



JU513

Secretary of State for Industry

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

17 December 1982

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

Prime Minister

Very little changed

- it looks fine.

Dear Michael,

BSC FUTURE STRATEGY

MUS 17/12

... I enclose with this letter a further revised version of the draft statement which my Secretary of State will be making in the House next Monday, 20 December. This supersedes the draft attached to my letter to you of 15 December.

2 I am sending copies of this letter and enclosure to Roger Bone (FCO), Margaret O'Mara (Treasury), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Nick Huxtable (Lord President's Office), Barnaby Shaw (Employment), John Rhodes (Trade), John Gieve (Treasury), Alex Galloway (Chancellor of the Duchy), Murdo Maclean (Chief Whip's Office), Stephen Lamport (FCO), Private Secretary (Lord Trefgarne's Office), Richard Hatfield (Cabinet Office), Gerry Spence (CPRS), Bernard Ingham (No 10), and Michael Pownall (Lord's Whips Office).

Yours sincerely,

Jonathan Spence

J P SPENCER
Private Secretary

CBI
14

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KC WR
JV.

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CONFIDENTIAL

BSC FUTURE STRATEGY : DRAFT STATEMENT

1 With permission, Mr Speaker, I should like to make a statement about the future strategy of the British Steel Corporation.

2 The House is already aware that the crisis affecting the steel industry worldwide poses severe problems for the British Steel Corporation. Last Spring, BSC just about broke even and the prospect for the current year, 1982/3 was for a very small profit after interest. However, following the American protectionist measures and the sharp downturn in world markets for steel, BSC is again making heavy losses, now running at over £7 million a week. The management has therefore been engaged on an urgent reappraisal of its prospects and of the steps necessary to stem these mounting losses.

3 In my speech to the House on 9 November I made it clear that the BSC management had the responsibility for taking such steps as were necessary to achieve this but that any question of a closure of one of the five main integrated steelworks would have to be considered in conjunction with the Government.

4 The recent BSC management decisions involving closures and redundancies illustrate the scale of the problem and the immediate measures necessary to stem the losses. In preparing their new Corporate Plan for the 3 years 1983/86, the BSC Chairman Mr Ian MacGregor has been discussing with me the further options open to him including the option that one of BSC's five major integrated steelworks might be closed.

5 In considering the future of these five works, the crucial question is how much capacity is likely to be needed in the

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foreseeable future. Compared with a manned liquid steel capacity last year, 1981/82, of 14.4 million tonnes a year, BSC's current output is running at a rate of below 10 million tonnes of liquid steel a year. If there were no prospect of any increased output, there could be no economic justification for retaining all five integrated steelworks.

6 However, the position is not as bleak as that. There are a number of factors which should result in some increase in BSC's steel production in 1983 and this is indeed the Corporation's latest forecast. How far demand is likely to recover beyond that is of course difficult to predict. Much depends on external factors, notably the success of the ECSC steel regime, the future trends of world trade, and perhaps above all the international competitiveness of the main steel-using industries in Britain and of British Steel itself. And while the world export market for steel is bound to remain difficult, further substantial improvements in BSC's competitiveness could offer improved prospects for exports.

7 Moreover, as I have made clear to the House on many occasions, the UK steel industry has made far greater cuts in capacity than the steel industries in other European Community countries. It is the turn of other Member States to close steelworks and cut back capacity as we have done.

8 It remains the Government's firm resolve that the Corporation should return to lasting viability, free of Government subsidy. This is the only way to have an efficient steel industry, providing steel at competitive prices to the market and the only way to achieve secure employment in steel. Moreover, the Community steel regime requires operating subsidies to be eliminated by the end of 1984. Although it will not now be possible for BSC to become profitable this year as had been hoped, the Corporation have accepted that their aim should be to return to breakeven before interest in 1984/5.

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9 The problem therefore is what strategic decisions should be taken to achieve our commercial and financial objectives in the longer term.

10 The Government believe it would be wrong to take irrevocable decisions on future steel capacity at a time of such major uncertainty. I am therefore asking BSC to prepare their Plan for the next 3 years on the basis that steelmaking will continue at all five major integrated sites. This must however depend on each site performing effectively and upon future demand and output. I must also make it clear that this does not imply that BSC will be required to maintain manned capacity at the current level of 14.4 million tonnes; nor that all the facilities within each of the five major integrated sites will necessarily remain in operation. The Corporation will continue to be free to take management action to cut costs where necessary in order to maintain efficient operations and to move steadily towards the objective of viability. Indeed, in the case of Ravenscraig, BSC management are at present considering the closure of the slabbing mill because of the general reduction in steel demand coupled with growing customer preference for lower-cost slab produced through the continuous-casting route. This is entirely a matter for the Corporation's management and they will make their decision in the next few weeks in the light of a careful examination of the prospects for future demand for slab steel.

11 There is also the question of future major investment. The Port Talbot works has been substantially modernised in recent years, but the hot strip mill, which is now 30 years old, is in need of modernisation and a project proposal has been put forward by the BSC. The Government fully appreciate the importance of the mill operating to the highest standards of quality and efficiency. We are discussing the details of the project with the BSC in the light of the latest estimates of demand for strip products; it will also need to be discussed with the European Commission. I will announce the Government's decision as soon as possible.

CONFIDENTIAL

12 The House will wish to know what the financial consequences of these decisions might be. Our preliminary view is that the additional costs can be contained within revised EFLs for this year and for 1983/4, which will maintain the downward path of Government funding of the Corporation, albeit at a slower rate than we had previously envisaged, reflecting the inevitably slower progress to breakeven that we now expect. I shall announce revised EFLs for this year and 1983/4 as soon as possible.

13 I must however stress one point. The decisions which I have announced today do not mean that any particular works or plant is safe. That must depend on future markets and on plants being operated to the highest efficiencies. Massive sums have been invested by the Corporation in modern plant, amounting to over £3000 million over the last 10 years. Although immense progress has been made in raising productivity to levels approaching the best European standards, Mr MacGregor has made it clear to me that there is still quite a long way to go before BSC matches the productivity records of its major competitors. Quality, efficiency and service are also vital.

14 The decision I have announced is a challenge both to management and men.

7 DEC 1982

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TO: DIRECTOR, FBI
FROM: SAC, NEW YORK
SUBJECT: [Illegible]

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SERIALIZED

Met-Ind.

sailings cancelled from Harwich or Felixstowe last night? Is it not a fact that this is the first fatal accident in which European Ferries has been concerned in 20 years of operations? That in itself is a pretty good record.

Mr. Sproat: I have no knowledge of any cancellations last night. I am not able to confirm the precise details that the hon. Gentleman mentioned. If those are the facts, which I have no reason to doubt, they constitute a splendid record.

Mr. John Prescott (Kingston upon Hull, East): The House will be aware that today is the anniversary of the expression of condolences for the loss of 16 men from the Penlee lifeboat and the "Union Star". No doubt Christmas will claim more seamen's lives in further incidents. Can the Minister assure us that when the public investigation takes place, as it must, it will not take as long as the one year and four months that it has taken him to set up the Penlee inquiry?

Is the Minister also aware of the increasing anger felt by many seamen and by some members of the air-sea rescue services who are witnessing condolences expressed in the House at a time when the Minister is presiding over cuts in coastguards, look-out facilities, helicopter liaison officers and now the Land's End radio station? The Minister is motivated by a desire to save money that will undermine the safety of seafarers. Will he stop the cuts now, conduct a proper inquiry and increase the safety of seamen who are engaged in the most dangerous occupation in Britain?

Mr. Sproat: I am sure that all hon. Members are aware of the tragic anniversary that this has turned out to be. I ordered the inquiry earlier today and it has already begun to sit. If the preliminary inquiry should lead to a formal investigation, that will be set up with all due speed.

As to the hon. Gentleman's remarks about coastguards and lifeboats, all that I can say is that the coastguards and lifeboat men performed their jobs on this occasion with their customary heroism and skill. There is no question of any cuts bearing on what happened in this tragic accident.

Mr. D. N. Campbell-Savours (Workington): May we have an immediate safety review of every operational ferry serving the United Kingdom? Is the Minister aware that Townsend Thoresen will disclaim all insurance liability for the tractors and trailers carried on the ferry, which will mean substantial cash flow problems for many hauliers? Is he also aware that some drivers may have been sleeping in their cabs in contravention of Townsend Thoresen's conditions of carriage? If that is so, will the Minister issue instructions to all ferry companies to ensure that it does not happen in future?

Mr. Sproat: The answer to the first question is "No, Sir". My answer to the second and third questions is that I am not aware of those facts.

British Steel Corporation

3.42 pm

The Secretary of State for Industry (Mr. Patrick Jenkin): With permission Mr. Speaker, I wish to make a statement about the future strategy of the British Steel Corporation.

The House is already aware that the crisis affecting the steel industry worldwide poses severe problems for the British Steel Corporation. Last spring, BSC just about broke even and the prospect for the current year, 1982-83, was for a small profit before interest. However, following the American protectionist measures and the sharp downturn in world markets for steel, BSC is again making heavy losses, now running at more than £7 million a week. The management has, therefore, been engaged in an urgent reappraisal of its prospects and of the steps necessary to stem these mounting losses.

In my speech to the House on 9 November I made it clear that the BSC management had the responsibility for taking such steps as were necessary to achieve that, but that any closure of one of the five main integrated steelworks would have to be considered in conjunction with the Government.

The recent BSC management decisions involving closures and redundancies illustrate the scale of the problem and the immediate measures necessary to stem the losses. In preparing their new corporate plan for the three years 1983-86, the BSC chairman Mr. Ian MacGregor has been discussing with me the further options open to him, including the option that one of BSC's five major integrated steelworks might be closed.

In considering the future of those five works, the crucial question is how much capacity is likely to be needed in the foreseeable future. Compared with a manned liquid steel capacity last year, 1981-82, of 14.4 million tonnes a year, BSC's current output is running at a rate of below 10 million tonnes of liquid steel a year. If there were no prospect of an increased output, there could be no economic justification for retaining all five integrated steelworks.

However, the position is not as bleak as that. A number of factors should result in some increase in BSC's steel production in 1983 and this is indeed the corporation's latest forecast. How far demand is likely to recover beyond that is, of course, difficult to predict. Much depends on external factors, notably the success of the ECSC steel regime, the future trends of world trade, and perhaps above all the international competitiveness of the main steel-using industries in Britain and of BSC itself. And while the world export market for steel is bound to remain difficult, further substantial improvements in BSC's competitiveness could offer improved prospects for exports.

Moreover, as I have made clear to the House on many occasions, the United Kingdom steel industry has made far greater cuts in capacity than the steel industries in other European Community countries. It is the turn of other member States to close steelworks and to cut capacity as we have done.

It remains the Government's firm resolve that the corporation should return to lasting viability, free of Government subsidy. That is the only way to have an efficient steel industry, providing steel at competitive prices to the market, and the only way to achieve secure

[Mr. Patrick Jenkin]

employment in steel. Moreover, the Community steel regime requires operating subsidies to be eliminated by the end of 1984. Although it will not now be possible for BSC to become profitable this year, as had been hoped, the corporation has accepted that its aim should be to return to breakeven before interest in 1984-85.

The problem, therefore, is what strategic decisions should be taken to achieve our commercial and financial objectives in the longer term.

The Government believe that it would be wrong to take irrevocable decisions on future steel capacity at a time of such major uncertainty. I am therefore asking BSC to prepare its plan for the next three years on the basis that steel making will continue at all five major integrated sites. However, that must depend on each site performing effectively and upon future demand and output. I must also make it clear that this does not imply that BSC will be required to maintain manned capacity at the current level of 14.4 million tonnes, nor that all the facilities within each of the five major integrated sites will necessarily remain in operation. The corporation will continue to be free to take management action to cut costs where necessary in order to maintain efficient operations and to move steadily towards the objective of viability. Indeed, in the case of Ravenscraig, BSC management is at present considering the closure of the slabbing mill because of the general reduction in steel demand coupled with growing customer preference for lower-cost slab produced through the continuous-casting route. That is entirely a matter for the corporation's management and it will make its decision in the next few weeks in the light of a careful examination of the prospects for that mill.

There is also the question of future major investment. The Port Talbot works has been substantially modernised in recent years, but the hot strip mill, which is now 30 years old, is in need of modernisation and a project proposal has been put forward by BSC. The Government fully appreciate the importance of the mill operating to the highest standards of quality and efficiency. We are discussing the details of the project with BSC in the light of the latest estimates of demand for strip products; it must also be discussed with the European Commission. I shall announce the Government's decision as soon as possible.

The House will wish to know what the financial consequences of those decisions might be. Our preliminary view is that the additional costs can be contained within revised EFLs for this year and for 1983-84, which will maintain the downward path of Government funding of the corporation, albeit at a slower rate than we had previously envisaged, reflecting the inevitably slower progress to breakeven that we now expect. I shall announce revised EFLs for this year and 1983-84 as soon as possible.

However, I must stress one point. The decisions that I have announced today do not mean that any particular works or plant is safe. That must depend on future markets and on plants being operated to the highest efficiencies. Massive sums have been invested by the corporation in modern plant, amounting to more than £3,000 million during the past 10 years. Although immense progress has been made in raising productivity to levels approaching the best European standards, Mr. MacGregor has made it clear

to me that there is still quite a long way to go before BSC matches the productivity records of its major competitors. Quality, efficiency and service are vital.

The decision that I have announced is a challenge to both management and men.

Mr. Stanley Orme (Salford, West): This is an extremely important and serious statement. Although we welcome the fact that none of the five major plants is to be closed, the Government have made no specific long-term proposals for the steel industry. Therefore, the statement in no way provides an answer to the crisis that faces the steel industry.

Nearly 80,000 jobs have been lost in the steel industry since 1979 and redundancies are still taking place at an ever increasing pace. At least 10,286 jobs have been lost since 21 October this year. How many more redundancies are envisaged as a result of the statement? We do not want a repeat of what happened in a recent debate when the Minister did not tell the House what was happening when redundancies were taking place. We do not want redundancies to take place during the recess so that the House does not have a chance to discuss them.

Is the decision not to close any of the big five permanent or merely temporary? The Secretary of State said that the plan was on a three-year basis. We want some permanence in the industry. We should like a categorical answer about whether the decision not to close the big five is permanent or temporary.

The Secretary of State mentioned the possible closure of the slab mill at Ravenscraig. How many jobs would be lost if it were closed? Ravenscraig has already suffered many job losses. What action is he taking about imports from the EEC and elsewhere? What happens if we do not accept EEC targets? Will we take action against the EEC? Will we stand up to it as the right hon. Gentleman envisaged in his statement? His actions so far have fallen far short of that.

Does the Secretary of State agree that demand in the economy is one of the basic reasons for the decline in the steel industry? Does he agree that that is a far more important element than manning in such a capital-intensive industry? The Secretary of State, in his statement, paid no compliment to the workers in the industry. Increased productivity and the sacrifices that workers in the British steel industry have made should be recognised.

The Secretary of State was extremely vague about the external financing limit. Does he agree that an increase in the external financing limit is the key to future investment in jobs? Why can he not be more candid with the House? Has his Department made no assessment? We need an early answer to those questions.

When will Mr. MacGregor submit the revised corporate plan? Will there be genuine consultation this time rather than the cosmetic discussions of the past? I give the Secretary of State notice that we wish to have a debate on the corporate plan at the earliest opportunity. Does he agree that, as long as the Government's present economic policies continue, there will be no satisfactory solution to the crisis in the British steel industry?

Mr. Jenkin: The right hon. Gentleman is deluding himself if he believes that Britain is alone in facing a crisis in steel. [HON. MEMBERS: "He did not say that."] The right hon. Gentleman was implying that the crisis was the

Not Encl
Steel



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Secretary of State for Industry

PA

Mr
TOW

Mr Spencer. MB
MS 17/12

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DEPARTMENT OF INDUSTRY
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JV
BI

15 December 1982

(1)

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

Prime Minister

This is generally well in line
with yesterday's discussion. But

- (i) no mention of Arbed steel
- ← (ii) nor of BSC's poor export performance
- (iii) no indication that Mr Jenkin will refer to BSC's decision

Dear Michael,

BSC FUTURE STRATEGY

As agreed at the Prime Minister's meeting yesterday, I attach a revised draft Statement which my Secretary of State would propose to give to the House next Monday, 20 December. The draft takes into account the points made in the Annex to your letter of 14 December.

2 I am sending copies of this letter and enclosure to Roger Bone (FCO), Margaret O'Mara (Treasury), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Barnaby Shaw (Employment), John Rhodes (Trade), John Gieve (Treasury), Stephen Lamport (FCO), Richard Hatfield (Cabinet Office), and Gerry Spence (CPRS).

Yours sincerely,

Jonathan Spencer

J P SPENCER
Private Secretary

to close the ingot

note at Ravensraig

- in response to a supplementary question.

Encl

(i) (ii) will probably come out in supplementaries.

(ii) - he may consider mentioning in the statement - in supplementaries - will mention do his bit

Do you wish me to make these points, or are you content?

MS 15/12

CONFIDENTIAL

BSC FUTURE STRATEGY : DRAFT STATEMENT

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7 Against this background, the Government believe it would be wrong to take irrevocable decisions on future steel capacity at a time of such major uncertainty. Moreover, as I have made clear to the House on many occasions, the UK steel industry has made far greater cuts in capacity than the steel industries in other European Community countries. It is now the turn of other Member States to close steelworks and cut back capacity as we have done.

8 At the same time, I must make it clear that it remains the Government's firm resolve that the Corporation should return to lasting viability, free of Government subsidy. This is the only way to have an efficient steel industry, providing steel at competitive prices to the market and the only way to achieve secure employment in steel. Moreover, the Community steel

regime requires operating subsidies to be eliminated by the end of 1984. Although it will not now be possible for BSC to become profitable this year as had been hoped, the Corporation have accepted that their aim should be to return to breakeven before interest in 1984/5.

9 The problem therefore is what strategic decisions should be taken to achieve our commercial and financial objectives in the longer term.

10 The Government have concluded that it would be right to ask BSC to prepare their Plan for the next 3 years on the basis that steelmaking will continue at all five major integrated sites. This must however depend on each site performing effectively. And I must also make it clear that this does not imply that BSC will be required to maintain manned capacity at the current level of 14.4 million tonnes. Nor does it mean that all the facilities within each of the five major integrated sites will necessarily remain in operation - that will depend upon future demand and output. The Corporation will continue to be free to take management action to cut costs where necessary in order to maintain efficient operations and to move steadily towards the objective of viability. Indeed, in the case of Ravenscraig, BSC management are at present considering the closure of the slabbing mill because of the general reduction in steel demand coupled with growing customer preference for lower-cost slab produced through the continuous-casting route. This is entirely a matter for the Corporation's management and they will make their decision in the next few weeks in the light of a careful examination of the prospects for future demand for slab steel.

11 There is also the question of future major investment. The Port Talbot works has been substantially modernised in recent years, but the hot strip mill, which is now 30 years old, is in need of modernisation and a project proposal has been put forward by the BSC. The Government fully appreciate the importance of the mill operating to the highest standards of quality and efficiency. The Government are discussing the details of the project with the BSC in the light of the latest estimates of demand for strip products; it will also need to be discussed with

the European Commission. I will announce the Government's decision as soon as possible.

12 The House will wish to know what the financial consequences of these decisions might be. Our preliminary view is that the additional costs can be contained within revised EFLs for this year and for 1983/4, which will maintain the downward path of Government funding of the Corporation, albeit at a slower rate than we had previously envisaged, reflecting the inevitably slower progress to breakeven that we now expect. I shall announce revised EFLs for this year and 1983/4 as soon as possible.

13 I must however stress one point. The decisions which I have announced today do not mean that any particular works or plant is safe. That can only depend on the future market for steel products and the efficiency with which BSC's steel-making plant is operated. Although immense strides have been made over the last 2 or 3 years to raise productivity to levels approaching the best European standards, Mr MacGregor has made it clear to me that there is still quite a long way to go before BSC reaches levels of output per head comparable with its major competitors. Massive sums have been invested by the Corporation in modern plant, amounting to over £3000 million over the last 10 years. There is no reason why the highest levels of quality, efficiency and service should not be reached. [The decision to retain steelmaking at the five major integrated sites is a challenge both to management and men.]



2001-10-12
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JU507

Secretary of State for Industry

Prime Minister (2) *cc R*
DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

17 December 1982

CONFIDENTIAL

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
Whitehall
London SW1

mo

Dear George,

BSC: FUTURE STRATEGY

Thank you for your letter of 15 December proposing a change to the wording of the draft statement we discussed at the Prime Minister's meeting on 14 December. You will by now have seen the revised draft statement taking account of the points agreed at that meeting, which was circulated by my office yesterday evening.

with me?

2 The amendment you propose would substantially weaken the statement, in a sense which is entirely contrary to the lines of the discussion in No 10 on 14 December. It is essential for there to be uncertainty about the future of individual plants within major works; this uncertainty is a crucial element in obtaining the agreement of Ian MacGregor and the BSC Board to our decision to keep steelmaking at all 5 works.

3 It follows that the Government cannot say, either in the House or elsewhere, that the Government have considered and rejected the option of the partial closure of Ravenscraig. We have not done so. What we have decided, and the draft statement reflects this, is that BSC should plan on the basis that steelmaking should continue at all 5 major works.

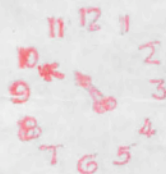
4 That will provide only a small degree of reassurance in Scotland. But to go any further would be to provide assurances which neither we nor BSC may be able to deliver.

5 I am sending copies of this letter to the recipients of yours.

Younger
Ratcliffe

Nat Ind, Steel, Pt 12

7 DEC 1982





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ce JV.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

SECRET

Prime Minister

ms 15/12

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

15 December 1982

Dear Patrick,

EEC FUTURE STRATEGY: DRAFT PARLIAMENTARY STATEMENT

I have now seen the record of our meeting at No 10 on Tuesday. I would like to see one change made in the draft statement, to the third sentence of paragraph 9. I think it would be better if this read as follows:-

"The extent to which capacity at this level is required will depend on future demand and output; and while no individual plant would have an indefinite guarantee each would have an opportunity to demonstrate that it could face international competition. The Corporation..."

My reason for suggesting this is that the sentence as it stands seems to me open to the interpretation that BSC could without further consultation with the Government achieve the partial closure of one of the major plants - ie an outcome on the lines of option (iii) of your paper of 2 December. You yourself argued against this option and colleagues collectively endorsed your conclusion. Clearly it would be unfortunate if in our efforts to remind BSC management and workforce that there can be no guarantee of long term security for any of the major plants, we should give the impression that we were, in fact, inclining towards the partial closure option.

I know that you will be making substantial changes to the draft and I would be grateful to be kept in touch. If I could have a copy of the revised draft by Thursday evening (as I will not be in London on Friday) I would be most grateful.

I am copying this letter to the Prime Minister, Francis Pym, Geoffrey Howe, Nicholas Edwards, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

Yours truly,

George

nat. Ind.

Steel PA12

DEC 1982



PRIME MINISTER

STEEL: PARLIAMENTARY HANDLING

You may wish to raise this at your meeting tomorrow.

I understand that Bernard Ingham would favour a statement on Thursday on the grounds that this would kill speculation in the weekend press.

The business managers think that it would be asking rather a lot of Cabinet to seek their approval for a statement on Thursday afternoon. In any case, they point out that Mr. Heseltine is planning to make his statement on the RSG settlement for England that day, and that this will cause enough of a row by itself. They also feel that if we make a statement on Thursday, the Opposition will have more time to press for a debate before Christmas. For these three reasons, they favour a statement on Monday.

Mr. Jenkin is at present planning to accept the business managers' advice and make his statement on Monday. If you feel that there is sufficient force in Bernard's argument that the statement should be on Thursday, you might like to raise this with Mr. Jenkin, since it would probably be best if he were to prepare a statement for circulation to Cabinet.

CA

13 December 1982

CONFIDENTIAL

DRAFT TELEGRAM

TO IMMEDIATE UKREP BRUSSELS

Repeated for info to (Immediate) Paris, Bonn (Routine) Luxembourg

MIPT

Steel: SAARSTAHL

Following is text of message from Secretary of State for Industry to Andriessen, for delivery before the FAC on 13 December.

Begins

Dear Franz

I was greatly concerned to learn about the Commission's decision earlier this week concerning aid for Saarstahl. As it has been explained to me, the aid appears to have been authorized without any identification of the capacity that is to be closed and without a clear analysis of Saarstahl's prospects for viability. [It therefore appears, prima facie, to be in conflict with the provisions of the Steel Aids Decision.] From my meeting with Stevie Davignon on 11 November, I had understood that the granting of aid to Saarstahl for November was conditional upon the Federal Republic of Germany producing restructuring proposals by early December. As far as I am aware, no such proposals have been received by the Commission.

2 You know of my concern, expressed at this meeting and later both to you and Stevie at the Informal Meeting of Industry Ministers, that the terms of the Steel Aids Decision should be applied strictly and fairly. This is critical for the success of the Community's steel policy, and allows Member States such as my own to carry through the painful decision necessary to restore our industry to viability.

3 I am to make a statement to the House of Commons towards the end of next week on the planning assumptions which the British Steel Corporation is to make about the future configuration of their major plants. I do not need to tell you that this is a matter of highest political interest. I shall therefore need to be in a position to tell the House the extent to which the aid to Saarstahl, which has attracted a great deal of attention in the UK, is consistent with the principles which the Commission has put forward, and which the UK has fully supported. I should therefore be grateful for your urgent advice on this point.

4 I am copying this letter to Stevie Davignon.

PATRICK JENKIN