Industrial Policy ... 2

TRADES UNION CONGRESS

CONGRESS HOUSE · GREAT RUSSELL STREET · LONDON WC1B 3LS
Telephone 01-636 4030 *Telegrams* TRADUNIC LONDON WC1

Prime Minister
I would have thought that the Chancellor could be fairly forthcoming on each of these requests without conceding anything of substance.
TL 1/2

February 1 1980

YOUR REFERENCE
OUR REFERENCE LM/DL/MV
DEPARTMENT Secretary's

CH/EXCHEQUER
REC. -1 FEB1980
ACTION Mr Monck.
COPIES TO PS/CST
PS/FST
Sir D. Wass
Mr Ryrie
Sir K. Couzens
Mr F. Jones
Mr Jordan-Moss
Mrs Hedley-Miller
Mr Vickers
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Mr Patterson
Mr Lavelle
PS/PM
PS/Welsh Office
PS/D. Energy

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1P 3HE

MT.

Dear Sir Geoffrey

Steel Closures and Coking Coal Imports

After yesterday's meeting the TUC representatives met and agreed to seek from you a considered written reply on the principal issues they had raised.

We have therefore drawn up a memorandum, a copy of which is enclosed, on which we would be grateful for your observations by the end of next week, and in particular we would like you to respond to the following three questions:

(i) Recognising the damaging industrial and social consequences if the BSC pursue their current closure and redundancy proposals (notably as regards the August 1980 deadline for radical reductions in manpower in South Wales), will the Government help to facilitate genuine consultations between the BSC and the unions about the basis of the proposals?

Mr Edwards is proposing to announce remedial measures on Monday - TL

(ii) Will the Government agree to an urgent joint examination with the TUC to ensure that there is the fullest use of EEC funds for the UK coal and steel industries, the examination to include Commission proposals which would help to give Britain a better share of the EEC budget expenditure, entailing such joint representations to the EEC as seem desirable?

Mr Howell is meeting Derek Ezra on Monday to consider ~~how~~ whether more of the existing cash limit might be used for coking coal subsidy.

TL

(iii) Recognising the huge Government subsidies to coking coal in other countries, notably West Germany, and the fact that coking coal imports are exacerbating the problems of South Wales in particular, will the Government agree to consider jointly with the TUC, the BSC and the NCB ways in which projected increases in coking coal imports can be avoided?

I look forward to receiving your reply.

I am sending copies of this letter to your colleagues Sir Keith Joseph and Mr James Prior.

Yours sincerely

Lionel Murray

General Secretary

February 1 1980

TRADES UNION CONGRESS

TUC MEMORANDUM TO THE GOVERNMENT ON THE STEEL INDUSTRY AND COKING COAL IMPORTS

Background

1 The Nationalised Industries Committee held a special meeting on January 10 in order to discuss the British Steel Corporation's plans to import more coking coal and the statement on BSC's closure plans which had been adopted by the Steel Committee that morning. The NIC decided that an urgent meeting was needed with relevant Ministers to discuss these matters further.

2 Among the points of general application to the nationalised industries the Committee believe:

- that adjustment of cash limits should take account of the time scale of industrial operations and should not encourage a more rapid industrial restructuring by the industries than can realistically be achieved; while industry, public and private, must operate within financial disciplines, it is not part of good commercial practice for these disciplines to be inflexible in the face of changing circumstances;

- furthermore during the recession, there is need to maintain the country's industrial base, not least in order to be able to meet the future upturn in demand without encountering a flood of imports; and

- that there are good grounds for considering investment projects in the public sector of industry as one area over which the Government has some control and which provides some means of maintaining economic activity at a tolerable level.

BSC CLOSURE PROPOSALS

Employment

3 The BSC produced 17.3 million tonnes of liquid steel per annum (mtpa) in 1978-79. In December the BSC announced that it planned to effect a quick reduction in manned capacity from 21.6 mtpa to about 15 mtpa. BSC's plans implied a reduction of its workforce from 152,000 to 100,000 over a short period with 18,000 of this 52,000 reduction being already agreed (mainly through the closures of Shotton, Corby and Bilston). Of the remaining 32,000 job losses 12,000 were to be achieved

through productivity improvements, and about 20,000 through output reductions, mainly by the closure of Consett and Hallside and by radical cuts of output and employment in South Wales. The plants now being affected by the proposals are modern and efficient as a result of investment in the recent past. The announcement of these proposals has been accompanied by, at best, token consultation with unions and workforce and, at worst, by the mere communication of a decision without consultation.

4 The BSC's contraction is in part a function of the worldwide recession. However, world steel demand has increased over recent years, though the increase has generally been taken up by the expansion of steel making capacity in newly industrialising countries. Hence steel making capacity in the EEC countries has contracted. Nevertheless, there are clear signs that the BSC's current proposals are based on very pessimistic assumptions. For a start, in the wake of the high value of sterling, the BSC has virtually abandoned its export markets, which will be difficult to regain in the future. Other EEC countries are much more aggressive in competing for exports. In 1978-79, the UK at 73% of capacity produced 104% of home demand; West Germany at 60% of capacity produced 128% of home demand; and Belgium and Luxembourg at 63% of capacity produced over 400% of home demand. Secondly, it has just been noted that many EEC countries produced much more than home demand, and as is elaborated below, the BSC is contracting below any demands or expectations made of it by the Davignon plan. Thirdly, no action is being taken on the underlying cause of the UK steel industry's problem, namely the flood of imports in the 1970s of steel using manufactured goods (notably cars). Fourthly, the BSC's excessive contraction is likely to open up the home market even further to foreign steel which, sold at highly subsidised prices, will be difficult to dislodge.

5 The BSC's proposed contraction will have a serious and immediate knock-on effect on a range of industries and services. Moreover, it will be concentrated in already depressed areas where a diversified alternative industrial and employment structure will emerge only after a number of years at best. For example, in South Wales the BSC now proposes to shed about 11,250 jobs by August 1980 at Llanwern and Port Talbot alone. The NCB has estimated that about 8,500 NCB jobs at 10 pits in South Wales would be lost immediately. There will also be severe implications for a range of supplying and ancillar indsutries, such as coking ovens, foundries, the engineering industry and transport; for example, over 75% of the freight carried by British Rail in South Wales is steel or coal, so that BSC's plans will entail greater subsidies, higher prices or further redundancies in another part of the public sector, British Rail. The immediate associated job loss in these other industries in South Wales has been conservatively estimated at 20,000. Taken together then, BSC's

plans suggest a short term job loss in South Wales conservatively estimated at between 40,000 and 50,000 which would take registered unemployment in the whole of Wales to above 10% as compared with the present level of 7.9%. To countenance increased unemployment on this scale is to show a blind unconcern for the suffering that will be caused and to risk severe social and industrial consequences.

- The actions the Government has so far proposed to alleviate unemployment are completely inadequate in the face of an increase in unemployment on this scale.

- The BSC's time scale for contraction is too short, in terms of both the effects on the inhabitants of the areas concerned and the need to encourage alternative employment.

Comparisons of Government Support at Home and Abroad

6 During the recession most steel industries received direct and indirect support from their governments in order to preserve capacity for the upturn and to mitigate the social costs of contraction. During the crisis all EEC governemnts have provided support for their steel industries, and this support is in many cases (eg Belgium and Germany) being renewed, not ended. This support is either direct through capital write-offs, soft loans, deferred interest payments and the provision of equity capital with no expectation of dividends; or indirect, through subsidising coking coal and freight charges.

7 For example, in France the government has taken equity capital in the main steel companies which have been effectively subsidised because the government has no expectations of dividend payments on these share holdings. Moreover, the funding payments on expenditure and revenue losses has been generally done through state financial interests, which have in many cases either written off the debt or waived interest payments. In Belgium, the government has again taken equity holdings with no expectations of dividend payments. More importantly, it has largely financed on soft terms (eg loans at 1% interest rates) the massive investment programme which the Belgian steel industry has undertaken. In West Germany, there have been federal grants and soft loans to the Saar Industry; capital subscription to cover the losses of Peine-Salzgitter; and state government grants for expenditure. Additionally, the major companies in Belgium, France and Italy are not forecasing break even before the end of 1981. Moreover many governments (such as the German and French) contribute to expenses such as R&D, education and training which the BSC has to meet out of its own resources. The total subsidies

paid by the West German government to its steel industry in 1978 have been estimated at £600 million, or about £15 per tonne of steel output. The Industry Secretary has recently argued that wealthy countries such as West Germany have the resources to subsidise their steel industry, whereas the UK does not. This argument completely undermines the Government's industrial policy. Previously the Government argued that subsidies prevented successful industry. Now that the Government has learnt the facts about other countries' subsidies, it is claiming that subsidies are a fruit of successful industry. On the latter argument the Government can have no objection in priciple to maintaining support to the BSC.

- In the light of the support given by other Governments to their steel industries, foreign steel industries will be able to charge cheaper prices for their steel.

8 The Government has instructed BSC to break even by 1980-81. In 1978-79, the BSC made a loss of £309 million. This was more than accounted for, however, by £111 million of depreciation charges and £208 million of interest payments. The BSC has not had a capital reconstruction since 1972-73, since when many of its European competitors have had the benefits of a capital reconstruction. The 1978 White Paper on the BSC recognised the need for a capital reconstruction, especially given that the BSC is bearing the charges entailed by the early 1970s investment programme which has not produced the return expected. The lack of a reconstruction is preventing a return to viability at a reasonable output level.

- the BSC is bearing interest and depreciation charges not related to its present output and immediate plans.

- There is a need for a major capital reconstruction which will bring the BSC into line with its European competitors and which will alleviate depreciation and interest charges.

9 The TUC has always accepted that BSC cannot be allowed to make losses on an unlimited scale and for an unlimited time. The Steel Committee have also accepted that the trade unions in the industry can play a major contribution in bringing down BSC's costs and improving performance over a whole range of factors. The unions concerned are prepared to enter into immediate discussions with the BSC on the reduction of costs.

- The Government should acknowledge the fact that the break even target is now unrealistically close and be prepared to provide the finance necessary to allow a constructive approach to the reduction of BSC's costs.

EEC Support

10 As already noted, all EEC Governments support their steel industry, directly and indirectly. Moreover, EEC figures suggest that the UK has already been making a more than adequate contribution to the Davignon restructuring plans. For example, in the fourth quarter of 1978, the UK was given a quota of 2.27 million tonnes of finished steel production under the Davignon plan in seven specialised steel sectors, yet produced only 2 million tonnes; this concern to stay within EEC quotas has not been shared by all member states. Between 1974 and 1978, the UK reduced its steelmaking workforce by 15.7 per cent, compared with 13 per cent in West Germany, 16.7 per cent in France and nil reduction in Italy. So, up to the end of 1978 the UK steel industry has been more than keeping pace with the rundown in other European steel industries, and since the end of 1978 the BSC has accelerated out in front with its proposals for a massive and very rapid contraction by August 1980. In the third quarter of 1979, capacity utilisation was 73 per cent in the UK, 70.9 per cent in West Germany, 69.1 per cent in France and 68.6 per cent in Italy; other European countries therefore have a larger amount of unused capacity. Rather than making a disproportionate contribution to the restructuring plans, the Government should seek to release funds from the EEC regional and social funds, which the EEC Commission has recently suggested have not been fully tapped by the UK Government and which would be used to achieve a more acceptable time-scale for cost reduction.

11 There would appear to be three general headings under which EEC funds might be discussed. First, there has been some doubt recently about whether the UK Government has made adequate applications under the existing regional and social funds for help towards the steel industry. Second, a new scheme is in the process of being devised to provide additional help for the steel industry across Europe, and from which the UK could expect to benefit substantially. The scheme has been approved by the Commission and the ECSC consultative committee, but is being held up by the representatives of some member states, including the UK. Third, there is a more long term plan for a special facility for the UK to help offset some of the UK's net budget contribution to the EEC.

12 Two general points seem to emerge out of the EEC aspects. First, part of the Government's reluctance to receive finance from the EEC stems from the fact that aid under certain of the programmes requires the Government to match £ for £ any money received from the

EEC. But under any interpretation, receiving a £ for every £ spent is a cost effective method of committing public finance. Secondly, it is obvious that the UK's net contribution can be reduced only by radical new measures. It is therefore most surprising that the Government has not been more rigorous in pressing aid schemes - such as to depressed regions and basic industries in recession - in areas where the UK would be bound to benefit, especially given its general stance on the EEC Budget, which the TUC supports.

- The Government should pursue the issue of extra EEC funds for the steel industry and steel orders as a matter or urgency.

COKING COAL IMPORTS

13 The Committee met BSC and NCB representatives on January 10 and there was a substantial amount of agreement about the facts of the matter and the actions needed to resolve the problem. The BSC has options to import another 1.3 million tonnes of coking coal which it may take up shortly, in addition to the 4 million tonnes it has contracted to import in 1980. Should it do so there would be a major threat to NCB coking coal pits over and above that posed by BSC's closure plans, including about 7 pits employing about 7,000 people in South Wales alone. Moreover, if the BSC becomes captive to foreign coking coal, then BSC's foreign suppliers would be free to raise their prices substantially. The NCB and BSC have agreed that £33 million is enough to offset the need for BSC to take up these options. The NCB can at present provide about £15 million of that from within its own resources, leaving a shortfall of about £18 million. The NCB could provide more from its own resources only if raised prices or cut its investment programme, neither of which

14 France, Belgium and West Germany all subsidise their domestic coal industry which indirectly subsidises their steel industry. Only West Germany is a significant coling coal producer in the EEC besides the UK, however, though France andLuxembourg use heavily subsidised German coking coal. The rules of the European Coal and Steel Community allow member states to subsidise their domestic industries so as to reduce the price for their domestic coling coal to world price levels. Germany is a high cost producer and, therefore, provides a large subsidy to bring prices down to the world price level. In 1978, West Germany provided £11.0 a tonne of subsidies to its coal industry, as compared with the UK's £1 a tonne. It has been estimated that in 1978 the West German government provided its steel industry with £220 million indirect support through subsidised coking coal. The UK is a low cost producer in EEC terms and therefore can provide only a modest subsidy to its industry under EEC rules. However, the UK does not provide even the maximum amount of subsidy allowed under ECSC rules, so that the UK coking coal industry is vulnerable to imports and the BSC has to operate at a disadvantage compared to its EEC competitors. There are also various ECSC aid schemes, such as for marketing, transport and research, which the UK does not seem fully to have tapped.

- Other EEC countries, notably West Germany, subsidise their coking coal to a much larger extent than does the UK.

- The Government should be prepared to exert maximum pressure in the EEC to secure financial aid for the coking industry.

- The £18 million required to prevent BSC taking up its extra options is a small sum compared with the damage that would be done to the coal industry by additional imports.

DL/DT/EA

February 1 1980