



FILE

cc: SO
27

10 DOWNING STREET

THE PRIME MINISTER

30 September, 1985

Dear Mr. Aire

Thank you for your letter of 10 September. Perhaps I could take your points in turn.

On your first point, BSC's recent use of capacity has not been typical. In particular, the Scunthorpe and Teeside plants are, at present, particularly heavily loaded because the Redcar blast furnace is to be relined. In each of the three years up to 1984/85 BSC as a whole used somewhat less than two-thirds of capacity.

On your second point, you greatly exaggerate the cost of the transfer of the two Alphasteel casters to Llanwern.

On your third point, I recall saying that some of the Welsh coke plants are older than those at Ravenscraig. I accept that Ravenscraig will be the first integrated works to be affected by BSC's decision not to make further major investments in coke ovens for the time being. But that is why BSC are planning a significant investment in the new coal injection technology at Ravenscraig. This, together with BSC's other measures to extend the life of the coke ovens, will ensure that Ravenscraig will be able to continue operation based on two blast furnaces.

Rev

Perhaps I could make two further comments on points raised in your letter. First, I understand that the additional production which will follow from BSC's acquisition of Alphasteel's quota will be shared out among the strip mills to which the customers and orders are best suited. This is, of course, entirely a commercial decision to be made by BSC. Secondly, you will by now have seen that Austin Rover have made it clear publicly that they do not expect to face difficulties as a result of the closure of Gartcosh. More generally, BSC have detailed action in hand with their customers to ensure that the transfer of Gartcosh orders to other BSC cold rolling mills works smoothly and with no significant loss of business.

Yours sincerely
Raymond Shalton

James Milne, Esq.



GR's

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/ Secretary of State for Trade and Industry

25 September 1985

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David,

... I enclose a draft reply for the Prime Minister to send to James Milne STUC, in reply to his letter of 10 September about the effect of BSC's strategy on Ravenscraig and Gartcosh.

2 Taking Mr Milne's points in turn:

a. Capacity Utilisation. There was evidently a misunderstanding here. BSC do not publish capacity utilisation figures, but for the first 3 months of 1985/86 Milne's understanding is in fact correct. Overall, BSC's capacity utilisation was 74 per cent. As the draft explains, this was however not a typical period and the statement he attributes to the Prime Minister is by no means inappropriate when applied to the past few years.

b. Transfer of Alphasteel casters to Llanwern. The actual cost will be a little over £40m, not £100m. Mr Milne is probably confusing this with the cost of installing new casters at Llanwern, an option made unnecessary by the Alphasteel deal. Precise figures should be treated as commercially confidential at this stage.

c. Coke ovens. BSC have recently made it clear that Ravenscraig will be one of the first works to invest in the new coal injection technology, at a cost of around £10m. The production level at which Ravenscraig would need to move to single blast furnace operation is, in any case, somewhat less than the 20,000 tonnes per week mentioned by Mr Milne.

d. Allocation of Alphasteel's quota. Lackenby will acquire a significant share, but by no means all, of the Alphasteel orders. This is an operational matter for

JF5AHP



BSC.

e. Austin Rover said on 13 September that the closure of Gartcosh would not give them any difficulties in ensuring that they get the volume of steel needed from BSC mills. The memorandum mentioned by Mr Milne has therefore been firmly contradicted.

3 I am sending a copy of this letter to Andy Rinning, Scottish Office.

*Yours ever,
Michael*

MICHAEL R GILBERTSON
Private Secretary

encl

JF5AHP

Please type

~~DRAFT~~ LETTER FOR THE PRIME MINISTER TO SEND TO:

James Milne Esq
Scottish Irades Union Congress
Middleton House
16 Woodland Terrace
Glasgow
G3 6BF

BOK

Thank you for your letter of 10 September, in which you raise some points following our discussion on 5 September about the strategy which has been announced for the British Steel Corporation. Perhaps I could take your points in turn.

On your first point, about BSC's current level of capacity utilisation, your understanding of the most recent levels is broadly correct, but these are not necessarily indicative of either normal or future levels of utilisation. In particular, the Scunthorpe and Teesside plants are, at present, particularly heavily loaded because of the forthcoming Redcar blast furnace ^{is to be} relined. In each of ^{the} three years up to 1984/85, capacity utilisation for BSC as a whole was ^{used somewhat} somewhat less than two-thirds of capacity.

^{with} The only comment which I wish to make on your second point, ^{on your second point, you} about the transfer of the two Alphasteel casters to Llanwern, is that the cost of over £100m which you attribute to this task is greatly exaggerated.

JF5AHR

related to
Your ~~third point concerns coke ovens~~ What I think I said *On your third point, I recall saying*
~~was~~ that some of the Welsh coke plants are older than those at Ravenscraig. *is why* I accept that Ravenscraig will be the first integrated works to be affected by BSC's decision not to make further major investments in coke ovens for the time being, *but* and it is for that reason that BSC are planning a significant investment in the new coal injection technology at Ravenscraig. This, together with BSC's other measures to extend the life of the coke ovens, will ensure that Ravenscraig will be able to continue operation based on two blast furnaces.

Perhaps I could make two further comments on points raised in your letter. First, I understand that the additional production which will follow from BSC's acquisition of Alphasteel's quota will be shared out among the strip mills to which the customers and orders are best suited. This is, of course, entirely a commercial *decision to be made by* matter for BSC. Secondly, you will by now ~~no doubt~~ have seen that Austin Rover have publicly made it clear that they do not expect to face ~~any~~ difficulties as a result of the closure of Gartcosh. More generally, BSC have detailed action in hand with their customers to ensure that the transfer of Gartcosh orders to other BSC cold rolling mills works smoothly and without ^{no} any significant loss of business.

I hope this clarifies the position on the points you have raised.



[The text in this section is extremely faint and illegible, appearing as light grey smudges and ghosting of characters.]

JAMES MILNE 23/9



NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

20 September 1985

Dear David,

You wrote to Andy Rinning on 12 September enclosing a letter which the Prime Minister had received from the STUC about the steel industry in Scotland. We have agreed with DTI that in view of their responsibility for BSC it would be preferable for them to provide the reply in this case.

I am copying this letter and enclosure to Edmund Hosker in DTI.

Yours sincerely,
John Graham

J S GRAHAM
Private Secretary

DTI



James MILNE
23/9



✓

10 DOWNING STREET

From the Private Secretary

M 12 September 1985

STUC

The Prime Minister has received the letter enclosed from James Milne, following her trip to Scotland. I should be grateful for a draft reply for her signature, agreed with Department of Trade and Industry, by Monday 23 September.

I am copying this letter and enclosure to Edmund Hosker (Department of Trade and Industry).

(DAVID NORGROVE)

Andy Rinning, Esq.,
Scottish Office.

DTI

SCOTTISH TRADES UNION CONGRESS
General Council

cc PW and
return please



R12

Our ref. JM/HC

Your ref.

10 September, 1985

The Rt Hon Margaret Thatcher, MP
Prime Minister
10 Downing Street
LONDON

Dear Prime Minister,

Following our discussion last Thursday morning, I am writing to thank you for agreeing to meet us at such short notice when you obviously had a very busy schedule.

I also thought I should write to re-raise with you some of the points which were discussed on Thursday, as it was clear to both myself and my colleagues that you had been poorly advised on some very important aspects of the Gartcosh closure implications.

The specific points on which you appear to have been misinformed are as follows:-

Firstly, you said to us that BSC's five integrated plants were operating at only two-thirds capacity. My understanding is that three strip mills are operating at two-thirds capacity and that the other two integrated plants - at Scunthorpe and Redcar - are operating at approaching full capacity.

Secondly, you told us that you did not expect to be popular in South Wales because of the closure of Alphasteel. What in fact is happening is that Alphasteel's strip production is ceasing and its concast is being refurbished and transferred to Llanwern but there will be no redundancies amongst the Alphasteel workforce, as they will either be transferred to semi-finished production for the US markets or absorbed by the other South Wales plants. You also told us that the takeover of Alphasteel was costing BSC over £100 million. This is only partially correct, as the cost of refurbishing the concast and installing it in Llanwern will be in excess of a further £100 million. The total cost, therefore, of the proposed changes in South Wales is well in excess of £200 million with the Port Talbot investment additional.

Thirdly/...

If phoning or calling ask for



Middleton House
16 Woodlands Terrace, Glasgow G3 6DF.
Tel: 041-332 4946/7/8.
General Secretary: James Milne.

.../Thirdly, you stated the Llanwern and Port Talbot coke ovens were older than Ravenscraig's. This is simply not true and the British Steel Corporation has already indicated to the Ravenscraig workforce that Ravenscraig will be first affected by the decision on no investment in coke ovens. Ravenscraig will be reduced through a lack of coke to an effective steel-making capacity of under 20,000 tonnes per week within two-three years, which means a one blast furnace operation with serious implications for Ravenscraig's competitive position.

I would very much welcome your comments on these three points, given the apparent inaccuracy of your information on Thursday.

I understand also from T Clark, MP that you expressed disbelief to him that we are currently importing steel products from the rest of the EEC at a rate equivalent to 2.2 million tonnes per annum (Ravenscraig's output last year was just over 1.5 million tonnes). This information was contained in a report of the "Financial Times" of Tuesday, 20 August, which I take it was derived from EEC figures.

There was one further point which you raised during your meeting with us on which your information and ours differed. You indicated that the closure of the Alphasteel strip production would enable Alphasteel's quota to be transferred to BSC's strip mills. Our information is that it will in fact be transferred to Lackenby. However, the nature of our information is less certain on this than on the above points.

Finally, we expressed concern to you at BSC's ability, should Gartcosh be closed, to transfer the order book to its other finishing mills without losing any customers. I now have in my possession a copy of notes of a meeting between Messrs Tune and Whittaker of BSC and Messrs Blackwell and Gourlay of Austin Rover held in Oxford on 9 August 1985. It is very clear from this report that Austin Rover are deeply concerned at the proposed closure of Gartcosh, as the other finishing mills, particularly Shotton and Port Talbot, have completely unproven track records in supplying automotive parts. I quote from the note:

"This proposal (close Gartcosh and transfer the order book to the other finishing mills) caused some concern to ARG, as Shotton is still in the throes of supplying three trial full-finish orders and these are not due for delivery until October. Shotton have no history of supplying uncoated automotive orders and ARG were concerned that if orders are placed on Shotton and quality and delivery performances are not satisfactory, they could find themselves in production difficulties. Delivery of coated products by Shotton to ARG leaves a lot to be desired and if an extra lead time is required by Shotton, this would go against ARG's attempts to reduce order lead times." There is a great deal more of interest in this Minute but no doubt the paragraph I have quoted will make clear to you that there are serious problems involved in transferring the Gartcosh order book and all is certainly not rosy as BSC are claiming publicly.

Our/...

.../Our own belief is that BSC will in fact lose a substantial part of the Gartcosh order book if the plant is closed. It should be noted that this includes over 50,000 tones per annum of high-quality exports.

I trust that an investigation of the points raised above, together with the many other issues raised in the document, of which you have a copy, will convince you firstly that the Gartcosh closure would be a disaster for the British automotive industry as well as for the community and secondly it would so weaken Ravenscraig's position as to render closure of Ravenscraig a likelihood within the near future. Given that you are, as you said to us, "a great fan of Ravenscraig", I hope that this new factual information will help you to come to a more positive assessment of our case.

I look forward to hearing from you and in particular, to hearing your comments on the specific points raised in this letter.

Yours Sincerely,
James Milne