

c.e. Harth

SUSTAIN

MB

cc D/M
WO



10 DOWNING STREET

From the Private Secretary

13 March 1981

Dear Peter,

As you know, Mr. Denzil Davies MP called on the Prime Minister yesterday afternoon to discuss the proposed closure of Duport's Llanelli steelworks. Your Minister was also present.

Mr. Davies said that he was very concerned about the closure proposal. He had come not to ask for help for a lame duck but for a highly efficient steel plant. £30 million had been spent on the plant; labour had been shed and the total number of employees was now down to 1,100; and there were no labour or management problems. Their only problem was inadequate sales, and the reasons for this were largely not of their own doing.

Firstly, according to the company, their energy bill was 30 per cent higher than it would be for a comparable plant on the continent; and it was actually higher than their wage bill. Secondly, like other steelworks, they had been hit by high interest rates and by the strength of sterling. Third, they had been facing much tougher competition from BSC since Mr. MacGregor took over. He had seen MacGregor the previous day to discuss the latter problem, and he accepted that MacGregor had to run BSC in a businesslike fashion. The problem was that this was causing immense difficulties for private steelworks such as Llanelli. Fourth, they were geographically less well placed than some of their competitors; however, he felt that this was not such a disadvantage as some had suggested. As a result of the Budget, the first

/ two adverse

two adverse factors which he had mentioned were now moving in the right direction. Would it not be possible for the works to be kept going for a year or so until a purchaser could be found? He understood that Herr Korf might be interested in purchasing Llanelli as well as the London works and also BSC's Templeborough plant, but time was needed. The Government seemed to have intervened to persuade BSC to take over Duport's London works. If they could do this for the London works, could not BSC be prevailed upon to take over Llanelli as well? Llanelli, because of its efficiency, would be a better prospect for inclusion in Phoenix II than, for example, Hadfields; but whereas Duport did not have the financial muscle to keep Llanelli open until Phoenix II could be finalised, Lonhro were in such a position to enable Hadfields to be brought into the project. Even if Llanelli were not to be part of Phoenix II, it should still be possible for BSC to take them over and then sell the works to a purchaser such as Korf.

Mr. Tebbit said that there was such over capacity in steelmaking in both Britain and Europe that some capacity inevitably had to be closed. Duport's Llanelli plant was bound to be a candidate for closure because of its geographical position and because of the group's financial difficulties. As regards the London works, the fact was that BSC wanted to take them over with a view to inclusion in Phoenix II. But they did not want Llanelli. Even if Llanelli were to be saved, it would have to be at the expense of jobs elsewhere in the private steel sector. His own information was that Korf was not interested in Llanelli - only in Duport's other plants in the Midlands.

The Prime Minister commented that she had a great deal of sympathy for much of what Mr. Davies had said, but she could not see how the Government could intervene to ask BSC to take Llanelli over.

/ I am sending

I am sending a copy of this letter to Richard Dykes
(Department of Employment) and John Craig (Welsh Office).

W. M.

T. Laker.

P. E. Mason, Esq.,
Department of Industry.