

B

MR. TURNBULL

SHEFFIELD FORGEMASTERS STEEL COMPANY

The following summarises what we know about Sheffield Forgemasters (SF).

x the old River Don works

1. The Company (originally Phoenix III) is a merger of certain BSC assets and the former Johnson Firth Brown. It specialises in heavy forgings in Aerospace quality steels, and is the only UK company with that capability.

The merger cost £35m two years ago. The equity is owned 50/50 by BSC and JFB. There are loans and loan stock on top - £10m from BSC, £10m from the institutions, and a bank overdraft of £5m. In the twelve months ended June 1984 SF lost £10m net on sales of £92m. In present trading conditions the Company is expected to reduce its losses to £3m this year.

2. The Rescue Package

This is led by Lazards who rely on Bank of England influence too. The deal would:

- defer interest on loans and loan stock for three years (worth £10m);
- subject to certain performance criteria capitalise the deferred interest and loans;
- require a further unsecured commercial overdraft;
- require a public sector guarantee of £5m.

BSC are willing to provide the guarantee, and strictly speaking can do so without Treasury approval. But they are

reluctant to move without Treasury blessing, and Treasury are not happy because they see no secure commercial future for SF.

The JFB Board are very ready to put the Company into voluntary liquidation. BSC are much less happy - partly because they do not want to lose the value of their supplies to SF (about £60m per annum) and partly because they think Ministers actually want them to support a rescue.

There are no "strategic" arguments to draw on in support of a rescue. The necessary materials are obtainable from Europe.

3. The Options

Norman Tebbit is suggesting non-intervention unless this becomes absolutely necessary (!). After all, it is possible that, even without Treasury support, BSC will offer the guarantee; and that even without the guarantee the Bank of England might persuade the other institutions to go ahead.

now
unlikely

Given all that has been sunk into SF, we see political advantage in keeping SF afloat for now, up to, but not beyond, authorising BSC to issue the guarantee. The employment implications are significant, and so is the timing. The guarantee may not be called, and is small relative to what the taxpayer has already donated. SF may not survive long term; but if it stays alive now, Government has some degree of control over its later failure.

We think the Prime Minister could informally advise Norman Tebbit to make sure, through use of the BSC guarantee, that SF does not go under in the near future.

She could also ask why the crisis appears to have blown up at no notice.

R.Y.

ROBERT YOUNG

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