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FROM THE
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FOR INDUSTRY AND
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KENNETH BAKER'S OFFICE

Miss C M Stephens
10 Downing Street
LONDON SW1

18 February 1983

Dear Caroline,

Thank you for your letter of 11 February requesting briefing for the Prime Minister's meeting with Mr Doug Hoyle MP and Mr John Evans MP on Tuesday 22 February 1983 at 3.45 pm in the House.

The briefing is enclosed and I confirm that Mr Baker will be attending.

Yours sincerely
Neil McMillan

N M McMILLAN
PS/MR BAKER

M78/M78ABL



PRIME MINISTER'S MEETING WITH
MR DOUG HOYLE MP AND MR JOHN EVANS MP
ON TUESDAY 22 FEBRUARY

CLOSURE OF THAMES BOARD MILL AT WARRINGTON

Line To Take

(a) Paper

1. Appreciate concern over the proposed mill closure at the end of April and the loss of nearly 800 jobs.
2. This is a commercial decision by Thames Board in the light of market conditions for packaging boards. The mill has made losses for many years. Appreciate the wish to seek the continuation of the mill but, despite having considered a number of options in the course of a careful review, the company has confirmed it does not foresee a commercial future for the mill.
3. Although closing the Warrington mill Thames Board will remain a major UK board maker (the largest). The company's £100 million expansion at Workington opened last autumn. That modern competitive mill produces a different type of board from Warrington, one with better market prospects. Its capacity has been tripled creating over 500 jobs, directly and indirectly.
4. The All Party Paper Group has asked to bring a delegation including industry representatives to discuss wider paper industry issues. I have replied to Frank White to say that a meeting can best be with the Secretary of State for Industry, who will keep me in touch. The unwillingness of past Administrations to face up to basic economic



problems has added to the industry's difficulties. The present Administration's consistent policies provide the hope for the future.

(b) Regional Aspects

5. The Government's regional industrial policy is to concentrate assistance on those areas with the most intractable problems of high unemployment and structural weakness. Unemployment in Warrington is below the average for all intermediate areas, as they are now constituted. There are many parts of the country experiencing similar problems with higher unemployment - eg the West Midlands which has never been assisted. Assisted Area status needs to take account of all the criteria in the Industrial Development Act 1982. Particular announcements of redundancies do not necessarily justify revision of an Area's status.

6. With the Warrington and Runcorn New Town, the industrial structure is diversifying. This is helping to reduce dependence on the traditional industries. In 1982 alone 113 companies were accommodated with 1,639 jobs. A comparable development programme is continuing for this year.



ENERGY PRICES

Background

The company have dual fired boilers (gas or oil) to provide both heat and power at this plant, running almost entirely on gas. The recent CBI survey on comparative energy prices shows that UK prices for gas bought on "interruptible" contract remain broadly in line with Continental prices for similar contracts. Successive freezes on the price paid by industry for gas over the past 2 years have kept Thames Board Mill's energy costs at Warrington to a minimum.

Because they generate their own electricity, the company have escaped the burden of high UK electricity prices which has fallen on other mills and other industries.

The company estimate that even if the energy bill at Warrington had been reduced by 30 % last year, the plant would still have made a loss. Other factors such as falling demand for the type of board made there, and overcapacity in the industry have been the critical factors.

Line to Take

Warrington runs almost entirely on gas. A series of price freezes for gas supplied to industry has kept Warrington's energy costs competitive with the Continent.

Energy is an important element in paper and board production costs, but falling demand and overcapacity are responsible for the closure.

[If pressed on other companies' problems with electricity prices :]

Patrick Jenkin and Nigel Lawson met the CBI on 17 February and agreed that the Government would continue to study the special problems of intensive electricity users, taking into account the more detailed information made available by the CBI and industry.



BACKGROUND BRIEFING

Thames Board Limited, a Unilever subsidiary, is the largest UK paperboard producer having a turnover of £70 million and around 3000 employees. The company has three mills. The 3 machine mill at Warrington and the single machine mill at Purfleet Essex produce waste based packaging board while the newer mill at Workington Cumbria produces virgin fibre boards mainly from their integrated pulp mill which uses UK pulp wood.

2 On 20 January 1983 Thames Board announced that the Warrington mill would close at the end of April with the loss of 796 jobs. This mill has a capacity of 145,000 tonnes per year but could only produce 102,000 tonnes in 1982 due to the recession. It is understood from the company that this mill has made losses every year since 1974 despite efforts to achieve profitability including the closure of one machine in 1978 and 220 redundancies at the end of 1980. The lack of demand for board during the recession and inability to reflect increased costs in higher prices, due to the intense competition among European producers, has resulted in continuing losses and the company sees the position worsening this year and next. Warrington has also suffered from a trend in the market away from waste based board towards higher quality virgin pulp boards of the kind made at the Workington mill.

3 Warrington is not the only waste based board mill to be closed in the current recession. Thames Board themselves closed one of their mills at Purfleet in 1980 with 800 redundancies. On the other hand, the company have invested about £100million to treble the capacity of their Workington mill from 50,000 to 150,000 tonnes per year. (This project received £10.5 million Selective Assistance plus Regional Development Grants and is providing about 200 new jobs at the mill plus over 300 in forestry for the supply of pulp wood.) Workington has slightly greater capacity than Warrington using only 2 machines instead of 3, later technology and produces the higher quality product to which the market has been moving. Having brought 100,000 tonnes of new capacity on stream, and with no sign of a significant upturn in demand, the decision to close Warrington, which was already working far below capacity, can be understood. While of no comfort to Warrington, this closure will improve the chances of the other UK waste based board mills surviving the recession.

Assisted Area Status

4 Before the 1979 Assisted Area review, the Warrington Travel-to-Work Area had Intermediate Area Status. The decisions following the review were aimed at concentrating regional aid on the areas of greatest need in terms of persistent high unemployment and severe structural decline. It was concluded that Warrington should become non assisted from 1 August 1982. As promised, Ministers carried out in 1982 a review of areas due to become non assisted and other areas where there had been a major relative change in circumstances but this did not change the 1979 decision for Warrington and the area became non assisted from 1 August 1982. Relevant unemployment details are as follows:-



	1979	1981	January 1983	January 1983
	Average %	Average %	Number	%
Warrington	5.6	13.1	11,502	14.2
All Intermediate areas*	6.9	13.3	-	16.6
All Development areas*	7.7	14.2	-	17
Great Britain	5.6	11.3	-	13.7

* On current boundaries

It is estimated that the Thames Board mill closure at the end of April will increase unemployment in Warrington to about 15%. This would still be less than the present average for all intermediate areas.

All Party Parliamentary Paper Group (APPG)

5 The APPG Chairman, Frank White MP, wrote to the Prime Minister at the end of January asking to bring a Parliamentary/industry delegation to discuss recent paper and board mill closures (see Annex A attached) and their fears for the industry. The Prime Minister replied on 7 February explaining that while she was ready to meet individual members about closures in their constituencies the delegation should be received by the Secretary of State for Industry who would keep her fully in touch with the industry's position. So far, the APPG secretary, Harvey Proctor MP, has not contacted the Private Office to arrange this.

CTP3
February 1983

Closures and redundancies announced so far in 1983 are :-

- (a) Trinity Paper Mills announced on 10 January the intended closure of its Springfield Mill, Bolton with 100 redundancies.
- (b) Thames Board announced on 20 January the intended closure of its waste-based Warrington board mill with 796 redundancies.
- (c) Wiggins Teape announced on 26 January rationalisation plans involving the closure of its New Bury Mill with 200 redundancies; 740 redundancies at its Dartford Mill in 1983 and 1984, and 70 redundancies at its Lincoln works. Packaging and fine papers are the grades involved.
- (d) The Jefferson-Smurfit Group announced on 2 February 1983 the closure of 2 fine paper machines at the Alders Paper Mill at Tadworth with the loss of 180 jobs.



BRIEF ON THE UK PAPER AND BOARD INDUSTRY

INTRODUCTION

The industry comprises over 120 mills operated by some 70 companies. It is capital and energy intensive. Total sales in 1981 were about £1,421m. There are several sectors to the industry whose contributions to 1981 production were in value terms:

printing and writing papers and boards	27%
corrugated case materials	25%
packaging boards	17%
household toilet papers and tissues	13%
newsprint	3%
industrial and special purpose papers and boards	9%
packaging papers	6%

The performance and problems of the sectors vary but, overall, the industry suffers from increasing import penetration which reached a record 59% by volume in the first 8 months of 1982.

2 Even before the second World War, imports took nearly 30% of the UK market. Further import penetration, especially from Scandinavia, was made easier when EFTA industrial tariffs were dismantled in 1967. Since the UK joined the European Community, imports from some other Member States have also increased. Their (gradually reducing) tariff protection against EFTA, continues until 1984 whereas the bulk of EFTAN exports to the UK has continued to be free of duty.

UK COMPETITIVENESS

3 The main reason for the increase in imports from the UK industry's main competitors in Scandinavia, USA and Canada has been our inability to compete in the bulk, lower value grades of paper. These grades - newsprint, kraft liner and some types of printing, writing and wrapping papers - can be produced more economically in integrated mills in which pulp mill production is fed directly on to a paper machine. Since the 1960s the Scandinavians in particular have sought to exploit their natural advantages by adding value to their wood products and moving increasingly from pulp production to paper and board production. Unlike North America and Scandinavia, the UK has only limited and fairly scattered timber resources. We therefore depend for 40% of our raw material fibre on imported pulp supplied mainly by countries who are also our main competitors in finished paper and board. This places the UK industry in a vulnerable position. Part of the UK cost disadvantage is that, by contrast with integrated mills, our pulp has to be dried before export to the UK, then we mix water with it to make paper and dry it again. Thus the UK industry bears the high energy costs of drying twice.

4 Our chief competitors benefit from cheaper energy derived partly from natural advantages and, in the case of North America, Government policies which have helped to keep energy costs down. The industries in these countries have also been able to build expensive new, larger, faster mills which are more efficient.



5 The import pressure from better placed competition has led to:-

(i) Contraction of the UK industry, especially severe in the recent recession.

(ii) The use, where possible, of waste paper fibre instead of imported pulp. In some sectors, notably corrugated case materials, the UK industry has been successful in developing waste based alternatives and import penetration has been held back. But the industry has to sell such products at a discount to those made from virgin fibre and is vulnerable to a weak market and a strong pound. Some products cannot be made wholly from waste and, in these cases, part of the pulp handicap remains.

(iii) Greater concentration on

(a) products which, though they use virgin pulp, are unsuited to large scale integrated production,

(b) products which have been developed for special markets and have high added value. In some specialist grades UK companies are world leaders; Wiggins Teape's success in recent years has been built on its development of carbonless copy papers,

(c) products which are better produced near to the consumer eg tissues.

6 Those companies with strong marketing, productivity, investment and product development records in sectors of the industry where the advantages of overseas suppliers carry less weight can and do compete successfully against international competition.

7 For the UK industry, price levels are heavily influenced by factors outside its own control eg the dominance of overseas suppliers, the exchange rate and the state of demand. UK mills have therefore become increasingly concerned about containing production costs which they may be unable to pass on. They also recognise the attractions of developing products which have non-price advantages over competitors.

CURRENT STATE OF THE INDUSTRY

Employment and Capacity

8 The industry has seen a contraction in employment from 97,000 people in 1965 to under 48,000 now. The recent recession has hit the industry hard. Since January 1980 34 mills have closed, 91 machines have been shut and over 15,000 redundancies have been announced. The industry's capacity has been reduced by about 20%.

Productivity

9 The paper industry is highly capital intensive but during the recent recession mills have reduced manning levels. Productivity gains have been reduced by lack of demand and below capacity working. Senior management in the industry would accept, privately that there is further progress to be made in reducing labour and other costs, but the industry sees the potential improvement from such action heavily outweighed by the adverse economic conditions which it faces.



Orders, Exports and Profitability

10 The demand for paper and board closely reflects the state of domestic economic activity. During 1980 demand fell sharply. In the first half of 1981 there were some signs of demand picking up with increased order levels for UK mills, but they drifted down in the second half. Slight improvement in the early months of 1982 was not sustained. The strength of sterling against the US dollar was an important factor in the closure of about two-thirds of UK newsprint capacity in 1980/81 since newsprint is effectively sold in dollars. Now that the dollar has strengthened, those parts of the UK industry which use imported pulp have added costs because pulp too is sold in dollars. But higher pulp costs improve conditions for mills making competing products from waste paper. Exports, mainly in speciality grades, did rather better than expected while the pound was still strong.

11 Partly due to the reduction in UK capacity, mills are running fuller than in the latter half of 1980 but due to weak demand, both here and abroad, and the relative strength of sterling against some European currencies, prices continue to be depressed and profitability is low or non-existent. Even the tissue market has not sustained the steady growth of past years.

Investment

12 There are a few projects in progress which were started before the current recession and when market forecasts were more optimistic. The largest project is Thames Board's 100,000 tonne per year board mill at Workington costing around £100 million, which was opened in September 1982. There are projects to increase tissue capacity and one of these started production last year. In newsprint, Consolidated Bathurst of Canada bought the largest UK mill, which was closed by Bowaters in 1980, and are undertaking new investment there before re-opening it in July 1983. The mill will continue to use waste paper but pulp from UK wood will be replaced by imported pulp from Canada where wood and energy are cheaper. Wiggins Teape announced plans in July 1982 to invest £9m at its carbonless paper manufacturing mill at Cardiff. The company is also investing £1.25m at its Devon Valley paper mill to improve quality and allow the company to develop new grades. United Paper Mills Ltd, a major paper producing company in Finland is considering a project to build an integrated pulp and paper mill at Shotton. The project will cost £130m and will produce 180,000 tonnes pa of newsprint. Other projects in recent years have included those supported by nearly £19m of Government grants under the Paper and Board Industry Scheme.

13 The present position is that industry claims that due to poor profitability, the high cost of borrowing, low prices and lack of confidence about future growth, it is generally unable to consider investment apart from projects which look certain to give a quick pay back. Companies are even said to be postponing, for lack of funds, energy saving projects which they would wish to undertake.

14 Some of the mills which have closed were acknowledged in the industry to be among the less well run or less well placed, but the industry is concerned that the longer unfavourable trading conditions persist, the more middle ranking companies will be at risk and even the best companies will be weakened.

PRESS RELEASE - TEXT ONLYWARRINGTON BOARD MILL TO CLOSE

Thames Board Limited have announced with great regret that their Warrington Mill will close at the end of April with the loss of 796 jobs. The closure is due to increasing losses. At present the Mill has three board machines with 145,000 tonnes annual production capacity for waste paper based packaging board. Last year output fell to 102,000 tonnes due to the recession.

Due to intense competition in the past five years, it has not been possible to increase prices in line with costs. This is despite considerable cost savings achieved in all areas, including a substantial reduction in manning. In 1983 the position will worsen.

Consequently Thames Board have no alternative but to close their Warrington Mill. Thames Board's remaining mills at Purfleet and Workington will continue to produce a wide range of boards with a total production capacity of 250,000 tonnes per annum.



HOUSE OF COMMONS
LONDON SW1A 0AA

C.E.P.M.

216

D. 15th February 1983

Dear Mrs ¹⁶² ~~Tilcher~~,
Thames Board Mills

Many thanks for your letter
of the 11th February and we
look forward to meeting you
about the closure of Thames
Board Mills, on Tuesday,
February 22nd at 3.45 pm.

Yours sincerely,

Dery Hayle,

John Evans

P. M. Mtgs on down of
Wiggins Teale etc 2/83



10 DOWNING STREET

From the Private Secretary

11 February 1983

I am writing to confirm that the Prime Minister is seeing Mr. Doug Hoyle, M.P. and Mr. John Evans, M.P. on Tuesday 22 February at 1545 hours in her room at the House of Commons. Mr. Baker has agreed to be present at the meeting.

I am enclosing a self-explanatory letter signed by Mr. Hoyle and Mr. Evans and I would be grateful if your brief could reach us by close of play on Friday 18 February. You will no doubt cover their plea for assisted area status for Warrington in your brief.

CAROLINE STEPHENS

Neil McMillan, Esq.,
Department of Industry



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From the Private Secretary

11 February 1983

The Prime Minister has asked me to thank you for your letter of 8 February.

Mrs. Thatcher would be pleased to see you and John Evans to discuss the closure of Thames Board Mills and I am writing to offer you Tuesday 22 February at 1545 hours in the Prime Minister's room at the House of Commons. Mr. Kenneth Baker will be present at the meeting. I would be grateful if you could confirm whether this is convenient.

I am sorry it is a little time ahead but the Prime Minister's diary for next week is extremely overcrowded. I am writing in similar terms to John Evans, M.P.

CAROLINE STEPHENS

Doug Hoyle, Esq., M.P.



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CAROLINE STEPHENS

John Evans, Esq., M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

Prime Minister
Are you willing to see Doug Hoyle and
John Evans about this closure
despite the indication at X that
they seem likely to want to
discuss more general
matters?

8th February, 1983.

(The attached letter gives
some background)

CH
2/2

Rt Hon Margaret Thatcher, MP,
Prime Minister,
10, Downing Street,
London SW1.

Dear Mrs Thatcher,

We are writing requesting an interview with you in order that we may discuss the alarming situation that is facing Warrington, following the announcement of the closure of Thames Board Mills, and the loss directly, and indirectly, of 1000 jobs.

These follow the previous loss of jobs in steel, engineering, wire, aluminium and clothing. Prior to 1979, Warrington had very little unemployment but since May 1979 this has risen from 5% to 14.3% at the end of January, 1983. The closure of Thames Board will take unemployment over 15.8%.

The loss of Thames Board is directly attributable to the economic policies being followed by your government. These include an over valued pound, high interest rates, free trade which has allowed subsidised imports to capture 60% of the home market plus high energy costs which are well out of line with those of our competitors in the EEC and EFTA. In addition, to add to Warrington's woes, your government has withdrawn intermediate status from the area.

One of the reasons for closure given by Thames Board Management is that they lost £2 million in 1982. If 1000 people, plus their families, are unemployed this will cost the government in unemployment and social benefits £5 million. Given these figures surely there is a case for government assistance to keep open this mill especially, given the fact, that if any improvement in the economic situation takes place then the packaging industry will be one of the first to benefit.

We should welcome the opportunity to develop this discussion and also to press for the restoration of assisted area status for Warrington in order to enable the town to withstand the economic blizzard that is facing it.

Looking forward to hearing when you can meet us?

Yours sincerely,

Doug Hoyle
John Evans