cc JV

9

SECRET

P.0917

PRIME MINISTER

British Steel Corporation
Future Strategy

BACKGROUND

The informal meeting of Ministers under your chairmanship on Monday 6 December in effect decided (subject to eventual endorsement by E Committee) that all five of the British Steel Corporation's (BSC) integrated steel works should be kept open. It was agreed that further consideration was required of:

(i) the case for investment in a new hot strip mill (HSM) at Port Talbot, at an estimated cost of £175 million; and

(ii) tactics towards the Commission.

2. The minute of 10 December from the Secretary of State for Industry deals with these aspects. It also puts forward the draft of a Parliamentary statement on steel: the Government is committed to making such a statement before the Christmas Recess.

See Willie Rickett's note on the timing of the statement

MCS

3. I understand that the Secretary of State for Scotland will be circulating later today a note setting out estimates of the direct and indirect financial consequences of any decision to close Ravenscraig; such a note was commissioned in Mr Scholar's letter of 6 December recording the outcome of the meeting on that date.

MAIN ISSUES

4. The main issues before the meeting are those mentioned in paragraph 1 above, and the terms of the proposed Parliamentary statement.

Port Talbot

5. The Government could take one of the following attitudes to the proposed investment in a new HSM at Port Talbot:

(i) Reject without further examination.

(ii) Defer a decision until the BSC has produced a full case in the context of its next corporate plan; this is recommended by the Secretary of State for Industry.

(iii) Accept in principle; this is said to be favoured by the Secretary of State for Wales.

6. The discussion at the meeting on 6 December suggests that rejection at this stage would find little support among your colleagues. Ministers then took the view that the cost of keeping Ravenscraig open should be accepted, and was not a sufficient reason for refusing investment necessary for the long-term competitiveness of the UK steel industry. They also thought that it would be politically very difficult if it seemed that investment in Wales was being prevented in order to pay for the costs of keeping Ravenscraig open.

7. Nevertheless, the cost of the proposed investment at Port Talbot is significant: a comparison of cases A and C in Annex A to the Secretary of State for Industry's minute shows that the additional cash requirements arising from the Port Talbot investment are estimated to be £50 million in 1983-84, £40 million in 1984-85 and £10 million in 1985-86. The case for an investment of this size will need to be properly made out; and the financing implications will also need to be considered in the context of the Government's public expenditure plans. I understand that the Secretary of State for Industry and the Chief Secretary have been discussing these aspects. No doubt they will be able to report on the outcome tomorrow. On present evidence it would seem difficult to justify an early acceptance in principle of the Port Talbot project.

Tactics towards the Commission

8. It is possible that there may be more difficulties with the Commission than the Secretary of State for Industry implies:

(i) It may well be that the Commission would insist on a public statement of intention to close a strip mill as a condition for approving new investment at Port Talbot; they might even so insist as a condition of approving further financial support for the BSC.

(ii) It cannot be taken for granted that the proposed "contract" to limit output will be sufficient to secure the Commission's approval.

(iii) As a result of the decision to keep Ravenscraig open, there is a forecast loss (Annex A to the Secretary of State for Industry's minute) of £90 million, after interest but before allowing for contingencies in 1984-85. If the BSC cannot reach breakeven in 1984-85, the steel aids' decision will prevent us providing operating subsidies after 31 December 1984.

These difficulties are not necessarily insuperable. They do however argue against any early decision in favour of Port Talbot. It would also seem prudent to enter into early discussions with the Commission; and for Ministers not to commit themselves unnecessarily on the timing of any decisions or announcements which require the prior agreement of the Commission.

... 9. You may be interested to see the attached message which the Secretary of State for Industry has sent to Messrs Andriessen and Davignon.

Draft Announcement

10. There are a number of points which you may wish to raise on the draft Parliamentary announcement:

(i) Paragraph 9

Does the third sentence do enough to prepare the ground for the closure of the "ingot route" facility at Ravenscraig, which it is intended should go ahead even if the main works is kept open?

(ii) Paragraphs 10 and 11

These two paragraphs appear to envisage the following sequence of events: presentation to Government of new BSC corporate plan in the early new year; decisions on corporate plan and Port Talbot HSM; revised external financing limits settled for 1982-83 and 1983-84; decisions announced to Parliament. If a revised external financing limit is to be decided for 1982-83, this should probably be announced by about the end of February. Do Ministers wish to be committed to such a tight timetable? Is it likely that the Government will wish to commit itself about Port Talbot so soon? May it not, for example, unduly restrict our freedom of manoeuvre in negotiating with the Commission (see paragraph 8 above)?

(iii) Paragraph 12

The second sentence may cause widespread apprehension by implying that all five integrated steel works are under suspended sentence of death. The last sentence errs in the other direction by implying that the future of all five can be secured if efficiency is improved. If, however, there is not enough demand for UK steel in the long run, capacity will have to be reduced. You may feel that both the second and last sentences should be dropped or amended. In particular, the Government must not risk being accused of bad faith if all five plants improve their productivity but one of them still has to be closed eventually in order to match capacity to demand.

Next Steps

11. I understand that you have it in mind to invite the Secretary of State for Industry to circulate a minute to the Cabinet outlining the conclusions of tomorrow's meeting and the meeting on 6 December and putting forward a draft announcement. If there is no objection to the proposals, they might be

formally endorsed by the Cabinet on 16 December. If any member of Cabinet presses for further discussion, there is a meeting of E scheduled for Monday 20 December which would provide an appropriate occasion.

HANDLING

12. You will wish the Secretary of State for Industry to introduce the discussion. All Ministers present have a clear departmental interest. Mr Hurd (representing the Foreign and Commonwealth Secretary, who was not present at the meeting on 6 December) will no doubt wish to comment on tactics towards the Commission.

CONCLUSIONS

13. You will wish the meeting to reach conclusions on:

(i) the proposed investment in a new hot strip mill at Port Talbot;

(ii) tactics towards the Commission;

(iii) the text of the proposed statement to Parliament.

PLG

P L GREGSON
Cabinet Office.
13 December, 1982

Attachment: