

SUBJECT
cc Master

SRWAB/



file

10 DOWNING STREET

23 May, 1985

From the Private Secretary

Mr. Frank Field, MP, came to see the Prime Minister today to discuss the proposed closure of Manchester Steel's Bidston works which is located in his constituency. Your Minister was present.

Mr. Field said that events had moved on since his original request to see the Prime Minister. He had then feared that Allied Steel and Wire which had taken over Manchester Steel would refuse to entertain offers to buy the Bidston works. Since then, however, together with a delegation of other Wirral MPs, he had been to see Mr. Alan Cox, the Chief Executive of ASW. Mr. Cox had indicated that if a serious proposal to buy Bidston was made, ASW would refer the matter to its shareholders who were now British Steel, GKN and ELKEM. Even if they did so, however, he was concerned that British Steel would veto any sale on the basis of their view that there was room for only one of the two plants run by Manchester Steel, the other being in Manchester. Mr. Field considered that the over-capacity argument had been over-stated; moreover it was his view that if the Manchester plant was the only one which remained open, its customers would take part of their custom abroad in order to safeguard their source of supply. This would inevitably mean that the Manchester plant, which in any event had only been guaranteed until September, would itself close. Thus both plants would have closed and much custom would be lost to imports. He had information which suggested that Manchester Steel customers would wish to make a serious bid for the Bidston works. It was for the customers themselves to put together such a bid; what he sought from the Government was an assurance that British Steel would not veto a sale referred to them as shareholders in ASW.

The Prime Minister said that she understood Mr. Field's concern and would not wish both plants to close in the way which he described. Moreover she could see attractions in a genuine private sector takeover of the Bidston works. Nevertheless, ASW was a private company and there could be no question of a Government instruction on the way in which it conducted its business. Mr. Butcher added that a further new factor had emerged in that the European Commission had approved the takeover in the form proposed. The terms of that decision might well limit the scope for an arrangement of the kind indicated by Mr. Field. The Prime Minister said that the Government would look into this question as well as

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that of the likelihood of widespread switching to imports or "second sourcing" were Bidston to close. If Bidston's customers were able to put forward a serious bid, she would of course be willing to listen to any further views which Mr. Field wished to put forward.

Following the meeting, the Prime Minister asked Mr. Butcher to take up both the points which had emerged during the meeting: first, the extent of any possible "second sourcing" and second, the implications of the European Commission's decision on the takeover.

When this has been done I should be grateful for your further advice on how best to take matters forward with Mr. Field, since in any event his case depends upon the ability of Bidston's customers to put forward a serious proposal.

(TIM. FLESHER)

David Halldearn, Esq.,
Department of Trade and Industry.



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From the Parliamentary Under Secretary
of State for Industry

JOHN BUTCHER MP

Tim Flesher Esq
Private Secretary to the
Prime Minister
No. 10 Downing Street
LONDON SW1

22 May 1985

Dear Tim,

**PRIME MINISTER'S MEETING WITH FRANK FIELD MP ABOUT CLOSURE OF
MANCHESTER STEEL: 23 MAY 1985**

Officials from this Department held a meeting with the Chief Executive of Allied Steel and Wire (Alan Cox) this afternoon, following a meeting he had earlier today with Frank Field MP and David Hunt MP.

Mr Field no longer regarded the closure of the Manchester Steel Rolling Mills as an issue: he was solely concerned that ASW should be free to sell the Bidston steelmaking operation (eg to its customers). He told Mr Cox that he would be asking the Prime Minister tomorrow to ensure that BSC would not stop such a sale.

In this context, the key point for the Prime Minister is that it is Mr Cox's clear view that if Bidston stays open, the Manchester Steel plant in Manchester would definitely shut (at present ASW have deferred a closure decision on this). In his view, there is at most room for only one of these plants.

Mr Cox also said the new ASW agreement (between BSC, GKN and Elkem) gives both BSC and GKN a right of veto. It would be very difficult for the Government to influence BSC's exercise of that right in an essentially commercial decision and the Prime Minister should therefore follow the line set out in paragraph B1 of the defensive brief.

*Yours ever,
David*

DAVID HALLDEARN
Private Secretary

J25AFA

JB

but know base is
when consumers approved

eg in relation to quota

Small additional point

GNW → capital

BS → plant + steel

Any.

| Some bids will be considered

mm 35/5

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Dr Spencer
MM

cc	PS/Mr Lamont	
	Mr Murray	MM
	Mr Thynne	NWRO
	Mr Anderson	NWRO/Liverpool
	Mr Pearcey	RP
	Mr Millar	MM2
	Miss Partridge	Inf

MANCHESTER STEEL: MR BUTCHER'S MEETING WITH ROBERT LITHERLAND MP AND FRANK FIELD MP

You were present when Mr Butcher met Robert Litherland MP and Frank Field MP together with Councillor John Flanagan of the Manchester City Council and a delegation of 14 representatives of the workforce of Manchester Steel Limited (MS) on 7 May. The meeting was requested by Mr Litherland in order to discuss the strong speculation that MS were about to be closed as the result of a decision by their Norwegian holding company, Elkem.

2 Mr Litherland asked whether the Department had been consulted by Elkem; whether HMG were prepared to put any moral pressure on Elkem and Allied Steel and Wire (ASW); and whether the Government were prepared to provide public funds in order to prevent the closure of MS. Mr Field said that ASW were half owned by BSC and that BSC would have to provide the funds in which to close MS. He asked whether British Steel might be instructed to use these funds in order to prevent its closure. He went on to ask whether, if closure were to happen, Government were aware of the nature of the plant at MS and that the UK would have to import more steel as a result of the closure.

3 The delegation, whose main spokesman was Mr Lynch of the Amalgamated Society of Wire Drawers and Kindred Workers, said that the closure of MS would have a knock-on effect in other industries such as road haulage. The wealth created by MS would be a loss to the UK economy. It had modern plant, the closure of which would simply have the effect of propping up lame ducks. Steel manufacture in a number of other countries, notably Spain, was subsidised through steel scrap which had led to artificially high scrap prices in the UK. MS were the only supplier of 100mm concast billets and closure would result in increased imports. A similar situation applied in the case of reinforcing, where a number of companies were dependent upon MS as a source of supply and would have to buy from overseas if MS were to close. The majority of MS's Bidston production was of high quality material which was used for defence purposes. MS's plant was flexible; it could fill small orders as well as large

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J22AHJ

FF Clear impression that there
will be ^{bidders} ~~customers~~. Allied \rightarrow if some
will consider. But need shareholder punishment.

RM Inquire \rightarrow BS view of they
saw how determined they were

FF to input. \rightarrow second rowing. Independent
all members will input. ~~Manchester~~

Because BS want an easy time
we might lose 64% of them. Just because
offer refused.

300 bidders, 350 Manchester.

The bar work will close anyway.

\rightarrow Inquire further.

Genuine bid, pursued as
the basis that Manchester close anyway.
~~Independ~~ FF \rightarrow independent all members will go
ahead and input

Reference: ...

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ones. The delegation thought that MS's dependant customers might be willing to help financially with a management buy-out. However, Elkem would not allow this.

4 The delegation said that they thought the demise of MS would result in some of its capacity being taken up by BSC. The delegation contrasted the position of ASW which had received substantial public funding for the Phoenix I project to that of MS which had taken out substantial loans and was, as a result, incurring high interest charges. The delegation said that they had submitted a case to the Office of Fair Trading. Councillor Flanagan asked what assistance the Government was going to make available to help Manchester Council to help compensate for the closure of MS.

5 On the question of Government assistance, Mr Butcher replied that Bidston was a development area and that Philips Road Works at Openshaw were within an intermediate area. Those areas therefore benefitted from aid under the Government's regional assistance policy. He added, however, that any bids for Government funding of Manchester Steel had little prospect of success as assistance to the steel industry were subject to the approval of the European Commission and they were most unlikely to approve any project not involving a capacity reduction. He added that in this product sector firms were currently at around 65% capacity and that in order to be viable they needed to be at around 80% capacity. On the question of public funding of MS through BSC's 50% share of ASW, Mr Butcher pointed out that once a steel company had a 50% private shareholding, as was the case with ASW, then it was considered to be in the private sector and would not be eligible for funding from BSC. Mr Butcher declined to speculate on the question of what moral pressure the Government might bring to bear on Elkem if they were to come to a decision to close MS because such a decision was hypothetical at this stage. Mr Butcher said that the Department were aware of the problem on scrap prices and explained the difficulty of imposing export controls. The delegation suggested that the Government should peg the price of steel scrap and institute a system of export licensing which would ensure that UK demand was satisfied. Any surplus could then be exported. You replied that any voluntary system that the industry wished to institute would be quite acceptable but any element of compulsion by the Government would be contrary to our obligations in the EEC.

6 In response to direct and pointed questions from Mr Field, you said that the Department had not been consulted by Elkem. You added that we received information from a number of sources, including the press and companies in the industry. You confirmed that ASW was one of those sources. You declined to say what information we had

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Am Seemed overcautious

— danger to Manchester

FF delayed or ready

BS want Manchester closed

→ not secure — likely to be done anyway. Manchester

downed. Mgn action will go elsewhere.

If Manchester stays will allied steel, ~~independent~~ customers will safeguard 2 sources of supply.

By end of year, Manchester will be gone through latter orders

→ by impunity.

JB

2 constraints

- ① Definitive of Allied Steel a private sector ^{GKN} BS
- ② Commission which has pure competence → approved in present form.

FF

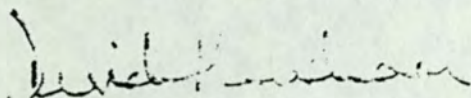
Intention to keep Manchester open but renew in September. But committee will protect themselves by impunity.

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received or to name other sources on the grounds of commercial confidentiality.

7 The delegation pointed out that there was gross over-capacity in the steel-making industries of other EEC countries and that while the UK had rationalised its own industry, there appeared to be very little rationalisation in the other Member States. Mr Butcher replied that this was true in a number of sectors including steel-making. However, the other Member States were now in the process of rationalising but the UK's period of rationalisation had happened rather earlier.

8 Mr Butcher promised to reply to the delegation through the MPs on the points that they had raised, including the question of the strategic supply of certain steels by MS. He promised to provide an interim response by lunchtime on 9 May and I should be grateful if you would let me have a draft by close of play today please.



DAVID HALLDEARN
PS/Mr Butcher
Room 814 V/S
215 4302

8 May 1985

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FF Area - lost 27000 jobs. To whom
closure, looking to expand in. Original
fear was that Allied would not
look at proposals to buy - yesterday

David Hunt, Buy later → Allied
Steel. If several proposals to buy,
Allied would refer to shareholders.

British Steel, GKN, Eikem. Wary

is that BS might try to stop

the sale.

If independent producer →
seems enough proposal → Allied →
Steel → shareholders. Wants to note
again to persuade PM to look at
it. Feared BS might already
claim over capacity = ~~could~~ BS might



Descent to which decision
precludes amendment.

PRIME MINISTER'S MEETING WITH FRANK FIELD MP: 23 MAY 1985

Introduction

The Prime Minister, accompanied by Mr Butcher, has agreed to see Frank Field MP to discuss the proposed closure of Manchester Steel's Bidston Works which is situated in Mr Field's constituency of Birkenhead, with the loss of 300 jobs. This follows an earlier meeting which Mr Field and Mr Litherland MP had with Mr Butcher on 7 May.

2 The closure arises from the takeover of Manchester Steel by Allied Steel and Wire (ASW), a "Phoenix" company jointly owned by BSC and GKN, from its previous Norwegian owners, Elkem. The takeover was announced on 17 May (Press Release at Annex A), and would involve the closure of Bidston and of at least part of Manchester Steel's other works at Openshaw in Manchester (200 jobs to go there); the business will be transferred to ASW's existing works in South Wales and Scunthorpe. Elkem will take a shareholding in ASW, so reducing BSC's holding below the present 50%.

Line to Take

A. General

Naturally regret loss of jobs involved in the takeover. But steel industry, more than most, suffered devastating decline in demand in recent years, with the result that too much capacity chasing too little demand. Inevitable that restructuring - often painful - taking place, with companies closing and cutting back. Problem not confined to UK, similar rationalisation taking place in Europe and elsewhere. Not Government's job to decide which plants should close - for the industry to develop rationalisation measures; they know the industry better than Government. ASW/Elkem deal a result of negotiations between the companies - Government not a party to them.



B. Specific Defensive Points

1 Will the Government urge BSC (via ASW) to step in to save Manchester Steel?

ASW is a private sector company. The Government cannot direct BSC to influence the commercial decisions of the company or its other shareholders.

2 Why doesn't the Government propose other plans for restructuring which do not involve closing Manchester Steel?

It is for the companies to develop such plans - not Government. Important to recognise that there is considerable over-capacity in the wire rod/rebar sector - this has to be tackled.

3 Government must have known about, and encouraged the takeover.

Government receive much information of a commercially confidential nature, which it would be wrong to divulge. But Government not involved in negotiations which were a commercial matter between the companies concerned.

4 Has Government given financial assistance to the deal?

No.

5 Imports will increase if Manchester Steel closes.

Not necessarily. We expect ASW to take over the bulk of Manchester Steel's business - this is why ASW were interested in buying the company.



6 Some customers solely dependent on Manchester Steel products.

Alternative sources available for most products. If there are gaps, for the industry to file them if they are commercially attractive. [If pressed on billets: understand there are other sources, but ASW considering whether to keep one billet furnace open.]

7 Will the merger be referred to the MMC?

It is for the Director General of Fair Trading to advise the Secretary of State whether the merger should be referred. But our powers under UK competition legislation are limited; the European Commission have primary competence on competition matters, because the products come under the Treaty of Paris. The Commission have now approved the takeover.

8 Will the Government support efforts to keep Manchester Steel/Bidston open, eg by its customers?

It is for companies in the industry to come forward with any plans of this sort, and discuss them with ASW. Not the Government's job to try to interfere in commercial decisions.

9 What will Government do to help redundant steelworkers?

Naturally regret loss of jobs, particularly in areas like Bidston and Manchester. But decline in steel market has resulted in substantial slimming down not only in UK. Employees entitled to statutory redundancy payments and retraining grants and other benefits under the ISERBS scheme.



Background

There is substantial over-capacity in the wire rod and rebar sector of the steel industry, which is estimated to be operating at less than 70% of capacity. ASW expect to take over most of the rod and bar order book from Manchester Steel, as they have sufficient capacity available in their own mills, and to receive the company's production quotas. Manchester Steel supply some billets to outside customers, and ASW may retain billet production at Openshaw for these companies.

2 DTI Ministers have been kept informed of the negotiations. On 7 May John Butcher met a delegation of representatives of the workforce of Manchester Steel led by Bob Litherland MP and Frank Field MP, to discuss the rumoured closure of the company. Mr Butcher subsequently wrote to Bob Litherland (copy attached at Annex B) on a number of points raised at the meeting, and a copy was sent to Frank Field.

3 The Director General of Fair Trading has powers to recommend a reference of the merger to the MMC, but the Secretary of State has only limited powers because the products affected come under the Treaty of Paris which gives the European Commission competence to decide on competition and economic issues. The Commission have now approved the merger. [CONFIDENTIAL: OFT have given confidential guidance to the companies that the merger was unlikely to be referred to the MMC.]

4 At his meeting with Mr Butcher, Frank Field was particularly concerned about BSC's role in the takeover. It has been made clear that ASW is a free-standing company which the Government treat like any other private sector company. ASW has no call on cash from BSC apart from that provided for in the original joint venture agreement.

5 Frank Field also considered that imports would increase if Manchester Steel closed down, because the company was the sole supplier of certain products. We do not consider that this point has much substance, since there are alternative supplies in the UK for most of Manchester Steel's product range. (There may be some problem with billets, which is why ASW are considering keeping open the billet furnace at Openshaw.)

6 At the meeting, Frank Field was clearly suspicious about the extent to which the Government might have influenced the deal, and now that the closure has been announced, may urge the Government to encourage some form of rescue plan. Although DTI was aware of the negotiations, it was not involved in them, and the information was treated as commercially confidential. [CONFIDENTIAL: DTI responded



to the European Commission's request for comments on the merger, as provided for under the Treaty of Paris.]

7 Any proposals from other independent steelmakers or rerollers to buy material from Manchester Steel, or to indeed to buy the MS facilities from their new owners, would be for commercial negotiation with ASW, and not for the Government.



Allied Steel and Wire Limited

P.O. Box 83, Castle Works, Cardiff CF1 5XQ Tel: (0222) 463033 Telex: 498295

PRESS RELEASE BY ASW & ELKEM

17th May, 1985.

It is announced that Allied Steel and Wire has acquired Manchester Steel Ltd which was formerly owned by Elkem, the Norwegian metals producer. Because of the overcapacity in the UK, the rod mill in Manchester and all of the Bidston operations will be closed as soon as the necessary consultations have taken place. It is expected that about 500 employees will become redundant. A decision on the closure of the steelmaking operation at the Manchester works is deferred.

Elkem has taken the decision to sell Manchester Steel because, despite considerable financial investment, Manchester Steel's operations have not been profitable for Elkem and the prospect of achieving adequate profitability is poor. The substantial overcapacity in the steel industry makes restructuring necessary, and the sale of Manchester Steel to Allied Steel and Wire will contribute to a strengthening of the UK steel industry.

As part of the transaction, Elkem will be taking an investment in Allied Steel and Wire.

Elkem and Allied Steel and Wire will make every effort to reduce hardship for the employees who will lose their jobs as a result of the restructuring. Manchester Steel's management will begin consultation immediately with Trade Union representatives to clarify redundancy terms for those employees and help them to identify employment possibilities.

All enquiries should be addressed to : Mr. Jack Gillings on behalf of Elkem and Mr. Brian Ford of Allied Steel and Wire.

Not for publication before ^{10.00}~~14.00~~ hrs 17th May 1985.

STATEMENT

1. For the past 9 months, the future of Manchester Steel Ltd has been the subject of a very thorough study, and many options have been considered.
2. The level of demand in the UK has deteriorated since 1979, and there is no prospect of an improvement. Despite considerable financial investment, the operations have not been profitable for Elkem and the prospect of achieving adequate profitability is poor.
3. Strenuous efforts have been made on the shop floor, in the offices and in the sales territories to cut costs, improve quality and service and get more orders. Without these efforts, Manchester Steel's financial performance would have been much worse.
4. More than half of Manchester Steel's sales is to the construction and building industry, and the problems of that sector are well known. There are simply less projects around.
5. Competitive pricing by UK producers has slightly reduced reinforcement imports in recent years. Imports are likely to continue at about their present level but even if they were eliminated, Manchester Steel could only expect to get a proportion which would not solve its problems when set against the spare capacity that exists in the UK.
6. In order to obtain a larger share of the market, Manchester Steel has, in addition to improving service and quality, considered taking a very much more aggressive attitude on its selling prices. Without any doubt, competitors would retaliate, and all concerned would end up getting less money for the same tonnage.
7. Consideration has been given as to whether, by waiting for other steel producers to go out of the business, Manchester Steel as a survivor could be sure of more tonnage being available. There is no prospect of this.
8. The export market has been considered but here competition on price is even more acute, and it would only be possible to compete if Manchester Steel had a firm home trade base at economic prices, which brings us round full circle.
9. From what has been said, it can be seen that a satisfactory solution to the problem of too much capacity chasing too few orders has been sought very seriously. None has been found and the decision has reluctantly been reached to take the steps outlined in the accompanying letter.
10. Consultations on the proposed closure and timing will begin at once.
11. Full discussions will take place with all employees in order to minimise the hardship which this closure may bring.
12. A counselling service is being set up to help employees. Meetings will be held as soon as possible to discuss the terms and conditions of termination of employment. Every employee will have his own particular circumstances explained to him.
13. Copies of this statement are being sent to local full-time officials of all Trade Unions concerned, and to Manchester's local constituency Member of Parliament. Local employment offices are also being informed of the closures.

17th May, 1985