

Prime Minister

Please see Patrick Jenkin's

MR SCHOLARcc Mr Mount
Mr Walters O/R*Yes - very
rigorously.
mb*

letter (attached).

Agree I write as at X?

MCs 25/3

PROBLEMS OF THE UK PETROCHEMICALS SECTOR

This is an industrial problem which has been germinating for some time. ICI may need to make some painful decisions at Wilton and elsewhere by the end of the year. They claim to need £50-75 million for three years to avoid these closures, which might involve 18,000 jobs. There is a possibility that the forthright (social democratic) Chairman, Mr Harvey-Jones, would be happy to pin the blame for closures on the Government's refusal to assist.

The case for a subsidy, far from being "not proven", has not been made convincingly at all:

- losses have probably already peaked and in any case are bound to be much less in 1983/4 due to the sterling depreciation
- the total closure scenario is probably exaggerated; a preliminary assessment by officials suggests that there is a 50% chance of two thirds of the jobs disappearing.

There are wider policy consideration, too. The credibility of the Government's message to industry over the last four years, that companies themselves are responsible for their own survival, would be damaged by an offer of an operating subsidy, particularly of this magnitude. The Government has not, as far as I am aware rescued any companies, or capacity, in the private sector, despite the closure of a lot of capacity during the recession. However compelling the arguments for rescuing Wilton may be - and I can see that they are - they would undo the effects of the Government's perseverance with the stand-on-your-own-feet argument.

There remains much to be established: the effect of sterling depreciation, the technical options available to ICI and BP, the extent of French and Italian subsidies to their petrochemical sectors, and more important, whether these subsidies are actually responsible for ICI's problems. Above all, it is necessary to establish whether or not ICI and BP actually have viable long-term futures in petrochemicals.

There is a distinct danger that the DoI will raise ICI's expectations unduly. The reference in Mr Jenkin's minute to not keeping the companies "in suspense for another two or three months while the further study is completed" is not reassuring. The Prime Minister may wish to register her interest in this subject to the Chancellor, making three points:

- x
- (i) Operating subsidies have been avoided so far in our industrial policy; it will be difficult to defend them now, following the closure of a lot of industrial capacity during the recession;
 - (ii) Enquire why it should be right for the Government to support petrochemical operations if the companies themselves, with all the resources and expertise available to them, are no longer prepared to do so?
 - (iii) Express concern that in his conversations with the companies, Mr Jenkins should avoid raising expectations of Government assistance.

NICHOLAS OWEN

25.3.83



be. Mr. Owen

DSG

10 DOWNING STREET

From the Private Secretary

28 March 1983

Dear Jonathan,

PETROCHEMICALS: THE BASIS FOR FURTHER STUDY

The Prime Minister has seen a copy of your Secretary of State's letter of 23 March to the Chancellor of the Exchequer about the UK petrochemical sector.

The Prime Minister has commented that the Government has so far avoided operating subsidies. To introduce any such subsidy now would be hard to defend, following the closure of much industrial capacity during the recession. The Prime Minister enquires how it could be right for the Government to support petrochemical operations if the companies themselves, with all their resources and expertise, are no longer prepared to do so. She has also expressed the hope that, in the Government's dealings with the companies, no expectations should be raised that Government assistance will be forthcoming.

I am sending copies of this letter to Margaret O'Mara (HM Treasury), Brian Fall (Foreign and Commonwealth Office), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Julian West (Department of Energy), John Rhodes (Department of Trade), Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.



VCC NO 2

Prime Minister

ms 31/3

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

30 March 1983

The Rt. Hon. Patrick Jenkin MP
Secretary of State for Industry

Dear Patrick

PETROCHEMICALS: THE BASIS FOR FURTHER STUDY

Thank you for your letter of 23 March. I have one or two comments.

First, timing. I understand our officials are following up John Sparrow's suggestion that we should examine as a matter of urgency possible initiatives within the Community. This work can go ahead separately from the other work outlined in my letter to you of 14 March. I understand that the Working Group on Petrochemicals is already working up a report which they hope to submit to us shortly after the Easter break.

I very much agree with you that officials should aim to report further by end May. But I recognise that this is a tight timetable and may overshoot; it is important that we have a fully satisfactory basis for taking decisions.

Second, and of considerable relevance to the timing point, I should emphasise that I attach great importance to the use of outside consultants in obtaining an independent view on the medium term prospects for the industry. It is crucial to get as good an evaluation of this aspect as possible. I know that our officials are already in close touch about the consultants' terms of reference, and I hope this will be pressed forward as quickly as possible.

Finally, I note that you will be seeing senior directors of both ICI and BP Chemicals shortly. As the Prime Minister has pointed out, it is essential that we should not raise expectations that Government assistance will be forthcoming. When emphasising that the IDU studies of the companies' bids for subsidies will be on an entirely without commitment basis, it might also help to stress that recent movements in exchange rates, and the improvement in the economic situation generally, are highly relevant factors.

Copies of this letter go to the other recipients of yours.

GEOFFREY HOWE

[Handwritten signature]

Energy Policy Pt 8

31. MAR 1987



CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

Prime Minister

ms 23/3

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676



JF3064
Secretary of State for Industry

23 March 1983

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Geoffrey,

PETROCHEMICALS : THE BASIS FOR FURTHER STUDY

Thank you for your letter of 14 March. I agree broadly with the programme for further study which you outlined, and I understand that our officials have already met to decide how best this might be undertaken. It will be a matter of building upon existing information with the assistance of the companies concerned, the IDU and, where appropriate, outside consultants. There is a lot of ground to cover, and your proposed deadline of end-June might therefore seem altogether right. However, ICI have made clear that crucial commercial decisions about plant closures may well need to be taken in the third quarter of the year; and since it may take us some time to assess all the evidence once presented, I suggest that officials should seek to complete their report no later than the end of May.

2 I share your view that there is merit in John Sparrow's suggestion that we might usefully exert pressure within the Community. However, it would, I believe, be wise to defer any major new initiatives of this kind until officials can provide further information on the extent of subsidies now operating in other member countries - and that, of course, is an important element in their terms of reference. Nonetheless, in the meantime, we in the Department will continue to take every opportunity, as we have in the recent past, to express our concern to, and to exchange views with, our European counterparts about the severe difficulties facing the petrochemical industry. It is, for example, something I intend



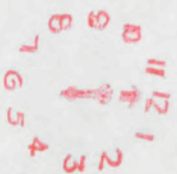
CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

mentioning en passant to Commissioner Andriessen when I meet him later this week to discuss state aids to the steel industry.

3 Finally, I should just mention that I am arranging to meet, as a matter of urgency, senior directors of both BP Chemicals and ICI. This is clearly necessary since we cannot keep them in suspense for another two or three months while the further study is completed; and it will also be essential to secure their full co-operation at Board level to the provision of further data required for that study.

4 I am copying this letter to the Prime Minister, Foreign Secretary, Secretaries of State for Scotland and Wales, Secretary of State for Energy, Secretary of State for Trade, Sir Robert Armstrong and Mr Sparrow (CPRS).

Your ever
Patrice



23 MAR 1983