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Secretary of State for Industry

DEPARTMENT OF INDUSTRY
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15 November 1982

The Rt Hon G Younger MP
Secretary of State for Scotland
Scottish Office
Whitehall
LONDON
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Prime Minister (2)

Some friction here.

MCS 15/11

Dear George,

You were kind enough to explain to me why you felt it necessary to write in the terms of your letter of 9 November. While I understand your indignation, you will, I think, recognise the need for us to act on a cautious and consistent basis, both at Ministerial and official level, until the major matters have been decided collectively.

2 I have done my best to keep you in the picture. In the cases you mention, however, there were exceptional circumstances of which you may not personally be aware. When Alcan and BACO gave us the first indication of their joint intentions, they made it clear that they were very worried indeed about the possibility of a leak, which might in their view have had the effect of so depressing the share price of BACO and its parent, TI, that the whole project would have been frustrated. They were insistent that the information they gave us should not go outside a very narrow circle, and specifically asked that it should not be passed on to the Scottish Departments. And I believe they may have subsequently expressed their unease to you about the premature disclosure of commercially sensitive information, even though they recognise, as we all do, the political pressures on Ministers with major regional responsibilities.

3 Nor do I think that the merger will in fact be bad for Scotland, or indeed for the UK as a whole, in the medium term, given the absence of credible commercial options. As soon as the dust of the merger has settled, I intend to discuss with the industry, and particularly with Alcan, their strategy for UK operations, and shall naturally want your help and that of Nick Edwards to achieve a positive and permanent result. As to the particular point about the waiver of the loan for the Invergordon Smelter, it falls to my Department to ensure that the financial proprieties are fully observed and this we have, of course, done.



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4 We had a word in the Lobby on Thursday evening about the iron and steel side. I can only repeat that, given our conversation in the margins of Cabinet in the morning, I was very surprised, when on my return from Brussels I learned of the statement that you had made to the Press. Although the terms used had been discussed with my officials, they were under the impression that you would only use the line agreed in response to direct questions put to you personally by the Lobby. They only later discovered that your Department had in fact issued a Press Notice.

5 Whatever the outcome of our consideration on Mr MacGregor's options, I am going to face an extremely difficult argument with the European Commission. I had spent the afternoon with Viscount Davignon pressing him and his fellow Commissioners in advance of our meeting in Denmark this week to be prepared to take the strongest possible line with our partners in enforcing the Davignon regime and in particular in demanding that State Aids should be linked with firm and implemented closure plans. This is a regime which has got to apply as firmly to BSC as to our partners. Of course I have made the point again and again that we have already made a bigger sacrifice than other countries, but we have also paid vastly more in subsidies. I do not yet know what the outcome of our consideration of the MacGregor options is likely to be, but I am sure you will appreciate that if in the event we decide that the immediate closure of Ravenscraig is not on, there is no way that this will not involve significant extra finance for BSC. I cannot stress too strongly that it is necessary that all of us in Government bear these considerations as fully in mind in what we say in public as we do to the more obvious and immediate political concerns which press so hard upon us.

6 I must make it clear that I have not yet had a firm statement of Mr MacGregor's options. His paper raises a number of issues which I have discussed with Mr MacGregor and on which I have asked for further elaboration and more detailed figures. Mr MacGregor's proposal to close Ravenscraig is therefore not "out in the open". In Yorkshire on Saturday, I found a general assumption that there is some kind of published document which is the BSC's firm proposals which are now being considered by Government. As you and your officials know, this is not the case and it is unfortunate that the Press should have been given the impression that it was.

7 Let me say at once that I do understand the intense pressure you are under from the Scottish Press, as indeed I am from the national Press. On television, on the radio, in the House of Commons, and last week in a helpful meeting with the Labour Steel Group, I have been taking a consistent and sympathetic



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... line which was perhaps adequately summarized in the relevant passage of my speech last Tuesday of which I attach an extract. It really does not help our consideration of these difficult and sensitive issues if Ministers do not appear to be talking with one voice.

8 I am as anxious as you are that we should maintain the closest consultation, together with Nick Edwards, during these difficult weeks. Of course, there will be leaks to the unions and to the Press (e.g. that at Scunthorpe a day or two ago). But in the last resort, it is my responsibility to bring to colleagues our considered proposals for the future of the steel industry and it only makes my task more difficult if the impression is given to the Press that we are at odds with each other. In fact, we are not as our discussions have made clear. Let us try to keep it that way.

9 I am sending copies of this letter to the recipients of yours, and to Nick Edwards.

Your ever
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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister (2) *CG JV.*

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON

*This is very
disturbing.*

MLs 10/11

9 November 1982

Dear Patrick,

I am writing to express my extreme disquiet about the failure of the Department of Industry to consult with the Scottish Office over the proposed BACo/ALCAN merger, a matter of great importance to the Scottish economy and to the political credibility of Scottish Ministers. Since one of my officials was attending the inter-departmental discussion on the future of ALCAN's Lynemouth smelter, I find it all the more astonishing that we were not told of the proposed merger and I regard the possibility of the failure being ascribed to inadvertence as remote.

BACo has in Scotland two smelters (600 employees), a rolling mill (1,050), a chemical plant (500) and a foil mill (300). Approaches by BACo and/or ALCAN to the Department of Industry were made in the middle of October; but I was left to find out what was afoot from an opposition MP, whose delight at exposing the lack of communication within Government and the lack of regard by Whitehall Departments for my interest is now publicly expressed.

Our two Departments worked closely together last year in the discussion over the Invergordon smelter and regular contact was maintained throughout the months while that issue remained unresolved. Quite apart from the obvious importance of BACo's operations in Scotland, your officials were therefore fully aware of our concern over the future of this company and this concern was underlined when my officials followed up the information which came to me from the Opposition. Yet the Department of Industry took a position of support for the takeover without consultation with me, and acted on it by advising Lord Cockfield in your letter of 26 October that the bid should be facilitated. Failure to send me a copy of this letter was inexcusable given the background and the fact that it was copied to the Department of Energy leaves me with no alternative but to conclude that this failure was deliberate. I would certainly have wished to explore alternatives (and not to have relied on protestations by BACo that it had already done so) in circumstances where the clear intention of ALCAN, acknowledged in your Department's briefing for the Prime Minister's Questions on 27 October, is to run down or completely close the Falkirk mill; and where the Government, for once, had a powerful card to

play in relation to reversionary rights to the hydro electric power supplies for the Lochaber smelter. From a political point of view you will recall that BACO was the beneficiary of a generous settlement over the Invergordon smelter at the taxpayer's expense, which was agreed, and was justified by me to the House, on the basis that it would help to secure the future of its other operations. Now that the main benefits of that settlement appear to be going to the shareholders of Tube Investments, BACO's parent, public comment on the Government's dealings with the aluminium industry is, not surprisingly, scathing, and I am left to bear the brunt, as the enclosed cutting from the "Sunday Standard" illustrates.

A similar difficulty arose over Ian MacGregor's recent letter about the steel industry. My Department has good relations with the Iron and Steel Division of your Department and this I greatly welcome, but last month it was only after extreme pressure from my office that yours was prepared to make available to mine Ian MacGregor's letter in which he outlined a proposal which had the most far reaching implications for Scotland. I find this extraordinary considering that I and my colleagues in the Scottish Office have probably more at stake in this matter than any of our colleagues.

Simply from the point of view of efficiency, this seems to me to be no way to conduct the business of Government. But it is not simply a question of efficiency: the political implications are very serious. We have been remarkably successful in defusing the Scottish devolution campaign and in demonstrating that a Secretary of State in the Cabinet has more clout where it matters than a Scottish Assembly could wield. What has happened in these two cases is being used by our opponents to demonstrate precisely the opposite. I hope you can assure me that they will get no more help of this kind.

I am copying this letter to the Prime Minister and to the Secretary of State for Trade.

Yours ever,
Cunze

Mr. Jenkin: I hope that the hon. Gentleman will forgive me. I must proceed with my speech. I come now to the passage in the Gracious Speech that deals with private generation of electricity, where we shall be introducing legislation. The Bill will remove existing statutory constraints on generating electricity as a main business and will require the electricity boards to purchase electricity from the private generators at a fair price.

It will open up electricity generation and supply to competition, it will encourage industry to use waste heat, as in combined heat and power schemes and will encourage private investment in renewable energy sources, such as hydro-electric and wind power.

The House will recall that I made a statement on the steel industry and answered questions on 22 October. Subsequently, there were questions about it at Question Time. I fully understand the anxieties that are felt in all parts of the House about the steel industry. Across the world, markets for steel have been collapsing and there is a world-wide excess of steel-making capacity. This country is not alone in facing a crisis in its steel industry.

The British Steel Corporation is now considering how to respond to the downturn and is reappraising its medium-term prospects. I have asked Mr. MacGregor, the chairman, to put forward a number of options for the future so that the Government can consider the problem on the widest canvas. In recent weeks, I have made it clear to the House that to the extent that these options concern the future of BSC's five major integrated steelworks, neither the Government nor the corporation has any intention of taking precipitate action based solely on short-term considerations. That would be very short-sighted.

However, we must take a careful look, as far ahead as possible, at the prospects for the steel industry if we are to reach sensible decisions on the future strategy of such an important basic industry. I do not want to disguise from the House the difficult decisions that may face the Government, and for which the Government will accept responsibility. However, the review of BSC's five main integrated works cannot and will not hold up other measures that BSC needs to take urgently to restore its financial and commercial position.

Mr. Orme: I have been listening carefully to the Secretary of State and he is on a vital point. We understand that he does not want to be precipitate and that he wants to discuss any decision in some depth before coming to the House. However, there is great uncertainty both within and outside the industry. Trade unions and those working within the industry are nervous about the situation. Will there be a statement before Christmas, or after Christmas?

Mr. Jenkin: I am acutely aware of the anxieties that are felt in many parts of the country. I have said privately, and will say again today, that I hope that we shall be in a position to reach decisions and to make announcements before Christmas. However, the right hon. Gentleman will understand that, given the gravity of the issues to be faced, it would be unwise of me to give a cast-iron guarantee. Nevertheless, I shall do my best.

Mr. A. E. P. Duffy (Sheffield, Attercliffe): It has been suggested that the Government should explore any

opportunities that are available to help the industry. The right hon. Gentleman will know that under last year's Iron and Steel Act powers are still available to enable him to help the industry and to write off still further some of its indebtedness, and thus relieve it. However, those powers run out at the end of the year. Does the right hon. Gentleman intend to exercise them?

Mr. Jenkin: I am sure that the hon. Gentleman would not expect me to prejudge any decisions that the Government might reach in the light of the corporation's advice. Therefore, perhaps I can duck that question. Today, we agreed to increase the amount of money to be made available under the private steel scheme. I hope that we shall be able to respond favourably to most, if not all, of the applications that had to be in, under that scheme, by 25 September.

Since the subject has been raised, I should remind the House that the Government have provided well over £1 billion to help to rationalise British Leyland. I am sure that the Opposition are as pleased as I am that the board can report that a break-even is now in prospect and that it expects to seek private sector equity over the next two years in its mainstream businesses. I hope that Opposition Members welcome that as unreservedly as we do. British Leyland negotiated a two-year wage settlement with its work force. Such settlements help jobs, because excessive wage claims—often uncritically backed by Opposition Members—destroy jobs if they are met. I see that the right hon. Member for Chesterfield (Mr. Varley) is deep in "The Times Guide to the House of Commons". He has something to answer for and I hope that he will do so when he replies to the debate.

During Mr. Scargill's barnstorming campaign for a 30 per cent. pay increase in the mining industry, the right hon. Member for Chesterfield appeared on a platform and told his audience something that was quoted on BBC radio. He said:

"This is the most crucial battle that you are facing and if you don't win this battle then just imagine what Margaret Thatcher will do. She will go out on Downing Street, there will be the assembled television cameras and the hordes of reporters and she will say 'rejoice, rejoice.' That would be a disaster for us." There was then applause. The right hon. Gentleman clearly backed the 30 per cent. pay increase for miners every inch of the way, although he prides himself on being a sensible moderate. He has tarnished his reputation—I hope, for his sake, not beyond redemption.

The terms of the Opposition's amendment and the content of the Gracious Speech have led me to concentrate most of my remarks on the public sector. The world recession has hit private industry hard. Nevertheless, the picture is far from all black. Productivity in manufacturing industry, expressed as output per person hour was, in the second quarter of this year almost 9 per cent. above the average for 1979. Having lost—I come to the point raised by the right hon. Member for Stepney and Poplar (Mr. Shore)—about 50 per cent. of our competitiveness between 1975 and 1980, we have won back some 10 per cent. to 15 per cent. However, as the right hon. Gentleman will recognise, those figures show that we still have a long way to go. The Government are ready to do all they can to help. I have already described the help, worth several billions of pounds, given by the Government to industry in the form of reduced interest rates, national insurance cuts and help with energy. My Department has a further contribution to make.

The House will remember that in 1979 payment of regional development grants was deferred for four months to reduce public spending and the public sector borrowing requirement. Its continuation has involved, and still involves, an extra financing cost for industry which it could well do without. The Government have therefore decided that the four-month deferment should end. The amount involved is about £150 million and I hope to clear this within a month. From today, new grants approved will be paid without deferment. I am today placing in the Library a note giving details of how that will be done. The regional development grant scheme does not extend to Northern Ireland but my right hon. Friend the Secretary of State for Northern Ireland will also act to end deferment as it applies to the standard capital grant scheme in the Province.

The measure will, I know, be warmly welcomed by industry. It will give a valuable boost to company liquidity in the manufacturing sector in the regions. It is further evidence of the Government's determination to play their part in helping industry to reduce its costs and to become competitive. At the heart of our industrial policy lies the truth that it is customers who create jobs. To win customers, industry must be efficient and competitive. Many British firms are efficient and competitive. They are able not only to safeguard jobs but often to take on new people. However, many firms are not yet competitive, although most are making strenuous efforts to become so.

The prime responsibility for that lies with industry. The Government can help through lower inflation and lower interest rates and by helping industry to cut costs, to introduce new technology and to invest. The Government can also help by freeing industry from the burdens that nationalisation has, over the years, imposed upon it, and by giving the State industries the freedom to become as efficient as their private-sector customers. The Gracious Speech contains important measures to achieve this. The amendment moved by the right hon. Member for Salford, West is deeply and irremediably rooted in the Opposition's past failures. I ask the House to reject it.

Several Hon. Members rose—

Mr. Deputy Speaker (Mr. Ernest Armstrong): Order. Mr. Speaker has asked me to remind the House that yesterday long speeches prevented a number of right hon. and hon. Members from taking part in the debate. Today, many more hon. Members wish to speak. I ask for brevity.

5.50 pm

Mr. William Rodgers (Stockton): For a large part of this afternoon we have been discussing the privatisation of the public sector. No doubt we shall do so during much of this debate.

If the autumn statement of the Chancellor of the Exchequer yesterday had been a prospectus with which to launch a company, nobody would conceivably have bought the shares. It was depressing on every possible count. As has been pointed out to the House, it assumes that in 1983 we shall have 3.5 million registered unemployed, with a peak figure certainly larger. My favourite sentence, and one which is very finely honed, is the final one in paragraph 1.18:

"At the end of 1983, the inflation rate may still be around 5 per cent."

Anybody who has ever had ministerial responsibility, particularly in the Treasury, will know the amount of

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The quality of Scotland
SUNDAY STANDARD

Disarray over aluminium crisis cannot be tolerated

FOR A Government department to be caught out once on a major issue in politics is hardly unusual, and even forgivable. To be caught out twice within a year, over the same issue involving many Scottish jobs, is simply not tolerable. Thus the failure of the Scottish Office to anticipate last week's crisis over the future of British Aluminium and its 2500 jobs in Scotland has exposed a worrying weakness at New St Andrew's House.

When this newspaper revealed exclusively last Sunday that BACO and its rival Alcan were in merger talks, Scottish Office Ministers had just three days' prior knowledge of the affair. They had not been consulted and had little chance to work out possible policy options to protect jobs.

The whole, sad, serious business has ominous echoes of the previous BACO crisis in Scotland, over its Invergordon smelter. Then, too, the Scottish Office was ill-informed and ill-prepared to negotiate seriously with the company, either over a possible subsidy to stay at Invergordon or over its wish to back out of its power deal with the South of Scotland Electricity Board.

It was inevitable that the taxpayer would lose out over Invergordon, through the company's success in selling its cheap power rights for a clear profit of £20m (once again, as revealed by the

Sunday Standard) and through having to pick up the pieces for the shattered community and its 600 lost jobs.

Now it seems inevitable that this fresh crisis will bring more misery to Scotland, through closure and cutback among BACO's five plants, the most vulnerable of which is the Falkirk rolling mill employing 1000.

We are entitled to ask, why was this not foreseen? Given the widely reported fact that the world aluminium market has continued to plunge into still-deeper crisis since the Invergordon closure, and that plants have been shut around the world, it is astonishing that the Scottish Office remained ignorant of BACO's new plight and the consequent decision by its majority owner, Tube Investments, to divest itself of the troublesome and costly subsidiary. Are there adequate procedures for monitoring the health or sickness of major employers in Scotland, so that Ministers can be

given advance warning of any impending crisis? If so, why did they apparently fail on this crucial occasion?

The need of effective monitoring of Scottish industry and commerce has never been higher. Not only has the recession wrought havoc among areas of the economy previously thought immune from cutbacks and closures, but this latest aluminium saga seems to add weight to the widely held view that Scotland suffers from a lack of political clout where it matters — in London, in the Cabinet and in No. 10.

If the Scottish Office cannot rely on being kept swiftly informed of events by other Government departments — for there was certainly a delay of days in news of the BACO-Alcan talks passing from the Department of Industry to senior Scottish civil servants and Ministers — then it must redouble its efforts to make sure that it knows what is going on under its own nose.

But how different could it have all been if, just for once, an informed Scottish Office had taken the initiative months ago? If, having detected BACO's fresh problems and Tube Investments' unwillingness to continue meeting its losses, it had repeated its Invergordon exercise and launched a Government search for a buyer before the situation reached crisis point? It seems at least possible that a more managed, controllable change of ownership could have been accomplished with less potential effect on Scotland. But we shall never know.

In coming weeks the Scottish Office and its Ministers will embark on their most critical fight yet: to avert the threatened closure of Ravenscraig steelworks. The performance of the Scottish Secretary George Younger and Alex Fletcher, his Industry Minister, to date on the aluminium issue does not lend much confidence for the future of the Scottish steel industry.

Secrecy rules

MR YOUNGER may be unhappy about aluminium, he is also unhappy about leaks. Last week at the Scottish Council's International Forum at Aviemore, he criticised the way that continuing leakages of information from Government and industrial sources

often force Ministers to take major policy decisions in public. Many likely options are denied because they are paraded, distorted and destroyed before he has a fair chance to consider them in private, he complained.

Undoubtedly Mr Younger has a point with regard to the lack of privacy accorded to public figures today although there is a quid pro quo stated: politicians often turn constant exposure very much to their own advantage.

But he does not have a valid argument when he argues the right of Government Ministers for privacy in which to take decisions. For privacy, read secrecy in Mr Younger's vocabulary. The Government machine still manages to be observably secret when considering issues of major public interest, and heavily "leaky" when it wants to get its political point across.

While journalists have by and large a good record in breaking down the barriers of secrecy within government, far too many issues continue to be decided without the knowledge of those directly affected. The aluminium crisis is a case in point.

For as long as this attitude persists, the Sunday Standard and other newspapers will continue to investigate issues with regard only to the public interest.

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