



Nab Ind

CONFIDENTIAL  
COMMERCIAL - IN CONFIDENCE

Qa 05256

20 February 1981

To: PRIME MINISTER

From: J R IBBS

OVERLAP BETWEEN BSC AND THE PRIVATE SECTOR

1. You asked for more information on the overlap between BSC and the Private sector steel companies. The following notes indicate the extent of the overlap on BSC's mainline activities and the nature of the problem that is leading to protests from the private sector. They also describe briefly the steps that are being taken to reduce the problem through the Phoenix I and Phoenix II proposals. In addition there is an assessment of the likely consequences if the difficulties were tackled by attempting to reduce BSC's participation in the UK market.

2. Overall balance

An indication of the relative sizes of the private sector and BSC is given by the production figures for 1979: (1979 was a relatively good year, production declined by 44% in 1980):

	Liquid Steel Production		Steel Product Deliveries (Home and Export)	
	m tonnes	%	m tonnes	%
BSC	17.8	83	11.8	71
Private Sector	3.7	17	4.9	29

For the private sector, product sales exceed liquid steel production by a significant margin; this deficit is met by purchasing semi-finished steel from both the BSC and from overseas. (The BSC Corporate Plan assumes part-finished sales of 1 million tonnes to the private sector in 1980/81).



CONFIDENTIAL  
COMMERCIAL - IN CONFIDENCE

3. Areas of Overlap

Within this overall balance, the overlap between BSC and the private sector varies for each sector. The overlap sector by sector is summarised at Table I along with the major plants involved. Table 2 shows how BSC and the private sector competed with imports for supplies to UK consumers in 1979 in each of these sectors. Attached at Annex 1 is a list of the twenty principal companies in the private sector.

4. Sectors of Principal Concern

The sectors where there are the most serious overlap problems are:

Engineering Steels

- broadly the first two sectors and some of the fourth in Table I
- the principal private sector companies involved are GKN, Duport, Hadfields and Round Oak (50/50 : BS/Tube Investments)
- this is covered by the Phoenix II proposals for a joint venture between BSC and the private sector

Rod and Reinforcing Bars

- broadly the fourth and fifth sectors in Table I
- the principal private sector companies involved are GKN, Templeborough Rolling Mills (50/50 : BSC : Bridon), Sheerness Steel Ltd and Manchester Steel Ltd
- Phoenix I covers a joint venture between BSC and GKN.

It is hoped to eliminate the overlap problem in these sectors by creating new joint ventures in the private sector which will absorb BSC's facilities. Phoenix I has successfully been put together and will remove the overlap problem with BSC on rod and reinforcing bars. Negotiations on engineering steels (Phoenix II) are at an early stage; some private sector companies will not be participants, e.g. Tube Investments, who wish to opt out.

5. Other Sectors of Overlap

Other sectors of substantial overlap are:

Tubes

- Tube Investments is the largest private sector producer but direct confrontation with BSC does not occur. About a quarter of the market is



CONFIDENTIAL  
COMMERCIAL - IN CONFIDENCE

taken by low priced imports which put great pressures on the smaller companies

Hot Rolled Strip

- the only overlap with the private sector is with Alphasteel (a Greek company). They compete with BSC only at the lower quality end of the market, where competition from overseas producers, e.g. India, Brazil, South Korea and Eastern Europe, is already intense.

6. Source of the Problem between BSC and the Private Sector

The basic problem in the overlap areas stems from two factors:

(i) Over-capacity

There is manifest over-capacity compared with current and foreseeable demand so that plants are running at uneconomic loadings. The problem is exacerbated by the rapidity of the reduction in demand that has occurred since 1979. In the same way as BSC itself has been reducing capacity in sectors of its business, there is a need for overall reductions in the areas of overlap; the private sector has not reduced capacity nearly as much as BSC in the face of reduced demand.

(ii) Pricing

Following the strike there has been a change in the way prices are determined in the UK. Prior to the strike the UK market had been insulated to a large extent from imports and prices were largely set by BSC with a premium of at least ten per cent over Continental prices. Supplies from overseas during the strike opened up the market, particularly from the Germans who, aided by a weak Deutsche Mark, now look to the UK market to help solve their own over-capacity problem. As a result prices are set largely by imports. BSC are responding by pricing down to import levels, where necessary. They are also vigorously attacking European producers, particularly the Germans, in their home markets in order to force them to move to a more sensible price regime across Europe which is in all producers' interests. It is inevitable

CONFIDENTIAL

COMMERCIAL - IN CONFIDENCE

that when importers are selling at low prices and BSC are matching them, the private sector will be adversely affected. This general picture is confirmed by the situation in those sectors where BSC do not compete. For example, Aurora Holdings Ltd, because of reduced demand and pressure from imports, are contracting substantially (with government and ECSC help announced last week)

7. BSC declare that they are not seeking to gain share by attacking the private sector. As evidence of this their Corporate Plan shows only two sectors where they are planning substantial enhancement of market share in 1981/82 compared with historical pre-strike levels (see Annex 2). These are in Plates, where the major UK competitor dropped out of the market a year ago, and in Stainless, where BSC are commissioning new plant and where the private sector share is minimal.

8. Alternative Policies to help the Private Sector

Where new joint ventures which would have the effect of removing BSC from the market cannot be created, a way to give some help to the private sector companies would be for BSC deliberately to withdraw from the market to an appropriate extent. There are three ways in which this might be done:

- (a) deliberately to reduce utilisation of their capacity;
- (b) to make closures so that the capacity ceases to exist;
- (c) to switch substantial BSC tonnage to exports.

9. It is estimated that if part of the UK market were vacated by BSC between 40 per cent and 70 per cent of the gap would be taken by imports, the proportion depending on the product. In order to bring the loading of the private sector up to 80 per cent or 90 per cent of capacity (a reasonable long-term target), BSC's production would have to be reduced by around 2m. tonnes of steel products. (This figure

CONFIDENTIAL

COMMERCIAL - IN CONFIDENCE

excludes the activities now in Phoenix I) If this were achieved through lower utilisation of existing capacity, it is estimated that the cost to BSC would be between £150m. and £200m. a year. Furthermore, there would be great practical difficulties in running plants at these low levels of utilisation.

10. If the reduction were obtained by closures, this would entail an even greater cash outflow from BSC in the first year. It would also be difficult to ensure that the remaining capacity was correctly balanced because of repercussive effects in the rest of the business.

11. Diverting products into the export market, as an alternative to reducing activity, would not be a better solution. The only market reasonably accessible is the EEC. To get the extra business, which would amount to doubling the current level of exports, BSC would have to undercut fiercely the existing Continental suppliers. The consequence of this would be that the Continental producers would intensify their attack on the UK market by quoting prices even lower than they are now. This would in turn leave the private sector companies, which could certainly not meet this competition, in a worse situation than they are at present.

12. I am sending copies of this minute to the Secretary of State for Industry, the Chancellor of the Exchequer and Sir Robert Armstrong.

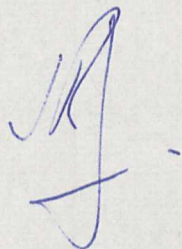


TABLE I

## BSC AND PRIVATE SECTOR STEEL PRODUCT DELIVERIES (HOME AND EXPORT)

Product Sector	Size m tonnes	BSC		PRIVATE SECTOR	
		%	Plants	%	Plants
Blooms, Billets, Slabs, Tube Semis ①	0.9	52	Scunthorpe, Rotherham (2) Sheffield (2),	48	GKN Cardiff & Brymbo Round Oak, Sheerness, (Duport), Hadfields Manchester Steel, Lloyd
Light sections and straight bars ②	1.6	42	Rotherham, Sheffield (2), Wolverhampton, Warrington	58	GKN - 3 plants, Duport London works, Hadfields, Round Oak, Sheerness, Lloyd, Manchester, Glynwed
Rails and heavy sections	2.1	86	Scotland (2), Scunthorpe, Teesside, Workington	14	Round Oak, Brymbo
Wire rods and coiled bars ④	1.5	54	Scunthorpe, Rotherham	46	Sheerness, GKN Cardiff, Templeborough Rolling Mills, Duport London Works
Reinforcing bars	1.1	43	Scunthorpe, Rotherham, Teesside (closed under Phoenix I)	57	Sheerness, GKN Cardiff, Manchester Steel
Tubes and Pipes	1.4	68	Clydesdale, Hartlepool, Corby, Midlands	32	Tube Investments Natural Gas Tubes, 30 small companies
Cold rolled strip in coil	0.4	22	Whitehead, Rotherham	78	GKN Cardiff, Ductile Group
Hot and Cold Rolled sheets/Hot Rolled Strip in Coil	3.1	96	Ravenscraig/Gartcosh, Port Talbot, Llanwern, Shotton, Brinsworth	4	Aurora, Alphasteel 16 other smaller companies
Bright steel bars	0.5	under 2	Sheffield, Rotherham	98+	Duport-Flather Bright, Lee Bright (45% BSC), GKN-Mills, Glynwed, 43 other companies
Plates	2.3	over 90	Scotland (2), Teesside (2), Scunthorpe	under 10	Several small companies
Tinplate	1.2	100	Ebbw Vale, Trostre, Velindre	-	-

TABLE 2

PATTERN OF STEEL SUPPLY TO UK CONSUMERS AND STOCKHOLDERS BY SECTOR 1979

Product Sector	Size m tonnes	Proportion of market %	% ages by source of supply		
			BSC	Private Sector	Imports
1. Blooms, Billets, Slabs, Tube Semis	0.7	4	44	<u>56</u>	—*
2. Light sections and straight bars	1.6	10	36	<u>46</u>	18
3. Rails and heavy sections	1.7	11	78	10	12
4. Coiled bars and rods	1.2	8	40	45	15
5. Reinforcing bars	0.9	5	40	49	11
6. Tubes	1.3	8	48	28	24
7. Cold rolled strip	0.5	3	15	<u>70</u>	15
8. Hot and cold rolled sheets/ Hot rolled strip	3.9	25	64	4	32
9. Bright bars	0.5	3	1	<u>91</u>	8
10. Plates	2.5	16	63	9**	28
11. Tinplate	1.1	7	87	—	13
Total deliveries to UK market consumers	15.9	100	55	24	21

\* although there were no direct imports of semi finished steel by consumers, there were 323,000 tonnes of imports of semis for conversion by the steel industry

\*\* Patent Shaft, closed in early 1980 leaving BSC the only significant UK producer

## PRIVATE SECTOR COMPANIES

ANNEX 1

Group	Turnover in Steel making and conversion (£million)	Description of Business	Overlap with BSC
1. GKN	400 - 450	Steelmaking, billets, bars forgings, castings, wire, rod.	Large (in Phoenix I, ) (in Phoenix II)
2. Johnson & Firth Brown	200 - 250	High alloy steelmaking; billets, bars, forgings, castings, wire, rod	Limited
3. * Duport	100 (before collapse)	Steelmaking (closing), re-rollers of bars and bright bars	Large (re-rollers in Phoenix II)
4. * Glynwed	90	Re-rollers of bars, strip and bright bars	Limited
5. * Ductile Steels	90	Re-rollers of strip, light sections and tubes	Limited
6. Tube Investments	80	Seamless and welded tubes	Limited
7. * Lonrho (including Dunford-Hadfields)	80	Steelmaking, billets, bars and forgings	Large (Hadfields closed in Phoenix II)
8. Round Oak Steelworks (50%BSC, 50%TI)	80	Steelmaking, tubes, bars and sections	Some
9. Arthur Lee & Son	70	Re-rollers of strip and wire	Small
10.* Sheerness Steel Co.	60	Steelmaking, billets, wire and rod	Large (competes with Phoenix I)
11.* Manchester Steel	50	Steelmaking, billets, wire, rod	Large (competes with Phoenix I)
12.* F H Lloyd	50	Founders, some steelmaking and re-rolling	Limited
13.* Aurora Holdings	30	High alloy steels, special steels	Small
14.* Alphasteel	25	Steelmaking, hot rolled coil and sheet	Large
15. Darlington & Simpson (50% BSC, 50% Norcross)	25	Hot and cold rolled sections	Limited
16. Brymill	20	Bright bars, cold rolled strip	Small
17. Brockhouse	10	Hot rolled steel, light sections	Small
18. Cope Allman Int (J B & S Lees)	10	Re-rollers of strip	Limited
19. Neepsend	10	High alloy steels	Small
20. Sanderson-Keyser	10	High alloy steels, special steels	Small

Note: Companies marked with an \* have complained to the Department of Industry about price competition from BSC



BSC MARKET SHARES BY BUSINESS (%)1975/76 - 1981/82

	1975/6	1976/7	1977/8	1978/9	1979/80 <sup>1</sup>	1980 <sup>2</sup> /1	1981 <sup>3</sup> /2
<u>General</u>							
Sections & Commercial Steels	54	54	55	54	52	48	49
Plates (inc. 44" Mill)	58	61	63	58	58	61	71
Special Steels	36	32	32	32	31	26	30
<u>Strip</u>							
A.P.G.	84	83	84	80	81	58	72
Strip	59	62	60	61	62	49	62
Tinplate	89	89	89	88	87	66	81
<u>Holdings</u>							
Track Products	94	92	92	92	91	92	90
FEE	18	15	15	16	17	20	20
Stainless	41	43	40	40	40	35	51
<u>Tubes</u>	57	55	51	49	49	46	50
<b>TOTAL</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>54</b>	<b>54</b>	<b>47</b>	<b>54</b>

1. April to December 1979 only
2. Forecast
3. Plan