

## Best Plan

Prime Minister

Do you want to seek  
reactions to this?

1. Don't buy Alpha
2. Close hot strip at Ravenscraig (750 jobs)  
but keep its blast furnaces and  
concasters open (300 jobs)
3. R's capacity is roughly half of  
that of Lanxess so R could  
then supply slabs to L whilst  
still allowing L to keep some  
steel making
4. L would takeover all of R's  
hot strip rolling
5. This should meet EE requirements

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(P Worry)

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File

MR TURNBULL

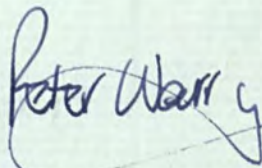
18 June 1985

ALPHASTEEL

John Redwood recently voiced his concern over the Alphasteel decision to the Prime Minister, who asked that we take up the issue with you. We are worried that if the decision comes under informed and hostile questioning in the House, it will be difficult to satisfactorily defend. It could also give rise to a PAC investigation which might produce a report in the early part of 1987. Bob Haslam (BSC's Chairman), is appearing before the Select Committee on Trade and Industry today and could innocently provide further ammunition for the Government's critics.

I assume that any statement by Norman Tebbit would outline the substance of the deal, indicating that it was necessary to meet EC capacity reduction requirements and was financially justified on the basis of the transfer of Alphasteel's quota, the avoidance of a price war and the re-utilisation of Alphasteel's concasters at Llanwern.

The attachment sets out the worst questions that I think might be asked, either in the House or by the PAC, and the core of the answer that could be given (although it will obviously be for DTI to propose in the first instance). For the sake of clarity, I have used a little licence in formulating the questions, but no more than I would expect to occur in the House.



PETER WARRY

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1. **Question:** France and Italy do not appear to be reducing capacity in line with EC policy. Why is it just Britain that is paying out huge sums of money to destroy jobs?

**Answer:** European countries have been moving at different rates - the UK is in the middle of the pack.

2. **Question:** the ending this year of the EC state aids regime means that loss making steel plants have to close. Is Ravenscraig making a loss and does the Alphasteel purchase mean that closure of Ravenscraig is prevented for all time, or merely deferred until after the election?

**Answer:** no such guarantee can ever be given. The future of Ravenscraig will depend upon its financial viability.

3. **Question:** if Alphasteel's concasters are to be re-utilised at Llanwern, this means that BSC could meet all future demands merely through Port Talbot and Llanwern. Does this not signal the end of Ravenscraig?

**Answer:** for Llanwern to be profitable it needs up-to-date continuous casting facilities.

4. **Question:** the latest published accounts for Alphasteel show accumulated losses of £57 million. The auditors say that this is not a true and fair view and that the loss would be nearer £85 million on a proper accounting basis. Given these appalling financial figures, why do the Government believe that Alphasteel will not close of its own accord, as surely the only thing keeping Alphasteel open is the prospect of BSC buying it?

**Answer:** whilst it is possible that Alphasteel would close, it is not thought that this would occur in any reasonable timescale.

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5. **Question:** what is the nationality of the ultimate owners of Alphasteel - the people who will benefit from £150 million.

**Answer:** Greek.

6. **Question:** in other industries (BL for example), it is said that selling a company below asset value would be to short-change the nation. Here the Secretary of State is proposing to pay £150 million for a company that has an asset value of minus £17 million, how does he reconcile these two positions?

**Answer:** the value of Alphasteel to BSC is higher than the figures shown in the company's books.

7. **Question:** is it not true that BSC currently provides Alphasteel with slabs for its hot rolling mill and also markets the resulting strip on behalf of Alphasteel, and is it not true that both Alphasteel and BSC are constrained by their existing quotas from increasing the amount of steel they sell? In these circumstances why might Alphasteel be expected to indulge in a price war when it could gain no market share as a result?

**Answer:** Alphasteel's quality is inferior to BSC and the absence of market outlets means that they would then have to drop their price to sell their steel.

8. **Question:** what grounds are there for believing that Alphasteel could sustain a price war, (from which they could gain nothing), for a sufficient number of years to recoup the millions paid for the company? How long a price war has been assumed in the financial evaluation?

**Answer:** in BSC's judgement, three years.

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9. Question: part of the benefits of purchasing Alphasteel are meant to come from acquiring their quota, but doesn't the EC quota regime end this year?

Answer: yes, but a new regime is anticipated.

10. Question: isn't the elimination of Alphasteel by BSC anti-competitive and abhorrent to Conservative free market principles?

Answer: this is the EC regime

11. Question: would not the closure of the hot strip mill at Ravenscraig be a more commercially sensible alternative? Closing Alphasteel temporarily secures only 750 jobs at Ravenscraig at a cost of £200,000 for each job, and in fact more if one takes into account the resulting redundancies at Alphasteel.

Answer: That is your calculation.

[We cannot say that all possibilities have been properly investigated because if the PAC ever examines the history it will discover that this option was never looked at].

12. Question: if the partial closure of Ravenscraig took place, would the Secretary of State then expect Alphasteel to close of its own accord without the necessity of spending £150 million of the taxpayers money?

Answer: this is not a route we have chosen to follow.

13. Question: did the same merchant bank advise on Alphasteel as helped the Government on BL?

Answer: yes, Baring Brothers.

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14. **Question:** has the Secretary of State consulted his Cabinet colleagues before spending this £150 million, in view of Government cuts widely forecast for other areas?

**Answer:** such colleagues have been consulted as is appropriate for a matter of this type.

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