

PO-CH/NL/0257



PART A

Part A.

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Begins: 26/9/88.
Ends: 2/11/88.

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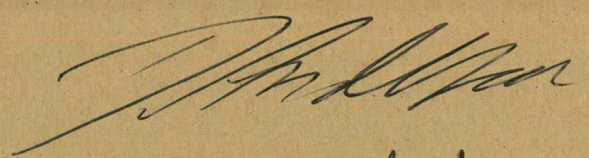
PART A

Chancellor's (Lawson) Papers:

THE FRENCH MANUFACTURING COMPANY MONTUPET - ESTABLISHMENT OF A SITE IN WEST BELFAST

PO -CH /NL/0257
PART A

Disposal Directions: 25 year



28/9/95.

FROM: A M WHITE
DATE: 26 SEPTEMBER 1988

FINANCIAL SECRETARY

cc: Chancellor
Chief Secretary
Sir P Middleton
Mr Anson
Mr Monck
Miss Peirson
Mr Burgner
Mr Meyrick
Mrs Burnhams
Mr Call

FOUNDRIES MONTUPET

This note is to inform you about negotiations which are taking place between a French manufacturing company Montupet and the Northern Ireland Industrial Development Board (IDB).

2. Northern Ireland officials have told us that a formal application will be coming forward shortly for a package of assistance amounting to £47.4m for a project worth £90m. The project involves the establishment of a major foundry with associated tool-room facilities to manufacture cylinder heads and wheels, primarily for Ford's new range of Zeta models due to be introduced in the 1990s.

3. The company has two plants in France and one in Spain. Its customers include most of the major European-based car manufacturers. As well as a plant in Northern Ireland they are also about to begin operating in Canada. Despite competition from Portugal and France for the new foundry the package put forward by the IDB, is acceptable to Montupet.

4. It is proposed to site the foundry in the former De Lorean complex in West Belfast, and 1000 jobs are expected to be created over the next five years. While the net grant equivalent at 54% will be within the EC ceiling, the cost per job at more than £47000 is far in excess of the normal limits, and I have advised Northern Ireland officials that clearance could not be given at official level.

5. This project will have a high political profile in view of the exceptional level of unemployment in West Belfast, and the difficulties surrounding other major employers in Belfast. For this reason Mr King will certainly wish to agree most strongly for the project to his Ministerial colleagues. You will wish to be aware of this proposal although no decision needs to be taken until a detailed case is submitted.



A M WHITE

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previous PPS



SECRETARY OF STATE
FOR
NORTHERN IRELAND

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

b7 25/10
BF 28/10

CST say they
15/10 PPS

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

| | |
|-----------------|--|
| CHIEF SECRETARY | |
| REC. | 13 OCT 1988 |
| ACTION | Mr DM White |
| COPIES TO | Ex Sir P Middleton Mr Anson, Mr Menck, Mr Phillips, Mr Burgner, Miss Pearson, Mr Borton |

There are A
minute from
Ad White - PST
13 October 1988

Dear Chief Secretary

Mr Call

MONTUPET SA

which we
had seen!
Sorry!
Attached
Marie
Joan

I am writing to seek your agreement and that of colleagues to a proposal for a major new inward investment for Northern Ireland. This is a project which I have been working on for two years ever since Bill Hayden of Fords advised me of Ford's need to source more of its components in the UK rather than in Europe. They were anxious to see some of their best European suppliers transferring production to UK, and the present project has followed from his introduction.

The company concerned, Montupet SA of France, produces aluminium castings for the automotive industry (cylinder heads, wheels, intake manifolds and brake components). Following a management buy-out in 1986 and a rationalisation programme it has consolidated its position as a world leader in the process of aluminium castings, with the leading European car manufacturers as its main customers. The company has two foundries in France each employing 700 people, and one in Spain with 200 employees. Two new foundries are being built in France and Canada and the project

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proposed for Northern Ireland is a response to increasing demand in Europe for aluminium wheels and cylinder heads. This increased demand for wheels is based largely on orders from Renault, Daimler Benz and Ford Europe. The demand for cylinder heads relates, in particular, to the prospect of securing an initial three year contract from Ford Europe to supply not less than 90% of their requirements for the Zeta engines for a new range of cars.

The company's decision in favour of Northern Ireland was secured in the face of tough competition from France (Valenciennes) and Portugal and is enormously important as a signal of our determination not to be beaten by terrorism but to continue to build a stronger economy and get more jobs. Montupet will buy and occupy a substantial part of the empty De Lorean factory in West Belfast. Because of the potential significance of an investment of this size, in particular for West Belfast, I have kept closely in touch with negotiations as they have proceeded and have been involved personally in discussions with the company, not least in reassuring them on the security position during the difficulties of the past year.

The project will lead to the creation of more than 1,000 jobs and involves a total investment of more than £80 million (plus possible additional training costs of £9.0 million). Selective financial assistance amounts to £37.6 million by means of grants towards fixed assets and employment grants. In addition consideration is being given to fully supporting the costs of training mentioned above. The proposed level of support while within EC limits is outside the normal levels to which we seek to work, and indeed the relative costs for other new projects have been steadily falling. However even at this high level, we have evidence that it is significantly below the level offered by the French Government (for Valenciennes) and by Portugal. I attach a breakdown of the costs and assistance proposed which will be over a five year period. I shall have to carry the costs within my block, and it will involve some difficult choices in re-ordering priorities elsewhere, but I am convinced that this project, involving a private sector investment of £40 million and with an excellent prospect of long term operation, is one that I must support.

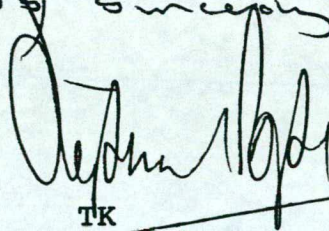
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It does involve a substantial public cost but I am satisfied that it is the minimum required to achieve it. I am also satisfied that it is an enormously important project for Northern Ireland. West Belfast has traditionally had some of the highest unemployment in Europe. This project which is soundly based in a company with an excellent range of products and a high reputation with its customers, will have a massive impact on feeling in the area, offering the prospect of a large number of good jobs to Protestants and Catholics alike. If all goes well, it will be a most positive economic support to the security forces in their fight against terrorism.

My officials would be happy to provide yours with any other background information which may be required, but I trust that you and other colleagues will feel able to support the necessary commitment of funds to secure this project.

I am copying this letter to the Prime Minister, Members of E(A) and the Foreign Secretary.

Yours sincerely

TK

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

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PROJECT COSTGRANTS (IDB)

| | £(m) | | £(m) |
|--------------------------------|-------------|--------------------------|-------------|
| <u>Fixed Assets:</u> | | | |
| Buildings | 2.0 | Buildings 30% | 0.6 |
| Building Adaptations | 3.0 | Building Adaptations 45% | 1.35 |
| Foundry Plant | 46.9 | Plant & Equipment 45% | 25.65 |
| Tool room plant | 10.0 | Employment | 10.00 |
| | <hr/> | | |
| SUB TOTAL | 62.0 | | |
| <u>Other project costs</u> | | | |
| Working Capital | 13.0 | | |
| Start up expenses | 3.5 | | |
| Initial Losses | 1.94 | | |
| | <hr/> | | <hr/> |
| TOTAL | 80.44 | | 37.6 |
| | <hr/> <hr/> | | <hr/> <hr/> |

Gross Cost per Job
(excluding training grants) £36,189

In addition the requirement for high level engineering skills will result in a major training programme with costs estimated to be as much as £9.8 million. The Department of Economic Development is giving consideration to fund this in total.

→ MP

In my view you should oppose, because of the great weakness of the case advanced for Lewis support to this company (and indirectly the Zeta project)

FROM: M SHARRATT
DATE: 24 OCTOBER 1988

- 1. MR WHITE
- 2. CHIEF SECRETARY

- cc Chancellor -
- Financial Secretary
- Sir Peter Middleton
- Mr Anson
- Mr Monck
- Mr Phillips
- Mr Burgner
- Miss Peirson
- Mr Meyrick
- Mr Inglis
- Mr Parkinson
- Mr Spasojevic
- Mr Call

24/10

[Handwritten signatures and a red checkmark]

MONTUPET SA

Mr King's letter of 13 October seeks your approval to provide assistance of £37.6m - with the strong possibility of more to come in the form of up to £9m of training grants - to establish a foundry for aluminium castings for the motor industry at the former De Lorean site in West Belfast.

2. The proposed foundry would mean up to £62m of fixed asset investment - Mr King refers to £80m but that includes financing items - and create up to 1000 jobs at the site by the Montupet group, a French company with plants in Spain and Canada as well as in France. Montupet produces aluminium castings for the automotive industry. Having been a loss-making subsidiary of Pichiney, in 1986 it was the subject of a management buyout and since then has returned to profitability.

3. In terms of the UK economy, the project has a net resource cost of about £14m but that could fall if allowance is made for the economic benefits of higher employment and training. Commercially, the project as presented would give Montupet a very good return on their own investment. But it is critically dependent on obtaining a major contract from Ford for their Zeta engine and, on the basis of supporting material provided to us by NI officials, we think there are reasons to be concerned about the viability of the Montupet group. It is not clear either that Montupet have demonstrated sufficiently that they have the

management resources to handle such a project at this stage of the group's development.

4. Mr King understandably attaches considerable importance to the project which he regards as an important element in his attempts to regenerate inner city Belfast. But the economic case for Government subsidies, particularly on the scale proposed, is very weak and if these proposals were for a project other than in West Belfast, there would be no grounds for allowing it to proceed. You will need to make it clear also that on commercial grounds, this is at best a dubious prospect. However, other colleagues may take a more sympathetic view given Mr King's difficult problems. If colleagues are prepared to sanction the proposed level of assistance on social and political grounds you may not want to oppose his attempts to attract this project to West Belfast with its high unemployment and unique social and political problems, particularly as Mr King intends to find the resources from within his block budget.

5. However, if you do decide that opposition is inappropriate, your agreement to the proposals should be subject to a number of provisos to ensure that the deficiencies in the case presented are corrected before firm commitments are entered into. In particular you should ask for evidence that sufficient weight has been given to the downside risks and you should make your agreement conditional on specific assurances from Mr King about the viability and managerial capabilities of the parent concern and the adequacy of the financial controls that will be in place.

6. We believe you should insist on the further condition that Mr King informs the PAC about his intentions. There is no requirement to do that, and to avoid establishing an unnecessary precedent for other cases elsewhere in the UK, the PAC could be notified in the context of their continuing interest in the aftermath of the De Lorean collapse.

Discussion

7. The proposed level of assistance is clearly very high by any yardstick. The cost per job is more than £36,000 and if support is given for the full training costs, it would reach nearly £45,000. That compares with the £17,000 limit for Development Areas under the guidelines for Regional Selective Assistance in Great Britain. In Northern Ireland, under the present concordat on industrial assistance with the Treasury, there is a delegated cost per job limit of £14,500 net of capital grants and on that basis the cost per job of the proposed assistance is over £18,000 (nearly £27,000 with the training costs included). The net grant equivalent, even with full support for training costs would be well within the EC limit of 75 per cent for Northern Ireland as a category 1 area.

8. We understand that there is intense competition for the proposed foundry from both France and Portugal and that these countries have offered even higher levels of aid. It seems clear that the main attraction of Northern Ireland to the company is the proximity to the Ford plant at Bridgend. Montupet's plans for expanding production in Europe at the present time are on the basis that a very high percentage of their new output will be required by Ford for the Zeta engine project.

9. Given that non-financial advantage of Northern Ireland, it is arguable that the aid package should be less generous than it is and that negotiations should continue with Montupet to try to bring down the cost of the assistance. But Northern Ireland does have a powerful negative image to contend with and NI officials think there is no prospect that any significant reduction in the cost could be achieved, while at the same time there is a considerable risk that further prevarication could lead the company to choose to locate elsewhere.

10. A detailed assessment of the proposal (drawn largely from an analysis by Mr Inglis) is attached as an annex to this submission. In particular, on the basis of the material supplied by NI officials, it reflects concern about the viability of the Montupet group. Before the project can be allowed to go ahead, we

must have an assurance that NI officials are as certain as it is realistic to be about Montupet's viability. Our concerns about the group's structure, accounting practices and management resources also need to be resolved although the actual detail can be pursued at official level.

11. Assessment procedures in Northern Ireland have been extensively improved since the De Lorean affair and criteria for assistance are now very different. In particular, industrial support is made available only for projects in which a substantial part of the finance is provided by the private sector. But given the difficulties of the province, there will always be a tendency to play up the benefits which support for a project could bring at the expense of the risks of possible failure. Without drawing too many parallels with De Lorean, there are enough concerns about the Montupet project to indicate that, even if our main concerns are met, the fact that Government assistance of up to £50m would be at risk should be made known to the PAC beforehand.

Recommendations

12. In view of the importance of this project to Mr King, you may not wish actively to oppose his proposals to bring this project to Belfast. That is a matter for political judgement.

13. Should you decide not to oppose the proposals, in view of some important weaknesses in the case as presented, you should make your acquiescence conditional on those concerns being resolved before firm commitments are entered into. To avoid unnecessary delays, you should say that your officials are ready to hold urgent discussions with his on the main points at issue and that a letter is being sent at official level enumerating those.

14. You should suggest to Mr King that in view of possible parallels that may be drawn with the De Lorean affair, he should write to the PAC to explain his decision to provide assistance in this case.

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15. I attach alternative replies for you to send - depending on whether you feel that the strong economic case against Montupet will be supported by colleagues, or whether you feel they will be persuaded by Mr King's social and political arguments.

M Sharratt

M SHARRATT

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TREASURY'S MAIN CONCERNS WITH THE CASE FOR SUPPORT FOR MONTUPET

Additionality

A convincing case has not been made for the exceptionally high levels of aid offered when Montupet's preference to locate in Northern Ireland is clearly driven by the prospect of the Zeta contract.

Viability of the Montupet group

It is critical that IDB is totally satisfied with group viability since failure of the group would lead to a collapse of the project and the loss of up to £50m Government assistance.

No evidence has been made to available to support IDB's view that the group can take the financial strain of its proposed expansion. The group may have to carry a substantial debt burden for some years. Borrowings could have to increase by as much as 50 per cent over the next few years and while the gearing ratio could be significantly down, interest cover at present rates would be only just over 2:1 even after assuming a fairly significant rate of profit growth and allowing nothing for the costs of acquiring Uribesalgo.

The relationship with SMR needs to be resolved. It is of some concern that a significant proportion of Montupet group sales go through another company. We need to know who owns Sudrad and the basis of transfer pricing. It is noted that the wheel manufacturing plant is owned by SMR. It is not apparent how great a proportion of the net assets are represented by wheel manufacturing plant - but presumably since this is only 50% owned by the group it should be adjusted out of the balance sheet in assessing the adequacy of a Montupet guarantee.

There is some suggestion that the 1987 group balance sheet may already have been bolstered up. This should be examined. We believe revaluations of land and buildings are much less common in French accounts than in UK accounts. In the UK it would also be extremely unusual to consolidate a 50% owned subsidiary.

In addition to the financial strain, such a substantial expansion programme will put considerable pressure on management resources. To date management's experience of running operations abroad has been limited to a small Spanish venture. It has no demonstrated capacity to run businesses overseas or in a predominantly Anglo-Saxon based business environment. Despite IDB's views, we would be inclined to place a question mark over the ability of the finance director and his team to take on this adjustment in the context of a major overseas expansion. The need to exercise tight budgetary control and ensure production of prompt and accurate management accounts is an essential feature of any well run manufacturing business. Differing legal requirements for producing annual financial accounts are irrelevant to this and Government must be satisfied that the inadequacies in present management accounting systems are being addressed and will be properly corrected.

Viability of the project

Sales

If, as is suggested, the tool room is essential to the operation it is odd that the projected profit and loss account is prepared on a foundry only basis.

The viability of the whole project, at least until 1994, is critically dependent on obtaining the Ford contract. On IDB's sensitivity analysis a failure to obtain this contract would leave the plant at about break even level by 1994. Even if the contract is obtained, the levels of sales projected are dependent on Ford's ability to establish its new car in the market place. The Ford projects are based on numbers of wheels per year whereas the projections here are based on wheels per day. At the volumes Ford projected, the Montupet projected daily volumes suggest about 210-220 working days (for 100% of Fords requirement) per annum as against a standard working year of about 250 days (allowing for bank holidays and weekends).

Why do Montupet think they will be able to increase their market share of sales to Peugeot from 60% to 90%? A failure to increase market share would result in the loss of over 1000 wheels per day and thus leave the group with marked over-capacity. It is surprising that Montupet know what prices competitors have offered Ford Europe. Presumably Ford will actually buy from any Montupet plant which sells at the right price and not only Northern Ireland.

Very little work has been done as yet on the market for other cylinder heads. Whilst not as important as the other 2 areas of the business, it still accounts for 15% of total sales and, particular in the earlier years, the project can ill-afford to do without them.

Margins

Gross margins for the Montupet group in 1987 were 23.8%. Gross margins in Northern Ireland for 1992 and subsequent years are over 31%. Whilst there will be a different product mix in Northern Ireland and there may be definitional differences, why is the Northern Ireland project capable of such a substantial improvement in margins.

The existing Montupet plans are uncompetitive on wheels. What features of the Northern Ireland project will enable it to be competitive - or are the costs understated?

Other points

The tool room project is not being appraised at this stage but the number of new employees and the plant and equipment grant will include the tool room. The position of the Government would be difficult should it subsequently transpire that the tool room will cost £20m or £5m rather than £10m. Even with grants for the tool room dependent on an appraisal of that project, in practice the Government will be in much a weaker position if it has already agreed a substantial aid package for the foundry.

It is argued that there are no displacement implications in the UK but that ignores the position of A L Dunn which currently provides 40% of the cylinder heads for the Escort and is presumably no longer financially weak following acquisition by Pergamon.

We assume that IDB have reviewed the Funds Flow Statements. These should make clear the basis on which sundry creditors (such as PAYE, VAT etc) are treated.

It is suggested that the guarantee for the £10m loan given by the group will be reduced by the value of the assets in the NI company. Such security will only be called if the NI project fails, in which case the assets need to be valued on a break up basis. For an operation of this nature it is likely that fixed assets and stock would have to be severely discounted and possibly written down to nil in assessing realisable value. If the proposed arrangement is adhered to the valuation must be on a break up basis. It would, however, be far preferable for the full amount of the outstanding loan to be guaranteed by the group throughout. No information is provided by the paper on guarantees issues in connection with the Canadian and French projects but these should be taken into account in assessing the adequacy of the security offered. Better yet, in view of the group's apparent cash surplus, would be not to provide a loan but to subsidise the interest rate if necessary.

Monitoring should be carried out during the set up phase as well as after production has started. Consideration should also be given to monitoring the group performance at least until it is clear that the expansion has been successful.

DRAFT LETTER FROM THE CHIEF SECRETARY
TO: THE SECRETARY OF STATE FOR NORTHERN IRELAND
COPIED TO: THE PRIME MINISTER, MEMBERS OF E(A) AND THE FOREIGN
SECRETARY

MONTUPET SA

Thank you for your letter of 13 October in which you seek agreement from colleagues and myself for your proposals to provide assistance of £37.6m for Montupet SA to establish a foundry and toolroom on the former De Lorean site in Belfast.

2. The level of assistance proposed is very high by any yardstick. The full cost per job of the proposed assistance is more than £36,000 and if support is given for the full training costs, it would reach nearly £45,000. Even net of capital grants the cost per job would be over £18,000 or nearly £27,000 with the training costs included and that compares with your delegated net cost per job limit of £14,500 .

3. I appreciate that there is strong competition for the project, but as Montupet's plans for expanding production are linked to the Ford Zeta engine project, Northern Ireland does have the substantial advantage of proximity to the Ford plant at Bridgend. For that reason, it is arguable that any assistance package need not match those for less well-placed locations and that negotiations with Montupet should continue to try to bring down to a substantially lower level, the total cost of the proposed assistance.

4. My officials have obtained further details from yours and it is clear that there is a very weak economic case to support the

present level of assistance you have proposed. Furthermore, while the project would appear to offer Montupet a very good return on their own investment, it is critically dependent on their obtaining the contract from Ford for components for their Zeta engine. The material also raises some concern about the strength of the Montupet group and concerns about the group's structure, accounting practices and management resources. A summary of those concerns is annexed.

For use if you intend to oppose

[5. I recognise the considerable importance you attach to the project as a potential contribution to your efforts to stimulate the economic and social regeneration of inner city Belfast. But events have proved that that objective is not best served by the provision of very large amounts of Government assistance for uneconomic projects with high risks of failure. As the Annex to this letter makes clear, I have a number of major worries about nearly £50m assistance to the Montupet group, some of which seem to be shared by your officials judging by their assessment. In my view, without drawing too many parallels with those earlier failures, the nature of the project does not warrant support on the massive scale you propose. I am therefore unable to agree to your proposals.]

For use if you decide not to oppose

[5. Nevertheless, I recognise the considerable importance you attach to the project as part of your efforts to stimulate the economic and social regeneration of inner city Belfast. Providing that other colleagues agree that the project can be fully

justified on social and political grounds, and that the Treasury's other concerns can be met, I would not wish to obstruct your efforts to attract the company to invest in Northern Ireland, particularly as you intend to find the resources from within your block.

6. But before any firm commitments are entered into, my officials will need to pursue a number of issues with yours. In particular, I would wish to be assured that sufficient weight has been given to the downside risks and to be satisfied about the strength and managerial capabilities of the Montupet group and the adequacy of the financial controls that will be in place. The scale of the project and the heavy Government commitment you propose means that we must be satisfied as fully as possible on all these points before proceeding. My officials will be writing immediately to yours with details of the points that need to be resolved.

7. Finally, in view of their continuing interest in the aftermath of the De Lorean collapse, I hope that you will agree that you should notify the PAC about your intentions beforehand. (If nothing else, the fact that the project is located on the former De Lorean site will attract their interest and I feel you should move to forestall any questions that might otherwise occur to them in the light of the assurances that were given in the wake of that episode.) Your letter to them should address the viability of both the project and the Montupet group itself and you will need to set out the steps you will be taking to ensure that Government funds are properly used and accounted for.]

SUMMARY OF THE TREASURY'S MAIN CONCERNS

Additionality

The proposed level of assistance is excessive in view of Montupet's preference to locate in Northern Ireland is driven by the prospect of the Zeta contract.

Viability of the Montupet group

It is critical that IDB is totally satisfied with group viability since failure of the group would lead to a collapse of the project and the loss of up to £50m Government assistance.

No evidence has been made available to support IDB's view that the group can take the financial strain of its proposed expansion. Borrowings might have to increase by as much as 50 per cent over the next few years and the group may have to carry a substantial debt burden for some time.

In addition to the financial strain, such a substantial expansion programme will put considerable pressure on management resources. To date management's experience of running operations abroad has been limited and it has not demonstrated capacity to run businesses overseas.

Viability of the project

The viability of the whole project, at least until 1994, is critically dependent on obtaining the Ford contract. On IDB's sensitivity analysis a failure to obtain this contract would leave the plant at about break even level by 1994. Even if the contract is obtained, the levels of sales projects are dependent on Ford's ability to establish its new car in the market place.

Why do Montupet think they will be able to increase their market share of sales to Peugeot from 60% to 90%? A failure to increase market share would leave the group with substantial over-capacity.

Margins

Gross margins for the Montupet group in 1987 were 23.8% compared to a forecast of over 31% in Northern Ireland. Why is the

Northern Ireland project capable of such a substantial improvement in margins? What features of the Northern Ireland project will enable it to be competitive on wheels in contrast to existing Montupet plants? Are NI costs understated?

Other points

A significant proportion of Montupet group sales go through another company and the relationship with SMR needs to be resolved. The wheel manufacturing plant is only 50% owned by the group and it should be adjusted out of the balance sheet in assessing the adequacy of a Montupet guarantee.

The toolroom project is not being appraised at this stage but the number of new employees and the plant and equipment grant will include the toolroom. Even with grants for the toolroom dependent on an appraisal of that project, in practice the Government will be in much a weaker position if it has already agreed a substantial aid package for the foundry.

It would be far preferable for the full amount of the outstanding loan to be guaranteed by the group throughout.

In view of the group's apparent cash surplus, would be not to provide a loan but to subsidise the interest rate if necessary.

The need to exercise tight budgetary control and ensure production of prompt and accurate management accounts is an essential feature of any well run manufacturing business.

Monitoring should be carried out during the set up phase as well as after production has started. Consideration should also be given to monitoring the group performance at least until it is clear that the expansion has been successful.

pay

FROM: M SHARRATT
DATE: 26 OCTOBER 1988

1. MR WHITE *26/10*
2. CHIEF SECRETARY

cc Chancellor
Financial Secretary
Sir Peter Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Burgner
Miss Peirson
Mr Meyrick
Mr Inglis
Mr Parkinson
Mr Spasojevic
Mr Call

MONTUPET SA

Following your meeting this morning I attached a revised draft letter to Mr King.

2. Mr Inglis and I have arranged to travel to Belfast tomorrow to discuss our concerns about the viability of both the Montupet group and their NI venture with officials from the NI Industrial Development Board and DFP. I will report back on our return.

3. As Mr King's letter was circulated to E(A), Mr Newton has of course received a copy. But we do not know if his officials have drawn the A L Dunn dimension to his attention. You may feel that your office should speak briefly to his.

M Sharratt
M SHARRATT

DRAFT LETTER FROM THE CHIEF SECRETARY
TO: THE SECRETARY OF STATE FOR NORTHERN IRELAND
COPIED TO: THE PRIME MINISTER, MEMBERS OF E(A) AND THE FOREIGN
SECRETARY

MONTUPET SA

Thank you for your letter of 13 October in which you seek agreement from colleagues and myself for your proposals to provide assistance of £37.6m for Montupet SA to establish a foundry and toolroom on the former De Lorean site in Belfast.

I have a great deal of sympathy with your desire to attract the Montupet plant to West Belfast and the 1000 new jobs it could bring. If successful, it could make a significant contribution to the economic and social regeneration of the area, an aim to which I know that you attach great importance. I note that you intend to find the resources from within your block.

For those reasons, I am anxious to be in a position to make a positive response to your proposal. But before I can do that I must seek assurances from you in respect of concerns I have about details of the proposals, some of which are reflected in the assessment carried out by your officials.

While the project would appear to offer Montupet a very good return on their own investment, it is critically dependent on their obtaining the contract from Ford for components for their Zeta engine. Given the scale of Government assistance, I need to be satisfied beyond all reasonable doubt that the enterprise will be viable in the medium and longer term and will not require further assistance beyond that already proposed.

In particular, I wish to be assured that sufficient weight has been given to the downside risks and to be satisfied that the group's structure, accounting practices and management resources are satisfactory. It must also be demonstrated that adequate financial controls will be in place.

A more detailed summary of my concerns is annexed and I have instructed my officials to pursue these urgently with yours - I understand that arrangements have already been made.

I trust that you will find this response helpful. While I do want to be helpful it is essential that we address these uncertainties before any firm commitments are entered into.

I am copying this letter to the Prime Minister, Members of E(A) and the Foreign Secretary.

SUMMARY OF THE TREASURY'S MAIN CONCERNS

Viability of the Montupet group

It is critical that IDB is totally satisfied with group viability since failure of the group would lead to a collapse of the project and the loss of up to £50m Government assistance.

No evidence has been made available to support IDB's view that the group can take the financial strain of its proposed expansion. Borrowings might have to increase by as much as 50 per cent over the next few years and the group may have to carry a substantial debt burden for some time.

In addition to the financial strain, such a substantial expansion programme will put considerable pressure on management resources. To date management's experience of running operations abroad has been limited and it has not demonstrated capacity to run businesses overseas.

Viability of the project

The viability of the whole project, at least until 1994, is critically dependent on obtaining the Ford contract. On IDB's sensitivity analysis a failure to obtain this contract would leave the plant at about break even level by 1994. Even if the contract is obtained, the levels of sales projects are dependent on Ford's ability to establish its new car in the market place.

Why do Montupet think they will be able to increase their market share of sales to Peugeot from 60% to 90%? A failure to increase market share would leave the group with substantial over-capacity.

Margins

Gross margins for the Montupet group in 1987 were 23.8% compared to a forecast of over 31% in Northern Ireland. Why is the Northern Ireland project capable of such a substantial improvement in margins? What features of the Northern Ireland project will enable it to be competitive on wheels in contrast to existing Montupet plants? Are NI costs understated?

Other points

It is argued that there are no displacement implications in the UK but that ignores the position of A L Dunn which currently provides 40% of the cylinder heads for the Escort and which will presumably be in competition with Montupet for the Zeta contract.

A significant proportion of Montupet group sales go through another company and the relationship with that company needs to be resolved. The wheel manufacturing plant is only 50% owned by the group and it should be adjusted out of the balance sheet in assessing the adequacy of a Montupet guarantee.

The toolroom project is not being appraised at this stage but the number of new employees and the plant and equipment grant will include the toolroom. Even with grants for the toolroom dependent on an appraisal of that project, in practice the Government will be in much a weaker position if it has already agreed a substantial aid package for the foundry.

It would be far preferable for the full amount of the outstanding loan to be guaranteed by the group throughout.

In view of the group's apparent cash surplus, it would be better to subsidise the interest rate if necessary rather than provide a loan.

The need to exercise tight budgetary control and ensure production of prompt and accurate management accounts is an essential feature of any well run manufacturing business.

Monitoring should be carried out during the set up phase as well as after production has started. Consideration should also be given to monitoring the group performance at least until it is clear that the expansion has been successful.

CC: CX, FST, Sir P Middleton.

Mr Anson, Mr Mowbray, Mr Phillips.

Mr Brewer, Miss Peterson

Mr Merrick, Mr Staggart

Mr Arthur White, Mr Inghis.

Mr Parkinson, Mr Spasovuk.

Treasury Chambers, Parliament Street, SW1P 3AG Mr Gull.



The Rt Hon Tom King MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
LONDON
SW1A 3AZ

2

27 October 1988

Dear Secretary of State,

MONTUPET SA

Thank you for your letter of 13 October in which you seek colleagues agreement to your proposals to provide assistance of £37.6 million for Montupet SA to establish a foundry and toolroom on the former De Lorean site in Belfast.

I fully share your desire to attract the Montupet plant to West Belfast and the 1000 new jobs it could bring. If successful, it could make a significant contribution to the economic and social regeneration of the area, an aim to which I know that you attach great importance. I note that you intend to find the resources from within your block.

For those reasons, I have looked sympathetically at your proposal. But I am also conscious that, if the project fails, the costs in financial and social terms, will be very damaging indeed. Experience shows that the initial decision to support this kind of project is crucially important. Once the commitment is made it becomes extremely difficult to pull out if things start to go wrong and we are faced with demands for more money to protect our original investment. At present I have a number of concerns about the viability of the proposals, some of which are reflected in the assessment carried out by your officials. I must ask you to satisfy me on these points before I can agree to your proposal.

While the project would appear to offer Montupet a very good return on their own investment, it is critically dependent on their obtaining the contract from Ford for components for their Zeta engine. Given the scale of Government assistance, I need to be satisfied beyond all reasonable doubt that the enterprise will be viable in the medium and longer term and will not require further assistance beyond that already proposed.

In particular, I wish to be assured that sufficient weight has been given to the downside risks and to be satisfied that the group's structure, accounting practices and management resources are satisfactory. It must also be demonstrated that adequate financial controls will be in place.

A more detailed summary of my concerns is annexed and I have instructed my officials to pursue these urgently with yours - I understand that arrangements have already been made for discussion in Belfast today.

While I do want to be helpful, I am sure you will agree that it is essential that we address these uncertainties before any firm commitments are entered into.

I am copying this letter to the Prime Minister, Members of E(A) and the Foreign Secretary.

Yours sincerely,
P. Wainwright

PP JOHN MAJOR

[Approved by the Chief Secretary and signed on his behalf.]

SUMMARY OF THE TREASURY'S MAIN CONCERNS

Viability of the Montupet group

It is critical that IDB is totally satisfied with group viability since failure of the group would lead to a collapse of the project and the loss of up to £50m Government assistance.

No evidence has been made available to support IDB's view that the group can take the financial strain of its proposed expansion. Borrowings might have to increase by as much as 50 per cent over the next few years and the group may have to carry a substantial debt burden for some time.

In addition to the financial strain, such a substantial expansion programme will put considerable pressure on management resources. To date management's experience of running operations abroad has been limited and it has not demonstrated capacity to run businesses overseas.

Viability of the project

The viability of the whole project, at least until 1994, is critically dependent on obtaining the Ford contract. On IDB's sensitivity analysis a failure to obtain this contract would leave the plant at about break even level by 1994. Even if the contract is obtained, the levels of sales projects are dependent on Ford's ability to establish its new car in the market place.

Why do Montupet think they will be able to increase their market share of sales to Peugeot from 60% to 90%? A failure to increase market share would leave the group with substantial over-capacity.

Margins

Gross margins for the Montupet group in 1987 were 23.8% compared to a forecast of over 31% in Northern Ireland. Why is the Northern Ireland project capable of such a substantial improvement in margins? What features of the Northern Ireland project will enable it to be competitive on wheels in contrast to existing Montupet plants? Are NI costs understated?

Other points

It is argued that there are no displacement implications in the UK but that ignores the position of A L Dunn which currently provides 40% of the cylinder heads for the Escort and which will presumably be in competition with Montupet for the Zeta contract.

A significant proportion of Montupet group sales go through another company and the relationship with that company needs to be resolved. The wheel manufacturing plant is only 50% owned by the group and it should be adjusted out of the balance sheet in assessing the adequacy of a Montupet guarantee.

The toolroom project is not being appraised at this stage but the number of new employees and the plant and equipment grant will include the toolroom. Even with grants for the toolroom dependent on an appraisal of that project, in practice the Government will be in much a weaker position if it has already agreed a substantial aid package for the foundry.

It would be far preferable for the full amount of the outstanding loan to be guaranteed by the group throughout.

In view of the group's apparent cash surplus, it would be better to subsidise the interest rate if necessary rather than provide a loan.

The need to exercise tight budgetary control and ensure production of prompt and accurate management accounts is an essential feature of any well run manufacturing business.

Monitoring should be carried out during the set up phase as well as after production has started. Consideration should also be given to monitoring the group performance at least until it is clear that the expansion has been successful.



NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

| | |
|-----------------|--------------------------|
| CHIEF SECRETARY | |
| REC. | - 2 NOV 1988 |
| ACTION | Mr B. White |
| COPIES TO | Mr S. White |
| | Mr Brown, Mr Mack |
| | Mr Philip, Mr Burgess |
| | Miss Pearson, Mr Barratt |

2 November 1988

Dear Chief Secretary,

re call

Thank you for your letter dated 27 October about the Montupet project.

I appreciate your recognition of the potential importance of this project to the economy of West Belfast and the benefits which it may have for other aspects of our policies in Northern Ireland. I understand also your concern to be satisfied as to aspects of the viability of the project as I was myself prior to writing to you. I am grateful for the urgency with which your officials were able to address these with DFP and IDB and I have now received a report which deals with the various points. I attach a copy of this report which will, I trust, provide the reassurance you are seeking. If there are further points I would wish to deal with those with the same urgency, as the company is being pressed by Ford about the location of the new plant and it, in turn, is pressing me for a decision.

I am copying this letter to colleagues in E(A), and to Sir Geoffrey Howe.

*Yours sincerely
J. Murphy*

PP TK

[Approved by the Secretary of State and signed in his absence]

MONTUPET SA

The following aspects of this project were discussed at a meeting of officials from HMT, DFP and IDB held on 27 October. The report goes rather wider than the specific points raised in the annex to the Chief Secretary's letter dated 27 October to the Secretary of State in order to refer to other important aspects of the investment.

Displacement

The proposed new plant will be established to meet increasing demands for aluminium wheels for the European automotive industry, to service a contract with Ford Europe to supply cylinder heads for the new Zeta engine, as well as cylinder head requirements of other manufacturers presently met by the parent company.

The introduction of the new business to the province will have no displacement effect in N Ireland. The attached letter from DTI affirms a similar position in Great Britain, welcoming the investment against a background of undercapacity in the foundry sector.

Input by Montupet SA

To promote its trading strength and market dominance the parent company will invest heavily in the NI plant. The extent of its undertaking is evidenced by the substantial funds committed at an early stage to the purchase of premises, upfront payments on plant and machinery and start-up costs including those on travel and relocation of personnel. By the end of 1991 when the company is up and running and about to embark on the Zeta contract it will have expended £46.8m and IDB's contribution by way of loan and grants is estimated to

be £25m. The company's further input in terms of technology, skills and key staff represents a formidable outlay of corporate resources.

Additionality

In considering the scale of financial support offered to Montupet it is acknowledged that Ford, whilst expressing a preference for supply from a UK base, inevitably will be obliged to purchase from the company if it located elsewhere in Europe. Throughout negotiations the IDB was aware of the strength of competition for the project from Portugal and from France itself and whilst NI possessed some advantages these were heavily discounted by the image of civil unrest and violence. The scale, and particularly the flexibility, of the IDB package of assistance were necessary to win the investment for NI. An important feature of the package was the loan of £10m, albeit fully secured, interest bearing and for a fixed period, by way of advance on employment grants which was negotiated.

In respect of the proposal to fully assist the cost of training, the figure of £9.8m is fixed as a ceiling which is likely to be lowered. The training plans and related claims for expenditure will be subject to detailed examination to determine eligible costs. This high level of support was necessary to match the 100% offers from both Portugal and France.

Viability of the Montupet Group

Montupet SA, following its management buy-out, has quickly established a reputation as a soundly managed, progressive company with quality products. That reputation is freely acknowledged by both its customers and members of financial circles in Paris and London. The Group's latest published accounts show cash resources of £28.7m and the key solvency indicators are satisfactory.

Its Profit and Loss Account shows a healthy 10% ratio of net profits to sales, a creditable performance in a competitive environment which translates into cash generation of £15m per annum. Given the stability of the sales base and the close relationship with major car manufacturers, the majority of whom operate under formal contractual arrangements with the company, the current favourable trading performance can reasonably be expected to continue.

The Group is presently undertaking a number of expansion projects. Payment has already been made for the Spanish subsidiary acquired in 1987 and the creation of a small additional unit at Orleans is unlikely to place a substantial drain on future cash resources. The cost of acquiring 60% of the Spanish toolroom company, Uribesalgo, has yet to be finalised but is likely to be in the order of £1m, a relatively modest sum in overall terms. In addition Group management is contemplating the termination of its trading arrangements with SMR in which it has a 50% share. It is not now intended that SMR will be involved in the NI project in any event. Again this is a small company [net assets at 31 December 1987, £1.7m] and outright purchase would not make inordinate inroads into existing funds. In aggregate these commitments, if discharged on a cash basis, will not prejudice the Group's capacity to undertake its major expansion plans in Canada and N Ireland and should also have the effect of increasing Group profits, albeit by small amounts.

The project cost of the new plant in Canada - with a secured 100% sales outlet with Ford USA already under contract - is approximately one half of that of the NI plant and the latter will make by far the major demand on Group funds in the immediate years ahead. However the currently available funds of £28.7m, together with cash generated from existing operations, should prove sufficient to cover

the projected peak funding requirements of the staged developments. In the event of additional cash being necessary the company's present reputation in financial markets should enable it to raise whatever is required.

In considering the funding requirements of the NI project the company has included a sizeable contingency of £5.8m to accommodate any underestimate of capital expenditure. The IDB has applied other sensitivities which increase the demand on funds and has concluded that they can be met from within the overall Group resources.

THE NI PROJECT

Viability

The NI foundry project is not dependent on the toolroom and should the latter not proceed for any reason the viability of the foundry project will not be impaired. However development of toolroom capacity is part of the Montupet corporate plan and the decision to locate it with the NI foundry increases the inward investment and the resultant employment opportunities. At present no commitment from IDB exists in relation to this element of the investment which remains subject to a full appraisal expected to be undertaken before the end of the calendar year.

The key assumptions underlying the projected Profit and Loss Accounts have been examined by an internationally respected firm of foundry consultants - retained by Volkswagen to advise on their recently constructed foundry - who concluded that these were not unreasonable and that the business plan had been prepared in a highly professional manner.

The prospect of obtaining a three year contract with Ford to supply cylinder heads for the Zeta engine from the NI location will be realised through a formal Letter of Engagement which Ford is presently pressing Montupet to conclude. Sight of the completed agreement document and satisfaction as to its legal validity is a prerequisite to payment of grant under IDB's Letter of Offer of financial assistance.

The sale of "other" cylinder heads from the NI operation represents a small proportion of Group cylinder head turnover (approx 5%). No specific products in this category have been earmarked for the NI plant but collaborative development in the pipeline, including a new diesel cylinder head range, will require additional production capacity which will be available only in NI.

Trade sources acknowledge that the European demand for aluminium wheels is increasing rapidly and that there is an excess demand over supply situation. IDB has confirmed this through direct contact with customers who have stated that Montupet has been unable to meet their requests for increased supplies. The NI plant will be able to produce wheels at highly competitive prices because of lower labour costs and use of advanced automated machinery. This will permit Montupet to bid for sufficient business to keep the plant fully occupied. In the event of not obtaining the anticipated increased level of business from Peugeot market research indicates that this gap can be filled by production of wheels for Renault.

Margins

Whilst the 1987 accounts of Montupet SA show a lower gross profit margin than that projected for the NI operation it should be appreciated that the markedly different product mix distorts direct comparison. It is the case,

however, that the combination of more productive automated machinery and lower labour costs should ensure higher margins. The cost base of the NI plant has been examined by the consultants referred to under the previous heading who believe it to be founded on realistic assumptions.

Technology

The company will employ state-of-the-art technology which already exists and has been fully tested alongside more traditional machinery in its plants in France.

Management and Control

It is recognised that the expansion plans of the Group will impose strain on management resources. This has been discussed in detail with the company and IDB has been reassured that arrangements proposed for the NI project will enable it to be adequately controlled. A relevant consideration is the timing of the Canadian project which will enable separate teams of experienced managers and key personnel to become free to attend to the building and plant commissioning phases.

Top personnel of an acceptable calibre, from within the Group and from outside, have already been identified for appointment to the NI plant and preparations are underway to recruit other key managers locally.

Whilst the French management information systems are not in accordance with conventional British practice IDB is confident that adequate systems and controls are in place within the Group to enable management to make decisions based on accurate and timeous information. Indeed it is considered that the company could not have reached its present position without adequate systems.

Notwithstanding their existing practices the company has agreed to comply in full with British management accounting norms in respect of the NI operation. The company will have gained experience of comparable accounting procedures in their Canadian business before implementation in NI.

Monitoring

Montupet has readily agreed to the close involvement of IDB in monitoring the project. Top management has acknowledged that this will be particularly helpful during the pre-production phase when a dedicated IDB team, comprised of personnel from a variety of disciplines, will address problems as they arise. The team will continue to be associated with the company during the later stages of its development.

On the wider front IDB will require early receipt of audited accounts of the Group and associated companies and will use these, with management reports, as a basis for joint consideration of corporate developments.

CONCLUSION

The IDB has conducted an in-depth appraisal of the Montupet project and is satisfied that the basic project parameters are sound. It recognises that all greenfield investments, and particularly one of this magnitude and complexity, entail a degree of risk. However the Group has considerable strength and its highly regarded management team are considered capable of meeting the challenge and effectively addressing the problems associated with such ventures.



In assessing the Montupet strengths and weaknesses the IDB is satisfied to conclude that its support is justified and that it has imposed reasonable measures to safeguard the investment of government funds. The company has a clear understanding that the IDB offer represents the total amount of public funds to be made available to this project.

J.J. Monaghan

J J MONAGHAN
28 October 1988



the department for Enterprise

Mr G Forster
International Investment Division
Industrial Development Board
for Northern Ireland
IDB House
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Direct line 01 215 6474
Our ref
Your ref
Date 28 October 1988

Dear Mr Forster

MONTUPET SA

I am writing to confirm that this Department would support an offer of grant to Montupet SA in order to secure the proposed investment in West Belfast.

The UK is short of foundry capacity and existing UK suppliers have been criticised by Ford and others on grounds of quality. The Montupet investment is therefore very welcome, as helping to improve the UK balance of trade in components which is currently adverse and deteriorating. We have a continuing programme of persuading the multinational vehicle producers to buy UK components or to get their best suppliers to locate in the UK, as Ford have done here. We have considered the potential displacement effect on UK producers but have concluded that we cannot oppose the project on those grounds. While some UK suppliers - you mentioned A L Dunn in particular - may suffer some displacement, they are already in competition with Montupet for Ford's business and that competition can only increase as 1992 approaches. That being the case we would prefer the competition to come from within the UK rather than from France or Portugal.





the department for Enterprise

We also welcome the investment as a boost for our promotion of inward investment to the UK; a success for Northern Ireland on this scale is welcome for general marketing reasons in the UK. I understand that you will be conveying our news to the Treasury and that no response to your Secretary of State's letter to the Chief Secretary is required.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Nicola Carter', is written over a horizontal line. The signature is stylized with several vertical strokes.

NICOLA CARTER

Handwritten initials and signatures at the top right of the page.

FROM: M SHARRATT
DATE: 2 NOVEMBER 1988

1. MR WHITE

2. CHIEF SECRETARY

I agree. The report is measuring on all quantifiable risks. That there are undeniable unquantifiable risks in seeking to attain the economic regeneration of West Belfast is reflected in the level of assistance offered, which we would not recommend you to agree for any project in GB

cc Chancellor
Financial Secretary
Sir Peter Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Burgner
Miss Peirson
Mr Meyrick
Mr Inglis
Mr Parkinson
Mr Spasojevic
Mr Call

MONTUPET SA

In replying to your letter of 27 October, Mr King has enclosed a report prepared by his officials which responds to your concerns about Mr King's proposals for assistance to Montupet.

2. The report was prepared following the discussion Mr Inglis and I had in Belfast on 27 October with officials from the Northern Ireland Industrial Development Board and Department of Finance. At that meeting, they sought to reassure us that they had addressed the issues you had raised and specifically, that their assessment had covered the viability of both the Montupet Group and the Northern Ireland venture.

3. In our judgement - and it can only be that as we have not attempted to verify the information provided by reference back to source material - IDB does appear to have taken sufficient care to establish that the proposed assistance should establish a successful and long-term enterprise in Northern Ireland. There are uncertainties in any business venture but it is clearly IDB's view that in this case, the risks are small in relation to the prospects of success.

4. A discussion follows of the issues you had raised in your letter to Mr King. If, on the basis of that, you are content with the assurances given by Mr King and his officials, the way is now clear for you to tell him that you will not oppose the offer of assistance he wishes to make to Montupet.

Viability of the Montupet Group

5. IDB officials consider Montupet to be financially sound and to have an adequate cash base to underpin its current expansion plans. They believe that Montupet should have no difficulty in raising further funds should that prove necessary.

6. We were told that the company has a secure market position based on product quality. It has few competitors and is operating in something of a sellers market. Demand is rising for its products and is forecast to continue growing. On that evidence, Montupet appears to be in a good position to consolidate its share of the market over the foreseeable future.

7. The investments in other ventures which the group is currently undertaking are significantly smaller than the proposed NI project and the largest of these in Canada is dedicated to a committed Ford contract for the North American market.

Viability of the project

8. The proposed new plant, wherever it is eventually located, appears to play a pivotal role in the group's plans for strengthening its market position. It seems that Ford are pressing Montupet to sign a letter of engagement for supplying components for the Zeta engine and we understand Montupet need the proposed new plant to meet that demand. The new plant will incorporate the latest production techniques which should give it a competitive edge over Montupet's other plants and put it in a strong position should the company's overall sales forecasts prove optimistic.

Additionality

9. IDB have assured us that the assistance they have offered is the minimum necessary to bring Montupet to the province. The advantages a NI location might have - and these include a UK base to source the Zeta plant and the availability of a suitable labour force - are offset by concerns about security. Apparently the company has required considerable persuasion that it is possible to operate normally in Northern Ireland. We were told that the £10m upfront loan, which is tantamount to advance payment

of employment grant as it will be set against grant instalments as these fall due, will be instrumental in clinching the deal.

Montupet's input

10. The terms and phasing of the assistance offered require Montupet to make a substantial upfront commitment to the venture. By the time the plant is operational in 1991, Montupet will have committed nearly twice IDB's £25m contribution at that stage.

Displacement

11. DTI has expressed support for the offer of assistance to Montupet in order to secure the new plant for Belfast. DTI officials have considered the displacement issue and have concluded that this is not an important concern. We understand that existing UK suppliers are not in the running to source Ford's demands for the Zeta engine components - only Montupet and a German company have the necessary production technologies - and DTI would welcome the existence of a UK plant.

Management and control

12. While we are unable to substantiate this ourselves, IDB are satisfied that Montupet has the management resources to meet the challenge of a new plant away from its French base. In particular, it appears that skilled personnel who have been involved with establishing the Canadian plant will be available in developing the NI operation.

13. We also have had to accept at face value, IDB's view that management accounting systems, while different from those in use in the UK, are adequate to control the existing business and will enable proper management and control of the NI plant - at which the company will, in any case, conform with UK practice. We were told that Montupet has accepted IDB's need to monitor the project and that there will be no problems in getting the company to co-operate with IDB personnel.

Toolroom

14. We understand that the foundry and toolroom are independent projects and either one has no effect on the viability of the

other - there are only marginal benefits from siting them together. Detailed proposals have not yet been received from Montupet and the £10m assistance for that included in the proposal is subject to a full and satisfactory appraisal. If it does not go ahead, the overall cost per job will fall because of the high training costs for the toolroom.

Guarantees

15. While the report does not cover this particular point, NI officials were able to assure us, against the background of their confidence in the strength of the company, that the outstanding loan would be adequately secured.

16. A draft reply is attached.

M Sharratt

M SHARRATT

CONFIDENTIAL

DRAFT LETTER FROM THE CHIEF SECRETARY
TO: THE SECRETARY OF STATE FOR NORTHERN IRELAND
COPIED TO: MEMBERS OF E(A) AND THE FOREIGN SECRETARY

MONTUPET SA

Thank you for your further letter of 2 November enclosing the report by your officials. I too am pleased that we have been able to take this matter forward so quickly.

The report suggests that the points I drew attention to in my letter had been addressed in considering and formulating the offer of assistance to Montupet.

It indicates, and this is reinforced by your letter, that an important factor in your assessment of the viability of the proposed Belfast plant is Ford's apparent eagerness for Montupet to reach a firm decision about the location of their new plant so that firm commitments can be entered into on both sides for the supply of components for the Zeta engine. In addition, the report records your officials' view that the proposed Northern Ireland plant should have a competitive advantage within the Montupet group.

I understand that your officials consider that Montupet has a strong market position and is financially sound. That, of course, is another critical judgement in which you must have full trust before proposing to make an offer of assistance to Montupet on the scale envisaged. Your officials have also confirmed that Montupet recognise that there can be no question of further assistance over and above what you are now proposing to offer them. You will no doubt make that clear in any formal offer.

CONFIDENTIAL

CONFIDENTIAL

Finally, it is evidently IDB's judgement, on which you rely, that the risks associated with the project, and consequently to the Government's stake in it, are small and containable.

The report clearly recognises the need for careful monitoring of the project and you will wish to satisfy yourself on the detailed arrangements to be made to achieve this.

On that basis, and subject to any views that colleagues may express, I do not intend to stand in the way of the offer of assistance to Montupet which you propose, the costs of which you will meet from within your block.

I am copying this letter to Members of E(A) and the Foreign Secretary.

CONFIDENTIAL