



10 DOWNING STREET

Prime Minister ①

Mr Tebbit seeks authority  
for BSC to complete negotiations  
with Alphastal for purchase  
at around £150 million.

You may like to discuss  
first with Mr Tebbit and  
Chancellor. A slot is available  
at 18.00 tomorrow. The meeting  
could also consider the final  
points on the BL/Herde deal,  
on which a minute is  
expected tomorrow.

Agree a meeting

AT

12/6

Yes not



CONFIDENTIAL

B  
BDO

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

12 June 1985

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

Dear Chancellor,

What?  
↓

Yesterday I sent you a copy of my minute to the Prime Minister advising you that negotiations with the Greek owners of Alphasteel were again underway.

o BL Hoda

2 You will recall that Norman Lamont wrote to Peter Rees on 25 March about BSC strategy, and supported the BSC Board's view that they should be empowered to buy and close the Alphasteel mini-mill in South Wales. Since that letter there have been more detailed discussions at official level, and I have also spoken further to Sir Robert Haslam about the strategic basis for BSC's next plan.

3 The main advantages we hope to gain by closing Alphasteel, which is ultimately owned by a Greek family and employs some 350 people, are:

- improving the loading at BSC's strip works by transferring Alphasteel's production and quota;
- protecting BSC against destructive price cutting;
- enabling Alphasteel's continuous casters to be transferred to BSC's Llanwern works and a new reheating furnace to be installed at Port Talbot;
- enabling us to present to the European Commission a plan for BSC which we think would meet their viability requirements and secure the release of essential funding for BSC;
- allowing us greater flexibility in dealing with the problem of Ravenscraig.

JH3BVO





CONFIDENTIAL

4 Over the last year the owners of Alphasteel have indicated to BSC that the works might be for sale, but at an unacceptably high figure. Shortly before Whitsun, however, the owners said that they were not willing sellers. We seemed to be facing a difficult situation: either having to take precipitate decisions on Ravenscraig or having an extremely serious row with the European Commission and quite possibly helping to undermine the discipline imposed on steel industries in other Member States.

5 It was not clear to me whether the "not for sale" message from the owners of Alphasteel was genuine or a ploy, and I asked Sir Robert Haslam to make it plain to them that I would need to indicate to the European Commission on 24 June the strategic basis on which BSC's plan would be drawn up. Thereafter, it would not be possible to turn back.

6 This has produced an immediate reaction, and a reduction in the price being asked. The owners have said that they will sell the hot strip mill and continuous casters to BSC for £150 million. They would retain steelmaking and billet casting facilities, but only use them for export.

7 BSC need to explore this proposal in far more depth. But it is clear that it gives them most if not all of what they wanted from the purchase. The hot strip mill is the important contributor to overcapacity and its closure would both protect BSC's commercial position and represent a major contribution to the Commission's objectives. The continuous casters can be installed at Llanwern, which needs continuous casting to safeguard its own future. Installing new casters could arouse widespread and vocal concern that the Government had already taken their decision to close Ravenscraig. The reduction in capacity would enable the Commission to sanction the new reheat furnace at Port Talbot which is needed to get full value from the refurbishment of the hot strip mill there.

8 The price for Alpha is higher than BSC's calculation of the price which would be justified on purely commercial grounds, but the gap is not large and is worthwhile in return for additional strategic flexibility. BSC would, of course, hope to be able to reduce the price further.

9 However, before Sir Robert Haslam can pursue detailed discussions he needs to have negotiating authority. I should be grateful for your agreement by close of play Friday, 14 June to his being empowered to make an offer within £150 million. I regret having to seek such a quick response but Sir Robert has to move quickly in his discussion so that the deadline I set (of 24 June) can be met.

10 We have made an estimate of the public expenditure effects of the purchase of Alphasteel. Assuming some phasing of the purchase

JH3BVO





CONFIDENTIAL

price - and also for illustrative purposes assuming that Phoenix II goes ahead - BSC would need a £45 million increase in their EFL in 1985/86, would be able to stick to the baseline in 1986/87 and would save £30 - 35 million compared with baseline in 1987/88. Larger savings would be available in later years.

11 The Alphasteel deal, if it comes off, relieves our most acute problem over steel strategy. But we will still need to consider what guidance can be given to BSC concerning their future planning. The Board themselves have earlier indicated their view that, in the long term retention of Ravenscraig is not compatible with the present objectives of full commercial viability.

12 I am copying this letter to the Prime Minister.

*Yours sincerely,  
John Mogg*

PP . NORMAN TEBBIT

(Agreed by the Secretary of State and signed in his absence)

JH3BVO