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

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.

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

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. 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