Nat Ind Steel

cc/N.O.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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Prime Minister

George Younger is opposed to the closure of Gartcosh

MCS 17/3

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

17 March 1983

Dear Patrick,

RAVENSCRAIG AND GARTCOSH

Thank you for your letter of 15 March.

I recognise fully the need to close the ingot route at Ravenscraig and I have no objections to BSC announcing the closure before the end of this month. Incidentally, my information is that in anticipation of this decision, the Corporation has been running down employment in the slabbing mill and that, when the closure is effective at the end of April, 240 jobs - rather than the 500 referred to in your letter - will be lost. It would be helpful if this lower figure was referred to in any public statements.

I also welcome the efforts which Ian MacGregor is making to find new markets for BSC including the sale of some of the Corporation's semi-finished slab to the US. Clearly the Corporation must continue to improve its marketing effort both at home (where, for example, the car industry is still dependent heavily on imports from Europe) and overseas.

However I am opposed totally to any arrangement under which Ravenscraig would concentrate solely on the production of semi-finished slab and would thereby cease to be an integrated plant. Our decision which you announced on 20 December was that steelmaking should continue at all 5 major integrated sites. My understanding of that decision has always been that Ravenscraig would be retained as an integrated slab and strip producer until the path of future demand became clearer. To reverse that decision only 3 months after it was taken and at a time when we are beginning to see signs of the long expected economic recovery generally - and in particular when demand for strip products has increased significantly - would in my view expose us to the criticism that we ourselves do not believe that the economic recovery will be sustained.

Against that background I would find the closure of Gartcosh totally unacceptable. In my view the loss of the cold rolling mill from the Ravenscraig operation would weaken it fatally as an integrated plant, and I therefore cannot agree that the closure of Gartcosh could be regarded as being consistent with your December statement - and I must say I consider it disingenuous of BSC to argue that the closure of Gartcosh would not undermine Ravenscraig's position as a producer of hot rolled coil at the same time as they are negotiating a deal which, if successful, would have precisely that effect.

It may be helpful for us to meet to discuss these matters - perhaps after I myself have discussed them with Ian MacGregor on 23 March. In the meantime, it is clearly important that no announcement is made about Gartcosh, although that regarding the Ravenscraig ingot route can of course go ahead.

I am copying this letter to the recipients of yours.

Yours ever,

George

Nat. Ind: Steel Pt 12

Prime Minister 2 To note.
MCS 25/3

MR SCHOLAR

25 March 1983

cc Mr Mount
Mr Walters

RAVENSCRAIG AND GARTCOSH

Mr Younger is resisting the closure of BSC's cold rolling mill at Gartcosh on the grounds that it would "fatally weaken" the position of Ravenscraig as an integrated steel plant. I understand that he has secured an undertaking from Mr Jenkin that Gartcosh's future should not be decided immediately: it should instead be considered at the same time as Mr MacGregor's proposal to base Ravenscraig's future on selling semi-finished steel ("slab") to the USA and elsewhere. There is no immediate need for the Prime Minister to comment but she may wish to be aware of some background points.

The Gartcosh mill has no future at all if Ravenscraig is turned over completely to slab production because this would entail closing the hot strip mill at Ravenscraig which supplies the input to Gartcosh, some twelve miles away. But Gartcosh could still be dispensed with if the hot strip capacity were retained. The hot rolled coil could be sold directly or, if cold rolling capacity was required, it could be shipped to BSC's mills at Shotton or South Wales. The transport cost penalty which the latter option might involve would probably be very slight because only 6.5% of Gartcosh's orders go to Scotland (slightly higher than Ravenscraig's 4%); over 70% go to the Midlands and the South East. Gartcosh seems irrelevant, whatever the decision on Ravenscraig's product.

BSC reckon that profits would improve by £13 million a year if Gartcosh were closed, equivalent to £20,000 a year for each of its 600 employees. These gains would be only partially reduced in the first year after closure by redundancy costs, of perhaps £6 million.

Another consideration is that clearance from the European Commission for the expenditure of £350 million to finance BSC to the end of June has still to be negotiated. It has been made more difficult by the fact that we had the option to close Ravenscraig and did not take it, and did not go ahead as we once intended with another closure (the pipemill at Hartlepool). The closure at Gartcosh could become an ingredient in this negotiation.

Mr Younger is trying to argue that the closure of Gartcosh would be inconsistent with the 20 December announcement to continue to make steel at Ravenscraig. This is a very weak argument because even if Ravenscraig continues as an integrated plant there are alternatives to Gartcosh. Postponing a decision on Gartcosh only reinforces the impression that its future hangs on Ravenscraig continuing as an integrated works. The closure of the hot strip mill (700 employees) will be that much more difficult, if it occurs at the same time as the Gartcosh closure.

N.O.

NICHOLAS OWEN

cc NO

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Prime Minister

The Treasury lines up with the DoI against the Scottish Office on Gartcosh.

MCS 22/3

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Patrick Jenkin, MP
Secretary of State for
Industry

18 March 1983

Dear Patrick

I am sure that you are right to say in your letter of 15 March to George Younger that BSC management should be left to proceed with the closure of the ingot route at Ravenscraig and the cold rolling mill at Gartcosh. These actions, while they will naturally be unwelcome in Scotland, are clearly of a kind that your statement of 20 December left BSC management discretion to take and which underpinned the calculations on which our collective decision then was based.

You also outline in that letter a scheme which Ian MacGregor is developing which would, if achieved at an acceptable price, provide security at least in the medium term for the heavy end of the Ravenscraig complex and offers the prospect of BSC attaining a much better prospect of viability.

I should not wish to dispute your intention to allow Ian MacGregor to explore this proposition fully and to put properly worked up proposals to Government when he has done so. We would then need to consider them seriously and hard headedly. I will at that stage need to be convinced on all aspects of any proposal that is made, taking account of the costs both financial and political of alternative courses for Ravenscraig. None of these is likely to be free of difficulty and I would not therefore wish to see the MacGregor proposal ruled out of court without due consideration.

In the meantime, I trust that you, George Younger and Ian MacGregor will do what is possible to damp down the press speculation that has been rife in the last week or so. Such speculation can only make any decision - whether on this proposal or on BSC's request for funding in their present corporate plan (which we are shortly to consider) - more difficult.

NATIONALISED INDUSTRIES Pt 12
The Steel Industry

Copies of this letter go to the Prime Minister, Francis Pym, George Younger, Nick Edwards, Norman Tebbit and Arthur Cockfield, and to John Sparrow and Sir Robert Armstrong.

GEOFFREY HOWE

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Nat. Ind. vec JV

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Secretary of State for Industry

15 March 1983

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Prime Minister

An important letter

MCS 15/3

MT

The Rt Hon George Younger TD MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
LONDON
SW1A 2AU

Dear George,

I am writing to give you advance warning of two plant closures in Scotland which the British Steel Corporation propose to implement shortly and which they intend to announce by the end of this month.

2 The first closure concerns the ingot route for slabmaking at Ravenscraig which was foreshadowed in my statement to the House on 20 December. The need for this facility has fallen away as a result of the market trend towards concast steel. I understand from BSC that some 500 jobs will be lost as a result.

3 Secondly, Ian MacGregor has decided to close the cold rolling mill at Gartcosh which currently employs around 600 people. This decision reflects the fact that the Corporation's four cold mills are currently operating at only 55% capacity and the principal markets for cold-reduced strip are in England and Wales (with only about 6.5 per cent of Gartcosh's output being sold in Scotland).

4 I know that the decision to close Gartcosh will be unwelcome in Scotland. I do not, however, regard it as inconsistent with my December statement since, I am assured by BSC, it will not in itself undermine the continued operation of the remaining integrated facilities at Ravenscraig, as a supplier of either slab or hot rolled coil. You will recall that at the time of my statement I stressed that the Corporation would continue to be free to take management action to cut costs where necessary in order to maintain efficient operations and to move steadily towards the objective of viability; and I regard both these proposed closures as lying within the Corporation's discretion, and not requiring my agreement.

/5 Although ..

5 Although these two decisions are not in any way dependent upon a possible deal involving export of slab from Ravenscraig this letter to you provides an opportunity for advising you and colleagues of discussions which the BSC is currently holding with US Steel - reports of which have recently appeared in the press. As you know Ian MacGregor has grave doubts as to whether operations at all five integrated sites will be economically justified by any likely level of future demand. While recognising the Government's decision to maintain steelmaking at the five sites against the possibility of a higher level of demand emerging, and against the background of capacity reductions on the continent having so far been appreciably less than in the UK he nevertheless is extremely concerned about what he regards as the uncertain outlook for Ravenscraig as the most vulnerable of the integrated sites. He has therefore been looking at what action the BSC might take to underpin the future of Ravenscraig in the longer term and, in the meantime, to reduce the very sizeable losses (of the order of £70 million pa after the benefits of the two closures referred to above are taken into account) associated with maintaining operations at Ravenscraig.

6 Against this background, the BSC is exploring a possible arrangement with US Steel under which iron ore would be imported from US Steel into Ravenscraig for making into steel slab which would then be exported in that form to the United States for subsequent processing at US Steel's Fairless Works on the Delaware River. Details of the proposal are to be the subject of further negotiations between BSC and US Steel and are thus inevitably uncertain.

7 Far from being a first step towards the closure of Ravenscraig, an arrangement on these lines could enable the operations at Ravenscraig to achieve viability; by giving them the ability to transfer some work currently carried out at Ravenscraig to other parts of the Strip Group thus improving their capacity utilisation rates; and by offering the prospect of orders for slab from US Steel building up to such a high level as to offer work for other parts of the Corporation besides Ravenscraig. BSC believe that the scheme, which could be expected to run for at least 5 years, could improve their net profitability by the order of £130 million pa.

8 There would be important investment implications: first, I understand from BSC that for a slab supply arrangement to go forward they would be required to take a joint venture interest with US Steel in the Fairless works. This might cost the order of £150 to £200 million. An investment of this order is being demanded by US Steel in recognition of the expenditure they would have to incur at Fairless and of the expected benefits to BSC. I am advised by Ian MacGregor that US Steel would almost certainly be able to secure a joint venture arrangement of this kind by offering to buy their long term slab requirements elsewhere, such as from Mexico or Brazil.

CONFIDENTIAL

9 Second, in order to reallocate the existing Strip Group product load on to South Wales works in order to release Ravenscraig for a slab supply arrangement it would be necessary to instal additional concast facilities at either Port Talbot or Llanwern at an estimated cost of around £100 million. This would have the effect of making the South Wales complex into one of the strongest and most efficient steel centres in Europe.

10 Turning to the employment implications the export of semi finished slab from Ravenscraig would inevitably involve the closure, either permanent or temporary, of the hot strip mill there with the loss of some 700 jobs (in addition to those referred to at the beginning of this letter). On the other hand it would according to BSC go far to securing the remaining 2700 jobs at Ravenscraig and would also lead, within 1 to 2 years, to some 1500 additional jobs elsewhere in the Corporation - mainly in South Wales and to some extent on Teesside.

An important aspect is the attitude of the US Administration. The current US countervailing restrictions do not apply to imported slab. I understand that Ian MacGregor has discussed this with Malcolm Baldrige, the US Secretary of Commerce, who indicated that it is unlikely that the US authorities would object to such arrangements.

12 BSC representatives are due to have further talks with US Steel over the next few days and have undertaken to keep my Department closely informed of any developments. For my part I have told the Corporation that they should not enter into any commitments without our approval.

13 I am copying this letter to the Prime Minister, Francis Pym, Geoffrey Howe, Nicholas Edwards, Norman Tebbit, Arthur Cockfield, and to John Sparrow and Sir Robert Armstrong.

Yours ever

Patrick