cc JV

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 3301
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JF2019
Secretary of State for Industry

14 November 1982

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

We must do to help ensure

Prime Minister (2)

Sheerness Steel in trouble.

MCS 17/11

Dear Michael,

You will have seen a copy of Mr Norman Lamont's letter of 12 November to the Secretary of State for the Environment concerning the proposed self-help scheme for rationalisation of the wire rod and reinforcement steels industry.

2 As anticipated in yesterday's Financial Times, Elkem announced yesterday that they have decided not to participate in the scheme. Instead, they will adopt Manchester Steel management's survival plan which means that the plant at both Manchester and Bidston will be kept open, but at the cost of 170 redundancies. The Board of Elkem unanimously decided that the cash compensation offered was insufficient, though it represented the absolute limit of what the other companies, especially Sheerness, could afford, or the Government could justify supporting.

3 Elkem's decision will certainly threaten the survival of Sheerness in its present form. As Mr Lamont explained in his letter, if Manchester remains open, no other closure in the sector is likely to benefit Sheerness substantially.

4 Officials here have already informed the Bank of England at director level. We have suggested they speak to Lazards who were involved in the previous rationalisation scheme (which was rejected by Elkem) and who know the financial and commercial interests of the companies in the sector. The Bank of England are also urgently assessing the course of action likely to be available to Sheerness, and in particular the position of the company's shareholders and creditors. Officials are keeping closely in touch with developments. They had a meeting yesterday with Mr Clancy Schueppert, the Chairman of Sheerness, at his request, who is now preparing proposals for reducing capacity and manning levels with private sector steel scheme assistance.

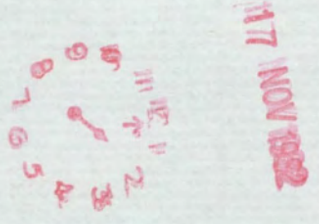
5 I am copying this letter to the Private Secretaries of members of E(EA), of the Chief Whip and of Sir Robert Armstrong.

Yours sincerely,

Jonathan Spencer.

J P SPENCER
Private Secretary

nat. ind: steel pt "



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cc: DOE
SO
WO
D/Trade
CSO, HMT

10 DOWNING STREET

From the Private Secretary

18 November, 1982.

D/N
D/M

Thank you for your letter of 17 November about recent events in regard to the self-help scheme for rationalisation of the wire rod and reinforcement steels industry.

The Prime Minister was concerned to see that Elkem's decision will threaten the survival of Sheerness in its present form. The Prime Minister has commented that we must do everything we can to help Sheerness.

I am sending copies of this letter to the Private Secretaries to the Members of E(EA), the Chief Whip, and Sir Robert Armstrong.

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

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DEPARTMENT OF INDUSTRY
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From the
Minister of State
Norman Lamont MP

The Rt Hon Michael Heseltine
Secretary of State for
the Environment
Department of the Environment
2 Marsham Street
London SW1

12 November 1982

Dear Secretary of State

I am writing to inform you that it appears likely that agreement is imminent on a proposed self-help levy scheme for rationalising the wire rod and reinforcement steels industry. The scheme which is likely to emerge would, as anticipated by the Press, involve the closure of Manchester Steel Limited, with the consequential loss of 450 jobs in east Manchester, and of its subsidiary Bidston Steel Ltd leading to the loss of 350 jobs in Birkenhead. Lynda Chalker, David Hunt and Malcolm Thornton have already expressed to me their concern about the proposed closure. In view of your particular responsibility for Merseyside I thought you would wish to be informed at the earliest moment.

These closures have to be considered against the wider background of the steel industry where the private sector is currently facing a number of problems:- the main problem is over-capacity and the only way for the industry to overcome this is to rationalise. In order to help this process colleagues decided as you know to offer £22 million through a scheme under the Industry Act for restructuring the sector. Following Treasury agreement this has now been increased to £34.2 million.

Several major rationalisations, in the form of self-help levy schemes are being developed under the umbrella of this Scheme. Self-help levy schemes are conditional upon the participation of a substantially representative proportion of the industry and are co-ordinated by an independent administrator. They require the companies continuing in production to contribute to those withdrawing from production. It is for each company in the industry to make up its own mind whether or not to participate in any scheme of this kind. Although a Government financial contribution is available under the Private Sector Steel Scheme the intention has been that the industry, not the Government, should identify and agree among themselves how the rationalisation should take place and which companies should close. This is an important principle of the scheme.

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In the case of wire rod and reinforcement steel the problem of over-capacity (30%) is particularly acute and the chance of any major recovery in the next few years seems unlikely. Companies have already done a great deal in reducing levels but regrettably some plants must go.

The scheme operates by the collection of levy payments on the companies remaining in business, in return for which they will receive a share of Manchester Steel's production quota. The details are as follows:-

	Total Levy Payments		Share of MSL's quota
	£m	%	%
ASW	2.71	14	19
TRM	1.36	7	9
BSC	5.04	26	- *
Sheerness	10.27	53	72
	19.38	100	100
HMG Contribution	6.46		
	25.84		

(* BSC do not obtain quota for steel products. The commercial advantage of the Corporation's participation results from increased orders for steel semis which are not the subject of ECSC quota.)

Responsibility for the re-allocation of production quota lies with the Commission, but Patrick Jenkin has confirmed, in a discussion yesterday with Vice President Davignon, that if the present scheme comes about, and evidently achieves the objectives of the Commission in reducing capacity, then the quota will be so re-allocated.

The scheme has been examined by the Department's Industrial Development Advisory Board, who have to advise on all major schemes under the Industry Act. They are satisfied that this particular proposal does in fact conform with the rules of the scheme as published. In addition it also meets, as it is required to do, the criteria of Section 406 of the Income and Corporation Taxes Act 1970:

i that it should entail the elimination of redundant works, machinery or plant from use in the UK industry.

ii that the scheme should be in the national interest and in the interest of the industry as a whole.

iii that a substantially representative position of the industry participates. (In this case almost 100% of the rod and rebar sector of the industry is represented).

The significance of this is that the levy payments are treated as trading expenditure, and compensation payments as trading receipts for tax purposes.

As I have pointed out it is the case that the scheme is meant to permit the industry to rationalise itself as it sees best. Obviously too, we can only consider proposals which can command agreement among the firms concerned, and in several sectors (including this one) it has been extremely difficult for the industry to reach agreement.

For that reason it is not really open to us to consider alternatives. But perhaps I could nevertheless point out that all the possible alternative schemes to this one are likely to be unpalatable both economically and politically. The most likely alternative candidate for closure would be Sheerness Steel. Sheerness are themselves in difficulty and will not find recovery easy even if this scheme goes ahead. But I think one can state with certainty that if the proposed scheme and the closure of Manchester does not go ahead, then Sheerness will close.

The closure of Templeborough Rolling Mills is not really an alternative: its specialisation is in high carbon steels, its small size and its closure would not produce any significant benefit to Sheerness or Manchester Steel.

Allied Steel and Wire, the other company in the sector, has only just been established as one of our privatisation measures, after a rationalisation of BSC's and GKN's facilities. It is situated in Scunthorpe and Cardiff - two areas already heavily affected by steel closures. Its owners emphatically want it to continue in business.

In deciding how to rationalise the companies have obviously had regard to the cost of bringing about a closure and the potential benefit to the remaining companies. Hill Samuel, in a report commissioned by the Department, also came to the conclusion that the closure of Manchester was "the least unattractive option" and represented the best value for money. The keeness of companies to continue in business, and their willingness to contribute to the closure costs of their competitors are also relevant: none of the other companies in the sector wished to close, whereas Elkem, the owners of Manchester Steel were prepared to do so. (Moreover, Elkem would not have been prepared to contribute to the closure of Sheerness.)

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Obviously the regional implications of the proposal are unfortunate. However, the industrial arguments set out above are to my mind persuasive, and there is no way in which, even if we hold back from assisting the proposal, that the future of Manchester Steel can be guaranteed. Mr Lundgaard, vice president of Elkem, has said recently that the Elkem board would eventually have had to consider the future of Manchester Steel, even without the consortium's offer. Its closure, however, should strengthen the position of the other UK wire rod producers - particularly Sheerness Steel - and their employees. My conclusion is that we should not stand in the way of the proposal being implemented.

I am copying this letter to the Prime Minister, to the Chief Whip, to members of E(EA) and to Sir Robert Armstrong.

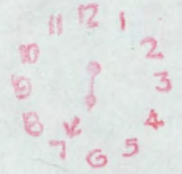
Yours sincerely,

John Major

NORMAN LAMONT

(Approved by the Minister
and signed in his absence)

12 NOV 1982



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Prime Minister (2) CL JV

Mrs 14/6

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Secretary of State for Industry

14 June 1982

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Michael,

SHEERNESS STEEL

I undertook to keep you informed about the difficulties faced by Sheerness Steel.

2 There have been developments on three fronts. First, with Bank of England help, new arrangements have been worked out with Sheerness's bankers although formal agreement from the Economic Development Corporation in Canada is awaited. By this agreement the unsecured banks will be brought into the security arrangements already enjoyed by the other lenders in return for the completion, by 1 September 1982, of the postponed equity injection. Secondly, following a personal intervention by my Secretary of State, Vice-President Davignon wrote to Sheerness in terms that sufficiently reassured their Chairman to allow him the hope that the proposed capital injection would go ahead. Finally, on 8 June my Secretary of State agreed with other Community Ministers to continue the present mandatory quota arrangements until June 1983.

3 The continuation of these measures - and particularly the inclusion of wire rod - was opposed by Sheerness but will stabilise the markets and improve price levels. The financial understanding reached with the institutional lenders will give the company's Chairman some 2½ months to continue his efforts to negotiate rationalisation within the rod and bar industry. Such rationalisation is essential for resolving the company's quota difficulties and restoring it to profitability and could be supported by the Department's Private Sector Steel Scheme. We cannot, of course, be confident that the Chairman will succeed in these discussions but, at least, the new financial arrangements relieve the immediate pressure on the company.

4 I shall continue to keep you abreast of developments.

Yours ever
Caroline Varley

CAROLINE VARLEY
Private Secretary

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4 JUN 1982

bcJV JP

Nat. Ind's.

10 DOWNING STREET

1 June 1982

From the Private Secretary

COMMERCIAL IN CONFIDENCE

SHEERNESS STEEL

Thank you for your letter of 25 May about the difficulties faced by Sheerness Steel. I have shown this to the Prime Minister.

The Prime Minister has commented as follows:

"Everything possible and more must be done to save this Company."

I am sending copies of this letter to John Kerr (HM Treasury) and Brian Fall (FCO).

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

COMMERCIAL IN CONFIDENCE

JH 550

DEPARTMENT OF INDUSTRY
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Secretary of State for Industry

25 May 1982

M Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Everything possible must be done to save this Company and more

(2)

Prime Minister

An unhappy story.

MTS 25/5

Dear Michael,

SHEERNESS STEEL

My Secretary of State has asked me to write to you to bring you up-to-date on the difficulties faced by Sheerness Steel which will, despite the Government's efforts, almost certainly result in a financial crisis for the company in the near future.

2 Nearly two years ago Sheerness ran into major financial difficulties which pushed them very close to failure in the autumn of 1981. This storm was weathered - with some informal help from the Bank of England and the Department of Industry - and the company decided upon a £6½ million capital injection. This would have put their finances onto a sounder footing and permitted a rescheduling of their debts, thereby relieving the company of very heavy interest charges. The plan envisaged a very high level of manufacturing activity and ran into difficulties because of the Community's mandatory quota arrangements which restricts all producers to their historic pattern of production and trade. These quota arrangements were begun in October 1980 to deal with the grave crisis in the European steel industry, and have made a significant contribution to stabilising the market and in raising prices to economic levels. The quota for total production at Sheerness was adequate. But the quota for selling steel within the European market was insufficient, since Sheerness' former export markets in the Middle East have collapsed with no possible prospect of revival, and the company is therefore forced to concentrate more heavily then hitherto on the European market. The combination of this latter inadequate sales quota and general uncertainty about the nature of the steel regime that might follow 30 June 1982 - when the current arrangements expire - meant that the proposed capital injection has not gone forward. This, in turn, has worried banks from whom Sheerness had considerable unsecured loans.

3 The company's position has been made more precarious by the Commission's proposal to bring wire rod again within the quota

COMMERCIAL IN CONFIDENCE

arrangements after 30 June. (In addition to wire rod, Sheerness manufactures reinforcing bars and merchant bars, both of which are already caught by the present quota measures.)

4 This proposal, and the quota regime as a whole, is fully supported by the British Independent Steel Producers Association (BISPA) who represent all the UK producers of rod and reinforcing bar, other than Sheerness. It is also supported by BSC who produce some merchant bar on their own account, and who are worried about the continued stability of the steel market generally. If the regime crumbles, then their own financial recovery could be seriously jeopardised. Sheerness, however, take diametrically the opposite view: their clear preference would be for the abolition of mandatory quotas after 30 June 1982.

5 Sheerness' view is in practice unrealistic in view of the opposition of the rest of the UK industry (both BISPA and BSC), and the strong support for continued quotas from the rest of the Community. The only area of doubt relates to the Commission's proposals on wire rod, which some Member States, including Germany, may oppose. In these circumstances my Secretary of State intends to support the continuation of the mandatory quotas, including the Commission's proposals on wire rod.

6 Within this overall framework, all possible help is being given to Sheerness, though with limited success to date. Officials have had frequent meetings with the Commission, and succeeded in obtaining some enhancement of Sheerness' sales quota. However, the Commission say that they cannot make radical concessions, despite a personal visit from the Minister of State (Mr Lamont) earlier this month, because the Decision under which they operate is tightly drawn and there is no legal way they could give substantial additional quota without significantly undermining the overall policy. A further meeting, involving the Commission, Departmental Officials, the BSC, and the chairman of Sheerness, is planned to take place in Brussels over the next few days.

tomorrow

7 The Department has also approached BISPA, who identified one company from whom quota could have been bought, but Sheerness could not afford the price. Quota is of course a scarce commodity and as such is bought and sold within the EEC within predetermined limits. BSC have also been pressed strongly by the Minister of State to see whether they could make quota available. The Chairman confirmed that for the first two quarters of this year all the quota was committed, and provided a detailed analysis of its allocation to support this view. My Secretary of State took the view that, while he has powers to direct BSC to hand over quota free of charge, such an action would be politically unwise, because it would be resisted by BSC

on the grounds that it was against their commercial interest, and because the publication of the decision would further weaken Sheerness's financial standing.

(David Walker) now successful in persuading the banks to hold off for a few weeks more. Yes

8 On the financial side, the Bank of England (after consultation with the Department) is trying to persuade the banks, in particular the unsecured creditors, to await the result of discussions in Brussels, including the next Ministerial Council scheduled for 8 June. The banks may also give the company a little more time to see whether it can develop ideas for rationalisation, which it has already hinted at. The company have told the Department they will wish to seek assistance under the Private Sector Steel Scheme for up to £5 million, though on the most generous interpretation of the rules, any proposal they put forward is likely to yield far less than this.

9 Matters are likely, therefore, to develop very quickly in the next few days. Indeed, aspects of what I have written above already need updating to take in latest developments, but rather than delay this letter any further, my Secretary of State has asked me to send it off now: I will telephone later today with the fully up-to-date position. see annotations ←

10 I am sending a copy of this letter to the Private Secretary to the Foreign Secretary.

Yours ever,
Jonathan Spencer

JONATHAN SPENCER
Private Secretary