

(Name redacted)
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SECRET
DESKBY 170830Z
FM WASHINGTON 170055Z DEC 81
TO IMMEDIATE FCO
TELEGRAM NUMBER 3826 OF 16 DECEMBER
INFO NEW YORK (PERSONAL FOR DONKIN)

FOR SIR P CAREY, DOI.

YOUR TELNOS INDUS U/M OF 11 AND 16 DECEMBER: BSC/KAISER.

1. WE HAVE BEEN IN TOUCH WITH MURRAY AND WILL BE PLEASED TO SEE HIM AND YOUNG TOMORROW IN WASHINGTON IF THEY ARE STILL ABLE TO COME. DEPENDING ON AVAILABILITY, WE COULD ARRANGE DISCUSSION WITH OFFICIALS AT THE DEPARTMENT OF COMMERCE AND POSSIBLY THE US TRADE REPRESENTATIVE'S OFFICE.

2. IT WOULD ALSO BE USEFUL TO BE ABLE TO DISCUSS THE QUESTION IN CONFIDENCE WITH BSC'S LAWYERS HERE (IN PARTICULAR CUNNINGHAM OF STEPTOE AND JOHNSON). GRATEFUL TO KNOW IF THEY ARE AWARE OF WHAT IS AFOOT.

3. MEANWHILE THE FOLLOWING IS OUR PRELIMINARY ASSESSMENT OF THE FOUR POINTS IN PARAGRAPH 4 OF YOUR TELEGRAM OF 16 DECEMBER.

(A) IN NORMAL CIRCUMSTANCES, THE ACQUISITION OF KAISER (ABOUT TENTH IN SIZE AMONG US STEEL MAKERS) BY A FOREIGN STEEL CORPORATION WOULD BE UNLIKELY TO CAUSE SERIOUS ADVERSE REACTION. INDEED, IF KAISER IS IN DIFFICULTIES, LOCAL REACTIONS IN CALIFORNIA WOULD BE LIKELY TO BE STRONGLY POSITIVE. BUT THE QUESTION IS COMPLICATED BY BSC'S STATUS AS A NATIONALISED CORPORATION AND BY THE PRESENT STATE OF THE STEEL MARKET. THE FACT THAT BSC IS UNDER PUBLIC OWNERSHIP HAS BEEN HEAVILY SUPPORTED OVER THE YEARS, AND ONLY RECENTLY OBTAINED A FURTHER SUBSTANTIAL INJECTION OF PUBLIC MONEY WOULD BE BOUND TO PROVOKE QUESTIONS ABOUT WHETHER SUCH AN ACQUISITION WAS IN EFFECT SUBSIDIZED. SUCH A REACTION WOULD BE STRENGTHENED IF IT APPEARED THAT BSC'S AIM WAS TO SECURE A CAPTIVE MARKET FOR ITS SEMI-FINISHED STEEL. THE BACKGROUND, AS YOU KNOW, IS ONE IN WHICH FEELINGS IN THE US STEEL INDUSTRY AND IN THE CONGRESSIONAL STEEL CAUCUS HAVE BEEN RUNNING HIGH OVER THE LEVEL OF STEEL IMPORTS FROM EUROPE. THESE CONSIDERATIONS MIGHT INFLUENCE THE NORMALLY OPEN AMERICAN ATTITUDE TOWARDS FOREIGN INVESTMENT WHICH IN THE PAST HAS ENABLED A NUMBER OF ACQUISITIONS BY FOREIGN NATIONALISED ENTERPRISES TO TAKE PLACE WITHOUT TOO MUCH DIFFICULTY ALBEIT IN RATHER DIFFERENT CONTEXTS, (BP/SOHIO AND RENAULT/AMERICAN MOTORS). TAKING ALL THIS TOGETHER, BSC MIGHT FIND THEY WERE IN FOR A ROUGH RIDE.

*cc SAs Trade
SAs Sect
SAs Wales
Paymaster Gen.
Sir Robert Armstrong*

SECRET

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(B) IN VIEW OF KAISER'S APPARENTLY MODEST SIZE, THERE WOULD SEEM TO BE NO PRIMA FACIE REASON FOR THE DEPT OF JUSTICE TO BLOCK THE ACQUISITION. MUCH WOULD DEPEND, HOWEVER, ON THE PRECISE PRODUCTS AND GEOGRAPHICAL MARKET. WHILST THE BLOCKING OF A BID SEEMS UNLIKELY, THE POSSIBILITY OF CONDITIONS BEING ATTACHED TO IT REQUIRES CAREFUL ATTENTION. FULL LEGAL ADVICE WOULD BE ESSENTIAL ON THIS ASPECT.

(C) THE FUTURE OF ALL US STEEL IMPORTS IS IN THE BALANCE. IF THE US INDUSTRY CARRIES OUT ITS THREAT TO FILE A LARGE NUMBER OF SUITS, WHICH IT MIGHT STILL DO AT ANY TIME, THE RESULT WOULD PROBABLY BE TO INHIBIT IMPORTS FROM EUROPE, CAUSING A SHARP REDUCTION OVER THE MEDIUM TERM. IF FURTHER SUITS ARE NOT FILED, AND PROVIDED BSC'S EXPORTS, AFTER ITS ACQUISITION OF KAISER DO NOT BECOME SO LARGE AS TO CONSTITUTE A NEW THREAT TO U.S. STEEL PRODUCERS THERE WOULD BE LITTLE FEAR OF ACTION LEADING TO A RESTRICTION ON BSC THIS ASSUMES THAT THEY WOULD CONTINUE TO RESPECT TRIGGER PRICES.

(D) IF THE U S INDUSTRY'S SUITS ARE FILED, IT IS ALMOST CERTAIN THAT THE TRIGGER PRICE MECHANISM WILL COLLAPSE. PRICES WOULD THEN FALL IN THE PRODUCT AREAS AFFECTED BY THE SUITS UNLESS SOME MODUS VIVENDI COULD BE WORKED OUT BETWEEN U S AND FOREIGN PRODUCERS. NOTWITHSTANDING THIS, THE MEDIUM TERM OUTLOOK FOR THE U S STEEL MARKET IS OBVIOUSLY LINKED TO THE PERFORMANCE OF THE U.S. ECONOMY. THE PRESENT OUTLOOK IS FOR AN UPSWING IN THE MIDDLE OF 1982.

4. A FURTHER REPORT WILL FOLLOW THE VISIT OF YOUNG AND MURRAY.

5. PLEASE ADVANCE TO BRIDGES, FITZHERBERT (ECD(E)), BINNING (ISD, DOI), IBBS (CPRS).

HENDERSON

[ADVANCED AS REQUESTED
BUT NOT PASSED BY
COD TO IBBS (CPRS)]

LIMITED
ECD (E)
NA D
MR BULLARD
LORD BRIDGES
MR HANNAY

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MR BINNING ISD, DOI

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