

PRIME MINISTER

BOWATERS

Attached at Flag A is a note on Lord Trenchard's further meeting with the Bowater management. You will remember that he was asked to see them once more to see if he could persuade them to keep Ellesmere Port open, and build a new plant with the help of Government regional assistance.

The meeting did not go well. Bowaters seem to have changed their tune on the potential profitability of a new plant: earlier they agreed with the Government that the business would return to profitability by 1984; now they are saying that even the longer term prospect - with a new plant - looks very uncertain. They told Lord Trenchard that they would only be prepared to keep the mill open if the Government were to guarantee that there should be no negative cash flow for the next three years; and they would only take a decision on a new mill in the light of their experience over these years.

Such a guarantee is clearly unacceptable. It looks to me as if Bowaters have decided, come what may, to close the plant. The Department of Industry are looking again at Bowaters' cash flow forecasts, but I doubt whether this will lead to anything. You may well need to push some of the blame for the closure on to Bowaters when you see the paper industry delegation next Friday: Lord Trenchard will be briefing you on this.

At Flag B is a report from the Department of Energy on the fuel cost point. At your request, they have been in touch with the NCB and the local electricity board. On coal, the NCB have now agreed to offer Bowaters a further discount of £2 per tonne - so that the price at Ellesmere Port would be approximately £23.50, compared with a price of about £15 per tonne paid by American paper plants. The NCB have also said that they would "consider sympathetically" not applying the next coal price increases, which are due on 1 January, to any Bowaters coal.

/ On electricity,

On electricity, the local Board are discussing with Bowaters the possibility of some slight reduction in the tariff. But it is interesting that Bowaters had never apparently approached the local Board before.

For the meeting with the industry next Friday, I have invited Lord Trenchard. I think we will also need an Energy Minister, and a Minister from MAFF, to cover the forestry aspect. Shall I ask Mr. Howell and Mr. Walker? And if they are not available, one of their Junior Ministers?

You said at the meeting on Bowaters that you would like Sir Francis Tombs to come to the meeting. I think it will look slightly odd if we have him but not Sir Derek Ezra - since coal costs represent a larger share of total energy costs to the industry than electricity. Shall I ask Ezra and Tombs? Or shall we drop this idea altogether, and leave the energy aspect to be dealt with by Mr. Howell?

↓
Leave it to J.H.

R.

mf

26 September 1980



DEPARTMENT OF ENERGY
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From the
Parliamentary Secretary

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street SW1

26 September 1980

Dear Prime Minister

BOWATERS

At our meeting on 17 September, the Department were invited to explore with the NCB and the Electricity Council the possibility of their offering Bowaters a discount on the present prices charged for coal and electricity.

On coal, in addition to existing discounts (reducing the list price for coal suitable for Ellesmere Port from £30.20/tonne to £25.64/tonne) the NCB are now prepared to offer a further discount of £2/tonne on coal sold to Ellesmere Port for the current year of the contract (ending in June, 1981). The cost of this to the NCB is £400,000. Though this would require full Board sanction, they are also prepared to "consider sympathetically" not applying the next coal price increase, due on 1 January, to any Bowaters coal. If the price increase were 15%, the cost of this would be £2.25m in a full year. The Board have mentioned the further (£2) discount to Bowaters, but it is not clear whether they have said anything about the possibility of a price freeze.

On electricity, the local Distribution Board (MANWEB) is discussing with Ellesmere Port the possibility of engineering some reduction in charge through operational changes at the plant. However, the scope for reduction is likely to be very limited. (In the case both of coal and electricity any reductions must, of course, remain commercially confidential.) Incidentally, it seems clear that Bowaters themselves do not appear to have tried as hard as they might have done to secure reductions through local pressure. No approach was apparently made, for instance, to the Chairman of MANWEB prior to the approach by the Chairman of Bowaters (UK) to Sir Francis Tombs on 3 September.

I am copying this to Tom Trenchard, Jerry Wiggins, Wyn Roberts and Alexander Fletcher and also to John Biffen and Sir Robert Armstrong.

Ju -
Norman

26 SEP 1980

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DEPARTMENT OF ENVIRONMENT
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MILNERS
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From the
Minister of State

PS/Lord Trenchard

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

25 September 1980

Dear Mr. Lankester

BOWATER

As agreed at the meeting which the Prime Minister held to discuss the problems of Bowater and the paper industry on 17 September, my Minister yesterday saw Lord Erroll and Mr Popham of Bowater.

Lord Trenchard put to Lord Erroll and Mr Popham the point that the figures which had been agreed between officials in this Department and the company indicated that profits at Ellesmere Port could be made if investment in a chemical pulp mill was made with regional selective financial assistance. This had not been appreciated in the public discussion of the Bowater question, and the Government were consequently bearing the brunt of the blame for the company's decision. However, it would be difficult to avoid this coming out if, as expected, the Prime Minister were pressed on the Ellesmere Port issue at the meeting to be held with SOGAT and the British Paper and Board Industry Federation on 3 October. On energy costs, he stressed that the energy industries were determined to improve their efficiency with a view to making their prices competitive. Finally, he mentioned that recent reports indicated that the workforce were prepared to accept both a nil pay rise next year and up to 140 redundancies, or even 300 redundancies, to help avert the mill's closure. This was thought to represent a saving of a further £2million per annum.



Lord Erroll replied that the figures which Bowater had before them suggested a continuing negative cash flow. Moreover, he was doubtful about the long-term market for newsprint holding up in the UK, and was also doubtful about lower exchange rates or energy costs even in the long-term. If the Government were determined that this mill should remain open, and since there was no strategic reason for maintaining a domestic newsprint industry he could only assume that this was for regional policy considerations, the only proposal which would persuade Bowater to keep the mill open would be a guarantee from the Government that there should be no negative cash flow for the next three years. This guarantee, which paralleled an arrangement which had previously been employed for a copper mine in Australia, would allow the company to see how things developed for another year - eg whether the UK newsprint market was holding up and whether there were any signs of easing of the exchange rate and energy cost pressures - before making a decision on investment in the chemical pulp mill. The Bowater Board had met that morning and had again confirmed their decision. Moreover, since time was running out and decisions needed to be given to both customers and suppliers, they would need a decision by 10 October at the latest.

Lord Trenchard said that he would pass on the comments which Bowater had made including their suggestion of a guarantee that there should be no negative cash flow, but he could see little possibility of the Government agreeing to such an obvious operating subsidy and he was also doubtful whether the statutory powers to do so existed. He also expressed surprise that the figures on the profits which might be made from new investment had changed once again, and it was agreed that officials in our Department should have urgent talks with Mr Pomeroy, the Finance Director.

My Minister, who is now on leave, has asked that an appraisal of the new Bowater figures be provided by the weekend so that he can consider what further briefing is required before the Prime Minister's meeting on 3 October. He also hopes to be in a position to indicate how much of the details of the negotiations between the Department and the company can if necessary be disclosed without breaching commercial confidentiality.

I am copying this letter to the Private Secretaries to Mr Wiggin (Ministry of Agriculture, Fisheries and Food), Mr Roberts (Welsh Office), Mr Lamont (Department of Energy), Mr Fletcher (Scottish Office), and also to John Wiggins (HM Treasury), David Wright (Cabinet Office) and of course Ian Ellison here.

Yours sincerely,
Heather Archer.

25 SEP 1980



[Faint, illegible text covering the majority of the page, likely bleed-through from the reverse side.]



*Back-up for
[signature]*

MBM

R

M

PRIME MINISTER

MEETING WITH THE PAPER INDUSTRY 3 OCTOBER 1980

I have seen the letter from Lord Trenchard's Private Secretary dated 25 September and Mr Lamont's letter the following day about the impending closure of Bowater's mill on Merseyside.

2. Bowaters' intention to close the mill with the loss of 1,500 jobs would clearly be a serious blow to an area where the unemployment rate is already approaching 15 per cent. I am sure Lord Trenchard has been right to offer all he can under our regional assistance schemes to modernise the plant. That way holds out a real hope of a viable future for the mill.

3. Nevertheless it seems that Bowater prefer to concentrate their newsprint production in North America. They suggest that only a government guarantee to make good any adverse cash flow over the next three years would induce them to keep the mill open.

4. I am sure we cannot contemplate giving the company any undertakings of that sort. Indeed it is hard to believe that they intended us to take the suggestion seriously.

5. A straight operating subsidy to preserve jobs would be a major reversal of our regional policies, and a promise that one firm would be guaranteed against loss would surely have serious repercussions.

6. I am copying this minute to Keith Joseph, George Younger, Nicholas Edwards, David Howell and Peter Walker.

WJB



The British Paper and Board Industry Federation

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MEMBERS OF DELEGATION TO PRIME MINISTER - 3 OCTOBER 1980

Dr. A.I. Lenton	Chairman, Bowater UK Ltd. President of the Federation.
Mr. J.J. Benn	Chief Executive, Reed Paper & Board (UK) Ltd.
Mr. J.H. Adams	Director General of the Federation.
Mr. W.H. Keys	General Secretary, SOGAT.
Mr. P. Evans	National Secretary, T & GWU.
Mr. H.M. Stephens	Chairman, Newsprint Raw Materials Committee, Newspaper Publishers' Association.



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10 DOWNING STREET

PRIME MINISTER

There is one point
in this minute which you
have not dealt with: do
you wish me to invite
Mr. Walker to the meeting
with the paper industry
in view of the forestry
dimension (or, if he is
not available, one of his
Junior Ministers)?

Yes

mi.

R.

29 September 1980

Caroline
taking
action
R.

BF for Oct 3
meeting
MAD

MR. PATTISON

Bill Keys' Office has confirmed the proposed date and time for the meeting on the paper industry. He will be accompanied by Peter Evans of the T&GWU and Mr. H.M. Stevens of the Newspaper Publishers Association; I was told that the employers will be contacting us separately with their names.

73
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22 September 1980



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10 DOWNING STREET

BIF 1-10-80

From the Private Secretary

22 September 1980

As you know, the Prime Minister has agreed to meet representatives from both sides of the paper industry. The meeting has been set for 1130 on Friday 3 October. I would be grateful for a brief for this meeting to reach me by Wednesday 1 October.

I am sending copies of this letter to Garth Waters (MAFF) and Peter Jenkins (HM Treasury).

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.



10 DOWNING STREET

THE PRIME MINISTER

18 September 1980

Dear Mr. Keys

Thank you for your letter of 5 September with which you enclosed a copy of the SOGAT booklet "Action Now" about the problems of the paper-making industry.

I have written to you separately saying that I will be glad to meet a delegation from the industry, and I am sure we will have an opportunity to discuss the points in your booklet at that meeting.

Yours sincerely

MT

W. H. Keys, Esq.

jfh

file
TL 199
July 1954

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10 DOWNING STREET

Prime Minister

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and note last
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TL

Attached is a draft

letter for you to send

to Bill Keys arriving

to meet a delegation.

Ld Tomlinson will see

Bonstedt's before then, and

I have told Energy that

they must ~~discuss~~ explore

with the NCB and Electricity Council

the possibility of low energy prices, and
TL 119 then come back to you.



cc Ind

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Pears

10 DOWNING STREET

THE PRIME MINISTER

18 September 1980

Dear Mr, Keys

Thank you for your letter of 1 September about the UK news-print industry.

We are of course most concerned about the difficulties that the industry is currently facing, and I would be glad to have an opportunity of discussing these problems with a small delegation comprising representatives of SOGAT, the British Paper and Board Industry Federation, the Newspaper Publishers Association and the Paper and Board Sector Working Party. I would be able to see you here at No. 10 at 1130 on 3 October. If that is convenient, perhaps you could let my Private Secretary, Tim Lankester, know. (His telephone number is: 01-930-4433).

I am sending a copy of this letter to the Director General of the British Paper and Board Industry Federation.

Yours sincerely

MT

W. H. Keys, Esq.

jfh



10 DOWNING STREET

From the Private Secretary

18 September 1980

Following the Prime Minister's meeting yesterday about the proposed closure of Bowaters, she has written brief personal letters to several of the correspondents who had approached her about this. There is therefore no need for Garth Waters (Ministry of Agriculture, Fisheries and Food) to take any further action on the letter from Peter Morrison, MP, about which I wrote to him on 11 September, nor the earlier letter from the Duke of Buccleuch.

The Prime Minister has also written to SOGAT and the British Paper and Board Industry Federation, offering them a meeting, and suggesting 3 October; a copy of this letter is on its way to you.

There is one outstanding piece of correspondence, the enclosed letter from the Principal of Glynllifon College. The Prime Minister thinks this eloquently sets out the issues which need considering and she would like your Secretary of State, in consultation with Forestry Ministers, to reply on her behalf. I should be grateful for a copy of the reply for our records in due course.

I am sending copies of this letter to Stuart Hampson (Department of Trade), Garth Waters (Ministry of Agriculture, Fisheries and Food), John Craig (Welsh Office), Godfrey Robson (Scottish Office) and Julian West (Department of Energy).

Mrs Catherine Bell,
Department of Industry.

18 September 1980

The Prime Minister has asked me to reply to your letter of 15 September in which you ask that she should see a deputation from the Bowater Action Committee.

You may know that SOGAT and the British Paper and Board Industry Federation have asked the Prime Minister to meet a joint deputation, and the Prime Minister has now written agreeing to do so. We expect this meeting to take place in the first week of October as the Prime Minister will be on an official visit abroad next week.

MAP

R.A. French, Esq.

OSY