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RECORD OF A MEETING AT NO. 10 ON FRIDAY 3 OCTOBER 1980 BETWEEN THE PRIME MINISTER AND A DELEGATION FROM THE PAPER AND BOARD INDUSTRY AT 1130 HOURS

Present:

Prime Minister

Minister of Agriculture

Secretary of State for Energy

Minister of State, Department of Industry (Lord Trenchard)

Mr. T. Lankester

Mr. N. Gaffin

Dr. A.E. Lenton (Chairman, Bowater UK Ltd.)

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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Mr. Adams first gave a slide presentation of the industry's problems as the delegation saw them. The industry was not a "lame duck"; it was an efficient industry, and all they were seeking was equal opportunities with their competitors. They wanted a reduction in energy costs and other costs controlled by Government; assistance to offset the high exchange rate; two-tier interest rates; assistance with restructuring; and the preservation of the forestry industry. Imports were taking up an increasing share of the domestic market, partly because there were no tariff barriers against the Nordic countries. Consequently, there had been a steady decline in employment and mills - despite substantial investment in recent years. They were not crying wolf, but only seeking Government help to prevent a total collapse. They disagreed with Sir Keith Joseph that the industry could survive simply by being more efficient: they could not be responsible for the exchange rate, the high level of interest rates, and uncompetitive energy prices. As a proportion of a typical mill's costs, energy costs had gone up from 12% to 23% between 1971 and 1979. In recent months, the industry had suffered a worsening cost/price squeeze. The price of imported newsprint from Germany had, for example, fallen and all costs had gone up. Rates were up 43% in the past nine months, and wages 11% up. Recent increases in energy prices were particularly crippling. The price paid for oil, even taking

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account of discounts for high volume purchases, was higher than for all the UK's main competitors; the problem was compounded by the levying of excise duty. Figures supplied by Kimberley Clarke showed a similar pattern for gas prices. The industry was also at a disadvantage in respect of electricity.

The discussion then turned to Bowater's Ellesmere Port mill. Dr. Lenton said that Ellesmere Port were losing £7 million per annum. Manufacturing efficiency was high - probably in the upper quartile internationally. Productivity in the service areas was not so good. But this was due to under capitalisation. It was now becoming worthwhile to replace men by machines in the service area, and productivity would rise. However the total costs of the service functions would not be reduced. There were basically two reasons for the losses. First, they had been unable to raise their prices since January 1977. Second, they were paying £5 million more in energy costs than their overseas competitors, and £2 million more for wood pulp. They could only become competitive again if their energy and wood costs came back into line with what the industry paid overseas. The NCB and the Forestry Commission had offered discounts on coal and wood respectively amounting to £3.1 million in total; but the concession on wood assumed major capital investment, and there would still be a £4 million revenue cost differential. There was no justification for a new pulp plant when Ellesmere Port had no unique advantage over Scandinavia and North America. Bowaters were determined to run the mill at a profit. If the Government was not prepared to provide £7 million assistance on revenue account, they would close it. If they could have £7 million, they would be prepared to forego Government capital assistance: it was the revenue lost that mattered.

The Prime Minister said that the Government were very concerned about the future of Ellesmere Port. They were doing everything possible to find a solution to Bowater's difficulties. The Department of Industry were prepared to offer a substantial programme of regional assistance towards the cost of a new pulp plant, and this could be supplemented by an EIB loan. In addition, the NCB were willing to offer a dscount on coal price, and the Forestry Commission on wood. There was also scope for negotiating a lower electricity price. She understood that the workforce were showing greater co-operation in getting rid of restrictive practices, and that they had also offered to accept no wage increase in the current pay round. The fact that energy and wood costs were higher than overseas was not a new problem - this had always been the case. But the Government were prepared to help; and on the basis of the package on offer, they were confident that the mill could return to profitability. If Bowaters did decide to close it down, it would be their commercial decision and not for want of the Government trying to help.

Lord Trenchard said that the discount offered by the NCB was worth £2.25 million and the discount offered by the Forestry Commission £1.4 million. Bowaters had shown his Department their forward plan, including the investment in a new pulp plant; and this had shown a theoretical profit of £10 million in 1983/84. The latter figure had been reduced to £6 million in discussion, and then to £4 million. Lord Erroll had since told him that not even this figure was valid - since the company were worried about the downside risk. He had made it clear that the Government could not match North American energy prices; but they believed that with the total package on offer, the mill could be kept open. The company ought to recognise that, while the UK was at a disadvantage in respect of energy and wood prices, we had the advantage of lower wages and larger regional assistance.

Dr. Lenton said that what the Prime Minister called "everything possible" was not sufficient. They did not deny that the Government had done its best, but the amount of assistance on offer was simply inadequate. As regards the profit figures quoted, the company were upset that Ministers were implying that these had been agreed. Department of Industry officials had read too much into them. They certainly had not been agreed, and as far as the company were concerned, there was a significant risk that they would be running a £50 million negative cash flow. Lord Trenchard commented that the figures had not been formally agreed, but it had been his Department's sincere understanding that the Bowater management stood behind them. The Prime Minister said that Bowaters could not simply ignore the capital assistance on offer: to the extent that it involved a subsidy, it would offset the continuing excess costs on revenue account; and in addition, the company ought to take into account redundancy costs before deciding on closure.

Mr. Keys said that the paper industry had a fine record. Productivity in the last two to three years had gone up 25%, wage settlements had been low, and there had been hardly any disputes. Despite all this, the industry was in great difficulty. The problem was not just confined to Bowaters. One consequence of the decline was that printing and publishing was going overseas as well. On strategic grounds, it would be a disaster if the UK came to rely on newsprint imports. If Ellesmere Port closed at least 4,500 people would be affected, and the Government would find itself paying £13 million in unemployment benefit. Mr. Evans asked if there was any way in which Government revenue assistance could be increased to £7 million.

The Prime Minister denied that there was a strategic argument - since some of the inputs for the industry had to be imported anyway. The Government could not do anything more to bridge the revenue gap. The real problem on energy prices was the low productivity of our coal industry. The miners were effectively putting other people out of work. This was not the Government's fault: they were already providing the NCB with over £800 million this year.

Mr. Benn then described Reed's problems. They had gone over to oil in 1972. They found themselves paying consistently higher prices than the industry abroad. It was no comfort that US oil prices were supposed to be rising to international levels in two years time. Reed's had already declared a number of redundancies: a further 2,000 jobs were still at risk unless something more was done about the electricity and oil price differential. On electricity, they were at a disadvantage partly because in contrast to Europe, industry subsidised the domestic consumer. Even if the rest of their business was making money, they were not prepared to keep loss-making business on the newsprint side going.

Mr. Howell said he was surprised to hear that Reed's were paying higher oil prices than on the continent. On his information Shell and BP (who apparently supplied Reed's) were selling at a similar price both here and in Europe. If European prices were lower this would have to be because of subsidies; and he would look into this. Mr. Stephens said that the publishers wanted the newsprint industry to continue, and they would do what they could to help.

In conclusion, the Prime Minister repeated that the Government were doing what they could on energy prices, though more could be done with higher productivity in the coal industry. They were prepared to offer substantial capital assistance towards a new plant at Ellesmere Port. It seemed unlikely that anything could be done to ease Reed's oil price problem, but Mr. Howell would look into the allegation that they were having to pay higher prices than on the continent. She hoped that, before reaching final decisions, both at Ellesmere Port and on other possible closures, the industry would take fully into account what was available from Government, and the discounts available on coal and wood; and that they would negotiate hard for lower electricity prices also. Further, she hoped they would not ignore some inherent advantages of production in the UK. In reply to a question from Mr. Evans, the Prime Minister said that the Government would not be willing to set out in writing their proposals for Ellesmere Port in specific terms, but they would do so in general terms if the unions wanted it.

The meeting closed at 1315 hours.

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6 October 1980

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From the Private Secretary

6 October 1980

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Dear Peter,

I enclose the record of the Prime Minister's meeting last Friday with the delegation from the paper and board industry.

I am sending copies of this letter and enclosure to Julian West (Department of Energy), David Jones (Ministry of Agriculture, Fisheries and Food), Stuart Hampson (Department of Trade), Peter Jenkins (H.M. Treasury) and David Wright (Cabinet Office).

Yours ever

Tim Lankester.

Swedder
Peter ~~Mason~~, Esq.,
Department of Industry.

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T.P. Lankester, Esq.,
Private Secretary to the Prime Minister,
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LONDON, SW1.

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DG.C38/JHA/JOC
8th October 1980

Prime Minister

Dear Mr Lankester,

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May I, on behalf of all our delegation, ask you to give the Prime Minister our very warm thanks for receiving us last Friday and for giving us so much more time than we expected to explore the problems of the Paper and Board Industry.

Yours sincerely
John Adams