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Prime Minister

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Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

CONFIDENTIAL

at E(OL)

8th

November 1982

David

MS 20/11

DISPUTE BETWEEN THE BRITISH STEEL CORPORATION AND
THE BRITISH TRANSPORT DOCKS BOARD

I told you last week that Ian MacGregor would be calling on me to discuss the dispute between BSC and BTDB. There was nothing new that emerged from the conversation as far as I was concerned, except the fact that no contract has ever been signed by the parties to this dispute, something which you no doubt know already. I understand that though no contract was signed, payments have been made in the past on the basis of the contract terms so that business could go on.

Ian MacGregor's main point is that conditions have completely changed since negotiations on the contract took place, and that to enforce anything like these terms now would be unreasonable. The contract provides for a minimum flow of 6m tons of raw material but last year the figure was down to 4½m tons. The cost of moving a ton of material at Port Talbot is 110p, which is more than double the cost at Hunterston, and of course much more than at fully competitive facilities. For BSC to pay such charges raises prices for all its customers and makes it very much more difficult to compete in the export markets that are so vital for the future.

My conversation with Ian MacGregor did no more than confirm the view that I had formed on reading the papers and your letter of 5 November, and that is that for the Government to support the BTDB position, or even allow the dispute to go to court without further efforts to find an acceptable compromise would leave us open to well justified criticism.

The Rt Hon David Howell MP
Secretary of State for Transport
2 Marsham Street
LONDON



I am struck by the fact that BSC currently reimburses BTDB by way of annual payments for the gross capital costs (ie before grant) that BTDB incurred in building the harbour together with interest thereon and that by 1995 BSC will have fully paid the gross capital cost of the harbour together with financing charges. What is in dispute, therefore, is the scale of the profits on the operating costs, and by any standards - and certainly on the basis of any likely business volumes - these appear grossly excessive. You stand your case upon the sanctity of contracts but I don't believe - in the commercial world let alone in a situation that involves two state owned industries - one can stick forever to a particular contract without regard to the realities of commercial activity. I do not believe that in the present state of the steel industry, and faced by the horribly difficult political decisions about it that now confront us, we can really think it sensible that BSC should be required to pay (and guarantee that they will continue to pay) charges that are totally uneconomic from their point of view in order to provide, from one single port, a quarter of BTDB's total profits. Against a background of further major plant closures and job losses in steel, I do not believe it is a credible political position for Ministers to say that we want one nationalised industry to provide (effectively at the taxpayers' expense) the wherewithal for the successful privatisation of another. The sums are not small in BSC's terms (as you suggest) but are of crucial significance for an industry that is desperately searching for new customers in a cut throat market.

If a solution is not found within the next few weeks the legal processes will begin. I do hope that before that happens we can discuss the matter collectively.

I am copying this to the Prime Minister, Geoffrey Howe, Patrick Jenkin, Nicholas Ridley, Norman Lamont and to Sir Robert Armstrong.

J aw

Nick

ECON POL : Policy Towards
Privatization.

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