DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 7676

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

KENNETH BAKER'S OFFICE

W Rickett Esq
10 Downing Street
LONDON SW1

Prime Minister

Mr Baker concludes there is no future for the Warrington Board mill, and no prospect of a management buy out.

WR 7/3

7 March 1983

RESTRICTED

Dear Willie,

Thank you for your letter of 22 February recording the meeting which the Prime Minister and Mr Baker had with Mr Doug Hoyle MP and Mr John Evans MP about the proposed closure by Thames Board of the mill at Warrington.

On 28 February Mr Baker met the Chairman of Thames Board and another Director to explore the reasons underlying the mill's closure and to seek their views on the possibility of a management buy-out. The company's representatives explained the background to the mill's long-standing losses. Selling prices had increased by only 20% over the last 5 years whereas costs had risen by 56% despite a one-third reduction in the workforce and a 20% reduction in energy usage. The UK market for the board grades made at Warrington had fallen by 22% since 1978. Imports, strongly competitive in terms of price and quality, had taken a higher share of the market. The 3 machines at Warrington were old and slow. There was no realistic prospect of their being able to compete in terms of quality or output. The mill was making a £6.7m loss this year. Even if its machinery were to be run at full capacity, which was unrealistic, the mill would still make losses. This was true whether it operated as a one, two or three machine mill. With overcapacity throughout Europe, prices would never be high enough to cover the mill's costs.

The company representatives also said that volume and price problems were so great as to make a management buy-out untenable. Local managers at the mill had confirmed that, without guaranteed markets and price levels, they would not invest in the mill on a personal basis. Neither Thames Board nor its parent company, Unilever, could give such guarantees. Unilever's total board requirement, not just of the type made at Warrington, was less than 15% of Warrington's capacity and was not expected to increase. The company must also have regard to the implications of board-making continuing at Warrington at a time when overcapacity was injuring its other operations at Workington and

M82/M82AAD

RESTRICTED

Purfleet. The Workington plant represented a major new investment in UK board-making but was struggling to overcome losses.

The following day Mr Baker reported the outcome of these discussions to Mr Doug Hoyle. Mr John Evans had also been invited but could not attend. Mr Baker, in summarising the position, said that the prospects were bleak. Mr Hoyle suggested that costs might be saved by converting from gas to coal firing. He would be asking the company to look again at the possibilities of reducing to a one or two machine operation at Warrington in conjunction with a possible management buy-out. He acknowledged however that there was little the Government could do directly. Nor had he any real evidence to show that the local management dissented from the company's analysis.

The Chairman of Thames Board has since reported to the Department the outcome of the company's meeting on 2 March with Mr Hoyle, Mr Evans and local Warrington Councillors. The Councillors asked that the mill should be kept open in the hope of better times but offered no practical help to ease its problems. The company stressed that no cost savings from converting to coal firing or operating a smaller number of machines could make the mill profitable. Thames Board said that careful consideration would be given to any approaches from other companies to buy the mill, but none were foreseen. The company had also confirmed that no decision had been made about what would happen to the site. At the close of the meeting the MPs had not indicated what further steps, if any, they had in mind.

Having looked into the position in some detail, my Minister has concluded that there are no grounds to question the company's commercial judgement. The mill has lost money for many years. Its continued operation would require markets which do not exist. The mill would need major investment if it is ever to be competitive. Anyone buying the mill would need to find £6m of working capital just to operate it in its present state. Without a market the mill's continuing operation would jeopardise the prospects of other UK board mills, themselves operating on the brink of viability.

Yours ever,

Neil

N M McMILLAN
PRIVATE SECRETARY

M12/M12AES

cc PS/Prime Minister
PS/SOS
PS/Mr Lamont
PS/Mr MacGregor
Mr Manzie
Mr Bryant
Mr Pearcey
Mr Johnson
D/NWRO
Mr Avery (on file)

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 7676

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY
KENNETH BAKER MP

John Evans Esq MP
House of Commons
LONDON SW1A OAA

Sum 3/3

1 March 1983

Dear John,

Thank you for your letter of 7 February to Patrick Jenkin about the Thames Board Mills closure at Warrington.

We discussed this when you and Doug Hoyle met the Prime Minister in her room at the House on Tuesday. As was agreed, I am exploring the position with the company to see if there is an interest in the management taking on the mill.

I hope to be able to see you and Doug Hoyle shortly to report back.

A copy of this letter goes to Doug Hoyle.

Yours ever

Kenneth

KENNETH BAKER

M80/M80AAD

pm, Feb '83.
pm's mtg with
Hoyle / Evans

3 - MAR 1983