cc Press Office

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Ind Pol 4

Prime Minister

From the Secretary of State

R T B Dykes Esq
Principal Private Secretary to the
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London, SW1N 8NA

30 October 1980

Dear Richard

BOWATER

You copied to me your letter of 22 October to Peter Mason about your Secretary of State's discussions with Lord Erroll about the closure of Bowater's mill at Ellesmere Port. As this Department has responsibility for newspaper publishing, I have been asked to reply to you direct on the question of the newspaper proprietors' attitude to the closure.

Officials here keep in close touch with the Newspaper Raw Materials Committee, which co-ordinates the views of the newspaper publishers on newsprint issues. Mr Stephen, the Chairman of the Committee, has spoken to us about the publishers' attitude to the possibility of their total reliance on imported newsprint. They view the prospect with some disquiet: during strikes of dockers and transport workers, the existence of home production has been of some use in ensuring continuity of supply. However, since the home mills are dependent on imports of chemical pulp to produce newsprint, a prolonged docks strike would halt home production. Moreover, although a United Kingdom newsprint industry is desirable to ensure some security of supply, the publishers do not consider it of any benefit in terms of keeping down prices. They have often pointed out that the two home producers - Bowater and Reed - have never been the price setters: they have always followed import prices.

Many newspapers are themselves in severe financial difficulties. Fleet Street, taken as a whole, is not making profits. The reported losses at Times Newspapers are an indication of the level of losses some proprietors are facing. Despite this, many publishers are voluntarily paying premiums for United Kingdom newsprint - currently about £10-11 per tonne for Bowater's lightweight grade. They feel that to expect higher premiums is unrealistic unless Bowater is

From the Secretary of State

prepared to undertake very substantial investment at Ellesmere Port which would make it fully competitive with overseas mills. The figure of £100 million has been mentioned as the required level. The publishers have also pointed to a further advantage enjoyed by Bowater: it does not incur the extra costs - about $80 per tonne - for stevedoring and freight borne by overseas suppliers. Bowater no longer produces the heavier grades of newsprint: well over half of the United Kingdom's consumption is of those grades and publishers have to rely on imports for their requireemnts. Under the circumstances the newspaper proprietors do not feel that they can be expected to do more to assist Bowater.

Ministers here do not consider that the Government should attempt to persuade the publishers to do more than they are already doing voluntarily, particularly in view of the industry's current difficulties. In any event, we have been told in confidence that the Newspaper Raw Materials Committee has received a letter from Bowater, indicating that the company will definitely close the Ellesmere Port mill at the end of November. The publishers will not be prepared to consider further support without a long-term commitment to United Kingdom production by Bowater.

I am also copying this letter to the recipients of your letter.

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

PARLIAMENTARY UNDER SECRETARY OF STATE

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
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Ind Pol.

Mr R T B Dykes
Principal Private Secretary
to the Secretary of State
Mr J Prior MP
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NA

28 October 1980

Dear Richard

BOWATERS

You sent Julian West a copy of your letter of 22 October to Peter Mason in Lord Trenchard's office about the recent talk between your Secretary of State and Lord Erroll.

I have shown this letter to Mr Moore who has asked me to say that he sees no justification for the statement that the National Coal Board have been telling different stories to different people. The NCB's policy has remained throughout exactly as stated in Mr Lamont's letter of 26 September to the Prime Minister. They have been prepared to consider two possible further concessions to Bowaters in addition to the considerable discounts described in that letter. These further concessions were :

a) A further discount of £2/tonne on Ellesmere Port coal for the current year of the contract: annual cost £400,000. This would have provided Bowaters with coal for Ellesmere Port at a price considerably lower than the price of imported coal, and lower than the price at which their European competitors are likely to be able to buy coal.

b) The NCB were also prepared to "consider sympathetically" not applying the next price increase, due on 1 January, to any Bowaters coal. Lord Erroll says that they had offered only a "9/10 month moratorium on a price increase". It is true, as Mr Lamont's letter made quite clear, that the possible offer by the NCB covered only the price increase on 1 January 1981. It is also true that a further general price increase is likely on 1 November 1981. But the NCB told Bowaters only that they were not prepared to commit themselves as to the application of the 1 November increase to Bowaters; the question of what should happen on that date remained open for subsequent negotiation. Lord Erroll also mentioned that the moratorium would be shared between the Bowaters plants in Ellesmere Port and Kent. We are not quite sure what he is complaining about. Certainly the benefit of the moratorium on Ellesmere Port coal alone would be only about £1 million, but the more coal it applies to the more Bowaters benefit from it, and the total benefit of the moratorium to them remains as stated by Mr Lamont

Finally, Mr Moore has asked me to say that in his view the NCB have shown considerable flexibility in dealing with Bowaters. The concessions they have been prepared to offer have been quite substantial. Indeed, it is important, in the NCB's commercial interests, that they should remain confidential.

I am sending a copy of this letter to the recipients of yours.

Yours sincerely

Peter Edwards

PETER EDWARDS
Private Secretary to
Mr John Moore MP

28 OCT 1980

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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From the Minister of State
PS/Lord Trenchard

cc Mr Ingham

R T B Dykes Esq
Principal Private Secretary to
The Rt Hon James Prior MP
Secretary of State for
Employment
Department of Employment
Caxton House
Tothill Street
London SW1N 9NA

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28 October 1980

Dear Richard

BOWATER ELLESMERE PORT

Thank you for your letter of 22 October.

Lord Erroll appears to have quoted certain figures to your Secretary of State on 21 October that bear little relationship to figures discussed and agreed between Bowater and the Department of Industry to date. This is not the first time that Bowater have sought to cloud the issues by changing their ground as the arguments flow against them.

I attach a copy of a letter sent to Mr Keys of SOGAT which sets out the figures put forward by Government and the energy and wood suppliers that, allied with an investment programme of £36million, offered the prospect of long term viability at the mill. The Forestry Commission made formal proposals to Bowater, whilst the NCB had only formally offered a price discount of £2.00 per tonne equivalent to £400,000 pa. The remainder of the potential energy savings, about £2m, was to be effected by a moratorium on the 1981 price increase for the whole of Bowater's UK coal consumption. This proposal was communicated by the DoI officials to Bowater following discussion with the Department of Energy. We are not aware of the NCB formally offering only a 9/10 month moratorium to Bowater. The NCB were clearly offering a differential from their prices to Bowater and the company could well have asked for a general undertaking that the differential would continue.

I would like to clarify other points made by Lord Erroll:

a The loss forecast for the current year is approximately £7m after interest on an output of 271,000 tonnes (including 82,000 tonnes of Browns paper) which is equivalent to £26 per tonne, not £50 per tonne as indicated.

b The £36m investment programme, mainly in a sulphite pulp mill, was estimated by the company to produce cost savings of approximately £10m per annum not £2m per annum.

taking account of

An overriding factor in our discussions with Bowater was that, based on the company's own figures and using an exchange rate of $2.40 to the £, assistance offered, and including the major downside volume and quality risks identified by them, the investment option involved no greater cash penalty to Bowater than the closure option. In other words, Bowater's closure costs were estimated to exceed £10m.

Stuart Hampson (Department of Trade) will write to you separately on the question of the attitude of the newspaper proprietors.

I am copying this letter to Tim Lankester, Stuart Hampson and Peter Edwards, (Mr Moore's Office, Department of Energy).

Yours sincerely

Peter Mason

PETER MASON
Private Secretary

PRIVATE AND CONFIDENTIAL

From the
Minister of State

Copies to
PS/Prime Minister
PS/SoS
PS/Mr Mitchell
Mr Steele
Mr Wright
Mr Smouha
Mr Avery

DEPARTMENT OF INDUSTRY
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W H Keys Esq
Society of Graphical and Allied Trades
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274/288 London Road
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Essex SS7 2DE

8 October 1980

Dear Mr Keys

Thank you for your letter of 6 October. with a Mason

Since Dr Lenton agreed at the meeting with the Prime Minister on 3 October, which you attended, that I could mention the figures put forward by the Government and by Bowater's energy and wood suppliers, I am prepared to confirm what was said at that meeting. The figures in question were:

a) <u>Capital for a major investment in a sulphite pulp mill</u> (for which Bowater have made an initial plan) - approximate cost £36m:

1) Under regional policy, RDG's and selective assistance (Section 7) amounting to £14.4m.

2) A soft loan from the European Investment Bank of £18m.

b) <u>Revenue</u>

1) Forestry Commission quotes which compared with present prices would make a difference of £1.4m per annum after investment (£0.8m on present Forestry Commission supplies) since requirements for home grown supplies would increase in place of imported pulp after Bowater's investment.

2) Energy price reductions, mainly coal, worth £2.25m in a full year. These were put forward, as the Prime Minister described, on the commercial basis that a large customer might otherwise be lost.

No other figures were mentioned at the meeting, and I am unable to supply further details of what were confidential discussions with the company.

I am copying this letter to Dr Lenton, who I am sure will agree that I have only confirmed points raised at the Prime Minister's meeting.

Finally, I must again emphasise, as the Prime Minister has already made clear, that the Government recognise that the final decision of a closure of the Mersey Mill must be a matter for the company's commercial judgement.

Yours sincerely

P E Mason

pp LORD TRENCHARD

(Dictated by the Minister
and signed in his absence)

CONFIDENTIAL

Kid Pol

SECRETARY OF STATE FOR EMPLOYMENT

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Peter Mason Esq
Private Secretary to
Lord Trenchard MC
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

22 October 1980

NBAN
TL
22/x

Dear Peter.

BOWATER

After his talk with your Minister on 20 October my Secretary of State spoke to Lord Erroll on the telephone yesterday. I attach a copy of my record of what was said.

On further reflection I think it would risk engendering more confusion if we ourselves were to pursue with the NCB the disparity in the figures quoted by Lord Erroll and that contained in the Prime Minister's letter to him of 8 October. Could I therefore ask you to let me know what I can tell Mr Prior both on this point and on the question about the attitude of the newspaper proprietors? We think it important that Ministers should be in a position to demonstrate how hard they have fought to prevent this closure, and this means, of course, that we ought if possible to be agreed on the facts and figures involved.

I am copying this to Tim Lankester (No 10), Stuart Hampson (Department of Trade) and Julian West (Department of Energy)

Yours ever

Richard Dykes

R T B DYKES
Principal Private Secretary

Reference..

CONFIDENTIAL

MR WEST

cc Mr Fraser
Mr White
Mr Wye
Mr Derx
Mr Brand
Mr Bower

BOWATERS

The Secretary of State had a telephone conversation this morning with Lord Erroll, Chairman of the Bowater Coporation. He pressed Lord Erroll strongly about their decision to close the Mill at Ellesmere Port and recited to him the figures we had been given showing the contribution that might be made towards reducing operating losses by the NCB, the Forestry Commission and the CEGB. He said he believed that closure of the Mill would not only be a serious blow to the workers involved and possibly lead to damaging industrial unrest but would also leave the country without a major pulp making facility.

Lord Erroll replied firmly that while they were sorry to close this plant they had no option but to staunch the haemorrhage of loss that had been continuing now for some years. They had looked at every possible way of keeping going but there was no prospect of increasing revenue and cutting costs to bridge the gap that now existed - equivalent to an extra £50 per ton. The figures quoted by the Secretary of State, in particular those in respect of the NCB's possible contribution, were markedly different from those the company had been given. The NCB had offered only a 9/10 month moratorium on a price increase. This would be shared between their plants in Ellesmere Port and in Kent, and the contribution that this would make would be less than £1 m. They had explored also the further possibility of capital investment but they had concluded that this was not practicable. Some £36 m

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~~pounds~~ would be needed, some 50% of which would be on loan, against a possible return in three years time of no more than £2 m per annum. Unless the Government were prepared to cover their operating losses of some £7 m ~~pounds~~, which he thought unlikely, there seemed no option but for the Mill to close.

The Secretary of State expressed surprise at the difference in figures that had been quoted. He said he would investigate this further and pursue also with the newspaper industry how they viewed the prospect of total reliance on imported newsprint.

I should be most grateful if you could please confirm with the Department of Industry that the figures in your minute of 14 October are correct. It may be that we shall need to check with the NCB themselves who, it would appear, are telling different stories to different people. I should be grateful for advice also please as to how we might pursue the question raised above with the newspaper proprietors.

RD

Private Office

R T B DYKES

21 October 1980

22 OCT 1980

22 OCT 1980

SECRET

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

Tim Lankester Esq
10 Downing Street
LONDON
SW1

22 October 1980

Prime Minister
To note. (Tim Prior said Bowater's was taking 6 million tons per year!).

Dear Tim,

BOWATERS AND THE NCB

Following yesterday's meeting on another subject, my Secretary of State has asked me to write to you about the price and quantity of the NCB's sales of coal to Bowater's plant at Ellesmere Port. I understand that the Secretary of State for Employment spoke at that meeting about six million tonnes of coal for Ellesmere Port at a price of £25.64 a tonne.

Mr Howell has asked me to point out that Ellesmere Port's actual coal take from the NCB is 205,000 tonnes on which, as Norman Lamont reported in his minute of 26 September to the Prime Minister, the NCB have offered a further discount of £2 a tonne for the current year of the contract (ending in June 1981), reducing the price to £23.64 a tonne - some of the cheapest coal in Europe.

I am copying this letter to Richard Dykes (Employment), John Wiggins (Treasury) and Richard Prescott (PMG).

Yours ever,

J D WEST
Private Secretary

SECRET

22 OCT 1980