

Prime Minister

I have also enclosed your

"usual" Questions steel

bref.

PRIME MINISTER'S MEETING WITH THE SCOTTISH TUC AND OTHERS,  
14 DECEMBER 1982

Ms 13/12

## REVIEW OF BSC'S FUTURE STRATEGY: AIDE-MEMOIRE

Points to make

1. The crisis in the steel industry is international. The root problem is excess capacity. [1,000 million tonnes (MT) worldwide against output of 707 MT in 1981; 200 MT in the EEC against output of 128 MT in 1980].
2. The UK is no exception - in 1981 BSC and the private sector produced 16 MT from installed capacity of 26 MT.
3. BSC have made real efforts to reduce overmanning, improve efficiency, cut costs and so become internationally competitive. Losses were reduced in 1981/82, though still stood at £358 million.
4. But since the spring the effects of the world recession have hit UK and other world steelmakers hard. Orders have dropped sharply, production has had to be cut back, and BSC's losses, which were nearly eliminated in March, have jumped back to £1 million a day.
5. The Corporation must act to stem the haemorrhage. That is why urgent cost-saving measures, involving redundancies and smaller plant closures, have been and are being implemented. These are commercial decisions for BSC management: they need no authority from Government.
6. Where the Government have to be involved is in any decision to close one of the five major plants: that is a strategic question affecting the future of an important sector of industry.
7. In the strategic review, the joint aim of the Government and the Corporation is to reach sensible decisions which will put BSC back on the path to profitability while ensuring that it retains the capacity to respond readily to the likely level of steel demand in future years. We shall not take precipitate action based on short-term considerations.
8. Our decisions will be announced before Christmas.





## Defensive points

\*Partial  
9. [Recent redundancies and plant closures in Scotland - Clydebridge Plate Mill (closure); Imperial Plant, Airdrie (redundancies); Craigneuk Bar Mill (closure)]. These are part of the urgent cost-saving measures which BSC management have unfettered responsibility to implement.

### 10. [Import Controls]

- (a) So far this year, steel imports from the EEC account for 17.7 per cent of the UK market, only 0.1 per cent up on last year but well above the average of 12-14 per cent in the years before the disastrous 1980 steel strike. The way to contain these imports is to ensure rigorous application of the production quota and pricing rules under the European steel regime. In response to UK pressure, a battery of measures is being introduced urgently to restore market discipline.
- (b) UK steel imports from outside the EEC account for 8.9 per cent of the market so far this year - not significantly higher than previous years. Nonetheless, the control arrangements for 1983 will be tightened as regards both quantities (12½ per cent below 1980 voluntary restraint arrangement levels) and improved policing to prevent disruptive surges.
- (c) The BSC Chairman has said that "imports are an exaggerated factor" in BSC's difficulties. UK import penetration of 27 per cent this year has to be compared with (eg) 43 per cent in France and 35 per cent in Germany in recent years.
- (d) In any case, import controls would invite retaliation. In recent years, we have exported about as much steel as we have imported: those exports would be put at risk. Worse still, retaliation would hit our other exports, including those of the UK steel-using industries. That is no way to save the UK steel industry.

### 11. [Increase BSC's EFL to avoid plant closures]

BSC have not suggested that increased cash will solve their commercial problems. This Government provided £2,944 million between March 1979 and March 1982, with a further £365 million for this financial year. These are huge sums. Profitability must remain the objective for BSC.

### 12. [BSC's problems due to Government's economic policy]

- (a) Why, then, is the US steel industry working at 40 per cent of capacity; is Japan set this year to produce the lowest amount of steel since 1972; is the rest of the EEC steel industry in a similar position to our own; and is OECD steel production as a whole likely to be at least 16 per cent down on last year?





(b) One of the root causes of BSC's problems is that in the 1970's UK manufacturing industry priced itself out of world markets because we paid ourselves more than we earned. Between 1974 and 1979, wage costs per unit of manufacturing output went up by 54 per cent in France, 32 per cent in the US, 15 per cent in Japan, 12 per cent in Germany but by 101 per cent in the UK.

13. [UK is bearing unfair share of European capacity cut-backs] We have had to cut back in the UK because of uncompetitiveness resulting largely from the gross overmanning of the 1970's and the failure of the previous administration to grasp the nettle. The SoS for Industry has made clear in the EC that he cannot and will not defend a position in which our capacity cuts are not now matched by other Member States.

14. [BSC productivity is as high as any in Europe] Before the recent decline in performance, some of BSC's plants were working close to best European standards. But productivity across the Corporation still lagged behind that in France and Germany, let alone in Japan.

15. [BSC's international competitors get unfair indirect subsidies].

(a) On energy prices, NEDC studies in February and November 1981 showed that disparities between the UK and the Continent had reduced considerably. Since then, the March 1982 Budget gave extra help to large energy users and the Autumn Economic Statement included the announcement of a freeze on electricity prices for a year.

(B) On rail subsidies, the tripartite NEDC Iron and Steel Sector Working Party concluded in 1980 that it was not possible to "substantiate that massive public funding of railways on the Continent acts as an indirect subsidy to steel".

(c) On coking coal, subsidies in Germany are given only to reduce German coke prices to world levels so as not to disadvantage the German steel industry.

16. [More cuts in the UK steel industry will leave inadequate capacity when the economy picks up].

With total steel output in the UK of 16 MT in 1981 using plant with capacity of 26 MT, there is a very wide margin of flexibility. Carrying capacity which is surplus to any foreseeable level of demand imposes heavy costs on the steel industry.



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*Secretary of State for Industry*

13 December 1982

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

*Dear Michael,*

PRIME MINISTER'S MEETING WITH THE SCOTTISH TUC ON 14 DECEMBER  
1982

As requested, I attach our brief for the Prime Minister's meeting tomorrow (you are receiving separately from the Scottish Office a further brief giving the background on those coming to the meeting).

*Yours ever*

*Caroline Varley*

CAROLINE VARLEY  
Private Secretary





SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

13 December 1982

Michael Scholar Esq  
Private Secretary  
10 Downing Street  
London SW1

*Dear Michael*

RAVENSCRAIG: PRIME MINISTER'S MEETING WITH STUC DELEGATION:  
TUESDAY 14 DECEMBER

As I think you now know, the delegation which will meet the Prime Minister tomorrow afternoon to discuss the future of Ravenscraig will comprise the following

<u>Name</u>	<u>Organisation</u>
1 J Langen	Vice Chairman, STUC
J Milne	General Secretary, STUC
<del>D Harrison</del>	Assistant General Secretary, STUC
3 Rev J McIndoe	Convener, Church of Scotland, Church Nation Committee
Father Frank Kennedy	Roman Catholic Church
2 Councillor L McGarry	Strathclyde Regional Council
Councillor N Stobo	<u>Glasgow District Council</u>
6/5 Councillor J Frew	Motherwell District Council
5 E Marwick	Glasgow Chamber of Commerce
4 H Morrison	Chief Executive, Scottish Council (Development and Industry)

During the past few weeks all of the above organisations have argued strongly against the closure or major rundown of Ravenscraig. Rev McIndoe led an ecumenical delegation of Scottish churches which met my Secretary of State on 12 October and during this meeting the churchmen drew attention particularly to the severe social effects which closure or rundown would have on the Motherwell area where unemployment levels are already over 20%.



Apart from the churches, all of the bodies which will be represented at tomorrow's meeting gave evidence to the enquiry by the Select Committee on Scottish affairs into the likely economic, social and industrial consequences of a further rundown of the steel industry in Scotland. In their report which was published at the beginning of last week, the Select Committee concluded that the closure or partial closure of Ravenscraig "would be a disaster for Scotland, in industrial, economic and social terms". This conclusion is in line with that reached at a conference on the future of the Scottish steel industry which was held under the auspices of the STUC in Motherwell on 12 November, and in which Mr Michael Ancram MP played a prominent and successful part.

On the basis of their evidence to the Select Committee and the line which they took when they met my Secretary of State on 2 November, it is likely that at tomorrow's meeting the STUC representatives will argue that:-

1. Firm Government action is required to control both EC and Third Country imports of steel;
2. the Government must loosen the financial constraints under which BSC operates;
3. the Government must through reflationary policies take direct action to stimulate demand for steel in the UK; and
4. there should be no further closures or contractions in the Scottish steel industry (and by this STUC mean that even "minor" closures such as those at Clydebridge and Craigneuk should be avoided) and that all 5 of BSC's major plants should be retained.
5. that Ravenscraig and its associated Scottish plants are capable of the highest quality output but are given little chance to prove that they can be competitive in cost terms because they tend to be scheduled for short production runs and difficult jobs where economies of scale are impossible.

I understand that the briefing which the Department of Industry are providing will cover these points, but if you require any further material please let me know.

I am copying this letter to Jonathan Spencer at DOI.

*A. Muir Russell*

A MUIR RUSSELL  
Private Secretary



*cc Muir Russell (Scottish Office)  
Bernard Ingham*

MR. SCHOLAR

The following will definitely be attending the STUC meeting with the Prime Minister on Tuesday. There will be a couple more names coming on Monday.

Church of Scotland

Revd. John McIndoe  
Convenor of the Church and Nations  
Committee

Strathclyde Regional Council

Councillor Lawrence McGarry  
Chairman of the Economic and  
Industrial Development Committee

Glasgow District Council

Councillor Neil Stobo

Motherwell District Council

Councillor J. Frew

The Roman Catholic Church

Father Frank Kennedy

Glasgow Chamber of Commerce

Mr. Ewan Marwick  
Secretary

STUC

Mr. John Langdon  
Chairman of the Economic Committee

Mr. Milne + Douglas Morrison  
General Secretary (Assistant)

*Scottish Council (Development  
and Industry)*

*Mr Hamish Morrison*

*es.*

10 December 1982





Robert Calderwood LLB  
Chief Executive

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Telephone 041-227 3410

PA. Copy for information to

Mrs Russell (Scottish office)

MRS  
13/12.

Mrs 13/12

8th December 1982

*Dear Mr. Butler,*

This authority in conjunction with our District colleagues has initiated considerable research and discussion of many aspects of the social and economic consequences of changes in the shape of the Scottish Steel Industry, most of which is located in Strathclyde Region.

We have prepared a number of briefing papers on these issues - and notably on the importance of the Ravenscraig Complex to the Scottish economy. These have already been supplied to the Secretary of State for Scotland.

The Regional Council also chairs the Standing Committee for the Defence of the Scottish Steel Industry on which are represented numerous Local Authorities with a close interest in the future of the Industry, Chambers of Commerce, the Scottish Council, the Scottish Engineering Employers Association, various management interests and the STUC and Union interests. All Scottish Members of the U.K. and European Parliaments are also invited to attend meetings.

At its last meeting, on Friday, 3rd December 1982, the Standing Committee unanimously decided, in view of the importance of the Steel Industry to Scotland and the reported imminence of Cabinet decisions that may affect that future to seek a meeting with the Prime Minister to bring to her attention our views on these matters.

It is in this context that I would now ask you to place before the Prime Minister the request that she agree to meet Strathclyde Regional Council, either independently or as part of the requested STUC delegation,

F.E.R. Butler,  
Principal Private Secretary to the Prime Minister,  
10 Downing Street,  
LONDON. SW1



to hear our views on the importance of the Steel Industry to the  
Scottish Economy.

I hope the Prime Minister will agree to meet us prior to any final  
discussion of the issue in Cabinet.

Yours sincerely

Robert Calderwood.



113 DEC 1982





CASE  
FOR THE RETENTION AND DEVELOPMENT  
OF THE SPECIAL STEEL INDUSTRY  
IN SCOTLAND  
(CRAIGNEUK WORKS)

CRAIGNEUK WORKING PARTY  
8TH DECEMBER 1982



## INTRODUCTION

In April 1982 the Corporation threatened to close the whole of Craigneuk Works unless the workforce accepted an across the board reduction in wages of £15 per week.

After a Meeting between BSC Management and the STUC in Perth, the threat was withdrawn. The Craigneuk Unions agreed to consider with Management any necessary remedial action to secure the future of the site.

Management subsequently identified that the main financial drain on the Craigneuk operation was from the new light foundry complex. The Unions therefore agreed to the "mothballing" of this unit to save the remaining operations and jobs. This action has resulted in a job loss of 263.

On 18th November, 1982 after numerous leaks and rumours, Mr. Bray (Director BSC Holdings) and Mr. Blakely (BSC Special Steels) announced the Corporation's intention to close Craigneuk Bar Mills and the associated finishing facilities by 31st March, 1983. This would result in a further job loss of 327.

"Following closure of the Mills, Corporation proposed to reduce the size of the site and service overheads to meet the requirements of the remaining steel foundry/forge business."

This would result in a further job loss of 100.

The cumulative effect of all the above actions is a total job loss of 690.



The disastrous loss of job opportunities in the Scottish Special Steel Industry is highlighted by the figures given below:

1979 - Size of workforce	=	<u>1200</u>
1983 - Size of workforce	=	<u>300</u>



DIARY OF EVENTS

- 18th November 1982                      Divisional Management announce closure of Craigneuk Bar operation
- 23rd November 1982                      Closure document received.  
Letter from Divisional Management stating that alternative proposals would be considered
- 25th November 1982                      Meeting with Sheffield Commercial, Accounting and Planning top management to obtain information lacking from the closure document
- 29th November 1982                      Craigneuk Working Party send draft Minutes for agreement
- 30th November 1982                      Additional written information sent by Divisional Management
- 2nd December 1982                      Working Party state that certain replies from Sheffield are still inadequate (statements without supporting details)  
Working Party asked for deadline date to be extended to 8th December, 1982.
- 6th December 1982                      Agreed Minutes plus additional information still not received from Sheffield.  
Request from Divisional Management that working party must complete their case by 8th December, 1982



SUMMARY

1. One of the Corporation's main reasons for closing the Craigneuk Bar Mill operation is to eliminate the projected loss of £1M. In actuality the loss is offset by a corresponding £1M+ contribution by Craigneuk to the finances of the Sheffield Division primary areas.
2. Another reason given for closure "is to reduce bar capacity in line with demand"  
  
The elimination of Craigneuk mills would reduce the UK Special Bar rolling capacity by only 3.5%.  
  
This minor reduction in rolling capacity is accompanied by a major and undesirable reduction in finishing capacity.
3. The accounting system used in reaching the closure decisions acts against Craigneuk in some ways.
  - (a) The financial contribution by the Craigneuk Bar Mills to the Special Steels primary areas goes unrecognised in group accounts.
  - (b) Also Special Steels Division do not calculate profit/loss figures for their other individual mills, so that decisions are being taken without actual comparable figures being available.
4. The market forecasts used by BSC to arrive at their rationalisation/closure programme are based on economic assumptions which have already been proved wrong.
5. The fact that only two alternative plans were considered for Craigneuk indicates that the decision for closure was not only based on insufficient business information, but also on insufficient planning consideration.



6. Craigneuk Working Party states categorically that no justifiable case for closure has been made.
7. The Working Party has developed a series of viable options for the retention of Craigneuk Mills. The options are based on current BSC market forecasts and any improvement in market conditions can only enhance the case for retention.



CRAIGNEUK SPECIAL BAR PLANT OPERATIONCOMMENTS AND CRITICISMS OF BSC CLOSUREDOCUMENTS BY THE CRAIGNEUK WORKING PARTY

The following comments and criticisms are given in the same format as used in the BSC closure document, Section 1 Summary.

Statements in parenthesis originate from the closure documents and/or verbal/written statements from the Divisional Management.

1. PLANT

The Craigneuk Mills are hand operated, their design gives maximum flexibility to produce a wide range of sizes across the full range of steel types e.g. Carbon, Alloy, Tool and Stainless Steels. This gives the plant the operational flexibility needed to meet the specialised nature of its market.

The mills because of their relative simplicity of design are robust and reliable with minimal maintenance and have been consistently free from any major breakdowns.

There has never been any problem in manning these mills or indeed in the recruitment and retention of young people for the mill crews. We have a committed workforce with a very co-operative attitude which results in maximum flexibility in matching men and machines to production requirements.

It has been suggested that the age of the plant is an important factor in the closure. Yet if the Corporation's proposals are accepted, it will mean the transfer of some rolling from Craigneuk No. 2 Mill (1955) to the Wolverhampton 9" Mill (1926).

A high proportion of special bar production requires heat treatment and finishing and it should therefore be fully appreciated that heat treatment and finishing plant are as important as the rolling mills in the production process.



Any consideration of bar production capability must place as much emphasis on the finishing facilities as on those for rolling.

The finishing facilities at Craigneuk consist of a very comprehensive heat treatment plant, straightening and brightening machines, all complemented with a full inspection capability.

The heat treatment plant can process material to a wide range of customer requirements; oil and water quenching facilities are backed by comprehensive tempering furnaces resulting in minimum quench cracking with difficult compositions.

The finishing facilities could not be readily removed and resited except at great expense and would not fit easily into any other rolling operation.

The Division have stated that the case for closure was not based on the re-siting of any facilities. The assumption was that the facilities would be eliminated from the Corporation.

The Craigneuk Committee point out that at the present time the finishing facilities in Sheffield cannot cope effectively with their present load and it is irrational to assume they could overtake an increased workload. Indeed this imbalance between rolling and finishing capacity will prevent BSC from seizing additional market opportunities as and when they arise.

Therefore the closure of Craigneuk bar operation will make an unsatisfactory situation totally unacceptable to customers, and will result in the permanent loss of profitable business for the Corporation.

When Craigneuk Working Party asked for the identity of the alternative and cost comparable finishing facilities which would handle the Craigneuk order load, Division emphasised "Hawke Street - trials had been conducted there and local management were confident of their ability to cope."



Craigneuk reiterated that Hawke Street was unable to cope even at their present loading level. The smaller heat treatment batches associated with Craigneuk small order lots would aggravate situation and customer service would be expected to deteriorate.

In addition, Hawke Street have technical problems e.g.

cracking with certain specifications,  
thus necessitating bars being produced  
from an overall dressed billet with  
consequential higher cost

inability to water quench

the inability to meet mechanical  
properties on certain sizes of certain  
specifications due to lack of oil  
coolers.

Craigneuk have solved these problems, but it must be appreciated that technical expertise is extremely difficult to transfer. Recent closures of heat treatment and bright finishing facilities at Flathers and elsewhere have reduced the capacity considerably, thus limiting the options available in transferring work.

Further it has been established that at present mechanical testing facilities remain separate from the rolling and finishing plants which are proposed to overtake the Craigneuk workload. The administrative and organisational difficulties presented in co-ordinating production through a series of plants cannot be over-emphasised, and must cast serious doubts on the level of customer satisfaction which will be achieved on the proposed production routes. In the special bar market the level of service is crucial to establishing and maintaining customer loyalty.

It can be emphasised that Craigneuk is unique within Special Steels in that it is the only plant where rolling, heat treatment, finishing and mechanical testing are carried out on the same site.



## 2. MARKET FACTORS

The Craigneuk Mills supply to a specific market for special alloy steel bars in a wide range of sizes and numerous specifications. The order lots are small and originate from customers throughout the UK. It is accepted that the demand for bar, both nationally and internationally has declined steadily over the last few years. However, BSC's forecasts that there will be no significant improvement in the market can be disputed.

The economic forecasts quoted in the closure document are not specific to Craigneuk Bar Mills, but show the forecast for the whole of the Corporation. The "pathological pessimism" in the BSC forecasts should be compared with more optimistic forecasts reached by the Department of Trade & Industry and the Cambridge Econometric Unit using the same base figures and the Treasury model. Because of the imbalance between supply and demand, the Corporation in the last few years has, as a matter of policy, been preferentially loading its special bar orders on to its bigger plants in England in an attempt to improve their economic performance. However, it has been suggested that this attempt has not achieved the expected results because these plants cannot cope efficiently with a fragmented order load and that the market needs can in many cases be more effectively met by the Craigneuk Mills. No figures are available to disprove this claim.

It should be pointed out that these high volume "more efficient" mills operate at low cost only when filled to a high proportion of their capacity with large volume orders. This is certainly not the case under current market conditions. The difficulties in amalgamating numbers of small orders into large rolling batches of the same section size will further impair the economic efficiency of these "high volume" plants. The position will be worsened by the subsequent handling and administrative problems associated with small batch orders.



Indeed, it was admitted that allocating orders to the various mills entailed consideration of many factors other than rolling cost. Customer preference, customer service and the availability of finishing facilities frequently outweighed cost considerations and resulted in the movement of work away from high volume plant.

There could well be some loss of market share on closure and transfer. Therefore for a conservative financial analysis the projected load retention is only 50%. In addition heat treatment and finishing capacity has been identified for the reallocated orders, where appropriate, comparable in cost levels to Craigneuk facilities.

In answer to the question "How they arrived at the projected load retention of 50%, Division replied that

"the assumptions used were largely subjective judgements"

Division also stated that the 50% retention rate was based on their knowledge of plant capability. Customers were not canvassed and their reactions were presumed by the Division.

Craigneuk pointed out that since customer reaction had not been canvassed, once again we were faced with figures which were pure assumptions with a wide sensitivity to error. Ever since the closure announcement was made customers have called direct to Craigneuk to express their deep concern as to continuity of supply and service.

Also the Division had failed to take any recognition of the risk to larger volume order business because the removal of Craigneuk would limit the Corporation in their endeavour to service the whole market.

It is the firm belief of Craigneuk Working Party that any proposal to close these mills would not result in a significant transfer of business to the Corporation's other mills.



Indeed, if the Craigneuk mills were closed, most of the order book would probably be lost to imports.

The only factors which Division had taken into account in their re-allocation exercise were those of section and order size.

No attempt had been made to investigate the effects of small order lots e.g.

- i) the problem of heat treatment batch amalgamation
- ii) additional processing costs and yield losses on bright grinding when Craigneuk Mills' ability to roll intermediate sizes is lost

In the meeting between Special Steels and Craigneuk Working Party, Special Steels stated their willingness to lose the whole Craigneuk order book for bar and billet. This attitude reflects the Corporation's failure to improve their present share of the bar market and their complacent acceptance of their present poor performance in the market place. This attitude can only lead to further closures, redundancies and cutbacks. A modest increase in the order tonnage allocated to Craigneuk Works would make it viable and it is our belief that this small additional tonnage could be achieved by a more positive approach by the marketing organisation.

When discussing the potential of the various plants within BSC, the closure document emphasised the importance of export markets in generating activity.

However, Division agreed

"that with only a few exceptions the majority of export orders are taken for contribution only"

It seems illogical to give away profitable home business to pursue loss-making export business.

Division agreed that devaluation of the pound would give some stimulation to UK demand and would also make the UK market less attractive to imports.



When asked what is BSC doing to attack imports, Division stated "that an aggressive stance was being adopted by matching import prices in order to maintain their market share".

"Matching our competitors' prices" did not seem to Craigneuk to be a particularly aggressive stance.

Part of the rationale for the closure of Craigneuk Bar Mills was to move capacity more in line with demand.

Figures supplied by BSC indicate nominal mill capacity for alloy and stainless bar by all BSC producers to be 705,000 t/annum.

The closure of Craigneuk Mills would make an insignificant contribution (5.6%) to the reduction of the overall BSC capacity, since the Division stated that no other BSC mills are being considered for closure. The contribution to UK capacity as a whole is a mere 3½%.

As mentioned earlier, finishing and heat treatment are an essential part of all special bar production and there is no stated over-capacity for these facilities. The closure of the Craigneuk operation will make an insignificant contribution to the reduction of rolling capacity while producing an unwanted and detrimental reduction of finishing capacity in the industry.

The problem of rolling over-capacity is being dealt with in two distinct ways. English plants are being demanned only, leaving a base for future recovery and re-employment. The single remaining Scottish plant will be closed, the buildings razed and the site bulldozed flat, thus ensuring that the Scottish Special Steel Industry is destroyed forever. The Divisional explanation for this difference was that the closure of Thrybergh was "political dynamite" while it was unthinkable to consider the closure of Wolverhampton Mills since it was situated in the heart of the West Midlands.



### 3. FINANCIAL FACTORS

The financial performance of the mills is currently running at a loss in excess of £1M per annum with increased losses expected next year

Part of the rationale for the proposed closure is to stem current financial losses.

Craigneuk Bar complex in the past, however, has made significant profits. This year even in the depths of a continuing world recession the projected loss has been held to £1.1M.

The main factors in causing the loss are:

- i) the plant, owing to lack of orders, is only producing 14,000 tonnes/annum
- ii) the product mix allocated by Special Steels to Craigneuk has a high proportion (23% by wt.) of known high loss-making business. This order allocation reflects the supporting role given to Craigneuk mills as part of the overall strategy of special steels.

In order to understand the statement on financial losses, Craigneuk Committee asked for the comparable profit/loss figures for the other individual mills in Special Steels. They were astounded to learn that Craigneuk Mills were the only ones having a trading account with a profit/loss figure. There are no similar accounts for other individual mills.



It therefore appeared that decision to destroy the Scottish Special Steel Industry (with the elimination of 427 job opportunities for future generations) had been taken without the necessary business information of comparable financial results.

It has been subsequently confirmed in writing that profit/loss figures are only derived at the business level - BSC Special Steels. Figures are not available for individual mills within this grouping. The Division's inability to produce comparable profit/loss accounts raises serious doubts about the accounting principles and practices used at arriving at the closure proposal e.g. it is not possible to prove the accuracy of individual standard product costs without the knowledge of true actual results.

The BSC consider a medium volume run as 20/30 tonnes. This concept is not applicable to the Craigneuk operation where our cost structure is based on an average order of 2/4 tonnes. Divisional accountants stated that they did not recognise any differential involved in the conversion costs between small and medium and large volume orders, i.e. 50 orders at 2 tonnes would have the same conversion costs as 1 order at 100 tonnes. But Division have agreed that conversion costs could increase if orders could not be amalgamated into larger rolling batches. It is therefore not surprising that Craigneuk actual costs based on small rolling batches are made to look inferior to these inaccurate theoretical costs based on large rolling batches. Therefore conclusions were being drawn from financial figures that did not take into account the effects of small batch orders on conversion costs.

Craigneuk Working Party asked "What would be the financial effect on the Corporation if 100% of the bars and billets were lost?" Division answered that the loss of 35,000 tonnes (bar and billet) would make no financial difference to the Corporation.



This statement is based on a simplistic balance between the worsening of the billet contribution by £1M and an improvement to the bar results of £1M by the elimination of the Craigneuk loss. The calculation does not take into account the fixed expenses which would remain with BSC, nor the substantial buying gains at the melting and billet stages. This approach is diametrically opposite to that taken when considering the transfer of 5000 tonnes of bar orders from Wolverhampton/Thrybergh to Craigneuk. These obvious contradictions must raise doubts about the accuracy of the thinking over the whole exercise.

When linking the full process of steelmaking, billet and bar production a favourable contribution is achieved by BSC.

The Division stated that

"Despite some cost savings the outlook for Craigneuk Bar Mills next year was expected to be increased losses."

The Divisional explanation for the expected increased losses next year was that:

- i) allocated volume would decrease
- ii) effectively bar prices would remain unaltered

The Division have inexplicably failed to recognise that Craigneuk would respond rapidly to this lower load (see options).

In addition Division have failed to appreciate that the continuing reduction in price for scrap and alloys must inevitably lead to lower billet prices and improve Craigneuk's trading result.

Craigneuk Working Party requested complete details of the closure saving.



The written reply is so lacking in information that it is not possible to check the validity of the main financial criteria for the closure e.g. the assumption is made that closure of Craigneuk Mills will result in the total elimination of the £1.1M loss. As stated earlier, this is not correct. It is known that certain overheads e.g. FFE, Sheffield and Scottish Division charges will still remain with BSC.

#### 4. CRAIGNEUK AND THE ALTERNATIVE STRATEGIC OPTIONS

The Corporation stated that in their efforts to come up with remedial action they had considered two alternatives:

either find more load for Craigneuk  
or close the operation within further  
bar rationalisation

When questioned, Division stated

"that no other alternatives had been  
considered nor evaluated"

It is appalling that so little constructive thought has been given to the Craigneuk Bar Mill operation, and would suggest that the decision to close was not only based on insufficient business information, but also on insufficient planning consideration.

#### "THE HIGHER LOAD OPTION"

The product most attractive to Craigneuk in reallocation would be alloy black bar. 5ktpa could be reallocated from Thrybergh and 5 ktpa from Wolverhampton 14" Mill.

Inspection of the tonnage involved, however, demonstrates that in no case could this lead to closure of any of those mills, consequently, the fixed costs of the total compliment of mills would remain the same. The financial evaluation of the reallocation is dependent therefore on the respective variable costs.

The higher conversion costs of Craigneuk would give a net deterioration to the Corporation Mills of the order of £280,000.



Craigneuk Working Party is of the opinion that with a reduction of 5000 tonnes in their order load, Wolverhampton would demand accordingly and this would achieve a reduction of fixed costs.

Division repeatedly stated that there would be no manning reduction. With regard to net deterioration of £280,000 the Craigneuk Working Party would make the following points:

We reiterate that in comparing standard product costs (SPC) the Division have not recognised any differential for conversion costs for small batch orders compared with medium/high volume orders. If Craigneuk were to base their SPC on batch order sizes of 40/50 tonnes, the rolling conversion costs would reduce by approximately £18/£20 per tonne, and if Wolverhampton or Thrybergh were to base their SPC on batch order sizes of 2/4 tonnes, then without doubt their SPC would increase substantially. In addition, if Thrybergh were to base their SPC on their revised "planned standard shift levels" - 9 shifts for 1983/84 - in lieu of current 15 shifts then their SPC would again increase considerably.

It is noted that in the consideration of re-allocation that Craigneuk No. 1 Bar Mill is compared with Wolverhampton 14" Mill, thus comparing the older of Craigneuk Mills with the newer of the Wolverhampton Mills. If Craigneuk No. 2 Mill was compared with the older Wolverhampton 9" Mill, Craigneuk would be seen in a much better light, and perhaps the figures obtained would give rise to different decisions.

Once again, failure to recognise these vital points casts serious doubts on the accuracy of the deliberations and the lack of proper understanding at Divisional level of the difference between high and low volume plants.



ALTERNATIVE PROPOSALS FOR THE RETENTION OF  
CRAIGNEUK BAR MILLS AND FINISHING FACILITIES

The situation which Craigneuk Bar Mills have found themselves in over the past few years and which has led to the proposal to close the last vestiges of Special Steel production in Scotland, stems from the role in which we have been cast by the commercial organisation.

In the fight against imports and in order to service the whole market, we have been supplying known loss-making items on the basis that BSC as a whole is better off with the business even though Craigneuk shows a loss. A very good example of this is stainless bar. Losses have been shown against Craigneuk equivalent to £0.4 million for the full year, about £400 for each tonne of bar. It can be shown that gains on steelmaking and billet rolling are being made on the basis of current costs. These gains are more than equivalent to our losses.

As the closure proposal has been made because of our losses, with no recognition of the gains being made elsewhere, we need to have more say in the allocation of unprofitable business or the allocation of costs in order to save ourselves from closure.

The remit we have been given is a difficult one as we are being asked to eliminate our losses without harm to the other bar mills in the Sheffield Division; even although Wolverhampton have deliberately developed round bar production in their 9" mill and alloy bar in both mills in order to attack our traditional markets.

We have, however, developed a series of survival and development options for Craigneuk Bar Mills. Despite the fact that we have had little time to evaluate the longer term options, the Committee are convinced of their viability.



OPTION 1

Commercial thinking at BSC Special Steels indicates that for 1983/84 the demand for Special Bar will be relatively unchanged from that currently operating.

Because of the heavy loss making situation on stainless bars, a decision has already been taken to eliminate such items from the Craigneuk order book and a similar attitude is being adopted concerning loss making carbon steel bars. As a result of these factors, BSC Special Steels suggested that the Craigneuk order load for 1983/84 could only be of the order of 10,000 tonnes approximately.

If actual deliveries for Periods 1 to 7 of 1982/83 are examined and the loss making carbon and stainless materials eliminated, the remaining tonnage of profitable alloy business extrapolates to 10,200 tonnes in a full year. Thus the forecast view can be supported by current actual performance.

Craigneuk produces a special ribbed flat section for the construction industry and orders for this product are negotiated directly between the works and Reinforced Earth Co. The tonnage so secured is additional to those special bar orders allocated from Sheffield and for the year 1983/84 a usage of 1500 tonnes has been suggested by Reinforced Earth Co. These two elements of the order book when aggregated yield a loading of 11,700 tonnes per year.

This loading has been studied in detail to determine the likely shift and manning levels required for its production, and Table 1 gives this information. Table 2 gives a comparison of Management Accounts for this proposal and those for the closure case. Explanatory notes for these accounts are also provided.



TABLE 1PROPOSED DE-MANNING - OPTION 1

<u>MANNING BY CATEGORY</u>	<u>PRESENT</u>	<u>PROPOSED</u>	<u>SAVING</u>
Management/Staff	68	40	28
Skilled/Semi skilled	76	42	34
Production	<u>184</u>	<u>136</u>	<u>48</u>
Totals	<u>328</u>	<u>218</u>	<u>110</u>

<u>MANNING BY DEPARTMENT</u>	<u>PRESENT</u>	<u>PROPOSED</u>	<u>SAVING</u>
Engineering & General Services	85	46	39
Personnel	5	1	4
Billet & Mills	113	86	27
HT & Finishing	86	59	27
QC & Met. Services	8	4	4
Commercial Services	14	11	3
A & A	<u>17</u>	<u>11</u>	<u>6</u>
Totals	<u>328</u>	<u>218</u>	<u>110</u>



TABLE 2

MANAGEMENT ACCOUNTS

	<u>Forecast</u> <u>1982/3</u> <u>£K</u>	<u>Option 1</u> <u>£K</u>	<u>Difference</u> <u>£K</u>
Standard Sales Profit	( 411)	410	821
Sales Price	70	-	( 70)
Activity	(1196)	(1855)	( 659)
Buying Materials	58	263	205
Employment Costs	( 48)	( 55)	( 7)
Manufacturing Yield	( 33)	( 33)	-
Speed	230	-	( 230)
Waiting	( 344)	( 111)	233
Non Standard Route	( 120)	( 100)	20
Spending	642	1632	990
	<u>375</u>	<u>1388</u>	<u>1013</u>
Regional Dev. Grant	52	52	-
Result before H.O. Interest and profit sharing	<u>(1100)</u>	<u>203</u>	<u>1303</u>



1. STANDARD SALES PROFIT

Current profit @ Standard for Alloy Bar is £50/T

∴ 10,200 x 50 = £K510

Plus 1500 tonnes of flats @ breakeven -

Less Commercial charges 100

410

2. SALES PRICE

It is now believed that the forecast increase in sales price will in fact not take place and the gain of £K70 has been deleted.

3. ACTIVITY

The revised activity loss is the effect of reducing the mills, grinding and H.T. finishing to single shift. (H.T. furnaces will remain at 15 shifts)

4. BUYING

(a) Materials: Examples of lower raw material costs are:

	<u>April 1982</u>	<u>November 1982</u>
	<u>£/T</u>	<u>£/T</u>
Steel Scrap	56	37
Nickel	3438	2250
70% Fe Moly	5606	4178
Chrome	600	510

Therefore it is probable that the cost of billet will reduce by at least £20/tonne resulting in a buying gain at Craigneuk of £K263 p/a.

(b) Employment Costs: (£K55) represents the existing 2½% Labour award extrapolated for a full year at a reduced manning.

5. YIELD

For this exercise we show the yield loss unaltered. However, with the elimination of stainless from our product mix, it is quite probable that our yield variance will improve.

6. SPEED

No recognition of speed gains have been made.



7. WAITING

The current loss is linked with the activity and reflects the shortfall in demand. In Option 1 we acknowledge that the actual Waiting Time at No. 2 Mill will be 10% above current standard.

8. NON STANDARD ROUTE

Slight reduction to losses due to lower tonnage.

9. SPENDING

Improvement of £K990 due to demanning of 110.



OPTION 2

Using the manning levels established in Option 1, investment should be made to improve efficiency and reduce costs.

The proposals are:

- i) Instal resistance heating in No. 2 Mill together with an extended cooling bank. The capital cost is £.75M but this would be partially offset by various grants (Regional Development; Energy Technology Support Unit; CEGB).

The above development will improve bar quality and reduce costs yielding a favourable return on capital.

- ii) In addition to the above proposal a second-hand bar peeler should be installed in the finishing department. This would reduce bright bar costs considerably.

DETAILS OF COST SAVINGS ARISING FROM RESISTANCE HEATING ARE:

(a) Energy Savings

Current cost per tonne on single shift	£18.56
Estimated cost per tonne on single shift	£8.51
Saving	£10.05

$$\therefore 6,000 \times £10.05 = £K60$$

(b) Yield Savings from reduced scale loss

Improvement of yield of 1%	£5.4/T
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$$\therefore 6000 \times £5.4 = £K32$$

(c) Yield Savings due to reduction of pitting

1.18 tonnes per week

$$\therefore 1.18 \times 46.4 \times 500 = £K27$$

(d) Reduction of Furnace manning from 2 to 1 per shift

1 man at £9,000 per annum = £K9

(e) Total £K128

(f) Capital Expenditure

Approx £K750



- (g) Gross Return on Capital - 17%  
Further benefits
- (h) Reduction of billet stocks by reducing number of billet sizes required from 7 to 4.
- (i) Reduction of decarburisation produced by resistance heating would give the ability to produce "decarb-free" black bars and would improve yield on centreless ground bars.
- (j) By producing more consistent rolling temperatures bar size tolerance would be improved nearer to that achieved in continuous mills

A low cost route from black and bright stainless steel bar can be developed based on:

- (a) The use of our new Vacuum Oxygen Decarburisation Plant to reduce melting costs
- (b) Primary rolling at Sheffield
- (c) Re-rolling at Craigneuk
- (d) Low cost heat treatment and brightening at Craigneuk

Examination of costs has shown that we could produce a typical Austenitic Stainless billet via this route at a saving of approximately £380/Tonne (£470/Tonne yielded to finished ground bar). This would permit us to re-enter the stainless steel market and earn a profit.

With the availability of cheaper billet for carbon steels produced by concasting and roll cogging, it is possible to develop a route for carbon steels at lower cost than present. Savings of £60/tonne on the billet price are available and this would yield a saving of £66/tonne on the finished bar cost. The reduction in cost would broaden our commercial options in the Special Carbon bar market.



OPTION 3 : (MEDIUM TERM)

A G.F.M. long forging machine would be installed to produce both larger size bars and the billet feedstock for No 2 Mill. This unit would be fed with ingots made in the Craigneuk Melting Shops and would thus generate additional melting business of about 300 tonnes of alloy ingots per week. The resultant extra contribution could be used to offset some of the capital costs.

The machine would effectively integrate the whole Craigneuk site, enabling melting, rolling and finishing to be performed under a single central control, billet stocks could be reduced thereby lowering working capital. Customer service would be improved by shortening lead times.

The machine would overtake the size range currently produced by No. 1 Mill. It would also accommodate the bottom end of the heavy forge size range thus making us more cost effective in this part of the market.

In addition the equipment will enable us to extend our product range into sophisticated tool steels.

During installation of the GFM Machine No. 1 mill tonnage could be supplied:

- (a) from pre-planned policy stock
- (b) the stock could be supported by increasing the size range of No. 2 mill up to 63 mm diameter

A specification of the equipment being considered will be appended when available.



OPTION 4 (LONG TERM)

Further increased output could be achieved by the installation of a concast machine to produce cheap feedstock for the GFM. Finishing stands could also be added to produce those bar sizes currently being rolled on No. 2 Mill.

It is expected that by the time this option will be activated an upturn in the market will have taken place. The Working Party reject the present commercial thinking which is concerned only with maintaining the same share of an ever decreasing home market.

The Corporation's facilities have the most modern mill in Europe (Thrybergh) and the most flexible and comprehensive rolling/finishing complex in Britain (Craigneuk).

The present UK alloy bar consumption is 180 kt while BSC alloy bar production is only 80 kt with Craigneuk's allocation being 14 kt. With a determined effort the BSC's share of the market could be increased and a small portion of the increased business would make the Craigneuk operation more profitable.



THE ABOVE OPTIONS SHOW THAT A VIABLE BUSINESS CAN  
BE REBUILT EVEN IN TODAY'S DIFFICULT MARKET CONDITIONS.  
WITH MODEST INVESTMENT AND PLANNED PROGRESSIVE  
DEVELOPMENT, THE SITE CAN BE SECURED FOR THE  
FUTURE.

SURELY THESE OPTIONS MUST BE A MORE CONSTRUCTIVE WAY  
OF SPENDING THE £5M SET ASIDE TO MEET THE COST OF  
CLOSURE.



PA  
MR. SCHOLAR

Mr. Milne is bringing a deputation to see the Prime Minister on Tuesday next at 1630 hours. He will let us have the names of the people who are coming by Friday. He promises that there will not be more than ten, and has taken on board the Prime Minister's point that she would prefer six.

C.S.

8 December 1982



SCOTTISH TRADES UNION CONGRESS  
General Council

Prime Minister

Mr Younger thinks

that if you have the time  
and can bear to, it would  
be politically good to see  
3 December 1982  
these people.



Our ref. JM/PM  
Your ref.

Industry -

Should we arrange

The Rt Hon Margaret Thatcher, MP  
Prime Minister  
10 Downing Street  
LONDON

lo - presumably before

say the statement on

Ravensraig?

Dear Mrs Thatcher,

Ask S's

Link

ms

MUS 6/12

FUTURE OF THE SCOTTISH STEEL INDUSTRY

At a widely representative Conference of the Scottish community held recently, a decision was made to seek an urgent meeting with you to discuss the future configuration of the BSC's Scottish operation.

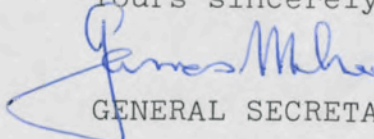
We understand from Mr Jenkin's speech in the House of Commons the other night that the Government will be making a statement on the proposal to close one of the major steel works for the Christmas recess.

In the circumstances, I am now formally submitting this application to you that you meet a deputation to discuss the matters involved. The deputation would consist of between 10 and 15 people representing Local Authorities at Regional and District level, Churches and ourselves. Naturally it would be held in London, and I would not anticipate that the deputation would take more than an hour to make its case.

I do hope you will agree to meet us in view of the wide concern amongst the Scottish populace over the proposed further slimming of the Scottish steel industry. In fact a closure of Ravensraig would, of course, virtually mean the end of steel production in Scotland.

Looking forward to an early and positive reply.

Yours sincerely

  
GENERAL SECRETARY

If phoning or calling ask for



Middleton House  
16 Woodlands Terrace, Glasgow G3 6DF.  
Tel: 041-332 4946/7/8.  
General Secretary: James Milne.

(personal card group)



