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cc JV

DEPARTMENT OF TRADE
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From the
Minister for Trade

Prime Minister (2)

MCS 11/10

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

8 October 1982

Dear Patrick

MASSEY FERGUSON LTD

Thank you for your letter of 30 September.

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

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

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

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

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

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

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

Yours ever Peter

PETER REES

Ind Pol. Nov '79, Massey Fergusson

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INDUSTRIAL POLICY.

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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Secretary of State for Industry

30 September 1982

Prime Minister (2)

MCS 4/10

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

Dear Peter,

MASSEY FERGUSON

Thank you for your letter of 20 September.

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

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

Yours ever

Patrick

Ind Pol, Nov 79,
Massey - Ferguson

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Prime Minister

MCS 21/9

(2) Ind Pol

DEPARTMENT OF TRADE
1 VICTORIA STREET
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TELEPHONE DIRECT LINE 01 215 5144
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From the
Minister for Trade

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

20 September 1982

Dear Patrick

MCS

MASSEY-FERGUSON LTD

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

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

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

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

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

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

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

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

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

Yours ever Peter

PETER REES

BACKGROUND NOTE

CURRENT FACILITIES AVAILABLE TO UK GROUP OF MASSEY FERGUSON

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

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

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

REFINANCING PROPOSALS FOR UK BANKS

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

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

REFINANCING PROPOSALS FOR ECGD

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

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

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

GENERAL CASH RAISING REFINANCING PROPOSALS IN UK

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

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