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cc: D/HW

10 DOWNING STREET

*From the Private Secretary*

11 January, 1983

I have been asked to thank you for your letter of 15 December to the Prime Minister about the UK steel industry and the closure of Round Oak Steelworks.

The Government's support for a viable steel industry in the UK has been clearly expressed on several recent occasions by the Secretary of State for Industry. He has explained that we have strongly pressed the European Commission for more rigorous enforcement of the production and pricing rules and that they have responded favourably. These measures are designed to allow the European industry to cope with both the phasing out of subsidies and the necessary cutback in capacity to meet the foreseeable demand for steel products. As you recognise in your letter, the problems facing the steel industry are not just confined to the UK, but are shared throughout Europe and the other industrialised nations. In the European Community, capacity to produce crude steel stood at about 200 million tonnes in 1980 and 1981 while actual production in each year was only about 126 million tonnes. In the UK, BSC produced only 14 million tonnes of liquid steel in 1981/82 using plant with an installed capacity of 21 million tonnes per annum. The sheer scale of this problem requires it to be tackled on a joint basis if the problems of BSC and other European steelmakers are to be resolved. But while we have been supporting the efforts of the European Commission it has also been necessary for BSC to put its own house in order by reducing costs and increasing efficiency.

On 20 December in a statement to the House of Commons, the Secretary of State said "It remains the Government's firm resolve that the Corporation should return to lasting viability, free of Government subsidy. This is the only way to have an efficient steel industry, providing steel at competitive prices to the market and the only way to achieve secure employment in steel". He went on to say that although the target of break-even for this year could not now be met, the Corporation had accepted that their aim should be to break-even before interest in 1984/85. It is a condition of the European measures that operating subsidies be eliminated by the end of 1984, but the Government will continue to support BSC in this period, though maintaining the downward path of Government funding.

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The private sector of the steel industry shares with BSC the problem of over-capacity. In order to help with the necessary rationalisation, the Government has offered assistance of £34 million under the Private Sector Steel Scheme. Here too, the aim is to assist rationalisation, so that a viable industry may be retained in the UK. Other policies are concerned with privatising BSC; they have been encouraged to dispose of those parts of the business that are peripheral to steelmaking and have been reasonably successful in so doing. In relation to the steelmaking businesses, poor market conditions have hindered progress, but some solutions have emerged - the creation of Companies Act companies and the setting up of joint ventures with the private sector.

Because of your close involvement with Round Oak you will be aware that Ministers at the Department of Industry have made it clear on a number of occasions that the decision to close the works was one for the BSC management to take and that it was not a decision which required Government authorisation. The Secretary of State has received a deputation led by John Blackburn MP and subsequently wrote to him after studying the papers handed over and seeking further information about the closure decision from BSC. You will see from the enclosed copy of that letter that the Secretary of State explained that first it was not open to him to influence BSC's decision but secondly that after consulting BSC he accepted their arguments for closing the works.

The Prime Minister has asked me to say that she fully supports the Secretary of State's view that this is a matter for BSC's judgement. She greatly regrets, however, the loss of jobs in the West Midlands that this closure means and has great sympathy for all those involved

(Timothy Flesher)

The Reverend Robin G. Blount,