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Prime Minister

BSC FUTURE STRATEGY

I have grave doubts about the Secretary of State for Industry's minute dated 2 December.

The firm recommendation of BSC is that of the 3 integrated works in the strip mills group, Ravenscraig should be selected for closure. BSC identify a 'strong customer preference' for the quality and weight of the coil produced at Llanwern, coupled with a need to introduce continuous casting if that preference is to be maintained. Ravenscraig has substantially the highest costs and these reflect both the 'inherent high costs of the facility arising from its location (separate from its port), inefficient coke ovens and low capacity steel making vessels'. They refer to Ravenscraig's remoteness from its main domestic markets in the West Midlands. The cost performance figures for Ravenscraig continue to fail to match those of the plants in South Wales. As a result of the analysis BSC eliminated Llanwern 'from the possible closure list' and concluded that 'the candidate for closure taking into account product constraints, cost performance and prospective capital costs, should be Ravenscraig'. In addition it has to be noted that unless 'there is a significant further fall in demand for hot rolled coil' over current BSC forecasts, a closure of Llanwern rather than Ravenscraig (whether it took place now or in 2 to 3 years time) would leave BSC with no spare capacity.

In other words, the proposal is to overturn the commercial logic of Mr MacGregor's case and to put at risk the primary objective against which we have justified our massive funding of BSC so far: to produce a viable and competitive steel-making industry.

It is very clear that the case for deferring the closure of Ravenscraig is not commercial and financial but political. Though the reasons for putting forward a political solution to the problem are apparent, the particular proposal made by the Secretary of State for Industry appears potentially disastrous. Any decision to defer has the inherent danger of repeating the mistake of the Labour Government which, by

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delaying necessary decisions, made it inevitable that the eventual cut-back would be far more severe than it need have been - a mistake for which we have consistently and rightly criticised our predecessors. The key to the future is competitiveness. A decision to close Ravenscraig now and proceed with investment at both Port Talbot and Llanwern would mean that we would secure the future of two highly competitive plants. The Secretary of State for Industry is proposing not only that a plant with 'inherently high costs' should be maintained but that as a consequence we should close the door to the modernisation of Llanwern. The inevitable outcome must be that two or three years from now we would have two uncompetitive plants and would be faced with an even more difficult problem than we now face. The very arguments used in the Secretary of State's paper to support his case for investing in the essential hot strip mill at Port Talbot emphasise the destructive nature of what is envisaged for Llanwern.

It is absolutely clear from the paper that Llanwern would be put at risk not because there is any prospect of Ravenscraig overcoming its inherent weakness but because the political decision had been taken to starve Llanwern of investment.

While I fully appreciate the political case for deferring a decision at Ravenscraig, I cannot accept that this should lead to the slow emasculation of the plant that has secured both customer preference and better cost performance and productivity.

It is, I am afraid, untrue that the closure of Llanwern would have less serious social effects than the closure of Ravenscraig. Total job reductions in South Wales at between 10,000 and 13,000 might be involved, with the upper figure more likely. Newport would not be the only sufferer. The effect on the Gwent coking coalfield would also be severe since its main customer, Llanwern, would be gone. In the worst case up to 5,000 deep mining jobs might be lost. The Ebbw Vale travel to work area (still suffering from the effects of the steelworks closures of the 1970s) would almost certainly be hardest hit with the loss of over 2,000 jobs; unemployment would rise from 24.5% to 30% or more. Pit closures on this scale would cause serious political problems in South Wales and the financial consequences for the NCB could well be serious too.

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If closure of Ravenscraig is to be deferred, the decision should not be at the expense of Llanwern or the future competitiveness of BSC. We should find the cost of both keeping Ravenscraig (on whatever scale is judged appropriate) and of securing the continuing competitiveness of Llanwern in the long term. To do otherwise would be a grave industrial error. Yet again the efficiency of an industry would have been undermined by Government interference. The Scottish political problem would have been resolved by transferring it to Wales. In my judgement there will be no way of defending such a decision in economic or commercial terms. It will be well known that we have completely overturned the commercial judgement of the man we recruited to bring BSC into better shape, whose efforts to date have been largely vindicated by performance on the ground in adverse market conditions. What is happening will be obvious to all. The position of Welsh Office Ministers and Government supporters in Wales will be seriously undermined. The decision would be seen as a major defeat in which Wales and indeed the future of the Steel industry have been sacrificed to save the Conservative Party in Scotland.

I am sending a copy of this minute to the Chancellor of the Exchequer, the Secretaries of State for Industry, Scotland, Employment and Trade, the Secretary of the Cabinet and the CPRS.

L.D.

3 December 1982

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approved by the Secretary of State and signed in his absence.

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PRIME MINISTER

## BSC FUTURE STRATEGY

In the light of the marked worsening in BSC's position over the last few months, and the consequent possibility that the Corporation might have to close one of their five integrated works, it is necessary for the Government to give the Corporation guidance on the basic assumptions on which they should finalise their Corporate Plan for 1983-86.

2 I attach a paper describing the current outlook for the BSC and the guidance I believe we should give them. I should emphasise that since this paper has, by definition, been prepared before completion of the BSC Corporate Plan, all the financial information is necessarily provisional and is subject to revision when the Plan itself is finalised. The figures are, however, of the right order of magnitude.

3 I am sending copies to Geoffrey Howe, George Younger, Nicholas Edwards, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

PJ

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2 December 1982

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