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My minute of 7 May noted that the Lear Fan Board Meeting on 15 May might conclude that the Lear Fan project was no longer viable. In the event, the meeting was inconclusive and arrangements were made for a further meeting to be held in Los Angeles on 23 May.

2. The Board Meeting of 15 May had before it the Morgan Stanley report on the status of the project. The Report had been commissioned by Prince Sultan bin Salman ben Abdul Aziz Al Saud, one of the principals of the investment consortium, Zoysia Corporation. Morgan Stanley advises Zoysia against further investment in the project and recommends a sale but notes that this would be difficult not only because of the technical and economic condition of the project but also because of the large size of the Company's liabilities, outstanding lawsuits and the complexity of the Company's legal position. The Report concludes that unless it is possible to find a party with the relevant technical and strong managerial expertise willing to buy the project, Zoysia should disengage from further funding.

3. Our nominee directors think the principal investors would wish every effort to be made to sell the project and avoid liquidation. Certainly, it seems clear that Prince Sultan would wish to avoid adverse business publicity at present when he is preparing to take part in the next USA Shuttle mission which lifts off in June. Because of his preparations it has not been possible for nominee directors to discuss the project with him personally. A meeting has however, been held with Prince Feisal who is also a key member of Zoysia.

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4. Although the 15 May meeting was inconclusive the Board was informed that contact had been made with a potential partner for the Company. In the light of this the Board resolved to limit to the absolute minimum the incurring of further funds and to avoid if possible drawing down any of the remaining HMG funds committed to the project. The amount of HMG funds promised under the legally binding agreement of September 1982 but not yet committed is \$4.79 million.

5. By deciding not to call on these funds the Company has created its own cash flow crisis and now finds it may not have sufficient funds to pay wages this week. Non payment of wages would certainly result in immediate rumour of closure in Northern Ireland.

6. As reported earlier arrangements are in hand to provide for the most orderly run-down possible should the Company cease trading. However given existing litigation in the United States surrounding the Company, current legal advice suggests that our action should be restricted to the appointment of a Receiver in Northern Ireland and a passive approach in the USA. An active approach in the USA would give rise to the danger of attracting litigation directly towards HMG.

7. Every effort continues to be made to maintain constructive relationships with the Saudis and our nominee directors are endeavouring to reach agreement on the steps to be taken should a wind-up decision be taken by the Board. If the Zoysia majority on the Lear Fan Board seek to draw from the funds committed by HMG in the absence of any new information emerging our nominee directors may be faced with no alternative but to resign. Our efforts to reach agreement are designed to avoid this.

8. To sum up, the Lear Fan project is almost certainly near its end. We have promised no new Government funds since the agreement of September 1982. Last December, the private investors agreed that they would assume responsibility for the Company's funding requirements as soon as the funds jointly committed in 1982 were used. There now seems almost no prospect of them doing so. They have failed as yet to make their intentions clear and we think it

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most unlikely that a potential partner will be found. We are legally committed to provide a further \$4.79 million under the 1982 agreement, but as noted above this has not yet been called.

9. A total of \$67 million of taxpayers money has been spent so far to no avail. In addition, it is almost certain we will have to meet a demand for repayment of \$15 million commercial loan made by the Ulster Investment Bank to the Company and guaranteed by Government. The enterprise in Northern Ireland has been so run down that only 27 jobs in the Province are now involved. Unless Zoysia immediately and unequivocally agree to secure the future funding of the Company our aim must be to run down the project with the least possible further loss, recovering anything we can from the meagre assets, yet averting from ourselves the weight of litigation which American creditors may wish to bring against the Company.

10. Should the Company cease trading I shall need to issue a short Press Statement and a statement would need to be made to the House either on Friday or after the Recess. The timing is difficult because the Company may bring forward to today the meeting scheduled for tomorrow.

11. A copy of this minute goes to Cabinet colleagues, the Attorney-General, the Chief Whip and Sir Robert Armstrong.

N. J. Ward  
(Private Secretary)  
for D H

(Approved by the Secretary of State  
but signed in his absence in Belfast)

22 May 1985

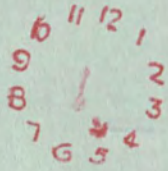
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