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

15 January 1981

The Rt. Hon. Sir Keith Joseph, MP.,
Secretary of State for Industry

Dear Keith

STATE OF INDUSTRY

I am sorry not to have replied earlier to your letter of 23 December about the State of Industry. I was also grateful for Tom Trenchard's analysis, which you sent me on 16 December and on which you commented in your later letter. I have been giving these problems some thought, and they will loom large in the pre-Budget work of the next few weeks.

But I should like, meanwhile, to comment briefly on the three topics which you raised at the end of your letter of 23 December.

First, you wonder if we should try "talking down the pound a shade". Experience suggests that any explicit attempt to do so runs the risk either of over-reaction in the market and being blamed for the result, or, if there is no reaction, of being drawn into more costly measures to validate the original talk. The right approach, I think is to stress our policy of leaving the exchange rate to be determined in the market. We should certainly avoid any statements that could be construed as talking the rate up. I also agree that we should point out fairly when opportunity arises some of the reasons why the market might have got it wrong, and the temporary nature of some of the factors behind sterling's current strength, as I did in my Mansion House speech.

Secondly, you mention industrial energy prices. Here the key problem is to establish the facts about international comparisons and we have made progress in the NEDC context since you wrote. You will also have seen the No.10 letter of 13 January, reporting the Prime Minister's meeting with David Howell and myself, when we agreed to pursue three of the options on energy prices referred to in his minute of 31 December.

Third, you raise the question of industrial derating. Here I agree that it would be useful to explore - without commitment - what this would involve, although there are obvious political

/difficulties.

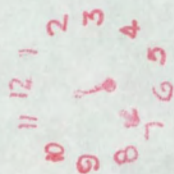
difficulties. I have asked my officials to look at the possibilities and suggest that they should get together with your officials and Michael Heseltine's to let us have a considered view.

I am not at this stage reaching any conclusions on whether, in a budgetary context or otherwise, there is scope, beyond what we have already done, to tilt the balance in favour of that part of the company sector which is most pinched at present. But it does seem to me worthwhile to carry forward studies on these and other lines so that there are concrete choices available should further measures seem feasible and desirable.

I am copying this to the recipients of your letter.

GEOFFREY HOWE

15 JAN 1981



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DEPARTMENT OF INDUSTRY
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Secretary of State for Industry

23 December 1980

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Geoffrey,

STATE OF INDUSTRY

1 In my letter of 16 December, with which I enclosed Tom Trenchard's note on the state of industry, I mentioned that I was having an informal survey carried out of the intentions of industry over the next three to six months. We have now completed this, and I enclose as background to this letter the notes made by officials here of conversations they have had with the various companies they approached. I should perhaps emphasise that, given the time available, the survey has no claims to being comprehensive but the individual reports will give you the flavour of what was said.

2 The purpose of the enquiry was not so much to assess the effect on companies of our present policies in the long-term but to see whether short-term pressures were seriously distorting longer-term objectives and causing companies to close factories, pull out of markets or abandon products which in the longer-term they regarded as viable. As you might expect the picture we got was mixed. The survey certainly seems to confirm the impression that, although the effects of macro-economic policies are to some extent indiscriminate, little real damage has yet been done to larger industry - with serious exceptions in some fields. But for the future, expectations differ. Barclays Bank were fairly relaxed; they did not expect any significant change of pattern over the next three to six months, although the Bank of England's view in general tends to be more gloomy. Courtaulds, whom we expected to be fairly depressed said that the closures made so far had been planned for industrial policy reasons some time ago and that they were not expecting to take any more decisions of this sort within the next six months.x Vickers gave a similar impression. ICI and the three paper companies had all done their slimming and expected to survive more or less as they were. Northern Engineering Industries were surprisingly bullish. But many companies, whilst avoiding closures or withdrawals from markets, were doing so at the expense of R & D and capital investment, or by calling in work normally sub-contracted, to the detriment of the smaller companies in their sector. Tube Investments in particular were faced with the dilemma of letting

x though they would expect to have to keep cutting back in the hope of keeping the kernel of the business from which the company could grow again.

/a ...

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a valued supplier go out of business or of giving him orders they did not at present need.

3 The engineering sector and particularly the automotive industry, seemed to be under more immediate pressure than others. Lucas, who have so far not cut into muscle, expect early in the Near Year to take decisions which would have that effect. They could well be pulling out of some overseas markets before long. GKN are similarly, possibly more seriously, placed. Tube Investments (who are currently preparing their annual plan) have told the managers of two subsidiaries to prepare plans to withdraw from activities that are part of their longer-term strategy largely because the short-term risks now outweight the long-term benefits. IMI would stop manufacturing an important product in February; many of their sub-contractors and suppliers were also likely to face closures at about that time.

4 I must emphasise that we were seeking information about the immediate future. Many of the companies spoken to said that they would have replied much more gloomily (in the manner of Lucas, T.I and IMI) if the questions we put to them had been set in the context of unchanged conditions on a 9-12 month time-scale rather than a 3-6 month.

5 It is almost impossible to generalise from an impressionistic survey such as this one. In so far as one can, I would say that the proportion of muscle to flab affected will begin to increase in some sectors over the next three to six months but that generally the increase will be more gradual and the crucial period for such decisions will be in the second half of 1981 rather than the first.

6 In general terms it was quite clear from the responses that all companies are facing severe pressure on their cash and on their profits and the general view was that 1981 would be worse than 1980. One has always to take into account the tendency of businessmen to place the crunch for difficult decisions some months ahead of the present, but we got the overwhelming impression that by the end of 1982 industry would be facing some fairly desperate decisions.

7 The factor which mostly concerns industry, either because of its direct effects or its indirect, is the exchange rate. As we know many companies find the present rate uncomfortably high; and if the recent OPEC increases result in an immediately higher exchange rate, the discomfort will increase. The range of exchange rates assumed in corporate planning varied from between $2.20 and $2.40 but rather more were at the upper end. The weakness of the Deutchmark is also causing increasing concern. Ronnie Utiger (of Tube Investments and the sensible Chairman of the CBI Economic Committee) stresses that management is now having to make a judgement about the duration of present pressures.

/8 ...

8 This raises the question of whether there is anything that can or should be done to alleviate the short-term pressures on industry. In his note Tom Trenchard argues that our balance of trade will weaken sharply as industry decides to cut unprofitable exports and as import penetration rises after de-stocking. He believes that much of the service and the public sector depends upon manufacturing and must decline also. The crux of the issue is whether the price of alleviating the distortion of industrial decisions is worth the consequential effects on our anti-inflationary objectives. I think the recent OPEC price rise implies that we should at least consider the scope for talking down the pound a shade - I know that you have tried once - or imposing inflow controls on capital if only to counteract a short-term upward pressure on the pound resulting from the OPEC decision. But I have not the knowledge to judge the potential costs - and the effect on inflation has, as I say, to be weighed seriously.

9 The other suggestion - that we should relieve industry significantly on energy prices - is already in play; you will have seen my letter to David Howell of 27 November suggesting a self-balancing adjustment in favour of manufacturing and you will have seen his reply.

10 I wonder whether it is worth considering - as an effective use of limited resources - a degree of industrial derating? Just in case the idea is worth pursuing I am asking officials here to get in touch with Michael Heseltine's to see what it involves.

11 I am sending a copy of this to the Prime Minister, to Michael Heseltine, John Nott and Sir Robert Armstrong.

Yours ever,

Keith

INDUSTRIALISTS APPROACHED

D Henderson	ICI
D McDonald	Northern Engineering Industries
C Hogg	Courtaulds
E Swainson	IMI
D Plastow	Vickers
J Wilkinson	Lucas
R Utiger	T.I.
J Raisman	Shell
J Quinton	Barclays
D Croxon	Kimberley Clark
Sir R Hunt	Dowty
W Morgan	GEC
Sir F Braithwaite	Baker Perkins
R J Bailey	Royal Doulton Tableware

Extracts from reports of discussions with Fisons Fertilizers and Turner & Newall

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NOTE FOR THE RECORD

State of Industry: Discussion with Mr D Henderson (ICI)
19 December 1980

Mr Manzie and I called on Mr Henderson on 19 December 1980.

Summary

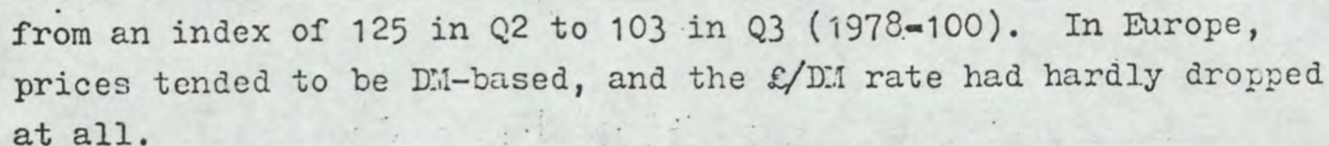
2. Mr Henderson said 1981 would be a very difficult year for ICI, particularly in the UK. Their investment programme would be reduced to barely more than one third of its average level in the 1970's. The level of the exchange rate (particularly against the DM) was hitting export prices and volume. But, apart from decisions already taken on fibres, he did not give an impression that decisions to withdraw from markets were imminent. Nor did he point to any examples of suppliers facing such decisions.

Detail

3. ICI realised that the best they could hope for was a broadly neutral budget. The 24 November measures had been adverse for their cash flow (extra oil tax and further depression of demand caused by NI increases).

4. Faced with a squeeze on profitability and liquidity ICI had been forced to reduce their investment. The average level of sanctioned investment in the '70s had been about £700m. For 1980 they had originally expected to sanction £500m, but this was now reduced to £350m. In 1981 they now expected £250m. Projects were being sacrificed. They were trying to maintain the more profitable overseas investment.

5. Exports were dropping in volume and profitability. From a 9% profit in 1979 exports were now losing 15p on every £1. Export prices had improved in 1980 Q1, but had since fallen. Volume had dropped



from an index of 125 in Q2 to 103 in Q3 (1978=100). In Europe, prices tended to be DM-based, and the £/DM rate had hardly dropped at all.

6. Volume (home + export) was down 12% on 1979. UK Chemical sales now stood at an index of 75 (1978 = 100). Domestic prices had been flat since Q2 1980, while costs (particularly nationalised industry prices) continued to mount. They were at a severe disadvantage from energy prices.

7. Their large capital investments (eg crackers) needed to be run at 80% capacity. In 1980 they had been running at 55-60%.

8. Agricultural products, pharmaceuticals, Mond and paint were not too bad. But fibres, plastics and petrochemicals were seriously hit. Fibres could lost £100m in 1980. Decisions had already been taken to withdraw from certain areas.

9. Overall, the 1980 Q3 results would have been worse but for good performance in Australia, S Africa and to some extent the USA. But the poor Q3 results were probably <u>not</u> an aberration.

10. As to suppliers, textile mills were already closing. In the plastics area, many fabricators were likely to be in difficulties, as were suppliers in the general engineering field.

ICA/1
19 December 1980

cc. Mr Manzie
Mr Steele
Mr I Lightman

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NOTE FOR THE RECORD

STATE OF INDUSTRY: DISCUSSION WITH MR DUNCAN MCDONALD, CHAIRMAN AND CHIEF EXECUTIVE OF NEI, ON 18 DECEMBER 1980

I spoke to Mr McDonald on the telephone on 18 December 1980.

Summary

2 Mr McDonald said that NEI had not yet had to cut any real muscle, although they were having difficulty in one or two areas, particularly at Reyrolle on switchgear and at Bruce Peebles on power transformers. He had made a special check with the coordinator of their sub-contract work, and he told me that NEI were not really concerned about either suppliers or customers. Some suppliers were in difficulties but they did not know of any that would go into liquidation. As far as customers were concerned it was clear that some of them were delaying ordering at the present time.

Detail

3 The company had had to make cuts of 25 to 35% in jobs at Reyrolle in the last year but this was essential to streamline the business. The main problem with Reyrolle had been due to the specifications of the Electricity Boards for power switchgear, which sought much too heavy and complicated equipment for overseas markets. CEGB have, however, been changing their specifications and Reyrolle have been redesigning their equipment, although the order position was still difficult.

4 On the high voltage switchgear side and distribution switchgear, 80% still went for export. There was no home ordering at the present time and the company were looking forward to the cross-channel link as the next main domestic order. The company had decided, however, that they would not cut R & D in this area and had just authorised the expenditure of £1½ to 2M.

5 On power transformers, there had been a very difficult situation on orders being placed for the Edinburgh factory, but business had now been obtained in Austrlia which would keep the factory going for one year at least.

A G MANZIE

22 December 1980

cc Mr Steele
Mr Lightman
Mr Michell

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NOTE FOR THE RECORD

STATE OF INDUSTRY: DISCUSSION WITH MR CHRISTOPHER HOGG, CHAIRMAN AND CHIEF EXECUTIVE OF COURTAULDS, 18 DECEMBER 1980

Mr Steele and I had a discussion with Mr Hogg on Thursday afternoon 18 December.

Summary

2 Mr Hogg said that he did not really think in terms of fat and muscle but in terms of viability and non-viability. At the moment he was running the business for cash since he saw survival as the main aim, and if the depressed conditions continued he would keep cutting back with the hope of leaving a kernel of the business from which the company could grow again. The most important problem in his view was the exchange rate, and he did not see any relief in the next six months or so either from an improvement in the exchange rate, an up-turn in demand or a reduction in UK overall capacity.

Detail

3 The business which had been most severely hit was fibres, although cuts had also been made in other parts of the business. He had already cut this year 25,000 people out of a total of 101,000 in the UK. Of that 25,000, 15,000 were connected with operations which will never restart again. The other 10,000 were in areas designed to improve productivity, and a 15/20% improvement in productivity had been achieved. His aim was to cut by a further 10/20,000 in the next year (this is highly confidential of course) in the same 40/60 mix as for the past year.

4 As for customers, he was surprised at how well many of them have stood up to the depressed conditions. He was not as familiar with the detail as he used to be but he knew that there were a fair number of bad debts around and particular emphasis was being put on credit control.

5 Mr Hogg said that he had already set out his views more fully in the letter which he sent to the Secretary of State.

for
A G MANZIE D Martini (Personal Secretary)

22 December 1980

cc Mr Steele
Mr Lightman
Mr Michell

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NOTE FOR THE RECORD

STATE OF INDUSTRY: DISCUSSION WITH MR ERIC SWAINSON, MANAGING DIRECTOR OF IMI LTD, ON 20 DECEMBER 1980

I had a long discussion with Mr Swainson on the telephone on 20 December.

Summary

2 Mr Swainson said that the general situation for his company was pretty miserable. It was not too bad on work for the aircraft industry, specialist valve activities, heat exchange and engineering tube, but most other commodities - copper, building products, central heating and zip fasteners were all very depressed indeed. He did not see any signs of early recovery. His forecast was much nearer that of the Bank of England than that of Mr Nott, Secretary of State for Trade. He saw nothing but gloom for the first six months of next year at the least. He expected a great reduction in export volume, since at the present time it was only being maintained by their accepting reductions in export profitability. It would only be a matter of time before the company had to stop exporting and withdrawing from markets. He already knew that in February he would have to close the manufacturing of one very important product. The situation was very much worse for products with high export content and which were relatively labour intensive.

3 The main difficulty with the company was the exchange rate. Interest rate was not really a problem except in so far as it affected the exchange rate, since the company was not at all highly geared.

Detail

4 As far as sub-contractors and customers were concerned, he believed that there were many companies which were hanging on until the end of the year and that January and February would see a large increase in closures. He did not believe that companies were waiting for the Budget since most of them had given up any hope of relief from the Government.

5 The major customer failure so far had been Fodens, but he was apprehensive about a number of other companies. The zip fastener business had been particularly bad.

6 As an illustration he said that he had been in Australia four weeks ago. Exports from his company to Australia were all losing money on full cost yet the Australians told him that his products had now become 30% more uncompetitive in Australia and it would not be long before he had to withdraw from the market.

7 Mr Swainson summed up by saying that he was absolutely convinced that 1981 would be a far worse year than 1980, since at least the first quarter of 1980 had been good, whereas the prospects for as far as he could see for 1981 were bad.

for
A G MANZIE D Martin (Personal Secretary)

22 December 1980

cc Mr Steele
Mr Lightman
Mr Michell

STATE OF INDUSTRY

Report of Discussion with Mr David Plastow - Vickers

Mr Plastow said that Vickers diesel business had been seriously affected by Iran and by its dependence on the truck business which was still in decline. All capital expenditure had been halted. Their subsidiary in Mexico (which assembled trucks out of components exported from UK) had suffered from North American competition, based on the relative position of the dollar and the pound. They had a rolling programme of redundancies which they reviewed every month in the light in particular of changes in the exchange rate. Their work was, however, underpinned by Ministry of Defence orders which secured their R & D. Mr Plastow thought that there was no danger of their pulling out of the diesel business though if the present situation continued throughout 1981 they might well think again.

2 Even the Rolls Royce Motor Company was suffering in that its overseas sales were not making the sort of profit to which they had become accustomed. I got the impression, however, that they were losing the gilt rather than the gingerbread itself.

3 The Vickers Group comprised a host (about 50) smaller companies. The automotive sector was doing badly. More generally, the direct exports of all these companies were of growing concern. He could, however, think of only one small unit and another half unit (as he described it) which they were thinking of closing in the near future and they had been problems for some time.

4 Vickers over the past year had done all the productivity slimming they wanted to do. He said their general business was safe for the next 3-6 months but added that if I had posed the questions in the context of a 9-12 months timescale he would have given a very much more depressing answer.

J R Steele
Deputy Secretary
717 Ashdown ex 6797
19/12/80

cc Mr Manzie
Mr Mountfield V
Mr Dell MEE
Mr Lightman IC(A)
Mr Michell IC(A)1

STATE OF INDUSTRY

Report of Discussion with Mr Jeffrey Wilkinson,
Lucas Industries

Mr Wilkinson said that so far Lucas had been shedding people at a greater/than their reduced volume would justify and thus achieving productivity gains. They have closed two old and inefficient factories and have, during the last few days, announced the future closure of a third (Bromborough) which was again an old factory with, apart from the past 12 months, unsatisfactory labour practices. The work would be transferred to other sites to increase the loading there.

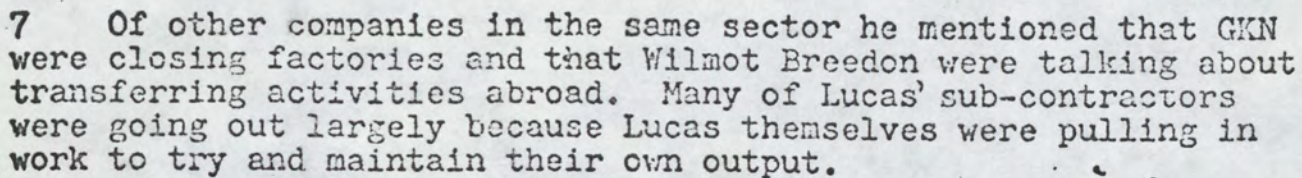
2 On car components de-stocking was no longer a problem and they saw some slight uplift on account of that. Taken over all they saw some bottoming out during the winter but no significant upturn.

3 The commercial vehicles market was, however, still going down. Girling, for example, were facing depressed volumes and most of their U factories were working 40-50% below the forecast rate. 60% of the work force was on short time working which would, in some cases, turn into redundancies quite soon. They were currently examining groupings of factories to see if one could be closed and the loading of others improved. Mr Wilkinson thought that they might by this process have 9-10,000 redundancies by July. Most factories supplying the automotive business were running well below break-even but were still making a small contribution to overheads.

4 Mr Wilkinson said that Lucas were substantial exporters but because of the value of the Pound almost all their export business was unprofitable (but again contributing something to overheads). They were considering now whether there were any particular foreign markets that they would have to shed. Because of existing contracts a decision now to shed a particular market would not feed through, in less than 6-9 months and they would try to handle things so that the decision became irreversible at the latest possible stage.

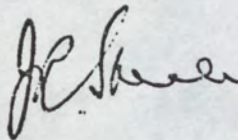
5 Mr Wilkinson said that even the after-market showed a severe drop which they did not understand. De-stocking was over and the low market did not show the usual relationship to petrol sales. They were still trying to work out what caused this.

6 Of their main customers Mr Wilkinson said that he expected Talbot to collapse before the summer (he asked that this expression of view be protected), that Ford would obviously survive but were forcing down the prices they paid to their suppliers. The next 12 months in the automotive industry looked very gloomy and he was studying forecasts by Economic Models, indicating that car production in the UK in 1981 would be down to 800,000 cars. If this happened the component industry would have to contract by 20-30%. Decisions on this contraction would begin to be taken in the New Year but clearly spread well into the next financial year.



7 Of other companies in the same sector he mentioned that GKN were closing factories and that Wilmot Breedon were talking about transferring activities abroad. Many of Lucas' sub-contractors were going out largely because Lucas themselves were pulling in work to try and maintain their own output.

8 . On aerospace Lucas had an order book full for the next 18 months, though current additions to the book were beginning to tail off.



J R Steele
Deputy Secretary
717 Ashdown ex 6797
17/12/80

cc Mr Manzie
Mr Mountfield V
Mr Lightman IC(A)
Mr Michell IC(A)1

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Note for the Record

Mr Steele and I called on Mr R Utiger on 17 December 1980.

2. Mr Utiger said he was greatly concerned that decisions affecting industrial "muscle" could be taken during the next few months. The exchange rate was the crucial factor. The present rate was not only making exports unprofitable, it was also affecting the domestic markets.

3. Decisions to cut "muscle" were not simple and would depend on different factors according to circumstances. In TI itself, if the exchange rate stayed at $2.30 (76 effective) about £100m worth of their exports of £250m would be seriously loss-making. Exports were already losing £16-20m at an annual rate and this would get worse. This had already been the position for 9 months. No responsible Board could contemplate allowing losses to continue at this level for another 12 months: 6 might be tolerable if they could be confident of improvement at the end of that time. The perceived trend of the exchange rate was the crucial factor. But there was no particular level at which business could operate profitably. The requirements of businesses might be markedly different. In aluminium, for example, the £/DM rate was the important one, and this had not fallen at all.

4. He gave two examples within the T.I. group. The first was in machine tools. One of their companies had had a good range of conventional tools which was now running down faster than expected. This was not "muscle". But a plan to build up a range of NC tools to take over had been seriously sent awry by present conditions. It now looked as if this operation could not be profitable for 3 or 4 years. On this basis TI would be forced to consider withdrawal in January. This would be "muscle". Any decision might become irrevocable within three months.

5. The second example was bicycles. For some time TI's strategy had been a gradual withdrawal from labour-intensive assembly and a concentration on component manufacture. Again this strategy of smooth transition had been seriously hit. It now looked as if the run-down on assembly might have to be much more rapid with a long period before components could be profitable in their own right.

6. Poor profitability and general shortage of liquidity could lead to decisions to slow down or stop investment in expansion (eg micro-processor control of the smelter at Invergordon). This was not a direct effect of the high exchange rate but it was an indirect result.

7. Turning to suppliers, Mr Utiger said he was very concerned. He knew of one very good company which had said it would be forced to liquidate if orders were cut off. This would be a loss of "muscle". It was doubtful that the capacity could be restored when the upturn came, so the result would be more imports. TI was concerned about its suppliers from the point of view of its own interests, but could not support them indefinitely. He did not feel that flexibility/ generosity by the banks would be enough in many cases. Expanding companies were the worst hit. The typical case was a company employing 200/300, well run by 2 or 3 key people with no labour troubles. Such companies were often highly efficient and very difficult to rebuild once they had gone.

8. Many companies, like TI, were engaged at this time in planning their budgets for their next operating year. This could therefore be a crucial period for major decisions.

9. Mr Utiger emphasised that a Board must act prudently. It would be irresponsible to carry on as normal in the knowledge that if circumstances had not improved within say 12 months, there would have to be a sudden chop. A Board would tend to look for evidence of improvement (especially in the trend of the exchange rate) or would probably take prudent decisions to keep losses and expenditure to a minimum and make plans for withdrawal.

STATE OF INDUSTRY

Note of conversation with Mr John Raisman,
Managing Director, Shell UK

I explained that I was interested not so much in the state of the oil industry but in Shell's non-oil activities, and in any insight Shell had obtained of the state of health of their various customers.

Mr Raisman said that their main non-oil activity was chemicals. They had carried out some rationalisation in this area, which he categorised as having been necessary regardless of the rate of exchange etc. It had made them more efficient. He was not expecting any further closures during the foreseeable future.

Mr Raisman confirmed that his marketing divisions would be able to give an impressionistic picture of the state of their customers and said he would ring me back when he had consulted them, which he would do without revealing the reason.

/At the time of going to press Mr Raisman had not rung back/

J R Steele
Deputy Secretary
717 Ashdown ex 6797
22/12/80

STATE OF INDUSTRY

Report of Discussion with Mr John Quinton, General Manager, Corporate Finance, Barclays Bank

Mr Quinton said that the Bank were trying to answer the same sort of questions as I was putting to him in order to decide which of their clients were survivors, and thus qualified for being lent more money. The Bank were adopting the policy that they should lend beyond their normal prudential limits in order to keep going those companies that they thought were efficient and viable in the longer term. They were doing this, not out of altruism, but because their future business lay there. He thought Sir Terence Beckett's reaction at the CBI conference was much over done. In their experience the MLR at 16% was not all that disastrous; it had been critical to the survival of a company in only a few cases. They had more complaints about the exchange rate than any other aspect of macro-economic policy, but many companies were in fact looking in the US for companies to buy whilst the exchange rate was still high. The debate on the level of Sterling tended to be set in the context of the next 12-15 months rather than that of the next few. Many of their clients had slimmed their work force but not many were saying that they had closed down operations that ideally they ought not to have closed. Mr Quinton thought that most well-managed companies would survive at least through next year. Although the effect of macro-economic policy was obviously indiscriminate and some good companies had gone, he did not see the proportion of good to bad, or of muscle to flab, changing significantly in the period up to, say, Easter.

2 There is one qualification which ought to be made to Mr Quinton's views. Being based in London he deals with the larger companies (ie those big enough to use London for their banking rather than local banks) and thought that the picture amongst small companies was probably more depressing.

J R Steele
Deputy Secretary
717 Ashdown ex 6797
17/12/80

cc Mr Manzie
Mr Dell MEE
Mr Mountfield V
Mr I Lightman IC(A)
Mr Michel IC(A)1

CONFIDENTIAL

CONSULTATION WITH INDUSTRIALISTS

Views of Mr D Croxon, Chief Executive of Kimberly Clark

Kimberly Clark had a long-term strategy of orderly expansion in Europe. The next major tranche of new UK capacity, the £30m Prudhoe project, would come on stream early in 1982.

They were on course in the UK and elsewhere. The market for their main product, tissue paper, was still growing but the rate of growth was expected to be only 1/2% next year. They were a little more pessimistic than 6 months ago, but there was no question of closures or redundancies.

Their capacity was working flat out which had enabled them to stay competitive with imports. They were looking for a wages settlement this year that would not increase unit costs in real terms.

The main concern was the "massive increase" in energy costs. This was the one major discordant note. Precise data was available from Kimberly Clark's own companies world wide showing that UK energy costs were now 3 times higher than Canada, twice as high as in the US and between 35% and 50% higher than on the Continent.

Mr Croxon said they had first-rate suppliers who were generally in good shape. Cost cutting was making selling to industrial customers very tough. Domestic sales were increasingly to the supermarket chains.

As regards the Budget, Mr Croxon noted that the stock relief proposals would cost them money. The measure Kimberly Clark want is abolition of the Fuel Oil Tax.

D. M. Dell.

COMMERCIAL IN CONFIDENCE

MR STEELE

cc Mr Michell ICA

CONSULTATION WITH INDUSTRIALISTS

Sir Robert Hunt - Dowty

Sir Robert said that Dowty's aerospace and defence business was prospering but they were concerned about possible future MOD cuts which could force them permanently to lay off skilled engineers. This could lead to a permanent loss of capability. Mining equipment (35%) was seriously affected by the NCB cuts and 200 semi-skilled men had been laid off.

2 Sir Robert said that it was however in their remaining hydraulics and industual seals business that the best industrial barometer lay. In seals, which spanned the whole of industry, demand had begun to fall in March, were down 40% in September and were now running at a constant 50% down. However this fall in demand appeared to have bottomed out. There was however no sign of an up-turn and feedback from the sales force suggested that this would not come about until the end of 1981. Experience on seals in the US had been similar but an up-turn was expected in late Spring 1981. In Germany the down-turn had only come in September and in France only very recently. He implied however that by far the most serious situation remained the British one.

3 He asked nothing of the budget. Dowty were a high invester in new equipment and paid little tax. He would however like to see the £ down to 2.20.

4 Subcontractors were suffering but none had closed.

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18 December 1980

COMMERCIAL IN CONFIDENCE

CONSULTATION WITH INDUSTRIALISTS

Mr Bill Morgan GEC

Mr Morgan said that GEC were basically confident about prospects for the company. The immediate issues of level of demand and exchange rate were unlikely in themselves to cause any change in GEC's product or market pattern but they would sharpen the continuing examination GEC were making of product and market areas to meet changes in technology, eg from electrical items to electronics, and thence into systems (a particular example was office machinery). Some lower technology areas were on the other hand likely to continue to be profitable, eg transportation. There the company would aim to make the most of existing technologies while these were profitable, but there were no immediate areas at risk.

2 Mr Morgan's chief worry about suppliers was on the state of BSC. GEC would prefer to take from foreign sources at cheaper prices rather than see the Government artificially maintain BSC capacity. Over the very wide range of GEC's activities it was difficult to be specific about other suppliers, but the company did not expect any major difficulty with sub-contractors. They thought that most of them would continue in business. The same applied to customers.

3 As to the Budget, Mr Morgan had no specific suggestions to make. GEC had lived with Budgets of every type before and would live with next April's also. The basic philosophy of the company was to make a success of the situation as they found it rather than to worry too much about events that might not occur.

4 Mr Morgan was unwilling to hazard a guess as to the length of the recession. So far he saw no sign of improvement.

MEE
17 December 1980

COMMERCIAL IN CONFIDENCE

CONSULTATION WITH INDUSTRIALISTS

Sir Franklin Braithwaite, Baker Perkins

Sir Franklin Braithwaite said that Baker Perkins's first half-year figures just published showed a loss but he was confident that the second half should be better, giving a profit at the end of the year, though he would not estimate how much. He expected to maintain the dividend. In spite of difficult conditions, Baker Perkins had been maintaining their investment in machinery and R&D. R&D expenditure would be kept up this year, but they were towards the end of their machinery investment programme so that this could cause difficulties for, for example, machine tool suppliers. His own guess was that there would be a turn around in the market visible by June.

2 Among suppliers his chief worry was with BSC, and Baker Perkins were increasingly placing orders for steel abroad both on grounds of quality and price. This went against their overall "buy British" policy, eg in purchases of motor cars.

3 In the case of other suppliers and customers Baker Perkins foresaw no major difficulty and were not expecting firms, except perhaps their small sub-contractors, to go out of business or reduce product ranges in a damaging fashion. The smaller sub-contractors could be easily replaced when the market turned.

4 As to the Budget, Sir Franklin Braithwaite had no special requests or suggestions to make. He did not regard it as of particular significance this year.

D. M. Dell

MEE
17 December 1980

CONFIDENTIAL

CONSULTATION WITH INDUSTRIALISTS

Views of Mr R J Bailey, Chairman of Royal Doulton Tableware Ltd

Royal Doulton have anticipated the continuation of hard times next year. They have already closed 4 works which were somewhat peripheral. No further closures or redundancies are foreseen - unless the situation turns out to be much worse than they expect. Their expectation in fact is that they will be working at about 75% of capacity next year.

The pattern of trading is highly seasonal and the pottery sector generally will not be well placed to assess prospects for next year until the major stores start placing their orders after Christmas. Mr Bailey is not yet sure whether the stores will have reduced inventories sufficiently to start ordering again at more normal rates. He thinks the recession may have bottomed out.

The three key factors are inflation, the high cost of borrowing and the exchange rate. Mr Bailey noted some recent improvement in all three factors.

Royal Doulton have not abandoned any export markets or any major product lines and they have no intention so doing. Essential investment has been sustained, but on a restricted basis. A modest wage settlement is on the cards, provided there are no "silly settlements" elsewhere in the public or the private sector.

STATE OF INDUSTRY

Extract from report of discussion Mr P G Hudson/Fisons Fertilizer Division

The main news I was given in extreme confidence was that in January 1981 Mr Blackboro expects to declare redundancies of 800 throughout the Division. This will involve the shut down of the smaller uneconomic production plants and amount to 25% of the Fertilizer Division's capacity. The details are still confidential and no mention should be made of the pending closure outside CT Division. Mr Blackboro explained that in his view the Division had become too production-oriented. Product had been made even when it was not being sold. Fisons have been losing market share for the last 20 years, in fact ever since the Monopoly Commission's report of 1956, after which Fisons started to diversify their activities. The market share in fertilizers has been lost in the main to the small companies. In Mr Blackboro's view Fertilizer Division has become too conservative and inflexible and its marketing has been neglected. No real attempt has been made to project its brand image and more attention in future needed to be paid to service to farmers. Fisons for production reasons had tended to sell in the June and December each year - quite the wrong times.

22 December 1980

STATE OF INDUSTRY

Extract from note of meeting CT Division/Turner & Newall Ltd

The effect of all these factors was to produce a break-even situation in the first ten months of this year in comparison with a £15m operating profit before interest charges in the same period of 1979. (As this implies losses likely to be substantially worse). Corrective action had been taken to reduce both capital expenditure and R & D, a low pay settlement of 5.2% had been negotiated 2 months ago, the work force was being cut by 1300, a factory in N Ireland shut, market research activities were being contracted and systems developments projects with 3 year paybacks were having to be shelved. Despite this there was extensive short-time working within the Division.

The company's economists were forecasting a further decline in gnp of 3% in 1981 and prospects in the individual sectors apart from minor areas varied from poor to extremely bad. As margins have already been reduced at home and overseas (in some cases prices had been reduced by 14/15% despite input prices dropping by only 7%) and there is no further employment fat to cut, only radical restructuring of the business would contain the losses if an early upturn did not materialise. This would reduce the manufacturing base of its operations. The export front did not offer any solace because the company was just managing to hold on to some markets and was being forced to take account of redundancy cost in deciding whether to stay in the market. It was easier to fund marginal export business when the overall tempo of activity was in steep decline than when it approached equilibrium or increased.

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