

PREM 19/1546

Confidential Filing

The Bear Fen Project at Aldegrove in Northern Ireland

IRELAND

February 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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13.4.80		22.5.85					
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PREM 19/15/86

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(EA)(82) 6	02/04/82
E(EA)(82) 7	06/04/82
E(EA)(82) 3 rd Meeting, Minute 1	07/04/82
E(EA)(82) 9 th Meeting, Minutes	30/06/82
E(EA)(82) 11 th Meeting, Minutes	22/07/82
E(EA)(82) 13 th Meeting, Minute 2	10/08/82
E(EA)(82) 26	03/09/82
E(EA)(82) 14 th Meeting, Minutes	09/09/82

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed *AWayland* Date *20 January 2014*

PREM Records Team



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PRIME MINISTER

LEAR FAN

I wish to inform you and colleagues of developments in the Lear Fan case.

2. At the end of May the Board of Lear Fan Limited decided to cease trading and we appointed a Receiver, Mr Michael Jordan of Cork Gully, to secure the Company's assets in the United Kingdom and to represent the Government's interests in the assets in the US including the technology. The Receiver has recommended that the Government agree to the formation of a new corporation "Newco" in the US, which would acquire the Lear Fan technology from Lear Fan Limited, Lear Fan Research Limited Partnership and the Department of Economic Development (the three parties who hold rights to the technology). Newco would also hold options to acquire from the Receiver and the Trustee (the person appointed by the US Bankruptcy Court to protect the interests of creditors) the Lear Fan assets in Belfast and Reno. The Newco proposals do not involve or require any further Government funding. The advantages of Newco are that the Government would avoid expensive legal costs in defending litigation by the Limited Partnership, and it might obtain further recoupment of its investment in the Lear Fan project in addition to any sums received as a secured (UK) and an unsecured (USA) creditor of Lear Fan Limited.

3. The Government's contribution to the Lear Fan project has been £55.67m which equates with \$69.34m using the exchange rate when Lear Fan Limited filed for relief under Chapter 7 of the US Bankruptcy Code. The maximum amount under various agreements which the Government can claim as a creditor of Lear Fan Limited is \$45m leaving \$24.3m as the sum on which a shareholding in Newco would be sought. Considerable negotiations have taken place on the share-



holding allocations between the various parties who had invested in the project and agreement in principle has been reached giving a 47% interest to the Lear Fan Research Limited Partnership, 22% for the US Trust, 14.25% each for Zoysia and the Department of Economic Development, with the balance for Mrs Lear and former executives. We have taken the view that it is essential to maximise our claim as a creditor as this offers the best prospect of securing some return. It might have been possible to increase our shareholding in Newco at the expense of our claim but this would not have been sensible given our doubts about the viability of any project which might emerge.

4. The Government's claim as a creditor in the US is unsecured. When the Government agreed in September 1982 to provide assistance to the Company a charge was taken out on the assets. This charge was registered in the United Kingdom and although the Department of Economic Development was informed by its legal advisers that registration had also taken place in the US this was not the case. If the charge had been registered it is probable that it would have been attacked by the Trustee under US Bankruptcy law and could have been nullified. Legal advice is being sought on this aspect and on the question of possible negligence on the part of our legal advisers. The Trustee is unlikely to have more than \$5m for distribution among the unsecured creditors (of which the Government may represent 50%). In addition he will distribute any proceeds from his shareholding in Newco.

5. The Limited Partnership is currently engaged in litigation against Lear Fan Limited and has indicated that it would seek to draw the Government into this process. If Newco is established, the Partnership has agreed to drop its litigation and give a waiver to prevent recommencement. The Government would be included in this waiver and thus we would avoid the high costs involved in defending litigation in the US.

6. A New Zealand consortium has expressed an interest in acquiring the project from Newco. It would not intend to develop the project in Northern Ireland and indeed I have instructed the



-3-

Receiver that anyone interested in the project should be made aware that there is no possibility of the Government providing any further funding.

7. I have, therefore, authorised the Receiver to agree to the formation of Newco as outlined in paragraphs 2 and 3 above. The Receiver expects to formally sign the appropriate documentation this week.

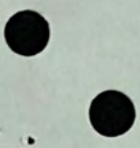
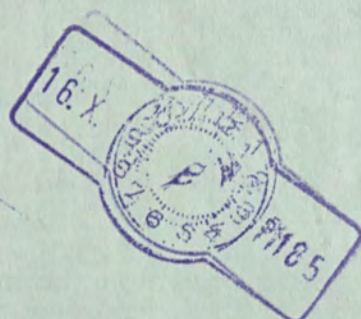
8. I am copying this minute to Members of E(A), the Lord President of the Council, the Foreign and Commonwealth Secretary, the Secretary of State for Defence and to Sir Robert Armstrong.

Jonathan Dke-Evans

T K

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

15 October 1985



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CEBI (2)

Prime Minister

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PRIME MINISTER

LEAR FAN

My minute of 7 May noted that the Lear Fan Board Meeting on 15 May might conclude that the Lear Fan project was no longer viable. In the event, the meeting was inconclusive and arrangements were made for a further meeting to be held in Los Angeles on 23 May.

2. The Board Meeting of 15 May had before it the Morgan Stanley report on the status of the project. The Report had been commissioned by Prince Sultan bin Salman ben Abdul Aziz Al Saud, one of the principals of the investment consortium, Zoysia Corporation. Morgan Stanley advises Zoysia against further investment in the project and recommends a sale but notes that this would be difficult not only because of the technical and economic condition of the project but also because of the large size of the Company's liabilities, outstanding lawsuits and the complexity of the Company's legal position. The Report concludes that unless it is possible to find a party with the relevant technical and strong managerial expertise willing to buy the project, Zoysia should disengage from further funding.

3. Our nominee directors think the principal investors would wish every effort to be made to sell the project and avoid liquidation. Certainly, it seems clear that Prince Sultan would wish to avoid adverse business publicity at present when he is preparing to take part in the next USA Shuttle mission which lifts off in June. Because of his preparations it has not been possible for nominee directors to discuss the project with him personally. A meeting has however, been held with Prince Feisal who is also a key member of Zoysia.

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4. Although the 15 May meeting was inconclusive the Board was informed that contact had been made with a potential partner for the Company. In the light of this the Board resolved to limit to the absolute minimum the incurring of further funds and to avoid if possible drawing down any of the remaining HMG funds committed to the project. The amount of HMG funds promised under the legally binding agreement of September 1982 but not yet committed is \$4.79 million.

5. By deciding not to call on these funds the Company has created its own cash flow crisis and now finds it may not have sufficient funds to pay wages this week. Non payment of wages would certainly result in immediate rumour of closure in Northern Ireland.

6. As reported earlier arrangements are in hand to provide for the most orderly run-down possible should the Company cease trading. However given existing litigation in the United States surrounding the Company, current legal advice suggests that our action should be restricted to the appointment of a Receiver in Northern Ireland and a passive approach in the USA. An active approach in the USA would give rise to the danger of attracting litigation directly towards HMG.

7. Every effort continues to be made to maintain constructive relationships with the Saudis and our nominee directors are endeavouring to reach agreement on the steps to be taken should a wind-up decision be taken by the Board. If the Zoysia majority on the Lear Fan Board seek to draw from the funds committed by HMG in the absence of any new information emerging our nominee directors may be faced with no alternative but to resign. Our efforts to reach agreement are designed to avoid this.

8. To sum up, the Lear Fan project is almost certainly near its end. We have promised no new Government funds since the agreement of September 1982. Last December, the private investors agreed that they would assume responsibility for the Company's funding requirements as soon as the funds jointly committed in 1982 were used. There now seems almost no prospect of them doing so. They have failed as yet to make their intentions clear and we think it

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most unlikely that a potential partner will be found. We are legally committed to provide a further \$4.79 million under the 1982 agreement, but as noted above this has not yet been called.

9. A total of \$67 million of taxpayers money has been spent so far to no avail. In addition, it is almost certain we will have to meet a demand for repayment of \$15 million commercial loan made by the Ulster Investment Bank to the Company and guaranteed by Government. The enterprise in Northern Ireland has been so run down that only 27 jobs in the Province are now involved. Unless Zoysia immediately and unequivocally agree to secure the future funding of the Company our aim must be to run down the project with the least possible further loss, recovering anything we can from the meagre assets, yet averting from ourselves the weight of litigation which American creditors may wish to bring against the Company.

10. Should the Company cease trading I shall need to issue a short Press Statement and a statement would need to be made to the House either on Friday or after the Recess. The timing is difficult because the Company may bring forward to today the meeting scheduled for tomorrow.

11. A copy of this minute goes to Cabinet colleagues, the Attorney-General, the Chief Whip and Sir Robert Armstrong.

N. J. Ward
(Private Secretary)
for D H

(Approved by the Secretary of State
but signed in his absence in Belfast)

22 May 1985

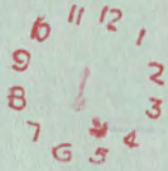
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22 MAY 1985



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Prime Minister
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PRIME MINISTER

LEAR FAN

I provided on 12 April a progress report; since then the Lear Fan Limited Board meeting scheduled for 24 April has now taken place.

2. Our nominee Directors have reported that the Board concluded that the project is at a crossroads and have agreed to meet again on 15 May to consider future viability. Before that meeting the Morgan Stanley report on the project will be complete.

3. The Industrial Development Board's (IDB) view is that it is likely that the Directors will conclude on 15 May that the project is no longer viable. Arrangements have been made by IDB with Slaughter and May (legal advisers) and Cork Gully (likely receiver/liquidator) to ensure that orderly action can be taken on foot of a wind up decision by the Board.

4. Everything possible is being done to ensure that constructive relationships with the Saudi investors are maintained. To minimise any risk of misunderstanding the IDB are seeking to arrange to meet with Prince Sultan personally in advance of the next Board meeting.

5. I will continue to keep you and colleagues informed of developments. I am copying this minute to Cabinet colleagues and to Sir Robert Armstrong.

NB Ward

for D H
7 May 1985

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

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27 MAY 1985

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Pine Muntz

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PRIME MINISTER

Dr

CDP
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LEAR FAN

12/4

On 13 December last I reported on developments in relation to the Lear Fan company, and sought and obtained the agreement of colleagues to concluding a new agreement with the Zoysia Corporation under which that Corporation would make available \$62m of new money for the project. Central to my approach was the fact that no new Government money was involved over and above the funds required under the legally binding 1982 Agreement.

2. I recorded then that I was deeply sceptical about the long term future of the project and that my officials had expressed serious reservations about viability to the Saudi Princes associated with the Zoysia Corporation. We have at all times been at pains to ensure that the Saudis have fully understood our views so as to avoid recriminations after the event should things go wrong.

3. My officials have been monitoring the project closely since December. Difficulties have arisen with the aircraft's propulsion system and it is now clear that substantial delays are inevitable compared with the business plan put forward in December.

4. As a result one of HMG's nominee directors has formally registered his concern about future viability. Morgan Stanley have now been retained by the company to conduct an independent study of viability. A meeting of the company's Board has been arranged for 24 April and at least a preliminary report from Morgan Stanley will be available at that time. Our nominee directors will be pressing for the fullest possible information to be provided.

5. Without wishing to pre-judge the outcome of the report or the Board meeting, my officials in the Industrial Development Board for Northern Ireland will be taking steps to ensure that,

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/should

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should it be concluded that the project is no longer viable, we are in a position to respond quickly and effectively to the need to put in a receiver/liquidator.

6. In the period between now and the taking of decisions on the future of the company we will be doing all we can to ensure that funding is kept to a minimum. In fairness to the company, those directly concerned have been minimising expenditure for some time.

7. I am copying this minute to other Members of the Cabinet and to Sir Robert Armstrong.

NJ Ward
Private Secretary

for D H

12 April 1985

(Approved by the Secretary of State
and signed in his absence from London)

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IRELAND: Lear Fan Project: Feb 80



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NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

NBPM
CAF 19/3
18 March 1985

Dear Peter,

LEAR FAN

Thank you for your letter of 5 March 1985.

I can readily confirm that I will not be considering any further selective assistance for Lear Fan beyond that already agreed.

On the question of 'automatic grants' I am also in accord with your line. The fact that any grant payable will be used to offset the company's outstanding debt is an important added strength.

If Lear Fan does repay all of its outstanding debts to Government the question of whether it should be eligible for further assistance could arise. I fully agree with you that on any present assessment of its future this is an outcome so improbable that it need not detain us further.

I am sending copies of this letter to the Prime Minister, other Cabinet colleagues and to Sir Robert Armstrong.

*Yours,
Douglas*

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IRELAND: Lear Tan

Feb '80



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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
London
SW1P 3AJ

5 March 1985

LEAR FAN

Thank you for your letter of 9 January, about which our officials have been consulting meanwhile.

My intention was to stipulate that in no circumstances should further selective assistance be paid to Lear Fan. I do not think that there is anything between us on this.

However you raised the question of our attitude towards an application by the company to receive the benefit of automatic grants, under schemes which apply generally to industry in Northern Ireland. We need first to consider what is to happen for as long as the company owes us money. In these circumstances, if we allow the company the benefit of any grants, other than those stipulated in the renegotiated Agreement, we would in effect be providing the further assistance which we have ruled out. We must avoid this if possible - even though it would be used to offset the company's debt to us. But I understand that departments' discretion in considering applications under some general grant scheme is limited, so there could be difficulties in excluding Lear Fan from entitlement in all circumstances. Our position therefore should be that the company should be allowed to benefit from other grant schemes only if there are overriding legal obstacles to withholding such assistance; and that where grant has to be paid, it should be used to offset the company's outstanding debt to the government.

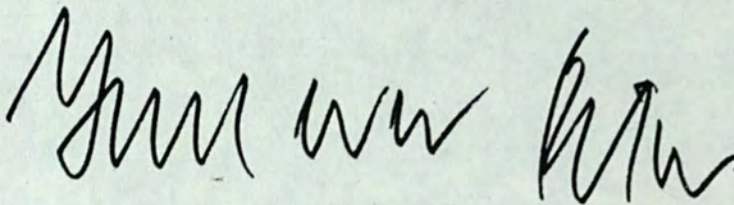
Should Lear Fan ever repay all its outstanding debt to the Government, I agree that it would be difficult to continue to exclude it from automatic grant schemes. But this would apply only if the company had repaid the \$30 million loan, taken over the \$15 million loan guarantee and met the

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employment target needed to repay the £9.2 million advanced under the March 1980 agreement. Since we take the view that the project is extremely unlikely to be viable, we have to assume that this contingency will never arise.

I am copying this letter to the Prime Minister, other Cabinet colleagues and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Peter Rees', written in a cursive style.

PETER REES

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HERAND: Lees Fan Feb 80

5 MAR 1985

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Secretary of State

Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

cc : as last para.

hec : PS/Sqs (B+L)
PS/Dr Boyson (AU)
PS/AS (B+L)
PS/mr Bloomfield
Dr Quigley
Mr Fell
Mr McAlister IDB
Mr Coning
Mr Bickham

Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

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9 January 1985

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Dear Peter,

LEAR FAN

Thank you for your letter of December 19.

As you know, IDB negotiators, under instructions from Rhodes Boyson and myself, took a firm line that no new Government money was available to the project. I can assure you that this remains my position.

I am sure that you would accept that it would be unreasonable to say that Lear Fan should automatically be ruled out now for all time and in all circumstances from assistance from schemes which apply generally to industry either in Northern Ireland or in the UK, eg training grants which are in a rather separate category from selective assistance.

This qualification, while important, is academic at the moment and I hope you will accept that the clear assurance contained in the first paragraph of this letter meets the purposes of your understandable request.

I am sending copies of this letter to the Prime Minister, other Cabinet colleagues and to Sir Robert Armstrong.

*Yours,
Douglas*

Leaf For : IRELAND Feb 80

POST
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NEW
CASTLE

17 JAN 1980

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Douglas Hurd MP
 Secretary of State for Northern Ireland
 Northern Ireland Office
 Whitehall
 LONDON SW1P 3AJ

19 December 1984

Dear Secretary of State

DHB
27/12

LEAR FAN

With the proviso below, I am content with the proposals for a renegotiated agreement with the Zoysia Corporation set out in your minute to the Prime Minister of 13 December. They offer the least-cost way of extracting ourselves, given our legal commitment, from what has clearly been another extremely unfortunate venture coming so soon after de Lorean - the taxpayer can expect to lose around £50 million at present exchange rates, and it could still be more. As with de Lorean, there will be lessons to be learnt.

There appears to be no risk that the cost of these proposals can exceed \$24.1m, and there is a fair chance that they will be limited to \$9.1 m. But to leave no possible doubt on that score, my agreement must be conditional on your assurance that no further government money will be put into Lear Fan under any circumstances.

I am sending copies of this minute to the Prime Minister, other Cabinet colleagues and to Sir Robert Armstrong.

Yours sincerely

P. Rees
 (PETER REES)

[Approved by the Chief Secretary]

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Ireland Feb 80
Dear Fam

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10 DOWNING STREET

From the Private Secretary

14 December 1984

LEAR FAN

Your Secretary of State minuted the Prime Minister on 13 December on developments relating to the Lear Fan company and its private investors.

Subject to the views of colleagues, the Prime Minister is content with the instruction to officials to conclude an agreement with the company on 18 December on the basis of the note attached to Mr Hurd's minute.

I am copying this letter to the Private Secretaries to members of the Cabinet and to Richard Hatfield (Cabinet Office).

(C.D. Powell)

Graham Sandiford Esq
Northern Ireland Office

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Prime Minister
Agreed interdepartmentally
by officials.
Agreed subject to
views of colleagues?
CJA
13/12

PRIME MINISTER

Yes mt

I undertook to inform you and colleagues of developments relating to the Lear Fan company and its private investors.

2. In September 1982 HMG and Zoysia (a private sector consortium which includes members of the Saudi Royal Family) signed an Agreement to provide Lear Fan Limited with funds of up to \$90M - \$60M from Zoysia and \$30M from HMG. Our \$30M is being provided by way of an interest free loan to be extinguished by grants. Under the same Agreement we are also guaranteeing a \$15M bank loan. The Saudis have already committed all of their \$60M. \$9.1M of our funding remains outstanding.

3. The company has produced a new business plan which suggests a need for new funding of some \$62M based on our making concessions on the detailed terms of the 1982 Agreement. My officials supported by our consultants for the project, Cooper and Lybrand, have expressed serious reservations to the Saudi Princes about the future viability of this project even with funding at this level. Both Jim Prior and I have repeatedly made it plain to the Princes that HMG is unwilling to commit any fresh funds. The Saudis have nevertheless indicated that they continue to believe in the project and are willing to put in new funds on the basis of concessions by us on the 1982 Agreement.

4. We have taken legal advice and have been told in unequivocal terms that we now have no grounds for withholding any part of the \$9.1M. Our total further exposure under the 1982 Agreement is \$24.1M (\$9.1M plus the \$15M guarantee).

5. My officials have therefore approached the negotiations on the basis that no new money from HMG will be made available and that every attempt should be made to limit our forward exposure of \$24.1M. They have reached agreement that the Saudis will make a commitment of \$62M of new money for the project in the full knowledge

that/....

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that no new money from HMG will be made available. The concessions now proposed in the 1982 Agreement, subject to endorsement by Ministers, will all be conditional upon our being released from the \$15M guarantee prior to its expiry date of December 1986. The concessions are so ordered to tighten our hold on the company to ensure that the majority of the jobs created by the project are in Northern Ireland. A note setting out the terms of the understanding reached in the negotiations is attached.

....

6. I am satisfied that this agreement represents the most tenable way forward. I am deeply sceptical about the long term future of the project but that view, right or wrong, does not alter the fact that we are bound by the 1982 Agreement. The proposed new agreement does not increase our exposure, provides a chance of reducing it and presents the prospect of some employment in the meantime. It also allows us to maintain good relations with the Saudis - something which Geoffrey Howe, Michael Heseltine and Norman Tebbit have all stressed in this context.

7. Time is not on our side. While we are legally committed to releasing the \$9.1M, we have not conceded that point in the negotiations. Indeed, I have myself said to the Saudi Princes that I would not want to release the \$9.1M without a firm commitment from them that they will provide all the new funding suggested by the business plan. Ideally, therefore, I would want to have concluded an agreement on the basis of the attached note before any part of our remaining \$9.1M is actually called. We expect that to be no later than early January. To achieve this objective we need to have a signed agreement before Christmas. As it happens there is a Lear Fan Board meeting on 18 December at which the Saudis will be represented.

8. I understand that my officials have already reached agreement with officials of the Departments most directly concerned - DTI, MOD and HMT - that what is proposed does indeed represent the most sensible way forward in the circumstances.

9. Given that we are legally bound to our existing commitments, what has been negotiated represents a better outcome than we might

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have/....

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have expected some weeks ago. Subject to any comments from colleagues by lunchtime on Monday 17 December, I propose to instruct officials to conclude an agreement with the company on 18 December on the basis of the attached note. The company might well be anxious to give publicity, not least in Northern Ireland, to the implications for employment. I will have to be ready to respond to this, and am considering carefully the possibilities of a written answer in Parliament before the recess.

10. I am copying this minute to our Cabinet colleagues and to Sir Robert Armstrong.

N Howard
Private Secretary
for D H
13 December 1984

LEAR FAN LIMITED

PROPOSED AGREEMENT

1. The IDB will recommend the release of HMG's \$9.1m if there is a binding commitment, the form of wording to be agreed by lawyers, by Zoysia that \$62m of additional funds will be made available to LFL.

2. HMG will agree to the changes in the September 1982 Agreement, set out in 3 below, if, as a condition precedent, HMG is released of its guarantee for the \$15m UIB loan before 30 December 1986 and provided that:-
 - a. there is a commitment from Zoysia to appoint a suitable experienced and competent management team;

 - b. at least 80% of the manufacturing content will be carried out in Northern Ireland;

manufacture of all future aircraft parts, sub-assemblies, major assemblies and 'stuffing' of assemblies will be done in Northern Ireland;

LFL will consider carrying out final assembly and finishing in Northern Ireland for the export market;

 - c. the IDB has:
 - (i) the right for an official to attend and speak at Board meetings. (This in addition to the appointment of 2 nominee directors);

- (ii) the right to quarterly monitoring visits and reasonable access to necessary financial and operating information.

The necessary information will be specified in detail in the final agreement.

3. Provided the conditions set out in 2 above are met HMG agrees to the following changes to the September 1982 Agreement (and which involve no new money from HMG):-

Royalties - HMG will forego 75% of its royalty payments. The remaining 25% (\$8.435m) will be paid at relevant percentage.

Loan - At least \$20m of the \$30m loan will be offset by:

- Grants
- Conversion of a portion of the loan preference shares with a low coupon.

(Illustration details are set out in Appendix 1).

Payment of the remaining amount of the loan to be rescheduled as follows:-

The interest free period to be extended by three additional years, thereafter to be repaid over a seven year period at the base interest rate of National Westminster Bank PLC.

Newtownabbey Factories - The IDB undertakes to review the rent and to explore the possibility of an option to purchase at an agreed valuation. The company to have first right of refusal on the factory on the opposite side of the road.

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HMG Charge on Assets of LFL - Provided that at the time of the request, at least 800 jobs have been created in Northern Ireland, of which 500 have been in existence for over one year, then HMG will undertake to release sufficient assets from its first charge on Debtors and Inventory to replace Mrs Moya Lear's \$3.4m security in relation to the underwriting of the Limited Partnership equity.

AND/OR

HMG will undertake to release its first charge on Debtors and inventory if by so doing the company is able to raise bank finance equal to the percentage normally received for such security.

Covenant on Job Targets Article 10(b) - Job targets to be amended to achievable levels. (Maximum number of jobs 1100.)

Covenant on Principal Manufacturing Facility Article 10(c) - Clearly re-define tasks to be carried out in Northern Ireland.

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APPENDIX 1

1. R & D Grant of up to \$5m on the basis that the work is undertaken in Northern Ireland.
2. Interest Relief Grant of up to \$6.0m on the interest on the \$15m UIB loan.
The earning period for the grant to commence immediately after HMG is released from the guarantee.
3. Standard Capital grant of 30% on all capital expenditure by the company in Northern Ireland.
All grants outlined in 1, 2 and 3 above to be used to offset the existing \$30m loan.
4. Employment grant to be adjusted to cover the original £9.26m on the basis of 1100 jobs rather than the present 1250 jobs.
5. \$6m conversion of existing loan to pref. share after 800 jobs have been created and maintained in Northern Ireland for a period of 2 years.
Preference shares to have a 5% non-cumulative coupon after 1993 and to be redeemed out of profits after 1995.

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SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Norman Tebbit MP
The Secretary of State
for Trade and Industry
1-19 Victoria Street
LONDON SW1

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

15 October 1984

Lear Secretary of State,

LEAR FAN

Your letter of 4 October arrived shortly after I had met the two Saudi Princes who represent the consortium of private investors in this project. I knew of course of the additional interests at stake and was careful in my meeting with the Princes to avoid drawing matters to a premature conclusion.

Our final decision on Lear Fan will not be easy. Under the financial assistance agreement of August 1982 we are committed to paying a further \$9.1m assistance to the company, and the company will need to start drawing on this sum shortly if it is not to run out of funds. Legal advice is, however, that the company is technically in default of its obligations under the agreement (because of a qualification to its accounts), and this default could entitle us to withdraw financial support; if we did this the company would collapse at once. The technical default would be cured if the company could satisfy us that longer term funding (to bring the plane into production) is available. But if such longer term funding is not available then it is arguably a waste of money to put in our final \$9.1m.

I am now waiting for a response from the two Saudi Princes about the view they take as to the company's future viability and the resources which they consider are available to support the company once our \$9.1m is exhausted. If I get a strong and positive response from the Princes then there will be little difficulty in deciding to put in the remaining money promised under the financial assistance agreement. But if the Princes are unable to give any firm response, it will be more difficult to decide where the balance of advantage

lies/...

NBPM → GP - to note
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16/10
GM.

CCNO

lies. It may well be that the strict Northern Ireland interest would point to exploiting the company's technical default and bringing the company down - but I entirely accept that such a decision should not be taken without first weighing the wider arguments about our relationships with Saudi Arabia, including the possible sale which you mentioned.

I will therefore be writing to colleagues again before any firm decision is taken on whether or not to inject the final \$9.1m.

I am copying this letter to our Cabinet colleagues and to Sir Robert Armstrong.

J. Coleman

DH

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

Weland Feb. 1980 LEAV Fam Project.

10 5 OCT 1984

10 5 OCT 1984



- NMP
BT 5/10 CC 90

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

4 October 1984

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

Rt Hon Douglas Hurd CBE MP
Secretary of State for Northern Ireland
Northern Ireland Office
Old Admiralty Building
LONDON
SW1A 2AZ

D. Douglas.

LEAR FAN

I understand that you expect shortly to meet the Saudi Princes who are the co-investors in this project with the UK Government. I should like to register my concern that no steps should be taken towards unilateral HMG withdrawal from the project without prior consultation with colleagues.

2 As I understand the position, the Government may be able to claim a default under the September 1982 Financial Assistance Agreement and thereby save the final tranche (\$9.1 million) of our agreed contribution of \$30 million under the Agreement.

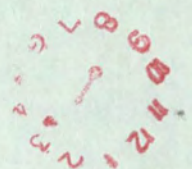
3 As Michael Heseltine and Geoffrey Howe made clear in their letters of 27 June and 4 June, the handling of this problem could have important implications for our relationship with the Saudi Royal Family on which export orders depend, particularly the very good prospect of a huge Tornado/Hawk sale. It is possible that the Saudis would regard any attempt by us unilaterally to withdraw from the FAA, on what may amount to a technicality, as offensive. We therefore need to consider how best to handle what is likely to be a sensitive matter before initiating unilateral action.

4 Copies of this letter go to Members of the Cabinet and to Sir Robert Armstrong.

Norman Tebbit

NORMAN TEBBIT

JH5AKC



5 OCT 1984

Ireland Feb. 80

Dear Ann

NBPM
HT 28/2

CCNO



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-9307072 218 2111/3

MO 26/8/1

27th June 1984

Dear Derek

LEAR FAN LIMITED

The Defence Secretary was grateful for a copy of your Secretary of State's letter of 29th May to the Lord President, setting out the current position on the Lear Fan project. He has since seen the Foreign and Commonwealth Secretary's minute of 4th June.

Mr Heseltine shares Sir Geoffrey Howe's concern about the consequences which our handling of this problem could have on our relationship with the Saudi Royal Family, particularly in terms of our defence sales interests. He wishes to emphasise that we are currently going through a critical period in this respect.

The Defence Secretary therefore welcomes Mr Prior's assurance that he will consult colleagues before any major decisions are taken about the future of the company.

I am copying this letter to the Private Secretaries to all members of the Cabinet, and to Richard Hatfield (Cabinet Office).

Yours ever

Simon Lowe

(S H LOWE)

D Hill Esq

IRELAND: Lees fan
fes 80.

28 JUN 1984
1 2 3 4 5 6 7 8 9 10 11 12



FCS/84/158

~~CC 100~~

NAPM

AT 4/6

LORD PRESIDENT OF THE COUNCIL

Lear Fan Limited

1. Jim Prior kindly circulated to colleagues copies of his letter to you of 29 May about the financial situation of Lear Fan Limited. I should like to underline his point that our handling of this problem could have an adverse impact on our relations with the Saudi royal family. Civil aviation in Saudi Arabia is the responsibility of the Saudi Minister of Defence, and ultimately any row with the Saudis over the Lear Fan project could affect our very substantial defence sales interests. As Jim Prior points out, it is essential that we keep in close touch with the Saudi Princes concerned. So I welcome his suggestion of having a further meeting in London with the Princes who back the Zoysia Corporation.

2. I am sending copies of this minute to all members of the Cabinet, and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
4 June 1984

1061 And : Clear Pan
Feb 80



14 00 JUN 1984



CONFIDENTIAL



NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

c Mr. Ingham

The Rt Hon Lord Whitelaw CH MC
Lord President of the Council
68 Whitehall
London
SW1A 2AT

1) Mr Cates ✓ A.F.C. 27/5. (2)

2) Prime Minister

ms
29 May 1984

*To note that Lear Fan Ltd
is in trouble. The company
is partly financed by members
of the Saudi Royal Family.*

Dear Lord Whitelaw

LEAR FAN LIMITED

You and other colleagues will have seen the press speculation over the past few days regarding the possibility that Lear Fan Limited is about to close its Northern Ireland operation for a period of some months. Although the company has not yet formally announced such a closure we know that the decision to do so is imminent. There is clearly a strong likelihood of adverse press coverage and I am therefore writing to you and other colleagues to explain the background, and to outline the action which we have in hand.

The Lear Fan project was launched in 1980, and was designed to develop and subsequently to manufacture an 8-seat executive aircraft fabricated essentially from composite materials (mainly carbon fibre) rather than metal. The development of the aircraft was to be carried out largely in Reno, Nevada, but also partly in a Northern Ireland facility, which was to become the principal manufacturing location for the aircraft once it had gained a certificate of airworthiness from the US Federal Aviation Administration (FAA). Private sector funds amounting to some \$37m were committed to the project between 1980 and September 1982, during which time HMG provided grants and loans of some \$25m and a bank guarantee of \$15m.

It became clear in 1982 that the project would require substantial further funds to carry it through certification to the manufacturing stage. HMG, which was not prepared to act as the sole provider of these further funds, embarked upon a search for a new private sector partner, and eventually, in September 1982, signed a re-financing agreement with the Zoysia Corporation (a Netherlands Antilles registered company backed by a consortium in which the principals were Princes of the Saudi Royal Family). Under the agreement, which provided for Zoysia to acquire 85% of the equity in the business (HMG having a 5% share), additional funds of \$90m were committed to the project, of which Zoysia would provide \$60m, and HMG an additional \$30m, by way of loan capital. A unique feature of the agreement was that Zoysia and HMG would provide the first \$60m of the \$90m facility in the

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agreed 2:1 ratio; Zoysia would then be solely responsible for the next \$20m, and HMG would provide the final \$10m tranche.

At the time the agreement was drawn up it was forecast that the FAA certificate of airworthiness would be granted towards the end of 1983. Since then, however, the certification programme has undergone a number of serious setbacks during static testing in Reno (although prototypes of the aircraft have already flown some 600 hours). First, the wings failed under bending tests, and it took several months to re-design and re-build them. Although the re-designed wings have been successfully tested, there has been a series of increasingly serious failures in the fuselage of the aircraft under pressure and bending tests. While the management of the company is confident that the causes of these failures can be remedied, the effect has been to prolong substantially the certification programme. Although the company aims to obtain certification for an aircraft with unpressurised fuselage in 2 stages, in July and November this year, it does not expect to achieve full certification for a pressurised aircraft until February 1985.

With each succeeding test failure, the company has introduced new cost cutting measures, the main burden of which has inevitably fallen on the Northern Ireland operation. Although it could not begin to operate as a full manufacturing unit until after certification the company had already, by 1983, built up a workforce in the Province of some 550, which was being trained, and fabricating certain parts for the test aircraft, against the original expectation that FAA certification would be achieved late in that year, when full production could commence. The cost cutting measures have resulted in a series of reductions in both the workforce and the working week in Northern Ireland, so that today, there are some 380 people in the Lear Fan facility, on a 2-day week.

Under the 1982 Re-financing Agreement, Zoysia has been solely responsible for the provision of funds to the company since February 1984. The company has used some £68m of the \$90m facility, and HMG will only be required to subscribe its final tranche (which for technical reasons, which I need not go into here, is \$9.1m rather than £10m) when Zoysia has injected its full commitment of \$60m, which is likely to be in October 1984.

The company considers it essential to "stretch" what remains of the existing £90m facility as far as possible, so as to achieve certification within that ceiling, and to do so, it must concentrate its available resources on the essential elements of the certification programme. This has resulted in the decision, likely to be announced within the next day or two, to "mothball" for a period of about 6 months the Northern Ireland operation, which cannot be said to be essential to the certification programme. We can expect a certain amount of serious media criticism over the next few days, and I am attaching, for your information the draft of the Press Release which I propose to issue when the company formally announces its decision.

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The project, and the company's performance has been very closely monitored by my officials (with help from technical and financial consultants) and earlier this month Adam Butler met the two Saudi Princes who are the principals in Zoysia, and expressed the considerable disquiet of HMG about the project, its chances of technical success, and the clear need for further funding for the project after the aircraft is certificated. He re-emphasized that HMG was not prepared to commit additional funds to the project, beyond the present agreement, and explained to them the genuine difficulty HMG would experience in being asked to inject its final tranche of \$9.1m to the project, in October 1984, against a background of a closed Northern Ireland facility, unless we were able to obtain much firmer assurances from the Saudis than we have had to date regarding the availability of further funding for the project, and the commitment of the company to Northern Ireland. Since that meeting, in a letter to one of the Princes, I have said that we must regard the end of July as the target date for decisions about future funding.

Unless we obtain the assurances we have sought, I believe that there would be a genuine difficulty, not only for HMG, but also for the Board of the company (on which we have two nominee Directors), in continuing to trade. In the event that the Board does not itself precipitate a crisis in such circumstances, HMG may very well have to consider invoking a default clause under the 1983 agreement, in order to "save" the final tranche of \$9.1m, and to call for repayment of the outstanding loan of \$20.9m. (We are advised that an impending qualification from the auditors on the company's 1983 Accounts may constitute such a default). Failure by the company to repay would provide us with the ability to appoint a receiver/manager, or liquidate the company. Contingency plans to deal with such a situation are being drawn up by my officials.

A decision to call a default could not be made lightly and I am well aware that the handling of these issues could impact on HMG's relations with the Saudi Royal Family. I hope that if any action along these lines becomes necessary it will be undertaken in consultation with the Saudis, rather than unilaterally by us. I am seeking to keep in close touch with the Princes, and have invited them to a further meeting with me in London, as soon as practical after they have completed a review they are presently undertaking of the project.

I will of course return to colleagues in the event that major decisions are required on the case.

Copies of this letter go to all Members of the Cabinet, and to Sir Robert Armstrong.

Yours sincerely

Derek Atwell

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Approved by the Secretary of State and signed in his absence

DRAFT PRESS RELEASE FROM THE SECRETARY OF STATE FOR NORTHERN IRELAND,
THE RT HON JAMES PRIOR MP

The statement by Lear Fan Ltd that it is to suspend its Northern Ireland operation is regrettable, but the company has decided that it must concentrate its efforts on certification, as without certification there will be no aircraft and therefore no jobs.

It has always been recognised that the Lear Fan project is a high risk one but equally one with much potential. In recognition of this, considerable private sector money has been committed to it.

The certification programme for the aircraft has been taking place at the company's facilities at Reno, Nevada, but the technical problems experienced there have been greater than expected. It is my earnest hope that these can now be resolved, and that the revised certification timetable laid down by the company will be achieved.

I welcome the expression of commitment to Northern Ireland by senior representatives of the company and sympathise with the workforce to whom today's news comes as a severe blow. It must be the hope of everyone in the Province that rapid progress can now be achieved so that the aircraft will go into production in Northern Ireland, giving a much needed boost to our manufacturing sector.



NORTHERN IRELAND OFFICE
 GREAT GEORGE STREET,
 LONDON SW1P 3AJ

(2)

SECRETARY OF STATE
 FOR
 NORTHERN IRELAND

Prime Minister

MUS 9/6

The Rt Hon Patrick Jenkin
 Secretary of State for Industry
 Department of Industry
 Ashdown House
 123 Victoria Street
 LONDON
 SW1E 6RB

8 June 1983

Bad news
 —
 MS

Ms Skude

I refer to Adam Butler's letter of 5 January 1983 to you and other E(EA) colleagues on the Lear Fan project. In that letter he pointed out that the new management in the company had expressed to us considerable concern about a number of financial transactions which had been carried out by the previous management. The Northern Ireland Industrial Development Board (IDB), which has been responsible for monitoring the Lear Fan project since September 1982, immediately commissioned Cooper & Lybrand to carry out an independent review of the transactions in question. As Adam reported to you, Coopers & Lybrand's preliminary finding indicated that the incidents under review were more likely to be attributable to poor management decisions than to any other cause. I can now confirm that to be the case. Coopers & Lybrand in their report to the IDB concluded that:-

"We have found no evidence of acts of financial malpractice of the type we believe were envisaged in our terms of reference. We have not uncovered any evidence of fraud or dishonesty. On this basis we would therefore not recommend the IDB to take any action against the individuals concerned".

Since the Coopers & Lybrand investigation the new management have however taken further action on the matter. On 15 February 1983 Lear Fan Limited notified the company's insurers, who issued a policy protecting officers and directors of Lear Fan Limited, that it was lodging a claim in excess of \$10m against the former officers and directors of the company for alleged mismanagement of the company's resources. The directors named in the claim included former nominees of the then Department of Commerce for Northern Ireland. The Management of Lear Fan Limited have not yet received a formal reply from the insurance

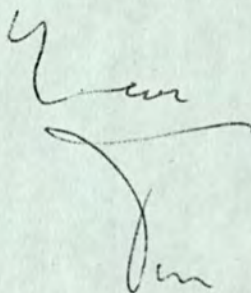
company/...

company but believe that its reaction will be to deny the claim. If this happens, Lear Fan plans to ~~commence litigation~~ (through the current management) against the individuals named in the claim. It is probable that this litigation will take place through the US Courts. The insurance company would then have an obligation under the policy to defend the litigation against the individuals.

The IDB has been assured that advance warning of any litigation will be given. It is always possible, however, that a press leak could occur. There is considerable interest in Lear Fan with a number of lengthy articles published recently. If it becomes known that the company is seeking redress for alleged mismanagement by the former management I would take the line that any claim or litigation was a matter for Lear Fan and the insurance company concerned. I would want to emphasise that the allegations were directed at the previous management and that we harboured no doubts about the ability of the current management.

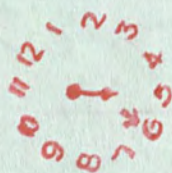
If litigation does arise my officials will, in consultation with the FCO, ensure that briefing is made available to relevant posts in the US and elsewhere. Beyond this there is no action which we can or should take.

I am copying this letter to the Prime Minister, to E(EA) colleagues and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'Lear Fan', written in a cursive style.

Iceland: var fan 2/80

28 JUN 1983





Minister of State

Norman Lamont Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

NBPM

Musy/2

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

4 February 1983

Dear Norman,

Thank you for your letter of 13 January. I am very conscious of the important point you make about the company's purchasing arrangements and policy.

One of the main objectives in monitoring a company is to encourage that company to take positive action to adopt good commercial practices. The IDB has the right, under the September Financial Assistance Agreement, to ask Lear Fan for information on its sourcing policy and suppliers which it exercises.

The responsibility for establishing and approving purchasing policy rests with the company's board and in our view it is at this level that the matter should be raised. As part of the overall monitoring process the IDB are entitled to two nominee directors on the board of the company and through the efforts of these people it is hoped that the company will be persuaded of the merits of a policy to source locally. It is not IDB's policy to seek to influence companies to place supply contracts against their better commercial judgement.

I have attached some historical information on sourcing relating to 1982 and a forecast of the likely trend for 1983, which is reasonably encouraging.

I am copying this letter to the recipients of yours.

Yours ever

Adam

ADAM BUTLER

Ireland,
Feb '80, Lear Fan

LEAR FAN LTD, CARNMONEY

Purchases and Sources for year ended 31 December 1982.

1. (a) In value terms this was £5.3m, 11% of which was in Northern Ireland, 35% in Great Britain, 50% in the USA and 4% in other European sources.
 - (b) LFL had approximately 600 suppliers during year ended 31 December 1982 - 274 were in Northern Ireland and 147 in Great Britain. In 1982 they would envisage the trend to continue, from US to UK and European sources.
2. 1983 expenditure is estimated at £4m. LFL would expect, if anything, a larger proportion of US vendors to be now sourced in the UK and that this would be an ongoing process.

LA JANTICOR

11 12 4 2 3 4
9 8 7 6 5

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State

Norman Lamont MP

Hon Adan Butler MP
Minister of State
Northern Ireland Office
Stormont Castle
Belfast
BT4 3ST

NBPM

ms 14/1

13 January 1983

Dear Adan

LEAR FAN

I have seen a copy of your letter of 5 January describing developments since the E(EA) discussion last September.

I am pleased to note that progress towards FAA Certification is continuing on schedule and that, in the Industrial Development Board's view, the new management is adopting a suitably professional approach to its task. E(EA) colleagues will wish to be aware, however, of a number of representations received by this Department concerning an apparent tendency on the part of the new management to procure equipment and place sub-contract work in the United States.

Companies in this country have made the not unreasonable point that a publicly-supported enterprise such as Lear Fan Ltd should give UK suppliers a fair opportunity to tender for its business. The IDB have raised this with the company at the request of officials here, and have, I understand, been given an assurance that once the main hurdle of Certification has been cleared, more effort can be focussed on establishing alternative sources of supply. I recognise the difficulties and the current need to concentrate on certification (in Reno rather than Northern Ireland). But I would recommend that, as part of the monitoring functions referred to in your letter, we should include the question of Lear Fan's procurement policies and the experience of British suppliers in winning business with the company.

I am copying this letter to the Prime Minister, E(EA) colleagues and Sir Robert Armstrong.

NORMAN LAMONT

Jan -
Norman

Ireland, Feb '80, Lear Fan.

JAN 4 1980

12 1 2 3 4 5 6 7 8 9 10 11

CONFIDENTIAL

Northern Ireland Office
Stormont Castle
Belfast BT4 3ST
Telephone Belfast (0232) 63011

Ireland

Prime Minister (2)

Ms 6/1

Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

5 January 1983

Dear Patrick,

LEAR FAN

Since E(EA) gave its approval in September to new funding arrangements for Lear Fan, the new management has taken a firm grip of the company. They are doing well and continue to have the full backing of the Saudi Arabian investors who now bear the major financial responsibility for the company and have a vested interest in its success. The recent press comment has been unwelcome (it has been unjustifiably alarmist, though I notice that even the Sunday Times felt compelled to acknowledge that the plane's prospects are bright), but not, so far as we can judge, damaging. The project remains firmly on the rails that we approved, though the ride is, inevitably, not without its bumps. One of these bumps could come early in the New Year when, to contain costs, the company is likely to shed some of its Northern Ireland labour force, or to go to short-time working there. This will lead to some dismay in Northern Ireland but I am satisfied that the company would be imprudent to retain more labour than it needs, and the company will have my support. I thought that you and your E(EA) colleagues should have some of the background.

The new senior management team have been impressive in the tough, professional and methodical manner in which they have tackled their task. They have been making their own assessment of the project, and they concluded that, with careful financial management, the funds available to the company should be more than sufficient to carry the aircraft development programme through to certification by the Federal Aviation Authority (FAA), after which time they are confident of the availability of funding from the Banks. However, the careful management approach of the new team, and their concentration on the certification programme as the first priority (as it clearly must be) in turn means a temporary concentration on work which must, perforce, be carried out at the company's facilities in Reno, Nevada, rather than in Northern Ireland, which will provide the main post-certification production base for the company. Thus, in seeking ways to minimise costs in the immediate future, the company has come to the conclusion that it should put the production schedules back by a period of 4-6 months, not least to ensure that it is not making a nugatory

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investment in tooling which has not been FAA approved. This could involve the company temporarily laying off perhaps a third of its 540 strong Northern Ireland work force for the period January to June 1983, or alternatively putting its entire Northern Ireland work force on short time for a similar period. This is a commercial judgement proper to the company; it does not constitute a default on our agreement with them, and Zoysia (the private sector consortium which is providing most of the future funds) is continuing to provide funds to the company. Nevertheless, the company's action will be misunderstood within Northern Ireland as the sign of a further imminent industrial collapse, and Northern Ireland Ministers will have to weather some criticism.

The new management have also, very prudently, been considering various ways of improving the company's position vis a vis a number of the early sales contracts for the aircraft, which, as is apparently common practice in the aircraft industry, were placed at fixed prices, and which now carry substantial losses. These losses were of course known both to the new investors and to the new management before they took over in September, but in their understandable bid to ensure the maximum chance of success the company, and its legal advisers, are considering whether they can devise any means of giving themselves the leverage they require to re-negotiate the fixed price contracts.

The new management have also drawn to our attention a number of financial transactions which the previous management had carried out and about which there is now concern. When this came to the attention of the Northern Ireland Industrial Development Board (IDB) who have been responsible for the monitoring of the company's performance since September 1982, they immediately commissioned Coopers and Lybrand to carry out an independent review of the transactions in question. While the written Report from Coopers and Lybrand is not yet available, their preliminary findings suggest that the incidents under review are more likely to be attributable to poor management decisions than to any other cause. They may nevertheless attract press comment if the details leak.

As expected, the company faces some problems, but the IDB has reported very favourably on the calibre, enthusiasm and skill of the new management team. Management (with the support of the private sector investors) have expressed their strong faith in the product, and are committed to see the project through to FAA certification (the programme for which is still on schedule for certification in October 1983) and beyond within the available budget.

Full financial and technical monitoring - the latter with the assistance of the CAA - is being carried out on behalf of the government, and we have two directors on the Boards of Lear Fan Ltd and Fan Holdings Inc, the holding company.

I am copying this letter for information to the Prime Minister, to your E(EA) colleagues, and to Sir Robert Armstrong.

*Tommy on
Adam.*

CONFIDENTIAL

ADAM BUTLER

Inland: hear Jan Feb 80

15 JAN 1980

15 JAN 1980



cf JV
Ireland

Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

MW

R 25

Prime Minister

(2)

Mus 27/9

Rt Hon Douglas Hurd CBE MP
Minister of State
Foreign and Commonwealth Office
LONDON
SW1A 2AH

17 September 1982

Douglas Hurd

Thank you for your letter of 8 September 1982 about the proposed package of assistance to Lear Fan as described in E(EA) (82)26.

I note your agreement that the proposed aid to Lear Fan need not be notified to the Commission. However, I have followed up your suggestion about the production of a defensive brief for UK REP which justifies the non-notification to the Commission. I understand that my officials have agreed the brief with yours and that it shows that the total aid to Lear Fan since the inception of the project together with the proposed new funding package falls within regional aid ceilings.

I also note your concern about publicity for the deal and I can assure you that our Press Statements have been confined to welcoming the news that a new re-financing package has been put in place. We have not divulged the level of Government assistance to the project although we cannot, of course, prevent disclosure by other parties to the deal. You should, however, be aware that under the disclosure arrangements for selective financial assistance to industry in Northern Ireland we shall be obliged to publish details of this new commitment to Lear Fan in British Business. It is expected that this commitment will be reported



in November 1982.

I am copying this letter to E(EA) members and to Sir Robert Armstrong.

*Yours
John*



John ^{16.}holes to see
~~AD 4~~ rus.

2.
~~cc JD~~

CONFIDENTIAL

Prime Minister

E(EA) has agreed to provide up to £5.5m for Lear Fan, subject to all the usual assurances.

MS

PRIME MINISTER

MP 14/IV

At its meeting on 7 April the Ministerial Sub-Committee on Economic Affairs endorsed the proposal put forward by the Secretary of State for Northern Ireland in his paper E(EA)(82)6 that the Government should provide further financial assistance to Lear Fan Limited up to a maximum of £5.5 million to allow time for a private sector package to meet the company's future financing needs to be put together (E(EA)(82)3rd meeting, item 1).

TPM

2 Lear Fan Limited is the Belfast subsidiary of an American parent company set up to produce the Lear Fan 2100 business executive aircraft. The Northern Ireland Office has already provided assistance totalling some £25 million by way of grants, loans and guarantees of commercial borrowings to Lear Fan. Oppenheimer and Company Incorporated, a New York finance house, have also invested \$30 million in the project.

3 The 2100 is of an advanced and novel design and would be the first commercial aircraft to be constructed mainly from carbon fibre, which means that it ought to be able to operate at much higher speeds and with much lower fuel consumption than comparable aircraft. The first prototype of the 2100 is already in operation. However, Ministry of Defence experts who have



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assessed the design in detail and discussed it both with the development team of the parent company and with other American aviation experts have strong reservations about whether an aircraft of this sort with a carbon fibre airframe and a propulsion system of novel design could be successfully developed and certified by the American Federal Aviation Administration in the time and at the cost estimated by Lear Fan. They are also sceptical that the aircraft would meet the performance guarantees put forward by its developers. So far this scepticism has proved to be well-founded. On the other hand Lear Fan already has 260 orders for the 2100, most of which are backed up by non-refundable deposits of 10 per cent of the purchase price.

4 Last September Lear Fan put forward a revised business plan, which was considerably more ambitious than the original on which the Government's assistance had been based. The Northern Ireland Department of Commerce sought advice on the revised plan from Arthur Andersen and told Lear Fan that the bulk of the further funding necessary to bring the 2100 to the point of certification would have to be provided by the private sector. A number of private sector companies and financiers have expressed an interest in the project, and the front runner is now a consortium headed jointly by Mr W Macauley of Meridien Company and Mr Arthur Bass, the former Vice-Chairman of the Federal Express Company. Their consortium has now formally been invited to submit a refinancing proposal and they have been working in



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cooperation with Lear Fan's executives on the preparation of a more modest business plan than that put forward by Lear Fan last September. In doing so they have sought advice from a wide range of American business experts and appear to be taking full account of the risks identified by Arthur Andersen. Nonetheless, the Northern Ireland Department of Commerce's merchant bankers (Baring Brothers) consider that the consortium will not find it easy to put together the full amount of private sector funding which will be necessary to take the project to certification.

5 The consortium hopes to conclude its investigations and negotiations by about the end of June. But Lear Fan faces an immediate and serious cash flow crisis which, if it is not relieved, would probably result in the company going into receivership by about the middle of this month. The Secretary of State for Northern Ireland therefore proposed that the Government should offer further interim financial assistance up to a maximum of £5.5 million to allow the private sector consortium the opportunity to finalise their plans. This further assistance would be paid in weekly tranches and there would be a thorough review of the project's prospects at the end of the second week with fortnightly reviews thereafter. If a review led to the conclusion that the project was unlikely to prove viable no further assistance would be made available.



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6 The company already employs 550 in Northern Ireland and if the project were to succeed on the basis currently proposed by the private sector consortium that would increase to about 2300, by the end of 1986. *~~~~~*

7 In the special circumstances of Northern Ireland and given the Secretary of State's assessment that it was more probable than not that the necessary private sector finance would be forthcoming, E(EA) concluded on balance that interim financial assistance up to a maximum of £5.5 million should be provided as proposed by the Secretary of State for Northern Ireland. This was, however, on the clear understanding that no further Government assistance would be sought, if it became clear that the project had no prospect of viability or if it had proved impossible to put together the necessary private sector finance by the time that the Government's further assistance of £5.5 million had been exhausted. If circumstances were to change significantly, it would of course be open to the Secretary of State for Northern Ireland to ask the Sub-Committee to reopen the matter.

8 The Sub-Committee also invited the Secretary of State for Northern Ireland to seek urgently to negotiate with Oppenheimer and Company Incorporated the transfer to the Government, in return for this further interim assistance, of the product rights



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to the Lear Fan 2100 if Lear Fan Limited were eventually to go into liquidation. Under the present arrangements the rights revert to Oppenheimer, even although their financial stake is less than the Government's. It was recognised that the provision of further financial assistance could not be held up in the meantime, but it was hoped that the negotiations would be successfully completed well before the full £5.5 million had been provided.

9 Finally, The Secretary of State for Northern Ireland will be arranging for urgent consideration to be given in consultation with the Foreign and Commonwealth Office to the question whether this further assistance to Lear Fan should be notified to the European Commission.

10 I am sending a copy of this minute to the members of E(EA), the Foreign and Commonwealth Secretary and the Secretary of State for Northern Ireland, and to Sir Robert Armstrong and Mr Sparrow.

PJ

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13 April 1982

Department of Industry
Ashdown House
123 Victoria Street

✓ Mr. Alexander
Mr. Duggan



~~Prime Minister~~ Ireland 2

For announcement
on Thursday.

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Prime Minister

~~Mr. Alexander~~
to see

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THE LEAR FAN PROJECT

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1. I am glad to report that I shall shortly be announcing an important new industrial development (ID) project in Northern Ireland which could provide up to 1,250 jobs. The Lear Fan, an executive turboprop aircraft which is being developed by the Learavia Corporation at Reno, Nevada, is to be produced at Aldergrove.
2. The Lear Fan was designed by the late Bill Lear, who previously designed the world's most successful executive jet (the Lear Jet). Its innovative feature is that it will be constructed of carbon fibre reinforced plastic, which makes possible greater speed, range and payload and major fuel savings in comparison with conventional aluminium airframes. This is generally regarded as a technology rich in potential, of the kind we need in our efforts to strengthen Northern Ireland's diminishing manufacturing base.
3. In assessing the technical and marketing prospects for the project my Department has had advice from experts in the Ministry of Defence and the Department of Industry. This has usefully clarified the risks inherent in this as in any advanced technological project, which I have had to weigh against the opportunities it presents. As a result I have built a number of safeguards into the financial arrangements to protect our financial position should major problems be encountered.



4. Learavia will be majority shareholders in the new Lear Fan Company which will develop and produce the aircraft. The bulk of the development programme will be financed from private sector sources; the Government's initial contribution (including money spent on retaining the option to date) will be £3.5 million, while a further £3.5 million has already been invested by Learavia; up to £12 million will be raised by Oppenheimers, the US investment bankers; and the balance — £4.5 - 7 million on Learavia's estimates — will be sought from the market. The manufacturing operation will attract ID grants of up to £11 million for plant and equipment, buildings and employment. The total Government financial contribution will be within the normal cost per job limits for the area (i.e. up to a maximum for the project of £16.25 million).

5. I have discussed this project with Keith Joseph, Francis Pym and John Biffen, who are content that I should proceed as proposed.

6. I intend to announce this project by issuing the attached press notice at about 4 pm on Thursday 14 February - the main thrust of our publicity will be at the Belfast end.

7. I am sending copies of this Minute to the Secretaries of State for Defence and Industry, the Chief Secretary, Treasury, the Paymaster General and to Sir Robert Armstrong.

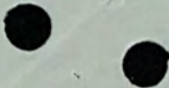
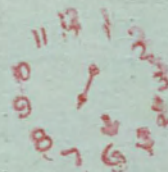
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RESTRICTEDWORLD'S MOST ADVANCED BUSINESS AIRCRAFT TO BE BUILT IN NORTHERN IRELANDMAJOR PROJECT WILL PROVIDE 1200 JOBS

Plans have been made to build the world's most advanced executive aeroplane in Northern Ireland, adding significantly to the Province's already well-established aerospace industry.

The Secretary of State for Northern Ireland, the rt hon Humphrey Atkins MP today gave details of the project which is expected ultimately to provide up to 1250 jobs, both skilled and semi-skilled, at Aldergrove in Co Antrim.

The Secretary of State said the Department of Commerce has successfully negotiated an arrangement with the Learavia Corporation, of Reno, Nevada, which provides for the manufacture in Northern Ireland of the Lear Fan, an advanced executive turboprop aircraft. Mr Atkins said the Lear Fan, designed by the late Bill Lear, designer of the Lear Jet, the world's most successful executive jet aircraft, is an exciting new design of aircraft and is the first civil aircraft to make extensive use in its structure of high-strength, low-weight carbon fibre materials.

Development work on the Lear Fan at the Reno headquarters of Learavia is well advanced; Learavia expect development to be completed by mid-1982 with some of the development work being done in Northern Ireland, and first delivery of the aircraft to be made at about the same time.

The project involves the establishment of a new UK manufacturing company which will also absorb the current Learavia development team and workforce in a US subsidiary company. It is proposed to set up a production unit at Aldergrove for the exclusive manufacture of the Lear Fan aircraft.

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Mr Atkins said the project should do much to reduce unemployment in the Antrim area. It is expected that the workforce will grow from about 200 by the end of this year to up to 1250 in 5 years time.

The Secretary of State said: "Already some 100 advance orders have been placed for the Lear Fan, an indication of its future prospects. Northern Ireland already has a well-established aerospace industry in Short Brothers and the establishment of Lear Fan can only enhance the Province's image, especially among US investors, as an important high technology centre within the EEC.

Within the last two years, a considerable number of jobs were lost through the closure of defence establishments at Aldergrove and Antrim and the Department of Commerce has been making strenuous efforts to find an alternative project capable of putting the valuable skills of those who lost their jobs to good use once again. I am delighted that the Lear Fan project will offer such an opportunity. There will also be opportunities for women to develop the necessary skills for working on this project."

NOTES FOR EDITORS

The Lear Fan

The Lear Fan 2100 is a new design of revolutionary turboprop aircraft aimed at the fast-developing executive aircraft market. The aircraft has undergone its wind tunnel tests and the first prototype is scheduled for test flying by the autumn of 1980.

The essential elements of the Lear Fan design are its clean aerodynamic lines and use of carbon fibre reinforced plastic in the construction of the fuselage, wings and tail fins. Carbon fibre has not hitherto been used to such an extent in the construction of any aircraft but is finding increasing application in aircraft manufacture because of its contribution to weight reduction and fuel efficiency.

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The weight saved by using carbon fibre results in material improvements in aircraft performance, range and safety. The developers of Lear Fan are aiming for a speed in excess of 400 miles per hour, a service ceiling in excess of 40,000 feet, a flight range of approximately 2,750 miles and they expect the fuel consumption to be better than 10 miles per gallon. These factors are claimed to represent a very significant advantage for the Lear Fan over its competitors.

It is envisaged that the airframes will be built entirely in Northern Ireland. Early production aircraft will be fitted out with mostly US-manufactured components but attention will be given to the substitution of UK components where these are satisfactory in price, quality and availability.

The Northern Ireland manufacturing operation will represent an investment of up to about £20 million.

Technical Details

The Lear Fan will be constructed of advanced graphite composite materials which are stronger and lighter than aluminium. The computer designed fuselage shape is the most aerodynamically efficient profile ever used in general aviation and results in dramatic reduction of drag.

The slim, high-aspect ratio wing is designed to be efficient at 400 mph and 41,000 feet, yet gives excellent low speed stability and docile landing characteristics. The wing span is 39 ft 4 ins.

The Lear Fan has a six passenger interior, 12 ft 10 ins long and 4 ft 8 ins high, with provision for two pilots, or one pilot and seven passengers.

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Besides the weight and strength advantages of graphite, there are others. Unlike aluminium, the material is not susceptible to metal fatigue from usage and will not corrode. Hence the Lear Fan airframe can be expected to out-last an aluminium airframe and require little maintenance. Airframe damage is readily repairable, frequently at lower cost than aluminium.

The Lear Fan will be powered by two 850 shaft horsepower (shp) Pratt and Whitney PT6B-35F engines flat-rated to 650 shp. Power is transmitted to the single pusher propeller through an aft-mounted gear reduction unit. Nacelle drag and the danger of asymmetric thrust resulting from engine loss are eliminated. It is asymmetric thrust, resulting from failure of one engine, that is responsible for many accidents in conventional twin-engines-in-the-wings aircraft.

All engine and transmission components are accessible through quick access panels. Novel engine mounts permit the engines to swing outward for ease of maintenance.

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