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Secretary of State for Industry

4 November 1980

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

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Dear Tim

My Secretary of State has seen Peter Jenkins' letter of 20 October about Bowater's Ellesmere Port Mill.

2 He entirely agrees with the Chancellor's points about wage settlements and past productivity at the mill. The mill would have been in far better shape to withstand present adverse conditions if action had been taken much earlier by management and employees to improve the mill's productivity. The same is true of investment at the mill.

3 But the other more general factors identified by the Chancellor must also have influenced Bowater's decision to close Ellesmere Port. Bowater is a multi-national group also producing newsprint in North America and the relevant merits to Bowater of investment and production there, as against Britain, are likely to have been taken into their consideration. The exchange rate and higher energy costs certainly weighed heavily with the company though the UK disadvantage on wood price related only to North America. North American and Scandinavian competitors also have large integrated pulp and paper mills which give them economies of scale.

4 Broadly the same disadvantages are indeed faced by other UK producers of bulk low-quality grades of paper and the industry is becoming increasingly aware of the need to switch to higher value products where the prospects are much better. Bowater, for example, while abandoning newsprint production in the UK, is at the same time contemplating substantial new investment in tissue manufacture in this country. But not all the bulk paper producers by any means will be able to find salvation by this route. The minority of companies like Wiggins Teape, which are already well-

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established producers of higher value added products, can afford to sound more confident.

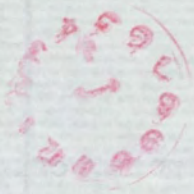
5 It would in any case be going too far to assume there is no viable future for any of the UK bulk paper products. No other part of the industry is quite as vulnerable to North American competition as the newsprint sector and even Ellesmere Port could have become profitable again with new investment. Lower quality products derived from recycled waste should be able to withstand international competition at least in the home market.

6 I am copying this letter to the recipients of Peter Jenkins' letter.

Yours ever

Catherine Bell

CATHERINE BELL
Private Secretary



15 NOV 1983



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