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P01378

PRIME MINISTER

JAMES MACKIE AND SONS LIMITED

E(A)(88)34

### DECISIONS

E(A) has already agreed that there is a case for preventing closure in the near future of Mackies, the engineering firm in Belfast. But they wanted to avoid a solution involving a Government shareholding. There are now two possibilities in the running: convertible loan stock, and a "reverse auction", which was suggested by the Chancellor to Mr King. Mr King will report further on prospects at the meeting. The Sub-Committee will want to decide whether to accept either or both of these options. One course would be to decide first to try a reverse auction with the convertible loan stock route as a fallback.

### BACKGROUND

2. When E(A) considered Mackies on 29 March and 25 April, it recognised the case for preventing the closure of the company in the near future (E(A)(88)5th and 6th meetings). It also felt that decisions on Mackies needed to be seen against the background of the position at Shorts and Harlands. It was agreed that public support for Mackies should not involve the Government taking a direct shareholding in the company. The preferred approach of E(A) on 25 April of offering a secured loan of up to £20m in three tranches has not proved practicable because there would be insufficient unsecured assets in the business to cover such a loan. Mr King therefore developed the alternative of a package of grants and convertible loan stock. The Chancellor, in further discussions with Mr King, also proposed a reverse auction (or dowry) approach. This is still being explored, with a number of companies being approached to see if they might be interested. Mr King has said that the cost of any support for Mackies would be found from within his existing Northern Ireland block vote.

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## ISSUES

### Mackies' future prospects

3. In the Spring Mr King reported the advice he had received from Coopers and Lybrand, Rothschilds and Lazards to the effect that Mackies had good prospects for long-term viability once its production facilities had been modernised. The company was starved of cash when the Mackie family sold out in 1977, and insufficient investment has been put into the business since then. The modernisation programme planned would require an injection of £20m over the next four years, and safeguard employment for 800 of the 1000 staff currently with the company. The reasons Mr King gave for being confident about Mackies' future were that:

- i. Mackies had a good reputation and prospects for the textile machinery market appeared favourable;
- ii. Mackies had a substantial order book for the next five years; and
- iii. Mackies' sales forecasts were consistent with its past record and did not assume significant growth.

4. You may wish to ask Mr King to confirm that Mackies' prospects have not deteriorated significantly since the Spring.

### Reverse auction/dowry approach

5. You could ask Mr King:

- i. what efforts have been made to find potential bidders in a reverse auction? Which firm has informally expressed interest, and how far have talks with that firm progressed?
- ii. what are the prospects of saving Mackies through the offer of a dowry? How long will it take Mr King to complete his examination of the scope for a solution by this approach? How much might it cost? Does he have an understanding with the Chancellor on the terms of the dowry which could be offered?

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Reverse option of a grant and loan package

6. Mr King's proposal involves releasing the grants and loans in stages over 4 years, subject to review at each stage. This package would be made available on condition that the senior management changes thought necessary were implemented, and would not involve the Government taking responsibility for more of Mackies' past liabilities. The Government would not hold any direct shareholding in Mackies, but the loans would be convertible into shares at the point when the business could be sold on to another private buyer. This device is necessary to allow the Exchequer rather than Mackies' existing trustee owners to benefit from any capital gain arising through the successful development of the business after the modernisation programme. Mr King says that support should be approved on the basis that continuing efforts would be made to involve other private sector interests at the earliest possible stage.

Choice between the options

7. The Sub-Committee will need to decide whether it could accept either the dowry approach or the convertible loan stock approach or both. If both, it will need to consider which would be preferable. Sale by a dowry would have two advantages:

- i. it would be broadly consistent with what the Government has done elsewhere, for example with shipbuilding and Rover; and
- ii. it would ensure privatisation, whereas the convertible loan stock route could lead eventually to a Government shareholding.

One solution would be to decide that the dowry approach is the preferred option, and that Mr King should now try to arrange a reverse auction but that if that does not succeed the convertible loan stock approach could be adopted.

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Interaction with Shorts and Harland and Wolff

8. In reaching a decision on the form of possible support, E(A) has considered in the past the interaction with Shorts and Harlands. Substantial redundancies appear inevitable. The aircraft construction part of Short's business, employing half its 7,000 workforce, appears doomed. In fact, only the missiles business with 1,200 staff may be viable in the long-term. The future of the 4,000 workforce at Harlands remains highly uncertain, as it is by no means clear that Mr Tikkoo or anyone else will wish to take the commercial risk of taking over the yard and building the large cruise liner there.

9. Mr King will also point to the importance of Mackie's to the Catholic community of West Belfast. Shorts and Harlands overwhelmingly employ Protestants, whereas a quarter of Mackie's workforce is Catholic. Mackie's is situated on the border between Protestant and Catholic areas of West Belfast, and unemployment in the area is already up to 40%.

Possible need for EC clearance

10. Officials in Mr King's department are still exploring with DTI and the Foreign Office whether either option of support for Mackie's would need to be notified to the European Commission. The position needs to be resolved before any offer of support is made.

**HANDLING**

11. You may wish to ask the Secretary of State for Northern Ireland to introduce his paper. The Chancellor of the Exchequer will wish to respond. Other Ministers may wish to comment on the political implications of the decisions.

RTJW.

R T J WILSON

Cabinet Office  
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