



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

CONFIDENTIAL

Tim Lankester Esq
10 Downing Street
London SW1

*a Dignia
Lohan
Dear Tim*

*Newletters I hope
Lonrho will consider
higher redundancy
pay. Their employees
have been very loyal to them
7. April 1981*

Dear Minister

*There seems no hope of
keeping Hadfield's open - and
Lonrho will be paying lower
redundancy money than BSC. But there
is no way we can oblige them to pay
more.*

Thank you for your letter of 27 March about Hadfields. My Secretary of State is conscious of the political difficulties that will be caused by the closure of Hadfields. The firm's problems are not caused primarily by competition with the BSC but are a function of over capacity in Europe and a depressed market. The owners, Lonrho Limited, are losing something of the order of £1 million per month and are simply not prepared to keep the firm going in these circumstances. Nor could officials here persuade them to keep going except by a massive subsidy which would be particularly anomalous given the existing over capacity.

The Prime Minister also raised the question of redundancy payments for Hadfields' employees. In the private sector the redundant employee receives on average statutory redundancy pay plus 50%, which works out at about £2500 per man. This is the level of payment made at Dupont's Llanelli plant and paid recently to those made redundant from Round Oak. Lonrho have budgeted £4.5 million closure costs which is to cover redundancies for their 2000 Hadfields employees. Given that the Redundancy Fund pays half the employers statutory redundancy costs, it appears that Hadfields' employees will receive around £2500 on average. This is substantially less than the £6550 average payment received by redundant BSC employees. Were Lonrho to pay their employees off at this level it would cost them about £13 million rather than the £4.5 million already budgeted. This is slightly more than BSC are offering for the business at this stage. BSC's offer represents their commercial judgement of what the Hadfields business is worth, and it would not be right to persuade them to act against their commercial judgement. I expect BSC have held a small negotiating margin at this stage but it seems most unlikely that Lonrho would be



CONFIDENTIAL

prepared to spend all the proceeds on redundancy pay, cash
rich though Lonrho are.

Even if BSC could be persuaded to exercise a generous commercial judgement so that Lonrho get a rather higher price, it would of course still be for Lonrho to decide what they did with the cash. They are under no obligation to top up their employees redundancy pay, and it is most unlikely that BSC would be prepared to make their offer conditional on Lonrho paying a certain sum to their employees. Moreover, BSC making such a condition would be bound to leak out and would lead other similarly placed employees - in particular Duport's ex-employees at Llanelli - to ask why similar favourable treatment was not accorded to them.

I am copying this letter to John Wiggins (HM Treasury), Murdo Maclean (Chief Whip's Office), and David Wright (Cabinet Office).

*Yours ever
Catherine*

CATHERINE BELL
Private Secretary