

# CONFIDENTIAL

PRIME MINISTER

16 July 1985

## BRITISH STEEL

DTI are recommending the purchase and closure of most of Alphasteel's assets as a means of deferring a decision on Ravenscraig. The EC now want to raise European hotstrip capacity utilisation from 66% to 80%, which makes further cutbacks unavoidable, and DTI say closure is "almost certainly inevitable". BSC would like to close Ravenscraig in 1988 and are to close its Gartcosh works (700 jobs) whatever happens.

Government funding for BSC, Actuals and PES baselines, is as below (£m):

1981-2	1982-3	1983-4	1984-5	1985-6	1986-7
694	569	318	523	360	171

Only a month ago you authorised negotiations with Alphasteel on the understanding that BSC would adhere to the 1986/7 EFL baseline but NT is now asking for an additional £74m, with little offsetting saving in other years. This inspires little confidence, and in the light of this substantial additional cost, the Alpha decision should be re-examined.

Alpha does not remove the need or the inevitability of closing Ravenscraig. We have already minuted our objections to Alpha on financial and political grounds. Even on grounds of expediency, it can only be justified:

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See page 3  
of Mr Tebbel's  
letter of  
12 July.

Why?

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1. If Alpha was necessary to get BSC through the EC state aids hoop - but other countries who have closed less look like getting by with just secret undertakings to the Commission - surely NT could do the same.
  
- or 2. If Alpha could defer the announcement of Ravenscraig closure - but there is no commercial linkage. If EC agreement can be secured as above, then there is no political necessity either.
  
- or 3. If Alpha disguised BSC's plans for Ravenscraig - but because of the resultant investments at Llanwern and Port Talbot, if anything, the Alpha decision will advertise BSC's future intentions and the lack of any future requirement for Ravenscraig.

Alpha really doesn't achieve anything - only the prospect of purchase by BSC keeps it open. The announcement of Alpha's nationalisation and part closure during the recess has the makings of a first-rate political row, even without subsequent follow-up by the PAC.

## A Better Way

*floor*

There is a better way. Why not close just the hotstrip mill at Ravenscraig (750 jobs in a total of 3,500) and use its blast furnaces and concasters to supply slabs to South Wales (similar to the MacGregor plan to supply slabs to

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America)? This would save £50m on a new concaster at Llanwern (or £40m modifying Alpha's concaster) and would make BSC's limited intentions even for the hotstrip mill at Ravenscraig less transparent. Surely an understanding could be reached with the EC to do this in 1988 if by then demand had not substantially increased?

## Phoenix II

*Blusonk  
Brinlow - no further investment.*

*300 BSC*

BSC also want to spend £55m of taxpayers' money as a contribution to Phoenix II - a 50:50 joint venture rationalisation of the engineering steels sector. BSC will contribute only £8m and (GKN) just £10m, BSC will also contribute the lion's share of the assets. This creeping nationalisation can only be justified if it really does lead to privatisation. The track record is bad: Phoenix III (Sheffield Forgemasters) has come back for more money, whilst BSC are reluctant to sell Phoenix I - the now profitable Allied Steel and Wire - because they wish to retain control, not just of primary manufacture, but all UK steel reprocessing.

Surely our policy should be to minimise the cost of withdrawal from state involvement in steel, not a socialist ideal of maximising the size of the steel industry through intervention and the elimination of competition. And if it were the latter, what evidence is there that this creates either jobs or industry? Wouldn't it be better to let BSC

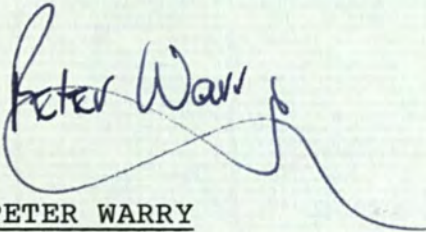
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and GKN fight it out in the market place, co-operating as necessary? Giving them money is unlikely to achieve more. (It is no surprise that GKN have been prepared to wait so long in the hope of catching this gravy train.)

## Recommendations

1. We would prefer the Alpha deal to be dropped; agreement should only be given if NT sticks to his original undertaking on EFLs.
2. If Alpha does not proceed, then NT should be told to negotiate a covert deal with the EC (as other nations appear to be doing) that would close only the hotstrip mill at Ravenscraig and only if demand does not pick up.  
*Yes but would it be GKN rather than BSC that was forced out?*
3. Let market forces resolve the engineering steels sector but, at the very least, insist Allied Steel and Wire is sold before any funding is provided for a Phoenix II-type venture.

  
PETER WARRY