



cc BLP

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P 03088

PRIME MINISTER

JAMES MACKIE & SONS LTD

E(A)(88)24 and 21

DECISIONS

Mr King is seeking agreement to his revised proposals for rescuing Mackie's. These proposals now avoid the need to take Mackie's formally into public ownership, but retain Government funding of a modernisation programme for the company costing up to £20 million over the next 5 years. If you are satisfied that the issue of public ownership raised at the last meeting has been resolved, the crucial question is whether the political and social effects of the loss of 1000 jobs in West Belfast are sufficiently serious to justify a departure from the Government's normal industrial policies.

2. In discussion you may wish to consider:

- i. the revised proposals for ownership of Mackie's;
- ii. the financial implications of supporting Mackie's;
- iii. the need to strengthen Mackie's management;
- iv. the interaction with decisions on Harland and Wolff and Shorts;
- v. the political implications of closure; and
- vi. the need for an announcement.

Each of these is considered below.

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BACKGROUND

3. When this Sub-Committee considered Mackie's on 29 March (E(A)(88)5th Meeting), it recognised the special difficulties of West Belfast. However, Mr King was told that there were substantial objections of principle to the taking of Mackie's into public ownership, and that some other solution to the company's problems would have to be found. It was suggested that the Bank of England's advice should be sought. It was felt desirable, if possible, to take a final decision on Mackie's at the same time as the futures of Shorts and Harland and Wolff were considered. Subsequently the Bank of England has explored various possibilities with the Treasury and Investors in Industry, but it has concluded that it cannot assist Mackie's at this stage, although the possibility of involvement by Investors in Industry at some time in the future has not been ruled out. Mr King has said that the cost of any support for Mackie's would be found from within the Northern Ireland block vote; he is not asking for new money.

ISSUES

Revised Proposals for Ownership of Mackie's

4. Mr King proposes that the ordinary share capital of Mackie's should be held equally by Northern Bank Ltd (Mackie's bankers, who have an overdraft of £9.5 million outstanding), the trust fund representing the firm's employees (who currently hold all the shares) and the Industrial Development Board (an arm of Mr King's department). Thus two-thirds of Mackie's ordinary shares would continue to be held in the private sector. The IDB would finance the modernisation programme through a combination of subscribing for non-voting preference shares and providing grants and loans. The issue of preference shares allows the IDB to recoup a high proportion of the sale proceeds if it proves possible to transfer Mackie's back fully to the private sector in a few years' time.

5. One main question is whether it is proper for the Government to provide all the extra money Mackie's need (at least for the first tranche, and probably the others) while having only one-third of the voting shares. Mr King says (paragraph 3) that other arrangements will be made to give the Government the degree

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of control necessary on accountability grounds. You might ask how effective control will be achieved with only one-third of the voting shares and whether the Financial Secretary Treasury is satisfied that the arrangements made resolve the problems of propriety. You could also check that there are no difficulties from the Companies Act point of view in giving control on important matters to a minority shareholder.

Financial considerations

6. Part of Mr King's justification for supporting Mackie's is the advice he has received from Coopers and Lybrand, Rothschilds and Lazards that there are good prospects for the long-term viability of the company once its production facilities have been modernised. Lazards estimate that Mackie's could be sold for £6-10 million in five years' time, once the investment programme financed by the IDB has been completed. The reasons for Mr King's confidence are that:

- Mackie's has a good reputation and prospects for the textile machinery market appear favourable;
- Mackie's has a substantial order book and has already identified specific purchasers for 56 per cent of its projected sales over the next five years; and
- Mackie's sales forecasts are consistent with its past record and do not assume significant growth.

7. It was agreed on 29 March that Mr King should take action to prevent the collapse of Mackie's whilst its future was considered further. In the light of this, Mr King's department persuaded the Northern Bank to postpone the appointment of a receiver for a month, until the end of April. This meeting of the Sub-Committee was therefore arranged so that a final decision could be reached. Another extension of the overdraft might be negotiable, to facilitate further consideration within Government of a rescue, but this could lead the Courts to judge that the Government had become progressively liable for the company's debts (the technical

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term for this is "Beagling", invented after the failure of the Beagle aircraft company following Government intervention). Clearly Mr King will wish to avoid any risk of being "Beagled" in this case. Mr King is expected to explain at the meeting that the IDB would become responsible for Mackie's liabilities if his proposals were implemented. Early repayment of the Northern Bank's overdraft would not however form part of the deal.

8. Mr King's paper refers at the end of paragraph 5 to the position under EC rules. The reference is not entirely clear but the implication is that EC clearance is not required. We understand that DTI do not yet accept this, although discussions between the two Departments are continuing. You might ask the Chancellor of the Duchy of Lancaster for his view of the EC position.

Management

9. Mr King identifies the need for a new Chief Executive for Mackie's, and for a strengthening of its financial management. He proposes to appoint a Coopers and Lybrand partner as Chief Executive as an interim measure, pending a permanent appointment. On the basis of a fairly rapid appraisal of the company, Investors in Industry have suggested that a more comprehensive strengthening of management may be appropriate. The Financial Secretary, Treasury may seek to make the rescue conditional on certain management changes. Mr King and his officials have a more extensive knowledge of the management's capabilities. You may wish to ask about Mr King's intentions towards management, and ask whether the Financial Secretary is content with them.

Harland & Wolff and Shorts

10. On 19 March the desirability of taking decisions on the future of Harland & Wolff, Shorts and Mackie's at the same time was recognised. However, at the subsequent meeting of Ministers on shipbuilding, Mr King explained his political need to be seen to be taking time in considering Mr Tikko's proposal to build a large cruise ship at Harland's. We understand Mr King will now seek to defer collective discussion of Shorts for a further three

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months, whilst he awaits proposals for Short's corporate strategy from its new chairman, and that the Chancellor has been advised to accept this (Mr King is expected to minute you in the next few days with a request for handling Shorts in this way).

11. Given the risk of incurring 'Beagle' obligations, it unfortunately seems necessary to take a decision on Mackie's in isolation. Mackie's, with 1000 employees, is considerably smaller than Harland's (3,500) and Shorts (7,000). It is possible that E(A) may soon have to consider the closure of Harland's, given its implications for the future of British Shipbuilders. In this case, you may decide that this strengthens the case for supporting Mackie's on the grounds that its closure would add significantly to the difficulties in announcing no further support for Harland's in a few months' time. On the other hand, there is also the risk that the Government may decide to keep Mackie's open, in the expectation that Harland & Wolff will close; and that the closure of Harlands may then not take place.

Political Implications

12. Mr King argues that there would be extremely adverse and serious political and social consequences in allowing Mackie's to close. He will point to:

- the particular need after the troubles of last month to demonstrate the Government's commitment to the viability of the Northern Ireland economy;
- the nature of the problems faced in Northern Ireland being of such a different nature from those in Great Britain that no precedent applicable elsewhere would be set if Mackie's were supported;
- given the security difficulties, the impossibility in practice of attracting new jobs to Catholic West Belfast. A quarter of Mackie's employees are Catholic, and the proportion has been growing in recent years. The unemployment rate around Mackie's is already up to 40 per

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cent, and the main factory is situated in an area of acute social needs. The closure of Mackie's would be seen as a particular blow to the Catholic community.

What about the Protestant Community?

Announcement

13. If you are content to approve Mr King's proposals, subject to any conditions suggested by the Financial Secretary or other Ministers, then he will wish to make an announcement in the next few days. (Ideally the announcement would have been held up until an announcement was made on Harland & Wolff, but presumably it has to be made as soon as the arrangements are put in place). You might ask whether there are any formal requirements as to telling Parliament about the new arrangements (for example, does PAC have to specially be notified?) No doubt Mr King has a Written Answer in mind, and you might ask him to consult the Lord President of the Council about the timing, and to clear the text with interested colleagues. The EC position will have to be clarified before the announcement is made.

HANDLING

14. You will wish to ask the Secretary of State for Northern Ireland to introduce his paper. The Financial Secretary, Treasury will wish to respond. Other Ministers may wish to comment on the political implications of the decision.

R.T.J.

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Cabinet Office
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