

SECRET



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 - 3301
SWITCHBOARD 01-212 7676

2 ✓
Friday, Dec 11

Dear Margaret,

I attach a minute which will perhaps stable you.

In my view, this project is one which we would be right to treat seriously. If it comes off, I think we would reap considerable political dividends. George Young and Nick Edwards are as enthusiastic as I am. We believe that it is the kind of project which only a man with Ian MacGregor's unique experience could bring home. He probably knows more

about the American steel industry than
anyone else this side of the Atlantic.

I strongly recommend that we should
allow him to explore the project further.

Yours ever

Patrol

We will discuss in party
but: —



PRIME MINISTER

SECRET

- ① This is an extension of nationalisation.
- ② Why can't Kaiser take over BSC - or a
third company take over both
- ③ What would happen after Macgregor.
- ④ U.S. Law? Would it allow such a takeover.

Ian MacGregor has put to me a proposal that BSC should acquire a US steel company, Kaiser Steel Inc. He has also discussed this proposal with Nicholas Edwards and George Younger.

2 The purpose of this bold move is to obtain an outlet for about 1.5 million tons of steel a year by 1984 from the three BSC integrated steel strip mills at Port Talbot, Llanwern and Ravenscraig. The 1.5 million tons would largely be additional output, it would help secure the future of all three of these steel mills, reduce the scale of currently planned redundancies and make a significant contribution to the return to profitability of the BSC Strip Products Group. The Strip Products Group includes all three strip mills and, despite the considerable improvements in productivity which have taken place over the past year, particularly at Port Talbot and Llanwern, the Group is still making losses and is not expected to become profitable during 1982/83 even following the steel price rises due on 1 January.

3 Kaiser Steel Inc is situated 45 miles East of Los Angeles. It is an integrated steelworks of about 2.2 million tons per year liquid steel capacity. Its main products are very similar to those of the BSC Strip Products Group: hot rolled coil, tinplate, galvanised sheet and welded tubes. At 31 December 1980 Kaiser had about 11,000 employees. The company reported operating losses in each of the 3 years 1978 to 1980 but made an operating profit of \$30 million in the first half of 1981. Taking into account revenues from its considerable cash reserves, Kaiser Steel is expected to report over \$100 million profit in 1981.

SECRET



4. The management of Kaiser Steel announced several months ago that they intended to phase out gradually their production of liquid steel. Instead they propose to buy in semi-finished steel slabs for further processing. The reasons for this decision are twofold: first that Kaiser's existing blast furnaces and coke ovens are old and would need a lot of money spent on them; second and more significantly the environmental control regulations in California impose increasing capital and running costs on basic steel production, to such an extent that it will be more economic to buy in steel slabs rather than to continue to make steel in the blast furnace/basic oxygen route.

5. BSC are already supplying trial quantities of slabs for evaluation by Kaiser and are sufficiently confident that they will obtain a share of the business to include in their Corporate Plan for 1982/83 the production of 130,000 tonnes of steel slab for Kaiser.

6. Ian MacGregor is confident that far greater benefits would accrue if BSC were to own Kaiser Steel. Not only would BSC have the advantage of being the assured supplier of slabs; he considers that Kaiser would be a very profitable business and that the purchase would be self financing within a very short period.

7. The estimated cost of buying Kaiser Steel Inc is about £200 million (\$400 million). BSC propose to raise half this sum through an intermediary body handling the steel slabs, which would be outside the PSBR and BSC's EFL. The remaining £100 million would need to be provided or guaranteed by the Government to BSC, but Ian MacGregor expects that at least £50 million of this could be repaid immediately after the acquisition, from Kaiser Steel's own cash resources, (a device permitted in US law but not in the UK). BSC believe that they could find most of the remaining £50 million from within their £730 million EFL agreed for 1981/82. →

Guatemala July

- Proj. costs now

1 1/2 - 2 m. dets.

Piping for
Natural Gas.

3,000 ↙
↗

{ Counterbalancing duties
Duty-dumping duties. }

- Duts -

R' cap. 50-60%

Ms. Bum

Bum

17% 512 Opto.



8. Clearly, much more detailed work needs to be done to evaluate this proposal, both by BSC and by the Government. But in order to obtain the further information required for a full assessment, it will be necessary to have detailed discussions with the Kaiser Steel management. And once this process starts, under Securities and Exchange Commission rules, BSC's interest in acquiring Kaiser must be made public.

9. Others are known to be interested in Kaiser Steel and Ian MacGregor needs to move quickly. He has arranged to have lunch tomorrow (12 December) in California with Mr Kaiser of the Kaiser Foundation which owns about 17 per cent of the shares in Kaiser Steel and which is known to be keen to sell them. I have advised him that at this stage he should not take any steps which would lead to a public announcement, and that we would let him have a more considered view before the end of next week.

10. I expect to circulate a further note, covering a rather fuller report by officials, by Tuesday evening, (15 December). This report will need to present some alternatives to the Kaiser deal, including the closure of Ravenscraig or finding an alternative use for it. If in the meantime news of BSC's interest in Kaiser does leak out, we will need to acknowledge that we know of the proposal and that Ian MacGregor is exploring it further, without commitment.

11. I am sending copies of this letter to the members of E Committee and to Nicholas Edwards, George Younger, Robin Ibbs and Sir Robert Armstrong.

P.J.

P J

// December 1981

Ashdown House
123 Victoria Street

60 days. = Anti-dumping =
Trigger.

3 matters

- Commercially - good deal.
- Anti-trust
- Validity of Proceeds of law → Control.
- Admin.

Revenue

Start trigger.



(1) B.S.C. vulnerable to attack.
- Admin with confidence =

Day 1

- ① Present with Co. first.
- ② Shareholder.
- Red's book cover
- Type of Rules.
- Anti-trust.

95+ Clearance.

Stability of Trigger Price Mechanism

- (i) - Anti-dumping.
 - (ii) - Countervailing duties.
- be up.

Mkt Options
↓
Stim.

B.S.C.'s own lawyers
Stephen Johnson

How competitive - stable

Merchant Banker

"Out" legislation

Start industry

{ Writ to approach
admin. blocked }

+ plus

John D. ... R. Miller

Celtic Kaiser Steel

Profits (Losses)

£ Million

	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
Strip Products as per plan	(150.3)	(37.0)	(2.6)	61.0
New Investment	(9.0)	2.0	76.0	133.0
Combined	(159.3)	(35.0)	73.4	194.0

PRO FORMA KAISER/BSC

<u>Investments</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>£ Million</u>
Initially from BSC	100)
Kaiser Returns Equity	(50)) 8.2
Grantor Trust	<u>100</u>) 8.5
C/F	150	B/F 150	B/F 150		
Sale of Coal Deposits					
(i) Applied to Grantor Trust			(100)		8.6
(ii) Returned to BSC	—	—	(50)	—	
<u>Net Investments</u>	<u>150</u>	<u>150</u>	<u>Zero</u>	<u>Zero</u>	
<u>Return on Investments</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	
1) BSC incremental	-	6	13	21	3 ii
2) Kaiser	-	14	73	114	3 iii
Sub Total		20	86	135	
Margin for Grantor Trust					
£100 m @ 16%	(8)	(16)	(8)	-	8.5
Extra 2% on Kaiser Borrowings					
2% on £100 m	(1)	(2)	(2)	(2)	8.7
<u>Net Results of Investment</u>	(9)	2	76	133	

Attachment 11

(Profit & Loss) after interest

£ Million

	1982/3	1983/4	1984/5
1. Objective - Operating result	(150)	Nil	150
2. <u>Option 1</u> - Close Ravenscraig			
- Effect on operating result	-	74	147
- Extra ordinary items			
Closure Costs	(53)	-	-
Asset write off	(170)	-	-
	(223)	74	147
3. <u>Option 2</u> - Close Teesside			
- Effect on operating result	-	55	110
- Extra ordinary items			
Closure Costs	(115)	-	-
Asset write off	(300)	-	-
	(415)	55	110
4. <u>Consolidated P&L after interest</u>			
- <u>Option 1</u>			
Operating result	(150)	74	297
Extra ordinary items	(223)	-	-
	(373)	74	297
- <u>Option 2</u>			
Operating result	(150)	55	260
Extra ordinary items	(415)	-	-
	(565)	55	260

PERSONAL AND CONFIDENTIAL

MR. WHITMORE

BSC and Kaiser

This morning's meeting agreed that no final decisions could be taken on this until advice had been sought directly from the representatives of the United States bankers and lawyers who have been consulted on the matter. I understand that a meeting has been arranged for 9.00 pm this evening.

2. I think that we should give some thought to the tactics of this. The Prime Minister will naturally be minded to see the American advisers herself and put her questions direct to them. But I think that she might be better advised to keep herself, and perhaps the Chancellor, in reserve. In a situation of this kind it is often as well if those conducting the negotiation or discussion are not plenipotentiary, but are under a duty to report back to principals. This means that they cannot settle but must reserve the position. This gives an unforced opportunity for reflection, and for final private discussion without the advisers, before a decision has to be made.

3. Applying this to the present case, I believe that the best course might be for the American banker and lawyer to be seen in the first instance either by officials only (Sir Peter Carey, supported by Sir Douglas Wass, Mr. Ibbs, Mr. Manzie and Mr. David Young (with representatives from the Scottish and Welsh Offices if necessary)), or by the Secretary of State for Industry, supported by those officials. This morning's meeting made clear the questions to which the Prime Minister would need to have answers; it would be the business of those concerned at this first meeting to ask these questions, and all the necessary follow-up questions, and get answers. They should then report the answers to the Prime Minister and the Chancellor of the Exchequer at a meeting without the American advisers present, either later this evening or first thing tomorrow (there is a possible slot at 9.00 am, if we could postpone the business for which that meeting has been called). What happened hereafter could go one of two ways:

PERSONAL AND CONFIDENTIAL



PERSONAL AND CONFIDENTIAL

- (i) If the Prime Minister's meeting identified further questions to be answered, the American advisers could be invited to a further meeting, this time perhaps with the Prime Minister herself.
- (ii) If the Prime Minister's meeting reached a decision, unconditional or subject to conditions, the Secretary of State for Industry would have a further meeting with the American advisers to tell them the decision and consult as necessary on any conditions proposed.

4. I know that this procedure would be more time-consuming; but I believe that it might in the end produce a better result.

RA

Robert Armstrong

16th December 1981



PRIME MINISTER

BSC/KAISER STEEL

In his minute of 14 December the Secretary of State for Industry recommends that we allow BSC to go ahead today with an offer to purchase 17% of Kaiser shares held by the Kaiser Foundation, and to take an option on a further 22%. He also recommends that we should meet later this week to discuss the whole issue: I would welcome this.

From my own point of view, I see no overriding reason to object and am content that BSC should go ahead. The proposed acquisition might raise a few eyebrows in the US Administration, Congress and the US steel industry because of their sensitivities to what they see as BSC's subsidised status (the US industry are threatening anti-dumping and countervailing suits against most European producers). But in my view the acquisition itself does not appear to fall foul of any of our international trading obligations. It is true that under BSC's proposals the steel slabs for the Kaiser plant would be imported from the UK, but Kaiser are anyway phasing out their own steel production facilities.

I ought to point out that BSC might have some problems if the proposed acquisition is scrutinised by the US Federal Trade Commission, or the Justice Department, under US antitrust law. These bodies would demand a wide range of documents from BSC. This might cause embarrassment, depending on the information on internal application by BSC of Government aid which might have to be provided. And I also think it would be advisable to warn the US Administration very soon of what is afoot, so that BCS's

SECRET



(and our) actions can be presented clearly and are not misunderstood.

Copies of this minute go to Members of E Committee, and to Nicholas Edwards, George Younger, Robin Ibbs and Sir Robert Armstrong.

W J B

W.J.B.

Department of Trade
16 December 1981

SECRET



Steel shares held by the Kaiser Foundation, at \$55 a share (with freedom to increase this to \$60 to clinch the deal) and to take an option on 22 per cent of Kaiser Steel shares held by institutions as proposed in Mr Colin Barker's letter. I understand the cost of the option will be about \$3 million.

4 I also recommend that we should meet this week to discuss the whole issue. Unless we act this week there is a clear risk that the whole project might fail. We cannot in my view wait until E Committee meets on 22 December.

5 Copies of this minute go to recipients of my minute to you of 11 December.

I. Ellison

P J

(Approved by the Secretary
of State and signed
in his absence)

14 December 1981

3255.

MARKER
MANAGING DIRECTOR
FINANCE

BRITISH STEEL CORPORATION

PO BOX 403
33 GROSVENOR PLACE
LONDON SW1X 7JG

01-235 1212

14th December, 1981

PRIVATE AND CONFIDENTIAL

Sir Peter Carey, KCB,
Permanent Secretary,
Department of Industry,
Ashdown House,
123 Victoria Street,
London SW1.

Dear Sir Peter,

Since the meeting last Friday, 11th December, 1981, Mr. MacGregor has visited the Chairman of Kaiser Steel, Mr. Stephen A. Girard, and has indicated the British Steel position. The opportunity for the total bid is retained.

On Saturday, Edgar Kaiser Snr., died. This results in the Kaiser Trust having a high priority for the disposal of their 17% interest in Kaiser Steel. This priority centres upon the US rules for retaining the charity status of the Trust of which this 17% holding forms a small part.

Effectively this 17% will now be sold most urgently. Should it fall into hands unfriendly to the British Steel Corporation's aspirations this could thwart the plan presented last Friday.

Mr. MacGregor has therefore instructed me to request:-

- (1) That urgent attention continue to be given to the proposals to acquire 100%. The earlier that the Government decision is available the more likely that the proposals can be brought to fruition.
- (2) Pending the decision on the total plan, Mr. MacGregor desires immediate approval for BSC to offer \$55 per share for the 17% held by the Kaiser Foundation. He wishes to make this offer (using funds borrowed offshore) on Wednesday.

Should you sanction action under (2) above, successful completion of this purchase will not pre-empt a separate decision under (1) above. If the 17% is acquired and, later, the main proposal is not approved, BSC would then dispose of the 17% holding either:-

/...

PRIVATE AND CONFIDENTIAL

Sir Peter Carey

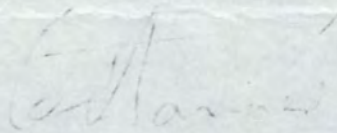
14th December, 1981

- (a) To the city institutions already considering the purchase
- or (b) To Kaiser Steel itself as part of its stated plan to retire some of its own stock - an undertaking by Kaiser Steel is being sought
- or (c) To third party bidders who will by then have materialised.

If, on the basis of this letter, you authorise action under (2) above, I also recommend that you similarly authorise BSC taking an available option on a further 22% held by major institutions in Wall Street. Such an option would very much strengthen the likelihood of success of the final offer. Current estimates are that the cost of such an option would be of the order of \$3 million.

Your very urgent decision both on the 17% and the option would be appreciated.

Yours sincerely,



Colin Barker



Tsy
swt
wchh
PJ
N.J.



SECRET

✓ 3

Qa 05747

To: MR SCHOLAR

From: J R IBBS

1. I understand that the Secretary of State for Industry will be putting a minute to the Prime Minister this weekend about a proposal that BSC should acquire a US steel company. You may like to know that the CPRS is involved in discussions on this matter at the Department of Industry; our aim is to be able to offer a view on it at an appropriate time.

2. I am sending a copy of this minute to Sir Robert Armstrong.

11 December 1981

SECRET



11 12 1 2 3 4 5 6 7 8 9 10

11-1 DEC 1981