



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 £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.



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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

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26 JAN 1981

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GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

Director General of Ordnance and Stores  
New Delhi





PRIME MINISTER

MASSEY FERGUSON

cc/ Mr Hoskyn  
Mr Wilson

Mr Lambert  
Mr Lyden

*[Handwritten signature]*

Prime Minister  
Ind Pol  
Sir Keith Murdoch

that we should not  
interne despite  
the serious risk of  
the UK companies  
being forced into  
liquidation.

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.

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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 Eard E(EA) and to Sir Robert Armstrong and will report again as soon as the outcome of the financial negotiations is known.

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K J

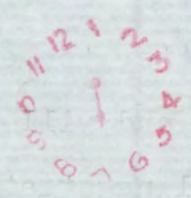
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