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PRIME MINISTER

SHEFFIELD FORGEMASTERS

You should be aware of the possible failure, on Thursday or Friday of this week, of Sheffield Forgemasters - a steel producer employing 3,500 people in Sheffield and a further 800 in Crewe, Glasgow and Edinburgh.

2 Forgemasters' failure risks causing some embarrassment to the Government. It is the sole UK supplier of very heavy steel forgings and castings, with Rolls Royce, CEG^B and GEC amongst its customers. And the company was set up only two years ago as a Phoenix privatisation venture jointly owned by BSC and its former private sector competitor Johnson and Firth Brown.

3 Faced with an unexpectedly prolonged recession in its largely capital goods market, Forgemasters borrowed heavily to offset losses and now bears a crippling interest burden. Over the past few weeks there have been considerable efforts mounted towards a rescue and it is still possible that short term financing arrangements can be agreed between BSC and the four principal banks involved. These re-financing arrangements will allow more talks to take place to find ways of giving Forgemasters several

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cc Bob Young
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more years in which to prove itself. If either the short or medium term financial packages cannot be agreed the company will go into liquidation where little is expected to be salvaged.

4 Clearly I should prefer to avoid this: apart from the embarrassment, and the industrial case, there are some signs that past restructuring is now coming through in better results. But I do not consider that we should intervene directly in the rescue plan: this is properly the responsibility of the shareholders and current investors, and I do not believe I should go beyond the £10m rationalisation assistance which my Department has already provided. In strictly commercial terms, the case for further aid is not strong. I have looked to the British Steel Corporation to provide a guarantee for an additional bank loan necessary to help the company through its proving period. Even this has still to be agreed between the Chief Secretary and

Norman Lamont.

CST
opposes
a BSC guarantee
other than one which
is fully justified commercially.

5 My Department will continue to support the Bank of England's determined efforts to rally City support and reach agreement on the short and medium term financing requirements. If there is a serious deterioration in the prospects of finding a way of avoiding the Company's liquidation I will advise you immediately.

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6 I am sending copies of this minute to Nigel Lawson, Peter Walker, Michael Heseltine, George Younger and Tom King.

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9 October 1984

Department of Trade & Industry

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