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Prime Minister

EEA has agreed to provide up to £5.5m for Lear Fan, subject to all the usual assurances.

MW

PRIME MINISTER

MW 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

P J

13 April 1982

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