

Prime Minister (2)

to JV

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Secretary of State for Industry

DEPARTMENT OF INDUSTRY
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5 February 1983

Copies to:

- PS/Prime Minister (if agreed)
- PS/Mr Lamont
- PS/Mr Butcher
- PS/Secretary
- Mr Manzie
- Mr Sumner
- Mr Mogg

*Please let's discuss this
What a mess
a revised report
in Sheerness
as extremely
and urgent
also in the
new*

Vice President E Davignon
Commission of the European
Communities
Rue de la Loi
Brussels

Dear Shevire,

I am writing to you about the problems that Sheerness Steel are facing over the system of production quotas, a problem about which we have spoken in the past. These problems are coming to a climax as a result of the proceedings that have been opened against the company for excess production under the quota system.

You know the background well enough. Sheerness, an effective and efficient company, has been unable to produce profitably within the confines of the quota arrangements. As an independent and unsubsidised producer it has been forced to invest heavily in the most efficient methods of production in order to repay the financial costs that such investment entailed. The constraints of the quota system have caused greater problems to companies such as Sheerness compared with less efficient companies who either rely on old and outdated plant which has long been paid for or companies which have, for understandable social reasons, been heavily subsidised by governments. However, I must stress that I have no wish to undermine the quota system which, by limiting the absurd results of over production and cut throat competitiveness must be for the good of the steel industry as a whole. I know too that we are at one in believing that the ultimate objective of the Community steel regime must be the elimination of excess capacity. Sheerness itself has taken steps to reduce its own level of operations and has been a very strong, if not the strongest, advocate of rationalisation in the rod and bar section of the UK industry. The interests of other producers have so far made agreement on such rationalisation difficult although we still hope that Sheerness's efforts will be successful. Indeed, with the current level of over capacity eventual rationalisation seems inevitable.

At the moment Sheerness is faced with the prospect of major fines for excess quota production in the period from July 1981 to June 1982. The company has been in frequent contact with the Commission and, following their submission of a detailed written appeal, on 10 February representatives of the company argued their case against the imposition of fines at a hearing in Brussels.



It is not my intention to argue the detail but rather to reiterate some of the broader merits of their case:

(a) It seems from their submission that the Community delivery quotas given to Sheerness do not fully equate with the normal pattern of deliveries during the three year reference period. I appreciate that additional quota was given to the company for merchant bar from Q4 1981 but this did not apply in Q3 1981. Even with this adjustment they are not allowed to sell their full production entitlement within the Community even though that is their normal pattern of trade. The unrepresentative level of Community delivery quota for reinforcing bar has not been adjusted at all.

(b) Sheerness has argued that under the first quota decision (2794/80/ECSC) they should have received extra quota because they faced "exceptional difficulties" as set out in the Decision. I appreciate that the interpretation of the word "exceptional" must be a matter for judgement and I am aware that, because of the need for internal consistency, the Commission often sets itself guidelines on which such judgements are made. However, I do hope that you can look afresh to see whether Sheerness can be considered to have faced exceptional difficulties. I know that their appeal relates to the period prior to the alleged quota excesses, but any adjustment made at that time would have been included in reference levels under later quota decisions.

(c) The third major point is Sheerness's request for additional quota for new plant. To remain fully competitive a company such as Sheerness, indeed any company, must continually ensure optimum levels of efficiency and quality. Investment must take place to satisfy these needs. I appreciate that any increase in capacity which results must ideally be matched by capacity closure. A small mono-producer such as Sheerness does not usually have such an option. I do hope, therefore, that you can look sympathetically on the effects of their capacity increase. And, in this connection, I would recall the positive elements in the Commission's opinion of May 1982 on Sheerness's investment proposals.

I would not write to you if we had not already tried unsuccessfully to find a solution to Sheerness's problems within the UK. We have asked BSC to see what spare quota they can find for Sheerness. Unfortunately, given the inevitable shortage of quota, they have not been able to assist. We have also, through the Private Sector Steel Scheme attempted to encourage rationalisation in this sector. Following the breakdown of talks last November no new plans have yet emerged.



Finally, I should like to reiterate my support for the quota system and for your attempts fully to implement it. Sheerness's problems are, however, worthy of special consideration and I hope that you will be able to find some way of helping the company within the quota framework. If you consider that any detailed discussions would be useful, my officials would of course be glad to come to Brussels to meet with yours; and I myself am ready to discuss the problem further with you, should you wish.

You are
Patel

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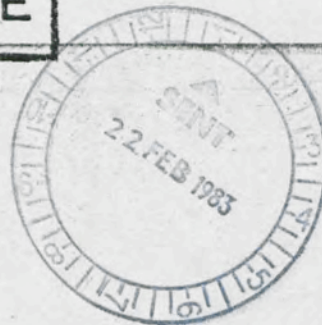
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FROM UKREP BRUSSELS 221120Z FEB 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 744 OF 22 FEBRUARY 1983



SHEERNESS STEEL LIMITED: YOUR TELNO 102

1. I SPOKE TO DAVIGNON ACCORDINGLY, EMPHASISING STRONGLY THE PRIME MINISTER'S PERSONAL INTEREST. I HANDED HIM A NOTE SUMMARISING THE POINTS IN MR JENKIN'S LETTER OF 15 FEBRUARY AND INDICATING THE AFOREMENTIONED INTEREST. DAVIGNON SAID HE WOULD SEE WHAT HE COULD DO BUT WAS NOT SURE WHAT IT WOULD BE. I ASKED HIM TO CONSIDER THE IDEAS IN THE NOTE. HE SAID HE WOULD. I WILL SPEAK TO HIM AGAIN TOMORROW.

FCO ADVANCE TO:-

FCO - PAUL ECD(I) ✓

CAB - MACKENNEY ✓

DOI - PS/SOFS PS MR LAMONT MANZIE SUMNER MOGG DAY

NO 10 - PS/PRIME MINISTER

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TO IMMEDIATE UKREP BRUSSELS
TELEGRAM NUMBER 102 OF 21 FEBRUARY

SHEERNESS

1. MR JENKIN WROTE TO VISCOUNT DAVIGNON ON 15 FEBRUARY ABOUT THE PROBLEMS FACED BY SHEERNESS STEEL. WE SHOULD BE GRATEFUL IF YOU COULD SEEK AN EARLY OPPORTUNITY TO SPEAK TO DAVIGNON, UNDERLINING THE POINTS MADE IN MR JENKIN'S LETTER AND IN PARTICULAR STRESSING THE CLOSE PERSONAL INTEREST WHICH THE PRIME MINISTER IS TAKING IN THE FORTUNES OF SHEERNESS STEEL.

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PS/MR JENKINS DOI

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File
cc. J. Venetis,
Nat. Ind

10 DOWNING STREET

From the Private Secretary

17 February 1983

The Prime Minister has seen a copy of the Secretary of State for Industry's letter of 15 February to Viscount Davignon about the problems which Sheerness Steel faces.

The Prime Minister would be grateful if Sir Michael Butler would let Viscount Davignon know of her close personal interest in the fortunes of Sheerness Steel. The Prime Minister has commented that she regards this as a touchstone so far as Britain's attitude towards the EEC is concerned; and that it is an extremely important and urgent matter in itself.

BF 1

I would be grateful if you could make the necessary arrangements.

I am sending a copy of this letter to Jonathan Spencer (Department of Industry) and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

John Holmes, Esq.,
Foreign and Commonwealth Office.

NR