



Round Oak Steel
Brierley Hill
Dudley
West Midlands

The Community's Case

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A SUBMISSION TO THE SECRETARY OF
STATE FOR INDUSTRY
THE RT. HON. PATRICK JENKIN.
IN SUPPORT OF THE RETENTION OF
STEEL MAKING AT ROUND OAK.

By Dudley M.B.C.
The West Midlands County Council
Dudley Chamber of Commerce
The Bishop of Dudley
The Clergy of Brierley Hill

Dudley and the West Midlands 7 point case for retaining steel making at Round Oak

1. COSTS – It will cost more to close it than to keep it open.
2. PLANT EFFICIENCY – Closure will mean the loss of a technologically advanced steel making plant and a highly efficient and well motivated workforce.
3. THE TRAINING RESOURCE – Closure will mean the loss of a major engineering skills training resource in the West Midlands – A bodyblow to the N.T.I. in Dudley.
4. UNEMPLOYMENT – Closure will push Dudley's already high unemployment rate of 17.5% to over 20% early in 1983 – over 30,000 people would be out of work in the Dudley M.B.C. area
5. THE LOW LOCAL AUTHORITY SERVICE BASE – There is little scope for the district council services to respond to a further large, immediate and concentrated rise in unemployment – it is the lowest spender of all 36 metropolitan authorities.
6. THE CASE FOR GOVERNMENT ASSISTANCE – Dudley has traditionally been a self-reliant area with no special UK government assistance – it now asks for that assistance in retaining steel making at Round Oak.
7. THE COMPANY'S LAND RESOURCES – The existing company has land resources which can be used to support the survival plan.

1. COSTS – The workforce proposals for retaining steel making at Round Oak would cost about £40 million over the medium term (5 years). Closing the works will cost £100 million, more than twice as much as the survival plan. The balance sheet can be summarised as follows and is detailed in Appendix 1.

	Costs to West Midlands Region	
	£ millions	
	The Workforce Option	Closed Option
1. British steel corporation and bank losses debt write off.	22.00	27.10
2. Redundancy payments	1.35	4.50
3. Unemployment pay, social security and unified housing benefits	5.86	19.36
4. Rate support grant increases	0	3.10
Rate losses	0	1.80
Loss of income to private business	14.30	46.40
TOTAL	43.51	102.26

2. These calculations take into account the impact of closing the Round Oak Works on business activity in the wider Dudley and West Midlands economies. Costs incurred directly by the closure of the works have been multiplied by a factor of 1.3 over the 5 year period. Over a 10 year period a factor of 2.0 is more likely (Appendix 2).

2. PLANT EFFICIENCY – Closure of the Round Oak Works will mean the loss of a technologically advanced and highly efficient steel making operation. In particular the production of high quality engineering steels on which recovery of manufacturing in the UK and the West Midlands will depend. It is a resource we cannot as a nation afford to lose (see case put forward by workforce)

3. THE TRAINING RESOURCE – Steel making at Round Oak is an integral part of the West Midlands economy as a customer and supplier of steel and engineering products and, more importantly as a reservoir of highly trained engineers and skilled craftsmen. The loss of this existing reservoir will be a major loss to the engineering industry in the West Midlands and a further body blow to the recovery of business activity in the longer term (see Appendix 3)

4. UNEMPLOYMENT – Dudley unemployment will immediately top 30,000 people with the closure of the plant and related business activities, giving a unemployment rate by early 1983 of 20% of the working population. No other steel or assisted areas have suffered such an increase in unemployment over such a short period of time.

– a 305% increase in unemployment in Dudley since 1979 – It is top of the league for growth in unemployment (Appendix 4)

– the loss of 6,000 jobs in steel making elsewhere in Dudley and the black country through the closure of other steel works in Brierley Hill, Bilston, Wednesbury and Tipton .

5. THE LOW LOCAL AUTHORITY SERVICE BASE – The district council has very limited resources to respond to existing large levels of unemployment, let alone any further sharp increases. The Dudley Metropolitan District Council has the lowest levels of expenditure and rate support grant of all 36 metropolitan district authorities. Increased unemployment will inevitably generate increased demands for council services in the local community (see Appendix 5)

6. THE CASE FOR GOVERNMENT ASSISTANCE – In July 1981 the government designated the Dudley Enterprise Zone. In doing so it recognised Dudley's need for assistance to support the initiatives the district council was taking to respond to its declining economic base by promoting new business activity. This was the first and only form of special assistance that the Dudley area has ever had from a UK government or the EEC. (Appendix 6)

7. THE COMPANY'S LAND RESOURCES – The local authorities would wish to work closely with a reconstructed company to maximise its resources including the development of its non essential land holdings. (appendix 7)

A. COSTING OF OPTIONS.

APPENDIX 1

Option 1 Restructuring based on Workforce's Plan.

Item	Annual Costs.			£millions
	Year 1	Year 2	Years 3-5	TOTAL
1. Non Payment of Debts				
a) To B.S.C.	5.30			5.30)
b) Financial Institution	16.70			16.70) 22.00
2. Cost of Redundancies to B.S.C.	0.80			0.80)
3. Cost of Redundancies to Government	0.55			0.55)
) 1.35
4. Cost of Unemployment/Social Security Benefits.	1.10	1.16	3.60	5.86
5. Additional R.S.G. payments/ Loss of Rateable Value	-	-	-	-
6. Loss to L.A. of Rate and other Income	0.04	-	-	0.04
7. Loss of Income to Private Sector Businesses	0.70 ²	2.80	10.81 ¹	14.30
TOTALS	25.19	3.96	14.40	43.55

1982 Price Base

Notes

1 Year 2 figure (2.80) x 3 x 1.3 (Multiplier)

Loss of spending power calculation allows for redundancy payments in 1st. year.

B. BASIC ASSUMPTIONS

1. Treatment of Outstanding Debt

a) To B.S.C.	=	£10.2 million
b) To Financial Institutions	=	£31.8 million
c) Total	=	£42.0 million

d) Total debt to be written off given

i) closure of plant

=	Total debt - Asset Value of closed site
=	£42 million - £15 million
=	£27.0million

= £6.6 to B.S.C. £20.5 million Financial Institutions

ii) As Going Concern

=	Total Debt - Asset Value as Going Concern
=	£42 million - £20 million
=	£22million

£5.3million to B.S.C. £16.7million to Financial Institutions

Option 2 Closure

Item	Annual Costs.			£millions
	Year 1	Year 2	Years 3-5	TOTAL
1. Non Payment of Debts				
a) to B.S.C.	6.60			6.60)
b) Financial Institution	20.50			20.50) 27.10
2. Cost of Redundancies to B.S.C.	2.66			2.66)
) 4.50
3. Cost of Redundancies to Government	1.84			1.84)
4. Cost of Unemployment/Social Security Benefits.	3.62	3.83	11.91	19.36
5. Additional R.S.G. payments/ Loss of Rateable Value	0.50	0.50	2.10	3.10
6. Loss to L.A. of Rate and other Income	0.30	0.30	1.20	1.80
7. Loss of Income to Private Sector Businesses	4.60	8.50	33.31	46.40

TOTALS	40.62	13.13	48.51	102.26
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1982 Price Base

Notes

1 Year 2 figure (8.50) x 3 x 1.3 (Multiplier)

2. Treatment of Redundancies

	Options	
	1	2
	Workforces Plan	Closure
Total Redundancies	386	1286
Average Payout	£3500	£3500
Total Payout	£1.35million	£4.50million
B.S.C.'s Share(59%)	£0.80million	£2.66million
Governments/Tax Payers Share (41%)	£0.55million	£1.84million

APPENDIX 1

3. Treatment of Unemployment Supplementary and Housing Benefits

a) Unemployment and Supplementary Benefits

	Options	
	1	2
	Workforce Plan	Closure
Total Unemployment	386	1286
Benefit Entitlement		
Year 1 1872 per person	£0.72million	£2.41 millions
Year 2 1924 per person	£0.74million	£2.47 millions
Year 3 1924 per person	£0.74million	£2.47 millions
Year 4 1924 per person	£0.74million	£2.47 millions
Year 5 1924 per person	£0.74million	£2.47 millions
Total 5 years	£3.68millions	£12.29 millions

APPENDIX 1

b) Housing Benefits

	Option 1 Workforce's Plan	Option 2 Closure Plan
1. Redundancies	386	1286
Council Tenants (33%)	130	462
Owner Occupiers (67%)	256	824
2. Benefits Payable to Council Tenants Average Gross Rental January '83 = £19.30		
$\frac{1}{3}$ tenants eligible each year	£'s	£'s
Year 1	$43 \times 19.30 \times 48 = 39,830$	$154 \times 19.30 \times 48 = 142,604$
Year 2	$86 \times 19.30 \times 48 = 79,670$	$308 \times 19.30 \times 48 = 285,208$
Year 3	$130 \times 19.30 \times 48 = 120,432$	$462 \times 19.30 \times 48 = 427,812$
Year 4	120,432	427,812
Year 5	120,432	427,812
Total 5 years	480,796	1,711,248
3. Benefits Payable to Owner Occupiers		
No. of Owner Occupiers	256	824
Average Mortgage Debt £9000		
Current Interest Rate 10%		
Capital Debts	£ 2.3 million	£ 7.2 million
a) Interest Payable in full year	£230,000	£720,000
b) + £78 per year per case for repairs and insurance	= £ 20,000	£ 64,272
c) + Rates = Average Rateable Value (£250)+ Rate in £ (£1.37836)	= £ 88,000	£283,942
Total benefit (a+b+c)	= £338,000	= £1,068,214
Total 5 years	£1.690,000	=£ 5.341,070

APPENDIX 1

c) Unemployment and Supplementary and Housing Benefits

£ millions

Option

Year	Unemployment & Supplementary	To Council Tenants	To Owner Occupiers	Option	
				1 WorkforcePlan	2 Closure
1	0.72	0.04	0.34	1.10	3.62
	2.41	0.14	1.07		
2	0.74	0.08	0.34	1.16	3.83
	2.47	0.29	1.07		
3	0.74	0.12	0.34	1.20	3.97
	2.47	0.43	1.07		
4.	0.74	0.12	0.34	1.20	3.97
	2.47	0.43	1.07		
5.	0.74	0.12	0.34	1.20	3.97
	2.47	0.43	1.07		
TOTALS				5.86	19.36

IMPACT OF CLOSURE OF ROUND OAK STEEL ON THE DUDLEY AND WEST MIDLANDS ECONOMIES

Basic and Dependent Sectors.

- (a) In their recent work "Unequal Growth : Urban and Regional Employment Change in the UK", Ford G¹ draw a distinction between "Basic" and "Dependent" industries in terms of their contribution to economic growth.

Basic Industries - are those which sell their product outside a particular local economy, thus bringing income from outside.

Dependent Industries - are those sections which sell their product to the local market i.e. to consumers or to the basic industry themselves.

- (b) Both the authors would agree that this analysis is an oversimplification e.g. central government spending creates an income inflow, dependent employment itself can generate further dependent jobs. But, in the long term any persistent contraction in the Basic Sector will induce reduced employment in the Dependent Sector to a level which can be supported by the new lower level of Basic employment.
- (c) The split between Basic and Dependent Sectors is essentially one between the manufacturing and service sectors. The authors do concede that some service employment, like transport and distribution and a proportion of financial services, should be regarded as "Basic". Nevertheless, their main thesis is that the long term distribution of employment growth is determined by the economic performance of the manufacturing sector. Although the service sector has increased its employment this is really a consequence rather than a course of economic growth.
- (d) Employment Base Multiplier.

i) Previous empirical work indicated that the long term "economic base multiplier" was 1.7, i.e. every 10 jobs lost or created by the basic sector would lead to an equivalent change of 7 service jobs. Fothergill and Gudgins work suggests that this "multiplier" is now even higher, fewer basic sector jobs are supporting more dependent sector jobs. Thus, this multiplier is now perhaps 2.0.

ii) In addition to reducing dependent sector employment, Ford G further suggest that in the long term that for every 10 basic jobs lost an additional 4 manufacturing jobs disappear because of "second-round" effects. This is partly due to the reduced demand for locally manufactured inputs for basic industries, partly through a reduction in local incomes, and partly because reduced employment will encourage out-migration.

1. Based on Fothergill and Gudgin.

ROUND OAK STEEL WORKS.

EFFECT OF CLOSURE ON OTHER LOCAL COMPANIES.

1. Transport

At present the maximum load for road transport is 20 tonnes. One local rolling mill will alone produce enough steel from Round Oak to give 275 maximum loads in 1981. The loss of Round Oak will seriously reduce the work load of local transport contractors.

J & S Hemmings Limited of Lenches Bridge, Pensnett is a major carrier of Round Oak Steel on local and semi-long distance routes. This company will find it very difficult to maintain its current staffing levels if the steelworks closed.

Other local companies such as J B Transport, Purchase Transport and Malpass Transport have already been affected by decrease in steel production at Round Oak.

Long distance carriers such as Durhams of Newcastle-on-Tyne may also be affected by the closure.

2. Scrap Metal Suppliers.

The steel works purchases scrap metal from at least four large local dealers. These are Broadhursts of Birmingham, W G Smith of Brierley Hill, Shakespeares of Oak Lane, Gornal and Hudson's of Dudley.

The effects of this closure on local scrap prices and values will probably have a very disruptive effect on the 58 registered scrap metal dealers in Dudley.

3. Aluminium reclamation

Companies such as Thornleigh Metals and D & M Metals supply aluminium ingots to Round Oak. These companies tend to operate on narrow and fluctuating margins and the closure of Round Oak might prove too much for some of them.

4. Midland Slag Company

This company is jointly owned by Tarmac and Round Oak and it's operations are directly dependent upon the steel works. The company crushes and sieves slag from the steel works, no steel production, no slag, no company.

5. Maintenance and Services.

Work is farmed out from Round Oak to local companies for the replacement and repair of mechanical parts.

Metallisation of Pear Tree Lane for example used to rebuild rollers for the steel works before the recent run down in maintenance reduced the volume of this work.

Many other local companies involved in the precision machining of mechanical parts will similarly suffer a reduction in business with the closure of Round Oak.

PROPOSED CLOSURE OF ROUND OAK STEEL WORKSIMPLICATIONS FOR TRAINING RESOURCES

1. R.O.S.W. was until 1978 one of our main sources of employment opportunities for craft, technician and student apprentices.
2. No less than 20 and as many as 40 vacancies were notified each year and were filled without any difficulty by young people from Brierley Hill, Stourbridge, Dudley, Halesowen, South Staffordshire, South Shropshire and North Worcestershire.
3. From 1978 to 1982 inclusive no vacancies for apprenticeship have been notified to the Careers Service, However, from 200 plus letters received each year by the Training Officer at R.O.S.W. he recruited the following:-

1978	7 Apprentices (Craft)
1979	NIL
1980	2 Apprentices (Technician)
1981	7 Apprentices (5 Craft & 2 Technician)
1982	7 Apprentices (Craft)
4. In June 1980 the spare capacity in the training centre began to be used for the provision of Manpower Services Commission funded schemes for unemployed young people.
5. Thirteen week courses of training in Basic Skills in Mechanical Engineering each of 12 places first started on the 9th June 1980 others followed 8.9.80; 1.12.80; 6.4.81; 8.6.81; 3.8.81; 21.9.81; 7.12.81; 10.5.82.
6. A total of 96 unemployed young people attended and gained intensive valuable basic training which assisted many of them to find employment later.
7. Early in 1982 R.O.S.W. were invited to prepare a submission to the M.S.C. to provide a 30 place, 52 week course of Education/Training/Work Experience as a pilot scheme of the Youth Training Scheme to be introduced by the Government in September 1983 for unemployed 16 and 17 year old school leavers.
8. Such a course commenced on the 5th July 1982 with 24 young people. The first of 41 schemes covering 20 employment categories by 19 sponsors within the area of the local authority. Maybe one of the first pilot Y.T.S. schemes to start in the West Midlands.
9. In trying to plan for the 1983/84 provision of Y.T.S. places within the Dudley Authority area, of 3,500 places required, 380 will be required in the Engineering category. R.O.S.W. have been asked if they can provide 60 places as a minimum, 100 if possible but also consider 300 places as the main provider of the Y.T.S. Engineering category.
10. The Training Officer has indicated that from September 1984 he may retain use of the training centre only if it can be made a viable proposition - sell services to others and/or full funding by M.S.C.
11. R.O.S.W. has been one of Dudley's major employers and providers of training in Engineering in the Youth Opportunities Programme and the Youth Training Scheme. Closure of the works and training Centre would leave Dudley with very little if any provision elsewhere in the area.

DUDLEY'S GROWTH INDUSTRY - UNEMPLOYMENT, OCTOBER, 1982.

	1979	%	1982	%	Change No.		79-82 %
<u>DUDLEY</u>	7014	4.7	28408	17.5	+ 21394	+	305
Dudley and Sandwell	13390	4.6	50508	16.6	+ 37118	+	277
West Midlands County	84033	6.1	247054	17.8	+ 163021	+	194
Great Britain	1221600	5.2	3170984	13.6	+ 1949384	+	160

ASSISTED AREAS

Special Development Areas	324415	10.1	600708	19.1	+ 276293	+	85
Development Areas	515400	8.7	337188	16.6	- 178212	-	35
Intermediate Areas	232596	5.4	202848	15.8	- 29748	-	13

COUNTIES

Greater Manchester	67133	5.6	186443	15.3	+ 119310	+	177
Merseyside	83532	11.5	144985	20.2	+ 61453	+	74
Tyne and Wear	53177	9.5	97006	17.4	+ 43829	+	82
West Yorkshire	48165	5.3	127452	14.8	+ 79287	+	166
Cleveland	26242	9.7	54757	20.3	+ 28515	+	109

TOWNS AND CITIES

	1979%		1982%		Change No.		1979-82 %
Sheffield	14203	4.8	42554	14.5	+ 28351	+	200
Scunthorpe	3303	5.2	11758	18.2	+ 8453	+	256
Corby	1993	6.4	6629	21.0	+ 4636	+	233
Manchester	39478	5.6	103633	14.5	+ 64155	+	163
Darlington	5270	6.5	12654	15.3	+ 7384	+	140

INCREASED DEMANDS FOR LOCAL PUBLIC SERVICES

- Non Payment of Mortgages, Rent, Gas, Electricity, Hire Purchase
- Homelessness
- Destabilization of traditionally stable family life in and around the Brierley Hill Area
- the older men, particularly the 860 steel process workers are likely to find themselves with a long period without a job and enforced leisure.
- demand will increase for low cost leisure facilities such as for hobbies sports, allotments. These are not currently available
- referrals to Social and Health Services of reactive depression cases will increase

NB Referrals to Dudley's Social Services increased by 30% between October 1980 and 1982 - AN INCREASE OF 900 CASES PER ANNUM HALF OF WHICH INVOLVE FAMILY FINANCIAL PROBLEMS LINKED TO THE GROWTH IN UNEMPLOYMENT.

FINANCIAL ASSISTANCE TO DUDLEY

THE INCREASE IN UNEMPLOYMENT IN DUDLEY HAS BEEN ONE OF THE WORST IN THE COUNTRY.

YET DUDLEY RECEIVES LITTLE U.K. OR E.E.C. AID.

THE FOLLOWING TABLES COMPARE DUDLEY WITH STEEL CLOSURE AREAS AND ASSISTED AREAS.

Under the non quota sections of ERDF the following steel closure areas received aid during 1981-85:-

	<u>EEC £m</u>	<u>UK GOVT £m</u>	<u>% Unemployment</u>
Strathclyde	3.90	6.24	18.2
Cleveland	2.39	3.83	20.6
Clwyd	2.31	4.23	19.1
South Glamorgan	2.64	4.23	15.1
West Glamorgan	2.64	4.23	17.2
Gwent	2.64	4.23	17.9
Corby	1.50	2.41	21.3
(Dudley	nil	nil	18.6)

All current EZ's have assistance in one form or another under regional policy.

<u>EZ</u>	<u>Expansion Area Status</u>	<u>ECSC</u>	<u>Inner City</u>
Salford	IA (until July 82)	n.a.	Partnership
Trafford	IA (until July 82)	n.a.	n.a.
Swansea	IA	Yes	Designated District
Wakefield	IA (until July 82)	Yes	n.a.
Clydebank	SDA	Yes	Designated Districts
Dudley	n.a.	n.a.	n.a.
Hartlepool	SDA	Yes	Designated District
Corby	DA	Yes	n.a.
Newcastle	SDA	Yes	Partnership
Tea Valley	SDA	Yes	Partnership
Gateshead	SDA	Yes	Partnership
Speke	SDA	n.a.	Partnership
Isle of Dogs	n.a.	n.a.	Designated Districts

<u>Key</u>	IA	Intermediate Area
	DA	Development Area
	SDA	Special Development Area

DUDLEY FIRMS HAVE RECEIVED SOME FUNDS FROM THE EUROPEAN COAL AND STEEL COMMUNITY

Danks Engineering is receiving a £2 million loan towards the extension of their boiler manufacturing facility.

60 workers, affected by the closure of one mill at John Bagnall and Sons Ltd.'s works at Stourbridge, share £1,60,000.

DEVELOPMENT VALUE OF LAND OWNED BY THE ROUND OAK STEEL COMPANY. (See location plan attached)

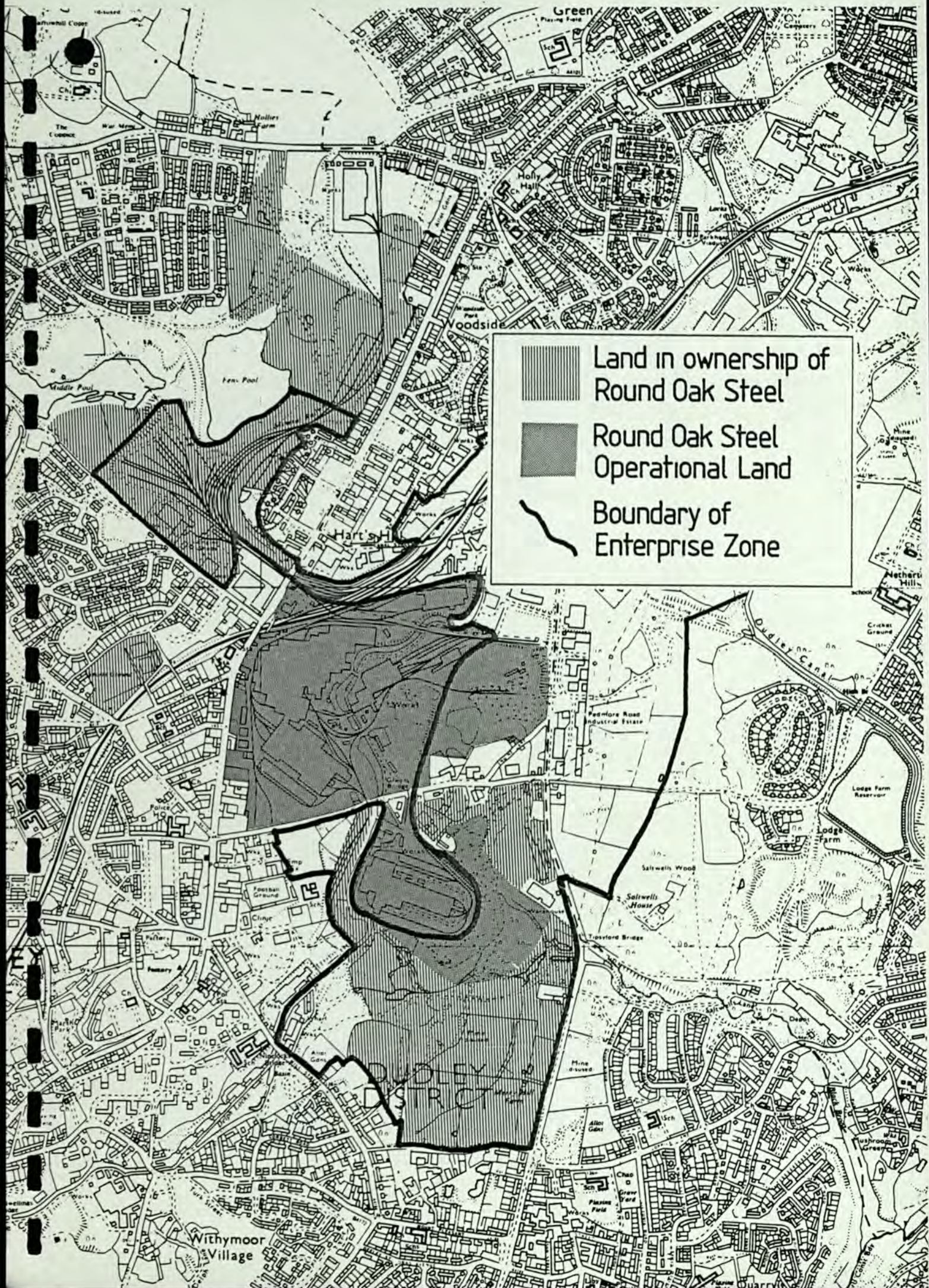
Location	Area	Land Use	Approximate Value
Land north of Fens Pool	52 acres	Recreation	£50,000
Sports Ground, John Street	7.7 acres	Housing	£380,000
The Wallows (Inside E.Z.)	33 acres	Industry	£1,980,000
Strip Mill, Level Street, (Outside E.Z.)	21 acres	Industry	£525,000
Total			£2,935,000

Other assets:

Office block Dudley Road: value unknown

If E.Z. were extended to take in the Strip Mill at Level Street the site's value would increase by £500,000.

THE COMPANY'S LAND COULD BE WORTH £3M



Land in ownership of Round Oak Steel

Round Oak Steel Operational Land

Boundary of Enterprise Zone



A CASE FOR RETAINING STEEL PRODUCTION AT ROUND OAK

1. A TECHNOLOGICALLY ADVANCED
MODERN PLANT.

Two high powered electric furnaces

Commissioned 1973
and 1975

A secondary steelmaking vessel
capable of ensuring close metallurgical
control

Commissioned 1980

A continuous bloom caster, a scarce
U.K. resource

Commissioned 1975
Modernised 1982

A modern, flexible rolling mill
with a size range

63 - 140 mm billets
140 - 300 mm blooms
76 - 310 mm rounds
140 - 370 mm flats
75 - 130 mm squares
(only U.K. supplier
of Squares and some
flats)

Commissioned 1973

2. UNIQUE COMBINATION OF PLANT

The only U.K. plant capable of making bearing steels
via the lower cost continuous casting route and
therefore the only plant capable of resisting
imports and creating exports in this important
market sector.

The lowest cost process route for the production of
larger (>75 mm) forging billets. Adequate
finishing facilities do not exist at Round Oak,
but do at G.K.N. and principal B.S.C. plants who
would benefit from the lower cost feed - Stock.

The second preferred process route for producing
tube steel for existing tube mills after the
direct bar casters are fully loaded, and they do
not satisfy the total demand, and the preferred

process route for some sizes and qualities.

The ASEA secondary steelmaking unit makes Round Oak an ideal plant for producing the high quality NODE steels required for plate-making for off-shore oil applications.

3. INDUSTRIAL RELATIONS

Round Oak has consistently invested in improved technology and plant to improve productivity.

Additionally it has a work-force who have outstandingly identified with the corporate interest and future

viz: - The reluctant joining of the 1980 National Strike.

- The early return to work from that strike counter to T.U. instruction.

- Acceptance of a flexible method of working, whereby craftsmen are integrated into production crews.

- A model for the industry.

- Acceptance of pay restraint and redundancies.

- Acceptance of short-time working with only 50% payment, not 75% as elsewhere.

4. EFFICIENT, COMPETITIVE

PLANT

The various actions, including investment, de-manning and adoption of flexible working methods have reduced fixed costs so that it is now possible to achieve break-even at

4,000 tonnes, per week, a figure that was 7,500 tonnes per week less than two years ago.

Round Oak is well placed geographically to secure the lowest price high quality scrap in the U.K.

It is close to customers in the Engineering Steels sector and with short lines of communication is capable of providing a level of customer service unachievable in the public sector.

5. CURRENT SITUATION

In spite of all that has been done to improve efficiency and reduce the break-even level there is insufficient business available at this present time to sustain even 4,000 tonnes per week.

Round Oak has been geared to the tube and engineering steels markets, both of them in decline. It has been a successful and significant exporter. N.B. The Queens Award for Industry, for export achievements in 1979, but the strength of the pound has made exporting difficult in the recent past.

The situation will improve:-

There will be some recovery in the Engineering Steels sector.

Lifting the threat of closure from Round Oak would increase its market share. Removing the B.S.C. ownership would make Round Oak a more valid second source of supply for some customers, and would result in import substitution for those customers who prefer not to buy from a nationalised supplier.

Whilst Round Oak's share of the tube steel market has been greatly eroded by the lower cost direct bar caster route, the next generation of tube mill, if the U.K. is to compete internationally in this field, will require a continuously cast bloom of 250 mm or more, which will restore the Round Oak caster to the position of a preferred supplier.

If the Round Oak caster is taken out of commission a replacement will have to be built to supply a modern tube mill. A second new bloom caster may prove to be necessary to satisfy the engineering steels demand.

If the Round Oak ASEA secondary steelmaker is to be closed a replacement may well have to be installed to produce high quality node steels for plate-making.

6. ACTION

A central feature of the argument for retaining Round Oak is the bearing steels market supported by tube and engineering steels. However, Round Oak would not be attractive to a buyer at this moment unless such a buyer was also a significant customer.

What should be done is for the Minister to write-off the £42 million bank debts, which has to happen in a closure situation anyway and provide funds for the rationalisation programme.

The Company should then be given breathing space, say 12 months, to restore its market base through:

- i) an improvement in the engineering steels sector
- ii) an improvement in Round Oak share of that sector
- iii) an improvement in exports because of the more favourable exchange rate
- iv) development of the existing role of supplier to B.S.C. in the areas of tube steel, rail steel and slab ingots for plate-making

(It would be necessary for B.S.C. to regard Round Oak as a consistent supplier of these products and to treat with it on a fair and commercial basis).

The E.C.S.C. determination is to eliminate obsolete, unviable plants. Round Oak is clearly not obsolete and we believe that this proposal demonstrates that, with the removal of bank debts and some further contraction of the workforce the plant would be viable.

At the end of 12 months there is confidence at Round Oak that the operation would prove itself either to be an attractive buy to the private sector or would be seen as the logical source of bearing and tube steels for B.S.C.

Submissions to be made in support of a case for the continuation of steel production at Round Oak Steel Works Limited to be presented to Her Majesty's Government on Tuesday, 30th November 1982 by representatives of the workforce employed at the Company.

The Editorial of the Financial Times published on Thursday, 18th November 1982 following the announcement by local management of the proposed closure of Round Oak on the previous day brilliantly and succinctly provides the general economic argument against the closure of Round Oak Steel Works Limited in Brierley Hill. In its final paragraph four points are made as follows:

- 1 "Closures alone will not serve unless they are also calculated to cut costs, for instance, by concentrating production in units of maximum flexibility."
- 2 "Moreover, panic is a poor counsellor. The present conjunctural trough will not last forever."
- 3 "Nor will some special factors such as the high sterling exchange rate which has hobbled the British industry for many months."

Here one would observe that in a situation of more favourable exchange rates Round Oak had conferred upon it the Queens Award for export achievement during 1979.

- 4 "The objective must be an industry which can stand on its feet without subsidy and take advantage of the up-swing once it comes."

In connection with the fourth point the opening section in this leading article reads as follows:

- 1 "Round Oak appears to have been the victim of certain special factors aggravated by the recession. Its management claims that it could have kept out of the red operating at no more than half capacity. If that could

be said for the rest of the industry in Britain and elsewhere, it would be well on the way to economic viability."

Over many years we have been provided with information about the financial performance of the Company in the form of annual reports to employees and a frequent presentation of management accounts made to the trade union representatives working at the Company. The view expressed in the Financial Times has been one which we have had expressed to us by the local management over recent months. From the information as we have received it from time to time, we are able to support this contention that the Company is capable of breaking even at the trading line at between 50 to 60% of its capacity.

Appendix I attached shows the financial results for February and March compared with October this year. You will see, Minister, that in February and March at a sales volume of 6 380 tonnes per week the Company was in profit at the trading line. In October at a volume of 3 048 a loss was sustained. Although in October some support was received under our application of the Temporary Short Time Working Compensation Scheme, setting that support aside, given the same level of sales contribution for that month the Company would have broken even at 4 000 tonnes. This represents 57% of our budgeted sales forecast made in February of this year for the last six months of our financial year April 1982 on March 1983 which was anticipated to be at a level of 7 034 tonnes.

We acknowledge that in order to achieve the break even level at 4 000 tonnes the jobs at risk under our current application for TSTWCS would be lost when this application was scheduled to expire in February next year.

We accept the need for further rationalisation, the appendices assume a work-force of 900, compared with the 1 286 currently employed.

Appendix II sets out the projected results that would have obtained in October at an assumed sales volume of 4 000 tonnes per week and an assumed staffing of 900.

It has also been supposed that the depreciation charge would be modified following a properly managed capital reconstruction and would therefore more closely resemble the charges which are experienced in the public sector.

Appendix III sets out the earnings from export of steel which Round Oak has obtained since 1977. This demonstrates the potential for further damage to the balance of trade in manufactured goods which, it is said for the first time since the industrial revolution went into deficit in August this year.

Over the last ten years the employees, management, trade union officials and work people have demonstrated as well as any other plant within the U.K. steel industry their ability to take on board change, new methods of working and the development of skills. It is our contention that you will not find anywhere within the public or private sector of the industry integrated teams of operatives and craftsmen who together work the plant and maintain it as well. There are lessons that the rest of the industry can learn from Round Oak's pioneering developments into this field of manpower flexibility.

In conclusion, we believe, that we have demonstrated that Round Oak has "production facilities in units of maximum flexibility". The decision to close Round Oak, born of "panic" rather than vision, may rob the nation of a plant well fit to survive in the uncompromising climate of today, yet ready to "take advantage of the up-swing once it comes."

SUMMARY OF FINANCIAL PERFORMANCE FEBRUARY/MARCH 1982

	<u>£'million</u>	<u>£/tonne</u>
Average sales 6380 tonnes per week (89% of capacity)		
Revenue from sales	13.1	227.7
Variable manufacturing costs	8.8	153.1
Contribution generated	4.3	74.6
Employment costs	2.7	47.5
STW compensation received	nil	nil
Fixed operating and administrative costs	1.0	16.2
Surplus on trading before depreciation & interest	<u>0.6</u>	<u>10.9</u>
Depreciation charged	0.5	9.2
Stock change adjustment	0.0	0.6
Reported profit before interest	<u>0.1</u>	<u>1.1</u>
Interest payable to banks	<u>1.0</u>	

SUMMARY OF FINANCIAL PERFORMANCE OCTOBER 1982

	<u>£'million</u>	<u>£/tonne</u>
Average sales 3048 tonnes per week (42% of capacity)		
Revenue from sales	2.8	228.2
Variable manufacturing costs	1.8	149.2
Contribution generated	1.0	79.0
Employment costs	0.8	69.2
STW compensation received	(0.04)	(3.4)
Fixed operating and administrative costs	0.4	30.8
Deficit on trading before depreciation & interest	<u>(0.2)</u>	<u>(17.6)</u>
Depreciation charged	0.2	20.9
Stock change adjustment	0.1	6.3
Reported loss before interest	<u>(0.5)</u>	<u>44.8</u>
Interest payable to banks	<u>0.4</u>	

A projection of the financial performance at 4000 tonnes per week following a capital reconstruction and a reduction in the workforce for the rolled product to 900

(Based upon October 1982 - a 4 week period)

Average sales 4000 tonnes per week (55% of capacity)	<u>£'million</u>	<u>£/tonne</u>
Revenue from sales	3.65	228.2
Variable manufacturing costs	2.39	149.2
Contribution generated	<u>1.26</u>	<u>79.0</u>
Employment costs	0.76	47.5
STW compensation	nil	nil
Fixed operating and administrative costs	0.38	23.5
Surplus on trading before depreciation and interest	<u>0.12</u>	<u>8.0</u>
Depreciation charged	0.10	6.3
Reportable profit before interest	<u>0.02</u>	<u>1.7</u>

ROUND OAK EXPORT EARNINGS

Historical Values -- £' millions

<u>YEAR</u>	<u>FROM EEC COUNTRIES</u>	<u>FROM EFTA COUNTRIES</u>	<u>FROM REST OF WORLD</u>	<u>TOTAL</u>
1977/78	7.3	1.1	2.5	10.9
1978/79	6.2	3.5	10.6	20.3
1979/80	9.4	4.3	7.3	21.0
1980/81	5.1	4.1	5.1	14.3
1981/82	2.8	4.2	5.5	12.5
1982/83*	2.1	2.3	1.3	5.7

* April to October

Bearing Steels

A project to develop a production route for through hardened bearings using continuously cast blooms instead of ingots has been agreed with T.I. Desford Tubes Limited and Ransome Hoffman Pollard Limited. This has been submitted for assistance in funding to the Department of Industry and accepted subject to financial audit and approval of independent technical referee. Total size of through hardened bearing steel market for R.H.P. is around 30,000 tonnes in a "normal" year. Estimated savings by using the conticast route are £15 per tonne giving a total annual saving of £450 000.

Protection of the bearings market is primary aim (a strategic product) but with cost savings indicated above T.I. Desford would anticipate additional sales of bearing tube to export markets.

We understand that the two trial casts made at Round Oak had a high level of cleanness and gave fatigue lives double that of normal British bearing steel and equivalent to the best steel made in Europe.

ROUND OAK STEEL WORKS LIMITED

SALES VOLUME BY SECTOR

	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83 *</u>
	<u>Tonnes %</u>	<u>Tonnes %</u>	<u>Tonnes %</u>
T.I. Tube	101 000	110 000	43 800
BSC -Tube)		44 300	31 600
)	121 300		
)			
Own U.K. Customers)		91 100	52 400
Own Export Customers	73 700	58 600	42 200
	<u>296 000</u>	<u>304 000</u>	<u>170 000</u>

* April to October sales annualised

N.B. Sales to BSC stockholders are included with 'own customer' sales since these are long established Round Oak Steel Works customers.

Steel: facts need facing

THE CLOSE of the Round Oak steel works in the West Midlands is more than a local disaster. It is a sharp reminder of the crisis that has overtaken the world's steel industry in recent years. It is also a warning of what may be in store unless the industry adapts to profound changes in the pattern of its markets.

Round Oak appears to have been the victim of certain special factors, aggravated by the recession. Its management claims that it could have kept out of the red operating at no more than half capacity. If that could be said of the rest of the industry in Britain and elsewhere, it would be well on the way to economic viability.

Recession

In Britain the steel crisis has been especially acute; the depth of the recession and the strength of sterling have had a crippling effect on the steel-using industries. The difficulty for the Government, British Steel Corporation and the privately-owned steelmakers is to judge how permanent the contraction of their customers in motor vehicles and engineering will be. Further rationalisation in both public and private sectors is unavoidable, but the cut-backs must not be taken so far as to prejudice the ability of the steel industry to respond to an upturn in demand when it finally arrives. Very similar considerations apply in the rest of the European Community; term assistance has to be geared towards a realistic view of the long-term demand for Community steel.

Such is the thinking behind the Davignon plan to nurse the Community's steel industry back to health. Its main ingredients are fixed minimum prices, output quotas for individual producers, and restraints upon imports from countries outside the Community. In addition the ten member governments have undertaken to phase out steel subsidies by 1985.

In its initial phase the plan named after Viscount Etienne Davignon, the Commissioner responsible for industry, showed some signs of succeeding. Events are now threatening to blow it off course. Prospects of a firm industrial recovery in the Community or the world at large look dim. Competition in export markets is either becoming fiercer or has been distorted by arrangements such as the deal limiting the Community to 5 per cent of the U.S. steel market.

Within the Community complaints are increasing that the

cartelised prices are being circumvented by a variety of devious measures. Everybody is jockeying for the largest possible production quotas. The prospect that governments will really adhere to the agreement to abolish subsidies within three years are looking dimmer week by week.

In Germany, where steel imported from other Community countries and from the outside world has taken 40 per cent of the market, representatives of the steel industry are openly calling for restraints on imports. Similar pressures elsewhere are going to be inevitable. Giving in to them would strike at the roots of the Community.

To avoid a debacle the controls over pricing and production levels envisaged in the Davignon plan have to be made as water tight as can be; cheating has to be eliminated. They must also be handled with the utmost flexibility to take account of market conditions, such as the collapse of demand in the second half of this year.

Beyond that, the long term prospects of the industry have to be assessed with the utmost realism. That is, in the first place, the duty of managements. But public involvement in steel is so deep in most countries that the future structure of the industry is bound to be influenced by political decisions.

Capacities

At a meeting of the industry ministers of the Ten in Elsinore today, Viscount Davignon will be pleading for more courageous closure programmes than hitherto submitted. He assumes that on present plans capacities of 200m tonnes a year will be available in 1985 to meet demand for no more than 142m tonnes. That will require a measure of equality of sacrifice; the Germans, for instance, though their efficiency is not disputed, will have to think hard before rescuing one of their smaller producers now in danger of insolvency.

Closures alone will not serve unless they are also calculated to cut costs, for instance by concentrating production in units of maximum flexibility. Moreover, panic is a poor counsellor. The present conjunctural trough will not last for ever. Nor will some special factors, such as the high sterling exchange rate which has hobbled the British industry for many months. The objective must be an industry which can stand on its own feet without subsidy and can take advantage of the upswing once it comes.

EARLY next month, Mr John Nott, the Defence Secretary, will stand up in the House of Commons to introduce his third White Paper in less than two years.

The new defence document will be exceptional not only because it is likely to be Mr Nott's last, as he retires from politics shortly, but also because it has been inspired by a specific event—the Falklands war. The White Paper, provisionally entitled "The Lessons of the Falklands Campaign," is being anxiously awaited.

The concern is over whether or not Britain's defence policy should or will be changed as a result of the Falklands.

There is an important lobby, centred in the Navy, which insists that change is essential. Toughly critical of Mr Nott's decision last year to cut back the surface fleet, this group would like to see the Navy re-prieved and cuts made, if necessary, in Britain's forces in Germany. Many others, however, including Britain's allies in Nato, are just as anxious that there should be no such development.

Both groups may be worrying unnecessarily. All the signs are that Mr Nott intends his document to be a limited affair, confined principally to the lessons to be learned in the performance of the weapons systems used in the Falklands, rather than in broader strategy. But, however the paper comes out, five months after the end of the Falklands war, the parameters within which Mr Nott is working are now clearer. Two key aspects stand out.

First, thanks partly to the Falklands, is the high and rising cost of defence. Britain's defence budget next year, at £15.9bn, will be second only to the £34bn committed to social security. For the first time in 10 years, more is to be spent next year on defence than on education while defence is likely to account for some 5½ per cent on GDP, higher than at any time since the withdrawal of Britain's military presence east of Suez.

Yesterday Mrs Thatcher told Nato Parliamentarians in London that the "conflict between steep rise in the cost of defence equipment and other demands on the public purse is permanent." Defence spending could not be sacrificed to the needs of the welfare state, she said.

Second, if the Government had not agreed to fund the Falklands separately from the defence budget, the defence review of 1981, which earned Mr Nott such opprobrium in the Navy, would be severely undermined. The Ministry of Defence has never released figures showing how much it hoped to save from that review. But cuts were needed if the MoD were to meet—but not



Mr John Nott: still facing

ment had not finally agreed last month to meet the extra costs of the Falklands outside the defence budget. As it is, officials insist that the 1981 review is on course—and that there is no financial or strategic reason to change its policies.

They expect Mr Nott to reiterate in his Falklands White Paper that the Government sees the main threat to Britain's security coming from the Warsaw Pact and that it believes that membership of Nato is the best guarantee of meeting that threat. The Navy cuts will stay—and the Army will stay on the Rhine.

The indications are that the post-Falklands package may be accompanied by new orders for warships, or brave sentences about the critical role of the Navy in non-Nato conflicts. But that should not decide or deceive as to its real contents.

The Government has not been noticeably keen to produce detailed figures for the cost of the Falklands war, or for the garrison in the South Atlantic now that the war is over. This is partly understandable: normal financial controls were abandoned for the hectic months of the conflict while an assessment of replacements needed inevitably takes time.

Assessing the costs of the garrison is especially difficult since there is no decision on the islands' political future. Keeping them wholly British and implying, for example, no agreement on aircraft landing rights in Latin America, is likely to prove a lot more expensive than a solution which would internationalise the islands under UN trusteeship.

By