



Prime Minister

To note.

Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

PROBLEMS OF THE UK PETROCHEMICALS SECTOR

You will no doubt be aware that UK petrochemical producers have been making large losses. In ICI's case, for example, they made a trading loss of £139 million in 1982 in their petrochemical business as against Group profits of £366 million. ICI and BP have recently told the Department of Industry that they must have assistance if they are to stay in this business.

2. In the case of ICI they are seeking £50-75 million in 1983 and similar amounts in 1984 and 1985. They say that, if this assistance is not forthcoming, the cash drain on their other businesses will be unacceptable, and they will be forced to withdraw gradually from all petrochemical operations in the United Kingdom, closing all their plants on Teeside and most downstream operations elsewhere.

3. In the case of BP, who have requested a sum of approximately £50 million spread equally over the next three years, the position is less clear. Following losses of nearly £200 million in both 1981 and 1982, BP expect that these losses will be significantly reduced between 1983 and 1985. However, the Chairman of BP Chemicals has written to Patrick Jenkin making it clear that the future of the cracker at Baglan Bay is very much at risk.

4. A preliminary assessment by officials of ICI's and BP's subsidy bids has been done, but does not provide an adequate basis for decisions. The case for subsidies is so far not proven, and more work needs to be done. My letter of 14 March to Patrick Jenkin sets out the basis

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on which further studies might proceed. As you will have seen, we are urgently considering a suggestion by John Sparrow that we should bring pressure to bear on the Commission and the French and Italian Governments to eliminate unfair subsidies, as soon as the necessary evidence can be collected.

5. We must make every effort to ensure that there are no unintended leaks about the work which is now in progress in this area. (If we go ahead with our approach to the Commission, it may well be that we shall want to engage in some unattributable background briefing.) Nevertheless, because of the political sensitivity of the issues under discussion and the risk that there could be an unintended leak, I think you should be aware of these developments. Unless Patrick Jenkin suggests otherwise, I do not think there is any need for collective Ministerial discussion at this stage.

6. I am copying this minute to the Secretary of State for Industry, the Foreign Secretary, the Secretary of State for Trade, the Secretaries of State for Scotland and Wales, the Secretary of State for Energy, Sir Robert Armstrong and John Sparrow.

(G.H.)

16 March 1983