

✓  
Mr Lyden  
Mr Vicker  
Mr Dymally



Prime Minister

This suggests, amongst  
other things, that poor  
productivity and  
excessive pay settlements  
have been part

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of the problem  
at Ellesmere  
Port.

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Dear Tim,

*TL to Mr Lyden 5/6/10*

The Chancellor has seen the note of the Prime Minister's meeting with the delegation from the Paper and Board Industry on 3 October.

He shares the concern of his colleagues about Bowater's proposal to close the plant at Ellesmere Port at a time of high unemployment and industrial difficulty. He supports the offers of assistance for re-equipment which the Department of Industry has made to the company, but agrees with the Chief Secretary (his minute to the Prime Minister of 2 October) in opposing the idea of a government operating subsidy which could be very expensive and absolve the company from taking a properly commercial view of this operation.

The Chancellor has asked me to draw attention to three factors which he believes have an important bearing on Bowater's problems at Ellesmere Port which, for understandable presentational reasons, were not stressed at the Prime Minister's meeting, but which he thinks colleagues should take into account.

a) Despite the fact that employees at Ellesmere Port made wage settlements in 1979 below the national average and have said they will forego a pay rise next year, our calculations based on Bowater's own figures suggest that wages as a proportion of total sales costs at the mill have risen significantly since 1974 and 1979. The wage increase paid to all Bowater's employees in 1978 was apparently above the national average for manufacturing industry. (These figures are confidential and should not be quoted publicly.) Similarly, while there has been improvement

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←

/in productivity



W in productivity at the Ellesmere Port mill during the last two years, productivity was previously very poor and there is still evidence of a significant degree of over-manning. Some of the blame for the current financial position of the mill must therefore rest with unions and management.

b) The problems of this mill need to be seen in the context of the industry as a whole. It is difficult to see much future for bulk "commodity" grade paper making in the UK. Its problems are long-standing and not just the result of the recession, or the exchange rate or current energy pricing policy. Underlying industrial and economic factors do not appear favourable to the location of this part of the industry in the UK. We lose out on energy costs to the Scandinavians who have cheap hydro-electricity and to the North Americans who have cheap coal and to both on the cost of timber because of their rich natural endowments. We lose out too on prices because they are determined by low-cost Canadian producers and because the Canadian dollar has been depreciating while the pound has been appreciating. Given North Sea oil, the relative strength of the pound is likely to be more than a temporary phenomenon. It would seem therefore that the cards are stacked against UK production of bulk "commodity" grade paper on both costs and selling prices.

..... ) c) On the other hand, the recent report on Wiggins Teape in the Financial Times suggests (attached), there may be a continuing niche in the UK for the manufacture of quality and speciality paper products. Wiggins Teape's experience is in line with the advice which Ministers have been giving to industry generally which is that it should move up market in response to the high exchange rate and the competitive pressures which it faces from low-cost producers.

The Chancellor acknowledges that these comments are all in the nature of generalisations. The Treasury does not have the detailed knowledge of the situation at the Ellesmere Port mill which the Department of Industry has, but he feels that it may be useful to have these factors in mind, for the purposes of presentation as well as analysis - in cases quite apart from this one (and whatever the outcome in this case).

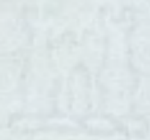
Yours ever,  
Peter.

P.S. JENKINS  
Private Secretary



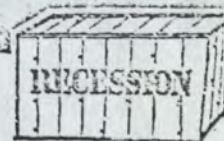
PS. I am sending copies of this letter and attachment to Peter Swadden (Department of Industry), David Jones (Ministry of Agriculture, Fisheries and Food), Stuart Hampson (Department of Trade), David Wright (Cabinet Office) and Godfrey Robson (Scottish Office).

CONQUEROR



## WRESTLING WITH RECESSION

# A paper tiger in good shape



### William Hall on why Wiggins Teape is a special case

board, has led to a steady reduction in the size of the UK industry.

"I am not a Canute," says Mr. Best. He sees the problems of the high pound, fierce import competition and costly energy, as merely accelerating the long-term restructuring of the UK paper industry.

He admits the UK paper industry is going through one of its worst ever crises but sees it as part of the painful adjustment the country has to make to live with itself.

"I believe it is up to us to seek our own solution," he says.

Mr. Best does not rule out the possibility that he will have to lay off staff before the recession ends. In fact, he says there is "quite a high probability" of redundancies within the next few months. However, there is no denying that Wiggins Teape is in far better shape than most of Britain's other paper companies.

Wiggins Teape has the good fortune of never having had a big commitment to "commodity" grades like newsprint. Its



GATEWAY

### WIGGINS TEAPE

Sales (1979)	£542.5m
of which UK	£260.7m
Trading profits	£52.9m
of which UK	£17.7m
UK exports	£72m
Group employees	18,250
Capital employed	£273.7m
of which UK	10,320

strength is in high-quality and speciality papers with a high added value. Its most successful product is Idem carbonless copying paper and the growth of this product, which accounts for over a quarter of group sales and a higher proportion of profits, has insulated it from

many of the UK industry's problems.

During the past few years, the company has spent around £50m on new UK capacity. Wiggins Teape has been carving out a position for itself as the market leader on the specialised field of carbonless copying papers—a market where imports have made little impression.

The company also departed from tradition and set up a highly motivated marketing force to sell its paper throughout the world. Traditionally, the big papermakers have left the selling job to paper merchants, whose loyalty quickly disappeared when cheaper imports arrived.

Not that Wiggins Teape is immune from the recession. Although it will not confirm the fact, its UK operations are probably losing money at the moment. The strong pound has hit exports of Idem and photographic base papers—volume is holding but margins have suffered badly. Fortunately, the overseas enterprises (two thirds of trading profits last year) improved their contribution significantly in the first half of this year.

Wiggins Teape has cut its UK workforce by 10 per cent over the past five years but increased its output by 25 per cent, about a 7 per cent per annum

increase in productivity. Mr. Best believes there is still room for improvement.

He cites the case of two similar sized Wiggins Teape mills—one in Belgium and one in the UK—and producing the same product. The output per employee of the Belgian mill is roughly twice that of the British mill.

Wiggins Teape has also been looking at overheads. Two years ago it appointed an energy supremo to cut energy bills. By turning down central heating at the Basingstoke headquarters, 25 per cent less energy was used last year. And at many of its mills Wiggins Teape has been able to make energy cuts of up to 20 per cent.

It has also taken a hard look at its sales force. Company cars are now changed every three years, instead of two years, and Wiggins Teape has waged war on repair costs.

There is a ban on recruitment and, with an eye on the forthcoming wage round, Mr. Best says that there is "no way that Wiggins Teape in the UK can contemplate wage settlements that are not significantly below the rate of inflation."

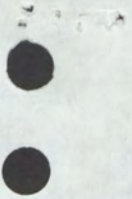
The recession has affected Wiggins Teape's investment plans. Investment in boosting volume is tending to be postponed and cost-saving projects

are being brought forward. However, Wiggins Teape has not been forced to make major cuts in its investment plans.

Wiggins Teape appears to be stoically facing the recession. "If I have any axe to grind," says Mr. Best, "it is about the gay abandon with which gas, electricity and transport prices are being raised at an unjustifiable rate."

What Mr. Best does not emphasise is that the strong pound is keeping down the price of his imported pulp (60 per cent of total costs). This tends to go unnoticed in the current clamour for help for the British paper industry.

Nevertheless, Mr. Best makes it clear that, come what may, his company will still be around when the recession is over (late 1981 in his view). The recession will have beneficial effects in that it will "shake out" companies that lack business sense. At the end of the day Mr. Best hopes to pick up a bigger share of the market.



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