

PRIME MINISTER

MEETING WITH THE STUC

When you arrive at Prestwick Airport your first meeting is with Tom Clarke for fifteen minutes starting at 0950 hrs in the VIP suite. Then you have half-an-hour with the STUC, after which you depart for the British Aerospace visit (their building is at the other end of the Airport).

When you leave the VIP suite, the press will be behind the barrier, and you will be able to have a few minutes with them, before travelling to the British Aerospace building.

The following are expected to attend your meeting with the STUC:-

Mr. J. Milne	General Secretary, STUC
Mr. J. Henry	Deputy General Secretary, STUC
Mr. D. Harrison	Assistant Secretary, STUC
Mr. H. Wyper	Chairman, General Council STUC and TGWU
Mr. G. Boulton	NUM
Mr. C. Lewis	ISTC
Mr. Evans	ISTC
Mr. T. Brenan	Convenor at Ravenscraig
Mr. Doyle	Convenor at Gartcosh

You have in this folder the following briefs:-

- note on steel by the Policy Unit (Flag A).
- note on steel by the Scottish Office (Flag B).
- note on US Tobacco International Inc. (Flag C)
- note on Scott Lithgow. (Flag D)

The two briefs at Flags A and B take somewhat different approaches to the line to take on steel. The brief by the Policy Unit is more positive and forward; the brief by the Scottish Office is rather more defensive. Both have been endorsed by DTI and the Scottish Office is content with the

brief by the Policy Unit if that is the way you choose to handle it. The choice is political.

The Secretary of State for Scotland has not seen the Policy Unit brief. However, I have outlined it to him and he would be content for you to use it, though he would like you to emphasise that the decision to close Gartcosh was taken by BSC management and that the Government would think it wrong to second-guess the management on decisions of that kind. He has also suggested that on matters of detail that are raised you could undertake to draw them to Mr. Brittan's attention (unless, of course, they fall to Mr. Younger himself).

I recommend you to follow the Policy Unit line. It puts the arguments in a more convincing way, and adds the important point about Alphasteel, and it could be made just as sympathetic and understanding as the other brief.

The Secretary of State for Scotland will meet you on the steps of your aeroplane and travel with you to the meeting with the STUC.

US Tobacco is a matter of controversy and there is concern about the future ^{of} Scott Lithgow.

DN

(David Norgrove)

4 September 1985

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DN

(David Norgrove)
4 September, 1985

I am not happy about the
Scott Lithgow brief, and am
pursuing with DTI and Scottish Office.
I'll send you a note later, but
you may like to have the bundle
now.

DN

RAMASY

4 September 1985

RAVENS CRAIG AND GARTCOSH

(1) The Prime Minister will obviously want to start the meeting by expressing sympathy for the Gartcosh workforce, explaining that in the long term it is in no-one's interest to prop up an unviable operation (indeed EC rules debar such subsidies), and to do so can only be at the expense of funding other businesses where genuine prosperity and lasting jobs could be created.

In any detailed discussion, as an alternative to the somewhat defensive official line of sheltering behind BSC, the Prime Minister might consider a more challenging approach.

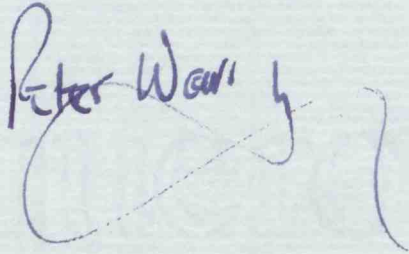
1. On strictly financial grounds BSC have in the past indicated that they ought to close one of their integrated steel works. Furthermore, in the interests of steel-makers throughout Europe, EC rules require each country to reduce capacity so as to achieve full profitability.
2. Quite apart from the Government's desire to help preserve jobs in Scotland, the commitment of the Ravenscraig workforce that kept the plant going throughout the coal strike should be recognised. So to avoid the closure of Ravenscraig [during the next three years] the Government is committing a large sum of money to permit BSC to buy most of Alphasteel, a privately-owned steel producer in South Wales, and effectively remove its capacity. [The basic Alphasteel purchase costs £130m but this is commercially confidential.]
3. This will help BSC's finances, increase their steel quota and output, and should also meet EC requirements (although EC negotiations have yet to be completed.) In effect, the Government has made a major investment to help preserve the future of Ravenscraig.

4. But some sacrifices have to be made. Gartcosh's plant is not the most modern, overall its capacity is surplus to BSC needs, and is distant from its markets. Spending money on Gartcosh would only mean taking it from other areas where it could be applied more cost-effectively to preserve and create jobs.
5. A substantial amount of Ravenscraig's output already goes directly to Shotton for cold-rolling and by switching all production to Shotton - which is an efficient, modern plant - it will help reduce the ultimate cost of Ravenscraig's product, expand its range, improve its quality, and thereby reinforce Ravenscraig's sales and financial viability.
6. The coke ovens are a red herring; with new techniques there is no need for early replacement, no BSC plant is investing in new ovens. Scotland is not being singled out, indeed, three out of Llanwern's four ovens are 22 years old - older than any at Ravenscraig.
7. Of course, no absolute assurance can ever be made about the future of any industrial enterprise, but subject to that qualification, Ravenscraig's future is guaranteed throughout the plan period which runs to 1988 (a three year plan like the last BSC one). After that it will, as always, depend upon demand for steel and the efficiency of production at Ravenscraig. But the Alphasteel investment demonstrates this Government's commitment to Ravenscraig and that in no way can Gartcosh be regarded as the tip of an iceberg.

DEFENSIVE

8. The EC have indicated that they may look for further hot-rolled steel cutbacks beyond those already announced, which would place the future of Ravenscraig's

hot strip mill in jeopardy (employs 750 people). If pressed, the Prime Minister could respond by emphasising that the efficiency improvements being made throughout BSC could increase the amount of steel they are able to sell and so increase demand for Ravenscraig steel. If hot-rolling capacity has to reduce sometime in the future, it is folly to try and predict today how or where this might take place.

A handwritten signature in blue ink that reads "Peter Warry". The signature is written in a cursive style with a large, sweeping flourish at the end.

PETER WARRY

PRIME MINISTER

SCOTT LITHGOW

I have discussed the brief with DTI and Scottish Office.

The Scott Lithgow unions have been told about the redundancies. But the announcement is not to be until next week in order to allow time for management-union discussions.

The management are concerned that these discussions could be undermined if the news spreads.

DTI and Scottish Office agree that if this is raised at the meeting with the STUC, it would be best if you said simply that any redundancies would have to be a matter for discussion between Scott Lithgow management and employees. This would also be the line if you are asked in public.

The brief will be relevant if the news about the redundancies becomes public while you are in Scotland.

DLN

David Norgrove

4 September 1985

CONFIDENTIAL

SCOTT LITHGOW

Line to Take

1. The most important and positive factor is that Scott Lithgow is still open and in business, and even after this round of redundancies will still have a workforce of about the level forecast by Trafalgar House when they took the yard over from British Shipbuilders at the beginning of April 1984.
2. I and my colleagues in the Government are concerned that further redundancies should have become necessary. Trafalgar House have made good progress over the past 18 months in improving the yard's performance. The redundancies are an inescapable consequence of the failure so far to win further orders.

Background

3. Scott Lithgow management are informing the TUs this week that up to 1,000 redundancies (out of 2,500 employed) are necessary; there are unlikely to be sufficient volunteers. The company's hope is that this should not become public until the week beginning 9 September, but there may be leaks.
4. Scott Lithgow is a former shipbuilding firm at Port Glasgow and Greenock on the Clyde, which was part of British Shipbuilders' offshore division, and was to specialise in semi-submersible rigs. The yard made heavy losses, and from April 1984 was taken over by Trafalgar House. There were two rigs in the yard at the time; one for BP was nearly finished, and has now been delivered, and another for Britoil, which was then more than two years from completion. The Britoil rig, for delivery November 1986, is the only substantial work now in the yard. At the time of the TH take-over S of S/Scotland warned that its future depended on performance, and on the yard's ability to win new orders.
5. Scott Lithgow has not so far succeeded in obtaining other than very small orders for new work, and badly needs a major contract. TH say that they are now satisfied with efficiency and productivity, but they must reduce the workforce in line with the present and anticipated workload. Even if new orders were obtained now, redundancies would still be necessary, because it would take several months before the work would be in the yard.

6. There were 600 voluntary redundancies in May 1985 bringing the workforce down to about 2,500. The present round will be 600 directly employed, and about 400 sub-contractors personnel. There would then be about 1,500 working in the yard.

7. Scott Lithgow are pursuing orders for jack-up rigs (no semi-submersible orders seem to be around at present), and have tendered for up to three SK2400 non-nuclear submarines to be ordered in the next 2/3 months by MOD.

US TOBACCO INTERNATIONAL INC - SKOAL BANDITS

The Prime Minister should be aware that a proposal by US Tobacco Inc to set up a facility to manufacture Skoal Bandits, a tobacco product contained in a small sachet and absorbed by sucking, in a factory at East Kilbride has led to considerable controversy in the media. Representations have also been made to Ministers by MPs of all parties and by representatives of the medical and dental professions.

US Tobacco is already marketing this product in Europe and the new facility was designed to provide manufacturing capability to supply that market. The manufacture of tobacco products is eligible for regional assistance and because the company choose to locate in a former special development area it will receive grant totalling around £1 million on investment of almost £5 million. Around 60 jobs will be created with the possibility of more in non tobacco related products later.

Marketing & Promotion

In recognition of the potential health hazards of this product, US Tobacco has entered into a formal agreement with Health Ministers in relation to the marketing of Skoal Bandits as follows:

- (i) marketing will be specifically directed at adult tobacco users and the use of presentations and persons designed to appeal to young persons will be avoided;
- (ii) use of the product will not be portrayed in advertising as a healthy pursuit in its own right;
- (iii) "snuff dipping" will not be promoted as a way of giving up smoking;
- (iv) free samples will not be given to people under 18 and no anonymously addressed offers involving receipt of free samples will be mailed;
- (v) retail outlets will be restricted to those where tobacco products are normally sold.

Medical Aspects

Chief Medical Officers have expressed their concern at the harmful effect of sucking tobacco contained in a small sachet. The practice, in their view, increases the likelihood of oral cancer. This view is based on the findings of the DHSS Committee of Carcinogenicity, who studied medical evidence on the practice. As a result of this concern, the Chief Medical Officers have written to all doctors warning about the dangers associated with tobacco sucking.

LINE TO TAKE

US Tobacco is already marketing Skoal Bandits in the UK and Europe. Although the manufacture of tobacco based products remains an eligible activity qualifying for the provision of regional assistance, Ministers recognised the potential dangers of this product and were in fact able to reach voluntary agreement with the company to place severe

restrictions on the marketing of the product in terms of the media used, the content of the material and the target audience. These restrictions are designed particularly to prevent the promotion of the product to young people and to non-smokers. The company has also agreed to finance independent research on the effects of this habit.

cc/PA

STUC: NEED IN SCOTLAND FOR FULLY INTEGRATED AND GOVERNMENT SUPPORTED STEEL INDUSTRY

Line to Take

1. It is important not to talk Ravenscraig out of business; BSC has said it wants to close Gartcosh, but Ravenscraig is very much in business, and will stay for the next three years at the very least.

A two-edged argument to be handled with care. It risks implying that Ravenscraig could go.

2. Scottish industry is not a major or significant user of Ravenscraig's output, and only 2.8%; total cold rolled strip used in the UK goes to Scottish customers; Scottish industry is not dependent on Ravenscraig or Gartcosh for its steel as a semi-finished material.

3. The Government's aim is to move BSC from being Government supported - whether financially supported or merely controlled - into profit and into the private sector.

4. Acknowledge importance to Scotland of Ravenscraig in economic, employment and social terms.

Background

5. Ravenscraig's significance in Scotland is as a symbol of the country's industrial strength and maturity. Regardless of the underlying industrial position its closure would be seen as a significant weakening of the industrial base, and the loss of a basic industry which has been a major component of the economy for the past 200 years.

6. Ravenscraig employs 4,000 people (110 at or connected with Gartcosh) directly; and current annual expenditure in Scotland on wages and bought in services is about £125m. Any loss of this employment and expenditure would have a serious economic effect locally.

GARTCOSH: FURTHER INFORMATION FROM BSC

1. Capacity: BSC has a substantial excess of cold rolling capacity, and forecast utilisation with Gartcosh is 65%; without Gartcosh utilisation improves to 78%.
2. Financial Return: Improved utilisation leads to an overall improvement in the financial return to the Corporation of £11m a year.
3. Facilities and Investment: BSC point to Gartcosh's relatively low capacity of 12.1 thousand tonnes a week, constrained by its annealing, finishing and inspection facilities. In order to bring Gartcosh up to the required standard about £20m of investment would be needed, in particular at the pickle line, and at the tandem mill for better dimension and shape control.
4. Location and Market: Following the Gartcosh closure and redistribution of BSC's orders transport costs to BSC between works and to customers will be reduced, mainly because Scottish customers take only 2.8% of the UK consumption of cold rolled steel.
5. Loss of Business: Contrary to recent statements by the TUs and others, no loss of business to BSC is expected as a result of the Gartcosh closure, except of a very marginal nature. All the product dimensions and qualities at Gartcosh can be produced at BSC's other cold rolling mills. No customer has indicated that he intends to put orders outside BSC because of the Gartcosh closure.

RAVENS CRAIG AND GARTCOSH

Line to Take

1. Ravenscraig's future is assured for the duration of the current BSC planning period to 1988 (unless there is an unexpected downturn in demand).
2. The closure of Gartcosh is regarded by the Government as a management decision for BSC, it has no implications for the future of Ravenscraig.
3. Ravenscraig's financial position will be strengthened by the closure within BSC's strip division of excess capacity, and by its links with the more modern mill at Shotton, producing coated steels, for which demand is growing.
4. BSC is reviewing its coke making, and is not investing in new coke making plants at any of its works; again, the decision has no implications for Ravenscraig's future. The 'need' for investment in coke ovens had been made an issue of confidence in Scotland; industrial and commercial investment decisions cannot be made on that basis.

Background

5. The British Steel Corporation announced on 7 April details of its plans for the years 1985 to 1988, following Ministerial consideration in July. These included its decision to close Gartcosh cold-rolling mill at the end of March 1986. The closure is intended to improve overall cold mill productivity within the Corporation, reduce surplus capacity, and avoid capital investment which BSC would otherwise regard as necessary at Gartcosh to improve competitiveness and productivity. The closure will result in the loss of 550 jobs at Gartcosh and 160 at Ravenscraig. Ravenscraig itself is to continue in production for the three year period at least, subject to radical and unforeseen changes in market conditions; there was no announcement of new investment at

Ravenscraig, although the need for investment in new coke ovens had been widely canvassed in Scotland.

6. There has been widespread adverse reaction to BSC's plans and a number of meetings have already taken place between Ministers and BSC and those seeking a reversal of the Gartcosh decision. A campaign is being organised to persuade the Government and BSC to reverse the Gartcosh decision. Back-bench Conservative MPs are supporting the Gartcosh campaign.

7. Opposition concentrates on the implications of the closure for the future of Ravenscraig itself. The argument advanced is that the closure of Gartcosh is the first step towards the closure of Ravenscraig in 1988 or shortly after, once the present need for its production has passed, when Llanwern and Port Talbot have been re-equipped, and are back in full production again. Ravenscraig already sends substantial tonnages of hot-rolled coil to the more modern cold rolling mill at Shotton in North Wales, which produces coated steels, for which demand is increasing. BSC say that the strengthening of this existing link will be to Ravenscraig's advantage. Also, the closure will improve the overall finances of BSC's strip division.

8. The other point of controversy over BSC strategy concerns the future of Ravenscraig's coke-making facilities. Half of its coke ovens are nearing the end of their working lives, but BSC has decided to attempt to prolong the lives of existing ovens rather than invest in new coke-making capacity, while developing techniques of steel-making which require smaller quantities of coke. This decision has also been interpreted as a sign that the Corporation are seeking to run down operations at Ravenscraig, though Llanwern is in broadly the same position as Ravenscraig in respect of coke-making, its ovens being in general older.