E(A) Folder

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Can we do anything more - on the basis of this paper? NW

(2) This subject will come back to E(A) on Tuesday AT 19/7

PRIME MINISTER

19 July 1985

ALPHASTEEL AND RAVENSCRAIG

DTI have now discussed with BSC our alternative ("non-Alpha") plan of Ravenscraig supplying slabs for hotrolling at Llanwern. It will work and, interestingly, is similar to what BSC would themselves propose if Alphasteel is ruled out. Indeed, even with Alpha, they now think they may want to keep Ravenscraig going on this basis for a number of years.

Whatever happens, the hotstrip mill at Ravenscraig has to close: with Alpha, BSC would want to announce it in 1987 for closure in 1988 (although this could be deferred at a cost); and without Alpha, the announcement may have to be in 1986 again for closure in 1988. An announcement in 1986 may in fact be better than in 1987 - if it can be coupled with a positive message about the rest of Ravenscraig. The most difficult course is to make no announcement and yet avoid giving any pledges during the Election campaign.

It will, however, be argued that BSC's plan will be leaked when it goes to the Commission later this year, thereby causing disruption to supplies from Ravenscraig which are vital for BSC until investments in South Wales are completed early in 1986. But surely it is not beyond our wit to prevent such a leak; and to go for the Alpha plan because of such a threat would be to make a nonsense of Government.

DTI may also argue that Alpha's purchase makes financial sense even if Ravenscraig's hotstrip is closed. This is nonsense; their argument has three elements. Firstly, that Alpha will engage in a price war costing BSC £20m per annum - but Alpha are already bankrupt (accounts attached); they could not sustain such a war; and have nothing to gain as they are already selling (through BSC!) their full quota limit. Secondly, the transfer of Alpha's quota to BSC is worth £20m pa - this may be true but surely we could agree

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in advance with the Commission that, in return for closing the much larger Ravenscraig hotstrip, if Alpha closes (which it assuredly will) then BSC would take over Alpha's quota. The third element, worth £10m pa, of reutilising Alpha's concasters no longer applies.

Nevertheless, it may be tactful to leave a future purchase of Alpha open. Once the closure of Ravenscraig hotstrip mill is announced, Alpha's negotiating position (if they're still in business) will be desperate, and a purchase way below £150m should be possible.

The decision is therefore now essentially a political one: convincing George Younger that an early decision to close the Ravenscraig hotstrip mill is worthwhile if it can secure a more certain future for the rest of the plant. Additional investment in the Ravenscraig coke ovens can only be justified on political grounds: they employ 250 people, use no Scottish coal, and do not affect the viability of the rest of the plant.

Without Alpha, Nicholas Edwards will not get the planned growth at Llanwern, but he is saved a very difficult explanation on the Alpha purchase and is still able to announce more investment at Port Talbot. If Phoenix II (which neither we nor the Treasury support) did not proceed, then the closure of the Brymbo works at Wrexham would be avoided - as would the Government's £55m contribution to the joint venture.

If agreement can be secured for the non-Alpha plan, then Norman Tebbit can make a sensible and positive announcement on BSC's future; avoid the embarrassment of justifying the Alpha purchase; improve BSC's profitability by a little under £100m pa by closing the hotstrip mill; and in addition save £190m that would have been spent on Alpha and refurbishing its concasters.

PETER WARRY Peter Warry

ALPHASTEEL LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 1983

	Notes		1983	
		£	£	£
TURNOVER	2		53,606,848.30	
OPERATING EXPENSES				
Change in stocks of finished goods and work in progress		7,297,340.00		(444,220.00
Raw materials and consumables		(36,349,714.40)		(16,920,586.17
Other external charges		(8,253,809.64)		(5,985,763.70
Staff costs	3	(3,459,800.07)		(2,863,829.44
			(40,765,984.11)	
OPERATING PROFIT	4		12,840,864.19	
Interest payable and other similar charges	5	(11,117,831.70)		(10,525,859.92
Exchange losses	6	(6,306,101.08)		(3,967,406.66
Interest receivable and other similar income		428,201.52		634,943.62
Stamp duty on share capital		(50,000.00)		(100,000.00
			(17,045,731.26)	
LOSS ON ORDINARY ACTIVITIES			(4,204,867.07)	
BALANCE BROUGHT FORWARD			(52,804,143.04)	
BALANCE CARRIED FORWARD			£(57,009,010.11)	

Auditor's report on page 3.

The notes on pages 7 to 12 form part of these accounts

RAWLINSON and HUNTER
CHARTERED ACCOUNTANTS
P. O. BOX NO. 4SR
ONE HANOVER SQUARE · LONDON W1A 4SR

REPORT OF THE AUDITORS

TO THE MEMBERS OF

ALPHASTEEL LIMITED

1. We report on the accounts set out on pages 4 to 12 which have been prepared under the historical cost convention. Our audit has been carried out in accordance with approved Auditing Standards.

2. As stated in note 1 to the accounts, no provision is made for the depreciation of fixed assets. This is not in accordance with the provisions of the Companies Act 1981 or Statement of Standard Accounting Practice No. 12. On the basis of depreciation rates estimated to write off the cost of the assets over their expected working lives, the depreciation charge for the year and accumulated depreciation at 31st December 1983 would have been approximately £5,245,090 and £27,884,813 respectively. The effect of this would be to increase the loss for the year from £4,204,867 to £9,449,957 and to increase the accumulated deficit at 31st December 1983 from £57,009,010 to £84,893,823. Accordingly, the carrying value of fixed assets is overstated in the balance sheet by £27,884,813.

3. Because of the significance of the matter set out in paragraph 2 above, in our opinion the accounts do not give a true and fair view of the state of affairs of the Company at 31st December 1983 or of the loss and source and application of funds for the year then ended. In all other respects the financial statements comply with the Companies Acts 1948 to 1981.

4. Supplementary Current Cost Accounts have not been prepared by the company which is contrary to the requirement of Statement of Standard Accounting Practice No. 16.

Rawlinson & Hunter

31. October 1984