

CONFIDENTIAL

MR SCHOLAR

PA

23 September 1983

PETROCHEMICALS

The recent correspondence between the Chancellor of the Exchequer and the Secretary of State for Trade and Industry on the recent report of the Working Group on Petrochemicals confirms that no immediate decisions by Government are required. Nevertheless it would be misleading to think that the underlying problems of the petrochemical sector have been resolved despite some recent improvements in trading results. It is likely that the UK companies will sooner or later have to undertake a further major rationalisation of capacity, probably involving significant redundancies.

It is possible that the Prime Minister will be approached directly by the companies and I would be grateful to be involved at an early stage if this happens. As a member of the Working Group, I am sure that any rationalisation decisions should be left to the commercial judgement of the companies. I do not consider that the case for Government support is sustainable on industrial and economic grounds nor do I think that the proposition can be justified on the basis that other European Governments are subsidising their loss-making industries. So long as there is no indication that overseas subsidies are likely to be reduced, there is no prospect that UK Government support would ensure a profitable UK petrochemicals sector. The main advantage of the proposal to approach the European Commission would be to clarify the prospects for the European industry.

D.P.

DAVID PASCALL

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JF4297

Secretary of State for Trade and Industry

15 September 1983

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Prime Minister (4)

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

MUS 19/9

Dear Nigel,

WORKING GROUP ON PETROCHEMICALS
REPORT ON EUROPEAN SUBSIDIES

Thank you for your letter of 31 August with which I fully agree. There has been a significant, though patchy, improvement in business conditions facing the petrochemicals industry, and there seems no likelihood in the short-term that the companies will again see a need to press for temporary operating subsidies. I was particularly encouraged to hear from Mr Garvin, Chairman of EXXON, earlier this week how generally satisfied he is with Esso's future prospects in the UK, including prospects for their petrochemicals business.

2 We do, of course, maintain regular contact at senior level with all the major UK petrochemical companies; and it is certainly our understanding that they would not, in present circumstances, favour a major UK demarche to the Commission on the subject of subsidies elsewhere in the Community. They fear that this might cause unwelcome ripples for certain sensitive negotiations now going on between the companies aimed at putting their own house in order. But their views on this might change, and they may certainly press for firmer action on the related Community issue of securing a more flexible attitude to company deals which, though helping to solve the overcapacity problem, appear to fall foul of established competition policy.

3 My officials will therefore be discussing both these issues further with the UK companies; and should we perceive a need to

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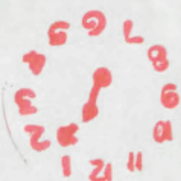
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make a démarche to the Commission, I will of course liaise with colleagues through the normal machinery. But so far as the Working Group is concerned, I think it has done a useful job and I agree that we can now consider its task to be completed.

4 This letter is copied to the recipients of yours.

Yours
Ernest,
Leah.



19 SEP 1983



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

31 August 1983

The Rt. Hon. Cecil Parkinson MP
Secretary of State for Trade and Industry

Jan CW

11/9.

**WORKING GROUP ON PETROCHEMICALS:
REPORT ON EUROPEAN SUBSIDIES**

will request if required

I understand you have seen a copy of the Working Group on Petrochemicals report on European subsidies. As noted in Patrick Jenkin's letter to Geoffrey Howe of 16 May, the decision by BP and ICI effectively to withdraw their requests for Government assistance has meant that it has not in fact proved necessary to undertake most of the further studies envisaged in Geoffrey's letter of 14 March.

I have read the Working Group's report with interest. It seems to me that the Group is right to dismiss any suggestion that we should embark immediately on a high profile approach designed to persuade the French and Italian Governments to stop subsidising their petrochemical industries. As the report recognises, such an initiative is not likely to be successful within any reasonable timescale.

On the other hand, I am inclined to agree that there may be advantages in your Department testing the UK industry's reactions to the possibility that the Government might approach the Commission at the appropriate time. Although I think it is right to assume that the Government itself should make the approach, it is clear that if it were to have any chance of success, it would need to be closely linked with an approach by the UK industry.

This is, of course, very much a matter for you, although if we were to approach the Commission, the timing would have to be carefully considered through the usual machinery.

I hope you will agree that we can now treat the Working Group's work as completed. I imagine that you would want to take the lead in future, should we need to consider the petrochemical industry's problems any further.

I am copying this letter to the Prime Minister, the Secretary of State for Foreign and Commonwealth Affairs, the Secretary of State for Energy, the Secretary of State for Scotland, the Secretary of State for Wales and Sir Robert Armstrong.

NIGEL LAWSON

Nigel Lawson

21 SEP 1987

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