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PRIME MINISTER

Sheffield Forgemasters

Mr. Tebbit's minute - flag A - reports the threat of a major industrial failure at Sheffield Forgemasters, with over 4,000 redundancies. Bob Young's note - flag B - sets out the background. Further details are available in the attached exchange of correspondence between DTI, Treasury and BSC.

The Board of SF is meeting on Thursday and will be faced with a choice between:

- (i) Adopting a package which includes an offer by BSC to guarantee £5 million of bank loans (the other 50 per cent shareholder, JFB, is not prepared to offer any guarantees, though BSC, with £60 million of sales to SF, has more at stake).
- (ii) Putting the company into liquidation.

All parties agree that in strict commercial terms the long term future of SF is highly problematical. The BSC attitude is ambiguous but they appear to believe that some further support for SF is justified on wider grounds, though it is not clear how far this is reflecting DTI pressure.

The Treasury oppose an offer by BSC of a guarantee as they feel, perhaps rightly, that this will ultimately be reflected in a bid for an expansion of BSC's EFL.

Though he is not prepared to do so openly, Mr. Tebbit would like to see help given to SF via BSC.

There is no doubt that the declaration of 4,300 redundancies, most of them in Sheffield, would come at a very difficult time for the Government. (In scale, this is broadly on a

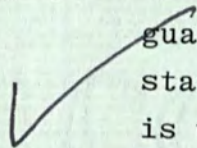
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par with Scott Lithgow.) It is possible that the Board may feel that it is not worth persevering even with the package, in which case there is little more that can be done. You may feel, however, that a closure of this magnitude should not be allowed to go ahead without every effort having been made to avoid it or to allow time for a longer term solution to be devised.

Do you take the view:

- (i) that no further assistance should be made available from the public sector; or
- (ii) that BSC should be allowed to offer a guarantee of £5 million on the understanding that the time which this buys is used to pursue a longer term solution?



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ANDREW TURNBULL

9 October, 1984