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PS/ Secretary of State for Industry

W. H. Hodgkins

6 October 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

Dear Tim,

*You might possibly
use the ISTE's apparent
lack of interest in Consett in*

attached your Brighton speech.

Thank you for your letter of 15 September about the prospects (see page 2) for the Consett steelworks. We have delayed replying until now in order to see how the takeover initiative by the Northern Industrial Group (NIG) worked out.

2 The prospects for reviving steelmaking at Consett now look very bleak. The BSC first announced their intention to close the works as long ago as last December. Ministers have repeatedly expressed their willingness to see a private sector takeover for the works, in the House and elsewhere, beginning with my Secretary of State's meeting with Mr Sirs in January. We have made approaches to senior industrialists, notably Ian MacGregor (before he took on the BSC chairmanship) and Sir John Buckley. But there has been no serious offer forthcoming - including the much-publicised initiative from the Northern Industrial Group. The evidence there strongly suggests that the NIG itself had no money of its own, and was wholly unable to put together a consortium which did. More generally, there seem to have been several reasons why no serious takeover bid materialised. Some are specific to Consett, such as lack of obvious market outlets (since much of its production in recent years has been further processed within BSC), and a relatively unsuitable site for steelmaking today, with neither raw materials nor major markets close to hand. But the most important reason is the further decline in the UK steel market generally since the closure proposal was put forward last December, and the even bleaker prospect that lies ahead. To restart steelmaking at Consett would require some tens of millions of pounds of working capital on top of the purchase price for assets, quite apart from any capital expenditure, and in the present climate companies with surplus funds on that scale do not see steel as a profitable investment. The financial difficulties faced by many of the private sector steel producers will be seen as confirmation of this view.

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3 Presentationally, the true position seems now to be known and accepted locally in the Consett area, as I understand Mr David Mitchell found when he visited the town recently. And it was noticeable that the press reports of the NIG activities drew a very cautious response from the Consett MP, Mr David Watkins. Nationally, we think interest will soon fade, and the exposure of the NIG as a creature of straw (eg by the Sunday Times and ITN) will have done no harm. The Prime Minister suggested offering the works to the unions. We do not consider that the unions could make a bid in their own right, since the sums of money required are too great. The most they could do in practice would be to support a private sector bid; indeed the unions (especially the ISTC) seemed to be closely identified with the NIG initiative - an ISTC official acted as their spokesman at a press conference, one of the "consultants" for the NIG had previously advised the ISTC on the Consett decision, and Mr Sirs gave the initiative a good deal of verbal support. But the evidence also suggests that the ISTC's support was in reality only skin deep. Despite Ministers' known willingness to be helpful, the ISTC made no representations to this Department, either to urge that the works should be sold, or that the furnaces should be kept warm. This suggests that they too will not wish to prolong public interest in the decision.

4 In these circumstances, my Secretary of State doubts whether there is any significant mileage left in a private sector takeover for Consett, either politically or industrially. The Government's efforts would now best be employed in trying to attract alternative employment to the area. In implementing the package of remedial measures he announced on 19 June, my Secretary of State intends to use his discretion to relax the criteria for certain types of assistance under Section 7 of the Industry Act 1972 where this is necessary to clinch a particular project for Consett - though it will be necessary to do this discreetly and without public statements in order to prevent pressure building up from other assisted areas seeking exceptional help.

... 5 I attach a short speaking note setting out both the position we have taken over the last few months and our attitude for the future, which the Secretary of State intends to use on an appropriate occasion, and which you might also like to utilise as you think fit.

*Yours ever,
Pete*

PETER STREDDER
Private Secretary

SPEAKING NOTE ON CONSETT

In human terms, one of the saddest industrial events of the last 18 months has been the closure of the BSC steelworks at Consett. After the BSC made their initial announcement about the closure last December, the Prime Minister and I both devoted considerable time and energy to see whether a private sector buyer could be found for this plant. We would have given an equally warm welcome to a workers co-operative or to purchase by the unions - as I made clear to Mr Sirs in January. But the outlook for the steel industry generally has worsened since the closure was first proposed last December.

So, regrettably, there have been no serious offers for the works in the 9 months since last December - and that includes the apparent interest of the so-called Northern Industrial Group which attracted so much publicity recently. We could still welcome a private sector takeover for the works, but I have to conclude that the prospects do not look good.

Looking to the future we shall therefore be concentrating our efforts on the task of attracting alternative employment for the Consett area, in collaboration with the local authorities concerned. In the end, success must depend on the drive and business skills of the firms which might go there. But this Department can and will help through the provision of advance factories, regional development grants, and through the use of selective financial assistance under the Industry Act 1972. Our aim must be to develop a healthy and diversified industrial base, to give Consett a more secure prosperity than it could ever enjoy when its fortunes were tied so exclusively to a single dominant employer.

REPORTING ON WORK

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