



From the
Minister of State

DEPARTMENT OF INDUSTRY
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PS/Norman Tebbit MP

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

11 March 1981

Dear Nick ✓

Thank you for your letter of 4 March about the Prime Minister's meeting with Mr Denzil Davies MP on 12 March.

As requested, I now attach a brief, which has been approved by my Minister, for the Prime Minister. The briefing ought also to include copies of the letters which the Prime Minister sent to the Secretary of the Joint Works Committee at Llanelli on 24 February and to Mr Sayers, Chairman of Duport, on 2 March; we do not appear to have received copies of the final letters which went, but I am sure that you will be able to look them out from your records, and for convenience I enclose copies of the drafts on which the letters were based. - detached from PM's copy

X | Yours sincerely
Peter Mason

PETER MASON
Private Secretary

Encs



LINE TO TAKE

The Prime Minister will wish to say again that she very much regrets the proposed closure of Llanelli, but that in view of the overcapacity that exists in the general engineering steels sector, some capacity has to close. The BSC have themselves closed two thirds of their plant at Templeborough, and there are sure to be further closures of capacity in other parts. No-one can see any place in the foreseeable future for ^{all} the 4 million tonnes plus of engineering steels capacity that we have in this country.

2 Nor are we underestimating the seriousness of this closure for Llanelli, but there is no point going on making goods for which there is no market. Ministers at the Welsh Office and at the Department of Industry will be listening with great sympathy to any case they make for special help for Llanelli to enable them to attract employment which will substitute for that lost by the closure of the steelworks. But it would not be right to ask BSC to take on capacity for the new company which they are clear that the new company would never need to use.



BRIEF FOR THE PRIME MINISTER'S MEETING WITH REPRESENTATIVES OF
DUPORT'S LLANELLI WORKFORCE AND MEMBERS OF THE LLANELLI BOROUGH
COUNCIL

BACKGROUND

The Prime Minister will be generally familiar with this case. Duport Limited had 70% of their assets in their subsidiary Duport Steels Ltd. This subsidiary contained a new steelmaking plant at Llanelli (current employment 1,060) and an older rerolling operation at Tipton called London Works (current employment 700). There are also two small operations, Flather Bright Bar and Nationwide Steel Stockholders. All four operations are squarely in the interface with BSC, and Duport Steel Ltd were potential members of any new companies formed with BSC in this sector, generally called engineering steels, together with BSC's Sheffield plants, GKN's Brymbo plant, the Hadfields plants in Sheffield and Round Oak in the Midlands (jointly owned by BSC and TI).

2 It has not been possible to make much progress with discussions on this project (code-named Phoenix II) because GKN, who are central to the sector, have been fully concentrated on getting Phoenix I - now formalised as Allied Steel and Wire Ltd - launched. It was clear however that Duport's financial affairs were in a state that would not allow them to wait for the formation of a new company, and BSC was therefore authorised to negotiate for the purchase of any assets that they thought a new company would find useful. On this basis, BSC offered to take over £25m of Duport's debt to the Midland Bank in exchange for London Works, £2m of assets from Llanelli, Flather Bright Bar and Nationwide. It is a condition of the deal that Llanelli will be closed. This means a loss of 1,060 jobs Llanelli and about 150 at London Works.

3 Duport Limited announced agreement in principle with BSC on Monday 24 February, and expect to issue a letter to their shareholders setting out precisely what is to happen later this week, probably Friday.

4 There is enormous overcapacity in this sector, generally called engineering steels, but sometimes short-handed as low alloy steels. I attach a note of Duport Llanelli's output, and a note of what others in this sector produce. There is a total engineering steels capacity of something over 4 million tonnes per annum, of which we need somewhere between 2 and 3 million tonnes. We understand that the company will claim that they are the only source outside the big BSC plants for "free cutting" engineering



steels. BSC has the largest share but they and Llanelli have 90%. However, Several others (GKN, Round Oak) have the capability.

5 The Llanelli workforce, and the Borough Council, have naturally been extremely active in expressing their opposition to the closure of Llanelli. It is a particularly difficult area, since BSC has been declaring substantial redundancies in the tinsplate operation at Velindre which is also within the Borough. This is currently a Development Area, and a strong case is likely to be made that it should become a Special Development Area.

February 6 Mr Marshall, the Parliamentary Under Secretary here, and Mr Roberts, of the Welsh Office, met a delegation from Llanelli on 11 led by Denzil Davies MP. The Secretary of State for Wales, accompanied by Mr Marshall, saw a similar delegation on 19 February. Sir Keith Joseph saw Mr William Sirs, General Secretary of the ISTC, who was also accompanied by people from Llanelli, generally about the plight of the private sector companies on Monday 2 March. The Prime Minister wrote to the Secretary of the Joint Works Committee at Llanelli on 24 February (letter attached).

7 In all these meetings, the delegates from Llanelli have emphasised that they have a modern, well-equipped steel plant there, operating at one third capacity, and that closure would be a tragedy. They are also likely to claim that they have been closed as a result of BSC's action. We have never accepted this argument, and the Prime Minister refutes it in her letter to the Chairman of Duport, Mr Sayers, of 2 March (copy of the draft attached).



Free cutting steels

In normal trading times the free cutting steel market amounts to 250,000 tonnes per annum though it is presently depressed to only 120,000 tonnes per annum. The predominant market share is held by the British Steel Corporation and Duport (Llanelli) who together supply over 90% of specialist bright bar drawers' requirements, the BSC being much larger than Duport. Round Oak (50% BSC and 50% Tube Investments) and Brymbo (GKN) have a small presence in the market and many private sector companies, e.g. Round Oak, Brymbo, Hadfields have the technical capability to make free cutting steels. Lloyd Cooper, a Midlands steelmaker, is actively looking at market opportunities and also has adequate capability.

Department of Industry
10 March 1981

For CP file



MP 21/3

10 DOWNING STREET

10th March 1981

Dear Robin,

Thank you for sending copies of the cuttings and correspondence relating to Duport's closure.

These are much appreciated.

Yours sincerely
Derek

Derek Howe
Political Office

Robin Harris Esq

CONSERVATIVE RESEARCH DEPARTMENT

32 SMITH SQUARE · SW1

CONFIDENTIAL

MEMORANDUM

RH/CFM

To Mr. V. Simpson.....
Deputy CO Agent, Wales
cc See Below
6th March 1981.....

From Robin Harris.....

Duport's Closure of Llanelli: The Prime Minister's Central Council Speech in Cardiff

Your memorandum of 4th March 1981 concerning the closure of the Llanelli steel works by Duport and possible reaction to the Prime Minister's appearance at Cardiff has been passed on to me by David Nicholson.

The answer to Denzil Davies's remarks (see attached press cuttings) is as follows:

The severe problems of the private sector steel producers are very well known. Above all they stem from European-wide over-capacity. About 20 per cent of the British Steel Corporation's activities overlap with the private steel producers. That is why in its 'Phoenix I' and 'Phoenix II' programmes the Government is encouraging (and under the new Iron and Steel Bill will further enable) joint venture companies to be set up between the BSC and the private sector to rationalise and reduce capacity. Essentially BSC will be producing most of the money and the private sector most of the plant and skills.

Duport is a clear candidate for Phoenix II, which deals with the 'overlap' in engineering steels. However, the problems of Duport were so acute that the company could not wait for the detailed and difficult negotiations of Phoenix II to come to fruition. It faced immediate bankruptcy. The BSC, at Government urging, had to act. Consequently the Corporation purchased Duport's steel making interests in Sheffield and the Midlands. These will, if negotiations can be finalised with a private sector company, be placed in the hands of a joint-venture Companies Act company. If this does not prove possible these assets will be sold in the market. Sir Keith Joseph promised this in his statement on 24th February 1981 (Hansard, Col. 748).

However, BSC did not purchase the plant at Llanelli. There will be a loss of about 1100 jobs.

The plant was modern and productive. But it was not profitable. The interest charges on such heavy investment there and elsewhere were threatening to bankrupt Duport. They would be a burden on any owner of the plant in question. Moreover, Llanelli was disadvantaged by its location, for there was no prospect of its fitting into a reduced capacity integrated steel making business.

In short, Llanelli is to close - not because of government (or BSC) 'skullduggery', but because commercial logic required that in the hands of any owner - even one so well-endowed with taxpayer's cash as BSC - its operations should end.

The needs of Wales - Llanelli or elsewhere - are not going to be well served by keeping open unviable plants in the steel industry. They will be served, however, by encouraging new companies to move to the area. However, that is a broader point and one of which, I know you* are at least as fully aware as I. I hope that this short note is of use to you in answering Davies's specific allegations.

*and Elizabeth Morgan-Lewis

RH

cc Mrs. E. Morgan-Lewis
Mr. Ian Gow, MP
Mr. John Hoskyns
Mr. Derek Howe
Mr. Alan Howarth
Mr. David Nicholson

CONSERVATIVE AND UNIONIST CENTRAL OFFICE

32 Smith Square, Westminster, S.W.1.

From..... V.Simpson
Deputy *Central Office Agent*
..... Wales
Area

To..... Mr.David Nicholson
..... Research Department

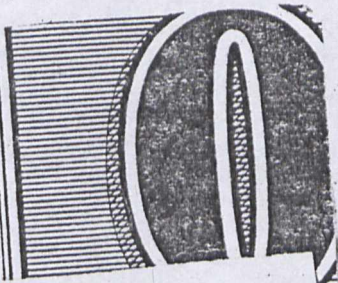
4th March, 1981

I thought you might be interested in comments being made by Denzil Davies with reference to Sir Keith Joseph, bearing in mind the Prime Minister's forthcoming visit at the end of March.

development of a "them and us" attitude.

"When schools do try and involve parents, those who become involved are never the ones you want to get involved," she said.

"If class sizes are to get bigger the problem must increase because already there is a lot of pressure on teachers, and the bigger the class



S. Wales Evening Post, Wednesday Feb 25/81

SAVE STEEL JOBS, UR

URGENT Government intervention to save Duport Steelworks, Llanelli, has been called for by Dyfed industrial joint committee, representing the county council and all six district authorities in the county.

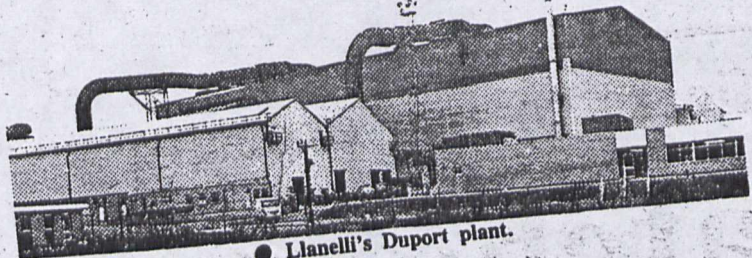
At their quarterly meeting at Llandeilo, members expressed their dismay and urged the Government to intervene to keep the steelworks open.

The meeting resolved: "To note with grave concern the decision leading to the closure of Duport Steelworks, Llanelli, and calls for direct Government intervention to safeguard the employment of the workforce."

REINFORCED

In addition, the joint committee, already urging the restoration of development area status for Llanelli, agreed to make immediate demands for special development area status for the whole of the Llanelli travel-to-work area.

During the last few months the joint committee has made representations to the Industry



● Llanelli's Duport plant.

Secretary and the Welsh Secretary for development status for Llanelli, and these are to be reinforced.

Mr. Gwilym Peregrine, Dyfed's chief executive, claimed: "A closure of this magnitude in an area such as Llanelli is bound to have a devastating effect on the unemployment figures and the industrial scene in general."

ALLEVIATION

"Not only will the workforce of approximately 1,200 men at Duport Steelworks be affected but I fear that many other industries in south-east Dyfed and West Glamorgan area will also be hit.

"The county council is attempting

to assess the effect of the closure on the many smaller companies of the area who are engaged in servicing or sub-contract work for Duport in order that the total implications can be realised."

He said: "At the present time the Llanelli travel-to-work area, which includes the employment exchanges of Llanelli, Kidwelly, Tumble, Ammanford and Garnant, has an unemployment rate of 14.7 per cent, which represents some 5,400 people.

"The Duport closure will push this figure up to almost 20 per cent."

He added: "There is clearly a case for immediate Government action in the alleviation of unemployment in the Llanelli area."



LLANELLI MP Denzil Davies (centre) talks to Glyn Davies (left) chairman of the works council, and John Carberry, ISTC senior organiser, at today's meeting.

PLEA TO BSC

● From page one.

end to keep the plant operative and to save 1,200 jobs.

The form the campaign will take in its initial stages will not be

disclosed until a further mass meeting to be held on Friday.

Mr. Don Evans, the secretary of the works council, said: "We have told the workers what the position is and what the chances are and have asked them to give us their ideas on what action needs to be taken. Our tactics will be discussed on Friday."

Mr. Denzil Davies, Llanelli's MP who addressed the meeting said: "There has been political skulduggery. Acting under pressure from his back benchers, Sir Keith Joseph has made an agreement with Mr. McGregor that the BSC should buy the Duport rolling mills in Sheffield and Birmingham.

"Irrespective of the efficiency of the local plant Llanelli is to be sold down the river in a deal which has been made to satisfy the Tory MPs in the Midlands.

"We have to be realistic in this situation and not look for outside help or for pie in the sky. At the end of the day the workers themselves might have to make their own decision."

Mr. Alun Bowen Thomas, the chief executive of Llanelli Borough Council, said: "Urgent efforts have now been made to persuade Mr. McGregor to visit the Llanelli works in order to see for himself its potential. This has been done with the full support of the management and all employees."

Duport appeal plea fails

AN APPEAL by Llanelli MP Mr. Denzil Davies for an emergency Commons debate on the closure of the Duport private steel works in the town was rejected in the Commons yesterday.

His plea, made after Sir Keith Joseph had announced new backing for British Steel, was turned down by the Speaker, Mr. George Thomas.

However, Mr. Thomas added that, although he could not allow the debate to take place, he knew the area and sympathised with Mr. Davies and his constituents.

EFFICIENT

Mr. Davies said that 1,200 jobs were at stake, by no fault of the workers. And many of them would never work again.

The closure came despite an excellent industrial record, high productivity, modern plant, an efficient workforce and good local management, he said.

It was forced by the Government's policy of high energy costs — at Duport energy costs now exceeded the wage bill — high interest rates, the high value of the pound, the depression at home, and the "aggressive marketing of the BSC."

Urgent Government action was needed to save the jobs and the community in which they occurred, Mr. Davies said.



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Action 'to prevent removal' threatened

WE WILL SAY BLOYK STEELMEN

L LANELLI steelworkers will take action to prevent Duport from removing any part of the works or its equipment.

That will keep hopes alive if, as Duport announced on Monday, production will cease within two or three weeks.

The works committee have been told by company executives based in Llanelli that the situation within the Duport group is so bad the company will have to "realise its Llanelli assets."

That would mean selling off the two arc furnaces—installed during the £30m. modernisation programme— or other equipment.

Secretary of the Works Committee, Mr. Donald Evans, told the Star: "It is possible that the works will cease to produce over the next two or three weeks and it will become effectively a dead plant."

"But it must be made clear to Duport Ltd. that we as employees will be examining their actions extremely carefully in order to protect our interests."

"What I'm thinking of is that we will ensure that the plant isn't taken away by whatever means we can."

Pooling ideas

The fight to save the steelworks swung into action this week after Duport announced a proposal that their Midlands and Sheffield steel interests would be taken over by the British Steel Corporation but to think about what should be

done. That way they hope to pool all the individual ideas.

Llanelli Borough Council have called for urgent talks with B.S.C. Chairman Mr. Ian MacGregor.

"We want to meet him in Llanelli if possible," explained Borough Chief Executive, Mr. Alun Bowen Thomas. "We want to show him the works. We feel it is just the sort of modern works he would want for B.S.C. But if he won't come to Llanelli we are willing to meet him anywhere."

But while municipal and political bodies throughout the town are queuing up to help in the fight, the road campaign will take its to be decided by the steelmen themselves.

At a packed mass meeting at the Glen Ballroom on Wednesday their union leaders asked them to go away for two days to think about what should be

done. That way they hope to pool all the individual ideas.

Llanelli's M.P., Mr. Denzil Davies, made a round trip from London to speak to the meeting.

He told the Star afterwards he was "very angry" at the way the issue had been handled. "There have obviously been talks going on behind our backs all the time."

"Sir Keith Joseph has obviously engineered this situation to relieve the pressure he has been getting from his Tory backbenchers in the Midlands."

"In the meantime Llanelli has bene sold down the river."

"We are making further approaches to the Government and to Ian MacGregor and we are going to see Secretary of State for Wales Mr. Nicholas Edwards for the third time. But the men will decide the final

strategy."

"The closure could have a devastating effect on the town. Duport is the third largest employer in Llanelli, but on top of that the firm have given us a list of 173 firms who supply the works, plus 15 hauliers," said Mr. Evans.

The Borough Council have estimated that 3,000 jobs outside the steelworks could be hit by the closure—either lost completely or hit by short-time working.

The 1,100 steelworkers were expected to march through the town centre today in a rally staged for 10.30 a.m. B.S.C. Velindre men affected by a rationalisation scheme were expected to support them. Afterwards talks with Mr. George Wright, of the Welsh T.U.C., and officials of the National Union of Mineworkers were scheduled.