

BRITISH STEEL

If BSC's finances are to be brought under control in time for the ending this year of the EC state aids regime, then one steel works has to close. The principal questions are:

1. Will there be any flexibility for state aid beyond 1985?

Very probably: it is a game of chicken, the French (and to a lesser extent the Italians) are in a worse position than ourselves. Whatever happens state finance will have to continue and this can hide compromises and covert deals with the Commission.

2. Does it have to be Ravenscraig?

Llanwern is an alternative: financially less attractive but much better than no closures at all.

3. Could the purchase and closure of the privately owned Alphasteel do instead?

This is something of a red herring: it would help but BSC believe Ravenscraig has to be closed as well. In any event paying £150 million to nationalise and then close a gigantic loss-maker is politically very difficult. The PAC would have a field day.

4. Need it be a total closure of Ravenscraig, and need it occur just when an election could be anticipated?

Although second-best, closing the hot strip mill and one of the blast furnaces would reduce both



capacity and cost. Subject to the state aid regime, this could perhaps be done sooner and without closing the whole works.

### Alphasteel

Alphasteel has been losing huge amounts of money and there is no hope of it ever making a profit. In a rational world only the prospect of being bought by BSC can be keeping Alphasteel open.

Alphasteel has two marketable points:

- i. 220,000 tonnes of quota (compared to BSC's total of more than 5 million tonnes for the half of its business that is quota-regulated) and
- ii. the threat of competition to a monopolistic BSC and disturbance to its 'orderly' marketing.

BSC is the only realistic purchaser as the European producers are not limited by quota to the same extent as BSC. If BSC were to genuinely break off purchase negotiations, (particularly if this were coupled to an announcement on Ravenscraig), then it seems inevitable that Alphasteel would fold. True, it might start a price war but this would only add to its losses and accelerate the closure once it became clear BSC meant business. On a closure, its quota would be re-allocated and BSC could well obtain the lion's share.

Having successfully negotiated BSC up to an offer of £150 million, Alphasteel are now saying they are no longer interested in selling. We should take them at their word *and call their bluff.*



## Phoenix II

Phoenix II is the rationalisation of the special steels sector at a cost of £55 million primarily involving BSC and GKN. Because it involves the creation of some new steel manufacturing capacity and a consequent reduction in demand on BSC, BSC do not favour it unless Ravenscraig and Alphasteel are closed. DTI on the other hand would like to tidy this sector (at the taxpayers expense) even without other closures.

To date Phoenix I (Allied Steel and Wire) and Phoenix III (Sheffield Forgemasters) have only achieved nationalisation of private sector steel. Privatisation will only occur when all shares are sold and they pass out of BSC control, and away from recourse to the public purse (as happened with Sheffield Forgemasters last autumn).

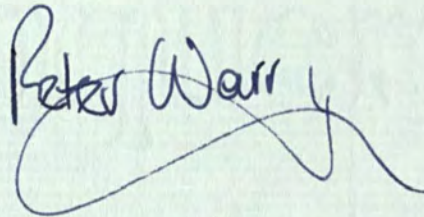
We need to decide whether the priority is to minimise the cost of privatising BSC (eg non-Phoenix route) or to maximise the size of the viable steel industry (Phoenix route). And whether as much of BSC should be privatised as quickly as possible or whether they should retain their 'long legs' (ie the steel processing companies such as Allied Steel and Wire) until a grand full scale privatisation is possible.

## Recommendations

1. The DTI could be asked to give their predictions of what will follow the official ending of state aids this year, such that decisions on BSC can be made in the light of these expectations.
2. Detailed proposals on the partial closure of Ravenscraig could be worked up, including options on timing of both announcement and closure.



3. Alphasteel should be told that the Government are not interested in their purchase at any price.
4. Decisions on Phoenix II should be deferred until the future of Ravenscraig has been decided.
5. The 'long legs' of the business should be further shortened by sale of businesses to raise cash and reduce risk. In particular if approval were given for Phoenix II it should, in part, be financed by the sale of Allied Steel and Wire.

A handwritten signature in blue ink that reads "Peter Warry". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

PETER WARRY