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cc. lrd. Trenchard
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10 DOWNING STREET

From the Private Secretary

17 September 1980

master

Dear Sir,

The Prime Minister held a meeting this morning to discuss the threatened closure of Bowater's Ellesmere Port plant. The following were present: Sir Keith Joseph, Lord Trenchard, Mr. Wiggin, Mr. Roberts, Mr. Lamont and Mr. Fletcher.

The Prime Minister said she was very concerned about the threatened closure. She understood that, apart from the strength of sterling and high interest rates, other reasons for Bowater's difficulties were the higher costs that they had to pay for timber and energy as compared with their competitors overseas. She wanted to know whether the Forestry Commission might be able to offer a lower price for their timber while still covering their marginal costs, and she wondered whether there was not scope for some reduction in the price paid by Bowater for electricity and coal. On reflection, she was not convinced by the Secretary of State for Energy's minute of 10 September that nothing could usefully be done in this latter respect. She had no wish to add to the electricity and coal industries' call on the taxpayer; but she felt that it could well be better from the point of view of their cash flow to offer a small discount on the tariff rather than lose this large chunk of demand altogether. Mr. Howell's minute had ruled out the idea of a 50% discount on the electricity price; but it had not discussed the possibility of a much smaller reduction. The two industries ought in any case to be able to offer lower prices by improving efficiency: that was the only way in the end we would be able to offer industry generally energy prices that were competitive with other countries'.

Lord Trenchard said that the discussions he had with Bowater's had made it clear that, if they were to invest in a new plant, they would be able to make substantial profits by 1984 - even if the exchange rate remained high. His Department had offered them Industry Act assistance towards such an investment, but they had declined. Although Ellesmere Port could be profitable on this basis, the company seemed to prefer to concentrate their activities in North America because of the higher level of profitability available there. He had done his best to

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persuade them to continue their operation at Ellesmere Port, but, so far, to no avail. However, if the profit prospects from investing in a new plant were to be made public, this could well be an embarrassment to the company. This was a card which the Government might profitably use to get them to reverse their decision. An assurance on energy costs would of course help. Figures recently provided by Kimberley Clark suggested that prices paid by the paper industry for electricity and gas were significantly higher in the UK than in Canada, the USA, West Germany and France. The price paid for coal, which represented 60% of their energy costs, was £15 per tonne higher than the price of coal delivered to U.S. paper plants. As regards timber, the Forestry Commission were offering Bowater improved terms such that they would only be charging marginal costs. These new terms would make the price of timber to Bowater competitive with the price available to Scandinavian paper plants; but it was still well above the cost of timber in the U.S.A.

Mr. Wiggin confirmed that the Forestry Commission were offering timber to Bowater on a marginal cost pricing basis: consequently, they would be making no profit on the contract on offer. They could not offer more favourable terms than this. Mr. Lamont said that, while there was much scope for improved efficiency in our energy industries, they would always be at a disadvantage compared with Sweden and the U.S.A. Other European countries were planning to increase their energy prices, so that the current differential between their prices and ours should soon be eliminated. Mr. Fletcher said that the paper industry had to be looked at as a whole: if any concessions on energy costs were made to Bowater, they would have to be made to the other companies as well.

Summing up the discussion, the Prime Minister said that Lord Trenchard should make one more attempt to persuade the Bowater management to keep Ellesmere Port open, and build a new plant with Government assistance. There was nothing more that the Forestry Commission could do on timber costs; but the Department of Energy should explore with the NCB and the Electricity Council the possibility of their offering a discount on the present prices charged for coal and electricity. If in the meantime Bowater were to ask Lord Trenchard about energy costs, he could say that the energy industries were determined to improve their efficiency with a view to making their prices competitive with those charged on the Continent. She would be seeing a delegation from SOGAT and the British Paper and Board Industry Federation to discuss the problems of the industry generally; and Lord Trenchard could, if he wished, tell Bowater that she would almost certainly be obliged to give the delegation the figures on the profit prospects at Ellesmere Port. She intended to invite Sir Francis Tombs to the meeting to explain the position on electricity pricing.

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The meeting with the industry delegation will probably be on 3 October. The Prime Minister will want to have further advice on the outcome of the Department of Energy's discussions with the NCB and the Electricity Council by that date; and preferably earlier so that, if anything positive is to be done, Bowater can be informed without delay.

I am copying this letter to the Private Secretaries to Lord Trenchard (Department of Industry), Mr. Wiggin (Ministry of Agriculture, Fisheries and Food), Mr. Roberts (Welsh Office), Mr. Lamont (Department of Energy), Mr. Fletcher (Scottish Office), and also to John Wiggins (HM Treasury) and David Wright (Cabinet Office).

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T. Laker.

Ian Ellison, Esq.,
Department of Industry

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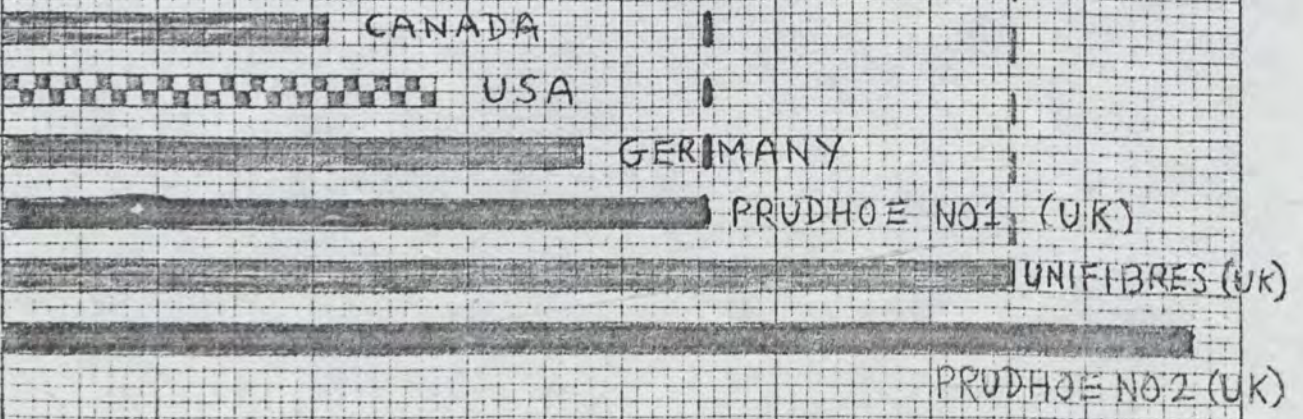
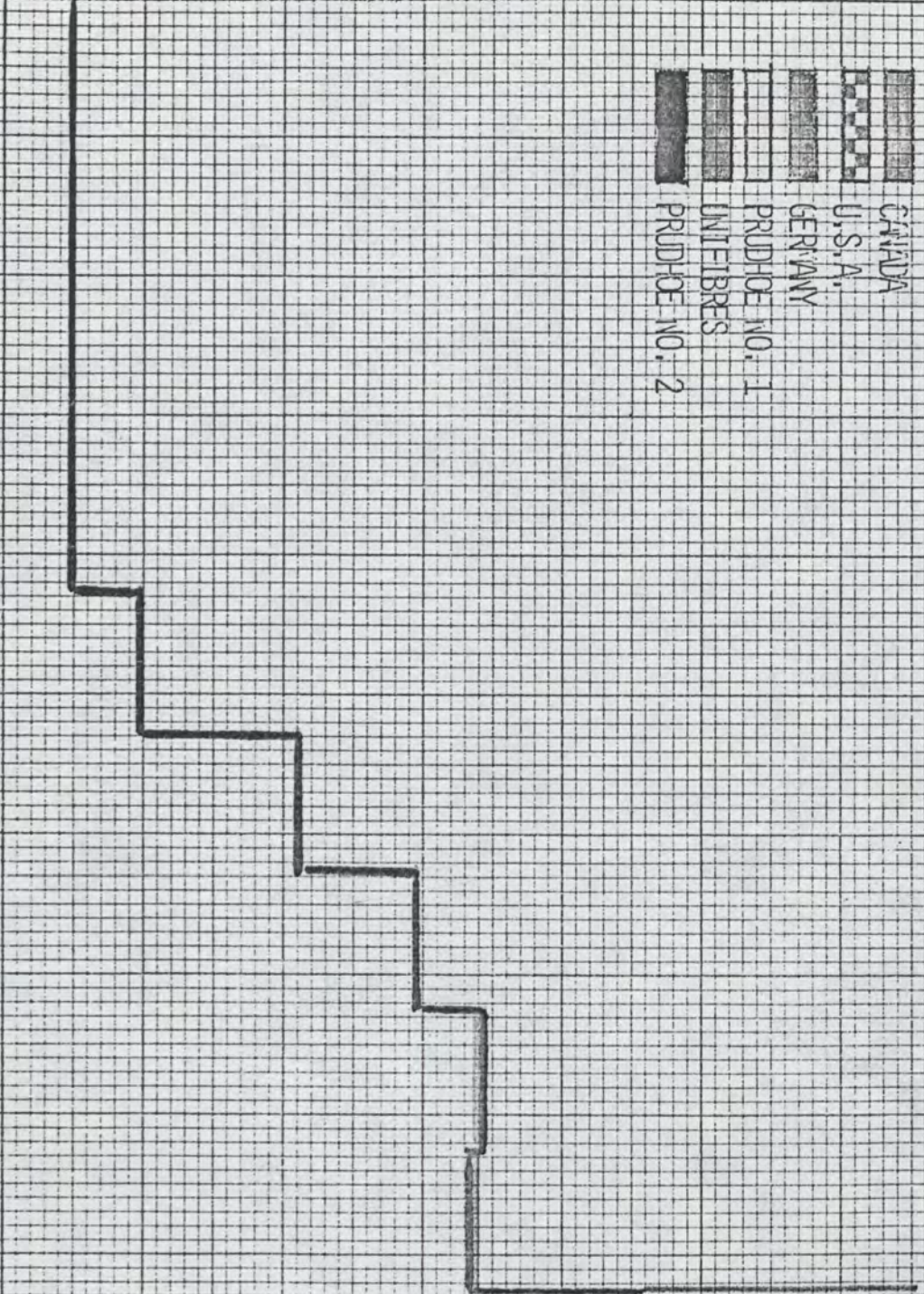
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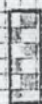

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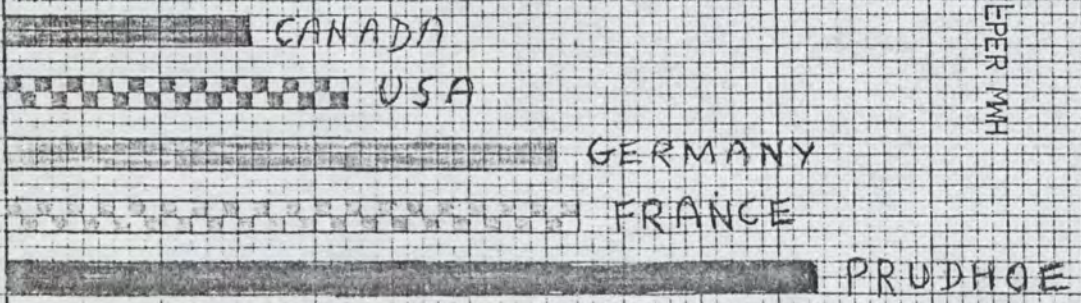
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From the
Minister of State

PS/Lord Trenchard

John Lyden

Ann... ..

Ann... his paper closure.

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

18 September 1980

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[Handwritten signature]

Dear Tim

PAPER AND BOARD INDUSTRY

Lord Trenchard has asked me to let you have further details of the intended closure on 23 September of St Annes Board Mills in Bristol, to which he referred at yesterday's meeting with the Prime Minister.

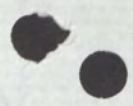
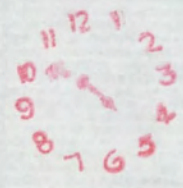
Eight hundred redundancies are involved. The operation has lost £4.5m over the last nine months. Over the year a loss of more than £6m is forecast, while the forecast loss for next year is put at £8 - £9million. With these losses in prospect, the company's parent, the Imperial Group, has decided it would be cheaper to face up to closure. The Managing Director identifies the basic problem as a lack of demand from customer industries as the recession bites deeper (the mill manufactures carton board, a sector in which there is European wide over capacity and where imports hold over 40% of the UK market). Even before the recession margins had been under severe pressure due to the strength of sterling and the impact of energy costs. Had the problems been seen as "short term" Imperial would probably have ridden out the storm, but they could see no profitable future for the mill for some years ahead. The company have made no approach for Government help, and Lord Trenchard does not see any case for attempting to change the company's commercial decision. He does, however, consider that it highlights very well the impact of rising energy costs and the strength of sterling in another part of the paper and board industry.

*Yours sincerely
Peter Mason*

PETER MASON
Private Secretary

DEPARTMENT OF THE ARMY
HEADQUARTERS
WASHINGTON, D.C. 20315
LONDON

18 SEP 1980



[The body of the document contains several paragraphs of extremely faint, illegible text, likely a teletype or a very light print. The text is mirrored across the horizontal fold lines.]