

✓ Press Office



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From the
Minister of State

PS/Lord Trenchard

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

11 November 1980

Dear Tim

BOWATER

The Minister has only recently has his attention drawn to the article on Bowater which appeared in the Guardian on 4 November giving a very biased account of the Government's, and in particular my Minister's, dealings with Bowater. He would very much like to respond to this by means of a letter to the Editor, and I attach the terms in which he would like to write. He draft has been approved by the Secretary of State here, but I note that Questions of Procedure require that the Prime Minister's authority is required before such a letter is sent. I should be grateful if you could seek the Prime Minister's approval, in order that the Minister might write as soon as possible. For ease of reference, I also attach a copy of the Guardian article.

Yours sincerely

Peter Mason

PETER MASON
Private Secretary

DRAFT LETTER FOR LORD TRENCHARD TO SEND TO:

The Editor
The Guardian
etc

I have seen the article entitled "Bitter Charity for Bowater" in the 4 November edition of the Guardian and consider that I must correct some of the "facts" contained in it.

Bowater came to see me on 3 July to ask for assistance to keep Ellesmere Port open in view of losses rising to the now published figure of around £7m in 1980. I made^{it}/clear that there was no hope of meeting these losses from Government subsidies as such but that we would look at every way of tackling this large problem.

During the following two months officials were made aware, by the company, of the existence of an outline company plan for investment in a sulphite mill at Ellesmere Port which indicated the theoretical possibility of substantial profits if the investment were made. Officials also ascertained that the Forestry Commission and the NCB were prepared to act commercially ~~against~~ ^{under} the threat of losing an important customer altogether.

The combination of these and other contributory factors seemed to us to offer a possible solution and, importantly, to indicate that Bowater's problems were not entirely the result of energy prices but that investment was essential for long-term viability. Other countries had the advantages of hydro-electric power or cheap open-cast coal, but Bowater had the advantage of nearness to the market and we could aid investment in a Special Development Area, not only with regional development grants but also with selective financial assistance and with the negotiation of EEC loans at advantageous rates. Between these sources almost all the investment costs would be covered, justifying my reference to the investment plan running into "tens of millions", the large majority of which would be

available in grants and loans. ~~It is true that the company would still have had to meet some costs, but the sum of money involved would have been comparable to the costs of the closure it is intending to meet now.~~

My comments after the meeting of the industry with the Prime Minister on 3 October were only made because of repeated reports in the Press in the period from July to the end of September which indicated that Bowater's problems were mainly due to British energy costs and that the Government had not responded to Bowater's requests for help. Before that time I had resisted any public comments as being unhelpful to the possibility of a favourable decision by the company.

In view of recent statements, I must also make clear that the improvement in terms in prospect from the Forestry Commission and the energy suppliers on a commercial basis ~~in this and subsequent years~~, was substantial.

It has to be recognised that the exchange rate movements have made things very difficult for Bowater, particularly in relation to North American competition, but we hoped that the company would go ahead with its own essentially long-term plan on the grounds I have set out above ~~and after considering the high costs of closure.~~ Nevertheless, the decision must remain one for the company.

FINANCIAL GUARDIAN

James Erlichman on the Tories' lead lifebelt for Ellesmere Port

FACTS which are only now emerging from the protracted and highly public death throes of Ellesmere Port, Bowater's Merseyside newsprint mill, suggest that the Government has stumbled upon an effective new way to lose the hearts and minds of British industry.

The new tactic is known in American parlance as "hard ball"—or playing the game tough. It is the use of a government's power to disseminate information to ensure that the best possible face is put on its policies. Traditionally, hard ball is reserved for use against natural enemies.

At Ellesmere Port, however, the Government has played "hard ball" against a natural ally, the Bowater Corporation, which contributed £10,000 to Conservative Party funds at the last election.

The Government has, through the use of discreet leaks, attempted to give the impression that:

- Its rescue package to save Ellesmere Port was generous in the extreme.
- Only the narrow vision and faint-heartedness of the Bowater board prevented the offer from being accepted.

Bowater's ability to counteract these claims has been severely limited by an undertaking it gave early in the negotiations that it would not publicly comment in substantive detail on the terms of the Government's offer.

The two sides first got down to talks on July 21, when Bowater's chief executive, Dr Ingram Lenton, met privately with the Industry Minister, Sir Keith Joseph. With Ellesmere Port on course to lose around £8 million, Dr Lenton made it clear that only direct government aid to stem the mill's immediate trading loss could prevent its imminent closure. Realistically, this could happen only if the Government agreed to make a major concession on fuel costs, a plea that was echoed by the rest of the paper industry.

With confidentiality agreed, Sir Keith went away to think. On August 6 the Department of Industry announced that a major but unspecified package of assistance was being offered to Ellesmere Port.

Neither side revealed the details while Bowater studied the plan. Two days later Parliament went into its long summer recess and that evening the Department of Industry announced that the paper industry's plea for across-the-board energy concessions would not be considered



Reduced to a pulp: the milling process at Ellesmere Port

Bitter charity for Bowater

until the CBI concluded an exhaustive survey.

Help for Ellesmere Port to meet energy costs appeared dead. Gradually it emerged from the Government's side that Sir Keith's offer to Bowater had been exclusively in the form of investment loans and subsidies to build a new sulphite pulp mill. Lord Trenchard, the junior Industry Minister, was later to describe this offer as being worth "tens of millions of pounds." Stories began to appear in the North-west extolling the generosity of the Government's offer.

But on August 19 Bowater announced Ellesmere Port would close on November 21.

We now know that Bowater was offered £14.4 million cash in investment aid, divided equally between selective financial assistance under the Industry Act and a

regional development grant.

The money was earmarked for a new sulphite pulp mill. But the sulphite mill is estimated to cost £36 million—leaving Bowater to pay the £22 million difference.

Even more importantly, Bowater's own experts were never convinced that the sulphite pulp mill would be a success. In theory the sulphite pulp mill would reduce or eliminate the need to import expensive "chemical pulp" vital to newsprint making. But it would take three or four years to build the new mill at Ellesmere

Crucially, Bowater's experts were unconvinced that the new mill would improve Ellesmere Port's efficiency sufficiently to ward off cheap imports. They argued that the Scandinavians and Canadians could easily afford to drop the prices of their

chemical pulp temporarily to cancel out the new mill's benefit.

They concluded, and the board agreed, that even with Government aid, £22 million was a lot to pay for dubious hardware which at best could only trim, not alleviate, Ellesmere Port's underlying losses.

But with Bowater failing to explain itself, the Government was winning the war of words. The union action committee set up to keep Ellesmere Port open was beginning to direct its fire at the company instead of the Thatcher Government.

Bowater's position was only to get worse. Mr Bill Keys, the powerful general secretary of the print union, SOGAT, demanded and got a meeting with Mrs Thatcher on October 3. Dr Lenton and other paper industry officials also

attended. It was here that the Government's "hard ball" campaign began in earnest. The meeting broke up with no official announcement about its outcome. Bowater was again silent. But Whitehall made strenuous, if vague efforts, to convince the press that the Government was making an offer so generous that Bowater could hardly refuse.

A week later it emerged from union sources that energy and wood cost concessions—the very crux of the issue—had been granted to Ellesmere Port after all. Stories in the local press even suggested that Mrs Thatcher had come close to accusing Bowater's management of "cowardice" if they did not now accept the deal.

Mr Bill Keys, who earlier threatened additional newspaper strike directed against the Government if it did not save Ellesmere Port, switched his attack, threatening to "fight the company into the ground."

Finally, excerpts of a private letter from Mrs Thatcher to the chairman of Bowater were released in which she claimed that, on Bowater's own calculations, the aid now on offer brought "the prospect of mill profitability in all but the most adverse circumstances."

Pressure from the Government has forced the National Coal Board to reduce by £1.8 million the cost of the coal it supplies to Ellesmere Port. A similar arrangement with the Forestry Commission would shave around £1 million off wood supplies. And the electricity board is also likely to offer a £1 million reduction.

However, the £3.8 million package is conditional on Bowater agreeing to build the £56 million sulphite mill and other machinery. Most importantly, the energy and wood cost concessions have only been agreed for a single year.

If the concessions were renewed... If the sulphite mill were successful in three years' time... If interest rates and sterling fell significantly to make imports less attractive, then Bowater privately believes Ellesmere Port might, and only might, come near to breaking even. But only if all these optimistic circumstances prevailed.

In no sense does it believe it is being offered a package which will bring the "prospect of mill profitability in all but the most adverse circumstances."

Barring unforeseen developments, Ellesmere Port will close. And Bowater will have learned what its like to play "hard ball."



10 DOWNING STREET

MR LANKASTON

Two principles should govern letters to the press from Ministers:

- (i) Topically - i.e. an immediate correction; and
- (ii) a vigorous refusal to follow up or take issue with comment; only to correct matters of fact.

The proposed letter fails on both counts and on one other, too - namely, it is defensive. I do not think it adds much and I find it interesting that at least part of the Guardian story tends to be substantiated by the deletion in the first part of page 2.

My advice is: Do not write

[Signature] //

PRIME MINISTER

TJH

I've told Trenchard's office why

→ cons for
B. Ingham etc

R
..

Lord Trenchard wishes to write to the Guardian to refute an article they published last week on Bowaters. Bernard Ingham's advice is strongly against. He feels that, if the article was to have been corrected, it should have been corrected immediately; and secondly, he feels that, if Ministers are to write to newspapers, they should only do so to correct matters of fact - and not to follow up or take issue with comments. Furthermore, the draft reply is very defensive, and adds very little to what is known of the Government's position already. (I have asked whether we can publish the NCB's coal offer and am told not.)

Shall I tell Lord Trenchard's office that you do not want him to write?

I agree - ~~if we~~ would like now
not

Duty Clerk

PP R

11 November 1980