

COMMERCIAL IN CONFIDENCE



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Secretary of State for Industry

18 February 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim

DUPORT LIMITED

My Secretary of State has asked me to tell you of developments in connection with Duport Ltd following the Prime Minister's request earlier today that he should look again at the possibility of BSC improving the terms of its offer to the Midland Bank to take over responsibility for some of Duport's borrowings. The aim would be to relieve Duport of bank debt on acceptable terms so that the Directors of Duport would not need to call in a Receiver.

2 Following the Prime Minister's request Mr MacGregor reopened negotiations with the Midland Bank. An arrangement has now been concluded which is acceptable to the Midland and to BSC and which is being communicated to Duport by the Midland. The proposed arrangement is that BSC will acquire the following Duport businesses:

London Works Steel (Warley) —
Flather Bright Steels (Telford and Sheffield) —
Nationwide Steel Stock (a stockholder with 5 locations
in the Midlands and North)
£2 million worth of equipment from Llanelli Steel Works.

3 The deal involves:

- (a) the assumption by BSC of the bank debt owed by Duport up to £25 million;
- (b) the conversion of the debt into a 10 year term loan, repayment starting in year 6;
- (c) interest at London Inter-bank offer rate plus 1/2%, with no interest payable in the first year;
- (d) BSC being able to assign the loan to another company (e.g Phoenix II) subject to the agreement of the Midland Bank, their agreement not to be unreasonably withheld.

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4 Before this deal could be reached both BSC and the Midland had to reconsider their positions but the Chairman of BSC still regards it as commercially reasonable in the circumstances. It is expected that the Midland Bank will inform Duport about the new arrangement on the morning of Thursday 19 February and that the Duport Board will decide that they will be able to continue in business (but this is not absolutely certain). It is important to note, however, that the Duport Board will conclude that steel-making and associated activities at Llanelli will have to be closed down. There has never been any reasonable possibility that the Llanelli works would remain open in the present market situation.

5 My Secretary of State has authorised BSC to acquire the assets listed in paragraph 2. He is fully aware that the acquisition represents an extension of the public sector and could be misrepresented as an act of nationalisation. It is his understanding that these businesses will either form part of the proposed joint public/private sector engineering steels company known as Phoenix II or be sold to the private sector. He stresses, however, that there can be no guarantee that BSC will be able to transfer the acquired businesses to the Phoenix II company; a transfer will depend on the agreement of the other participants. Also, the businesses are being acquired at valuations which depend on their being amalgamated into Phoenix II; there is no guarantee that, if Phoenix II does not go ahead, BSC will be able to sell the businesses in the near future at the valuation they will be paying. There is therefore a clear risk to public funds, but the alternative is almost complete certainty that Duport would go into receivership amongst loud (but inaccurate) allegations that it had been sunk by subsidised competition from BSC.

6 My Secretary of State has been concerned that the arrangements under which BSC is acquiring Duport's assets might create a precedent for other private sector steel companies to seek to dispose of their steel assets on similar terms and to retire from the business. The terms might for example increase the pressure on private firms not to participate in Phoenix II. My Secretary of State believes that the Prime Minister should be aware of this risk but he thinks that in practice the present arrangements are a not unhelpful precedent; the deal does not involve the immediate payment of any cash.

7 Copies of this letter go to the Private Secretaries to all members of the Cabinet and to Murdo Maclean in case the matter is discussed at Cabinet on 19 February..

Yours ever
Ian Ellison
 I K C ELLISON
 Private Secretary