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Secretary of State for Trade and Industry

27 December 1984

Andrew Turnbull Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON SW1

Per Minister

Dear Andrew,

28/12

BRITISH STEEL CORPORATION

Your letter of 29 November asked for a state of play report on negotiations and future plans for disposals of BSC businesses outside the main steelmaking plants.

2 In total, the scale of activity so far has been considerable, especially in view of the difficulty of attracting private capital into bulk steelmaking in its present state. By December 1983, privatisation and disposals activity had affected 11% of BSC's workforce and almost 15% of its net asset value. It had also created some substantial private sector companies, such as Allied Steel and Wire, with a turnover of £222m and a workforce of over 4,000 in 1983. Since then, there has been further progress, including the disposal of BSC's 91% shareholding in RGC (Offshore) Ltd to Trafalgar House for £15m and the agreement to dispose of 75% of Stanton and Staveley, which had a turnover of £96m in 1983/84.

3 As your letter recognises, the future of the main steelmaking plants remains to be determined when it becomes possible to determine BSC's long-term strategy. And proposals have been submitted to Ministers for the Phoenix II privatisation venture, covering almost all the Special Steels part of BSC's General Steels Division. These proposals, which are currently being appraised, envisage an asset contribution by BSC of £275m, and if implemented they would result in 10% of BSC's present tonnage moving to the private sector.

4 Of the other businesses, the Associated Products Group and the Light Products Group comprise a variety of smaller scale activities at a number of sites which are being privatised when purchasers or partners can be found. Some of the activities are carried out at sites, or concern products, whose future is bound up with the Phoenix II proposals; because of constraints on management time the

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future of those parts will be considered after decisions are taken on Phoenix II. Other activities which are not connected with Phoenix II are subject to review and internal rationalisation when private sector purchasers or partners cannot be found.

5 In the Tubes area, two joint ventures have been formed with TI during the past year to make small and medium diameter seamless tubes. BSC's plan is to improve the feedstock for all seamless tubes through a £40 million capital expenditure programme which was approved in 1983 as part of their Corporate Plan, so that the whole seamless tubes business can be floated in a few year's time.

6 In addition, BSC Refractories is in the course of being put into a joint venture, and another large peripheral business - Pipework Engineering - will have been disposed of by the end of this financial year.

7 On the overseas side, most of BSC's remaining interests are either sales and stockholding companies which are to be retained to support export business, or historical holdings in operating companies for which buyers have not yet been found. Even when current disposal activity is complete, BSC will retain a 40% interest in both Ostrimet (Argentina) and Dorman Long and Amalgamated Engineering (Nigeria). Both these holdings are worthless: the companies make losses and have financing problems. BSC do not support these companies, but the Governments in the countries concerned will not allow them to close.

8 Finally, BSC will retain a 42% holding in Sidbec-Normines after the closure of the Firelake mine and the repayment of the capital debt of the Firelake project. The investment will be carried at zero value in their books, but will secure a supply of high quality iron ore.

9 I attach five Annexes which give more detailed information on the points covered in this letter. They are as follows:

Annex A: a list of disposals and joint ventures from April 1980 to March 1984 which was published with BSC's accounts for 1983/84.

Annex B: an overall list of BSC's businesses. Core businesses are marked with a C.

Annex C: an account of progress since April 1984 on the disposal of BSC's overseas interests.

Annex D: an account of progress since April 1984 on the disposal of BSC's peripheral activities.



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Annex E: an account of two joint ventures currently under review.

10 I am copying this letter to Richard Broadbent (Chief Secretary's office) and Peter Gregson (Cabinet Office).

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

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Progress to privatisation 1980-1984

	Disposals	Joint Ventures
1980/81	<p><i>UK Wholly Owned</i> The Unit Inspection Company Limited Orkot Engineering Industrial Plastics Limited* Teesside Galvanising</p> <p><i>UK Partly Owned</i> The Bamburgh Shipping Company Limited John Finlan Limited Kiveton Park Steel & Wire Works Limited</p> <p><i>Overseas Interests</i> Tubemakers of Australia Limited Pacific Steel Limited (New Zealand) Steel & Tube Holdings Limited (New Zealand) Ostrillon (Argentina)</p>	
1981/82	<p><i>UK Wholly Owned</i> Redpath Dorman Long Limited Hamilton Foundry*</p> <p><i>UK Partly Owned</i> Lee Bright Bars Limited</p> <p><i>Overseas Interests (all South Africa)</i> Consolidated Metallurgical Industries Limited Dorbyl Limited International Pipe & Steel Investments South Africa (Pty) Limited Pipe Couplings (Pty) Limited Stewarts and Lloyds of South Africa Limited</p>	<p>Allied Steel and Wire (Holdings) Limited (Merger with Guest Keen and Nettlefolds plc of rod, bar and reinforcement engineering activities. BSC share 50%)</p>
1982/83	<p><i>UK Wholly Owned</i> Port Clarence and Totton Works Fluorspar Mining Scunthorpe Open Cast Ore Mining The Victaulic Company Limited* (Employees 40%, institutions 30%, BSC 30%)</p> <p><i>UK Partly Owned</i> Bitmac Limited Britflex Resin Systems Limited* Six Hundred Metal Holdings Limited Colvilles McKinney Limited</p> <p><i>Overseas Interests</i> The Indian Tube Company Limited</p>	<p>British Bright Bar Limited (Merger with GKN and Brymill of bright drawing and bright products stockholding. BSC share 40%)</p> <p>Sheffield Forgemasters (Holdings) plc (Merger of River Don Works with Johnson, Firth Brown's Atlas works and other activities. BSC share 50%)</p>
1983/84	<p><i>UK Wholly Owned</i> Coated Electrodes Limited* (part only) The Unit Superheater and Pipe Company Limited*</p> <p><i>UK Partly Owned</i> Sarclad International Limited* Samuel Groves & Company Limited</p> <p><i>Overseas Interests</i> Ilico-Stanton Pipe and Foundry Company Limited (India) AB Dalforsan (Sweden)</p>	<p>Cold Drawn Tubes Limited (Merger with TI of Cold Drawn business. BSC share 25%)</p> <p>Seamless Tubes Limited (Merger with TI of Hot Finished Small Seamless business. BSC share 74.5%)</p> <p>Clyde Shaw Limited (Merger with W Shaw Limited of Craigneuk foundry. BSC share 50%)</p> <p>Hadfields (Holdings) Limited (With GKN and Lonrho to acquire Hadfields Limited as part of Phoenix II arrangements. BSC share 37.5%)</p> <p>Fitzborough Wharf Limited (Merger with Faber Prest Holdings plc. BSC share 25%)</p>

BSC'S BUSINESSESGeneral Steels Division

	<u>1983/84</u> <u>turnover</u>
c Sections and Commercial	£618M
c Plates	£160M
Special Steels	£374M

Strip Products Group-

c Strip Mill Products)	
c Tinplate)	£1138M
Associated Products Group)	

BSC Holdings Group

c Forges, Foundries and Engineering	£35M
c Cumbria (track products)	£70M
e Stainless	£137M
Light Products	£35M
Refractories	£3M

Tubes Division

c Welded Tubes	£148M
Seamless Tubes	£125M
c British Tubes Stockholding Ltd	£17M

Stockholding

c British Steel Service Centres	£165M
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DISPOSAL OF OVERSEAS INTERESTS - PROGRESS IN 1984/85

BSC has a number of overseas interests which fall into two main categories: first, sales and stockholding companies to support exports which are to be retained and secondly the remaining historical holdings in operating companies which have been difficult to dispose of. During 1984/85, the following disposals of the second category have taken place:

Lancashire Steel (Private) - Zimbabwe (100%)

50% sold to the Industrial Development Corporation of Zimbabwe.

50% sold to the Zimbabwe Iron and Steel company thereby reducing BSC's holding in the latter to a nominal 8%.

Cindu - Holland (70%)

Agreement in principle reached with Hoogovens (£1.9M)

Stewart and Lloyds of India (40%)

Agreement in principle to sell to Babcock (£350,000).

Genrec - South Africa (40%)

Sold with PED to Babcock

Stanton Pipe - Canada (100%)

Three merchant banks looking for purchaser, one US company known to be interested

Canped Pipework and Mechanical Contractors - Canada (100%)

Negotiations under way; if they fail this business will be liquidated.

Concast - Switzerland (20%)

This holding is associated with the licence to install proprietary concast systems which is assigned to the Distington Engineering Company (DEC) (part of BSC Holdings). The concast partners have now agreed that the licence can be assigned to a purchaser of DEC, and this company is therefore being marketed.

DISPOSAL OF PERIPHERAL UK BUSINESSES - PROGRESS IN 1984/85

SIZEABLE DISPOSALS

RGC Offshore plc - BSC's 91% sold to Trafalgar House.

Stanton and Staveley Ltd - 75% being sold to Pont-a-Mousson, 25% retained by BSC at Ministerial request.

Pipework Engineering (PED) Ltd - 100% sold to Babcock.

Refractories - Heads of agreement are due to be signed in a deal which will reduce BSC's shareholding to 22% of a joint venture.

MINOR AREAS OF ACTIVITY

Springs business - joint venture negotiations have broken down. BSC is proceeding with in-house rationalisation.

Railway and Ring Rolled Products Ltd - BSC are reviewing the future of this business, following a failed attempt to put it into a joint venture.

Cookley Stamping Works - Negotiations are at an advanced stage with GKN Sankey.

Port Clarence - a litol plant - BSC seeking purchasers.

Tinplate Processing - a 50/50 joint venture established between BSC's 100% owned operation and Afon Tinplate Ltd in which BSC owned 40%.

JOINT VENTURES WITH THE PRIVATE SECTOR - PROGRESS IN 1984/8

1 United Merchant Bar

Agreement to be signed this month for a 75% Caparo/25% BSC new joint venture in light sections. BSC assets up to £1.3M.

3 Phoenix II

Revised BSC/GKN proposals for a 50/50 joint venture in engineering steels submitted to Ministers last month. Now under appraisal by officials. (£81M HMG finance sought). Proposed BSC asset contribution, £275 million.

Nat Ind: Steel Pt 13.