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22 July 1985

PRIME MINISTER

BRITISH STEEL

Even with Alpha closed, BSC amazingly now want to make 1.5mt of steel per annum at Ravenscraig. On our Alpha open strategy, this rises to 1.7mt per annum out of a total capacity of around 1.8mt per annum. This new demand apparently comes mostly from exporting Ravenscraig slabs abroad and, whilst highly desirable, should be treated with extreme scepticism.

Perhaps because of this new demand, even with slabs supplied from Ravenscraig, BSC still want to invest in concasters at Llanwern. This should be resisted until it is proved that Ravenscraig cannot meet the demand.

Our preferred strategy is Option 2^{ie New Option A} in tables 1 and 2 of the paper. The comparisons are questionable and particularly distorted by two elements.

1. Options 3, 4 and 5 are given the improbable £50m per annum benefit (plus consequential interest) due to Alpha's closure. Alpha remains open throughout on our Option 2, although we would expect it to close of its own accord.
2. Although our Option 2 and the new BSC Option 4 close Ravenscraig's hotstrip, contrary to earlier DTI expectations, this saves only £20m per annum. This implies that steelmaking contributes the other £80m of losses at Ravenscraig, which makes BSC's new-found desire to keep such steelmaking going surprising. Moreover, if it does make economic sense to keep steel-making at Ravenscraig - albeit only until, say, 1990 - then by definition it does not cost money to do so.

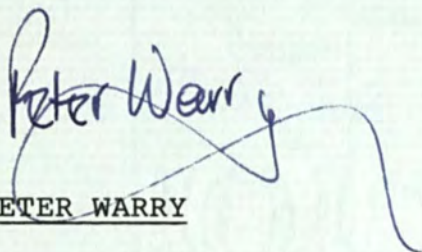
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Despite these distortions the 5 year cashflow for the three politically possible plans (2,3 and 4) is remarkably similar. Without the Alpha distortion, our option would be £250m better; and, with more realistic assumptions on steel-making at Ravenscraig, Option 5 would be £200m worse.

There remains no economic case for investment in Ravenscraig coke ovens which, including support services, employ some 350 people. If money were spent, it would be better to spend £20m relining the older ovens rather than £90m completely rebuilding the lot.



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