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PS/ Secretary of State for Industry

12 September 1980

M Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prin. British

*The Department suggest
(see para 7) that you
should meet the
delegation. Shall we
fix a date? If not,
there is a letter at*

*PM will see
them 2
TL*

Dear Mike

Play B . . .

Thank you for your letters of 2 and 3 September, concerning the letter of 1 September which the Prime Minister has received from the British Paper and Board Industry Federation and SOGAT. *A for you to sign.*

2. As that letter acknowledges, Ministers in this Department have met with the Federation and SOGAT to discuss the current difficulties of the paper and board industry, though that was in respect of the industry in general rather than the newsprint producers in particular. However they are also very familiar with the particular problems of the two UK newsprint producers which have led to their closure announcements. Bowater engaged in detailed discussions with the Department before taking its disappointing decision to close the Ellesmere Port Mill. Reed also kept Ministers closely appraised of its intentions. This latest letter and paper from Mr Adams, the Director General of the Paper Federation, and Mr Keys, the General Secretary of SOGAT, reiterates calls for special assistance to the sector through energy pricing and by offsetting exchange rate difficulties, but adds nothing new to the Government's knowledge of the situation. Nonetheless, it is a reflection of a genuine and deep concern felt by many in the industry. *TL .. 15/9*

3. The Ellesmere Port Mill has been a problem for Bowater for years. Until recently efficiency was low, not least because of labour troubles including serious over-manning. Losses have been made since 1975. A marked improvement in productivity was achieved in the last two years, but despite this, and capacity working, losses continued to increase. Bowater pin the blame for the sharp deterioration this year on a combination of higher energy costs and low prices for newsprint (reflecting the strength of the £). But there is still plenty of scope to increase the mill's efficiency, particularly if Bowater could have been persuaded to modernise the plant. In his discussions with Bowater before the closure decision was announced, Lord Trenchard suggested the possibility of substantial investment

/in...



in modernisation and efficiency. Government assistance for this investment - regional development grants and selective financial assistance - together with the offer of some modest improvement in wood and coal costs represented a genuine alternative to closure in the Department's view. It held out a prospect of a long-term viable future for the Mill. Unfortunately Bowater rejected this package, possibly because they take a gloomier view of the future trend of the exchange rate and energy prices here and also because their overseas operations are making good profits and offer better prospects.

4. Following the Bowater closure and the Reed cut backs that have been announced, UK newsprint capacity will be reduced to not more than 150,000 tonnes per annum, and is likely to be cut back further. Bowater will be left with only a small residual UK output of 50,000 tonnes from its mill at Kemsley in Kent (and at least some of this is to be converted to manufacture other types of paper in due course). Bowater has informed its customers that it will endeavour to supply them from its profitable Canadian mills. Reed is cutting its newsprint capacity by one-third to 100,000 tonnes though the future of this is under a longer-term review. These figures compare with a total UK market for newsprint of about 1.2 million tonnes.

5. The strategic case for a home newsprint industry was considered by the Royal Commission on the Press, which reported in 1977. The Commission's view was that the case for maintaining home newsprint production to guard against war or other circumstances that might have the same effects as a blockade could not be established. They held the view that the strategic case for a home newsprint industry was weakened because of the home industry's reliance on a proportion of chemical pulp which had to be imported. If newsprint was kept out of the country for whatever reason chemical pulp would also be unavailable. The value which the publishers place on having a home supply of newsprint is obviously another important factor. At present some publishers are paying a premium of about £15 per tonne for domestic newsprint, others are unwilling to do so. It is clear from the Department's discussions with the publishers prior to the Bowater closure that rightly or wrongly they place little value on having a domestic supply of newsprint in the long term. Indeed it is the exchange rate and competition between the various overseas suppliers which has acted as a check on price increases in recent years.

6. The paper accompanying the letter contains a number of contentious statements. The estimates of job losses may be exaggerated; for example the Forestry Commission believes that the total number of jobs at risk in forestry is about 500 and they hope to mitigate this to an extent by seeking markets in Scandinavia although in the long term the international transport of this kind of wood may not be economic. The NCB also



hopes to avoid redundancies at the Newstead coal mine. Nor does it follow that all the waste paper previously used by the newsprint producers will become valueless; it represented 5.7% of total UK waste paper consumption in 1979 and despite the downturn in the industry some is likely to find alternative outlets. However the direct and indirect effects of the closures are serious and while we believed and Bowater's agreed that the investment plan could have produced a profit, we have to recognise that our energy prices compared with the average of North America and Scandinavia do add an extra cost of some £5 million per annum to Bowater's costs. The exchange rate and the dollar pricing system also press hard on the industry. Finally, the French industry support scheme mentioned at Annex A to the paper was approved in 1978 by the Commission only up to the end of 1979 to allow the French Government time to prepare a restructuring plan for the French industry. The restructuring plan has not yet been put forward and the Commission has not been assiduous in pressing the French, but it certainly does not regard the subsidy arrangements as approved on a permanent basis.

7. Your letter of 3 September records the Prime Minister's view that she may have to see the suggested delegation. To do so would help to demonstrate the Government's genuine concern for the well-being of an industry which feels itself undervalued by comparison with more publicised sectors. So far as Bowater is concerned, a meeting could be the occasion to highlight the fact that substantial Government assistance under normal criteria would have been available to modernise the Ellesmere Port Mill; that such investment offered a real prospect of ensuring its long-term viability, but that Bowater turned down this possibility. Although the offer of a meeting might raise hopes that special assistance on energy prices or to overcome exchange rate difficulties could be on offer, on balance it is suggested that the delegation be seen if this can be conveniently arranged. In this case the reply to the SOGAT/Federation letter can simply agree to a meeting with the delegation to hear what they have to say. If however the Prime Minister feels that an insufficient case for a meeting has been made out an appropriate draft reply is attached. It would be wrong to let all the statements in the paper go without comment and if there is to be no meeting it would be my Secretary of State's intention to reply quickly and fully to the joint letter.

8. I am copying this letter and its attachment to Stuart Hampson at the Department of Trade.

Yours ever
Catherine Bell
CATHERINE BELL
Private Secretary

Encl

100 B

File

ds



SOGAT
Newspink industry
meeting

10 DOWNING STREET

From the Private Secretary

3 September 1980

I wrote to you yesterday enclosing a copy of a letter dated 1 September to the Prime Minister from the newsprint industry, seeking a meeting.

I asked you to provide a draft reply on the assumption that the Prime Minister would not be prepared to see a delegation. The Prime Minister has now seen the letter, and has commented that she may have to see them. I would therefore be grateful for your advice on this point, and the draft should reflect this.

M. A. PATTISON

Mrs. Catherine Bell,
Department of Industry.

ds

~~MR. PATRICKSON~~

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PLEASE QUOTE THIS REFERENCE WHEN REPLYING

OUR REF.: WHK/MVT/

5th September 1980.

1579

Rt. Hon. Mrs. M. Thatcher, M.P.,
House of Commons,
London SW1.

*Prun Amist
Shall I acknowledge
on your behalf?*

Dear Mrs. Thatcher,

The Society of Graphical and Allied Trades has been concerned for a number of years about the rate of decline in the British Papermaking industry. Between 1966 and 1975 something like 20,000 jobs had been lost, and since then a further 19,000 of the workforce have been affected by closures. This rate of decline has now been accelerated with the announcement of a further 3,000 jobs lost in August alone.

*R.
1579*

Clearly this state of affairs gives our Industry and this Society cause for great alarm. The reasons for the decline of the Papermaking Industry are to be found in the assessment and trends outlined within this booklet, i.e. high inflation, high value of sterling, high interest rates and high cost of energy, thus rendering our Industry powerless to compete with foreign imports, subsidised as they are in their country of origin.

Employers Federation and Unions alike agree that industrial relations in the British Papermaking Industry are second to none.

The enclosed booklet has been produced by this Society with the aim of bringing to your attention the fact that unless action is taken now by the Government to effect a change in policy so that the British Papermaking Industry can compete on equal terms with its competitors, then the misery of unemployment will be inflicted on still greater numbers of people, through no fault of their own, and eventually this country could find itself with no Papermaking Industry at all.

Yours sincerely,

W H Keys .

General Secretary

General Secretary: W.H. KEYS : General President: A.E. POWELL

Organising Secretary: H. FINLAY : General Officer, Papermaking, Boardmaking and Conversion: J. O'LEARY : General Officer: H.W. MILES

ACTION NOW!



CRISIS
**IN THE PAPER
AND BOARD
INDUSTRIES**

**A
NATION'S
GREATEST
ASSET IS ITS PEOPLE
ARE THEY TO BECOME
EXPENDABLE ON THE
FONT OF
MONETARISM**

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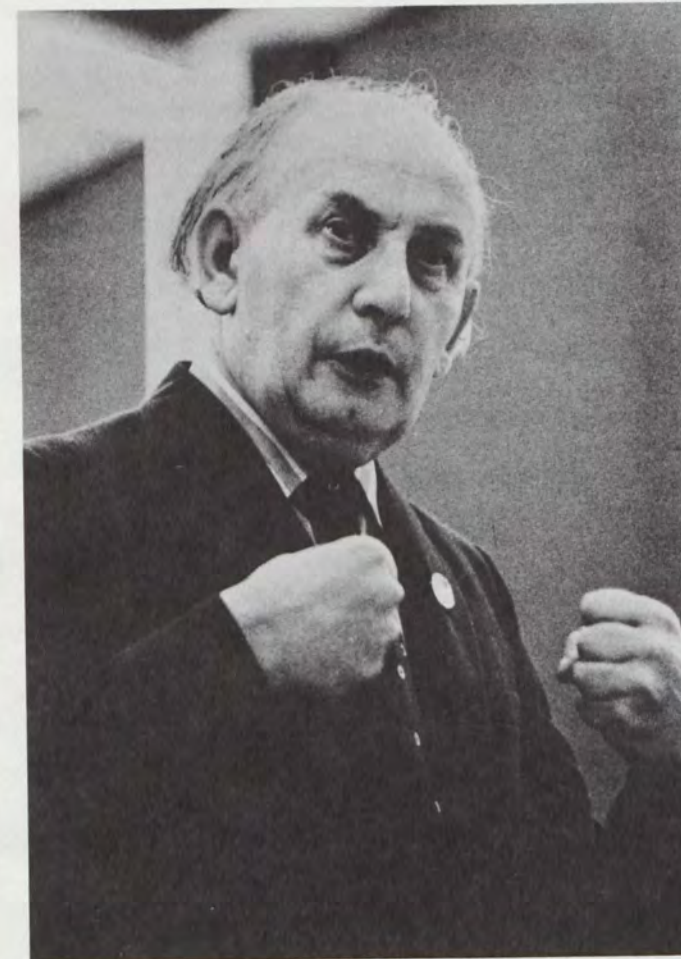
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General Secretary Mr. W. H. Keys

Foreword

By W. H. Keys



In the Foreword to our 1975 "Save Our Industry" Campaign, I wrote "The Nation is in the grip of raging inflation. We are suffering the highest level of unemployment since the war. The industry which we service has been severely hit by the present economic crisis - thousands of our members are out of work or on short-time".

The present situation related in this booklet is not just a case of history repeating itself, but repeating itself with a vengeance.

The great difference between 1975 and 1980 is that the illness now besetting this industry can be terminal in many of its sectors.

The problems the industry faces today are not of the industry's making, but directly arise from the policies of Government.

For over fifteen years the industry has had to live with the problems arising from the elimination of the Tariffs with EFTA and the subsequent duty free quotas with our old EFTA partners when we joined the E.E.C.

But today, we are expected to compete effectively against overseas competition in an economic climate created by Government of high inflation - high value of sterling - high interest rates - high cost of energy.

All these factors are combining together to destroy an industry. An industry which has a strategic importance to us as a Nation.

An industry which, with its allied industries of Printing, Publishing and Packaging, represents 8.3 per cent of the gross domestic product.

We are concerned that the Government's policies are affecting our international competitiveness. Import penetration is now having a dramatic effect upon us. We import both goods and unemployment.

We have joined with the Employers' Federation to get a variation of the Government's policies.

We have seen the Secretary of State for Industry, Sir Keith Joseph, and argued for protective measures and forms of assistance on such matters as energy costs, but it seems we are having a dialogue with the deaf.

All our evidence to date points to the conclusion that the Government believes that this industry - like so many industries - is expendable on the font of monetarism.

We cannot sit idly back and allow this to occur.

The Government have to be made to acknowledge that people are the most precious commodity of any Nation. They must not be sacrificed in the pursuit of political - economic dogma.

Dogma is the end of thought - not the beginning. It is, therefore, imperative that we take the fight to the Government and pressurise them to change their point of view if we are to see our industry saved.

In this booklet we are seeking to re-emphasise our endeavours over the past five years and re-vitalise the "Save Our Industry" Campaign by involving all our members and friends in the struggle.

There is nothing more demoralising than unemployment. It destroys the dignity of working people. It is a cancer within our society, and the mere fact that it is imposed by a Government does not make it easier to bear.

I therefore reiterate. It is our wish that you study this document carefully, and that you use the arguments contained to further our case with your local Member of Parliament - Trades Council - Newspapers - and every other influential body.



SEPTEMBER 1975

Investment in Industry
has become almost
non-existent.



Introduction

The following report can, and no doubt will, be regarded by some as merely another plea for assistance to aid a troubled industry.

This is the case, which we certainly make no apology for, because we believe that it is fundamentally a sound industry and therefore imperative that immediate assistance be given to save the industry which is essential to the quality of life and the maintenance of our democracy.

The main purpose of this report is to highlight the problems and suggest remedies which would ensure that the papermaking industry survives. Paper consumption is regarded as an indication of the degree of civilisation which a nation has attained. Certainly the development of our civilisation would not have been possible without the means of communication which paper, as the principal medium, provides. Therefore, to ensure the continuing development of this nation, the Government must recognise the importance of maintaining a healthy papermaking industry.

The Prime Minister, in her letter of congratulation to the Paper Magazine, recognised the industry's importance when she wrote, "The pulp and paper industry which Paper Magazine serves - are essential to the communications industry and thus to international understanding. They are a vital part of the economy." We, therefore, call upon her to demonstrate that recognition by taking positive action to ensure the survival and future well-being of that industry.

A very important point to note in all the following arguments is that the general recommendations apply to the industry as a whole, but it is, of course, divided into different sectors, each with their own problems and priorities.

This report recommends that priority be given to the newsprint sector, because that sector is in a desperate state and requires immediate assistance if it is to be saved.

Some may argue that in the present circumstances, Britain would be better off without a newsprint industry because we can buy cheap newsprint on the world market. But in their shortsightedness, they fail to recognise the most important advantages of having a healthy domestic industry.

The advantage of not totally relying on overseas supplies, which provides some insurance against any future uncertainties of foreign supply.

The industry's importance in terms of international crisis when imports can be cut off. The fact that home produced newsprint saves something like £100 million of imports and therefore contributes greatly to the country's balance of payments.

That it is a major user of indigenous raw material and wastepaper and provides employment to thousands of people.

And last, but certainly not least, the cost of buying back into the industry when the present relatively cheap market turns against the consumer.

Although the plight of the newsprint sector necessitates priority, the total industry requires assistance and a better understanding by Government, Politicians, Consumers and the General Public of its important role.

The strategic importance of the UK paper and board industry, which is absolutely essential to the economy, cannot be stressed enough. It is the indigenous source of the nation's supplies of printing, publishing, packing and stationery materials.

It saves millions of pounds on imports and greatly benefits the balance of payments. It provides the basis for the printing, publishing and packaging industries which are dependent on domestic supplies. Should there be no UK paper industry then, as indicated in this report, a lot of converting and publishing industries would move abroad.

It provides essential employment, much of which is in rural areas. It enables the most economic use to be made of the UK's wood and wastepaper supplies. If there was no papermaking industry, these supplies would have to be burnt or exported at a much lesser value than the finished products.

Paper and Board permeates almost every aspect of economic activity and ensures that domestic demand can be better met when world demand exceeds supply. There is little to suggest that a domestic papermaking industry is undesirable so it is conceivable that given the appropriate assistance now, the long-term future and profitability can be secured.

**SAVE
OUR
INDUSTRY**

Action is
required
NOW

1975

The crisis in papermaking

**SAVE OUR
INDUSTRY**

20,000 REDUNDANT
MILLS CLOSED
MACHINES CLOSED

Does the nation care?
SOGAT DOES!

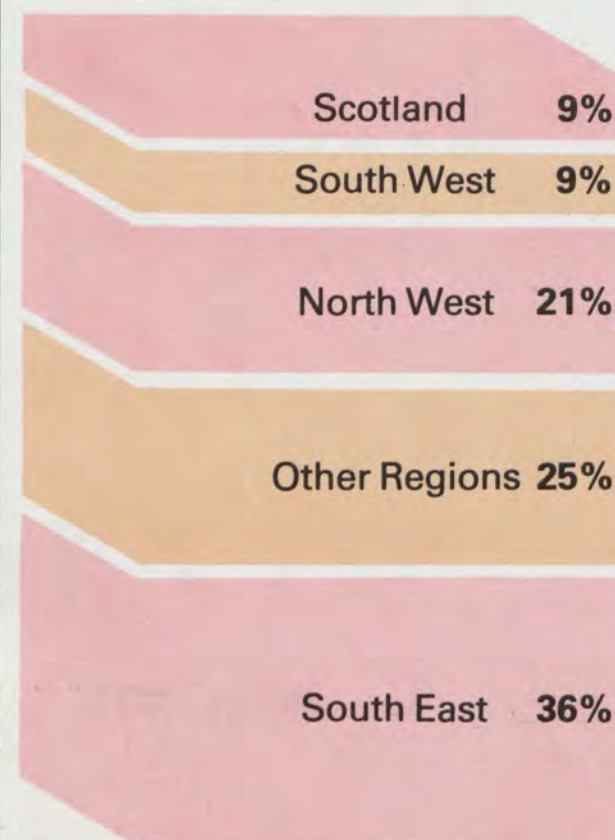
Assessment of Trends and Implications for British Paper and Board Industry

Although the general prediction world-wide is that production of Paper and Board will increase, the general outlook and projections to 1985 show that consumption of Paper and Board are also expected to increase in the United Kingdom, particularly for Corrugated Case Materials and Soft Tissues, where demand is likely to be met by increased United Kingdom production, but in all other areas there is considerable concern at the high level of foreign importation.

Economically, the next few years are likely to be extremely difficult ones for the industry with, (as a result of foreign imports and other economic factors) declining markets, ecological and raw material problems, high energy costs, competition from other materials and quite rapid technological changes in certain areas.

The main trends in employment are of continued contraction in every sector, (25.9% since 1969 = 23,000 approx. employees), except Soft Tissues. Geographically the industry is heavily concentrated in the South-East, which has 36% of all employees, with the next largest regions being the North-West with 21% and Scotland and the South-West, each with 9%.

REGIONAL CONCENTRATION OF MILLS



The biggest threat to the Paper and Board Industry comes from imports. Since 1970 United Kingdom production has fallen by 15% as imports have taken an increasing share of the market. Import penetration now stands at almost 50% of the United Kingdom market, compared to 35% in 1970.

Imports

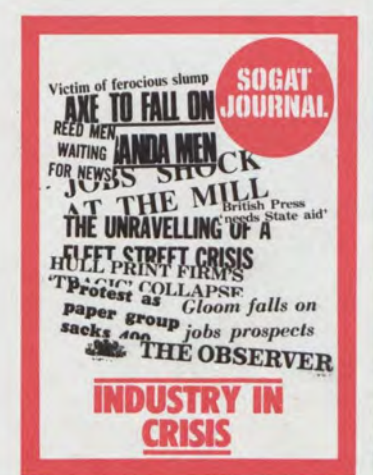
Performance varies between different parts of the industry, but there are some major problems which are common to all parts of the industry:

- (A) Strong competition in nearly every sector of the industry has come from North America and the Nordic countries, who have plentiful supplies of their own raw material - woodpulp.
- (B) Overseas suppliers have their own processing industries and can further exploit their natural advantages through a "double squeeze" by increasing the price of woodpulp without increasing the price of the paper they export to the United Kingdom. This practice makes it very difficult for United Kingdom producers to remain competitive.
- (C) Changes in market requirements call for investment and an ability to re-structure quickly in view of the relatively old and the small size of much of the industry's machinery.
- (D) Capital intensive production processes require full capacity utilisation to ensure adequate profitability for further investment in large scale new machines.
- (E) High energy-usage has had a major impact on costs. In contrast, Nordic and North American competitors have relatively cheap supplies of hydro-generated electricity.



DECEMBER 1975

National Press reflect
Industry in Crisis.



(F) The demand of the industry's products is highly cyclical, causing instability in output and earnings. Severe over-capacity exists for some grades in Western Europe.

Government, Management and the Unions must, therefore, work together at all levels in the industry if

they are to solve these problems and increase production, productivity and investment, increase domestic raw material supplies, reduce import penetration and increase exports and make sure that, above all, there is security of employment for its labour force.



Pound/Dollar Relationship and its Effect on the British Papermaking Industry

Since sterling was floated in 1972, its value has fluctuated greatly against most other currencies, especially the US dollar, where it has moved from the record low level of \$1.76 in 1976 to its present level of \$2.35.

It is impossible to say whether the Papermaking Industry as a whole gains or loses from the fluctuation of sterling value, because the various sections are affected in different ways. So, although a stable exchange rate is desirable, it is not the complete solution.

The bizarre combination of exchange rate movements are dependent on two main factors:

Parity Rate

Which is the calculable figure of the differences between two countries' inflation rates, and

Market Rate

The rate at which foreign currency is exchanged. It reflects interest rates and balance of payments fluctuations.

When the Parity Rate is above the Market Rate, the pound is undervalued in relation to the other currency and the industry must use more pounds to buy a given quantity at the foreign currency rate. This means that those UK producers competing with imports priced in foreign currencies benefit because revenues arising in sterling are depressed, which leads to price increases in products such as newsprint and kraft papers.

At the same time, however, the cost of imported woodpulp rises and adversely affects producers whose products contain a high pulp content. Exports will be easier as lower prices in foreign currencies will be converted into a higher number of pounds.

When the Market Rate is above the Parity Rate the reverse happens and pulp, kraft papers and newsprint become cheaper when expressed in pounds. Although this state benefits products with high pulp content, it depresses prices of waste based products which are related to them. Exports also become less competitive.

EFFECTS OF CURRENCY FLUCTUATIONS ON THE PAPER AND BOARD INDUSTRY

Set against the three main foreign currencies, i.e. US Dollar, Swedish Kroner and the German Deutsche Mark:

Pound below Parity

UK imports of kraft papers, newsprint and pulp become more expensive because they have to be paid for in de-valued pounds. Pressure by the US and Sweden to increase prices to maintain mill revenue means:

Cost of paper increases.

Imports become less attractive.

Exports become more competitive.

Pound above Parity

UK imports of kraft papers, newsprint and pulp are cheaper. The US and Sweden enjoy higher mill revenue for sales based on sterling, and:

UK competitive prices are forced down.

Imports increase due to high value of the pound.

Exports become difficult.

Therefore, as shown, a strong pound facilitates imports and makes exports more difficult, but a strong pound, coupled with high interest rates and high inflation, creates a disastrous situation for the papermaking industry – not only because it facilitates imports of paper and board, but it also puts pressure on customer industries such as publishing and packaging by encouraging the import of finished consumer goods.

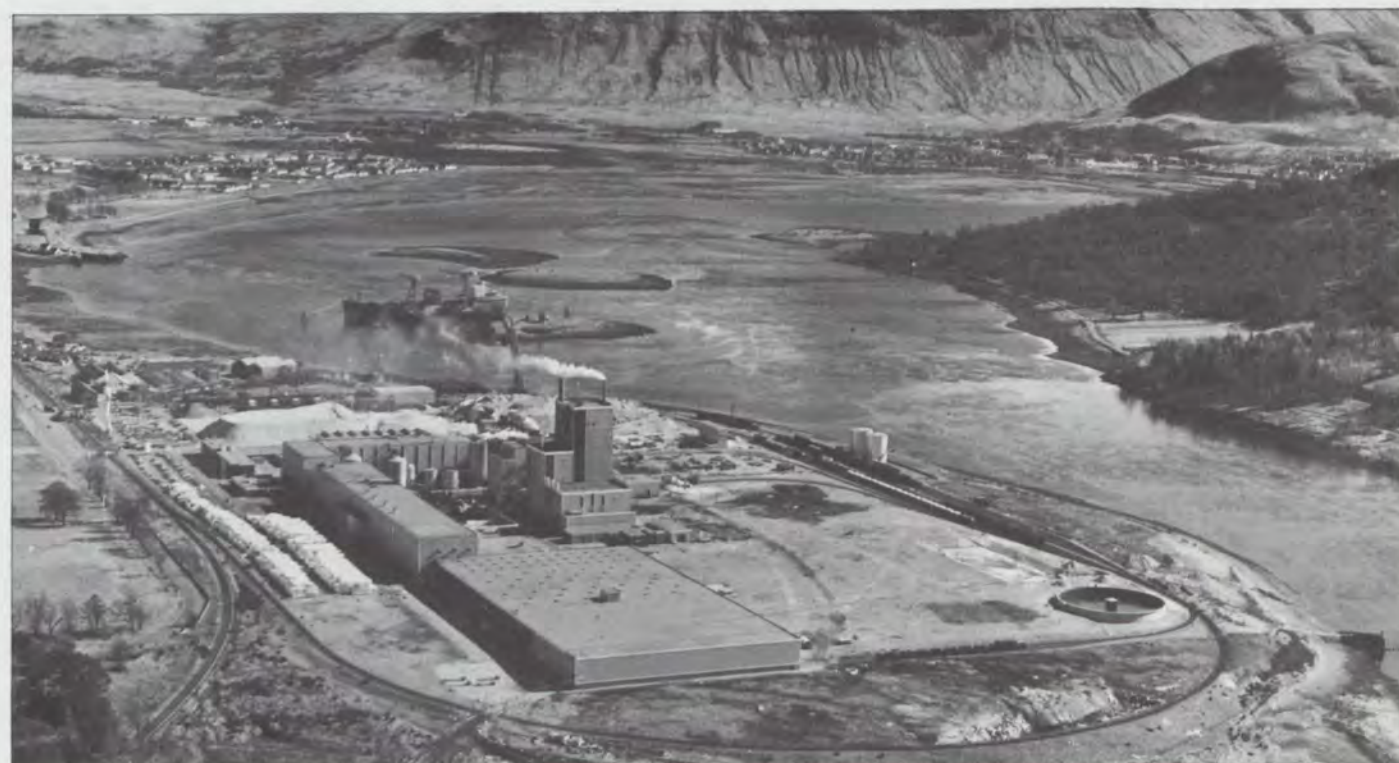
Also, although it reduces the cost of US dollar priced woodpulp, it makes domestic woodpulp and waste paper relatively more expensive, and in any case the advantage is only illusory when compared to the main competing countries.

High domestic interest rates and high inflation are placing intolerable pressures on the industry, which discourages expansion and virtually eliminates the necessary investment.

Immediate action by the Government is necessary to cushion the industry from the pressures of the fluctuating pound. This could be done by agreeing a fixed level for sterling and assisting the sections who are adversely affected when the pound rises above the fixed rate and by assisting the others when the pound falls below the fixed level.

Paper and Board Industry

1. In evaluating the position and problems within the British Paper and Board Industry, it would be important in the first place to outline its structure within the United Kingdom.
2. There are 141 Pulp, Paper and Board Mills operating within the United Kingdom, employing some 60,000 people. These Mills produce hundreds of different grades of Paper and Board, which are converted into a wide range of products for use in industry, commerce, education, communications, distribution and in the home, together with a host of speciality papers for industrial use. The estimated consumption of Paper and Board within the United Kingdom is 130 kg. for every man, woman and child.
3. The Industry is, by its very nature, a continuous process industry and a highly capital intensified one, a new Papermaking or Boardmaking machine can cost up to £80 million, and from the design stage takes some three years to come on stream. Because it is highly capital intensified and to obtain an adequate return on investment, the equipment has to be fully utilised and therefore run on a continuous 24 hour working basis.
4. The Industry is particularly sensitive to fluctuations in demand. For companies to attain adequate profit margins to provide for future necessary capital investment, they must remain competitive as the end product features in every aspect of the social, economic and industrial life in this country. One of its main problems is if the economic growth falls off, so does the demand for Paper and Board and in these circumstances it is very difficult for the Industry to keep its capacity utilisation at a level which permits it to retain its market share and the necessary profits to re-invest, let alone combat the ever increasing importation from abroad.
5. The United Kingdom Paper and Board Industry is important for many reasons, but mainly for its direct contribution to the country's economy. This can be exemplified by estimating the value of UK production for the home market of £1,171 million, plus exports of £241 million, less imported raw materials, chiefly pulp, of £294 million, leaving a net benefit to the Balance of Payments of £1,118 million.
6. Another most significant and obvious reason, is that with its allied industries of Printing, Publishing and Packaging, it represents 8.3% of manufacturing industries' contribution of the gross domestic product.
7. The Industry itself is divided into several sub-sections; Newsprint, Soft Tissues, Printings & Writings, Packaging Papers, Corrugated Case Materials and Boards.



Newsprint Production in the United Kingdom

In spite of Britain's impressive position as one of the largest newsprint consumers, its newsprint production industry has been something of a disaster area in recent years.

Ten years ago Britain was producing more than half of its 1.5 million tonnes per year consumption, but today it produced just over a quarter and if immediate Government assistance is not forthcoming, there will probably be no newsprint industry in this country.

For years, successive Governments have paid lip service to the problems of maintaining an indigenous newsprint industry. Almost every other newsprint industry in the world is in a healthier state than ours. Countries like Japan, America, West Germany and the Eastern Bloc have, or are investing heavily in new newsprint capacity, to reduce their dependence on foreign supplies.

By contrast, Britain is not investing in any new capacity and the pressures of today's economic situation are threatening the collapse of what little we have.

The main problems the industry has are that raw material and energy costs are considerably more than its main competitors, wood costs are double those of Canada and 20% higher than the Scandinavians, and energy costs are almost double the Scandinavians and three times the cost of the Canadians.

The crux of the industry's current problems lies in the fact that newsprint prices have remained virtually unchanged in real terms since 1977, although raw material and energy costs have risen sharply. This is mainly due to the fact that in 1976 the major foreign suppliers who dominate the market, introduced a scheme of currency parity to protect themselves from erosion of earnings caused by the fall in the value of sterling. *It was agreed that if sterling fell below a fixed value, the price of newsprint would increase to maintain their dollar earnings and if sterling rose above the fixed value, they would cut the price. Since the scheme was introduced in 1977, sterling has been rising steadily against the dollar and as a result British newsprint buyers have been getting substantial discounts.*

In July 1979 the British producers gave up the unequal struggle and raised their newsprint prices. Bowater coming out at £233.68 a tonne and Reed at £229.50. The Canadian suppliers have raised too, the bulk of them starting to rebate at a higher dollar/pound price - \$1.95, compared with \$1.75 in the original agreement - while International Paper kept to the \$1.75 but put up the posted price, from which the discount is deducted, to £285. This made all Canadian prices about £210 - £215.

So far the Scandinavians have remained impaled on the original agreement, though their currencies too have strengthened against the dollar and most will admit that they are not doing well.

Therefore, because the domestic producers do not have enough influence to dictate the market price and the British Publishers are not prepared to give up their discount or pay a premium price, the newsprint industry is rendered hopelessly unprofitable and on the verge of collapse.

Some may argue that in the present circumstances, Britain might be better off without a newsprint industry and buy relatively cheap newsprint on the world market, which will surely be the case unless the Government decides that it wants to keep the industry, but consideration should be given to the most important advantages of having a healthy Newsprint Industry.

Newsprint in 1979

There were only two companies and four mills still producing newsprint in the UK, i.e. Bowater UK Paper Co. Ltd., at Kemsley Mill, Sittingbourne, Kent, and Mersey Mill, Ellesmere Port, Cheshire; Reed Paper and Board (UK) Ltd., at Aylesford Paper Mills, Larkfield, Maidstone, Kent and Imperial Paper Mills, Gravesend, Kent. Both Bowater mills produce the mechanical pulp portion of their furnish from homegrown timber and only have to import chemical woodpulp; some de-inked waste paper is used. The Reed mills have been substituting de-inked waste paper for up to 30% of their pulp for several years and have now increased that proportion to over 60%; further increases are planned.

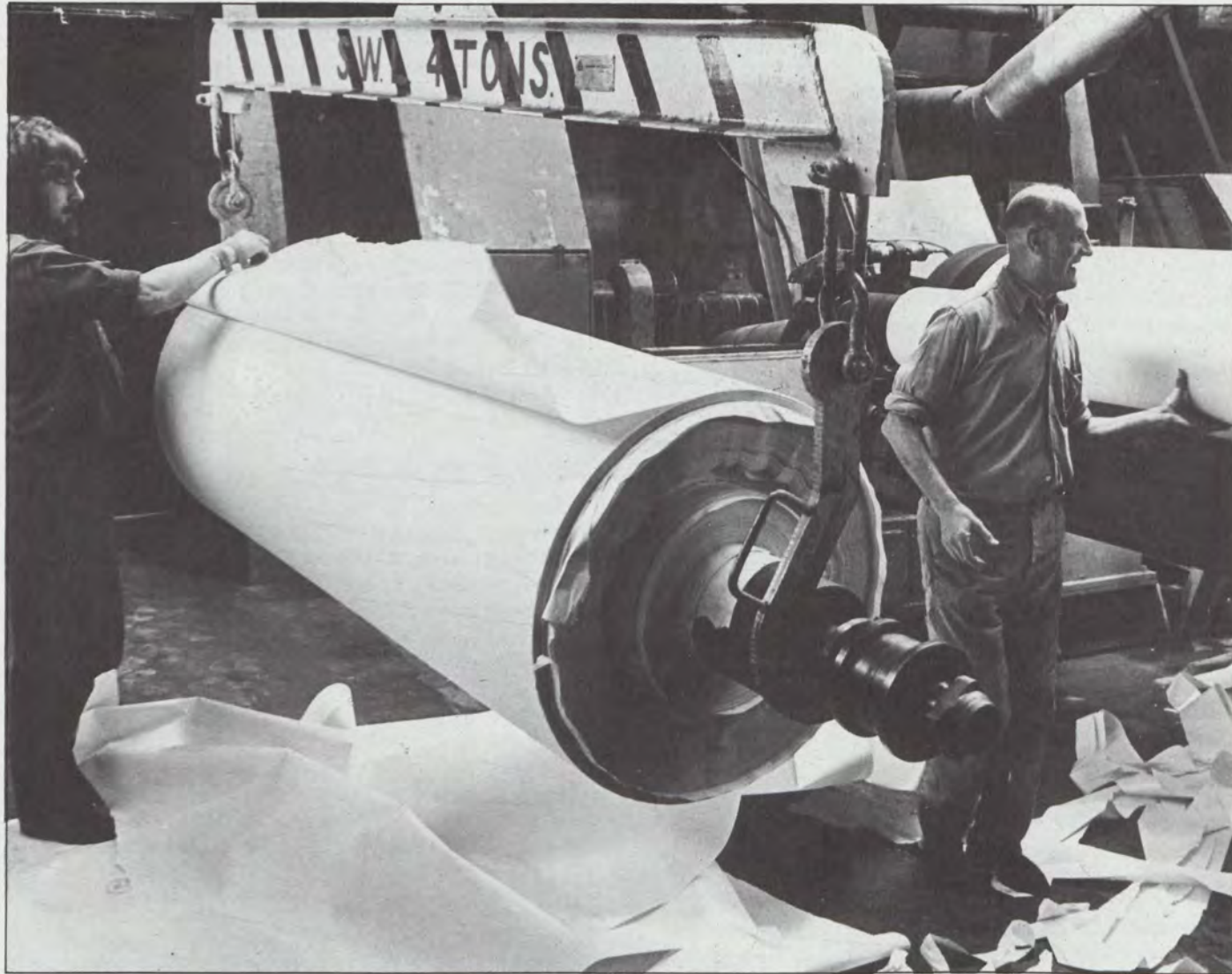
Newsprint demand is commonly regarded as a barometer of world economic conditions. If money is in short supply, sales and advertising drop and newsprint consumption falls correspondingly. North America is the principal user of newsprint (45% of world total), followed by Western Europe (22%, including the UK share of 7%).



JANUARY 1976

The present recession is by far the deepest for many years.





The weakness of the dollar, is now threatening the future of newsprint production in the United Kingdom. Both Bowater and Reed, the two British manufacturers, have warned customers that they may be forced to withdraw from the market and these warnings do not seem exaggerated. *If Bowater and Reed are forced to close their newsprint mills, which is a strong possibility, the United Kingdom Newspapers will be wholly dependent on foreign suppliers, who will then combine to force up prices, resulting in a lack of domestic counter-weight; the users would be forced to pay up, also resulting in an adverse position in the country's balance of payments position, and in certain circumstances, e.g. in the event of dock strikes, either at home or abroad, shipping and importation problems due to international crisis or severe weather conditions, the UK newspapers could be very vulnerable.*

In Bowater, Ellesmere during 1978, the company produced 151,000 tonnes of newsprint, and 57,000 tonnes of packaging grades, selling against an exchange rate of approximately US \$1.80 – £1., the

bank rate being 12.5% and the rate of inflation was 8.4%.

Since 1978, with complete co-operation of the Unions, Management have, by re-organisation of Management Structure and a mutually created more positive industrial relations climate, improved productivity efficiency, which was running at 61% in 1978, to 85% by removing restrictions and demarcations. This has been reflected in increased tonnages since 1978 of 190,000 tonnes per year of newsprint and 81,000 tonnes per year of packaging grades.

Unfortunately, in spite of these achievements, Bowater made considerable losses in 1979 and predict even higher losses in 1980 (by losses we are talking in millions of pounds sterling).

In the case of Reed, it is less easy to quantify, since the two mills where newsprint is made, at Aylesford and Gravesend, Kent, both make other paper products as well. However, more than 2,000 workers employed there would be affected, and many would have to be laid off, if newsprint were lost.

Printings and Writings Paper

During January, 1978, the Paper and Board Sector Working Party (SWP) of NEDO issued its third Progress Report to the National Economic Development Council. In this report the SWP indicated that the Printings and Writings Sub-Sector gave considerable cause for concern. This concern was due to a considerable increase in import penetration of the bulk mechanical grades of paper, where the Nordic producers have the advantage of integrated production. As a result, most United Kingdom firms had largely withdrawn from the production of these grades and in the area of woodfree grade papers, which are also under attack, in order to economise some users were switching to lighter, part-mechanical papers which United Kingdom firms, being relatively small, have not had the profits or capital to make the necessary investments in this area. Because there is an over-capacity in Western Europe and a high degree of technologically advanced mills operating within both Nordic and Western Europe, this had resulted in light part-mechanical papers currently entering the United Kingdom at abnormally low and apparently unprofitable prices.

In evaluating the situation, the SWP put forward the following recommendation:

"A study of the Western European Printings and Writings Sub-Sector, and of the UK producers' place in it, should be made. Subject to consultation with the UK firms involved, this study should have the objective of reporting on (among other things):

- the structural changes needed.
- the level and form of investment required to improve the Sub-Sector's cost competitiveness."

At a meeting of Chief Executives of the companies of the Printings and Writings Association (AMPW) held on 2nd March, 1978 following the AGM of that Association, it was decided that the Federation itself should undertake the study, though a report, with recommendations, would eventually have to be made to TSWP.

Very careful thought was given as to which companies should be invited to participate in the study, and it was eventually decided to issue invitations to ALL companies in membership of the AMPW, with the exception of those manufacturing technical (specialist) grades who could not be considered to be in competition with standard qualities in the market place. Also excluded were those off-machine coated mills which are not integrated (i.e. those without a base paper producing mill on the same site).

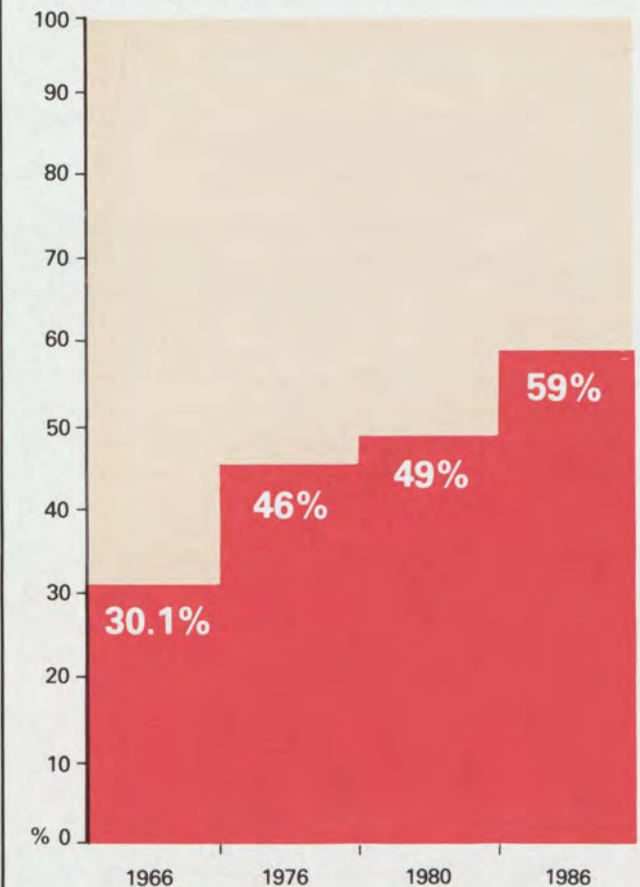
Twenty-nine companies were approached, of these twenty-seven agreed to participate in the study.

It was also agreed that the study should cover the years up to and including 1985/6.

The result of this study was reported to the SWP in January 1979 and its indications, briefly, were:

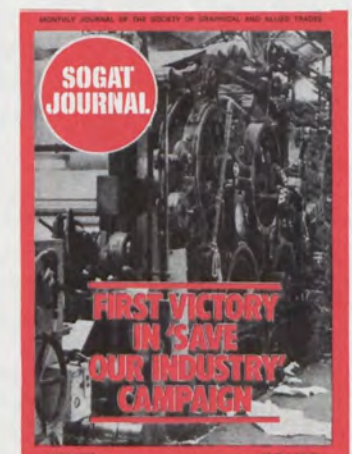
The import penetration gave considerable cause for concern and this can be illustrated by quoting statistics which show an increasing growth of imports – 1966 30.1%, 1976 46.0%, with a forecast, if no action is taken, of 59% by 1986.

IMPORT PENETRATION 1966–86 Printing and Writings



MARCH 1976

The Papermaking Industry was one of 30 industries selected for Special Assistance.



This would result in, not only a decline of United Kingdom production and less secure jobs, but the implications of this decline could go far beyond the paper mills themselves, resulting in adverse long-term effects in employment in the much more labour-intensified industries using Printings and Writings Papers, as well as in the allied trades supplying the Paper Industry.

The other economic implications indicated within the report are that the balance of trade in pulp and paper already in deficit by nearly £1 billion per annum, will deteriorate further and it is estimated that of the 116 Fourdrinier Machines operating in this sector, if no action is taken, at least 30 machines would be closed, with the result that over the next five years redundancies would probably result of between 3,500 and 7,000 people.

Therefore, if we within the industry do not consider action required to achieve improved competitiveness to combat this import penetration, and do not carry out a consultative and co-operative rationalisation in the industry itself, the result will be a decline in the UK industry. Therefore, it must be recognised that the implementation of such a rationalisation programme would have a major impact, not only on the personnel working in the mills, but investment to modernise the production base is an essential complement to any

such rationalisation programme. *It has been estimated in the report that the investment needed would be about £150 million, of which the industry could supply £40 million and about £80 million through normal channels (with Government backing, if forthcoming) at low interest rates, and the rest, approximately £30 million, on the basis that existing Department of Industry Grants are available. Unfortunately, the present Government's policies will effectively discontinue any such assistance.*

In the light of this situation, and given that there is little or no immediate likelihood of special Government financial assistance for the Printings and Writings Sector, (other than aid under Sections 7 and 8 of the Industry Act, and Regional Development Grants, where applicable, and which will be cut by 5% as from 1st August, 1980 by the present Government) the process of restructuring and modernisation will proceed only slowly and will not lead to the competitiveness necessary to match overseas' development.

In addition, it is now economic for manufacturers to import converted products, such as printing, publishing and packaging material, rather than to buy from UK Converters and many finished products in fully packaged form are now imported because of the high value of sterling.

Soft Tissues

Soft Tissues, or hygienic paper products, are described variously as tissue, wadding, creped paper, etc., but are better known in finished product form: toilet/facial tissues, paper handkerchiefs, etc.

Some 6,500 men and women are employed at manufacturing sites around the United Kingdom, which normally operate 4-shifts 7 days a week. The United Kingdom consumption of tissue industry products in 1978 was about 400,000 tonnes, and the annual per capita consumption in the country is 7.2 kg., whereas the comparable figure for Western Europe as a whole is approximately 4.5 kg.

Although, traditionally, about 90% of the sector's requirements of bulk tissue is manufactured within the UK, the balance of between 40,000 – 45,000 tonnes is imported. These imports come mostly from the Nordic countries and the tariff free quota agreement covers the major portion of both parent reels, (i.e. the reel taken straight from the paper machine) and the finished goods themselves.

The soft tissue sector is unique within the overall Paper and Board Industry in the fact that it manufactures the final product and carries out its own marketing and selling to the retail trade, whereas most Paper and Board Mills sell their output in reels or cut sheets for conversion as a separate process by their customers. The estimated market values at retail selling prices for 1978 in each product sector were: toilet paper £146 m., facial tissues and handkerchiefs £46 m. and kitchen rolls £29 m., giving a total for the industry of £223 m.

By British Paper Industry standards, most of the investments by tissue manufacturers are relatively recent and contain the latest technological innovations within the hygienic paper products field. Each of the last four paper machines installed, (between 1970 and 1975) is 5 metres wide, has potential for production speeds of well over 1,200 m/minute, and has a production capacity of more than 35,000 tonnes of tissue per year.

They, therefore, have big investments, not only in the basic paper machines, but also in power plant to drive them, effluent treatment equipment to purify the waste, converting and packaging equipment, and warehouse and distribution facilities. In addition, there is a very significant investment in marketing.

This Sub-Sector of the British Papermaking Industry has been through a time of very considerable difficulty within the industry, has shown encouraging growth, and has been highly competitive in the consumer field.

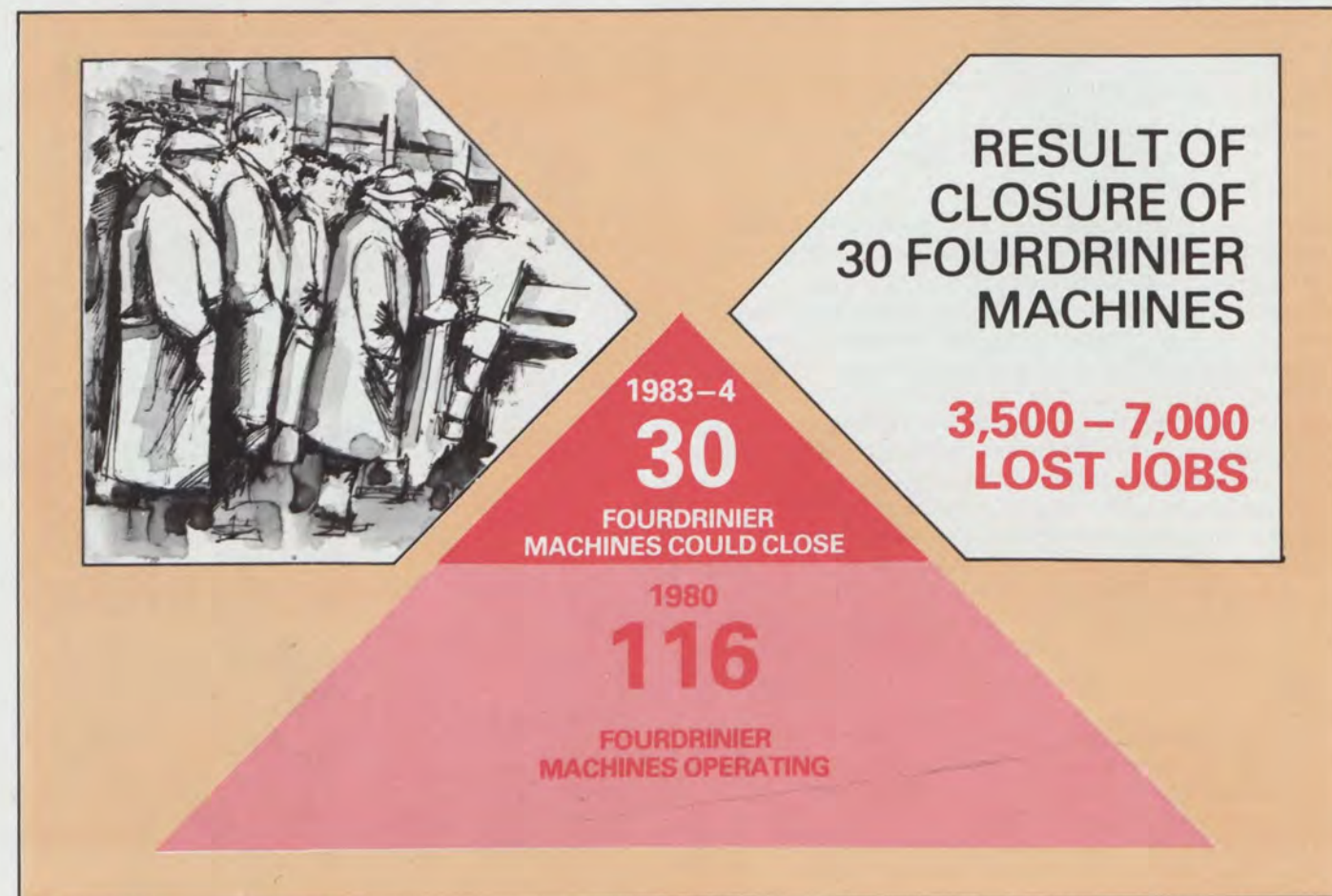
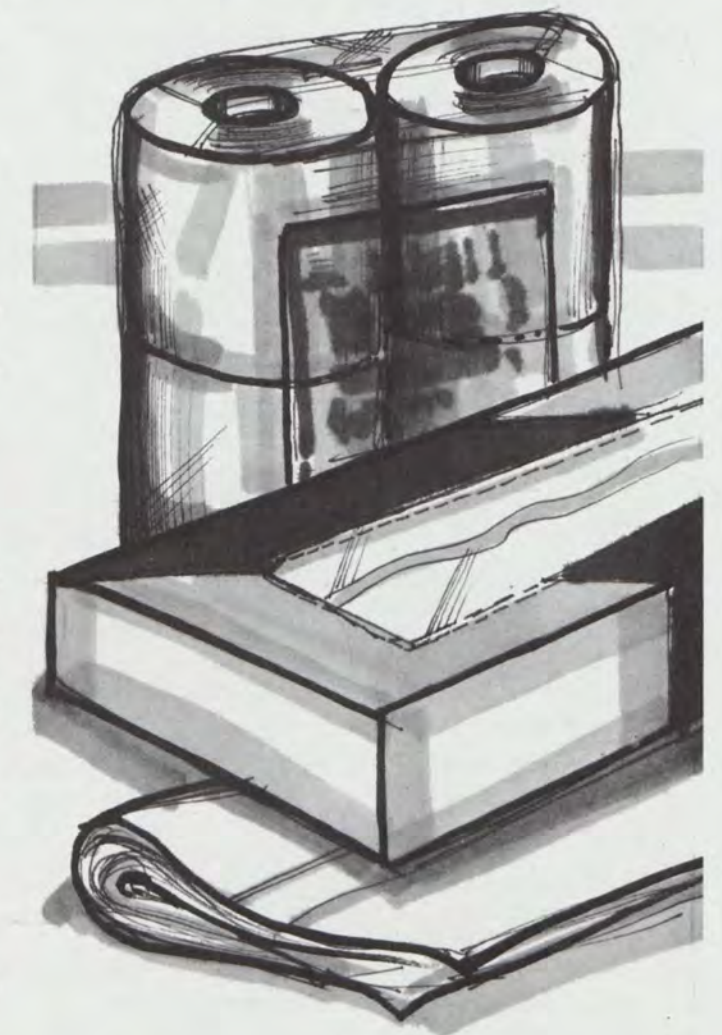
However, although it has shown encouraging growth, there is evidence that very serious consequences could develop within this industry if foreign competitors, in attempting to break into this market, start dumping surplus production.

This happened in 1978, when the Spanish Company Brand "ALBOR" dumped their surplus production in the South of England at something like 40% below

normal prices for similar goods produced by United Kingdom manufacturers. Fortunately, this was arrested in time to save any disastrous situations arising, but when a country like Spain seeks to import into this country, and we compare the importation situation at that time, the ratio of duty for someone importing to Spain was 36.8%, whereas for converting products to be imported into the United Kingdom, the import duty was 4.8%. It is obvious that we just could not compete on this basis.

In the present economic climate, there is very strong evidence that with over capacity in the industry world-wide, many companies outside the British Isles will be attempting to export into this country, certainly with an eye on the very high consumption rate in this area.

Investment is needed to cater for projected future demand, though it must be timed and planned properly to avoid over-capacity. Transport has a very strong part to play here, it is very important that there should be an efficient UK road network and low road haulage costs if firms are to keep costs down and to maintain a competitive distribution system.



Packaging and Speciality Boards

This sector covers the range of boards, (other than Corrugated Board) used mainly for packaging purposes, but also, in some cases, for other purposes too.

Of the 4.2 million tonnes of paper and board made in the UK in 1979, some 22% was accounted for by the board sector.

UK producers, through the skilful use of indigenous raw materials – wastepaper and mechanical pulp – have built up a manufacturing capacity which satisfied over 75% of the UK market. By re-using wastepaper the sector not only helps the environment, but makes a substantial contribution to the balance of payments, for without it finished board would have to be imported at far greater cost to the UK as there is no other material which can be used economically.

Despite this relatively healthy share of the market, the pressure from imports is growing for the following reasons:

- Western European countries can now sell duty free in to the UK all grades of board following the removal of EFTA tariffs in 1967 (duty free quotas now provide only marginal protection) and the EEC tariffs in 1977.
- The strength of the £ sterling, relative to the US dollar, together with a reduction in duties from 12% to 8% under GATT, means that the huge production of Solid Bleached Board in the USA is now competitive with UK waste based grades.
- Unlike other countries in Europe, the UK has maintained price stability for waste paper in order to help preserve the collecting structure. Thus prices during a recession are at a higher level than true market prices, and at a lower level at a time of peak demand, which has given some stability to raw material costs. In addition, UK mills tend to hold far greater stocks than their continental counterparts which, with high UK interest rates, is very costly.
- Excess capacity, particularly of carton boards, in Western Europe, coupled with aggressive pricing policies to dispose of surplus tonnage, is not only causing an over supply in the home market, but also leads to severely reduced margins.
- The latter in turn inhibits investment in the UK to compete with the more modern machines abroad.

Despite the currently inadequate margins, however, one British company is building a 100,000 tonne p.a. duplex carton board machine, using home grown timber, with Government backing, in Cumbria, which will almost double UK capacity for this grade. Its success will depend upon the strength of the market,

and above all, the achievement of comparable productivity to its competitors abroad.

Should there be no domestic supply in this particular sector, then clearly it would be manufactured abroad. It is already the avowed intent of our Scandinavian and North American competitors to add greater added value to their paper and board products, and so an adverse move in the United Kingdom's position could only benefit them.

Corrugated Case Materials

As the name implies, Corrugated Case Materials (CCM) are those papers used in the production of corrugated board, the use of which, because of its lightness, strength and relative cheapness, has grown very rapidly since the early 1960s.

UK production of CCM grades, together, have grown rapidly, as the table below shows, and in 1979 accounted for nearly 23% of UK production of paper and board:

	1964	1974	1977	1978	1979	
CCM	392	879	905	940	956	'000 tonnes

Their development, and in particular the effective use of re-cycled fibre (wastepaper) must, therefore, be accounted one of the success stories of the industry in recent years.

Around 28 mills employing 11,000 people are engaged in their production.

Apart from the employment provided, by saving the imports of expensive papers made from 100% virgin woodpulp, UK production of CCM is estimated to save the country £100 million per annum in terms of balance of payments.



SOGAT JOURNAL



MAY 1976

Branches link up in Joint Paper Industry Campaign.

The considerable technical advances made by British mills have helped to allow for the substitution by UK produced materials of all bar some Kraft Liner Paperboard, which is essential where high strength characteristics are required, e.g. packaging of television sets, scotch, etc.

With demand for new timber reaching a balanced situation with supply, the greater use of re-cycled fibre is a factor of increasing importance to the conservation of world timber raw material resources.

As implied above, the CCM Sector is a larger user of re-cycled fibre (wastepaper) – some 850,000 tonnes out of a total of 2.1 million tonnes were consumed in 1977.

Consumption of these grades, because of the UK's relatively stagnant economy, only grew from 1.45 million tonnes in 1972 to 1.51 million tonnes in 1977.

Thus to achieve the growth indicated in table on previous page, imports have been reduced between the years 1977 and 1972 as below:

Fluting	—	22%
Test Liner	—	25%
Kraft Liner	—	11%

— a notable achievement when in so many other sectors of the UK imports are gaining ground far too rapidly. Of remaining imports, Kraft Liner, at over 500,000 tonnes p.a. forms by far the largest single item.

Because it has been possible to introduce the necessary additional capacity in UK mills by modification of existing plant, e.g. newsprint and magazine printing machines, during the 1970s, the scope for further capacity increases at reasonable cost is now strictly limited.



ACTION NOW!

It is, therefore, important for the future of the CCM Sector that the following important issues are understood and acted upon.

- It is essential that an adequate flow of waste-paper for re-cycling is maintained.
- Whilst the cost of re-cycled fibre must not be out of relationship with competing imported materials, it should not be so depressed as to make its collection unattractive to Local Authorities and voluntary organisations.
- The rate of exchange, particularly for the US dollar against sterling, is of vital importance because if the dollar is relatively weak as it is at present, imports of Kraft Liner from the USA become cheaper and the UK becomes a more attractive market to a country with a vast production capacity which can easily swamp demand for all types of liner in this country.
- Again, bearing in mind the importance of Kraft Liner Paperboard relative to the products of this Sector, the Government should maintain, by all possible means, the existing tariffs under GATT to allow for the further advantageous development of the sector.

Basic Resources

For this industry to prosper, there are four basic resources: Pulp, Machines, Water and Energy.

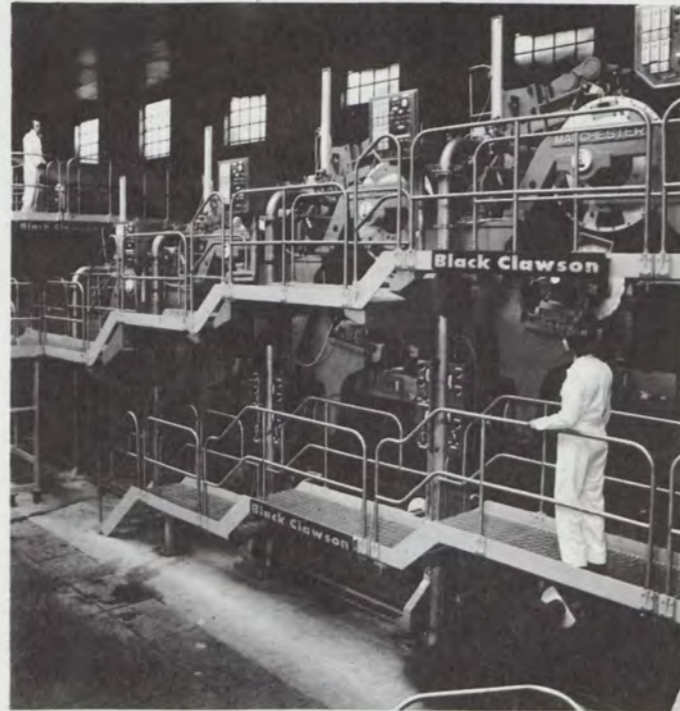
Pulp

Nearly all pulp comes from trees, Britain has very little in the way of forests compared with countries like North America and Scandinavia, who are the prime suppliers. We could have more, but forestry is now competing for land with sheep farming (this is also an EEC objective). It is also a matter of objection by environmentalists who consider coniferous forests unpopular with country lovers and, therefore, most of our wood for pulping will always have to be imported – at a price.

The industry, in considering this, have made extensive efforts to develop an alternative by the use of waste paper, resulting in Britain now being the world leader in the use of waste paper – so much so that just over half the pulp we use comes from this source.

However, because the North American and Nordic countries own the raw material of the industry, it means that they can exert a 'double squeeze' on the UK mills. They determine the price the UK mills must pay for their woodpulp.

They can, therefore, raise the price of woodpulp and, at the same time, refrain from raising the price of paper they send to the UK market. This means that in order to keep their customers, the UK mills cannot raise their price for finished paper but must, at the same time, pay more for the raw material from which it is made.



Machinery

This represents a very large investment which has to come either from industry profits, or from outside finance, attracted by the prospect of future profits.

The crucial question is clearly whether the industry will be profitable enough to attract the needed capital funds, either out of cash flow or from the finance market.

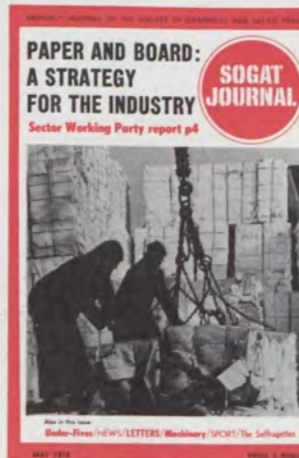
This urgency has been strengthened by the imperative need to improve rates of return on investments to compete with the highly profitable and capital-hungry sectors of energy, petrochemicals and other science based industries.

Experience of market recession, and given the relatively modest predictions for the future growth

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JOURNAL**

MAY 1978

Our objective was to reverse the trend of import penetration.



from paper consumption over the next ten years of between 2–4.6% per annum, leading pulp and paper manufacturers have been forced to concentrate even more into raising efficiency, increased productivity and reducing costs at every stage of the papermaking process.

Before 1977, the trend towards concentration of larger production units had been strongly pursued. However, since 1977, investment in new paper machines was scaled back dramatically and the continued increase in overall expenditure has gone particularly to improve pulping and existing mill operation.

Non-productive investments in pollution control have further increased the pressure for savings in the operating area by reducing manpower requirements and raising speed likewise by increased instrumentation, electrical, and computer control systems.

Water

The process of making paper needs about 100 times its own weight of water. Most of the water, after draining away, is re-cycled but the industry still uses 1.2 million cubic metres of fresh water a day.

Water is becoming more expensive because of abstraction costs and the capital and running costs required to prevent pollution after use. Because of this,

the industry is making considerable progress in the re-use (re-cycling) of water so that the water is purified within the mill and used a number of times before discharge. During the process additional recovery of fibres and other materials can be made; this in itself is cost-saving. The re-cycling of water, therefore, achieves three things: less overall water is used, less fibre is lost and there is less risk of pollution. Some mills have achieved outstanding savings in water usage by re-cycling, one mill having reduced its usage by 90% whilst another is carrying out work to achieve a saving of 95%.

Savings in recovered pulp are impressive. In 1974, 128,861 tonnes of pulp were recovered for re-use by the employment of savealls such as disc filters, flocculators and flotation units. The value of the pulp recovered was of the order between £8 million to £10 million, which was roughly double the value of equipment fitted.

In ten years, to the end of 1974, the industry spent £12,950,000 on effluent treatment plant and, notwithstanding the current recession, continues to install expensive plant. Some of the money has been used to finance joint schemes with local authorities.

Some of the largest units in the industry are situated on tidal waters and they will now be brought under the control of the 1974 Act. It is estimated that (over the next ten years) these units will have to spend £18 million on capital plant to deal with their effluent.

WATER – SAVINGS, AMOUNT USED . . .

RECOVERED PULP
FOR RE USE 128,861
TONNES
VALUE £10M

SAVINGS IN
RE-CYCLING WATER
UP TO
95%

1.2 MILLION CUBIC
METRES OF FRESH
WATER A DAY

EFFLUENT ENVIRONMENTAL COSTS

IN TEN YEARS
UP TO 1974
£12,950,000 ON
EFFLUENT PLANTS

IN NEXT TEN YEARS
UNDER 1974 ACT
FURTHER £18
MILLION NEEDED

As we quoted in 1975 in our "Save our Industry" booklet, the Nordic countries and Canada have abundant and cheap supplies of water and the effluent problems are less serious. In the UK, water is becoming more scarce and expensive as the demands of industry and a growing population increase. The use of water is therefore becoming very costly.

Pollution is becoming a very serious matter and the demands for standards of cleanliness now being made on mills for the purification of effluent are very heavy. Though the social objectives are highly desirable, the extra financial cost involved has proved too great for some mills.

disruptive to the process and the product, owing to the time required to re-start heavy machinery, re-establish product quality, and the need for a capital-intensive plant to run 24 hours a day, seven days a week.

The industry is the sixth largest energy consuming industry in the UK and the second largest private generator of electricity. The cost of energy, however, is now larger than that of wages and a more understanding approach towards industry's energy costs is required from Government.

It is significant that the percentage increase in the price of fuels has been greater in the UK than in many other countries and in some cases it is believed that the lower energy prices in other countries results from a deliberate policy of subsidisation aimed at enabling their industries to compete better in world markets.

Energy

Energy costs on average within the industry have risen from about 7% to 15% of total manufacturing costs, despite the fact that the paper industry has always been conscious of the benefit of 'combined heat and power generation' and most mills have endeavoured to maintain the best possible energy (heat and mechanical) balance compatible with product quantity and quality. This is now a major factor influencing both the competitiveness and viability of the industry.

A total of 4,801 GWh of electrical energy was used by the industry in 1978 and 43% of this was self-generated, the balance being purchased from the National Grid. Of the electricity purchased, 39.1% was supplied to mills taking all their electrical energy from the National Grid while the remainder was used to supplement self-generated energy. The industry is a good customer for electricity in so far as it provides a constant load over 24 hours; additionally a large number of paper mills work the full 168 hours a week on a continuous cycle of operation. Yet the price of electricity in the UK is substantially greater than charged in many other countries with whom the UK is competing.

Many mills with a high level of self-generated electrical energy are achieving an overall thermal efficiency of around 70-75%; this means that nearly ¾ of the energy/fuel in-put is doing useful work and only 25-30% is being lost. This is significantly better than CEGB power stations, which have average thermal efficiencies of about 35%.

Mills purchasing all their electrical energy from the National Grid have thermal efficiencies of around 50-60%. In most of the seven integrated pulp and paper mills in the UK, waste products from the timber are increasingly being utilised as fuel.

In recent years the industry has been adversely affected by primary fuel supply problems and it is important to note that the paper industry is classified in two Acts of Parliament as being a continuous-process industry. Interruption of supplies is most



Energy Consumed by the UK Paper and Board Industry

APPENDIX A

Shows the amount of energy used and the distribution between the different fuels.

APPENDIX B

Shows that oil prices in the UK are significantly higher than in many other countries.

APPENDIX C

Show coal price comparisons.

APPENDIX D and E

Shows that UK gas prices are the highest on the list and that we have the lowest price reduction for process use.

APPENDIX F

Shows that electricity prices are significantly greater than any other country shown.

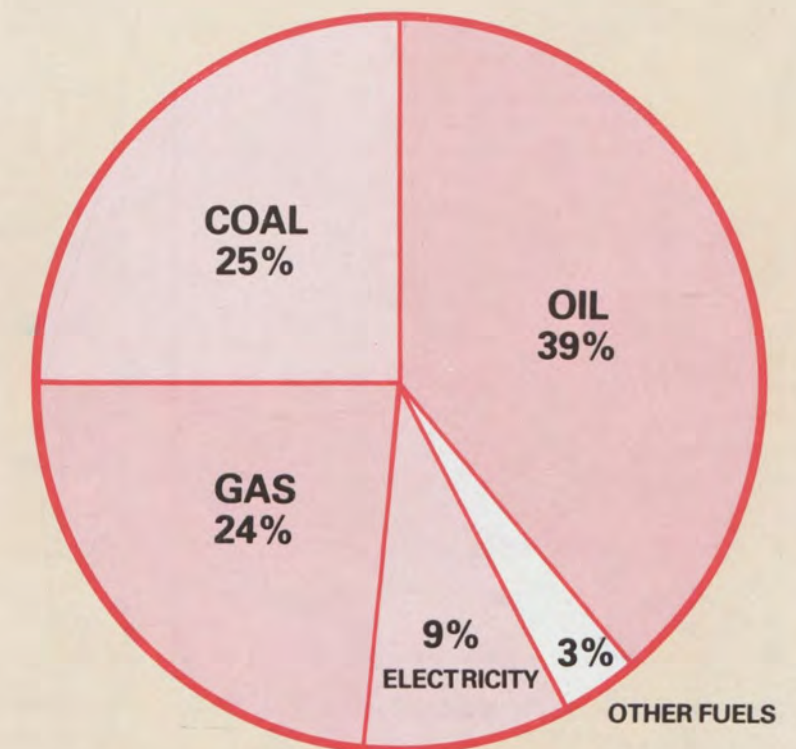
Appendix A

Total energy input embracing fuel oil, coal, natural gas, L.P.G. purchased electricity, steam and energy derived from waste fuels, amounted to 1018 million therms in 1978. The breakdown of this is as follows:

ENERGY CONSUMPTION

(Absolute energy equivalent of fuels and electricity in millions therms)

Coal	253
Natural Gas	249
Public Electricity Supply	93
Waste Fuels	19
Other	8
Fuel Oil	396
	<hr/>
	1018



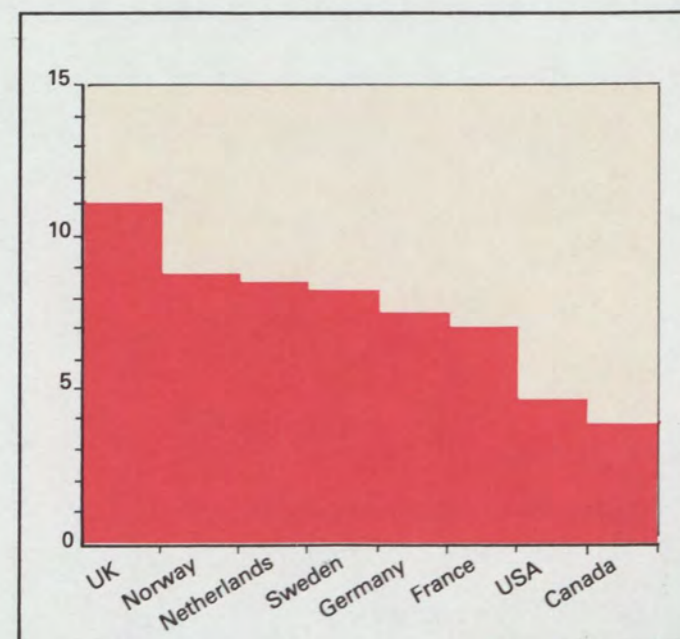
Source: Annual Energy Survey of BPBIF for 1978, page 4.

Appendix B

INTERNATIONAL COMPARISON OF PRICES FOR HEAVY FUEL OIL

Prices are quoted for bulk deliveries, including taxes.

Country	Local Price per unit as shown (*)	UK Sterling Pence per litre	(Includes .77p/litre HMG Excise Duty).
UK	11.0 pence/litre	11.0	
Norway	1002 Nor. Kr./tonne	8.5	
Netherlands	394.5 florin/tonne	8.3	
Sweden	129.2 Sw. Kr./barrel	8.2	
Germany	.17 DM/cubic metre	7.43	
France	.67 fr./litre	7.0	
USA	34.65 \$/barrel	4.6	
Canada	32.44 Can. \$/barrel	3.8	



(*) Currency Exchange Rates as quoted by *The Times* (issue 19th June 1980).

Source: Information collected for BPBIF Energy Statistics.

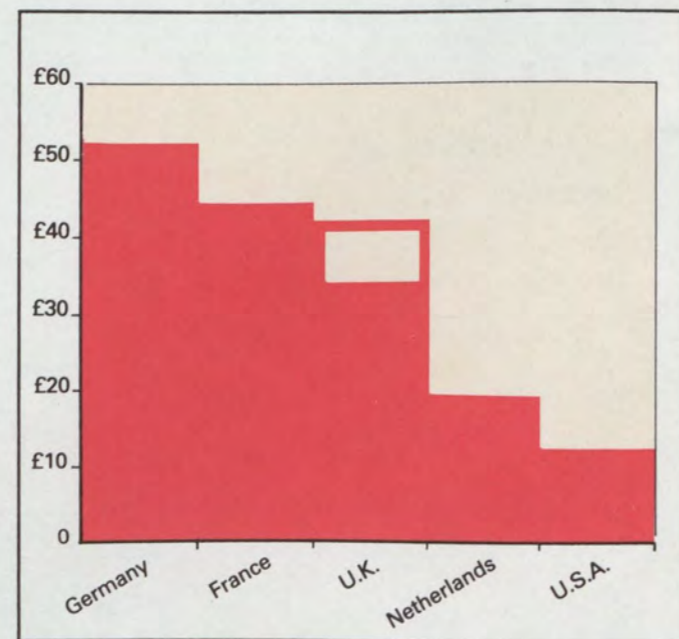
Appendix C

INTERNATIONAL COMPARISON OF PRICES FOR COAL

Prices quoted are for bulk loads delivered to mill.

Country	Local Price per tonne (*)	UK Sterling £/per tonne
West Germany	220 DM	52.7
France	432 fr.	44.8
UK	£34.4-42.7	34.4-42.75
Netherlands	90 florins	19.7
USA	27.33 \$/short ton	12.6

(*) Currency Exchange Rates as quoted by *The Times* (issue 19th June, 1980).



(§) Minimum price is untreated coal delivered to mill near coalface, maximum is treated coal delivered to mill away from coalface.

Source: Information collected for BPBIF Energy Statistics.

Appendix D

INTERNATIONAL COMPARISON OF PRICES FOR NATURAL GAS

Pence per therm for differing quantities and applications.

	100,000 Heating	100,000 Process	1,000,000 Heating	1,000,000 Process
UK	24.0	24.0	23.8	23.6
Germany	22.6	20.2	20.5	17.1
Italy	22.0	17.2	21.5	16.7
Belgium	23.7	23.7	15.7	15.7
France	20.0	16.6	19.2	15.2
New Zealand	13.6	13.6	13.6	13.6
USA	14.8	12.5	13.0	12.1
Canada	8.1	7.8	4.1	7.2
Australia	7.3	6.9	5.6	5.0

Information based on September 1979 prices and mid-October 1979 currency conversion. In some cases average figures have been computed for countries where large national price variations exist.

Appendix E

PRICE REDUCTION FOR PROCESS USE

Italy	22%
France	19%
Germany	13%
USA	10%
Australia	9%
Canada	7%
UK	1/2%

Percentages are average for 100,000 and 1,000,000 therms usage. Belgium and New Zealand: no price reduction.

Source: Press Information from National Utility Service dated 12th November 1979.

Appendix F

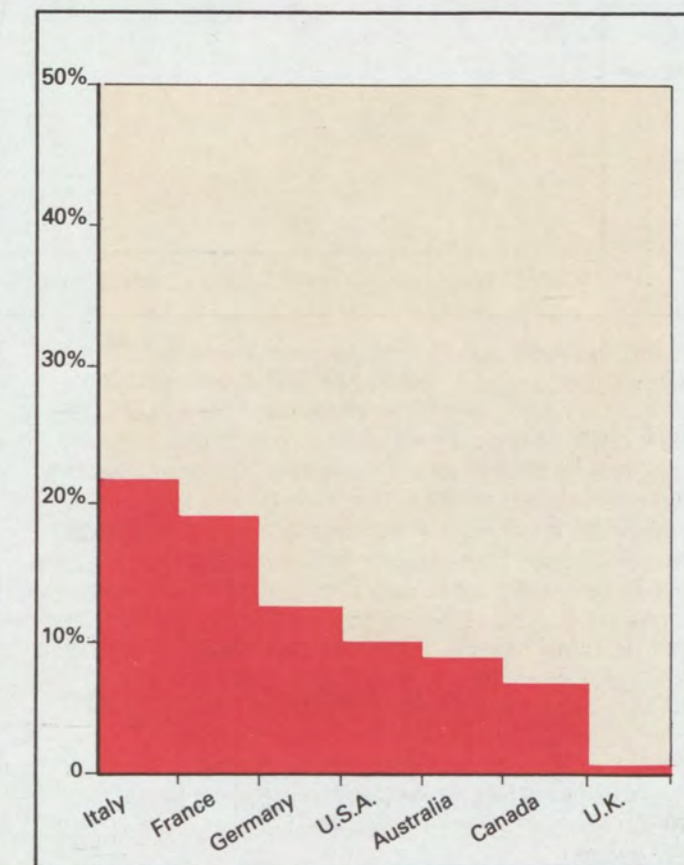
INTERNATIONAL COMPARISON OF PRICES FOR ELECTRICITY

(Average figures for large industrial users)

Country	Local price per MW h (*) or per kW h	UK Sterling pence per kW h
UK	£3.00/kW h	3.00
Netherlands	128.3 florins/MW h	2.80
France	208.6 fr./MW h	2.16
West Germany	0.08 DM/kW h	1.92
USA	26.62 \$/MW h	1.13
Sweden	110.0 Sw. Kr./MW h	1.10
Norway	107 Nor. Kr./MW h	0.94
Canada	17.7 Can. \$/MW h	0.66

(*) Currency Exchange Rates as quoted by *The Times* (issue 19th June 1980).

Source: Information collected for BPBIF Energy Statistics.



EMPLOYMENT IN THE PAPER AND BOARD INDUSTRY



For almost a decade there has been a steady fall in the number employed in the Paper and Boardmaking Industry; the number of workers has fallen by 25.9% since 1969. This decline has been most noticeable in process and staff workers. However, there has been a marked increase in the proportion of manual employees working a 4-shift system – 37% in 1980, compared to approximately 28% in 1972.

As Paper and Board manufacture is a continuous process industry, shift work is essential. Of the 141 mills working in 1980, 59 (42%) operated a continuous 4-shift system (these accounted for 71.5% of the industry's total capacity), and the remainder three shifts. Most mills also employ day workers, particularly in maintenance and finishing departments. Shift work, with its inherent social problems, is an obvious drawback to employee recruitment.

**SOGAT
JOURNAL**

APRIL 1979

Sector working party N.E.D.O. looking for urgent Government assistance.



MILL CLOSURES/REDUCTION IN MACHINE NUMBERS.

1971	11 MILLS	27 MACHINES
1972	5 MILLS	13 MACHINES
1973	3 MILLS	10 MACHINES
1974	4 MILLS	6 MACHINES
1975	4 MILLS	20 MACHINES
1976	3 MILLS	6 MACHINES
1977		2 MACHINES
1978	4 MILLS	17 MACHINES
1979	46 MACHINES	
1980 to 29th July	12 MILLS	

ONCE SHUT NEVER TO BE REOPENED

Employment Trends by Sector 1969–1979

Sector	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	
											Emp	% + or – since 1969
Waste Paper	4157	5236	4907	3907	3641	3830	3642	3765	3993	3838	3526	-15.1
P B & C	88969	85635	79502	74384	73495	73643	71359	67077	66547	66652	65938	-25.9
Agents/Merchants	9009	8890	9181	9202	9266	9074	8951	9136	9090	9187	9390	+ 1.2
Converting	89887	95196	89249	87408	89805	93380	88652	81903	84443	82269	81163	- 9.7
Stationery	28801	27820	26665	25758	27002	27147	27268	24580	25271	24413	23822	-17.3
Wallcoverings	7504	7894	6817	7068	6058	6666	5922	5781	5706	5529	5313	-29.2
Total	228327	230671	216321	208177	209267	213740	205794	192242	195050	191888	189152	-17.2

If the UK Paper and Board Industry is to survive as a high technology industry, it must be able to compete in the labour market for the best recruits available. However, in the UK at present, in order to do this, it must be able to overcome some drawbacks, which are summarised in the next few paragraphs.

There are few transferable skills recognised for process workers. In many mills there is also little interchange within the mill between the different skills employed. When a skilled production operator leaves the industry, he is technically only a labourer.

One of the key factors in ensuring the economic health and prosperity of the industry in the future, is to attract, train and retrain craftsmen and process operators, without whom no Paper and Board can be produced.

Labour turnover of up to 100% in a year may be experienced among the newly joined, particularly when employed on shift work; able young men can

find jobs at least as well paid elsewhere, without the need for shift working.

The present economic climate with its high pound high interest rate and high inflation rate is having a devastating effect on the industry. Since May of 1979 we have been notified of more than 4,000 redundancies and unless immediate action is taken by the Government this number could double by the end of this year.

One issue, however, is over-riding: security of employment. Unless actual and potential employees have confidence in the future of the industry and of individual companies, any action on the factors explained above can have no lasting effect.

The industry has a history of mill, machine and manpower reduction since 1969, the percentage of which is laid out in Appendix 4 showing a total 17.2% decrease between 1969 and 1979 which in overall manpower figures is 39,175 employees.

MILL, MACHINE CLOSURES REDUNDANCIES WITHIN LAST 6 MONTHS OF 1980



General Recommendations

The UK papermaking industry as already outlined suffers from a number of important disadvantages, compared to the main competing countries. Therefore, it is imperative that the Government clearly states that it recognises the importance of maintaining a healthy industry and demonstrates its sincerity by taking both immediate and longer term measures to protect the industry from the irreversible damage now being done.

We recommend the Government to seriously consider taking action to assist on the following points:

1. Import Penetration.
2. Finance.
3. Energy.
4. Forestation.

Import Penetration

It is clearly recognised that the biggest threat to the papermaking industry comes from imports. This situation is being made alarmingly worse by the current over-valuation of sterling which greatly encourages competitive imports from North America and Scandinavia.

These competitors, who already enjoy natural and trading advantages over UK companies, including advantages derived from former EFTA Agreements, will continue to unfairly pressurise the industry.

The serious problem of import penetration not only threatens the survival of the papermaking industry but, as the industrial base weakens, so does the position of the related industries such as printing and packaging. The overall effect, which is self-perpetuating, will result in thousands of lost jobs and inevitably worsen the balance of payments crisis.

ACTION NOW!

It is, therefore, essential for the Government to assist the industry to contain, and ultimately reduce import penetration, by:

- (a) Adopting a more aggressive policy towards imports.
- (b) Considering some type of selective import control such as quotas, surcharges, or minimum prices.
- (c) Ensuring strict enforcement of all existing duty free quotas at their present levels.
- (d) The application of tariffs on all other imports.
- (e) Import restrictions to check excessive competition, including that which does not come under anti-dumping rules.

Finance

The economical problems of the industry are not new, they go back over several years. At the heart of the problem lies the failure of the industry and the Government to adequately invest in new plant and machinery to ensure its future. The recent economic position with its high level of the pound, high interest rates and high inflation have only exaggerated the problems and accelerated machine and plant closures.

The strong pound, combined with high interest and inflation rates, not only facilitates imports, but places severe pressure on profit margins and virtually eliminates investment.

ACTION NOW!

Attention should be given to providing positive financial backing and assistance, such as:

- (a) Providing financial assistance and subsidies, similar to those provided by other Western European Governments.
- (b) Re-directing some oil revenues into those industries essential to the future of the economy.
- (c) Lowering interest rates.
- (d) Taking measures to reduce the effect of oil revenue on current exchange rates.
- (e) A determined attack on inflation.
- (f) The introduction of appropriate investment incentives.
- (g) An immediate increase in regional development grants.
- (h) The introduction of a selective grant scheme to assist with the necessary re-investment in new improved plant.



JULY/AUGUST
1980

Conference declared
total opposition to
Conservative
Governments
Economic Policies.



2 September 1980

I am writing on behalf of the Prime Minister to thank you for the letter which you and Mr. Keys sent her on 1 September about the UK newsprint industry.

This is receiving attention, and a reply will be sent to you as soon as possible.

I am writing in similar terms to Mr. Keys.

M A PATTISON

J.H. Adams, Esq.

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cc Press Office

10 DOWNING STREET

From the Private Secretary

2 September 1980

I enclose a letter to the Prime Minister sent jointly by SOGAT and the British Paper and Board Industry Federation. The signatories request that the Prime Minister should receive a delegation from the newsprint industry.

I see from the letter that your Secretary of State has already seen such a delegation. I think that the Prime Minister will wish to reply on the lines that your Secretary of State has already reported to her on his discussions, and that she does not feel that a further meeting with her could add to the Government's knowledge of the situation. I should be grateful if you could let us have a draft reply along these lines for the Prime Minister to consider. It would be helpful if this could reach us by 10 September.

M. A. PATTISON

Mrs. Catherine Bell,
Department of Industry.

259

2 September 1980

I am writing on behalf of the Prime Minister to thank you for the letter which you and Mr. Adams sent her on 1 September about the UK newsprint industry.

This is receiving attention, and a reply will be sent to you as soon as possible.

I am writing in similar terms to Mr. Adams.

M A PATTISON

W.H. Keys, Esq.

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10 DOWNING STREET

PRIME MINISTER

Here is a letter from both sides of the newsprint industry, seeking your intervention to assist the industry. They request that you meet a delegation to discuss their problems.

Keith Joseph has already seen a delegation from the industry. I doubt very much whether anything more can be achieved by your seeing them. If you are content, we shall ask the Department of Industry to suggest a draft reply for you to send, explaining that Sir Keith Joseph has already reported to you his discussions with the industry.

*I think I may
have to see
them. No.*

MA

ME

2 September 1980

Press Office

R 1/9

SOCIETY OF GRAPHICAL & ALLIED TRADES,
SOGAT House,
274-288 London Road,
Hadleigh,
BENFLEET, Essex.

THE BRITISH PAPER & BOARD INDUSTRY
FEDERATION,
Plough Place,
Fetter Lane,
LONDON, EC4A 1AL.

1st September 1980

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
LONDON, SW1.

Dear Prime Minister,

THE UK NEWSPRINT INDUSTRY

You will be aware that most of the UK Paper and Board Industry is in serious difficulties. We write to you now in order to request your personal intervention to save one particular sector of the Industry which is in undoubted immediate danger.

The Secretary of State for Industry has already seen a delegation from The British Paper and Board Industry Federation and the Society of Graphical and Allied Trades and has had details of the problems which companies now face. The delegation stressed that factors which seemed to be under Government control were exacerbating the effects of a recession which would be serious enough in themselves: the combination of adverse factors peculiar to the UK and a general trade recession would be highly damaging for nearly all paper and board mills and actually fatal for some.

In his subsequent considered reply to our submission Sir Keith indicated that he saw little possibility of Government being prepared to make special provision for Industry in either energy costs or interest rates - two of our most serious problems. These matters are so very important to us that we naturally cannot accept such an answer as final: we shall continue to press for some action by any means within our power.

Sir Keith also suggested that further efforts by individual paper and board companies to improve their own performance could "contribute much to seeing them through the current difficult period", and here we found ourselves in fundamental disagreement. One of the major points which we had tried to put across was that in today's climate even efficient companies cannot in many instances run profitably - or even at an acceptable level of loss: it is this point which we wish to pursue further with you personally in respect of the newsprint sector of the Industry.

As it stands today the UK newsprint industry supplies about a quarter of the country's requirements. The closures announced by both the suppliers concerned during the last ten days will, if they take place, result in that proportion being brought down to less than one eighth. We feel that for an industrialised country like Britain to be reduced to such a position after being able to meet half of its newsprint needs as recently as ten years ago, involves factors more serious than finance. The issues as we see them are set out in the attached brief paper.

We seek:-

- a) The Government's acceptance of the importance of keeping the small but efficient UK newsprint sector alive, to ensure minimum availability of newsprint for the Newsprint Publishers in times of overseas supply difficulties.
- b) Temporary assistance to offset the exchange rate difference and continuing assistance with high energy costs for as long as those costs are intolerably greater than those of foreign companies supplying newsprint to this market.

We would therefore greatly appreciate the opportunity of discussing the situation with you. Closures have already been announced and the matter is urgent: we therefore hope that you will be able to meet at an early date a small delegation which would include a representative of the Newspaper Publishers Association and the Chairman of the Paper and Board Sector Working Party.

Yours sincerely,

W.H. Keys .

W.H. KEYS
GENERAL SECRETARY
SOCIETY OF GRAPHICAL & ALLIED
TRADES

John Adams

J.H. ADAMS
DIRECTOR GENERAL
THE BRITISH PAPER & BOARD
INDUSTRY FEDERATION

THE NEWSPRINT SECTOR OF THE UK PAPER AND BOARD INDUSTRY

Introduction

Newsprint manufacture in the UK is now concentrated in two companies, Reed and Bowater. Judged against competitive international standards the companies are efficient converters of British raw materials and energy into newsprint. To achieve sales, however, they have to offer their products on the British market at more or less the same international prices as those of their competitors. These competitors enjoy considerable cost advantages, notably in cheaper wood and particularly cheaper energy: their advantage in energy costs is twice as significant as their advantage in wood costs. By contrast the UK Industry is under the handicap of a high sterling exchange rate, high interest rates and a high rate of inflation. Exchange rates, interest rates - and the cost of energy - are influenced directly by Government policies. Nevertheless, we are convinced of the need to keep the newsprint sector alive, particularly over the very difficult economic conditions obtaining today. If it were, then the advantages as set out in paragraphs 2 to 5 would result.

People

2. Jobs would be saved in the newsprint industry itself. In addition, an estimated 1,000 local people servicing the Ellesmere mill would remain in work, as would those employed in the Newstead coal mine which supplies Ellesmere with 5,000 tonnes of coal a week. The jobs currently at risk including those in forestry, see paragraph 4 below, are likely to be in excess of 3,500 in the Mersey area alone. According to the estimates of the Ellesmere Port and Neston Borough Council, these jobs losses could cost Government at least £13m. per annum in unemployment benefits.

Balance of payments

3. The balance of payments will continue to benefit from some £45 million which will otherwise be lost through the currently planned newsprint closures. It should also be noted that the UK already imports £2.75 billion worth of timber and timber products and thus arguably needs to grow more, not less, trees on which efficient manufacturing industry can be developed with consequent benefit to employment and the balance of trade.

Forestry

4. There will be a less dramatic fall in demand for UK timber. The closure of the pulp mill at Fort William is inevitable but the demise of Bowater's Ellesmere Port mill can still be prevented. If it is not, the Forestry Commission alone estimates a loss in the domestic market of 450,000 cubic metres of wood, representing 20% of present production of coniferous wood. Unless the Forestry Commission and the private timber growers can find continuing export markets at viable prices (and how unhelpful to export raw materials and have the finished product returned for sale in the UK with value added abroad), then some 800 jobs, forestry and transport, are likely to be lost in the Forestry Commission alone without taking into account private forestry. Additionally the inability to find UK uses for thinnings will prejudice the growth of more mature timber for saw logs with all the attendant problems to the future of UK forestry and its efficient management.

Waste Paper

5. UK newsprint producers currently use some 125,000 tonnes of waste paper each year. Should newsprint production cease, then waste paper (an indigenous material) will not only cease to be of value but will become a cost burden upon industry and Local Authorities for disposal as land-fill etc. Should the sector survive, then these monies would be saved.

Strategic reasons

6. We firmly believe that Britain should retain a manufacturing capacity for newsprint. If it does not - and this is the likely trend if circumstances do not alter - then the following dangers would exist:-

- a) Our supplies of a vital material would be entirely in the hands of foreign manufacturers who could put supplies at risk whenever they wished.
- b) There would be no domestic supplier to act as a check on indiscriminate price increases by those overseas producers (and paper makers abroad with the market in their hands would not necessarily be content with minor increases: in 1974 for example, when all paper was scarce worldwide, some grades were sold by importers into the UK at up to 80% above the UK manufacturers' prices).
- c) All supplies of newsprint could cease in times of dock and transport strikes whether in the UK or in the supplying country, putting the printing and distribution of news and opinion by newspapers at risk in the UK.

7. We do not expect that the UK should supply more than a quarter of the UK requirements: this would represent, as it has in the past, a sufficient quantity to provide competition and a minimum supply in times of crisis. It is significant that other EEC countries consider an indigenous newsprint industry vital to their interests and extend to such industries (financial support in some form. (See Annex A.)

The strength of sterling

8. The current loss on newsprint for both Reed and Bowater amounts to some £40/50 per tonne produced. This is principally due to the high cost of both UK energy and indigenous raw materials, together with the substantial loss of sales value incurred because of the strength of sterling. The implications of currency related to the selling price of newsprint are set out in Annex B.

SUPPORT GIVEN TO NEWSPRINT INDUSTRIES IN EEC

France

All newsprint is purchased by a co-operative (SPPP) and re-sold to the Press at a uniform price. The price paid to domestic suppliers is decided by a committee consisting of representatives of Newsprint Producers, Newsprint Publishers and Government and is based on an addition to that paid to Scandinavian suppliers, calculated:

Scan price = 100. Selling price to Press 100 + 2.
Domestic supplies are approximately 50% of total. All the extra goes to the French suppliers, i.e. their 50% attracts 4.

In addition there is a direct subsidy from Government based on the level of investment by the mills. This subsidy is currently 4.5%.

Total support therefore:	Price addition	4%
	Subsidy	4.5%
		<hr/>
	Total	8.5%
		<hr/>

Belgium

2. After the discontinuation in 1978 of the subsidy during the period of 7% tariff on imported newsprint, there is now a complex agreement whereby the Press are understood to pay approximately 3½% more for domestic than for imported newsprint.

Holland

3. There is no direct price subsidy on newsprint production but Government holds a 20% stake in the new newsprint plant run by a subsidiary of the Van Gelder company (itself only kept alive by Government sponsored loans).

Germany

4. No subsidy, but there is an unofficial agreement that the domestic mills should receive a higher price from the Press than importers.

THE PRICING OF NEWSPRINT ON THE UK MARKET

Fears that the pound would sink lower than \$US 1.65 in 1978 led to overseas suppliers agreeing with the purchasers a link between the sterling price of newsprint and the value of the pound. The price of newsprint would only remain firm as long as the value of the pound remained in the band between \$US 1.65 - \$US 1.75. If the pound fell below \$US 1.65, the price of newsprint would be increased by approximately £1.30 for every cent of fall: similar but opposite provision was made for the pound rising. When the unforeseen happened and sterling strengthened, all newsprint suppliers - including those in the UK - were obligated to pay substantial rebates from the list price.

2. Since that time the currency clause has been changed to \$US 1.85 - \$US 1.95 on 1st April 1980. Further, for the fourth quarter of 1980, the price of newsprint will be based on a movement up or down on \$2.15/£. The net effective price for the second and third quarters of 1980 together with that for the fourth quarter at various exchange rates is set out below. The net selling price on 1st January 1977 was £235 per tonne.

List price of 48.8 g.s.m. newsprint
£270.00 per tonne

<u>\$/£ Exchange Rate</u>	<u>2nd/3rd quarters 1980. Currency clause based on \$1.85 - \$1.95/£</u>	<u>4th quarter 1980 Currency clause based on a trigger point of \$2.15/£</u>
\$2.00/£	£263.25	£290.25
\$2.10/£	£250.71	£276.43
\$2.20/£	£239.32	£263.86
\$2.30/£	£228.91	£252.39
\$2.40/£	£219.38	£241.88
\$2.50/£	£210.60	£232.20