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From the Parliamentary Under Secretary
of State for Industry

JOHN BUTCHER MP

Prime Minister:

Tim Flesher Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

*A draft letter
to Frank Field's
11 June 1985
attached?*

*The letter needs
a little more
on a rather
disinterested
way.*

Dear Tim,

*Waddles
admitted
14/6*

Thank you for your letter of 23 May following the Prime Minister's meeting with Frank Field MP about Manchester Steel.

In your letter you asked that Mr Butcher should take up two points which were raised at the meeting: the possible reaction of the European Commission to any proposal to retain the steel-making facility at Bidston (and/or Openshaw); and the likelihood of Manchester Steel's present outside customers switching to imports if Bidston were closed.

My Minister has looked into these points and concluded that it is unlikely that the European Commission would raise any objections to a further sale of part (or all) of Manchester Steel's businesses, and their subsequent continued operation. This is because the Commission considered (and approved) the ASW/Manchester Steel merger solely on competition grounds (since no Government aid was involved) and they would probably regard any such plan as equally acceptable. However, formally it would be for the Commission to consider any further transfer of ownership under the same competition provisions and we cannot of course, therefore prejudge their likely reaction.

The question of second-sourcing is a little more complex. As far as Manchester Steel's main end-products are concerned - wire rod and reinforcement bar - there are several UK suppliers who are in a position to take on the business; these include Templeborough Rolling Mills (TRM), Sheerness and ASW. It was the commercial attraction of Manchester Steel's order book (and quota) which led ASW to buy the business, and I would expect ASW themselves to wish to continue to supply most (if not all) of Manchester Steel's customers.

J28AEZ



Manchester Steel also produce billets at both sites, and whilst most of these are used internally to produce rod and rebar, some 20% are sold to outside customers. Although your letter does not make it clear, I think it is to this area of Manchester Steel's operation that Frank Field was referring when talking about the threat of imports. The position is that Manchester Steel are currently the only private sector producer of certain sizes of billets, although BSC can supply them. Other steel producers who operate electric arc furnaces and have continuous billet casting facilities could also make such billets, if they purchased (relatively inexpensive) moulds of the appropriate size. We understand that Sheerness and ASW (and F H Lloyd) could produce these billets if the market justified it. ASW are clearly aware of the potential 'gap' in supply, which is one of the reasons they have retained (at least for the time being) the option of keeping Openshaw billet production running.

The Minister made it clear in his Adjournment Debate speech on this issue that the Government could not stand in the way of any realistic bid from the private sector for the steel billet production facilities at either site of Manchester Steel.

I am assuming that the Prime Minister will wish to write to Frank Field and I therefore attach a draft letter. Please let me know if you think it more appropriate for Mr Butcher to reply.

Yours sincerely

David

DAVID HALLDEARN
Private Secretary

J28AEZ

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO

FRANK FIELD MP

At our meeting on 23 May, you raised a number of points about the effects of the planned closure of Manchester Steel, and I promised to look into these.

John Butcher mentioned that any proposal to keep open part of Manchester Steel's operations would require the approval of the European Commission. As you know, the Commission have considered and approved the merger between ASW and Manchester Steel under the competition provisions of the Treaty of Paris. It would of course be for the Commission to consider any new proposals for a further transfer of ownership of Bidston or Openshaw on their merits, against the same competition provisions of the Treaty. As I said at our meeting, however, it is for the industry - whether steel producers or customers - to make proposals for ASW to consider on their commercial merits.

You also referred to the possibility of an increase in imports if Bidston were to close down. As far as Manchester Steel's main end-products are concerned - rebar and wire rod - we understand that there is ample capacity in the UK, and that several producers (including ASW) are in a position to

supply the market. On billet supply, I understand that BSC can supply the sizes of billet currently sold to outside customers by Manchester Steel. Other UK steel producers who operate electric arc furnaces and have concast billet facilities could also make them with a relatively modest investment, but whether they decide to do so must depend on their own commercial assessment of the market.