



10 DOWNING STREET

THE PRIME MINISTER

Your Grace

Thank you for your letter of 1 March about the closure of Tate and Lyle sugar refinery.

I fully understand your wish to ensure, by making an approach to me, that every possible means open to the Government to avert this closure is properly considered. I am very well aware of the seriousness of the unemployment situation in Liverpool, and of the fact that the closure of this long established plant may have a psychological impact which is greater even than the number of job losses involved would suggest.

As you know, I have asked all the delegations who sought meetings with me to see Peter Walker, who has been closely in touch with Tate and Lyle management and employees from the outset and who is best able to respond to detailed questions about the effects on the problems of the refinery of European Community regulations and the possibility of changing them. But I have been aware throughout of the importance of the issue and have received full reports of his meetings as well as holding meetings myself with Bob Parry and other local MPs.

I am afraid, however, that none of these discussions have revealed any action which I could take which would prevent or delay the closure. The refinery suffers from the inherent disadvantage that, unlike those at London and Greenock, it is not on the dock side and its plant is in urgent need of modernisation. Tate and Lyle are unwilling to put any of their money into a modernisation scheme because they do not envisage that the capacity at Liverpool will be needed.

/Tate and Lyle's

RH

cc: MAFF
Sherrin.
D.L.
Demp

13 March 1981

+ Mr. Robert Parry MP
Mr Malcolm
Thornley MP

DSS

Tate and Lyle's current over-capacity has arisen from the decline in the demand for their products on the United Kingdom market and from a change in the relative prices for raw and refined sugar on world markets which has made it no longer profitable for them to import raw sugar for re-export after refining. There is no way in which the Government could affect the world market situation. To create extra demand on the United Kingdom market, it would be necessary either to negotiate an even bigger cut in the quota set under the Community sugar regime for UK beet producers than has already been accepted or to adopt the suggestion referred to in your letter of exporting some UK production.

The first possibility would add to the redundancies which are already taking place in the beet sugar industry. The Trade Unions and both sides of the House, when the question was debated in Parliament, were agreed that this would not be the right way to seek to solve the problem.

The main objection to the second possibility, that of exporting more sugar from the United Kingdom, is not the attitude of the ACP countries - although it is true that they have insisted in their contracts with Tate and Lyle that the cane sugar they supply under the Protocol to the Lome Convention should not be exported - but the fact that both Tate and Lyle and the British Sugar Corporation obtain a higher price by selling on the home market.

I cannot direct the British Sugar Corporation to incur a loss in order to ease the problems of Tate and Lyle. But it has been suggested that the problem could be overcome by persuading the European Community to pay a higher rate of export subsidy on sugar exported from the United Kingdom than is paid in surplus areas, where market prices are lower, or that the Government should introduce a nationally-financed subsidy to top up the Community subsidy.

/As you

As you will recall, a suggestion on these lines was made at the meeting you attended with Peter Walker on 17 February and we have examined the possibility in more detail since then. This examination has, however, only confirmed that his initial reaction was right. The sugar regime is designed to manage the Community market as a whole and it is a fundamental principle of it that aid given to exports should be the same over the whole of the Community so that exports take place at minimum cost from surplus areas. It would run directly contrary to this to introduce, at national or Community level, export aids which were designed to distinguish between one region of the Community and another and encourage exports to take place from deficit areas where market prices are relatively high. And even if we were allowed to bring in a national subsidy, the cost would be extremely high.

Against this background, I have had to conclude that unless Tate and Lyle are prepared to incur the losses involved in the continued operation of this refinery, closure is inevitable.

I am, however, deeply concerned about the general economic situation on Merseyside; and we are doing everything we can to speed up the initiatives we are taking to provide some alleviation for the area. I am glad to say that the Order formally establishing the Urban Development Corporation is to be debated in the House of Commons next Thursday; and I hope that the outstanding issues concerning the setting up of the Enterprise Zone at Speke can be settled very shortly. It is crucial for Merseyside that these two initiatives are a success: we for our part will do everything we can to make them so.

Yours sincerely

(sgd) MT

His Grace The Archbishop of Liverpool