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# Economic Perspective

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## RAVENS CRAIG: IN THE MELTING POT

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The future of the Ravenscraig steel complex at Motherwell remains uncertain. BSC's views on the future of the UK steel industry are contained in the new and as yet unpublished Corporate Plan. There are reasons for believing that the plan will again recommend closure of Ravenscraig, the most recent guide to BSCs thinking being its evidence to the House of Commons Trade and Industry Committee in which they insist on the need to close one strip plant in the UK.

In part, the BSC argument for a reduction in strip capacity reflects their forecasts of relatively static demand in the UK; poor prospects for UK and other European producers generally in the USA; and poor prospects in the Third World markets where capacity continues to be expanded and where it is difficult to compete with the Japanese. Prospects for market penetration are seen as best within the protected EEC market. Allied to these demand considerations is the EEC requirement to achieve commercial viability without state support by the beginning of 1986. This requirement is fully in line with the philosophy of the present UK government which has charged BSC with the responsibility of preparing the industry for privatisation. BSC maintains that commercial viability cannot be achieved with three strip plants. The BSC strategy for achieving commercial viability involves shedding loss-making export orders, principally from Third World countries, and expansion into European markets. BSC content that only two strip mills are necessary to meet the demand thus generated. It should be

noted that there is no requirement for the UK to close a strip mill as part of the EEC strategy of capacity reductions. The remaining EEC-imposed cutback of 0.5m tonnes of finishing capacity is to be met by rationalisations outwith the five integrated plants.

In moving from BSCs view of excess strip capacity to the conclusion that Ravenscraig is the likely candidate for closure, recent discussion has emphasised two points emerging from the evidence to the Select Committee: (i) the doubts cast by important customers on the consistency of quality of Ravenscraig's output relative to that of Llanwern and European suppliers and (ii) the lower productivity and profitability of Ravenscraig relative to Llanwern. Neither point need be accepted without question. While customer complaints cannot be ignored, it should be recognised that all three UK strip plants have a large share of their orders placed on an "insist or preferred" basis. Moreover, as BSC recognise, comparisons of performance across plants cannot be made without reference to the centralised "loading" policy. Ravenscraig currently undertakes much of the less profitable export orders but, given a similar loading for each plant, Ravenscraig with its heavy investment in modern technology might exhibit advantages over both Welsh plants.

The implications for Ravenscraig rise nearer the surface in the Select Committee discussion of technology. BSC believe

that in the long-term steel must be continuously cast. Conversion of Llanwern to continuous casting has been costly and would inevitably increase capacity at that plant. Increased capacity at Llanwern is consistent with the long-standing BSC view that Ravenscraig's location places it at a decisive cost disadvantage. Any such investment would have two important implications: First, the EEC would seek offsetting capacity reductions elsewhere. Secondly, Ravenscraig's present advantages in high quality finished products would be eroded.

The case for retaining the third strip mill is based primarily on questions of "second-sourcing" and consumer preference. It is possible that, as with previous closures, customers might shift to non-UK suppliers reducing demand for the two remaining BSC mills. Anticipating consumer response is problematic. BSC contend that the lessons of previous closures have been learned and that the loss of market share can be avoided. However, it should be noted that the Welsh plants cannot presently offer Ravenscraig's product range. In addition BSC's demand forecasts may be unduly pessimistic. Sufficient gains may be made in Europe after the lifting of EEC controls at the end of 1985 to make three mills commercially viable. It may not then be wise, as the Select Committee argued, to pre-empt this possibility by a closure. This argument may be reinforced by observing that since the present UK capacity embodies more modern technology than that of most other European producers and since UK productivity is above the EEC average, BSC may be well placed to penetrate more open EEC markets. This would be particularly the case if the UK government took measures to reduce BSC's energy costs to levels similar to those facing other EEC producers.

Any strategy for BSC based on expansion into European markets depends on the EEC dismantling its complex system of price regulations, production quotas and state aid vetting by the target date. The Select Committee discussion gives the clear impression that the UK strategy assumes that other countries will make the necessary adjustments to capacity and state support. It is difficult to be other than sceptical about this. Italy,

West Germany, France and Belgium have done much less than the UK over the past three years to achieve EEC cutback targets and the French steel plan could involve in excess of £2,500m in state support up to 1987. Likely failure to meet EEC targets by the end of 1985 make it difficult to forecast market conditions. Given BSC's technological lead and uncertainty with respect to the nature of the post-1985 market, an early UK closure may prove premature. This is the essence of the Select Committee's case for retention.

In addition a number of arguments may be pressed in the specific case of Ravenscraig. First, BSC may need to retain Ravenscraig until Port Talbot is fully upgraded and until any new investment is installed at Llanwern since Ravenscraig is presently able to produce a range of finished strip products not currently available from the two Welsh plants. Secondly, there may be a demand for Ravenscraig's liquid steel while the Redear furnace is relined. Thirdly, and very importantly, there is the argument that the social costs of closure in an already depressed part of the UK economy may exceed the internal savings to BSC.

The arguments in favour of retaining Ravenscraig are somewhat ad hoc but may be sufficient in the short-term to avoid closure. Much depends on the UK government's views on achieving viability and on the social costs of closure. These issues will be clarified when the steel plan emerges from the current discussions between BSC and the government. But even if a short-term future is secured Ravenscraig remains the marginal BSC strip mill because of its locational disadvantage. An ad hoc defence will not always be available in times of crises. In the longer-term, the retention of a steel industry in Scotland may require a shift to a different product base manufactured at a coastal location.