



(c) crown copyright

THIS DOCUMENT IS THE PROPERTY OF HIS BRITANNIC MAJESTY'S GOVERNMENT.

SECRET.

90(31)

Copy No. 5

C A B I N E T.

IRON AND STEEL TRADE RE-ORGANISATION.

Memorandum by the President of the Board of Trade.

Since I last reported to the Cabinet on the subject of the re-organisation of the Iron and Steel Industry I have had a meeting with those representatives of the industry who co-operated with Mr. Bruce Gardner in the preparation of his Report. I annex a brief summary of the discussion. It will be seen that the lines of re-organisation suggested in the report are accepted. Considerable finance would be needed, however, to put the various schemes into operation and I was informed that, in view of the recent history and present position of the trade, the leaders of the industry see no likelihood of obtaining the money from the investing public, and if indeed money were advanced by the Government or the City, it could only be on the terms that no payment of interest or repayment of capital could be made unless and until profits were earned.

F.G.

Board of Trade,

10th April, 1931.

CONFIDENTIAL.NOTE.

Through the instrumentality of Mr. Bruce Gardner the President on Thursday, 26th March, had an informal meeting with those leaders of the Iron and Steel Industry who co-operated with Mr. Bruce Gardner in the preparation of his Report on the re-organisation of the industry, namely, Sir John Beale, Mr. John Craig, Mr. Arthur Dorman, Captain R.S. Hilton, Mr. A.J. Grant, Mr. Henry Bond, Mr. L.D. Whitehead, and Mr. Henry Summers. The object of the meeting was to give the President an opportunity to obtain the views of the representatives of the industry as to the steps that could be taken to enable the re-organisation proposals in the Report to be put into operation, and generally to discuss with them the state of the industry and possible means of improving it.

There was complete unanimity as to the value of the work which Mr. Bruce Gardner had done under the authority of the Securities Management Trust in preparing his Report - a Report which, it was agreed, had set out quite clearly the lines upon which effective re-organisation should proceed - and it was felt that Mr. Bruce Gardner had made a real and substantial contribution to the industry. It was pointed out that those present at the meeting represented between them the great bulk of the Iron and Steel Industry and that, therefore, their commendation of the Report might be taken as indicative of the willingness of the industry to adopt its recommendations. It was, however, beyond their power to take effective action, unless in some way circumstances could be changed so as to afford the prospect, not only of recovery, from the very grave condition in which the

industry is today, but also of some expansion. They had considered in what ways these circumstances could be brought about, but they had been unable to discover any method other than that which has been adopted, and is now in force, in the case of every other steel-producing country in the world, namely, a secured home market. Rationalisation (though fully accepted on the basis of the Bruce Gardner Report) was not by itself a panacea for their troubles.

It was stated quite definitely that competent foreign observers were in agreement that much of the newer plants in this country is at least equal in efficiency to any to be found elsewhere in the world, but even these could not hold their own against dumping. The difficulty (apart from such factors of general application as taxation, social services, wages costs - which were referred to as being serious handicaps but were not discussed during the meeting) is to ensure such a load upon the plants as would be adequate to produce the product at a competitive price.

Experience throughout the post-war period has shown that when one or other of the steel-producing countries has been in any difficulty in absorbing its own production, the surplus has invariably been diverted to the one free market, namely, the market of this country. The representatives of the re-rollers admitted that for a time and to a limited degree this method of obtaining cheap raw material has been of advantage to them. Owing, however, to the closing down of the British works that formerly were suppliers of this material, they now find themselves in the hands of the Continental makers. More and more, too, the tendency has been for the continental makers to divert their attention to exporting semi-finished and finished products (so as to obtain the benefit of the wage factor

to an increased degree) with the result that the re-rollers now find themselves in competition with the semi-finished and finished products; even they, therefore, conclude that it is to their interests that the producers of their raw materials should be in this country and should have a secured home market in order that, through the larger output, they may produce at a lower price. They would, of course, require a corresponding protection for their own products.

Reference was made to the fact that in a number of districts (for example, Scotland, South Wales and the North East Coast) much time, thought and money had been devoted to the preparation of plans for further rationalisation in those areas, and there was a large measure of agreement as to the lines upon which such re-organisation should proceed. Those responsible had had to consider the question of the provision of the finance necessary for the schemes. (This consideration has extended over a period of years and the conclusions have not been affected by - though, of course, they are at the moment strengthened by - the existing abnormal financial depression.) It was quite clear to them that in the existing unsecured state of the home market, it would be quite impossible to put forward a proposal that would have the least chance of obtaining from the investing public the money that would be needed for the schemes. They themselves, though they had the schemes ready, lacked the confidence to go ahead with their plans. Even if there were prospects of raising the capital one way or another, those responsible for the industry would have to decline to accept the finance because they cannot see a prospect, under existing competition from abroad, of being able to earn the interest on the money. In their view the only way in which the schemes could be financed would be if the Government were prepared to provide taxpayers' money (or the Bankers' Industrial Development Company to find City money) without

asking for interest on it, and without pressing for repayment. They would not, of course, advocate this; the point was made merely in order to emphasise the gravity of the situation which faces the industry. On the other hand, if steps could be taken to prevent the disruption of the home market by the incursion of steel products from abroad (almost invariably, in later years, at prices below the price charged for similar products in the countries of origin), so as to give the industry the possibility of re-organisation and then of expansion, they are confident that - having regard to the position in respect of raw materials, technical skill, adaptability to new methods, and the improved organisation contemplated in the Bruce Gardner Report - they could undertake to produce iron and steel for the home market at prices that would compare favourably with the normal prices in the other steel-producing countries of the world - with the possible exception of Luxemburg.

The discussion throughout was of a most friendly character, everyone of the representatives of the industry showing full appreciation of the difficulties in which all concerned find themselves in reaching decisions as to what should be done. Their own view is clear and they have expressed it with conviction; they feel that the decision is one of policy, for which the Government alone are responsible. They press that it should be taken, and taken early, before it is too late.