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10 DOWNING STREET

*From the Private Secretary*

14 December 1984

LEAR FAN

Your Secretary of State minuted the Prime Minister on 13 December on developments relating to the Lear Fan company and its private investors.

Subject to the views of colleagues, the Prime Minister is content with the instruction to officials to conclude an agreement with the company on 18 December on the basis of the note attached to Mr Hurd's minute.

I am copying this letter to the Private Secretaries to members of the Cabinet and to Richard Hatfield (Cabinet Office).

(C.D. Powell)

Graham Sandiford Esq  
Northern Ireland Office

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Prime Minister  
Agreed interdepartmentally  
by officials.  
Agreed subject to  
views of colleagues?  
CJA  
13/12

PRIME MINISTER

Yes mt

I undertook to inform you and colleagues of developments relating to the Lear Fan company and its private investors.

2. In September 1982 HMG and Zoysia (a private sector consortium which includes members of the Saudi Royal Family) signed an Agreement to provide Lear Fan Limited with funds of up to \$90M - \$60M from Zoysia and \$30M from HMG. Our \$30M is being provided by way of an interest free loan to be extinguished by grants. Under the same Agreement we are also guaranteeing a \$15M bank loan. The Saudis have already committed all of their \$60M. \$9.1M of our funding remains outstanding.

3. The company has produced a new business plan which suggests a need for new funding of some \$62M based on our making concessions on the detailed terms of the 1982 Agreement. My officials supported by our consultants for the project, Cooper and Lybrand, have expressed serious reservations to the Saudi Princes about the future viability of this project even with funding at this level. Both Jim Prior and I have repeatedly made it plain to the Princes that HMG is unwilling to commit any fresh funds. The Saudis have nevertheless indicated that they continue to believe in the project and are willing to put in new funds on the basis of concessions by us on the 1982 Agreement.

4. We have taken legal advice and have been told in unequivocal terms that we now have no grounds for withholding any part of the \$9.1M. Our total further exposure under the 1982 Agreement is \$24.1M (\$9.1M plus the \$15M guarantee).

5. My officials have therefore approached the negotiations on the basis that no new money from HMG will be made available and that every attempt should be made to limit our forward exposure of \$24.1M. They have reached agreement that the Saudis will make a commitment of \$62M of new money for the project in the full knowledge

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that no new money from HMG will be made available. The concessions now proposed in the 1982 Agreement, subject to endorsement by Ministers, will all be conditional upon our being released from the \$15M guarantee prior to its expiry date of December 1986. The concessions are so ordered to tighten our hold on the company to ensure that the majority of the jobs created by the project are in Northern Ireland. A note setting out the terms of the understanding reached in the negotiations is attached.

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6. I am satisfied that this agreement represents the most tenable way forward. I am deeply sceptical about the long term future of the project but that view, right or wrong, does not alter the fact that we are bound by the 1982 Agreement. The proposed new agreement does not increase our exposure, provides a chance of reducing it and presents the prospect of some employment in the meantime. It also allows us to maintain good relations with the Saudis - something which Geoffrey Howe, Michael Heseltine and Norman Tebbit have all stressed in this context.

7. Time is not on our side. While we are legally committed to releasing the \$9.1M, we have not conceded that point in the negotiations. Indeed, I have myself said to the Saudi Princes that I would not want to release the \$9.1M without a firm commitment from them that they will provide all the new funding suggested by the business plan. Ideally, therefore, I would want to have concluded an agreement on the basis of the attached note before any part of our remaining \$9.1M is actually called. We expect that to be no later than early January. To achieve this objective we need to have a signed agreement before Christmas. As it happens there is a Lear Fan Board meeting on 18 December at which the Saudis will be represented.

8. I understand that my officials have already reached agreement with officials of the Departments most directly concerned - DTI, MOD and HMT - that what is proposed does indeed represent the most sensible way forward in the circumstances.

9. Given that we are legally bound to our existing commitments, what has been negotiated represents a better outcome than we might

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have/....



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have expected some weeks ago. Subject to any comments from colleagues by lunchtime on Monday 17 December, I propose to instruct officials to conclude an agreement with the company on 18 December on the basis of the attached note. The company might well be anxious to give publicity, not least in Northern Ireland, to the implications for employment. I will have to be ready to respond to this, and am considering carefully the possibilities of a written answer in Parliament before the recess.

10. I am copying this minute to our Cabinet colleagues and to Sir Robert Armstrong.

*N Howard*  
*Private Secretary*  
*for* D H  
13 December 1984



LEAR FAN LIMITED

PROPOSED AGREEMENT

1. The IDB will recommend the release of HMG's \$9.1m if there is a binding commitment, the form of wording to be agreed by lawyers, by Zoysia that \$62m of additional funds will be made available to LFL.
  
2. HMG will agree to the changes in the September 1982 Agreement, set out in 3 below, if, as a condition precedent, HMG is released of its guarantee for the \$15m UIB loan before 30 December 1986 and provided that:-
  - a. there is a commitment from Zoysia to appoint a suitable experienced and competent management team;
  
  - b. at least 80% of the manufacturing content will be carried out in Northern Ireland;  
  
manufacture of all future aircraft parts, sub-assemblies, major assemblies and 'stuffing' of assemblies will be done in Northern Ireland;  
  
LFL will consider carrying out final assembly and finishing in Northern Ireland for the export market;
  
  - c. the IDB has:
    - (i) the right for an official to attend and speak at Board meetings. (This in addition to the appointment of 2 nominee directors);



- (ii) the right to quarterly monitoring visits and reasonable access to necessary financial and operating information.

The necessary information will be specified in detail in the final agreement.

3. Provided the conditions set out in 2 above are met HMG agrees to the following changes to the September 1982 Agreement (and which involve no new money from HMG):-

Royalties - HMG will forego 75% of its royalty payments. The remaining 25% (\$8.435m) will be paid at relevant percentage.

Loan - At least \$20m of the \$30m loan will be offset by:

- Grants
- Conversion of a portion of the loan preference shares with a low coupon.

(Illustration details are set out in Appendix 1).

Payment of the remaining amount of the loan to be rescheduled as follows:-

The interest free period to be extended by three additional years, thereafter to be repaid over a seven year period at the base interest rate of National Westminster Bank PLC.

Newtownabbey Factories - The IDB undertakes to review the rent and to explore the possibility of an option to purchase at an agreed valuation. The company to have first right of refusal on the factory on the opposite side of the road.

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HMG Charge on Assets of LFL - Provided that at the time of the request, at least 800 jobs have been created in Northern Ireland, of which 500 have been in existence for over one year, then HMG will undertake to release sufficient assets from its first charge on Debtors and Inventory to replace Mrs Moya Lear's \$3.4m security in relation to the underwriting of the Limited Partnership equity.

AND/OR

HMG will undertake to release its first charge on Debtors and inventory if by so doing the company is able to raise bank finance equal to the percentage normally received for such security.

Covenant on Job Targets Article 10(b) - Job targets to be amended to achievable levels. (Maximum number of jobs 1100.)

Covenant on Principal Manufacturing Facility Article 10(c) - Clearly re-define tasks to be carried out in Northern Ireland.



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APPENDIX 1

1. R & D Grant of up to \$5m on the basis that the work is undertaken in Northern Ireland.
2. Interest Relief Grant of up to \$6.0m on the interest on the \$15m UIB loan.  
The earning period for the grant to commence immediately after HMG is released from the guarantee.
3. Standard Capital grant of 30% on all capital expenditure by the company in Northern Ireland.  
All grants outlined in 1, 2 and 3 above to be used to offset the existing \$30m loan.
4. Employment grant to be adjusted to cover the original £9.26m on the basis of 1100 jobs rather than the present 1250 jobs.
5. \$6m conversion of existing loan to pref. share after 800 jobs have been created and maintained in Northern Ireland for a period of 2 years.  
Preference shares to have a 5% non-cumulative coupon after 1993 and to be redeemed out of profits after 1995.

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