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2.



PRIME MINISTER

MASSEY FERGUSON

cc AD

*[Handwritten signature]*

*Prime Minister*

*This looks distinctly*

*unpromising.*

*No action for you for*

*the moment.*

*18/12*

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

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

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/of



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

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



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

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

5. I am keeping the situation under close review and



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

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

104.

Department of Industry

19 September 1980

*cc Mr Squire**Incl PD**From the Secretary of State**MBM*CONFIDENTIAL

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

*RJW**7* October 1980*Dear Keith,*

## MASSEY FERGUSON

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

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

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*From the Secretary of State*

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

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

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

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

*Tomson*  
*John*

JOHN NOTT



-7 OCT 1980

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

10 DOWNING STREETCO

From the Principal Private Secretary

22 September 1980

*Dear Jan,*

*BF*

Massey Ferguson

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

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

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

*Yours etc,*

*Anne Whiston*

Ian Ellison, Esq.,  
Department of Industry

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