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CONFIDENTIAL

PRIME MINISTER

BRITISH STEEL CORPORATION

You will have seen my minute of 28 November and that of the Secretary of State for Wales of 6 December. This minute is to bring us up to date for our discussion on steel at E Committee tomorrow.

Following their meeting yesterday, the BSC Board this afternoon ... issued the attached Statement on their capacity target and plant strategy for 1980/81. It confirms the intention to reduce manned plant capacity to 15 million tonnes liquid steel per annum by closing the Consett Works in Durham (4,000 redundancies) and the small works at Hallside in Scotland (600 redundancies) and by reducing operations at Scunthorpe.

For South Wales, the Statement sets a liquid steel production in 1980/81 of 2¾ million tonnes for Port Talbot and Llanwern (as against a capacity of 5½ million tonnes now). It given the local management and workforce the opportunity to propose a credible alternative (which would probably still involve a reduction in manning of some 10,000) to the Executive's "dog leg" proposal (steelmaking at Port Talbot and processing at Llanwern) for producing this tonnage within the financial target. The Board would consider this in January and then reach a decision on South Wales.

The Statement confirms the target of 100,000 employment in iron and steelmaking compared with 152,000 now (including the 12,000 to become redundant at Shotton and Corby). The target reduction in

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1980/81 is 30,000. It also says that, with increasing decentralisation of BSC, pay and other working conditions should be settled at local level. Otherwise the statement does not refer to the current pay dispute.

I gather that the discussion was a long and thorough one and that the documentation to the Board supplied by the Executive was a good deal more detailed and substantive than on 29 November. It answered many of the questions raised by Board Members and in Nicholas Edwards' minute of 6 December. The discussion demonstrated that the Board is properly carrying out its duty to subject the Executive's proposals (which were disclosed by Sir Charles to Nicholas and me before the first Board meeting) to detailed and critical analysis. The procedure suggested by Nicholas Edwards, namely, for the Government to examine the Corporation's diagnosis and cure and consider alternative strategies, e.g a slower route to the same objective, could readily turn into a Conservative Government's "Beswick review". I am convinced we must at all costs seek to avoid this, given particularly the sorry past history of Government intervention in BSC and its harmful effects on both management and workforce. I agree with Nicholas Edwards that we must consider urgently how we can best deal with the grave social and economic consequences of the closures now proposed, but this is not a reason for intervening in the closures themselves.

However, we can and should check the Corporation's assessment of overall demand and this I have done. The latest forecast by my

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economists shows a UK steel demand in 1980/81 of 13.8 million product tonnes: this is slightly below the Corporation's estimate of UK demand 14-14½ million product tonnes (equivalent to 19-19¾ liquid tonnes). Commissioner Davignon has corrected earlier ECSC reports on this. As to the longer term, the present proposals are not, in BSC's view or mine, inconsistent with the likely profitable demand for BSC steel. Quite apart from the pessimistic outlook for GDP, there is the more rapid decline in our steel-using industries (see graph, Annex 2). And, even if we and BSC are wrong and demand recovers rapidly, BSC would still have much latent capacity for producing engineering steels at Teesside, Scunthorpe and Sheffield and flat products at Ravenscraig and Teesside, which could be brought into production quite quickly.

Extract on Appointments files.

As you know from my minute of 21 September about a new Chairman and Chief Executive, I share some (though not all) of Nicholas Edwards' misgivings about the present top management of the BSC. The candidate I then proposed declined and, despite hard search, including the use of professional headhunters, I have still not found credible candidates willing to accept the jobs. We have already had 7 or 8 firm refusals; the fear of Government interference is one of the main deterrents!

However, we have a right and a duty to impose overall financial discipline on the Corporation. I believe they now feel that they will not be able to break-even in the first half of 1980/81, even if their present proposals are implemented quite quickly, but will earn sufficient profits in the second half to compensate. I propose not to relax the present targets. While this needs further study,

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I have in mind maintaining the requirement to break-even over 1980/81 (perhaps, now, over the year taken as a whole) and also the position that our cash should not be used to finance operating losses; at least in the short term, the Corporation should have recourse to other means of raising cash to cover any operating losses, such as running down their present high stocks, selling off ancillary activities etc.

I welcome your agreement that we should back the Corporation in their current pay negotiations. As regards steel supplies, about 55% of UK demand is met by the BSC and a further 25% by the private sector, which, however, draws from BSC about one third of its supplies of semi-finished steel for conversion. Imports provide the balance, a little over 20% of finished steel. The speed with which a strike at BSC would affect their customers' activities depends principally on the stock position, which is generally good. BSC itself had total stocks of 3.1 million tonnes at end October, and the private sector a further 0.9 million tonnes, though stocks held by the BSC would not be accessible once a strike had begun. Consumer stocks at end-September (the latest available figure) were about 4 million product tonnes, with a further 1 million product tonnes held by stock-holders, together equal to 16 weeks' consumption. BSC are now trying to persuade their customers to take quick delivery of orders, though the imminence of Christmas and the need for a progressive shut-down of plant ahead of a strike for safety reasons means that such efforts can only have a limited impact.

However, while the general stock position is good, some users would be hit more quickly unless they can get access to imports. The

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tin plate users (Metal Box, etc) currently hold only 8 weeks' stocks. The automotive industry also holds below average stocks, particularly of sheet and coil. (Ford would be less hard hit since at present they rely mainly on imports). Shortages in other individual cases would inevitably emerge after a few weeks.

In the event of a prolonged dispute, there is no shortage of foreign (European) steel capacity to meet any shortfall on the UK market, though there could be some hiccups in areas where the current stock position is short. Steel imports could be vulnerable to sympathetic action by dockers and transport workers, particularly if the level of imports were to rise noticeably above the present norm at the various ports of entry. We should consider whether as a Government we could and should be doing anything to reduce this risk.

Given that BSC's current prices are already above those of European competitors and also possible difficulties arising from plant closures, any strike action, or even the present threat of one, is liable to cause long term damage to the BSC's market share.

I am copying this to other members of E Committee and Sir Robert Armstrong and the Secretaries of State for Scotland and Wales.

K J

11 December 1979

Department of Industry
Ashdown House

British Steel Corporation

News Release

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Annex 1

Statement by Board of BSC

The Board of BSC has considered the problems arising from the sharp and pronounced falling off in demand for steel products in the UK and in its other markets, and the fact that no upturn is in sight. The problems have to be tackled urgently:

(a) in relation to BSC's plant capacity, and

(b) in relation to the contribution of employees to BSC's productivity,

so that BSC will not run out of money or lose its market share by failing to satisfy its customers.

A. Plant and Capacity

BSC's current manned plant capacity is 21½ million tonnes of liquid steel per annum and the Board is determined that this should quickly be reduced to about 15 mtpa at which level profitable sales in the UK and overseas should, on present assumptions, be possible.

The Board considers that the new plant at Redcar/Lackenby on Teesside should work up to a liquid steel output of about 3½ mtpa.

The Board also considers that the electric arc plants at Sheffield should operate at an output of about 3½ mtpa.

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The steelmaking operations at Scunthorpe (now part of BSC Yorkshire and Humberside) will be reduced to about 3 mtpa, at which level single vessel operation will apply at both Appleby-Frodingham and Normanby Park steelmaking plants. Back-up facilities will be reduced accordingly.

Consultation will now begin with the Trade Unions and Workforces concerned about proposals for closure of BSC's works at Consett and Hallside.

The termination of iron and steel making at Shotton and Corby has already been announced.

Taking into account market prospects, BSC will still have an unsustainable overcapacity of plant for strip mills products. It will therefore be necessary:

(a) to operate Ravenscraig at the level of about 2 mtpa at which it will be required to break even, and

(b) to begin consultation at Port Talbot and Llanwern in South Wales on ways to reduce costs and modify capacity to relate to a liquid steel tonnage at or around 2¾ million tonnes in 1980/81: it will therefore be necessary for very radical reductions in manning to be effected if operations in South Wales are to be reorganised on a basis of costs which will allow South Wales to compete internationally in the future and provide some possibility of expansion. There remains very little time for this to be settled; available financial resources demand the utmost urgency.

As a result of the further reduction of steelmaking to about 15 mtpa and in order to load plants to capacity, some rolling mills will also have to be closed and consultation about this will begin in January.

The Board considers that this reduction in effective manned capacity is in the medium and longer term interests of BSC and it leaves BSC with substantial reserve capacity to be utilised if its prospects in its UK or overseas markets improve in the future.

B. Contribution of employees to BSC productivity

The planned reduction of BSC's manned capacity to about 15 mtpa of liquid steel will inevitably result in a reduction of BSC's total of employees. The Board considers that to approach international levels of manning the total number of employees engaged in iron and steel activities, as defined in BSC, should not exceed 100,000, compared with 152,000 (including 12,000 making iron and steel at Shotton and Corby) at the present time. Even then the tonnes made per man year at BSC will be lower than its principal international competitors. Therefore BSC has to aim at still higher productivity, with higher wages following when it has reached the point of financial viability, which is the basis of job security in the future.

It is also very necessary that working practices throughout BSC are as flexible as those of its competitors; otherwise BSC would continue at an unbearable disadvantage in cost and efficiency which would be as dangerous to the future of steelmaking in Britain as overcapacity and overmanning. In some parts of BSC this flexibility already exists.

The Board considers that, as the decentralisation of BSC proceeds, it is increasingly necessary that pay and certain working conditions are settled at local level where the effects of manning, working practices and investment are clearly seen.

BSC is now at a critical moment in its twelve year life. If it does not tackle its problems with vigour and a sense of reality it will wither, because its customers will turn to imports rather than pay the unnecessary costs of overcapacity, overmanning and non competitive working practices.

These are the problems to be solved. When that has been done, the excellent plant in which BSC has invested and the slimmed down workforce will enable the customers to be increasingly satisfied, revenue to be increased, costs to be reduced, productivity to be raised, and higher wages to be paid.

The historic steel communities will inevitably suffer greatly and BSC will do what it can by way of severance payments, counselling on jobs and, through BSC (Industry) Ltd., the introduction of new businesses to alleviate this. Nevertheless, it remains, in BSC's view, an obligation of Government energetically to assist the process of essential industrial change. More advance factories at key centres are needed. The maximum assistance should be obtained from the European coal and steel community. Small businesses must be helped and encouraged. Only in these ways can the changes necessary to BSC's survival be made less damaging for the regions principally affected.

December 11, 1979

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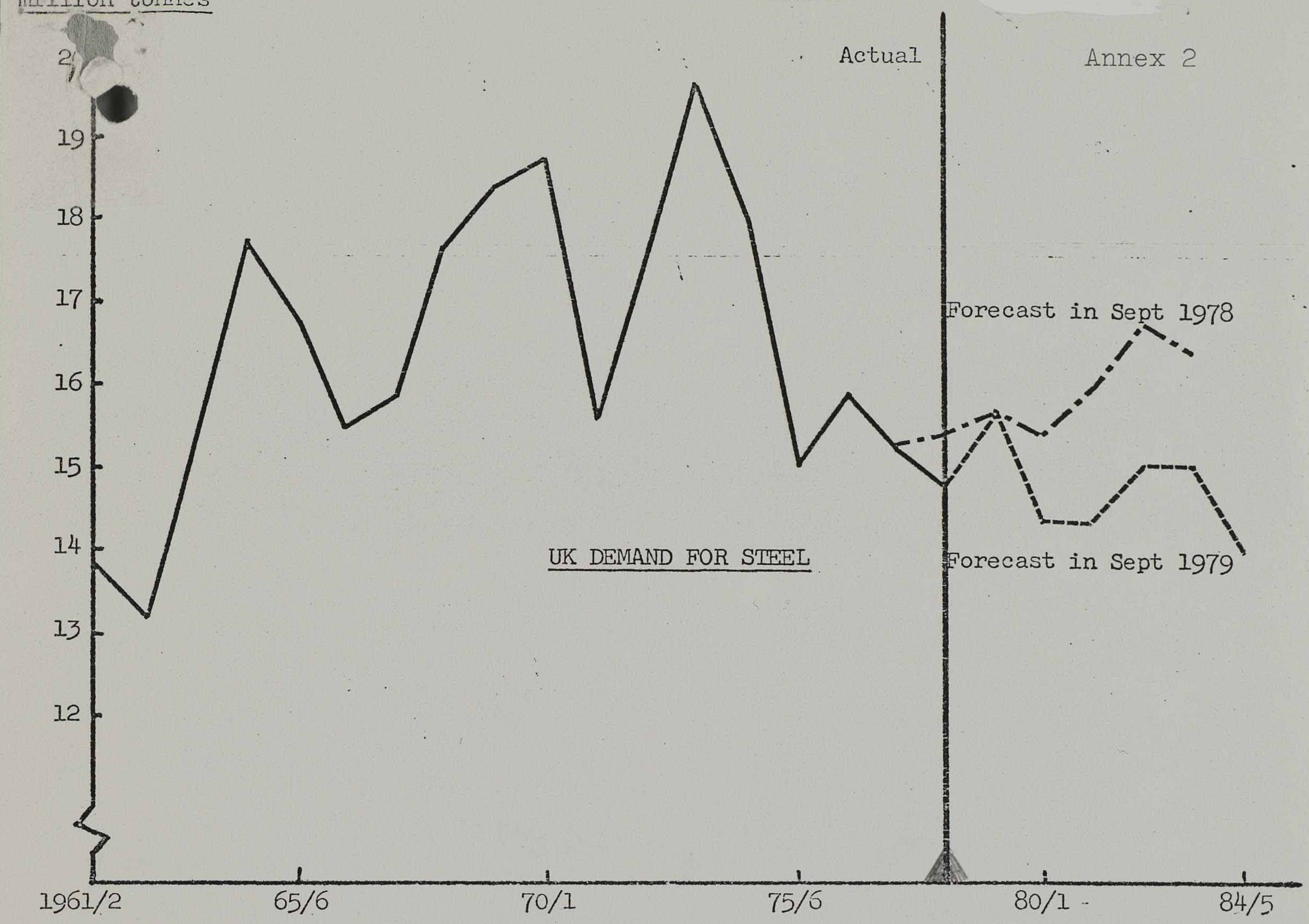
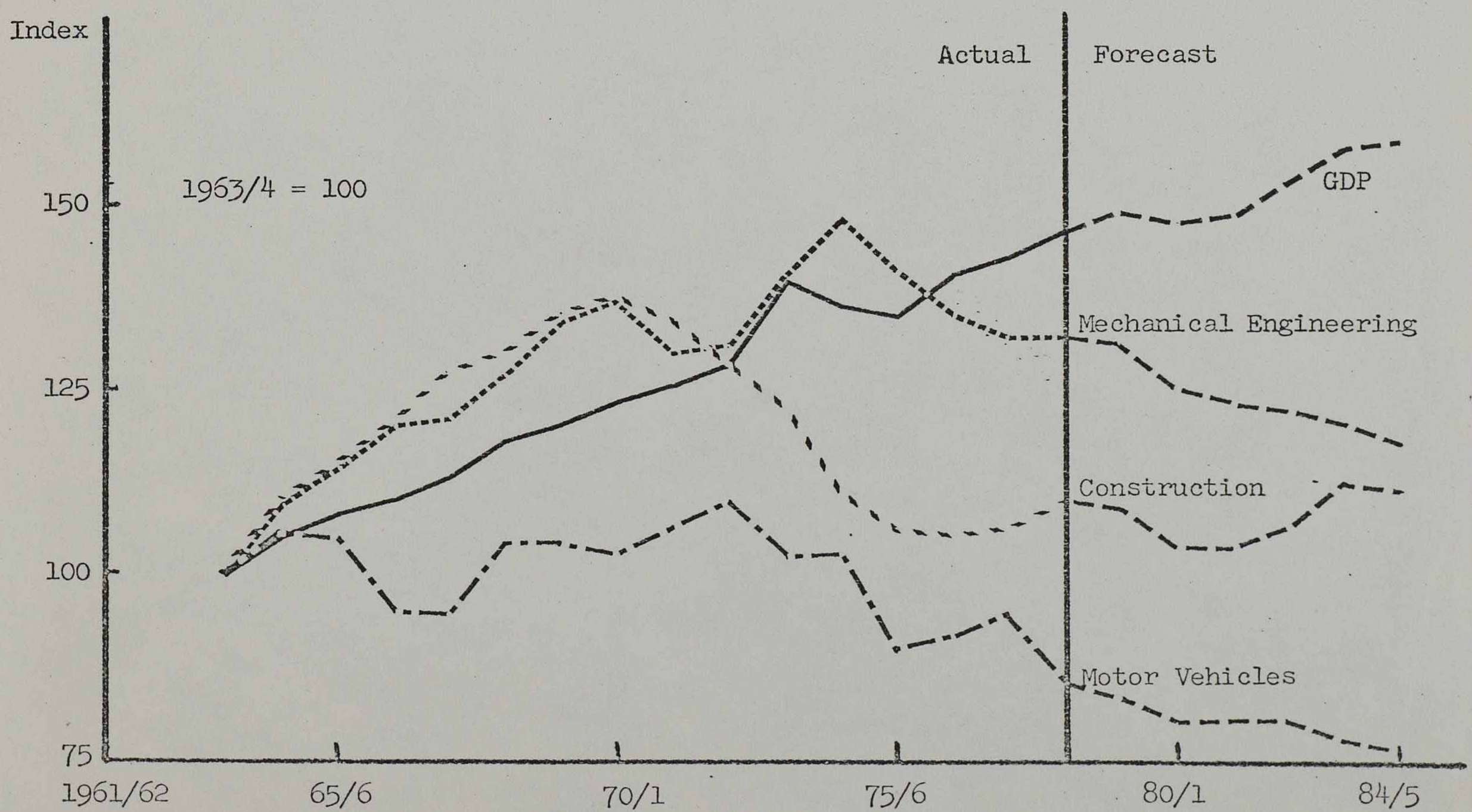
BRITISH STEEL CORPORATION

Annex 2



GDP and the STEEL USING INDUSTRIES



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