

NOTE OF A MEETING HELD IN ROOM 11.01 ASHDOWN HOUSE ON
MONDAY 10 NOVEMBER at 8.15 am

Present

Secretary of State	Mr Ian MacGregor
Mr Steele	Mr Scholey
Mr Binning	Mr D Prior
Mr Young	

1 The meeting followed immediately after the private meeting between the Secretary of State and Mr MacGregor which is recorded separately.

2 The Secretary of State had asked for the meeting because the situation was changing before the Government's eyes: the market for steel had collapsed, the private sector was in difficulties and the Government was under great pressure to reduce its calls for money. In the circumstances it was necessary to review the whole position. He enquired whether the market for steel had reached bottom.

3 Mr MacGregor said that the market had stopped its retreat in the last few days. There was no rush back to order steel but the de-stocking in Europe had levelled out. (Mr Scholey interjected that this was at a very low level.) Mr MacGregor continued that import levels were high, representing about 30-31% of the market and this was hurting the private sector as well as BSC. He thought the pressure of imports was receding. The Article 58 arrangements reduced the downward pressure on the steel market but he expected to have continuing difficulty with the German industry (largely with their Federation rather than with individual firms) and he was collaborating with the French industry to exert pressure. Even so, the market had descended rapidly since July and even if there was going to be no further reduction the market had stabilised at approximately half the level that had been anticipated. Mr Scholey pointed out that the inherited programme of plant closures was going ahead and that by December all 52,000 scheduled redundancies would have taken place without significant controversy.

4 The Secretary of State thought that BSC's plans currently being formulated would involve further redundancies and closures. They would also involve discussions with the private sector and he wanted to know how many groups were now in discussion with BSC. Mr MacGregor said that discussions had taken place with GKN first but had been expanded to include Hadfields and Dupont, which had put lots of effort into ideas about rationalisation. Mr Scholey had now sketched out a way to rationalise the bar and billet side of the industry and he hoped to come up with ideas for commodity steel shortly. This would resurrect the Phoenix project but would go further and would take account of the interests of Sheerness. Sheerness' owners did not

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have the resources to make a capital initiative but they wanted to broaden their product range into sections.

5 Mr Scholey wanted to make two points. First, matters were quiet on the labour relations front and there was a general acceptance of the need for change. The Welsh works for example were nearly down to the minimum level of manpower and, in their present unloaded condition, were nearly as good as European producers in terms of manhours per tonne. If the Welsh plants were reloaded their performance would be substantially better than the Europeans. At the present level of domestic demand it was necessary for BSC to export 3 million tonnes of flat rolled products a year. The new manpower levels meant that BSC was in "touching distance" of being competitive (Mr MacGregor said this was a shortfall of 10-15% on costs) but it was possible that the present high level of the pound might force BSC to retrench. It would be very difficult to explain such further retrenchment to the workforces, who had co-operated well. The present level of demand was barely enough for one major steel plant, let alone three. The second point he wanted to make was that, although the private sector was expressing great interest in the present joint discussions and was talking in terms of an expenditure of £100-£130 million, it was inevitable that any scheme which emerged would involve substantial job losses and a dis-investment in the public and private sector as a whole. He accepted the need to move BSC plant out into the private sector.

6 Mr MacGregor said that Mr Scholey and his colleagues understood that there might be new enterprises in which BSC would be in a minority. The new schemes would involve possibly a further 3,000 redundancies and there would have to be some dis-investment on the private side, particularly in the re-organisation of the commercial side of the industry. Mr Scholey said that BSC was already disinvesting on the billet side; a decision had already been taken to close the No 1 billet works at Scunthorpe. The Secretary of State enquired about how the private sector would handle any proposed dis-investments. Mr Scholey had discussed the general proposals with Mr Mortimer who agreed with them and it was now necessary to discuss the arrangements with the Department. Members of the private sector were not speaking to each other in an orderly manner. Mr MacGregor thought the private sector firms ought to be brought together under the aegis of BISPA and the Department. All the ideas which were currently under discussion would be taken into account in the plans which he would be submitting to the Secretary of State shortly.

7 The Secretary of State enquired whether the efficiency gains which Mr Scholey had described would make the works concerned attractive propositions for private sector acquisition. Mr Scholey thought that electric steel making at Sheffield was as good as any anywhere; he was prepared to put Sheffield "into the pot". He envisaged joint BSC/private sector companies dealing with bar and billet separately. There was a question about what should be done with Scunthorpe, where there was a need for continuous cast billet making capacity. Any such proposal would affect the steel re-rollers. Without investment it would be difficult for the British industry to supply a competitive product and many re-rollers were drawing their billet from abroad. BSC had managed to regain the business of

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supplying the Tinsley and Bridon wire works.

8 There followed a discussion of the possible role of Mr Willi Korf, who might be interested in acquiring some BSC finishing facilities and about the need for continuous casting facilities to supply the wire making industry. There was also a discussion of the present situation in the supply and export of scrap. The Secretary of State said that the Government wanted BSC to look at its proposed plans in the light of the general situation and of the Government's problems with public expenditure. He wanted to know whether it was possible for BSC to abate its demand on the PSBR either in the current year or in the next financial year. Was it possible to bring down the level of redundancy payments and to phase them over a longer period as had been done at Consett? Mr Binning enquired about the scope for bringing redundancies forward so they counted against BSC's EFL in the current year but he accepted that if the strategy was to bring about savings quickly the price would be high in terms of redundancy payments per head. Mr MacGregor was concentrating on stopping the downward trend. The actions which he had taken in Europe and was taking to find new markets were aimed to bring BSC closer to viability. In each area of BSC's operations there was a continuous task of slicing off surplus people. This was being done without aggressive tactics or publicity. The plan would look at a longer horizon, the cheapest way of proceeding was for BSC to get more business; for example, he had persuaded the Continental oil company to use BSC steel in their oil platform; this had involved giving guarantees but there was £6 million of business and this helped level out the plate business at Teesside and Ravenscraig.

9 Mr Scholey said that all were thinking in terms of closing the Llanwern works but this was now competitive internationally and the problem was lack of exports because of the high value of sterling. Once Llanwern was closed it was difficult to envisage the plant re-opening without a step increase in the size of the market. There would be a distinct hullabaloo. In reply to the Secretary of State who enquired about a possible private sector takeover at Llanwern, Mr Scholey said that only Alfa Steel was a possibility but Mr MacGregor said that it was only a modestly capitalised company. Mr MacGregor explained that he needed a further 800,000 tonnes capacity of flat products a year, hence the pressure he was exerting on General Motors and Ford to buy more BSC steel.

10 The Secretary of State said that he was looking for savings in the demands which BSC would make on the taxpayer in the 1981/82 financial year. Mr MacGregor replied that BSC knew where they stood for the current financial year. In the period beginning 1 April 1981 BSC would not be subject to the same pressures and current events would reduce their cash requirement. He would produce plans in December showing progress that had been made (Mr Scholey said that as many as 25,000 jobs might have to go in the next financial year). Mr MacGregor, continuing, said that he would try to settle the pay round at the lowest level practicable but he did not want to interrupt the steady and successful reduction in manpower. It might be possible to win a public fight about pay levels but to do so at the cost of sacrificing BSC's ability to reduce manpower. Currently

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the unions were co-operating at works level but it was always possible for Mr Sirs to step back into discussions and to take an adversary position; it was necessary to keep Mr Sirs busy on useful things "like trips to Australia". Mr Scholey said that a further 25,000 redundancies might come about through slim-lining, not closures, but they would cost a substantial amount of money and there would also be redundancy costs in the private sector. Mr Binning thought that some of the redundancy costs could fall in the current year.

11 The Secretary of State accepted that Mr MacGregor was building up outlets in order to make BSC's basic steelmaking less unprofitable. These outlets could increase the attractiveness of BSC's operations to the private sector. He mentioned in particular BSC's stainless operations. Mr MacGregor replied that the stainless activity was free standing; it might be attractive if it was fully loaded but not before then. BSC's interest in steel stockholders was defensive against incursions from abroad. In due course the entire stockholding operation would be liquidatable into private hands. At the present time there was pressure for stockholders to move towards the public sector - one stockholder was in difficulties - and he wished to ensure that it did not fall into foreign hands.

/ of 12 The Secretary of State enquired whether any outlets would be attractive to the private sector if disposed/with supply contracts running over several years. Mr MacGregor pointed out that the Phoenix project and the existing Round Oak arrangements had started out in that manner but had developed so that the private sector wished to put all the business into the public sector. The problem was that manufacturers who were down market would not integrate back upstream. (Mr Scholey said that BSC's tinsplate operations were not attractive to Metal Box). Mr MacGregor continued that operations could be transferred successfully to the private sector if offered at low prices and if there were no operating losses. But at the present time he could not promise no operating losses because of the under-loading of plants.

13 Mr MacGregor said that the operating losses were not caused by labour difficulties. The private sector plants had not been overmanned in the past but they were so now because of the change in loading. Mr Scholey said that Mr Mortimer of BISPA had been "staggered" by the success which BSC had achieved on de-manning. The Secretary of State enquired whether the changes extended to include craftsmen and Mr Scholey replied that they had reached agreement in principle with the craftsmen on Teesside to work without mates but had not yet secured the agreement of ISTC, which represented the mates. He thought that Teesside was lining up "for slimlining". Mr MacGregor said that in South Wales most of the mates had gone. The Secretary of State added that if the unions did not permit the efficient use of manpower this made a poor case for committing additional taxpayers' money.

14 The Secretary of State enquired about progress on disposals. Mr MacGregor said that there was little to dispose of in the UK. He was trying to get the best deal possible in South Africa and

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was examining the scope for disposals in Canada the following week. However, Canada was an independent market for tube for oil exploration and BSC might want to build a niche for itself there. There was also a rail business with international potential but it would be necessary to upgrade the Workington mill to produce the longer-life rails which were demanded by the railway administrations who were under increased cost pressures. This meant that Workington had to have new equipment to handle long rails and new cooling beds. RDL was making a modest loss and no one was interested in buying the company; it was useful as a vehicle to sell steel. Mr Scholey said that discussions were taking place about the disposal of BSC Chemicals to Norsk Hydro. It was first necessary to put the chemicals business into Staveley and Mr Waterstone had been authorised to negotiate a deal. The Secretary of State urged Mr MacGregor and Mr Scholey to press ahead with these arrangements.

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