

cc
sc: Mr. Woyson
Mr. Duguid



PRIME MINISTER

PHOENIX II - HADFIELDS

*This will lead to
great political trouble because
the Hadfields men did not state
when BSC did and it is the
Hadfields men who will be made
redundant. I
hope
the redundancy
arrangement
are
at least
as generous
as BSC's
one*

In view of your interest in the Dupont case and the political sensitivities involved, you should know of the discussions between BSC and Lonrho Ltd about the position of Lonrho's steelmaking subsidiary, Hadfields Ltd, in the proposed engineering steels company which is commonly referred to as Phoenix II.

2 Hadfields, a Sheffield based company employing some 2,600 people, has been losing money at the rate of £1 million a month for a considerable period of time. Lonrho are most anxious to see this drain on their cash resources stopped and wish to end their involvement in steelmaking. Lonrho wish to see their steelmaking assets absorbed into Phoenix II and to receive cash in return.

3 The Department has known of Hadfields' losses since last September when it was proposed that Hadfields should be taken over by BSC itself before any of the Phoenix discussions really got under way. BSC (and GKN, the other major partner in Phoenix II) have since then been primarily concerned to resolve the Phoenix I negotiations; the issues are complex and those concerned could not be expected to deal with more than one set of negotiations at a time. Mr Edward du Cann, as ~~Chairman~~ ^{DIRECTOR} of Lonrho, and Hadfields have, however, maintained continuous pressure on BSC and the Department to have their interest in the Phoenix II discussions expedited. The issue is complicated by the problematic valuation of Hadfields' assets. Its steel making plant, which is at best



obsolescent at a time of excessive steel-making capacity, needs to be closed down. Its order book is worth little, and, since the Phoenix II company could not expect to retain Hadfields' customers except on a purely commercial basis, BSC would not be justified in paying much money to take it over. Some of Hadfields' equipment may, however, have some value, and BSC might take over a package of assets.

4 Meanwhile, the Duport crisis intervened and, as you know, resulted in BSC acting quickly to buy some of Duport's steel assets because of the serious financial situation of the entire Duport Group. Lonrho can in no sense advance a similar need for a solution in the case of Hadfields but they clearly feel that they should wait no longer and publicly argue that Hadfields' position now merits action similar to Duport. They give every sign of wanting to conclude a deal very quickly. If this issue is not resolved soon, Lonrho may attempt to provoke a political row, which might not only be embarrassing but could jeopardise attempts to make progress on Phoenix II.

5 The position is further complicated by the political stance taken up by Mr Edward du Cann. As you know, he has been strongly critical of BSC's pricing policy, claiming, without any apparent justification, that the Corporation is using taxpayers' money to drive private sector steel makers out of business. He has criticised the connection between the Department and BSC, in particular Mr Ken Binning's role as both Board member and my adviser. He is also unhappy about my reliance on Mr Ian MacGregor and BSC to value the assets taken into the Phoenix companies and



does not accept my view that the valuation of assets is a matter to be decided by negotiation between the future shareholders in each Phoenix company.

6 Against this background, I have asked Hill Samuel to act on behalf of the taxpayer to form a view independent from BSC's as to the value, if any, to Phoenix II of the Hadfields assets and order book. BSC and Lonrho have their own merchant bank advisers. The use of independent merchant bank advisers anticipates Mr du Cann's criticisms that BSC have set too low a value on the businesses and that the Department has simply accepted their valuation without the benefit of a second opinion. It will, however, be difficult for the Department not to accept a valuation of Hadfields on which BSC and Hill Samuel broadly agree. I understand that negotiations are likely to come to a conclusion this week. Officials in the Department are keeping in close touch with Hill Samuel and I do not think that the amounts of money which we are likely to be asked to authorise BSC to commit will be indefensible or embarrassingly large.

7 The closure of Hadfields and a purchase by BSC of whatever of its assets have any value to Phoenix II will involve some cost to the taxpayer (redundancy costs will be met by Lonrho) but this will be justified by the elimination of excess steel-making capacity in this sector and by the improved prospects of Phoenix II becoming commercially viable. As was the case with the Duport solution, the public sector will be expanded transitionally until Phoenix II gets under way but the prize will, I hope, be a free standing private sector engineering steels company which



will privatise over 15% of BSC's assets and absolve the taxpayer from standing behind a substantial proportion of BSC's debts.

8 I am copying this minute to the Chancellor of the Exchequer and to the Chief Whip.

12.

KEITH JOSEPH
(Approved by the Secretary
of State and signed in his
absence) 26 March 1981

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