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From the Private Secretary

6 December 1982

Dear Jonathan.

BSC Future Strategy

The Prime Minister held a meeting this morning with your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, the Chief Secretary, Treasury, and the Secretaries of State for Employment and Trade; Sir Robert Armstrong, Mr. Sparrow and Mr. Buckley of the Cabinet Office were also present. The meeting considered the paper attached to Mr. Jenkin's minute of 2 December, and Mr. Edwards' minute of 3 December.

Your Secretary of State said that the Government must remain committed to the policy of returning the BSC to long-term viability. In the longer run, this would almost certainly entail the closure of one of the BSC's five major integrated steel works, as well as other measures of improving efficiency, and matching capacity to demand, already in hand. There were, however, strong political and commercial arguments against immediate closure of a major works. Moreover, it was not certain which of the BSC's plants it would be best to close: at present, the case was strongest for closing Ravenscraig; but there were good arguments for allowing Ravenscraig a chance to improve its performance. Mr. Jenkin therefore favoured deciding now that a strip mill should close, but deferring the choice of works for two or three years. Compared with immediate closure, this would cost an additional £70 million in each of 1984-85 and 1985-86, and £30 million in 1986-87.

There were good arguments for accepting in principle, subject to a full case being put forward by the BSC, that the Port Talbot hot strip mill modernisation project should go ahead at an estimated cost of about £175 million. This was needed in order to allow the Port Talbot steel works, already the BSC's lowest cost strip steel producer, to remain internationally competitive. It would, however, create difficulties with the European Commission, who would be unlikely to approve the project unless it was matched by cuts in capacity elsewhere. The closure of the ingot route facility at Ravenscraig (which should go ahead irrespective of the decision about the future of the remainder of the works) would be helpful, but probably inadequate. A possible way through would be to offer to conclude a 'contract' between the Government, the Commission and the BSC, limiting the output from existing plants for a period. This possibility would need to be explored urgently with the Commission.

/In discussion,

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In discussion, there was general agreement that the immediate closure of a major integrated steel works could not be accepted. Apart from the arguments advanced by your Secretary of State, and the disastrous effects on economic activity and confidence in the area affected, it would gravely weaken the UK's negotiating position in seeking to reduce steel-making capacity in the rest of the European Community; and public opinion here would not accept that we should close a major steel works, after having suffered such a large share of recent reductions in the Community's steel-making capacity, while other countries did little or nothing. It was also arguably wrong to take far-reaching decisions about the future capacity of the UK steel industry in the trough of a recession. There was more doubt about the case for further investment at Port Talbot (and possibly at Llanwern). On the one hand, it was argued that it would be wrong to add to capacity when circumstances obliged us to keep open a major works which was most unlikely to be viable in the longer term. At the very least, the BSC should be asked for a new appraisal of the commercial justification for new investment at Port Talbot in the context of a decision to keep open five major integrated steel works for a significant period. On the other hand, it was argued that it was essential to maintain the competitiveness of the steel-making industry in this country and its ability to meet the increasingly stringent demands from steel users both here and abroad for high-quality products. There would also be very damaging effects in the steel industry and elsewhere in South Wales if the Government appeared to have set its face against justified investment there: it would be argued that Wales was being penalised to pay for keeping Ravenscraig open.

Summing up the discussion, the Prime Minister said that the meeting agreed that it would be right to defer a decision, probably for two to three years, on the need for the closure of a major integrated steel works. It should be made clear to both management and workforce at Ravenscraig, in particular, where there were serious adverse variances against standard costings, that the long-term future of the works depended on a satisfactory improvement in performance. Your Secretary of State should urgently discuss with the BSC the justification for the proposed new investment at Port Talbot against this background, and in the context of the longer-term prospects for the UK steel industry. He should prepare a further paper on these aspects, making clear the financial consequences of the various courses under consideration, and how those consequences might be handled vis a vis the EC Commission; this paper would be considered at another meeting of the same group of Ministers (which has now been arranged for 1030 on Tuesday 14 December). The issue should subsequently be brought before E Committee. This timetable implied that any early public statement on steel would have to be very brief; it would not be practicable to arrange a debate before the Christmas Recess. The Prime Minister also asked the Secretary of State for Scotland and the Chief Secretary, Treasury to arrange for estimates to be circulated to the group of the comprehensive, direct and indirect, financial consequences of any decision to close Ravenscraig (increase in social security expenditure, loss of tax revenue, and the like). Finally, the Prime Minister said that a further aspect requiring attention was the position of the steel-using industries in this country: the low level of demand

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for their products was at the root of many of the steel-making industries' difficulties. They had been badly hit by imports from countries such as Japan and Spain. What could be done to curb such imports should be among the matters considered by E when it discussed trade policy next week.

I am sending copies of this letter to the Private Secretaries of the other Ministers present at the meeting, to Gerry Spence (CPRS) and to Richard Hatfield (Cabinet Office). I should be grateful if they would ensure that its circulation is restricted to those with a clear 'need to know'.

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-23347029

Reference No: E *0195*

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6 December, 1982

Michael Scholar, Esq,
No 10 Downing Street,
LONDON SW1

Dear Richard,

BSC future strategy

I attach a draft record of the meeting under the Prime Minister's chairmanship this morning, in the form of a Private Secretary letter.

Yours ever,

Richard Buckley

M S BUCKLEY

Attachment:

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DRAFT PRIVATE SECRETARY LETTER

For Mr Scholar to send to the Private Secretary to the Secretary of State for Industry.

BSC FUTURE STRATEGY

The Prime Minister held a meeting [this morning] with your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, the Chief Secretary, Treasury, and the Secretaries of State for Employment and Trade; Sir Robert Armstrong, Mr Sparrow, and Mr Buckley of the Cabinet Office were also present. The meeting considered the paper attached to Mr Jenkin's minute of 2 December, and Mr Edwards' minute of 3 December.

2. Your Secretary of State said that the Government must remain committed to the policy of returning the BSC to long-term viability. In the longer run, this would almost certainly entail the closure of one of the BSC's five major integrated steel works, as well as other measures of improving efficiency, and matching capacity to demand, already in hand. There were, however, strong political and commercial arguments against immediate closure of a major works. Moreover, it was not certain which of the BSC's plants it would be best to close: at present, the case was strongest for closing Ravenscraig; but there were good arguments for allowing Ravenscraig a chance to improve its performance. Mr Jenkin therefore favoured deciding now that a strip mill should close, but deferring the choice of works for two or three years. Compared with immediate closure, this would cost an additional £70 million in each of 1984-85 and 1985-86, and £30 million in 1986-87.

3. There were good arguments for accepting in principle, subject to a full case being put forward by the BSC, that the Port Talbot hot strip mill modernisation project should go ahead at an estimated cost of about £175 million. This was needed in order to allow the Port Talbot steel works, already the BSC's lowest cost strip steel producer, to remain internationally competitive. It would, however, create difficulties with the European Commission, who would be unlikely to approve the project unless it was matched by cuts in capacity elsewhere. The closure of the ingot route facility at Ravenscraig (which should go ahead irrespective of the decision about the future of the

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remainder of the works) would be helpful, but probably inadequate. A possible way through would be to offer to conclude a 'contract' between the Government, the Commission and the BSC, limiting the output from existing plants for a period. This possibility would need to be explored urgently with the Commission.

4. In discussion, there was general agreement that the immediate closure of a major integrated steel works could not be accepted. Apart from the arguments advanced by your Secretary of State, and the disastrous effects on economic activity and confidence in the area affected, it would gravely weaken the UK's negotiating position in seeking to reduce steel-making capacity in the rest of the European Community; and public opinion here would not accept that we should close a major steel works, after having suffered such a large share of recent reductions in the Community's steel-making capacity, while other countries did little or nothing. It was also arguably wrong to take far-reaching decisions about the future capacity of the UK steel industry in the trough of a recession. There was more doubt about the case for further investment at Port Talbot (and possibly at Llanwern). On the one hand, it was argued that it would be wrong to add to capacity when circumstances obliged us to keep open a major works which was most unlikely to be viable in the longer term. At the very least, the BSC should be asked for a new appraisal of the commercial justification for new investment at Port Talbot in the context of a decision to keep open five major integrated steel works for a significant period. On the other hand, it was argued that it was essential to maintain the competitiveness of the steel-making industry in this country and its ability to meet the increasingly stringent demands from steel users both here and abroad for high-quality products. There would also be very damaging effects on opinion in the steel industry and elsewhere in South Wales if the Government appeared to have set its face against justified investment there: it would be argued that Wales was being penalised to pay for keeping Ravenscraig open.

5. Summing up the discussion, the Prime Minister said that the meeting agreed that it would be right to defer a decision, probably for two to three years, on the need for the closure of a major integrated steel works, ~~(though it was accepted that the slab unit at Ravenscraig should be closed)~~. It should be made clear to both management and workforce at Ravenscraig, in particular, where there were serious adverse variances against standard costings, that the long-term future of the works depended on a satisfactory improvement in performance. Your Secretary of State should urgently discuss with the BSC

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the justification for the proposed new investment at Port Talbot against this background, and in the context of the longer-term prospects for the UK steel industry. He should prepare a further paper on these aspects, making clear the financial consequences of the various courses under consideration, and how those consequences might be handled vis a vis the ^{EC} Commission; this paper would be considered at another meeting of the same group of Ministers, ~~to be arranged before Christmas.~~ ^{It would} be necessary ~~at the appropriate time to bring forward proposals to the Ministerial Committee on Economic Strategy (E).~~ This timetable implied that any early public statement on steel would have to be very brief; it would ~~obviously~~ not be practicable to arrange a debate before the Christmas Recess. The Prime Minister also asked the Secretary of State for Scotland and the Chief Secretary, Treasury to arrange for estimates to be circulated to the group of the ^{comprehensive, direct and} indirect financial consequences of any decision to close Ravenscraig (increase in social security expenditure, loss of tax revenue, and the like). Finally, the Prime Minister said that a further aspect requiring attention was the position of the steel-using industries in this country: the low level of demand for their products was at the root of many of the steel-making industries' difficulties. They had been badly hit by imports from countries such as Japan and Spain. What could be done to curb such imports should be among the matters considered by E when it discussed trade policy next week.

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The issue should subsequently be brought before 'E' Committee.

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