THE GIANT WITH FEET OF CLAY

THE BRITISH STEEL INDUSTRY
1945 – 1981

by

Elizabeth Cottrell

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Dr. Elizabeth Cottrell, Head of Research at the Centre for Policy Studies, warmly thanks all those whose help in providing information made the compilation of this volume possible.

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FOREWORD

Even the most impassioned advocate of state ownership and control would be unlikely to hold up the British Steel Corporation as an exemplar. On the contrary, when they are obliged to discuss the BSCs failures, nationalisers prefer to ignore the element of nationalisation, and instead present its troubles solely in terms of difficulties facing the iron and steel industry. That they should take this evasive action is understandable. But non-socialists should beware of falling into this trap. For the lesson which emerges with considerable force from Dr Cottrell's cogently-argued and closely-documented study is that nationalisation, and, though to a lesser extent, the government controls which were its forerunners from the inter-war years onwards, bear most of the blame for the Corporation's heavy losses and intractable problems.

She approaches the subject without preconception, unless the conviction that cause and effect can be traced in human affairs be considered a dogma. She adduces a wealth of fact and participants' statement of intent throughout the decades under review, and lets them speak for themselves. Those who would dispute the author's conclusions, must do so on the basis of the comprehensive factual evidence she presents and marshals.

Though the study adheres rigorously to academic canons, it is not an academic work, in the sense of research for research's sake. It is a policy-study, undertaken to provide a better guide and clearer perspective than has been available so far to policy-makers and to the public who foot the bill.

Volume I takes the study up to early 1981. Volume II will appear later this year and bring the story up to date.

Alfred Sherman
Director of Studies

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CONTENTS

	PAGE
FOREWORD	I
INTRODUCTION	1
THE FIRST NATIONALISATION	4
BRITISH STEEL INDUSTRY PERFORMANCE 1945-57	9
THE BRITISH STEEL INDUSTRY 1957-67	13
Production	14
Deliveries	16
Exports and Imports	17
Manpower Productivity	20
Profitability	23
Plant Capacity	25
Investment	28
Financing	41
THE BRITISH STEEL INDUSTRY 1967-81	45
Nationalisation and the formation of the BSC	45
The BSC's Delays	52
Crude Steel Production	59
Imports and Exports	64
Market Share	68
Capacity Utilisation - Mini-Mills	73
Industrial Production, Recession and the BSC	87
Labour Productivity and Employment	99
Industrial Relations	119
The Steel Strike 1980	123
Investment	134
Finances of the BSC, Profitability etc	154
Finances and Profitability of the Private Sector	175
Prices	194
The European Coal and Steel Community	211
CONCLUSION	218
SELECT BIBLIOGRAPHY	219

LIST OF TABLES

		PAGE
TABLE 1	World Production of Crude Steel 1946-60	9
TABLE 2	Exports of Ingots, 'Semis' and Finished Steel (by country of consignment) 1945-58	11
TABLE 3	Exports by Country of Consignment	12
TABLE 4	General Summary of United Kingdom Steel Production, 1938, 1950-65	14
TABLE 5	World Production of Crude Steel 1946, 1950-64	15
TABLE 6	UK Total Net Deliveries of Finished Steel, 1956-66	16
TABLE 7	Exports and Imports 1956-66.UK.	17
TABLE 8	Percentage Shares: Free World Steel Exporters 1956, 1960, 1964	18
TABLE 9	UK Percentage Share in Major World Steel Markets 1956, 1960, 1964	19
TABLE 10	BISF Index of Output per Man-Year in the Steel Industry 1952-66	20
TABLE 11	Output per Man per Year in European Steel Industries 1957-58	21
TABLE 12	Index of Annual Crude Steel Output per Worker OECD Countries 1963-67	22
TABLE 13	Summary of Profit and Loss Accounts of 10 Major Steel Firms 1953-58	23
TABLE 14	Total Capital Employed and Profits of Fourteen Major Steel Companies 1956-65	24
TABLE 15	Average Capacities of Major Plants and Firms - Free World Mid-1950s, Late 1960s	26
TABLE 16	Free-World Steelmaking Capacity 1966	27
TABLE 17	Fourteen Major Steel Companies, Capital Employed, Profits and Return on Capital Employed 1956-65	29
TABLE 18	UK Plant Classification 1965	30
TABLE 19	Capital Expenditure - Schemes over £100,000 - 1956-66. UK.	31-32
TABLE 20	The Pattern of Steelmaking Processes 1960-65. UK.	33

		PAGE
TABLE 21	Investment and Investment per Output Ton: Free World Iron and Steel Industry 1962-69	34
TABLE 22	UK Production Potential and Actual Production 1956-66	39
TABLE 23	The Fourteen Major Steel Companies Sources of Finance 1961-65	42
TABLE 24	Expected Development Expenditure and Sources of Finance UK Steel Industry 1966-70	43
TABLE 25	Companies Absorbed by the BSC, Production of Finished Steel 1964-65 (or 1963-64)	47
TABLE 26	Balance of Steel Making Processes in 1974	54
TABLE 27	World Crude Steel Production 1967-74	60
TABLE 28	UK Crude Steel Production 1975-80	62
TABLE 29	BSC Crude Steel Production 1974-80	63
TABLE 30	Imports and Exports Iron and Steel Products 1961-80	65
TABLE 31	Excess of Exports over Imports 1961-80	66
TABLE 32	UK Deliveries of Finished Steel to Consuming Industries and Merchants 1967-77	69
TABLE 33	Market Share 1975-80: Supplies of Finished Steel to UK Consumers and Stockholders	70
TABLE 34	Comparative Productivity of 'Mini' and Integrated Iron-Based Steelmaking	75
TABLE 35	Electric Arc Furnaces at Steelworks 1980	78-80
TABLE 36	BSC Liquid Steel Production and Product Sales 1968/9-1982/3	83
TABLE 37	GDP and the Main Steel-Using Industries 1963-80	88
TABLE 38	UK Car Registration and Production 1960-79	89
TABLE 39	Finished Steel: Deliveries to Consuming Industries, Merchants and Exports:1967-72	92-93
TABLE 40	Finished Steel: Deliveries to Consuming Industries, Merchants and Producers Exports: 1973-80	94-95
TABLE 41	Index of Blast-Furnace Coke Prices (Delivered) for Selected Countries 1975-79	98
TABLE 42	Indices of Productivity, Hourly Earnings and Unit Employment Costs, Iron and Steel Production; by Country 1960, 1965, 1967	100-101

		PAGE
TABLE 43	Index of Annual Crude Steel Output per worker, OECD Countries 1967-71	102
TABLE 44	Value Added per Employee, Free World Steel Industry 1967-72	103
TABLE 45	BSC Productivity Compared with Competitors 1974, Net Added Value per Employee	104
TABLE 46	Trends in Numbers Employed per Million Tons of Crude Steel Produced 1967-73 Free World	105
TABLE 47	ECSC Productivity Comparisons 1976	106
TABLE 48	BSC Productivity Comparisons 1973	107
TABLE 49	BSC Index of Annual Crude Steel Output per Worker 1970-80	108
TABLE 50	Index of Annual Crude Steel Output per Worker 1976-78 OECD Countries	109
TABLE 51	Labour Productivity in the ECSC Steel Industries (Hours Worked per Tonne of Crude Steel) 1976-78	110
TABLE 52	Number of Employees BSC 1967-78	114
TABLE 53	BSC Labour 1974-80	115-116
TABLE 54	BSC Number of Disputes 1971-75	121
TABLE 55	Capital Investment 1963-73; International Comparisons	136
TABLE 56	Capital Expenditure in the Iron and Steel Industry 1963-72. UK	138
TABLE 57	Capital Expenditure in the Iron and Steel Industry 1968-1975. UK	139
TABLE 58	The Steel Industry in the Mid-1970s. UK	141
TABLE 59	Main Steel Centres in Britain 1974	142
TABLE 60	British Steel Corporation: Main Iron and Steel Works, Products and Numbers Employed 1980	143
TABLE 61	BSC Main Investment Projects	145-146
TABLE 62	BSC Capital Expenditure 1968-81	149
TABLE 63	Annual Investment Expenditure and Percentage Breakdown by Sector: 1976-77 OECD Iron and Steel Industry	150
TABLE 64	Actual Investment Expenditure in Relation to Crude Steel Production in the Main Steel-Producing Countries in the OECD 1976-77	151

		PAGE
TABLE 65	Annual Investment Expenditure and Percentage Breakdown by Sector: 1977-78 OECD Iron and Steel Industry	152
TABLE 66	Actual Investment Expenditure in Relation to Crude Steel Production in the Main Steel-Producing Countries in the OECD 1977-78	153
TABLE 67	BSC Finances 1967-80	155
TABLE 68	Injection of PDC and New Capital into the BSC 1967-80	162
TABLE 69	Long-Term Debt Obligation of the BSC 1967-80	163
TABLE 70	BSC Borrowings	164
TABLE 71	BSC Long-Term Indebtedness to the Secretary of State for Industry	165-166
TABLE 72	BSC Foreign Loans	167-168
TABLE 73	BSC Taxation 1978-80	171
TABLE 74	UK Private Sector Operating and Financial Statistics 1969-76	176
TABLE 75	British Steel Industry: Public and Private Profit/Loss before Tax 1967-80	177
TABLE 76	Private Sector Steel Balance Sheet of Taxation Paid and Government Grants and Loans Received 1969-73	181
TABLE 77	UK Private Sector: Some Investment Schemes Completed or Projected by BISPA Members in 1980	185-190
TABLE 78	BSC's Revenue Shortfall over against ECSC Prices 1967-75	196
TABLE 79	BSC Home Trade Prices 1967-78	202-203
TABLE 80	Price Indices ECSC 1960-78	205-206
TABLE 81	Producer Prices OECD Iron and Steel 1976-78	207
TABLE 82	Comparison of Steel Prices October 1980	208
TABLE 83	ECSC Loans 1954-77	213
TABLE 84	Readaptation of Workers ECSC 1978	214

INTRODUCTION

The history of the British steel industry over the last 35 years is a chronicle of industrial activity being hindered by government interference. The industry has been subject to two nationalisations with all their consequent upheaval. Even in the years when it was denationalised it was open to various forms of Government intervention and restriction which reduced its profitability. The history of this industry illustrates not only the follies of nationalisation but the dubious value of any government intervention with the free market economy.

The progress of the British steel industry since 1945 may be charted in terms of decades. Nineteen forty five to 1955 was the acrimonious decade, largely wasted in nationalisation and denationalisation and the associated controversies; 1955-65 was the waiting decade, when the industry, although restored to the private sector, was nervous about committing itself to large-scale modernisation and investment lest it should be renationalised, as indeed it was in 1967. Nineteen sixty five to 1975 was the lost decade, when the development strategy of the BSC was fatally delayed, through a combination of the Corporation's own sluggishness and of constant government interference. Nineteen seventy five to 1985 may well be the last decade, marking the end of bulk steel-making in Britain, for mismanagement of various kinds has brought the BSC to the point when its death might do more for British industrial progress than its continuation.

The seeds of today's steel problems were sown long before 1945 and before the birth of the BSC. The British steel industry has been in decline since the late 19th century, a decline that was somewhat arrested by the first world war. After 1920 the industry faced a long period of depression, culminating in the world depression of 1929-32 which caused an almost total collapse of the UK

steel industry. It found itself heavily undercut by the large flow of "dumped" imports from the Continent of Europe. It was generally agreed both within and outside the industry that drastic modernisation was needed. So when the government afforded the industry protection through the imposition of a 33 1/3 per cent ad valorem tariff on iron and steel products, it was in exchange for the acceptance of public supervision.

The Import Duties' Advisory Committee (IDAC) appointed by the Treasury under the Import Duties Act of 1932 gave special attention to the rationalisation of the steel industry. The continuance of the tariff was made conditional on the industry implementing satisfactory reorganisation measures.

The first important result of this agreement was the establishment in 1934 of the British Iron and Steel Federation (BISF) as the industry's principal trade organisation. During the second half of the 1930s capital expenditure on new plant accelerated, world trade also improved and the steel industry had a great revival. In the boom year of 1939, over 13 million tonnes of crude steel were produced, more than a third more than in 1929, the previous best year. By 1939 production was almost back to the level of 1913. The thirties also saw the growth in the trend towards vertical integration, the development of large firms and large plants which is typical of this industry, although the typical plant and firm here was still smaller than those of our foreign competitors. Thus in 1937 our average plant produced 83,000 tons, while that of the USA produced 210,000 and that of Germany 125,000.

The activities of IDAC established certain precedents which have affected the steel industry ever since. First and most important, the principle of some measure of

public control of the industry was established. In return for the relief from market pressures which IDAC had provided, the industry was made subject to decisions and plans which might be dictated by political and social, rather than economic or technical considerations. Thus the strip-mill planned by Sir William Firth as part of his integrated works at Immingham, Lincolnshire, was diverted by IDAC to the much less suitable site at Ebbw Vale because of government concern for unemployment in South Wales (1935).[1]

It was decided that a policy was needed for the whole industry which competition alone could not achieve quickly enough. Thus the precedent of government supervision of the development plans of individual firms was established.

IDAC exercised supervision over prices in the steel industry. These were considered in the light of costs submitted by representative manufacturers and could only be altered with IDAC's approval. Levies were raised on certain products so as to keep prices stable by subsidising high-cost works whose continued existence was thought to be necessary in the national interest. Thus the true relationship between costs of production and prices was obscured and little incentive given to low-cost producers and development of low-cost capacity. The continuance of this price system after the war has been one of the greatest obstacles to the profitability

1. See B S Keeling and A E G Wright, The Development of the Modern British Steel Industry, London, 1964, p.16. For a rather different account of this decision see D Burn The Steel Industry 1939-59, Cambridge 1959, p.54.

of the steel industry.[1] The precedent which it set of the lighter side of the industry to some extent supporting the heavier has also had serious consequences, perhaps particularly since the formation of the BSC in 1967. The Corporation attributes some of its lack of profitability to the fact that it took over a larger proportion of the heavy side of the industry while much of the lighter and more profitable side remained in private hands.[2]

During the Second World War the steel industry was controlled by the Iron and Steel Control of the Ministry of Supply. Policy was governed by war conditions and expansion was at a standstill.

THE FIRST NATIONALISATION

The Labour Government, returned in 1945, had the nationalisation of the steel industry as one of its manifesto provisions. In 1946 it set up the first Iron and Steel Board with powers to control production, distribution and prices until the industry was nationalised. The Board was wound up in 1949 when the Iron and Steel Act brought into public ownership the greater part of the industry. On vesting day, 14 February 1951, 94 companies with some 100 subsidiaries were nationalised. These comprised all the companies producing 20,000 tons of steel or pig iron, or 50,000 tons of iron ore, except those companies manufacturing motor vehicles. Three hundred and fifty smaller companies escaped nationalisation, but they had to have a licence to operate. While these smaller companies were responsible for only 10 per cent of the production of crude steel, they accounted for up to 80 per cent of the output of some products.

1. See British Steel Corporation Evidence to Select Committee on Nationalised Industries, April 1976. HC.322.i. Para 4.7. Session 1975-76.
2. Ibid. Paras 1.5., 2.1.

The Iron and Steel Act provided for the appointment of an Iron and Steel Corporation of Great Britain to take over the shares of the nationalised companies.

Then in October 1951 a Conservative Government was returned and the King's Speech in the new parliament announced that:

"A Bill will be placed before you to annul the Iron and Steel Act with a view to the organisation of the industry under free enterprise, but with an adequate measure of public supervision."

The Iron and Steel Act of May 1953 denationalised the industry. It provided for the dissolution of the Iron and Steel Corporation and the transfer of all its rights, properties, liabilities and obligations to a new Iron and Steel Holding and Realization Agency (ISHRA), which was to 'return to private ownership the undertakings which on the appointed day are owned by subsidiaries of the Agency'. The Act also provided for the appointment of an Iron and Steel Board 'to exercise a general supervision over the iron and steel industry'.

The ISHRA offered the ordinary shares of the first company to be denationalised - the United Steel Companies, on the open market in the autumn of 1953. By January 1955 the Agency had sold steel companies accounting for some 50 per cent of steel output. By 1957, after the sale of the Steel Company of Wales, the proportion had risen to 86 per cent. Of the remaining 14 per cent, 5 per cent, consisting of small companies, was finally disposed of by 1963. The other 9 per cent, which was accounted for by Richard Thomas and Baldwins, was never returned to private ownership. Thus, although the steel industry was only officially nationalised for just over two years, the effects of this first nationalisation, the preparations for it, its operation

and its abolishing, affected the industry from 1946 until at least 1955.

The performance of the industry during these years must therefore be seen against the background of this first nationalisation, and its effects on the industry must be considered.

The nationalisation proposals of the Labour government alienated those who ran the industry. They insisted that their opposition was practical and industrial, not doctrinaire. This was borne out by the restrained and non-political character of their advertising campaign, when compared, for example, with the aggressive anti-nationalisation campaign organised by Tate & Lyle and Aims of Industry, around the symbol of Mr Cube. The leaders of the steel industry outlined the following arguments against nationalisation.

1. Unlike some of the candidates for nationalisation, the steel industry was profitable and efficient. Its output was high and rising to record levels. In 1948 production of crude steel rose to 14,877 million tons, surpassing the 1939 pre-war record of 13,221 million tons.

2. The industry was committed to an active modernisation programme costing £168 million.

3. The UK had the lowest home steel prices of all the major producers.

4. It had a large export market, some 40 per cent of its output going in direct or indirect exports.

5. It had, unlike the coal industry, for example, an excellent record of labour relations. The leading trade unionists in the industry were known to be as opposed to its nationalisation as the owners and managers.

6. The industry was efficiently organised. While each company took its own decisions the BISF provided a forum for the formulation of a common policy for the industry and provided common services.

7. The industry had accepted the need for public accountability in the 1930s, and was still willing to allow public supervision of its activities by the Iron & Steel Board, especially of prices and development. The steelmen felt that since 1934 the industry had achieved a satisfactory middle course between private enterprise and public supervision.

8. They felt that the steel industry was more commercial than the other candidates for nationalisation, more affected by trade cycles and market fluctuations. They doubted whether a vast national structure would be flexible enough to adapt quickly to market changes. The history of the British Steel Corporation since 1967 has largely justified their fears.

9. The industry was concerned about the non-steel activities of many steel companies. If these activities were nationalised that would lead to public control of many industrial interests. If they were 'hived-off', then the industry would lose many markets for its finished products, and a large slice of its export market. The steel industry was already meeting this problem from the other direction because the nationalisation of the coal industry had deprived it of its interests in the colliery companies and therefore of its supply of coal. It is ironic to reflect that the recent imports of cheap coking coal, which have aroused strong protests from the NUM and the left-wing, would not have been necessary if the steel companies had not been deprived of their collieries thirty years ago.

So strong was the opposition of the industry to nationalisation that no leading member of the industry or of its trade unions would sit on the board of the Iron and Steel Corporation. The reorganisation of the industry was therefore directed by men whose direct experience of it was limited.

Not even the Labour Party was fully committed to this nationalisation. In their negotiations of 1947 the leaders of the industry and Cabinet leaders reached an understanding that in return for the government's abandoning its nationalisation plans, the industry would agree to the transfer of the key staff of BISF to a permanent Iron & Steel Board. This Board would have the power to acquire the whole or part of any company where it felt this to be necessary for the efficient development of the industry.[1]

But finally, the views of the more left-wing members of the Cabinet prevailed, and the nationalisation plans proceeded.

There was then further controversy over terms of compensation for the companies to be nationalised. The price to be paid for quoted public companies was determined by their Stock Exchange value before the Bill was introduced. Opponents of this Nationalisation Bill pointed out that this valuation had itself been reduced by the threat of nationalisation, and that the commercial price for a company is normally far above the Stock Exchange valuation. Owners of unquoted companies, in fact, got much higher compensation.

1. See Sir Ellis Hunter's Speech to the AGM of Dorman Long, 14 December 1950. Herbert Morrison An Autobiography, Odhams 1960, p.296. Hugh Dalton, High Tide and After. Muller 1962. Chapter XXX. All cited in Keeling and Wright op.cit. pp.169-170.

BRITISH STEEL INDUSTRY PERFORMANCE 1945-57

This background of acrimony and non-cooperation from the specialists was obviously a poor way to begin a new public venture. When we consider the time and effort spent on administrative upheavals, on financial bickering and then on denationalisation, we may wonder how the real business of making steel fared during these years.

The following Table shows comparative international production figures for the years 1946-60.

TABLE 1

WORLD PRODUCTION OF CRUDE STEEL 1946-1960

Million tons

Year	Total	United Kingdom	United States	Soviet Union	West Germany	Japan	France
1946	109.6	12.7	59.5	13.1	-	0.6	4.3
1947	113.7	12.7	75.8	14.3	-	0.9	5.6
1948	153.4	14.9	79.1	18.6	5.5	1.7	7.1
1949	157.9	15.6	69.6	23.2	9.0	3.1	9.0
1950	186.7	16.3	86.5	26.9	11.9	4.8	8.5
1951	207.9	15.6	93.9	30.9	13.3	6.4	9.7
1952	208.2	16.4	83.2	34.0	15.6	6.9	10.7
1953	231.0	17.6	99.7	37.5	15.2	7.5	9.8
1954	220.3	18.5	78.9	40.8	17.2	7.6	10.5
1955	265.7	19.8	104.5	44.6	21.0	9.3	12.4
1956	279.2	20.7	102.9	47.9	22.8	10.9	13.2
1957	287.8	21.7	100.6	50.2	24.1	12.4	13.9
1958	266.7	19.6	76.1	54.0	22.4	11.9	14.4
1959	297.6	20.2	83.4	58.8	25.4	16.4	15.0
1960	*	24.3	88.6#	64.3#	29.8#	21.8#	17.0#

* Not available

\# Estimate

Source: British Iron and Steel Federation.
Reproduced in Steel HMSO (COI) London, 1961.

Looking at the years 1946-1955 it will be seen that while UK production showed a steady rate of growth it grew less quickly than that of any of its competitors. The relative figures for the increase in the period are:

UK	:	1.5
USA	:	1.75
USSR	:	3.2
West Germany	:	3.5 (1948-55)
Japan	:	10.0
France	:	2.88

In 1955 West Germany overtook the UK in the world steel production league, pushing us into fourth place. Most producers, starting from a lower base than the UK, made a far greater advance. They needed more steel because they had more postwar construction to do than the UK, but they were not producing their steel solely for home consumption. The export figures show that we were also losing ground as exporters (see Tables 2 and 3).

TABLE 2

EXPORTS OF INGOTS, 'SEMIS' AND FINISHED STEEL
(By Country of Consignment) 1946-58
(Thousand tons)

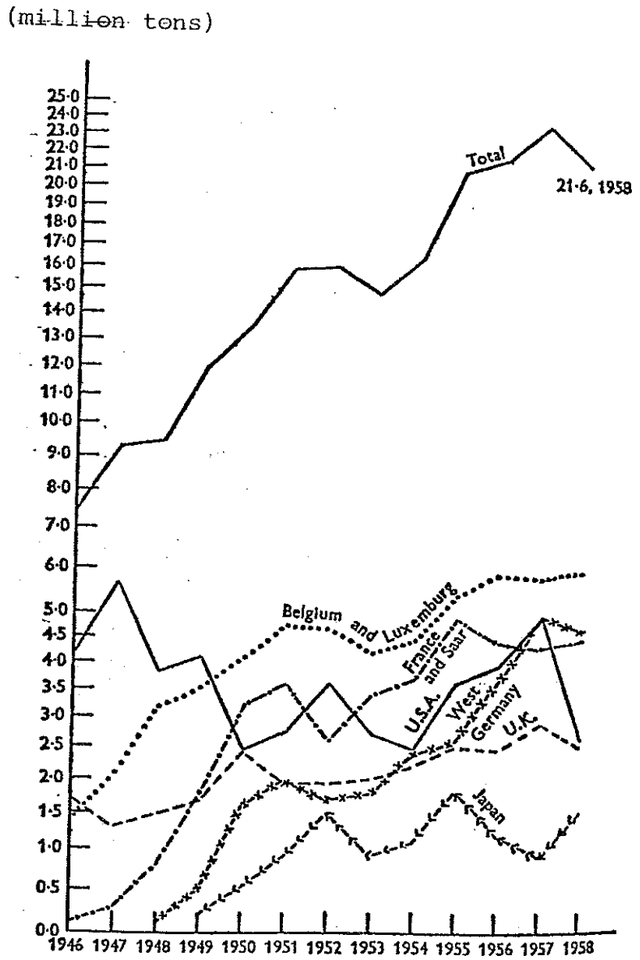
	1946	1947	1948	1949	1950	1951	1952
Belgium-Luxembourg	1,448.9	2,085.8	3,215.9	3,544.6	3,256.3	4,721.3	4,672.0
France and Saar	156.9	279.5	768.8	1,847.8	3,180.9	3,609.7	2,584.9
Germany (West)	-	-	122.0	493.9	1,623.3	1,968.2	1,732.8
Japan	0.1	0.3	12.5	212.5	541.9	930.4	1,549.0
United Kingdom	1,722.0	1,280.0	1,452.0	1,7380.0	2,356.7	1,915.7	1,875.3
U.S.A.	4,110.2	5,663.3	3,793.9	4,128.5	2,396.5	2,746.3	3,597.8
TOTAL	7,438.1	9,308.9	9,365.1	11,965.3	13,355.6	15,891.6	16,011.8

	1953	1954	1955	1956	1957	1958
Belgium-Luxembourg	4,196.9	4,456.9	5,433.6	5,925.8	5,795.3	5,876.8
France and Saar	3,402.4	3,679.5	4,876.4	4,392.9	4,262.4	4,424.8
Germany (West)	1,772.8	2,401.1	2,580.4	3,586.6	4,869.7	4,594.3
Japan	785.8	1,094.4	1,751.0	1,178.6	895.9	1,540.4
United Kingdom	2,006.9	2,167.1	2,520.5	2,469.6	2,929.9	2,527.0
U.S.A.	2,674.0	2,471.0	3,642.2	3,912.6	4,808.4	2,622.7
TOTAL	14,838.8	16,270.0	20,804.1	21,466.1	23,561.6	21,586.0

Source: D Burn The Steel Industry, Cambridge 1961. Table 9, p.141.

TABLE 3

EXPORTS BY COUNTRY OF CONSIGNMENT
1946-58



Source: Burn. op. cit. p.142.

These immediate post-war years were good years for the steel industry and were vital for its growth. It is unfortunate that they were rather wasted in the UK by all the upheavals of nationalisation and denationalisation. The limited growth in these years left the British steel industry in a vulnerable position to face the recessions of 1957-59 and 1961-62. It is important to notice that until 1956-57 there was a great rise in world-wide steel consumption, due largely to post-war reconstruction. After 1957 demand for steel fell and failed to keep pace with production. There was also an improvement in the quality of steel, so that the tonnage figures exaggerate the stagnation that actually occurred.

THE BRITISH STEEL INDUSTRY 1957-67

After denationalisation the British steel industry consisted of 350 firms, of which 17 were major concerns. It employed 300,000 men. This industry had approximately ten years in private hands (1957-67), although even in those years it was not entirely free from public control. It is important to look at its performance in those years, to evaluate it both for itself and as a background and a comparison to the post-1967 years of the second nationalisation of the industry.

The figures of UK steel production in the following Table show that crude steel production remained fairly steady during these years.

Production

TABLE 4

GENERAL SUMMARY OF UNITED KINGDOM STEEL PRODUCTION
1938, 1950-65

Million tons

Year	Ore		Coke and coke breeze	Pig-iron		Scrap	Steel (all qualities)		
	Production	Consumption of imported iron ore and manganese ore	Consumption in the iron and steel industry	Production (incl. blast furnace ferro-alloys	Consumption in steel-making	Consumption in steel-making	Crude steel production	Imports (tonnage as imported)	Finished steel net deliveries
1938	11.9	4.6	7.7	6.8	4.8	6.1	10.4	0.8	n.a.
1950	13.0	9.0	10.9	9.6	7.4	10.3	16.3	0.4	12.5
1951	14.8	8.9	11.3	9.7	7.8	9.1	15.6	0.4	12.6
1952*	16.2	10.1	12.7	10.7	8.7	9.1	16.4	1.5	13.4
1953	15.8	10.8	13.0	11.2	9.3	9.8	17.6	0.9	13.6
1954	15.6	12.1	13.1	11.9	9.8	10.3	18.5	0.4	14.4
1955	16.2	12.7	13.7	12.5	10.4	11.1	19.8	1.5	15.9
1956	16.2	14.1	14.4	13.2	11.2	11.2	20.7	1.4	16.6
1957	16.9	15.7	15.0	14.3	12.0	11.5	21.7	0.7	16.8
1958*	14.6	13.9	13.1	13.0	10.8	10.4	19.6	0.5	15.0
1959	14.9	12.7	12.2	12.6	11.1	10.8	20.2	0.4	15.1
1960	17.1	16.6	14.9	15.8	13.9	12.6	24.3	1.2	18.7
1961	16.5	15.1	13.9	14.7	12.7	11.5	22.1	0.4	16.8
1962	15.3	13.4	12.6	13.7	12.1	10.5	20.5	0.8	15.7
1963	14.9	14.6	12.7	14.6	13.3	11.7	22.5	1.2	17.3
1964*	16.3	18.0	14.6	17.3	15.6	13.4	26.2	1.5	20.3
1965	15.4	18.4	14.4	17.5	16.1	13.9	27.0	0.6	20.2

n.a. = not available
* 53 week - year
Source: Iron and Steel Board and British Iron and Steel Federation.
Reproduced in Steel HMSO (COI) London 1966.

But the comparative international figures in the next Table show that our share of world steel production fell from 7.5 per cent in 1955 to 5.2 per cent in 1966.

TABLE 5

WORLD PRODUCTION OF CRUDE STEEL 1946, 1950-64

Million tons

Year	Total	United Kingdom	United States	Soviet Union	Federal Republic of Germany*	Japan	France#
1946	109.6	12.7	59.5	13.1	2.7	0.6	4.6
1950	186.7	16.3	86.5	26.9	11.9	4.8	10.4
1951	207.9	15.6	93.9	30.9	13.3	6.4	12.2
1952	208.3	16.4	83.2	34.0	15.6	6.9	13.5
1953	231.2	17.6	99.7	37.5	15.2	7.5	12.5
1954	220.5	18.5	78.9	40.8	17.2	7.6	13.2
1955	265.9	19.8	104.5	44.6	21.0	9.3	15.5
1956	279.5	20.7	102.9	47.9	22.8	10.9	16.5
1957	288.3	21.7	100.6	50.2	24.2	12.4	17.3
1958	267.2	19.6	76.1	54.1	22.4	11.9	17.8
1959	301.0	20.2	83.4	59.0	29.0	16.4	15.0
1960	339.4	24.3	88.6	64.3	33.6	21.8	17.0
1961	348.3	22.1	87.5	69.6	32.9	27.8	17.3
1962	351.9	20.5	87.8	75.1	32.1	27.1	17.0
1963	376.6	22.5	97.6	79.0	31.1	31.0	17.3
1964	425.9	26.2	113.3	83.9	36.8	39.2	19.5

*Includes the Saar from 1959.
#Includes the Saar up to 1958.

Source: Steel HMSO (COI) London 1966.

In 1961 the UK was overtaken in steel production by Japan and thus fell into fifth place as a world steel producer. But the rate of growth of British production in the years 1956-66 was relatively better as compared with our competitors than it had been in the previous ten years. The relative growth figures were:

UK	:	1.35
USA	:	1.08
USSR	:	1.86
West Germany	:	4.0
Japan	:	4.0
France	:	1.25

Deliveries

Table 6 shows that deliveries of finished steel products also rose steadily, except in the recession years of 1958-59 and 1961-62.

TABLE 6

UK TOTAL NET DELIVERIES OF FINISHED STEEL

1956-1966.	Thousand tons.
1956	16,522
1957	16,776
1958	15,028
1959	15,123
1960	18,687
1961	16,766
1962	15,675
1963	17,303
1964	20,346
1965	20,191
1966	19,021

Source: UK (BISF) Iron and Steel Statistics 1967.

Exports and Imports

Despite Japan's dramatic entrance into the market the UK maintained its share of Free-World steel exports, both in total steel and in most major product groups. The UK did particularly well in the difficult ECSC market where her share of total Community imports of steel(excluding inter-trading between member countries) doubled, and in EFTA countries. This helped to offset the losses in Commonwealth markets, caused partly by the growth in domestic capacity in countries like Australia and Canada as well as by Japanese competition. British exports and imports of finished steel for the years 1956-66 were as follows:

TABLE 7

EXPORTS AND IMPORTS

1956-66

UK Steel Industry

Thousand tons:

	Exports	Imports	Net Exports
1956	2,370	1,396	974
1957	2,630	749	1,881
1958	2,243	454	1,789
1959	2,508	371	2,137
1960	2,776	1,229	1,547
1961	2,876	447	2,429
1962	2,864	763	2,101
1963	3,112	1,186	1,926
1964	3,397	1,543	1,854
1965	3,475	557	2,918
1966	3,268	865	2,403

Source: UK (BISF) Iron and Steel Statistics, 1967.

The following Table shows the percentage shares of the major Free-World exporters for 1956, 1960 and 1964.

TABLE 8

Exporter	1956 %	1960 %	1964 %
UK	12.7	12.5	12.2
ECSC (excluding inter-trading)	53.1	54.7	42.8
USA	20.8	11.6	10.6
Japan	6.1	8.7	21.6
Austria and Sweden	5.5	7.1	7.3
Canada, Australia, S.Africa	1.8	5.4	5.5
Total above	100.0	100.0	100.0
Total above-million product tons	18.67	23.29	28.45

Source: The Steel Industry. The Stage 1 Report of the Development Coordinating Committee of the British Iron and Steel Federation: British Iron and Steel Federation, July 1966. Appendix 8, p.114. Commonly and hereafter called the Benson Report.

The development in the UK's share of each of the major world markets is shown in the following Table:

TABLE 9

Importing area	1956 %	1960 %	1964 %
USA	5.4	6.9	4.3
ECSC	14.0	16.5	32.0
EFTA (including Finland)	11.1	10.9	12.3
Australia, New Zealand, Canada, South Africa	23.8	27.4	21.4
Other Commonwealth	28.6	28.5	17.0
Developing countries outside the Commonwealth	7.5	9.2	10.0
USSR and Eastern Europe	-	3.7	8.1
UK share of total world trade (including imports by Japan and China)	12.7	12.4	12.2

Source: Benson Report 1966. Appendix 8, p.115.

Table 7 shows that imports remained steady and that a good surplus of exports over imports was maintained. The main reasons for the imports were a degree of international specialisation and the cheaper uncontrolled prices of some foreign products.

Manpower Productivity

The following Table shows that manpower productivity grew steadily until 1966, falling only in the depression years of 1958-59 and 1961-62.

TABLE 10

BISF INDEX OF OUTPUT PER MAN-YEAR IN THE STEEL INDUSTRY - 1952-1966

Year	Volume of Output*	Employment#	Output per Man-year
1952	93.9	99.2	94.7
1953	96.5	100.2	96.3
1954	100.0	100.0	100.0
1955	108.2	101.8	106.3
1956	113.1	104.1	108.6
1957	117.3	106.6	110.0
1958	103.3	100.4	102.9
1959	104.4	98.0	106.5
1960+	124.2	107.5	115.5
1961	115.9	109.3	106.0
1962	106.4	101.5	104.8
1963	113.4	101.8	111.4
1964	130.8	108.2	120.9
1965	138.9	111.1	124.9
1966	128.0	106.8	119.9

* The index reflects activity in the steel industry as a whole and allows for changes in the pattern of output.
\# Excluding temporarily stopped persons.
\+ Includes, from the beginning of 1960, output and employment at blast furnaces integrated with steel works.
Source: U.K. (BISF) Iron and Steel Statistics, 1966.

The following Tables show that we held our own in international terms, particularly as these are rather crude comparisons because UK steelmakers do extra tasks which save labour further along the line of production.

TABLE 11

OUTPUT PER MAN PER YEAR IN EUROPEAN STEEL INDUSTRIES (AS A PERCENTAGE OF 1954)[1]

	1957	1958
U.K.	109	99
Germany	117	115
France	128	135
Belgium-Luxembourg	111	107
Italy	152	150
Holland	117	121

1. The numbers of workers in the ECSC countries is taken as the number at the end of the year, since this is the only figure available for 1954.

Source: D Burn. The Steel Industry, Table 90, p.587.

TABLE 12

INDEX OF ANNUAL CRUDE STEEL OUTPUT PER WORKER

1960 = 100

PAYS	1963	1964	1965	1966	1967	COUNTRIES
Allemagne.....	100	115	111	113	126	.....Germany
Belgique.....	108	124	132	138	153	.....Belgium
France.....	103	114	116	123	130	.....France
Italie.....	100	101	128	139	162	.....Italy
Luxembourg.....	98	106	107	103	108	.....Luxembourg
Pays-Bas.....	122	127	133	138	149	.....Netherlands
Autriche.....	93	96	97	97	97	.....Austria
Danemark.....	123	123	126	125	124	.....Denmark
Espagne.....	108	124	124	129	140	.....Spain
Irlande.....	102	154	230	194	200	.....Ireland
Norvège.....	-	-	110	113	121	.....Norway
Portugal.....	-	-	-	-	-	.....Portugal
Royaume-Uni.....	104	115	120	115	124	...United Kingdom
Suède[1].....	127	143	148	153	168	.....Sweden[1]
Turquie.....	-	-	118	169	184	.....Turkey
Canada.....	124	126	132	126	133	.....Canada
États-Unis.....	122	131	131	136	128	....United States
Japon.....	127	158	164	198	245	.....Japan

1. First six months.

NB. The figures given in the table are valid as a general indication of trends, but do not permit any detailed comparisons between countries. Not only are the statistical methods used in their preparation not the same in the various countries, but they are also greatly influenced by changes in the structure of the industry and by the rate of investment of capital, which may differ widely from country to country. Further distortions of the indices may be introduced by the number of hours worked, which varies between periods and from country to country or by the level of output in the base year.

Source: OECD The Iron and Steel Industry in 1967 and Trends in 1968 OECD Paris 1968.

Profitability

The British steel firms did make profits during these years, as the following Tables show.

TABLE 13

SUMMARY OF PRODIT-AND-LOSS ACCOUNTS OF 10 FIRMS REPRESENTING ABOUT 75 PER CENT OF TOTAL OUTPUT OF CRUDE STEEL, 1953-8.

Year ending 30 Sept.	1953 £M	1954 £M	1955 £M	1956 £M	1957 £M	1958 £M
Capital employed						
Fixed assets plus	354.1	394.5	458.1	519.8	579.6	685.0
Net current assets						
Gross trading profits	63.0	74.7	98.3	97.7	117.7	114.9
Add other income[a]						
(a) Investment	2.3	1.3	1.8	1.7	1.8	2.6
(b) Exceptional items	2.7	2.6	1.5	1.0	-0.3	5.4
Total income	67.9	78.6	101.6	100.4	119.2	123.4
Deduct						
Depreciation	14.2	15.4	17.7	19.5	23.9	26.4
Transfers to fixed asset replacement revenue	-	4.3	8.1	10.6	12.2	12.5
Debenture and loan interest (gross)	3.2	3.6	4.2	5.6	7.2	8.9
Profits before taxation	50.5	55.3	71.5	64.7	75.9	75.9
Taxation[b]	27.1	27.7	36.0	33.5	41.0	40.8
Profits after taxation	23.4	27.7	35.6	31.2	34.8	35.1
Dividends (net) Ordinary	3.8	4.5	5.7	6.3	9.3	10.0
Preference	0.3	0.6	0.9	0.9	1.1	1.1
Profits retained	19.2	22.6	29.0	24.0	24.4	23.9
Total of gross trading profit remaining in the business	33.5	42.2	54.8	54.1	60.6	62.6
Aggregate output of ingots and castings of the firms (m.tons)	12.8	13.4	14.4	15.2	16.2	15.3

a) 'Other items' is a combination of debits and credits, mostly 'exceptional'. The principal credits are in respect of provisions for taxation which have proved to be excessive and are not required. The principal recurrent debits are payments to outside shareholder interests.

b) Taxation in the accounts of course means estimated liability for taxation: it is a provision, and as the former note indicates this sometimes proves excessive.

Source: D Burn, op.cit. Table 93, p.594.

TABLE 14

TOTAL CAPITAL EMPLOYED AND PROFITS
OF FOURTEEN MAJOR STEEL COMPANIES
1956-65

Derived from their financial accounts

Financial years ended in

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Capital employed £m.	625.7	738.1	803.5	871.8	991.5	1,158.2	1,282.0	1,353.1	1,386.1	1,403.9
Profits after depreciation but before interest and tax Amount £m.	94.0	110.7	108.8	111.4	141.0	103.7	64.1	58.2	85.1	85.1
Return on Capital Employed per cent	15.0	15.0	13.5	12.8	14.2	9.0	5.0	4.3	6.1	6.1

NOTES: For the years 1956 to 1959 inclusive, figures in respect of three companies which became subsidiaries of one of the fourteen companies in 1960 have been included. The above figures are derived from the annual accounts of fourteen major steel companies. There are minor differences of presentation of the accounts and in the financial years; but the major consideration is that the above figures include the companies' activities other than steelmaking, which in some cases are extensive.

Source : Benson Report Appendix 17. pp.134-135

The Burn figures are dealing with some, and the Benson figures with basically all, of the companies that were nationalised in 1967. Allowing for differences in accounting procedures, in allowances for depreciation etc., it will be instructive to compare these figures with the BSC profit/loss accounts which we shall be looking at later.[1]

Yet it was universally agreed that there was considerable room for improvement in the steel industry.

Plant Capacity

The infrastructure of the industry was old-fashioned and needed rationalisation of the kind that was going ahead at that time (the mid-sixties), in Germany, Japan, France and the USA. The UK needed some of its firms to merge so that the firms should be fewer and larger. The fast pace of technical advance was creating a new optimum size of steel plant and Britain was not keeping up with this as well as her competitors. The world surplus in steel meant a need for maximum cost efficiency, which meant larger works. The following Tables show how our firms and plants tended to be smaller than those of our competitors and the rate of their growth slower.

1. See pp. 155, 177.

TABLE 15

AVERAGE CAPACITIES OF PLANTS AND FIRMS CONTRIBUTING TWO-THIRDS OF TOTAL CRUDE STEEL CAPACITY, MID-1950s AND LATE-1960s, BY COUNTRY

(a) Plants Country	Average Capacity mid-1950s		late-1960s		Index of Capacity Increase
	m.tons	% of US.	m.tons	% of US.	[col. 4/col.2 x 100]
Belgium-Luxembourg	0.76	30	1.85	36	243
France	1.02	41	1.70	33	167
Germany FR	n.a.	n.a.	2.72	53	n.a.
Italy	0.46	18	1.96	39	426
Netherlands	n.a.	n.a.	2.37	47	n.a.
U.K.	1.00	40	1.59	31	159
U.S.	2.51	100	5.08	100	202
Canada	1.31	52	2.56	50	194
Japan	0.68	27	4.71	93	693

(b) Firms Country	Average Capacity mid-1950's		late-1960's		Index of Capacity Increase
	m.tons	% of US.	m.tons	% of US.	[col. 4/col.2 x 100]
Belgium-Luxembourg	1.36	15	3.69	21	271
France	1.78	19	6.80	38	382
Germany FR	n.a.	n.a.	5.98	34	n.a.
Italy	0.65	7	3.93	22	605
Netherlands	n.a.	n.a.	2.37	13	n.a.
U.K.	1.67	18	3.57	20	214
U.S.	9.40	100	17.78	100	189
Canada	1.31	14	2.56	14	195
Japan	1.36	15	11.77	66	865

Source: A Cockerill and A Silbertson. The Steel Industry. Cambridge 1974. Table 16, P.38. Compiled from H.G. and G.Cordero (eds.) Iron and Steelworks of the World, (London: Metal Bulletin Books Ltd.), 1957 and 1969.

TABLE 16

1966 Steelmaking capacity long tons	Number of works USA	ECSC	Japan	UK
Over 4 million	7	1	2	-
3-4 million	6	1	3	1
2-3 million	16	11	2	2
1-2 million	16	15	7	9
½-1 million	14	31	4	7
Under ½ million	41	66	30	15
Total Number	100	125	48	34

The table above shows the estimated number of steelworks of various sizes in the main steelmaking countries.

Capacity of Plant	% of total capacity in USA	ECSC	Japan	UK
Over 4 million ingot tons	23	5	11	-
3-4 million ingot tons	11	4	15	10
2-3 million ingot tons	14	24	16	14
1-2 million ingot tons	19	21	17	40
Up to 1 million ingot tons	33	46	41	36
Total Number	100	100	100	100

Source: Benson Report pp. 92-93

While the size of British works increased so that by the late 1960s three-quarters of our total steel output was produced by firms with a capacity of over 2 million tons, these improvements did not keep pace with developments in other major steel industries. In the UK industry productivity rose more slowly and costs more quickly than in those of other countries. As can be seen from Table 14 (see page 24), the rate of return on capital employed by the fourteen major companies fell from 15 per cent in 1956 to 6.1 per cent in 1965, reaching its lowest point of 4.3 per cent in 1963. The following graph illustrates the same point.

Investment

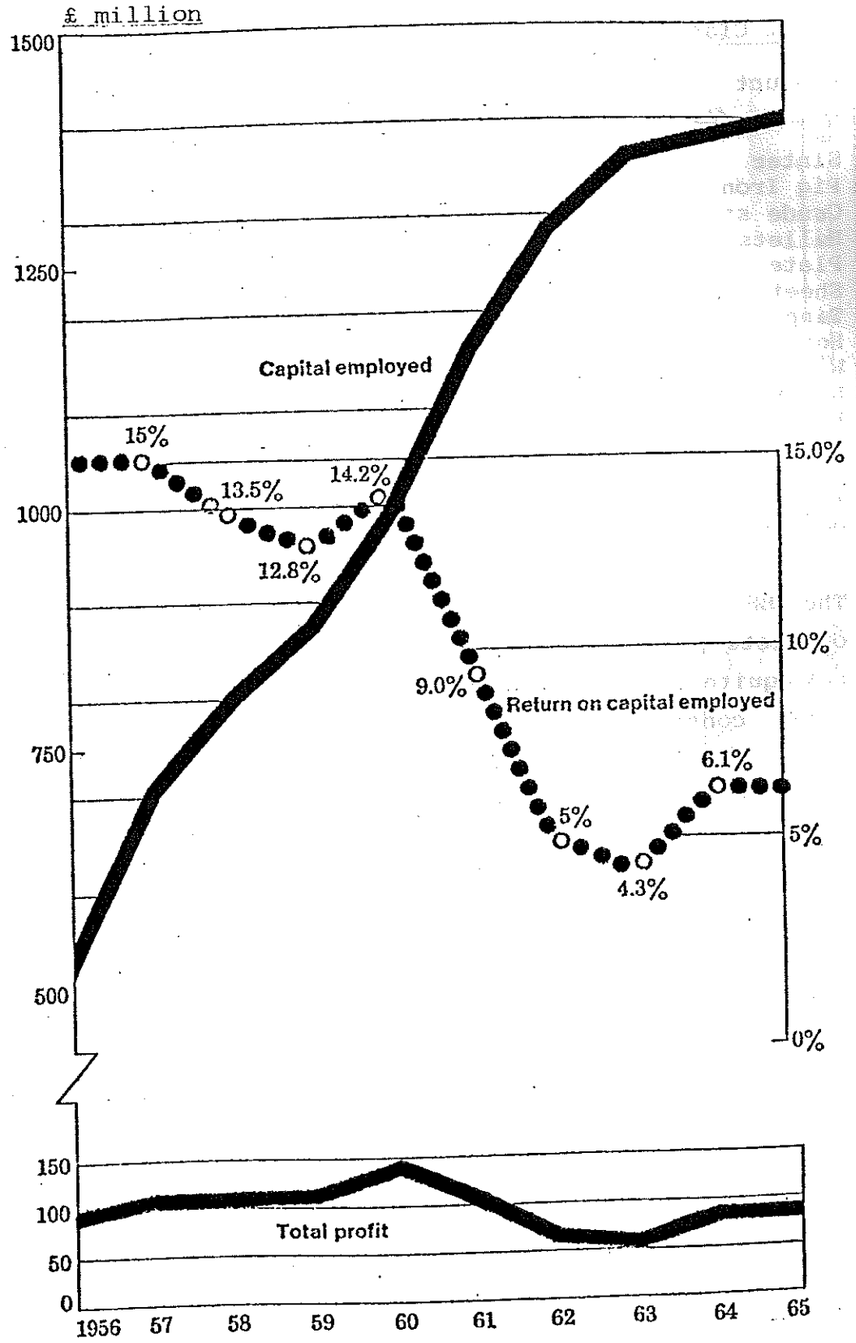
There was fairly heavy capital expenditure in the British steel industry during these years. From 1956-66 some £1,070 million was spent on new productive facilities in schemes costing over £100,000. Table 19 shows how and where this money was spent. In 1966 over half of the industry's capital stock was less than ten years old, and had an estimated replacement value of £2,400 million.[1] The Iron and Steel Board's 1964 Development Report made a technical estimate of the plant into three categories; A = first class large scale modern plant in a good location; B = efficient though older plant which could be useful for some years; C = old plant which could be useful in conditions of high demand, but was otherwise of doubtful viability. Some plant (mainly small alloy and special steel works) was 'Unclassified'.

1. Benson Report, p.64.

TABLE 17

FOURTEEN MAJOR STEEL COMPANIES

Capital employed, profits and return on capital employed 1956-65. (UK)



Total profit refers to total profit after depreciation and before interest and tax.

Source: Benson Report p.65.

TABLE 18

UK

Plant Classification

Product	1965			
	A %	B %	C %	U %
Sinter	97	2	1	-
Pig Iron (all qualities)	58	35	5	2
Crude steel (all processes)	59	29	8	4
Billets	60	28	8	4
Plate	90	-	8	2
Sheet	94	-	-	6
Tinplate	94	6	-	-
Hot rolled strip	69	20	11	-
Wire rods, etc.	80	17	1	2
Heavy sections, etc.*	30	68	2	-
Light sections and bars#	28	58	12	2

*Eight principal producers.
#Eleven principal producers.
Source: Benson Report, p.98.

The BSC was later to make constant reference to the obsolete plant which it inherited[1]. These references do not quite agree with the figures in Table 18, and we shall consider this discrepancy in more detail later. Table 18 does show that the greatest deficiency was in plant producing heavy sections and light sections and bars, areas in which the BSC was to be closely involved.

1. E.g. in Steel BSC Ten Year Development Strategy, Cmnd. No 5226, 1973, para. 1.7. Evidence to Select Committee on Nationalised Industries HC.322.i. 1976. Para. 5.2. Session 1975-76.

TABLE 19

Capital Expenditure

Expenditure on development schemes costing over £100,000: 1956-66

UK

Process	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
Coke Ovens	8.3	8.0	9.3	8.4	8.5	9.9	9.6	1.3	0.8	0.6	0.3
Raw materials handling and treatment and blast furnaces	21.0	24.6	26.1	22.6	30.0	39.9	30.8	7.8	6.5	7.7	3.9
Melting Shops	9.5	12.8	13.7	11.9	18.6	31.6	32.3	21.9	15.3	8.5	6.5
Mills and finishings	34.0	44.3	49.9	51.0	83.6	112.5	92.7	41.6	28.8	28.9	26.8
Unclassified	2.2	5.0	6.5	4.9	5.3	4.8	4.7	4.2	3.4	3.9	3.9
Total	75.0	94.7	105.5	98.8	146.0	198.7	170.1	76.8	54.8	49.6	41.6
District											
1 Derbyshire, Leicestershire, Nottinghamshire, Northamptonshire and Essex	2.8	4.9	7.2	4.2	4.4	6.7	9.2	3.9	5.0	5.2	1.4
2 Lancashire (other than 9), Denbighshire, Flintshire and Cheshire	6.0	7.3	9.1	10.5	9.2	9.0	5.4	1.7	2.7	2.2	3.2
3 Lincolnshire	4.2	5.7	10.8	14.3	17.0	21.6	15.4	6.3	6.4	7.8	4.9
4 North-East Coast	15.1	19.0	20.6	27.5	27.7	18.6	12.6	8.8	7.2	10.1	7.1
5 Scotland	12.5	12.1	8.6	9.4	24.0	37.2	31.0	10.2	3.3	6.0	4.2

TABLE 19 CONTINUED

District	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
6 Staffordshire, Shropshire Worcestershire and Warwick-shire	2.0	5.0	12.3	5.7	2.9	2.6	9.2	10.4	5.2	1.8	3.2
7 South Wales & Monmouthshire	24.0	27.8	29.8	21.7	51.5	86.6	53.8	10.7	9.2	10.0	9.7
8 Sheffield	7.0	12.0	6.5	4.5	7.5	14.6	32.9	24.8	15.6	5.8	6.5
9 North West Coast	1.4	0.9	0.6	1.0	1.8	1.8	0.6	-	0.2	0.7	1.0
Total	75.0	94.7	105.5	98.8	146.0	198.7	170.1	76.8	54.8	49.6	41.6

Expenditure on iron and steel activities by iron and steel producers, as defined by the Third Schedule to the Iron and Steel Act 1953. Normal repair and maintenance, and expenditure by foundries is excluded. Schemes costing less than £10,000 are estimated to amount to some £10 to £20 million a year in all.

Source: Benson Report Appendix 16 pp.132-33.
The 1966 figures are added from U.K. (BISF)
Iron and Steel Statistics 1966.

There had also been modernisation of the steel-making processes, particularly the replacement of openhearth furnaces by oxygen converters and electric steelmaking furnaces. The following Table shows how far this had progressed by 1965:

TABLE 20

THE PATTERN OF STEELMAKING PROCESSES

1960-65 UK	per cent of total crude steel production		
Process	1960	1963	1965
Open hearth*	84	77	63
Oxygen converter	2	10	20
Electric FOS	7	9	13
Others	7	4	4
	100	100	100

* The amount of intensively oxygen assisted openhearth production included in the above (8 per cent in 1960) had increased to some 25 per cent in 1965.

Source: Benson Report, p.100.

But none of this was going fast enough in international terms. British steel industry investment was relatively low compared with that of her competitors and was falling sharply from 1962, as Table 21 illustrates.

TABLE 21

INVESTMENT AND INVESTMENT PER OUTPUT TON, IRON AND STEEL INDUSTRY 1962-1969; BY COUNTRY

Country	1962		1963		1964		1965		1966		1967		1968		1969	
	$m	$/t	$m	$/t	$m	$/t	$m	$/t	$m	$/t	$m	$/t	$m	$/t	$m	$/t
Belgium-Luxembourg	179	15.8	197	17.0	163	12.3	167	21.1	171	22.5	116	14.5	88	9.2	116	16.5
France	437	25.3	325	18.5	207	10.5	165	8.6	148	7.5	170	9.1	253	12.4	273	12.1
Germany F.R.	414	12.7	443	14.0	379	10.2	312	8.5	294	8.3	224	6.1	225	5.5	310	6.8
Italy	159	16.8	448	44.1	519	53.0	246	19.4	167	12.2	126	8.0	111	6.6	143	8.7
Netherlands	53	25.4	56	23.9	48	18.1	37	11.8	68	21.0	95	27.8	125	33.7	124	26.4
E.E.C.	1242	17.1	1496	20.1	1316	15.9	932	10.8	848	10.0	730	8.3	802	8.1	1017	9.5
U.K. (a)	476	22.9	215	9.4	154	5.8	139	5.1	117	4.7	136	5.6	119	4.5	102	3.8
U.S.	904	10.0	1040	10.5	1600	13.9	1823	15.2	1953	16.1	2173	18.8	2372	19.9	2136	16.7
Canada	101	15.5	99	13.4	191	23.1	151	16.6	195	21.5	114	13.0	61	5.9	95	10.1
Japan	618	22.4	461	14.6	460	11.6	454	11.0	540	11.3	842	13.6	1167	17.4	1494	18.2

Notes: (a) From 1967 investment expenditure of BSC only.

Sources: Special Committee for Iron and Steel, The Iron and Steel Industry in 1964. (Paris. OECD), 1965, Table 39; ditto, in 1970. (Paris OECD), 1971; BSC data.

Source: Cockerill and Silbertson op. cit. Table 5 p.14

As with other problems of the industry, some of this fall in investment was due to fears of nationalisation. This would apply particularly to those large firms, mostly at the 'heavy' end of the industry, who were obvious candidates for nationalisation. For the same reason, these firms were lethargic in promoting the mergers between them which the industry agreed to be necessary. As we have seen, the profitability of the industry and the return on the capital invested were not high enough. Yet considering this threat which was hanging over it, the industry's achievements during the years 1957-67 were not negligible.

The industry was well aware of its deficiencies and in 1966 the British Iron and Steel Federation produced The Steel Industry: The Stage 1 Report of the Development Co-ordinating Committee. The Committee was chaired by Sir Henry Benson so the report is commonly called the Benson Report. (Several references have already been made to this Report). The Benson Report reviewed the progress of the steel industry and suggested plans to cope with the problems of its modernisation and development. The Report was produced under the shadow of the threat of the renationalisation of the industry, proposed by the Labour Government which was returned in 1964. Apart from its ideological love of nationalisation, this new 'technological' government claimed that nationalisation was the only practical answer to the problems of the steel industry. It is instructive to look at the possible causes of these problems, and to see if nationalisation was the only or the best answer to them.

It is very important to remember that the denationalisation of the steel industry in 1953 did not return it to absolutely free commercial competition. The 1953 Act established the Iron and Steel Board with powers to determine the home trade prices of most classes of iron and steel, and also to regulate capital development.

The Board's price policy, by which maximum prices became fixed prices and which involved compensation payments from low-cost to high-cost producers, (similar to the earlier IDAC system[1]), kept down profits and reduced the resources available for investment. This was particularly true after 1960. This may be seen, for example, in the fact that earnings on price controlled products were more than 13 per cent lower in 1964-65 than in 1959-60, though output was 11 per cent higher. These were the very years when violent price competition enabled the Japanese to offer steel for sale at very low prices, and thus to build up a massive export trade to the USA. The British steel industry was unable to raise its prices above the maximum in the boom periods so that low or negative profitability in the slump periods could not be offset by high prices in the boom periods.

Secondly, under the Act, the Board had powers to promote or discourage development. It sometimes used these wisely, as, for example, in 1959, when it persuaded the Steel Company of Wales to withdraw proposals for a sixth strip mill. But in this way the Government could influence the industry through the Board. It is interesting to remember that the Duport Company's Llanelly steelworks, whose distance from their rolling mills at Tipton and Sheffield was a contributory cause of the company's recent financial problems and demise as a steelmaker,[2] was only in Llanelly because the Board forced the company to put it there in 1961, instead of in the Midlands as they wished. This governmental interference was seen at its most disastrous in 1958 when, after a new strip mill had been planned by Richard Thomas and Baldwins at Newport with the approval of the Board, the Government, giving way to political pressure about the development areas, decided that there should be two strip mills, the one planned at Newport, the other at

1. See pp.2-4.
2. On 23 February 1981 the Duport Company ceased trading as a steelmaker, closing its Llanelly plant and selling its rolling mills to the BSC.

Colville's Ravenscraig plant at Motherwell. This meant a 36 per cent jump in total strip mill capacity in five months in 1962, which in its turn meant that neither mill could run to anything like full capacity and both mills would almost certainly become out-of-date before they were outworn. This was a costly investment, a great waste of resources, and was nothing to do with the industry.[1] It was a direct result of Government interference with the free market economy of the steel industry. This provision of overcapacity helped significantly towards the drop in the industry's profitability seen over the years 1961-65.[2]

The general surplus of capacity over production, to which the two strip mills contributed, was a major cause of this drop in profitability. The following graph shows the gap between production potential (i.e. capacity), and actual production. It is noticeable how wide that gap was between 1961 and 1964. (See Table 22).

This under-utilisation of plant was due not to wildly faulty forecasting by the industry, but to the over-provision of strip mills to which we have referred, to pressure on the industry from the Government and the Board for a 10 per cent margin of reserve capacity to cover peak demands, and to the effect of the stop-go economy which caused a great drop in the level of steel

1. See J A Allen Studies in Innovation in the Steel and Chemical Industries, Manchester 1967, p.193. D Burn and others The Future of Steel, Institute of Economic Affairs Occasional Paper 6, 1965, pp.12-14.
2. See e.g. Tables 13, 14, 17. pp.23, 24, 29.

demand in 1961-63. This under-utilisation has remained one of the BSC's biggest problems.[1]

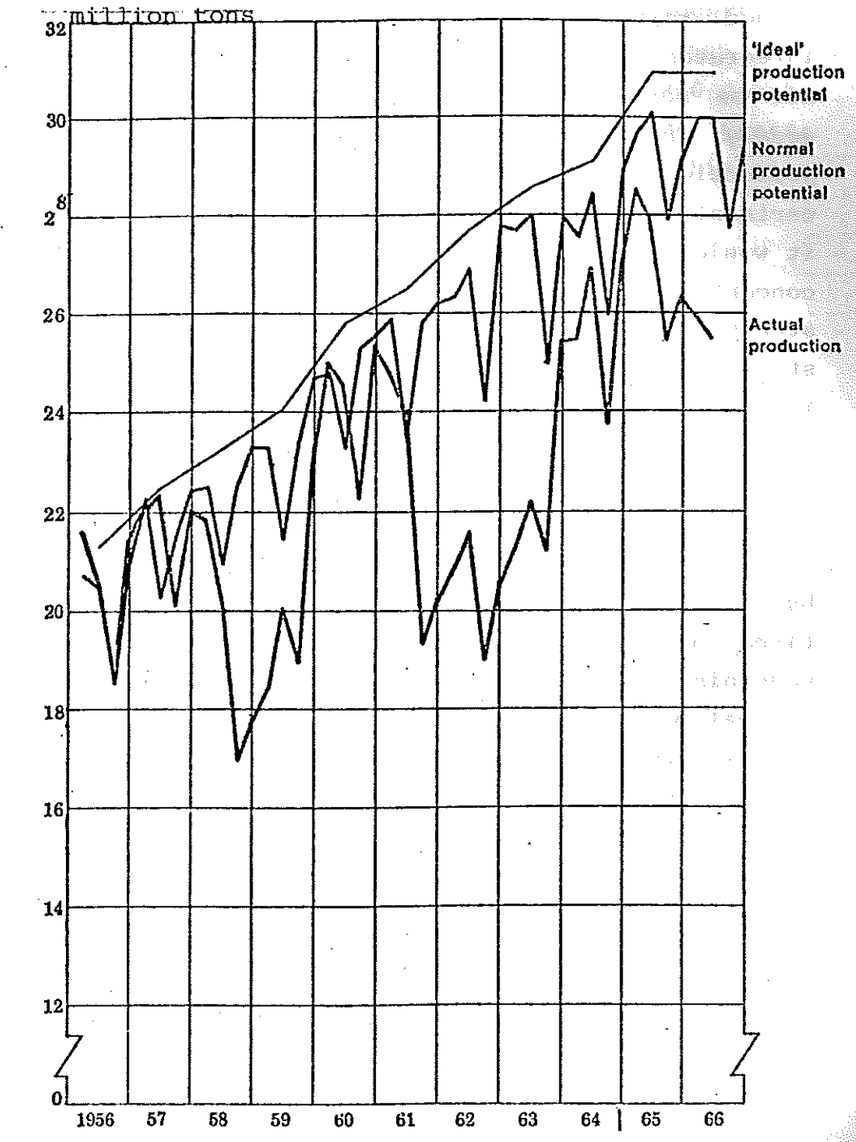
The world steel surplus of 1960-65 severely reduced returns on exports for British firms. The export profits for seven major companies were some £20 million lower in 1965 than in 1960 although the volume of their exports was 15 per cent higher. As 18 per cent of steel was then exported, this had a grave effect on the profitability of the industry.

This was the waiting decade to which we referred earlier.[2] The British steel industry seemed reluctant to effect those mergers which would enable it to have the larger firms and plants necessary for modern steel production. This was due not merely to the British liking for small firms, but also, as we have said before, to the fear of nationalisation. Yet the need for these mergers was the biggest argument for nationalisation. So the result was a circular argument - the firms would not merge because they were going to be nationalised and they were going to be nationalised because they would not merge. The nationalisation lobby claimed that fourteen companies could not co-ordinate their plans quickly enough to ensure swift replacement and renewal of the necessary plant. Nationalisation seemed the only way to effect the necessary size of firms.[3] (Yet they should have taken warning from the fact that the USA'S United Steel, the only steel organisation larger than the proposed BSC, was a slow and sluggish performer.)

1. See p.83 ff.
2. See p.1.
3. See Steel Nationalisation, Cmnd.2651 April 1965.

TABLE 22

PRODUCTION POTENTIAL AND ACTUAL PRODUCTION UK STEEL INDUSTRY 1956-66



Ideal production potential is the maximum output achievable over an annual period under very favourable operating and order load conditions at all works simultaneously. This output is rarely achievable in practice and the middle line shows the probable production potential under normal conditions. This and the movement of actual production are shown quarterly.

Source: Benson Report p.67.

It is interesting to note that even at this early stage caveats were issued against the general assumption that big was beautiful in the steel industry. J A Allen warned that the apparent economies of scale of an integrated steelworks had not been fully tested and might not be borne out in practice.[1] And he warned, with deadly prescience (in 1967), that the expansion of production of common steel in Britain "is almost certainly doomed to commercial failure".[2] He argued that it would be far more sensible for British steelmakers to concentrate on the production of so-called 'special steels' "....of high quality and in products and areas of steel usage in which there is a large component of innovatory skill and in which the added value in manufacture is high".[3] This is exactly what the private sector has done since nationalisation and is the main reason why it has been more successful than the BSC.

But this was not received wisdom in the steel industry. Firms to be better must be bigger and quickly modernised. So here we have two standards by which the new nationalised British steel industry is to be judged: its ability to effect quick mergers of the existing companies and to swiftly adapt these new merged companies to modern needs. We shall see later how well the BSC fulfilled those objectives.

1. J A Allen op.cit. p.220. See also G C Allen's comment in The Structure of Industry in Britain, London 1970. "Nor is it true that great concentrations of capital are always a condition of technical innovation in the modern world."(p.97).
2. J A Allen op.cit.p.181.
3. Ibid.

Financing

There was considerable disquiet in the early 1960s about the financing of the steel industry. Up to 1960 the 14 major companies financed nearly three-quarters of their investment from internal resources, but the fall in the industry's profitability after 1960 meant that over half the money necessary in the years 1961-65 had to be found by borrowing. This is illustrated by Table 23.

TABLE 23

THE FOURTEEN MAJOR STEEL COMPANIES

Sources of finance 1961-65

OUTSIDE SOURCES	£million	Per cent
Ordinary share capital and share premiums	41.0*	6.0
Debenture and loan stocks	111.6	16.4
Loan: Government	126.8	18.6
Iron & Steel Holding and Realisation Agency	-29.1*	-4.2
Finance Corpn.for Industry Ltd	14.5	2.1
Others	32.5	4.7
Bank Overdrafts	69.0	10.0
Total outside sources	366.3	53.6
INTERNAL RESOURCES		
Depreciation	270.8	39.6
Retained profits	46.0	6.8
Total internal resources	316.8	46.4
Total	683.1	00.0

* Excluding £50.2 million which represented the capitalisation of an ISHRA loan by one company.

Source: Benson Report, Appendix 18, p.137.

One of the reasons for the lowering of profitability which made this borrowing necessary was, of course, fear of nationalisation. So the companies were short of finance because they were going to be nationalised; they were going to be nationalised because they were short of finance. One of the pro-nationalisation arguments was that private enterprise would not be able to find sufficient capital for the necessary development of the industry.

The Benson Report tried to answer that charge by getting details, from the Chairmen of 21 companies in the industry, of the development plans which those companies planned to carry out in the years 1965-70, and their estimates of the expected sources of finance for those projects. The results of their enquiry are set out below.

TABLE 24

UK STEEL INDUSTRY

EXPECTED DEVELOPMENT EXPENDITURE, ETC. 1966-70

	£ million	Per cent
Estimated cost of development schemes	559.0	82.8
Increases in working capital	64.0	9.5
Repayments of loans outstanding at January 1, 1966.	52.2	7.7
	675.2	100.0

EXPECTED SOURCES OF FINANCE 1966-70

OUTSIDE SOURCES	Net £ million	Per cent
Ordinary share capital	1.0*	0.1
Debenture and loan stocks	41.5	6.2
Loans: Government	-	-
ISHRA	12.0*	1.8
Finance Corpn.for Industry Ltd	1.4	0.2
Unspecified	51.5	7.6
Bank overdrafts	17.7	2.6
Total outside sources	125.1	18.5
INTERNAL RESOURCES		
Depreciation	380.2	56.4
Retained profits & investment grants	169.9	25.1
Total internal resources	550.1	81.5
Total	675.2	100.0

* Excluding capitalisation of an ISHRA loan of £39 million by one company.

Source: Benson Report, Appendix 19, pp.138-139.

While these figures are only a forecast, they do show that the companies had positive plans for their own development and for getting money to promote it.

Moreover it would have been perfectly possible to provide Government aid for the steel industry without actually nationalising it; this was what happened in most of the countries of Europe. The steel industries which were doing better than ours, the West German, the Belgian, the Dutch, were not nationalised. France, the poorest performer of the EEC countries at this time (so far as her steel industry was concerned), was subject to more state interference than the others, and to a system of price controls similar in rigidity to that imposed on the British steel industry.

The steel industry also accepted that its manpower, which was high by international standards,[1] must be reduced. The Benson Report accepted that whereas the industry produced 27 million ingot tons of steel in 1965 with about 317,000 workers, it should produce 35.3 million ingot tons in 1975 with about 215,000.[2]

This looked for a rate of increase in labour productivity of about 6.8 per cent a year over the years 1965-75. It was felt that this would be achieved mainly by the closure of small steel works. This in its turn was felt to be a piece of rationalisation only achievable by nationalisation.[3] Yet already warnings were voiced about the political pressures on a nationalised industry which might hamper this projected increase in labour productivity; for example, the pressure to keep obsolete plants open to provide employment.[4]

1. See Tables 10-12, pp.20-22.
2. Benson Report, p.87.
3. See Steel Nationalisation Cmnd. 2651, April 1965.
4. See e.g. D. Burn and others, The Future of Steel, IEA Occasional Paper 6, 1965, p.24.

THE BRITISH STEEL INDUSTRY 1967-81

It seems worth reiterating that nearly all these shortcomings of the steel industry owe much not only to the other public restrictions on the industry which we have mentioned, but perhaps most of all to Nationalisation - previous and future. The first denationalisation had not been easy. Labour politicians were constantly referring to renationalisation. After 1961 the Tory Government's days were obviously numbered. What kind of climate was this for firms to make large investments, to carry out mergers and modernisation, especially those large firms at the heavy end of the industry which were obvious candidates for nationalisation? The Benson Report reveals an industry surprisingly healthy in these circumstances.

Nationalisation and the formation of the BSC

All the traditional arguments against nationalisation still applied.[1] There were some new ones too, such as the inability of a nationalised industry to become part of a multi-national corporation, corporations which seemed a real possibility at a time when the UK appeared likely soon to become a member of the EEC. But despite these arguments, despite the Benson Report and the opposition of the industry, the Labour Government, re-elected with a large majority in 1966, nationalised the industry in 1967. It had made its proposals to do this in a White Paper of April 1965[2] and they were given effect by the Iron and Steel Act 1967.

The 1965 White Paper gave three principal reasons for the nationalisation of the steel industry:

1. See pp.6-8.
2. Steel Nationalisation, Cmnd.2651, 1965

1. "The nationalised industry had a positive role to play in sustaining a satisfactory rate of general economic development and the balanced distribution of such development between regions."

2. It said that "difficulties had arisen over the provision of finance for expansion, particularly since the national interest required the laying down of larger additional capacity than could be justified on strictly commercial grounds". (This is an ominous sentence, foreshadowing political interference in the industry).

3. "There had been, in the Government's view, insufficient price competition between British steel companies selling in the domestic market". (It would presumably have been possible to remedy the Iron and Steel Board's price structure without resorting to nationalisation).

On 28 July 1967 the shares and securities of the 14 major crude steel producing companies were transferred to the British Steel Corporation (BSC).[1]

1. Sometimes quoted as 13, because Richard Thomas and Baldwins Ltd was already in public ownership.

TABLE 25

COMPANIES ABSORBED BY THE BSC

UNITED KINGDOM : PRODUCTION OF FINISHED STEEL BY COMPANIES ABSORBED BY THE BSC 1964-5 (or 1963-4)

Company	Production of Finished Steel '000 tons
United Steel Co.	3438
Richard Thomas and Baldwins	3350
Steel Company of Wales	2780
Colvilles	2700
Stewarts and Lloyds	2032
Dorman, Long and Co.	1972
GKN Steel Co.	1920(b)
John Summers	1702
South Durham Steel & Iron Co.	1497
Consett Iron Co.	1008
Tube Investment (Park Gate Iron and Steel Co. and Round Oak Steel Works(a))	994(b)
Lancashire Steel Corp.	669
English Steel Corp.	513(b)

Notes: (a) Round Oak Steel Works was subsequently returned to the private sector.
(b) 1963-4 figures.

Source: The Economist, 30 July, 1966, p.454.
Quoted in Cockerill and Silbertson op.cit. Table 25. p.51.

The BSC also became the sole owner of all the companies previously owned by the 14 companies, about 170 firms registered in Britain and 50 registered overseas, and gained a controlling interest in some subsidiaries. This was the biggest industrial merger that the world had seen and created the second biggest steel producer in the western world - only the US Steel Corporation produced more steel.

Those companies vested in the BSC operated 39 crude steel producing works, including 21 fully integrated works. They had a theoretical capacity of nearly 30 million tonnes annual production. At vesting day they had a total capital employed of £1,400 million, a turnover of £1,000 million per annum, and a labour force of 270,000. They were responsible for over 90 per cent of the UKs crude steel output, for about two thirds of the industry's employment and about 78 per cent of the UK steel market. The output criteria for nationalisation of a company was 483,000 tonnes (475,000 tons)[1] of crude steel a year.

The main statutory duty of the new Corporation was to promote the efficient and economic supply of iron and steel products, avoiding unfair price discrimination between customers.

The 1967 Act left in private ownership over one hundred companies and their subsidiaries, totalling some 160 works. These companies were especially strong in the manufacture of alloys and stainless steel. They included a number of major rerolling concerns in the manufacture of non-alloy products which often had to rely on the BSC for their supply of finished steel.[2]

1 Steel Nationalisation, Cmnd.2651. 1965, Para. 16.
2. See p.66ff.

In 1967 the private sector companies formed the British Independent Steel Producers' Association (BISPA) to perform for them the work previously done by the BISF and to protect the interests of its members. BISPA provides information and statistics which give us, with various provisos, a benchmark by which to judge the BSCs performance. One must remember that from now on the British steel industry includes both public and private sectors.

It would be idle to pretend that the new Steel Corporation took over a highly profitable, first-rate industry. It took over a medium-grade industry that was profitable and viable, but somewhat sluggish. This is one of the reasons why the private sector of the industry today, knowing that prenationalisation record, is surprisingly modest about its achievements since nationalisation, and chary of "scoring-off" the BSC. Sir Richard Marsh, the Minister of Power who presented the Iron and Steel Bill to the House of Commons, stressed the "opportunities" which nationalisation offered the industry.[1]. We must now investigate how those opportunities were taken.

The main tasks of the newly nationalised industry were to improve the relatively low output and the low labour productivity of the industry; to increase investment and profitability; to solve the problem of too many firms running too many sub-optimum units; to build up plants of greater capacity and to improve the production/capacity ratio. The performance of the BSC must be judged with particular reference to these tasks, comparing it with the performance of the private steel industry (using BISPA information), and, where possible, with that of foreign steel industries.[2]

1. Hansard 25 July 1966, Cols. 1223-1241.
2. All comparisons must, of course, be used with caution, allowing for different circumstances etc. Where special caution is needed, this is indicated in the text.

The performance of the BSC must, of course, also be judged against the general home and international economic and industrial background of the times. The Corporation was founded in the days of the Labour Government's National Plan and 'white-hot technological revolution', with their unrealistically high growth rate forecasts. The steel industry, like all others, suffered from the three-day week and the national industrial depression of 1974, and has been heavily hit by the world-wide steel depression which has been almost continuous since 1975. The low performance of all British industry since 1974, and especially of the main steel consuming industries such as the motor industry, has naturally had serious repercussions on the BSC. But the evidence suggests that the BSC had already failed in its objectives before 1975, and was therefore in a far worse position to face the 1975 recession than either the private sector of the steel industry or foreign steel industries. Just as the good years of the early 1950s had been wasted by nationalisation, so were the late 1960s and early 1970s. Nationalisation can be said to have wasted five years, five vital years in the history of the steel industry. As a result of its slowness, in decision-making, in investment and in generally 'getting-going', the BSC virtually missed the good boom years for steel, especially 1973-74. The Corporation's new plant and equipment was too late for the good years. By the time that it was coming on-stream world conditions meant that the demand for its products was severely reduced and it was therefore failing to pay for itself. In particular the strip-mill developments at Llanwern, Shotton and Ravenscraig should have been put into action much sooner.

If nationalisation had any merit, it was that a nationalised industry could reorganise the steel industry in the way it needed without reference to the sectional

interests of the various companies, and therefore achieve the rationalisation so essential to the British steel industry more quickly than would have been possible under private enterprise. The result would be the larger plants such as our competitors had.[1] Yet it took three years for the 14 major companies which had been nationalised to be totally dissolved. The BSC originally worked through four multi-product groups preserving to a large extent existing complete company businesses. By 1970 the Corporation had decided that a system of product divisions was needed to hasten rationalisation, and these were then set up. In 1976 the more concentrated manufacturing pattern which the Corporation had evolved by that time[2] led to a further reorganisation into five iron and steel manufacturing divisions operating as cost or performance centres with four product units[3] to handle orders and allocate them to the manufacturing divisions. This was basically the regional organisation suggested by the Benson Report in 1966.[4] It took the BSC ten years to implement it. One wonders whether the pressure of the market would have forced this rationalisation on the companies rather more quickly under private enterprise.

This can only remain a speculation. There were factors working against rationalisation of the British steel industry. One was the political uncertainty to which we have already referred.[5] Even if the nationalisation of 1967 had been avoided, a very different political climate with a guarantee that nationalisation would never occur, was needed before companies were going to put their own capital at risk. Nor were the companies given any financial incentive to rationalise. The peculiarly British and post-war notion which demands full public

1. See Table 15, p.26.
2. See British Steel Corporation Organisation Review HC.604 1975, paras. 13, 17. Session 1974-75.
3. These product units expanded into five in 1979 and were disbanded in late 1980 under the McGregor reorganisation. They were then replaced by a limited number of product-based businesses.
4. Benson Report, pp.46-48, 76-83.
5. See p.38.

control of an industry before it can receive any substantial government assistance, prevented the British steel companies from receiving the type of financial assistance which had enabled the Japanese industry, for example, to rationalise itself.[1] Suggestions that such help might be made available to the companies without out-and-out nationalisation were put forward[2], but they fell on deaf governmental ears. Thirdly, the forward integration by which the German steel industry rationalised itself was largely alien to the British companies' way of thought. Much of the pre-1914 entrepreneurial spirit in the British steel industry had been stifled by the long period of public control from 1930-1953, which had protected the industry from competition and prevented earlier rationalisation.[3] If the steel industry had not been nationalised and had refused to rationalise itself it would certainly have gone into deep decline, but it would at least have committed suicide at its own expense. The BSC has used vast amounts of public money with which to become bankrupt. Either decline or rationalisation must have been speedier under market impulses than under public control.

The BSC's Delays

Delay in rationalisation and streamlining became symptomatic of the BSC. Thus one of the Corporation's major initial tasks should have been to replan the siting of the industry near to deep-water ore terminals, another development envisaged by the Benson Report.[4] This should

1. G C Allen Japan's Economic Expansion, London, 1965, p.163.
2. D Burn and others The Future of Steel, IEA 1965, pp.8-9, 31. See also p.43.
3. J A Allen, op.cit. p.209. See also G C Allen The Structure of Industry in Britain, London 1970, p.97.
4. Benson Report, Appendix 12, pp.122-125.

have meant the closing of 14 million tons of the BSC's 1969 capacity to allow for the new developments, yet in 1969 the Corporation said that there would be no 'major closures of complete works.'[1] How could they make progress without such closures? Here is already a hint of that political interference with the industry which is a sine qua non of nationalisation and which was to bedevil the future of the steel industry. The BSC, in its Evidence to the Select Committee on Nationalised Industries of 7 April 1976[2] acknowledged these early delays and those which followed them:

"...it took time for the Corporation to get its plans under way and there have continued to be serious interruptions to the implementation of the development programme notably through the setting up of the Joint Steering Group of 1971/72 and the still uncompleted Closure Review which began in 1974." (Evidence: Paragraph 5.3).

Both the Steering Group and the Closure Review were examples of government interference and the comment illustrates the industry's natural irritation at such interference. Some of the delay though, the BSC acknowledges, has been the fault of the industry:

"There has been a variety of reasons for these delays, some internal, some external. As far as new developments are concerned the time needed to undertake all the preliminary planning and design work for a major programme on this scale was underestimated." (Evidence: Para. 5.12).

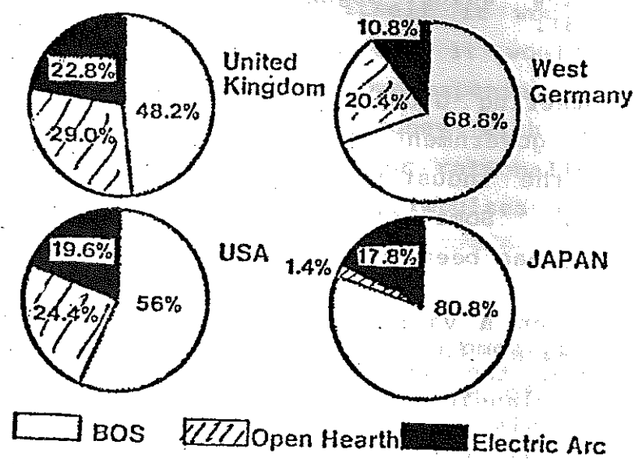
1. G.C. Allen. British Industries and their Organization, London 1970, p.109.
2. HC 322.i. April 1976. Referred to in the text as Evidence.

This seems a poor excuse from an industry that receives so much public money.

The result of all these delays was that in 1976 the British steel industry was still lagging behind its foreign competitors in the introduction of large blast furnaces and especially in the adoption of the BOS process of steel-making, (Evidence: Paragraph 5.22), as the following diagram illustrates.

TABLE 26

BALANCE OF STEEL MAKING PROCESSES IN 1974



Source: BSC Evidence 1976, Para. 5.22.

This meant that the use of the BOS process had increased by only 28.2 per cent since 1965.

It is instructive to look in more detail at the political interference mentioned in Paragraph 5.3 of the BSC's Evidence.[1] The BSC had, in 1968, begun a seven year development plan which was designed to increase annual steel output to 33 million liquid tons by 1975, at a cost of £1,000 million. It involved the development of large integrated steelmaking complexes near to deepwater ports with ore-terminals (as suggested in the Benson Report). By 1970 some progress had been made - an £18 million BOS plant and two 300-ton converters had been installed at Port Talbot and an ore-terminal developed there. Developments of around £34 million were planned at Lackenby, including a vast BOS plant, and an ore-terminal was being constructed at Redcar. A £130 million expansion plant was in progress at Scunthorpe and an £11½ million terminal planned for Immingham. £76 million was being invested at two of the BSCs major strip mills, at Newport, Monmouthshire, and Ravenscraig near Glasgow, and an ore-terminal was planned for Hunterston on the Clyde to serve the Scottish works.[2] These plans were eagerly promoted by Lord Melchett, the energetic and seemingly dynamic first Chairman of the Corporation.

They were held up, although with the best intentions, by the incoming Conservative Government of 1970. Having decided, despite the promise of possible repeal given by Sir Keith Joseph in the original nationalisation debate,[3] that the nationalisation process had gone too far to be reversed, the government was concerned to make the steel industry more rational and efficient and disturbed at its low productivity and capital investment. A joint committee of Government and Corporation was therefore set up to review the industry, the Joint Steering Group

1. See p.53.
2. BSC UK Press Gazette Briefing, March 1970.
3. Hansard, 25th July 1966, Col 1340.

referred to in the BSC's Evidence.[1] But it was not until 1973 that the Group's decisions were published as a White Paper,[2] outlining the Ten-Year Development Strategy which the BSC was now to follow. Under this the planned modernisation programme was expanded to one of £3,000 million, at 1972 prices,[3] which would take the BSC's annual steelmaking capacity from 27 million tonnes to 36-38 million tonnes by 1983. The plan involved the ending of steelmaking at Irlam, Workington, Hartlepool, East Moors, Ebbw Vale and Shotton, although finishing plants at the last two would be expanded. Major investment was planned to concentrate production on large plants of up to 5 million tonne capacity at Port Talbot, Llanwern, Scunthorpe, South Teesside (Lackenby and Redcar), and Ravenscraig, together with new developments at Hunterston in Scotland. At Teesside alone nearly £1,000 million was to be spent to provide an annual capacity of about 12 million tonnes. The planned complex there would form the largest and most modern steelworks in Europe. At Port Talbot and Llanwern the two big strip mills were to have an investment of about £900 million to raise joint output to some 10 million tonnes a year. There was to be a major expansion of electric arc steelmaking and special steels in the Sheffield/Rotherham area.[4]

The government agreed to write down the assets of the BSC and increase its borrowing powers so that it might go ahead quickly with this strategy.[5]

1. Evidence Para. 5.3.
2. Steel. British Steel Corporation: Ten Year Development Strategy. Command 5226 February 1973.
3. Ibid. Paras. 16, 37.
4. See BSC UK Press Gazette Briefings. November 1973. August 1975.
5. See p.160.

This expansion strategy was implemented with enthusiasm by Sir H M "Monty" Finniston, who became Chairman of the Corporation in September 1973, following the sudden death of Lord Melchett. A scientist and engineer, Sir Monty believed (and still believes), that investment in high technology was the way to solve the industry's problems.

And indeed the 1973 Strategy was excellent. Its only fault was that it was at least five years too late by international standards. The sort of developments it outlined were already well ahead in Europe and had been completed in Japan about ten years earlier.[1] The Ten-Year Strategy was only in its third year when the gravest depression since the 1930s hit the world's steel industry.[2] That might have been the time to slow down the expansion plan but instead it was reaffirmed with the addition of a new 10,000 tonnes a day blast furnace complex (to cost £400 million), at Teesside, major development at the Corby tube-making plant and a very high tonnage stainless steel plant at Sheffield. Neither the BSC management nor the government of the day would believe that the economic recession was anything more than a temporary event.

Yet it must be emphasised that in 1973, despite its poor performance to date, the BSC still had a chance to succeed, if the Ten-Year Strategy was implemented swiftly. This was not to be. The Labour Government, elected in 1974, had promised a review of the closure plans involved in that strategy, under which some 6,000 jobs were at stake. It was this Beswick Review which really sounded the death-knell of the BSC as a potentially profitable and efficient organisation. This

1. G C Allen Japan's Economic Expansion, London, 1965, p.157ff.
2. BSC UK Press Gazette Briefing August 1975.

Review was pure political interference, damaging to the industry and in the long-term no help to its workers. We might say that it was an election gimmick, especially as the majority of the areas threatened by closures were safe Labour seats, as indeed were those areas whose proper development was hindered by this Review.

Lord Beswick made an interim report to Parliament in February 1975 and his final report in August of that year.[1] His Review postponed the closures at East Moors and Hartlepool, and deferred a decision on Shotton. Some closures and some decisions on closures in Scotland were also deferred. The Review thus further delayed those manpower reductions so necessary to the industry, and put up the cost of the 1973 plan to an estimated £10,000 million (1979 figures). It angered the industry[2] who realised how it would affect their future performance and prospects. Open hearth steelmaking, which the Review prolonged, for example at Shotton, is a very costly way of producing steel.

The Beswick list of plants which were to be protected from closure for as long as possible added a severe and totally unnecessary burden to the BSC, particularly unfortunate in the late 1970s when steel markets declined and profits disappeared. Even though the last of the Beswick plants was closed before 1980 these closures were only achieved by means of generous redundancy and severance payments. Some workers received more than £20,000 in individual pay-offs. This was a price which the BSC could ill afford to pay.

1. Steel Closure Review. Report by Lord Beswick. Interim Report, 4 February 1975. Report 6 August 1975. Dept. of Industry.
2. See, e.g., the remarks of Sir Monty Finniston in the Evidence of the BSC to the Select Committee on Nationalised Industries 1976. HC 322:i p.7, HC 322:ii Para.68. Both Session 1975-76.

Thus it must be said that whatever blame for the present situation may be attributed to the BSC, the Beswick Review and its disastrous consequences lie at the door of the Labour Party. This is a classic example of the political interference, economically so damaging, to which nationalised industries are so open.

Let us now look at the performance of the BSC under various headings, comparing it, where possible and relevant, with that of the private sector and of foreign steel industries.

Crude Steel Production for 1967-74, i.e. up to the time of the Beswick Review and the 1975 recession. The following Table shows crude steel production of the UK, the original members of the EEC, Spain, USA and Japan and includes totals for Western Europe, the Western World and the whole world. 1967, the year of nationalisation, is taken as the base year, and against each subsequent year the growth in the production of steel as a percentage of 1967 is shown in the next column.

TABLE 27

WORLD CRUDE STEEL PRODUCTION 1967-1974

,000 Tonnes

	1967	1968	1968 growth % on 1967	1969	1969 growth % on 1967	1970	1970 growth % on 1967	1971	1971 growth % on 1967	1972	1972 growth % on 1967	1973	1973 growth % on 1967	1974	1974 growth % on 1967
United Kingdom (per IISI)	24,346	26,421	8.5	26,919	10.6	27,857	14.4	24,240	-0.4	25,391	4.3	26,722	9.8	22,504	-7.5
European Economic Community (the Six)	89,886	98,634	9.7	107,319	19.4	109,203	21.5	103,377	15.0	113,346	26.1	122,855	36.7	132,605	47.5
Belgium	9,712	11,568	19.1	12,832	32.1	12,607	29.8	12,445	28.1	14,532	49.6	15,522	59.8	16,227	67.1
France	19,658	20,403	3.8	22,510	14.5	23,774	20.9	22,843	16.2	24,054	22.4	25,270	28.5	27,003	37.4
Germany	36,744	41,159	12.0	45,316	23.3	45,041	22.6	40,313	9.7	43,705	18.9	49,521	34.8	53,233	44.9
Luxembourg	4,481	4,834	10.8	5,521	23.2	5,462	21.9	5,241	17.0	5,457	21.8	5,924	32.2	6,447	43.9
Holland	3,401	3,706	9.0	4,712	38.6	5,042	48.2	5,083	49.5	5,585	64.2	5,623	65.3	5,833	71.5
Italy	15,890	16,964	6.8	16,428	3.4	17,277	8.7	17,452	9.8	19,813	24.7	20,995	32.1	23,862	50.2
Spain	4,512	5,083	12.6	5,982	32.6	7,394	63.9	8,025	77.9	9,526	111.2	10,800	139.4	11,500	145.9
TOTAL Western Europe	131,989	144,859	9.8	156,603	18.7	161,521	22.4	152,439	15.5	166,124	25.9	179,365	35.9	186,743	41.5
U.S.A.	115,141	118,931	3.3	127,977	11.1	119,140	3.5	109,055	-5.3	120,750	4.9	136,462	18.5	132,018	14.7
Japan	62,154	66,893	7.6	82,166	32.2	93,322	50.1	88,557	42.5	96,900	55.9	119,322	92.0	117,143	88.5
WESTERN WORLD	346,154	371,375	7.3	408,942	18.1	419,458	21.2	396,278	14.5	434,073	25.4	490,574	41.7	494,292	42.8
WORLD	496,967	529,601	6.6	574,537	15.6	595,606	19.8	582,638	17.2	630,174	26.8	697,164	40.3	710,062	42.9
United Kingdom (per national stats)	24,279	26,277		26,846		28,316		24,174		25,321		26,649		22,424	
British Steel Corporation	22,128	23,951	8.2	24,368	10.1	25,648	15.9	21,822	-1.4	22,865	3.3	23,949	8.2	19,301	-12.8*
Private Sector	2,153	2,326	8.0	2,478	15.1	2,669	24.0	2,351	9.2	2,455	14.0	2,700	25.4	3,123	45.0

* After allowance is made for transfer of one works from public to private sector in 1974 the following growth rates on 1967 apply:
BSC = -11.0 Private Sector = +26.0

Source: Data published by the International Iron and Steel Institute (IISI). Issued by BISPA February 1975

This Table shows that by the end of 1970 growth in UK steel production was falling well behind that of the rest of Western Europe and the rest of the world, except the USA. UK growth on 1967 was 14.4 per cent, that of the EEC 21.5 per cent, Spain 63.9 per cent, Japan 50.1 per cent. In 1971 less steel was made in the UK than in 1967. Britain and the USA were the only two countries to show a minus growth rate, although most countries showed a slower rate than in 1970. In 1972 the steel market recovered but the UKs production was still only 4.3 per cent above that of 1967, while that of the EEC was 26.1 per cent, Spain well over 100 per cent, Western Europe 25.9 per cent. This pattern continued in 1973. 1974 was a disastrous year for Britain, production being 7.5 per cent less than in 1967 and the lowest for 12 years. One reason for this was the coal strike of that year, but the main cause was the poor iron production and the consequent strains on scrap supply. Thus again in 1974 less steel was produced in Britain than in 1967. Whereas in 1967 the UK was the fourth largest steel producer in the world, by 1974 it was the seventh, having been overtaken by France, Italy and China.

Table 27 also shows UK steel production in the public and private sectors during this period. This shows that in every year except 1968 the production performance of the private sector was better than that of the BSC. By 1973 private sector production showed a 25 per cent increase over 1967 compared with only an 8 per cent increase by the BSC. Even in 1974 private sector output showed an increase of 1 per cent compared with the BSCs 18 per cent drop in production.[1] It is only fair to point out though that private sector steel production was in a more advantageous position because of its minimal reliance on blast furnace pig iron.

1. This is after allowance has been made for the transfer of one works from the public to the private sector.

Thus while in the seven years before nationalisation the steel companies improved steel production by an average of 7.7 per cent per year, in the seven years following nationalisation the comparable increase is only 5.7 per cent per year, very much lower than the increases in other countries.

While part of this poor productivity, compared with that of the EEC and other developed countries, was due to the country's general economic difficulties and slow rate of growth during the period, these were undoubtedly exacerbated by the delays and interferences caused by the nationalisation of the industry. The much better performance of the private sector, even in these difficult years, stands as evidence of this.

It is difficult to make exact comparisons between public and private sectors after 1974 because in 1970 the BSC changed its accounting system so that its figures after that date run from April to April. We do have the annual figures for all steel production though, and the BSCs own figures.

TABLE 28

UK CRUDE STEEL PRODUCTION, 1975-80

Thousand tonnes

1975	20,098
1976	22,274
1977	20,411
1978	20,311
1979	21,464
1980	11,277

Source: United Kingdom Iron and Steel Statistics.

TABLE 29

BSC CRUDE STEEL PRODUCTION 1974-80

Thousand tonnes

1974-75	20,042
1975-76	16,566
1976-77	18,986
1977-78	16,688
1978-79	16,673
1979-80	13,594

Source: BSC Annual Reports and Accounts.

It is interesting to compare these figures with the productivity figures for 1964-65 (or 1963-64) for finished steel produced by the companies absorbed by the BSC. These were 24,968,000 tonnes (24,575,000 tons).[1] Or we can compare them with the figures for crude steel produced in 1965 by the works primarily concerned with common steel-making, which were 27,421,000 tonnes (27,006,000 tons),[2] or indeed with the general figures for crude steel production from 1950-65.[3] Of course it has been necessary to reduce production in recent years in line with falling demand, as we shall later discuss.[4]

1. See Table 25 p.47.
2. Benson Report, Appendix 1, pp.94-95.
3. See Table 4 p.14.
4. See e.g. Table 33 p.70.

Imports and Exports

From 1967, the year of nationalisation, the gap between exports and imports lessened. Although exports went up from that year, so did imports.

Nineteen seventy four, a peculiarly difficult year for industry, as we have already noticed, produced, probably for the first time in the history of the British steel industry, an excess of steel imports over exports, imports rising by 46 per cent and exports falling by 8 per cent. But even without the exceptional conditions of 1974 a downward trend in the surplus of exports over imports is clearly visible by comparing the seven years before nationalisation with the seven years afterwards. Tables 30 and 31 illustrate this.

Table 31 shows that in the years 1961-67 the total excess of exports over imports was 15,965,000 tonnes, value £967,009,000. For 1968-74, i.e. the seven years after nationalisation, the excess was 9,462,000 tonnes, value £586,668,000. The figures from 1974 are also depressing.

TABLE 30

IMPORTS AND EXPORTS
IRON AND STEEL PRODUCTS
1961-1980

UK

Year	IMPORTS			EXPORTS		
	Quantity 000 tonnes	Value cif £000's	Average value per tonne £	Quantity 000 tonnes	Value fob £000's	Average value per tonne £
1961	705	49,016	69.5	3,496	215,155	61.5
1962	1,102	53,632	48.6	3,445	204,941	59.4
1963	1,629	74,963	46.1	3,606	207,662	57.6
1964	2,197	105,939	48.2	3,917	220,094	56.2
1965	1,219	77,956	64.0	4,189	238,498	57.0
1966	1,581	87,678	55.4	3,776	218,236	57.8
1967	2,194	120,074	54.7	4,163	231,681	55.7
1968	2,689	154,875	57.6	4,562	267,880	58.8
1969	2,788	174,220	62.5	4,191	286,778	68.4
1970	2,713	222,437	82.0	4,366	350,808	80.3
1971	2,491	206,488	82.9	5,137	406,423	79.1
1972	3,193	252,124	79.0	4,766	379,387	79.6
1973	3,283	373,304	113.7	4,410	437,041	99.1
1974	4,363	717,532	164.5	3,550	559,331	157.6
1975	4,206	823,635	195.8	3,392	690,993	203.7
1976	4,760	967,558	203.3	3,895	834,052	214.1
1977	4,277	1,023,607	-	4,575	1,021,806	-
1978	4,224	1,056,822	-	4,555	1,099,983	-
1979	4,383	1,215,381	-	4,714	1,269,380	-
1980	5,118	1,447,536	-	2,910	971,779	-

Source: UK Iron and Steel Statistics; HM Customs and Excise

TABLE 31

EXCESS OF EXPORTS OVER IMPORTS 1961-80

UK

Year	Quantity 000 tonnes	Value c.i.f. £000s
1961	2,791	166,139
1962	2,343	151,309
1963	1,977	132,699
1964	1,720	114,155
1965	2,970	160,542
1966	2,195	130,558
1967	1,969	111,607
1968	1,873	113,005
1969	1,403	112,558
1970	1,653	128,371
1971	2,646	199,935
1972	1,573	127,263
1973	1,127	63,737
1974	-813	-158,201
1975	-814	-132,642
1976	-865	-133,506
1977	298	1,801
1978	331	43,161
1979	331	53,999
1980	-2,208	-475,757

Source: UK Iron and Steel Statistics

One of the reasons for this growth in imports was the inability of the BSC to supply home markets adequately. This is acknowledged by the BSC in their Evidence to the Select Committee on Nationalised Industries, 7 April 1976, (Paragraphs 4.1-4.6). It is explained there that in the period of high demand for steel from 1968-70, the Corporation deliberately reduced exports to meet the needs of home users; at the same time it imported ingots and semi-finished steel in order to raise the output of finished products so as to meet home demand.

Demand for steel fell in 1971, recovered late in 1972 and reached record levels in the UK in 1973-74. During this period the BSC was unable to supply all its home market requirements, despite restricting its exports. The main reasons for this, according to the Corporation, were "insufficiency of raw materials, localised shortages of skilled manpower, industrial disputes and the impact of the energy situation: the coal industry dispute, culminating in the 3-day week early in 1974, resulted in a loss of 1.75 million tonnes of steel output in the year." (Evidence:1976, Paragraph 4.4). But the Secretary of State for Trade and Industry had already been asked by consumers in 1973 to investigate the supply position with the steel industry, which was thus causing concern before the miners' strike.

The BSC admitted that even in the recession year of 1975, when the demand for steel was the lowest since the 1930s, it was unable in many instances to produce enough steel to meet required delivery times or to make steel of the right quality. "This reflects the lack of modern plant, owing partly to delays in the investment programme, and a continuing series of labour difficulties throughout 1975." (Evidence: Para. 4.5). The latter were particularly bad at this time. There were 368 strikes in the steel industry in 1975-76, all but two of which were unofficial. One million tonnes of iron production were lost at Llanwern where a new blast furnace was completed in March 1975, but not blown in until 16 February 1976, owing to a dispute between the BSC and the National Union of Blastfurnacemen over the rates of pay for operating the furnace.

The BSC acknowledged that the failure in quality was not to be blamed simply on the lack of modern plant. "...it has also arisen where appropriate plant is available." (Evidence: Para 4.5).

Market Share

The Corporation lamented its loss of the market, especially to imports, commenting that the import share of the British market had risen to an estimated 18 per cent of home demand in 1975-76, compared to under 10 per cent at the time of nationalisation, and about 5 per cent in 1969 and 1970. It was admitted that the BSC had also lost ground in profitable export markets, "partly due to giving priority to meeting home demand, and partly because it has come to be regarded as an unreliable supplier of certain products." (Evidence: Paras 6.5, 6.6).

This was in 1976. Yet matters were very little better by 1978 when the Corporation presented Prospects for Steel[1] to both Houses of Parliament. The BSC's share of the UK market had continued to decline, falling to 55 per cent in 1976/77. By that time imports had nearly 20 per cent of the market and the private sector a little over 25 per cent.[2] This last figure is remarkable when one considers the relative capacity of the two sectors.

It is noticeable how the private sector has built up its share of the market. This is especially true in the field of alloy blooms, billets and slabs. Of more concern to British industry is the fact that too great a proportion of the market has gone to imported products.

Table 32 illustrates these changes in market shares, while Table 33 shows how they have looked since 1975.

1. Prospects for Steel. BSC 1978, reproduced in Steel News Special Issue.
2. Ibid. p.3.

TABLE 32

UK DELIVERIES OF FINISHED STEEL TO CONSUMING INDUSTRIES AND MERCHANTS 1967-77

Thousand tonnes

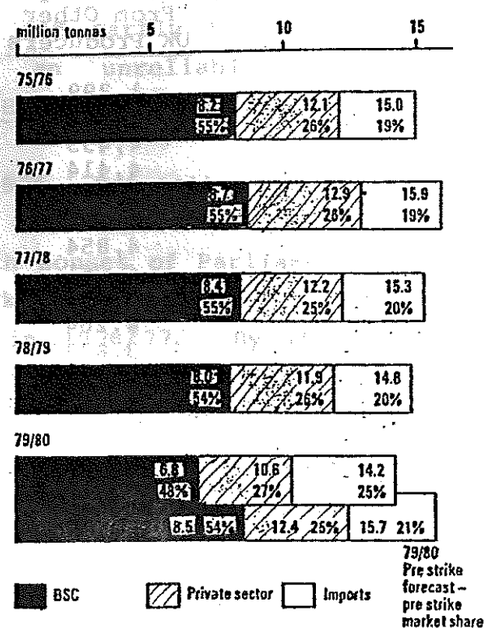
	From BSC	From Other UK Producers	From Imports
1967/68	13,612	1,299	1,512
1968/69	15,918	960	1,152
1969/70	12,709	4,455	917
1970/71	12,924	4,414	1,069
1971	10,735	3,963	1,414
1972	10,662	4,054	2,143
1973	12,439	4,854	2,507
1974	10,768	4,761	3,331
1975	8,557	3,993	3,283
1976	8,782	4,204	3,378
1977	8,301	3,823	3,095

Source: BSC Annual Reports and Accounts
BSC Annual Statistics
UK Iron and Steel Statistics.

TABLE 33

MARKET SHARE 1975-80

Supplies of Finished Steel to UK Consumers and Stockholders



Source: BSC Annual Report and Accounts 1979-80 p.11

While, as Table 33 shows, the private sector accounts for about 25 per cent of the UK deliveries of finished steel, these represent about a third of total steel industry sales by value, because of the concentration of the private sector on the production of so-called "special steels", and finished products with a higher added value. The products in which the BSC and the private sector are in competition include billets for drop forging, re-rolling, a range of hot rolled products covering rebars, wire rods, plates and hot rolled narrow strip, alloy bright bar, non-alloy forgings, tubes and

pipes, cold rolled narrow strip, and sections. In the rebars market the BSC has 40-50 per cent and the private sector 50 per cent, for wire rod and coiled bars the BSC has 50 per cent and the private sector 40-50 per cent. The BSC has 80 per cent of the plates market, the private sector 20 per cent; in narrow strip the private sector has 60 per cent and the BSC 40 per cent. The market for bright bars is 90 per cent private sector, 10 per cent BSC.[1]

The private companies in the steel industry were among the customers affected by the BSCs shortcomings as a supplier. BISPA pointed this out in its own Evidence to the Select Committe on Nationalised Industries.[2] This meant that the import/export performance and ratios of the private companies were similar to those of the BSC, because the private sector's ability to export was curtailed if its raw material was in short supply. This applied especially to the re-rollers in the private sector who were reliant on the Corporation for a large proportion of their semi-finished materials. During the boom conditions of 1973-74, when both domestic and export markets offered excellent opportunities, some re-rollers were operating at less than 70 per cent of their capacity, or even on 3-day working, for lack of raw material.[3] The private sector also lost some of its export market by having to make up for the deficiencies of the BSC in the home market.

1. Peter Hill, The 'Other' British Steel. Article in Steel News, January 19, 1981.
2. HC 322: v. June 1976. Session 1975-76.
3. R. Scholey, Chief Executive of BSC, admitted in Evidence to the Select Committee on Nationalised Industries that BSC had missed the 1974 boom. HC 52:i December 1976, Para. 499. Session 1976-77.

The inability of the BSC to meet the supply requirements of the private sector meant that that sector had to find alternative sources of supply, especially for hot rolled coil and billets, and thus increase imports. The BSC admitted its shortcomings, not only in its own Evidence, as we have noted,[1] but also by conceding BISPAs case for the temporary relaxation of import duties on ingots, billets, blooms and slabs, and coils for rerolling. Shortages eased in 1971 but occurred again as steel demand rose towards the end of 1973. Although demand eased again in 1974, there were still shortages of billet, wire rod and hot rolled bar as late as the Autumn of 1974; "...and in the view of BISPA, supply problems of that year stemmed quite as much from the failure of BSC to produce sufficient iron for steelmaking as from the temporary interruptions caused by the Government-imposed three day week." (BISPA Evidence: 1976 Para 4.3.3). By the time that supply had caught up with demand we were in the recession of 1975.

There were also problems of quality, where the BSC was unable to achieve the quality achieved, for example, by European and Japanese producers, especially in wire rod and strip mill products. BISPA pointed out that except where import substitution was possible, this had resulted in erosion of the steel processors' competitive position against her overseas competitors. In other words, the private sector had to import so that it could export because of the shortcomings of the public sector.[2]

1. See p. 67ff.
2. See BISPA Evidence. Para. 4.3. BSC Steel Supply to the Independents, and Appendix 6, Supply of Steel by BSC 1971-75, HC.322 v: June 1976. See also GKNs Evidence to the Select Committee on Nationalised Industries, HC 322:iv, May 1976, Paras. 5.3, 5.9. Both Session 1975-76.

Capacity Utilisation — Mini-Mills

This unreliability of the Corporation as a supplier has caused the private steel sector to make larger investments in steelmaking than they might otherwise have done. The 14 companies nationalised in 1967 produced over 90 per cent of the UKs crude steel. By 1975 the BSC was producing only 85 per cent, and the private sector 15 per cent.[1] The private sector is now responsible for some 17 per cent of total UK steel output[2], and for about 90 per cent of the capacity for the production of high speed, tool and magnet steels. The production capacity of the private sector has risen from 2.5 million tonnes at nationalisation to 3.5 million tonnes in 1974, to 5 million tonnes in 1980, although only about half of this is being used in the present slump conditions of the industry.

The private steel sector would in any case have gone ahead in special steel production, which was there to fulfil certain quality needs, and where the BSC was never really seen as an alternative source of supply. But other private steelmaking facilities operated by the independent companies existed largely as a support operation for re-rolling, and if the BSC had been a reliable supplier it is unlikely that the private companies would have developed these facilities as much as they have. While the BSC has improved both as a supplier and in the quality of its supplies in the last three years, the private sector had meanwhile taken measures to ensure that it is no longer at the mercy of the BSC.

1. Although some of this may be accounted for by the return of GKNs Brymbo steelworks to the private sector in 1973.
2. Much of this information is contained in an article on the private steel sector by Peter Hill in Steel News, 19 January 1981.

These measures are the so-called mini-mills, scrap intensive electric arc furnaces, which are linked to continuous casting facilities to produce a growing range of steels, formerly produced mainly by "bulk" processes, at relatively low cost.

The pioneer of the mini-mills was the Sheerness Steel Company, which now has a crude steel capacity of 450,000 tonnes and is a useful exporter of steel. Other important mini-mills include GKNs 400,000 tonne works at Tremorfa, Cardiff,[1] and that of Lloyd Coopers at Dudley (70,000 tonnes a year), which both produce billets. The works of the Greek owned Alphasteel at Newport, Gwent, has a capacity of 700,000-1 million tonnes and produces sheet and plate in coil as finished products. BRCs works at Birkenhead concentrates on rebars and wire-rod and has a capacity of 160,000 tonnes, while the Norwegian owned Manchester Steel has a capacity of 120,000 tonnes and concentrates on wire rod.

BISPA had referred to the development of the mini-mills in their Evidence to the Select Committee on Nationalised Industries and expanded on this in their Supplementary Written Evidence,[2] giving details of the comparative productivity of these plants. A relevant extract from this Supplementary Evidence is appended here.

1. This is now to become part of the new Phoenix I project, a joint venture in special steelmaking between the BSC and GKN, whose formation was announced on 21 February 1981.
2. BISPA Supplementary Written Evidence to the Select Committee on Nationalised Industries, 1976. This was not published as a Parliamentary Paper, but was issued by BISPA.

TABLE 34

"4. COMPARATIVE PRODUCTIVITY OF 'MINI' AND INTEGRATED IRON-BASED STEELMAKING

One of the Sub-Committee's major interests was in the comparison of small and medium scale steelmaking and bulk steelmaking in BOS plants, i.e. with comparative data for alternative routes to the same steel product. BISPAs written evidence pointed out that the so-called mini-mill was an advance in modern technology and had found a place beside the bulk steel processes justified by the economics and flexibility of its operations. It could be added that as many as 50 such mills exist in the USA, and 15 or so in Japan, and there are many more in Europe. Comparative published statistics are not widely available, but some information has been provided by BISPA members as follows:

CASE 1

UK "mini-mill" - built 1972 making 500,000 tonnes crude steel end products reinforcing bars, other bars and rods.

Capital Cost	Cost per tonne
Capital cost per tonne 1976 values	£85

Productivity	Annual Output per Employee
Steelmaking and re-rolling	580 tonnes

CASE 2

UK "mini-mill" built 1974/76 making 400,000 tonnes crude steel. Similar end products to above.

Capital Cost	Cost per tonne
Steelmaking only at 1976 values	£60

Productivity	Annual Output per Employee
Steelmaking only	1000 tonnes

CASE 3

US mini-mill constructed 1974/6 with capacity of 240,000 tonnes producing bars and sections (with scrap preparation-fragmentiser plant).

Capital Cost	Cost per tonne
Steelmaking and re-rolling at 1976 values	$180

Productivity	Annual Output per Employee
Steelmaking and re-rolling	750 tonnes

The capital costs quoted above compare with written-down costs for integrated steel works (i.e. including blast furnaces) which are unlikely ever to be less than £160 per tonne, and replacement costs which will be in the region of £400-£600 per tonne."

Source: BISPA.

Thus it can be seen that these smaller scale works can have real advantages in labour productivity. In addition their low capital costs and operating flexibility allow them to pay their way at relatively lower output levels than the large integrated works. This is a major consideration and may suggest that there is scope for more development of these mini-plants, for the large integrated works cannot achieve even a reasonable rate of profitability without a very high rate of capacity utilisation which is rarely achieved in the strongly cyclical world steel market.

The BSC has never developed mini-mills as such,[1] although it has electric arc furnaces as part of a larger works, though these comprise only some 20 per cent of the Corporation's steelmaking capacity. Table 35 shows the much higher proportion of these plants in the private sector.

1. The Corporation now has its first mini-mill, one of its Sheffield works, where they have closed down other parts so that what is left is in effect a mini-mill, and the Corporation is calling it one.

TABLE 35

ELECTRIC ARC FURNACES AT STEELWORKS

UK

Plants in existance at end of 1980

Region and Works	Location	Furnace Capacity per Heat (tonnes) Under 10	10 to 19	20 to 39	40 to 99	100 and over	TOTAL
NORTH							
British Steel Corporation							
Barrow	Barrow	-	-	1	-	-	1
YORKSHIRE AND HUMBERSIDE							
Aurora Steels Ltd	Bradford	4	-	-	-	-	4
British Steel Corporation							
Aldwarke	Rotherham	-	-	-	-	4	4
River Don	Sheffield	1	-	-	1	3	5
Shepcote Lane	Sheffield	-	-	-	-	1	1
Stocksbridge	Sheffield	-	1	-	1	3	5
Templeborough	Rotherham	-	-	-	-	4	4
Tinsley Park	Sheffield	-	-	-	-	2	2
C.G.Carlisle & Co Ltd	Sheffield	2	-	-	-	-	2
Hadfields Ltd	Sheffield	-	-	1	2	1	4
Johnson & Firth Brown Ltd	Sheffield	-	1	1	2	-	4
Neepsend Ltd							
Jonas & Colver (Novo) Ltd	Sheffield	1	-	-	-	-	1
Frank Pickering & Co Ltd	Sheffield	1	-	-	-	-	1
Sanderson Kayser Ltd	Sheffield	-	2	-	-	-	2
Spear & Jackson (Industrial)	Sheffield	1	-	-	-	-	1
Unbrako Steel Co Ltd	Sheffield	-	-	1	-	-	1
TOTAL		10	4	3	6	15	38

TABLE 35 (Contd.)

Region and Works	Location	Furnace Capacity per Heat (tonnes) Under 10	10 to 19	20 to 39	40 to 99	100 and over	TOTAL
WEST MIDLANDS							
F.H.Lloyd (Holdings)							
F.H.Lloyd (Wednesbury)	Wednesbury	-	-	2	-	-	2
Lloyd Cooper	Dudley	-	-	1	-	-	1
Round Oak Steel Works Ltd	Dudley	-	-	-	2	2	4
Wiggins Steel & Alloys	Birmingham	-	1	-	-	-	1
TOTAL		-	1	3	2	2	8
SOUTH EAST							
Sheerness Steel Co Ltd	Sheerness	-	-	-	-	2	2
NORTH WEST							
Aurora Steels Ltd	Manchester	2	-	-	-	-	2
Manchester Steels Ltd							
Bidston	Birkenhead	-	-	-	1	-	1
Manchester	Manchester	-	-	-	1	-	1
TOTAL		2	-	-	2	-	4

TABLE 35 (Contd.)

Region and Works	Location	Furnace Capacity per Heat (tonnes) Under 10	10 to 19	20 to 39	40 to 99	100 and over	TOTAL
WALES							
Alphasteel Ltd	Newport	-	-	-	-	4	4
British Steel Corporation							
Panteg	Pontypool	-	-	-	1	-	1
Duport Steels	Llanelli	-	-	-	-	2	2
GKN Rolled & Bright Steel Ltd							
Brymbo Steel Works Ltd	Wrexham	-	-	-	4	-	4
GKN (South Wales) Ltd	Cardiff	-	-	-	2	-	2
TOTAL		-	-	-	7	6	13
SCOTLAND							
British Steel Corporation							
Clydesdale	Motherwell	-	-	-	2	-	2
Craigneuk	Motherwell	1	-	1	-	-	2
TOTAL		1	-	1	2	-	4
GRAND TOTAL 1980		13	5	8	19	25	70
1979		14	6	11	21	24	76

Source: UK Iron and Steel Statistics

The mini-mill concept was much disliked by Sir Monty Finniston, as he explained in his own Evidence to the Select Committee on Nationalised Industries in 1976. He saw few advantages in the mills and thought that they were too restricted in what they could produce to be more than a minority concern.[1] He explained that the BSC had not entered the mini-mill market because the Corporation believed that the BOS plants offered similar economies of scale to the mini-mills while being more suitable for large-scale production and having much cheaper conversion costs.[2] His proud forecast was that "We shall not build mini-mills but we shall achieve the best possible capacity from the BOS vessel to override the product that the mini-mills do at present through the use of scrap."[3] He reiterated his conviction that the BOS was always the most economic way of making steel.[4] He saw the mini-mills as an irritant rather than a progressive technological advance.[5] He thought that they had arisen because of the current low price of scrap and had taken scrap which could have been better used elsewhere. He thought that they were putting too much electric arc steelmaking into the system.[6] Was this an unprejudiced statement or was it dictated by fear of the mini-mills becoming competitors, as indeed they have, to the BSC in various areas of steelmaking?

Although Sir Monty did admit that one of the reasons for the private sector mini-mill development was the much better manning agreements which the private sector had with the unions.[7]

1. BSC Evidence to the Select Committee on Nationalised Industries, Examination of Witnesses. HC 322:i. Para. 59. 1976. Session 1975-76.
2. Ibid.
3. BSC Evidence to Select Committee on Nationalised Industries, Examination of Witnesses. HC 322: ii. Para. 105. 1976. Session 1975-76.
4. Ibid. Para.114.
5. Ibid. Para.113.
6. Ibid. Para. 104.
7. HC 322:i. Para. 59.

As we have seen, BISPA, in their evidence, defended the competitiveness and versatility of the mini-mills,[1] and, at the request of the Committee, produced the figures seen in Table 34.

In its further Evidence the BSC reiterated its view that there was little case for mini-mills in the UK, where there were no transport cost advantages to offset the high cost of this kind of steelmaking, as there were, for example, in the USA, and no access to a plentiful supply of scrap, as there was in Spain and Italy, all countries where many mini-mills had developed.[2] The BSC insisted that the mini-mills had only developed to six per cent of the crude steel capacity here, as compared, for example, with 2-3 per cent in France and West Germany, and none in Belgium and Luxembourg, because of the control of scrap prices at artificially low levels which had only now (1976), been abandoned.[3]

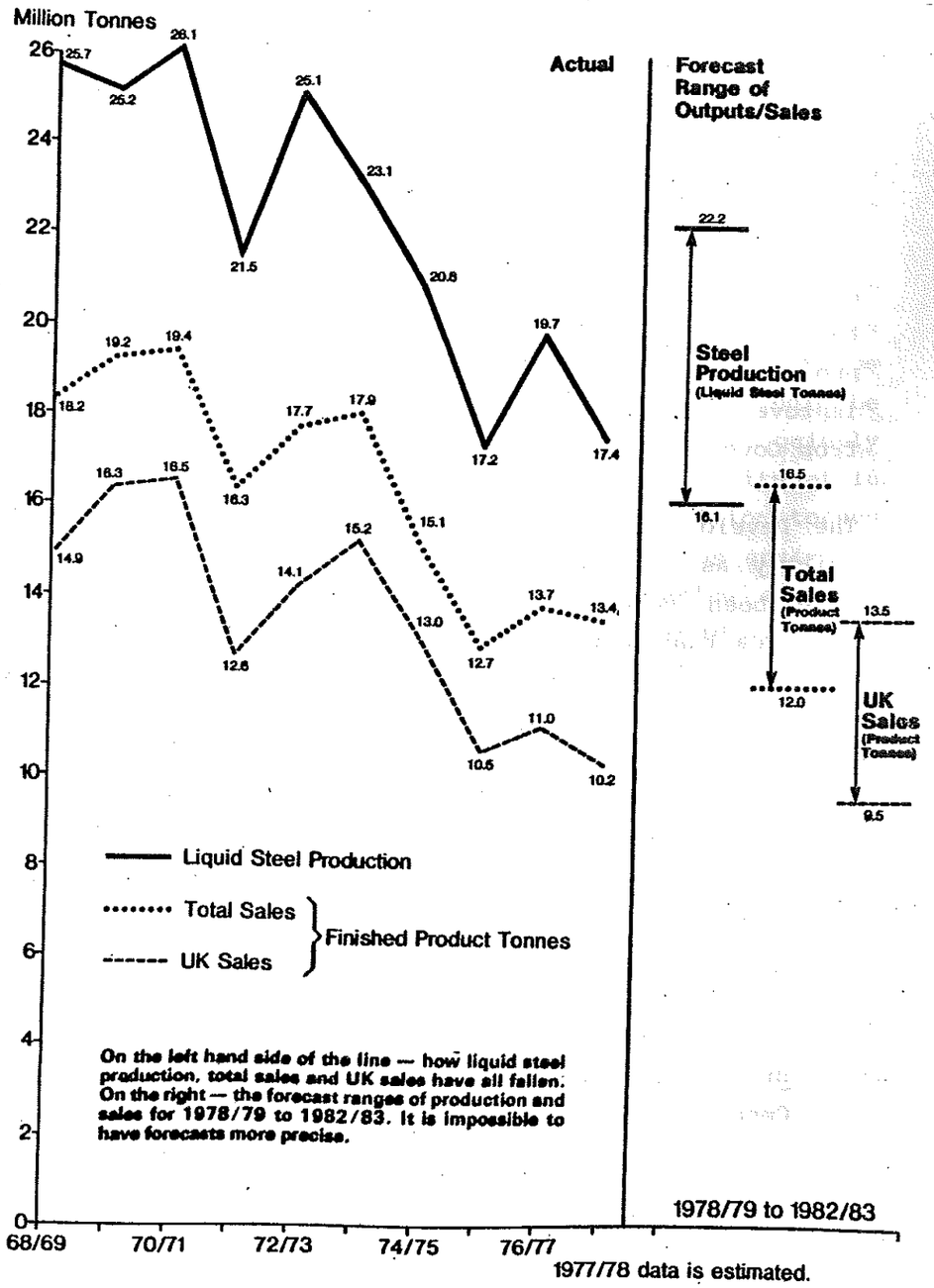
Against the BSCs arguments stand the mini-mills' years of profitability and the private sector's continuing investment in them.[4] Obviously they have been affected, like all parts of the British steel industry, by recession, high energy prices etc., but seem to be weathering the storm at least as well as the larger plant. They have certainly enabled the private sector to face recession from a far more profitable base than the BSC, while their inclusion in the new joint-ventures planned between the BSC and the private sector (the Phoenixes), suggests that they are seen to have considerable future viability.

1. BISPA Evidence to Select Committee on Nationalised Industries. Examination of Witnesses. HC 322:v. Paras. 268, 302-303.1976 Session 1975-76.
2. BSC Evidence to the Select Committee on Nationalised Industries. HC 322:vii Para.1.17.1976. Session 1975-76.
3. Ibid.
4. The first new mini-steelworks for some years, commissioned by F.H. Lloyd, started operating in September 1980.

The under-use of capacity has always been a major problem for the BSC. It has constantly worked at under-capacity yet even so, supply has always exceeded demand, as the following graph shows.

TABLE 36

LIQUID STEEL PRODUCTION AND PRODUCT SALES 1968/9-1982/3: BSC



Source: Prospects for Steel 1978.BSC

In 1977/78 the BSC used 76 per cent of its manned steelmaking capacity, in 1978/79 84 per cent , and in 1979/80 91 per cent. Its utilisation of its furnace capacity in blast for ironmaking for the same years was 75 per cent, 77 per cent, 79 per cent.[1] Yet in its Evidence of 1976[2] the Corporation said that it needed to operate at 95 per cent of its capacity before it could even begin to make profits. This was because of the high fixed costs of the industry, the high rate of cost inflation and the fall in steel price levels. (Evidence: Para 6.3).

The only apparent way to improve this cost structure, so unsuitable to an industry whose cyclical nature made this consistently high usage of capacity very difficult, was to press ahead in implementing the major investment projects proposed in the Development Strategy[3] and to improve productivity. These things, with cooperation from Government and Unions, the BSC hoped to do.[4]

The Development Strategy has gone ahead, though not so quickly as it should have done, but other improvements have been severely held up by delay in the planned closures that went with the strategy, as a result of the Beswick Review, and by persistent overmanning in the industry, so that under-utilisation of capacity has been persistent. Meanwhile, Britain's problems have been exacerbated by the serious growth in the world over-capacity for steelmaking,[5] produced by a mixture of recession in the steel industry, general industrial

1. BSC Annual Statistics.
2. HC. 322: i 1976 Session 1975-76.
3. Steel. British Steel Corporation: Ten Year Development Strategy. Cmnd.5226, 1973.
4. See BSC's Evidence. HC.322:i. 1976, Para. 6.3.
5. British Steel Corporation: The Road to Viability. Cmnd.7149, Paras. 1,2,10 and Annex A, p.10. 1978.

recession, and the rise in steelmaking in the developing countries.[1]

The situation of the BSC was so grave by 1978 that the new Chairman of the BSC, Sir Charles Villiers, wrote a new prospectus for the future of the industry and the possibility of its return to viability. This was called Prospects for Steel.[2] Its reduced aspirations were backed by another White Paper, British Steel Corporation: The Road to Viability.[3] In this the government formally acknowledged that the Corporation "will need a substantial capital reconstruction"[4], and began a series of legislative moves to increase its borrowing powers,[5] which has continued as the plight of the BSC has become ever worse.[6] It was agreed in this White Paper that the Development Strategy proposed in 1973 would have to be considerably modified or far too much capacity would be available. The 1973 expansion was thus quietly abandoned. The BSC was now thinking of a capacity of 16 million tonnes per annum at worst and 22 million tonnes at best,[7] rather than the 36-38 million tonnes envisaged by the 1973 White Paper.[8] The new steelmaking capacity which had been planned was not now to be provided. This meant an abandonment of the proposed doubling of capacity

1. For an interesting analysis of these problems see: International Iron and Steel Institute Causes of the Mid-1970s Recession in Steel Demand produced by the Committee on Economic Studies, Brussels, April 1980.
2. BSC 1978.
3. Command 7149, 1978.
4. Ibid. Para. 29.
5. Ibid.
6. See pp.161-162.
7. Prospects for Steel.
8. Ten Year Development Strategy. Cmnd. 5226 Para 19(b), 1973.

at Port Talbot, of the planned electric arc plants at Shelton, Hunterston and Ravenscraig,[1] and of the major items of mill expansion, such as the Port Talbot rolling mill development and the proposed Teesside plate mill.[2]

Investment to improve product quality was to continue and schemes already in progress to be completed.[3] The largest of these was the £400 million Redcar blast furnace and associated plant, which came into production at the end of 1979. Meanwhile, closures at the 'high cost' plants, especially the Beswick Review plants, were to be speeded up.[4]

The BSC has tried to implement these recommendations, in an increasingly unfavourable climate. Since 1976 steelmaking has ceased at ten plants and has been greatly reduced elsewhere. More than six million tonnes of steelmaking capacity has been removed from the BSC system. Among the bigger works to suffer total or partial closure in the last four years have been Ebbw Vale, Shotton, Consett and Corby. In December 1979 the Corporation's manned capacity was 21½ million tonnes per annum. In July 1980 it was working on reducing this as quickly as possible to 15 million tonnes.[5] The McGregor plan intends to reduce it to 14.4 million tonnes.

Unfortunately for the BSC markets have continued to deteriorate since 1978, so that the implementation of the 1978 Strategy has not been accompanied by any alleviation, but rather by a worsening of the Corporation's financial situation.

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1. The Road to Viability. Comnd. 7149. Para.12(iii). 1978.
2. Ibid. Para. 25.
3. Ibid. Para. 23
4. Ibid. Para. 14.
5. See BSC Annual Report and Accounts 1979-80 Chairman's Review. p.3.

One can only lament that the BSC's increased capacity came too late for the Corporation to benefit from the boom years of the steel industry, and hope that the slimming-down of the excess has not been left too late. The long-delayed closures are now happening at a time of general national recession and unemployment. If they had occurred as planned within the original Development Strategy, industry, workers and the national economy would have suffered less.

Industrial Production, Recession and the BSC

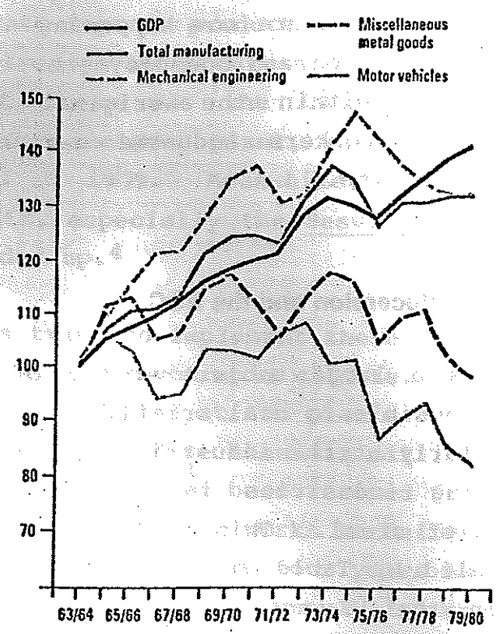
Although this is a large subject worthy of a separate study it seems sensible to deal briefly with it here, and to look particularly at the industrial performance of the major steel-using industries in the years since the nationalisation of steel. This sheds some light on the situation revealed by Table 36 and helps to explain why steel sales in the UK are so much lower than steel production.

"The problems of the BSC are the problems of its customers" has become a favourite saying in the industry. The following diagram illustrates the movement of GDP since 1963 compared with that of the major steel-using industries.

TABLE 37

GDP AND THE MAIN STEEL-USING INDUSTRIES
1963-80

1963/64 =100



Source: BSC Annual Report and Accounts 1979-1980. p.11

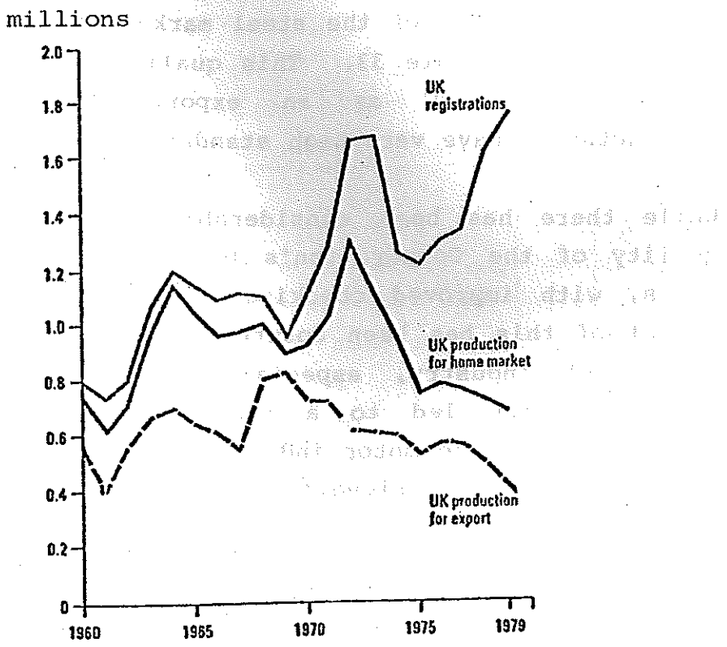
Table 37 shows that while the UK economy as a whole has remained fairly buoyant the level of activity in the steel-using industries has generally declined. This decline has been very sharp since the mid-1970s. "Had UK steel-making industries maintained their 1975 competitive position at home and abroad, about another 2 million tonnes of steel would have been consumed in the UK last year."[1] The decline has accelerated in recent months, some 30,000 jobs having been lost in the major steel-using industries in the last three months. (January-March 1981).

1. BSC Annual Report and Accounts 1979-80 p.11.

One of the main reasons for this decline has been import penetration of manufactured goods, which has been particularly marked in major steel-using industries, especially the motor industry, as the following diagram shows.

TABLE 38

UK CAR REGISTRATION AND PRODUCTION
1960-79



Source: BSC Annual Report and Accounts 1979-80 p.11.

This of course reflects the poor quality of British cars and other manufactured goods and the superiority of the imported products. Perhaps it is no mere coincidence that the main British motor manufacturer and a heavy consumer of BSC products[1] is British Leyland, itself a nationalised industry and one whose poor performance over the years rivals that of British Steel.

There is also the situation of poor steel going to make poor cars, for until recently motor manufacturers had problems with the quality of the steel provided by the Corporation, especially for the skin-panels, the major panel in car manufacture. They therefore turned to imported steel, and hence we have the second problem, of import penetration of the steel market itself, which was illustrated in Table 33. This quality problem has also affected the BSC as an exporter, foreign motor manufacturers have very high standards for steel.

While there has been considerable improvement in the quality of the Corporation's products in the last two years, with improved checking at the mills, the good effect of this has been counteracted by the disputes in the steel industry, especially the major strike of 1979-80, which led to a further increase of import penetration in the motor industry, which the BSC has not yet been able to retrieve.[2]

So while the BSC has obviously suffered from the recession in its major receiving industries, its own deficiencies have made that suffering even greater than it need have been.

1. The BSC stands third (after Lucas and GKN) in the list of British Leyland's top ten suppliers for 1979. The Economist, 8 November 1980.
2. I am indebted to the Economists' Department of the Society of Motor Manufacturers and Traders for this information about the motor industry.

Other traditional steel-using industries, such as shipbuilding, are also in decline,[1] and while that decline is world-wide, it has again been exacerbated in the UK by the nationalisation of the industry.

The following Tables show the net home deliveries of finished steel for 1967-80, from all UK steelmakers. The falling figures for the motor and shipbuilding industries are noticeable. The fall in other sectors since 1975, such as machine tools, industrial plant, and agricultural machinery, illustrates the UK's general recession and the effect of import penetration.

1. "The BSC now sells less than one third of the amount of steel to British Shipbuilders than it did in 1975-76..... Over the same period shipbuilding has slipped from 10th to 15th in the league table of customers who are of greatest value to the BSC in monetary terms." Peter Hawkins Will the Boat Come In? article on British Shipbuilders in Steel News 19 January 1981.

TABLE 39

FINISHED STEEL (all Qualities)
Deliveries to Consuming Industries, Merchants and Exports: 1967-1972

Thousand tonnes

	Industry Group	1967	1968	1969	1970°	1971	1972
	Net Home Deliveries:						
1	Coal Mining, Petroleum & Natural Gas+	482.9	386.2	404.2	415.6	504.2	376.2
2	Food, Drink and Tobacco	92.0	93.8	91.4	90.3	102.8	89.4
3	Chemicals & Allied Industries	107.7	97.8	89.3	90.4	38.5	39.0
	Iron & Steel:						
4	Repair and Maintenance	107.4	117.8	114.4	132.9	111.3	104.2
5	Further Manufacture	499.2	620.1	846.1	895.3	442.6	446.2
6	Ironfoundries	47.0	56.8	48.7	55.6	38.9	41.3
7	Agricultural Machinery	108.0	115.5	129.2	126.0	95.9	110.6
8	Metal-Working Machine Tools & Engineering Small Tools & Gauges	74.2	81.5	102.6	129.4	78.9	59.4
9	Contractors' Plant & Quarrying Machinery & Mechanical Handling Equipment	226.2	251.7	253.0	243.5	189.3	179.3
10	Other Machinery (including office machinery, refrigerators & textile machinery & accessories)	402.8	406.8	420.3	397.8	339.2	296.6
11	Other Non-Electrical Engineering	330.8	357.4	382.6	352.4	291.3	280.6
12	Industrial Plant & Steelwork	1,336.5	1,326.1	1,335.5	1,369.5	1,114.3	879.1
13	Tools, Implements, Instruments, cutlery, Watches & Clocks	69.9	81.1	94.6	93.9	88.8	84.4
14	Electrical Machinery	234.6	239.6	231.5	239.2	210.6	178.6
15	Domestic Electric Appliances (excluding refrigerators)	66.2	83.9	85.1	99.2	82.5	72.0
16	Other Electrical Goods & Apparatus	144.8	166.0	168.1	136.3	123.4	132.3
17	Shipbuilding & Marine Engineering	424.2	514.8	583.3	543.3	505.2	571.0

TABLE 39 CONTINUED

	Industry Group	1967	1968	1969	1970°	1971	1972
18	Motor Vehicle Manufacturing (including parts & accessories)	1,591.5	1,824.6	1,829.1	1,828.5	1,699.9	1,606.3
19	Motor Cycle, Three-wheeled Vehicle, Pedal Cycle, Perambulator Manufacture & Repair	45.4	51.6	50.3	44.1	43.1	44.7
20	Aircraft Manufacture & Repair	27.0	24.0	21.7	20.3	16.6	14.2
21	Manufacture & Repair of Railway Stock by British Railways	89.8	86.8	93.0	103.3	82.1	70.9
22	Manufacture & Repair of Railway Rolling Stock by all others	68.5	51.4	43.1	62.0	37.1	27.8
23	Bolts, Nuts, Rivets, Screws etc.	223.5	236.9	220.5	216.3	167.3	143.6
24	Wire & Wire Manufactures	1,061.7	1,145.3	1,202.2	1,287.7	1,082.7	1,107.4
25	Cans & Metal Boxes	668.7	738.1	702.5	677.0	654.3	677.9
26	Metal Funiture	90.1	86.1	83.8	76.9	58.9	61.0
27	Metal Windows & Door Frames	83.7	83.5	75.1	71.2	73.2	87.9
28	Drop Forgings etc.	639.0	720.0	825.6	811.7	658.9	643.2
29	Industrial & Domestic Hollow-ware	148.5	162.6	188.1	186.1	242.2	230.0
30	Metal Industries, n.e.s.	596.9	683.0	761.7	688.1	455.3	403.0
31	Construction (building & civil engineering)	605.0	606.1	647.6	671.9	834.3	881.7
32	Gas, Electricity & Water	337.5	284.8	326.7	337.8	141.5	137.5
33	Transport & Communication	158.0	168.7	171.0	170.0	1662.2	144.9
34	Other U.K. Consumers	229.3	233.3	269.1	310.2	368.0	387.3
35	Stockholding Merchants	2,800.1	3,310.2	4,450.0	5,018.1	3,523.1	4,079.3
	Unallocated:						
36	(a) Home Produced	30.5	32.9	33.2	34.7	34.7	27.0
37	(b) Imports	1,327.6	1,557.0	1,181.3	1,040.4	1,413.9	2,143.0
38	TOTAL	15,576.9	17,084.1	18,555.5	19,066.9	16,111.2	16,858.8
39	Exports by Producers	3,771.8	4,030.7	3,461.3	3,321.9	4,516.4	4,322.9
40	**TOTAL Net Deliveries**	19,348.7	21,114.8	22,016.8	22,388.8	20,627.6	21,181.7

\+ Coal Mining only 1967-1970 inclusive ° 53 week year.
Source: UK Iron and Steel Statistics

TABLE 40

FINISHED STEEL (all Qualities)
Deliveries to Consuming Industries, Merchants and Producers Exports: 1973-1978

	Industry	1973	1974	1975	1976	1977	1978	1979	1980
	Net Home Deliveries:								
1	Coal Mining, Petroleum & Natural Gas	507.5	473.2	505.5	417.4	390.9	425.8	399.0	322.9
2	Food, Drink and Tobacco	86.8	93.6	61.6	71.6	76.4	64.7	69.3	46.0
3	Chemicals & Allied Industries	32.7	24.5	18.9	19.4	21.0	33.5	19.0	13.8
	Iron & Steel:								
4	Repair and Maintenance	130.4	74.1	94.8	100.0	93.8	100.7	69.8	29.3
5	Further Manufacture	723.8	925.4	750.6	999.7	822.0	858.0	360.4	235.5
6	Iron foundries	49.5	42.8	27.7	33.8	30.3	33.6	30.9	20.0
7	Agricultural Machinery	124.8	112.9	89.6	85.7	86.3	71.7	64.3	34.0
8	Metal-Working Machine Tools	84.5	85.3	63.7	58.4	49.9	47.1	36.3	18.0
9	Contractors' Plant & Quarrying Machinery & Mechanical Handling Equipment	230.2	242.6	205.5	222.3	210.9	200.0	173.0	117.1
10	Other Machinery (including office, textile machinery and accessories)	381.5	355.4	309.6	296.4	287.1	297.4	309.9	176.2
11	Other Non-Electrical Engineering	322.9	304.1	310.8	302.3	287.0	269.1	232.7	188.2
12	Industrial Plant & Steelwork	989.3	893.5	708.9	648.0	668.3	612.3	542.0	318.4
13	Tools,Instruments,Cutlery, Watches & Clocks,small tools,gauges	126.5	116.2	93.4	94.4	92.6	89.7	84.2	51.5
14	Electrical Machinery	227.3	225.8	197.6	183.0	184.5	178.0	154.5	84.4
15	Domestic Electric Appliances	116.2	82.9	71.3	71.5	75.2	72.1	52.0	24.0
16	Other Electrical Goods & Apparatus	156.3	129.3	93.4	101.5	89.8	98.1	72.8	46.7
17	Shipbuilding & Marine Engineering	500.5	545.2	579.6	322.9	266.7	211.4	153.9	189.2

TABLE 40 CONTINUED

	Industry	1973	1974	1975	1976	1977	1978	1979	1980
18	Motor Vehicle Manufacturing (including parts & accessories)	1,753.8	1,387.1	1,028.8	1,237.7	1,118.5	1,069.6	1097.9	542.5
19	Motor Cycle, Three-wheeled Vehicle, Pedal Cycle, Perambulator Manufacture & Repair	49.3	59.3	47.4	58.9	64.7	55.6	54.9	40.5
20	Aircraft Manufacture & Repair	16.4	16.9	18.1	10.9	11.1	20.6	12.3	10.3
21	Manufacture & Repair of Railway Rolling Stock by British Rail	64.0	74.2	111.0	74.1	84.7	66.9	68.9	43.5
22	Manufacture & Repair of Railway Rolling Stock by all others	24.3	26.6	27.6	25.8	31.0	26.9	25.3	20.3
23	Bolts, Nuts, Rivets, Screws etc.	168.4	189.6	169.9	185.0	148.0	144.6	126.4	77.9
24	Wire & Wire Manufactures	1,263.4	1,201.0	947.9	920.5	823.9	798.5	1506.2	986.4
25	Cans & Metal Boxes	716.7	717.9	630.3	710.8	735.5	693.8	714.8	347.1
26	Metal Funiture	54.2	53.0	40.2	66.8	80.8	84.4	82.6	48.0
27	Metal Windows & Door Frames	85.4	65.5	45.8	42.7	36.3	56.6	72.9	35.2
28	Drop Forgings etc.	828.7	752.2	682.7	660.5	639.7	555.6	576.3	381.8
29	Industrial & Domestic Hollow-ware	325.5	304.2	210.9	284.9	266.0	262.6	236.4	97.6
30	Metal Industries, n.e.s.	438.6	427.1	318.0	386.9	351.0	377.2	391.6	285.7
31	Construction (building & civil engineering)	1,028.6	595.0	472.6	326.1	312.8	423.4	297.0	218.8
32	Gas, Electricity & Water	107.0	159.2	154.1	97.2	65.6	75.3	93.9	69.7
33	Transport & Communication	175.7	204.0	192.9	117.8	141.6	154.4	166.4	105.3
34	Other U.K. Consumers (including unallocated)	474.2	397.5	343.4	303.4	303.2	282.9	354.5	268.5
	Total deliveries to UK consumers	12364.9	11357.1	9624.1	9538.8	8947.1	8812.0	8702.3	5494.3
35	Stockholding Merchants	4927.9	4172.0	2925.9	3447.7	3177.1	3394.4	3882.4	2510.3
	Total home deliveries by UK producers	17292.8	15529.1	12550.0	12986.0	12124.2	12206.4	12584.7	8004.6
	Imports (excluding material for conversion)	2507.0	3330.8	3282.9	3377.6	3094.7	3249.5	3336.7	3977.1
	Total deliveries to UK market	19799.8	18859.9	15832.9	16363.6	15218.9	15455.9	15921.4	11981.7
	Exports (by UK producers)	3530.3	2675.9	2726.8	3237.8	4040.7	3945.3	4100.2	2273.7
	Total Net Deliveries	23330.1	21535.8	18559.7	19601.4	19259.6	19401.2	20021.6	14255.4

° 53 week year.

Source: UK Iron and Steel Statistics

The BSC used to include in its Press Briefings a list of its Top Ten customers, with their percentage share of deliveries. It is a measure both of its declining market and of its loss of optimism that the Corporation no longer bothers to publish such lists.

While the decline in its consuming industries certainly explains some of the under-utilisation of the BSC's capacity it is a reflexion of the Corporation's inflexibility that it has not adapted itself more quickly to the changing market. And that inflexibility is itself a result of nationalisation, which first created such a monolithic and slow-moving giant as the BSC and then subjected it to so much political interference. The Beswick Review and the trade union attitudes have contributed much to the BSCs inability to slim-down more quickly in line with the falling market demands and therefore cease to waste so much money.

The curse of nationalisation hits the BSC both as supplier and consumer. In its Report and Accounts of 1979-80 the Corporation complained of the amount it has spent on goods and services purchased from other nationalised industries, railway freight, gas, electricity and coal, together amounting to over £500 million in the year. The Corporation said that it had found the price increases sought by many of these industries very difficult to accept.[1]

This has been a long-standing problem for the BSC, especially where NCB coking coal is concerned. The almost exclusive use of this coal has cost the BSC about £70-80 million a year more than they would have paid for imported coal (1979-80 figures), and thus increased their loss by some £70-80 million per year. There is also indirect loss caused by the fact that most NCB coal is

1. BSC Annual Report and Accounts, 1979-80, p.13. This point is also well made in the British Iron and Steel Consumers' Council: Cost Competitiveness in ECSC Steel Industries: The Effects of Government Policies February 1981.

intrinsically less suitable for use in steelmaking than the Australian, US and other imported coals, a loss which would still occur if the Government used to the full its powers, available under the Treaty of Paris, to subsidise coal prices down to world levels (i.e., approximately the levels paid for third world imports). These powers are difficult to implement both because of the NCB pricing structure and because of the Board's inability to subsidise from within its own cash limits. Table 41 shows how UK coke prices have risen by comparison with those of other countries.

The BSC has tried to behave in a commercial way by increasing her imports of cheaper coking coals.[1] But this sensible use of commercial judgment is now threatened by the government's recent settlement with the miners (February 1981), which suggests restriction of coal imports.

This interdependence of nationalised industries, which are nearly all loss-makers, cuts them off from real dealing in the market-place. If one goes to the market, like the BSC for its coal, or British Leyland for its steel, then another suffers.

One of the major causes of recession has of course been the oil crisis and the consequent rise in the price of fuel oil. This has affected the BSC both as a primary cost and as the cause of large increases in electricity charges. As the Corporation uses 7 per cent of the nation's energy it naturally suffers

1. BSC Annual Report and Accounts 1979-80 p.12. See also British Iron and Steel Consumers' Council op. cit p.14.

TABLE 41

INDEX OF BLAST-FURNACE COKE PRICES (DELIVERED) FOR SELECTED COUNTRIES

(Based on the national currency)

1975-79
January 1970 = 100

Countries		Jan. 1975	Jan. 1976	Jan. 1977	Jan. 1978	Apr. 1978	Jul. 1978	Oct. 1978	Jan. 1979
Germany	Home	248	261	261	277	277	277	277	-
Belgium	Imported	266	294	316	320	293	302	305	300
Denmark	Imported	149	195	181	176	179	179	179	179
France	Home[1]	342	334	355	345	355	350	327	324
	Imported[2]	352	354	442	447	443	422	423	402
Luxembourg[3]	Imported	269	286	290	307	307	316	316	322
Netherlands	Imported	259	276	293	313	307	240	215	-
United Kingdom	Home	222	291	336	-	-	-	-	-
Austria	Imported	211	359	262	245	238	251	245	239
Spain	Imported	322	175	280	350	358	275	294	219
Greece	Imported[2]	282	297	304	314	296	298	297	295
Portugal[4]	Imported	188	199	186	279	359	398	407	422

1. Price ex-coking plant-average North and East.
2. CIF.
3. Ruhr coke, delivered Esch.
4. January 1971 = 100.

Source: OECD

greatly from these increases. The apparently very heavy rise in UK energy costs compared with those of some of our continental competitors[1] has had a most unfavourable effect on the British steel industry, both public and private, especially during the last year. It can be said that nationalisation and monopoly conditions in the energy industries make these costs higher than they need be.[2] It is certain that the BSC is less able to bear them because of its already poor state. Every blow that comes to the Corporation from general industrial conditions hits an industry that is already laid low by its own policies and faults, and is therefore that much more severe. The BSC faces recession and adversity from a basis of loss.

The private sector is also very hard-hit, but is better able to face adversity because of its previous prosperity.

Labour Productivity and Employment

These are areas of the steel industry where Britain's poor international performance is most noticeable. Relatively poor manpower productivity, as compared with our foreign competitors, predates nationalisation, as the following Table shows.

1. The word 'apparently' is used because it is very difficult to make international price comparisons. The differences probably owe more to the rise of the pound against the French franc and the German mark than to the actual prices themselves.
2. The government's decision, for example, to refer the CEGB to the Monopolies Commission (1980) suggests that they feel that this might be the case.

TABLE 42

INDICES OF PRODUCTIVITY, HOURLY EARNINGS AND UNIT EMPLOYMENT COSTS, IRON AND STEEL PRODUCTION, BY COUNTRY 1960, 1965, 1967 (1960 = 100)

Country & Year	Crude Steel Output per Man-Hour	Average Hourly Earnings	Employment Cost per Unit of Crude Steel Output
Belgium-Luxembourg			
1960	100	100	100
1965	127	136	108
1967	143	153	106
France			
1960	100	100	100
1965	124	138	111
1967	143	152	105
Germany F.R.			
1960	100	100	100
1965	118	146	126
1967	139	157	114
Italy			
1960	100	100	100
1965	145	163	113
1967	189	182	97
Netherlands			
1960	100	100	100
1965	133	171	129
1967	146	202	138
E.E.C.			
1960	100	100	100
1965	125	143	116
1967	149	157	107
U.K.			
1960	100	100	100
1965	119	135	113
1967(a)	116	128	112
U.S.			
1960	100	100	100
1965	124	112	90
1967	128	118	91

TABLE 42 CONTINUED

Country & Year	Crude Steel Output per Man-Hour	Average Hourly Earnings	Employment Cost per Unit of Crude Steel Output
Canada			
1960			
1965	n.a	n.a	n.a
1967			
Japan			
1960	100	100	100
1965	175	152	87
1967	253	190	75

(a) Change in basis of employment and earnings data, indices not strictly comparable with earlier years.

Compiled from: Output data BSC, Statistical Handbook 1969 Employment and Earnings data.
EEC Office Statistique des Communautés Européennes Sidérurgie (Brussels) 1968
U.K. BSC Annual Statistics 1969 (London) 1970
U.S. American Iron and Steel Institute Annual Statistical Report 1969, (Washington DC),1970
Canada BSC Statistical Handbook 1969 op.cit.
Japan Japan Iron and Steel Federation Statistical Yearbook, 1971, (Tokyo), 1971

Source: Cockerill and Silbertson op. cit. Table 15 p.33

This was one of the problems which nationalisation was to solve. Yet, as the next Table illustrates, the figures for the early years of nationalisation show little improvement in UK rates, while some of our main competitors were making considerable progress.

There was little point in standing second in the free world as a producer of crude steel, as the BSC did in 1969, while needing twice as many men to produce that steel as any other major producer did.

TABLE 43

INDEX OF ANNUAL CRUDE STEEL OUTPUT PER WORKER

1967-71

1963=100

COUNTRIES	1967	1968	1969	1970	1971
Germany	130.2	148.2	162.4	158.8	147.4
Belgium	149.1	177.2	193.1	-	-
France	127.2	139.3	152.7	158.9	154.5
Italy	167	180	165	162	154
Luxembourg	110.4	121.1	138	132.1	129.5
Netherlands	121	130	146	144	141
Austria	104	121	130	129	143
Denmark[1]	129	155	164	154	140
Spain	150	161	175	211	221
Finland	110	188	232	276	229
Greece	150	160	170	-	-
Ireland	196	190	214	195	197
Norway	131	134	141	146	156
Portugal	139	138	146	126	-
United Kingdom	117	130	133	-	-
Sweden[2]	133	145	157	160	167
Switzerland	-	-	-	-	-
Turkey	203	219	-	259	-
Canada	104.2	121.4	118.0	126.3	-
United States	105	108.5	116.6	108.6	99.3
Japan	191	197.1	237.5	253.7	236.3

N.B. The figures given in the table are valid as a general indication of trends, but do not permit any detailed comparison between countries. Not only are the statistical methods used in their preparation not the same in the various countries, but they are also greatly influenced by changes in the structure of the industry and by the rate of investment of capital, which may differ widely from country to country. Further distortions of the indices may be introduced by the number of hours worked, which varies between periods and from country to country or by the level of output in the base year.

1. Ratio production of rolled products per process workers.
2. First six months.

Source: OECD The Iron and Steel Industry in 1971 and Trends in 1972. OECD Paris 1973.

The BSCs manpower productivity continues to compare unfavourably with that of its international competitors. Figures produced from various sources and treating the same subject in different ways all produce the same gloomy results. Thus, for example, The Steel Industry Throughout the World, an Industrial Survey Collection published by Société de Documentation et d'Analyse Financière (DAFSA), Paris, in 1974, makes an international comparison of VALUE ADDED per employee in dollars at the 1971 exchange rate, as follows:

TABLE 44

VALUE ADDED PER EMPLOYEE

$1971	ECSC Six	UK(BSC)	USA	Japan
1967/72	5,730	4,100	11,120	4,500
1967	4,625	3,075	8,950	2,990
1972	7,230	5,200	12,960	6,050

Source: DAFSA Survey Table VI/17 quoted in BISPA Supplementary Written Evidence to Select Committee on Nationalised Industries, 1976.

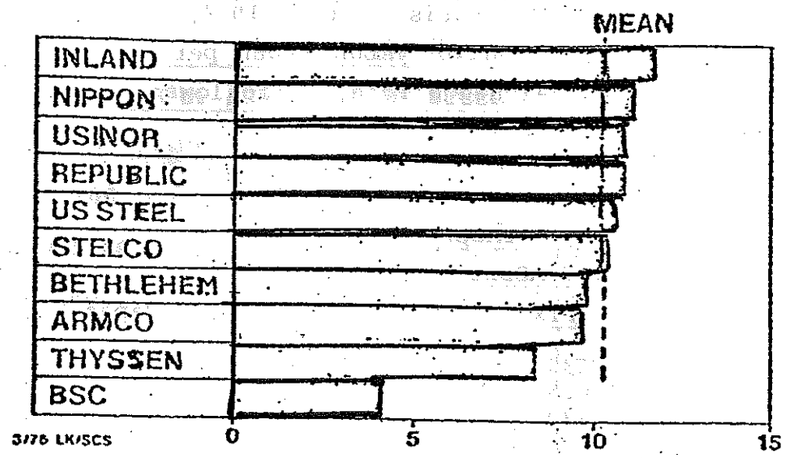
Not only do the comparisons show the UK generally behind the others, but of perhaps greater significance is the way in which the gaps between the various performances widened, with the UK lagging very much behind, in the years between 1967 and 1972, i.e., the first five years of nationalisation.

The figures showed the same trend in 1974.

TABLE 45

BSC PRODUCTIVITY COMPARED WITH COMPETITORS 1974

Net Added Value per Employee (£000's)



Source: BSC Evidence to Select Committee on Nationalised Industries. HC.322:i. 1976 Para 5.31. Session 1975-76.

In the year to March 1975 the added value per employee was £4,020 in BSC, compared with £11,691 in Japan's New Nippon Steel Corporation.

The DAFSA Report gives further data in terms of crude steel output per man employed, as follows:

TABLE 46

TRENDS IN NUMBERS EMPLOYED PER MILLION TONS OF CRUDE STEEL PRODUCED

1967-73

1000 employees per lmt crude steel	1967	1970	1972	1973
ECSC 'Six'	5.9	5.2	4.9	4.5
BSC	10.8	10.4	9.15	8.5
USA	5.9	5.6	5.15	
Japan	5.4	3.5	3.3	2.7

Source: DAFSA op. cit Table TVI/2, quoted in BISPA Supplementary Written Evidence (1976)

It must be said though that comparisons involving only crude steel do not recognise the different product ranges of the steel industries in the various countries and almost certainly a much larger proportion of the BSC employees are engaged in special production and specialist finishing activities than is the case in other countries.[1]

1. BISPA Ibid. Para 3.

The following comparison comes from figures published by the ECSC which cover only Treaty of Paris activities, i.e., iron and steelmaking, hot rolling and production of cold reduced sheet, in 1976:

TABLE 47

ECSC PRODUCTIVITY COMPARISONS

Year 1976	Total work force '000	Steel Output million tonnes	Output per man tonnes
Germany	210.1	42.41	202
France	154.6	23.23	150
Italy	96.0	23.42	244
Belgium/ Luxembourg	77.9	16.72	215
Netherlands	24.4	5.19	213
UK/BSC	154.7	19.06	123
Other UK	26.6	3.21	121
UK Total	181.3	22.27	123

Source: BISPA Supplementary Written Evidence 1976, Para.3

Again it must be noted that the low figure for the "other", i.e. private sector UK producers reflects the high proportion of alloy and special steelmakers and the inclusion of the employees of all non-steelmaking hot rollers.[1]

But when these provisos have been made, the fact remains that the UK output per man was still some 27 tonnes below that of our nearest competitor, France, and almost 100 tonnes below that of most of the others.

The same pattern is visible in the following productivity comparisons.

1. BISPA. Ibid.

TABLE 48

BSC PRODUCTIVITY COMPARISONS

The following productivity comparisons are based on BSC iron and steel activities only. They exclude employees in mining, quarrying, refractories, RDL Limited, and BSC (Chemicals) Limited, etc.

	Liquid Steel Tonnes per man year	Productivity Index	Number of employees BSC would need to employ, in Iron and Steel activities, to achieve comparable productivity given comparable plant configurations
BSC	131	100	182
France	164	125	146
Germany	225	172	106
Italy	232	177	103
Netherlands	243	185	98
United States	274	209	87
Japan	372	284	84

Source: BSC Evidence to Select Committee on Nationalised Industries; HC.322:i April 1976 Appendix VI Session 1975-76.
(Main Source ECSC 1973)

The BSCs own figures for 1970/1980 look like this:

TABLE 49

BSC INDEX OF ANNUAL CRUDE STEEL OUTPUT PER WORKER

1970-80

Year	Liquid Steel production (m. tonnes)	No. of BSC employees at end of period	Output per year per employee (1970=100)
1970-71	26.1	252,400	100.0
1971-72	21.5	229,700	90.5
1972-73	25.1	226,600	107.2
1973-74	23.0	220,400	101.0
1974-75	20.8	228,300	88.1
1975-76	17.2	210,200	79.1
1976-77	19.7	207,900	92.0
1977-78	17.4	196,900	85.5
1978-79	17.3	169,700	98.6
1979-80	14.1	150,800	90.5

Source: BSC Annual Reports and Accounts.

These can be compared with the recent OECD figures again illustrating Britain's poor performance by international standards.

TABLE 50

INDEX OF ANNUAL CRUDE STEEL OUTPUT PER WORKER

1970 = 100

PAYS	1976	1977	1978	COUNTRIES
Allemagne.....	105.2	99.7	110.6	.....Germany
Belgique.....	102.2	101.6	127.1	.....Belgium
Danemark.....	...	...	...	.....Denmark
France.....	97.8	98.9	119.0	.....France
Irlande.....	...	...	...	.....Ireland
Italie.....	112.0	113.0	120.0	.....Italy
Luxembourg.....	105.5	112.0	136.0	.....Luxembourg
Pays-Bas.....	...	...	...	.....Netherlands
Royaume-Uni.....	(79.1)	(92)	...	....United Kingdom
Autriche.....	138.0	127.0	142.0	.....Austria
Espagne.....	132.6	134.6	143.1	.....Spain
Finlande.....	110.0	123.0	136.0	.....Finland
Norvège.....	...	...	...	.....Norway
Portugal.....	100.2	108.0	117.0	.....Portugal
Suède.....	108.0	88.0	103.0	.....Sweden[1]
Turquie.....	84.8	64.9	...	.....Turkey[2]
Canada.....	...	...	...	.....Canada
États-Unis.....	116.3	113.7	122.5	.....United States
Japon.....	96.7	92.4	88.3	.....Japan
Australie.....	...	...	...	.....Australia
Nouvelle-Zélande.....	...	...	...	.....New Zealand

Source: OECD The Iron and Steel Industry in 1978 and Trends in 1979. Paris 1980.

Tentative UK figures are inserted from Table 48 but they are not an exact comparison because of the BSCs different accounting period.

Looking at the figures in hourly terms, the following Table shows that it takes twice as many manhours to produce a tonne of steel in the UK as in almost any other EEC country.

TABLE 51

LABOUR PRODUCTIVITY IN THE ECSC*STEEL INDUSTRIES (HOURS WORKED PER TONNE OF CRUDE STEEL)

1976-78

	1976	1978 (1st Quarter)	Change
Italy	6.8	6.5	- 4%
Luxembourg	8.1	6.6	-19%
Belgium	7.7	6.7	-13%
Netherlands	7.6	n.a	n.a
West Germany	8.2	8.0	- 2%
France	11.3	10.0	-12%
United Kingdom	14.9	16.5	+11%

* European Coal and Steel Community
n.a. = not available
Source: British Iron and Steel Consumers' Council, 2.2.79.

At the beginning of 1978 it actually took longer to produce a tonne of steel in Britain than it had done in 1976, while other countries had improved their efficiency in that period. The BSCs figures improved to 10.5 hours in 1978-79 and 9.6 hours in

1979-80,[1] but they were little better by international standards. In July 1979 it still took a BSC worker twice as long to produce a tonne of crude steel as it did his West German counterpart.[2]

In its Evidence to the Select Committee on Nationalised Industries, the BSC gave two main reasons for this poor manpower productivity. One was the high proportion of old plant, due to lack of investment in the past. This matter we discuss elsewhere.[3] The second reason was that much plant was overmanned. The Road to Viability spoke very directly about our poor manpower productivity, compared with that of our overseas competitors:
"The differences cannot be explained away only by differences in the pattern of plants or products. They are due more to management and manpower practices."[4]

The Sector Working Party (SWP) for Iron and Steel, in its progress report for 1980, examined matched pairs of steelworks in Europe and the UK to assess reasons for the difference in performance. Again the chief fault of the UK plants was found to be poor labour output per ton, due very largely to overmanning. The great difference between the UK plants and their European counterparts was the relationship and demarcation between production and maintenance workers. Production workers on the Continent are able and willing to work on several jobs across the plant and also provide the semi-skilled support for maintenance work. In Europe there is a total absence of "mates". The report shows that these people account for the much higher manning levels in the UK, although the number of skilled craftsmen employed here is no greater than that on the Continent. The European flexibility

1. BSC Annual Statistics 1979-80. Table 24, p.24.
2. Hansard 16 July 1979. W.A. Col.365.
3. See p. 30 ff.
4. The Road to Viability Cmnd.7149, 1978, Para.31.

between skilled men and maintenance workers is helped by the fact that there is one common trade union for both, as well as common grading and pay structures. Similarly plumbers, welders and boilermakers in Europe are usually rolled into one mechanical fitter, so that again demarcation lines are far less rigid.

Overtime is much less common in Europe than in the UK, the percentage of overtime worked by manual workers here in October 1978 was 11 per cent compared with 4 per cent in West Germany and 1 per cent in Belgium. The report concludes: "A willingness to work light and rotate jobs to provide cover on a shift-to-shift basis may be compared with the rigid seniority systems and an insistence on manning-up or sharing wages round the UK plants."1

This report thus reflects many of the problems not only of the steel industry but of UK industry in general, some of which are reiterated in our remarks on industrial relations.2

The overmanning of the steel industry and its need to reduce manpower is a problem that goes right back to the Benson Report. This Report estimated that the industry should reduce its manpower from 317,000 workers in 1965 to about 215,000 workers in 1975, reducing its manpower by about a third, yet producing about a third more steel:

1. Iron and Steel SWP Progress Report 1980, NEDO Books, London, reported in the Department of Employment Gazette, February 1980.
2. See below p.119 ff.

"...in terms of the crude steel produced per man employed, this assessment implies an advance from 85 tons [86 tonnes] a man-year in 1965 , to over 164 tons [167 tonnes] a man-year in 1975...."1

The reality was rather different. By September 30th 1975 the BSC employed 220,010 workers; its crude steel production was 17.2 million tonnes, compared with 27.5 million tonnes in 1965 produced by the industry. So although employment was down production was also down, not up by a third as in the Benson estimate. As we have seen BSC output per man in 1976 was 123 tonnes in Treaty of Paris activities,2 and in 1975-76 was 81.2 tonnes in all activities.3 These fell far short of the Benson estimates.

Yet the need to reduce manpower was seen in 1967 as one of the new Corporation's chief tasks. It can be seen that it has by no means fulfilled this task. Despite many statements, promises and warnings by the BSC overmanning has remained one of its gravest problems, causing, for example, 40 per cent of its losses in 1977-78.4

From 1967-70, the first three years of the BSC, there was very little change in manpower, the Corporation's employment figures actually rising slightly. This is further evidence of the time wasted in those early years of nationalisation, probably as a result of that nationalisation. There were large falls in employment in 1971 and 1972, evidence of the BSC `getting going´, under the impulse of the Conservative Government's determination to rationalise the steel industry. By 1972

1. Benson Report, Para 202, p.81.
2. Table 45, p.104
3. Table 47, p.106
4. BSC Annual Report and Accounts, 1977-78.

the Corporation had reduced its total workforce by some 27.5 thousand from 1967, and those engaged in iron and steelmaking by some 16,000. By 30th September 1976 another 20,000 had gone, all from iron and steel activities.

In its Evidence (1976) to the Select Committee on Nationalised Industries, the Corporation said that:

"It is planned to reduce the total BSC manning from the January 1976 level of 214,000 (194,000 of whom are engaged in iron and steel activities), to 175,000 over the next two years. This would still be well above world manning standards." (Evidence: Para. 5.32).

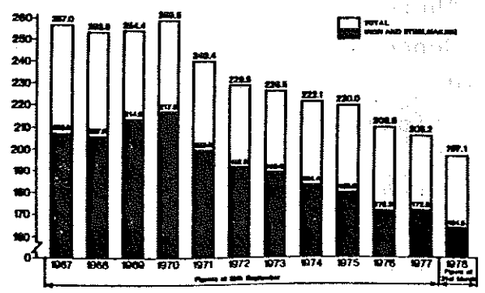
Yet on the 30th September 1978, more than the promised two years later, the BSCs work force still stood at 190,300, 15,000 more than planned, with 167,610 engaged in iron and steel activities. On 30th September 1979 the figures were 183,640 total, 161,380 for iron and steel activities. So on that date the Corporation had not achieved the manning levels said to be necessary in 1976.

TABLE 52

1967-1978

NUMBER OF EMPLOYEES BSC

Thousands



Source: BSC Prospects for Steel 1978.

TABLE 53

BSC
LABOUR

Number on Payroll at September

1974-80	Iron Foundries#	Iron and Steel Activities Other*	Total	Other Activities	Total
1974/75 Staff					
Operatives: Production	2,400	52,990	55,390	7,200	62,590
Maintenance	3,780	54,110	57,890	11,690	69,580
Services	3,160	47,860	51,020	3,440	54,460
	2,170	29,470	31,640	3,860	35,500
Total	**11,510**	**184,430**	**195,940**	**26,190**	**222,130**
Males	10,520	169,880	180,400	23,590	203,990
Females: Full time	860	12,200	13,060	2,280	15,340
Part time	130	2,350	2,480	320	2,800
1975/76 Staff					
Operatives: Production	2,390	54,640	57,030	8,110	65,140
Maintenance	3,710	49,990	53,700	12,650	66,350
Services	3,100	47,770	50,870	3,720	54,590
	2,020	28,120	30,140	3,790	33,930
Total	**11,220**	**180,520**	**191,740**	**28,270**	**220,010**
Males	10,300	165,690	175,990	25,590	201,580
Females: Full time	760	12,520	13,280	2,430	15,710
Part time	160	2,310	2,470	250	2,720
1976/77 Staff					
Operatives: Production	2,270	50,440	52,710	7,890	60,600
Maintenance	3,290	48,670	51,960	12,310	64,270
Services	2,920	46,460	49,380	3,270	52,650
	1,920	26,630	28,550	3,700	32,250
Total	**10,400**	**172,220**	**182,600**	**27,170**	**209,770**
Males	9,600	159,030	168,630	24,620	193,250
Females: Full time	680	11,110	11,790	2,300	14,090
Part time	120	2,060	2,180	250	2,430

TABLE 53 CONTINUED

	Iron and Steel Activities		Other Activities	Total
Iron Foundries#	Other*	Total		
1977/78 Staff				
Operatives: Production	2,270	50,980	53,250	7,320	60,570
Maintenance	3,010	47,640	50,650	10,140	60,970
Services	2,750	46,640	49,390	3,080	52,470
	1,840	27,240	29,080	3,280	32,360
Total	**9,870**	**172,500**	**182,370**	**23,820**	**206,190**
Males	9,100	158,830	167,930	21,330	189,260
Females: Full time	640	11,730	12,370	2,230	14,600
Part time	130	1,940	2,070	260	2,330
1978/79 Staff				
Operatives: Production	2,070	48,420	50,490	7,040	57,530
Maintenance	2,650	43,070	45,720	9,530	55,250
Services	2,370	41,930	44,300	2,930	47,230
	1,740	25,360	27,100	3,190	30,290
Total	**8,830**	**158,780**	**167,610**	**22,690**	**190,300**
Males	8,090	145,700	153,790	20,300	174,090
Females: Full time	610	11,260	11,870	2,160	14,030
Part time	130	1,820	1,950	230	2,180
1979/80 Staff				
Operatives: Production	1,800	46,470	48,270	7,320	55,590
Maintenance	2,620	41,490	44,110	9,120	53,230
Services	2,310	40,980	43,290	2,780	46,070
	1,750	23,960	25,710	3,040	28,750
Total	**8,480**	**152,900**	**161,380**	**22,260**	**183,640**
Males	7,810	140,520	148,330	19,870	168,200
Females: Full time	560	10,680	11,240	2,170	13,410
Part time	110	1,700	1,810	220	2,030

includes employees engaged in ancillary activities at iron foundry establishments.
* includes employees at iron ore mines and quarries, coke ovens, blast furnaces, steelworks and Divisional offices and Head Office of the Corporation.
Source: BSC Annual Statistics

The closures and reductions of 1980 should improve this situation. In the BSC's Annual Report of 27 June 1980 the retiring Chairman, Sir Charles Villiers, stated that: "...as of now, allowing for reductions agreed, or nearly agreed, the total (workforce) is 138,000."1 This represents a loss of 45,000 workers in nine months. Yet as Sir Charles went on to say: "This is still high in relation to the international competition and to the profitable markets available to BSC."2

Although the BSC has improved manpower productivity by 16 per cent since 1975 it is still about 13 per cent below 1973 levels, whereas two of our European competitors, Belgium and Luxembourg, have improved productivity by 16 per cent and 20 per cent respectively since 1977.

There have been other enlightened moves recently, such as the joint union management demanning agreements and breaking down of job-barriers at Port Talbot. These, modelled very much on the Continental lines described by the Sector Working Party,[3] have made the plant one of the most productive in Europe in terms of tonnes per man-year, and will eventually reduce manning there by 6,883. Similar agreements are operating successfully at Llanwern.

The reduction of manning levels and therefore of unit labour costs is high in the McGregor plan of remedies for the Corporation.

So the BSC is moving at last but is it all too late and can it possibly succeed?.

1. BSC Annual Report and Accounts 1979-80, p.4.
2. Ibid.
3. See p.111.

The Corporation knew in 1976, if not before, that its salvation lay in reducing its manpower. Why did it not pursue this policy more wholeheartedly? When the BSC presented its Evidence to the Select Committee on Nationalised Industries it was hopeful that progress would be made, because on 23 January 1976 it had reached agreement with the TUC Steel Industry Committee and the National Craftsmen's Coordinating Committee on proposals to reduce employment costs and to improve labour productivity. The Corporation felt that this agreement was a "landmark" in industrial relations and published its full text as an Appendix (VI) to its Evidence.

The Unions, alas, obscured the "landmark" by dragging their feet in putting this agreement into operation. On 23 November 1977, almost two years after the agreement had been made, Mr Bill Sirs, Chairman of the TUC Steel Committee,[1] said that "...the unions required more time to consider suggested action in this area." (Times. 24 November 1977).

They had not got time; they had had plenty of time in the past to consider the serious consequences of their insistence on the preservation of jobs. The unions have dragged their feet over every closure, thus delaying action, costing the BSC and the country much unnecessary money, lowering manpower productivity, preventing the full implementation of the development strategy and the really modern successful plants.

1. And General Secretary of the Iron and Steel Trades Confederation.

They are already showing signs of attempting to thwart the McGregor survival plan. Workers at the Velindre tinplate works near Swansea have tried to challenge the legality of the plan, which will reduce their workforce from 2,245 to 674, on the grounds that the 1975 Iron and Steel Act imposed on the BSC a duty to consult employees' organisations before reaching any conclusions on any review of the Corporation's affairs. Although they have been overruled by the High Court, the judge ruling that the McGregor Plan does not fall within the meaning of the Act[1], one wonders if the unions will ever learn common sense. It is their own members whom they hurt most by their actions.

So much blame in this matter must be apportioned to the steel unions. But the management must bear their share too, for their apparent weakness in face of union opposition, and especially for their sluggishness in the early days when they could have reduced manpower in a healthier economy. A very large share of the blame must go too to the Labour Government of 1974-79, whose Beswick Review did immeasurable harm to the BSCs manpower productivity.

Industrial Relations

As we have just seen, the unions have severely hindered the BSCs modernisation attempts by their intransigent attitudes on demanning and closures. Although the steel unions did not 'hit the headlines' as difficult unions until the steel strike of 1980, industrial relations within the industry do seem to have deteriorated since nationalisation. We have already noted the industrial

1. Press Reports Financial Times March 19 1981. Daily Telegraph March 20 1981.

troubles of 1975-76,[1] a time when the Corporation could ill afford them. Three hundred and sixty six of the 368 strikes in that year were unofficial, a feature too common among all sections of British industry.

The years from 1972-76 saw a marked growth of disputes within the industry. In its Evidence to the Select Committee on Nationalised Industries, 1976, the BSC said:

"In its 1972 submission to the Select Committee, the Corporation was able to claim that, despite a few serious disputes and an increasing number of lesser disputes, almost all local and unofficial, the industrial relations record of the industry was comparable with that of industry generally. Since that time there has been a continuing increase in the number of disputes and in the related loss of working hours and production." (Evidence: Para 4.15).

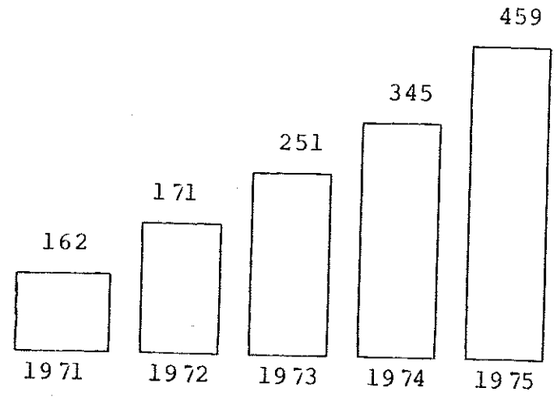
1. p.67

This is illustrated by the following diagrams:

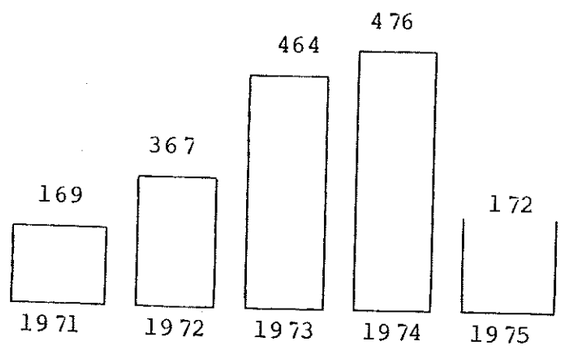
TABLE 54

1971-75

BSC NUMBER OF DISPUTES



BSC NUMBER OF SHIFTS LOST
'000s



Source: BSC Evidence: Para. 4.22
HC.322.i. 1976 Session 1975-76.

Then came the agreement of January 1976, hailed, as we have seen, as a "landmark", by the Corporation. In that the TUC Steel Committee undertook to try to minimise the number of unofficial strikes.

In 1975-76 there were 368 strikes all but two of which were unofficial, but this year did see a decline in the number of embargoes on production imposed by the workforce.[1] In 1976-77 there was a reduction in the number of disputes, although all but one of them were unofficial. As the year went on the 1976 Agreement began to lose force, partly because of the impossiblility of securing productivity deals under the Government's pay policy.[2] The number of strikes was again reduced in 1977-78 but the number of manshifts lost through strikes increased substantially because of three major disputes, at Port Talbot, Ebbw Vale, and Stanton. Strikes and embargoes of that year cost the BSC £45.8 million.[3] 1978-79 was a better year for the Corporation with the cost of disputes down to £17.3 million.[4] But unfortunately the BSC was one of the few British industries in which the industrial relations climate improved in that year. The steel industry was severely affected by the strikes elsewhere. "The transport dispute in January hit the BSC very hard and we estimate that they cost us over 450,000 tonnes of liquid steel production and some £50 million in profit."[5] This, of course, shows the need for a general reform of British trade unions.

1. BSC Annual Report and Accounts 1975-76 p. 17
2. BSC Annual Report and Accounts 1976-77 p. 17
3. BSC Annual Report and Accounts 1977-78 p. 29
4. BSC Annual Report and Accounts 1978-79 p. 30
5. Ibid. p.3 See also Guardian 11 June 1979

The major disputes of 1979-80, however, were certainly the responsibility of the steel unions.Strikes and embargoes in the first nine months of the financial year (April-December), had cost the Corporation an estimated £34 million, although this included £23 million lost as a result of the national engineering dispute in August and September. The Hunterston (Scotland) ore and coal terminal, for ships up to 350,000 dwt., was not commissioned until November 1979 - after a seven months delay caused by an inter-union dispute about manning. That delay cost the BSC more than £6 million.[1]

The Steel Strike 1980

Then came the BSC-wide official strike lasting 13 weeks in January-March 1980. That cost the Corporation over £200 million, contributing a large amount to the BSCs total loss of £545 million for the year. It put up the Corporation's employment costs by a large sum, taking the percentage value added per employee from 103 per cent in 1978-79 to 136 per cent in 1979-80. It helped to bring the BSCs output to the lowest level in its history. It killed the slowly-rising UK demand for the Corporation's products which, but for the strike, would have been the highest for three years, in a year that by post-oil crisis standards was a good one for world steel production. The major steel-using industries turned to imports instead. Thus the indirect damage which the strike caused the BSC from loss of market share cannot yet be fully estimated.[2] As the Corporation's own Annual Report remarked, the BSC needs its customers more than they need the BSC.

1. BSC Annual Report and Accounts 1979-80 pp.6, 21.
2. But see Table 33, p. 70.

Over the weeks the strike infiltrated the private sector, eventually forcing almost complete closure on the private steel companies, although the Sheerness steel works stayed open. BISPA estimates show that while private sector production dropped by 22 per cent in 1980 as a result of the strike that of the BSC dropped by over 50 per cent. So the strike caused some loss of confidence and therefore trade even in the private sector, and has contributed to its present financial difficulties. How much more damage has it done in the BSC, where its effect was so much greater and the state of the Corporation already so poor?

It is instructive to look at this strike in rather more detail, because it illustrates so well some of the problems which nationalisation produces. Indeed the story of the strike shows that its underlying cause was nationalisation, just as it has been the cause of most of the Corporation's ills.

In the weeks just before the strike the BSC did much to alienate its workforce. Throughout November 1979 it was announcing closures and redundancies, and on 30 November the Corporation's Chief Executive said that the latter would be 52,000, 32,000 more than the earlier arrangements. Then on 3 December the BSC offered the Iron and Steel Trades Confederation a basic pay rise of 2 per cent, plus local self-financing productivity deals. This offer was derisory by any standards, while the fact that the productivity deals were to be negotiated <u>locally</u> meant that there was no role for the ISTC nationally and the union sacred cow of equal treatment for all appeared to be at risk. Locally negotiated pay increases were not new to the BSC. In 1978-79 the national pay settlement of 8 per cent had risen by a further 6 per cent as a result of local agreements.

What was new here was the emphasis on productivity, to be monitored at local level, putting the emphasis on the local side and thus seeming to threaten the national power of the ISTC. The union obviously felt itself threatened from several directions. The comments of its General Secretary, Bill Sirs, are amazingly exaggerated for one who had always been considered a "moderate" union leader. When the 52,000 redundancies were announced on 30 November he said: "They are trying to trample our people into the dust." After the 2 per cent pay offer on 3 December his comment was: "Our members are livid and they are not prepared to accept. They have reached the stage now where, regardless of what is happening to the industry, they are not going to accept this sort of offer which they regard as highly insulting." And again: "It is a miserable, ridiculous offer. They are making us an offer which is trying to make us look small." It may indeed have been a ridiculous offer, but so were many of these words of Mr Sirs.

The irresponsibility of his attitude, and that of his union, is revealed in the words, "<u>regardless of what is happening to the industry</u>". In his public statements throughout the strike Mr Sirs showed a complete inability to see that there was any connection between his members' wages and the economics of the steel industry in general and the BSC in particular. This reduced the sympathy one felt for the ISTC, when they compared their miserable pay offer with the settlements which they saw being made around them, 21½ per cent for the Ford workers on 28 November, and, most significant, 20 per cent for the miners. This was accepted by a ballot of the miners' union, the result of which was announced on 5 December, two days after 2 per cent had been offered to the steelworkers. The miners' settlement was hailed by Ministers and press as "moderate". Two days later, on 7 December, the ISTC called the national steel strike, Bill Sirs saying that his members were not prepared to accept

a lower level of settlement than the miners. The National Union of Blastfurnacemen, the other major steel union, gave notice on 21 December that they would join the strike. Its General Secretary, Hector Smith, had said on 4 December: "They have offered the miners 20 per cent and us 2 per cent just because they say that they can increase the price of coal and can't increase the price of steel. The people of Britain have to realise that iron and steel is a bssic industry just like coal and vitally important to the nation."[1]

These remarks about the miners illustrate the total lack of logic which the trade union movement has encouraged. Coal is in high demand and the NCB can sell all that it produces, while steel is in surplus and the BSC is uncompetitive. Coal is basic in a way that steel is not. How can steel be "vitally important", when the BSC is commercially not viable, and all that it is doing for the nation is taking £50 per year from each UK family?[2]

These remarks show too one of the muddled attitudes bred by nationalisation, in the unions' apparent assumption that all public sector workers should receive the same type of pay settlement, with no regard for any of the commercial differences between them.

The steel strike began on 2 January 1980 and lasted for 13 weeks. The steel unions were joined in their action by the Transport & General Workers' Union on 4 January, the General and Municipal Workers' Union on 8 January and the National Craftsmens' Coordinating Committee on 9 January.

1. All quotations are from Press Reports.
2. Figure for 1979-80.

But if the unions were irresponsible, why was the management so uninspired? They should surely have known their own unions, if not human nature, well enough to know that they could not possibly accept such a derisive offer, on top of the announced closures and redundancies, which by and large they had accepted in a reasonable spirit.

The BSC management was probably making a desperate effort to stay within their own cash limits (£700 million for 1979-80 and the even stricter £450 million set for 1980-81), and therefore attempting to find the pay increase from productivity. It is hard to believe that they could have achieved this, plus agreement to the closure and redundancy programme. What is certain is that the strike made a massive contribution, £200 million, to the £545 million loss made by the Corporation in 1979-80.[1] Even without the strike it would have been the second largest loss made by the BSC.

That the Corporation knew that their original offer was totally unrealistic is suggested by the speed with which they raised it, thus immediately reducing their own bargaining credibility. Their basic offer rose from 2 per cent on 3 December, to 5 per cent on 21st, 6 per cent on 28th, 8 per cent on 7 January, 9 per cent on 8th and 10 per cent on 10th. The BSC proposed arbitration on 17 February and when the trade unions rejected this the management made the further mistake of leaving the offer on the table, which enabled the unions to suggest the Court of Enquiry which finally brought the strike to an end.

1. BSC Annual Report and Accounts 1979-80. p.2.

Nor did the management do much to keep in touch with their workforce. After some initial local publicity the BSC put out no literature until the ninth week of the strike, when the chief executive issued a broadsheet on the pay offer and invited correspondence on it. This eight week silence from the management left the steelworkers totally at the mercy of their union leaders. The BSC management seemed to be unaware of what is almost common knowledge, that union members frequently disagree with their leaders, and that to appeal directly to those members is often most advantageous. Other managements, British Leyland, for example, have used that technique to some effect in similar situations.

The basic good sense of the steelworkers was shown in their favourable response to "the ballot about a ballot", which the BSC management conducted in late February; this was remarkable in view of the apparently cavalier way in which the management had treated them.

As the BSC pay offers went up the arguments between management and unions were over very small percentages. Even when the negotiations first broke down on 7 January the difference between the BSC offer and union demands was 1 per cent. The BSC's offer was a general national increase of 8 per cent, plus a minimum of 4 per cent from locally-negotiated lump sum bonus schemes, the whole equalling a rise of about £12 a week for the average

process worker. But the offer was tied to conditions which aimed at improved efficiency, especially through the kind of flexible working practices and manning levels common in Europe,[1] so that the agreement would be largely self-financing. The unions wanted 13 per cent with diluted conditions, and the full 13 per cent nationally. The final settlement, decided by the Court of Enquiry, recommended 11 per cent basic plus 4.5 per cent on the local productivity deals. The Court's decision might be seen as a "victory" for the BSC management, whose final offer had been 10 per cent plus 4 per cent. They were fortunate because presumably they, and the government, would have had to accept the Court's decision, even if it had been for a much higher percentage. It was also a "victory" in the sense that the unions had to accept most of the conditions on de-manning and local productivity. These are to some extent now bearing fruit, for example in the manning levels being attained at the Port Talbot and Llanwern plants.[2]

The BSC Chairman therefore felt that this strike "purged many illusions and a new sense of reality is evident on the shop floor[3]". We have already noticed the reluctance of the unions to promote measures which would help raise productivity and lower unit labour costs[4]. Mr Sirs, although a "moderate" in general political terms, had been foremost in encouraging this tardiness[5]. A major strike may have been necessary to effect real change in these unions, a change which Sir Charles Villiers obviously felt that it had effected.

1. See p.111.ff.
2. See p.117.
3. BSC Annual Report and Accounts 1979-80. Chairman's Review, p.4.
4. See p.118.
5. Ibid.

The price paid for this new reality was a costly one. The strike and its final settlement cost the BSC dearly in losses and market share[1]. If the rank-and-file trade unionists in the steel industry (forgetting their leaders), are so sunk in self-deception as to have needed such a cataclysm to bring them to their senses, the industry is in an even worse state than it appears to be.

The ISTC gave its own verdict on the strike and the management in New Deal for Steel.

"...the 13 week national steel strike...was unnecessary. It was, we believe, brought about by a ridiculous offer (2 per cent plus vague productivity promises) presented in an insulting way. It was prolonged by management ineptitude...The steel unions have no confidence in the present team leading British steel."[2]

First and foremost the strike highlighted the fact that the whole bargaining process in a nationalised industry is carried out in an environment of economic unreality, because it is always assumed that more money can be got from the government. In a real business if you run out of money you run out of money. It is understood that a private industry can only pay wages out of profits, so that if excessive wage demands are made on it, it must either greatly increase productivity, and/or make

1. See Table 33. p.70.
2. Iron and Steel Trades Confederation New Deal for Steel ISTC 1980, p.39.

large-scale redundancies, and/or go bankrupt. Public industries have never needed to do any of these things. The BSC could afford to make their unrealistic initial offer and risk all the economic consequences of the strike, because they were not risking their own money. The unions could afford to be adamant, because they knew that the company could not go bankrupt and that they were asking for government money, not real money.

Partly because of this apparently unlimited money supply, partly because of a monopoly or near-monopoly situation, the nationalised industries are sheltered from the real discipline of the market and their performances tend to be poor. They have not had to be productive in order to pay their way. This has certainly been true of the BSC. Therefore the BSC's idea that the pay award should be funded by better productivity, i.e. by performance improvements, monitored at local level, although not a new idea, must have seemed unnecessary and unrealistic to those inured by years of "bottomless public purse" mentality. So that the very fact of nationalisation was a large contributory factor in the occurrence of the strike.

In a nationalised industry it has always been difficult to separate government and management in the public mind, and even in that of the industry itself. This is certainly not surprising in the steel industry where, as we have seen, successive governments have interfered so much with management that management itself is probably confused about its relationship with the government. So that an industrial dispute in a nationalised industry inevitably takes on aspects of a dispute with the government. It must be said that the present government's refusal to intervene in the steel strike

debates had to be solved. Stating that there were 14 unions in the steel industry, he commented, "No wonder we don't know where the hell we're going in that industry."[1]

This is obviously one of the steel industry's oldest and greatest problems. It is doubtful if it can be solved without a radical reform of the whole of the British trade union structure. Speeches like Mr Weighell's make that reform look more possible.

The BSC was a pioneer in employee participation, setting up its employee director scheme as early as 1968. The history of the Corporation since then does not seem to suggest that this scheme has been of great benefit to the industry. But the BSC's problems are too fundamental and great to be solved by a few employee directors, so it is unfair to judge them too harshly.

As we have seen, Bill Sirs, the present general secretary of the Iron and Steel Trades' Confederation, the largest steel union, achieved national prominence during the 1980 steel strike. He and the ISTC have recently put forward their own solution for the industry's problems.[2]

Investment

One of the main arguments for the nationalisation of the British steel industry was the need for greater investment, more capital expenditure, than a private industry could apparently provide.

1. Quoted in The Guardian of 11 September 1980.
2. Iron and Steel Trades Confederation New Deal for Steel ISTC 1980. This work also refers to the problem of the multiplicity of unions, p.5.

Investment in the industry had been fairly steady until 1962, but there was a sharp drop in 1963 and it then remained fairly low until 1971, with only a slight rise at the time of nationalisation. Thus in 1962 our investment per output tonne was competitive in international terms. After that year it lagged well behind our competitors until 1971. All this can be seen in Table 55.[1]

The sharp drop in capital expenditure in 1963 can be explained by the completion of the Llanwern and Ravenscraig developments, but the poor figures of 1964, 1965 and 1966 do suggest an industry in the doldrums. The natural explanation for this is surely the threat of nationalisation which hung over the steel industry from 1963 and became definite with the return of the Labour Government in 1964. Firms were not going to make large investments in plant that they were likely to lose. The terms of compensation at the first nationalisation had been confused and long-winded and the companies feared the same again.

Undoubtedly, therefore, there was need for further investment in the industry at the time when the BSC took over, though it is interesting to note the conflicting evidence on this. Any BSC or Government source constantly refers to the obsolescence of the plant taken over by the BSC and the consequent expense caused the Corporation. Thus:

"Nationalisation brought to BSC a large number of works with obsolete technology and low productivity."[2]

"...and the relatively limited investment in the years immediately preceding nationalisation...had left the Corporation with an amount of ageing plant."[3]

"As a consequence of this under-investment, the Corporation inherited not only a great deal of obsolescent and obsolete plant, but also much plant which had lacked sufficient maintenance expenditure and which subsequently proved defective when driven to maximum levels of output."[4]

1. See also Table 19. pp.31-32.
2. British Steel Corporation: Ten Year Development Strategy Cmnd. 5226. 1973. Para.16.
3. British Industry Today. Steel. HMSO (COI) 1974 p.21.
4. BSC Evidence to Select Committee on Nationalised Industries, HC.322i 1976, Para. 5.3. Session 1975-76. See also ibid. Paras 2.29, 3.21, 4.35.

TABLE 55

CAPITAL INVESTMENT 1963-1973 INTERNATIONAL COMPARISONS

Investment Expenditure in Relation to Crude Steel Production in the Main Steel-Producing Countries of the O.E.C.D.* (U.S. dollars per metric ton of annual output of crude steel)

Country	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Germany	14.3	10.1	8.5	8.3	6.1	5.5	6.8	14.4	18.1	13.6	10.3
Belgium	22.0	14.5	15.5	16.0	11.0	6.4	10.3	18.5	17.3	12.1	10.9
France	17.9	10.4	8.6	7.5	9.1	12.6	12.4	15.2	23.9	37.4	37.9
Italy	44.0	53.0	19.4	12.2	8.0	6.6	9.7	17.2	30.8	41.2	41.8
Luxembourg	10.8	7.9	5.6	6.5	3.5	2.8	6.2	9.0	9.0	7.6	10.4
Netherlands	24.0	18.0	11.8	21.0	27.8	33.7	26.9	22.8	27.3	20.0	8.7
Total "Six"	20.2	15.9	10.8	10.0	8.3	8.1	9.7	15.5	22.8	23.3	21.4
U.K.	9.4a	5.9a	5.1a	4.7a	5.6ab	7.5c	7.2c	9.7c	21.3c	22.0c	15.1c
Sweden	26.2	16.4	19.7	21.6	19.7	18.1	18.8	20.6	22.4	30.6	37.1
Canada	13.9	23.1	16.6	21.5	13.0	5.9	11.3	15.7	36.1	17.6	16.1
U.S.A.d	10.5	13.9	15.2	16.1	18.8	19.9	16.7	14.5	13.0	9.6	11.7
Japan	14.1	10.4	11.0	11.3	13.6	17.4	18.2	19.8	27.4	24.7	17.4

* The figures relate to investment for the production of iron and steel products as defined by the ECSC Treaty except where otherwise stated.

a Projects costing over £100,000 only

b Relates only to investment by companies which became part of the British Steel Corporation.

c Relates to investment for the production of all iron & steel products but only by the Corporation.

d Relates to investment in all iron and steel and non-steelmaking activities and acquisitions.

Source: The above table is based mainly on information contained in the OECD Report on The Iron and Steel Industry, in 1973 and Trends in 1974 (Organisation for Economic Co-operation and Development, Paris 1975)

Yet whereas in 1957 88 per cent of British steel was produced in open-hearth furnaces and 6 per cent in converters by the basic oxygen process, in 1967 56 per cent was produced by open-hearth and 31 per cent by the basic oxygen process.[1]

This change would seem to imply a fairly large amount of capital investment. We have already seen the industry's own estimate of its plant modernity,[2] and the figures for investments of over £100,000 in 1956-65,[3] neither of which suggests a mass of obsolescence. Then there is the comment of G C Allen: "Very heavy capital investment has been required (in the steel industry). Since 1965 over £1000 million (has been invested) and over half the industry's capital is now less than ten years old."[4]

The BSC seems therefore to exaggerate the obsolescence of the plant which it inherited.[5]

But if the plant had been as out-of-date as the Corporation claims, then surely heavily increased investment should have begun immediately. Instead of that, investment was virtually static from 1967-69, the first three years of the BSC. It rose in 1970 and took a considerable leap forward in 1971 under the impetus of the Conservative Government. Once again nationalisation caused delays, in an area most vital to the industry. The figures can be seen in the following Table.

1. BSC Prospects for Steel 1978.
2. Table 18. p.31
3. Table 19. p.32-33.
4. G C Allen British Industries and their Organization, London 1970. p.103.
5. For a detailed refutation of the BSC argument see the Evidence of GKN and Metal Box Ltd. to the Select Committee on Nationalised Industries. HC.322.iv. 19 May 1976, especially Appendix B. Session 1975-76.

TABLE 56

CAPITAL EXPENDITURE IN THE IRON AND STEEL INDUSTRY : 1963-72
UK

£million

Year	Britain		BSC (1972 prices)	Private sector (1972 prices)
	Current prices	1972 prices		
1963	110	173		
1964	92	139		
1965	86	125		
1966	83	116		
1967	93	130		
1968	90	121	93	28
1969	98	125	91	34
1970	151	179	133	47
1971	240	255	216	39
1972	241	241	205	36

Source: Department of Trade and Industry.

Quoted in Steel COI 1974. Table 5.

The BSC commented on this delay in its Evidence to the Select Committee on Nationalised Industries, attributing some of it to the Joint Steering Committee of 1971-72 and to the Beswick Review.[1] But the investment should have been made before 1971. As Table 56 shows, it did rise in that year and in 1972. It fell again in 1973 and has risen sharply since 1974. £2000 million has been spent in capital investment in the BSC since that year.

1. Evidence HC.322.i 1976 Para 5.3. The Corporation also took some of the blame itself (Ibid. Para. 5.12).

The firms left in the private sector at nationalisation did not waste the late 1960s. Table 57 shows how they invested steadily from 1968.

TABLE 57

CAPITAL EXPENDITURE IN THE IRON AND STEEL INDUSTRY 1968-1975

UK

£ Million

YEAR	INDEPENDENTS			BSC		
	Current Prices	1975 Prices	Share of National Total	Current Prices	1975 Prices	Share of National Total
1968	36	85	37%	62	146	63%
1969	43	97	41%	63	142	59%
1970	47	98	30%	108	225	70%
1971	56	106	22%	198	374	78%
1972	45	79	18%	210	369	82%
1973	57	91	24%	177	283	76%
1974	84	110	25%	255	334	75%
1975	120	120	23%	403	403	77%
Total 1968/75		786	26%		2276	74%
Annual Average		98	26%		284	74%

Source: Department of Industry: Compiled by BISPA.

Table 57 shows that during this period the private sector accounted on average for 26 per cent of national investment in the steel industry. Considering that the BSC is at the capital intensive end of the industry concerned with iron production and bulk steel production, one would have thought that its share of total steel investment in this period would have been more than 74 per cent.

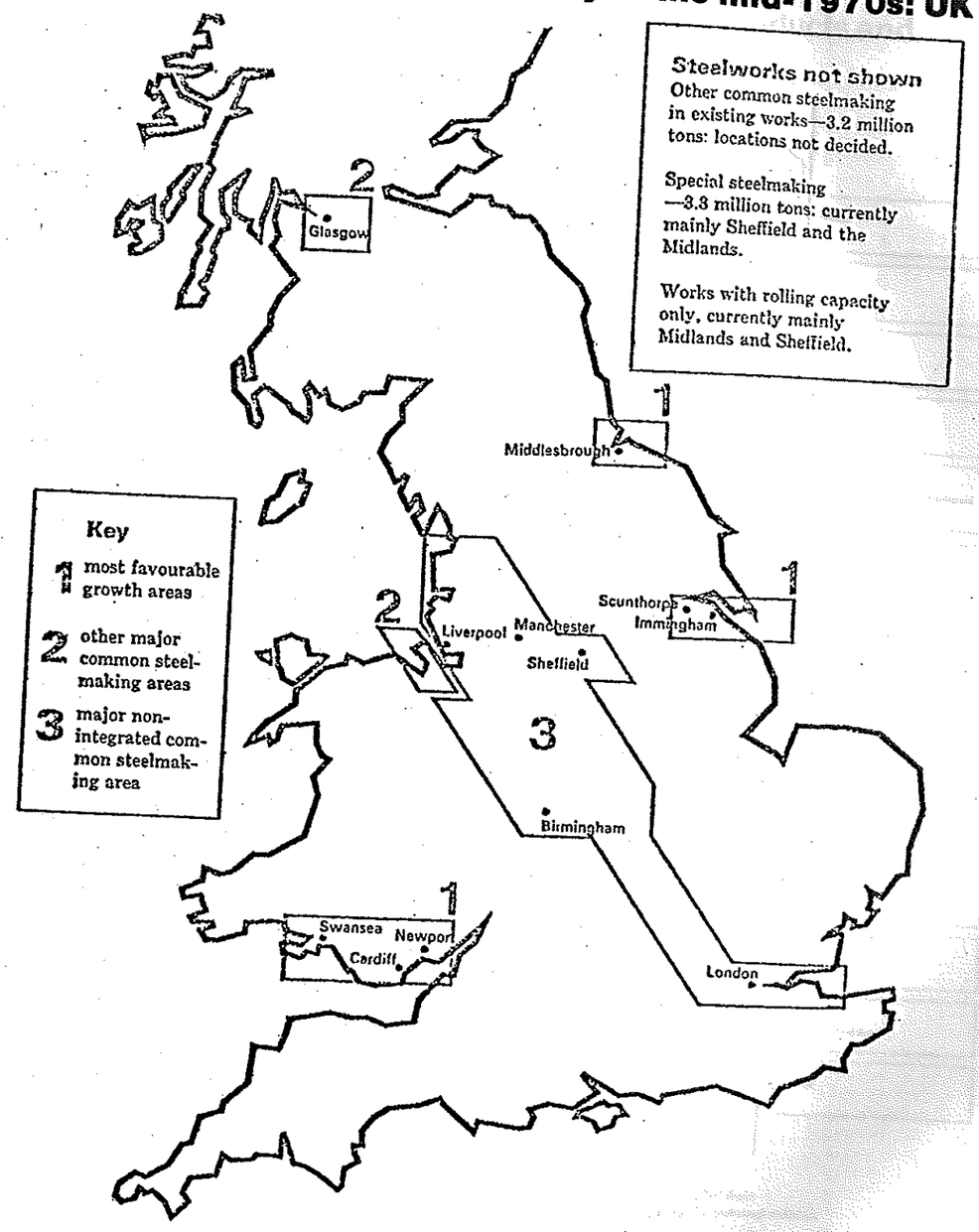
The upsurge of investment in the private sector since 1973, the year when the UK joined the EEC, is partly due to new entrants to the private sector, some with international connections, such as the Norwegian owned Manchester Steel, or the Greek owned Alphasteel,[1] who have seized the opportunity for profitable investment in the UK steel industry. Nationalisation makes this kind of multi-national investment, from which the private sector has gained so much, almost impossible for the BSC. This is another of the limitations of nationalisation.[2]

The BSCs delays in deciding on its forward strategy and therefore its investment is the more strange because the Benson Report had outlined almost exactly where the investment should be, and indeed almost the pattern which the BSC has eventually followed. The Report suggested six or seven integrated and two or three large non-integrated steelworks. It suggested that the major factor in the location of an integrated works should be its easy access to deep water ore-terminal sites. Therefore five areas with this facility should be developed, South Wales, North Lincolnshire, Teesside, North Wales and Scotland. The following maps show the Benson suggestion and how the steel centres have in fact developed.

1. See p.74
2. See below p.218 for further discussion of this.

TABLE 58

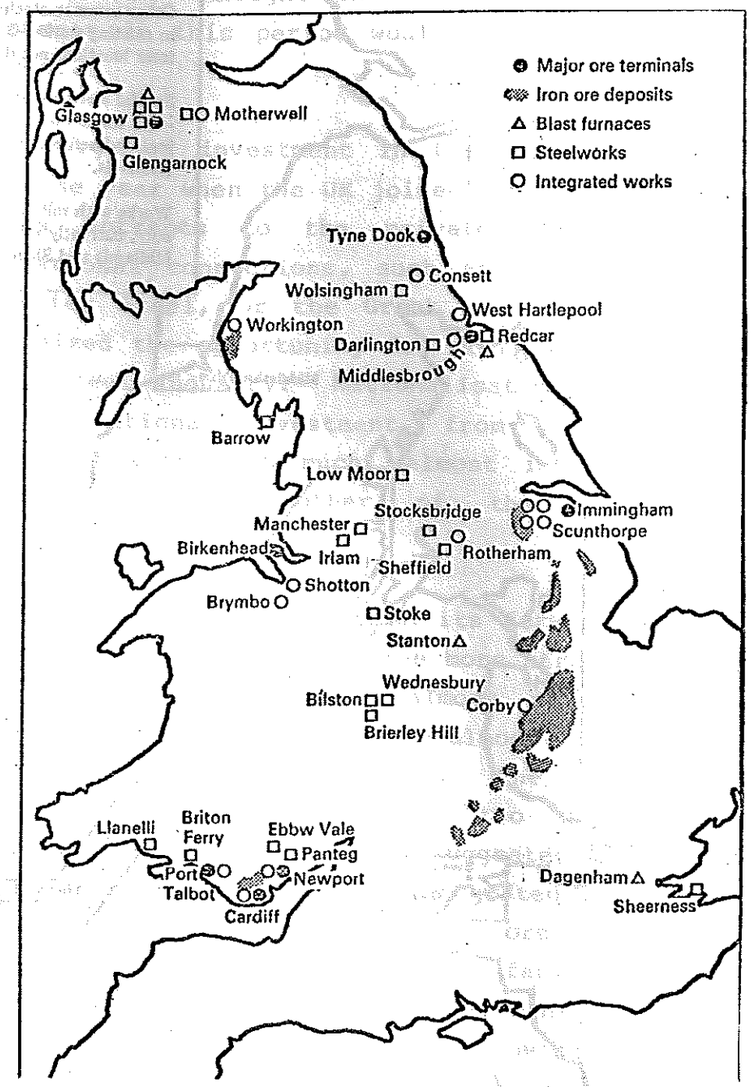
The steel industry in the mid-1970s: UK



Source: Benson Report p.76.

TABLE 59

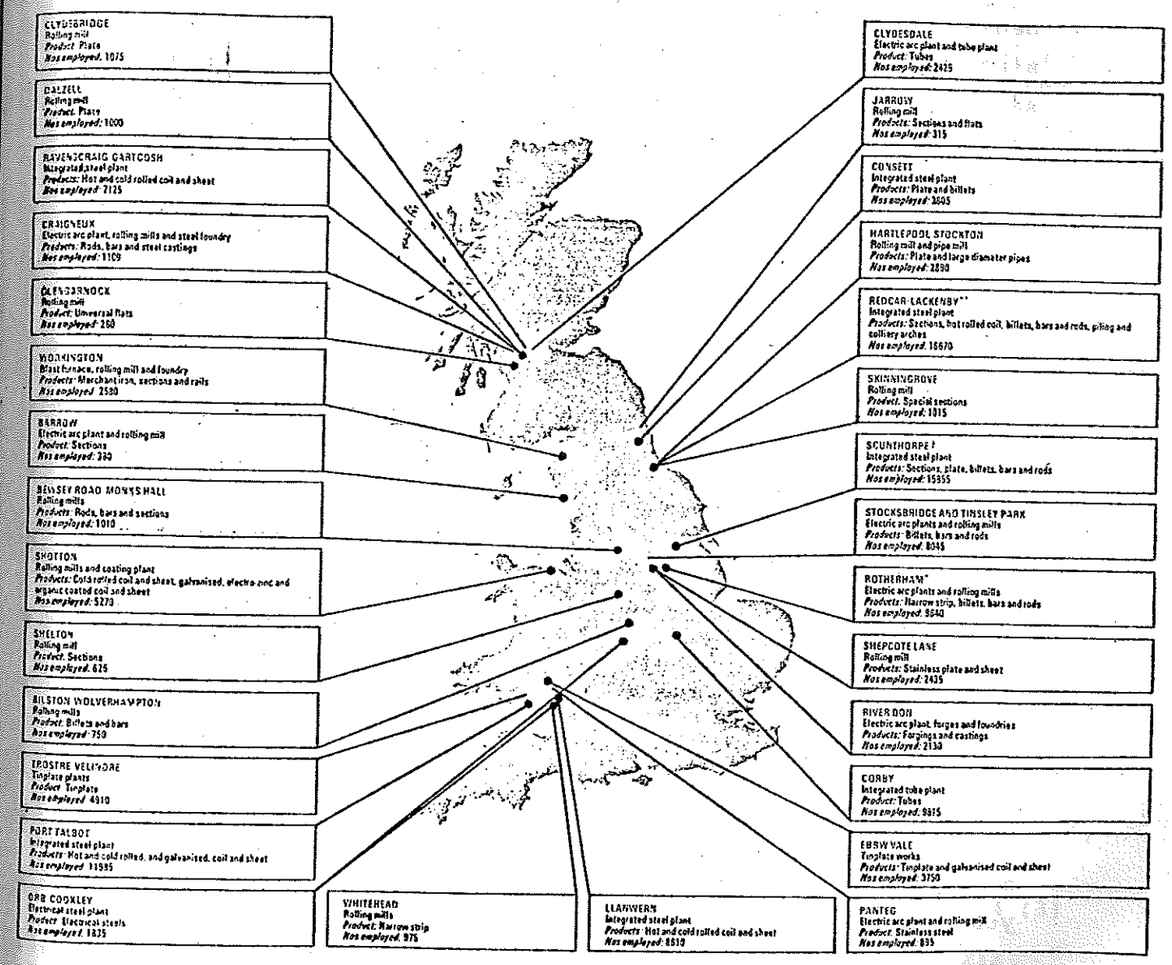
MAIN STEEL CENTRES IN BRITAIN
1974



Source: Steel COI 1974, p.29.

TABLE 60

British Steel Corporation – main iron and steel works, products and numbers employed[♦] (at 29th March, 1980)



♦ These figures include those employed in any Divisional/Group Establishment at these locations
** Redcar, Lackenby includes Cargo Fleet and Cleveland

† Scunthorpe includes Appleby-Frodingham and Normanby Park Works
* Rotherham includes Aldwarke, Roundwood, Thrybergh, Templeborough and Ickles

Source: BSC Annual Report and Accounts 1979-80. p.7.

The Benson Report also saw that these developments would mean closures of other sites.[1] But Benson saw all this happening by 1975. Instead of that, the strategy was not finally agreed between the government and the BSC until December 1972, resulting in the White Paper Steel. British Steel Corporation: Ten Year Development Strategy of February 1973.[2] This proposed an investment of £3,000 million over ten years, very much on the lines of the Benson proposals.[3] The higher level of the BSC investment since 1974 has been based on this strategy. But, as we said earlier,[4] this excellent strategy was at least five years too late. The BSC was beginning its large investments as its competitors were reducing theirs. Table 21[5] shows that our main and most successful foreign competitors, such as West Germany, Belgium, and Japan, spent heavily in the 1960s so that they had the capital equipment to turn out the goods for the prosperous years of the early 1970s and did not need to spend money in the bad years of the late 1970s, whereas the BSC's new plant is too late for the boom years of the steel industry. Now that it is coming on-stream world conditions mean that the demand for its products is drastically reduced. Investments which should have been in action before the 1975-80 recessions hit the industry are still being completed, in a steel world which is unlikely to need them, and in which the BSC has, by its delays, already lost much credibility in the fiercely competitive international market. The list of investments appended to the BSC's Evidence to the Select Committee on Nationalised Industries, 1976, shows far too many of these taking place at the latter end of the 1970s, instead of in earlier years when they could have brought prosperity.

1. Benson Report pp. 77-85.
2. Cmnd. 5226, 1973.
3. For a full description of the Strategy see p.56ff.
4. Ibid.
5. p.34.

TABLE 61

BSC

MAIN INVESTMENT PROJECTS

The list below contains the more important investment projects undertaken in the period since 1967. Some are still in progress, and where this is the case the expenditure to date is shown in brackets alongside the total for these schemes.

	Scheme	Commissioning Date	Actual/Forecast Cost (£million)
1.	Ravenscraig Stage III -Increase to 3.5 Mtpa steelmaking capacity.	1977/78	121 (78) (Eventual)
2.	Hunterston Ore Terminal - Deep water berth to accomodate large ore carriers.	1977/78	76 (25)
3.	RDL North Sea - Oil platform construction yard at Methil.	1974/75	13
4.	Clydesdale Works- Arc plant to replace Open Hearth steelmaking.	1975/76	17
5.	Scottish & Hartlepool Tube Works- Replacement of heavy seamless tube finishing.	1977/78	36 (12)
6.	Consett- Conversion of steelmaking from Kaldo to LD.	1968/69	10
7.	Lackenby - Conversion of universal plate mill to light plate mill.	1969/70	10
8.	Lackenby - Replacement of Open Hearth steelmaking by LD.	1970/71	20
9.	Redcar Ore terminal - Berth to accomodate large ore carriers.	1972/73	16
10.	Lackenby bloom caster	1973/74	13
11.	Redcar Phase IIA development (burden preparation and coke making).	1976/77	152 (118)
12.	Consett billet mill modernisation	1977/78	14 (3)
13.	Scunthorpe Anchor development Enhancement of steelmaking, continuous casting, bloom/billet mill, medium section mill & rod mill.	1972/73	232

TABLE 61 CONTINUED

Scheme	Commissioning Date	Actual/Forecast Cost (£million)
14. Formed coke plant	1976/77	14 (9)
15. Appleby-Frodingham coke ovens	1976/77	59 (49)
16. Appleby-Frodingham rod mill	1976/77	29 (28)
17. Normanby Park bloom & billet mill.	1977/78	39 (12)
18. Port Talbot Scheme 'A' - Replacement of existing steelmaking by LD shop	1970/71	39
19. Shotton Hot & Cold mill developments	1975/76	23
20. Llanwern Scheme 'C' - Third blast furnace and increased steelmaking.	1976/77	105 (101)
21. Port Talbot - New sinter strand	1976/77	27 (21)
22. Shotton - Coatings complex	1977/78	36 (14)
23. Ebbw Vale - Tinplate complex	1977/78	53 (30)
24. Port Talbot - Coke ovens (Phase 1) and coal handling facilities.	1976/77	78 (7)
25. Rotherham - Thrybergh bar mill and Wolverhampton 14" mill.	1976/77	31 (26)
26. Sheffield - Stainless strategy	1977/78	118 (25)

Source: BSC Evidence to Select Committee on Nationalised Industries HC 322:i 1976 Appendix IX. Session 1975-76

Moreover, as we have seen,[1] the closures complementary to investment have not always taken place as quickly as they should have done, although this has improved recently.[2] Similarly, completion of investment projects has also often been delayed, by industrial disputes for example,[3] although this too has shown recent improvement, the Redcar 14-metre blast furnace starting in record time in October 1979.[4] All these delays have further delayed investment and increased its cost, proving very serious for the BSC.

A layman is sometimes puzzled at the content of some of the BSCs investments: for example, did Shotton need new coke ovens in 1972-73 when steelmaking there was due to end before 1980, and did actually end in 1980? Why modernise the Consett billet mill in 1977-78 when it was to close in 1980? These strange investments are part of the BSC's tendency to spread its investment too thinly, so that the cut-backs necessitated by recession have left the Corporation with several incomplete schemes. If it had worked in a different way, completing one development fully, it could have got the maximum use and perhaps some profit, out of that development. An obvious example is the Redcar/Teesside complex, which should have been completed much earlier and in its entirety, including the plate-mill, which will probably not now be built.[5] It is as if the BSC had a number of dilapidated houses for sale and instead of restoring one perfectly so as to get a good price for it, the Corporation painted the dining-room of each house. This is another fault which is due largely to political considerations, a desire to "be fair" to all regions, and the fear of exciting electoral unpopularity. These obscure and hamper industrial and

1. See p.57ff.
2. BSC Annual Report and Accounts 1978-79, p.30.
3. See p.123.
4. BSC Annual Report and Accounts 1979-80, p.6.
5. The Road to Viability. Cmnd. 7149. 1978. Para.25.

commercial considerations and would not apply in a genuinely commercial industry which was not under state control. So this unsatisfactory investment policy is another charge to lay at the door of nationalisation.

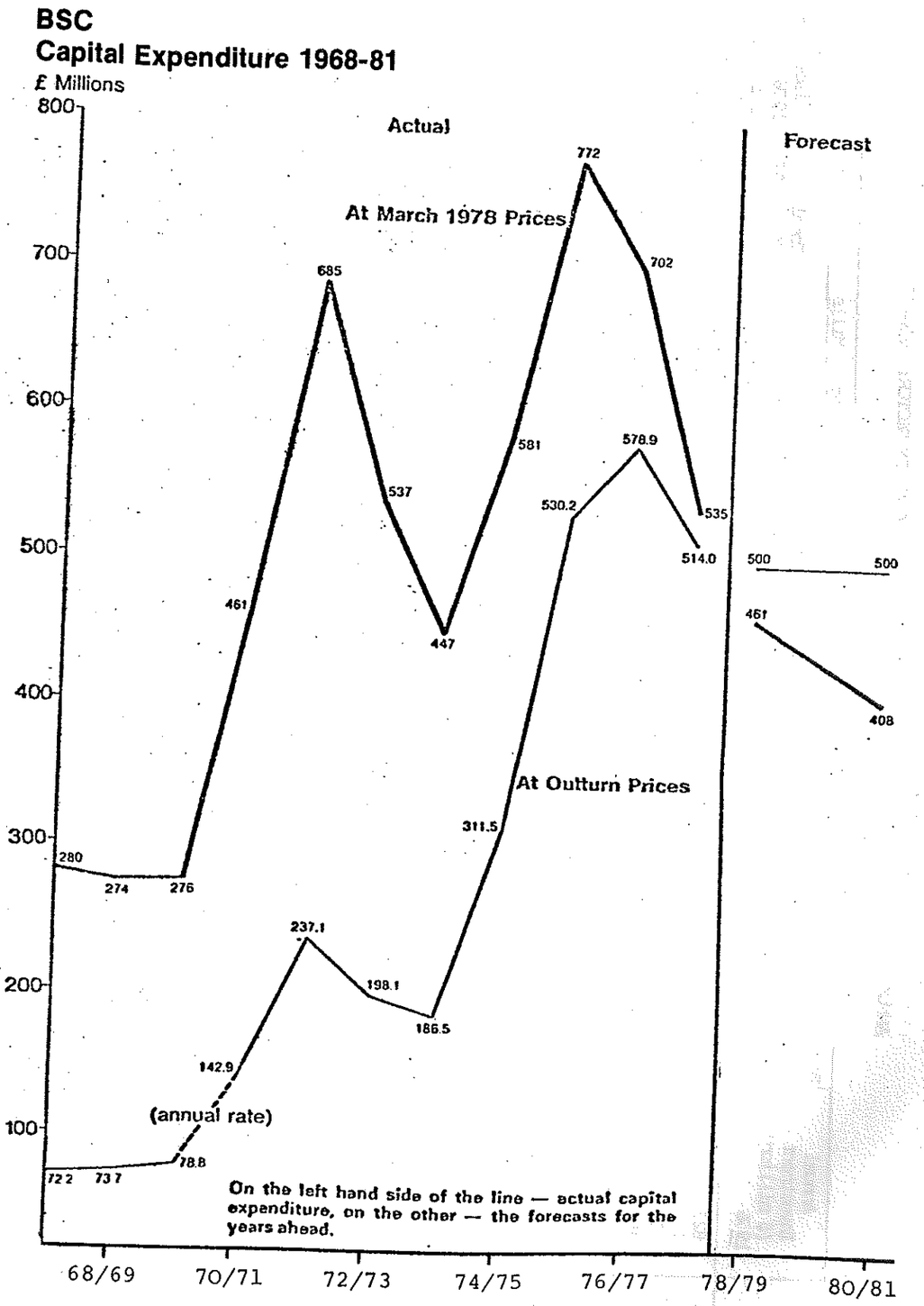
Table 62 shows the BSCs capital expenditure up to 1977. Since that year this has fallen, in line with falling demand, with the BSC's trading losses, and with the need for tight cash control. The recent figures are as follows:

1977/78	£476 million
1978/79	£318 million
1979/80	£282 million[1]

Yet Tables 63 to 66, published by OECD, show that the BSCs capital expenditure is still very high compared with that of her international competitors, especially in terms of investment expenditure in relation to crude steel production (although the figure is more balanced by 1978).

1 BSC Annual Report and Accounts 1979-80. p.6.

TABLE 62



Source: BSC Prospects for Steel 1978.

TABLE 63

ANNUAL INVESTMENT EXPENDITURE AND PERCENTAGE BREAKDOWN BY SECTOR: 1976-77
Iron and Steel Industry

Countries	Annual Investment ($ million) 1976	1977	Raw materials and preparation of burdens 1976	1977	Pig iron 1976	1977	Crude Steel 1976	1977	Rolling Mills: For flat Products 1976	1977	Rolling Mills: Other 1976	1977	Rolling Mills: Total 1976	1977	Ancillary plant and miscellaneous 1976	1977
Germany (1)	823 1	533 4	2 5	6 0	20 6	17 4	20 8	19 9	18 4	17 2	22 5	24 0	40 9	41 2	15 2	15 5
Belgium	276 9	137 8	17 5	16 8	16 5	10 1	21 3	21 3	17 6	10 8	25 4	27 1	43 0	37 9	11 7	15 9
Denmark	15 6	5 6	–	–	–	–	50 6	69 6	37 8	7 1	2 6	19 7	40 4	26 8	9 0	5 6
France	460 8	367 2	12 2	8 1	15 2	10 7	15 4	29 7	17 1	13 6	27 0	24 3	44 1	37 9	13 1	13 5
Ireland	0 1	0 7	–	–	–	–	100 0	–	–	–	–	–	–	–	–	100 0
Italy	561 5	509 4	5 7	5 6	15 5	15 4	18 5	19 3	14 5	15 2	23 1	28 5	37 6	43 7	22 7	18 0
Luxembourg	56 6	68 3	3 0	1 8	3 9	25 4	56 3	29 6	1 1	2 3	16 6	30 7	17 7	33 0	19 1	10 2
Netherlands	67 0	45 4	18 1	11 0	10 1	6 4	25 0	18 1	9 9	24 2	6 7	11 9	16 6	36 1	30 2	28 4
U.K.	1 031 8	710 6	20 8	22 8	7 2	10 6	11 7	12 1	15 1	9 3	29 2	29 6	44 3	38 9	16 0	15 6
Austria	168 8	116 4	8 1	4 5	15 3	27 0	9 5	8 5	7 4	6 9	6 7	19 4	14 1	20 3	23 0	33 7
Spain	420 0	476 0	7 6	4 4	7 4	10 2	18 8	23 1	17 8	9 9	9 3	27 0	27 1	30 9	39 1	25 4
Finland	189 1	62 4	0 6	1 1	8 6	9 4	34 9	19 6	41 8	48 0	5 1	14 3	46 9	68 3	9 0	7 6
Norway	95 5	86 9	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Portugal (2)	40 1	19 6	0 3	0 4	0 2	0 3	11 7	32 7	0 1	0 8	34 1	48 1	34 2	48 9	53 6	17 7
Sweden	322 0	259 0	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Turkey	271 3	295 3	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Canada (3)	392 0	390 7	...	...	...	...	...	...	...	...	...	...	...	...	...	...
U.S.	3255 0	2 965 0	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Japan (4)	3443 0	3 824 0	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Australia (5)	163 6	139 8	20 2	24 3	6 5	10 1	16 8	21 1	40 8	28 3	3 1	5 2	43 9	35 5	12 6	11 0
New-Zealand	0 5	5 1	...	...	...	...	...	...	...	...	...	...	...	...	...	...

1. The figure for Germany in million US$ for 1976: 885.32
2. 1976, 1 US$ = 30 .3 Esc.: 1977, 1 US$ = 38.6 Esc.
3. Iron and Steel mills capital expenditure only
4. Japanese fiscal year. 1976, 1 US$ = 277.3 yen. 1977, 1 US$ = 222.4 yen
   These figures include workers' housing investments and some investments not directly related to the products listed in the Appendix and anti-pollution investments.
5. Year ended 31st May for Broken Hill proprietary capital expenditure.

NB: Attention should be paid in the evaluation of expenditure expressed in US dollars of changes in the exchange rate which may have occurred during the year under review.

Source: Iron and Steel Industry in 1977 OECD Paris 1979

TABLE 64

ACTUAL INVESTMENT EXPENDITURE IN RELATION TO CRUDE STEEL PRODUCTION IN THE MAIN STEEL-PRODUCING COUNTRIES IN THE OECD

1976-77

Unit US$/tonne

Countries	1976	1977
Germany (1)	19.4	13.7
Belgium	22.8	12.2
France	19.8	16.6
Italy	23.9	21.8
Luxembourg	12.4	15.8
Netherlands	12.9	9.2
United Kingdon	46.3	34.8
Total ECSC	24.6	18.9
Austria	37.7	28.4
Spain	37.9	42.6
Sweden	62.6	65.3
Canada	30.2	29.0
United States	28.0	26.1
Japan (2)	32.1	37.3
Australia	20.9	18.9

NB: For the ECSC countries: unit of account/tonne
For Germany in $/tonne 1976 = 20.87

1. In the case of Japan, investment expenditure during the fiscal year has been related to production in the calendar year.

Source: OECD Ibid Paris 1979

TABLE 65

ANNUAL INVESTMENT EXPENDITURE AND PERCENTAGE BREAKDOWN BY SECTOR : 1977-1978
Iron and Steel Industry

Countries	Annual Investment ($ million) [1] 1977	1978	Raw materials and preparation of burdens 1977	1978	Pig iron 1977	1978	Crude Steel 1977	1978	Rolling Mills: For flat Products 1977	1978	Rolling Mills: Other 1977	1978	Rolling Mills: Total 1977	1978	Ancillary plant and miscellaneous 1977	1978
Germany ([1])	505.5	445.5	6.3	9.6	17.7	11.3	19.8	18.2	16.8	18.2	24.1	24.5	40.9	42.7	15.3	18.2
Belgium	139.2	85.3	16.7	8.5	9.8	5.2	21.3	13.6	11.6	15.6	25.6	33.4	37.2	49.0	15.0	23.7
Denmark	5.6	1.7	-	-	-	-	69.6	47.1	7.1	17.6	19.7	5.9	26.8	23.5	3.6	29.4
France	377.4	403.1	7.3	7.2	10.4	9.7	30.1	30.0	13.8	7.5	25.2	31.1	39.0	38.6	13.2	14.5
Ireland	0.7	0.8	-	-	-	-	-	-	-	-	-	-	-	-	100.0	100.0
Italy	501.6	449.8	5.9	5.0	15.5	11.1	20.6	16.9	11.8	13.5	26.9	30.5	38.7	44.0	19.3	23.0
Luxembourg	68.3	107.0	1.8	0.1	25.4	49.2	29.5	13.3	2.5	16.4	30.6	9.2	30.1	25.6	10.2	11.8
Netherlands	45.4	61.1	11.0	6.7	6.4	2.6	18.1	11.0	24.2	15.7	11.9	40.8	36.1	56.5	28.4	23.2
U.K.	716.0	501.0	22.2	20.7	10.5	12.6	12.0	12.0	9.2	12.3	29.4	24.7	38.6	37.0	16.7	17.7
Austria	116.4	177.0	4.5	2.6	27.0	6.6	8.5	12.4	6.9	12.2	19.4	37.8	26.3	50.0	33.7	28.4
Spain	476.0	309.0	4.4	4.9	10.2	8.1	23.1	18.8	9.9	12.9	27.0	20.7	36.9	33.6	25.4	34.6
Finland	45.8	18.8	-	-	9.6	7.8	24.7	15.0	50.0	18.7	0.4	8.7	54.0	27.4	15.3	49.8
Norway	86.9	52.7	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Portugal([2])	16.8	9.9	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Sweden	210.0	116.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Turkey	304.1	386.8	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Canada([3])	415.7	383.8	...	...	...	...	...	...	...	...	...	...	...	...	...	...
U.S.	2850.0	2538.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Japan([4])	3824.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Australia([5])	139.9	132.4	24.3	18.1	10.1	20.1	21.1	24.1	28.3	10.4	5.2	4.2	33.5	14.6	11.0	23.1
New-Zealand	5.1	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...

1. For the ECSC countries: in millions of units of account.
2. 1977, 1 US$ = 38.15 Esc.: 1978, 1 US$ = 43.78 Esc.
3. Iron and Steel mills capital expenditure only
4. Japanese fiscal year. 1977, 1 US$ = 222.4 yen.
   These figures include workers' housing investments and some investments not directly related to the products listed in the Appendix and anti-pollution investments.
5. Year ended 31st May for Broken Hill proprietary capital expenditure.

NB: Attention should be paid in the evaluation of expenditure expressed in US dollars of changes in the exchange rate which may have occurred in the year under review.

Source: Iron and Steel Industry in 1978 OECD Paris 1980.

TABLE 66

ACTUAL INVESTMENT EXPENDITURE IN RELATION TO CRUDE STEEL PRODUCTION IN THE MAIN STEEL-PRODUCING COUNTRIES IN THE OECD

1977-78

Unit US$/tonne

Countries	1977	1978
Germany	13.0	10.8
Belgium	12.4	6.8
France	17.1	17.6
Italy	21.5	18.5
Luxembourg	15.8	22.3
Netherlands	9.2	10.9
United Kingdom	35.1	24.7
Total ECSC	18.7	15.5
Austria	28.4	40.8
Spain	42.6	27.2
Sweden	52.9	26.8
Canada	30.8	26.1
United States	25.1	20.4
Japan([1])	37.3	...
Australia	19.0	17.5

NB: For the ECSC countries: unit of account/tonne.

1. In the case of Japan, investment expenditure during the fiscal year has been related to production in the calendar year.

Source: OECD Ibid Paris 1980

The Tables show that we are making very high investments and a higher investment for lower returns than most of our competitors, which reduces our competitiveness. This extraordinary situation is surely one of the explanations for the BSCs poor international performance. It is almost certainly the result of the investments being made too late, of that lack of investment in the late 1960s and early 1970s which we have noticed.

Finances of the BSC, Profitability etc.

The need to increase profits in the British steel industry had been one of the main reasons for nationalisation. A study of the figures suggests that the BSC has not been successful in this sphere.

TABLE 67

BSC FINANCES

1967-80

£ million

Year	Turnover	Profit/ loss before taxation & extraordinary items	Profit/ loss after tax & extra ordinary items*	Average return on capital employed
1967/68	1071.	-21	-19	-
1968/69	1195.	-22	-23	-
1969/70	682.	10	12	1.1
1970/71	1457.	7	-10	2.9
1971/72	1292.	-45	-68	-
1972/73	1477.	9	3	3.4
1973/74	1775.	56	50	6.8
1974/75	2255.	89	72	8.9
1975/76	2356.	-216	-255	-
1976/77	3059	-69	-95	2.1
1977/78	3154	-455	-443	-
1978/79	3288	-327	-309	-
1979/80	3105	-544	-545	-

* Mostly depreciation and other expenses associated with works' closures.

Source: BSC Annual Reports and Accounts.

It should be remembered that these paper losses of the BSC take no account of the use of public funds at low interest (or no interest), or the writing-off of money invested in plant declared obsolete, so that the British Steel's true losses are much greater even than these figures suggest.

The improved figures for 1972-1975 probably represent both the impetus of the Joint Steering Group of 1971-72 and the decisions of the 1973 White Paper[1] and the good conditions of the world steel market in those years. In the 1973 White Paper the government set the BSC the objective of achieving an annual average return on net assets, i.e., capital employed, of 8 per cent over the four years to March 1977,[2] and at least as high a return thereafter. The column of rates of return in Table 67 shows what the actual results have been, the 1973 target being achieved only in one year, 1974-75.

In 1973 not only was the world steel crisis not foreseen, neither was the most reprehensible delay in the implementation of the 1973 'Strategy' which has already been discussed.[3] While the world crisis has pushed many steel industries into loss, the failure to implement that strategy has made the BSCs loss that much greater because the Corporation did not move into crisis from a base of reasonable profitability, as many other steel industries did.[4]

It has frequently been suggested that the BSC took over in 1967 a group of companies that were near bankruptcy and inherited a loss-making situation.

1. Steel. British Steel Corporation: Ten Year Development Strategy. Cmnd.5226. February 1973.
2. Ibid. Para. 21
3. p.57ff.
4. As Sir Charles Villiers said in his last Report as BSC Chairman. BSC Annual Report and Accounts 1979-80. p.4.

Thus the Ten Year Development Strategy[1] said: "The companies from which the Corporation was formed in 1967 were, in general, financially weak."

The BSCs Evidence to the Select Committee on Nationalised Industries -

"The assets which the Corporation took over on vesting date were not, as a totality, operating profitably.... For many years prior to vesting the trend of the trading results of the companies which were taken into public ownership had been steadily deteriorating."

The GKN steel company, in its Evidence to the Select Committee on Nationalised Industries, refutes this. GKN said that all the steel companies except Richard Thomas and Baldwins had been "consistently profitable (and despite)....strict price supervision had managed to maintain a respectable flow of capital investment."[3] Richard Thomas and Baldwins, which was already nationalised, was the principal lossmaker and contributor to adverse cash flow. This seems a reasonable charge and would explain why no-one wished to buy back Richard Thomas and Baldwins after the first nationalisation.

Nor do the BSC charges agree with the profitability figures given in the Benson Report,[4] although the Benson figures show that the profits were declining from 1961. This was surely yet another result of the companies' fear of nationalisation.

1. Op.cit.Para.16.
2. Op.cit.Para. 4.35.
3. HC 322.iv. 19 May 1976. Para. 2.2. Session 1975-76.
4. See Table 14 p.25

But the BSC insisted that their standards were higher than those of the private companies, and that is why they saw the situation as loss-making. Thus in their Evidence to the Select Committee (1976) -

"In view of the many changes which have taken place since the Corporation was set up it is no longer possible to make exact comparisons but in 1967, the last year prior to vesting, the companies taken into public ownership showed, after a net interest charge of £28 million but before deducting substantial amounts of accelerated deprecation in respect of assets written off, an aggregate loss of £3 million on the varying depreciation policies they adopted. The Corporation adopted more stringent accounting policies, which it believed to be in the interests of the industry. In particular, it increased the charge for depreciation on the bulk of its fixed assets so as to write them off over a total life of fifteen years. The Corporation stated in its Annual Report for 1970-71 that if these policies had been applied to the publicly-owned companies in the year prior to vesting, they would have reported in the aggregate a loss of the order of £50 million." (Evidence: Para. 4.36.).

Similarly the BSC refers thus to its accounting policies -

"The accounting definitions and methods employed by the companies acquired in 1967 varied considerably. For example, valuations of stocks were far from uniform, and plant lives for depreciation purposes varied between 20 and 27 years. To ensure comparability of costs and profits, it was essential to establish uniform definitions and accounting practices across the Corporation. A common depreciation policy was adopted which entailed shorter life periods than previously, no item of plant or machinery being written off over more than 15 years." (Evidence: Para. 2.29).

One can see that this depreciation policy could make a significant difference to the accounts. One wonders if such an apparently short plant life is realistic in such a high-capital industry? Would it be possible or commercially practical in a private industry? The BSC now gives its iron and steelmaking plant and machinery a maximum life of 25 years.[1] Why the change?

Acknowledging its lack of profitability the BSC attributed it to its inheritance of obsolescent (or obsolete) and overmanned plant and to the control on prices exercised by the government. As we have seen, the argument about the plant is probaby exaggerated by the Corporation. The argument about overmanning is true, but why then did the BSC take so long to do anything about this? The argument about prices we shall look at in more detail later.[2]

The Corporation also felt that its early balance sheets were poor because its assets were overvalued. It began with a commencing capital debt to the Exchequer of £834 million. The BSC felt that this represented a considerable over-valuing of assets, because of the depreciation policies already mentioned, because -

"certain of the companies' pension obligations were unfunded at vesting date; the companies' accounts did not reflect the liabilities arising from the central trading operations financed by arrangements administered by the British Iron and Steel Federation, the onerous nature of which reduced the earning capacity of the assets vested in the Corporation; finally, among the liabilities of the companies which the Corporation had to assume were loans in respect of uncompleted major developments which required further expenditure for them to be fully productive." (Evidence: 1976 Para. 3.2).

1. BSC Annual Report and Accounts 1979-80 p.30
2. p.194ff.

The Corporation, like most nationalised industries, was originally financed entirely on a debt basis.

After discussion about these matters, the government agreed that the Corporation's trading circumstances justified the introduction of Public Dividend Capital (PDC) and the Iron and Steel Act 1969 arranged for £700 million of the commencing capital debt to be classified as PDC. The BSC commented in 1976 -

"...even with the creation of PDC the Corporation had no reserves and the basic problem of over-valuation was unresolved." (Evidence: Para. 3.4).

The Iron and Steel Act 1972 acknowledged this. By it PDC was reduced by £200 million to £500 million and the government wrote off £150 million of the Corporation's long-term debt.

These 1971/72 arrangements of reducing the PDC and writing off some of the debt were, of course, made by the Conservative Government as part of its attempt to revivify the industry under the Ten Year Development Strategy. In the same "package" the government insisted that the BSC should be profitable and achieve an average return on assets of 8 per cent per annum. Although, as we have seen,[1] that was largely a vain hope, these government measures certainly helped the BSC. In 1972-73 it made a profit of £2.8 million after tax instead of an expected loss of £70 million.

1. Table 67 p.155

At the same time in 1971/72, the BSCs borrowing powers were increased. (Total borrowing limits cover PDC, borrowings from the government and borrowings from other sources). These powers had begun in 1967 at £300 million, increased to £400 million in 1968, to £600 million by the Act of 1969, to £650 million in July 1971. The Act of 1972 increased them to £1,250 million. In 1976 they went up to £2 billion. They were increased by the Iron and Steel (Amendment) Act 1976 to £4 billion, £3,070 million of which had been used by the end of March 1978. They were increased to £4¾ billion on 20 July 1978, to £5½ billion on 29 March 1980, and to £6 billion on 26 February 1981.

The annual external financial limits in recent years have been as follows:

1977-78	£950 million
1978-79	£875 million
1979-80	£700 million, of which only £579 million was used because of the steel strike.
1980-81	£450 million, plus the £121 million left over from 1979-80.

The BSC told the government that this would not be enough, and when they had utterly failed to raise the money, the Industry Secretary, Sir Keith Joseph, finally granted them an extra £400 million on 26 September 1980 bringing the total for 1980-81 to £971 million. The alternative would appear to have been the winding-up of the Corporation.

In February 1981, after the government's acceptance of the McGregor plan, the Corporation requested and received an extra £150 million in their external financial limit for 1980-81, bringing the total for the year to £1,121 million, and a £730 million external financial limit for

1981-82. These huge figures not only allow for the BSC's substantial losses but also for the heavy costs of redundancies and closures under the McGregor plan and also for some limited essential capital expenditure.

Some of these borrowings, of course, constitute PDC as it was up to April 1978, and New Capital as it has been called since. After its revision of 1971-72 PDC stayed static until 1975 when the Iron and Steel Act gave the Industry Secretary power, with the approval of the Treasury, to pay to the Corporation as capital such sums as he thinks fit, subject to the Corporation's statutory borrowing limits. The White Paper of 1978[1] changed that to the subscription of New Capital (in practice it comes to the same thing). So, amounts paid up to 1 April 1978 are described as PDC, amounts after that date as New Capital. Figures for the injection of capital into the BSC look like this:

TABLE 68

INJECTION OF PDC AND NEW CAPITAL INTO THE BSC
1967-80

	£ million	
1967-68	700	
1968-69	700	
1969-70	700	
1970-71	700	
1971-72	500	
1972-73	500	
1973-74	500	
1974-75	545	
1975-76	889	
1976-77	1,379	
1977-78	1,824	
1978-79	2,674	(increase of £850)
1979-80	3,579	(increase of £905)

Source: BSC Annual Reports and Accounts.

1. British Steel Corporation: The Road to Viability. Cmnd. 7149. March 1978, Para. 29.

PDC is a method of financing state industry so that interest payments can be linked to profitability. The big increase in the use of PDC for financing the BSC from 1975 on, (which can be seen in Table 68), has considerably alleviated the Corporation's interest and debt burden. This is another facility which would not be available for a private industry. Moreover the New Capital subscribed to the BSC since April 1978 has been provided interest free (under Section 18 of the Iron and Steel Act 1975), pending the capital reconstruction of the Corporation mooted in the 1978 White Paper.[1]

Meanwhile, long-term debt figures look like this:

TABLE 69

LONG-TERM DEBT OBLIGATION OF THE BSC
1967-80

	£ million
1967-68	350
1968-69	320
1969-70	339
1970-71	368
1971-72	516
1972-73	512
1973-74	554
1974-75	691
1975-76	1,051
1976-77	1,445
1977-78	1,752
1978-79	1,549
1979-80	1,289

Source: BSC Annual Reports and Accounts

1. The Road to Viability. Cmnd. 7149, 1978, Para 29.

At 29 March 1980 the following amounts ranking as borrowings were outstanding from the BSC.

TABLE 70

Borrowings limit

Under Section 1(2) Iron and Steel (Amendment) Act 1978, the limit to borrowings by the Corporation and the publicly-owned companies as at 29 March 1980 was £4,750 million (1979:£4,750 million): and since that date this has been further increased to £5,500 million, by order of the Secretary of State with consent of HM Treasury. At 29 March 1980 the following amounts ranking as borrowings for this purpose were outstanding:

	1980 £M	1979 £M
Short term borrowings:		
Corporation £271 million (note 18) less net uncleared effects of £189 million (1979:£317 million less £190 million).	82	127
Publicly-owned companies.	-	22
Long term indebtedness:		
Secretary of State for Industry (note 23 and Statement A).	559	768
Foreign loans (note 23 and Statement B)	728	779
Other indebtedness.	1	2
Capital (note 19).	3,579	2,674
	4,949	4,372
Less: amount not ranking as borrowings in accordance with Sections 19(a) and (b), Iron and Steel Act 1975.	634	634
	4,315	3,738

Source: BSC Annual Report and Accounts 1979-80, p.37.

Of this £559 million was owed to the Secretary of State for Industry, £728 million in foreign loans. Full statement of these debts follows here.

TABLE 71

British Steel Corporation

Long Term Indebtedness to **the Secretary of State for Industry** at 29th March 1980

Date	Terms of repayment	Date of Maturity	Range of fixed rates of interest per annum	Balances outstanding at 31st March 1979	Amounts repaid in the period to 29th March 1980	Balances outstanding at 29th March 1980
			%	£M	£M	£M
July 1967/March 1968	*By instalments from 15th September 1968	15th March 1983	Min 6¼ Max 7½	9	2	7
September 1968	*By instalments from 15th September 1969	15th March 1986	Min 7½ Max 7⅝	3	1	2
September/November 1969	*By instalments from 15th September 1970	15th March 1987	Min 8⅛ Max 9¼	10	1	9
September 1970/March 1971	*By instalments from 15th September 1971	15th March 1988	Min 8¼ Max 9⅜	15	2	13
April 1971/March 1972	*By instalments from 15th September 1972	15th March 1989	Min 7⅞ Max 8⅝	75	8	67
July 1972/March 1973	*By instalments from 15th September 1973	15th March 1990	Min 8⅜ Max 9½	110	10	100
November 1973	*By instalments from 15th September 1974	15th March 1991	11⅜	14	1	13

TABLE 71 CONTINUED

Date	Terms of repayment	Date of Maturity	Range of fixed rates of interest per annum	Balances outstanding at 31st March 1979	Amounts repaid in the period to 29th March 1980	Balances outstanding at 29th March 1980
			%	£M	£M	£M
November 1974/March 1975	*By instalments from 15th September 1975	15th March 1992	Min 12⅝ Max 16¾	57	4	53
May 1975/March 1976	*By instalments from 15th September 1976	15th March 1993	Min 13⅞ Max 15	112	8	104
May 1976/September 1976	*By instalments from 15th September 1977	15th March 1994	Min 13½ Max 14¼	64	4	60
April 1977/March 1978	*By instalments from 15th September 1978	15th March 1995	Min 10⅞ Max 12¾	140	9	131
August/September 1977	On maturity	15th September 1979	Min 9¼ Max 10	63	63	-
February/March 1978	On maturity	15th March 1980	Min 10 Max 10⅜	96	96	-
				768	209	559

* Instalments are payable in equal half-yearly amounts 15th March and 15th September

1. The average rate of interest payable on the balance outstanding at 29 March 1980 is 11.6 per cent.
2. The balance outstanding at 29 March 1980 includes loans and instalments of loans totalling £50 million, due for repayment before 28 March 1981.

Source: BSC Annual Report and Accounts 1979-1980 Statement A p.38

TABLE 72

British Steel Corporation

Foreign loans
at 29th March 1980

	With covered exchange rates		With uncovered exchange rates		Total	
i) By currency	m	£m	m	£m	m	£m
US dollars	US$1,010	487	US$ 151	69	US$ 1,161	556
Canadian dollars	-	-	Can$ 75	29	Can$ 75	29
German marks	DM 59	14	DM 80	19	DM 139	33
Dutch gilders	DGL 68	13	DGL 71	16	DGL 139	29
Swiss francs	SWFR 145	32	-	-	SWFR 145	32
Belgian francs	BFR 143	2	BFR 562	8	BFR 705	10
Others (inc sterling)	-	28	-	11	-	39
		576		152		728
ii) By source						
European Investment Bank		101		84		185
European Coal & Steel Community		325		49		374
Dollar Bonds		150		19		169
		576		152		728
iii) Average interest rate payable based on the balances at 29th March 1980 & including, where relevant, the interest payment to HM Treasury for exchange cover:		11.2%		8.9%		10.7%

TABLE 72 CONTINUED

	With covered exchange rates	With uncovered exchange rates	Total
iv) Loans & instalments repayable			
Within one year from balance sheet date	105	-	105
From 1 to 5 years	380	62	442
From 6 to 10 years	66	77	143
From 11 to 15 years	21	8	29
Over 15 years	4	5	9
	576	152	728
v) The above repayments include loans totalling £422 million which are wholly repayable within five years.			

Source: BSC Annual Report and Accounts 1979-80 Statement B.p.39

So in the thirteen years of its existence, the BSC has amassed debts of some £4½ billion. Most of this money has come from the government, i.e. the taxpayer. Repayment of all foreign loans is guaranteed by the Treasury, so ultimately the taxpayer could be responsible for those too. The retiring chairman of the Corporation gave little hope that this borrowing would be reduced:

"We have tried all ways of relieving the 'Borrowing Requirement', but so far without success."[1]

To be set against this heavy borrowing is the £10 billion replacement value of the Corporation's fixed assets. The book value of these however is already being written down in the accounts, to allow for the recent works' closures and the general over-capacity throughout the BSC (and indeed throughout the world). Further write-down is now taking place. Up to another £1,000 million may be written off by order. This enables the borrowing limit to be reduced to £3,500 million. The new Iron and Steel Bill, published on 24 February 1981, reduces the Corporation's capital by writing off losses of £509 million from the National Loans Fund and £3,000 million from the BSC's capital. This write-off reflects the loss of value of the capital, as illustrated by the recent write-down of fixed assets, as well as revenue losses.

And despite the high replacement and therefore saleable value of the BSCs fixed assets, would it really sell as a going concern? Would anyone want to buy these loss-making steelworks? The high hopes raised by the plans of a private consortium to buy the closing Consett steelworks have not been realised, the scheme collapsed. This does not augur well for any future attempts to sell any BSC plants.

1. BSC Annual Report and Accounts 1979-80. p.5.

It seems that we need a very different national climate, both economic and especially in the industrial relations field, before foreign steel-makers, for example, could be persuaded to invest here, though as we have seen they have done so in the private sector.[1] But would anyone but the government finance the BSC, and if they would not should it be financed? This is a very difficult question. Sir Charles Villiers, former Chairman of the BSC said in 1977 in a speech to the Northern Society of Accountants, that private sector "companies losing money at the rate we are now would be in receivership or liquidation." Mr Ian McGregor, the present Chairman, has said that by any normal commercial standards the Corporation is bankrupt.

These tremendous losses also mean that the BSC pays virtually no tax. Some idea of the tax paid can be gained from the profits before and after tax[2], although that taxation figure also includes extraordinary items. In the last three years the taxation situation has been as follows:

1. See pp.74ff.
2. Table 66, p.153.

TABLE 73

BSC Taxation 1978-80	1978 £m	1979 £m	1980* £m
Taxation based on profit of the year:			
The Corporation and subsidiaries:			
United Kingdom corporation tax at 52 per cent (1978: 52 per cent)	2.6	2.6	3
Deduct: Double taxation relief.	2.3	2.4	3
	0.3	0.2	-
Development land tax	0.1	0.2	-
Overseas taxes	1.8	3.4	3
	2.2	3.8	3
Associated companies:			
United Kingdom corporation tax	1.8	1.6	1
Deferred tax	(6.9)	(1.4)	(2)
Overseas taxes	4.1	3.4	6
	(1.0)	3.6	5
	1.2	7.4	8

i) In arriving at the charge for corporation tax for the Corporation and subsidiaries, advantage has been taken of group relief so that profits have been offset against losses; in addition, the charge reflects relief for advance corporation tax recovered.
ii) Accumulated losses, including accelerated taxation allowances and adjustments for previous years, available at 29th March 1980 to carry forward against future charges for corporation tax, are estimated at £3,900 million (1978: £2,177 million, 1979: £2,931 million). In addition, an accumulated balance of advance corporation tax of £8 million (1979: £8.5 million) already written-off is available for set-off against future charges for taxation.
iii) The figure calculated for deferred tax under the liability method amounted to £205 million at 29th March 1980 (1978: £675 million, 1979 £887 million). Taxation relief on the losses referred to in (ii) above exceeds the liability calculated on this basis so that no net liability would arise.

* 1980 figures are rounded up or down by the Corporation.
Source: BSC Annual Reports and Accounts.

Thus the tax relief constantly cancels out or exceeds the UK taxes. The only real taxes paid are overseas taxes. Similarly the government is allowing the BSC to pay no dividends on the capital put in after 1978 until the reconstruction proposed then[1] is complete, although the Secretary of State for Industry has warned that this may not be possible for much longer.[2]

At an average wage of £4,800 per year per employee, the BSC is not overpaying its workers nor paying them particularly well by international standards. But is it surprising that continental workers, producing twice as much, are paid twice as well?

Why is the BSC losing so much? The new start given in 1971-73 with the increase of capital and writing off of debt did indeed produce the profits of 1972-75. They were not large profits but we would be delighted if the BSC were making any sort of profit now. In 1973 the Corporation hoped to be able to finance the Development Strategy from within, estimating that over half the expenditure would be met from depreciation and retained profits. Instead of that in the years 1973-77 only one sixth of the BSCs investment was funded internally. Why was 1973 not the start of better things? The reasons have appeared already; the constant delays, the Beswick Review above all things, the persistent overmanning, the unions' failure to implement the agreement of January 1976. There are more men employed in the British steel industry than in that of any other ECSC country except West Germany. All this exacerbated the effect of the post-1975 world recession.

1. In The Road to Viability. Cmnd.7149. 1978.
2. Hansard 22 May 1980 Cols. 298-299. The necessary capital reconstruction of the BSC is one of the main purposes of the Iron and Steel Bill, published on 24 February 1981. See House of Commons Statement on the Steel Industry by Sir Keith Joseph, Secretary of State for Industry, 24 February 1981.

In 1977/78 the BSC itself ascribed 40 per cent of its losses to the world recession, 40 per cent to overmanning and 20 per cent to the government's decision to keep open obsolete plant under the Beswick Review.[1] This is possibly a fairly consistent percentage for the Corporation's losses.

The world steel recession has driven many steel industries into loss. Many of them are going into loss from profit as they were profitable up to 1975. International profitability comparisons are very difficult to make, but in 1973-74, almost the best year for the BSC, its return on turnover after tax and long-term interest was 2.2 per cent; in the same year the five major US companies, all in private ownership, had returns of 4.2-5 per cent. So that, unlike other steel companies, the BSC was going from loss or near loss into greater loss.

£200 million of the Corporation's loss last year (1979-80) was due to the year's steel strike, £200 million to increased UK cost inflation, which could not be recovered in selling prices owing to weak market conditions and the strong pound, causing a "cost-price" squeeze. Other main factors include the costs of carrying excess capacity and of commissioning new plant, especially at Redcar.[2] At a time of general economic recession when even previously profitable industries are suffering, the losses of a permanent loss-maker like the BSC become even greater.

The Corporation has not been helped by its own financial forecasting. This was once a cause for pride:

1. BSC Annual Report and Accounts 1977-78.
2. BSC Annual Report and Accounts 1979-80, p.8.

"Before vesting day very few companies made forecasts for cash flow and even fewer revised such forecasts during the course of their operating year. The Corporation prepares forecasts each month for the whole of the cash activities, covering three months ahead individually and the period to end of the financial year. This procedure is an integral part of monitoring the Annual Operation Plan." (Evidence: 1976 Para 2.35).

Their forecasting seems to be very awry and indeed its inaccuracy was criticised in the report of the Select Committee on Nationalised Industries.[1] In May 1976, for example, the BSC forecast profit for 1977/78 of £346 million. By July 1977 it was forecasting a loss for the same year of £466 million. The final result was a loss of £443 million.

Similarly the task that the Board of the BSC set itself in April 1978 of operating at a rate of break-even by March 1980, although admirable, was surely wildly optimistic. If it was at all possible, why did the BSC not come nearer to achieving it - allowing for some failure due to the strike? That it must have been thought possible is borne out by the fact that it was reinforced by the Secretary of State for Industry in July 1979, when he set the Corporation's cash limits based on non-funding of the BSCs losses in 1980-81. This deliberately created intense pressure on the BSC to reduce costs and improve performance. By November 1979 the Corporation realised that they could not break even

1. The Nationalised Industries Cmnd.7131, 1978, Para.58ff. See also British Steel Corporation, the Government's Reply to Recommendations from the Select Committee on Nationalised Industries, Cmnd.7188, 1978. Recommendation 3 p.5.

and formally abandoned the attempt on 29 November 1979. But how did the Corporation ever think, and persuade others to think, that this might even be possible?

Finances and Profitability of the Private Sector

Meanwhile, what has been the fate of the private sector of the steel industry since nationalisation?

In 1973-74 when the BSCs return on capital was 6.8 per cent, that of The Times 1,000 records of leading British companies was 24.4 per cent, that of the private steel sector 15 per cent. In 1974-75, the Corporation's best year, when their rate of return was 8.9 per cent, that of the private steel sector was 22.9 per cent.

The BSC was set a target of 8 per cent rate of return in 1973, which it only achieved once. The private sector's rate of return has to be higher than that - because of the need for adequate profit to secure finance for investment and to cope with high interet rates.

Table 74 shows the financial performance of the private sector in 1969-76, while Table 75 compares the performance of public and private sectors.

TABLE 74

UK

PRIVATE SECTOR OPERATING AND FINANCIAL STATISTICS
1969-1976

	Trading Years						
	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76
Steel deliveries (million tonnes) (first of two years quoted)	5.2	5.4	4.6	4.7	5.6	6.4	5.2
	£M	£M	£M	£M	£M	£M	£M
Turnover	550	600	550	600	800	1100	1050
Capital employed	280	305	325	360	400	480	550
Profit before tax	35	45	37	39	60	110	70
Return on capital employed	12.5%	14.7%	11.3%	10.8%	15.0%	22.9%	12.7%
Return on turnover	6.3%	7.5%	6.7%	6.5%	7.5%	10.0%	6.7%

Source: BISPA estimates prepared from public company accounts covering about 90% of total output and other information relating to production of BISPA products 1969/1976

TABLE 75

BRITISH STEEL INDUSTRY: PUBLIC AND PRIVATE
PROFIT/LOSS BEFORE TAX
1967-80

BSC Financial Year	£M	Private Sector* Reporting Year	£M
1967/8	-21	1967	+35
8/9	-22	8	+45
9/70	+10	9	+37
1970/1	+7	1970	+39
1/2	-45	1	+60
2/3	+9	2	+100
3/4	+56	3	+70
4/5	+89	4	+85
5/6	-216	5	+70
6/7	-69	6	+90
7/8	-455	7	+70
8/9	-327	8	
1979/80	-544	1979	
1967/80 LOSS	£1,528,000,000	1967/1980 PROFIT	£701,000,000

* Steel activities of Public Reporting Companies in BISPA.

Source: BISPA

Tables 74 and 75 show how the private sector's profitability has grown since nationalisation. In the first years, returns were relatively low, rising to a peak in 1970. The peak of the next trade cycle was reached in 1974 and because of the price freedom open to Treaty of Paris producers in this period, it was possible for full advantage to be taken of the good trading conditions of the period so that returns in that year were comparable with the best of British industry. The recession of 1975-76 affected company profits, but investment schemes did not suffer. "...there are signs....that the position has stabilised and the financial results for 1976/77 will be significantly better than those for 1975/6". (BISPA Supplementary Written Evidence to Select Committee on Nationalised Industries, 1976).

Without a full examination of the Reports and Accounts of the individual companies, we do not have the full financial details of the private sector since 1976, but we can see that it faced recession from a far better base than the BSC.

ICC Business Ratios produced in 1978 a Business Ratio Report on Steel Producers[1] in which they analysed the performances of 60 of the leading private sector steel companies in the three years to April 1977. The total value of sales of the companies during this period increased by 35 per cent, a growth rate of 12.6 per cent in the first half of the period, 20.1 per cent in the second half. The government steel sales' statistics, which include the BSC, show a 5 per cent growth in the first half, decline in the second half. The private companies' pre-tax profits fell by 24.3 per cent during the period and stock turnover deteriorated. Financial operating costs of the companies were higher. But deterioration was halted by two factors.

1. Business Ratio Report. Steel Producers. An Industry Sector Analysis: ICC Business Ratios, Inter-Company Comparisons Ltd. London 1978.

1. Price increases whose success in such recessionary times reflects the specialised nature of the companies' products. This would not apply so much to the BSC.

2. Improvement in labour productivity. A reduction of manpower increased profit per employee.

Compared with the BSCs losses of £246 million in 1975-76, and £83 million in 1976-77, in the private sector only six out of 55 analysed companies made a loss in 1976-77. The BSC was outmanaged; for example, its steel turnover was half that of the private companies, as was its capital utilisation.

One of the companies which does well in this ICC report is GKNs Brymbo steelworks. This was sold back to the private sector in 1974 as part of the Conservative Government's rationalisation of the steel industry. Brymbo, an important works for the production of alloy steel, has played an important part in the profitability of the private sector. It is amazing that in 1980, a year of such a downturn in the steel industry, GKN opened on 11 June, a new £48 million rolling mill at Brymbo to produce bars and billets, one of the most advanced of its kind in the world. It has the capacity to roll 12,500 tonnes of steel a week, taking Brymbo's rolling capacity from 525,000 tonnes to 600,000 tonnes.

It is interesting to note the comments of the Chairman and managing director of Brymbo Steelworks at the time of the opening of this mill.

"GKN gave it [Brymbo] a great sense of purpose when it first bought the works in 1948, only to be thwarted by political intervention before any real development could take place..nothing really materialised until GKN reacquired the works in 1954....The effect on morale was tremendous....In 1972 the works entered a phase....when no further development was to be undertaken by BSC, but there was a sense of relief at once again being bought back by GKN followed by this massive investment..."[1]

It is amazing to think that under the BSC this works might have been closed. How can the private sector achieve such success compared with such failure in the public?

The profitability of the private sector over the years also means that it has paid more tax than the BSC. The following Table shows the tax paid by the private sector from 1969-73.

1. Neville Davies Liverpool Daily Post Supplement on Brymbo Steelworks, 11 June 1980.

TABLE 76

UK

PRIVATE SECTOR STEEL
BALANCE SHEET OF TAXATION PAID AND GOVERNMENT GRANTS AND LOANS RECEIVED
1969-1973

	1969	1970	1971	1972	1973	1969/73
Taxation Paid						
Corporation Tax SET, Capital Gains etc.	4.0	5.5	7.0	12.0	6.0	34.5
Grants Received						
Investment Grants, Regional Employment Premium etc.	1.6	2.4	2.2	1.4	1.3	8.9
Loans						
Amounts outstanding			0.12	0.1	0.07	

Source: BISPA

This shows that over the five years covered the private sector has received in grants 25 per cent of the total taxation paid in the period, compared with the BSC which has been responsible for a net outflow in exchequer funds. The private companies, as we have seen from the ICC report, have continued to make profits and therefore to pay tax dividends.

The private sector should therefore be in a much better position to face the present recession than the BSC. Even so the private steelmakers have suffered very much in the last year, seeing a massive downturn in their profitability since June 1980. Despite continually improving productivity the private sector is now losing money very heavily, as recent company results show. In the first half of 1980 Round Oak (the company owned jointly by the BSC and Tube Investments), made a loss of £200,000; Aurora Steels profits were down to £2.1 million from £2.6 million in the same period of 1979; Duport's pretax losses were £4.47 million compared with their profit of £4.14 million in the first half of 1979. Duport has now ceased trading as a steelmaker. Other

private sector companies are in deep financial trouble and are surviving only by support from their parent groups. GKN has just published its accounts for 1980. Its annual loss as a group was £1.2 million, but its General Steels' operation made a loss of £12 million compared with a profit of £7 million in 1979, while turnover was down from £216 to £169 million. The figures for Special Steels and Forgings were £8 million losses instead of £18 million profit and turnover down from £239 to £197 million.

The 1980 strike[1] was responsible for some of these losses, GKN claiming that it cost them about £18 million loss. Other causes are highlighted in an exercise undertaken at Hadfields, in which cost increases since 1977 were compared with selling price increases in the steel produced. While alloy billet was selling at around £270 per ton, a 36 per cent increase on 1977 prices, in the same period wages and salaries rose 50 per cent, energy costs 64 per cent, consumable production materials 53 per cent, interest 61 per cent and rates a massive 89 per cent.[2] The private steelmakers attribute their problems especially to UK energy prices, which they regard as excessive, particularly when compared with the low US and the heavily subsidised European prices; and on the dumping of low-priced foreign steel on the UK market.[3]

1. See pp.123-134
2. Details obtained from Metal Bulletin Monthly, survey of The UK Private Sector, February 1981. pp.1-39
3. Ibid. p.25.

Despite these falling profits there has been continuing investment in the private sector during 1980. The Sheerness Steel Company, pioneer of the mini-mill in the UK, installed water-cooled roofs for both its arc furnaces, a complete water-cooled shell for B furnace, a new melting shop water system, and improvements to the scrap shedder. In 1981 a ladle injection system is being installed, B furnace hearth is being made deeper, a furnace pollution control scheme is in progress and the rod decoiling and Tempcore bar facilities are being completed. The tiny Waleswood Stainless Steel Company of Sheffield made its biggest ever investment in 1980, about £250,000 for a new AOD vessel to complement its existing arc furnace. There was even a new company launched during the year, Hallpalm Ltd., which was aiming to start production of special sections on an 11 inch mill at Willenhall in December. Table 77 gives a sample of the investment schemes completed or projected by BISPA members in 1980.

TABLE 77

UK PRIVATE SECTOR

SOME INVESTMENT SCHEMES COMPLETED OR PROJECTED BY BISPA MEMBERS IN 1980

Company	Investment scheme	Start-up
Apollo Steels	Works extension and facilities for producing ground steel bar.	1980
Aurora Steels	Pollution control-fume extraction; rolling mill improvements; additional test house facilities; improvements to heat treatment facilities; bar finishing equipment grinding/peeling equipment; experimental production plant for particle metallurgy development.	1980/81
	Integration of wire drawing facilites.	1980
	Production planning and control equipment; blanking press.	1981
Barworth Flockton	SX16 GFM forging machine and buildings; walking beam and induction reheating furnaces; controlled walking beam cooling bed; 4in and 7in bar finishing machines; auto shot blasting units for forgings.	1981
	Warehouse building, ground flat stock department	1980
Ben Bennett Jr	Improvements to steel strip hardening and tempering lines.	1980
British Rolling Mills	Coil bar heat treatment furnace; increased computer capacity.	1980
Bromford Iron & Steel	Modernising of hot mill services; thyristor drives to wire drawing machines. Increased acid recovery.	1980
Bruntons (Musselburgh)	Wire drawing machine and ancillary wire drawing equipment.	1980
Brymbo Steel Works	Replacement finishing mill and improved electricity supply; replacement electrical gear transformer and water cooled panels, D furnace; billet bundling machine; ladle refining scheme and ultrasonic billet testing equipment.	1980
	Reeling and peeling machines	1980/81
Richd. W. Carr & Co.	14in rolling mill and ancillary equipment; re-siting and improvement of 8in and 12in rolling mills; 15000kW VIP power track for high-frequency furnace; warehouse extensions at Twickenham and Haydock.	1980

TABLE 77 CONTINUED

Company	Investment scheme	Start-up
Clarke's Crank & Forge Co	New bogie heat treatment furnace; reconstruction and modernisation of forging furnaces; re-build Massey 1-ton hammer; install and complete re-build and commission GFM; install and commission new precision crankshaft grinding machine, complete with micro-processor.	1980
	Re-building of four forging furnaces.	1980/81
Coghlans	Bar tagging machine and improvement of shaft making plant.	1980
Darlington & Simpson	Mechanisation of finishing stands; installation of flying shear.	1980
	Finishing-end automation (West Works); mill automation (South Works).	1981
Ductile Cold Mill	New annealing capacity; new coiler drums and precision slitter; soluble oil treatment.	1980/81
Ductile Steels Ductile Planetary Mill	Modernisation of pickling plant.	1980/81
	Improved furnace and waste heat conservation; new edging equipment.	1980
Dudley Port Rolling Mills	New furnace for 7in mill.	1980
	Computer installation and new billet handling equipment.	1980/81
Duport Steels Duport Steel Works	Completion of billet inspection and conditioning project; completion of internal rail system development phases: completion of water-cooled panels; completion of billet mill run-out table modifications.	1980
Flather Bright Steels	Redevelopment of coil drawing facilities; modernisation of descaling facilites.	1981/84
	Redevelopment of turning and grinding.	1980/81
London Works	Completion of bar mill rationalisation.	1980
Eaton & Booth	New automatic bar straightening line; 1,000kg forging hammer, manipulator and furnaces.	1980
	Acquisition of computer.	1981
Firsteel	New building to increase warehouse area, maintenance dept and offices.	1980
	Installation of automatic gauge control equipment.	1980/81

TABLE 77 CONTINUED

Company	Investment scheme	Start-up
Firth Brown	Conversion of arc furnace to reheating and stirring unit.	1980
	Vacuum furnace power distribution equipment, forging press overhaul; machine tool replacements and re-conditioning; additional research facilites; general crane replacements.	1981
Firth-Vickers Special Steels	Billet finishing equipment.	1981
Firth Cleveland Steel Strip	Re-furbishing of pickle line; new annealing plant; energy conservation.	1980/81
Steel Parts	Extension to despatch bay and warehouse; automatic saw.	1980
W. Wesson	Seperation of stands and fume extraction equipment for hot mill; reeler and push bench pointer for bright drawing.	1980
Glynwed Steels George Gadd	New compressor house; new billet shears, scrambler and magnet; furnace conversion.	1980
GKN General Steels	Additional scrap bay crane and scrap bay extension; water cooled panels and ducting for steelworks furnaces.	1980
	New wire-drawing equipment and wire warehouse facilites.	1980/81
J.J. Habershon	Automatic gauge control equipment.	1981/82
	Decoiling facilities and up-grading slitter.	1980/81
	X-ray gauges.	1980
Hadfields	Water cooled panels on 80 tonne and 25 tonne electric arc furnaces; new bar finishing facilities.	1980/81
	Additional billet slow cooling pits; refurbish 30ft billet transfer bed; uprating of three gas-fired ingot re-heat furnaces.	1980
	New billet and ingot stock gantries; new road and rail system.	1980/81

TABLE 77 CONTINUED

Company	Investment scheme	Start-up
Kiveton Park Steel & Wire	New shape straightening machine; new warehouse; new acid cleaning; two new batch furnaces.	1980
Lee Bright Bars	Automatic bar turning line; effluent disposal system.	1980
Lee Steel Strip	Development of heat treatment facilities; improvements in material handling.	1980/81
Lee Steel Wire	Development of wire drawing, annealing and plating plant.	1980
	Energy conservation, material handling improvements and overall plant development.	1981
J.B. & S Lees	Additional electron beam welding and support plant installed.	1980
	Two coil annealing installations; effluent treatment plant; improvements to pickling facilites.	1981
Lloyd Cooper	Completion of Scandinavian lancing equipment; modification to arc furnace fume cleaning plant; replacement shell for electric arc furnace.	1980
	Bulk argon storage tank and pipelines.	1980/81
	Modification to water treatment plant.	1980
Manchester Steel	Modification to finishing end of rod mill.	1980
Martins (Dundyvan)	Cold handling plant for section mill.	1980
Midland Bright Drawn Steel	Ccomputerisation; drawbench rationalisation and modernisation.	1980
Natural Gas Tubes	Spiral weld mill; small ERW mill for sizes below 2in od; factory extension.	1980
Neepsend	Completion of installations and conversion of Greasbrough Street rolling mills; new arc melting facility and installation of vee process foundry plant; installation of rapid heat furnace; new abrasive cut off machine for rolling mills and additional automatic band saw; extension of stockholding facilities and additional handling equipment for sheet mills.	1980

TABLE 77 CONTINUED

Company	Investment scheme	Start-up
F.M. Parkin (Sheffield)	Extraction and heat regeneration plant; improvement to rolling mill furnaces.	1980
H.S. Pitt	New wire drawing block and ancillary equipment.	1980
Raine & Co.	Improved straightening equipment; new cutting and punching mahcines, new cranage and handling equipment.	1980/81
Round Oak	Introduction of ladle steelmaking; electromagnetic stirrer for continous casting machine.	1980/81
	Introduction of water cooled panels for electric arc furnaces; improved scrap bay facilities; reorganisation of fine turning in bar finishing department; electronics training centre.	1980
Sanderson Kayser	Replacement of intermediate rolling mill stands in the wire rod mill; provision of replacement billet grinding workshop and machines.	1980
Sheerness Steel	New water system for melting shop; complete water cooled shell B furnace; non-ferrous separation for scrap shredder; water cooled roofs A and B furnaces.	1980
	Ladle injection system; spare arc furnace regulating transformer; deeper hearth on B furnace; furnace pollution control scheme.	1981
	Rod decoiling and Tempcore bar facility.	1980/81
Smith Wires	Galvanising plant.	1980
Spartan Redheugh	Centreless bar grinding machine; stainless bar stockholding facilites.	1980
Spear & Jackson	Refurbishing annealing and treatment furnaces.	1980
Steel Cords	Additonal guarding and safety facilities; improvements on spiral wrapping machine.	1980/81
	Additional stranding capacity.	1980
	Bobbin locking levers and improved safety facilities on closers.	1981
Steel of Staffs	Effluent treatment plant; pickling plant.	1980

TABLE 77 CONTINUED

Company	Investment scheme	Start-up
Templeborough Rolling Mills	Furnace instrumentation improvements; development of controlled cooling lines; extension to metallurgical laboratory; modification of water recirculating system.	1981
T.I Weldless	Pickle plant acid recovery unit; high voltage power factor correction.	1981
	Process control (CM); new 3,500 HP thyristor drive for piercer; rotary furnace micro-processor control and combustion improvement.	1980
Woodstone Rolling Mills	completion of 12in mill and ancillary equipment.	1980

Source: BISPA Quoted in Metal Bulletin Monthly February 1981 pp. 15-18

One of the reasons for the relative buoyancy of the private sector over the years has been the flexibility which has enabled it to rationalise itself in response to the changing market. Thus in September 1980 Aurora Steels was created by the merger of Osborn Steels and Edgar Allen Balfour Steels; as a result the Sheffield Park View Works of Edgar Allen Balfour was closed and the steelmaking activities of Osborn Steels' Low Moor Works at Bradford were ended. Such rationalisation has been far less possible in the BSC because of the unwieldiness of the Corporation and because of the political considerations involved in closures there.

It is clear that further rationalisation is necessary to reduce the over-capacity in the system and rationalisation between public and private sectors is now taking place.

From where do the private steel companies get their money? They were asked this by the Select Committee on Nationalised Industries in 1976, and answered in their Supplementary Written Evidence.[1] They explained that the sources of finance available to them were those available to British industry in general, except that those companies subject to the Treaty of Paris can in certain circumstances have access to ECSC funds. Their main sources are merchant banks and financial institutions, which of course will help profitable companies. In some cases American banks have made loans to support investment schemes. There has been some direct foreign investment, for example by Canadian, Norwegian, and Greek companies and a small number of smaller companies are American owned.

These are their normal sources of finance. They have been reluctant to take up ECSC loans because the private sector borrower has to carry the exchange risk on no-sterling loans. In the case of the BSC this is covered by the Corporation itself or by Treasury guarantee.

1. BISPA Supplementary Written Evidence to the Select Committee on Nationalised Industries 1976.

No specific government sources of finance are available for the private sector, but, like all industry, it has access to investment allowances, regional investment incentives and funds available under the Industry Act 1972.

The British private steel companies and a number of Italian private sector companies are the only European steel industries not dependent on some public funds. Some private sector steelmakers are now asking for government help. They feel that they are unfairly treated compared with the BSC and that because of their previous good record they deserve help to keep afloat during the present crisis: some of them believe that without such help they will not survive until the market picks up or until the joint ventures with the BSC are arranged. The collapse of the Duport company suggests that they are right. Some private sector companies even feel that the government should compensate them if they agree to take capacity out of the system. But this is not a universal view in the private steel industry. There are companies, such as the Sheerness Steel Company, who believe that rationalisation should be determined by the market.[1]

European steel industries are financed in various ways - but most cope without the massive government assistance which the BSC receives.[2] They do receive government aid, but then none of them lose as much money as the BSC does. In 1979 the Dutch state company Estel and the German state company Klockner both became profitable.

1. Hill Steel News 19 January 1981.
2. See BISPA Supplementary Written Evidence to Select Committee on Nationalised Industries for fuller details on European sources of finance. The British Iron and Steel Consumers' Council Cost Competitiveness in ECSC Steel Industries. The Effects of Government Policies also provides such information and suggests that the European steel industries receive more state aid than is at first apparent.

The Belgian state company Cockerill and the Luxembourg Arbed have reduced their losses sharply. The losses of the French and Italian state companies are heavy, but not so heavy as those of the BSC. The example of other countries suggests that the British steel industry, with some government assistance, could have found finance without out-and-out nationalisation.[1]

It is frequently said that it is unfair to compare public and private steel sectors because one is not comparing like with like. It is said that the private sector operates at the profitable end of the steel market, not at the heavy end, the loss-making end, which the BSC has. The private sector puts more emphasis on the profitable finishing end of steel. The private sector needs the BSC for its raw materials, yet is profitable while the BSC flounders. Therefore, it is said, it is not fair to criticise the BSC.

There is some truth in these arguments. But as we have seen,[2] the private sector has had to expand its steelmaking, largely because of the shortcomings of the BSC as a supplier, and its steelmaking is generally profitable, unlike that of the BSC.

As we have seen, the private companies have better utilisation of capital, better manpower productivity. They also have much better industrial relations, as was seen in last year's steel strike. The smaller works and decentralised structure promote plant loyalties. The private sector units are flexible and are totally susceptible to market pressures. They export in all the same areas as the BSC, are subject to the same economic climate, and yet they have kept afloat well until now.

1. See suggestions made in D. Burn and others The Future of Steel IEA Occasional Paper 6 1965, pp. 8-9, 31.
2. See pp.73-82

Prices

Prices have been a great problem in the British steel industry, involving government interference which has adversely affected the industry since the days of IDAC.[1] The British system was one of uniform delivered prices whereby transport costs were averaged out and consumers paid the same price irrespective of their location in relation to the producing works. The Benson Report claimed that one of the reasons for the relatively low profitability and lowering investment in the years just before nationalisation was the way in which the Iron and Steel Board had unduly depressed prices and therefore profits. The Board's practice, the Report claimed, became still more unfavourable from 1960, as shown by the fact that earnings on price-controlled products were more than 13 per cent lower in 1964-65 than in 1959-60, though output was 11 per cent higher.[2] GKN, in its Evidence to the Select Committee on Nationalised Industries, also referred to the remarkable profitability of the steel industry considering that from 1955-67 its average price increases had been kept down to 2½ per cent by the Board.[3]

After nationalisation Iron and Steel Board price control virtually passed to the government, who were given powers to issue directions on prices to the BSC, "...with regard only to the public interest."[4] Here again is the unfortunate influence of government on nationalised industries, applying criteria which have nothing to do with commercial considerations and therefore distort the market in all manner of ways.

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1. See pp.2-4.
2. Benson Report, Para 149, p.66.
3. HC.322.iv. 19 May 1976. Para. 2.2. Session 1975-76.
4. Steel Nationalisation Cmnd.2651. April 1965, Para. 12.

From 1968-70 the National Board for Prices and Incomes controlled prices in the steel industry, as they did those of all manufactured goods. Then in April 1971 the government reduced the BSCs request for a 14 per cent price increase to one of 7 per cent. In the same year a proposal from the Corporation to raise prices on a selective basis over a period from October 1971 was deferred at the government's request until April 1972, with the average increase being reduced to less than 5 per cent. This came as part of the CBIs voluntary restraint on prices which the nationalised industries were foremost in supporting. This price restraint contributed to the £68 million loss made by the BSC in 1971-72. It is surely part of the strange logic of state control that a loss, ultimately funded by government, should be due partly to prices deliberately kept down by the same government.

In its Evidence to the Select Committee on Nationalised Industries in 1976 the BSC blamed this government price control for some of the low profitability of the steel industry both before and after nationalisation (Evidence Para. 4.7). They pointed out that:

"...if the Corporation had set its prices at the level applying in the European Coal and Steel Community, its revenue between vesting date and March 1975 would have increased by more than £750 million." (Evidence: Para. 4.8).

Calculations are presented to show how the BSCs revenue had fallen short of what the ECSC price level would have produced.

TABLE 78

BSCs REVENUE SHORTFALL OVER AGAINST ECSC PRICES

1967-75 Year	Shortfall £million	
1967/68	23.96)	
1968/69	74.36)	
1969/70	71.66)	269.35
1970/71	99.37)	
1971/72	20.57)	
1972/73	76.65)	
1973/74	252.30)	513.77
1974/75	164.25)	
TOTAL		783.12 million

Source: BSC Evidence: 1976 Para 4.10. Session 1975-76.

These price levels are said to have resulted in a: "...serious loss of profitability [which] has prevented the Corporation from accumulating reserves in favourable times enabling it to weather recessions and help finance the capital investment programme; and it has added to the Corporation's borrowing requirement and interest burden." (Evidence: Para 4.13).

"In a strongly cyclical industry the Corporation has to sell at marginal profit levels when demand is weak; but the corollary is that the Corporation must, like its competitors, be able to make significant profits when demand is strong." (Ibid. Para. 6.8).

The BSC claimed that if it had set its prices at EEC levels during these years demand would not have been reduced:

"...since total demand for steel is relatively inelastic, and imports would not have increased significantly so long as BSC prices were not above Continental levels." (Evidence: Para. 4.11).

While this might have been true for the years 1969 and 1970, and 1973 and 1974, when demand for steel was high, it would probably not have been true for the recession years of the early 1970s. European steel prices were not so high as they appeared to be during those years because secret rebates were available on the Continent. The BSC also seems to overlook the fact that these were the years when it was having problems with the quality of its products;[1] its prices really had to be lower than those of Europe because its quality was lower. It is also hard to see how the Corporation could say that higher prices would not have meant more import penetration. Imports were already increasing during these years,[2] mainly because of the BSC's other shortcomings. It therefore seems logical to assume that higher prices from the Corporation might well have meant more imports.

Nevertheless this government price-control did seem to depress the industry unnecessarily. If it did nothing more it gave the BSC an excuse for some of its poor results and it prevents us from judging the Corporation's work as a proper market activity.

The private sector also complained about this price-control in its Evidence to the Select Committee on Nationalised Industries (1976)[3]. Its complaint was two-fold. First, that the BSC itself, even without the further layer of government control, was, as the dominant partner in the market for most products, the price setter and had a dilatory attitude towards raising prices. Thus the private sector criticised the Corporation for taking a year to make its first review of steel prices, a review which then had to be considered by the National Board for

1. See p.72
2. See Tables 30 and 31, pp.65-66
3. BISPA Evidence to Select Committee on Nationalised Industries. HC.322:v. Para.4.2. Session 1975-76.

Prices and Incomes, which finally decided that the proposed price increases should be reduced by 25 per cent.[1] All this delay meant that there was no rise in steel prices between April 1966 and May 1969. Moreover the BSC's price review was judged, both by BISPA and eventually by the NBPI, to be discriminatory against the private sector, because the increases proposed by the BSC for those products where the market was shared between the two sectors were lower than those where the Corporation had the main share of the market; whereas for stainless and other alloy steel products, where the independent companies had the major market share the Corporation actually proposed price reductions. This was the first example of the Corporation trying to undercut or squeeze out the private sector, a problem which is still very pertinent.[2] Then came the government's reductions of the proposed BSC price increases of 1970-72, so that "...the combination of Government influence and BSC market dominance depressed independent companies' profitability.[3]

Protection for the private sector from this price-cutting and freedom for the BSC itself from government price-control appeared to come with the entry of the UK into the EEC and thus into the ECSC on 1 January 1973. As a commentator noted at the time:

1. Report No.111 Steel Prices. Cmnd.4033. May 1969.
2. See p.211
3. BISPA Evidence to the Select Committee on Nationalised Industries. HC.322:v. 1976, Para.4.2.5. In 1972 BISPA complained to the Secretary of State about the BSC pricing policy and the subsequent enquiry under Lord Hirshfield found that the BSC had acted unfairly (ibid. Paras. 4.2.8 and 4.2.11 and Appendix 5).

"Price fluctuations have not been a major feature in the UK where the Government's restraint and the price leadership of a vastly subsidised BSC have kept prices artificially low at all stages of the market cycle. Thus the BSC and many independent producers were not able to make a proper rate of return even in times of high steel demand...the new European pricing system gives hope."[1]

The European system required that (for Treaty of Paris products)[2], delivered prices should reflect difference in transport costs, so that there is a basic price and a charge for transport. Each producer must publish a price list for all the ECSC products which it manufactures, giving information on: basic price; extras and allowances for size and length, quantity, tolerances and so on; basing points; loading charges; rebates of all kinds; terms of payment; and taxes payable. A basing point, which may be at a location chosen by the producer, is the point from which the basic price, i.e. the price excluding carriage, will be charged. A transport charge is then made by the producer to cover delivery. Different products may have different basing points and some products may have more than one.

More importantly, this system removed Treaty of Paris products from government price control. The Treaty's objective of ensuring the orderly supply and free movement of steel products throughout the Community was

1. N S Maconochie The EEC Challenge for the UK Independent Alloy Producers in Steel Times (Annual Review of the Steel Industry), London, October 1973, p.97.
2. Treaty of Paris products are: Ingots and blooms for open die forging; Billets for drop forging; billets for re-rolling; Hot rolled products; reinforcing bars; other light and heavy bars; Wire rod; Sections; Hot rolled narrow strip; Plates.

judged to be incompatible with the government's powers under nationalisation[1] to issue directions on prices to the BSC as they had done, e.g. in 1971 and 1972. These powers were therefore repealed by the European Communities' Act 1972, although the price freeze continued even on these Treaty of Paris products until 30 April 1973.[2]

This meant that both the BSC and the private sector were now free to price their Treaty of Paris products in accordance with their own judgment of the market and so as to make profits if they could.[3] Although the private sector was quick to take advantage of its new-found freedom, (so that its prices in June and October 1973 were higher than those of the BSC), the Corporation, presumably under government influence, was slow to do so. It did not increase prices until November 1973 and even then they were below private sector prices. In March 1974 the BSC put up its prices by about 25 per cent but they were still lower than those of the private sector and of most EEC producers. At that time the BSC gave a guarantee not to increase prices again for 12 months. This meant that the Corporation missed the good years of 1973 and especially 1974 when the steel market was very buoyant and supplies of steel short so that the BSC could have made useful profits by putting up its prices at that time.

1. See p.194
2. The European Communities' Act also wound up the Iron and Steel Consumers' Council, which had made the recommendations for the use of the statutory powers. It was replaced by a new voluntary independent body, the British Iron and Steel Consumers' Council, which carries on the ISCC's functions without having the latter's statutory powers.
3. The European pricing system is fully explained in European Coal and Steel Community Guide to Pricing System for Steel. Published by BISPA, London 1973.

At the end of 1974 however there was a sharp rise in the Corporation's prices, which has been maintained since that time as Table 79 shows, so that BSC prices now run at some 15 per cent above those of other EEC countries.

PRICES 1967-78

TABLE 79

British Steel Corporation Home Trade Prices for representative specifications of Pig and Certain Steel Products. (Unless otherwise indicated prices have been adjusted to reflect the current basis quantity etc. where these have varied over the period under review). Prices are shown at significant date together with changes since 3rd October 1976 in greater detail.

£ per metric tonne (1,000kg) to the nearest £0.05 except where otherwise stated

PRODUCT	Current Basis Quantity Tonnes	28th July 1967	*15th June 1969	+30th April 1973	3rd October 1976	10th July 1977	1st January 1978
1 Foundry Pig Iron – Phosphorus over 0.30% to 1.00%	10 and over	21.65	22.05	35.10	96.00(2)	98.00	
2 Carbon billets, blooms and slabs – Grade II balanced	75 and over	33.55	35.50	52.50	129.00		
Non-alloy bars and wire rods							
Wire rods: Rimmed 6.5mm to 9.5mm dia in coil	60 and over	42.95	47.05	64.85	168.50		
4 Black bars 40A:32mm to under 38mm dia/a.f.	60 and over	42.70	45.15	68.85	182.50		
5 Steel for reinforcement – Lengths: 25mm dia	3,000 and over	41.75	46.55	60.90	159.70	130.00(9)	139.50(14)
Sections							
6 Heavy Sections – Joists: 178mm x 102mm x 21.54kg/metre	20 and over	46.05	49.40	69.15	168.20(3)	196.30	216.00
7 – Angles: 150mm x 150mm x 12mm	20 and over	42.80	45.65	65.30	157.00(3)	182.50	205.50
8 Universal beams and columns: 457mm x 191mm:67/98kg/metre	20 and over	43.30	46.95	66.25	156.20(3)	183.80	202.00
9 Light Sections – Angles: 50mm x 50mm x 6mm	20 and over	45.75	48.20	72.55	187.50		
10 Heavy rails and accesssories – Flat bottom rails	300 and over	44.80	46.25	66.15	169.50(2)	201.50	221.50
Strip							
11 Hot rolled strip – Coils 300mm to under 600mm wide: 2.50mm thick and over	40 to under 120	44.60	47.25	70.50	180.00 a		
12 Cold rolled strip – Coils 150mm to under 300mm: under 2mm to 1.5mm thick	5 to under 20	58.80	65.45	94.28(1)	222.00(4)		
13 Heavy Plates – Structural and shipbuilding: over 2,250mm to 2,500mm wide: 4,000mm to under 8,000mm long: 15mm to 20mm thick	20 and over	44.65	48.70	71.10	172.50 b		182.00c(15)
Strip Mill Products							
14 Cold reduced uncoated mild steel coil: 1,250mm to 1,350mm wide: 2.000 mm to 1.500 mm thick	80 and over	54.10	55.10	80.55	182.10	200.50(13)	204.00
15 Hot rolled uncoated mild steel coil: 1,250mm to 1,550mm wide: 6mm to 7mm thick	80 and over	43.80	44.30	64.40	161.50	161.50d(10)	161.50e
16 Hot dipped galvanised plain steel coil: 1,000mm wide and over: 2.500mm to 2.000mm thick	80 and over	67.95	65.85	94.40	208.46		226.86(15)

TABLE 79 (Contd.)

17 Hot dipped galvanised corrugated steel sheets 10/3's 14g	80 and over	67.95	65.25	104.27	224.00		242.40(15)
Tinplate							
18 Cold reduced electrolytic E25: 750mm to 965mm wide: 0.22mm thick – per 100 sq metres	100 and over	13.85	14.57	21.36	43.41(5)	49.05(11)	57.01(16)
Hot finished tubes							
19 Gas list –BS 1387 Light: 25mm nominal bore – per 100 metres	16 and over	14.69	15.42	23.80(1)	55.27(6)	59.14(12)	62.98
20 Hot finished seamless BS 3601 small sizes: Over 244.5 to 323.9 mm o.d.	50 and over	76.72	78.54	111.80(1)	304.92(7)	360.53(12)	387.57
21 Rectangular hollow sections: List 5B sizes	4 to under 25	67.41	69.37	103.04(1)	221.85(8)	237.38(12)	252.81
Alloy Steel Bars 38mm dia and over							
22 Nickel BS970 503 Series	20 to under 60	76.25	75.00	104.60	272.90	288.00	
23 Nickel – Chromium BS 970 653 M31	20 to under 60	101.85	100.95	142.20	344.90	363.00	
24 Nickel – Chromium-molybdenum BS 970 830 M31	20 to under 60	118.60	119.75	154.00	366.40	386.00	
Stainless Steel							
25 Continuously produced sheet coil							
cold reduced 304 DD: width 500mm to 1,524mm inclusive: thickness 2mm to under 3mm	5 and over	320.85	366.10	545.00	1,118.00	1,258.00	1,240.00(17)

* With the exception ofnon-alloy bright drawn bars, tinplate, alloy steels and stainless steels the prices were subject to a deduction of $1\frac{3}{4}$% up to and including 15th November 1969.

+ Basing point prices are shown for 30th April 1973 and subsequent dates with the exception of Cold Rolled Strip and Hot Finished Tubes which are delivered prices. Prior to 30th April 1973 all prices are delivered. Prices were also increased on 27th January 1970, 16th October 1970, 11th April 1971 and 16th November 1973.

+ Basis Quantity 50 tonnes and over prior to 8th May 1977.
+

a Less temporary rebate of £ 3.00
b Less temporary rebate of £20.00
c Less temporary rebate of £15.00
d Less temporary rebate of £10.00
e Less temporary rebate of £ 3.00

(1) 20th May 1973
(2) 4th July 1976
(3) 30th May 1976
(4) 4th October 1976
(5) 31st October 1976
(6) 1st November 1976
(7) 2nd August 1976
(8) 5th July 1976
(9) 8th May 1977
(10) 6th February 1977
(11) 22nd May 1977
(12) 17th July 1977
(13) 4th September 1977
(14) 11th September 1977
(15) 2nd October 1977
(16) 12th February 1978 (53,54,14th August 1977)
(17) 26th February 1978

Source :BSC Annual Statistics

Tables 80 and 81 show how UK prices have changed compared with those of the rest of the EEC and OECD, while Table 82 compares the BSC prices for certain products primarily with those of France and Germany for October 1980.

TABLE 80

PRICE INDICES

ECSC 1960-78

1970=100

	West Germany	France	Italy	Nether-lands	Belgium Luxembourg	U.K.	Ireland	Denmark	Europe
					INDEX OF THE WHOLESALE PRICES OF INDUSTRIAL PRODUCTS				
					A				
1960	90,3	75,5	78,9	:	81,7	:	68,5	:	84,0(b)
1973	114,1(a)	122,5	122,9	117	116,3(a)	144,5	136,9	125,0	123,2
1974	129,7	158,2	178,8	129	135,7(a)	215,3	155,4	152,7	158,7
1975	134,6(a)	154,7	193,4	137,5	137,4(a)	235,5	193,5	161,6	166,2
1976	139,6(a)	160,3	237,3	147	147,2(a)	299,0	231,0	174,1	187,8
1977	143,3(a)	169,2	276,2	154,9	150,7(a)	342,9	269,3	188,4	205,2
1978	144,9(a)	176,5	298,5	158	147,9(a)	340,5	:	196,4	:
					INDEX OF WHOLESALE PRICES OF IRON AND STEEL				
					B				
1960	102,7	77,1	89,5	81,0	82,5	:	66,4	:	91,5(b)
1973	116,6(a)	121,2	137,0	115	109,7(a)	124,9	134,0	114,2	122,2
1974	137,2(a)	162,3	226,9	126	160,6(a)	174,9	170,0	145,5	165,4
1975	127,5(a)	167,4	195,4	137,1	149,8(a)	226,1	204,8	147,8	168,3
1976	139,0(a)	177,8	234,1	146,1	150,8(a)	279,8	232,2	156,0	192,4
1977	129,8(a)	187,4	260,6	151,3	146,5(a)	318,7	274,6	161,2	203,4
1978	134,9(a)	259,5	307,8	155,5	151,0(a)	329,2	303,1	173,1	229,9

TABLE 80 CONTINUED

	West Germany	France	Italy	Nether-lands	Belgium Luxembourg	U.K.	Ireland	Denmark	Europe
				C					
				B / A x 100					
1960	113,7	102,1	133,4	:	101,0	:	96,9	:	108,9(b)
1973	102,2	98,9	111,5	98,3	94,3	86,4	97,9	91,4	99,2
1974	105,8	102,6	126,9	97,7	118,3	81,2	109,6	95,3	104,2
1975	94,7	108,2	101,0	99,7	109,0	96,0	105,8	91,5	101,3
1976	99,6	110,9	98,7	99,4	102,4	93,6	100,5	89,6	102,4
1977	90,5	110,8	94,4	97,7	97,2	93,7	102,0	85,6	99,1
1978	93,1	147,0	103,1	98,4	102,1	96,7	:	88,1	:

(a) Excluding value-added tax. (b) EUR 6
(1) Official indices of member countries.
(2) Index of producer prices of industrial products.
(3) Index of wholesale prices.
(4) Index numbers of producers' prices of finished products.
(5) Weighted average of national indices.
Source: Eurofer Annual Statistics.

TABLE 81

PRODUCER PRICES
UNADJUSTED FOR SEASONAL VARIATIONS - IRON AND STEEL
1976-78

1975=100

1976	1977	1978	1977 Q4	1978 Q1	1978 Q2	1978 Q3	1978 Q4	1977 Nov	1977 Dec	1978 Jan	1978 Feb	1978 Mar	1978 Apr	1978 May	1978 Jun	1978 Jul	1978 Aug	1978 Sep	1978 Oct	1978 Nov	***
Canada																					
109	116		119	120	125	126		119	119	119	120	120	124	125	125	125	126	126	127	129	8.0
USA																					
107	115		117	121	126	128		116	117	118	122	123	125	125	126	126	129	129	129		10.6
Japan																					
113	120		122	123	125	125		122	122	122	123	124	125	125	125	125	125	125	125		2.0
Greece																					
109	116		116	117	117	118															
Norway																					
96	95																				-0.6
Sweden																					
101	102		105	106	108	110		105	104	105	107	107	108	108	108	110	110	111	112		7.2
Suisse																					
100	95		90	92	92	91		90	89	91	92	92	92	92	92	92	91	90	89		12.2
Germany																					
106	101		101	103	104	105		101	101	102	103	104	104	104	104	104	104	106	106		4.3
France																					
106	112		112	115	121	126		113	111	112	113	118	118	119	125	125	127	127	127		12.2
Italy																					
126	132		136	146	157	160		135	137	143	147	150	156	157	158	159	160	162			19.0
UK(1)																					
122	135		140	143	149	153		141	141	143	143	144	147	150	151	151	152	154	157		12.7

*** 12 month rate of change variation.
(1) Sold on the home finished steel market.
Source: OECD.

TABLE 82

COMPARISON OF STEEL PRICES (US$/TONNE) OCTOBER 1980

US MARKET		Plate	HR Coil	CR Coil	Galv. Sheet	Date Effective
US producer list	(a)	479	417	483	542	4.80
US import trigger	(b)	485	436	523	537	10.80
EUROPEAN MARKET						
BSC list		472	437	548	565	various
French Quote indicator		303	285	337	436	10.80
French list		409	399	510	567	various
German Quote indicator		307	287	328	432	10.80
German list		427	482	498	498	various
JAPANESE HOME MARKET	(c) +	402	402	477	627	10.80
THIRD COUNTRIES						
European export	(d)	359	302	361	424	10.80
Japanese export	(e) +	340	325	397	480	10.80

(a) Great Lakes area, (b) Great Lakes area, (c) dealers' prices Tokyo
(d) Brussels Bourse excluding exporter's margin. (e) fob Japan.
+ not directly comparable with other prices.
Exchange rates: $=£0.415, Yen 208.8, DM 1.827, EUA 0.718, Ffr 4.227.

Source: Commodity Research Unit Metal Monitor November 1980

The picture which emerges is somehow typical of the BSC - to have lower prices than everyone else in the good years, when high prices would have been a positive advantage, and to have higher prices than everyone else when they are a positive disadvantage.

Even Bill Sirs admits that the BSC prices are too high, for both home and export markets, and are causing import penetration and the loss of market share to the Corporation.[1] He thinks that they should be brought down by about 10 per cent. But he does not admit that one of the reasons that they are so high is the poor competitive labour productivity and therefore high unit costs of the BSC, factors for which his union must bear a major share of the blame. All European steel prices are estimated to be 10-15 per cent above prices in the USA and 20 per cent above those in Japan,[2] which makes the whole European steel industry uncompetitive in world terms. How much more uncompetitive must the BSC be!

Treaty of Rome products[3] are not subject to ECSC disciplines so that the UK system of delivered prices still applies to them. They were subject to Price Code and Price Commission procedures so long as those lasted. The BSC was even more restricted than the private sector because of the provision that nationalised industries could not take advantage of the minimum profit safeguards of the Code. However that restraint was removed in 1975-76. Since then the BSC prices for Treaty of Rome products have also increased considerably, as can be seen from Table 79.

1. ISTC New Deal for Steel, 1980, p.42.
2. See letter from Dr R Beddows of Strategy Research Associates in Financial Times, February 6, 1981.
3. Treaty of Rome products are: Cold rolled narrow strip; Alloy bright bar; Non-alloy forgings; Tubes and pipes. Cold heading and alloy wire.

Steel prices are now dealt with as an EEC problem. European steel prices dropped by 50 per cent between 1974 and 1977 as recession in the industry deepened and low price imports flooded the European market. During 1978 they rallied by some 20-25 per cent as a result of the measures taken by the EEC under the Davignon Plan, which imposed dumping duties on steel imported below European Community published prices, and advocated minimum price levels for European steel. The Davignon Plan, by checking the flood of ultra-cheap imports, greatly reduced the extent of price cutting in the Community. The result for the BSC was an increase in sales, especially in strip mill products, and an improvement in revenue.[1] In 1978-79 the European price increases, at about 8 per cent, just about kept pace with the increase in input costs.[2]

By 1980 however the voluntary restraints of the Davignon Plan began to slip as steel producers began to undercut each other in an effort to sell the products of their surplus capacity, which had not been noticeably reduced by voluntary restraint. The result was a price cutting war among Community steel producers so that by the beginning of September 1980 prices had fallen by an average of 13 per cent, so that steel industry losses have grown heavily. These low prices have made it impossible to keep up with costs, such as those of energy and raw materials.

So on 1 November 1980 the EEC introduced for the first time "manifest crisis" measures, which have always been available under the Treaty of Paris. These are to last in the first instance until 30 June 1981. Under these measures compulsory production quotas are imposed on all the European industries, but no compulsory minimum prices

1. BSC Annual Report and Accounts 1977-78, pp.11-12.
2. BSC Annual Report and Accounts 1978-79, p.11.

are imposed as yet, the Davignon system still applying on prices. The production quotas have helped prices to rise, but there are still bitter complaints about price undercutting.

The UK private sector has made widespread complaints that the heavily-subsidised BSC is unfairly under-cutting its prices. The Department of Industry is now to monitor these complaints and the Chairman of the BSC to invcestigate any specific allegations of unfair pricing. Mr McGregor replied to the general charge of undercutting that the prices of both the BSC and the private sector:

"...have increasingly been undercut by other EEC producers. The Corporation has therefore had to price down. The private sector has had to do the same. He has assured me that it is not BSC's policy to sell its steel more cheaply than imports, but only to match the prices charged for them."[1]

This will take some doing, given the BSC's much higher unit costs, and other factors which work in favour of imports, such as the strong pound. These mean, for example, that the Danes can deliver steel plate to Birmingham at £30 per ton less than the BSC can. The Corporation is suffering severely from its historic lack of competitiveness, as well as from its years of government controlled prices.

The European Coal and Steel Community

The discussion of the Davignon Plan and its effect on prices has anticipated these remarks on the ECSC.

1. House of Commons statement by Sir Keith Joseph, Secretary of State for Industry, February 24, 1981.

This is not the place to trace the full history and significance of the Community. It was created by the Treaty of Paris in April 1951, to promote economic expansion and productivity, while safeguarding employment. To achieve these objectives the Treaty provided for the abolition of duties and quantitative restrictions on trade in coal and steel between member states, and of discrimination by producers in prices, delivery terms or transport rates, "and any measures which hamper the buyer in the free choice of supplier".[1]

The Treaty of Paris permits administrative action by the Community covering many aspects of the steel industry, including investment, structural changes, production, wages, the movement of labour and the definition of a pricing policy.

To finance the ECSC coal and steel producers have to pay the Commission a levy on their output of about 3 per cent. These funds are used to cover administrative expenses and to provide cheap loans and grants for coal and steel modernisation, research projects, retraining and resettlement of redundant coal and steel workers, and the establishment of factories by new industries in declining coal and steel areas.

European Investment Bank loans are also available for capital investment in the steel industry, as are grants and loans from the European Investment Fund.[2]

The UK became a full member of the ECSC on 1 January 1973 when she joined the EEC. It is possible to see several advantages which the BSC and the British steel industry have gained from that entry. As we have seen, it meant the end of government control of prices. Secondly it gave the UK industry access to Community funds, from which it has received much help.

1. Steel. COI 1974 pp.19-20.
2. See Table 72 p.167-168.

TABLE 83

ECSC LOANS FROM 1954 TO 1977

(million European units of account)

	Belgium/ Luxembrg. Nether-lands	Denmark	Federal Republic of Germany	France	Ireland	Italy	U.K.	Community
Iron-ore mines	0.82	-	32.82	10.61	-	14.45	37.30	96.00
Conversion	84.35	-	132.00	116.25	0.50	56.42	67.52	457.04
Steel industry	272.75	32.81	834.93	628.99	-	666.84	584.10	3020.42
Coal industry	3.26	-	394.71	88.34	-	6.79	393.42	886.52
(Thermal power stations)	8.91	-	56.27	60.00	-	4.34	-	129.52
Workers' housing	55.56	1.21	124.32	34.09	0.49	15.16	2.60	233.43
Retraining	-	-	-	0.51	-	-	-	0.51
Technical research	0.96	-	2.00	0.58	-	0.13	-	3.67
Miscellaneous	4.94	-	8.26	-	-	-	-	13.20
TOTAL	431.55	34.02	1585.31	939.37	0.99	764.13	1084.94	4840.31

Source: Grants and Loans from the European Community. Quoted in European Communities Commission Background Report on Steel ISEC/B27/79. (29/6/79).

It is noticeable from Table 83 how much the UK has received, considering her late entry into the Community, although it must be remembered that the years since her entry have been the ones in which the industry has most needed help. Table 84 shows the number of workers helped by the the Community in 1978.

TABLE 84

READAPTATION OF WORKERS 1978

ECSC							
	Coal Industry		Steel industry iron ore mining		Total		
		Workers	Amounts made available (EUA)	Workers	Amounts made available (EUA)	Workers
Belgium		1 619	2 433 750	2 186	4 959 000	3 805
France		960	12 413 500	9 349	16 156 000	10 309
FR. of Germany		8 479	791 000	3 381	9 574 000	11 860
Italy		-	1 320 750	2 528	1 320 750	2 528
Luxembourg		-	1 398 000	541	1 398 000	541
Netherlands		-	-	-	-	-
United Kingdom	*	9 121	11 378 000	13 025	27 113 000	22 146
TOTAL		20 179	29 735 000	31 010	60 520 750	51 189

* Total for the 1977 and 1978 programmes in the UK coal industry.

Source: Twelfth General Report of the European Communities p.128.
Quoted in European Communities Commission Background
Report on Steel ISEC/B27/79. (29/6/79).

Since 1973, 30,500 UK steelmen have received ECSC help.[1]

In the years 1973-76 the UK received £612,790,000 in ECSC loans and £34 million in grants. Teesside alone received over £179 million, including a loan of £150 million for the Redcar complex.[2] Between 1973 and 1978 Scotland received £454 million, £69 million in non-repayable grants, £385 million in loans: Wales received £264 million, £45 million in grants, £201 million in loans.[3]

Joining the Community has opened up the EEC to the UK as an export market, so that the percentage of British steel exports to the EEC has risen from 10 per cent in 1971-72 to 22 per cent in 1977-78.[4] This has been useful as the relative importance of Commonwealth markets has diminished with the growth of indigenous steel industries in many of these countries. But in trade terms its benefits have been largely cancelled out by a similar rise in EEC imports.

In the last three years the UK, as a member of the Community, has shared in the benefits achieved by the Davignon Plan and the more recent 'manifest crisis' measures. As we have seen these are largely the price-rises achieved by the anti-dumping measures and the imposition of production quotas.

These are the obvious short-term advantages of EEC membership. It is arguable that the BSC was already in such a poor state when the UK joined the Community that membership has brought no disadvantages. But what should not be overlooked are the faults of the ECSC itself.

1. European Communities Commission Background Report ISEC B27/79.
2. Britain in Europe since 1973. The Benefits of Membership: published by the European Movement, London 1977. See also European Communities' Commission Background Report ISEC B29/79 (4.7.79)
3. European Communities' Commission Background Report ISEC B8/80 (19.2.80)
4. BSC Prospects for Steel 1978.

The British Labour Government in 1950 feared that the ECSC would lessen national control of the industries. In practice the shelter from market realities which its protections have provided has reinforced the national European steel industries. Some of them, notably that of Belgium, might even have disappeared but for the protection of the ECSC. The community has done nothing to create a European steel industry. In 1961 Duncan Burn wrote of the ECSC:

"Outside discussions and writings of the High Authority, the focus of investment activity remained predominantly, even aggressively national. Thus in France the Commissairat Plan coordinated projects on critical issues, the Government made the decisions - and provided money. In Germany the firms, entering into larger mergers and making cooperative arrangements of varying types over investment, research and operations, talked primarily in terms of strengthening the competitiveness of their firms as part of the industry in the Federal Republic. There were exceptions but they were minor. It was the same in all the community countries."[1]

In its Report on Steel Restructuring Policies (20.2.81), the Commission of the European Communities commented:

"insufficient information about each other's plans creates the risk that uncoordinated restructuring plans result in duplication and continued excess capacity."[2]

Is not this a grave indictment of the Community's own structure and discipline over these last 30 years? Many of its own loans and grants must have gone towards this duplication and excess capacity.

Even the Davignon Plan, although its disciplines have brought temporary alleviation of some of the most pressing problems of the steel industry, has really perpetuated the most pathetic weaknesses of the industry,

1 Burn The Steel Industry p.474.
2 COM(81) 67 final. Brussels 20 February 1981.

reinforcing yet again the structures of the various national European steel industries, by muting such competition, in sources and production methods, as did exist.

The European industry, though better than the British, has not been very competitive in world terms. In 1973, a prosperous year, it took 8.3 hours of labour to produce a tonne of crude steel in the Community, but only 5.9 hours in Japan. The protection afforded by the Community has only served to perpetuate this sluggishness.

The Community decision on State Aids for Steel of 1 February 1980 restricts Community aid to projects which will lead to the modernisation and adaptation of the Community steel industry and which will encourage uncompetitive surplus capacity to be removed from the system.[1] Yet even under this discipline "Belgium, Italy, Holland and Luxembourg are still adding to capacity by replacing clapped-out works with new ones capable of higher output to add to the great glut."[2]

What is the answer? The development of European companies, with more product specialisation; the kind of rationalisation and forward integration which has been done by the German companies needs to be done on a European scale. The Commission has said that it will "...favour cooperation which leads to a better utilisation of the industrial complementarities, notably through increased specialisation, joint use of plant to avoid duplication..."[3]

1. Commission of European Communities COM(81) 71 final. Brussels 23.2.81.
2. Sated with Steel. Economist, 7 February 1981.
3. Commission of European Communities Steel Restructuring Policies, 20.2.81. COM (81) 67 final.

Companies must be encouraged to coordinate investment, not just nationally, as the UK Phoenix projects are trying to do, but across national borders. The Dutch and Germans have made a start on this with the Estel group; Belgium and Luxembourg are to coordinate investment. France and Belgium have been forging links for some years. "...firms should remain independent but share, rent or swap their plant to balance out capacity - instead of everybody simultaneously trying to modernise his own."[1]

The ECSC will need a lot of political will to push this kind of thinking, so foreign to its own cartel traditions. The BSC is again hampered by nationalisation from this kind of cooperation which is probably the only thing which can save the European steel industry. Yet if joint ventures between the BSC and private sector firms are possible, why not joint ventures on a European level?

CONCLUSION

This study does not seek to draw any overall conclusions. It has presented the record of the BSC, which is one of industrial progress delayed and diverted, partly by political interference but also by the sluggishness and inflexibility which is seemingly inseparable from such a monolithic giant; a progress involving vast and ever-increasing sums of public money.

The present government, in its attempts to face the problems posed by this record, has appointed Ian McGregor as Chairman of the BSC and Mr McGregor has presented to the government a plan for the survival of the Corporation which the government has approved, with conditions.[2] Our next task will be to consider the viability of that plan and the possibility of any alternative course of action, in the light of both the historical record of the Corporation and the current economic and industrial situation.

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1. Sated with Steel. Economist, 7 February 1981.
2. See House of Commons Statement on the Steel Industry by Sir Keith Joseph, Secretary of State for Industry, February 24, 1981.

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