



PRIME MINISTER

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 J.S. Collins
 Duty Clerk
 12/2/81

DUPORT LTD

I am writing to warn you and other colleagues that it is likely that Duport Ltd will shortly be put into receivership by the Midland Bank.

2 As you will know, Duport Ltd has been in serious financial difficulty since mid 1980 because of the performance of its subsidiary, Duport Steels Ltd. 70% of Duport Ltd's assets are in this subsidiary which comprises a new steelmaking operation at Llanelli which employs 1060 people, and an older rerolling plant, London Works, at Tipton, Staffordshire which employs 575 people. There are also foundry operations employing some 1400 and other businesses more remote from steel employing some 3000.

3 Those considering the possibility of establishing a joint public/private sector company in the engineering steels sector, (GKN, Duport, Hadfields, BSC and TI) decided some time ago that retention of the capacity at Llanelli would not be required on any view of future demand. The works is geographically removed from the main steelmaking areas and incurs cost penalties both in transporting scrap from the Midlands and in transporting billets to the Midlands for rerolling. The works has no continuous casting facility.

4 The London Works, however, might well be needed in a new engineering steels company but Duport has not been able to afford to wait



until the new company is formed. Since BSC would participate in any joint company which is likely to emerge, I authorised BSC to open negotiations for the purchase of London Works with a view to its inclusion in a new company.

5 BSC's merchant bankers, Lazards, advised that London Works would be worth £15m, if the works were to be amalgamated with BSC's operations, and £25m if viewed as part of a new company. The higher valuation is justified in their view because the contribution made by London Works to a wider grouping would be much greater. If and when the new company is formed, it would certainly be loss making in the early years. BSC decided they could not offer cash in these circumstances but offered to take over £25m of Duport's indebtedness to the Midland Bank provided that the £25m would not carry interest for the first 2½ years and that the loan could be transferred at BSC's option to the new company when formed.

6 The Bank of England report that the Midland will not accept this proposal on the grounds that the amount on offer is inadequate and that it is unsatisfactory that the proposed loan should be secured on the assets of the new company.

7 BSC have acted at my request on the assumption that the new joint public/private sector companies should be based on sound commercial principles. I have also left the negotiations to BSC and the private sector companies since they will own the assets and will have to operate the assets. It would not be proper for me to seek to change BSC's view on the value of London Works.



Indeed if I sought to do so I am sure the Chairman would ask me for a direction. The London Works is worth £15m to BSC or £25m to the joint company; it cannot be made to be worth £25m to BSC which is the essence of what the Midland wants. I cannot allow BSC to retain responsibility for repaying the loan or to guarantee it, as the Midland would like. As I explained to you and to colleagues in E, I am aiming to establish freestanding companies without parent company guarantees.

8 I understand that the Midland would prefer to put Duport Ltd into receivership, believing that they would be at least £7m better off by this route. The Bank of England advise, and I agree, that there is little to choose between the receivership route and purchase by BSC/the new joint company. Llanelli would be closed in either case with the loss of 1060 jobs. In a receivership London Works would find a buyer probably with the loss of some jobs. The foundry side, which employs 1,400, is loss making and would probably find a buyer but some jobs would be lost - Duport had planned a rationalisation involving a loss of 500 jobs if they survived the present crisis. The other Duport non-steel making businesses employ about 3000 and would almost certainly all find purchasers.

9 I much regret that Duport should find itself in this situation and that closure of Llanelli will cause redundancies in such a politically sensitive area as South Wales. There is no question of Duport being brought down by subsidised competition from BSC; the basic fault lies with the company's management who invested



70% of its assets in steel and in a geographically isolated main plant. We shall inevitably incur some criticism if the Midland does decide to put in a receiver but I propose to make sure that the Midland takes its share of the blame by indicating that BSC had made a substantial offer for some of the assets which the Midland had felt unable to accept. I am convinced that there can be no question of the taxpayer putting in cash to save Duport. We must allow events to take their course. Since discussions have reached the end of the road, I have authorised officials in the Department to tell the Bank of England, who in turn will tell the Midland Bank, that no taxpayers' money will be forthcoming. Receivership can be expected very soon, unless Midland relent.

10 I am copying this minute to members of E Committee, to the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong.

Department of Industry
Ashdown
123 Victoria Street

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12 February 1981