2. The long term interests of Scotland will be addressed, but not by perpetuating an inefficient business structure in the steel industry. Indeed, to have Ravenscraig and Govan limping along for ever more will probably not gain one Conservative seat. It is more likely to continue focussing attention on the running sores and uncertainty which they both represent.

3. The closure of Ravenscraig hot rolling capacity should be announced prior to 8 December as a free BSC decision. It would be weak politically to have this represented as the result of EEC pressure. Britain's stance in EUOFER would be greatly enhanced if we have independently taken action on our own hot strip capacity before arguing the wider EEC restructuring as the necessary path to a real free market without quotas.

Norman Blackwell

pp. GEORGE GUISE

CCB/AP 12

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PRIME MINISTER

Meeting of Ministers on 12 November 1987: Steel

Minutes of 6 November from Mr Clarke
and 10th November from Mr Rifkind } with DRN

In his minute of 6 November the Chancellor of the Duchy of Lancaster proposes that:

i the Ravenscraig hot strip mill should close after August, 1988;

ii the BSC Board should make it clear in public that, unless there is a substantial market downturn, steelmaking will continue at Ravenscraig for at least four years ahead. (We understand that Mr Clarke has now got Sir Robert Scholey's agreement to seven years, but you will want to leave him to say that);

iii the BSC should postpone a decision on a new plate mill, and give an assurance on the probable medium-term future of Dalzell (in principle a candidate for the new mill);

iv the Government should aim at privatisation of BSC in late November/early December 1988;

v there should be an announcement on Ravenscraig and privatisation before the Industry Council meeting on 8 December.

MAIN ISSUES

2. Mr Clarke is likely to give the following arguments for this package:

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i the government should accept the BSC's commercial judgment about what needs to be done, especially with the prospect of privatisation;

ii there is manifest overcapacity in the UK industry. Some rationalisation has to take place, the question being where;

iii the BSC's judgment is that the most cost-effective way to reduce excess capacity for hot strip is to close the Ravenscraig hot strip mill. They reached this conclusion after looking at the four options in Sir Robert Scholey's letter;

iv the package has been designed to reassure Scottish opinion as far as possible, by for example the medium-term assurance of continued steelmaking at Ravenscraig and platemaking at Dalzell, and leaving open the possibility that the new plate mill will be at Dalzell;

v the only effective way of promoting employment in Scotland is to encourage new industry there. Mr Clarke has in mind a new training and employment package, on which he invites Scottish Office help.

**Mr Rifkind's concerns**

3. The questions arising on the package, some of them mentioned in Mr Rifkind's note, are:

i most obviously, the political and employment effect, especially if similar action is taken on shipbuilding. But this will depend on how convincing the new training and employment package is;

ii whether the gestures offered to Scottish opinion on Ravenscraig steelmaking and Dalzell platemaking will be credible. Mr Clarke and Sir Robert Scholey make it clear that closure of the hot strip mill is the first step to closing Ravenscraig and Dalzell. Will this be obvious in Scotland?

iii closure of the hot strip mill will save only £20m a year. Mr Rifkind will say that this small saving is disproportionate to the political controversy it will generate. One answer is that excess capacity is most obvious in hot strip rolling, so that closure will be a test case, for example in the privatisation context, of BSC's ability to act commercially. Another answer is that it will lead eventually to much greater savings;

iv whether it is consistent with the spirit and letter of Government assurances on Ravenscraig. Mr Rifkind mentions these without specifying what they are. You might like to ask Mr Rifkind and Mr Clarke about these assurances.

**Clydesdale**

4. Neither Mr Clarke, in his latest minute, nor Mr Rifkind, mentions the tube mill at Clydesdale. But it is important since it employs more people (1780) than the Ravenscraig hot strip mill (400) and Dalzell (570) put together. Sir Robert Scholey says that BSC is not making any proposals now on Clydesdale, but implies that its long-term future is doubtful. You might ask what should be said about Clydesdale in any announcement.

This is a body shaky letter left buried at the moment.

**A possible trade-off**

5. Mr Rifkind presses the case for a new plate mill at Dalzell. He says that according to an internal BSC study refurbishment of Dalzell is their cheapest option for meeting demand for plate. This raises the question whether Mr Rifkind might acquiesce in closure of the Ravenscraig hot strip mill if he got a new plate mill at Dalzell.

6. On this, Mr Clarke is likely to say that:

i putting the new plate mill in Scotland would commit BSC to maintaining an integrated plant there for 30 years;

ii it would cost £150m;

iii BSC cannot be compelled to do it.

Nevertheless, if you wanted to keep the subject in play, you could ask for a further note on this possibility, covering for example the suggestion of refurbishing Dalzell. Would this have the commercial advantage of postponing the greater cost of a new mill?

**Privatisation**

7. Most of the dicussion will no doubt be on Scottish aspects. But on privatisation, you might wish to ask Mr Clarke about the effects of a recession in the US following the stock market crash. Even before the crash, Sir Robert Scholey was talking about the possibility of a cyclical downturn in 1989. Can we be reasonably sure that BSC can be floated in late 1988?

**CONCLUSION**

8. Mr Clarke hopes for agreement at the meeting on all the proposals listed in paragraph 1 above, and you may wish to ensure that he has this, in principle at least. In view of Mr Rifkind's opposition, however, you might want to ask for further work to be done on some or all of the following:

i a note on the options on Clydesdale, and what could be said about the future of the plant. Could some assurance on Clydesdale be added to Mr Clarke's package?

ii an assessment of the options on plate capacity especially the option of refurbishing Dalzell (see paragraph 6 above). Any change here would however have a major effect on Mr Clarke's package;

iii a study of the training and employment package mentioned by Mr Clarke. He proposes using some of the proceeds of a BSC sale on such a package. Treasury agreement to this has not yet been obtained. It may have been given before

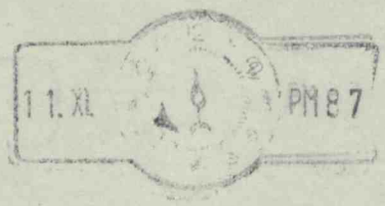
the meeting, but if not you may wish to indicate that the package should be a convincing and substantial one, using part of the BSC proceeds;

iv The announcement. Mr Clarke is not very specific on the contents of the announcement, for example on how firm it will be on the timing of privatisation or what it should say about plate capacity. He could be asked to circulate a draft.

**Next Steps**

9. You will wish to consider whether the subject will need to go to Cabinet, and perhaps E(A) beforehand, for formal decision. Mr Clarke will want a decision before the Industry Council on 8 December. But if you do ask for more work to be done, you might prefer it to be considered first at another meeting of this informal group.

R T J WILSON
Cabinet Office
11 November 1987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for meeting tomorrow for meeting on Tuesday.

Prime Minister

**BRITISH STEEL CORPORATION**

I am gravely disturbed by the proposals in the Chancellor of the Duchy of Lancaster's minute to you of 6 November.

? Ravenscraig would mostly stay open.

Effectively, they propose the end of the steel industry in Scotland. This would seriously damage the Scottish economy; the employment consequences would be very substantial; and they would arise in an area of already very high male unemployment.

The political and electoral implications could be devastating - they would unite the Scottish CBI and Conservative supporters at all levels with the Opposition and the Scottish TUC. The result would be a recipe for a resurgence of nationalism.

Nightmare if privatised!

Before commenting on the specific proposals I must also express puzzlement and concern that Ministers have not been provided with a comprehensive strategy for the future of the steel industry but only with a proposal for a rushed announcement on hot strip capacity. It is suggested that an early announcement is necessary to enable privatisation of the steel industry in November/December 1988. This is surely quite unrealistic as it would need major legislation in the current session to meet that timetable.

Nor it is possible to see how closure, whether phased or not, could be justified:

(a) A decision to close leaves us wide open to valid accusations of bad faith and inconsistency. At the time of the Gartcosh closure, it was argued by both the Government as a whole and by BSC that that closure would strengthen Ravenscraig. Since then, the Corporation's profits have risen from some £40 million to, it is

expected, some £400 million in the present financial year. Ravenscraig has fully contributed to this change; its loyal and committed workforce is currently delivering record high levels of output and productivity. To propose its closure now would not only fly in the face of previous statements but could not be justified as either necessary or sensible;

(b) It is not necessary to close the hot strip mill at Ravenscraig to meet the needs of privatisation - Sir Robert Scholey's letter attached to the Chancellor of the Duchy's minute explicitly states that "the cost reduction exercise stemming from the options is no longer a fundamental pre-requisite to achieving privatisation profit levels";

(c) It cannot be said that a decision is required because of the current steel negotiations within the European Community. It would be contrary to assurances which we have given that closures will not be decided in Brussels. It is also contrary to the line you have taken so far that it is for other European steel producers to put their own house in order first, Great Britain already having done so. It is inevitable however, that any announcement made in the context of current EC discussions would be attributed to them.

I accept that there may have to be further changes in the configuration of the steel industry in Britain. The Chancellor of the Duchy's minute argues that we should attach the greatest weight to the commercial considerations adduced by the Chairman of BSC. But it is clear from the Chairman's own letter that the needs of the BSC are not limited to the future of hot strip capacity. BSC themselves foresee the need for a single plate mill strategy and I am aware of an internal study in the Corporation carried out last year which concluded that the refurbishment of Dalzell (which is adjacent to Ravenscraig) would be the least expensive way of meeting BSC's needs. Dalzell is, at present, the most modern plate mill and provides high quality steel for Trident among other customers. I am surprised that this option has not been properly considered in the proposals put to us.

It is interesting that even Sir Robert Scholey's own option 4, (building a new plate mill at Ravenscraig), is the second most profitable option of those he puts forward.

I find it difficult to see why the Corporation has not been asked to justify its view on the timing of plate mill development. The Chancellor of the Duchy proposes that the Corporation do not need to take a decision now on the need for such a mill, or on its location. I understand that early decisions on these matters would, on the contrary, be to the Corporation's commercial advantage.

There are three final points I would mention:

(a) First, the savings from the closure of the Ravenscraig hot strip mill would be minimal - perhaps less than £20 million compared to this year's expected profits of over £400 million;

(b) Secondly, Ravenscraig is the largest single customer of the SSEB - a consideration relevant in the context of electricity privatisation;

This is not proposed.

(c) Thirdly, closure of Ravenscraig would lead to male unemployment in Lanarkshire approaching 30% and the collapse of a significant number of small businesses in the area.

Not proposed.

To sum up, the closure of Ravenscraig would make a mockery of the justification we gave for the closure of Gartcosh; is not necessary for the privatisation of the steel industry; should not be determined by the EC timetable; and would be devastating to any prospects for political recovery in Scotland. It is not the only course open to the Corporation.

Copies of this minute go to Kenneth Clarke, Willie Whitelaw, Nigel Lawson and David Young.

MR

10 November 1987

**M R**

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Ck BS - return please.

To:

PRIME MINISTER

B/F Wednesday please.
DRN
6/11.

From:

KENNETH CLARKE

6 November 1987

**BRITISH STEEL CORPORATION**

1 It might be helpful if I set out the major issues on BSC which we need to discuss at the meeting you have called for 9.30am on Thursday 12 November. The key document is Sir Robert Scholey's letter to me of 20 October (attached).

2 There are two central issues on which I think our discussions should be based. The overriding point, I believe, is that we must give the greatest weight to the Board's judgement about the best commercial way forward. I recognise that their proposals have significant implications for Scottish steelmaking, particularly in the medium and long term, but to adopt any other course would be fundamentally at odds with our approach to the economy as a whole.



NO1ACK

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3 Secondly, we need to be clear that further rationalisation of BSC's existing plant is inevitable. There is manifest excess capacity in the UK, let alone the EC, in hot strip and ultimately in steelmaking. Manning levels will also fall with the progressive introduction of more modern plant. The consideration of alternative options is therefore really about where job losses will take place, not whether they are necessary. All of BSC's plants are in areas of relatively high unemployment.

4 At your meeting I suggest that we concentrate on three main strategic issues. First, I believe that we and the Corporation should be prepared to make an early announcement of a decision to close the Ravenscraig Hot Strip Mill after August 1988. I accept the Corporation's commercial case for retaining Ravenscraig steelmaking. I fully expect the Board to make clear (and repeat in the privatisation prospectus) its expectation that steelmaking at Ravenscraig will continue for at least 4 years and I am pressing them to consider a longer period. Thereafter the future would depend on the level of demand for steel and the performance of the Company at that time. No sensible person would seek to guess at either feature so far in advance.



999-49

5 Secondly, we should accept the Corporation's decision to postpone consideration of a new plate mill. To try to get the Board to accept a refurbished plate mill at Dalzell or a new plate mill in Scotland would not only be extremely difficult but would be seen as a non-commercial decision imposed by Whitehall. Refurbishment of Dalzell would not meet the needs of the market. Bob Scholey's letter also makes clear that Scotland, though not ruled out, would be an unlikely choice for the new mill. BSC's calculations suggest that the option including a new Scottish plate mill would not only be more expensive than their preferred option but would have a negative effect on profits of about £45m a year.

6 If this were merely a short-term issue, we could perhaps consider asking the Board to live with a less than optimum position. But a new plate mill will cost some £170m and will commit BSC for 30 years, which takes us way beyond privatisation. Placing the new mill in Scotland would commit the Board not only to a less than ideal structure for their plate business but also effectively to five integrated plants for the same period of time. Meanwhile Bob Scholey's letter helpfully indicates a probable medium term life for Dalzell and I believe the Board would be prepared to give a commitment to this in the prospectus. As with steelmaking at Ravenscraig, it would be foolhardy to expect anything more so far in advance.



NO1ACK

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7 The third point is that we should endorse the strong preference of Bob Scholey and his Board to aim for privatisation in late November/early December 1988. A final decision will of course depend on the state of the market. As Bob Scholey's letter points out, however, BSC is in a strong competitive position and early privatisation will give them the commercial flexibility they need. We must not therefore tie their hands for the future by imposing on them non-commercial decisions at this stage.

8 I am clear we need to agree our strategy quickly. The next Industry Council is on 8 December at which I shall be pressing my European colleagues to reduce their own overcapacity and to bring to an end the current quota regime. We must avoid any suggestion that our European colleagues have forced us to close the Hot Strip Mill. As I have said, that is an entirely commercial decision. Nevertheless, a decision to close will put us in a stronger position to negotiate a wider EC restructuring package and an eventual return to a quota-free market. This points to the decision being announced some time before 8 December. We also need to press on with the essential preparatory work for privatisation to meet the late 1988 flotation.



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9 Finally, while I recognise that the strategy recommended above would increase unemployment in the short-term in Scotland, I would far rather see us concentrating our efforts on those industries which provide genuine long-term prospects than industries such as steel and shipbuilding, where employment will inevitably continue to contract. I would strongly support, therefore, the reinvestment of a significant proportion of the proceeds of a BSC sale into a training and employment package in the affected areas. My officials have done some preliminary work in connection with shipbuilding in the North East of England. I would very much hope that Scottish Office officials could be brought in on the development of a similar package for Scotland very quickly.

10 Copies of this minute and its attachment go to Willie Whitelaw, Nigel Lawson, David Young and Malcolm Rifkind.

Peter Smith

PP KENNETH CLARKE
(Approved by the Chancellor and signed in his absence)

# BRITISH STEEL CORPORATION

SIR ROBERT SCHOLEY, CBE, D.Eng

20th October, 1987

STRICTLY PRIVATE AND CONFIDENTIAL

The Rt. Hon. Kenneth Clarke QC MP,
Chancellor of the Duchy of Lancaster
and Minister of Trade and Industry,
Department of Trade and Industry,
1 - 19 Victoria Street,
London SW1H OET

Dear Chancellor

When Merchant Bankers made their presentations to Paul Channon in April this year it was clearly established that the announcement of a significant cost cutting exercise affecting basic configuration was a major pre-requisite to establishing a sufficiently robust level of profit to permit privatisation to take place.

Given the sensitivity of this issue for Government and ourselves, Paul Channon requested the Corporation to advise him if there might be more than one way of achieving the cost cutting objective.

Since that time we have developed the exercise and looked overall at some 16 options. The summary of the features of the main options considered is given in Attachment I, whilst Attachment II provides a qualitative appreciation of the relative benefits and disadvantages.

In the next stage of the work we considered whether each of these options:

- undermined efficient production and competitiveness;
- required investment disproportionate to benefits;
- restricted flexibility in the longer term.

In the best interests of the Corporation we were determined that we should not endorse any solution which might solve immediate problems and have shorter term attractions but created new longer term problems in any of the above respects.

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

We concluded that a number of the options could be readily discarded on a qualitative assessment which would not require evaluation to determine their exclusion. On this basis, the choice was narrowed down to four which we decided to evaluate, in broad terms, to establish orders of magnitude of financial difference. The four configurations selected were:-

| | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| Strip Mill Closure Location | Ravenscraig | Ravenscraig | Lackenby | Ravenscraig |
| Blast Furnaces Closed | None | Ravenscraig(2) | Scunthorpe(1) | Ravenscraig(1) Scunthorpe(1) |
| Extra Concast in South Wales | No | Yes | Yes | Yes |
| New Plate Mill Facilities | Teesside or Scunthorpe | Teesside or Scunthorpe | Teesside | Ravenscraig |

The first, which involves the early closure of Ravenscraig Hot Mill (jobs involved 700) and transfer of concast slabs to South Wales for rolling in the hot strip mills there, is regarded as a stepping stone to number 2 - the eventual complete closure of the rest of Ravenscraig, when appropriate (a further 2370 jobs involved). In the third case the Lackenby coil plate mill is closed and a new plate mill installed at Teesside (net jobs: 1440). In the fourth configuration Ravenscraig Hot Mill is closed and a new plate mill installed at Ravenscraig (net jobs: 2340).

We recognise that Scottish interests would be likely to press for consideration of retention of the hot strip mill in Ravenscraig, as well as the addition of a new plate mill there. However, that course of action is not a serious runner as it would jeopardise not one, but two, other integrated works (i.e. Scunthorpe, and either Teesside or Llanwern) whilst being far less robust from BSC's best-case viewpoint. (We can fill out this view for your officials without difficulty).

Most of the considerations as to which steel works should be closed have not altered fundamentally from the time of the 1985 review and have if anything hardened since that time. Although I appreciate the need to update the detail supporting this view the key points from the appendix to that review, at Attachment III, set out the reasons as between the two Strip Mill works we consider to be most at risk : Llanwern and Ravenscraig. (Being a coastal site and with its substantial modern investment Port Talbot is unarguably the banker plant of the three integrated works in the Strip Products Group. The Lackenby Coil Plate Mill is the lynch pin of adequate volume to sustain Teesside's highly efficient low cost steelmaking. Moreover the closure of the Corby steelworks was dependent on forging a new steel supply for its major and efficient welded tube interests and Lackenby was strategically determined as that link).

The following table sets out the results of the broad evaluation of the four options. It is important to appreciate that at this stage the profit figures represent only the annual incremental benefits from each option when all the changes involved in bringing it about would have occurred. The cash figures are confined to the capital expenditure over and above our normal projected programme to bring the changes about and the one-off costs of associated manpower reductions. Both of these sets of financial figures represent the better profit or increased cash cost of change when measured against the "do-nothing" base case, as included in the Financial Projections on which our Merchant Bankers reported in April.

| | Options | | | |
|---|---|---|---|---|
| | 1 | 2 | 3 | 4 |
| | £ Million | | | |
| Increased profit over base case level | 35 | 125 | 65 | 80 |
| Additional capital expenditure over base case level | 110 | 170 | 240 | 190 |
| Redundancy costs of manpower rationalisation | 10 | 40 | 30 | 35 |
| Total cash requirements in excess of Base Case | 120 | 210 | 270 | 225 |

As will be seen, the incremental profit return is substantially the best in case 2 which also represents the best return on the incremental cash outlay. This position is the same as was apparent from evaluation of the many options considered at the time of the last strategy review in March 1985, and the best course for BSC would remain the completion of actions recommended by the Board at that time.

I said at the beginning of this letter that the objective of the cost cutting exercise was to find the means of achieving the major increase in profits necessary to make privatisation possible. Since April 1987, there has been a dramatic improvement in the Corporation's financial position with a very pronounced step change in profits. Whilst further work is necessary to confirm that our profit can be maintained on this higher path over the next few years, the Corporation's advisers agree that the economic assumptions on which the Corporation is presently basing its future forecasting work make this a reasonable expectation, and are not unduly optimistic. The Board accepts this advice. (Incidentally, the assumptions I here refer to are more current than those on which the Financial Projections the Merchant Banks reported on were based. Nonetheless, I would not expect their application to result in any significant change in the relationship or the order of magnitude of the incremental profit and cash positions as between the four options).

As a consequence, the cost reduction exercise stemming from the options is no longer a fundamental prerequisite to achieving privatisation profit levels. In fact the higher levels of demand which have been a key factor behind the profit step change mean that consideration has to be given to revising the timing in which configuration changes could now take place. This is because, although the Ravenscraig option (Options 1 and 2) would still be the right one to pursue in the Corporation's best commercial interest, it would take time to implement and cannot now be contemplated at one fell swoop in the short term. Whilst the hot strip mill could in practice be closed within six months of a decision, the combination of higher demand levels, and the rate at which the market is demanding continuously cast products, together necessitate the retention of Ravenscraig steelmaking at least until another continuous casting machine has been built and worked up in South Wales - 3 years at the minimum from the date of a decision to proceed, and possibly even longer.

We consider it essential to deal with our hot strip mill problem because:-

- in contrast to other product areas historically our utilisation rate in this particular process has been below 70% and amongst the lowest in the EEC. (This contrasted sharply with our relatively much higher utilisation of plate and sections mills both in actual terms and in comparison with other EEC producers).

- BSC's actual hot strip mill capacity is substantially higher than the level registered with the European Commission and even with current high output levels, well in excess of quota, our true excess capacity is some 2 million tonnes in this product.

- We are currently not able fully to utilise our most modern facilities with consequent adverse effects both on product consistency and cost performance.

Not only is an early decision to tackle this problem necessary, but it would in my view also lend considerable force to your position in the Council of Ministers, which is otherwise somewhat difficult in this respect especially when there is so little to bargain with in support of the very firm line on restructuring and quotas you have quite properly been taking.

From our point of view as an employer (not only in Scotland) my Board and I are acutely aware of the difficult nature of the Scottish situation and of the need to react in a responsible way as regards the local community. Principally for this reason we believe we can postpone a decision on a new plate mill for at least a limited period of time. There is, of course, a direct and very satisfactory link between Ravenscraig as a steelmaker and the adjacent Dalzell plate mill which would not be threatened while steelmaking continued at Ravenscraig. We are keen to avoid the Dalzell plate mill being seen to be at risk although we would wish to make it quite clear that no view has been taken on the siting of a new plate mill were the Board to approve that investment in due course. However, I should emphasise that amongst the considerations that would have to be borne in mind in siting a new plate mill would be the following:-

- It would be totally uneconomic to perpetuate five integrated sites in the long term;

- It would be ill advised and unnecessarily costly to spread our constructional steels business over three main sites;

- The scale of operation in Ravenscraig as an integrated plant with a plate mill, but no hot strip mill, would put a new plate mill at a significant cost disadvantage from the outset and negate much of the cost reduction otherwise attainable from such new investment.

We believe that actions are possible which could give reasonable prospects for the future of Dalzell for some years to come and, if this proves to be the case, an appropriate statement could be made publicly. I should emphasise, however, that for this strategy concerning Dalzell to be followed successfully it is important that we are able to buy plate quota in any extended quota scheme and also, for reasons of customer satisfaction, to consider the means of attaining a source of accelerated cooled plate pending the provision of our own new mill.

In the interests of completeness, I should draw your attention to the fact that the Board remains very concerned about the fragility of our Seamless Tubes business because of the obsolete tube mills in Clydesdale. Whilst not the most immediate problem, without investment in its mills Clydesdale (1780 people currently employed) would be in jeopardy at some point in time and this could in turn spill over to affect the Midlands seamless plants at Bromford, Wednesfield and Corby (involving a further 1550 jobs). Although investment of the order of £65 to £75 million would correct the problems of the Clydesdale mills, because of the major excess capacity worldwide in this product, exacerbated by the provision of significant Japanese new capacity installed since 1980, the business would still have to compete in a sector where profit prospects and the return on any new investment would at best be modest. As I said this information is presented to complete the picture but I am not making any proposals on Clydesdale at this point in time.

It would seem that our present trading position and prospects open up the potential for privatisation earlier than the target of mid 1989 as we had been previously advised. My reasons for taking this view are that:-

- Profits are now at a level to attract investors to BSC as an income stock.

- The economic indicators for U.K. manufacturing (our biggest market) and exporting are favourable to us.

- The major financial losses incurred by our continental competitors in the last year or so appear to have created a climate in which companies are less inclined to put themselves at risk through unnecessarily disruptive market practices. The prospects for a more orderly scene in Europe are therefore rather better.

- UK steel demand, which is estimated to be at a peak in 1987 and 1988, is expected to have some, albeit modest, cyclical regression in 1989 and this could impact adversely on the attractiveness of privatisation in 1989/90.

Further advantages flowing from privatisation in such a timescale are:-

. A flotation in the near future would be distanced from the actual major configuration change if, as is likely, this can be deferred for some five years.

. By distancing privatisation from operational and investment issues (e.g. plate mills, further concasting etc. - all of which will come to the fore in the period beyond 1988) the Corporation will have optimum plant and commercial flexibility.

. An early privatisation would enable total commercial freedom without regard to political considerations in the first instance (e.g. increased UK distribution outlets). (No business can be adequately robust unless its Board and management are free to move in what they regard as its best commercial interests.)

. I understand there may well be a limit to the availability of funds for investment in new issues and a clash with electricity or water later in the current Parliament. This could result in a later BSC flotation being crowded out of this Parliament altogether.

. Last, but by no means least, early privatisation is very important to maintaining the current high level of motivation in management and workforce and to retaining (and recruiting) able young management who are not only attracted to the prospect but are also highly marketable with our increasing success.

For all these reasons, which our advisers Barclays de Zoete Wedd strongly support, it seems to me and the Board highly desirable that we should aim at privatisation in late November/early December 1988.

I have sought in this letter to bring together the need to address the issue of options and a solution to the difficulties in Scotland in a way which would gain broad acceptance from many points of view while being consistent with fulfilling my remit and yet dealing with BSC's problems in the best commercial way. I feel I should underline the Board's strong commitment to privatisation not only in the context of my remit as Chairman but also, more particularly, having regard to the step jump in profits recently attained which there is every indication can be maintained.

I have not dealt with the issue of alternative job creation although you are aware of my views on this, and of the considerable and well acknowledged efforts of BSC Industry in these respects and our clear commitment to join in and support any new initiative for the areas that would be affected. Indeed, the way in which it is possible to distance the announcement of decisions from the actual events bringing about job losses provides a unique time frame in which to launch a significant job creation initiative well in advance.

Yours sincerely

Bob Scholey

## SUMMARY OF MAIN OPTIONS

| Option: | Base Case | Ravenscraig HSM closed | Ravenscraig Plate mill options | | | Teesside Plate mill options | | Ravenscraig full closure | | Llanwern closure except cold mill |
|---|---|---|---|---|---|---|---|---|---|---|
| Note: Options rejected are marked [] | [a] | b | [c] | [d] | e | [f:0] | f:1 | g | [h] | [i] |
| MILLS | | | | | | | | | | |
| NEW PLATE MILL, sited at | NONE | EAST SIDE | RAVENSCRAIG | RAVENSCRAIG | RAVENSCRAIG | TEESSIDE | TEESSIDE | EAST SIDE | RAVENSCRAIG ("island" site) | EAST SIDE |
| STRIP MILL CLOSURE, at | NONE | RAVENSCRAIG | RAVENSCRAIG | RAVENSCRAIG | RAVENSCRAIG | LACKENBY | LACKENBY | RAVENSCRAIG | RAVENSCRAIG | LLANWERN |
| BLAST FURNACES IN USE: | | | | | | | | | | |
| RAVENSCRAIG | 2 | 2 | 2 | 1 | 1 | 2 | 2 | - | - | 3 |
| LLANWERN (Large/Small) | 1(L) | 1(L) | 1(L) | 1(L) | 2(L+S) | 1(L) | 2(L+S) | 2(L+S) | 2(L+S) | - |
| SCUNTHORPE | 3 | 3 | 2 | 3 | 2 | 3 | 2 | 3 | 3 | 3 |
| EXTRA NEW SOUTH WALES CASTERS | - | - | - | - | 1 | - | 1 | 1 (second caster is a possible variant to these options) | 1 | 1 |
| SLAB TRANSFERS: | | | | | | | | | | |
| Ravenscraig to South Wales | Minor | Major | Major | - | - | - | - | - | - | - |
| Teesside & Scunthorpe to S/Wales | - | - | - | Major | - | Major | - | Minor (eliminated with a 2nd caster) | Minor | - |
| Scunthorpe to Ravenscraig | - | - | - | - | - | - | - | - | Major | - |
| SLAB PURCHASES | - | - | 0.5mtpa | 0.5mtpa | - | - | - | - | - | - |

SELECTED OPTIONS (revised designations): OPTION 1 OPTION 4 OPTION 3 OPTION 2

ATTACHMENT I

## BENEFITS AND DISADVANTAGES OF INDIVIDUAL OPTIONS

| Options. For descriptions, see Figure 1 (Note. Options rejected are marked [ ]) | Base Case | Ravenscraig HSM closed | Ravenscraig Plate mill options | | | Lackenby Plate mill options | | Ravenscraig full closure | | Llanwern closure except Cold mill |
|---|---|---|---|---|---|---|---|---|---|---|
| | [a] | b | [c] | [d] | e | [f:0] | f:1 | g | [h] | [i] |
| 1. Ability to meet market requirements | No (plates) | Yes | Yes, with support from imported slabs. | | Yes | Yes | Yes | Yes | Yes | Yes, with major investment at Ravenscraig |
| 2. Elimination of Plate mill weaknesses | No | Yes | Yes technically but would not be in world's top league costwise because of Ravenscraig's relatively high steelmaking costs. | | | Yes | Yes | Yes | Yes technically but would suffer on cost grounds | Yes |
| 3. Utilisation of hot strip mill capacity | 70% | 90% | 90% | 90% | 90% | 87% | 87% | 90% | 90% | 90% |
| 4. Utilisation of upstream capacity | Heavily under-utilised | Heavily under-utilised | Minor improvement with one blast furnace closure | | Significant improvement | Heavily under-utilised | Some improvement | Optimum utilisation | Optimum utilisation | Optimum utilisation |
| 5. Imbalances in works' production flows requiring costly transfers of slabs | Minor transfers to South Wales | Major transfers of slabs from R'craig/Scunthorpe to South Wales detracts from improved utilisation benefits | | | None | Significant slab transfers from Scunthorpe | None | None | Significant slab transfers from Scunthorpe | None |
| 6. Location of Hot strip mills for optimum distribution | Relatively poor (Ravenscraig) | Good | Good | Good | Good | Poor , with increased sourcing from Ravenscraig and more distant transfers to Corby | | Good | Good | Good |
| 7. Avoidance of costly "island" sites | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | No (Plate mill) | No (Llanwern CRM) |
| 8. Maintenance of individual sites' optimum product costs | | | Scunthorpe costs undermined | | Scunthorpe costs undermined | | Scunthorpe costs undermined | | | |
| 9. Restrictions on operational flexibility | No | | Potential lack of flexibility one BF/mill configuration | | | | | | | |
| 10. Requirements for capital expenditure additional to the new Plate mill which is in all options. (compared to Base Case) | | Modest requirements | Modest requirements | Modest requirements | Extra caster | Major refurbishment of Ravenscraig HSM, partly offset by saving from L'by CPM closure | Extra caster | Extra caster | Extra caster | Major investment at Ravenscraig for volume as well as quality |
| 11. Employment implications | | Impact on Ravenscraig | Significant impact on Scunthorpe | Significant impact on Ravenscraig | Significant impact on R'craig and Scunthorpe | | Significant impact on Scunthorpe | Major impact on Ravenscraig | | Major impact on Llanwern |
| 12. Potential implementation problems | | | Possible delays if new Plate mill has, because of lack of space, to replace hot strip mill (Lackenby or Ravenscraig) in situ | | | | | | | |
| 13. Committed retention of 5 steelmaking sites | Yes (support for all hot strip mills) | Possible stepping stone to full closure | Yes | Yes | Yes | Yes | Yes | No | No | No |
| 14. Economic stability of configuration and elimination of uncertainties to potential investors | | | | | | | | Yes | Yes | Yes |
| 15. Sensitivity politically | | | | | | | | Very significant politically | | |

ATTACHMENT II

ATTACHMENT III

## Factors adversely affecting Ravenscraig.

| | | | |
|---|---|---|---|
| 1. | Market Considerations. | : | Customer preference for South Wales Works. |
| 2. | Location | : | Less than 3% of Ravenscraig total deliveries to Scottish customers, therefore increased carriage costs. |
| 3. | Harbour | : | Heavily underutilised with resulting excess costs. |
| 4. | Plant Considerations | : | Compares adversely with South Wales plants in terms of:-<br>- scale and logistics; and<br>- modernity. |
| 5. | Cost Base | : | Inherently higher than other integrated plants. |
| 6. | Headroom | : | Constrained by comparison with other integrated strip mill works. |

SECRET AND PERSONAL

RLE 9 DSG

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10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

2 November 1987

Dear Peter,

**BRITISH STEEL CORPORATION AND BRITISH SHIPBUILDERS**

The Prime Minister has seen the Chancellor of the Duchy's minute of 29 October which reported the outcome of his discussions with Mr. Rifkind on the subjects of steel and shipbuilding.

The Prime Minister believes it would be best now to take these subjects forward separately. She would be grateful if the Chancellor of the Duchy of Lancaster would discuss with Bob Scholey whether he would be prepared to give a clear commitment to the future of steel making at Ravenscraig for seven years rather than four. It would also be helpful if Scholey could give a view on Dalzell which could be quoted to Mr. Rifkind when this is next discussed. DTI should discuss with the Treasury the finance which might potentially be made available for an enterprise company in the Ravenscraig area. The Prime Minister is content to aim for an announcement before the meeting of the Industry Council on 8 December and, allowing for a meeting of E(A) and possibly also of Cabinet, this points to a meeting with Mr. Rifkind within the next week or ten days on the basis of a paper circulated by Mr. Clarke.

On shipbuilding, the Prime Minister thinks it would be useful to discuss a note by Mr. Clarke alongside a note by the Secretary of State for Northern Ireland on Harland and Wolff and AOR 1, with a view to a meeting to which Mr. Younger would also be invited. Again, DTI should discuss with the Treasury the finance which might be made available for enterprise companies, in the North East and in the Govan area. DTI officials should discuss with MOD officials in a low key way the costs and consequences of placing extra frigate orders with Swan Hunter and Yarrow. The Prime Minister would wish to know separately the results of this investigation.

I shall tell Mr. Rifkind's office that the Prime Minister intends to proceed by means of separate meetings on the two subjects. My separate letter of today alerts Mr. King and Mr. Younger to the proposed discussion on shipbuilding and to the need for a paper.

SECRET AND PERSONAL

I am copying this letter to Mike Eland (Lord President's Office), Alex Allan (HM Treasury), Tim Walker (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours,

David

David Norgrove

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

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PRIME MINISTER

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STEEL AND SHIPS

Kenneth Clarke's excellent minute records a disappointing outcome to his discussion with Mr. Rifkind. On steel, Mr. Rifkind wants investment at the Dalzell plate mill which would in effect make Ravenscraig a permanent part of the British Steel Corporation. On ships, Mr. Rifkind wants Govan to be able to continue to look for new work within strict financial limits. It would then be closed if it failed to win orders.

Mr. Clarke rejects both of these propositions. The first is clearly unacceptable. The second would simply lead the Government into continuing arguments and large subsidies. Mr. Clarke suggests that you should now hold a meeting of the small group with Mr. Rifkind.

I am not sure that this is the best way to proceed, partly because of the complication of discussing shipbuilding without Mr. King and Mr. Younger there to talk about Harland and Wolff.

I recommend that you should now hold separate meetings about steel and shipbuilding. Steel is the prize, much more important than ship building, and this should take priority. The timetable is also more pressing because Mr. Clarke sees major advantages in making an announcement before the Industry Council meets on 8 December. Mr. Clarke believes that Bob Scholey might be induced to give a clear commitment to the future of steel-making at Ravenscraig for 7 years. I suggest that he should be asked to obtain this, and to get a clear view from Scholey on Mr. Rifkind's wishes for Dalzell so that this can be put to Mr. Rifkind at your meeting. It would also be useful for Mr. Clarke to talk to the Chancellor about the sums which might be made available for an enterprise company. The whole amount would not be made known to Mr. Rifkind initially but could be brought out in negotiation. (There

seems little doubt that an enterprise company will be needed in the steel area as well as action to help the shipbuilding areas - these of course are in different places.)

Mr. Clarke reports that Mr. Rifkind seemed initially attracted by a 7 year commitment plus an enterprise company. So once this is worked out it could be put to a meeting of the small group, with Mr. Rifkind, under your chairmanship.

Agree that Mr. Clarke should negotiate with BSC and the Chancellor and then that you should hold a meeting? Yes MT

Shipbuilding can be taken in somewhat slower time (recognising that this may foreclose the option of announcing steel and shipbuilding together, as Lord Young would wish but Mr. Clarke opposes). On this I suggest that Mr. King should circulate a further note about Harland and Wolff and AOR1 and that he should be invited to attend a meeting of the small group with Mr. Younger and Mr. Rifkind to discuss shipbuilding as a whole.

Agree? Yes MT

Both for steel and for shipbuilding the small group meetings should if possible lead on to meetings of E(A).

DRN

D. R. Norgrove
30 October 1987

PMMAJP

SECRET AND PERSONAL

7

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cc bb and return pse.
Also Richard Wilson.

TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

29th October 1987

BRITISH STEEL CORPORATION AND BRITISH SHIPBUILDERS

I have had a meeting with Malcolm Rifkind on the subject of steel and shipbuilding. We discussed my proposals in a friendly and reasonable atmosphere, but after debating the issue thoroughly for an hour, I am afraid we failed to reach agreement.

Steel

2 Malcolm does not accept the proposal that the hot strip mill at Ravenscraig should close if it is accompanied only by BSC assurances that steel making is safe there for some years. He says it would not be credible and would be seen



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as the next step in a process of steady erosion. He insists that every MP of every Party in Scotland would oppose such a policy.

3 He argues, correctly, that the closure of the hot strip mill will not make an enormous difference to the profitability of BSC as a whole (approximately £10m per annum). It is, however, a step that has to be taken. There is manifest excess capacity in the UK, let alone the EC. I see closure of this mill as the absolute minimum price we will have to pay to achieve the restructuring of European steel that is an essential precursor to a privatised BSC. Nevertheless I judge that Malcolm could come to accept the case for it if BSC would agree to a large investment in a new or refurbished plate mill at Dalzell which is a site immediately next door to Ravenscraig.

4 This approach would be hotly resisted by Bob Scholey and the BSC Board. They had agreed that they would postpone any decision on the new plate mill until after privatisation. There is then a choice to be made between putting the new mill that they undoubtedly require at Dalzell (or Ravenscraig), Scunthorpe or Teesside.



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5 Investment in a new plate mill would involve substantial expenditure (capital cost of around £170m). The total cost to BSC of the option they had previously identified which would embody Malcolm's proposal for the plate mill would be £225m. While this is only about £15m more than the initial cost of BSC's preferred option, which is likely to be to site the plate mill at Teesside near to their markets and to their much more efficient steel making plant, it would result in a continuing reduced level of profits of £45m a year. This would have a major adverse impact both on privatisation proceeds and subsequently on British Steel. There would also still be major job losses, probably at Scunthorpe which is another sensitive area.

6 This issue is actually an old one which goes to the heart of the problem. Investment in the new plate mill at Dalzell would commit BSC to a long term need for steel-making at Ravenscraig and make the five plant configuration of the Company a permanent structure. I know that the key to the desire of Bob Scholey and the Board to close the hot mill at Ravenscraig and to put the new plate mill at Teesside is to pave the way to eventual closure of the blast furnaces at Ravenscraig if total demand does not sustain the need for its steel-making capacity.



999-49

7 The Board would get very heated about any demand that they put their new plate mill at Dalzell or near Ravenscraig. Some members of the Board would react very strongly and might even resign. They would regard a political choice of Dalzell as a return to what they call the "Macmillan policy" of spreading key facilities around the country which has done them so much damage in the past. In my opinion, well-informed potential investors in British Steel would share their view and recognise that a political rather than a commercial solution had been imposed on the Corporation on the eve of privatisation. This could wipe hundreds of millions of pounds off the proceeds of the flotation.

8 I see no way in which I am going to talk Malcolm into accepting the commercial approach which you agreed should form the basis of our discussions. I see no price which he would accept for dropping his stand. I feel strongly that we cannot accept his demand and that we should not saddle ourselves with a weaker steel industry and ruin the privatisation on this issue.



999-49

9 I would like to argue the case by getting Bob Scholey to give a clear commitment to the future of steel-making at Ravenscraig for seven years. I am sure that BSC need it for that time and he will agree with that. Thereafter I would argue that the future would depend on the level of demand for steel and the performance of the Company at that time. No sensible person would seek to guess at either feature so far in advance. We also need to press ahead with proposals for a new Enterprise Company. The key to presenting our case is that people should look away from the old dying industries to alternative enterprise which can offer a real future to the communities affected. Malcolm seemed initially attracted by this but we need to engage his full support in order to work up a detailed case.

10 I understand that Malcolm has regular meetings with Bob Scholey. He was due to have one today (Thursday) but as it happened Bob Scholey has had to pull out because of illness. The next meeting will however take place soon and I doubt that they will seek to keep away from what is the real main issue to both themselves and the public.



999-49

Shipbuilding

11 Malcolm does not accept my proposals on shipbuilding. He says that we cannot announce closure of Govan whilst there is work in the yard. He would accept a rigid application of the Sixth Directive limits on subsidy to future searches for orders. He would accept closure if no order was won on that basis so that there was no order to follow the Chinese ships in two years time.

12 This was my first instinct when I started to look at shipbuilding. I suspect that John Lister, our Chairman of BS, would accept a deal of this kind. From my talks with him, I guess that Tom King would like to settle for something of the kind on Harland and Wolff.

13 It is very tempting. However I am quite satisfied that it will not work. John Lister has told me that BS cannot get an order and deliver it within Sixth Directive limits. It will simply not be possible to enforce those limits on their order-taking over the next two to three years.



999-49

14 The only orders they will be able to seek will not be for simple off-the-peg ships, easy to cost and calculate subsidy for, but one-off customised specialist ships to be designed and built. They will be bid for at prices which in all probability will lead to huge over-runs and losses over and above the intervention support.

15 We know how Harland and Wolff misled Touche Ross and the Government about the true cost of their building the AOR1. There have been endless examples of that in the merchant shipping field. I do not believe we would withstand enthusiasts within BS and lobbyists outside all the time up to 1990. We would be under constant pressure to fudge and we would have the greatest difficulty in weaning the affected communities away from their dependence on continuing subsidies. If we do not grasp the nettle and announce that BS will cease trading soon, we will keep on acquiring Chinese type ship orders into the 1990's.

16 We will need a meeting of the small group with Malcolm under your Chairmanship to try to sort these matters out. If they simply drag on, they will put off BSC privatisation indefinitely and do commercial and political damage.



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17 Finally, if we collectively agree to go ahead with my proposals, I am very doubtful about the idea of one big announcement in December. In my opinion, this would be heroic but not good politics. There is room for some step-by-step gradualism. I would like to make an announcement on Steel (particularly on the hot strip mill closure) in early December before the Industry Council on 8 December. The Shipbuilding announcement can be left until February 1988.

18 I am copying this letter to Willie Whitelaw, Nigel Lawson and David Young. I would ask that, as before, they ensure that it is kept on a strict need to know basis.

KENNETH CLARKE



999-49

SUBJECT
cc MASTER

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JD3 BDR

cc LPO
HMT
DTI
DUCHY
CO
MR. GUISE

6

SECRET AND PERSONAL

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

27 October, 1987.

**BRITISH STEEL CORPORATION AND BRITISH SHIPBUILDERS**

The Prime Minister this morning held a meeting to discuss the future of the British Steel Corporation on the basis of the Chancellor of the Duchy's minutes of 20 and 22 October, and British Shipbuilders on the basis of his minute of 20 October. There were present the Lord President, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster, Mr. Richard Wilson (Cabinet Office), and Mr. George Guise (No.10 Policy Unit).

The Chancellor of the Duchy said he had concluded that it would be right now to seek to privatise the British Steel Corporation before the end of 1988, with mid-1989 as a fall-back. The hot rolling mill at Ravenscraig would be closed, but BSC would make clear their expectation that the liquid steel capacity of Ravenscraig would be needed for at least four years, and it might be possible to induce them to extend this expectation. The future of Ravenscraig would nevertheless remain an emotional issue for Scotland. It was clear that British Shipbuilders should cease trading. This would mean the closure of most of the yards, though Appledore might possibly be privatised. It was also relevant that Scott Lithgow would probably move to a care and maintenance basis by February next year, and 1,000 redundancies were likely at Yarrow in mid 1988. It would be right to transfer AOR1 from Harland and Wolff to Swan Hunter. It would be necessary to develop substantial proposals to help those who would lose their jobs in Scotland and the North East as a result of the changes at British Steel and the closure of British Shipbuilders.

The Chancellor of the Exchequer noted that privatisation of BSC in 1988 would be welcome both for itself and for the way in which it would help maintain the momentum of the privatisation programme. British Shipbuilders had no future, and the nettle of closure should now be grasped. Even though Ravenscraig would not be closed, the Chancellor agreed that a package of enterprise measures should be developed.

SECRET AND PERSONAL

The Lord President pointed to the pressures on the legislative programme in 1987/88. However, if the Government decided that privatisation should go ahead, room would have to be found for the Bill which would be needed.

After further discussion, the Prime Minister said that the Chancellor of the Duchy should now discuss with the Secretary of State for Scotland his proposals on steel and shipbuilding. It would be important in giving any undertaking about the future of Ravenscraig that this should be seen as a commercial decision made by BSC, and not a political commitment. On shipbuilding, care would be needed to make sure that people were not left with the impression that the whole of the UK's shipbuilding capacity would be lost with the closure of British Shipbuilders. Substantial capacity for the construction both of civil and military tonnage would remain. Measures to help those who would lose their jobs would need to be discussed with the Secretary of State for Scotland. One possibility would be to place a frigate order with Yarrow and another with Swan Hunter. A difficulty would be the wish of MOD to place such orders after a competition. But frigate orders would offer less nebulous help than an enterprise package. The possibility of such orders should not, however, be discussed with the Secretary of State for Scotland at this stage. The timing of announcements would need to be further considered.

I am sending copies of this letter to the Private Secretaries of those present.

David Norgrove

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

SECRET

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PRIME MINISTER

23 October 1987

## SHIPBUILDING AND STEEL

It is sensible to address these issues together particularly because of the Scottish implications. There is a sad inevitably about the shipbuilding recommendations, whereas the greatly improved outlook for British Steel is a signal success. We now have the only European steel industry making significant profits.

Last week in the United States I met 14 senior or chief executives from seven different steel businesses. All spoke in flattering terms about the performance of British Steel despite some mutterings that without past Government subsidies it would have been bankrupt many times during the past decade. Nevertheless, the consensus was that British Steel is now a worthy competitor with a good and efficient cost structure. Whereas other European competitors were highly inefficient and only made price competitive by Government artifices. On several occasions, I heard the remark that 'British Steel plays on a level playing field'.

### Shipbuilding

No advanced industrial society can profitably employ droves of workers in metal bashing. As the rest of our economy grows, activities such as shipbuilding are increasingly shown up as dynosaur industries with an uncompetitive cost structure. When this endogenous problem is compounded by gross world over- capacity the prospect of any ultimate permanent return to profitability is hopeless.

New ship orders in 1986 occupy approximately half available world capacity. With demand so low and good second hand ships so plentiful, new ships can only be sold at distressed prices bearing no relation to building costs. Even Korean



SECRET

shipbuilders are currently making losses. This situation cannot continue forever and most forecasters anticipate an increase in demand and price during the nineties.

Prices have indeed doubled between past troughs and peaks of the shipbuilding cycle. It is in anticipation of such recovery that British Shipbuilders recommend Option 3, which keeps both major yards open and would cost some £340m over the next four years with negligible redundancies.

Market projections are so unhelpful in any situation of chronic over-supply that it is far better to base plans on world cost ranking. I have therefore obtained a 'broadbrush' estimate of the true international cost ranking of British Shipbuilders compared with West Germany, Japan and Korea. These figures are expressed in US dollars and exclude any individual domestic arrangements such as soft financing.

**1987 Cost/Price Estimate for 30,000 dwt Bulk Carrier**

| Country | $m Cost | $m Price | Price/Cost Gap |
|---|---|---|---|
| B. Shipbuilders | 24.4 | 13 | 47% |
| West Germany | 23.5 | 13 | 45% |
| Japan | 23.2 | 13 | 44% |
| South Korea | 14.2 | 13 | 9% |

These figures show an enormous cost gap between South Korea and the Japanese and Europeans. The $13m current world price for a 30,000 dwt bulk carrier is the 'average' opinion of shipbrokers B/S have spoken to recently. The analysis

therefore indicates that prices are currently being set by the cash costs of the South Koreans which one would expect.

Exchange rates are of crucial importance in determining shipbuilding costs. Japan's present problems are principally due to the hardness of the yen which has caused a cost rise from $15m in 1985 to £23.2m in 1987. Similarly West German costs rose from $14.7 in 1985 to $23.5 in 1987. Despite this, Britain is still at the top of the international cost league for a straightforward product such as a 30,000 dwt bulk carrier. In recent years BS have reacted by switching emphasis to sophisticated ships such as passenger ferries and shallow draft container vessels for China, rather than straightforward bulk carriers. Even so it has only been possible to attract orders after enormous subsidies to the purchaser such as the Govan order from China.

The optimum time to decide upon closure is when a yard is in the early stages of fulfilling a new order. This gives the time to plan an orderly exit and should reduce last minute hysterical clamour for new orders at any price which is bound to happen if no pre-agreed strategy for the shipyard exists. Kenneth Clarke's paper combines long term economic sense and practical logistics in recommending closure of British Shipbuilders. The company has made a realistic analysis of possible options and naturally, management's preference is to stay in business at both yards. However, there is too much Micawberism and pious hope implicit in that course. The initial costs of closure are higher at £450m over four years but then the bleeding stops!

Harland & Wolff

We agreed to leave the ultimate decision about Harlands until there was a strategy for BS. Assuming that we accept Clarke's recommendation, we need to decide whether to

relocate AOR 1 now and close Harlands forthwith or to allow AOR 1 to be completed and, by my above argument, give us the time to plan an orderly closure.

In the case of Harlands there is a particular reason for being very cautious about allowing continuing activity. The Deloitte report, which I have read, is appalling. It catalogues a record of appalling management misjudgement at the highest levels both financially and technically. Although it is claimed that an intermediate management system can be installed, there must be a lot of guess work in the figuring.

I have heard that the fundamental mistake in the whole shipbuilding saga was made in 1985 by not closing Cammell Laird. Had that been done, instead of privatising over-capacity in the warshipyards, individual overhead costs would have been reduced and AOR 1 would have gone to its natural home at Swan Hunter. Although the Northern Ireland Secretary may not like it, the economic case would favour the earliest possible closure of Harlands with transfer of AOR 1 to Swan Hunter. (See Annex 1 for employment effects).

STEEL

British Steel

BSC's profit projections are now substantially higher than in April. The minimum secure level for successful privatisation has been estimated at £300m by both sets of bankers. We were previously told that this profit level could only be achieved by complete closure of Ravenscraig steel-making and hot-rolling.

By contrast, the present argument is that British Steel can generate a profit level of £350m with continued primary steel-making at Ravenscraig although the hot-rolling capacity would need to be closed at the cost of 700 jobs. This is a far more palatable proposal.

However, it is crucial that these profits are sustainable and will not collapse if the market weakens after privatisation. I have therefore asked for some sensitivies which show that a 10% fall in steel prices would reduce profits by half. Furthermore, a 10% fall in the deutchmark coupled with a 10% rise in input costs (iron ore and coking coal which are normally sold in US dollars) would jointly cause profit reduction of some £80m. Reductions in sales volumes, without price reductions, would have less harmful effects provided that BSC had taken some steps to reduce over-capacity. It has been able to make better profits than its competitors despite over-capacity because its five integrated plants are in common ownership. In the present steel market the over-capacity can be managed.

The above sensitivities show the major threats to BSC are increased over-capacity and exchange rate fluctuations. Therefore if BSC is to be robust it must work towards a capacity level which balances its market for finished products. Much of the recent optimism from British Steel comes from enhanced domestic sales due to improved UK economic activity. It is faith in this being sustained which enables it to put forward a programme which will continue primary steel making at Ravenscraig to provide semi-finished products for Llanwern while the latter is installing continuous casters.

In July we were told that BSC had a capital value of some £1.3 bn with Ravenscraig open, rising to £2 bn with Ravenscraig closed. The argument was that without Ravenscraig not only would the earnings increase but their quality would be enhanced leading to a higher multiple in their capital valuation. The present valuation of £1.7bn is based on the conservative multiple of 5 times applied to an earnings level of £350m. Because BSC has tax losses of some £2.5 bn coupled with unused capital allowances of £1.3 bn, it will pay no tax for at least 7 years. If earnings are

lower than £350m the length of this 'tax holiday' will increase. This means that for the foreseeable future the profit after tax and the profit before tax for BSC are the same number. Whatever this may imply about past performance, from a privatisation viewpoint it is positive because shareholders will be able to receive dividend out of untaxed income for many years. Indeed, the above figures, after allowing for a capital expenditure programme of £250m per annum, indicate that BSC would be able to pay a dividend equivalent to a yield of 7%. This should ensure a good take up by individuals and institutions seeking income stocks.

The DTI paper does not address the ideal configuration for a privatised BSC. I suspect that future successful steel makers will be single site, single generic operations based on electric arc furnaces. British Steel with its five integrated plants is quite the opposite. Its ideal shape is probably as three businesses with regional headquarters and no London office. The strip-steel business, the general steels business, and the stainless steel business are really separate activities with little customer, production or management overlap, although there may be economies in joint raw material purchasing (see Annex 2).

However, to force British Steel to privatise as three such businesses would almost certainly meet intense management resistance and not be achievable in the timescale now proposed. Although there might be some enhanced capital value, it is impossible to quantify with confidence and it will serve no good purpose to reopen these arguments now. In any case, it is not the function of Government to decree the ideal shape for a steel industry. After privatisation market forces wil ultimately decide through the driving out of inefficient practices!

What is important, particularly with privatisation in mind, is that British Steel does not make monopoly profits because

the market place does not allow it to operate as a monopoly. Over a third of its sales are overseas and nearly a third of steel consumed within the UK is imported. We would not 'lock in' monopoly profits by privatising BSC as a single entity and would not therefore be open to the criticisms associated with British Telecom or British Gas. The kind of debate we have been having about the electricity industry is therefore not relevant to British Steel.

Conclusion and Recommendations

1. Clarke's proposal to tackle shipbuilding and BSC together is adroit and should be supported.

2. Properly handled, it proposes a positive solution to the Scottish problem and Malcolm Rifkind's support should be enlisted fast.

3. The general shipbuilding problem, including Harlands, should be addressed and announced as early in this term as possible.

4. The closure of Ravenscraig hot-rolling capacity should be announced coupled with a BSC commitment to maintain raw steel-making for up to four years.

5. With the proviso that stock markets are back into reasonable shape well before Autumn 1988, the BSC privatisation timetable should be pursued.

GEORGE GUISE

CONFIDENTIAL.

ANNEX 1

IMPACT OF CLOSURE AT HARLAND AND WLF

-5,000?

## IMPACT OF CLOSURE ON LABOUR MARKET

- Total job losses from closure: 5,000 - 4,000 directly employed at H&W
  1,000 indirect jobs.

- Of 4,000 direct employees, 3,800 estimated to be male, 200 female.
  Of 5,000 total employees, 4,500 estimated to be male, 500 female.

- Assume 95% of redundant workers eligible for and claim unemployment benefit.

| | | |
|---|---|---|
| | | Northern Ireland |
| (1) | Unemployment at July 1987 | Male: 92,014 - 26.1% (of employee base*)<br>Total: 127,927 - 20.8% (of employee base*) |
| | | Belfast Travel to Work Area (BTTWA) |
| (2) | Unemployment at July 1987 | Male: 44,571 - 22.7% of employee base<br>Total: 63,363 - 18.2% " " " |
| | | BTTWA |
| (3) | Increase due to closure | Male: 4,300 - 9.6% in current unemployment in BTTWA<br>Total: 4,730 - 7.5% " " " " " |
| | | BTTWA |
| (4) | Impact on unemployment rate | Male: 22.7% increases to 24.9% of employee base<br>Total: 18.2% " " " " " " |

*employee base - employees in employment and unemployed.

~~Statement E~~
ANNEX 2

BSC

## Statistics of the Corporation's principal businesses for the financial year ended 28th March 1987

| | Total | BSC General Steels | Strip Products Group | BSC Stainless | BSC Diversified Activities | BSC Tubes |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Turnover:** | | | | | | |
| Home | 1,969 | 774 | 851 | 109 | 53 | 182 |
| Export | 965 | 300 | 427 | 116 | 32 | 90 |
| Inter-business | 170 | 211 | 146 | 19 | 27 | 24 |
| **Total** (see notes below) | 3,104 | 1,285 | 1,424 | 244 | 112 | 296 |
| **Assets employed:** | | | | | | |
| Fixed assets | 1,773 | 647 | 918 | 79 | 26 | 103 |
| Stocks | 669 | 202 | 307 | 90 | 14 | 56 |
| Other net assets/(liabilities) | 151 | 73 | 41 | 29 | (6) | 14 |
| **Total** | 2,593 | 922 | 1,266 | 198 | 34 | 173 |
| **Number of employees** at year end | 47,290 | 16,920 | 20,690 | 2,430 | 1,960 | 5,290 |
| | M tonnes | M tonnes | M tonnes | M tonnes | M tonnes | M tonnes |
| **Liquid steel production** | 11.7 | 5.5 | 5.7 | 0.3 | — | 0.2 |
| **Steel deliveries (external)** product tonnes | | | | | | |
| Home | 6.6 | 2.9 | 3.0 | 0.1 | 0.1 | 0.5 |
| Export | 3.7 | 1.5 | 1.8 | 0.1 | 0.1 | 0.2 |
| | 10.3 | 4.4 | 4.8 | 0.2 | 0.2 | 0.7 |

Notes:

(i) Inter-business turnover consisting of transfers between the above units amounting to £257 million has been excluded from the total column.

(ii) Strip Products Group figures exclude Whitehead (Narrow Strip) Limited.

(iii) BSC Diversified Activities figures exclude Railway & Ring Rolled Products Limited, Tinsley Bridge Limited and Fox Wire Limited.

(iv) BSC Tubes figures exclude British Tubes Stockholding Limited and Seamless Tubes Limited.

~~Statement F~~ ANNEX 3

BSC

## 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 |

88 89 4

PRIME MINISTER

CC NAT IND Shipbuilding PT13

LP
T
DT?
cc Duchy

STEEL AND SHIPS

You are meeting the Lord President, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and the Chancellor of the Duchy to discuss Ravenscraig, privatisation of BSC and the future of British Shipbuilders.

The decisions needed on steel are:

(i) whether to close the Ravenscraig hot strip mill whilst keeping open Ravenscraig steel-making;

(ii) whether on this basis to work for privatisation in November or December 1988 with legislation in this session;

(iii) whether this should now be discussed with Malcolm Rifkind and if so in what forum;

(iv) when an announcement should be made.

The decisions needed on shipbuilding are:

(v) whether British Shipbuilders should be progressively closed;

(vi) whether this should now be broached with Malcolm Rifkind alongside steel or later and if so in what forum;

(vii) whether an announcement should be made at roughly the same time as steel, or later.

In both cases a decision is needed on:

(viii) whether a package of enterprise measures should be worked up.

Ravenscraig

BSC have decided that the hot strip mill at Ravenscraig needs to be closed after August 1988 with a loss of 400 jobs. BSC believe that the steel-making capacity of Ravenscraig will continue to be needed and they are prepared to make clear (and to repeat in a prospectus) their expectation that steel-making at Ravenscraig, and possibly the Dalzell plate mill, will continue for at least four years. They may be willing to make some new investment at Ravenscraig.

Despite this "expectation", it is quite likely to be assumed that Ravenscraig is doomed. BSC will be installing new continuous casting capacity in South Wales, and the unwillingness to make any promises beyond four years will itself be taken as an indication that this is likely to be the life of the plant: people will believe that this promise is being given to ease the way to privatisation. The closure of the hot strip mill will reduce the demand for liquid steel from Ravenscraig.

This raises three points:

(i) what is the force of the "expectation"; can it be made a firm undertaking;

(ii) can the undertaking be extended beyond four years (four years would take the guarantee to the middle of 1992, the year after a probable election);

(iii) how easy would it be to make it clear that the closure of the hot strip mill is needed anyway, whether or not BSC is privatised.

Privatisation

BSC and financial advisers now believe that the present and projected levels of profits look sufficient for privatisation and that a major plant closure is no longer a necessary

pre-condition.

The key question here is the robustness of the forecasts. The Government must not commit itself only to find that factors outside its control require privatisation to be withdrawn. Two particular factors are relevant:

- discussions within the European Community, what is the likely outcome;

- market developments: the present pattern of exchange rates is favourable to BSC since it buys raw materials denominated in dollars and often sells products denominated effectively in DM.

Have they made good conservative assumptions?

Handling

It will be important to avoid the appearance of bouncing Mr. Rifkind. I suggest that you should hold a small meeting with him and the same people as at your Monday meeting and Mr. Clarke might even have a word with him first. This would be followed by E(A) and then an announcement which Mr. Clarke wants to happen before an 8 December EC meeting if possible.

British Shipbuilders

Mr. Clarke believes that the best option is to close British Shipbuilders with the loss of up to 6,300 jobs. This includes 2,500 at Sunderland, 1,745 at Govan, 530 at Appledore in Devon, 315 at Ferguson at Greenock, 640 at the service companies at Sunderland and 90 in HQ and central services. (I am not sure whether this tally includes Clark Kincaid.)

The cost would be some £450 million as opposed to £378 million which I believe is already in the public expenditure plans or £340 million if Govan and North Eastern Shipbuilders were kept open as the BS management would prefer. However keeping the

yards open would in Mr. Clarke's view mean perhaps a further £300-700 million during the 1990s and he argues that there is no realistic prospect of BS ever becoming commercially viable.

Substantial numbers would start to leave NES by mid 1988. Redundancies at Govan begin in 1989 with final redundancies in 1990 in both major yards.

Mr. Clarke's solution is surely right economically and even if the Government now choose one of the other options it is entirely possible that it would fail simply because the orders are not available at any realistic price. There is also a strong case for getting these things out of the way early in the Parliament otherwise the Government could be led deeper into subsidies and other difficulties later in the Parliament.

Timing

As time goes on the future of BS is likely to become an evermore obvious problem. There is a very strong case for bringing Mr. Rifkind into the picture at the same time as he is told about steel. However closure need not necessarily be announced at the same time as the steel decision. David Young and Mr. Clarke in one of the minutes see advantage in delaying an announcement until February. But it is not clear that this is still their view.

Whenever the announcement is made there will be a major problem in securing completion of the ships which are now on the stocks.

Enterprise Package

There is clearly a need to get ahead with enterprise packages. But Mr. Rifkind's co-operation will be needed to make sensible proposals for Scotland.

DRN

(D.R. NORGROVE)

23 October 1987

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

MARKET SENSITIVE

TO:

PRIME MINISTER

Prime Minister 2
DCS
19/10.

FROM:

KENNETH CLARKE

16 October 1987

**ALLIED STEEL AND WIRE (ASW)**

PM Flap: PE14.

1 In his minute to you of 8 April, Paul Channon outlined the progress which had been made on the institutional/management buy-out of ASW, and the agreement which had been reached on BSC's retention of a 20% stake in the new company.

2 I am pleased to be able to report that final agreement has now been reached on the terms of the deal, and it is expected that its completion will be announced on 22 October. The deal is a good one for both BSC and the Government and has been welcomed by GKN. The overall consideration being paid for ASW is £181m. This constitutes a sizeable increase over the £140m initially put forward by the buy-out consortium earlier this year, and is the result of several months of intensive



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negotiations between BSC and GKN and the buy-out group organised by Warburgs. BSC's share amounts to £97m, of which over £50m is in cash and the rest in the form of shares in the new company. This shareholding, and the right to appoint a director which it confers, will help to safeguard BSC's substantial sales of billet to ASW from its Scunthorpe plant.

3 Although no firm date has yet been decided, it seems likely that the buy-out group will seek a public flotation of the shares within the next two years.

4 I am sending a copy of this minute to John Major and Peter Walker.

Peter Smith

PP KENNETH CLARKE
(Approved by the Chancellor and signed in his absence)



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NAT IND Steel : Pt 15.

2

1

PRIME MINISTER

I should like to have a preliminary discussion with D.T.I. first - to test the proposition

STEEL

The paper below gives excellent news about the prospects for steel. Privatisation of steel before the end of 1988, with a guarantee that Ravenscraig would be kept open until at least 1992, is now a real possibility.

In the expectation that you will want to hold an early meeting, I have commissioned a further paper which would discuss, among other things, the assumptions on which British Steel's more optimistic forecasts are based, and also what the guarantee for Ravenscraig would mean in practice. Even with a four year guarantee, under some circumstances it would become clear very quickly that this was almost certainly a stay of execution rather than a pardon. It would be helpful to know more precisely what the prospects are and how the timetable fits together.

This is relevant to the question whether Mr. Rifkind should now be brought into the discussions. He is likely to be mightily relieved that the guarantee to Ravenscraig may be extended by as much as four years. His private fears are likely to be much worse. Whilst he may still cause difficulty, over the future of the Clydesdale pipe mill among other things, it is increasingly uncomfortable that he has not been brought in. **Agree** that he should be invited to your meeting?

It would also be useful for the Lord President to attend, both because of the political sensitivity, and because privatisation in late 1988 would require adding a new and contentious bill into the 1987/88 Session.

The future of Govan will also be relevant to the discussion. I understand that DTI are now actively considering closing both Govan and North East Shipbuilders. I have asked that you should be consulted before any paper is circulated more widely.

DNW

David Norgrove

8 October 1987

SECRET

1

CC BUP

cc GH and return.

PV comments by 8.10.97

To:

PRIME MINISTER

From:

KENNETH CLARKE

2 October 1997

**BRITISH STEEL CORPORATION**

1 I reported to you on 6 July that I had asked Bob Scholey to put in hand a study of a wide range of strategic options for the period following August 1988 when our guarantee on BSC's present plant configuration expires. The background to this was the advice which we had received from the banks that further plant rationalisation looked essential if BSC was to reach the level of profitability which would be required for privatisation - (£300 million plus). BSC have now provided a preliminary assessment of their strategic options. I have been discussing this with Bob Scholey and I met him again earlier today to hear his Board's view of the way they wish to proceed.



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2 I have set out in an annex the background to BSC's present assessment. In certain key respects, the position has changed markedly since we discussed this issue in June. In particular the Corporation's financial performance has continued to improve dramatically. Their half year results will be announced in November or early December and could reach £190m with full year profits of about £350m. They are increasingly confident of operating at this level into the future. Both sets of Bank advisers accept that these levels of profits look sufficient for privatisation and that a major plant closure is no longer a necessary precondition. Indeed BSC now say that, because of the strong demand which lies behind their improved profitability, they need Ravenscraig's continuously-cast steel making capacity for at least four years and possibly as many as ten. This does not, however, apply to the Hot Strip Mill at Ravenscraig which is now surplus to requirements.

3 Against this background the Corporation are now considering an approach along the following lines:

(i) the announcement of the early closure of the Ravenscraig strip mill(certainly within 3 years) with the loss of some 400 jobs;



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(ii) a public commitment - and possibly some investment - by BSC (not the Government) to the continued operation of Ravenscraig iron and steel production for at least four years, with the possibility of an extension, depending on developing market demand;

(iii) early privatisation. BSC strongly favour flotation in November/December 1988 rather than summer 1989 for which we were formerly planning;

(iv) a programme of job creation in the Ravenscraig area, possibly with help from Government with funding;

(v) the deferral until after privatisation of a decision on a new plate mill (which I touched on in my minute of 6 July). The plate mill at Dalzell (near Ravenscraig) would continue in operation for some years and a public commitment could be given to this;

(vi) further consideration of the seamless tubes business, (this will deal with their Clydesdale mill in Scotland).



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Assessment

4 BSC's improved profitability is very good news, and I believe that this makes it possible for us to plan for privatisation with increased confidence.

5 The principal attraction of BSC's proposal is, of course, that it offers a way forward to privatisation without the total closure of Ravenscraig in advance. Moreover, by basing the case for keeping Ravenscraig open on commercial grounds, rather than as a result of a Government political commitment, it demonstrates that the strategy of the Corporation is being driven by the needs of the industry rather than our wish to privatise - which itself makes privatisation easier. Moreover, being able to close the strip mill would strengthen my hand in negotiating a satisfactory settlement of the European steel policy in December.

6 There are clear risks and difficulties;



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(i) BSC's announcement of the strip mill closure and the refusal to give any further guarantee to Ravenscraig's continued existence beyond the four or five year period would confirm Scottish opinion that the plant as a whole was doomed. This makes major political controversy inevitable.

(ii) Privatisation at any date before the summer of 1989 would require the necessary legislation to be enacted before the end of 1987/88 session. My officials are working on a contingency basis to meet that deadline.

(iii) BSC's profits are greatly improved but would still be threatened by a disorderly market. A satisfactory outcome to the European discussions is therefore important for what is now proposed.

7 In my opinion, at this stage, the possibility of early privatisation is looking increasingly attractive. I have asked my officials to ensure that the Corporation's proposals should be worked up and taken further as quickly as possible. They could provide the basis for an appealing political and financial package.



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8 I am copying this minute and annex to Nigel Lawson and David Young. I would welcome a further discussion later this month to allow me to give Bob Scholey fuller reaction to the Board's thinking before November. I am anxious to bring Malcolm Rifkind into our discussions at the earliest possible moment.

Peter Smith

pp KENNETH CLARKE

(Approved by the Chancellor and signed in his absence)



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ANNEX

## THE OPTIONS EXERCISE

1 Since the Spring BSC have been examining a range of options for the future strategy of the Corporation. This examination has been partly driven by the need to begin work on an agreed strategy to replace the existing one which runs out in August 1988. But it has also been driven by the Corporation's need to achieve viability, that is to generate sufficient profits first, to meet its capital investment and working capital requirements, second, to enable it to pay a dividend to investors and third, to enable BSC to build up a reserve. It has been made clear to the Corporation that their consideration of possible options should be conducted on solely commercial grounds, with the aim of achieving viability as soon as possible. Viability would, of course, be a necessary pre-condition for privatisation.

### Position in March/April

2 Although no exact figure can be placed on what level of profits would constitute viability, both the Department's merchant bankers (Samuel Montagu) and those of BSC (Barclays de Zoete Wedd) suggested profits of at least £300m would be needed. BSC's financial projections, however, (completed in March this year) suggested that such profits could only be achieved by



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1990/91 and then only on a 'best case' set of assumptions. Both banks, therefore, recommended that a significant change in plant configuration would be needed to achieve viability.

Rough-cut Option Exercise

3 BSC accordingly considered various options for changes in plant configuration which would generate the improved profitability required for full viability - and ultimately, privatisation. The key issues which have been addressed are the heavy overcapacity in hot strip mills; their relatively outdated plate mills; and, in the slightly longer term, overcapacity in liquid steel manufacturing, which would result from a reduction in strip output.

4 In hot-strip, BSC currently have hot strip mills on four of their five integrated sites, namely Ravenscraig, Llanwern, Port Talbot and Lackenby (Teesside). Their current utilisation is running at only about 69% of the capacity of these plants and this is not expected to increase significantly. Closure of the larger strip mills at Llanwern or Port Talbot would remove too much capacity, so the effective options to reduce capacity are either Ravenscraig or Lackenby.



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5 For plate, BSC are faced with the problem that their two existing plate mills (Scunthorpe and Dalzell, part of the Ravenscraig complex) are ageing and uncompetitive. A new plate mill is needed ultimately to replace both existing mills. Options for location are Teesside, Scunthorpe and Ravenscraig/Dalzell.

6 If BSC reduce hot strip mill capacity, they will in due course require less liquid steel making capacity. In addition, there is a market requirement for BSC to increase the percentage of concast output (ie continuously cast steel which customers increasingly prefer to steel produced by the ingot route) from the S Wales integrated plants by investing in a new concaster in S Wales. In addition, BSC would in general terms gain by concentrating its resources on fewer locations. On this basis the candidates for a reduction in liquid steel production would be Ravenscraig and Scunthorpe.

Short-Listed Option

7 The Corporation initially considered a whole range of options against the above background but have identified the following short-list of options for detailed evaluation:



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| | STRIP MILL CLOSURE LOCATION | BLAST FURNACES CLOSED | EXTRA CONCAST IN SOUTH WALES | NEW PLATE MILL FACILITIES |
|---|---|---|---|---|
| 1 | Ravenscraig | None | No | Teesside or Scunthorpe |
| 2 | Ravenscraig | Ravenscraig (2) | Yes | Teesside or Scunthorpe |
| 3 | Lackenby | Scunthorpe (1) | Yes | Teesside |
| 4 | Ravenscraig | Ravenscraig (1)<br>Scunthorpe (1) | Yes | Ravenscraig |

**Note:** Ravenscraig currently has two blast furnaces. Scunthorpe has three.

8 BSC's initial projections - which would need to be confirmed by detailed analysis - show the cost implications of these options as follows;

| £m (April 1987 price) | Increase in profit from implementation (per annum) | Capital cost of implementation (Total) |
|---|---|---|
| Option 1 | 35 | 120 |
| Option 2 | 125 | 210 |
| Option 3 | 65 | 270 |
| Option 4 | 80 | 225 |

9 Option 2, therefore, (total closure of Ravenscraig; new concaster in S Wales; new plate mill at Teesside or Scunthorpe) offers BSC the greatest improvement in profit. Its capital costs are less than those other options which would maintain a long-term presence at Ravenscraig (except for Option 1 which maintains the Ravenscraig iron and steel making but generates little profit improvement). The BSC Board, therefore, saw Option 2 as most likely to emerge from the detailed evaluation with the greatest economic benefits.



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Improvement in BSC Profit Performance

10 Since the financial projections of April, BSC's profit performance has improved considerably to the extent that they are now anticipating profits in the current financial year of about £350m, above the figure which was considered the minimum figure for viability earlier this year. The main reason for this improvement has been the growth in demand (largely within the UK economy), together with continued improvements in manufacturing efficiency.

11 This improvement in performance has implications for both the timing of privatisation and the timing of changes in plant configuration. It also greatly increases the confidence within the Corporation in the future and strengthens their belief that the considerable improvement in profit in recent years can be maintained, though much is still critically dependant on a satisfactory outcome to the discussions in Europe. (It is estimated that a 10% fall in steel prices - a possible outcome of an unregulated European market without restructuring - would cost BSC some £175m a year, making viability almost impossible to achieve.)



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12 This improvement in performance does not change the basic economic case for Option B. But it does have a significant effect in that it is clear that even with an early closure of the Ravenscraig Hot Strip Mill (the case for which is not affected by this profit improvement), BSC could not manage without the concast steel output from the Ravenscraig blast furnaces until the investment in a new concaster in S Wales has taken place and the additional concast output from S Wales becomes available. Given the need for a full Government investment approval of that investment (as required by the current procedure) and a further three years for construction, BSC can predict, with some confidence, that they will not be in a position to do without the Ravenscraig liquid steel output for at least four to five years. Even beyond that, if demand were to improve beyond existing levels, there could be a need to keep Ravenscraig open for a further period. In the long run, however, it is unlikely that BSC would wish to keep Ravenscraig open in preference to increasing liquid steel output in S Wales.

13 The Board remains concerned about the limitations of their two obsolescent plate mills. Resulting quality problems are likely to affect their position in the market place, and the Board recognises the need for a new plate mill - (about



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£150 million) - in due course. However their preference at this stage is to defer this investment until after privatisation, and it does not feature therefore in their current options analysis. The siting of a new plate mill will inevitably be a matter of great political controversy; there is likely to be strong pressure for the issue to be re-opened and for the new plate mill to be sited in Scotland.

Seamless Tubes

14 Consideration of BSC's seamless tubes business has not formed part of the consideration of Strategic Options review and is not covered by the existing Corporate Plan for the five integrated works. It is, however, the one main area of BSC which continues to be loss-making and is thus a drain on BSC's financial performance.

15 These losses are not significant - month to month seamless tubes almost break even and the Tubes division as a whole is in surplus - but the Clydesdale plant, employing some 1,780 people, is at the end of its life and the prospects for seamless tubes demand (largely from N Sea oil exploration) make unattractive the significant investment, which would be needed to make Clydesdale efficient, particularly in a market where there is



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already considerable over-capacity. However, failure of Clydesdale would also undermine the prospects for the other two seamless tubes plants at Wednesfield and Bromford (both West Midlands: total employment 1,550) though Bromford might be sold as a going concern. BSC are accordingly studying options for the future of the seamless tubes business and will report to Government shortly.

DTI

October 1987



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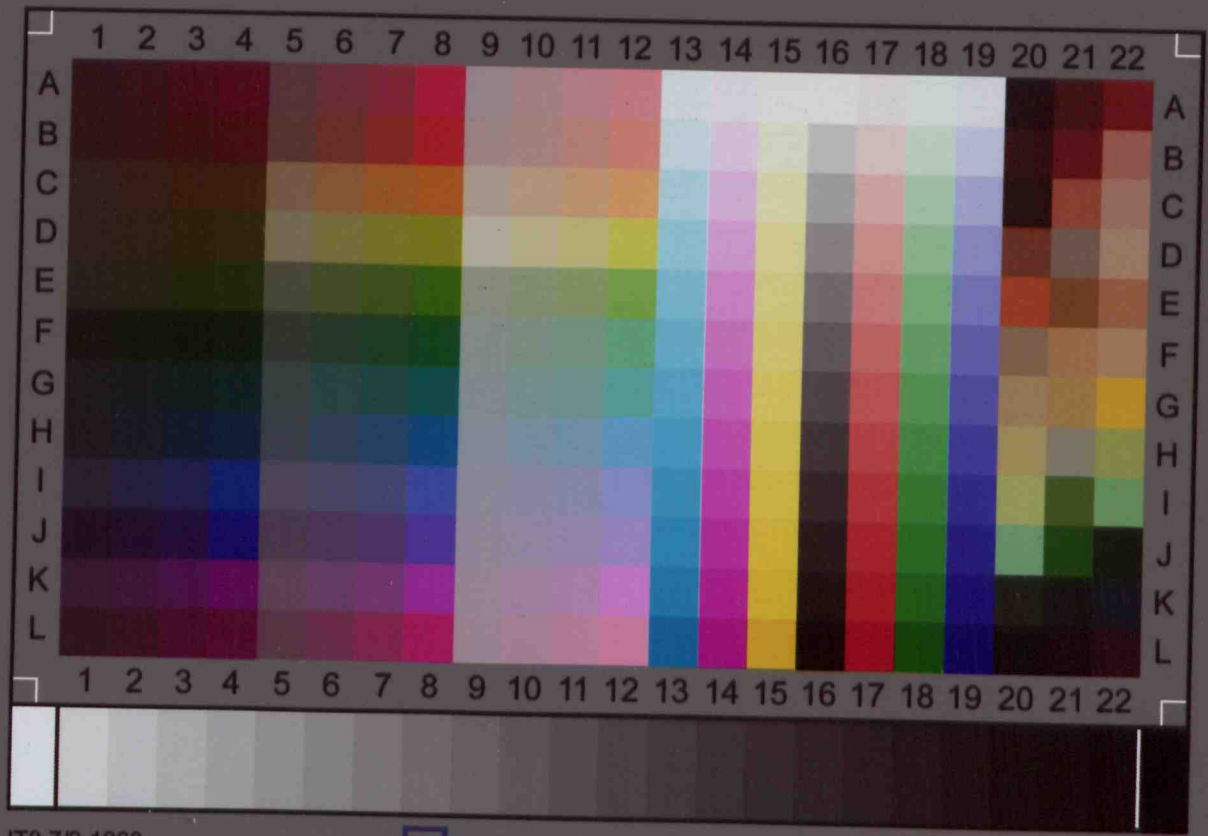
NAT INO : Steel PT14

PART 14 ends:-

J. HOLROYD TO CDP 25.9.47

PART 15 begins:-

CDL TO PM 2.10.47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