

CANADIAN CLUB OF TORONTO

"COMMON WEAL - NOT COMMON WOE"

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Common Weal - not Common Woe

I suppose that any businessman from the United Kingdom speaking to a Canadian audience in 1975 has to recognise the fact that the main topic of concern is bound to be the current state of the UK economy. Are things really as bad as they appear? Are we unique in our failure to cope with the problems of inflation and stagnation? You will have heard and read, I am sure, of record rates of inflation, record balance of payments deficits, rising unemployment, major bankruptcies and so on, and so on. You might quite rightly wonder whether, given our long history of muddling through one crisis after another, we have not overdone it this time! I can appreciate that Canadians, in particular, must look on our experience with all the greater puzzlement since you have been fortunate enough over the last several years to enjoy a sustained period of growth in production, real incomes and standard of living. The results of this growth are there for all to see, particularly in this city which so obviously revels in its reputation as one of the fastest growing cities in North America, and also, may I say, one of the most civilised.

The pace of development in Canada strikes me particularly forcibly since I first came to Canada as far back as 1946 to work at Chalk River in the early days of the development of nuclear energy. Today, of course, Canada is among the world leaders in nuclear technology; even the UK is investing in its next phase in a heavy water thermal system instead of a further gas cooled reactor.

That of course is only one aspect of Canada's growth and an aspect with which I am particularly familiar, but the same kind of growth is obvious in other areas. I have during the past week, travelled almost the whole way across Canada from West to East, from Vancouver to Calgary, to Regina and now to Toronto. Tomorrow I shall be seeing something of Montreal.

Obviously, on such a short visit one cannot comprehend the full range of activity but I have retained strong impressions, particularly of the stimulus to development in Western Canada provided by the World's search for energy sources, and of the scale of the resources which are required for development, for example, of the Tar Sands and the transport of gas from the Arctic.

Visiting some of the plants with which my company is associated, both in Western Canada and here in Ontario, I was also struck by the high technological level of Canadian industry. The Canadian steel industry, of course, has a long history of being at the forefront of technical progress. It was one of the first to introduce the basic oxygen furnace in substitution for the open hearth - a switch

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which has revolutionised the economics of steelmaking; the Canadian steel industry has always been in advance of the rest of the world in the quality of the steel pipe it manufactures for the transmission of oil and gas; and largely as a result of its technical efficiency, the Canadian steel industry has led the world in low costs and in profitability notwithstanding its highly paid work force. The report in October 1974 of the Steel Profits Inquiry paid deserved tribute to the industry. I think the concluding paragraph of that Report can be quoted with interest.

"The ability to produce domestic requirements in high quality steel, at prices competitive with those of the world industry, and a competitive Canadian market, remain the three key conditions upon which a successful national steel industry depends. From the proceedings in this Inquiry it appears that we are meeting these conditions in Canada today
....."

Finally, I have been impressed by the confidence with which the Canadians face the future. This confidence seems to me to be soundly based both on the possession of vast natural resources, and on the ability of the Canadian people to tap those resources and to transform them into wealth, both public and private.

That is why, a few minutes ago, I said that you must look with bafflement at our situation in the United Kingdom. Certainly our two countries are in very different situations. Canada is blessed with an abundance of natural resources. A great proportion of her income is derived from the exploitation of them and a great proportion of her effort is devoted to their development. The United Kingdom does not enjoy similar abundance nor, even with North Sea Oil, are we likely ever to do so. For example, we import 80% of our iron ore, 100% of our nickel, 100% of our chrome. We cannot feed ourselves much less generate a surplus for export, despite having perhaps the most productive farming industry in the world.

In essence the United Kingdom is a converter of raw materials into finished goods and a seller of services, financial and technical. We have to generate sufficient exports of those goods and services to pay for those imported raw materials in order to be able to survive as a nation, much less generate a surplus with which to feed our appetites,

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which believe me are just as healthy as yours for increased standards of life. Now the key to our success or failure is the efficiency with which we carry out this process of conversion from raw materials to finished goods and the key to that process is the use we make of our major national resource - a skilled and educated work force. This, at the end of the day, is the first, last and only question. Everything else depends on it.

Now in this area we start off with great advantages but also great problems. You will understand perhaps if I stress the advantages at some length before I come to the problems.

The first great asset which we can use is our accumulated intelligence and experience. We have a long history of being first at things, whether it be rail transport, mechanised textile industries, large-scale steel processing, the production of float glass, the generation and use of atomic energy. That experience is continuous over the past two hundred years and is still being added to. Technologically we are with the leaders, not the followers.

Secondly, we have a great fund of social capital. One of the problems which afflicts underdeveloped countries seeking to extend their industrial base is the need to extend their social base at the same time. Schools, hospitals, roads, houses need to be built to service an industrial community. To give you an example of what this means, British Steel is involved as technical and operating adviser in the construction and commissioning of an integrated Steelworks in Mexico on a greenfield site and in the provision of training assistance for future plant operators and managers. Apart from steelworks plant, this project has already involved

- a programme for building over 4,500 new houses;
- the construction of a hospital equipped to serve a community of 70,000 people;
- two dams with associated hydro-electric plants;
- a 200 kilometre stretch of railway;
- schools, training centres, an airport, tele-communications networks etc.

In the UK this social base is extensive. Schools, hospitals, roads, houses exist in comparative abundance and are of good quality, although Government and people are always on the look out for improvement. Social standards seem to have no upper limit of demand.

I do not wish to deny that the social base has to be extended and improve constantly, but only to say that pretty well anywhere in the UK where new industrial development might proceed, a social base to accommodate the development already exists. This reflects the fact that unlike Canada we are overcrowded. Also, there is an argument that perhaps too great a proportion of our output is taken up by these services at the expense of an increase in manufacturing investment which would help us raise output even more. In fact, we share with the Canadians the problem of space. The only difference is whereas you may feel you have too much, we are conscious of having too little, and the little we have is heavily occupied!

Our third major asset is our existing industrial base. We are not starting from scratch. We are still one of the major national economies. We produce 100M tonnes of coal, 25M tonnes of steel, 2M cars and commercial vehicles per year. Five British major companies are in the world's top 50 in the Fortune list, and if you exclude the USA, 60 British companies are in the top 300.

Wherein lies our problem, therefore? If we have the people their skills and experience, and the equipment to do the job, why does it so often appear that we are in trouble as a nation?

It appears to me that a major part of our troubles stems from the very assets which I have described. We have such a long history of industrial development, have invested so much in social and industrial capital that it is enormously difficult to change the pattern of things as they are and have been for a long time. The scientific term for this phenomenon is 'inertia' and we suffer from many varieties of it in the UK - geographical inertia, industrial inertia, social inertia. It affects our ability to respond to changes in technology or in market forces and thus impairs our ability to compete with other countries.

Certainly this has been true historically of the British Steel industry which, in its present shape, is largely, though not wholly, a late nineteenth and early twentieth century phenomenon.

Since the early 1930's there had been even prior to nationalisation in 1967, almost continuous Government intervention in pricing, investment decisions and in the structure of the industry. This intervention was often capricious and unpredictable and as a result, the stable conditions which are an essential requirement for rational long-term decision making did not exist. As a result in 1967 when the industry was nationalised (bringing about, incidentally, the largest industrial merger anywhere in the world) the Corporation was given control of 14 different companies, including some modern plants but others

with varying degrees of obsolescence. We inherited, in particular, small blast furnaces incompatible with the low cost production of iron; a situation where the bulk of our steel production still came from outmoded open hearth and Bessemer furnaces; and many mills that could not provide the high output, low cost, high quality steels that consuming industries require. In fact, without nationalisation, it is almost certain that many of the companies concerned would shortly have gone bust! Together they would have lost an estimated £50M in the year preceding nationalisation if they had adopted the same stringent depreciation policies as the BSC now operates.

Now in essence what we had was a miniature version of the UK economy. We had skills, we had assets - lots of assets but of the wrong kind. We employed 260,000 people to produce 23M tonnes of steel. What we have been doing for the last seven years is to make more effective use of our people. A measure of our success is that we now produce the same amount of steel with 220,000 people. This kind of improvement takes major effort over a long period. It takes time to correct a situation by planning a new industrial structure; designing, constructing and commissioning plants to fit it and getting Governments to accept it. The first thing was to rationalise what we inherited. This involved closing down small high cost plants and concentrating their load on the best available higher output facilities, which would give lower unit costs. These latter were located at existing sites that were most suited to cater for the reception of raw materials for processing.

In other words, looking back to what I said a few minutes ago, we have been improving our basic efficiency as a converter of raw materials which are increasingly having to be imported in the absence of sufficient high quality domestic sources.

This first stage of rationalisation will be completed this year. The second stage, which involves increasing our capacity by around 10M tonnes a year (which is roughly the same as building two STELCO's!) is well under way and will be complete by the early 1980's. By that time we shall also employ 40,000 fewer people. We shall produce over 40% more steel than in 1967 with 30% fewer people and that will make us one of the most efficient producers in the world. Already we are seeing the rewards which well directed efforts can earn. A recently completed development at Scunthorpe in Lincolnshire, which we call the "Anchor" development, involved the replacement of open-hearth furnaces with basic oxygen units and also large scale rolling mill development. The plant which used to produce 170 tonnes per man, now produces twice as much and, within a few years when the full potential of the plant is

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realised, output per man will be doubled again. That will put us, not in Japanese class, but above Japanese class. This is just one example of the UK producing real achievements in technology, the whole effort from design, through construction to commissioning has been an outstanding success - so much so that the plant producing 19% of the Corporation's output, produces 42% of the Corporation's profit. It is the fifth biggest steelmaking plant in Europe and bigger than any steelmaking plant in Canada.

That kind of effort, repeated in other places between now and the early 1980's is what is needed to put the Corporation right. It also seems to me to be the kind of effort which needs to be repeated throughout UK industry to put the economy right. I was very interested to see an article which appeared in your own Toronto Star on 18 February last which made the following comments.

- A leading UK machine tool maker estimates that much of manufacturing industry is burdened with equipment 10 years and older, much of it obsolete.
- A German auto worker produces twice as many cars as his counterpart at British Leyland; a Japanese assembly line will produce four times as many.
- Whereas France and Germany have been investing nearly 12% of total output in new machinery and equipment, Britain spends only 9.4% of a smaller output.

Now it seems crazy to me, in a country like Britain which is, by and large, short of labour, to produce goods in a way which is less than 100% efficient in its use of men and women. But it is not easy to re-equip oneself with the most modern plant. In the case of the British Steel Corporation, the cost of our total 10-year development plan will be over £4,500M or \$10B! That is one problem.

The other problem is that it involves reducing our workforce by 80,000 men and women compared with 1967. Now that is not easy. It would not be easy even if we did not have regard to human and social responsibilities, but since we do feel these responsibilities very keenly, the job is even more difficult. Now I do not believe that it is the total responsibility of the Corporation to find jobs for everyone displaced - it is the responsibility of national and local government as well and of industry in general to find new forms of wealth-making employment for people who can no longer find a proper place within the Steel Corporation. It does not seem to me to make sense

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to strengthen the weak by weakening the strong. Nevertheless, we devote a great deal of our own time and resources to finding new employment for these people; redeploing people within our own large concern; to counselling those who are displaced as to new opportunities; to attracting new industries to areas most affected sometimes by offering joint ventures; to building trading estates and so on. We even attempt to spread the word to overseas businesses about the opportunities which are available. This is the obverse of our development programme and the two go very closely together in my mind.

This kind of carefully planned effort to drag ourselves up by our bootstraps is a long, hard climb. It goes on against the background of the crisis headlines you see everyday - but it goes on and it will bring rewards in the long term. It is because of the confidence I have in this effort that I have confidence in the future of the UK. We have the basic resources to do the job and there is no reason why, with determination, we should not succeed.

There is one other major point which I wish to make to you today. I find it needs saying time and time again to our friends overseas. A nationalised industry such as the British Steel Corporation, is not a government department - it is a commercial enterprise which is in business to make profits. And this we have done for the past three years in succession. The term profit has been obscured in its meaning and purpose and today its substance is continually eroded by inflation. However, any manufacturing industry which is international in character, and the British Steel industry certainly is, has to be measured by international standards of commercial viability. An industrial undertaking which, by its own efforts, wishes to invest in its own future must generate sufficient profits to achieve this aim. I referred earlier to the Corporation's development programme costing around £10B. I still hope and intend that the Corporation will generate more than half of this cost from depreciation provisions and retained profits and we have been hitting this target for three years. Therefore, you can understand I am very profit minded. This was the point that so clearly came out of the evidence to the Steel Profits Inquiry here in Canada last year.

Everybody, including myself, is optimistic that globally, the growth of the world steel industry is going to proceed at somewhere between 5½% and 6% per annum; at this rate of increase, if any industry can be called a growth industry it is the world-wide steel industry. In 1973 at the International Iron and Steel Institute meeting in Johannesburg, it was estimated that, in order to meet growth in world

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demand and to carry out necessary replacement, the world steel industry between 1973 and 1985 would have to build capacity to produce 910M tonnes per year. As someone rather dramatically pointed out, that figure would imply a need consistently to build enough capacity to replace the whole of the American Steel industry every 26 months. Excluding the Communist bloc, the figure was 590M tonnes and it was estimated that that, in 1973 price mark you, would cost £180B or around \$15B per year. Now I shudder to think what inflation has done to that figure.

But if the world steel industry, and British Steel as part of that industry, is to meet its commitments to its customers, it must generate profits. The British government recognises that fact and so we have been given an objective in terms of profit. Achievement of these profits should allow us to generate the investment funds we need. We have also been given the freedom, under the rules of the European Economic Community, to charge the prices we need to charge in order to be profitable - subject, of course, to the market place. We cannot, do not and do not wish to rely upon Government subsidies. We stand on our own feet and we like it that way. The corollary, of course is that we must have the freedom to determine our own destiny. I rather suspect that many people in Canada when (and if) they think of the British Steel Corporation, wholly owned by Her Majesty's Government, think of endless committees of civil servants and bureaucrats pondering the fate of the Company and of every decision being taken by the Cabinet. That is not the case, fortunately, although like every Chairman, I sometimes get exasperated by the questions which my shareholders insist upon asking.

The freedom of the Chairman and Board of Directors of a Company to make decisions, based of course on the best advice available to it, is very important to my mind. It is certainly the philosophy by which our subsidiaries and associates overseas are managed. In Canada, for example, where the total sales of our subsidiaries and associates in the present fiscal year will be around \$275M, our Canadian companies have their own boards of directors, a very substantial majority of them being Canadians, and they are the ones who make the decisions. Our contribution comes in because of the things we are doing at home, because of our management skills, because of our international marketing knowledge and expertise and because of our research and development activities and successes. Based on this experience we believe, and this belief I am glad to say is shared by our Canadian Management, we can do and shall continue to make a positive contribution to their profitability and development.

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We are investing in Canada because we are excited by the possibilities for growth in this country. Your steel industry will share in world growth. By 1980, Canadian Steel capacity will increase by approximately 6M metric tonnes to 22M. Most of this growth will of course come from the majors, STELCO, ALGOMA and DOFASCO, but some of it will come from the smaller producers. We hope to share in this growth and thus make a contribution to Canadian development. We will continue to be trading partners too. In 1974 we imported almost \$90M of materials from Canada. I am pleased to say that you also buy steel from us so that trade is not too one-sided!

Chairman, I thank you for the privilege of speaking to you today and I hope that what I have had to say goes some way towards convincing you in respect of the UK that, to plagiarize Sir Winston Churchill, - "the reports of our demise are grossly exaggerated".

I have tried, as my fellow industrialists in the UK are doing, to face up to the real problems facing us today in Britain and to outline to you what we are doing about them. The news will continue to be bad for a while yet but I am confident of the outcome because if grand possessions produce grand designs the UK has its grand possessions. We look forward to being a strong and vigorous partner in world trade and to making our contribution to the development of the World economy.

Thank you

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