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BRITISH STEEL CORPORATION

(A paper by Mr. Lamont)

The Present Situation

After the half year results in November, it looks as though BSC will lose over a full year about £550m. The loss per ton was about £23 in the first half, but is currently probably about £27 per ton, which is one of the worst losses in the world.

The Government have tried to shove the blame for the situation on the world steel recession. But Charles Villiers himself has said that for every £5 lost by the Corporation £1 is due to keeping open uncompetitive plants, and £2 because of over-manning.

The Government have tried to compare BSC's losses with those of Bethlehem Steel, but there is one crucial difference. Out of Bethlehem Steel's half year loss of $750m, over $450m represented the cost of closing uneconomic plant and reducing its 90,000 labour force by 12,000. BSC's loss is alarming because it has been reached before any attempt to grapple with the problem of over-capacity and over-manning.

Options for Action

The main choices open to a Conservative government would be:

1. Reducing over-manning. It is difficult to be precise about the degree of over-manning in British Steel; all sorts of problems arise about defining what comparability is. One has to take into account the pattern of products and also, as in Japan, the amount of work that may be done by outside contractors. But some estimates of over-manning in BSC go as high as 50,000 (out of over 200,000 men).

De-manning is largely a matter for negotiation between the Corporation and the Government. There is little that any government can do to encourage this, except to make it clear that it regards de-manning as the right and inevitable course, and it is prepared to accept the consequences.

Fears are sometimes expressed that buying out over-manning will encourage the trades unions to dig in with restrictive practices, and that all co-operation will become dependent on generous payments. This argument seems to me to have application to the buying out of restrictive practices, but not to buying out jobs. Of course, it is necessary that the price for buying out should not be exorbitant.

There have been reports in the Press of BSC buying out jobs at the Clyde Iron Works and Hartlepool at a cost of £10,000 per head. The Corporation assure us the reports are untrue and that the average figure in the Clyde Iron deal was about £5,500 per head. In this deal, a 45 year old worker with 18 years' service would have received the following:-

	£
Statutory redundancy pay	1,500
BSC supplement	750
Severance pay	3,900
	6,150

BSC additions to the statutory requirements are based on the worker's expectation of earnings up to the previously agreed closure dates. Almost all the remaining Beswick plants have specified closure dates, and it would be impossible to advance these without paying some money for loss of earnings.

It is certainly BSC's firm view that buying out labour in the way done in the Clyde Iron deal would, over two years, be cheaper than keeping open uneconomic plant and maintaining over-manning.

Wastage in the Corporation is currently running at a level of about 12 per cent per annum. But it would be wrong to imagine that the labour force could be reduced by this amount purely through wastage, since much of it is in the wrong places, i.e. high turnover in the dirty jobs in coke ovens.

2. Action to close the Beswick plants. The Beswick Review in 1975 kept open a number of uneconomic plants for social reasons. This is currently costing the Corporation about £100m. a year. The labour force in these plants has been reduced, and is probably now not much over 10,000 people. The Select Committee has recommended closing these plants.

3. A further reduction in the BSC investment programme. The vision of British Steel as a major world exported has been overtaken by events. This is accepted by the Corporation, though they argue that some modernisation as distinct from additions to capacity, must proceed.

The investment programme has been cut back drastically already. The Corporation were spending about £300m. a year, but in the past twelve months it has been under £50m. This, of course, has serious implications for the metallurgical plantmakers.

The Select Committee have put forward proposals for further reductions in the capital expenditure programme. They advocate a large reduction in the expansion planned for Redcar, particularly the plans for billet production for which they say they see no justification at all.

Some people now argue that as the investment programme is cut back, some of the older plant can be kept going. For example, Shotton has a good industrial relations record, and it is not as much of a high cost plant as is often imagined. Eventually its competitive position will be weaker when Llanwern and Ravenscraig are on stream. Even if the total Port Talbot development (£825m.) is abandonned, there may be a case for proceeding with the Hot Mill (about £400m.) there, whose coil would then be finished at Shotton.

It is neither necessary nor desirable that we as an Opposition should commit ourselves on specific projects in particular areas. These are matters for decision in Government, but we should be clear that there is plenty of scope for slimming the investment programme.

4. Tighter Financial Control. At present the Corporation have expressed their determination to adhere to their cash limit of £950m., though it may in fact be exceeded. The problem is anyway that this limit could simply be increased next year. Perhaps we need some sort of discipline that would apply over a few years.

The borrowing limit of the Corporation was increased to £4,000m. this year, and there will have to be another Iron & Steel Amendment Act to increase this next year. This will also provide an opportunity for re-examining the relationship between the Secretary of State and the Corporation, particularly his power to impose uncommercial obligations on the Corporation.

Other long term issues relating to BSC are:-

a) Structural change. Nick Ridley has prepared for the Policy Group a general paper on the Nationalised Industries, including the issue of denationalisation. We need to bear in mind that the steel industry is already very de-centralised, and any purely structural change would cause considerable upheaval in an industry that feels that it has already been interfered with over-much by politicians.

b) Specialisation and backing success. Perhaps the British Steel Corporation should concentrate simply on high value steels - alloys, high grade billets, stainless steel, tin plate, etc. These probably account for no more than a quarter of turnover at present. If this strategy were followed, basic steel would then be imported, from the Third World. It should be borne in mind however that there are some parts of the Corporation, like Scunthorpe which do produce basic steel competitively. The complaint of these areas is always that they do not get sufficient backing in the allocation of investment money.

Government Policy

The danger and probability is that the Government's measures, to be announced shortly, will be an unsatisfactory compromise of some closures, some cuts, and some progress on demanning. Again, as the Select Committee said, this would simply mean that the crisis would be concealed temporarily, only to reappear later in a more virulent form.

It is also possible that the Government will go for a capital reconstruction and cancel some of the Corporation's debts. This will in no way help the fundamental performance.

The Political Presentation of our Case

I was particularly asked to comment on the political presentation of our attitude to the industry. The case for a reduction in over-manning and capacity is clear. It is made repeatedly by the Corporation itself and by the Press. The Select Committee with a majority of Labour members has supported the views expressed by the Party. It has also, particularly helpfully, stressed that the Corporation should increase productivity by competitive manning, and not by new investment which will add to surplus capacity. In my view there is no point in the Conservative Party shirking this issue. At the same time we can:-

1. Make it clear that we will support the Corporation if they wish to compensate the victims of change by buying out jobs on terms which are not excessive.

2. We could consider selective help for communities wholly dependent upon steel. There are probably fewer of these communities than is usually suggested. In South Wales, the Ford development will replace some of the jobs that will be lost with the closure of East Moors. Ebbw Vale is an example of an entirely steel community, though the plant there is scheduled to close anyway in 1978/79.

3. The point can be fairly made that maintaining over-manning will not preserve jobs, and in the end will actually result in more jobs being lost. In seven years the Corporation's share of the domestic market has fallen from 70 per cent to 55 per cent. If we continue with the present level of manning, there will be a further loss of market and greater redundancies than if action is taken now.

It is only if the Steel Corporation becomes internationally competitive that investment and eventual expansion can be justified. In this way there would be work for the metallurgical plantmakers and the machine tool workers, and more jobs would be created.

4. The size of the losses in BSC is a threat to the national economy and everybody's standard of living. If no action is taken the losses may escalate. At present the BSC cash limit is equivalent to well over 10 per cent of the PSBR.

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