

NOTE FOR THE RECORD

cc John Redwood

BSC

Mr Tebbit reported to the Prime Minister on Friday afternoon on the outlook for the steel industry. BSC believed that commercial considerations dictated a progressive closure of Ravenscraig. Its current level of output was being maintained temporarily while modernisation was being undertaken at Port Talbot. The rolling mill would be closed in autumn 1985 and the output transferred to Shotton. If this transfer were delayed expenditure of £10-15 million would be incurred on refurbishing the rolling mill facilities at Ravenscraig. This could not be justified on a long term basis. In May 1986 hot strip output would be cut by half and transferred to South Wales when the modernisation work was complete. At this point the final closure of Ravenscraig would have been clearly signalled. Ravenscraig would finally be closed in mid 1988. To maintain five plant operation would cost the Corporation an extra £100 million a year.

BSC's difficulties in achieving break even had suffered a set back with the breakdown of negotiations with Alphasteel. BSC had been planning to acquire Alphasteel and then to close it, having taken over its quota. The proprietors of Alphasteel were demanding a price which was too high. The Prime Minister noted that Alphasteel was losing money and that its proprietors might be keeping it open solely in the hope of securing a substantial sale price for the quota. If this were the case the best course might be to withdraw from the negotiations and let Alphasteel fold. The Secretary of State doubted whether the company would fold at all quickly.

The Prime Minister said the political case for keeping Ravenscraig open was strong. Workers there had fought to protect their jobs when the going was rough during the miners' strike. To close the plant would vindicate the taunts of the militants that the Government supported steelworkers only when it suited them. It was also noted that the timing of closure

suggested by BSC was particularly difficult in relation to the election.

The Secretary of State for Trade and Industry said it would be difficult to secure the agreement of the Commission to continuing five plant operation. The Commission were seeking an early end to operating subsidies which were contrary to the Treaty. While it was true that Britain had closed more steel capacity than other Community countries, this was not necessarily true if the comparison was made from the start of the current steel regime. Under pressure from the Commission other countries were now making significant closures. It was thought difficult to disguise the losses for which five plant operation would entail.

The Secretary of State for Trade and Industry agreed to examine further how Ravenscraig could be kept open, at least for a number of years, in a way which would secure the agreement of the Commission.

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3 June 1985