PREM 19/808

MT

Confidential Filing

The Closure of the Massey-Ferguson factory at Kilmarnock. The future of the Massey-Ferguson group.

INDUSTRIAL POLICY

NOVEMBER 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~8.11.79~~							
~~22.9.80~~							
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8.10.82							

PREM 19/808

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CONFIDENTIAL

Ind Pol

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the
Minister for Trade

Prime Minister (2)

MCS 11/10

Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1

8 October 1982

Dear Patrick

MASSEY FERGUSON LTD

Thank you for your letter of 30 September.

No final agreement was reached in Toronto, although all lenders indicated their willingness to continue to support Massey-Ferguson. There is still much uncertainty about the availability of some of the cash required; in particular, the French Government's support is still an unknown factor as is the ability of the company to raise new share capital in the UK and Canada during the course of the next year. However, the leaders of the various lending groups, including the UK banks, agreed with the broad approach of the proposals and are invited to confirm the extent of their support, after any necessary consultation with syndicate members, within two weeks. The company is aiming for final agreement by the end of November but the end of December is probably more realistic.

It is probable that there will be some whittling down of the contributions made by the various lenders but the company's view is that they will be able to raise sufficient cash and achieve a substantial improvement in their debt equity ratio through this further restructuring.

ECGD will be playing their full part and, subject to guidance from their advisers Lazard Bros on certain aspects, hope to negotiate arrangements that will satisfy all parties.

Whether this exercise - along with the drastic cost-cutting and cash conservation achieved by MF - will prove to be a permanent

CONFIDENTIAL

solution to the company's financial problems remains somewhat uncertain. MF's latest sales figures show a continuing deterioration which must be stemmed. Much depends on the next 6 months or so and an urgent solution being found to the difficulties of the French subsidiary. But, as you say, there is no immediate need to consider exceptional Industry Act participation.

ECGD will be circulating to Departments a detailed report on the Toronto talks at official level.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer, Secretary of State for Trade, Minister of Agriculture, Fisheries and Food, the Chief Secretary, Sir Robert Armstrong, and the Governor of the Bank of England.

Yours ever Peter

PETER REES

Ind Pol. Nov '79, Massey Ferguson

JH 8

INDUSTRIAL POLICY. cc JV

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

30 September 1982

Prime Minister (2)

MCS 4/10

P Rees Esq QC MP
Minister for Trade
Department of Trade
1 Victoria Street
London SW1H OET

Dear Peter,

MASSEY FERGUSON

Thank you for your letter of 20 September.

2 I gather that the talks last week in Toronto went a little better than expected and that while the re-financing package may produce somewhat less for the Group than was originally planned - and the public issues in particular will be delayed - it will hopefully contain enough to carry the Group through to a market recovery. I am glad that the UK banks in the event look likely to come forward with their contribution to the package. I am also encouraged to learn that, despite the statutory constraints which prevent ECGD making the full concessions sought on its existing facilities, the Department is still exploring with MF alternative ways of meeting its commitment to the re-financing. I am sure colleagues will agree that ECGD facilities offer the best way forward in protecting the UK interest and hopefully, for the moment, we shall not need to consider the Industry Act options which I outlined in my minute to the Prime Minister of 29 July.

3 I am sending copies of this letter to the recipients of yours.

Yours ever

Patrick

Ind Pol, Nov 79,
Massey - Ferguso-

V591

Prime Minister (2) Ind Pol

MCS 21/9

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SWIH 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the
Minister for Trade

Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

20 September 1982

Dear Patrick

MS

MASSEY-FERGUSON LTD

Progress on the medium term refinancing package, an outline of which was reported in your minute of 29 July 1982 to the Prime Minister, is proving slow and difficult. There is to be a further meeting in Toronto on 22 and 23 September to be attended by ECGD officials and we think it unlikely that final agreement will be reached. Meanwhile the Group's cash problems continue even though the UK companies have to date managed to patch their way through.

I know your Department is fully up-to-date on the current discussions but you and colleagues might find the enclosed assessment of the proposals helpful.

There are likely to be two key problems for the UK in meeting the new obligations proposed by the Group's advisers, Kleinwort Benson:-

(i) Kleinwort's view, given to the Bank of England, is that flotation of a new issue of cumulative preference shares in the UK companies is not feasible in present market conditions and may not be so until the early part of next year.

(ii) ECGD is meeting the constraints referred to in paragraph 4(3) of your letter in assessing whether it can justify agreeing to forgive interest on its current facilities for providing export finance for inter-company business.

The cost of (ii) to ECGD would be around £18.5m. Their initial evaluation (although more details will be necessary before a final view can be taken) is that they would not be justified in contributing the full figure. It is possible that any resultant 'gap' could be closed in part if ECGD could agree to support the additional inter-company business that will arise from the transfer of the production of some tractors from the US to the UK factories; but it seems unlikely that ECGD's counter-proposals will totally satisfy the Group and the other lenders.

The UK banks' attitude on their unguaranteed lending is also somewhat uncertain as is the likelihood of support from the French for MF France.

Failure in Toronto therefore seems a distinct possibility although precisely what the consequences of that might mean is difficult to forecast. However there could be an urgent need, after the Toronto talks, to consider our position in relation to the UK MF companies, particularly if liquidation of the Group seems a real threat.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer, Secretary of State for Trade, Minister of Agriculture, Fisheries and Food, the Chief Secretary, Sir Robert Armstrong, and the Governor of the Bank of England.

Yours ever Peter

PETER REES

BACKGROUND NOTE

CURRENT FACILITIES AVAILABLE TO UK GROUP OF MASSEY FERGUSON

1 The UK banks have loan and overdraft facilities to the manufacturing companies of approximately £61m.

2 ECGD has inter-company bank guarantee facilities to the manufacturing companies of approximately £60m although this will automatically be increased to £63m as ECGD's liability on a bond facility runs off.

3 The UK banks and ECGD also have facilities available to Massey Ferguson Perkins Finance Co Ltd of some £80m and £22½m respectively to support third party trade. However, these facilities are not included in the refinancing proposals because of the secure position of the lenders.

REFINANCING PROPOSALS FOR UK BANKS

4 30% interest or principal forgiveness of facilities available to manufacturing companies as at 30 June 1982. To the extent that a bank accepts principal conversion it will be asked to increase its facilities by a similar amount. In exchange for interest or principal forgiveness the banks will be offered common shares in MF Limited in Canada.

5 Amendment of repayment terms of facilities from four equal annual instalments commencing on 15 June 1984 to repayment in full on 31 October 1988.

REFINANCING PROPOSALS FOR ECGD

6 30% interest or principal forgiveness on inter-company facilities available to manufacturing companies as at 30 June 1982. To the extent that ECGD accepts principal conversion it will be asked to increase its facilities by a similar amount. No shares are offered in the parent company in exchange for any forgiveness as this will represent the pain ECGD has to bear for switching the Series "E" shares in MF Limited in Canada (on which ECGD's guarantee was called on 30 June 1982) into the UK.

7 The Series "E" shares to be exchanged for an equal nominal amount at current exchange rate of Second Preference Shares in MF Holdings Ltd in the UK. Dividends on these preference shares to be forgiven up to 30% of the principal value of the shares.

8 If no arrangements are made to exchange the Series "E" shares for preference shares in MF Holdings then ECGD would receive common shares in MF Limited in exchange for interest or principal forgiveness at 6 above and dividend forgiveness at 7 above.

GENERAL CASH RAISING REFINANCING PROPOSALS IN UK

9 The issue to UK institutions of £20m of First Cumulative Preference Shares in MF Holdings. These shares would rank ahead of the ECGD shares switched into the UK.

10 The release of the net assets of about £20m in Massey Ferguson Perkins Finance Co Ltd to the manufacturing companies by amending the trading pattern of these companies. It is proposed that the future sales to third parties should be financed through a new company owned by the UK banks. The banks would look to the third party receivables, title to the goods until paid and credit insurance cover as minimum security in such an arrangement.

vb

Ind Pol

2 August 1982

Massey Ferguson

The Prime Minister has seen and noted without comment your Secretary of State's minute of 29 July.

I am copying this letter to Richard Hatfield (Cabinet Office).

WFSR

Jonathan Spencer, Esq.,
Department of Industry.

Sup

JH 847

CONFIDENTIAL

c/c JV

(2)

Prime Minister

To note. (In my view, the most we should do is some easement at X if necessary.)

MCS 30/7

PRIME MINISTER

MASSEY FERGUSON

This minute is to report further on the present position of Massey Ferguson following my minute of 8 July. Officials in my Department have discussed this with officials in the Treasury, ECGD and the Bank of England, and are in close touch with the company.

2 The Group's position entails two levels of uncertainty, which to some extent coincide in time:

a) a sharp seasonal cash deficit, which runs through August and September and peaks in October. This is exceedingly tight for the Group as a whole (especially so in France), and August may well be critical. So far as the UK position is concerned, there are signs that the gap of some £12m may now have been covered, largely by agreed extension of major supplier credit. But even within the UK there is however a significant risk that the deficiency might grow for unforeseen reasons, or that measures to scrape cash together to meet it might fail. By November the seasonal position of both the UK and the Group should be improving fairly sharply;

b) meanwhile the medium term refinancing package being put together by the Canadian house of Wood Gundy together with Kleinworts is being tried out on major banks world-wide (there are some 200 banks involved to some degree, some of them with major exposure). The package involves a mix of debt forgiveness and interest-forgiveness (depending on the status of the lender) and some £55-60m of new money to be raised in Canada and in London - the London contribution of some £20-25m being by preference shares in the UK operations with a conversion right into the parent company equity. A meeting of all the main lenders (not just the UK) was held in London on 26/27 July, and a start made in grappling with the refinancing problems. There will be an extended period of negotiation of detailed arrangements. A further meeting is to be held in Toronto on 16/17 August at which Massey Ferguson hope to secure immediate interest relief. As part of the refinancing, the UK affiliates are expected to obtain greater autonomy, in particular management, more arms-length pricing with overseas affiliates, and control of its main outlets in the MF Group: it should be the UK Government's and institutions' objective to secure this, which will in any case flow to some extent from the introduction of external equity into the UK operations. To the same end we are also pressing for the conversion rights of any new preference shares to be into the UK companies rather than the parent company's equity, or at least that there should be an

option. A further possibility is that the French subsidiaries might be put under the UK companies, forming the basis of an autonomous European operation which might have a better chance of surviving any subsequent liquidation in reasonable shape. But this would not be acceptable if it could only be achieved by diverting funds raised in London earmarked for development at Perkins.

3 It is of course difficult for us to judge whether MF can survive the cash problem of the seasonal peak, or whether the medium term refinancing package will go through. But early signs of progress on the refinancing package would make it easier to avoid a crisis on the short-term cash problem.

4 Against this background, the possible need for Government action arises in three situations:

1) short term crisis action if MF runs out of cash before the refinancing is in place. On present indications the shortfall might be of the order of £15-20m (unless there were an uncontrollable collapse which would anyway be impossible for us to stop). One possibility would be for us to consider, if and only if no other option were open, a time-limited guarantee of additional bank facilities of that order;

2) if the Group went into some form of liquidation (a process which is not straightforward because of the

international complexity), it would be essential for the receiver/liquidator/manager to be able to keep the two main UK businesses (Perkins diesel engines and Banner Lane tractors) operating while sale or flotation was arranged. We believe he would probably need Government guarantees for this purpose. It is difficult at present to judge possible amounts, but it could be more than the £15-20m referred to in (1);

(3) if the Group survives the immediate problem and a medium term refinancing seems possible, ECGD may be constrained by statutory considerations from going as far as may be necessary for other banking participants. It is conceivable we might need to consider "topping up" with some form of Industry Act assistance; but the risk with such involvement would be the difficulty of avoiding being dragged into a continuing commitment.

5 The analysis above in no way indicates a firm view at this stage on the desirability of making such assistance available. We shall be keeping in very close touch with the situation as it emerges, primarily through ECGD's close involvement as a participant in the medium term refinancing discussions.

6 I have seen the Chief Secretary's minute to you of 21 July. I certainly agree we should give no indication of willingness to provide Government assistance, and I certainly start with no

predisposition to favour it. But the collapse of the Group would have such far-reaching consequences that I think we must keep the possibility in mind.

7 I am sending copies of this letter to the Chancellor of the Exchequer, the Secretary of State for Trade, the Minister of Agriculture, Fisheries and Food, the Chief Secretary, Sir Robert Armstrong and the Governor of the Bank of England.

PJ

P J

29 July 1982

Department of Industry

c/c JV
Incl Ad

Prime Minister (2)

To note.

MCS 22/7

PRIME MINISTER

MASSEY FERGUSON

I have read Patrick Jenkins's minute to you of 8 July about the further problems facing the MF group, and the serious implications these could have for the future of the UK subsidiaries, MF(UK) and Perkins. Peter Walker's minute to you of 14 July registered his concern about the implications for the tractor and farm machinery sectors in this country.

2. Officials here and in DOI have been keeping an eye on matters for some time past, and they have recently reviewed the situation with ECGD and the Bank of England. It seems that there is a fair prospect that Kleinworts and Wood Gundy will be able to put together a financing package with the object of keeping Massey Ferguson going as a multi-national organisation. ECGD are participating fully in the negotiations leading to such a package. ECGD, like the UK banks, will have to consider how far further exposure may be justified to sustain the company, based wholly on a commercial view of the possibility of minimising loss on its existing guaranteed lending. If, after the negotiations, ECGD concludes that the contribution it is being asked to make exceeds what may be justified on these grounds, it will of course report this to us.

3. I agree with Patrick, that UK interests will probably be served best if MF continue to survive as a multi-national organisation. I understand that the general objectives include the aim of establishing more satisfactory management and financial relations with the parent company in respect of the UK side of MF operations. Thus, if in the end, the company is forced to go into liquidation

we shall be better placed to secure the continued survival of parts of MFs operations in this country.

4. There is of course a very large indirect public involvement reflected in the ECGD exposure which has built up over a long period. This is more than the total of the UK banks put together. ECGD, with Treasury agreement, participated in the earlier attempts to keep MF afloat, including the provision of a guarantee on MF preference shares held by a Canadian bank. In addition Department of Industry have already committed some £15 million of direct Government aid to MF operations in the UK.

5. In my view, beyond keeping a careful watch on the situation and how it develops, the problem can be reasonably left to Kleinworts and Wood Gundy to continue with their attempts to find a permanent solution. As Patrick points out we could hardly agree to participate in the package in any direct sense - after all this is a Canadian company and if Government assistance is to be provided one might expect to look to the Canadian Federal or State Authorities.

6. If it comes to the crunch, and the issue is how to salvage as much as possible of MFs operations in this country we must look to the banks and other British financial institutions to provide the initiative. I have no doubt that the Bank of England, who have played an active role in helping to mobilise British banking support for MF, will continue to supply their good offices. But there should be no presumption that Government financial support in any form will be made available. Insofar as Perkins and the UK tractor operations have a future as independent entities it is reasonable to expect that banking and other institutional support should be forthcoming.

7. In the meantime I think it would be best for us to leave matters to the institutions involved to try to find a solution. We cannot I believe discuss possible contingency plans on a purely hypothetical basis, as Peter Walker suggests in his letter, since the situation is highly fluid and complex, and at this stage we

can have no firm ideas on how the matter might evolve. Moreover, any hint that the UK Government was prepared to intervene might well undermine the resolve of the various creditors and other financial institutions who will be expected to participate in the financial restructuring. If the attempt to establish such a package should fail then I agree a discussion between us about the prospects for the UK side of the business would be appropriate. However, as I have pointed out earlier in this letter, it is difficult to envisage how the use of Government assistance could be justified, particularly bearing in mind that a great deal of public money, quite apart from the ECGD exposure, has been put into these companies.

8. I am sending copies of this letter to the Secretary of State for Industry, the Minister of Agriculture, the Secretary of State for Trade and Sir Robert Armstrong. I am also copying to the Governor of the Bank of England.

L.B.

LEON BRITTAN
21 July 1982

cf Sv Ind Pol

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

(2)

Prime Minister To note.
Patrick Jenkin had already suggested that officials should monitor events, to put the government in a position to intervene if it so decided. It looks as if Mr Walker will wish to intervene.
MCS 16/7

RLS pps cf.

PRIME MINISTER

14 July 1982

MASSEY FERGUSON

In his minute to you of 8 July Patrick Jenkin outlines the financial difficulties faced by Massey Ferguson and the serious industrial and employment consequences for the United Kingdom inherent in a collapse of the Group.

The current problems are similar to those we considered in 1980 when the Company's refinancing package was being drawn up. Now, as then, I am very concerned about the implications for both the tractor and farm machinery sectors if the company should fail. The impact of a collapse of the Massey Ferguson group would extend widely through the United Kingdom industry because a number of our independents are closely tied to the Group through sub-contracting arrangements. But collapse of a major agricultural engineering company such as Massey Ferguson would shake confidence in the agricultural industry generally. Moreover, we should lose the significant contribution to agricultural technology which Massey Ferguson has been able to make.

I hope, therefore, that we shall be able to consider and discuss at an early date the contingency plans being developed by Patrick Jenkin's officials since the outcome of the current difficulties will be critically important to industrial development, employment and agriculture. We cannot risk having to take fundamental decisions without a full examination of the options.

I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Industry and Trade, Sir Robert Armstrong and the Governor of the Bank of England.

PETER WALKER

CONFIDENTIAL

JF1112

Mr Rickett
To see
MCS 12/7

Ind Pol
cc JV

Prime Minister (2)

To note.

MCS 9/7

CONFIDENTIAL

PRIME MINISTER

MASSEY FERGUSON

You should be aware of fresh difficulties within the MF Group which could have implications for the future of the UK subsidiaries, MF (UK) and Perkins.

2 It had been hoped that the major re-financing operation last year would be sufficient to see the Group through to the end of 1982 and to a progressive market recovery. However, world demand for farm machinery has since remained severely depressed and, more recently, a further sharp downturn in the important North American market has led to a serious cash shortage within the Group and a Board decision to suspend dividend payments on preferred shares, including those guaranteed by the Federal and Ontario Governments in Canada (Canadian $200 million) and ECGD (Canadian $87 million). ECGD has agreed to compensate for non-receipt of dividend payments, to avoid an immediate call under ECGD's guarantee. The default on dividend payments does not directly affect MF's lending agreements but the underlying deterioration in financial performance has put the Group in breach of covenants to lenders who are thus in a position to demand accelerated repayment of debt which would effectively bring the Group down. At present, however, the major lenders seem ready to hold off and to await the outcome of a merchant banking study of the Group which hopefully will provide a basis for a further re-financing operation. This report has been received and broadly endorsed by the Group Board, but it may be some while thereafter before it is clear whether the terms of a re-financing can be agreed.

3 In the meantime, the Group's situation will remain precarious. It has a sharp seasonal peak cash requirement in July and August, made worse by the need to redeem a $31million Eurodollar bond issue at the end of June. While the Group Management claim that they should be able to pull through, there is some doubt - if they are wrong - whether the banks would be willing to come to their rescue by adding further to their existing heavy exposure.

4 From the UK viewpoint the Group presence is industrially very important. MF (UK) is the largest source of farm tractors within the Group and employs 7,000 people mainly at Coventry, in Europe's largest tractor plant - which is efficient by international standards. Perkins at Peterborough is the leading UK diesel manufacturer with a workforce of 6,700 and a turnover of £240 million, three quarters of which is exports. Over the past 12 months my Department has committed some £15 million of assistance under our general schemes towards capital and research and development expenditure by these companies with the aims both of strengthening their future competitive position and also, through the type of project supported and the conditions attached to this aid, of encouraging their progressively greater independence in legal and operational terms from the affairs of the MF Group. This remains the overall objective. Nevertheless, for the present the UK operations are heavily dependent upon the Group's outlets world-wide. We believe that Perkins would have a reasonable chance of surviving a Group collapse, though this would almost certainly be at a very much reduced level of activity and would involve major redundancies; the prospects of survival of the tractor operation in the UK cannot be dismissed but are weaker. Barclays as lead UK bank have commissioned Coopers & Lybrand to carry out some preliminary studies against a possible collapse.

5 The Group is managed by a young and able team, several of them British, who are tackling the Group's problems ruthlessly and fundamentally in ways we support. What has brought about the present crisis is not recent incompetence but past errors, over-gearing and an agricultural recession of extraordinary ferocity affecting all the main tractor manufacturers (including International Harvester). For the immediate future, therefore, I am sure that the UK industrial interest would best be served by a continuation of these companies within a healthy MF Group and that we should do what we reasonably can to ensure the survival of the latter. I am accordingly asking my officials in collaboration with the Bank of England and ECGD to continue their close monitoring of the Group and prepare contingency plans so that, if events take a further turn for the worse, colleagues will have the opportunity of considering whether or not to intervene. It would be very difficult for us to agree that the Government should itself participate in any re-financing; apart from ECGD's commercial involvement, we declined to take part in last year's rescue, although we undertook, once this was assured, to look sympathetically at the potential for selective financial assistance. I do not at present see any grounds for changing this approach. However, if events do indeed take a turn for the worse, I am sure colleagues will wish to discuss the situation and the attitude the Government should adopt.

6 I am sending copies of this minute to the Chancellor of the Exchequer, the Minister of Agriculture, the Secretary of State for Trade and Sir Robert Armstrong. In view of the major banking interest, I am also sending a copy to the Governor of the Bank of England.

PJ

P J

8 July 1982

Department of Industry

cc A. Duguid
A. Cattels

JU

CONFIDENTIAL

Prime Minister

PRIME MINISTER

MASSEY FERGUSON

In my minute of 16 January I promised to report further on the negotiations for a rescue package for the Group.

2 The provisional agreement reached last week-end between MF and their bankers world-wide was a welcome step forward but we are not yet out of the wood. First, the agreement is subject to confirmation by the Canadian Government that they are willing to guarantee around C$200 million of the new share issue which forms a central part of the package. They have postponed a decision on this until next week and, while it is thought unlikely that they will now withdraw, their agreement cannot be assumed.

3 Secondly, there are immediate and serious financing problems for the Group in covering their needs before the main agreement is in place - not expected before end March. The banks are reluctant to free the necessary funds in advance of a Canadian decision and the UK companies are consequently having difficulty in meeting their essential commitments. ECGD is coming under intense pressure to increase its own exposure in order to keep the companies afloat.

4 We therefore face a critical few days. If the Canadians come forward with their guarantee, and the banks then co-operate, the companies may pull through. But it will be very close.

/5...

5 I am copying this minute to members of E and E(EA) and to Sir Robert Armstrong.

KJ

K J

26 January 1981

Department of Industry
Ashdown House
123 Victoria Street

JU

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

Prime Minister
Ind Pol
Sir Keith recommends that we should not intervene despite the serious risk of the UK companies being forced into liquidation.

cc Mr Hoskyns
Mr Wolfson
Mr Walters
Mr Lyles

PRIME MINISTER

MASSEY FERGUSON

1 On 19 September and 15 October 1980 I informed you and colleagues of the difficulties facing Massey Ferguson and of the efforts which were in hand to arrange a re-financing package for the Group. You will also be aware from John Nott's letter of 12 November of ECGD's involvement in these negotiations and of its agreement to play its part in the re-financing operations.

2 You will wish to know that we have heard from the Bank of England and from ECGD that the final stage of the negotiations will be reached on Monday next, 19 January. Although there remains a chance that agreement will be reached this is now very uncertain and, in any event, the trading position has deteriorated to the point where the sums involved may be inadequate except in the very short term. Our High Commission in Ottawa has indicated that the Canadian Government continues to take a more optimistic view but the UK companies are themselves facing serious cash-flow problems and the clearing banks have instituted contingency plans to seek compulsory liquidation and the appointment of a special manager if the worst fears are realised. This action and similar action by other lenders throughout the world could be expected within days of a breakdown in negotiations.

/3 ...

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

3 Although the special manager will, of course, seek to continue to trade, the interdependence of group companies is such that it would be wrong to assume that he could preserve much from the wreckage. The consequences for this country would be the loss of at least 10,000 of the group's 18,000 jobs in the UK; considerable difficulty for users of Perkins engines - especially the already precarious Talbot/Dodge truck operations; further problems for the hard pressed component industry; and a dangerous reduction in business for agricultural engineering firms such as Howards and Ransome, Sims & Jefferies who are dependent on sub-contract work from Massey Ferguson and have been hard-hit by the recession.

4 I remain of the opinion that we should not attempt to rescue the UK companies. Apart from political considerations a rescue would not greatly improve prospects; the UK companies would be deprived of a significant proportion of their outlets by the difficulties of other group companies and there could be no assurance of long-term viability unless these could be secured. Equally, I believe that we should still stand aside from the international re-financing operation apart from ECGD's unavoidable involvement; to do otherwise would be costly and in the deteriorating trading situation probably unfruitful. If the worst comes to the worst, however, the French, Italian and British banks and liquidators may find it worth exploring the possibility of a European solution since the British, French and Italian subsidiaries have a considerable degree of inter-dependence and serve a very large market -

/equivalent ...

equivalent to a third of the Group's turnover.

5 I am copying this letter to members of E and E(EA) and to Sir Robert Armstrong and will report again as soon as the outcome of the financial negotiations is known.

KJ

K J

16 January 1981

Department of Industry
Ashdown House
123 Victoria Street

Incl PSR

10 DOWNING STREET

Tim

Stuart Hampson rang to ask if we have any comments on Mr Nott's letter to Sir Keith of 12 Nov (at flap).

Andy

18.11.

Tim says "no comments". 18/11

Treasury Chambers, Parliament Street, SW1P 3AG

14 November 1980

The Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON
SW1

Dear John

MASSEY FERGUSON

In your letter of 12 November to Keith Joseph, you sought urgent views on the proposed indirect participation of ECGD, by way of a counter indemnity to the UK banks involved, in the international refinancing package for Massey Ferguson. I have now seen Keith Joseph's reply of 13 November.

I agree with you and Keith that the issues here are finely balanced. But I would not dissent from your conclusion that it is right to back ECGD's commercial judgement in favour of accepting a further contingent liability of up to £15 million in order to avoid what is otherwise the near-certainty of much heavier early losses, and provide a breathing space for the MF Group to tackle its problems. Subject to the views of other colleagues, I am therefore content that ECGD should proceed as you propose.

I am copying this letter to the recipients of yours.

Yours ever
Nigel

NIGEL LAWSON

JU

cc H Dugmid
Vereker

hd PJP

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

13 November 1980

The Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
London SW1

13/11

Dear Secretary of State

MASSEY FERGUSON

Thank you for your letter of 12 November seeking my agreement and that of colleagues to ECGD assuming an additional contingent risk by counter indemnity to the UK clearing banks for a proportion of the UK share of the equity guarantee which forms part of the Massey Ferguson re-financing package.

2 Although I regret the necessity for this further involvement, I recognise the commercial logic of ECGD's proposal and agree that it does not conflict with the views which I expressed to Mr Victor Rice in my letter of 21 October. In the circumstances I am content for you to proceed as you propose.

3 I recognise, as you do, that the present proposals provide only a breathing space in which the longer-term problems of Massey Ferguson will need to be resolved. I share your hope that ECGD's agreement to help will enhance their ability to influence the course of future events. Officials here are maintaining close contact with yours and with the Bank of England and Treasury about this.

4 I am copying this letter to the recipients of yours.

Catherine Bell

PP K J

(approved by the Secretary of State and signed in his absence)

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

12 November 1980

Dear Keith

MASSEY FERGUSON

Since I wrote to you and colleagues on 7 October there have, as you know, been a number of important developments. A critical stage in the negotiations about the future of the Group has now been reached which has important implications for ECGD.

BACKGROUND

2 The key problems the Group now has arise not only from the depressed demand facing all manufacturers of agricultural machinery but also from the impact of high interest rates on the excessively high level of borrowings which past directors of the Canadian parent have encouraged in preference to increasing the company's equity. The serious financial position of the Massey Ferguson Group (MF) world wide was outlined at meetings in London last week by senior officials of the Group, their principal bankers (the Canadian Imperial Bank of Commerce (CIBC))and an adviser to the Canadian Government. MF have now had to suspend the repayment of all outstanding loans and the CIBC representatives said their considered view was that, unless the refinancing package, the presentation of which was the main purpose of their visit, was agreed in principle within the next few weeks Massey Ferguson companies throughout the world would have to cease trading. Recent reports from UK banks to ECGD confirm the gravity of the situation for the UK companies of the Group. Cash is rapidly running out and no new bank loans will obviously be forthcoming whilst the present crisis lasts. It is not, I am told, currently clear how the Group will finance redundancy payments of some £10m which they are apparently due to make by the end of November.

From the Secretary of State

THE REFINANCING PACKAGE

3 The refinancing plan to rescue Massey Ferguson world wide, which has the backing of the Canadian Government, the CIBC and the Massey Ferguson Group board, aims to improve the present very heavy debt to equity ratio by the conversion of CDN$275m short term debt into preferred equity of the Canadian parent company and by securing the injection of new cash amounting to CDN$425m from the issue of guaranteed preferred equity, (the details are given in the attached Annex).

4 The package is complicated but the key point is that it requires banks which currently have credit lines for short term business outstanding to any corporate or operating company in the Group to guarantee the raising of part of a new preferred equity issue to provide a firmer capital base for the Group as a whole and requires all lenders to keep their existing loans in place for a minimum of 3 years. The total guarantee required in respect of the UK portion would be in the region of £52.5m. This would not, however, result in a net increased exposure of this figure, since the plan provides that each lender participating in the guarantee will have his outstanding credit line reduced by 50% of the equity guarantee provided. Thus the net increase in UK commitments on MF would be about £26m.

ECGD's POSITION

5 The immediate problem which ECGD faces is whether or not it should increase its overall liabilities on MF by taking some indirect part in the package, probably by means of counter guarantees to the banks in respect of the new preferred equity in the Canadian parent. It is clear that the UK banks are <u>not</u> prepared to provide the whole £52m without ECGD support. The banks are looking, in general terms, for a shared package where their share would be £22m (net increase in exposure £11m) and ECGD's share £30.45m (net increase in exposure £15m).

6 ECGD is bound to view the package in the context of seeking to minimise its losses. If it refuses to participate in any way it seems very unlikely that there would be a UK contribution of any size to the overall package with the result that the refinancing plan would probably collapse, leading to the early insolvency of MF. Apart from all else, this would lead to early and heavy payment of claims (ECGD's total current exposure is about £110m) and certain losses - difficult to assess but ECGD and the banks' assessment is that less than 50% would be recovered.

7 If ECGD were to undertake to increase its liability by taking some indirect part in the package it is by no means certain either that this would ensure that the overall package could be finalised

From the Secretary of State

by end-December or, even if it was, that this would ensure the survival of MF over the medium term. MF faces many problems, not least the need to find new capital for new investment. However, a breathing space would have been obtained with some prospect of survival until demand picks up and until new investors see MF as a reasonable prospect. One of the key conditions of the plan is that all lenders, including ECGD, maintain their loan commitments at their present level (reduced in the case of the short term lenders by the 17½% pay back from the equity) for a minimum of 3 years from the coming into effect of the plan. Thus, if agreed by all banks, this should minimise the risk of a total collapse within that period.

8 The issues are finely balanced but ECGD's view, supported by advice from the Bank of England, is that the assumption of an additional contingent risk by way of a counter indemnity to the UK banks for a proportion of the UK share of the equity guarantee is a commercially justifiable course to minimise the near certainty of much heavier losses now (ie at a time when ECGD's finances are already under severe strain). Indirect participation would also offer some prospects of ECGD being able first to influence events (eg towards some more balanced restructuring of the Group with stronger or more independent UK companies), second to improve the security of its position and third to switch its guarantees to its Section 2 (National Interest) Account.

9 I should be prepared to accept ECGD's view and I do not think that the indirect nature of its involvement would cut across the line you took in replying to Mr Victor Rice's letter when you refused direct HMG involvement in the refinancing package. There is a need for a very early response from ECGD to the UK banks and I should, therefore, be grateful for urgent comments. I should see no need for a specific statement to Parliament on ECGD's loss minimisation action but if you were to make any statement on MF then it would, I think, be useful to make some reference to ECGD. No doubt our officials could discuss this aspect further.

10 I am copying this minute to the Prime Minister, to members of E & E (EA) Committees and to Sir Robert Armstrong.

Yours ever

John.

JOHN NOTT

cc. A. Duguid.
J. Vereker.

2 PPs

Ind Pol.

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

20 October 1980

Dear Keith,

R 20/10

MASSEY FERGUSON

In your letter of 15 October you sought urgent agreement to a reply to Mr Rice, the Chairman of Massey Ferguson, telling him that we were not prepared to consider Government involvement in any refinancing operation but indicating that Industry Act assistance to new investments in the UK might be available.

On this basis, and on the understanding that any assistance would only be provided on the normal criteria for internationally mobile investment, I am content that you should write as you propose. I am glad that your draft makes it clear that any discussions at official level would be without commitment.

I am copying this letter to the recipients of yours.

Yrs

John Biffen

JOHN BIFFEN

CONFIDENTIAL

+ a. Duguid.

10 DOWNING STREET

From the Private Secretary

20 October 1980

Dear Ian.

MASSEY FURGUSON

The Prime Minister has considered your Secretary of State's minute of 15 October and the draft letter which he proposes to send to the Chairman of Massey Ferguson.

The Prime Minister is content with Sir Keith's general line, but she would like his letter to Mr. Rice to sound a little more concerned and positive. She has redrafted accordingly, and I enclose the amended version.

The Prime Minister has commented that the Agricultural Research Council and MAFF have considerable research budgets, which might be drawn upon to assist Massey Ferguson's British subsidiaries.

I am sending copies of this letter, and enclosure, to the Private Secretaries to members of E and EA Committees and to David Wright (Cabinet Office).

Tim Lankester.

Ian Ellison, Esq.,
Department of Industry.

DRAFT LETTER TO VICTOR RICE

Thank you for your letter of 7 October.

As I am sure you know, we have been maintaining close contact with your British management because I am very concerned at the possible effect of your current difficulties on Massey Ferguson and Perkins in this country. Although I realise the extent of their dependence on the other parts of your company it would be extremely difficult for the British Government to become directly involved in your re-financing operation. I believe that should be a matter for the private sector so far as the UK is concerned.

However, there may be other ways in which we can assist your British subsidiaries within our schemes for helping product and process development and capital investment. I should like my officials to explore these with you and to discuss, without commitment, the position of the UK companies in relation to MF and its current problems.

cc Dr Duguid
Mr Vereker

2

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON S.W.1

From the Minister

CONFIDENTIAL

PRIME MINISTER

MT.

Agree with Keith

You have already agreed Sir Keith's draft letter with some amendment.

17 October 1980

PL
29/10

The Prime Minister

MASSEY FERGUSON

I wrote to you on 8 October expressing my acute concern for the serious and widespread consequences of a collapse of Massey Ferguson.

– W/E box.

Keith Joseph, in his minute of 15 October, has outlined recent developments, including the approach from Massey Ferguson for possible assistance from HMG. I am relieved to note the view of our High Commission in Ottawa that the prospects for a group rescue may now be somewhat more hopeful.

I am strongly of the view that in the event of a successful rescue, HMG should consider the possibility of Industry Act assistance in order to encourage the rectification of the consequences of chronic under-investment in the UK companies. I agree entirely that a letter as proposed by Keith Joseph should be sent. Not only does this represent the right approach to furthering our UK interests, but it may serve to influence the climate in a way helpful to the rescue of the group.

I am copying this minute to members of E and E(EA) Committees and to Sir Robert Armstrong.

Peter Walker

PETER WALKER

Ind. Pol. - Sept 79
Nov. 79

20 OCT 1980

Agree to Mosser.

JFF

1.

cc. A. Duguid.

CONFIDENTIAL

I have just talked the flavour of the letter of the letter to sound a little more concerned and ready to do what we can.

Don't forget that B.R.C. and M.A.F.I. have considerable research budgets. not

Prime Minister

Are you content, subject to the Chancellor's view, with Sir Keith's draft letter to the chairman of Massey Ferguson (Flag A)? It says that HMG are not prepared to contemplate a general rescue, but would be willing to consider assistance for particular projects.

PRIME MINISTER

MASSEY FERGUSON (MF)

Since my minute of 19 September there have been several developments in this case, the most recent of which is the attached letter from the Chairman of the company suggesting that HMG should consider financial assistance for the company for new investment in the UK.

2. My understanding of the current position in Canada is that following the withdrawal of Mr Conrad Black (whose company, Argus Corporation, was the principal shareholder and has now donated its shares to the MF pension funds) the Canadian Government has appointed advisers to work with the company and the banks on the package. In announcing this further study the week before last the Canadian Minister for Industry made it clear that no commitment had been entered into, but said the Canadian Governmentexpected lenders to be patient while the work was going on. The indications are that this request is being heeded, although there is always a chance that one or more of the large number of banks involved could reject it, and thus precipitate a collapse. In the view of our High Commission in Ottawa the situation is somewhat more hopeful, but Mr Rice's letter may be an indication that it is not proving easy to obtain the sums required.

3. In this country, the Bank of England is working closely

CONFIDENTIAL /with..

with clearing banks and with ECGD (whose exposure of some £104 million is, like that of the clearing banks, unsecured). The clearing banks have in mind some arrangement, which would keep the group together and would secure adequate financing of the UK businesses (Perkins diesel engines at Peterborough and Massey Ferguson tractors at Coventry) and of their vital overseas outlets which take some 75% of their output. The Department believes that some £100 million needs to be put into the UK businesses in new investment, including R&D, to restore the ravages of chronic under-financing. The Department's own assessment is that a group solution, rather than a "cannibalising" solution in which the UK businesses were separated completely, is likely to be preferable if only because of the complexity of the outlets aspect. A group solution might include, for example, a substantial outside equity investment in the UK businesses whilst leaving them within, or closely associated with, the rest of the MF group. There are, however, some signs of industrial interest in Perkins as a separate business; GEC is considering its position, and according to The Economist the Japanese company Nissan are interested.

4. I have no reason to change my view that we should not participate in a group rescue, and I propose to inform Mr Rice that such participation would be innappropriate. I do not think the possibility of assistance under the Industry Act for

/new..

new investment (as opposed to re-financing existing loans) in the UK businesses need to be excluded, provided the investments in question have satisfactory commercial prospects and assistance appears appropriate on the normal basis for internationally mobile investment. It is possible that it would help to secure a sound private sector solution if we were to communicate our willingness to consider Industry Act assistance, and to hold non-committal discussions with the group. To do so would also help the Department to get a clearer picture of the current situation and of Mr Rice's intentions for the UK if a financial package is brought together and short term disaster averted. I attach a draft of the letter which I propose to send to Mr Rice before the end of the week if you and colleagues agree.

5. I do not think we should be under any illusion about the gravity and significance of this situation, not only for the employees concerned and for ECGD but for a very wide range of suppliers and creditors. I should also emphasise that, whilst in many circumstances a receivership can be a highly appropriate way of dealing with a company in difficulties, it may not be so on this occasion. It is not clear whether in the circumstances of this case there could be a receivership: it is more likely to be a liquidation whatever happens in Canada because no-one has a charge on the UK assets. This could lead to a cessation of trading and major losses for ECGD and other creditors as well as immediate loss of employment. There are grounds for believing, in this highly complex case, that much

/the ...

the most satisfactory arrangement could be one which secured the immediate survival of the group, permitted an orderly restructuring of its affairs, and facilitated a proper long term financing of the UK businesses and their outlets.

6. I am copying this minute to members of the E and E(EA) Committees and to Sir Robert Armstrong.

KJ

K J
15 October 1980

Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

JFF

A

DRAFT LETTER TO VICTOR RICE

Thank you for your letter of 7 October.

As I am sure you know we have been maintaining close contact with your British management ~~and~~ because I am ~~of course~~ very concerned at the possible effect of your current difficulties on Massey Ferguson and Perkins in this country. ~~However,~~ Although I realise the extent of their dependence on the other ~~arms~~ parts of your company it would be extremely difficult for the British Government to ~~contemplate any~~ become directly involve~~ment~~d in your re-financing operation. ~~which must~~ I believe that should be a matter for the private sector so far as the UK is concerned.

~~Apart from such participation,~~ However there may be other ways in which we can assist your British subsidiaries within ~~the bounds of~~ our schemes for helping product and process development and capital investment. ~~If you think that it would be useful,~~ I should ~~be happy for Departmental~~ like my officials to explore the ~~position directly~~ se with you and to discuss, without commitment, the ~~general~~ position of the UK companies in relation to MF and its current problems.

Massey-Ferguson Holdings Limited

Massey-Ferguson House
33 Davies Street, London W1Y 2EA
Telephone: 01-491 7000
Telex: 28346

Registered Office as above
Registered in England No. 504025

Our Ref: JWJC:ker

8th October, 1980

The Right Hon. Sir Keith Joseph, Bt., M.P.
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

Dear Sir Keith

I have been asked by Mr. V.A. Rice, the Chairman and Chief Executive Officer of our parent company, Massey-Ferguson Limited, to send to you today in advance the enclosed facsimile copy of a letter which is being delivered to you from Toronto via the Diplomatic Bag on Friday of this week.

Yours sincerely

J W J Collins

J.W.J. Collins
Secretary

Encl:

To Mr Cannell
PS/LT
PS/BM
Sec
Mr Bullock
Mr Manzie
Mr Mountfield
Mr Moraven

Urgent

Massey-Ferguson

October 7, 1980

The Right Hon. Sir Keith Joseph, Bt. M.P.,
Department of Industry,
Ashdown House,
123 Victoria Street,
LONDON S.W. 1 E6RB
England.

Dear Sir Keith:

You may be aware that, as a result of the world-wide recession and, in consequence, a deterioration in its financial position, my Company has had to make various contractions in its development plans.

One area which particularly concerns my Company is that there is need for more investment in Massey-Ferguson's activities in the United Kingdom and, in particular, in Perkins Engines and it is difficult to see the Company having sufficient resources available to it to enable this development to go ahead at the present time. One project we especially wish to proceed with is the development of a high speed direct injection diesel engine which could give the U.K. its own nationally manufactured passenger car diesel engine.

I am writing, therefore, to enquire whether there is any way by which Her Majesty's Government could assist the Company in developing its British activities.

By far and away the most advantageous route for the Company would be for further funds to be made available for investment in the top company, Massey-Ferguson Limited. This may seem a paradox as I have been writing about development in the United Kingdom, but since some 40% of all diesel units produced by Perkins are sold to other Group companies, I think you will appreciate that the growth and development of Massey-Ferguson as a whole will be a direct benefit to

Massey-Ferguson Limited

the U.K. activities. You may rest assured that, if the support was provided to the parent company, I and my Company would ensure that the British subsidiary would receive the equivalent direct benefit. If Her Majesty's Government did feel able to help in this or any other way, I would very much look forward to working together towards the further development of the industry in Britain, which is so important to us all.

Needless to say, I and my colleagues and staff are at your service to discuss this proposal with you or with your officials and to provide you with any information you may require in evaluating such a suggestion. You may remember that we met at lunch at Davies Street last year and I would greatly like to continue the discussion we started then.

I am sure I do not need to make the point that I should be most grateful if this approach could be treated as private and confidential.

Yours sincerely,

Victor A. Rice
Chairman &
Chief Executive Officer

hd
PJT 2

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

Prime Minister
The Leader wants to be consulted in any discussions on Massey Ferguson (though I am told that the danger of a total collapse is receding).
TL

MT.

8 October 1980

PRIME MINISTER

Keith Joseph, in his minute of 19 September, outlined for you the serious industrial and employment consequences of a collapse of Massey Ferguson.

As you know, I am the sponsor Minister for the agricultural engineering industry's customers in this country and in that capacity I am very concerned about both the tractor and farm machinery sectors.

There has, as you will know, been a considerable down-turn in investment in the farming sector due to the substantial drop in real incomes over the last three years - a decline that is continuing this year. As a result, all of the tractor companies are in difficulties. I have been informed confidentially that British Leyland is planning to go out of tractor production altogether, leaving only the multi-national companies. All of these multi-nationals are dependent upon supplies from abroad and I have a fear that, on the current trends, all their production facilities might start to be located overseas.

This creates considerable difficulties for the agricultural machinery sector, which frequently has close links with the tractor manufacturers. In this sphere one of the three major British independents, Bamfords, has already gone into liquidation, and the other two, Howards and JSB, are closely tied up with Massey Ferguson, 40% of their output of implements being sub-contracted from the Group.

I hope, therefore, that in any discussions that take place on Massey Ferguson's future, be it the future of the Company or

the future of its assets, I can be closely consulted, for if wrong things happen we could see the disappearance of an important and substantial industry in this country.

I am copying this minute to members of E and E(EA) Committees.

PETER WALKER

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Incl PQ

cc Mr Duguid

From the Secretary of State

MBM

CONFIDENTIAL

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London, SW1E 6RB

7 October 1980

Dear Keith.

MASSEY FERGUSON

Your minute of 19 September 1980 to the Prime Minister sets out a gloomy picture of the future of the Massey Ferguson Group world-wide both in terms of their immediate problem of raising some Canadian $600m and an uncertain future in generating sufficient cash to enable them to maintain their present scale of operations. Although I am perhaps over-influenced by my farming and earlier business relationships (as a component supplier) with Massey, I am bound to say that its collapse would seem to me to be a British catastrophe. Its central position (akin to Rolls Royce and BL) as a customer for a huge range of British medium-sized technology businesses and its reputation for British quality throughout the world are second to none. I would find it difficult to reconcile the total collapse of Massey Ferguson Limited - partly as a result of a short-term machinery recession - with, say, the £50m backing given by the NEB to entrepreneurs in the chip business.

You mention that ECGD has guaranteed a substantial proportion of the bank borrowings of the British subsidiaries and I think you and colleagues should be aware in a little more detail of ECGD's position. ECGD has given guarantees to a number of banks totalling some £120m under which £104m is currently outstanding; £84m of the £104m is represented by guaranteed finance for inter-Group transactions and it is on this that there would be a high risk of substantial irrevocable loss if the whole of the Massey empire, including the British subsidiaries, is forced into liquidation. ECGD's security on the £84m is essentially the undertakings from the British exporter (in this case the immediate parent of the British companies, Massey Ferguson Holdings Limited) to repay any claims which ECGD might pay to the bank in circumstances not covered by the basic insurance.

CONFIDENTIAL

From the Secretary of State

CONFIDENTIAL

In common with the British banks providing unguaranteed finance of around £146m, ECGD has hitherto relied on the financial strength of Massey Ferguson Holdings Limited, supported by covenants from the Canadian parent, to maintain a minimum net worth of that company of not less than £135m. At the present time the covenant has not been breached.

It is impossible to say now how much of the current total outstandings of £104m would be recoverable by ECGD in the event of the forced liquidation of the Group. It would be necessary to determine how much could be obtained from each overseas buyer, both within the Group and outside it, and then to assess to what extent the balance could be recovered from the liquidation of Massey Ferguson Holdings Limited. ECGD would rank as an unsecured creditor for this balance alongside the banks and the other creditors. If the ultimate loss was 50%, or around £50m, and it might be higher, this would have a severe impact on ECGD's trading operations.

I do not suggest that we should take any initiative, but I agree that, given the scale of the possible impact of a collapse of Massey Ferguson world-wide, we need to keep a very close watch on developments, not least in terms of the continuing uncertainty over the position of the Canadian Government. I have also asked ECGD officials to keep closely in touch with yours and with the Bank of England.

I am copying this letter to the Prime Minister and to members of E and E(EA) Committees.

Yours ever

John.

JOHN NOTT

CONFIDENTIAL

CONFIDENTIAL

BK

cc: HO MAFF
FCO TRADE
HMT ENERGY
LPO CSO, HMT
EMP DOE
SO WO
CO

10 DOWNING STREET

From the Principal Private Secretary

22 September 1980

Dear Ian,

Massey Ferguson

The Prime Minister has seen and taken note of your Secretary of State's minute of 19 September 1980 about the problems facing Massey Ferguson.

She looks forward to a further report from Sir Keith Joseph in due course.

I am sending copies of this letter to the Private Secretaries to other members of E and E(EA) committees.

Yours ever,

Clive Whitmore.

Ian Ellison, Esq.,
Department of Industry

CONFIDENTIAL

BK

2.

cc AD.

Prime Minister.
This looks distinctly unpromising.
No action for you for the moment.
18/x

PRIME MINISTER

MASSEY FERGUSON

1. You will be aware of the much publicised problems of Massey Ferguson, who are urgently seeking some $600M of extra equity in Canada (including a subscription by the Canadian Government) in order to ensure the survival of their operations. The position is now extremely grave and unless this money can be found and short term indebtedness refinanced, it is unlikely that the Group will survive much beyond the end of October in its present form. Its failure would bring down the Group's UK tractor and agricultural engineering operations and also Perkins, who are wholly-owned by Massey Ferguson and are probably the most significant independent diesel engine manufacturers in the world. Without a resolution of the Group's difficulties, the British Clearing Banks have indicated that they would be unable to support the borrowing requirement of the British subsidiaries for very much longer. Bank borrowings of the British subsidiaries, mainly with the British clearing banks, are of the order of £240 million, of which £115 million is covered by ECGD.

2. Representatives of Morgan Grenfell, the Merchant Bankers employed by Massey Ferguson to handle their re-financing efforts, have been in touch with officials

/of

of the Department of Industry to warn about the situation and enquire generally whether there is any possibility of financial support; for example an equity contribution of say $50 million by the Government as part of a package including Canadian Government subscriptions to help secure institutional participation. Morgan Grenfell have been left in no doubt that UK Government equity funding would not be provided. Meanwhile, the Department is holding a watching brief and gathering information in order to assess the possibilities of the British subsidiaries standing alone if the Group collapses; and the Bank of England are examining ways in which these subsidiaries could be separated from the Massey empire, either by floatation or merger with another company. Either of these solutions presents extreme difficulties because of the inter-dependence of Group companies (40% of Perkins output goes to other Massey Ferguson companies world-wide), the poor state of the market for both tractors and diesel engines and the substantial sums of money that would be required to put the British companies back on their feet.

3. The consequences of total failure in this country would be the loss of some 17,500 jobs at Peterborough

/and

and in the West Midlands; the demise of our eleventh exporter (£440 million pa); serious gaps would be left in our already depleted agricultural engineering industry; and we should lose our most important diesel engine manufacturer. The disappearance of Perkins would create serious difficulties for most of our commercial vehicle manufacturers and many other industries dependent upon the company for diesel engines. Both the Massey Ferguson and Perkins operations in the UK are relatively sound and well managed, although badly affected by the international recession in the sectors, by the strength of the pound and by prolonged under-investment caused by the Group's problems.

4. A receivership or liquidation is clearly likely. Although there may be potential buyers for some parts of the UK operations, the extreme complexity of the Group, the dependence on the parent company for selling their product, especially in North America, and the number of banks and other institutions involved gives strong ground for concern that not much would be saved if this comes about. Other solutions must also be sought by the interested parties.

5. I am keeping the situation under close review and

/am

am maintaining contact with Morgan Grenfell and the Bank of England. I will, of course, let you and colleagues know of any further developments as they occur.

6. I am copying this minute to members of E and E(EA) Committees.

14.

Department of Industry

19 September 1980

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

I don't think anything can be done to prevent this closure. Mr Younger's statement seems alright.

8/11

Tim Lankester Esq
Private Secretary
No 10 Downing Street
LONDON SW1

8 November 1979

Dear Tim,

I am writing to let you know that Massey-Ferguson (UK) will be announcing tomorrow the closure, with effect from February 1980, of their Kilmarnock factory with a loss of about 1,500 jobs.

My Secretary of State was informed of this yesterday afternoon when the Managing Director of the company called on him.

The decision is not entirely unexpected. We had already known earlier in the year of the company's intention to stop production of combine harvesters at Kilmarnock but it had been hoped that this would be replaced by the production of balers now undertaken in France. This will not now happen.

Along with the announcement of closure the company will also describe steps they are taking to find alternative work for their employees: they have consultants engaged in a "work search programme" for the skills and facilities that are available at Kilmarnock, and are assured of the workforce's co-operation in this exercise.

The co-operation and constructive attitude of the workforce was confirmed at a meeting which my Secretary of State had with Trade Union representatives earlier in the week.

I warn you of this because it is itself an important and unhappy development, but also because, as you will be aware, it comes in the wake of a number of other announcements of major closures and redundancies in west central Scotland.

I attach a copy of the statement that my Secretary of State is proposing to issue following the announcement.

I am copying this to Ian Ellison (Dept of Industry) and to Ian Fair (Dept of Employment).

Yours sincerely,

Godfrey Robson

GODFREY ROBSON
Private Secretary

Statement by Secretary of State

MASSEY-FERGUSON

Following the announcement today by Massey-Ferguson that it intends to cease production at its Kilmarnock factory with effect from February 15, 1980, Mr George Younger MP, Secretary of State for Scotland said:

"I have had a meeting with Mr Hebden, Managing Director of Massey-Ferguson UK, this week and I represented most strongly to him my own concern together with the views and points the unions put to me on Tuesday, and re-emphasised the quality and ability of the workforce and their splendid co-operation since Massey-Ferguson first indicated the possibility of redundancies.

"Mr Hebden accepted all these points but said market conditions had become even more depressed in recent months, particularly so for medium-sized machines and balers and saw no possibility of the company being able to continue and remain viable. It is a grievous blow and means the end of combine harvester production in Britain.

"My Department is working to see if new companies can be attracted to Kilmarnock. I am aware that the company and the workforce are combining to see if new work can be obtained for the plant and the Government will do all it can to back any new viable enterprise which emerges from these efforts. I have asked Mr Fletcher, the Scottish Economic Planning Department and the SDA to keep closely in touch with developments."

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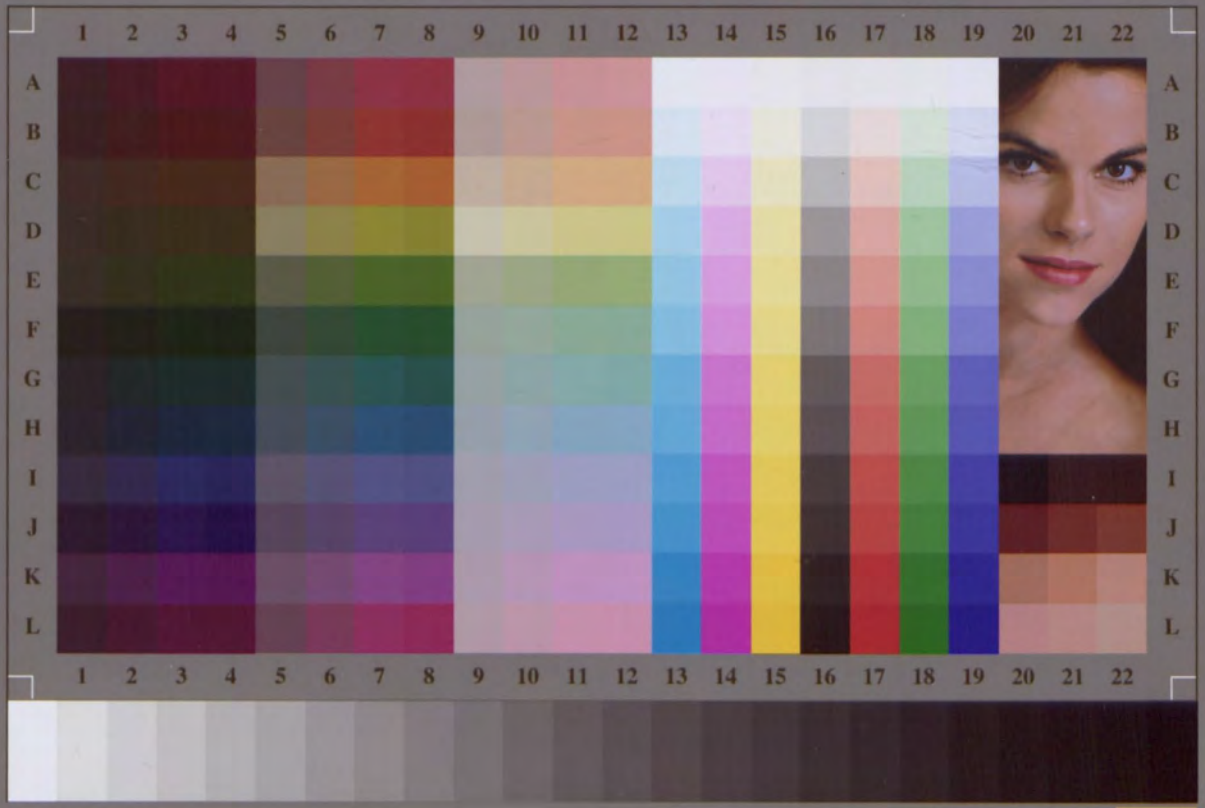

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