PREM 19/1813

MT

NEW FILE COVER

PART ONE

CONFIDENTIAL FILING

DE LOREAN SPORTS CAR PROJECT

IRELAND

PART ONE:

JULY 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~14.10.85~~							
~~12.12.85~~							
~~17.12.85~~							
~~20.12.85~~							
~~6.1.86~~							
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~~10.6.86~~							
21.1.86							
ENDS							

PREM 19/1813

PART 1 ends:-

NIO to DTI 21.1.86

PART 2 begins:-

NIO to MEA 10.6.86

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(EA)(81) 3	02.02.81
E(EA)(81) 1st Meeting, Minute 3	05.02.81
E(EA)(81) 18th Meeting, Minute 1	16.12.81
CC(82)2nd Conclusions, Minute 4	21.01.82
CC(82)3rd Conclusions, Minute 4	28.01.82
CC(82)4th Conclusions, Minute 4	04.02.82
CC(82)5th Conclusions, Minute 4	11.02.82
CC(82)6th Conclusions, Minute 4	18.02.82
CC(82)11th Conclusions, Minute 3	18.03.82
CC(82)19th Conclusions, Minute 5	22.04.82
E(EA)(82) 25	06.08.82
E(EA)(82)13th Meeting, Minute 1	10.08.82
CC(82)45th Conclusions, Minute 2 (extract)	28.10.82

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed C Wayland Date 3 September 2015

PREM Records Team

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

John Mogg Esq
PPS/Secretary of State
for Trade and Industry
Department of Trade and
Industry
1-19 Victoria Street
LONDON
SW1H OET

21 January 1986

Dear Mr Mogg

amend 22/1/86

LEGAL ACTION AGAINST ARTHUR ANDERSEN & CO (AA)

I refer to the letter of 14 January from Tom King to Leon Brittan.

I regret that there is a typing error. The second to last paragraph, last line should read "be sought from the Judge". Please delete the word "not".

I am copying this letter to the Prime Minister, Members of the Cabinet, the Attorney-General, Sir Robert Armstrong and the Head of the Government Accountancy Service.

Yours sincerely
S Wilson
MISS S WILSON

CONFIDENTIAL

CCR
CCRG

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade
and Industry
Department of Trade and
Industry
1-19 Victoria Street
LONDON
SW1H OET

16 January 1986

NBPM

Dear Leon,

DE LOREAN : PROPOSED LEGAL ACTION BY THE JOINT RECEIVERS AGAINST MR BUSHELL, THE CHAPMAN ESTATE AND LOTUS CARS LIMITED

You wrote to Rhodes Boyson on 9 January asking that arrangements be made to enable you to discuss with Sir Kenneth Cork the question of whether Lotus Cars could, at this stage, be excluded from the proposed legal action with the option of joining them later should that prove necessary.

I am surprised by your proposal which I understand was raised last November by your officials with the Treasury Solicitor. Legal advice then, as it is now is that the Treasury Solicitor is satisfied that Lotus is a necessary and proper party as a defendant in the proposed proceedings. The Treasury Solicitor also advises that to suggest that Chapman's Estate and Bushell should be sued first and Lotus only proceeded against if they failed to satisfy a judgement, would not be prudent and would be contrary to good litigation practice. Such a course would also cause extra and unnecessary expense. I understand that DTI lawyers did not disagree with or dissent from the Treasury Solicitors advice.

I do not believe that the fact that Lotus is a prestige British company is sufficiently strong reason to seek to dissuade the Joint Receivers from the action they proposed. I am satisfied that the Joint Receivers and their eminent and independent legal advisers have made proposals on the basis of sound evidence which ought most properly to be judged by the Courts and that they have fully taken

/into....

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into account already our desire to avoid potential damage to Lotus if at all possible. In my view the type of discussion you propose would constitute undue Government interference in a matter which must be decided by the Joint Receivers, who have already demonstrated their capacity for sensitive handling of matters arising in the De Lorean Case.

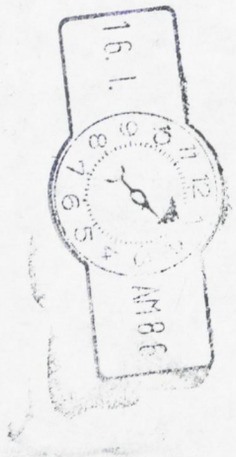
If they were asked not to proceed against Lotus I believe the Government could face considerable embarrassment when the facts of the case become clear public knowledge. This is because of the Parliamentary interest in this matter, Mr De Lorean's criminal indictment for his part in the fraud, and the fact that the company would not be spared if instead the Joint Liquidators initiated similar action. Further, I can see no benefit to Lotus of having potential litigation hanging indefinitely over the company.

I feel strongly that the Joint Receivers should now be informed by me that they are now free to take their own decision in this matter and proceed as they see fit.

A copy of this letter goes to the Prime Minister, the Attorney-General, the Chancellor of the Exchequer, the Foreign Secretary and Sir Robert Armstrong.

T K

ssd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NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade
and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

14th January 1986

Dear Secretary of State,

LEGAL ACTION AGAINST ARTHUR ANDERSEN AND CO (AA)

My predecessor wrote to yours on 30 August 1985 about the above legal action.

The Government filed a complaint against Arthur Andersen in February 1985 in the New York Federal Court and, in addition, writs were issued against Arthur Andersen, as a protective measure, in London and Belfast on 24 January 1985.

Following the filing of our complaint in New York, Arthur Andersen filed a Motion for Dismissal of the action on a number of grounds, the most important being "forum non conveniens". The Motion is still being argued by the parties and it now seems unlikely that the court will decide on it before March 1986.

The advice of our US and UK lawyers is still that the United States Court is the most appropriate forum for the trial of our action against Arthur Andersen, since the most significant acts or omissions of AA giving rise to the claim took place there and the level of damages which might be awarded is higher. There remains however the need to keep the UK claims alive and in order to do this the UK Writs must be served by 23 January 1986.

The Treasury Solicitor has confirmed to AA that, provided the case in the New York court against the US and other AA partners can be decided there, it is not the Government's intention to, in addition, pursue proceedings in the UK. He has suggested that only one of the

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/UK Writs....

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UK Writs, which were issued as a protective measure, be served and sought AA's agreement that following service of the writ no further steps in the proceedings be taken until such time as the American proceedings are concluded, unless the American courts have determined finally that they lack jurisdiction over any of the UK or Irish partners of AA.

Arthur Andersen's London Solicitors (Herbert Smith and Co) responded requesting that one of the writs (that which was issued in London in the name of the Attorney-General) be served and the matter taken up to close of pleadings and that the Writ issued in Belfast be discontinued. The Treasury Solicitor has accepted these proposals.

You will therefore wish to note that it is the intention that the Attorney-General's writ against AA will be served on or before 23 January 1986, to be followed by a Statement of Claim and proceedings up to close of pleadings but no further, and to discontinue the proceedings in Belfast in accordance with an agreement to be entered into with AA. Counsel for the Attorney-General advise that it will not be possible to serve the Statement of Claim within 14 days of the service of the Writ. The Agreement of AA's solicitors to an extension of time will be sought and, if not forthcoming, will not be sought from the Judge.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney-General, Sir Robert Armstrong and the Head of the Government Accountancy Service.

Yours Sincerely

N Sheard

(Private Secretary)

for T K

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

ssd

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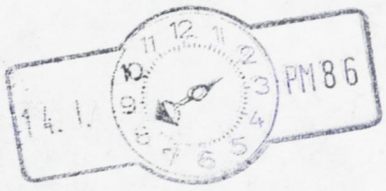

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cc DG

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

2 PPS

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

14th January 1986

NBPM.

Dear Secretary of State

ARTHUR ANDERSEN AND COMPANY

Thank you for copying to me your letter dated 17 December 1985 to Leon Brittan.

I agree with the general line proposed in your letter but I wonder whether, having reached the view that Andersens will not be re-appointed for the LRT/LTE audits, we should present the competition for those audits as "genuine" with "no special preference for the existing incumbent". It might be preferable to restrict the response to any queries to (i) and (ii) of your proposals.

As regards the line of a Parliamentary reply I suggest that the final sentence be amended to read (change underlined);

> "This will not affect the position <u>of the separate Arthur Andersen consultancy firm</u>".

I am copying this to the Prime Minister, Cabinet colleagues, the Attorney General, Sir Robert Armstrong, and the Head of the Government Accountancy Service.

Yours sincerely
N Dorrell
Private Secretary
for T K

(Approved by the Secretary of State and signed in his absence in Northern Ireland)

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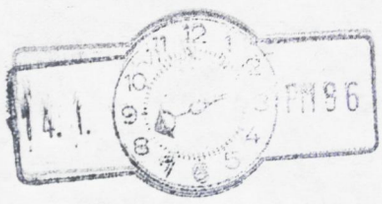

IRELAND
Dr Lorcan
7/80

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CC DE

JU116
Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215) .....
(Switchboard) 01-215 7877

9 January 1986

CONFIDENTIAL

Dr Rhodes Boyson MP
Minister of State
Northern Ireland Office
Whitehall
London SW1A 2AZ

NBPM.

R Rhodes,

DE LOREAN: PROPOSED LEGAL ACTION AGAINST LOTUS CARS

Thank you for your letter of 6 January. WITH PCN

I appreciate the arguments you have presented and as I said in my letter of 20 December agree that the Joint Receivers should be free to deal with this matter without interference from us provided clear evidence does indeed exist against Lotus Cars. I am grateful for your assurance that the opinion given to the Joint Receivers by leading Counsel rests on a firm basis of clear evidence and I take it that this refers to evidence against Lotus Cars as well as Mr Chapman and Mr Bushell. For the avoidance of doubt and in view of the serious consequences which could result for Lotus Cars, which you clearly recognise, I would value an early and quick word with Sir Kenneth Cork before a Writ is issued. This would give him the opportunity to assure me that the evidence is so incontrovertible that no purpose would be served by excluding Lotus Cars at this stage with the option of joining them in the action later should that prove to be necessary. Perhaps you would ask Sir Kenneth to get in touch as soon as possible as I appreciate the need for urgency.

A copy of this letter goes to the Prime Minister, the Attorney General, the Chancellor of the Exchequer, the Foreign Secretary and Sir Robert Armstrong.

Yours ever,
Leon

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LEON BRITTAN

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DE LOREAN
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NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Minister of State

The Right Hon Leon Brittan QC MP
Secretary of State for Trade &
Industry
Department of Trade & Industry
1/9 Victoria Street
London
SW1

6 January 1986

Dear Secretary of State,

PROPOSED LEGAL ACTION BY THE JOINT RECEIVERS OF DELOREAN MOTOR CARS LTD, (DMCL) AGAINST LOTUS CARS LTD, MR FRED BUSHELL AND THE ESTATE OF THE LATE MR COLIN CHAPMAN

Thank you for your letter of 20 December to Tom King who is abroad at present. I can assure you that the Opinion given to the Joint Receivers by eminent Leading Counsel rests on a firm basis of clear evidence. The Treasury Solicitor, who has been advising my Department on many aspects of the DeLorean case, can see no reason to question any aspect of the Opinion which concludes that it would not be satisfactory to omit any of the proposed Defendants from the proposed action. I understand your officials have also studied the Opinion.

The degree of financial/commercial damage Lotus Cars and the private individuals face in relation to this matter, is clearly a matter of judgement. It would be wrong to assume that if the case were fought to a finish through the Courts that, the maximum damages awarded would be limited to $5.15m. This was merely the amount that DeLorean Motor Cars Limited actually paid to GPD in Switzerland in 1978. An award of interest, because of the lapse of time and the nature of the tort, could almost double the amount awarded. Clearly, Lotus Cars would undoubtedly suffer a financial blow if the assets of Mr Bushell and the Chapman Estate proved insufficient to satisfy the damage awards particularly if other creditors such as the private American investors who also suffered a loss mounted successful legal actions.

Most of the evidence as to the fraud has been in the public domain for some time and the further evidence will become available to other creditors very quickly. We cannot take any steps to prevent this happening. This has been explained to your officials and as Tom King's letter of 12 December 1985 pointed out if the Joint Receivers fail to act we believe the

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Joint Liquidators (in the UK) would step in without hesitation. We think early action by the Joint Receivers could inhibit the Joint Liquidators from taking independent legal action. It ought to be noted that if we ask the Joint Receivers not to act they will seek an indemnity from the Government in relation to any damages which could well be awarded against them for their failure to act. Further, as you know a claim has been made against Arthur Anderson (AA), DMCL's accountants for damages for negligence and negligent misprepresentation by the Department of Economic Development for Northern Ireland (DED). There is a clear duty on the DED to mitigate their loss in order to reduce the claim against AA as far as possible. Any action by HMG to inhibit the Joint Receivers' proposed claim against Lotus and the other proposed defendants would be a clear breach of their duty and would be a justifiable cause of complaint by AA in both the US and British proceedings.

We have given considerable and careful thought to the many aspects of this particular litigation including the strongly adverse publicity for the Government which would almost certainly occur if we ask the Joint Receivers not to go ahead with their proposed action. We would find it very difficult to justify and publicly defend such an intervention. We are therefore grateful for your agreement that the Joint Receivers should be free to deal with this matter without interference from us and I understand the Treasury takes the same view. My officials will therefore be informing the Joint Receivers accordingly. We would expect they will not delay issuing a Writ.

A copy of this letter goes to the Prime Minister, The Attorney-General, the Chancellor of the Exchequer, The Foreign Secretary and Sir Robert Armstrong.

Yours sincerely
William Lowe
Private Secretary

for DR RHODES BOYSON MP

[Approved by the Minister
and signed in his absence]

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DB LORGAN

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

6 January 1986

CONFIDENTIAL

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

Dear Nick,

ARTHUR ANDERSEN & CO

Thank you for your letter of 17 December about your decision not to re-appoint Arthur Andersen as LRT's auditors when their current appointment expires at the end of the 1985/86 financial year.

I am content with your proposed line both on the LRT appointment and on the Government's general attitude toward Arthur Andersen. The firm reluctantly accept that we can do, or say, little else.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney-General, Sir Robert Armstrong and the Head of the Government Accountancy Service.

Yours,

LEON BRITTAN

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

20 December 1985

CONFIDENTIAL

The Rt Hon Tom King MP
Secretary of State for
Northern Ireland
Northern Ireland Office
Whitehall
LONDON
SW1A 2AZ

Prime Minister
To note that a writ is likely soon to be issued against Lotus, among others.
DRS
7/1

Dear Tom,

THE DE LOREAN CASE AND LOTUS CARS

In your letter of 12 December you noted that the Joint Receivers have been advised by Leading Counsel to take legal action to recover $5.15m from Lotus Cars, Mr Bushell and the estate of Mr Chapman. The advice was that the nature of the arrangements made bound Lotus Cars into a conspiracy to defraud and that the company should not be omitted from the action.

The Joint Receivers must be left to conduct any actions as they see fit without interference from us and if they have evidence which points to Lotus Cars having taken part in a conspiracy to defraud then they will wish to take appropriate steps to recover those funds.

My officials have been in touch with the Treasury Solicitor to ask for confirmation that the Joint Receivers have had, and are satisfied with, advice from Counsel that such evidence did in fact exist, and I would be grateful for any reassurance you can give me that clear evidence does exist which would justify taking steps which would be bound to result in commercial damage to what is one of our prestige specialist car and engineering companies.

I am copying this letter, as you did yours, to the Prime Minister, the Attorney General, the Chancellor of the Exchequer, the Foreign Secretary and Sir Robert Armstrong.

Yours,
Leon

LEON BRITTAN

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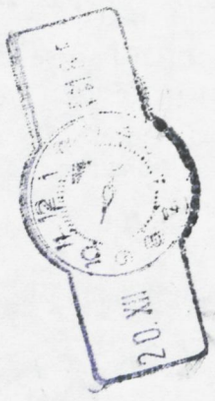
IRELAND: De Lorean: July 1980



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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade
and Industry
1-19 Victoria Street
LONDON SW1H OET

17 December 1985

NBPT.

Dear Leon

ARTHUR ANDERSEN AND CO

Arthur Andersen's current appointment as LRT's auditors expires at the end of the 1985/86 financial year. Neither I, nor LRT, have any criticism of their performance, and in the normal course of events I should have been prepared to reappoint them for LRT's 1986/87 audit. However, since we have now agreed that the firm's audit appointments should not be renewed unless there are overriding legal or policy reasons for doing so, I have concluded that Andersens should not be reappointed for the LRT audit.

A competition, from which Andersens will be excluded, will therefore be needed to select their successor: Andersens have reluctantly accepted that this is unavoidable. Since a competition for the LRT auditors may well give rise to awkward questions in Parliament or from the media, I thought I should write to you now about how I propose to respond to them.

Andersens intend saying as little as possible, beyond the bare statement that their relationships with existing or potential clients are confidential; given the need to avoid saying anything publicly which might prejudice the Government's court action against the firm, I propose to adopt an equally low key approach to queries as follows:-

(i) Andersens have been auditing LRT/LTE's accounts for 5 years, and a competition is normal in such circumstances;

(ii) it is not normal practice to reveal which companies have been invited to tender, or why any particular firm was, or was not, invited to take part in the competition;

(iii) the competition is genuine, and no special preference will be given to the existing incumbent.

We had earlier agreed that we should avoid making any public statements about Government policy on Andersens (beyond the minimum suggested in the previous paragraph). On reflection, however, I think it may be difficult in practice to maintain this line, particularly if we were asked a specific question in Parliament about the Government's policy on the appointment of Andersens as auditors of nationalised industries. If circumstances arose in which a straight answer seemed unavoidable, I would propose taking the following line:-

> "Unless there are legal or policy reasons for doing so, the Government has decided not to appoint, or reappoint, Arthur Andersen as auditors of nationalised industries while their legal action in respect of the De Lorean company is in progress. This will not affect the position with Arthur Andersen in their role as Management Consultant."

My officials have discussed the position with Andersens, who recognise that it may be necessary to reveal the position publicly in this way, and would be content with a parliamentary answer in these terms if that became necessary. I think we should agree our position before organising the competition for LRT's auditors, and I should therefore be grateful to know whether you, and colleagues, are content with the line I propose taking.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney General, Sir Robert Armstrong, and the Head of the Government Accountancy Service.

NICHOLAS RIDLEY

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

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SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade and
Industry
Department of Trade and Industry
1-9 Victoria Street
LONDON
SW1

12th December 1985

Dear Secretary of State,

THE DE LOREAN CASE: RECOVERY FROM LOTUS CARS LIMITED
MR FRED BUSHELL, AND THE ESTATE OF THE
LATE MR COLIN CHAPMAN

On 29 March Rhodes Boyson wrote to Norman Tebbit about the possible issue of a Writ by the Joint Receivers of De Lorean Motor Cars Ltd (DMCL) against Lotus Cars Ltd. At that time the Joint Receivers had been advised by Leading Counsel, on the basis of the evidence then available as to the disappearance of funds paid by DMCL in 1978 to the Swiss Company 'GDP', that it would be commercially prudent to issue a Writ in anticipation of proceedings later for recovery of the funds. In the event the Joint Receivers decided to stay their hands on the issue of a Writ.

In 1984 Sir Kenneth Cork (one of the Joint Receivers) explained to PAC that most of the $17.65m paid to 'GDP' for the development of the De Lorean Car had gone 'walkabout'. Whereas, $8.5m had been traced to the personal benefit of Mr De Lorean most of the balance was unaccounted for.

Evidence now available shows that almost all the unaccounted for balance, namely $8.2m was diverted to the personal accounts of Colin Chapman, Fred Bushell and private companies controlled by them. Leading Counsel has now advised the Joint Receivers to take action to recover $5.15m from Lotus Cars, Mr Bushell and the estate of Colin Chapman. He was asked specifically to advise whether Lotus Cars should or could be omitted from the action but his unequivocal opinion is that the nature of the arrangements made by Mr Chapman and Mr Bushell bound Lotus into the conspiracy to defraud and that the company should not be omitted from the action.

We have given very careful thought to the position of Lotus which we, like you, would wish to see prosper unhindered. We have also taken note of financial support from which I believe Lotus will benefit over the next few years under the Support for Innovation and other Schemes. Nonetheless, I have no doubt the Joint Receivers should be allowed to proceed. If they are inhibited from taking their action we should expect the French Government in support of Renault (an unsecured De Lorean creditor owed £10m) may well intervene and encourage instead an action by the Joint Liquidators of the Company. We would have virtually no influence in an action taken by the Joint ~~Receivers~~ Liquidators. Further, the new evidence will in any event gradually filter out in American proceedings. I do not think it is in the widest interest of the Government to allow a situation to develop where Mr De Lorean would be able to allege that the Government had allowed a cover-up of the Lotus. Chapman and Bushell involvement in the fraud for which he faces a criminal Federal Grand trial - due to start next Spring. It is also worth noting that an undertaking was given in the Government's Minute of response to the PAC that Government is determined that all available steps will continue to be taken to recover as much of the De Lorean loss as possible.

I should add that the Joint Receivers and their legal advisers believe the evidence is so strong that an early settlement with Lotus must be a possibility. Our assessment is that the Company has considerably improved its commercial position in recent years and has strong investment backing and management. We would expect therefore that any setback arising from an action would be short term. Indeed the longer term interests of the Company will be best served by dealing now with this very grey cloud, which has been overhanging them for so long.

I wish to tell the Joint Receivers as soon as possible that they can go ahead with their action unless colleagues can see any overwhelming reason why they should not proceed.

A copy of this letter goes to the Prime Minister, the Attorney-General, the Chancellor of the Exchequer, the Foreign Secretary and Sir Robert Armstrong.

Yours Sincerely

N Bhard

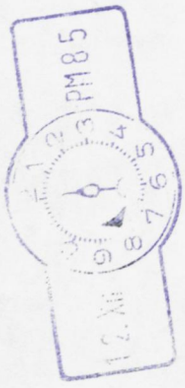
(Private Secretary)

for T K

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

ssd

Ireland DeLorean



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COPY No. 46

DE LOREAN MOTOR CARS LIMITED

Report to

THE SECRETARY OF STATE FOR NORTHERN IRELAND

11 FEBRUARY 1981

Coopers & Lybrand

Coopers & Lybrand | chartered accountants

DE LOREAN MOTOR CARS LIMITED

SUMMARY REPORT

dated 11 February 1982

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This report summarises the main findings from our investigation of De Lorean Motor Cars Limited and of the De Lorean Motors Corporation. The full report will follow.

Coopers &Lybrand | chartered accountants

DE LOREAN MOTOR CARS LIMITED

SUMMARY

Introduction

1 In accordance with the letter of instruction from the Department of Commerce, Belfast ("DOC") dated 29 January 1982 we have carried out an investigation of De Lorean Motor Cars Limited ("Cars") and of the De Lorean Motor Company ("DMC"). The instructions we received included reference not only to a review of the financial position and future prospects of Cars and DMC, but also to advice sought by H M Government on the following specific topics:-

(a) the original capitalisation and financing of the companies, and whether commitments given by the various parties have been met;

(b) a trace of the use to which all funds invested in Cars by both DOC and the Northern Ireland Development Agency have been put;

(c) whether Cars can be maintained as a viable operation at all, and if so, at what level;

(d) what restructuring and rationalisation might be necessary if Cars is to be maintained as a viable unit;

(e) the likelihood of the production facilities of Cars being adapted for use by other manufacuturers;

(f) an investigation of the ownership of the rights of manufacture and sale of the DMC 12; and advice on the feasibility of transferring these rights to a receiver/manager, if appointed, or to Cars; and

(g) in the event that we recommend the appointment of a receiver/manager, advice on how best this might be achieved.

2 In the course of our work we have visited the premises of Cars at Dunmurry, Belfast and of DMC in New York and Los Angeles. We have had discussions with Mr De Lorean, Mr Brown, the Vice President of DMC with responsibility for sales, and Mr Lander, the managing director of Cars, as well as with numerous other executives and staff on both sides of the Atlantic.

3 It will be appreciated that the urgency of the investigation has led to pressures by us on De Lorean staff, particularly at Dunmurry. They have responded well to these pressures, but there are inevitably items of information required by us which they have been unable to produce. We have had to make our own assessment of prospects, based on discussions with management, and in doing so have had to make some broad estimate of demand, which it is unusually difficult to do at present.

4 Our normal practice is to confirm the factual content of our reports with the management of the company or business under investigation. This has not been done on this occasion because of the time contraints imposed on the production of the report and because in this case it might not have been appropriate to do so.

5 The contents of this summary are solely for the information and use of H M Government and their advisers. We accept no responsibility to any other party who may be given access to this document. The full report will follow.

Our approach to the task

6 We decided that, in carrying out our task, it would be appropriate to look at the short-term view, and also to assess the longer term prospect if further funds were made available for the enterprise to continue.

7 Our starting point was to examine the causes for the disastrous financial outcome to date, which has produced a situation of insolvency; this in spite of a major injection of public money well in excess of the original plan.

8 The conclusions we have reached are summarised later in this memorandum. Broadly, our view is that the plans were impracticable from the start, both in terms of producing the car within the timetable set and in terms of finding an outlet for the volume of cars predicted in the scheme. The car market in the United States is fiercely competitive and furthermore has been depressed in recent years. No doubt there is a special position for a car of this type, but at a price of $26,000 the sector of demand must be severely narrowed. In the event the financial problems have engulfed the group before the first full selling season had started, but our view is that demand would in any case have failed by a significant margin to meet expectations held out in the original scheme and the level of output for which the factory has been manned.

9 The company now faces a situation where it requires some £20/25 million of new financial support to enable it to meet its overdue commitments and to trade through the current year. Decisions would also need to be taken about expenditure on updating the present model and developing a sedan version at some point in the future and there could be no certainty that the costs would be met wholly from internal cash flow.

10 Against this background we conclude that:

(i) no reconstruction of the existing company by way of capitalising debts or changing the structure of the group would resolve Cars difficulties, unless it was coupled with a substantial injection of further equity;

(ii) there is no prospect of raising private funds for the existing group; and

(iii) there are no commercial grounds for recommending the injection of further public funds into the existing group of companies.

11 In these circumstances we feel the appropriate course of action is for receivership to take place so as to enable a new company freed of Cars' debts and suitably refinanced to carry on the project. This would allow the major creditor, the government, to achieve a major curtailment of its involvement. Later in this memorandum we examine how the receivership might be brought about and what might emerge from such action. First, however, we must recall the history of the enterprise and the causes of its downfall.

Events to date

12 We set out below a calendar of the major events in the life of Cars:-

Project introduced to Northern Ireland	June 1978
Formation of De Lorean Motor Cars Limited	June 1978
Master Agreement signed At this point, two prototypes were in existence. The Master Agreement provided, inter alia, for equity participation by the Northern Ireland Development Agency ("NIDA") and the advance of loans and grants by the Department of Commerce to Cars. It also set out the terms and conditions applicable thereto.	29 July 1978
Formation of De Lorean Research Limited Partnership ("DRLP") This company was formed to enable private individuals ("the limited partners") to invest in development of the DMC 12	September 1978
Granting Agreement signed Under this agreement rights held by De Lorean Motor Company were assigned to DRLP	September 1978
Licence Agreement signed DRLP licensed all the assigned rights to DMC	September 1978
Technical Assistance Agreement signed This agreement provided for technical assistance to be supplied by DMC to Cars and passed to Cars the rights to manufacture licensed by DRLP to DMC	September 1978

Commencement of factory construction	October 1978
Contract signed by Cars and DRLP with GPD Services Inc GPD retained the services of Lotus to develop the prototypes through to the series production stage.	November 1978
Commencement of series production	March 1981
First shipment and sale by Cars to De Lorean Motor Company	April 1981

13 Since the De Lorean project was introduced to Northern Ireland in the summer of 1978 much has been accomplished. The achievements in physical and human terms are impressive and include:-

(a) the design and construction of a new factory of over 500,000 square feet in Dunmurry, Belfast;

(b) the design and development of the DMC 12 sports car, up to the point at which it was in series production;

(c) the recruitment and training of a labour force of 2,600 men and women - in an area with no history of motor industry employment;

(d) the development and introduction of new methods for the semi-mass manufacture of fibre-glass body shells.

14 To go from a green field site in late 1978 to a factory in effective production three years later with a new model and a new labour force, is something few organisations could do. However, it is evident and is acknowledged that the concentration on physical achievement had the effect that little attention was paid to production costs.

15 Under the Master Agreement, DMC and Cars were obligated to carry out the project in accordance with a corporate plan which had been tabled before the Agreement was signed. The actual progress of Cars has been very different from that held out in the plan. For example, it was envisaged that volume production would commence in December 1979: in practice, it began in March 1981. The market projections of 20,000 car sales in the first year of production and of 30,000 units in the second year were also far from the reality.

16 By way of comparison Jaguar, with models in the $29,000 - $31,000 range, sold 5,100 cars in 1981 and Porsche, with models in the $16,000 - $39,000 range, sold 11,200 cars in the same year.

Car production and sales

17 The number of units produced and sold in the 10 months since volume production started in March 1981 is as follows:-

	Produced	Sold to DMC	Sold to dealers	Retail sales
To 30 November 1981	6,481	6,186	3,601	2,367
December 1981	1,200	780	897	642
January 1982	652	435	616	338
	8,333	7,401	5,114	3,347

18 The above table not only demonstrates the discrepancy between actual retail sales in the 10 months and the figure of 20,000 units in the first year after launch projected in the corporate plan, but also points to the inventory problem facing the group. With 8,333 units produced and 3,347 units sold to the ultimate customers, De Lorean is left with nearly 5,000 cars in the hands of either Cars, DMC or the dealers.

Trading losses

19 The total losses/(profits) incurred by Cars and DMC since their formation are summarised below:-

	Cars	DMC	Total
	£ million	£ million	£ million
Pre-production	5.8	14.3	20.1
Post launch	19.9	(3.8)	16.1
Total to 30 November 1981	25.7	10.5	36.2
December 1981	0.2	Not available	
January 1982	0.7		
	26.6		

Notes: (1) DMC losses converted to sterling at $2 = £1

(2) The post launch profit of DMC of £3.8 million is misleading in that it is after taking credit for an exchange profit of £6½ million which is arguably refundable to Cars (see paragraph 31(a) below).

20 The main reasons for these losses are as follows:-

(a) delay in reaching series production, already commented upon;

(b) problems caused by rushing into the launch of the car. The effect of this in terms of subsequent engineering changes, allied to the problems of inexperienced labour, was to give rise to serious

production inefficiencies and major quality defects. The latter have rebounded on Cars in the form of substantial claims from the Quality Assurance Centres and warranty claims from dealers;

(c) a general lack of control over certain indirect costs.

21 We believe the following costs were unnecessarily high:

(a) the cost of the DMC head office function;

(b) the costs incurred in hiring management for the UK;

Effective control of expenditure has been weakened by the fact that virtually the whole of the finance was provided by government, which was called on to provide further funds to meet each crisis, while management was wholly in the hands of the executive directors of DMC and Cars.

Unit costs

22 The planned hours of direct labour for the manufacture of the car were 140 man hours per car at the end of 1981. As was to be expected, there was a steep learning curve. The average number of hours of direct labour per car exceeded 300 hours per unit in the quarter from March to May 1981. In the most productive month so far, October 1981, it has been down to 180 hours per car, still substantially in excess of the planned level.

23 A further, in our view avoidable, costly problem arose from the decision to work a second shift at Dunmurry from July 1981, leading to high inventory levels, further serious quality problems and subsequent need for redundancies. It is relevant to note that considerably lower forecasts of sales prospects at the prices being contemplated by DMC were available when this decision was put into effect.

Potential savings

24 There are various measures which either could be, or are being, taken to stem the losses arising in the UK and in the USA. These include:

(a) redundancy of 1100 employees at Dunmurry effective from 12 February 1982;

(b) further stock reduction through restricting purchases and the working of only 1 day per week; and

(c) closure of the offices in New York and of the QAC centre at Troy, Michigan.

25 We deal later in the document with long-term viability: the above measures do not of themselves offer more than a breathing space to the company.

Marketing strategy

26 We noted several areas in which the marketing strategy of DMC seemed to be deficient:-

(a) the target market had not been clearly identified;

(b) the sales effort was weakened by the split between marketing on the west coast and advertising/publicity in New York;

(c) the advertising of the product did not seem to promote the attractions of the product to the potential customer;

(d) the dealer network has not been adequately trained in product knowledge and sale techniques appropriate to a high-priced sports car.

Management

27 We have recorded a number of areas in which management decisions and action have contributed to the adverse financial position of the group. We also recognise what has been achieved. Our general conclusion

on management is that the over-optimistic view taken of the project has affected the judgment of management in key areas and has led to a level of production and of costs which cannot be supported by existing sales volumes.

28 At the operating level we met a number of managers in key departments who displayed a satisfactory level of competence; many of them have considerable experience in the motor trade. Mr Lander, the managing director at Cars, who was previously with Chrysler, seemed to us to approach the task of directing the business at Dunmurry in its present difficult situation in a calm and sensible manner. Mr Brown who is responsible for the sales function has impressed us by his clear understanding of the market needs and his control of the organisation which he set up.

Other matters we have reviewed

29 We deal briefly here with diverse issues which we believe are of interest to the government:-

(a) we have traced the use of funds invested by DOC and NIDA and we draw attention below to a number of matters which have come to our notice. These points need to be seen in the context of Cars as a company with a minority shareholder: DMC and Cars do not form a group with shareholders in common, even though directorships were held in common. The directors of Cars had a duty to deal with DMC on an arms length basis and DMC had a responsibility to fund its own activities;

(b) we have given special consideration to the contract with GPD Services Inc. for the development of the DMC 12. The contract with GPD is a complicated affair which involved payments not only by Cars, but also by the De Lorean Research Limited Partnership ("DRLP"). It is not appropriate to give a full account here of all the issues but we note the following:-

(i) GPD is a Panamanian company which appears to have acted as an agent in retaining the services of Lotus Cars Limited, and specifically Mr A C B Chapman, to develop the DMC 12 prototype to productie diness;

(ii) the manner in which Cars entered into an open ended commitment to GPD was unusual but may have been dictated by the pressure to achieve early production;

(iii) the substantial additional engineering work required on the original prototype raises questions about its viability and the value of research carried out prior to September 1978; the additional costs have been funded by Cars, with total payments by Cars to GPD amounting to £ 14 million;

(iv) to date, we cannot be satisfied that the cost charged by GPD was reasonable and how much of the cost went to parties other than Lotus. Similarly we cannot be satisfied that the split of this cost between DRLP and Cars was reasonable.

30 The position on the rights to manufacture and sell the DMC 12 will be set out in detail in our main report. The situation is complex. The interpretation to be placed on the facts is currently being considered by NIDA's legal advisers in the UK and in the United States. In brief the rights to manufacture were made available to Cars under the Technical Assistance Agreement and it is not clear whether or not selling rights lie with Cars. The fact that Cars has funded most of the development work may support Cars' contention that it has an equitable claim on the rights both to manufacture and sell.

31 There are certain other matters which are a cause for concern and which will need to be pursued so as to ensure fair dealing between the various parties:-

(a) loans by Cars to DMC amounting to £6.5 million have been cleared by DMC retaining the benefit of exchange gains which arguably should have been to the credit of Cars. We are not satisfied that this transaction was appropriate on an arms length basis;

(b) the management fees paid by Cars to DMC, currently at the rate of £1.8 million per annum, and charged since October 1978, appear to be excessive by any standards;

(c) the arrangements for payment by Cars to DMC for the services of the Quality Assurance Centres seem to be unfairly weighted against Cars;

(d) 1,215 cars have been shipped to DMC but finance has been withheld by the Bank of America for reasons explained in paragraph 34. In consequence, assets have been transferred to the United States without payment, which is contrary to the Master Agreement.

Financial situation

Funds invested in the project

32 Total funds invested in Cars are as follows:-

	£ million	£ million
Original share capital contributed by:-		
DMC 546,000 'B' ordinary shares with 90 votes per share	0.5	
NIDA 17,757,000 'A' redeemable participating preference shares with 1 vote per share	17.8	18.3
Grants from Government:		
for buildings and equipment	19.6	
for employment and training	10.9	30.5
Loans from DOC:		
for buildings	6.7	
for additional assistance	14.0 *	20.7
Other borrowings:		
Barclays/Citibank (guaranteed by DOC)	9.5 *	
Other Citibank	0.4	9.9
TOTAL		79.4

* The loan of £14 million from DOC was advanced between September and December 1980. The guarantee by DOC of a total facility of £10 million from Barclays Bank Limited and Citibank was provided in February 1981. These sources of finance were arranged when the initial funding package proved insufficient.

33 It has been reported that Mr De Lorean feels that the DOC and/or NIDA has failed to honour its promises to provide additional help in recent months. We found no evidence during our review of board minutes and other documents that either DOC or NIDA had made any offer of additional funds to Cars, for whatever reason, which had subsequently not been paid or satisfied. In this connection, Mr De Lorean signed a document which renounced any claim for further assistance when DOC agreed to guarantee short term borrowing facilities from banks.

34 The major sources of funds for DMC have been Cars, in the period prior to sales commencing, and sales revenue and the Bank of America, in the more recent period. There has been an arrangement with Bank of America whereby cars were financed to a proportion of the retail price on shipment from Northern Ireland. The cars financed in this way had to be matched by orders from dealers, but the decline in orders and sales resulted in the facility reaching its limit. In recent weeks, the Bank of America has ceased to finance any new car shipments.

The current financial position

35 The financial situation can be put as follows:-

(a) share capital has been totally eroded by losses;

(b) borrowings in the UK are at the limit of the available facility;

(c) overdue creditors exceed £20 million;

(d) as noted above, the Bank of America has ceased to provide facilities on new car shipments to DMC. There are still amounts outstanding to the bank on earlier shipments: until they have been cleared there will be no income from US sales available to either DMC or Cars;

(e) the business needs funds for on-going development of the DMC 12 and for a proposed new model, the Sedan. The present estimated

requirement for this model is some £40 million between now and May 1985.

36 It is clear that, so far as the immediate situation of Cars is concerned, the company is insolvent, although new credit is not being incurred.

Financial projections

37 In the course of our work we tried to estimate the scale of funds which would need to be provided both in the current year and, with less certainty, over the subsequent few years in order to put Cars on to a viable basis. The assessment of prospects which we made is highly sensitive to changes in sales volumes, exchange rates, production efficiencies and quality of output. Our findings were as follows:-

Trading results

(a) the trading loss after interest on existing and new advances for the 10 months to November 1982 would amount to £3 - 4 million if retail sales reach a level of 7500 units. (We would regard this as a reasonable target in normal circumstances although the uncertain future of the business may have an adverse effect in the market place);

(b) the trading results for 1983 would be significantly improved as stocks were cleared out and production stepped up. Given the high fixed cost of the factory, it is probable that the break even point would be reached at a level around 8500 units, which should be attainable in normal circumstances. Results would also benefit from any improvement in production efficiency and quality which might be looked for then. However, at this level of output the business would not be generating any funds to finance development.

Working capital

(c) Our calculations show that borrowings would have to increase by some £20/25 million in the next month or so to relieve creditor

pressure. Thereafter the cash flow of Cars should be in balance, but development costs and tooling of the Sedan model would require an extra £9 - 10 million in 1982/83 if proceeded with as planned. Thereafter spending on the Sedan project would continue on a rising trend.

Courses of action

38 There is in our view no commercial case for financial assistance from the Government to Cars to make it a viable vehicle producer. Firstly as explained earlier in this memorandum, the relationship of Cars to Mr De Lorean's companies is such that the benefits derived from the assistance might flow into the wrong hands. The present equity shareholders in Cars have in practice lost their investment and, in our view, the proper course is to withhold further assistance and let Cars go into receivership. There are dangers in this course. Receivership is widely misunderstood, particularly abroad and creditors in the UK might apply pressure on the government to settle the company's debts. We have assumed however that the government will let matters take their course although this is a matter for political decision.

39 It occurs to us that on social grounds a case could be made for commiting further government funds to the project to preserve the underlying business and to avoid immediate redundancy of the work force. But we cannot from our standpoint judge the strength of such arguments and only mention them as a matter of record.

40 We now go on to examine the powers which exist for appointing a receiver and the courses of action open to him following appointment.

The power to appoint a receiver

41 DOC holds a fixed charge secured loan of £6,780,000 over land and premises at Dunmurry with the right, if Cars is in default in making any payments secured by the charge, to appoint a Receiver or Receivers having power to grant leases or sell the property. Interest of £440,000 payable on 1 December 1981 remains outstanding and the right to appoint a receiver exists. He would however be a fixed charge receiver without power to manage the business of the company.

42 The other charge, held by DOC, to secure a loan of £14 million, is a fixed charge over the land and buildings at Dunmurry and over certain specified assets and a floating charge over Cars' "undertaking and all its property whatsoever and wheresoever". The charge gives power, if there is default in making repayment of the loan in circumstances where the whole amount with interest becomes instantly repayable, to appoint "a Receiver or Receivers of the said lands and premises, plant, machinery, property assets and other assets and other equipment or any part thereof". No interest or repayments are due on this loan until November 1982.

43 It is the view of the solicitors in the Northern Ireland Treasury Department that since "property assets" includes the undertaking and since the Receiver is made agent of the company, the Receiver will have power to manage, but that the matter is not wholly free from doubt.

44 There appears to be no power to appoint at the request of the directors and at present it seems to us that DOC will have to rely on breaches of covenants which cause the debt to become wholly repayable, such as the company threatening to cease to trade or having a Receiver appointed under DOC's other charge. We consider that legal opinion should be taken on DOC's power to appoint.

45 In view of the uncertainties over the DOC's power to appoint and the Receiver's power to manage we would, if a partner of the firm were to be appointed under the floating charge, require an indemnity from the DOC to cover these matters.

Conduct of receivership

46 Since Sir Kenneth Cork will be putting his views on this matter in a separate letter, we restrict ourselves to the following observations:-

(a) there would inevitably be a period of considerable turmoil with creditors and with the group's US interests and negotiations with the latter are likely to be protracted. Six weeks has been allowed

in our estimates of costs to achieve some commonsense solutions. Further trading would have to be funded from trading income or from additional government subventions;

(b) we would hope that the retail outlets in the US for the DMC 12 could be induced to continue handling the sale of the car at least for the time being;

(c) we would expect the receiver to cut activity at Dunmurry to a low level, but not to cease all activity if (b) can be arranged;

(d) the production facilities of Cars may be of interest to other manufacturers but there can of course be no assurances until the market has been tested;

(e) the receiver will wish to restrict the risks associated with continued trading. He will wish to be fully indemnified against potential claims which could arise, either from existing connections of the company or from future customers for the cars.

Conclusion

47 This summary answers most of the points outlined in the letter of instruction dated 29 January 1982. The full report which will follow provides the back-up to the views herein expressed.

NBPJ
pa.

Ref. A085/2710

MR WICKS

Mr Patrick Jenkin came to see me today, to ask about the propriety of his accepting a part-time consultancy with Arthur Andersen and Company.

2. Mr Jenkin explained that he had been invited to join an advisory team for Arthur Andersen and Company in this country (not the international body of which Mr Heath is a member). The consultancy would be remunerated. Mr Jenkin would be asked to give about one day a month to it.

3. As you will know, the relationship between the Government and Arthur Andersen is under some strain in view of the Government's current court case against Arthur Andersen over the De Lorean affair. Agreement has, however, been reached, after lengthy consideration, that while no new audit work should be given to Arthur Andersen and that existing contracts should not be renewed, the Company may continue to be employed as management consultants, on the understanding that the fact of any of their consultancies should not be used in their defence in legal actions.

4. I said to Mr Jenkin that I thought there need not be any problem about his accepting the one day a month consultancy with Arthur Andersen, provided that he was concerned entirely with its management consultancy activities and not with its audit activities.

5. I am sending copies of this minute to the Private Secretaries to the Secretary of State for Trade and Industry and the Secretary of State for Northern Ireland.

RA

ROBERT ARMSTRONG

24 October 1985

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5662
GTN 215
(Switchboard) 215 7877

From the Parliamentary Under Secretary of State for Corporate and Consumer Affairs

Michael Howard QC MP

Dr Rhodes Boyson
Minister of State
Northern Ireland Office
Whitehall
London SW1A 2AZ

4th October 1985

Dear Rhodes,

I am replying to your letters of 8 and 13 August to Norman Tebbit about the terms of the Government's future relationship with Arthur Andersen & Co.

I am pleased to say that we have now obtained satisfactory undertakings from the Arthur Andersen partnerships in the UK - ie from the new management consultancy partnership as well as the accountancy partnership - Dublin and Illinois and that on that basis I have written to the firm confirming the arrangements set out in Norman's letter of 6 August to Douglas Hurd. At Andersen's request, and in the light of advice from your officials and those conducting the Government case, I have also given a reciprocal assurance that HMG will not seek to use the fact of their undertakings to its advantage as a legal point, as evidence or as pure prejudice in the litigation regardless of the forum.

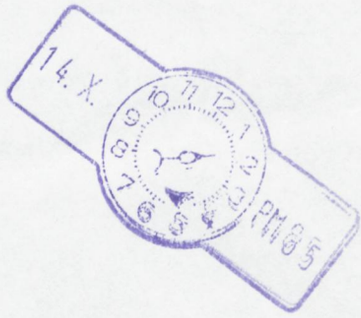
The Head of the Government Accountancy Service will be issuing guidance on the arrangements to Principal Establishment and Finance Officers shortly.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney General, Sir Robert Armstrong and the Head of the Government Accountancy Service.

Yours ever
Michael

MICHAEL HOWARD

Ireland July 80
De Lorean sports car



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JU115
Secretary of State for Trade and Industry

24 September 1985

Rt Hon Tom King MP
Secretary of State for
Northern Ireland
Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

Dear Tom,

LEGAL ACTION AGAINST ARTHUR ANDERSEN & CO

Douglas Hurd wrote to Norman Tebbit on 30 August outlining the current state of play on the various actions against Arthur Andersen & Co.

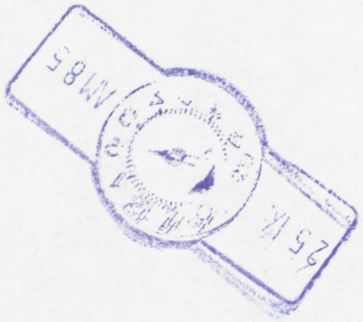
At this stage there are no particular points which I would wish to make but given this Department's very close interest in the case, I trust you will continue to keep me fully informed of developments.

I am sending copies of this letter to the recipients of yours.

Yours ever,

LEON BRITTAN

IRELAND : DE LORETO



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cc DO

Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

NBATB
DRS
2/9

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

30 August 1985

Dear Norman.

LEGAL ACTION AGAINST ARTHUR ANDERSEN AND CO

Thank you for your letter of 18 July about the service of a Statement of Claim in the proceedings against AA in London and Belfast. As you say this action may give rise to further questions as to the jurisdiction in which the case should be pursued. Work on the UK Statements of Claim is in hand but I do not think we will need to take a final decision on service until late in the Autumn. Service would need to take place by 23 January 1986. At present, it seems almost certain that we will wish to serve the UK Statements of Claim to keep our actions alive in the UK lest circumstances arise where it would be prudent to pursue the litigation in both jurisdictions.

The question of jurisdiction was considered earlier this year between the Treasury Solicitors Office and Lawyers in your Department and I understand it was recognised then that a successful outcome to this case would require vigorous prosecution of the US action as well as actions here.

I have been advised on the basis of the known facts, and the documentary evidence discovered so far and in view of the fact that a similar action against AA brought last year by the US Trustee in Bankruptcy is also pending in the US Court, that the US appears to be the natural forum for hearing the case. AA of course contest this and as matters stand at present the US Court is considering jurisdictional and other questions but the outcome of these deliberations will not be known until later this year.

As to the UK actions, at present it is intended to pursue these in as far as it is necessary to keep the UK claims alive - in case any statutory limitation or other difficulties arise in the US Claim or the US Court decides after trial that it does

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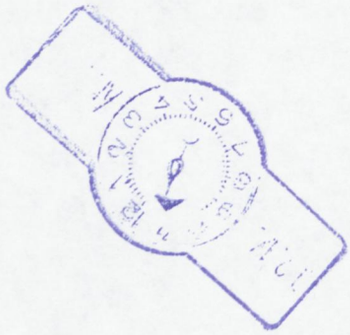
not have jurisdiction over AA partners outside the United States. In such circumstances we would need to consider pressing the litigation in the UK. I should point out that litigation in the UK against AA may, in any event, be pursued by the Joint Liquidators of DeLorean Motor Cars Ltd. The Joint Liquidators Writ against AA was issued by the High Court in Belfast in February 1985 but has not yet been served.

Thus, for all these reasons I consider it will be necessary to take the UK actions forward as soon as practicable; not as substitutes for the US action but rather in addition to and in support of it. If there are any special points which your officials wish to make on these matters we would of course be glad to receive them and to arrange discussions, if necessary, in advance of the decisions on the service of the Statements of Claim to be taken later this year.

I am sending copies of this letter to the Prime Minister, Cabinet Colleagues, the Attorney General, Sir Robert Armstrong and the Head of the Government Accountancy Service.

Yours,
Douglas.

IRELAND: De Lorean: July 1980



NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Minister of State

The Rt Hon Norman Tebbit MP
Secretary of State for Trade & Industry
1-17 Victoria Street
LONDON
SW1H DET

13 August 1985

Dear Norman,

I refer to my letter dated 8 August asking you to hold further correspondence with Arthur Anderson as suggested in your letter of 6 August until we had received legal advice on the implications.

The Treasury Solicitor, who has consulted with our American lawyers, has now indicated that we can agree that the relationship with the new consultancy partnership may be on a "business as usual" basis.

With regard to the undertakings, referred to in paragrapgh 2 of your letter I assume that they would be sought also from the new consultancy partnership.

I assume that when agreement has been reached with Andersen's you will arrange for the Head of the Government Accountancy Service to issue definitive guidelines to all Departments. It is important that we maintain consistency across the board.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney General, Sir Robert Armstrong and the Head of the Government Accountancy Service.

All good wishes

Yours ever

Rhodes

DR RHODES BOYSON MP

De Lorean : IRELAND July 80

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STORMONT CASTLE
BELFAST BT4 3ST

Tel. Belfast (0232) 63011
Telex 74272

Minister of State

The Rt Hon Norman Tebbit MP
Secretary of State for Trade & Industry
1-19 Victoria Street
LONDON
SW1H OET

8 August 1985

Dear Norman,

ARTHUR ANDERSEN

In Douglas Hurd's absence I am replying to your letter of 6 August 1985.

The Treasury Solicitor is presently in consultation with our American lawyers regarding Andersen's request that their future relationship with the Government on consultancy work should be on a "business as usual" basis.

I note that you are recommending that we agree to this but until we receive advice from our lawyers I would ask you to defer writing to Andersens.

I appreciate your desire to deal with the matter at the earliest possible date and the Treasury Solicitor expects to be in a position to provide advice by Monday next, 12 August 1985. I will be in touch with you again immediately thereafter.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney-General, Sir Robert Armstrong and the Head of the Government Accountancy Services.

All good wishes

Yours ever

RLB

DR RHODES BOYSON MP

Ireland 7180

De Lorean

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DW377
Secretary of State for Trade and Industry

6 August 1985

WBfm.

The Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
LONDON
SW1A 2AZ

R Douglas.

ARTHUR ANDERSEN

Following my letter to you of 3 June and your reply of 13 June, I have written to Arthur Andersen outlining our intentions. They have now discussed the position with Alex Fletcher.

2. The firm are quite prepared to accept the position on audit work. They have said they will not tender and do not expect to be invited to tender for new audits until the position on the case is clearer. They accept that on the renewal of audit work, they cannot expect reappointment unless over-riding legal or policy reasons require it. They will give the undertakings we asked for in respect of their UK partnership (which includes Northern Ireland) and will obtain them from their Illinois partnership (the relevant US partnership) and from the Dublin partnership.

3. On consultancy work however, the firm tell us that from 1 September, the consultancy partnership will be a separate legal entity from the audit partnership in the United Kingdom. The partnerships will have no common partners, they will have separate professional staff and the profits of each firm accrue to the partners in that firm only. Given this separation between the consultancy and the audit partnership, Anderson's have asked that their relationship with Government on consultancy work should be on a "business as usual" basis.

/ ...4.

CONFIDENTIAL

4. I recommend that we should agree to this. Our objectives of protecting the Government's legal position and protecting the public interest in appointing a firm against which there are serious allegations are secured by the agreement on both audit work and on the undertakings. It might be very difficult for the Government to justify harsh treatment of a separate business. The approach also offers a way through the practical difficulties for the Government to which the legal requirements have given rise - namely upsetting a series of complex relationships outside the audit field with a firm which has valuable, sometimes unrivalled, expertise. Lastly, as sponsor for the accountancy sector, I want the Government to be seen to deal with firms on a fair and reasonable basis - particularly one with such a high profile.

5. I would not expect this relatively modest amendment in our proposed stance to cause you or other colleagues undue difficulty. If therefore I have not heard from you by 9 August, I shall write to the firm on the assumption that you accept my conclusions. The matter is obviously of great concern to Andersons and I would like to let them know the position before the holiday period.

6. They do not want any publicity for the position: nor do we.

7. I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney-General, Sir Robert Armstrong and the Head of the Government Accountancy Services.

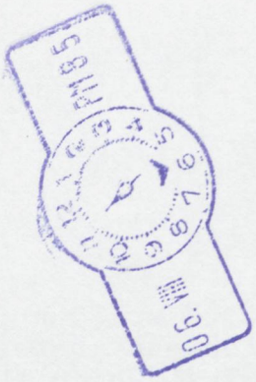
Yours ever
Norman

NORMAN TEBBIT

Ireland

July 80

De Lorean



CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

DW251

Secretary of State for Trade and Industry

18 July 1985

The Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
LONDON
SW1A 2AZ

R Douglas.

I have read with interest the correspondence between you and Quintin Hailsham about the treble damages aspect of the action in the USA against Arthur Andersen. There is one point I should like to pick up in your letter of 12 June. You explain that you will soon be taking a decision on filing a statement of claim in the High Court in London and Belfast. This may be expected to lead to a decision on which jurisdiction to press ahead in. As you know, my Department has an interest in these decisions both as sponsor department for the accountancy profession and because of its jurisdictional concerns in dealing with the United States. I should therefore very much welcome an opportunity to comment.

2. I am sending copies of this letter to the Prime Minister, Cabinet colleagues, the Attorney General, Sir Robert Armstrong and the Head of the Government Accountancy Service.

Yours ever
Norman

NORMAN TEBBIT

DeLorean : Ireland
July '80

CONFIDENTIAL

NBPM
AT
18/6

HOUSE OF LORDS,
SW1A 0PW

18 June 1985

Dear Douglas,

Northern Ireland Office v. Arthur Andersen

Thank you for your letter of 12th June on the policy implications of the treble damage claim. I was more than a little surprised to learn that this was inserted by the American lawyers without prior consultation, and in opposition to the Government's known views. But I agree with you that there is no point now in attempting to withdraw the treble damage claim. Perhaps the lesson for any similar proceedings is to give explicit instructions that no treble damage claim is to be lodged without express prior approval.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney General and Sir Robert Armstrong.

Yrs:

The Right Honourable
Douglas Hurd MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
London S.W.1

Ireland: DeLorean July 80

NIRT AF 17/6

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

Rt Hon Norman Tebbit
Secretary of State for Trade
and Industry
1-19 Victoria Street
LONDON
SW1H OET

13 June 1985

Dear Norman,

ARTHUR ANDERSEN

Thank you for your letter of 3 June about the position Government should adopt on the question of new and existing public sector work for Arthur Andersen whilst our legal action against them is outstanding. I agree it is important that our position and provisional conclusions should be explained carefully to Arthur Andersen and that the firm should be given an opportunity to make representations before we finalise our policy on this matter. I also endorse the objectives which you have stated of protecting the Government's legal position and protecting the public interest in appointing a firm against which there are serious allegations.

The proposals which you make about new, or renewal of existing, audit work are entirely acceptable to me. Like you I attach considerable importance to the advice Michael Havers has given us and, therefore, I also support his views about our approach towards assignment of non-audit work to the firm. I trust this important aspect will also be explained to Arthur Andersen. The firmer our line across the board, the better.

On the matter of consultation procedures and the wider legal policy implications of the US action you will have seen by now my letter of today to Quintin Hailsham. There is nothing I can profitably add to those points. I look forward to hearing the outcome of the meeting with Arthur Andersen in due course. I am copying to the Prime Minister, Cabinet colleagues, the Attorney General, Sir Robert Armstrong and the Head of the Government Accounting Services.

Yours,
Douglas.

R 13/6

CONFIDENTIAL

NDPP
DT 13/6

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon The Lord Hailsham
of St Marylebone PC CH FRS DL
Lord Chancellor
House of Lords
LONDON
SW1A OPW

12 June 1985

Dear Quintin,

Thank you for your letter of 8 May about the treble damages aspect of the action in the USA against Arthur Andersen and Company. I have now received Norman Tebbit's letter of 3 June, to which I will reply separately.

I agree that had my officials known that a treble damage claim would be made or was being contemplated there should have been interdepartmental discussion. In fact the advice and draft complaint prepared in the United States and studied by my officials and the Treasury Solicitor's Office contained no hint that a treble damage claim would be made. This was in line with earlier discussions with the American lawyers in London in which the Government's opposition to treble damage claims was registered. Nevertheless the US lawyers, who were under extreme pressure of time because of the US limitation laws, decided at the last minute to insert a treble damage claim without prior consultation.

I agree, given the history of the Government's negotiations with the Americans, that our public position on treble damages is uneasy. In my letter of 22 April to Norman I explained that there are arguments which can be deployed to differentiate the case from others involving British-run companies. Since tactically it would be silly to "untreble" the claim we must, when pressed, deploy those arguments to draw a ring around the Arthur Andersen case.

As to the present position the Treasury Solicitor is personally monitoring the progress of the action in the United States. It has been made clear to the American lawyers that all action in the case is subject to the direction of the Treasury Solicitor who in turn is keeping the Attorney General's Office in touch with developments.

/Although

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Although the treble damage element of the claim against Arthur Andersen is irksome we should keep in mind that it is but one aspect of the complex case against Arthur Andersen. It is important that we continue to press the case in the United States and also retain our options in the UK. Our next step here will be a decision on filing a statement of claim in the High Court in London and Belfast.

I am sending a copy of this letter to the Prime Minister, Cabinet Colleagues, the Attorney General and Sir Robert Armstrong.

Yours,

Douglas.

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M 3/6 CC

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU580
Secretary of State for Trade and Industry

3 June 1985

The Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
London SW1A 2AZ

D Douglas

I wrote to you on 15 April seeking views on the way the Government should deal with Arthur Andersen's while legal action against them is in progress. You, Leon Brittan and Michael Havers suggested significant modifications to the proposals made.

I must first restate our objectives. These must be to protect the Government's legal position and to take any necessary action to protect the public interest in appointing a firm which is the subject of serious allegations.

To meet these objectives I continue to believe that Andersen's should not be appointed to any new work whilst the case is in progress. As regards the renewal of existing audit work I accept Michael Havers' advice that additional tests need to be applied in each case. These would include questions whether there are any legal or policy reasons that require the continued appointment of Andersen's. If there were none the firm would not be re-appointed. If, however, there were such reasons the Treasury solicitor would be consulted before reaching any decision.

I also accept Michael Havers' advice that undertakings should be obtained from Arthur Andersen's if the firm is to be used on new - non-audit - or continuing work.

I think we are all agreed that any question of secondments from Andersen's should, as Nigel Lawson suggests, be considered on a case-by-case basis.

CONFIDENTIAL

The next step is for me to tell Arther Andersen that we intend to take a decision that affects their interests. This would allow the firm to respond to the approach I have outlined above and for us to take that response into account. (Andersen's have, in any case, asked for a chance to see me "prior to the finalisation of any policy".) When I have met Arthur Andersen I shall write to you again.

I have not commented on consultation procedures and wider legal policy implications of the US action. As Quintin Hailsham has commented, whilst your minute of 25 January (which did not reach me until several weeks after the decision had been taken) explained the reasons for issuing writs against Andersen's in the UK, it said nothing about proceedings in the US. The fact that no one commented on the international implications is therefore not surprising.

I should be grateful for any comments on the policy I have outlined above. I am particularly anxious to invite Andersen's to a meeting as soon as possible.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney-General, Sir Robert Armstrong and the Head of the Government Accountancy Services.

Yours ever,
Norman

NORMAN TEBBIT

Ireland July 1980

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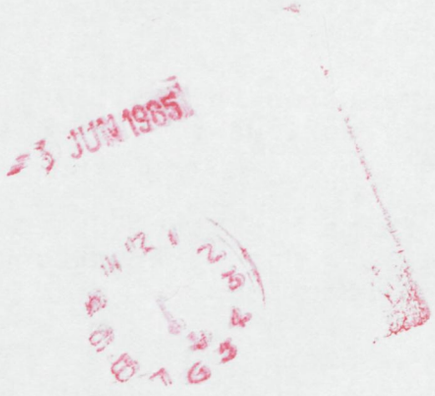


CONFIDENTIAL

NAPM AT 07 CC NO

HOUSE OF LORDS,
SW1A 0PW

8 May 1985

Arthur Andersen

Dear Douglas:

I have looked at the correspondence in this case, and I too share the unease expressed by Tom King in his letter to you of 19th April, and also (by implication) by Norman Tebbit in his letter of 15th April. We have in the past told United States Ministers and officials of our dislike of their treble damage jurisdiction, and in our negotiations on a draft Convention on the Reciprocal Enforcement of Judgments we managed, with considerable difficulty, to get the American negotiating team to agree that awards by United States courts of multiple damages would not be enforceable in this country. The Convention has never been ratified or brought into force, but the negotiations were well publicised in America, and many people there will find it hard to reconcile our negotiating position with the institution of a treble damage action by a Government Department.

I note what you say at the end of your letter of 22nd April about the lack of response from colleagues over the issue of a writ against Arthur Andersen in this country; but I do not think it follows that there would have been a similar lack of reaction to news that it was intended to institute a treble damage action in the United States. There is nothing to be done about this now, but for the future I agree with Norman Tebbit and Tom King that it would be preferable for there to be some prior discussion.

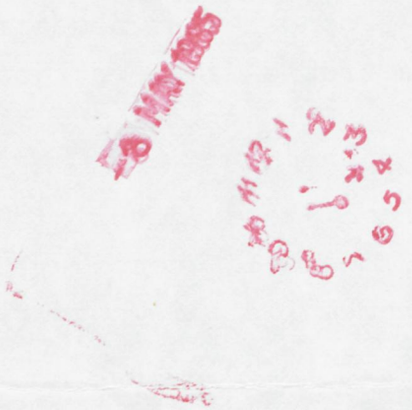
I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney General and Sir Robert Armstrong.

Yrs:

The Right Honourable
Douglas Hurd MP
Secretary of State for Northern Ireland
Northern Ireland Office
Great George Street
London S.W.1

Ireland : de Lorean Sports Car Project

7/80



CONFIDENTIAL

NBPM
AT 30/4
CCNO

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

30 April 1985

The Secretary of State for
Trade and Industry
1-19 Victoria Street
London SW1

Dear Norman.

In your letter of 14 April 1985 to the Secretary of State for Northern Ireland, you raised the question of the extent to which the Government should use the services of Arthur Andersen (AA) in the light of the proceedings issued in the United Kingdom, in Northern Ireland and in the United States of America. You conclude that the advice of the Head of the Government Accountancy Services (HOTGAS) should be accepted. In his letter to you of 22 April 1985 the Secretary of State for Northern Ireland also endorses this approach but with a presumption against employing AA on new work unless there are good arguments for so doing. He then indicates that he would welcome my views on this matter.

Any continuing or further relationship with AA must provide their lawyers with an argument that the Government (in whatever guise it is suing) does not really believe in its case in as much as it involves the integrity and trustworthiness of AA. That would point to severing all relationships with AA, irrespective of their nature, and I understand from the Treasury Solicitor that the lawyers in the United States of America dealing with the proceedings there for the Government take that view.

.../In

CONFIDENTIAL

In so far as new audit work is concerned, there seems to be no disagreement about such an approach. As this is the area of the firm's activity which gives rise to the Government's legal claims, I agree with the advice of HOTGAS.

The position on the renewal of existing annual audit appointments is slightly different in as much as the firm has already been appointed. HOTGAS advises consulting the Treasury Solicitor on a case by case basis about these reappointments and the test suggested by you is that such appointments should be renewed where previous work has been satisfactory. Such an approach amounts to asking whether the conduct of AA in relation to that particular audit in question has been satisfactory and, if it has, continuing their appointment as auditors. I do not regard that test as sufficient. I agree that each case will have to be looked at individually and the questions to be asked are whether there are any legal or policy reasons that require the continued appointment of AA on this particular audit work. If the answers are in the negative, then the reappointment should be treated as if it was new audit work and should not go to AA. If there are such reasons for continuing the appointment, the Treasury Solicitor will have to be consulted and a decision taken in the light of the circumstances of the particular case. Even then, particular care will have to be exercised, bearing in mind that it is in relation to audit work that the Government's complaints against AA lie.

The proposal in relation to new assignments of non-audit work is that they should be considered on a case by case basis. My own inclination would be against awarding any such work to AA but I accept that the risk is less in this area. I would not, therefore, advise against awarding them such work if there were good reasons why in a particular case it was thought appropriate to use their services.

.../There

There is one further situation which must be considered in relation to audit work and all other kinds of work: that is work which AA are currently doing. In my view, any existing contracts should be allowed to run their course unless there are sufficient reasons for terminating them which arise in relation to the particular agreement in question.

In so far as secondments from AA to the Civil Service are concerned (the point made by the Chancellor of the Exchequer in his letter to you of 24 April 1985) I agree with his comments and would endorse the view of HOTGAS that such secondments should be examined on a case by case basis.

The lawyers acting for the Government in relation to the proceedings in the United States of America have suggested that if the use of AA on new or continuing work is contemplated, an undertaking should be obtained:-

(a) that they do not employ any of their partners or staff who were involved in auditing or acting for any of the De Lorean companies at any stage, and

(b) they will not seek any advantage, whether as a legal point, as evidence, or pure prejudice, in litigation on matters arising from the De Lorean affair, in England, Northern Ireland or the United States of America because of the fact of the new employment of AA by the Crown on other matters.

I think we should accept that advice which should reduce the risk of any appointment of AA being used as ammunition against the Government.

As to whether a public announcement is called for, I would point out that there could be considerable legal dangers in

making a public announcement if it in any way enabled AA to say that they had effectively been defamed. For the moment, therefore, I would prefer the Government to write to AA saying that it does not propose to make a public announcement at this stage but will reconsider the matter if the firm thinks such an announcement desirable. However, the Government should reserve the right to make such an announcement in the future, if the circumstances warrant it, but perhaps this can be coupled with an assurance that no such action will be taken without at least giving advance notice to AA.

Copies of this letter go to the Prime Minister, Members of the Cabinet, SIr Robert Armstrong, the Head of the Government Accountancy Service and to the Treasury Solicitor.

Yours Ever. Michael.

IRELAND : De Lorean : July 1980

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Minister of State

Private Secretary to
Mr John Biffen
Leader of the
House of Commons
LONDON
SW1A OAA

24 April 1985

Dear Private Secretary

DE LOREAN : PAC DEBATE

I understand the Whips Office have been in touch with our Parliamentary Clerk about the terms of a take note Motion for the special debate on De Lorean it is proposed should take place on 1 May.

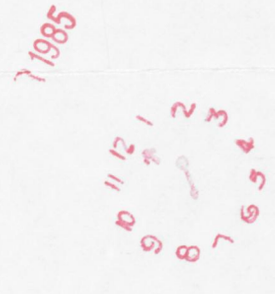
We would propose the following:-

> 'That this House takes note of the Twenty-Fifth Report from the Committee of Public Accounts in the last Session of Parliament and of the Northern Ireland Memoranda on that Report, (HC 127, Cmnd 9374 and HC 199).'

A copy of this letter goes to the Private Secretaries to the Prime Minister, the Attorney General, the Secretary of State for Trade and Industry and the Financial Secretary to the Treasury.

Yours Sincerely
William Fairlie
Private Secretary

cc DR RHODES BOYSON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CONFIDENTIAL

NBPM
AT 25/4

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

24 April 1985

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON SW1

attached @ flag A

I have seen your letter of 15 April to Douglas Hurd about the line we should take in our contacts with Arthur Andersen & Co while the legal action over the De Lorean affair is in progress and I agree with your proposal which is based on advice both from the Head of the Government Accountancy Service and the Treasury Solicitor. I also agree that it would be appropriate for you to write to Andersen's and to put the rest of the profession in the picture via the President of the Institute of Chartered Accountants in England and Wales.

One point you do not cover in your letter is the question of secondments from Arthur Andersen & Co to the Civil Service. Subject to any comments Grey Gowrie may have I suggest that in principle there should be no impediment to their continuation but each should be carefully considered in relation to where a secondee is to be located and to current developments in the De Lorean case.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney General, Sir Robert Armstrong and the Head of the Government Accountancy Service.

NIGEL LAWSON

25 APR 1985

Ireland: De Lorean : July 1980

CONFIDENTIAL

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Norman Tebbit MP
Secretary of State for Trade
and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

22nd April 1985

Dear Secretary of State,

ARTHUR ANDERSEN

Thank you for your letter of 15 April. I welcome the opportunity to comment on the issues which you raise.

As you know, Arthur Andersen (AA) are actively seeking to undermine the Government's action by imputing differences between Departments and possible second thoughts. The Financial Times article of 27 March claiming that Government is considering dropping its US suit has been filed by AA's attorney in a submission to the New York Federal Court alleging lack of confidence in HMG's legal position. AA have also had some success in arousing the accountancy profession in Great Britain.

It is therefore essential that we should not allow any doubt to be raised about our determination to pursue the US action to a successful conclusion. I value your personal understanding and support for the course we are taking. Colleagues should know that the case against AA is strong.

I agree that we must have a clear line for business dealings with AA in the current situation. Northern Ireland officials were aware of the advice being issued by HOTGAS and a very similar letter has been issued to Departments in Northern Ireland. There is no doubt that a firm line in our dealings with AA will strengthen HMG's position in relation to the litigation, just as any inconsistency will be seized on by their lawyers to our detriment. A firm line may also induce AA to reach a fair and early settlement.

I agree/....

CONFIDENTIAL

I agree therefore that Government Departments should clearly not pursue a "business as usual" attitude. In endorsing the HOTGAS advice my view is that whilst the legal action is unresolved there should be a presumption against employing AA on new work unless there are good arguments in their favour.

Given the AA campaign to which I have referred, for which there is at least some backbench support, I think the balance of argument favours a public announcement. I accept however that you will wish to hear what AA have to say, but I hope it will be possible to avoid any undertaking which unfairly inhibited Government in contrast to AA. I shall be interested to see whether Michael Havers has any advice on the terms of our dealings with AA - the Treasury Solicitor has been giving NIO valuable assistance in relation to this whole affair.

At the end of your letter you touch on consultation procedures and also the wider legal policy implications of the US action. I minuted the Prime Minister and colleagues on 25 January about the issue of the Writs against AA in the United Kingdom (some three weeks before the US Writs were issued) without response from colleagues. Some indication of Departmental interests then would in all probability have alerted us to the international issues about which the Treasury Solicitors and DTI Legal Advisers have been in subsequent consultation, including treble damages. It would not be sensible for me to expand on that legal correspondence here, but it is important to be clear that most of the misconduct of which we complain took place in the US by US personnel of AA and involves to a large extent the negligent auditing of DMC (ie the American company). Furthermore Mr De Lorean (a US citizen) planned and executed a fraud in the US which resulted in the diversion of company funds to his own use in the US. I therefore believe that there are substantial grounds for differentiating this case from our general approach to US cases involving British run companies which other colleagues may have in mind.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney General, Sir Robert Armstrong and the Head of the Government Accountancy Service.

Yours Sincerely

N Sheward

Private Secretary

for D H

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

ssd

2 APR 1985

NBPM
PT
2214

HOME SECRETARY

QUEEN ANNE'S GATE
LONDON SWIH 9AT

22 April 1985

2 PP's

Dear Norman,

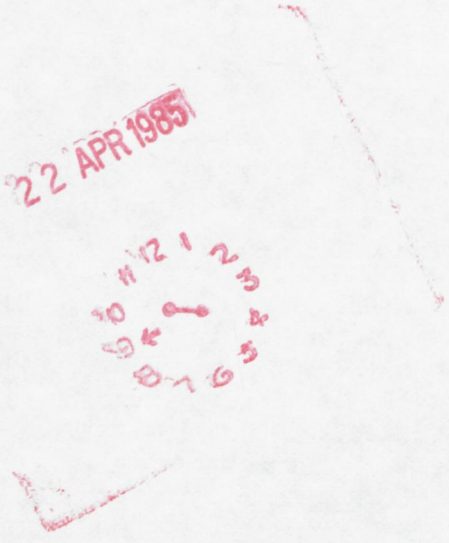
APPOINTMENT OF ACCOUNTANCY FIRMS: ARTHUR ANDERSON

I am content to proceed along the lines described in paragraph 3 of your letter of 15 April to Douglas Hurd, but in considering whether to invite Arthur Anderson to tender for new non-audit assignments while the action is unresolved, I think it would be right to be guided by a presumption that invitations will not be issued unless there are substantial disadvantages in following this course in a particular case. This would more clearly reflect the Government's dissatisfaction with Arthur Anderson's work and be more fully consistent with the action for damages.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney General, Sir Robert Armstrong and the Head of the Government Accountancy Service.

Yours ever,
Leon

The Rt Hon Norman Tebbit, MP


22 APR 1985

NDPM
AT
19/4

GR's
AT

Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland
Northern Ireland Office
Great George Street
London SW1

19 April 1985

Dear Douglas

I have just seen Norman Tebbit's attached letter to you of April 15th, about the US treble damage action being brought by the NIO against Arthur Andersen.

I do not wish to comment on the first point in Norman's letter about the policy towards Andersen, but rather to express some concern about the second point on the question of Government use of treble damage action under US law. I do share the unease implicit in Norman's letter about Government involvement in this area which might be seen as British Government endorsement of such actions, which have led to such difficulties in the British Airways case, and could obviously set possible precedents for the future. I therefore share Norman's concern that this was put in hand without any opportunity for discussion.

Yours

Tom

19 APR 1985

NBPM AT 17/4

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

15 April 1985

Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland
Northern Ireland Office
Great George Street
London SW1

Dear Secretary of State,

The US treble damage action brought by the NIO against Arthur Andersen raises the question of what the Government's attitude should be towards the use of the firm's services. It also raises questions about our policy on treble damage remedies. This letter deals only with the first question which needs to be resolved urgently.

2 The Head of the Government Accountancy Services (HOTGAS) has already written to all Principal Establishment and Finance Officers. I am writing now to seek confirmation from you and colleagues of the basis on which the Government should deal with the firm while legal action is in progress. We also need to decide whether we should make our decision once taken, public or simply tell Andersen's themselves.

3 Advice from HOTGAS is that we should not appoint Andersen's to any new audit work whilst the case is in progress since doing so might risk prejudicing our position. On this basis, officials recommend that existing annual audit appointments should be renewed where work is satisfactory and that decisions on new assignments of non-audit work, whether accountancy or management consultancy, should be considered on a case-by-case basis.

4 This advice seems to me to take a sensible middle line between a "business as usual" attitude and a complete block on the use of the firm's services. The first course is hardly consistent with the allegations in the suit and may carry some risk of prejudicing the action. The second alternative might be regarded as a sign of vindictiveness on our part and would deprive the Government of the firm's much valued services, particularly in the management consultancy field which is quite outside the scope of the action.

5 We will need to let Andersen's know what we decide. Beyond that, there is some argument to support making a public announcement so as to give a clear signal to the rest of the

JH4AYV

accountancy profession. But making such an announcement against Andersen's wishes might prejudice their relationship with other clients and rebound against us. What I propose, therefore, is that in writing to Andersen's we should tell them we do not plan to make our position public unless they would regard this as helpful, but that we will put the rest of the profession in the picture through the President of the Institute of Chartered Accountants in England and Wales.

6 The profession generally is taking a very close interest in the case and I think it important that we settle our policy quickly. With that aim in view, I should be grateful for comments by 22 April at the latest.

7 Without prejudice to the conclusions which might have been reached, and I fully understand the position and motivation of N.I.O., I have to say that I feel that the decision to initiate the US proceedings should not have been taken without consulting this Department as sponsor for the accounting profession. I hope colleagues will bear our sponsorship interest in mind in future dealings with accountancy firms. An action of this kind in the American courts also has implications for our policy concerning US legal procedures and remedies in international areas. As an interested Department we would have welcomed an opportunity to comment on those aspects, not least since N.I.O. would naturally not be fully aware of the implications of their decision upon other cases.

8 I am copying this letter to the Prime Minister, Cabinet colleagues, the Attorney General, Sir Robert Armstrong and the Head of the Government Accountancy Service.

Yours sincerely

Maureen Dodsworth

p.p NORMAN TEBBIT

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

JH4AYV

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
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Secretary of State for Trade and Industry

3 April 1985

Dr Rhodes Boyson
Minister of State
Northern Ireland Office
Whitehall
LONDON SW1A 2AZ

D Rhodes.

DE LOREAN : POSSIBLE WRIT AGAINST LOTUS CARS

In your letter to me of 29 March you ask for confirmation that I would be content for you not to seek to dissuade the joint receivers from issuing a protective writ against Lotus Cars Ltd.

2 The balance of national interest seems to me to point strongly against the issue of such a writ. If the evidence against Lotus Cars was clearly established then we should be prepared to accept the commercial damage that Lotus would suffer from such action. However, as you accept, it seems very unlikely that a case against Lotus could be mounted. Given the numerous investigations that have already been carried out, none of which substantiated any case against Lotus Cars, it must moreover be unlikely that any new evidence is likely to emerge.

3 Although the benefits of a writ are uncertain, its downside risks are considerable. The issue of a writ would I am sure become public knowledge and the Government's approval for it would be assumed. The amount of money involved is of secondary importance: the essential point is that confidence in the company would be dented by what would be perceived as its link with the De Lorean scandal. Commercial damage to Lotus would inevitably result. Contracts would be lost, research and design teams reduced, reputation impaired, and commercial future undermined.

4 To place the position of Lotus at risk purely in the hope that unexpected evidence might emerge linking Lotus with unaccounted payments from De Lorean would surely be wrongly to assess the balance of national advantage.

5 I am copying this letter to the Prime Minister, the Attorney General and Sir Robert Armstrong.

NORMAN TEBBIT

JH1CFH

Weekends
De Cuevas
July 85

CONFIDENTIAL

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Minister of State

The Rt Hon Norman Tebbit MP
Secretary of State for
Trade & Industry
Department of Trade &
Industry
1 Victoria Street
LONDON SW1H QET

29 March 1985

Dear Secretary of State,

DE LOREAN: POSSIBLE WRIT AGAINST LOTUS CARS

The joint receivers of De Lorean Motor Cars Ltd (DMCL) have very recently obtained legal advice that leads them to the view that they should issue a writ against Lotus Cars Ltd in connection with money paid to Lotus by DMCL over a period beginning on 4 April 1979. There is no certainty that the writ would ever come actually to be served: there is some doubt whether a strong enough case could be mounted, and also whether it is Lotus Cars Ltd or the late Colin Chapman personally who could be held responsible for the suspected misappropriation of funds. But the writ (which, because of the statute of limitations, should be issued by 4 April 1985) would keep open for 12 months the option for the receivers to mount a case at some future point if it is justified. The joint receivers take the view that commercial considerations would direct them to the issue of a writ, thus allowing them time to examine over the next 12 months whether further evidence could be discovered which would justify proceeding with an action. The mere issue of a writ, as opposed to its serving, is simple, inexpensive and commits nobody.

I have no reason to seek to dissuade the joint receivers from that course. Although they would possibly be receptive to our views I believe that this is the kind of decision that they should be left to make on commercial grounds without government intervention. However, I am aware that the issue of a writ by the joint receivers against Lotus, albeit one that might not come to be served, could have a potentially adverse effect on the company.

I appreciate ..../

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I appreciate the time constraints involved but would be grateful if you would confirm by the morning of Tuesday 2 April that you would be content for me not to seek to dissuade the joint receivers from pursuing that course.

I am copying this letter to the Prime Minister, the Attorney General and Sir Robert Armstrong.

Yours Sincerely
William Tamble
Private Secretary

for DR RHODES BOYSON

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Prime Minister

DE LOREAN MOTOR CARS LTD: POSSIBLE CLAIM AGAINST THE AUDITORS, ARTHUR ANDERSEN & CO

I ought to let you and colleagues know that following legal advice Writs were issued yesterday by the High Court in London and Belfast at our instance alleging negligence by Arthur Andersen & Co the auditors responsible for reporting on the financial affairs of the De Lorean Motor Co Ltd. A copy of the text of the Writs is attached.

Twelve months is allowed for the service of the Writs. They have been issued at this stage, with the consent of the Attorney General, solely as a precautionary measure to avoid Limitation Act problems which could otherwise arise should a decision be made to pursue a claim against Arthur Andersen. The possible claim is one of a number of questions arising in the De Lorean case which are under review by legal advisers and my officials.

The issue of the Writs is bound to arouse some speculation about future actions in this case. This has been taken into account. The issue of Writs is necessary to protect our position and this will be made clear in response to any Parliamentary or press enquiries as to whether the Writs will be served.

I will be consulting separately with the Leader of the House about the effect the issue of the Writs might have on the requests for a debate on the PAC Report on De Lorean, and the conduct of such a debate.

A copy of this minute goes to the Attorney General and all Members of the Cabinet.

DH.

DH
25 January 1985

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E.R.

The Plaintiff's claim is for damages and interest for negligence and/or negligent mis-statement by the Defendants committed between 1978 and 1982 in the course of the Defendants acting as accountants and/or auditors of DeLorean Motor Company and DSQ Property Company Limited (formerly DeLorean Motor Company Ltd) and/or acting as reporting independent accountants in relation to claims made upon the Plaintiff for building grants, machinery and equipment grants, tooling grants, employment grants, building loans and loans for additional assistance for general business purposes to the said DeLorean Motor Company Ltd, the Plaintiff having relied upon the professional competence of the Defendants prior to making such grants and loans and prior to subscribing for shares in and guaranteeing loans to DMCL.

FILE

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10 DOWNING STREET

From the Private Secretary

16 July 1984

De Lorean

The Prime Minister has seen and noted your letter to me of 13 July. She agrees that your Secretary of State should avoid substantive comment and should follow the usual convention for the handling of PAC Reports.

I am copying this letter to John Gieve (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Graham Sandiford, Esq.,
Northern Ireland Office.

From: THE PRIVATE SECRETARY

Prime Minister (2)
To note
AT 13/7

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Andrew Turnbull Esq
10 Downing Street
LONDON
SW1

13 July 1984

Dear Andrew,

DE LOREAN

Mr Prior has asked me to write to tell you that the Public Accounts Committee which has been examining the Government's handling of the De Lorean case intends to publish its Report at noon on 18 July. In 1982 De Lorean Motor Cars Limited (DMCL), failed with a loss to the public purse in the order of £70m. Unsecured creditors of DMCL claim losses in excess of £35m. Claims arising from these losses are being pursued in the American bankruptcy court against Mr De Lorean's American company, DMC, which is also in liquidation.

We expect to receive embargoed copies of the PAC Report on 16 July and expect it will be highly critical of Government's handling of the De Lorean project. PAC plan a press conference for 18 July and given the publicity surrounding Mr De Lorean's personal circumstances and particularly his trial on drug charges (which is expected to last well into August) there is little doubt that the Committee's criticisms will be widely publicized.

From their line of questioning, we expect that the Committee's criticisms will focus on the initial decision taken, by the Labour Government in 1978, without an adequate assessment of the project; and on the shortcomings of the nominee directors appointed by the Northern Ireland Development Agency. Further, the Committee seems likely to report that officials failed to detect the misappropriation of a substantial sum of public and private money, which should have been applied to the development of the De Lorean car, because the contractual arrangements made with and by DMCL were unsatisfactory and because the Government's monitoring arrangements were inadequate.

Whilst the Committee is likely to recognise that Mr De Lorean must personally carry a heavy responsibility for the failure of the project we also expect there will be criticism of

/...

officials of the Northern Ireland departments and the Northern Ireland Development Agency for the failure to safeguard public funds. There may also be implied criticism of Ministers of the present and previous Administrations.

Mr Prior intends to follow the usual convention of avoiding substantive comment on the Report in advance of the formal Minute of Reply which because of the Summer Recess will not be presented until the Autumn. Northern Ireland is first order for oral questions on 26 July and should the PAC Report be raised then the Secretary of State proposes to answer on the lines that the Committee's Report raises major issues which the Government recognises are of genuine and proper public concern. The Report has, however, only just been received and is still being studied. A Minute of Reply to the Committee will be issued as soon as the Report has been fully studied; but given the intricacies of the case and the serious issues raised by the Committee this will inevitably take a little time. As officials made plain in their evidence to the Committee, the main lessons to be learned from the affair have already been taken well on board, and the necessary changes in procedures and arrangements have already been made.

If very strong criticisms of the Government arise as a result of publication of the PAC Report, and my Secretary of State considers there is any need to depart from the usual convention and to make an early more substantive statement, he will consult colleagues further.

A copy of this letter goes to the private secretaries of each Member of the Cabinet, and to Richard Hatfield.

Yours sincerely,

Graham Sandiford

G K SANDIFORD

SA

13 JUL 1984

NORTHERN IRELAND : ADVANCE COPIES 20

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PS/LADY YOUNG
PS/MR WHITNEY

PS/PUS

SIR J BULLARD

MR JAMES

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RESIDENT CLERK

PS/S of S Rm 66 A/2 GOGGS

SIR P WOODFIELD)
)
MR BRENNAN)
) NIO
MR ANGEL)
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MR BOYS SMITH)

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SIR R ARMSTRONG)
) CABINET OFFIC
DIO)

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PS/No 10 DOWNING STREET (3)

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ADVANCE COPY

NORTHERN IRELAND: DE LOREAN

1. ON 17 JUNE, LAWYERS FOR JOHN DE LOREAN(WHOSE TRIAL ON DRUGS CHARGES IS SHORTLY TO TAKE PLACE IN LOS ANGELES)FILED A MOTION CLAIMING THAT THE BRITISH GOVERNMENT HAD CONSPIRED TO UNDER-MINE THE DE LOREAN COMPANY BECAUSE THE SUCCESS OF THE COMPANY ''AT WHICH CATHOLIC AND PROTESTANT IRISH WORKERS LABOURED SIDE BY SIDE WITHOUT VIOLENCE WAS A POLITICAL EMBARRASSMENT TO THE CONSERVATIVE GOVERNMENT OF GREAT BRITAIN''. THE DEFENCE ARE ALSO CLAIMING THAT THE US GOVERNMENT'S INVESTGIATION OF DE LOREAN, LEADING TO HIS ARREST, WERE UNDERTAKEN AT THE REQUEST OF HMG. IN FILING THE MOTION, THE DEFENCE ASKED FOR A TWO MONTH POSTPONMENT OF THE TRIAL, PROBABLY TO DELAY TESTIMONY BY ONE OF DE LOREAN'S CO-DEFENDANTS WHO HAS AGREED TO PLEAD GUILTY AND TO TESTIFY FOR THE PROSECUTION.

~~CO-DEFENDANTS WHO HAS AGREED TO PLEAD GUILTY AND TO TESTIFY FOR THE PROSECUTION.~~

2. IN RESPONSE TO A QUESTION FROM THE LOS ANGELES BUREAU OF THE NEW YORK TIMES, WE DENIED THE ALLEGATIONS MADE BY DE LOREAN'S LAWYERS. THE INFORMATION OFFICER AT THE CONSULATE GENERAL IN LOS ANGELES, ON OUR INSTRUCTIONS, SAID THAT IT WAS ''ABSOLUTE NONSENSE TO SUGGEST THAT THE BRITISH GOVERNMENT WOULD BE ANYTHING BUT DELIGHTED AT THE PROSPECT OF CATHOLICS AND PROTESTANTS WORKING SIDE BY SIDE''.

3. THE FBI HAVE NOW ASKED US IF WE CAN LET THEM HAVE MATERIAL WHICH CAN BE USED BY THE US ATTORNEY IN COURT TO REBUT THE ALLEGATIONS AGAINST US BY DE LOREAN'S DEFENCE. WE WOULD LIKE TO HELP, NOT LEAST BECAUSE IT IS IN OUR OWN INTEREST TO TRY TO SCOTCH THIS STRORY WHICH, LUDICROUS AS IT IS, WILLNONETHELESS BE BELIEVED BY SOME IN THE UNITED STATES. GRATEFUL FOR MATERIAL THAT WE CAN PASS TO THE FBI. IT WOULD BE HELPFUL IF SOME INITIAL BRIEFING COULD BE PASSED TO US BY TELEPHONE EG. THE AMOUNT OF PUBLIC MONEY INVESTED IN DE LOREAN: BACKGROUND TO THE DECISION TO SITE THE DE LOREAN FACTORY IN AN AREA WHICH WOULD PROMOTE EMPLOYMENT ACROSS THE COMMUNITY DIVIDE ETC. PART OF THE DEFENCE'S CLAIM IS THAT TWO SEPARATE PARTIES OFFERED TO PUT UP ENOUGH MONEY TO SAVE DE LOREAN'S COMPANY IN OTCOBER 1982 BUT THAT THE BRITISH GOVERNMENT OPPOSED THESE OFFERS. WE SHOULD LIKE TO BE ABLE TO ANSWER THAT PIECE OF DISINFORMATION ALSO.

WRIGHT

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Ireland
File

10 DOWNING STREET

Prime Minister

You should know that Nicholas Winterton has given an interview to Nigel Dudley of "Financial Weekly", in which he renewed his complaints against the Attorney General: I am sure and I agree that this was a particularly foolish thing for him to have done, since his meeting with you demonstrated that there was no substance to his complaints against the Attorney General.

You will see from the attached that the publishers are giving the Attorney General time to comment before publishing.

F.E.R.B. 6.1.

TEXT OF LETTER FROM MR. NURSAW, LAW OFFICERS' DEPARTMENT TO MR. RICKETT DATED 5 JANUARY 1983

Dear Willie,

MR. WINTERTON AND THE DE LOREAN STORY

We spoke this morning about an article which was to appear in the next issue of "Financial Weekly". Subsequently, Mr. Robert Maxwell, Chairman of IPC, asked his lawyers to speak to the AG and they had to make do with me. I stuck to the 'no comment' line and commented that even if the AG should wish to comment, he was not allowed time to do so. I have since heard that Mr. Maxwell has decided to delay publication for a week. I asked the journalist concerned, Mr. Nigel Dudley, to write giving the substance of Mr. Winterton's attack on the AG, SG and DPP.

Yours ever,

Jim

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LAW OFFICERS' DEPARTMENT
ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

J. Nursaw
LEGAL SECRETARY.

pm. 5 Jan '83

cc mr Butler
mr Gow

wh
4.1

Dear Willie,

M. Winterton + the de Lorean Story

We spoke this morning about an article which was to appear in the next issue of "Financial Weekly". Subsequently Mr. Robert Maxwell, chairman of I.P.C., asked his lawyer to speak to the A.G. + they had to make do with me. I stuck to the 'no comment' line + commented that even if the A.G. should wish to comment, he was not allowed time to do so. I have since heard that Mr. M. has decided to defer delay publication for

a week. I asked the journalist concerned, M. Nigel Dudley, to write giving the substance of M. Winterton's attack on ~~the~~ A.G., S.G. + D.P.P.

Yours ever,

Jim

W.F.S. Richett, Esq.
10 Downing Street.

Ireland 2

PRIME MINISTER

cc Mr Gow
Mr Ingham

You will wish to be aware that the Attorney General's secretary rang me today to say that he had been contacted by a journalist working for "Financial Weekly". The journalist said that Nicholas Winterton had given him a long story about the misuse of public funds by De Lorean. The story also included attacks on the Attorney General and the Director of Public Prosecutions, and accused the Government of a "massive cover-up".

The journalist asked the Attorney General's secretary whether the Law Officers would comment on Mr. Winterton's story. The Attorney General's secretary replied that the Law Officers would have no comment to make, except to say that Mr. Winterton's allegations of a cover-up were not true. Ministers would obviously defend themselves against any such allegations in Parliament, and not in the columns of a newspaper.

5 January 1983

10 DOWNING STREET

From the Principal Private Secretary

24 December 1982

PERSONAL AND CONFIDENTIAL

Dear Philip,

MR NICHOLAS WINTERTON MP AND THE DE LOREAN COMPANY

I have shown your letter of 23 December to the Prime Minister, who was very grateful for it. She has noted the points made in it, and there are just two comments of substance which I should pass on to you.

On the second allegation that money was spent on projects which were not connected with the production of the DMC 12, much of the criticism has focused not on the purchase of houses for employees but on the extravagance with which some of those houses were equipped, particularly the house of Mr De Lorean himself.

On the fifth allegation, the Prime Minister's reaction was that the arguments in your letter against mounting an inquiry into allegations that payments - presumably financed from public funds - did not reach their proper destination do not look convincing: the fact that the information covered by the police in October 1981 was not new to the Northern Ireland authorities is not self-evidently a conclusive reason for not mounting any futher investigation or for thinking that such a further investigation would be purely cosmetic.

On the procedure, the Prime Minister concludes that it would be better not to arrange a written Parliamentary Question at present. The effect of such a public statement would be to put Mr Winterton into the wrong and would probably compel him to respond by alleging inadequacies on the part of the Government. This would not help Mr Winterton with his legal actions and would exacerbate his differences with the Government. The Prime Minister is inclined to think that the best course is to wait and see what Mr Winterton decides to do next following his meeting with her and then to consider further any Government

reaction in the light of that.

I am copying this letter to Jim Nursaw.

Yours ever,

Robin Butler

P J Woodfield Esq., CB CBE,
Northern Ireland Office.

10 DOWNING STREET

Prime Minister

You will want to see Mr. Woodfield's letter below about action taken by the Northern Ireland office on Mr. Winterton's suggestions.

I have made two marginal comments on points where the letter does not seem to me conclusive.

I doubt whether the suggestion of an inspired PQ is a good one at present. It would not vindicate Mr. Winterton and would most probably prompt him to challenge the NIO's account in public.

I agree ... FERB 23.12.

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NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

PUS/L/2499/MLR

Permanent Under Secretary

Mr P J Woodfield CB CBE

F E R Butler Esq
Principal Private Secretary
No 10 Downing Street

23 December 1982

Dear Robin,

MR NICHOLAS WINTERTON MP AND THE DE LOREAN COMPANY

Thank you for your letter of 15 December.

None of the allegations put forward by Mr Winterton in October 1981 was new, all of them having been made from other sources at one time or another. Our first knowledge of Mr Winterton's interest in these allegations was when Mike Pattison came to see me on 2 October to tell me of Mr Winterton's approach to Mr Gow; subsequently Mr Pattison amplified that information in a telephone conversation on 5 October. The papers which Mr Winterton provided were not shown to anyone in the Northern Ireland Office, being the subject of a police investigation; but the Law Officers' Department gave us a clear indication of the thrust of the allegations made, precisely so that we could see whether there was any material requiring further examination by the Northern Ireland Office.

There were five allegations and the way in which they have been handled is as follows:

a. Mr De Lorean did not invest as much in De Lorean Motor Cars Ltd (DMCL) as he had promised.

This allegation had been made earlier in the summer of 1981 and the Northern Ireland Department of Commerce had already

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made it clear that the agreement with the De Lorean companies provided only for De Lorean Motor Company (DMC) to invest £546,000 (or $1M); this it did. Mr De Lorean was not required and did not promise to make any personal investment in DMCL.

b. money was spent on projects which were not connected with the production of the DMC 12.

There appears to be two different thoughts behind this allegation; first, it is claimed that DMCL should not have purchased houses, etc for employees working in Belfast; but Northern Ireland authorities had given assistance to the Company specifically so that they could take such actions designed to attract high quality management staff to Belfast. This was a case of using funds for the intended purpose, not misuse. Second, DMC involved itself in certain other manufacturing operations (eg development of a transbus and an off-the-road vehicle). Because the Northern Ireland Development Agency had two directors on the Boards of DMCL and DMC, the Northern Ireland Department of Commerce had much earlier notice of this point than was given by Mr Winterton. In May 1981 NIDA commissioned McKinseys to advise them on whether these operations were a proper part of the functions of DMCL. Their report, received on 8 May 1981 confirmed that these other activities made considerable sense for a one product company seeking to secure its future by looking at complementary products which would help to spread manufacturing and marketing overheads. McKinseys concluded that there was no evidence that these activities had in any way affected the DMC 12 project and the investments were modest totalling $550,000 in all.

This does not deal with the allegation that Mr. de Lorean's house was over-lavishly equipped.

c. the proposed public issue of shares in New York would benefit Mr De Lorean, and reduce the return to the UK taxpayer.

It was undoubtedly the case that the initial terms proposed by Mr De Lorean for the public launch of shares would have been unjustifiably harmful to the Government's shareholding. It was

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for precisely this reason that the Northern Ireland Development Agency refused to endorse the terms proposed by Mr De Lorean, and insisted on negotiating much better terms. Ultimately because of the toughness of the Government's attitude the issue did not go ahead.

d. fraudulent claims have been made by DMCL for criminal damage compensation.

The criminal damage in question was the burning of buildings on the DMCL factory site in Belfast in May 1981; some important records were lost and company production was set back. DMCL claimed in respect of the damage to the property. This was assessed by the NIO at £425,327 and was paid. DMCL also claimed some £10.5M compensation, to include the loss of production and loss of revenue. The NI Office, which was also responsible for meeting this claim, has not accepted the amount, and negotiations are still proceeding on what should be the correct compensation. The eventual figure is likely to be about one quarter of the original claim. The fact that the claim was greater than the amount we are willing to pay does not mean that the original claim was fraudulent; claims are, unfortunately often excessive. There is no indication that De Lorean was trying to commit fraud and in any case we have taken good care to ensure that no excessive sum is paid to the company.

e. the payment made to a Swiss bank for the benefit of GPD Services Inc which was believed by NIDA would go to Lotus Cars, apparently never reached that company. ?

At an early stage in the enterprise (1978) it was clear that DMCL would need the assistance of an established car manufacturer to develop the research ideas into a manufacturing project. The DMCL Board agreed that GPD Services, a company registered in Panama but operating out of Geneva, should procure the services of Lotus Cars and its Chairman Mr A C B Chapman for this purpose. It has since been claimed that a large part of the money initially paid by the De Lorean Research Limited Partnership and DMCL to GPD did not in fact reach Lotus Cars Limited and Mr Chapman. That allegation was made in the

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summer of 1981 and, as you know, was repeated by Mr Winterton.

There was at that time, and still is, no proof as to what did happen to some of the money paid to GPD and this was, of course, among matters put to the Police to investigate. As you know, the Police investigation in October 1981 did not uncover anything to justify further Police action, and it was the view of the Law Officers and the Director of Public Prosecutions that none of the information uncovered by the Police would have been new to the Northern Ireland authorities. In these circumstances there was no merit in trying to mount a further specific civil investigation into the GPD monies. Indeed, there was a powerful reason why a new investigation should not be mounted. At that time in the Autumn of 1981 the Government's overwhelming anxiety was to ensure that we got as high a return as possible out of our very large investment in the De Lorean enterprise. The Company had just started to sell its cars in the United States and we were all most anxious that it should be helped to go on selling them as quickly and profitably as possible. Unless there were clear prospects that a further investigation would uncover new facts there was every reason not to go through a cosmetic investigation; such an investigation could only have harmed the company's prospects and the Government's prospects of getting a good return on its investment, for no real benefit.

I do not find this paragraph very convincing

F.E.R.B.

No I do not.

I think the correctness of this judgement is supported by the fact that when Receivers were appointed in February 1982 they were still unable to determine what happened to some of the money paid to GPD; and it is as a result of the Receivers' inability to trace this money that the Police have now been asked to mount a further investigation and the Department of Trade have also launched a Companies Act investigation.

Underlying some of these points, and some of the other things said about De Lorean lies an important question about the extent to which Government can and should seek to trace the use to which a company

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puts money supplied by Government. The authorities' agreement with De Lorean was that in return for Government assistance he would establish a car building factory in West Belfast, and employ some 2,500 people there. The Public Accounts Committee are likely to have some very critical things to say about the De Lorean project as such. But in their examination of the extent to which Government properly monitored De Lorean's performance of his side of the bargain, I think they will find that the Department of Commerce and the Northern Ireland Development Agency scrutinised progress very carefully indeed. The arguments as to whether Government should seek to go further than that have much wider repercussions, and we have tried to be careful in our public stance not to imply a general willingness to accept responsibility for the use made of any funds contributed by Government to a private concern. Nevertheless, NI officials have in fact taken a good deal of care to monitor the operations of the company, and have arguably gone further than is normal in such cases. For example, the Department of Commerce requested the two directors appointed by the Northern Ireland Development Agency, in terms which did not allow any choice, to block the bonus payments to DMCL executives in early 1982.

Turning to Mr Winterton's present concerns I wonder whether you might think it helpful to relieve some of the pressure by giving some of the answers to his allegations by means of, for instance, an answer to an arranged Written Parliamentary Question to my Secretary of State. Although we would have to be careful in drafting an answer to avoid possible difficulty with the Public Accounts Committee, and would certainly wish to consult the Law Officers Department on the text, I think it might be possible to prepare a short statement which could acknowledge that Mr Winterton made the five allegations given above and could give a reasonably clear answer to at least the first four of them. The drafting on the 5th would be more difficult, but if you think the Prime Mininster would find it helpful to consider this approach I will have a draft prepared for consideration.

I am sending a copy of this letter to Jim Nursaw.

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Yours ever, Peter.

P J WOODFIELD

Ireland, July '80, Delorean

23 DEC 1982

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Ireland

L. Mr. Gow

NOTE FOR THE RECORD

DE LOREAN

The Attorney General telephoned me this evening, saying that, following the Prime Minister's meeting this morning, he had consulted the Northern Ireland DPP about whether the RUC investigation into the affairs of the de Lorean car company seemed likely to produce evidence of any criminal activities.

The answer he had received was that it seemed unlikely that it would do so. The only major question mark arose from one document which suggested that a payment of £3 million to the Lotus company for work on design of the de Lorean had been paid twice. The RUC were likely to ask the Northern Ireland Department of Commerce to help them in investigating this, but it was unlikely that the payment had been made twice, and the Bank records indicated only one payment. There were other minor matters such as the use of company funds for decorations in Mr. de Lorean's house, but these seemed more likely to be objects of shareholders' complaints rather than grounds for criminal charges.

I reported this to the Prime Minister.

F.E.R.B.

15 December 1982

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FILE

B/F

JR

bc Mr. Gow

[redacted] SUBJECT

cc Master

10 DOWNING STREET

From the Principal Private Secretary

15 December 1982

CONFIDENTIAL AND PERSONAL

Dear Philip,

MR. NICHOLAS WINTERTON, MP, AND THE DE LOREAN COMPANY

I attach a note of a discussion between the Prime Minister, the Attorney General and Mr. Nicholas Winterton, MP, which took place at 10 Downing Street today. I apologise for its length but thought it right to make a detailed record of this meeting.

The meeting was held, at Mr. Winterton's request, because Mr. Winterton had told the Prime Minister's Parliamentary Private Secretary that he wanted to see the Prime Minister in order to complain about the way in which the Law Officers Department had conducted investigations, following Mr. Winterton's approach to 10 Downing Street in the latter part of September and the early part of October 1981. In the course of the discussion, you will see that Mr. Winterton accepted that the allegations which he made at that time did not constitute evidence of criminal activity. However, it was not possible at this meeting to dispose of Mr. Winterton's fall-back argument that the Government should have followed up the evidence of misuse of public funds; and it is to be expected that Mr. Winterton will return to this point.

Following Mr. Winterton's departure, the Prime Minister instructed me to ask you if you would prepare a note on the action taken by the Northern Ireland Office on Mr. Winterton's allegations and the material which he provided. Presumably this is a matter which the PAC inquiry will also be covering, but the Prime Minister would like to know whether you are satisfied that it can be demonstrated that the Northern Ireland Office did all they could to establish whether this material contained evidence of misuse of public funds or other misconduct.

B/F

I should be grateful if you could restrict sight of these papers to as few people as possible. I imagine that you will want to show them to the Secretary of State, and there is of course no objection to that.

I am copying this letter and the enclosure to Jim Nursaw (Law Officers Department).

Yours ever,

Robin Butler

P.J. Woodfield, Esq., C.B., C.B.E.,
Northern Ireland Office.

dla

CONFIDENTIAL

DE LOREAN

The Prime Minister and the Attorney General had a meeting with Mr. Nicholas Winterton, MP, at 10 Downing Street on Wednesday 15 December at 1030 a.m. Mr. Gow and I were also present.

Mr. Winterton spoke on the lines of notes attached to this record. He added the following points. The story of his involvement began in September 1981 when he was contacted by a constituent of standing, who told him that a former employee of De Lorean had some disturbing information about the company. Mr. Winterton met this employee, who turned out to be Miss Marion Gibson, at the constituent's home. Miss Gibson made allegations which seemed serious and Mr. Winterton said that he could not take any action without supporting evidence. About a week later, he met Miss Gibson again at the house of the same constituent. She produced two folders of documents, some of which seemed to substantiate her allegations. Since he was not an accountant or a barrister, Mr. Winterton arranged for these documents to be sealed with a witness present and for them to be deposited in a Manchester bank. He contacted the Prime Minister's Parliamentary Private Secretary asking for an urgent meeting.

Mr. Winterton said that shortly afterwards Miss Gibson, having returned to the United States, rang up to say that insufficiently urgent action appeared to be being taken in Britain and that she was giving an interview to a journalist in the United States. Mr. Winterton said that he then telephoned 10 Downing Street and spoke to Mr. Pattison. On the following day, the Solicitor-General rang him on three occasions when Mr. Winterton was out. Mr. Winterton rang him back and the Solicitor-General said that the allegations appeared serious. The Director of Public Prosecutions also rang; both said that they were asking members of the Fraud Squad to call on Mr. Winterton to investigate the allegations.

/ Mr. Winterton

Mr. Winterton said that he arranged for the documents to be released from the Manchester Bank and received two officers of the Fraud Squad at 3 p.m. on Saturday 3 October. The officers took the documents away at the end of the interview. Shortly after they had left, the Director of Public Prosecutions rang and asked to speak to the officers but was told that they had left to return to Congleton Police Station. Mr. Winterton went to discover the telephone number of Congleton Police Station but by the time he returned the DPP had rung off and, since then, Mr. Winterton had had no contact with 10 Downing Street, the Law Officers or the DPP.

Mr. Winterton then spoke on the lines of his notes, adding that he thought it discourteous on the part of No. 10 to have put out a statement without warning him that they were doing so. When Mr. Winterton said that on Saturday 10 October the Attorney General had let it be known to the press that on the following Monday, 12 October, a statement was going to be made clearing De Lorean, the Attorney General intervened to say that he had not made any statement on the Friday that De Lorean would be cleared and was not in a position to do so since conferences were not held with the police officers on their return from the United States until the following Monday.

Having spoken from the attached notes, Mr. Winterton concluded by saying that he hoped that he would be given credit for not having exploited his position as a Member of Parliament by asking embarrassing Questions in the House as he could have done. He felt that he had behaved responsibly in taking the initiative in bringing allegations about misuse of public money to the attention of the Prime Minister's office. In return, he had received publicity that he did not want and, although everything he had said had turned out to be true, libel actions were continuing against him. He thought it significant that De Lorean had asked Lord Goodman to act on his behalf and Lord Goodman had instructed Lord Rawlinson, a former Conservative Attorney General. He felt

/ that there was

that there was here a "mini Watergate" involving a cover-up, although he was not aware of the reasons for it. But he was not prepared to sit back. The press were close to the story and a great deal of dirt was likely to come out in the press and in books which were being prepared. He felt entitled to ask that a Government Minister should acknowledge his part in the events and explain why the Government did not act sooner. He recognised that the Government could not cause the actions to be dropped, but he would like the Government to say that his allegations had proved well-founded. If not, he might be forced to make a public statement which would be damaging to the Attorney General and to the Government.

The Prime Minister said that the press did not learn in October 1981 of Mr. Winterton's involvement from the Government. Mr. Winterton acknowledged this, saying that, following a statement from No. 10, Miss Gibson had given Mr. Winterton's name to journalists. The Prime Minister and the Attorney General pointed out that Mr. Winterton was not under any obligation to broadcast the allegations, and the proper course would have been to refrain from comment since the matter was in the hands of the police. Mr. Winterton pointed out that he had been beseiged by journalists and he thought that, if this was the proper course, it would have been courteous for the Solicitor-General to have so advised him.

The Attorney General pointed out that the specific allegations made by Mr. Winterton, when investigated, had not produced any evidence of criminal activity. The first - that De Lorean had not invested what he claimed to have invested - was not a criminal offence: if there was any breach of contract with the Government, that was a matter to be pursued through civil proceedings. The second allegation - that payments had been made into a foreign bank account in connection with the design of the car - was the result of an agreement with the Lotus Company, which was well known to the Northern Ireland Office. The third allegation - that money had been spent on projects which had nothing to do with the car - was more likely to give

/ rise to

rise to complaints from shareholders than to involve any criminal activity. The fourth allegation - that the proposed public issue in New York would enrich De Lorean at the expense of the British taxpayer - could not by definition involve any criminal activity since the public issue had not occurred. There was a fifth allegation - that De Lorean had made fraudulent claims for compensation for the loss of his factory in Northern Ireland through fire. The facts were that De Lorean had received £450,000 which was agreed following an independent survey and had put in a claim for a further £10.5 million for loss of business: whether or not this claim was well founded it was one which De Lorean was entitled to make.

Mr. Winterton interjected that it was not for him to say whether there had been criminal offences: whether the matters should have been followed up by criminal or civil proceedings, he had still done his duty in bringing them to the attention of the Government. The Attorney General pointed out that, for his part, he was only concerned with criminal offences. As regards other matters, the Northern Ireland Office had been brought in by the DPP throughout and were fully aware of the material made available through Mr. Winterton.

Mr. Winterton then referred to the story in Private Eye on 19 November and, in particular, to the reports that the police had not kept an appointment for a second interview with Mr. Haddad and that, before Mr. Haddad was interviewed for the first time, De Lorean had appeared to know what the police were going to ask him.

The Attorney General said that the explanation was quite simple. Haddad had failed repeatedly to keep appointments and De Lorean had been asked to instruct Haddad to meet the police. It seemed perfectly reasonable to seek De Lorean's co-operation in getting an employee to cooperate with the police in this way. The police had finally seen him on

Friday 9 October and reported to London that evening that they were making no progress. They were therefore instructed to return to London for a conference to be held on the following Monday, and this was the reason why they had not had a further interview with Haddad.

Mr. Winterton said that he still did not accept this version of events. He felt that the British Government had not been straight with him. After his responsible action in bringing allegations of the misuse of public funds to the attention of the Government, the Government should have warned him that it was putting out a statement and to have kept him in touch with developments. The Attorney General said that after seeing that Mr. Winterton had given interviews to the press on 5 October, he had given instructions that further information should not be passed to Mr. Winterton for fear that Mr. Winterton would publish it.

Mr. Winterton said that he would like to have a further meeting with the Prime Minister with his Solicitor present, and had understood from Mr. Gow that this would be possible. The Prime Minister said that she could only meet Mr. Winterton as one Member of Parliament to another: if he was to bring in his Solicitor, the matter would have to be handled between legal advisers on both sides. Mr. Gow quoted from his letter of 26 November in which he had advised Mr. Winterton first to see the Prime Minister on his own and had said that, if Mr. Winterton insisted on bringing his Solicitor, he would have to ask the Prime Minister about it.

The Prime Minister asked Mr. Winterton whether he accepted that his allegations had not included evidence of criminal activity. Mr. Winterton said that he did, but said that in that case it had been the duty of other parts of the Government to follow up the material he had given. There were still many further points to be investigated, including tax irregularities, involving Colin Chapman. He believed that what he had said had turned out to be fully

/justified

CONFIDENTIAL

justified and his simple request was that a member of the Government should say so. The Prime Minister and the Attorney General said that the Government could not make any such statement on the basis of what was currently known: enquiries by the RUC were still continuing.

Mr. Winterton asked why there had been no enquiries between October 1981 and February 1982 when receivers were put in. The Prime Minister said that the Northern Ireland Office would have been closely monitoring the company during that period. Mr. Winterton said that it did not create confidence in the control exercised over the company when two nominee directors had voted huge bonuses to De Lorean and his right-hand man only a few days before liquidation. The Prime Minister commented that her recollection was that the bonuses had not actually been paid, and Mr. Winterton confirmed that this was so.

Mr. Winterton said that he did not think that the discussion could be carried further at present. His respect for the establishment, never high, had been reduced by this episode in which he had been innocently involved and in which he had been trying to do his public duty. He would consult his Solicitor, but had to warn that there was likely to be unpleasant publicity which would damage the Government. The Prime Minister suggested to Mr. Winterton that, in his own interest, he should only discuss the content of the present meeting with his Solicitor, and Mr. Winterton confirmed that he would do so. The Prime Minister said that she was comforted by this assurance.

F.E.R.B.

15 December 1982

Original and
I Gow

Prime Minister

NICHOLAS WINTERTON - DE LOREAN

1. Herewith copy of his letter to me, plus enclosures, of 25th of last month, which you have seen already.

2. You will remember that I sent a copy of Nicholas's letter, plus enclosures, to the Attorney General.

3. Herewith the Legal Secretary's reply, plus enclosure.

4. I have since spoken to the Attorney General. We both think that he ought to be present when you see Nicholas Winterton.

5. May I now please arrange for Nicholas to see you, with the Attorney General coming to see you 10 minutes before Nicholas arrives?

9.12.82

pp IAN GOW

cc. Robin Butler

COVERING CONFIDENTIAL

Original with I. Gow

LAW OFFICERS' DEPARTMENT
ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

J. Nursaw
LEGAL SECRETARY

3 December 1982

I Gow Esq MP
Parliamentary Private Secretary
10 Downing Street
LONDON S W 1

Dear Mr. Gow,

You wrote to the Attorney General on 26 November about the request from Mr Nicholas Winterton MP for an interview with the Prime Minister at which he could discuss his concern about certain aspects of the De Lorean story. The Attorney General is in court every day at the moment and has not been able to write to you but he has prepared the enclosed minute for the Prime Minister and has asked me to send with it the note prepared by the Director of Public Prosecutions. My purpose in writing is simply to give details of some of the persons named in that note. I am named in paragraph 2. In paragraph 4 there is a reference to Ken Dowling who is now the Deputy Director of Public Prosecutions. In paragraph 6 there is a reference to Sir Barry Shaw, the Director of Public Prosecutions for Northern Ireland.

Yours sincerely,

James Nursaw

ATTORNEY GENERAL

PRIME MINISTER

I enclose a letter from the D.P.P. setting out the background to the police investigation into De Lorean.

I would only add that there were very urgent reasons for a rapid decision. The rumours were causing the bank to consider removing their lines of credit to the Company and there was an immediate risk of collapse.

M.H.

2.XII.82

CONFIDENTIAL

Attorney General

DE LOREAN

1. You asked for a note to assist you in briefing the Prime Minister, as requested in Mr Gow's letter of 26th November.

SEQUENCE OF EVENTS

2. This matter first came to my attention on Friday 2nd October, 1981, when Jim Nursaw telephoned me with the Solicitor-General's request that I should consider whether there were grounds for police investigation. I spoke to Mr Winterton on the telephone, and arranged for a Metropolitan Police Officer (Detective Chief Superintendent George) to travel to Cheshire next day to see Mr Winterton. I can confirm that, as noted in the No. 10 note dated 28th October 1981, I was concerned at the extent to which Mr Winterton was expressing his views about de Lorean, at a stage at which there was nothing to support them.

3. On Saturday 3rd October I received a number of telephone calls at home, to the effect that the Press had the story of Mr Winterton's allegations. These included a call from Philip Woodfield, Permanent Secretary NIO. I spoke on the telephone to Mr Winterton and subsequently to D.C.S. George in Cheshire to warn them of this. Mr George told me that Mr Winterton had been on the telephone to members of the Press while he (George) was at his home.

4. On Monday 5 October Mr George and his colleague (Detective Inspector Hefford) delivered to me the documents they had received from Mr Winterton. I arranged a conference for later in the day to allow time for Ken Dowling and me to study the papers. At this conference we asked the police to interview Miss Gibson (who had originally handed the papers to Mr Winterton) that evening and to report back next day.

5. On Tuesday 6 October, I held a conference with the police and subsequently spoke to you on the telephone. We agreed that the police should go to New York as soon as possible to interview Mr Haddad, the vice-president of the De Lorean organisation, who was alleged to be the originator of some of the complaints against De Lorean. On the same day, the Solicitor-General issued a statement (copy attached).

6. On Wednesday 7th October, you held a conference with myself and Dowling, Barry Shaw, Ewart Bell, (Northern Ireland Civil Service) and Commander Gillert (Metropolitan Police). I explained the present position of the police investigation and Ewart Bell described the effect of the publicity concerning De Lorean on the Northern Ireland economy. It was agreed that the current police enquiries in New York should continue with maximum urgency, and the investigating officer should keep Mr Gillert informed of progress. You told the Northern Ireland representatives that you hoped to issue a statement clarifying the position by Friday 9 October.

7. Because of difficulties over interviews in New York, it was not possible for the police to report back by the weekend, but they returned to London in time for a conference with you at 11 a.m. on Monday 12th October. As well as the police officers, and myself and Dowling, Barry Shaw was present. The police reported orally, and produced copies of the statements they had taken. It was agreed that no evidence had emerged that any criminal offence had been committed within the jurisdiction of the English courts, and that the New Scotland Yard could not usefully take their enquiries any further. We agreed a Press statement (copy attached) which was issued that day.

MR WINTERTON'S COMPLAINT

8. It appears from page 2 of Mr Winterton's notes that his principal complaint, so far as we are concerned, is that we prevented the police from completing their enquiries. In fact, by the time the police reported to us on 12th October, they had interviewed (as well as Mr Winterton) Miss Gibson, a lawyer called Clarence Jones, (who also produced some documents), Haddad, (who was accompanied by his Attorney Sorkin) and Knepper, another employee of the De Lorean Organisation. They had also had a number of telephone conversations with Haddad and Sorkin. None of these persons had produced any firm evidence of any breach of the criminal law by De Lorean. Most of the allegations, and in particular the Haddad Memo of 26 December 1980 which was the basis of much of the interviewing, were expressions of disquiet over the way in which De Lorean had been able to persuade HMG to provide him with financial support in Northern Ireland and the effect which the publicity over this, including a possible Parliamentary enquiry, would have on the De Lorean organisation as a whole. When this was reported to us on the morning of 12th October, we decided that there was so little prospect of obtaining evidence to justify prosecution in this country that we should not ask the police to continue their enquiries. We also had in mind the representations we had received from the NIO about the effect of the investigation on the De Lorean enterprise there.

9. The only proper purpose of the police investigation could be the collection of evidence for criminal proceedings in this country. Insofar as they had unearthed allegations of activities which, while not amounting to criminal offences committed within our jurisdiction, did suggest that not all was well with the De Lorean activities, the proper course was for us to ensure that HMG were aware of this. This was achieved by including NIO representatives at our meetings. Any follow-up of that line was not a matter for the prosecuting authorities.

PRIVATE EYE

10. In addition to the points raised by Mr Winterton, there is a suggestion that Haddad had learned in advance from De Lorean what the police wished to interview him about. This may or may not have been correct. Certainly, Haddad, who had originally managed to avoid a interview with the police officers, subsequently apologised and explained that "he had received a telephone call from John De Lorean instructing him to meet us (the officers) with the De Lorean lawyers at the company offices". Haddad added that he understood that Mr Adam Butler (Minister of State) had telephoned De Lorean stating that he (Haddad) was refusing to see the police.

T.C.H
29.11.82

PRIVATE AND
CONFIDENTIAL

10 DOWNING STREET

26th November 1982

Nicholas Winterton and de Lorean

Nicholas Winterton came to see me on the evening of 24th November, with a request for an immediate interview with the Prime Minister in order to discuss this matter.

I am enclosing a copy of Nicholas Winterton's letter to me of yesterday's date, copies of the enclosures to that letter, a copy of the relevant page of the current edition of Private Eye, and of my reply to Nicholas of today's date.

I am also sending to you a copy of a Memorandum dated 28th October 1981 which was sent by Mr Michael Pattison (then one of the Prime Minister's Private Secretaries) to her then Principal Private Secretary.

The Prime Minister must, of cousre, see Nicholas, but before she does so, she will need to be fully briefed about the matter.

Would you be kind enough, please, to let her have a full note, dealing in particular with the matters raised in Nicholas Winterton's Notes and with the allegations in Private Eye?

You may think that, in any event, you ought to be present when the Prime Minister sees Nicholas Winterton; I am sure that you ought to be there if Nicholas insists (which I hope that he will not) on bringing his own Solicitor.

I should add that I have, in my file, copies of the writs which have been issued against Nicholas; you may have copies already; however, if you would like to have copies of these writs, could your secretary please let me know?

cc

I should add that Nicholas is very deeply critical of the way the Government has handled this matter, and in particular, of your Department.

IAN GOW

The Rt Hon Sir Michael Havers QC MP

SOLICITOR GENERAL

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn 3291

STATEMENT BY SOLICITOR GENERAL

Sir Ian Percival, QC MP has today issued the following statement:-

Referring to the de Laurean matter the Solicitor General said "I think it very important that a few facts be corrected and that the truth of the matter should receive the widest possible consideration.

It has been repeatedly stated in the last two days that: "The Prime Minister has ordered an investigation of the Company's affairs", or words to that effect. No part of that is correct. On the contrary the truth of the matter is very different from the impression conveyed by that and other reports.

When the Prime Minister was informed of the allegations, she asked that the Law Officers should consider on her behalf what action if any should be taken. After considering what little was then known, I asked the D.P.P. to arrange for a police officer to meet Mr. Winterton to receive from him details of the allegations being made, and of the evidence said to support them - all in complete confidence.

Had it not been for others going public that course would have combined the advantages of ensuring proper consideration of the evidence, if any, whilst avoiding the very danger which has now arisen of people assuming that something must be wrong because enquiries were being made - a danger made very much greater by the use of such words as I have quoted.

I wish therefore to make it absolutely clear that neither the Prime Minister nor anyone else has "ordered an investigation of the Company's affairs" or anything remotely like it. What I requested and authorised was no more than the sort of routine steps which are taken over and over again, indeed must be taken when allegations of the type now being bandied about are made.

The purpose of such steps in such cases is to see whether there is or is not anything to be followed up. It hardly needs

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01-405 7641 Extn

saying that it would be highly irresponsible for anyone to leap to any conclusions - especially when by so doing they could put men's jobs at risk."

6th October, 1981

No.3/81

STATEMENT BY DIRECTOR OF PUBLIC PROSECUTIONS

On Friday 2nd October, the Director of Public Prosecutions was asked to consider whether there were grounds for a police investigation into certain allegations concerning the DeLorean Motor Company and its President, Mr. John DeLorean. The Director then requested officers of the Metropolitan Police to conduct a preliminary enquiry and to report to him. These officers have now interviewed and obtained certain documents from Mr. Nicholas Winterton, M.P. and have also interviewed Miss Marian Gibson, a former employee of the Company, and have conducted certain enquiries in the United States of America. They have reported to the Director on the result of these enquiries.

The Director is satisfied that no evidence has emerged to support any of the allegations of criminal conduct on the part of Mr. DeLorean or the Company. He has consulted the Attorney General and they are agreed that there are no grounds for continuing the Police investigation.

Accordingly, on the advice of the Director, the Metropolitan Police are closing their enquiries. Should any evidence of a criminal offence subsequently come to the attention of the Director, he would give it consideration.

Noon, Monday, 12th October, 1981.

SUNDAY - 11 OCT 1981

TELEGRAPH

De Lorean statement tomorrow

By CHRISTOPHER HOUSE

SIR MICHAEL HAVERS, the Attorney-General, will issue a statement tomorrow on allegations of financial irregularities within the De Lorean sports car company in Northern Ireland. It is expected to say that so far the allegations appear to be unfounded.

The statement follows a week of routine inquiries by Detective Chief Superintendent John George and Detective Chief Inspector John Hefford, of Scotland Yard's Serious Crimes Squad.

A detailed report has already been prepared for the Government and includes a copy of an alleged inter-office memorandum from Mr Williams Haddad, communications director of De Lorean to Mr John De Lorean, 52, the company's founder and a former General Motors executive.

The memorandum, written on Boxing Day last year mentions the alleged financial irregularities but is not signed or initialled.

It was given to Mr Nicholas Winterton, Conservative MP for Macclesfield, by Miss Marion Gibson, a former secretary in the New York office of the De Lorean Motor Company.

The two detectives interviewed Mr Haddad in New York on Friday for three hours. After the interview Mr Irah Lee Sorkin, Mr Haddad's lawyer who sat in on the questioning, said: "I can confirm that my client was in fact the author of the memo."

However, when Mr De Lorean arrived in Britain on Friday he denounced the inter-office memo as a forgery. He said that the allegations were untrue and he would be taking legal action.

The De Lorean furore—P24
Opinion—P21

Walker the Agriculture Mini- ... orean in ... were intended to refer to Colin Chapman, ... anything ...

TELEGRAPH

PRIVATE AND
CONFIDENTIAL

10 DOWNING STREET

26th November 1982

Dear Nicholas,

Thank you for your letter of 25th November, and for the Notes which you enclosed.

When you came to see me on Wednesday evening, I agreed, most readily, that the Prime Minister would see you, as you had asked.

I explained that the Prime Minister would want to inform herself about the matter, and suggested that your meeting with her would be more likely to be fruitful if she had had an opportunity of being fully briefed.

You accepted this suggestion and I asked whether you would be kind enough to let me have some Notes which would set out a summary of your complaints against the Government.

You certainly did not give me notice that you would "Require my solicitor, Richard Sykes, to be present at the meeting that I have with Margaret Thatcher."

For my part, I think that it would be best if you should first see the Prime Minister on your own; if you insist on bringing your solicitor as well, I will, of course ask the Prime Minister about that, but it would alter the character of the meeting and in that event I am certain that the Prime Minister would want the Attorney General to be present as well.

Perhaps your would very kindly give me a ring about this on Monday morning.

In any event, I will arrange your meeting with the Prime Minister just as soon as possible.

I want you to know that I understand how strongly you feel about this; and how very sorry I am that this whole matter should have caused so much distress to you and to your family.

IAN GOW

Nicholas Winterton Esq MP

25th November 1982

Dear Ian.

These are shorthand notes prepared for me by my solicitor who has all my papers on De Lorean and they basically deal with my personal involvement and not matters relating to the national interest which can be expanded upon when I meet the Prime Minister next week. I give you notice that I shall require my solicitor, Richard Sykes, to be

4.

Present at the meeting which I have with Margaret Thatcher. There are a few words I would like to add in connection with the article which I gave to you yesterday evening (by Dilhorne).

My home telephone No is [redacted]
my secretary is Mackintosh 0625-22-72
my office is Hoy C 219-4402 and if
my secretary is to return to London after the
weekend during Monday afternoon 29/11/8

Yours ever

Denis

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NOTES BY NICHOLAS WINTERTON

As soon as Marion Gibson showed me documents to back up her allegations about De Lorean, I wrote to Ian Gow. That was on the 23rd September 1981. On the 2nd October the Solicitor General spoke to me and I repeated Miss Gibson's allegations.

On the 4th October, 1981, Number 10 put out a statement to the effect that the P.M. had asked the Attorney-General to get the Police to look into the matter. My name was not mentioned by Number 10 but it was mentioned by Marion Gibson to journalists. The Press and Media descended on me en masse at my home.

On the 5th October at my home I gave an interview to the BBC and ITN. I attach a transcript of what I said to the BBC. I said much the same to ITN. In effect I repeated Marion Gibson's allegations, which were:-

1. De Lorean had not invested what he had claimed to have invested.

2. Mysterious payments had been made into a foreign bank account in connection with the design of the car.

3. Money had been spent on projects which had nothing to do with the car.

4. The proposed Public Issue in New York would enrich

De Lorean at the expense of the British taxpayer.

Police Officers from Scotland Yard arrived in New York on Wednesday, 7th October. They had one interview with Bill Haddad, formerly of De Lorean Motors, and a further appointment was made for Tuesday, 13th October. But on Saturday, 10th October they were instructed by the D.P.P. to suspend their investigations. Why?

Also on Saturday, 10th October the Attorney-General let it be known to the Press that on the following Monday, 12th October, a statement was going to be made clearing De Lorean. An article to this effect appeared in The Sunday Telegraph of the 11th October.

A statement was issued by the D.P.P. on Monday, 12th October acquitting De Lorean of any criminal offence. This resulted in the issue of Writs against me on the following day by De Lorean himself, his American Company and the British Company. De Lorean announced at a Press Conference in Belfast that he was claiming damages against me of $250,000,000.

The Police and the Attorney-General having failed to find any evidence against De Lorean, I instructed my lawyers to make their own enquiries. At my considerable expense they went to New York, and very quickly found evidence (some of it on public files) which satisfied them that the four allegations made by Marion Gibson were entirely true. They also spoke to people in Detroit who supplied further evidence, again on public files, of De Lorean's murky past.

I hoped that eventually H.M.G. would realise what had been happening. I thought in particular that the appointment of the Receivers would result in a disclosure of De Lorean's misdoings, but it resulted merely in the continuance of the libel actions against me by among others the Receivers themselves on behalf of the Northern Irish Company, and, I suspect at the expense of H.M.G.

I had hoped that when the Receivers completed their report into the affairs of De Lorean Motor Cars Limited it would be published. Instead it was handed to the Police in Ulster a few days before the Public Accounts Committee was due to make its enquiries. For a reason I do not understand the P.A.C. is now to sit in camera. I am driven to the conclusion that the purpose of my reporting Marion Gibson's allegations to 10 Downing Street, which was to ensure that they were properly investigated, was frustrated. All it achieved for me was a lot of publicity which resulted in an expensive and worrying law suit against me personally. It is of little comfort for me to know that everything I said on the 5th October can be proved to be true in spite of the silence, of (1) the Police, (2) the Receivers and (3) the Public Accounts Committee.

Meanwhile the libel actions against me continue in spite of the efforts of my lawyers to force their discontinuance.

WORDS COMPLAINED OF BY DE LOREAN
AGAINST MR. N. WINTERTON

B.B.C.

Mr. Winterton "They /Marion Gibson's allegations/ relate firstly to the investment that is supposed to have been made by Mr. De Lorean and his Company in De Lorean Motor Cars Limited of Dunmurry, Northern Ireland. The figure that was supposed to have been invested by him was four million and I am led to believe the allegation is that has been given to me, that only seven hundred and fifty thousand dollars has been invested in fact, so clearly that is quite a big shortfall and the British Taxpayer has handed up something like £80 million to this Company. Secondly there is concern about payments that have been made to an individual involved with the design of the car and the placing of those sums in a foreign bank account and also the spending of certain sums of money which have no relevance in fact to the motor car company and a final complication which I think is very serious is of course the issue, the Public Rights Issue which at the moment is postponed in the United States relating to this Company, the launch of a Rights Issue by the De Lorean Company which could well prejudice the British Government and the British Taxpayers stake in the Northern Ireland Company."

Security

Hull trawlers in deep waters

CONCERN has been mounting for some time within the Ministry of Defence about a serious security breach relating to the construction of the Type 23 Frigate, on which feasibility studies were carried out in 1981.

Those taking part in this study were the MoD, British Shipbuilders Yarrow, and shipbuilders Vosper Thornycroft in Portsmouth. The MoD at that stage had made available for the study secret staffing reports and other classified material *with the usual items excluded for security reasons.* This early assessment was worked on further earlier this year by MoD staff and carried a high classification.

Meanwhile independently of this study a consortium of naval architects and designers had developed a new hull known as Osprey. The Osprey design has been vigorously promoted in defence circles by Mr David Giles, a man in his fifties who did his National Service as a naval officer. Previously a project manager at British Aerospace, he now spends his time pushing the Osprey design.

Giles has been active in defence circles on behalf of his consortium for at least seven years and sought to have the Osprey hull replace the Leeds-type of patrol vessel, but without success so far. This Osprey design has been used in Denmark where patrol vessels have been built – two others going to Burma. In this venture, Osprey have teamed up with the large northern Danish ship-builders and repairers, Frederikshavn Vaerft.

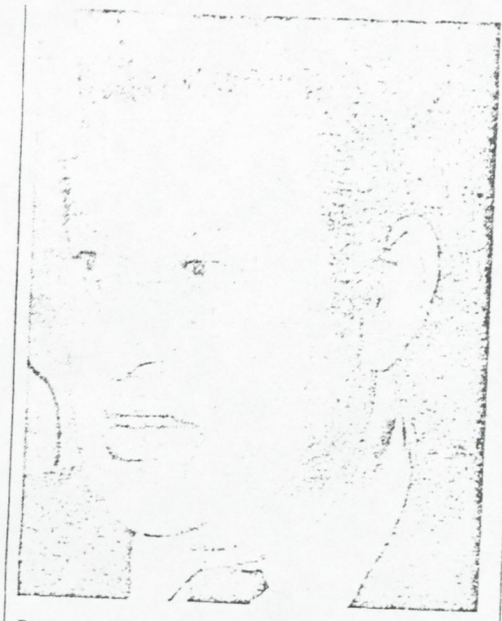
In the period of 1979/80, Giles sought to persuade the MoD that the Osprey designed hull could be graded up – to between 2,000 to 4,000 tons. This claim was followed by some extensive lobbying in Conservative Party circles and the press. But all along the MoD, whilst acknowledging that Osprey was a marginally cheaper hull, maintained that its overall costs were much greater than the already accepted design. But such was the impact of Giles' lobbying technique that he managed to arrange for himself and his consortium to be shown around the Chatham docks earlier this year. Included in this party was Mr Niels Bach of Frederikshavn Vaerft.

It was clear from this inspection that the consortium were looking into the commercial possibilities of Chatham, due to be shut down, for warship building on a private basis.

Shortly after this, copies of the secret staffing report were made available to Giles and his associates, from within the Ministry of Defence. It is believed that no-one at that time had security clearance to receive these documents, although Giles may have subsequently obtained it.

It has been alleged that these documents were made available to Giles with the knowledge of the Under Secretary for Defence and MP for Chertsey and Walton, Mr Geoffrey Pattie.

One firm result of this leak was that Giles and his consortium was able to return to the MoD and make a firm proposal about the feasibility of the alleged Osprey design to the Secretary of Defence, John Nott, in May of this year. What has horrified MoD officials is that



SILKIN: "Threats to security in the MoD"

Giles had got hold of this material in the first place and had used it against the department that had unwittingly supplied it.

This story came to the attention of the Opposition spokesman on Defence, John Silkin, about three months ago. He told the *Eye* "When this matter was first drawn to my attention some months ago I passed my information on to the First Sea Lord, Sir Henry Leach. Since then I have heard nothing."

Sources within the Ministry of Defence have estimated that over a prolonged period they have spent about £½ million in answering correspondence and attending meetings dealing with Mr Giles's promotion.

But the most worrying thing about this commercial intrusion into the MoD is the security breach. As John Silkin put it: "On the information provided to me, there is cause for concern. There may be grave threats to security and the commercial integrity of the Ministry of Defence."

100 Years Ago

The De Lorean memorandum

ONE ASPECT of the De Lorean scandal which has passed unnoticed is the curious affair of the Scotland Yard "investigation" in October last year. This cleared De Lorean and so allowed him to unleash a battery of writs against his critics, thereby helping him to stifle criticism until the company's financial problems surfaced.

The police investigation was announced following the disclosures made to Conservative MP Nicholas Winterton by De Lorean's former deputy administrator Marion Gibson, and subsequently published by the *Daily Mirror* on October 5. The allegations of financial irregularities in particular focussed on the celebrated "gold faucets" memo written by De Lorean vice president, Bill Haddad, in December 1980, which raised questions about spending by De Lorean and his executives.

The Director of Public Prosecutions, Sir "Tony" Hetherington, was asked by Sir Ian Percival, the Solicitor General, to initiate a police inquiry into the allegations. On October 12, the DPP announced that no evidence of criminal conduct had emerged.

Officially cleared, De Lorean promptly proceeded, via Lord Goodman, to sue Winterton, Gibson, the *Daily Mirror* and Independent Television News. These cases were still active at the time John De Lorean, the suitcase of cocaine and the FBI all met up in the Sheraton Hotel, Los Angeles.

From the beginning, the police investigation was handled in a haphazard way. It was given to two detectives from the Yard's C1 department, Det. Chief Inspector John George and Det. Inspector John Hefford. (C1 is the Yard's all-purpose crime department. It usually handles nothing more financial than robberies.)

The approach taken by the Yard detectives did not impress those they interviewed in the United States. The Haddad memo was seen correctly as crucial. In the beginning De Lorean denounced it as "a forgery". It therefore became essential to ascertain the truth of both the document and its contents. For that Bill Haddad was vital.

George and Hefford went to New York to interview Haddad whom they saw on October 9. Before that meeting an unusual and disturbing event had already taken place: Haddad was told by De Lorean what the police wanted to talk to him about, and he formed the distinct impression that De Lorean knew in considerable detail what evidence had been given to the police.

During the interview, Haddad maintained the authenticity of the memo and that it had been delivered to De Lorean's office. It was arranged with the two officers that there should be a further meeting in four days' time to discuss certain further matters; D.C.I. George subsequently indicated to Haddad's lawyer that the inquiry was not closed and that they would be back in touch.

The second meeting never took place. Instead, the two Scotland Yard detectives returned to London. Haddad never heard from the Yard again. This did not totally surprise him. For he formed the opinion during that one and only meeting that this was an exercise of going through the motions. An "everything alright" report was what was wanted from the police. A similar impression was gained by Marion Gibson.

The very day before the Yard men had arranged to meet Haddad for a second discussion it was announced by the DPP that the investigation had been concluded – satisfactorily for John De Lorean.

Haddad's concerns were increased when it was reported – after his interview with the police – that De Lorean was quoting the result of Scotland Yard's unpublished investigations as being that the memo was undelivered – from which he concluded that it was "fabricated".

When his lawyer raised this with the Yard, a letter was written on behalf of the Assistant Commissioner (Crime) Gilbert Kelland, acknowledging Haddad's version of events and concluding with the curious statement that the police "acknowledges your concern at any possible leakage of information to John De Lorean".

That there had been such a leakage seemed certain. Haddad's former boss knew just too much about what Marion Gibson had told Nicholas Winterton and Winterton had told the police. This included awareness of documents that were never published. Then there was De Lorean's surprisingly well-informed position on what the police were going to ask.

Just how John De Lorean came to know all this is a matter of speculation. However, one possible explanation may lie in the Government's wish not to have a scandal over De Lorean at that time if it could be avoided. No doubt choice of Lord Goodman as his lawyer was also helpful.

In any event, the Government got exactly what it wanted. De Lorean was whitewashed – until the skeletons started piling out of the cupboard a few months later. Interestingly enough, even now there is no wish to reopen that oh-so-brief police investigation, despite the ample evidence of abuse of taxpayers funds that has emerged. Instead that is to be left to the Commons' Public Accounts Committee.

Meanwhile, it is to be hoped that Lord Goodman's firm, Goodman Derrick, and his eminent counsel, Lord Rawlinson, have assured their fees for undertaking John De Lorean's now somewhat redundant libel actions. If not, they could have a long wait. Perhaps 72 years.

Ireland 2

From: THE PRIVATE SECRETARY

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

Willie Rickett Esq
Private Office
10 Downing Street
LONDON SW1

18 November 1982

Prime Minister
The affair I mentioned this afternoon.
WR 18/11

Dear Mr Rickett

You will wish to know that due to developments with the De Lorean motor companies Mr Butler, following advice from the Leader of the House, intends to answer the following arranged Parliamentary question tomorrow:-

Question "To ask the Secretary of State for Northern Ireland if he will make a further statement on the affairs of De Lorean."

Mr Butler "In a statement to the House on 19 February 1982 about the affairs of the De Lorean motor companies, my Right Honourable Friend referred to an investigation of the company's affairs made by Coopers and Lybrand. The Receivership, which was announced that day, is being undertaken by Sir Kenneth Cork and Mr Paul Shewell, partners in Cork Gully, a member firm of Coopers and Lybrand. During the Receivership enquiries have continued into a number of matters, relating to the conduct of the De Lorean business, brought to light in the Coopers and Lybrand report. On the basis of information which has come to hand in the course of these further enquiries, papers relating to a number of such matters have now been referred to the Chief Constable of the RUC for his consideration."

Yours sincerely

W D A HAIRE
Private Secretary to
Adam Butler

KW

From: THE PRIVATE SECRETARY

CONFIDENTIAL

Mr Lewis to see

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

D IRELAND.

Michael Scholar Esq
10 Downing Street
LONDON SW1

29 October 1982

Prime Minister (2)

MLS 29/10

Dear Michael

DE LOREAN

Given the intense public interest in the developments in the De Lorean case, Mr Prior thought it would be appropriate to circulate a brief note to his colleagues outlining the current situation.

As is well known, the Joint Receivers, Sir Kenneth Cork and Mr Paul Shewell, had been negotiating for some time with a group of investors in the USA, under the banner of a newly incorporated shell company, DMC Inc, with which Mr De Lorean himself was associated, for the sale of the Northern Ireland manufacturing operation at Dunmurry as a going concern. The Receivers' efforts, however, were frustrated continually by the unfulfilled promises of DMC Inc to demonstrate their commitment by providing evidence of the availability of finance for the project. Finally, in agreement with the Secretary of State, the Receivers imposed a final deadline of 10.00 pm BST on 18 October 1982, by which time DMC Inc were required to lodge a sum of $10m in a Bank account, which the Receivers could verify, or the Receivers would terminate their discussions with these investors. DMC Inc failed to meet the deadline, and in the absence of any other potential investors, the Receivers announced in the afternoon of 19 October 1982, again with Mr Prior's agreement, that they were proceeding to the final rundown of the Dunmurry plant.

Later the same day Mr De Lorean was arrested on drugs charges in Los Angeles, where he remains in custody.

Since then, the Receivers have been approached by a number of further interests, both in the UK and in the USA, about the possibilities either of purchasing the inventory of finished De Lorean cars still held in Belfast, or of acquiring all the assets of the De Lorean company in receivership including the cars. The Receivers have indicated to the Secretary of State that the most favourable option among those presently under consideration by them would involve an American company, Consolidated International of Columbus Ohio, which specialises in the purchase and sale of liquidated inventories, purchasing the 1,000+ cars in

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CONFIDENTIAL

Belfast at a price of some $12,500 per car, and at the same time taking an option, to which they would pledge a sum of some $850,000, to acquire the remaining assets of the company within 45 days.

It is for the Receivers themselves to decide which option is likely to provide the best return for the debenture holder (HMG) and there is no decision for Government to take on the matter at present. If however, the Receivers conclude an agreement with Consolidated International or some other party, which gave that party the option to acquire the assets at Dunmurry, Government may be asked to agree to the Receivers sub-leasing the land and buildings to a new operator. If that occurs, Mr Prior would wish to consult colleagues again. He is assured by the Receivers that any agreement into which they might enter, will not commit Government in advance, to sub-leasing the premises.

One of the major creditors of the De Lorean Motor Co Ltd (DMCL), Renault (who supplied the engines for the car) sought, and were granted, a winding-up petition against the company in the High Court on 28 October 1982. The Court has fixed the date for a hearing in Chambers for the appointment of a liquidator, as 10 November 1982. We understand that this will have no material effect on the Receivers carrying out and completing their work on behalf of the debenture holder.

In the meantime, the American arm of the De Lorean operation, DMC, has filed for, and has been granted in the American Courts, an Order enabling the company to enter so-called Chapter 11 proceedings in the USA. This apparently involves the appointment of a Committee of Creditors who, jointly with the existing Board of Directors, consider whether it is possible to save the company through a financial re-construction; failing that, the company moves into bankruptcy, and the disposal of its assets is under the control of the creditors' committee, and the Courts. The Receivers of DMCL, and HMG, as major creditors of DMC, will have a major voice in the Committee of Creditors.

The Receivers have lodged a number of claims against DMC in respect of sums credited by DMCL and in respect of cars which were shipped to DMC in the USA and for which no payment was made, and they have also been instructed to lodge a claim on behalf of HMG for £10m, for which sum DMC provided a counter-indemnity, against the guarantee by HMG for a like sum, of repayment of commercial borrowings by DMCL, which was called, and paid, when the company went into receivership.

Mr Prior has asked the Receivers to let him have their final report in advance of the Public Accounts Committee hearing, which is set to begin on 22 November. In that Report he would expect them to address in more detail the background to some of the financial irregularities to which they alluded in their earlier report of February 1982. On ~~foot~~ receipt of that Report, it will be necessary to

consider whether Government should launch any further investigations, either by the police, or by financial experts, or initiate legal proceedings against any of the parties involved.

Mr Prior would aim to let his colleagues have a further situation report in the course of the next few weeks.

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

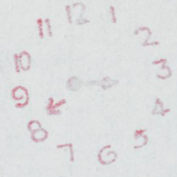
Yours sincerely

Martin Hopkins

M W HOPKINS

KW

29 OCT 1982



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cc NIO MJ

10 DOWNING STREET

THE PRIME MINISTER

27 October 1982

Dear Mr. Pitt,

Thank you for your letter of 29 September which you wrote on behalf of the De Lorean Suppliers Consortium. I am sorry that you have not received an earlier reply but I am sure you will appreciate that the situation has been extremely fluid.

You will be aware that De Lorean Motor Cars Limited was put into receivership on 19 February 1982 by the sole debenture holder - the then Department of Commerce for Northern Ireland - at the request of the company's Directors. In addition to various grants the Department had made two loans totalling £20.67m. to the company. These were secured by a first charge on the fixed assets of the company and a floating charge over all of the assets of the company. The Department had also provided guarantees in respect of £10m. of bank borrowings by the company and these were secured by a counter-indemnity provided by the De Lorean Motor Company registered in the USA. The Northern Ireland Development Agency subscribed £17.757m. for preference share capital in De Lorean Motor Cars Limited.

The Receiver's primary task was a recovery of the amounts secured by the debentures and their advice was that they should continue to trade for a limited time in order to explore whether a purchaser for the business as a going concern could be found.

/It was

It was clear to them after examination that a sale on this basis would produce a greater return for the debenture holder than a sale of the assets on a piecemeal basis. Jim Prior accepted their advice and I understand that you have been keeping in close touch with the efforts of the Receivers to find a suitable purchaser and that the creditors, as a body, have supported them in their endeavours.

I do of course appreciate the position in which unsecured creditors of the company have been placed but I cannot agree that the Government should, in effect, subsidise their losses by diluting its position as a secured creditor. Although the previous administration agreed to the subscription for preference shares and the provision of substantial assistance, and my administration honoured the commitment to see the car through to its market launch, I am convinced that it would not be proper for the Government to avert the consequences attaching to what were normal commercial transactions between a private company and its suppliers.

Mr. Prior has made it clear that no further Government funds will be made available to rescue this project. While he and I would of course wish to see a new enterprise take over and re-create employment in Northern Ireland and in Great Britain, it would be for the new private investors to satisfy themselves that the funds which they would be injecting would be soundly invested. I am sure that investors of substantial funds would wish to investigate carefully the potential viability of the enterprise into which their funds were being injected before entering into any agreement with the Receivers.

Yours sincerely

Margaret Thatcher

J.A. Putt, Esq.

COVERING:- CONFIDENTIAL

From: THE PRIVATE SECRETARY

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

Michael Scholar Esq
10 Downing Street
LONDON
SW1

26 October 1982

fr le Pres
signature: august
letter is on file.
JR 26/10

Dear Michael

Thank you for your letter of 10 October. I am sorry not to have provided a draft reply to John Putt sooner but the position was changing almost daily and we did not want to say something which would have been overtaken by the time Mr Putt received his letter! Although the situation .... is still a little fluid, I now attach a draft reply, together with a background note for your own information.

Yours Sincerely
Mike Hopkins

M W HOPKINS

ssd

COVERING:- CONFIDENTIAL

ER.

BACKGROUND NOTE

DE LOREAN: LETTER FROM MR PUTT

1 A response was delayed while the position on Mr De Lorean putting money into the Belfast firm remained so fluid. Mr Putt's point about the unwillingness of suppliers to cooperate with new investment in the Belfast firm was at least partly due to the involvement of Mr De Lorean himself. Mr Prior announced on 19 October that Mr De Lorean had failed to provide funds and he was arrested in the United States the following day. That Mr De Lorean is no longer in play as a potential investor makes it somewhat easier to answer the points of principle raised in Mr Putt's letter.

2 The letter is in essence a plan from the unsecured trade creditors of De Lorean for Government to allow some of the proceeds of the sale of the assets of the company to be distributed to them rather than the total proceeds being swallowed by Government in satisfaction of its secured claims.

3 The Government has steadfastly refused to concede on this point since the company was put into receivership because De Lorean is a private company. Although Government, through the Northern Ireland Development Agency, had subscribed a substantial amount of preference share capital, the holding of these shares did not, because of the way in which the voting rights attaching to them were determined, give the Government control of the company, or put it in a position of managing the company.

4 If Government were to concede that any amount which would normally come to it under its debenture should be made available to meet part of the company's debts to trade creditors it would create a precedent which would have wide and serious repercussions.

5 Mr Putt said in his letter that, if Government is not prepared to concede on this issue, any new company which might purchase the assets of the Northern Ireland De Lorean company would find itself without suppliers of components and materials. The Receivers are very sceptical about Mr Putt's ability to make that statement on

behalf of the suppliers. Indeed, we understand that Mr Putt told the Receivers that his own company would be prepared to supply a new company in order to clear substantial stocks of components held.

6 In any event it would be a matter for the investors in the new company to satisfy themselves that supplies of necessary components, materials and parts would be available and on terms which would enable the new venture to be a viable entity.

7 The joint Receivers, Sir Kenneth Cork and Mr Paul Shewell, have been proceeding with the rundown of the operation at Dunmurry since the Secretary of State's announcement on 19 October. There have been a number of inquiries about the business, one of which is an offer from Consolidated International of Columbus Ohio. The uptodate position on offers being discussed with the Receivers is being reported separately to the Prime Minister.

DRAFT LETTER

FILE NUMBER.....

ADDRESSEE'S REFERENCE.....

To	Enclosures	Copies to be sent to
J Putt Esq Managing Director Barrett Engineers Limited East Challow Wantage OXON OX12 9ET (Full Postal Address)		(Full Address, if Necessary)

LETTER DRAFTED FOR SIGNATURE BY .....
(Name of Signatory)

DE LOREAN MOTOR CARS LIMITED (IN RECEIVERSHIP)

Thank you for your letter of 29 September which you wrote on behalf of the De Lorean Suppliers Consortium. I am sorry that you have not received an earlier reply but I am sure you will appreciate that the situation has been extremely fluid.

You will be aware that De Lorean Motor Cars Ltd was put into receivership on 19 February 1982 by the sole debenture holder - the then Department of Commerce for Northern Ireland - at the request of the company's Directors. In addition to various grants the Department had made two loans totalling £20.67m to the company. These were secured by a first charge on the fixed assets of the company and a floating charge over all of the assets of the company. The Department had also provided guarantees in respect of £10m of bank borrowings by the company and these were secured by a counter-indemnity provided by the De Lorean Motor Co, registered in the USA. The Northern Ireland Development Agency subscribed £17.757m for preference share capital in De Lorean Motors Cars Ltd.

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The Receiver's primary task was a recovery of the amounts secured by the debentures and their advice was that they should continue to trade for a limited time in order to explore whether a purchaser for the business as a going concern could be found. It was clear to them after examination that a sale on this basis would produce a greater return for the debenture holder than a sale of the assets on a piecemeal basis. Jim Prior accepted their advice and I understand that you have been keeping in close touch with the efforts of the Receivers to find a suitable purchaser and that the creditors, as a body, have supported them in their endeavours.

I do of course appreciate the position in which unsecured creditors of the company have been placed but I cannot agree that the Government should , in effect, subsidise their losses by diluting its position as a secured creditor. Although the previous Administration agreed to the subscription for preference shares and the provision of substantial assistance, and my Administration honoured the commitment to see the car through to its market launch, I am convinced that it would not be proper for the Government to avert the consequences attaching to what were normal commercial transactions between a private company and its suppliers.

Mr Prior has made it clear that no further Government funds will be made available to rescue this project. While he and I would of course wish to see a new enterprise take over and re-create employment in Northern Ireland and in Great Britain, it would be

.R.

for the new private investors to satisfy themselves that the funds which they would be injecting would be soundly invested. I am sure that investors of substantial funds would wish to investigate carefully the potential viability of the enterprise into which their funds were being injected before entering into any agreement with the Receivers.

Ireland.

De Lorean

July 1980

Mr. Dubs: Does the right hon. and learned Gentleman agree that there is much public disquiet about the failure—I use that word advisedly—of Operation Countryman? Is he aware that that public concern will not be stilled by denials from retired police officers, no matter how eminent? Does he agree that he and the Home Secretary have a responsibility to carry out a full investigation into the whole sorry business?

The Attorney-General: The problem was that the original Countryman investigation was carried away on a wave of optimism. Figures as high as 80 potential cases were given at one time, but when the evidence in respect of those cases was looked at with care, many times it was found to be hearsay upon hearsay. Often the evidence was from people with serious convictions who may have had a score to settle against particular police officers or against the police force in general.

When the complaints of obstruction came to light, as the hon. Gentleman will recall, the then chief constable in charge of the investigation issued a statement denying that there had been any obstruction. Shortly after that, I had a long meeting with him and Sir Peter Matthews who was to take over from him. We went through everything that was there, and in the end the sort of obstruction that I could identify in the complaints was, for example, that the Director had not agreed to a general immunity against anybody that we wanted to call as a witness, even though that might be in a serious armed robbery case, such as the Williams and Glyn's bank case. For years the Director has refused to give such blanket immunities. I am sure that all right hon. and hon. Members will agree that that is proper.

There were one or two complaints about the Director's representative working in Surrey with the Countryman force. When one looked into them, they were found not to be cases of obstruction of any kind. The meeting ended with a resolve on all sides that the inquiry should go forward with renewed vigour.

Mr. Arthur Davidson: In view of the criticisms made by Sir David McNee in his memoirs of the way in which the Operation Countryman team worked and his allegations that the inquiry went much wider than was necessary, will the Attorney-General tell the House how closely the DPP kept in touch with and advised those carrying out the investigations?

The Attorney-General: The Director of Public Prosecutions did everything that he could to keep closely in touch, but unfortunately from time to time Countryman officers did things that could not be justified. Without telling the Director that they had done so they arrested a senior officer on a charge that had nothing to do with Countryman. He did not learn about it for some weeks. There was found to be no evidence when the facts were analysed, and the officer had to be discharged.

In another case the Countryman officers sought to support a bail application in a Surrey case involving a villain in Surrey when the Surrey police were opposing bail. Mr. Hambleton admitted to me at the meeting that both of those actions were wrong. Those were the sort of problems that were occurring. Tight control can only be exercised by the Director if somebody reacts to that tight control when it is sought to be imposed.

Later——

Mr. Michael Latham (Melton): On a point of order, Mr. Speaker. You will recall that we lost two minutes of Question Time because points of order were raised. While it was entirely appropriate for you to take them if you wished, on many occasions you have reminded the House that we should wait until the end of Question Time. Would it be desirable to stress that again?

Mr. Speaker: The hon. Gentleman is correct. If hon. Members raise points of order during Question Time, I must show the House that it suffers, and therefore bring Questions to an end at exactly 3.30.

De Lorean Motor Company

3.30 pm

Mr. J. Enoch Powell (Down, South) asked the Secretary of State for Northern Ireland if he will make a statement on the affairs of the De Lorean Motor Company.

The Secretary of State for Northern Ireland (Mr. James Prior): As I announced on 19 October, as no investor had come forward to take over De Lorean Motor Company Ltd., the receivers were proceeding to a final rundown of the company's Dunmurry plant. I greatly regret the loss of many jobs to Northern Ireland. I understand that in the last few days a number of interests in both the United Kingdom and the United States of America have been in touch with the joint receivers, to explore the possibilities either of purchasing the stock of cars held in Belfast or of acquiring the entire business as a going concern. No detailed proposals have yet been referred by the receivers to the Government. Any such proposals would be considered on their merits.

Mr. Powell: Will the right hon. Gentleman, who has already done so much damage in the Province by his obdurate refusal to take any notice of sound advice and accurate information, give an assurance that, in addition to any inquiries which may be set on foot by Committees of the House, the Government as such will inquire into the eventual destination of the sums of public money which have come into the hands of the company and into any relationship, financial or otherwise, between that company and its chairman and the IRA?

Mr. Prior: As soon as the receivers were appointed they were asked to carry out such an investigation into the affairs of the company. I am awaiting their report. They have been trying to resurrect the company in the meanwhile. I have no evidence about the accusations of a connection between the chairman of the company and the IRA. If anyone has evidence of a correct kind—I emphasise the word "correct"—perhaps he will come forward with it.

Mr. Clive Soley (Hammersmith, North): While dealing with a difficult matter, will the Secretary of State join me in congratulating the work force on its significant achievements over the years at the De Lorean plant? Let no one underestimate its achievements because of one man's problems. In 18 months, in an area of mass unemployment, the work force turned a green field site into a factory producing modern cars. No one should lose sight of that fact. Nor should the House lose sight of the importance of supporting the work force in Northern Ireland in an area where the unemployment rate is 35 per cent.

Mr. Prior: Yes, Sir. It was a remarkable feat to have an untrained work force and turn it into a trained work force producing cars within three years of the factory being started. It reflects enormous credit upon the work force, and it is with deep regret that we have not been able to find anyone to keep the plant going.

Several Hon. Members *rose*——

Mr. Speaker: Order. I propose to call two hon. Members from either side, and then to move on to the guillotine business.

Sir Philip Goodhart (Beckenham): Much wrong advice has been given, many wrong decisions have been taken and much public money has been wasted. Surely we should have a full public inquiry.

Mr. Prior: The Public Accounts Committee is in any case to investigate what has happened. It is an extremely sorry story. The receiver's report will shortly be made available to the Government. The Cooper Lybrand report has been available, and at times there have been police investigations. There is a great deal of information available, and no doubt there is more to come.

Mr. Tom McNally (Stockport, South): Is the Secretary of State aware that the statement by the spokesman for the official Opposition is almost identical to the unanimous report of the Select Committee on Trade and Industry after it visited Northern Ireland this year? There is a lot of support in the House for the right hon. Gentleman's efforts to get Japanese, American, West German, European and British investment into Northern Ireland, and this one unhappy episode should not be allowed to deflect him from the effort of getting jobs to the people of Northern Ireland.

Mr. Prior: Yes, Sir. I agree that nothing should deflect us from trying to get jobs for the people of Northern Ireland. Nor should some exaggerated reports of the state of Northern Ireland be allowed to stop jobs from going there.

Mr. James Kilfedder (Down, North): In view of the heartbreaking number of unemployed people in Northern Ireland, will the Government, despite their experience with De Lorean over the past few years, do all in their power to get a buyer to take over this company, to provide some hope for the people?

Mr. Prior: It is important for the people in Northern Ireland, let alone the House, to make certain that projects are proceeded with only when they are seen to be properly viable and there is a chance of success, otherwise Northern Ireland and the House and everything else that we try to do come into disrepute, as in this case.

Mr. Dennis Canavan (West Stirlingshire): Should the Government not learn the simple lesson that when public money is spent on industry the best way to ensure public accountability is through public ownership? In view of the millions of pounds of taxpayers' money that the Government have spent in trying to bail out the De Lorean company, what guarantee have we that the Government will not spend another £3 million of taxpayers' money to bail De Lorean out of gaol?

Mr. Prior: No, Sir. I do not believe that many of the hon. Gentleman's hon. Friends will agree with his remarks. He should be a little careful, because it was his Government who started the project.

Northern Ireland Office

Great George Street, London, SW1P 3AJ
Telephone 01-233-3346/3766/8844/4419
Fed 2505

Attached are copies of the draft reply to Mr Enoch Powell's PNQ on DeLorean.

With the Compliments

of the

Parliamentary Clerk

Ireland

25 October, 1982

MR J ENOCH POWELL (South Down): To ask the Secretary of State for Northern Ireland if he will make a statement on the affairs of the De Lorean Motor Company.

MR PRIOR

As I announced on 19 October, because no investor had come forward to take over De Lorean Motor Company Ltd, the Receivers were proceeding to a final rundown of the company's Dunmurry plant. I understand that since then a number of interests in both the UK and the USA have been in touch with the joint Receivers, to explore the possibilities either of purchasing the stock of cars held in Belfast or of acquiring the entire business as a going concern. No detailed proposals have yet been referred by the Receivers to Government and while any such proposals would be considered on their merits it would be irresponsible for Government to raise expectations at this juncture which may in the event not be fulfilled.

KW

10 DOWNING STREET

From the Private Secretary

1 October 1982

I am writing on behalf of the Prime Minister to acknowledge your letter of 29 September. This is receiving attention and you will be sent a reply as soon as possible.

M. C. SCHOLAR

J.A. Putt, Esq.

FILE

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(1) 18/10
(2) 25/10

J.A. Putt. 12/10

10 DOWNING STREET

From the Private Secretary

1 October 1982

I enclose a copy of a letter to the Prime Minister from Mr. J.A. Putt, the Managing Director of Barrett Engineers Limited.

I should be grateful if you could provide us with a draft reply for the Prime Minister's signature by 12 October.

M. C. SCHOLAR

John Lyon, Esq.,
Northern Ireland Office.

LM

R1/10

BARRETT ENGINEERS LTD

REGISTERED Nº 541933 ENGLAND

DIRECTORS
A.W.PUTT CHAIRMAN
J.A.PUTT MANAGING
R.K.KIMBER WORKS
H.BISHOP COMPANY SECRETARY

REGISTERED OFFICE:
EAST CHALLOW
WANTAGE
OXON OX12 9SY

TELEPHONE: WANTAGE 3761-3762-3815-3816
TELEX NO. 83523

Our Ref: JAP/fb

The Prime Minister,
10, Downing Street,
LONDON.

29th September 1982

Dear Prime Minister,

Ref: De Lorean Motors in Receivership.

I am intrigued to comprehend your Government's thinking concerning the above Company. As I understand, from the Receivers, that you have decided that all proceeds from the impending sale of De Lorean Motors in Receivership, shall be retained by the Secured Creditors which is primarily the Government itself. This stance, if true, is a contradiction. Again as I understand things, Mr. James Prior, the Secretary of State, has throughout fought vigorously to protect De Lorean Motors from liquidation and has even visited the United States of America in an attempt to attract further investment in Northern Ireland. Therefore, apart from saying, quite rightly, that there would be " no more Government money for De Lorean", I must be correct in assuming that support from your Government exists for a private enterprise in the Province.

Now to explain the contradiction. Unless the debt which was incurred by De Lorean Motors to the Unsecured Creditors, of whom I represent more than four hundred National and International Companies, there will be a great reluctance to supply to any new Company and in some cases firm resolve not to supply. Through your insistance in maintaining your position, the Receiver would not be moral in selling a Company that did not have a supply network. This consequently would result in any prospective investor from withdrawing his offer until the Receiver could reasonably ensure that supply network. This would in the case of the current offer from Mr. John De Lorean result in a direct income loss to the Northern Ireland Development Agency of £12.5 million. Coupled with the obvious political and economic effect in Dunmurry, Northern Ireland and the Mainland itself at the inevitable liquidation that would proceed.

My alternative proposal has already been refused by your Treasury Committee I believe, but I do remind you of what I have come to evaluate as the fairest and only positive solution to this catastrophic affair. Mr. De Lorean will pay to Northern Ireland Development Agency, the amount already proposed, the plant is leased to him with Northern Ireland Development Agency as Landlords, and finally the stock of 1000 cars and " work in progress" will be set aside for the two bank guarantees totalling £10 million and the balance will be for the Unsecured Creditors. This proposal satisfies the following criteria.

Continued Overleaf ...

29th September 1982

The Prime Minister

(1) The investment proposed by Mr. De Lorean proceeds, as a private enterprise.

(2) The facility in Dunmurry re-opens and provides up to 1000 jobs in Northern Ireland and up to 2000 jobs on the Mainland.

(3) That because any settlement that the Unsecured Creditors would receive would be generated from the sales of the stock of cars and the eventual completion of the " work in progress" into saleable cars it would encourage the full support of those Suppliers to the new Company that would be so important to its success.

(4) Valuable exports would begin to flow from Ulster and if the car is to be sold in the United Kingdom it must surely prevent imports from Porsche and Mercedes etc.

(5) Many small Companies who are the underlying backbone of Industry would be protected from impending liquidations. Also British Leyland, who rely on these small Companies, would not be faced with unreasonable price increases that have occured or may occur to meet their rising costs, especially with interest rates still so high.

Finally, I would like to remind you of your Governments initial support for this project upon your election. That throughout the Companies operating period that Northern Ireland Development Agency representatives present on the De Lorean Board, failed to prevent the disastrous flood of lost money. Therefore, I believe that this loss should be divided for the sake of all of those persons involved, between <u>all</u> of the interested parties.

I have attempted on many occasions to share my thoughts and ideas with Mr. Prior but have been rebuffed despite my protestations. I have urged his office to investigate the ongoing viability of Mr. De Lorean's proposals and I am prepared together with the representatives of my Companies to oversee any future operation and ensure that this disaster does not occur again. We are prepared to work for a better life but not unlike any nation, it's Government must allow the seeds of our work to germinate.

Please try to respond to my request.

Yours sincerely,
Barrett Engineers Limited,

Jim Putt

J. A. Putt,
Managing Director. and Co-Chairman of the De Lorean Suppliers Consortium.

c.c. Mr. James Prior, Secretary of State for Northern Ireland,
Mr.. Tom Benyon M.P.

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10 DOWNING STREET

From the Private Secretary

11 August 1982

De Lorean Motor Cars Limited

Your Secretary of State had a meeting with the Prime Minister on this subject at 1830 yesterday evening. The Secretary of State for Industry was present, in his capacity as Chairman of the Cabinet Ministerial Sub-Committee on Economic Affairs (E(EA)).

Your Secretary of State said that De Lorean's Joint Receivers had found a consortium, consisting of some of the creditors and managers of the company, who were interested in taking over the business as a going concern. Hill Samuel had agreed to try to raise the £12 million which would be necessary to launch the new project. If they failed in this attempt, that would be the end of the matter. He had made it quite clear to Hill Samuel that there was no question of further financial assistance from the Government. The alternative to pursuing this proposal from the Receiver would almost certainly be liquidation. He shared the Receiver's view that there would be no hope of resurrecting the business once it had been liquidated; the American market would probably not survive liquidation, and the business's suppliers would probably scrap their tools. The net return to the Government would be almost nothing. For this reason, he felt that the Government would be severely criticised for not giving the Receiver's proposals a fair wind, and allowing Hill Samuel time to attempt to raise the necessary £12 million. This would only mean extending the receivership for another three months, and underwriting Hill Samuel's fee, to the sum of not more than £100,000. The Government might be able to recoup some of these costs by selling the approximately 1,000 cars still held by DMCL. If the company was liquidated, there would almost certainly be a "factory lock-in" and the cars would probably be destroyed. Finally, he said that there would be no significant role for Mr. John De Lorean in the running of the new consortium, although they would of course have to negotiate with Mr. De Lorean on sales rights in the USA, since these were the property of Mr. De Lorean.

Mr. Jenkin said that E(EA) had little faith in the Receiver's proposals, which were a last desperate attempt to keep the business running. The Committee were particularly sceptical of the proposal to resurrect the manufacture of the TR7/TR8, for which there was no

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market outlet, and on which BL had never made a profit. The Committee were also concerned that pursuing the Receiver's proposals would lead to further Government involvement; there could be no water-tight assurance that the Government would not be called on to provide further financial assistance. For instance, if Hill Samuel were to raise half the £12 million necessary, there would be irresistible pressure on the Government to provide the other half. Moreover, if the consortium had faith in the project, they would surely meet Hill Samuel's fee themselves. E(EA) had not therefore been willing to endorse your Secretary of State's proposals (paragraphs 18a and 18b of E(EA)(82)25). But the Committee had felt that it was for the Receiver to decide exactly when De Lorean Motor Cars Limited should be put into liquidation.

The Prime Minister said she was not willing to overturn the decisions of E(EA); but the Reciever had clearly defined legal duties, and she would not interfere in his execution of these duties. E(EA) had not endorsed Sir Kenneth Cork's proposals that the Government should accept his formula for dealing with the Department of Commerce's loan of £20.9 million, and the cost of meeting the called guarantee of £10 million; nor had they agreed that the Government should underwrite Hill Samuel's fee. But it was for the Receiver to decide how best to discharge his duties in the light of these decisions. If he decided that he needed to seek authority from the Government for any actions that he might wish to take, your Secretary of State should put the matter to the Cabinet Ministerial Committee on Economic Strategy.

After some discussion, the meeting agreed the attached conclusions. Your Secretary of State said that he would put these to Sir Kenneth Cork.

I am copying this to the Private Secretaries to the members of E(EA), to Richard Hatfield (Cabinet Office), and to Gerry Spence (CPRS).

P.S. RICKETT

John Lyon, Esq.,
Northern Ireland Office.

CONCLUSIONS

A. E(EA) did not endorse the proposal by Sir Kenneth Cork that the Government should be prepared to accept his formula for dealing with the Department of Commerce's loan of £20.9 million, and the cost of meeting the called guarantee of £10 million;

B. Did not agree that the Government should underwrite Hill Samuel's fee to the sum of not more than £100,000; but

C. Did agree that it was for the Receiver to decide when De Lorean Motor Cars Limited should be put into liquidation.

The Prime Minister said she was not prepared to overturn these decisions. Accordingly:

D. No specific permission should be given to the Receiver to act outside his powers, or beyond his view of his authority; and

E. The Receiver would naturally remain free to act within his powers, or within his view of his authority, including the terms of the indemnity previously given by the Department of Commerce for Northern Ireland.

Anything going beyond this would have to be referred to the Cabinet Ministerial Committee on Economic Strategy.

PRIME MINISTER

De Lorean

The Ministerial Sub-Committee on Economic Affairs (E(EA)) was unable to reach agreement this morning on the future of De Lorean. The Secretary of State for Northern Ireland has asked that I should refer the matter to you for decision.

2. You will recall that the Secretary of State for Northern Ireland has proposed that De Lorean's Receivers, Sir Kenneth Cork and Mr Paul Shewell, should seek to negotiate the transfer of the company's assets to a British consortium, including some former De Lorean staff, who plan to produce each year about 3500 DMC-12 (the De Lorean model) and about 7500 of BL's discontinued TR 7/TR 8 model. The consortium would make no cash payment for De Lorean's fixed assets though they would assume responsibility for Government loans of £20.9 million to De Lorean. The immediate costs to the Government would be up to £1.2 million to continue the Receivership for a further period; and the need to underwrite the fees of Hill Samuel (up to £100,000), whom the consortium have asked to raise £12 million to launch the project.

3. The majority view at E(EA) was that the Receivers should not be authorised to negotiate on the terms proposed by the Secretary of State for Northern Ireland and that De Lorean should be put into liquidation (at a precise time to be determined by the Receivers). It was felt that the chances of commercial success for the project were minimal; that the consortium's inability or unwillingness to pay Hill Samuel's fees showed little commitment to the project; and that there was a great risk of the Government's coming under pressure to provide further special assistance to a successor to De Lorean Motor Cars Limited: if Hill Samuel tried to raise private sector finance there would be demands for a contribution from public funds. The Chief Secretary was firmly of the view that it would be better for the Government to accept a liquidation, in which very little of the public money invested in De Lorean in the past would be repaid, than to run the risk of being obliged to provide further assistance in the hope that the project would be a success and yield some return on past investment. Most of those present took the view that liquidation should benefit the consortium by allowing them to

buy De Lorean's fixed assets unencumbered by charges of £20.9 million.

4. Your own initial view, as recorded in Mr Rickett's letter of 9 August, was also that De Lorean should go into liquidation.

5. The Secretary of State for Northern Ireland was unable to accept that De Lorean should go into liquidation. He pointed out that both Hill Samuel and Sir Kenneth Cork took the view that there is some chance of finding private sector finance to back the consortium's proposals; and argued that it was worth making a further effort to try and preserve jobs at De Lorean and at their suppliers (in Great Britain as well as in Northern Ireland). There would be a clear understanding that no special Government assistance would be made available; and some chance that the Government would get back part of its past investment. If the private sector did not regard the consortium's proposals as realistic the project would lapse through lack of financial support. The Government would have incurred some extra public expenditure; but would have been seen to try to keep De Lorean open. The Secretary of State warned that to let De Lorean go into liquidation now would be likely to cause great anger in Northern Ireland and almost certainly provoke violence directed against the De Lorean factory: the Northern Irish press have already carried reports of the consortium's interest.

6. The Secretary of State for Northern Ireland therefore asked that you should be given the opportunity to reconsider De Lorean; and suggested that you might wish to discuss the matter with those of us most concerned.

7. I am sending copies of this minute to members of E(EA), the Secretary of State for Northern Ireland, the Minister of State, Northern Ireland Office, the Minister of State, Department of Industry (Norman Lamont), John Sparrow and Sir Robert Armstrong.

P.J.

10 August 1982

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10 DOWNING STREET

From the Private Secretary

9 August 1982

Dear Jonathan

De Lorean Motor Co Ltd (In Receivership)

The Prime Minister has seen the correspondence started by Mr. Prior's letter to the Chief Secretary of 2 August, including the Chief Secretary's reply of 6 August. I understand that this matter is to be discussed at E(EA) tomorrow morning.

The Prime Minister has no doubt that the best and cleanest course of action would be the liquidation of DMCL. She doubts whether Hill Samuel will find any worthwhile prospect of raising private capital for the UK consortium, if it is clear that there is to be no more Government assistance; and the Prime Minister is determined that there should be no more Government assistance. She has also commented that if any of the prospective purchasers of DMCL have a genuine interest, they could pick up the fixed assets for virtually nothing in a liquidation.

In short, the Prime Minister is not prepared to countenance any more Government assistance to DMCL, and feels that nothing short of liquidation will extricate the Government from further financial involvement.

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

Yours ever

Willie Rickett

Jonathan Spencer, Esq.,
Department of Industry.

CONFIDENTIAL

da

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon James Prior MP
Secretary of State
Northern Ireland Office
Great George Street
London SW1P 3AJ

Prime Minister

6 August 1982

The Chief Secretary doubts whether the Government could extricate itself from further assistance to De Lorean. He also has grave doubts about whether the new consortium could be viable. For these reasons, he argues for liquidation.

DE LOREAN MOTOR CO LTD (IN RECEIVERSHIP)

Thank you for your letter of 2 August, enclosing a draft paper for E(EA) which you wish to deal with in correspondence.

At first sight, I can see that your proposal for a UK consortium to take over the De Lorean business from the Receivers on the basis of "indirect" Government assistance, and to market De Lorean and BL TR7/TR8 cars mainly in the USA, appears to be virtually costless and risk-free for us; to hold out the possibility of recovering some of our original investment; and to provide 1,000 badly-needed jobs in West Belfast.

But I am afraid that I am very far from persuaded. For a start, the proposal is not costless, even if we are not in the event required to meet the cost of Hill Samuel's study; we shall also need to meet the cost of continuing the receivership for the period of the study, however long that proves to take.

Of far more consequence, the Government will once again be on the hook, and for a project which, from the start, looks very likely to fail. Experience with De Lorean itself and with Lear Fan has shown us all, only too clearly, that no kind of assurance we give (even to Parliament) that we have come to the end of the road of financial assistance, can ever hold its ground when faced by the pressing needs of the moment in NI. I am afraid that nothing we could say now, whether publicly or among ourselves, about our similar intentions in respect of the new project, could in the light of that recent history carry any credibility. When we have had our fingers so badly burnt with this company already, the prospect of repeating many of those same mistakes is, not one with which I could go along.

The risks are, of course, great. Sir Kenneth Cork has not said he thinks this project is viable, only that it is the best available;

while Hill Samuel's cautious assessment of the prospect of raising private capital (which is clearly the touchstone) sound ominously like Barings' on Lear Fan. Although the De Lorean business will be freed from some of the high fixed costs which contributed to its downfall before, De Lorean cars have never established a niche in the US sports car market; serious doubts remain about both quality and performance; and the long receivership has not helped sales prospects. The TR7/TR8, like the De Lorean, has never made a commercial profit; sales were on a declining trend when BL stopped production last year; building them up again from a zero base, with a marque fast becoming obsolete, looks formidably difficult. Previous experience does not suggest that putting two loss-making businesses together is a recipe for a viable one. And Cork earlier told us that, even at annual sales of 10,000 De Lorean cars, that business would not be generating enough profits both to reinvest and to repay lenders - a viability gap which, at the projected sales levels of both cars, the cheaper TR8 will not fill.

Perhaps the most worrying aspect of the proposal is the absence of any plan for a sales network in the USA. It seems that BL's will no longer be available; and we know that the De Lorean sales network is firmly in the hands of Mr De Lorean, whose New York company holds the sales rights.

I am bound to add - although this is a relatively minor concern - that your proposal that the Government should underwrite the consortium's fees for financial advice is unprecedented and, as I would see it, potentially repercussive.

Taking all of this into account, I would give very little weight to the prospect of getting back any of our past investment; and much more to the risk that we shall be back on another costly drip feed, in defiance of all the lessons we have learnt. I do appreciate that there are jobs at issue. But I am afraid I cannot agree to your proposal; and I believe the only right course for us now is to put the De Lorean business into liquidation.

That still leaves the consortium with the possibility of picking up the assets in a liquidation for virtually nothing, and unencumbered. If on a business judgement they decide not to do so, it can only be because they see the participation of the Government as crucial to the scheme; and that, in a sense, makes my point. I have to remind you of my view expressed in my letter of 1 March, that "the Government must avoid any financial involvement in a restructured company after receivership."

I am sending copies of this letter to the Prime Minister, Patrick Jenkin, E(EA) Colleagues, Sir Robert Armstrong and Mr Sparrow.

LEON BRITTAN

6 AUG 1982

I have no doubt that the best & clearest course would be liquidation. I doubt whether Hill Samuel will find any worthwhile prospect of private finance - except in the belief that for-would come to their aid. They can not do. If any purchasers are genuine - they would ride the whole plan for - literally nothing

10 DOWNING STREET

From the Private Secretary

Prime Minister

You indicated that you would be willing to agree to the Receivers proposals for transferring De Lorean to a new UK Consortium, provided that this was the end of the Government's involvement.

in a liquidation. I should therefore urge the side of liquidation not

You will see from the letter immediately below that the Chief Secretary doubts whether the receivers proposals would mean the end of government assistance. He has grave doubts about the viability of any new consortium. He argues for Liquidation.

This issue will be discussed at E(EA) next week. Are you able to say now which way your vote would go if E EA were unable to reach agreement?

WM 6/8

WM 9/8 cc JV

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State
Norman Lamont MP

2 PPs

The Rt Hon James Prior MP
Secretary of State for Northern Ireland
Northern Ireland Office
Great George Street
London
SW1P 3AJ

6 August 1982

Dear Jim

DE LOREAN CO LTD (IN RECEIVERSHIP)

I am responding to your letter and accompanying paper of 2 August to Leon Brittan, copied to Patrick Jenkin.

On the first recommendation, the formula for dealing with the Department of Commerce's loan and the called guarantee, I do not object to this proposal as it seems to offer some promise of recoupment from a hypothetical new company compared to almost certain complete loss if liquidation occurred now. However, I would want to avoid any involvement by the Government in a new company, and particularly any obligation to shoulder the costs of a second receivership if this ever came about.

The second recommendation, that the Government should underwrite Hill Samuel's fee up to £100,000, will unfortunately commit us to additional receivership costs. I understand that if the Hill Samuel study takes three months, then these costs could be of the order of £1 million beyond those we would have to bear assuming that liquidation was undertaken forthwith.

I am very reluctant once again to see a continuation of our involvement in De Lorean and a commitment or yet further Government funds. I do not rate the probability of the UK consortium's success as very high. Even allowing for production of a "new" TR7/TR8 sports car (assuming discussions with BL progress), the prospects for viability look uncertain and the future relationship with DMC Inc is also an unsettling factor. But I am sensitive to the points made in your letter, to our situation in Northern Ireland, and to the efforts made by Sir

Kenneth Cork to try and re-establish manufacturing at Dunmurry. Against the alternative of liquidation now I would be prepared to support the engagement of Hill Samuel on the terms indicated, in the hope of attracting private capital.

I am copying this letter to Leon Brittan and those to whom your letter was circulated.

NORMAN LAMONT

CABINET OFFICE

Central Policy Review Staff

With the compliments of
John Sparrow

70 Whitehall, London SW1A 2AS
Telephone 01-233 7765

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CC JV

CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

Qa 06022

CONFIDENTIAL

6 August 1982

The Rt Hon Patrick Jenkin MP
Department of Industry
ASHDOWN HOUSE
S W 1

Dear Patrick,

De Lorean Motor Co Ltd (In Receivership)

I have received a copy of the letter of 2 August and draft E(EA) paper sent by the Secretary of State for Northern Ireland to the Chief Secretary. He is commending Sir Kenneth Cork's proposals to explore the possibility of a UK consortium re-financing the De Lorean Motor Co Ltd business and thereby to deal with the Department of Commerce Loan.

I have to say at the outset that I am not optimistic about the prospects of commercial success for the UK consortium's proposals. Whilst the sales projections for the DMC-12 sportscar may be more realistic than some we have seen in the past, the paper is incorrect in its assertion that the BL TR7/TR8 car is still in production. I understand that this car, and more important its slant-four engine, went out of production several months ago. Before any commitment is made, I believe there should be further study of some important issues - the dependence of the consortium's proposals on the TR7/TR8; its marketing arrangements with BL; sales prospects; and the likelihood of engineering difficulties in meeting US type approval requirements with an alternative engine. It would also be interesting to learn how far the sales prospects for the DMC-12 car will continue to depend on the co-operation of Mr De Lorean.

There is also a problem of timing. The paper indicates that, on present projections, the Receivers expect to reach their borrowing limit in the third week of September. It seems unlikely to me, based on the experience with Lear Fan, that Hill Samuel will be able to complete their

investigation and set in place the necessary private sector finance in the six weeks before this deadline. In that case, we need to be clear before commissioning Hill Samuel what arrangements will have to be made to support the Receivers' operations until the private sector financing is completed. The cost of such an extension of the Receivers' operations appears to be additional to the £100,000 requested for Hill Samuel's fee, and it would be useful to have an estimate of this cost, perhaps based on Hill Samuel's view of the likely time needed to complete the financing arrangements, before making a decision to proceed.

Before agreeing to the proposal for dealing with the loans, I think it would be useful to have an estimate of pay back on the called guarantee of £10m. commercial loans. Sir Kenneth Cork proposes that the Government claim to this £10m. be dealt with (necessarily on the same basis as the other unsecured creditors) out of the proceeds of the sale, on a 'payment as used' basis, of the current inventories. It seems reasonable to ask the Receivers to give an estimate of the likely outcome for Government of this proposal since they have made a valuation of the assets.

Lastly there is the question of the terms of reference to which Hill Samuel should work if they are to be given the remit to complete their investigation and find private investors. Ministers have previously decided that no Government funds should be made available to any successor company to De Lorean. To avoid subsequent misunderstanding, it would be better to give Hill Samuel an explicit indication whether they should plan on the basis of any Government finance (and if so how much) being available to support the new investors' operations. They should also be given a clear indication of the time within which the re-financing is to be completed so as to avoid the possibility of the Receivers requiring successive tranches of interim funding (as has happened with Lear Fan).

I am sending a copy of this letter to the Prime Minister, the Secretary of State for Northern Ireland, other members of E(EA), and to Sir Robert Armstrong.

Yours sincerely,

John Sparrow

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cc Mr. Mount
Mr. Vereker
Mr. Wolfson

MR. RICKETT

DE LOREAN MOTOR CO LTD

I think we should support the Secretary of State for Northern Ireland's proposal, subject to one absolute condition and understanding. That condition is that there are no more funds ever for the new De Lorean Motor Car Company. This is the end. There is to be no more revenue support, and no more Government guaranteed loans, and no special development aid.

In essence, Kenneth Cork says he cannot find a buyer such as the preferred management take-over, if they have to pay off the £20.9million owing to the Government. So they propose that the new company take over responsibility for this debt.

This is, however, largely eye-wash. If we agree to this proposal, it seems to me most unlikely that the Government will see either interest or principal again. There is recognition of this in para 7 where it says:

> "...the new Company formed by the purchaser would assume full responsibility for the repayment of loan principal and for the payment of interest on a basis to be negotiated with Government, but which may involve a moratorium on both interest and principal payment." [my ital]

I think this means that the £20.9 million is a write-off.

There is some chance of the Government securing some of its £10m claim arising from the Government's loan guarantees. The new firm, if it is to trade at all, will be anxious not to upset its suppliers. However, I suspect that we shall not get more than half of that back - say £5million.

Although the option which Cork prefers of the management buy-out involves a £20.9 million write-off and probably an additional £5m loss it is clearly better than the alternative. I am sure Cork is correct in saying that if he breaks up the assets and sells them

/for what he

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for what he can get, then he will realise very little, probably £2m or £3m, thus even on a financial basis it would be preferable to have the management buy-out option. And there is a good chance that the new firm will make a go of it. But it is immensely important to insist on the fact that there is no more Government money ever.

4 August 1982

ALAN WALTERS

CONFIDENTIAL

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Ron Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Prime Minister 2

The Receivers' proposals for transferring DMC to the interested UK consortium are set out in paras 7, 8, 10 and 12 of the attached note. You will probably want to await the Treasury's reaction before commenting, but Alan Walters supports this proposal for the reasons set out in his note at A, provided that this represents the end of Government support.

2. August 1982

Agree - provided no more gov. support. - See A.W's note

Dear Chief Secretary

DE LOREAN MOTOR CO LTD (IN RECEIVERSHIP)

I am attaching a draft paper which I had intended to put to E(EA) colleagues to seek their support for a formula which Sir Kenneth Cork has put to me regarding De Lorean. It is extraordinarily difficult to arrange a meeting at this time of the year, and I decided therefore to seek to resolve the matter in correspondence.

The formula which Kenneth Cork has put to us, as explained in the draft paper, provides what is probably now the only chance to restore a car manufacturing facility at Dunmurry - and it does not involve Government committing further funds to the project. It may, or may not, succeed in convincing the UK consortium to proceed with their plan, but if it does not, then it seems to me the only alternative is to move rapidly to a realisation of the assets, and Sir Kenneth has made it clear to me that he would not expect Government to achieve any return on its investment in those circumstances.

I believe the Cork formula is therefore worthy of our support. In accepting it, we would have almost nothing to lose, but the potential to gain a good deal, in terms of restoring a viable operation at Dunmurry, and recreating the jobs which seemed lost. I therefore commend the proposals for my colleagues' approval.

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Our officials are already in close touch about the issue and will be meeting this week but if you would find it helpful, I would be happy to arrange to meet you following the officials' discussion and, if at all possible, before the end of this week (assuming that Patrick Jenkin would not wish to have an early meeting of E(EA)).

I am copying this letter to the Prime Minister, Patrick Jenkin, and other E(EA) colleagues, John Sparrow and Sir Robert Armstrong.

Yours sincerely

JAMES PRIOR

(Signed on behalf of the Secretary of State in his absence)

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DRAFT

DE LOREAN MOTOR CARS LIMITED (IN RECEIVERSHIP)

1. As colleagues will be aware, De Lorean Motor Cars Ltd was put into receivership on 19 February 1982. Between that date and 31 May 1982 the Joint Receivers and Managers, Sir Kenneth Cork and Mr Paul Shewell, maintained production on a one-shift/week basis, and approximately 40 cars per week were built. On 31 May 1982 all employees were made redundant with the exception of approximately 200 workers who were retained to carry out essential maintenance of the plant and machinery and to prepare completed cars for despatch and shipment. This work was, however, disrupted by occupation and picketing of the factory by a group of workers for 7 weeks. The occupation has now been discontinued.

2. Sales of the DMC-12 were seriously and adversely affected by the announcement of the receivership and by the cessation of production; however, following the initial reaction of the market, and despite remaining doubts about the availability of spares and components, retail sales have begun to revive and I understand that 550 sales at retail were recorded in May/June 1982 with a further 250/300 expected in July 1982.

3. The trading activities of the Joint Receivers and Managers are being funded by a bank facility of £3m against which the Department of Commerce for Northern Ireland, as debenture holder, provided an indemnity.

4. Since their appointment the Joint Receivers and Managers have been engaged in a search for a company or group to take over the enterprise as a going concern as such a take-over represents the only hope of providing continuing employment in West Belfast and of maximising the return to Government in respect of the public funds invested in the Company. Discussions are currently on-going with two possible purchasers namely a UK consortium comprising, inter alia, former members of senior management of DMCL, and Mr John De Lorean acting on behalf of DMC Incorporated which is a new company recently formed in the United States by a consortium of investors associated with the American automotive industry.

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5. The Receivers have now submitted for approval by Government proposals which they would wish to include in any purchase agreement and which, in their opinion, are essential if there is to be any hope of a permanent resumption of manufacturing activity and employment at the Dunmurry factory. The proposals constitute indirect assistance by Government and, for this reason, I am seeking your support for the response which I propose to make to the Receivers.

6. The scheme of assistance offered by the Department of Commerce for NI to DMCL included the provision of loans totalling £20.9m and Government guarantees for commercial loans totalling £10m. The loans were secured by a First Fixed and Floating Charge over all the assets of the Company. The loan guarantees which have been called and met were secured by a counter-indemnity provided by the De Lorean Motor Company but were otherwise unsecured.

7. The Joint Receivers and Managers have consistently expressed the view that it would only be possible to generate real interest in the possibility of taking over the enterprise as a going concern if the purchaser were free from the obligation to purchase outright at the time of acquisition the Fixed Assets of DMCL. Accordingly they are now proposing that the Fixed Assets of DMCL should be transferred to an acceptable purchaser subject to the assumption by the purchaser of a First Fixed and Floating Charge to the Joint Receivers, which charge would subsequently be assigned to the Department of Commerce for Northern Ireland in the sum of £20.9m. No transfer of funds would take place; however, the new Company formed by the purchaser would assume full responsibility for the repayment of loan principal and for the payment of interest on a basis to be negotiated with Government, but which may involve a moratorium on both interest and principal repayment.

8. It is also proposed that the Receivers should sell to the new Company the current inventories of finished cars, raw materials and work-in-progress on a "payment as used" basis with the sales proceeds allocated to the unsecured creditors who would include, on a pari passu basis, the Government to the extent of its £10m claim arising from the loan guarantees referred to at para 6 above.

9. There are obvious and sound commercial reasons underlying the Receivers' proposals. The transfer of the Fixed Assets of DMCL to the new Company in return for an assignment of the Department of Commerce loans would, as noted above, substantially reduce the initial capital requirement of the new Company and, as its ability to secure delivery of material supplies and services will depend to some extent on the damage done by the Receivership to unsecured creditors, the return to suppliers from the sale of liquid assets may make it easier for the new Company to trade normally in the early stages of its development.

10. While the Receivers' proposals do not require Government to make further direct assistance available to the project, they do require us to agree to any new purchaser taking over responsibility for the repayment of a secured loan originally provided to DMCL. The alternative to acceptance of the Receivers' proposals would be to insist upon settlement of DMCL's indebtedness to Government, which Kenneth Cork assures me would undoubtedly lead to the withdrawal from negotiations of the UK consortium and of DMC Incorporated. The Receivers would then have no alternative but to move quickly to liquidate the assets of DMCL. The view of the Receivers is that the plant, machinery and equipment at the factory would be virtually unsaleable in a liquidation situation and that the inventories of completed cars, spare parts and components would have to be heavily discounted to secure disposal. The Receivers have stated that the sale of all the assets of DMCL is unlikely to realise more than £3m to £4m from which the cost of receivership would have to be met. The net return to Government would therefore be almost nil. For this reason, I believe the Receivers' alternative proposals are worthy of support, and I seek colleagues agreement to this line of action.

11. As I have noted above, the Joint Receivers and Managers are currently engaged in discussions with two potential purchasers. The UK consortium, which to date has been unnamed publicly but which comprises a British businessman who is a Director of one of the De Lorean creditors, and former members of DMCL management, have put forward proposals which will initially involve the manufacture of the DMC-12 sportscar in limited numbers, approximately

3500 cars per annum and approximately 7500 BL TR7/TR8 sportscars per annum. These cars are currently manufactured by BL but will go out of production later this year. The consortium, had preliminary discussions with BL who would I understand be prepared to provide the tooling necessary for production of the TR7/TR8 against payment of royalties on cars produced. The consortium, and their business plan are well regarded by Kenneth Cork. They do not however possess any financial resources and they have therefore sought advice on funding from Hill Samuel, the London financial consultants. They in turn have undertaken to work up the consortium's proposals and to launch an exercise to raise the estimated £12m necessary to fund the new Company's operations.

12. Hill Samuel have asked Sir Kenneth Cork if he would be prepared to underwrite their fees - estimated at £100,000 - as an integral part of the cost of receivership. He has pointed out however that he could not take such a course of action without the consent of the main debenture holder - the Department of Commerce - who would effectively be underwriting the cost through acceptance of a diminution of the company's asset base. Sir Kenneth has therefore sought Government's agreement to underwrite Hill Samuel's fees. If Hill Samuel's investigations lead to the raising of the necessary capital, their fees will fall as a charge on the consortium. It is only in the event that their investigations lead to a view that the consortium's plan will not, or cannot attract private sector capital, that they would look to Government to bear the cost of the fees. (They have also undertaken that they may well decide to abort the exercise well before the full fee of £100,000 is incurred, if they reach the conclusion that the exercise is likely to be unsuccessful).

13. Sir Kenneth believes that the UK consortium's plan is much more likely to bear fruit than the DMC Inc proposal. Furthermore in order to retain Mr De Lorean's co-operation with and support for the UK consortium, he will have to decide quite soon under a Letter of Intent already signed with Mr De Lorean, whether he proposes to accept the plan advanced by the consortium. If he does not, DMC Inc, has a right to submit its own alternative proposal, and at that stage Mr De Lorean's stated willingness to co-operate with the consortium

could be off the table. Although the Letter of Intent sets the deadline at 31 July 1982 Sir Kenneth believes he may be able to cajole Mr De Lorean to give him a further week or two beyond the formal deadline, but not more.

14. I feel that if we are to pursue every possibility of reviving an operation at Dunmurry, we must accept Kenneth Cork's judgment that this can only be achieved by Government effectively underwriting Hill Samuel's fees. There are no other credible alternatives. For the sake of completeness, I should point out to colleagues that, the Receivers have so far incurred total costs of £1.7m against a borrowing limit of £3m. On present projections, the Receivers estimate that they would not reach their borrowing limit until the 3rd week in September.

CONCLUSIONS

15. I recommend that colleagues should:

(a) endorse the proposal by Sir Kenneth Cork that Government should be prepared to accept his formula for dealing with the Department of Commerce's loan of £20.9m and the cost of meeting the called guarantee of £10m; and

(b) agree that, exceptionally, Government should underwrite Hill Samuel's fee, to the sum of not more than £100,000.

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From: THE PRIVATE SECRETARY

Prime Minister (2)

To note

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

MCS 21/5

Michael Scholar Esq
10 Downing Street
LONDON SW1

21 May 1982

Dear Michael

DE LOREAN

Since I circulated a brief report about the Receivership of De Lorean on 27 April, the Receivers have continued their efforts to find a way forward for the Company.

The interest being expressed in a rescue bid at the end of April was on the part of Mr Peter Kalikow, a substantial American businessman: the Receivers were encouraged by the interest shown by Mr Kalikow and had been considering the possibility of suspending production temporarily at the Belfast factory in order to facilitate a resumption later after Mr Kalikow's projected takeover of the American company. If Mr Kalikow had been successful in his intention of re-vitalising the American company, this could have had important advantages for the Belfast company. On entering negotiations with Mr Kalikow, the Receivers found however that they were unable to meet his conditions. These would have involved keeping the Belfast company going at the Receivers' expense without any assurance that a rescue bid would eventually be mounted. The Receivers put counter-proposals to Mr Kalikow and have now reported to my Secretary of State that Mr Kalikow has withdrawn his interest. Although Mr De Lorean has, predictably, come up with yet another suggestion of his own, neither the Receivers nor Mr Prior attach any weight to Mr De Lorean's proposal. One or two other enquiries are still being made about the future of the Belfast company but there is no longer any confidence that these will come to anything.

In these circumstances the Receivers have recommended, and Mr Prior has accepted, that production at the factory should cease, that the factory should close, and that almost all the employees should be declared redundant. Some employees will be retained in order to provide an orderly run-down, and to permit arrangements to be made for spare parts to be available for the cars already manufactured.

Although there is virtually no realistic possibility of a rescue bid now being mounted, both the Receivers and Mr Prior think it would be unwise to forestall any genuine attempt that might emerge.

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With this in mind the Receivers propose, in the statement they will be making on Monday, to make it plain that they will consider reopening the Plant if, during the period necessary to prepare for the realisation of the assets, firm proposals are made to them that justify doing so.

A winding up petition is due to be heard in court in Belfast on Monday 24 May and the Receivers' statement will be available in court. Union leaders at the Belfast factory will also be told of the Receivers' decision on Monday morning. I attach a copy of the current draft of the statement that the Receivers will be giving to them, to the court, and to the Press.

I am sending copies of this letter to Private Secretaries to other members of Cabinet and to David Wright (Cabinet Office).

Yours sincerely

Archie Hopkins

M W HOPKINS

BB

DE LOREAN

Draft of an announcement to be made by the Joint Receivers on Monday 24 May 1982

Following Mr Kalikow's withdrawal of the offer made to finance the reconstruction of De Lorean Motor Company and the sales organisation in the United States, and to provide finance for the production of further cars by the manufacturing company in Belfast, and in view of the large stocks of cars in the United States and Belfast and the prospects for selling these stocks, the Joint Receivers do not consider that the production of further cars is justified at present, even if they could finance such production.

There is therefore no alternative but to suspend production in Belfast and to make almost all the employees redundant. The Joint Receivers will consider reopening the plant if during the period necessary to prepare for realisation of the assets, [~~further~~ any] proposals made to them by Mr De Lorean or any other proposals provide a sound basis for doing so.

In any event the Joint Receivers will ensure that arrangements are made for spare parts to be available for all the cars sold to date or in the future.

Prime Minister (2)

MLS 27/4

cc BI JV

From: THE PRIVATE SECRETARY

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

→ John Coles

Michael Scholar Esq
10 Downing Street
LONDON
SW1

27 April 1982

Dear Michael

DE LOREAN

Since my Secretary of State reported orally to the Cabinet last week, events have taken an unexpected course which led the Receivers to change their plans for a cessation of production and short-term mothballing of the plant at Dunmurry. This letter sets out the two main developments.

First, the Bank of America withdrew its objection to the bulk sale of cars in the USA (under this arrangement, cash has been raised from a Finance House for payment to creditors of the US company, mainly Bank of America; and the cars are to be subsequently redeemed from the Finance House and sold through dealers in the normal way); and a bulk purchase of 200 cars from Dunmurry has been arranged which would provide cash to the Receivers for use in maintaining a limited operation at Dunmurry to the end of May. Second, Mr De Lorean arranged for lawyers representing the potential investor of $35 million to talk in New York to American lawyers representing the Receivers. Although the identity of the investor and the terms on which the investment would be made were not revealed, the Receivers were satisfied that a genuine opportunity to resuscitate the business had been established and on that basis were prepared to continue a limited operation for about four more weeks to allow detailed discussions to be pursued.

The Receivers have spent a total of £2.233 million in maintaining the operation at Dunmurry since their appointment on 19 February but as £1.02 million was transferred from the company's account and there have been receipts of £446,000, mainly from the sale of cars, the amount which they have borrowed as at 16 April was £766,000. The costs for the month of May should be met from the proceeds of the bulk sale (expected to be some £1.4m). This income is vital since, as they told Mr Prior last week, the Receivers did not think it right to continue the factory operation any longer unless funds were produced from America.

Clearly there is a need for further detailed investigation by the Receivers to establish whether a genuine opportunity exists to keep the De Lorean business going in Belfast and to explore the terms and conditions on which the new investment would be made. The Receivers must satisfy themselves that adequate finance would be available to

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carry on the business before getting down to the details of the transfer of assets but it is clear that the deal which is being considered would require the transfer of the fixed assets to DMCL 1982 (the new company already formed by the Receivers) subject to the assumption by it of the fixed and floating charges on the assets in the sum of some £21 million, ie DMCL 1982 would become responsible for repayment of the loans and Government would maintain as its security the current fixed and floating charges over the assets.

The Receivers have been told that the Government cannot consider any proposition (whether on these lines, or on any other lines) until full details of the whole of the proposed arrangements are available. If a detailed proposition does emerge from the Receivers' current enquiries (as we hope it will, for this has every appearance of being the last chance of saving some of the employment in West Belfast and making something of a considerable investment), Mr Prior will of course consult colleagues on the response he should give. Meanwhile, it is difficult for us to form a view on the merits of what may emerge. In any event, we shall keep you informed of developments.

I am copying this letter to Private Secretaries to other members of Cabinet and to David Wright (Cabinet Office).

Yours sincerely,

Mike Hopkins

M W HOPKINS

lf

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From: THE PRIVATE SECRETARY

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

Michael Scholar Esq
No 10 Downing Street
LONDON SW1

22 April 1982

Dear Michael,

DE LOREAN

The Secretary of State for Northern Ireland reported this morning on De Lorean. Since then there have been two significant developments which considerably change the situation and which you may wish to know of:

(i) the Bank of America has lifted the charge it had on the 2,000 cars in the USA. This removes one of the obstructions to progress, and one of the major disincentives to investors.

(ii) The Receivers have today initialled the heads of the deal for the sale of the Belfast plant; this is still without commitment and subject to contract. We are not yet in a position to say what the precise nature of the deal is (and nor will the Receivers be until tomorrow) but we do know that the Department of Commerce debt will remain secured against the assets as it is now. Nor can the Receivers at this stage tell us the nature of the investment which lies behind the deal.

I am sorry that at this stage I cannot be more specific; as you see, the Receivers themselves do not at the moment have the full picture. But these sudden developments mean that the situation is different and more hopeful than it seemed to be when the Secretary of State reported this morning, and he was anxious that the Prime Minister should be aware of how things had changed.

Yours,

S W BOYS SMITH

BB

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— John asks Ireland to see 2.

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

cc Mr Ingham
Mr Fletcher

Prime Minister

No encouragement here; but
de Lorean chemistry has not
yet given up.

MTP 13/IV.

Rt Hon Patrick Jenkin MP
Secretary of State for
Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

13 April 1982

Dear Secretary of State,

DE LOREAN RECEIVERSHIP: PROGRESS REPORT

I felt that you should know the current state of play in relation to the prospects for rescuing the De Lorean company which Sir Kenneth Cork and Mr Paul Shewell have been pursuing since their appointment as joint receivers and managers on 19 February 1982.

Attached is a brief report which indicates, I am afraid, that the likelihood of finding a buyer for the business is small and that the receivers' judgement is that they should cease production in the week ending 23 April 1982, unless there is some dramatic, and currently unexpected, interest exhibited meantime. After 23 April they would proceed towards an orderly disposal of the assets.

I feel that I must accept the judgement of Sir Kenneth Cork and his partner although undoubtedly I will come under pressure to keep the business going for a further period.

You will also wish to note that Mr De Lorean has indicated to the receivers his belief that after Easter he would be in a position, with backing from independent sources to make a bid for the assets of DMCL. The Receivers are very doubtful about his prospects and have made it clear to him that he must come forward not only with a proposition but evidence of unfettered financial support of the magnitude required. We must wait and see what, if anything, is proposed but clearly any deal with John De Lorean will need to be watertight and defensible. If anything should develop on this front I would of course wish to take your advice.

I am copying this letter and enclosure to the Prime Minister, members of E(EA) and Sir Robert Armstrong.

Yours sincerely
James Prior

PP JAMES PRIOR
(Signed on behalf of the
Secretary of State in his absence)

KW

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E.R.

DE LOREAN RECEIVERSHIP: PROGRESS REPORT

Position at Dunmurry

1. Production of 35 cars approximately per week has been maintained at Dunmurry during the last 6 weeks. Approximately 1500 continue to be employed and one shift per week is being worked (although shop floor employees are paid their guaranteed week of 60% of normal earnings or the equivalent of 3 days pay). At 2 April approximately 1000 cars were in stock in Belfast. Work could continue at the present level until about end April based on current stocks of engines and parts (the factory will be closed for a full week at Easter, ie in the week commencing 12 April there will be no production). The quality of the cars produced during the receivership is believed to be suitable for delivery to dealers. The atmosphere in the factory during the period of receivership has been calm and routine.

Prospects for attracting a purchaser

2. None of those who showed initial interest have stayed the course. The only current prospects are a consortium led by a Mr Norman of Alabama, but he has shown no sign of being able to command the necessary financial backing, and an unnamed investor whom John De Lorean claims to have available to back him. The receivers have contacted many companies at high level (see list attached). So far Ford, Mitsubishi and Volvo have ruled out any interest. Follow up action is being taken and Mr Lander (MD of DMCL) will be used in this phase if any worthwhile prospects emerge. The list of contacts has been weighted heavily in favour of Japan because the Receivers felt that both American and West German companies were unlikely, at present, to exhibit interest. Mr De Lorean's mood and style of presentation of the prospects for the business have been unhelpful. Mr Lander has explored the assembly of a management-led consortium but a major stumbling block is the amount of capital that is required. He is in touch with Guidehouse Limited and proposes to explore other sources of finance eg Japanese or Hong Kong based banks.

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E.R.

Current Problems

3. It has been the clear view of the receivers that for so long as stocks of approximately 2,000 cars are blocking the US system, ie the 2,000 cars in DMC's Quality Assurance Centres over which Bank of America have obtained via the US Courts an order conveying "technical possession", there could be no possibility of seriously interesting any purchaser or financier. John De Lorean had taken up a position that he did not owe any cash to DMCL for any of the unsold cars (although 1200 were shipped from Belfast without payment) because an account for $24 million had been submitted to DMCL in respect of contingent liability for warranties, etc. The receivers have repudiated this account and have objected most strongly to any deal for the sale of the cars which would not provide an equitable return to DMCL; they have threatened legal action and writs to stop any sale. Bank of America is aware of the receivers' position and seems also to be unhappy with Mr De Lorean's wheeling and dealing. Mr Shewell has had recent meetings with Mr De Lorean and representatives of the Bank of America in New York but so far no sensible way forward which would break this log jam of cars 'impounded' by Bank of America, has been found. Nevertheless Mr De Lorean remains in control of the US company (De Lorean Motor Company) and has expressed his intention of visiting London on 14 April to see if it is possible for him, with substantial independent financial backing, which he claims to have negotiated, to agree terms for the purchase of the assets of Northern Ireland business from the receivers. He is said to have put up $1.3 million of personal funds to pay some creditors of DMC and to meet payroll costs and in addition to have pledged $3.3m to meet creditors' claims on DMC.

4. The Receivers now feel that in the absence of any firm proposition for the purchase of the business as a going concern they could not justify the expense of maintaining production beyond the week ending 23 April. They have therefore decided that if the position in the interim remains unchanged they will cease production in that week (the workforce would be brought in for work for the final time on 19 April) and make the entire workforce redundant. Mr De Lorean

E[redacted].

[redacted] has been informed that they have so decided and that if he wishes production to continue beyond 23 April he must, before 1800 hours on 16 April, agree to (a) meet the costs of further production and (b) have entered into substantive negotiations for the purchase of the business having disclosed to the receivers the identities of his backers and satisfied the receivers that funds of the magnitude required (in the receivers' estimation these could amount to about $50 million) are available for investment on suitable terms and conditions.

5. After 23 April, if the workforce has been made redundant, the receivers propose to continue their efforts to sell cars, without warranty, into Canada, Middle and Far East and South Africa. (Cars cannot be sold in Europe because of the need for Type Approvals in each country requiring modifications to the car.) They believe that it might be possible during April and May to arrange the sale of up to 600 cars at a price of around £10/12,000 per car. They would also 'mothball' the plant while deciding how best to approach the task of disposing of the assets.

6. At 23 April the cost of continuing production for the 9 weeks of the receivership is estimated at £1.25m net of income (approximately £450,000) from the sale of cars and cash available to the receivers from DMCL (approximately £1m). Costs of redundancies and closure would be added to this figure.

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EO.

DE LOREAN MOTOR CARS LIMITED (IN RECEIVERSHIP)

Updated list of Companies contacted

Individual Companies

Fuji Heavy Industries (Subaru)
Mitsubishi
Hyundai Motor Company
Renault
General Motors
Volvo
Paccar (Washington USA)
Suzuki
Toyota
Honda
Toyo Kogyo
British Steel Corporation
Ford Motor Company

Individuals

H D Norman (alleged Consortium - Alabama)

Trade Associations

Japanese Chamber of Commerce
German Chamber of Commerce
German Trade Associations: Auto Industry Trade Association
Electrical Industry Trade Association
Mechanical Industry Trade Association
Cooperation North (contact A J F O'Reilly)
British Embassy Japan (contact (a) Ambassador
(b) J Hodge
(c) P Denton)

Other Representatives

Guidehouse Limited
Peat Marwick Mitchell
Arthur Andersen

Further potential companies have been/are being identified in conjunction with Department of Commerce offices/representatives overseas.

KW

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PRIME MINISTER

c. Mr. Gow
Mr. Ingham
Mr. Coles.

De Lorean Statement

Mr. Prior's statement (attached) went off as well as could be expected, with some well judged assistance from Mr. Concannon. He welcomed an end to the uncertainty, and the appointment of Sir Kenneth Cork, with his considerable knowledge of Northern Ireland. He looked for a "constructive receivership" (his words, not Bernard's) working to preserve jobs. Confidence was the key to the future. There was a market for the car around the world, but a more constructive approach would be required from both Government and House. He also asked Mr. Prior to define the Government's economic policy for Northern Ireland in the wake of this affair. The economic and employment situation was crucial to the prospects for any political initiative. Labour had left record employment levels in Northern Ireland. Each man unemployed cost the Exchequer £5,000 per annum. Mr. Prior confirmed that he was looking for ways to preserve the best of the project.

A number of Irish Members followed. Mr. Powell spoke of bankruptcy's usual beneficent effect in securing genuine investment. He suggested that the £80 million would have gone a long way towards securing a permanent energy connection with the mainland to underpin real economic development. Mr. Paisley wanted the workforce to be given proper information, and the Government to instruct Kenneth Cork to keep De Lorean going. Gerry Fitt saw the statement as a vindication of Labour's efforts to bring the company to Northern Ireland. He asked Mr. Prior to deny statements made in America about 1,400 petrol bomb attacks on the plant, and Mr. Prior confirmed that this was a travesty, of a kind which was extremely damaging to prospects of attracting investment to the Province. Mr. Kilfedder referred to an offensive reply sent to him by De Lorean when he enquired about Mr. De Lorean's regular Concorde travel. He asked that the company should have treatment no less favourable than BL in the Midlands, and suggested that a Japanese company should be asked to consider taking over De Lorean. Stephen Ross suggested that the trade believed viability more likely with lower production levels, say 5½-6,000, and wanted to know

/ whether any

whether any restructured company would still have to use the US De Lorean company as its selling agent there. Mr. Prior said that the relationship between the US and Belfast companies had been one of the most unsatisfactory elements in the affair, and he saw no likelihood of the Receiver continuing on those lines. Production targets as low as Mr. Ross suggested were unlikely to be profitable. Bob Cryer asked about redundancy payments, and wanted to know whether Mr. De Lorean would transfer the rights to manufacture the car to the Receiver. Mr. Prior acknowledged that this latter point was central, and had been covered in the Receiver's report. It was Kenneth Cork's responsibility now.

John Biggs-Davison, Peter Hordern and Tony Marlow wanted - and got - an assurance that there would be no more Government aid after the guarantee waiver announced today, despite Geoffrey Robinson's request for an open mind on the possibilities. Mr. Prior said that any suggestion of further Government money would simply make it harder for the Receiver to raise the finance he would need. John Blackburn and Gary Waller, joined by David Young and Geoffrey Robinson from the Opposition, were particularly concerned about the small suppliers, and Mr. Prior undertook to consult the Industry Secretary about ways in which they might be tided over. Michael English did not miss the opportunity to ask why the C&AG had no jurisdiction over the expenditure of public money in Northern Ireland.

All in all, it was a less emotional occasion than some might have expected. There was a general air of sadness, coupled with general acceptance of the lessons of hindsight and some relief that the Government had finally blown the whistle.

MP

19 February 1982

19 February 1982

DE LOREAN MOTOR CARS LTD: STATEMENT BY THE SECRETARY OF STATE FOR NORTHERN IRELAND

With premission Mr Speaker, I will make a statement on De Lorean Motor Cars Limited.

As my Hon Friend told the House on 28 January, I commissioned reports from Coopers and Lybrand and from Sir Kenneth Cork on the current state of, and future prospects for, the De Lorean motor business. On the basis of these reports, it is clear to me that there have been some remarkable achievements in this enterprise in terms of:-

- constructing at Dunmurry near Belfast a modern and well-equipped motor plant;

- designing and developing a new car;

- recruiting and training a substantial labour force;

- getting series production under way, and introducing the product into the American market.

The importance of this enterprise to the Northern Ireland economy in general, and to West Belfast in particular, is self evident. In addition, the enterprise has underpinned substantial employment in a range of supplying and supporting businesses, in Northern Ireland, in Great Britain and further afield. I have had all

/...

these factors very much in mind during the last difficult few weeks. I have also had representations from creditors of the company who have naturally been anxious about the effects on their own businesses.

However, the reports made to me have shown that De Lorean Motor Cars Limited is insolvent, and therefore cannot continue in business without the injection of substantial further finance. Mr De Lorean and other directors of the company met me yesterday to tell me that, while a number of promising lines of discussion with private sector parties interested in investing in the business had been opened up, none could be brought to a successful conclusion in time to cope with the immediate cash crisis. For my part, I had to reiterate to Mr De Lorean that, since the inception of the project under the previous administration, the Government had already supported the enterprise to the extent of almost £80m: and there was therefore no question of further public money for the company. Mr De Lorean had been in no doubt about this for the past three weeks.

On this basis we agreed that the Company had no alternative but to go into receivership and at the Company's request, the formal steps to appoint Sir Kenneth Cork and Mr Paul Shewell as Receivers of the business have now been taken by the Department of Commerce. The Receivers, however, have already made it clear in a public statement that it would be their objective to secure, if possible, through a reconstruction of the business, a future for the Dunmurry enterprise as a going concern. They have complimented the skills of the work force and expressed an intention to carry

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on a limited programme of production. I very much welcome their statement of their approach; and I hope it will pave the way to maintaining employment at the plant. They have also asked that, to facilitate them in their approach, and in the light of an offer by Mr De Lorean to put $5m of new resources into the American company, we should agree to the withdrawal of certain guarantees made by the American parent company to the Belfast manufacturing company. In order to enable the companies to continue to trade and to maintain an orderly market for the cars in the United States, I have, on the advice of the Receivers, agreed to the withdrawal of these guarnatees. Since the American company would be insolvent without the injection of Mr De Lorean's personal investment, the Government would not be surrendering anything of practical value.

It is clearly a matter of concern to Government that this position should have been reached. Thre can be no guarantee that through reconstruction a secure way ahead can be found. But the Receivers have made it clear that serious negotiations with interested parties are under way.

I hope that all concerned will now work together to explore the scope for establishing a viable, realistic and financially secure basis on which the De Lorean sports motor project might survive and continue to provide much needed employment in Northern Ireland. The Board of DMCL have assured me that they will do all in their power to assist the Receivers in their task.

De Lorean Motor Cars Ltd

It being Eleven o'clock, Mr. SPEAKER *interrupted proceedings, pursuant to Standing Order No. 5 (Friday sittings).*

The Secretary of State for Northern Ireland (Mr. James Prior): With permission, Mr. Speaker, I shall make a statement on De Lorean Motor Cars Ltd.

As my hon. Friend the Minister of State told the House on 28 January, I commissioned reports from Coopers and Lybrand and from Sir Kenneth Cork on the current state of, and future prospects for, the De Lorean motor business. On the basis of these reports, it is clear to me that there have been some remarkable achievements in this enterprise in terms of constructing at Dunmurry near Belfast a modern and well-equipped motor plant, designing and developing a new car, recruiting and training a substantial labour force and getting serious production under way, and introducing the product into the American market.

The importance of this enterprise to the Northern Ireland economy in general, and to West Belfast in particular, is self-evident. In addition, the enterprise has underpinned substantial employment in a range of supplying and supporting businesses, in Northern Ireland, in Great Britain and further afield, I have had all these factors very much in mind during the last difficult few weeks. I have also had representations from creditors of the company who have naturally been anxious about the effects on their own businesses.

However, the reports made to me have shown that De Lorean Motor Cars Ltd is insolvent, and therefore cannot continue in business without the injection of substantial further finance. Mr. De Lorean and other directors of the company met me yesterday to tell me that, although a number of promising lines of discussion with private sector parties interested in investing in the business had been opened up, none could be brought to a successful conclusion in time to cope with the immediate cash crisis. For my part, I had to reiterate to Mr. De Lorean that, since the inception of the project under the previous Administration, the enterprise had already been supported to the extent of almost £80 million by public funds and there was, therefore, no question of further public money for the company. Mr. De Lorean had been in no doubt about this for the past three weeks.

On this basis we agreed that the company had no alternative but to go into receivership and at the company's request, the formal steps to appoint Sir Kenneth Cork and Mr. Paul Shewell as receivers of the business have now been taken by the Department of Commerce. The receivers, however, have already made it clear in a public statement that it would be their objective to secure, if possible, through a reconstruction of the business, a future for the Dunmurry enterprise as a going concern. They have complimented the skills of the work force and expressed an intention to carry on a limited programme of production. I very much welcome their statement of their approach; and I hope that it will pave the way to maintaining employment at the plant.

They have also asked that, to facilitate them in their approach, and in the light of an offer by Mr. De Lorean to put $5 million of new resources into the American company, we should agree to the withdrawal of certain guarantees made by the American parent company to the

be printed on the tag so that a dog warden who found a stray dog could easily identify the owner of the dog. The name and address of a dog's owner is supposed to be attached to the collar, but I am told that such information is often difficult to read and sometimes not sufficiently comprehensive. A plastic tag of a colour which changed each year and which showed a number would be useful.

The licence should be purchased before possession is taken of a dog. My hon. Friend the Member for Tooting (Mr. Cox) talked about street markets. One of the best ways to eliminate the sale of dogs in street markets is to insist that a person has a licence before a dog is bought. It should be the duty of the person selling or giving a dog to check that a licence has been purchased. That would discourage impulse buying on which street market traders rely. We want people to realise that taking on a dog is a responsibility and that it is not a task which will last only five minutes, as happens with most Christmas toys. A person must accept that owning a dog costs money. Having to buy a licence first will ensure that people stop and think that becoming a dog owner is a responsibility.

It is suggested that a person with more than one dog and up to five should pay a licence for each. There is a case for saying that a dog owner should have a multiple licence. Insisting on a licence for each dog would penalise genuine dog lovers and people who showed dogs. Such people usually look after their dogs. We should be legislating for people who do not. I hope that we shall examine the possibility of offering a blanket licence to people who have many dogs. We could double the fee, but I do not think that we should charge £25.

We must consider how long stray dogs should be kept before they are destroyed. Under present legislation a dog must be kept for seven days before it is disposed of. Is that not too long? If a dog has a licence number on its collar the owner can be easily identified. If we reduced the period to five days, that would cut down the cost to the local authority dog warden service. Five days is reasonable. If a person does not know that he has lost his dog after five days, he cannot be looking after it.

We should also be considering the charge for reclaiming a stray dog. The Bill must make it clear that the local authority or any welfare group employed by it can charge the full cost of boarding the dog for the five or seven days until it is reclaimed.

There is also an argument for a small penalty when stray dogs are picked up month after month. I am told by dog wardens that there are, sadly, some owners who regularly kick their dogs out of the back door in the morning and take no further interest in them.

The Bill proposes a £10 fine for not possessing a £5 licence. That ratio is wrong. I am not in favour of high fines, but given a £5 licence fee it would be realistic to have a maximum fine of £25, and possibly £50. I do not expect magistrates always to impose the maximum, but at least the opportunity to do so should be available if they believed it could be afforded. The possibility of a heavy fine would encourage people to purchase licences.

If we have dog wardens it is important to involve them in the education process and not just use them to round up strays. The hon. Member for Kingswood stressed that. Local authorities should be in a position to make grants to groups which demonstrate to people how to train and look after their dogs. There are some extremely good training clubs, some of which do a great deal of work with

Belfast manufacturing company. To enable the companies to continue to trade and to maintain an orderly market for the cars in the United States, I have, on the advice of the receivers, agreed to the withdrawal of these guarantees. Since the American company would be insolvent without the injection of Mr. De Lorean's personal investment, the Government would not be surrendering anything of practical value.

It is clearly a matter of concern to the Government that this position should have been reached. There can be no guarantee that, through reconstruction, a secure way ahead can be found. But the receivers have made it clear that serious negotiations with interested parties are under way.

I hope that all concerned will now work together to explore the scope for establishing a viable, realistic and financially secure basis on which the De Lorean sports motor project might survive and continue to provide much needed employment in Northern Ireland and elsewhere. The board of DMCL has assured me that it will do all in its power to assist the receivers in their task.

Mr. J. D. Concannon (Mansfield): I welcome the statement by the Secretary of State who has not left the matter to fester over another weekend. Together with the workers and the suppliers in Northern Ireland the Opposition welcome an end to the uncertainties of recent weeks. However, waiting until about six minutes to eleven o'clock before sending out the statement leaves unclear much that we would have liked to look at in more depth. I understand the situation and I am not grumbling about having the statement on a Friday morning, as we pushed the Secretary of State to make one at the earliest possible opportunity.

If there has to be a receiver I welcome the appointment of Sir Kenneth Cork. He knows Northern Ireland and the significance of the De Lorean plant to the Province in jobs and confidence, and to the political stability of Northern Ireland. As the House knows only too well, there are over 7,000 jobs inside and outside the Belfast factory that hinge on continued production in the De Lorean factory. A constructive receivership, which I hope is what is meant by the statement, must work ceaselessly to preserve jobs at a time of record high unemployment levels in Northern Ireland.

The key word for the future must be confidence. The De Lorean car will be marketable only when dealers and consumers have confidence in the continuity of production and in the support of the House. I am not surprised that Mr. De Lorean is having troubles in America trying to raise the money. This is one of the effects of the Government's policies. The comments of some hon. Members have been extremely unhelpful and damaging over the recent months. The more that De Lorean is knocked—and I have done some of that myself—the more the sales are restricted in America. Restricting sales will restrict the jobs opportunities of the people in Northern Ireland and the rest of the United Kingdom.

It is essential that we have a good working relationship between the Government and the board of the De Lorean Motor Cars Ltd. We want to see an end to personal antagonisms and more attention devoted to the product and the jobs that it can provide. There is a future for the De Lorean car in numerous markets throughout the world and we would like to see a more constructive and positive approach from Government and the House towards helping the company to sell the cars. Selling the cars is the only way to preserve the jobs.

On the wider front, will the Secretary of State now tell the House precisely what are the Government's economic policies for Northern Ireland? The collapse of De Lorean is wrapped up with the economic policies of the Government in Northern Ireland. Surely, the Government must realise that security and political progress in the Province can be achieved only when there is visible economic and social improvement. Unless we can be seen to be improving the prospect for jobs in Northern Ireland, the Secretary of State can forget about political initiatives.

We are hopeful that jobs will be saved, but the Secretary of State must now re-double his efforts to bring investment to Northern Ireland. He has an uphill task to convince overseas investors that the Government offer worthwhile incentives and support in the light of what has happened to De Lorean and other companies. He has a long way to go to get back to the position that obtained when the Labour Government left office, when there was a record level of employment in Northern Ireland.

Does the Secretary of State accept the recent estimate of the Manpower Services Commission that each new unemployed person costs the Exchequer £5,000 per annum? If the 7,000 jobs associated with De Lorean in the United Kingdom, in the constituencies of hon. Members, were to be destroyed, the cost to the Exchequer would be £36 million this year alone.

Mr. Prior: I am grateful for the remarks of the right hon. Member for Mansfield (Mr. Concannon) about the need to do all that we can to ensure that this is a constructive receivership. We all hope that Sir Kenneth Cork will be able to build a new company, which will be of interest to people willing to invest in it.

I apologise to the right hon. Member for the delay in letting him have the statement. Mr. De Lorean asked us to leave it until six o'clock this morning before making up his mind, because he was still hoping until the last minute for a cash injection to arrive from the West Coast of America. Therefore we could not finally go ahead until after 6 am, although all the provisional arrangements had been made.

I have had the question of employment very much in mind over the past few weeks and have considered how we could preserve the best of the project. But the Government have put £80 million into the project in the past few years. The time had come when we had to say "No". Had we taken any other course, we should have had no credibility left in respect of the other ways in which we are trying to help in Northern Ireland. It was a difficult decision. We also had to bear in mind the implications for a large number of small creditors on both sides of the Irish Sea.

The Government's policy is to do all that we can to bring fresh investment to Northern Ireland. We give top priority to funds for commercial development. But until we have political advance and stability and better security in Northern Ireland it will be difficult to attract industries that will survive and prosper.

Mr. J. Enoch Powell (Down, South): Is the right hon. Gentleman aware that it will be hoped that in this case, too, bankruptcy will produce its usual beneficent and, indeed, indispensable, effects and that it will be what it

[Mr. J. Enoch Powell]

ought to be—the cause of securing genuine investment in genuine prospects? Has the right hon. Gentleman noticed that the sums of public money that have in any case been lost would have gone far to provide Northern Ireland with a permanent energy connection between the Province and the rest of the United Kingdom, on which firmly based industrial progress could have taken place? Will he bear that experience in mind in the formation of his future industrial and economic policies in the Province.

Mr. Prior: There are lessons to be learnt for everyone on these occasions. I am grateful to the right hon. Gentleman for what he said about a receivership giving an opportunity for a proper reconstruction. That is right.

I do not go quite as far as the right hon. Gentleman about the east-west connector. It would have cost considerably more than £80 million and would not necessarily have resulted in a definite improvement in Northern Ireland's energy position. We must consider all the factors together and do our utmost for the Northern Ireland economy. No one should underestimate the real suffering of the Northern Ireland economy, with 20 per cent. unemployment and in many areas over 40 per cent. male unemployment. If we did not have a problem of security and violence in Northern Ireland for other reasons, we should be close to it because of current economic and social conditions.

Rev. Ian Paisley (Antrim, North): Is the Minister aware that the question mark over De Lorean has had a demoralising effect in Northern Ireland, not only on the work force but generally? Will the remaining work force immediately be called to a meeting and told precisely what is happening? Is he further aware that we are appalled when we see on our television screens workers coming out of the factory saying "We do not know what is happening; we may not be in a job tomorrow"? Will he give us a firm assurance that the Government's instruction to Sir Kenneth Cork is that the factory should be kept going, as Sir Kenneth is on record as saying that it can be viable? Can the right hon. Gentleman give hope to the workers who have been paid off without the necessary 90 days' notice that they will have compensation?

Mr. Prior: I fully understand the great anxiety and uncertaninty for the work force over the past few weeks. One would have liked to have said more to the workers to help them understand the position. Unfortunately, with so many commercial considerations involved and negotiations going on, it was not possible to give them further information. My hon. Friend the Minister of State has been in touch with the unions already this morning. Sir Kenneth Cork's statement at 9.30 am will have reassured the work force about the future in so far as he could.

The Government are not in a position to instruct the receiver, but Sir Kenneth has stated:

> "Our objective will be to do everything possible, through a reconstruction of the business, to maintain in Belfast the operation to maunfacture De Lorean motor cars."

That is also our wish and intention, but it will have to be through the injection of outside capital. That is why it is so important that nothing should be said to make Sir Kenneth's task more difficult.

Mr. Gerard Fitt (Belfast, West): Does the right hon. Gentleman agree that the opening paragraph of his statement and his complimentary remarks about the workers have completely vindicated the previous Government's actions in taking steps that were so necessary to bring the company to Northern Ireland to redress the awful unemployment? Will the work force remain at its present level of 1,500? Will the Secretary of State deny the statements in the United States that during the three years that the company has been in Northern Ireland it has been subjected to 1,400 petrol bomb attacks, as that is a blatant untruth? Is he aware that all the people employed at the factory and living in the surrounding area wish to see the company continue with a work force of at least 1,500 or double that number?

Mr Prior: I entirely corroborate what the hon. Gentleman says. It is a travesty of the facts to say that the factory was subjected to the fire bomb attacks that were suggested. It is extremely damaging to future investment in Northern Ireland, where the vast majority of people go about their daily business in the same way as people in the rest of the United Kingdom. The company has not been subjected to the actions suggested. They may have been used as an excuse for past failures in some cases.

I am in a generous mood, but with the benefit of hindsight there might be doubt about whether the project was the right one. The trouble is that when one is desperate to attract industry, to get employment in Northern Ireland, one may tend to go for industries that require a degree of assistance and may not be in a strong position. It is a difficult balance to strike. I do not wish to score party points.

The continuation of the plant will depend on the receiver making satisfactory arrangements with one or other of the people negotiating with him. The level of the work force will be decided by that. But from all the information and reports it seems that it was far too ambitious so early on to talk of sales of 18,000 to 20,000 a year; 8,500 to 9,000 would have been much more realistic. The fundamental management mistake was last July when a second shift was brought in. With a complicated sports car on the American market, subject to all the competition, all that I have seen shows that considerable management and marketing mistakes were made in over estimating the likely level of sales.

Mr. James Kilfedder (Down, North): Since I received a particularly nasty letter from an official of the De Lorean Motor Company merely because I had raised in this House the matter of the expenditure of £15,000 on Concorde travel for Mr. De Lorean and first-class air travel for the directors of the firm going to a meeting in New York—which the official dismissed as a mere pittance in relation to total investment—the Secretary of State's announcement should give a little hope to the punch-drunk Ulster industry. I was glad to hear his compliments about the skilled and hard-working work force in the factory.

Will the Secretary of State give an assurance that the De Lorean Motor Company and the engineering industry in Northern Ireland, and all the other firms involved, will be treated no less favourably than BL in the Midlands has been treated? Will the Secretary of State also give an assurance that the companies in my constituency, and elsewhere in Northern Ireland, which are owed money by De Lorean, will be paid quickly, as their survival depends on the money coming to them?

Finally, will the Secretary of State ask one of the Japanese firms to consider taking over De Lorean?

Mr. Prior: I must make it absolutely plain that I can give no assurance about the position of creditors. It would be wrong if I in any way sought to do so. I am afraid that they have to take their risks and stand alongside other people in this unfortunate business.

With regard to firms in my hon. Friend's constituency and other firms in Northern Ireland being treated no less favourably than those in Great Britain, firms in Northern Ireland are treated considerably more favourably than firms anywhere else in the United Kingdom. I shall go on defending that policy, because it is absolutely necessary that they should be. We should not underestimate the enormous amount of aid that Great Britain is giving to Northern Ireland. My concern is to ensure that the money is spent as well as possible.

Mr. Stephen Ross (Isle of Wight): I join with other hon. Members in welcoming the earlier part of the Minister's statement, in which he acknowledged the achievements of the work force at the Dunmurry plant. Whatever criticisms there may be of management—some may be justified but some are singularly unhelpful—the work force deserves credit for its great achievements. May I tell the Minister that we accept his unenviable decision as inevitable?

The Minister spoke of an annual production of about 8,000 cars. I understand that within the trade it is felt that the company would be more likely to be successful with an annual production of 5,500 or 6,000 cars. That has to be appreciated if the plant is to survive.

Is the Minister satisfied about the future marketing arrangements in the United States? Will the marketing still have to go through one of Mr. De Lorean's own companies?

Mr. Prior: The hon. Gentleman's last point would be one for the receiver to investigate. Undoubtedly, one of the most unsatisfactory parts of the whole structure of the business has been the relationship between the American company and the Belfast company. Certainly the receiver will not be satisfied to go on with the present arrangements—at least, I imagine that he will not, judging by the report that he has produced to me.

With regard to the level of car production, the company is very unlikely to be profitable at the very low figure of 5,500 to 6,000 cars. That is another of the problems. Production will have to get up to about 8,500 cars if the company is to stand any chance of washing its own face.

Mr. Bob Cryer (Keighley): Will the Minister clarify the position concerning the 1,100 workers who have already been made redundant and any people who will be made redundant in future? Everyone has praised the workers for their contribution, bu will the Secretary of State accept that the company is not in a position to make redundancy payments to workers who have been made redundant through no fault of their own? Should not the Government be making a contribution in that direction?

Will the Minister explain a little more fully what sort of reconstruction is involved? Will the Northern Ireland Development Agency be involved in running the company with the receiver? Two of the agency's directors have been on the board. Does the Minister think that, for example, Mr. De Lorean, as a helpful gesture to build up confidence for the future, will be transferring the right to manufacture the car to the receiver or to the new company?

Mr. Prior: The hon. Gentleman's last point is a very important one. I must now leave it to the receiver. It is a point that the receiver will obviously have very much in mind. It is brought out in the confidential report that he has given to me.

The Employment Protection Act 1975 will cover those who have been made redundant. Redundancy payments will be made out of the redundancy payments fund to those who have already been made redundant and who up to now have not been paid redundancy money. Any further redundancies in a company which is in receivership will be treated in the same way.

The Northern Ireland Development Agency will have nothing further to do with the matter, for the simple reason that the receiver will have to set up a fresh company, and it will be the responsibility of the receiver to deal with that. Therefore, the NIDA arrangements will tend to fall by the wayside. I would not think that NIDA would have any further interest in the matter, other than the very considerable interest that we have in the property and in the working equipment, which is tied to the loans that we have made.

Sir John Biggs-Davison (Epping Forest): Those of us who have seen the factory and the men at work will feel particularly sad at this time. Is my right hon. Friend aware of the relief on the Conservative Benches that good money is not to be sent after bad? I admire the way in which my right hon. Friend has succeeded in directing funds to the relief of the distressed economy in Northern Ireland. Will he bear in mind—as I am sure he does—that future investment should be sound investment, as indicated by the right hon. Member for Down, South (Mr. Powell)?

Mr. Prior: I am grateful for what my hon. Friend has said. We need to look carefully at future investment, and to ensure that in any such future investment there is a larger input of private sector money to go alongside any money that is put in by the State. That is one of the lessons to be learnt. The other is that Northern Ireland has a very good work force, and we need to capitalise on it in every way that we can.

Mr. John G. Blackburn (Dudley, West): Will my right hon. Friend accept my congratulations and the congratulations of the House on the moral courage that he has displayed and on his dignity in making this very unhappy statement to the House today? Will he consider the effect that it will have on my constituency of Dudley in the West Midlands, where several firms are sole suppliers to the De Lorean Motor Company?

In the difficult negotiations with the receiver, will my right hon. Friend do everything in his power to create an air of confidence, and the sort of environment in which risk capital could be invested in the company?

Mr. Prior: I am grateful to my hon. Friend for his remarks. One of the factors that I have had in mind is the number of small suppliers in the West Midlands, in my hon. Friend's constituency and in other places who, as things stand, are likely to be badly affected by the receivership.

It is important that a number of cars that are on their way to the United States, in the United States, or in the factory at Belfast, and which have not yet been sold, should be sold at the proper price. That is the way in which the creditors are likely to receive the biggest dividend.

[Mr. Prior]

Therefore, in the interests of the creditors, nothing should be done to knock the car, let alone the future of the company. That is why it is so important that we should try to get off to a reasonable start.

Mr. David Young (Bolton, East): Will the Secretary of State note that many of the small firms in this country, such as those in my constituency, have a large proportion of their production geared to the De Lorean company? While the reconstruction is taking place, will he have discussions with his colleagues in the Department of Industry and the Department of Employment to see what can be done to tide over the small firms until the position of the De Lorean company becomes clear?

Mr. Prior: That is something that I shall consider with my right hon. Friend, as the hon. Gentleman suggested. Much will depend on how successful the receiver is in getting additional finance quickly into the new company. I shall discuss that with my colleagues.

Mr. Peter Hordern (Horsham and Crawley): Will my right hon. Friend confirm, apart from the waivers on the interest that he has announced, that the receiver has not called on him or the Government for any assistance in any reconstruction of the company that might occur in future? Secondly, in view of the substantial sums granted every year to Northern Ireland, will he consider whether that money is used in the best way or whether a regime of tax concessions—especially corporation tax—might not provide a better service to the people of Northern Ireland? Finally, does my right hon. Friend agree that the large-scale support that he and the Government give to Northern Ireland shows beyond any doubt the commitment of the Government and people of this country to Northern Ireland? That should not be held in any doubt in any quarters.

Mr. Prior: Everything shows that the people of Great Britain are prepared to do all that they can to help Northern Ireland and its people through a difficult period. I confirm that and I am grateful for my hon. Friend's final remarks.

Tax concessions I have under review and the manner in which money to help with investment is given to Northern Ireland. Many problems will be presented if we seek to go a different way in Northern Ireland from that which we follow in the rest of the United Kingdom. One of the attractions of my hon. Friend's suggestion is that it would bring us more into line with the Republic, which has been more successful until recently in attracting investment.

I confirm that there is no question of any further money or assurances being given by the Government to the De Lorean project, and that the only change we have made relates to the bond over the American company. Charges over the Belfast company remain exactly as they are and, of course, our royalties from the sale of each car remains as it is.

Mr. Geoffrey Robinson (Coventry, North-West): Is the Secretary of State aware that his last sentences rather upset what we would otherwise have regarded as a very sensitive and realistic approach to this most difficult question? He has, in Sir Kenneth Cork and Paul Shewell two of the most able receivers in the business. They have made a clear statement with a view to reconstructing the company.

I urge the right hon. Gentleman at this stage not to rule out any further possible Government aid under a new scheme. He made a precise statement concerning the De Lorean project. It may be possible, via ECGD, the Northern Ireland Development Board or even through the Government to provide further aid on a realistic new project, and I urge him to keep an open mind. It is silly in Government ever to rule anything out beforehand.

Will those who have been made redundant in Northern Ireland qualify under the Employment Protection Act? Can he give precise figures on that aspect? Lastly, I am sure that he is aware of the serious situation of a factory in Coventry. Can he assure me that he has not ruled out Government help there? Is he aware that any Government help to tide the firm over a difficult financial period would, be most welcome.

Mr. Prior: Redundancies are covered by the Employment Protection Act. However, the additional problem is that the company did not give 90 days' notice, as it was required to do under that Act. That matter must go to an industrial tribunal and I believe that the unions have already made application. As I understand it—I shall have to refresh my mind—if the industrial tribunal rules against the company and the company is in receivership, payments still come out of the redundancy payments fund.

The hon. Gentleman urges me to keep an open mind about the future of the company. I must make it clear that both the Labour and Tory Governments have done everything in their power to help De Lorean. It would be wrong, and certainly not in the interests of the receiver in trying to attract new money, if there were any suggestion that further Government money would be made available to it the company. I must keep to that point.

Mr. Peter Viggers (Gosport): Does my right hon. Friend agree that economic and political progress and improvement of the security situation in Northern Ireland are indivisible and, for that reason, the location of the De Lorean plant alone justifies special measures being taken and might indeed justify special measures in the future? Does he agree that it is unrealistic for anyone to think that prosperity will bloom in Northern Ireland without continued strong Government support?

Mr. Prior: I am grateful for every remark made by my hon. Friend. That is very much the message I am trying to get across.

Mr. Michael English (Nottingham, West): While one can be sure that Coopers and Lybrand have done work of their usual high standard, it seems an extraordinary anomaly that the Comptroller and Auditor General of the United Kingdom seems to have no jurisdiction in Northern Ireland and that this parliament never decided that he should have such jurisdiction. Will the Secretary of State and the Treasury consider that very odd circumstance?

Mr. Prior: The hon. Gentleman raised that point with me on a former occasion and I am having some inquiries made because it is an aspect that is completely new to me.

Mr. Douglas Hogg (Grantham): Can my right hon. Friend tell the House a little more about the guarantees apparently surrendered? What were these guarantees? Why have they been surrendered? Is my right hon. Friend absolutely sure that those guarantees are presently valueless?

Mr. Prior: That was an overall guarantee given by the United States company—De Lorean Motor Cars—to the Department of Commerce and the Northern Ireland Development Agency for the loans they made to De Lorean Motor Cars Ltd. in Belfast. Mr. De Lorean said that he was prepared to invest $5 million to keep the New York company solvent. However, of course, he was not prepared to put that money in if on the first occasion, as soon as the money was put in, we whipped it out to cover the guarantee for the Belfast company.

Because the report in front of us shows that without that $5 million injection the New York company would become insolvent in a big manner and that we would therefore have been unlikely to get anything out of the company, it seemed to us that the benefits that the receiver said he needed to keep the marketing going in the United States, justified that action. I am satisfied that it in no way restricts the right we have on loans over the assets of the De Lorean Motor Cars Ltd. of Belfast.

Several Hon. Members *rose*——

Mr. Speaker: Order. I shall call other hon. Members, but I hope that they will bear in mind the Private Member's Bill that is being debated.

Mr. Tony Marlow (Northampton, North): While my right hon. Friend obviously has to make a very sad statement and while I agree with him that all the money so far invested was invested with the best of intentions, perhaps my right hon. Friend could help those such as the hon. Member for Coventry, North-West (Mr. Robinson), who ask for more direct Government investment in industry if he told us how much Government money has already gone for each job-year provided by De Lorean.

Mr. Prior: I cannot do it in terms of job-years, but the amount of money Governments have altogether put into De Lorean is just over £79 million. Of course, part of that sum was in employment subsidies, industrial and regional grants, the original share capital, part on a loan, and a £10 million loan was a guarantee to the bank.

At its peak, De Lorean employed 2,600 people. If one divides 2,600 into £80 million, one gets a figure of approximately £32,000 per job. Of course, that is spread over a period.

Mr. Concannon: Why not divide it by 7,000?

Mr. Prior: The right hon. Gentleman quickly reminds me. Those were the direct jobs. A great many indirect jobs also resulted from the operation.

Mr. Ivan Lawrence (Burton): Is my right hon. Friend heartened by the general feeling in the House of support for Northern Ireland and by the extraordinary agreement on both sides of the House that the solution to this tragic problem is not to throw even more public money at it? Does this show that the Government's economic message is beginning to get across, and is not that a most encouraging sign?

Mr. Prior: I am always heartened by cross-party agreement when dealing with such a sensitive and difficult issue as the future of Northern Ireland and our desire to bring peace, prosperity and employment to such a troubled country.

Mr. Gary Waller (Brighouse and Spenborough): Will my right hon. Friend accept my appreciation for the realistic attitude that he has adopted in view of the state of the market in the United States for De Lorean cars? Will he also accept my appreciation of his efforts to save the jobs of workers in Northern Ireland and those who are employed by component manufacturers in this country? Is he aware that for component manufacturers there is a disproportionate effect because of the specialised nature of the product that has been specified by De Lorean? Will he accept my good wishes for any encouragement that he is able to give with the reconstruction and future of the company?

Mr. Prior: We have in Sir Kenneth Cork a man who understands Northern Ireland and who is keen to help in every way that he can. He is firmly of the mind that there is a future for the company at a reduced level. He wants to see it prosper and he has taken on board the effect on component manufacturers in my hon. Friend's constituency and in other constituencies. I should be wrong to be too optimistic about the outcome. We have many difficulties ahead of us. However, the response of the House this morning has shown me that there is more good will over trying to reach a sensible position than one might have thought over the past few weeks.

Dogs (Miscellaneous Provisions) Bill

Question again proposed, That the Bill be now read a Second time.

Mr. David Young: At some time in our childhood or in our adulthood we have probably all been terrified by a dog that has not been under control. As politicians the most fearful experience that we can have during canvassing in an election is suddenly to find a huge dog hurling itself towards us from the back of a house or from somewhere else. As a dog lover, I put that down to a difference in political views between the dog and myself.

Mr. Christopher Murphy (Welwyn and Hatfield): All the dogs are Tories.

Mr. Young: They are usually intelligent, so I would not categorise them as Tories entirely. However, it is a frightening experience. It is even more worring when packs of dogs are running wild. This sometimes occurs on school playing fields. It takes only one small incident to set off one of those dogs, or several of them, and the result is injury to a child, or a number of children.

It is society's duty to protect the public from the dog owners who should be responsible for them. Every dog lover is appalled by the cruelty that is involved in buying pups at Christmas time only for them to be jettisoned on motorways throughout the country or thrown out to fend for themselves. In controlling dogs we are acting as much in the animal's interest as in the person's interest.

A much more serious issue is the control of rabies. Governments of both parties have taken far too casual an attitude to the potential danger. It is only a matter of time before rabies spreads to the United Kingdom. Since the war it has spread from Poland to the Channel. It is a serious issue that must be considered at Government level.

Having accepted the need to control dogs, we must accept that it is the irresponsible owner that we must control primarily and not the stray dog. The feature about the Bill that worries me is that it seems that the cost of looking after and controlling dogs is being placed more and more on the responsible owner who will look after his dog in any event. It is a fairly responsible owner who buys a licence in the first place.

My second worry stems from the idea of leaving licensing to local authorities. That will lead to differential rates between auhtorities. For various reasons certain authorities may want to use the dog licence to deter dog ownership and not to control dogs. That will work against both irresponsible and resonsible owners.

It appears that we are being asked to consider a self-financing scheme. Often those who need dogs are the old, those who live alone and those who are not especially well off. Financial control will act against those of limited financial means. That does not apply only to old-age pensioners. The dog licence should be centrally imposed and centrally administered. It might be sensible to increase the cost of the licence, but we must consider the effect on those who need dogs. Although we may be able to identify dogs and to license them, we are not able to deal with vandals in the same way. Many of the older people in my constituency wish to keep dogs because they fear the muggings and the attacks from which society is unable to protect them.

When we talk about financial means of control, we must remember that there are many who like dogs and want dogs. If dog wardens are to be given powers to deal with dogs that foul footpaths, society must provide places for owners to exercise their dogs. In some parks or playing fields the danger comes not only from dogs, but from horses and so on. Given that some control may be necessary, we must look at the other side of the coin. We all agree that there is a need to control dogs. However, control must be imposed in particular on unscrupulous dealers who sell dogs for a profit.

Generally, I support the Bill. I have some reservations and I have mentioned them to the House. However, before supporting the Bill in the Lobby, I should like those points to be clarified.

11.50 am

Mr. Tony Speller (Devon, North): My pedigree as a dog lover is well established. Even my car is called Rover. The breed lasts well, although it has been somewhat thinned over the years. I even come from the only constituency to have founded a breed of dogs, the Jack Russell. Indeed they were founded by the Rev. Jack Russell, vicar of Swimbridge, near Barnstaple. My family has always favoured wire fox terriers. Indeed, in relation to the fear expressed by the hon. Member for Bolton, East (Mr. Young), I should point out that my late mother—who kept wire fox terriers all her life—was never bothered by burglars, nor, for that matter, by postmen or milkmen.

A dog can be a guard or companion, but it can also be a nuisance to other members of the community. We must strike a balance between the absolute freedom to own and love a pet and the absolute obligation to the rest of the community, who may not love and honour the pet in the same way.

My hon. Friend the Member for Kingswood (Mr. Aspinwall) has produced a modest Bill. It should have been much more comprehensive, and I agreed with my hon. Friend the Member for Plymouth, Drake (Miss Fookes) when she said that we needed a larger and more detailed Bill. I suspect that this Bill was proposed in the hope that it would have more success, but I fear that even this modest aspiration may not be realised.

Misconceptions about dogs abound. To town dwellers, "sheep worrying" conjures up something like the hound of the Baskervilles, tearing the throat out of a ewe. However, as the hon. Member for Stockport, North (Mr. Bennett) said, more damage is done by sheep worrying [illegible] which a tooth or paw is never laid on the beast. In our part of the world sheep are often worried by a pet poodle belonging to someone from Putney or Pudsey that escapes from the car and finds big woolly creatures, which we know as sheep and which jump and run and are fun to chase. That is why we need regulations. I entirely support the National Farmers Union. We cannot allow a metropolitan regulation of dogs, which may clean our footpaths but does not save the countryside. Indeed, the NFU thinks in much higher figures than those quoted earlier. It thinks that there may have been about 100,000 instances in which animals have been chivied and chased, although not necessarily killed. At this time of the year the abortion rate among breeding ewes can be economically frightening, and, in addition, the blizzards of recent months may have weakened the breeding stock.

The Bill is modest and I regret that on its way to proclaim its modesty it is covered with more and more clothes and is less exposed to detail and fact. I regret that it does not cover working dogs. Exeter and Leamington Spa are the two main centres for guide dog training. It is well known that guide dogs cannot be used until they are well over the six-month age limit, at which a licence is needed. A dog is selected, trained, walked and then finally trained. In Committee, we must make allowance for guide dogs throughout their existence. In addition, there have always been agriculture exemptions for working dogs and these must be maintained.

It is illogical to expect those who show and breed animals to share in individual licensing. Given the movement in the dog population, we shall end up with something like the vehicle registration centre at Swansea several months or a year behind with the transfer of top breed dogs that are moved from owner to owner. Therefore, we must consider a measure that is a little wider than at present. In my part of the country hunt kennels form an important part of the community. We get a far bigger turn out at the local hunt than at the local football match and the sport is usually better. There is no doubt that kennels and breeders must also be given exemption from individual licensing.

It may seem strange to pass from Exmoor and sheep breeding to urban streets, but I should like to quote from someone who played an important part in my formative years. Christopher Robin said:

> "Whenever I walk in a London street, I'm ever so careful to watch my feet."

I seem to remember that Christopher Robin was afraid of bears and of stepping on the lines, but I walk the streets near my London flat and unless I am careful my shoes become fouled. My constituency is both agricultural and seaside. I am well aware that if one child is fouled by dog dirt that may be the last time that the family will visit a seaside resort.

If the Government are not enthusiastic about the Bill they should bear in mind that electors are. Our postbags are full of complaints about the lack of control, dogs that chase sheep and so on. Everything that hon. Members have said is mentioned by constituents in their letters and those letters fill the postbags of all hon. Members. It would be an unwise Government who were seen to be against sensible and modest legislation.

The Bill places the power where it should logically lie, not at the Ministry of Agriculture, Fisheries and Food,

From: THE PRIVATE SECRETARY

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

1) Mr. Ingham
2) Action Line.

A.J.C. 19/2

John Coles Esq
10 Downing Street
LONDON
SW1

19 February 1982

L.A. ABL 22/2.

Dear John

You telephoned me about the statement which Mr De Lorean appears to have made at Heathrow today that "the Government has effectively wiped out £70m worth of debts". We do not know exactly what Mr De Lorean means by this but we can think of no explanation which does not involve a considerable stretching of the truth.

Detailed Government support for the company amounts to some £79m, but if Mr De Lorean is claiming that by appointing Receivers we have decided to forego that sum, he is wrong. £30m of the Government's investment represents grants which we would not normally expect to see repaid; £17.8m relates to the Northern Ireland Development Agency's purchase of shares in the company - which again, was written off some time ago. There remain some £21m of secured loans, which the Company is due to repay to the Department of Commerce and which we have emphatically not given up. They are a first charge on the assets of the company and the appointment of Receivers in no way reduces the strength of that charge or implies a Government willingness to release it. The remaining £10m of the Government's commitment to the company represents the guarantee of bank overdrafts which Ministers agreed just before Christmas: the appointment of the Receivers neither increases nor decreases our exposure.

We thus cannot see that yesterday's decision to appoint Receivers in any way changes the nature of the Government's commitment to the company.

An alternative possibility is that Mr De Lorean meant to refer to $70m rather than £70m: $70m would be roughly equal to £40m which is a reasonable approximation of the company's debts. Perhaps he is alleging that the appointment of Receivers wipes out liability for these debts. If that is what he means then, as you know, it is untrue: the appointment of a Receiver does not cancel debts.

Whatever he is referring to I am quite sure that Mr De Lorean is not referring to the release of guarantees which my Secretary of State mentioned in his statement to the House. These counter guarantees relate principally to the £10m which the Belfast company

/...

has borrowed from commercial banks and which government has agreed to guarantee. As my Secretary of State indicated to the House, the counter-guarantees are in practice worthless anyway. In theory, if the Anerican company was in funds, but the Belfast company collapsed it would be possible for us to claim repayment from the American company for any sums paid by us under the guarantee. But the American company is already heavily in debt, and has no net assets with which to make payments to us or to the Belfast company. Even if the American company did have assets (and this will apply if it does acquire significant assets in the future) the American company is already indebted to the Belfast company to the trne of some £18m (the sum cannot be exact since Sir Kenneth Cork believes that some of the debts may have been "written off" improperly); if therefore the American company had sufficient assets to pay this sum to the Belfast company it could be used by the Belfast company to help meet their debts.

I think you were also concerned about the view which we take of the American company. The American company has two relationships with the Belfast company. First, it is the marketing outlet for selling the Belfast company's product in the United States. The Coopers and Lybrand Report suggests that this marketing operation could have been conducted more efficiently but for the present it is the only marketing outlet we have, and it is the view of Sir Kenneth Cork, as well as of my Secretary of State, that the American company is needed, at least for the time being, to give us the maximum chance of getting a realistic return on the cars produced in Belfast.

The American company is, however, also to all intents and purposes, the parent of the Belfast company and despite an agreement with Government that relations between the two companies would be conducted at arms length there is no doubt that the American company has used its leverage over the Belfast Board to the financial advantage of the American company. It is doubtful whether some of the loans made by the Belfast company to the American company would otherwise have been made and highly unlikely that the most recent shipment of cars would have been sent from Belfast to America without any payment. These aspects of the relationship between the two comapnies are clearly unacceptable, and it is this part of the relationship that my Secretary of State believes must be changed at once. The appointment of Receivers who will also manage the Belfast company will, of course, prevent the American company taking further advantage of the Belfast company.

Since it is in our interest that the American company should continue to function as the sales outlet of the Belfast company it is an important achievement for Government that Mr de Lorean has been pressed into making a further personal commitment to the American company. His $5m (assuming it materialises) will enable the American company to continue in being and this will not only help to maintain confidence in the market in the United States but will also help to keep in existence the marketing chain through which the cars need to pass.

./...

I apologise for making the situation sound so complex - unfortunately it is a very complex picture. I realise that you will be asked questions by the Press about this and I attach a note with some suggested answers.

...

I am copying this letter to Terry Mathews (Treasury).

Yours sincerely

Mike Hopkins

M W HOPKINS

Annex

Mr de Lorean's £70m

I am not at all clear what Mr de Lorean means by this. The Government has agreed that if (but only if) Mr de Lorean pays $5m into the American company it will terminate the American company's liability under certain guarantees which it has made covering loans made to the Belfast company. I cannot see how Mr de Lorean can place a value of £70m on this. We think that, as the Secretary of State announced, the guarantees were of no practical value.

The American Company

The most important thing is that the Belfast company should be able to sell its cars and the American company provides the only existing sales outlet. Its continued existence, at least at the present, is in the interests of the Belfast company.

It does, however, seem important to separate more distinctly than has been done in the past the affairs of the American company (in which the Government has made no investment) and those of the Belfast company (in which considerable Government funds have been invested and which has produced valuable employment in the UK).

19 FEB 1982

CONFIDENTIAL

From: THE PRIVATE SECRETARY

Prime Minister 1

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

John Coles Esq
NO 10 Downing Street
LONDON
SW1

18 February 1982

Dear John,

M

M.a. 19/2

DE LOREAN

.... I attach a provisional draft of the statement my Secretary of State expects to make tomorrow morning, 19 February, at 11 am.

Mr De Lorean holds out the hope of a further injection of funds. We will know by 9 am whether he has been successful; in the event that he is, the statement will need substantial change. On the assumptions that he does not succeed, and subject to any other developments, this is the text my Secretary of State expects to use.

I am sending copies of this letter to the private secretaries to other members of Cabinet and to Sir Robert Armstrong.

Yours,
S Boys Smith

S W BOYS SMITH

CONFIDENTIAL

E.R.

As my Hon Friend told the House on 28 January, I commissioned reports from Sir Kenneth Cork and from Coopers and Lybrand on the current state of, and future prospects for, the De Lorean motor business. On the basis of these reports, it is clear to me that there have been some remarkable achievements in this enterprise in terms of:-

- constructing at Dunmurry near Belfast a modern and well equipped motor plant

- designing and developing a new car

- recruiting and training a substantial labour force

- getting series production under way, and introducing the product into the American market.

The importance of this enterprise to the Northern Ireland economy in general, and to West Belfast in particular, is self evident. In addition, the enterprise has underpinned substantial employment in a range of supplying and supporting businesses, in Northern Ireland, in Great Britain and further afield.

However, the reports made to me have shown that De Lorean Motor Cars Limited was insolvent, and therefore could not continue in business without the injection of substantial further finance. Mr De Lorean and other directors of DMCL met me yesterday to tell me that, while a number of promising lines of discussion with private sector parties interested in investing in the business had been opened up, none could be brought to a successful conclusion in time to cope with the immediate

E.R.

cash crisis. For my part, I had to reiterate to the directors that, having already supported the business to the extent of almost £80m, Government could not contemplate putting further public money at risk.

On this basis we agreed that the Company had no alternative but to go into receivership and the formal steps to appoint Sir Kenneth Cork and one of his partners as Receivers of the business of DMCL have now been taken by the Department of Commerce, on foot of its Debenture. The Receivers, however, have already made it clear in a public statement that it would be their objective to secure, if possible, through a reconstruction of the business a future for the Dunmurry enterprise as a going concern. I very much welcome this statement of their approach. They have also asked that, to facilitate them in this approach, and in the light of an offer by Mr De Lorean to put $5m of new resources into the American company, we should review the obligations of that company to Government so as to enable it to continue to trade and to maintain an orderly market for the cars in the United States. Mr De Lorean's investment could not have that effect if this $5m had to be used to discharge guarantees or counter guarantees from that Company in respect of borrowings by the Northern Ireland company advanced or guaranteed by Government. Since the American company would be insolvent without the injection of Mr De Lorean's personal investment, the Government would not be surrendering, in abandoning these kinds of guarantee, an advantage of any practical importance.

In the circumstances, on the advice of the Receiver, and with the objective of trying to preserve the business as a going concern and thus at least maintaining a prospect of a continuing return from the Government's investment in the overall project, I have agreed to the

E.R.

withdrawal of these guarantees or counter guarantees on Mr De Lorean's making his $5m investment. Existing charges on the Northern Ireland Company in relation to borrowing by it, of course, remain in force.

It is clearly a matter of concern to Government that this position should have been reached. There can be no guarantee that through reconstruction a secure way ahead can be found. But the Receivers have made it clear that serious negotiations with interested parties are under way.

I hope that all concerned will now work together to explore the scope for establishing a more viable, more realistic and financially secure basis on which the De Lorean sports motor project might survive and continue to provide much needed employment in Northern Ireland. The Board of DMCL have assured me that they will do all in their power to assist the Receivers in their task.

Ireland

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Ref. A07543

PRIME MINISTER

DE LOREAN

When Cabinet discusses industrial affairs tomorrow the Secretary of State for Northern Ireland is likely to report briefly on De Lorean. It is unlikely that he will be in a position to say anything new of substance.

2. Since his Private Secretary wrote to Mr Coles on 16 February, the meeting with Mr De Lorean and his Board has been postponed from this evening to 11:30am tomorrow, immediately after Cabinet. The Secretary of State is now planning to make his statement to the House on Friday morning rather than Thursday afternoon.

3. In his Private Secretary's letter of today, the Chief Secretary has questioned Mr Prior's proposal (on page 2 of his letter of 16 February) that he should tell Sir Kenneth Cork that the Government would be prepared to consider a proposal based on purchasing the company's fixed assets; Mr Coles has also raised a question on this proposal. I understand that the Secretary of State for Northern Ireland will write tonight to explain that he is saying no more than he would be willing to consider a detailed proposal if Sir Kenneth Cork were to put it forward; he was not intending to imply that there has been collective consideration, let alone approval, of such a purchase.

4. On this basis I do not think that there will be need for substantive discussion of De Lorean until the Receiver has been appointed and is ready to put specific proposals to the Government.

RCA

ROBERT ARMSTRONG

17 February 1982

CONFIDENTIAL

From: THE PRIVATE SECRETARY

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

Terry Mathews Esq
PS/Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3HE

17 February 1982

Dear Terry,

DE LOREAN

My Secretary of State has seen your letter of 17 February. He has asked me to say that he agrees with the broad thrust of the Chief Secretary's remarks. The Government does not have primary responsibility for this company, and it has been an important part of my Secretary of State's strategy to ensure that the responsibility for the company's affairs is seen to rest squarely with Mr de Lorean and his fellow directors. When asked, at an earlier stage, whether the Government would be willing to inject additional funds into the company, my Secretary of State told Mr de Lorean that this would be unacceptable. That remains my Secretary of State's position. Any other proposition that is put to Government will, like this first one, have to be examined on its merits. We do not so far have any proposition before us which we can consider, though Sir Kenneth Cork thinks it may be possible to devise a scheme for injecting private capital into the venture and has (as you will have seen from his letter of 11 February) suggested that as part of such a scheme the Receiver would sell the fixed assets to the Northern Ireland Department of Commerce; Sir Kenneth's suggestion was hypothetical, and under that suggestion the purchase price would be used to redeem the Government's loan to the company (with a nil effect on public expenditure), but my Secretary of State has made it clear to Sir Kenneth that any suggestion of this kind could only be considered at a realistic price. If a proposal of this kind should emerge, we shall then have to consider it in its full context and on its merits, and my Secretary of State would wish to consult his colleagues before any decision was taken.

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My Secretary of State has noted that the Treasury is making its own analysis of the Cork Report; he has asked me to suggest that Treasury officials should consult with NI officials on this to ensure that there is an agreed statement of fact on which to base any future ministerial decisions that may be required.

Finally, may I confirm for the record that the meeting between my Secretary of State and Mr de Lorean, which we had intended to arrange for this evening, has in fact been arranged to take place at 11.30 am tomorrow, Thursday 18 February. The Secretary of State hopes to make a Parliamentary statement on Friday morning.

I am copying this letter to John Coles, to the Private Secretaries, to other Members of the Cabinet and to Sir Robert Armstrong.

Yours,

S Boys Smith

S W BOYS SMITH

lf

CONFIDENTIAL

(2)

Prime Minister

To note

MPL 17/2

Treasury Chambers, Parliament Street, SW1P 3AG

S W Boys Smith Esq
Private Secretary to the
Secretary of State
Northern Ireland Office
Great George Street
London SW1P 3AJ

17 February 1982

Dear Stephen,

DE LOREAN

The Chief Secretary has seen a copy of your letter of 16 February to Coles at No. 10.

The Chief Secretary has noted Mr Prior's intention to reply to Sir Kenneth Cork, in terms that the Government would be prepared to consider a proposal based on purchasing the company's fixed assets, but only on a realistic (and net) basis. The Chief Secretary observes that such action by the Government could only be construed as financial assistance of a kind to a restructured company, and believes this goes beyond anything that has yet been agreed collectively. He would wish to reserve the Treasury's position entirely on the principle of such assistance. The Chief Secretary has it in mind to write further on the subject when the Treasury's analysis of the Cork report is complete.

Copies of this letter go to Coles at No. 10 and to other recipients of yours.

Yours ever

Terry Mathews

T F MATHEWS
Private Secretary

CONFIDENTIAL

11 FEB 1982

FILE

RM
Ireland

10 DOWNING STREET

From the Private Secretary

17 February, 1982

De Lorean

Thank you for your letter of 16 February.

As I told you on the telephone this morning, the Prime Minister has asked for further information relating to the proposition of your Secretary of State (fourth paragraph on page 2 of your letter) that he should say that the Government will be prepared to consider a proposal based on purchasing the Company's fixed assets. It was the Prime Minister's understanding that the Government's loans to De Lorean were already secured on these assets. Mrs Thatcher asks how, if that is the case, the Government can purchase them. You agreed to let me have further advice.

A. J. COLES

CS

S Boys-Smith, Esq
Northern Ireland Office

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From: THE PRIVATE SECRETARY

(1)

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

16 February 1982

Prime Minister

Content with the line Mr. Prior proposes to take with De Lorean?

I understand he will now not see him until Thursday morning.

A.J.C. 16/2

Re p. 2 - I thought that Mr Coles would already learned on that subject

See copy heads report. How then can we respond to them?

mt

J Coles Esq
PS/Prime Minister
No 10 Downing Street
LONDON
SW1

Dear John,

DE LOREAN

My Secretary of State has now considered the Coopers and Lybrand report on the De Lorean Motor Car Companies and he has asked me to write to let you know of his conclusions.

The report makes it clear, as does Sir Kenneth Cork's covering letter, that the manufacturing company, whose premises are in Belfast, is insolvent. It is also Sir Kenneth's firm recommendation that the proper step is for the Company now to pass into receivership. He also, however, makes a firm recommendation that every effort should be made to save the operation, and the main report indicates that there is a substantial market in the United States and elsewhere for the cars made by De Lorean: on the Coopers and Lybrand estimates the Company could break even if it were to sell about 8,500 cars per annum, a target which they think is realistic; Coopers and Lybrand also see room for a number of improvements and economies which should either enable the Company to make a profit at this level of sales or alternatively to break even at a lower level of sales. The report contains a good deal of material, some of it critical, about the management of the Company to date, and we shall be analysing this with particular care.

In the short term the Company has overdue debts of some £25m, and would need a cash injection of at least this amount if it were to continue to trade. Ministers have already agreed that there can be no question of this money being provided by Government and despite a number of optimistic remarks from Mr De Lorean he has shown no real sign of being able to find the necessary funds from private sources in the absence of funds from Government. In these circumstances Mr Prior believes there is no alternative but to allow the Company to go into receivership. Now that the Government has received the Coopers and Lybrand report, and now that it is clear that there is no simple way forward other than through receivership my Secretary of State thinks Government must take the initiative, rather than risk confusion through any

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failure to state clearly the Government's position. He has therefore asked Mr De Lorean (who is at present in New York) to call on him in London as soon as possible and to bring with him the other members of his Board. Mr De Lorean is prevaricating, and this meeting is not due to take place until late on Wednesday. We are explaining to the press that the delay is Mr De Lorean's - but we are in no doubt that it is better to defer any public announcement about the Coopers and Lybrand report until Mr Prior has explained our reaction to Mr De Lorean.

Mr Prior intends to tell Mr De Lorean that in the absence of any substantial injection of additional capital Coopers and Lybrand have recommended receivership. He will remind Mr De Lorean that the Government has previously stated that it cannot supply the capital required, and since Mr De Lorean has been unable to produce sufficient private investment, the Government now propose that the Company should go into receivership.

Mr Prior intends to make it plain to Mr De Lorean and his colleagues that the Government will look to the receiver (who would be Sir Kenneth Cork) to explore any realistic opportunity of either selling the Company as a going concern or of restructuring it into a profitable enterprise. He intends to seek the continuing co-operation of Mr De Lorean and his fellow Board members during the receivership, since the chances of rescuing the Company or of selling it could be fatally damaged, if Mr De Lorean thought it was in his interest to criticise the action now being taken.

It is difficult at this stage to assess the chances of Sir Kenneth Cork, as Receiver, being able to save the Company. His report certainly shows that it is on certain assumptions possible for the Company to break even or even to make a profit; but it is not easy to see how the present Company (with its very complicated relationship with the other De Lorean Companies) can be enabled to trade in the way the Coopers and Lybrand report envisages. Mr Prior therefore intends to remind Sir Kenneth Cork when the latter is appointed as receiver, of the Government's established position that no further financial assistance will be made available to the present Company. In response to the third page of Sir Kenneth's letter of 11 February Mr Prior will say that Government would be prepared to consider a proposal based on purchasing the Company's fixed assets, but only on a realistic basis. (The point here is that the fixed assets have in many cases already received Government grant, and any purchase of the assets would clearly have to be net of this grant).

Why? ? ? ?

As receiver Sir Kenneth will be expected to continue to manage the Company and to continue trading at a minimal level. He has indicated that for such funding as he would need for this purpose he would look to a commercial bank, in the knowledge that the bank would then have first charge on the Company's assets if the bank loans were not repaid. Mr Prior hopes that it will prove

possible to make such an arrangement since this will avoid the question of direct Government support about which his colleagues were concerned at Cabinet last week.

It will be necessary to report developments to the House of Commons and I enclose a first draft of a statement to be made after the meeting with Mr De Lorean and his board: (the draft could well need substantial revision after that meeting).

I am copying this letter to the Private Secretaries to all members of the Cabinet, the Attorney General and Sir Robert Armstrong.

Yours,

S Boys Smith

S W BOYS SMITH

BB

E.R.

DRAFT STATEMENT BY SECRETARY OF STATE

DE LOREAN

1. I will, with permission Mr. Speaker, make a statement about De Lorean Motor Cars Ltd.

2. My Hon Friend told the House on 28 January that the Government had appointed Coopers Lybrand to report on De Lorean Motor Cars Limited. I have now received their detailed report [and yesterday discussed the Company's position with Mr. De Lorean and the Directors of the De Lorean Motor Cars Ltd].

3. The Report confirms that the Company is insolvent. In the absence of further injection of capital, the Report sees no alternative but receivership: but it also indicates that there is a significant market for the DMC 12 and recommends that the possibility of saving the operation should be fully explored by the Receiver. The Board of De Lorean Motor Cars Ltd. have told me that they cannot now continue trading, and in the light of this and of Coopers and Lybrand's recommendations, Government is taking the necessary steps to secure the appointment of Sir Kenneth Cork and one of his partners as Receivers and Managers.

4. Mr. Speaker, this is a sad day for all those who have worked so hard to make the De Lorean project a success, and for all those who are dependant on it. The Plant at Dunmurry - as we all recognise - provides sorely needed employment, both locally and, through the component manufacturers supplying the Company, in other parts of the country. It has given hope to many that Northern Ireland could sustain a major new enterprise, started from scratch and brought to fruition in a very short time. The establishment of the factory, and the launching of mass production of the DMC 12 reflect highly on the energy and imagination of all those concerned - both management and workers. The Government has also played its part to the full. We have

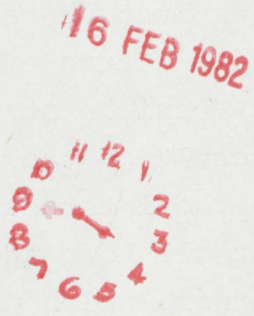
E.R.

stood by our commitment to the enterprise, and it is a matter of record that nearly £80m. of public support has been committed to the project.

5. Mr. Speaker, the appointment of a Receiver often suggests that the enterprise concerned has no possible future. But this is not necessarily the case, and I have been advised by Sir Kenneth Cork that it may be possible to restructure the De Lorean companies in a way which would prove profitable at a lower level of production and sales, and maintain employment in Belfast.

6. We must be careful, however, to avoid both undue pessimism about the future of this enterprise - and undue optimism. It is not possible at this stage to predict what may prove possible as a result of the Receivership. In the interests of the taxpayer and in the interests of those whose jobs depend on the project we must all hope that the Receiver will be able to find a sound way forward which will enable the factory to remain in business, and the Company's suppliers both in Gt. Britain and elsewhere to receive at least some payment. But I must make it clear that the Receiver will be expected to undertake his work on the basis, already made clear by Government, that we are not willing to give further financial support to this Company. But the Government is not the only potential source of finance - and we must await the Receiver's considered exploration of the possibilities.

7. I hope that all concerned will now work together to explore the scope for establishing a more viable, more realistic and financially secure basis on which the De Lorean sports car project might survive. The Board of the Company has assured me that they will do all in their power to assist the Receiver in his task.


16 FEB 1982

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From: THE PRIVATE SECRETARY

Prime Minister

(2)

MLS 12/2

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

John Coles Esq
No 10 Downing Street
LONDON
SW1

11 February 1982

Dear John,

My Secretary of State explained at Cabinet yesterday the current position about the De Lorean Motor Car companies.

I now enclose a copy of Cooper and Lybrand's summary report and a copy of Sir Kenneth Cork's letter to Mr Prior.

On Monday, Mr Prior will be meeting representatives of the creditors in the morning and will meet Mr De Lorean and the Board of De Lorean Motor Cars Limited in the evening. He hopes to circulate late on Monday a letter seeking colleagues' agreement to the line which he proposes to take and a draft of a statement which might be made in the Commons. It is possible that, if the Board decide on Monday evening or Tuesday morning that they cannot continue trading, a statement in the House may be necessary on Tuesday afternoon.

Copies go to Private Secretaries, to all Cabinet Ministers, the Attorney General and Sir Robert Armstrong.

Yours,

S W BOYS SMITH

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BB

12 FEB 1982

CONFIDENTIAL

Sir Kenneth Cork, G.B.E., D. Litt.

GUILDHALL HOUSE,
81/87 GRESHAM STREET,
LONDON,
EC2V 7DS

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OUR REF: 11B/KRC/G

11th February, 1982

The Rt. Hon. James Prior, M.P.,
Secretary of State for Northern Ireland,
Northern Ireland Office,
Great George Street,
London, SW1P 3AJ.

Dear Secretary of State

DE LOREAN MOTOR CARS LTD.

There were as indicated in the report, many reasons for the failure of the De Lorean venture.

The fundamental fault from which it suffered, was that it had all the disadvantages of private enterprise and a Nationalised Industry - the entire capital has been provided from public funds, with only a minimal injection by private enterprise, yet the control rested outside H.M. Government. The normal disciplines of private enterprise did not apply; nor did those of a Nationalised Industry.

Every time there was a financial crisis, H.M. Government was asked to provide the necessary finance, and at the same time, it was not able to control its use. However, public money of considerable magnitude has been invested in the project, and a great deal has been done by both the workforce and management to create a credible operation in Dunmurry.

An opportunity to work has been brought to a community in West Belfast which would otherwise have had no such chance.

We believe, therefore, that every effort should be made to save the operation, although there is obviously a risk in so doing.

The report indicates that the existing Company and its American Holding Company will be unable to continue with its present financial structure, unless new funds to the extent of at least £20/£30m are injected.

If this is not provided, then almost certainly trading will cease.

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We believe that there is a market for the cars in the United States and elsewhere, but with the entire stock of cars in America being frozen by the Bank of America, who have a charge on them, and the insolvency of DMC, there are considerable difficulties in carrying on the operation.

It would seem, therefore, that DMCL, being insolvent, will have to ask for the appointment of Receivers.

No/ However, as already indicated, a reasonably successful operation has been created at the Dunmurry plant. Cars have a market in the United States, and presumably elsewhere, and it would be a pity that both taxpayers' money and the effort put into the operation, are thrown away.

If sufficient private or public money is not invested, and in view of the Company's insolvency, then the only method by which the Company can continue to trade is through the Receivership of DMCL, followed by the creation of a new company.

At this stage, it is impossible to say whether investors will come forward to take over the operation. If H.M. Government do not wish to do so themselves, then our recommendations are as follows :

That as soon as the Company requests the appointment of Receivers, then the appointment should be made, and the Receivers be asked to use their best endeavours to preserve the possibility of the plant continuing with a view to the most satisfactory realisations of the Company's assets. This will give an opportunity for investors to be found.

To do this, the Receivers would form a new Company which would be a subsidiary of the old, which at that stage, will carry on the marketing operation to be established by the Receivers. Trading will be continued for a limited period, say 6/8 weeks, during which time the work-in-progress would be manufactured into finished vehicles.

If the American organisation is able to continue, they would be asked to act as Selling Agents for the output from Dunmurry, provided of course, that reasonable terms could be negotiated. Should the American Company cease to operate, or refuse to market the cars, then the Receivers should endeavour to set up their own operation in California, both for the selling of the vehicles and to provide a Q.A.C. service.

It would be essential to make arrangements with the Bank of America, so that they did not sell off by auction the stock of motor vehicles charged to them, as it would be impossible to create a market in the United States after a distress sale.

The Receivers would undertake to the Bank of America that provided they were allowed to sell the vehicles through the normal channels, they would undertake to account for the proceeds in full, less a reasonable selling commission. The cars exported from Dunmurry could be marketed in the same way.

How much?

The amount of Government financial support which would be required has been calculated, and estimates given to the Department of Commerce. This sum would be a first charge on the realisation of the assets.

This operation can only be carried out if the Receivers have the right to complete the manufacture and marketing of the vehicles. It is, however, understood that legal advice has been obtained, and it is in order.

At the end of this period, if H.M. Government is not prepared to provide the finance to carry on the business, or outside interests do not come forward, then there will be no alternative but to close the factory.

The Receivers should explore the possibility of other manufacturers being willing to use the facilities in Dunmurry for the manufacture of either De Lorean cars, or their own products.

Discreet enquiries have been made, and there is an interest in investigating the possibility of the continued manufacture of De Lorean cars. Another organisation is interested in marketing the cars in the United Kingdom, and is willing to send a team to look into the possibility of so doing.

So we would have to buy our own stock! It would involve the money to pay ourselves on credit!

In order to attract new investors, the sales package of the new Company should be so organised that the lowest capital investment is required, so that the new money can be utilised for actual trading. A scheme would therefore be worked out, by which the Receiver would sell the fixed assets to the Department of Commerce or N.I.D.A., who would then lease them back to the new Company. By this means, the Department of Commerce or N.I.D.A. would receive a rent, and the Government would have no other involvement.

The new Company would carry out the selling operation for the cars in Dunmurry and account for the proceeds to the Receiver. After it had been acquired by an investor it would take over the remaining work-in-progress from the Receivers and carry on the manufacturing business.

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A realisation of this kind, if all went well, would provide a reasonable return to the Unsecured Creditors. If there was an immediate shut down of the factory, there would be a negligible realisation of the assets.

Yours sincerely

Kenneth Cork

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Ireland
Prime Minister (4)

NORTHERN IRELAND OFFICE Mrs 7/1
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

7 January 1982

Dear Patrick

DE LOREAN MOTOR CARS LTD

As requested in your letter dated 18 December I am now writing to inform you of the outcome of the discussions with the Company's banks - Citibank and Barclays - in relation to the point raised at para 2(i) of your letter.

I am afraid that the answer from both was that they were not prepared at that time to agree to the provision of any part of the loan facility without the security of a Government guarantee. Both banks had considered their positions carefully in November when the company, at the request of my officials, had asked for unsecured facilities. They decided then that they could not provide such facilities and have now confirmed that their decisions still stand. The reasons for their refusal are principally that the Company has not yet established a record of profitability and there is a deficit of stockholders' funds after taking account of accumulated losses. In this situation the banks contended that it is normal practice to seek from the stockholders full security for any borrowings which are required for working capital purposes.

Both Citibank and Barclays have said that they have been impressed by the rate of progress of the company during the second half of 1981 and if the progress is maintained they will be prepared to look afresh at the Company's funding requirements about the middle of 1982. Citibank has also pointed to the fact that it has made available to the Company a substantial foreign exchange trading facility under which they have negotiated certain spot and forward exchange contracts on which the bank carries the conversion risk in the event of the Company being unable to complete a transaction on maturity.

I am satisfied that in the circumstances we did all that we could to obtain an unsecured facility, and I have had to accept the bank's position. I have, therefore, agreed to the provision of the guarantees, in the terms outlined at Paragraph 2(i) of your letter. The Banks have confirmed that the terms and conditions of the renewed lending facilities will be the same as those applying to the current loans.

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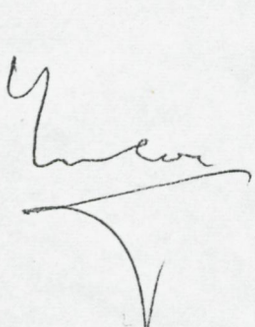
Action is also being taken on the other points which were raised in your letter and I will write to you about these as soon as possible.

I am sending copies of this letter to the Prime Minister, to the other Members of (EA), to the Lord Privy Seal and to Sir Robert Armstrong.



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Prime Minister (2)

Ireland

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

MLS 18/12

18 December 1981

The Rt Hon James Prior MP
Secretary of State for Northern Ireland
Northern Ireland Office
Great George Street
SW1

Dear Jim.

De LOREAN MOTOR CARS LIMITED

In accordance with the ~~con~~clusions of the meeting of E(EA) on 16 December (E(EA)(81)18th Meeting, Item 1), I discussed with you this morning the basis on which the Government's guarantee of commercial bank borrowing by de Lorean might be extended and also other initiatives which might be taken to improve the monitoring and management of the company and the Government's relations with it.

2 We agreed on seven points which I have subsequently confirmed are acceptable to the Chief Secretary, Treasury. They are as follows:

i You will approach de Lorean's bankers urgently to try to persuade them to accept at least some of the risk of lending to the company. If they refuse to agree to this, you have the Sub Committee's authority to extend the Government's guarantees of commercial borrowing by de Lorean as proposed in your letter of 10 December to me - that is, after the existing guarantees for up to £17 million expire on 31 December 1981, the Government will guarantee borrowing of up to £10 million until 31 May 1982, up to £5 million until 31 August 1982, and nothing thereafter.

ii You will arrange for your officials to discuss urgently with the Treasury what improvements might be made in the arrangements for monitoring the company. The objective will be to ensure that, as with the nationalised industries and other companies in which the Government has a financial interest, the Departments concerned are provided with sufficient information on a monthly basis for them to judge whether de Lorean is on course to meeting its objectives.

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iii You will ask the Northern Ireland Development Agency to replace as soon as possible one of their present nominees to de Lorean's Board by an experienced and nationally known businessman. I understand that, as one of the NIDA nominees wishes to leave the Board soon, this change should present no problems.

iv You will arrange for an independent appraisal of the company's financial performance and prospects to be carried out urgently with a view to a report as soon as possible in the New Year. You had it in mind that this appraisal might be carried out either by Arthur Anderson or by Peat Marwick. It occured to me after our discussion that another possibility for your consideration might be McKinseys since they are already involved in the monitoring of the company.

v You will pursue further your ideas for arranging for de Lorean's parent company in the United States to take on the risks of their subsidiary rather than leaving them to the Government. You said that you would take advice from a suitable merchant bank on how best to approach the American company and to persuade them.

vi Your officials will provide the Treasury with details of de Lorean's sales so far in the United States.

vii You will send to the Chief Secretary a copy of the prospectus for the company's flotation which Mr de Lorean has lodged with the United States' Securities and Exchange Commission.

3 I should be grateful if you would inform the Sub Committee of the outcome of your discussions with the banks on the extension of the guarantee - point i above - and, in due course, on the other main points, ii - v, which you are pursuing.

4 I am sending copies of this letter to the Prime Minister, to the Members of E(EA), to the Lord Privy Seal and to Sir Robert Armstrong.

Yours ever

Patrick

LCC AD
AW

Prime Minister

(4)

Foreign and Commonwealth Office
London SW1

MLS 17/12

15 December 1981

Dear Patrick,

DE LOREAN MOTOR CARS LIMITED TPM

I am writing to support the proposal set out in Jim Prior's letter to you of 10 December. I agree with his arguments and believe it would be disastrous, both politically and commercially, to pull the plug out on the company at this stage.

I also accept that there is no need to notify the Commission of what is intended.

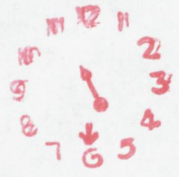
Copies of this letter go to the Prime Minister, Members of E(EA) and Sir Robert Armstrong.

Yours ever

Humphrey

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street

5 DEC 1981



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cc. A. Duguid

Prime Minister

(2)

Mrs 14/12

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

14 December 1981

Dear Secretary of State,

DE LOREAN MOTOR CARS LIMITED

Jim Prior sent me a copy of his letter to you of 10 December.

We have already twice, in the past 18 months, breached specific Parliamentary assurances that there would be no further Government assistance to this company. The Prime Minister has been on record with this view for some time now. While I recognise that we are not immediately being asked for extra cash, extension of guarantees with the potential liability they carry for the Government quite clearly amounts to an extension of financial assistance. Jim's proposal would thus put us in a very embarrassing position vis-a-vis Parliament and the public.

I think it essential that we should meet to discuss the ramifications of this, and note that there is a time reserved at E(EA) on Wednesday 16 December.

I am sending copies of this letter to the Prime Minister, to Jim Prior, and to other recipients of his letter.

Yours sincerely

LEON BRITTAN

(approved by the Chief Secretary and signed in his absence)

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NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

Prime Minister
Content to leave E(EA) to handle this proposal to extend - at a reduced level - the life of the guarantees for De Lorean commercial borrowing!

Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

10 December 1981

MAD 11/XII Yes. Nay! have a note from the Treasury about the treatment of various guarantees for PSBR purposes

Dear Secretary of State,

DE LOREAN MOTOR CARS LIMITED

I seek colleagues' agreement to a continuation, at a lower level and for a limited period, of guarantees for commercial bank borrowing by De Lorean Motor Cars Ltd.

It will be recalled that in February 1981, E(EA) agreed to give De Lorean a guarantee for commercial borrowing of up to £10m in order to assist the Company through the final stages of bringing its sports car to market. However, in May 1981, we agreed to increase the guarantee to cover borrowing of £17m, largely because of the disturbance to the Company's activities caused by the unrest associated with the hunger strike.

Colleagues will be pleased to know that the Company has been making surprisingly good progress in difficult circumstances. By the end of November 6200 cars had been produced; 5800 cars have been shipped to the USA; some 80 cars per day are being produced and productivity and quality are improving; almost 2600 people are employed by the Company with many other jobs in suppliers in Northern Ireland and Great Britain dependent upon the Company. Above all, the Company seems to have established a foothold in the American luxury sports car market.

The Company's latest financial forecasts indicate a need for continued financial borrowing after the existing guarantees for up to £17m expire on 31 December 1981. The banks remain for the present unwilling to lend without a Government guarantee, though there are hopeful signs that their attitude will change within the next year. Our assessment is that the Company requires guarantees to cover borrowing of up to £10m until 31 May 1982 and up to £5m until 31 August 1982. The extension of guarantees does not require notification to the European Commission. Attached is a note by my officials which explains the background in more detail.

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I am quite clear that it would be utterly foolish to refuse to support the Company further at this stage. We are not being asked to provide extra cash; we are simply being asked to continue to guarantee commercial borrowing at a lower level than at present and for only a limited period. In purely commercial terms, it would make little sense to withdraw support when the Company is meeting its production targets and has established a foothold in the USA luxury sports car market. In social and political terms, a decision not to extend the guarantees would be inexplicable in Northern Ireland; Protestants would interpret it as clear evidence of British withdrawal, while Catholics would see it as the destruction of the major new job creation exercise in West Belfast.

In continuing support for De Lorean, I recognise the need for close monitoring of the Company's performance. The current monitoring arrangements are, therefore, being strengthened to include regular reports by McKinseys and monthly meetings with the Company to provide early warning of any significant slippages against plan. I will, of course, alert colleagues if serious problems occur and would, if such circustances arose, bring forward proposals for appropriate action.

I should also like to alert colleagues to the longer term considerations. On the information available at present it is unlikely that the Company will need to seek further help from Government for the present sports car after August 1982, unless there are unforeseen difficulties ahead. The long-term future of the Company depends upon establishing a wider operating basis, involving one or more further models. I await proposals from the Company which I will wish to examine most carefully if they involve increased activity, including further employment, in Northern Ireland. My intention would be to consider any further proposals from De Lorean against the normal criteria for assistance to new inward investment. In view of the wider interest in this Company, I will consult E(EA) colleagues at an early stage.

I seek, therefore, colleagues' agreement to guaranteeing bank borrowings by De Lorean of up to £10m to 31 May 1982 and £5m to 31 August 1982, subject to continuing and extending monitoring by officials of the Company's performance. I undertake also to consult E(EA) colleagues about any proposals to provide assistance for major new development by the Company.

I hope that we can reach agreement now without a meeting but if one is considered necessary, perhaps this letter can be used as the basis for discussion. (I understand that a meeting, if required, could be called for Wednesday 16 December.)

I am copying this letter to the Prime Minister, members of E(EA), the Lord Privy Seal and Sir Robert Armstrong.

Yours sincerely

JAMES PRIOR

(Signed on behalf of the Secretary of State in his absence)

KW

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E.R.

NOTE BY NORTHERN IRELAND OFFICE OFFICIALS

DE LOREAN MOTOR CARS LTD

INTRODUCTION

1. This note deals with the background to the request by De Lorean Motor Cars Ltd for a continuation of Government guarantees for its commercial bank borrowing.

The Problem

2. The Company was established in 1978, with very substantial assistance from public funds, and started production of its luxury sports cars, initially for export to the USA, in March 1981.

3. On 5 February 1981 E(EA) - (E(EA)(81) 1st Meeting) - agreed to the provision of guarantees in respect of £10m borrowings in order to bring the car (not then in production) to market. The Prime Minister subsequently gave her agreement on condition that no further selective assistance would be provided to the Company for the sports car project. Mr Adam Butler gave this assurance to Parliament on 12 February 1981 (Hansard Vol 998 No.46, Col. 973-4).

4. However, in May 1981, when some 500 cars had been produced and following the death of the first Hunger Striker in the H-Blocks, there was extensive rioting in West Belfast. The De Lorean factory came under direct attack and lost some of the office buildings in a fire started by the rioters. Production was disrupted over a period of time and, because of its resulting inability to ship cars, the Company's cash flow was adversely affected. The Secretary of State for NI sought the support of the Chief Secretary and the Secretary of State for Industry (1), and the concurrence of the Prime Minister (2), to an increase in the amount of Government guarantees in respect of bank borrowings to a total of £17m; the guarantees to run to 31 December 1981.

---

1. Mr Atkins to Mr Brittan and Sir Keith Joseph dated 15 May 1981
2. Mr Atkins to the Prime Minister dated 20 May 1981

5. A note detailing the total financial assistance to, and investment of public funds in, this enterprise is attached as Annex 1.

Company's Present Position and Prospects

6. Despite the May setbacks (which were compounded by the continuing unrest in the vicinity of the factory until August), the Company has made steady progress on all fronts. By the end of November, 6,200 cars had been produced and 5,800 had been shipped to the USA. The Company has achieved its target of production of 80 cars per day and almost 2,600 people are directly employed by the Company in Northern Ireland. The reception of the car by dealers and customers has been good (there was one voluntary recall by the Company when 2,000 cars had been sold for the replacement of a nut on the front suspension involving 30 minutes work per car); and it has received a generally favourable press.

7. The Company has, however, had problems in reaching the necessary quality standards. This has been due largely to the rapid build-up of the labour force for whom training was required. Considerable additional work has been necessary at the Company's Quality Assurance Centres in the USA in order to ensure that only cars of the highest quality would reach the market. The total work undertaken per car in Quality Assurance Centres in the USA was as high as 135 man hours per car in May but has now been reduced to about 50 per car. The delays in build-up of production and sales (particularly in the difficult May to August period) and the crucial need to concentrate on setting high quality standards in the early months of production had adverse effects on profitability and cash flow. (The details of the build-up of production and reduction of hours in Quality Assurance Centres are contained in Annex 2).

8. The Company's bank borrowings which it had hoped in February 1981 to reduce to zero by end of 1981 are still around £10m (reducing steadily from a peak of £15m in August 1981 - See Annex 4). There will therefore be a need for a continuation of borrowings, albeit on a reducing scale, through to August 1982. (A detailed cash flow forecast is included at Annex 3).

9. The near term prospects for the Company are promising. The Company is achieving its production targets and quality is being achieved more readily. The Company expects that the quality assurance work will be reduced to the norm for the industry of 10-15 hours per car by March 1982. The Company has recently strengthened its financial management, particularly in the USA. The key to the Company's continuing success is building on the foothold it has achieved in the USA luxury car market. McKinsey in a November '81 report have shown that the sales of luxury cars in the USA during 1981 are 7.3% up on the 1980 figures although the non-luxury car market has fallen. A sample by McKinsey of 100 De Lorean dealers in the USA in early November indicated a possible level of sales for 1982 of about 20,000 cars. The Company's cash flow is based on total sales of about 14,500 cars, although its market forecasts envisage sales of 15,500 units in USA and 2,600 units elsewhere.

10. The Company has recently re-negotiated its Export Finance arrangements for sales to North America with the Bank of America who have agreed to extend the current limit of 33m dollars to 44m dollars and will administer a total credit of 57m dollars if another bank will take part of the deal; negotiations with other banks are in hand and the Company is confident that a suitable arrangements will be completed.

11. The Company expects to sell 1630 cars to the Middle East and non-EEC Europe during 1982. (Sales into the EEC will not be possible until homologation requirements are met). The Company also has plans for updating the car and providing a greater range of options eg. different trims, turbo-charged engine, etc; the costs of this programme are included in the cash-flow statement.

12. In the longer term there will almost certainly be a need for the introduction of a second model if the Company is to achieve full financial stability. The financing of the development of this new model is however uncertain; the Company has not yet produced its Long Range Plan. This matter may well require decisions in mid/late 1982. Any further financial assistance from Government would have to be considered within the normal framework of Industrial Development aid. This would place on the Company the onus to attract substantial private sector funding and it has already started to plan for this possibility.

E.R.

Government Guarantees

13. The Banks are unwilling at present to lend to De Lorean without a specific Government guarantee. Their main reasons seem to be:-

1. De Lorean are in a loss-making situation at present (essentially because business volumes have not been high enough with output and quality being too low and with inadequate productivity and some overmanning)

2. their balance sheet is weak with the ratio of public to private investment and borrowings being too high

3. the absence of adequate security for borrowing

4. the unfortunate impact of the recent allegations of impropriety against Mr De Lorean (even though on investigation they were not substantiated).

14. It is likely that by late 1982 the Company will be in a position to obtain commercial borrowings without Government guarantee.

15. Details of the original scheme of financial assistance to the Company were submitted to the European Commission as part of an application for assistance from the European Regional Development Fund. The application was successful and an award of £7.487m was made by ERDF. Subsequent assistance to the Company comprising loans of £14m and the loan guarantees of £17m has not been reported to the Commission as the total assistance provided to the Company falls within the Community's prescribed limits for Northern Ireland. There will be no need to inform the Commission if the extension of guarantees now sought is granted.

Discussion

16. There would appear to be no middle ground between granting an extension of the guarantees and refusing to do so.

17. If an extension is not granted, the Company would have to go into liquidation. The existing guarantees would be called (some £10m is currently owed to the Banks).

E.R.

18. There would be an immediate loss of 2600 jobs, together with several hundred jobs in suppliers and sub-contractors in Northern Ireland. This would be a particularly heavy blow in Northern Ireland (where unemployment is already 19%); especially in a part of Belfast which has suffered heavily in both social and economic terms; and against a background where there are no other realistic job prospects in sight.

19. There would also be the cost of social security support for the displaced workers in Northern Ireland (estimated at £5.5m per year), and the loss of around £6.3m per annum in NI and tax contributions. There would be a loss of around £3.4m in royalties and $270m of export revenue.

20. In addition, some 4000 jobs could be lost in suppliers of goods and services in GB - for example British Steel, GKN Sankey Ltd, Lucas Girling Ltd, Norton Villiers Triumph Ltd, Smith Industries, Wilmot Breeden (Holdings) Ltd.

21. Finally, withdrawal of support would have a devastating effect on Northern Ireland's efforts to obtain further US investment and could harm Great Britain's efforts by undermining confidence in UK Government's support for American firms.

22. On the "credit" side, there would be the possibility of salvaging something from the £70m which the Government has already invested in this Company; the fixed assets have a book value of £56.1m, though in a break up situation only a small fraction of this value would be realised. Also, once the Company has collapsed the pressure for further aid for another De Lorean car would disappear.

Conclusion

23. The conclusion of officials is, therefore, that the guarantees for commercial bank borrowing should be extended at a reducing scale and for a limited period.

24. Given the information available at present and on the assumption that no unforeseen difficulties arise, there is reasonable confidence that the company will be able to achieve the required levels of performance within its cash flow forecasts. It is recommended that,

E.R.

in order to maintain the pressure on the Company to operate efficiently, the guarantees should be restricted to up to £10m until 31 May 1982, reducing to up to £5m until 31 August 1982. After 31 August, the Company would be expected to borrow without the need for a guarantee.

25. It would, however, be essential as a condition for agreeing to further guarantees that arrangements for monitoring the Company's performance should be strengthened further so that any slippages are identified as early as possible. If remedial action to remedy such slippage by the Company is not successful, Ministers could then consider what intervention they wished to make before serious problems arose. McKinseys have devised a monitoring framework to give Government a clear and continuing picture of the Company's performance in NI and USA. Monthly meetings between the Company and officials are commencing to review progress.

10 December 1981

E.R.

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ANNEX 1: ASSISTANCE TO DE LOREAN

1. Public Funding of De Lorean Motor Cars Ltd

	£ million	
Grant (at the rate of 50% of cost) towards cost of buildings	6.718	
Grant (at the rate of 50% of cost) towards cost of plant, machinery and equipment	12.000	
Employment grants (at the rate of £6500 per worker for 1500 workers)	9.750	28.468
Loan (to fund 50% of cost of buildings)	6.718	
Loan (to finance over-runs of expenditure on buildings, plant machinery and equipment and additional working capital requirements)	14.000	20.718
Subscription of preference share capital by the Northern Ireland Development Agency		17.757
		66.943
Loan guarantees (in respect of borrowings to finance additional working capital requirements and purchase of company houses)		17.360

2. Additional Interest (or royalties)

Addition interest is payable under the agreements in the form of royalties on each car sold (£185 per car for the initial 90,000 cars and £45 per car additional to 90,000 sold during the period ending 18 March 1990). Those royalties are payable quarterly in arrear. Two payments have been made totalling £599,770. The planned production level for 1982 (18,100 cars) would produce royalties of £3.35 million.

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E.R.

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ANNEX 2: PERFORMANCE

Monthly Production Performance 1981

	Feb	Mar	Apr.	May	June	July	Aug.	Sept	Oct	Nov.
Plan	188	818	1663	2858	4543	5423	7103	8463	10223	11903
Actual	-	64	483	839	1309	1744	2642	3619	4901	6191

Employment

	Feb	Mar	Apr.	May	June	July	Aug.	Sept	Oct	Nov.
Plan	992	1077	1135	1228	1321	1452	1485	1490	1490	1466
Actual	974	1086	1348	1360	1479	1705	2195	2521	2575	2636

Quality Assurance Centres - Hours per car

Shipment Number	1	2	3	4	5	6	7	8
Hours per car	200	135	90	90	80	80	70	50

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CASH FORECAST

£'000's (£1 = $2.00)

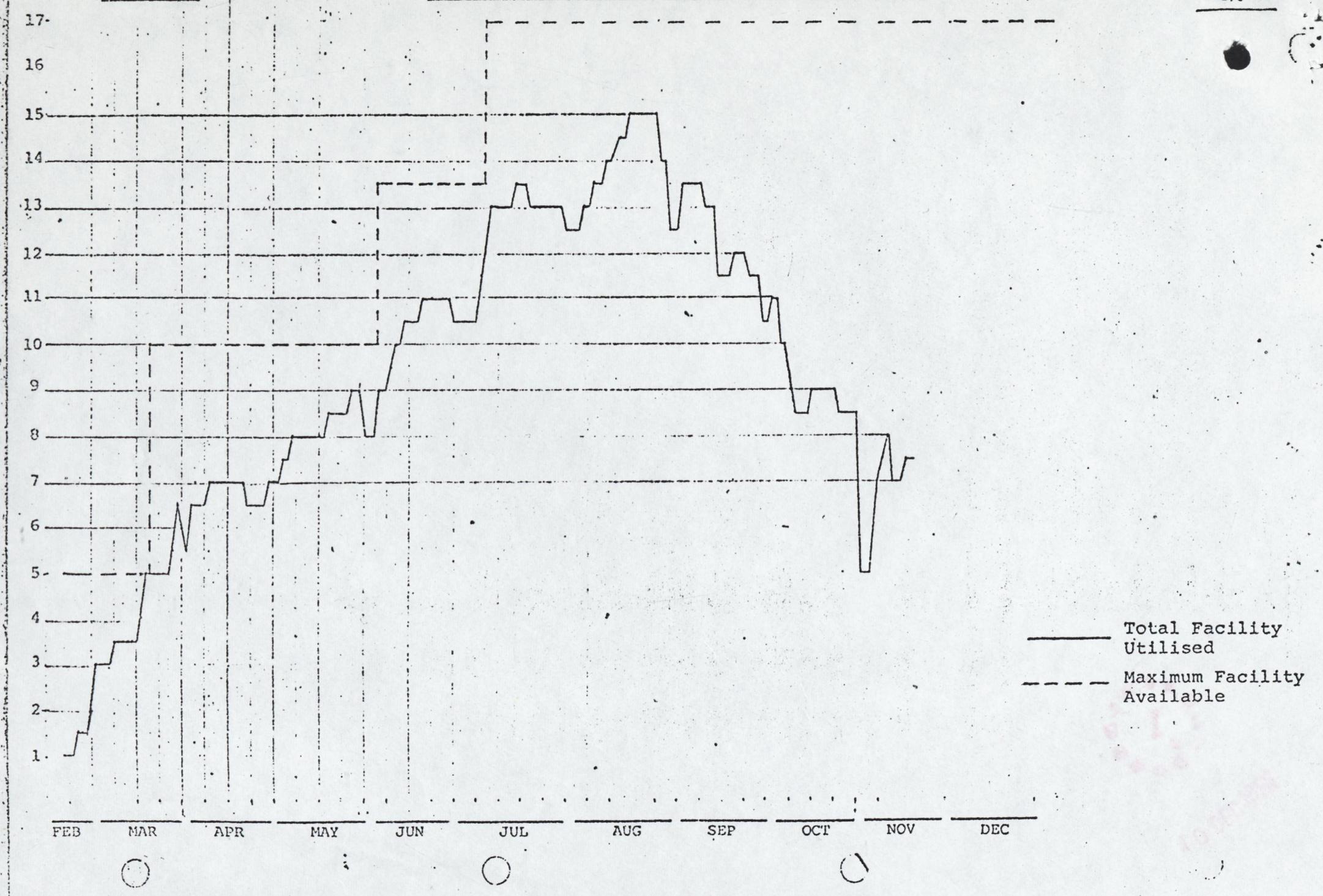
Period Ending	1981 Dec.	1982 Jan.	Feb.	March	Apl.	May	June	July	Aug	Sept	Oct	Nov.
Cash Outflow												
Raw Materials	7133	5836	7066	7040	7832	5899	7198	8228	2987	7454	6673	7601
Other Variable Costs	990	860	860	1075	860	900	900	900	900	900	900	900
Fixed Costs	1100	1100	1100	1100	1100	1100	1100	1100	1100	1100	1100	1100
Capital	400	200	200	200	200	300	300	300	300	300	300	300
Royalties	1253	118	226	672	511	-	704	694	-	641	562	-
Building Loan int.	440	-	-	-	-	-	440	-	-	-	-	-
DMC Management Fee	145	145	145	145	145	145	145	145	145	145	145	145
QAC	875	375	250	250	250	150	100	50	50	50	50	50
Bank Interest	121	133	108	124	83	65	30	62	42	-	-	-
	12,457	8767	9955	10,606	10,981	8559	917	11479	5524	10590	9730	10096
Cash Inflow												
Cars	14,294	10,912	11,264	12,531	9,222	11,827	13,527	4878	13,158	10,053	12,493	12,788
Parts	50	50	50	50	50	100	100	100	100	100	100	100
	14,342	10,962	11,314	12,581	9,272	11,927	13,627	4978	13,258	10,153	12,593	12,888
Opening Cash	(12,456)	(10,571)	(8,376)	(7,017)	(5,042)	(6,751)	(3,383)	(673)	(7,174)	560	123	2,986
Closing Cash	(10,571)	(8,376)	(7,017)	(5,042)	(6,751)	(3,383)	(673)	(7,174)	560	123	2,986	5,778

Notes

1. Above figures are at October 1981 prices
2. Excluded is a cash price increase of 10% operative from 1 December 1981 and any allowances for inflation.
3. The figures for July & August 1982 reflect the impact of the July holiday period.

Annex 4.

UTILISATION OF SHORT TERM BANK LOAN FACILITIES - 1981



10 DEC 1980

CONFIDENTIAL

Ireland

MR. WHITMORE

cc. Mr. Colver

De Lorean

Ian Gow asks for a note of our involvement, following Mr. Winterton's conversation with him.

Mr. Winterton wrote to Ian Gow early in the week beginning 28 September. On the afternoon of Thursday 1 October, he spoke to me on the telephone in Ian's absence in Australia. He said that he had written to Mr. Gow warning of a possible commercial scandal, but that he had since learned that the story was liable to break publicly in the very near future. I believe he said "before the weekend". He spelt out to me the company involved and the nature of some of the allegations. He asked that the matter should be brought to the Prime Minister's attention. I undertook to come back to him as soon as possible.

I spoke to you in Australia before leaving the office that evening. Our secure line was not functioning, so I told you in guarded terms that new allegations had come to hand about some commercial business in Northern Ireland, and I told you who I proposed to consult.

Early on Friday 2 October, I consulted one senior official, and he and I then spoke to Sir Brian Cubbon at the Home Office. The unanimous view was that the Law Officers should be informed of the allegations, so that they could take whatever action they considered appropriate.

I therefore spoke to Jim Nursaw, Legal Secretary, around lunch-time on 2 October, and asked if he could arrange for the DPP to institute whatever enquiries seemed necessary. Around the same time, I told Mr. Winterton that, after arranging for the Prime Minister to be informed of the allegations, I was referring the matter to the Law Officers, who would arrange for someone to see Mr. Winterton.

/ In the course

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In the course of the afternoon, the DPP made arrangements to send a police officer to see Mr. Winterton over the weekend, so that the documentary evidence he held could be collected. I also spoke to the Solicitor General during the afternoon, on whose authority the DPP had been brought in. (Our contacts with the DPP were, of course, entirely informal, since he cannot take instructions from Ministers other than Law Officers.)

The DPP spoke to me at the end of the day, after he had got in touch with Mr. Winterton. For what it is worth, I might record that the DPP said that he was alarmed at the extent of Mr. Winterton's indiscretion over the telephone. All our activity on the matter had been carried out with maximum possible discretion, and the DPP clearly believed that this was essential at that stage of events.

In the course of 2 October, I telegraphed you in Melbourne, outlining what had happened and what steps we were taking to arrange for the allegations to be investigated rapidly.

I was on duty over the weekend, but I did not pick up these events until quite late on Saturday, when I was in touch with the Northern Ireland Office on other business. In the meantime, I understand that the Duty Press Officer, Mr. Colver, had had a telephone enquiry from Gordon Leak of the News of the World. This was around midday, and at that stage Leak did not name Mr. Winterton. This led the Press Office to take the matter up direct with the party in Australia. As a result of these contacts, you and the NIO Permanent Secretary agreed a Press line as follows:

> "The Government has recently been informed of allegations of financial irregularities in the De Lorean company and insofar as these may relate to the company's operations in the UK the police are making inquiries."

The Press Office were also equipped with a further line, to be used only if asked about Mr. Winterton's involvement. They could then confirm that he conveyed his allegations to the Prime Minister:

/ the Solicitor General

that the Solicitor General was consulted, and that he asked the DPP to institute an enquiry.

Initially, the Press Office used the line not mentioning Mr. Winterton. But further calls from the News of the World and the Observer included questions about Mr. Winterton's role, at which point the Press Office started to use the formula describing Mr. Winterton's role.

As I recall it, Mr. Winterton allowed himself to be interviewed for television starting with the lunchtime news bulletins on Sunday. The News of the World had, as you know, decided on legal advice not to run its story, but the Observer carried a brief piece about enquiries.

There were two further statements the following week. The NIO issued one to play down the extent of the enquiry, in order to reassure commercial creditors. The Solicitor General issued one to make it clear that he had ordered the police enquiry, after the allegations referred to by the Prime Minister.

In effect, our direct involvement ceased after the weekend. Throughout that period, we done done our best to keep matters private. Once it became clear that the Press had picked up the story, we at no stage volunteered comments, but equally we made sure that we could respond in a factually accurate way to specific questions put to us. (It appeared to us at the time that the questions were probably arising because Mr. Winterton had already been talking to the Press, but there was some suggestion that some of Miss Gibson's material might have appeared in a New York evening paper on the afternoon of Friday 2 October.)

MAP

28 October 1981

GR 600

Ireland 3

D E D I P
SECRET

Duty Clerk
No 10

FM F C O 021640Z OCT 81
DESKBY 022300Z

TO IMMEDIATE CANBERRA
TELEGRAM NUMBER 410 OF 2 OCTOBER

FOLLOWING STRICTLY PERSONAL FOR WHITMORE, PRIME MINISTER'S PARTY, FROM PATTISON, 10 DOWNING STREET.

MR NICHOLAS WINTERTON.

WINTERTON WROTE TO IAN GOW EARLIER IN THE WEEK, SEEKING A MEETING WITH THE PRIME MINISTER TO DISCUSS QUESTIONS OF FRAUD AGAINST THE BRITISH GOVERNMENT. HE FELT HE COULD NOT TAKE THESE MATTERS UP DIRECTLY WITH THE SECRETARY OF STATE, BECAUSE OF THE RISK OF A LEAK - INADVERTENT OR OTHERWISE - TO THE COMPANY CONCERNED THROUGH THE DEPARTMENT.

WINTERTON TELEPHONED YESTERDAY TO REPORT THAT THE MATTERS IN QUESTION MIGHT NOW BREAK PUBLICLY WITHIN A VERY SHORT TIMESCALE, AND HE WAS ANXIOUS THAT THE PRIME MINISTER SHOULD THEREFORE BE INFORMED AS EARLY AS POSSIBLE, SO THAT SHE COULD INITIATE WHATEVER ENQUIRIES SHE THOUGHT NECESSARY, INDEPENDENTLY OF THE DEPARTMENT CONCERNEDM

WINTERTON'S INFORMATION COMES VIA A CONSTITUENT FROM A BRITISH EMPLOYEE OF THE DE LOREAN PARENT COMPANY IN THE US. SHE CLAIMS TO HAVE ACCESS TO DOCUMENTARY EVIDENCE OF QUOTE MASSIVE FRAUD LEFT RIGHT AND CENTRE UNQUOTE AGAINST HMG. WINTERTON HAS SEEN CERTAIN PAPERS WHICH HE SAYS MAKE QUOTE VERY INTERESTING READING UNQUOTE, AND HE HAS ACCESS TO TWO FILES LEFT IN ENGLAND BY THE INFORMANT ON A RECENT VISIT.

WINTERTON REPORTS THAT THESE MATTERS COULD VERY SHORTLY BECOME PUBLIC IN THE US, AS A RESULT OF A TAX FRAUD INVESTIGATION WHICH IS LIKELY TO BE THE FALL-OUT FROM A ROW BETWEEN MR. DE LOREAN AND ONE OF HIS SENIOR EXECUTIVES, WILLIAM HADDAD.
WINTERTON'S INFORMANT IS BEING ASSISTED BY A BLACK AMERICAN ATTORNEY NAMED CLARENCE JONES, WHO IS SOMETHING OF A NATIONAL FIGURE BECAUSE HE PREVIOUSLY ACTED FOR MARTIN LUTHER KING.

FROM WHAT WE KNOW SO FAR, THE ALLEGATIONS CONCERN MAJOR FRAUD AGAINST HMG ON THE PART OF THE COMPANY, BUT APPARENTLY NO MORE THAN NEGLIGENCE ON THE PART OF THE NIO. WINTERTON SAYS THE INFORMANT HAS LONG BEEN RESIDENT IN THE UNITED STATES BUT HAS FINALLY FELT THAT HER BASIC LOYALTY TO THE UK REQUIRES HER TO EXPOSE THESE MATTERS.

GIVEN THE HISTORY OF SCEPTICISM ABOUT DE LOREAN ON THE PART OF MANY IN THE UK, THERE IS NO PARTICULAR REASON TO EXPECT THESE ALLEGATIONS TO PROVE BETTER FOUNDED THAN EARLIER ONES. BUT THEY APPEAR TO COME FROM A NEW SOURCE, AND IT SEEMS ESSENTIAL TO INITIATE ENQUIRIES IMMEDIATELY.

IF MATTERS DO SURFACE IN THE USA, IT WILL BE HELPFUL TO BE ABLE TO SHOW THAT INVESTIGATIONS ARE ALREADY IN PROGRESS HERE. IF NOTHING HAPPENS IN THE USA, WE WILL NEVERTHELESS FIND OUT QUICKLY WHETHER THERE IS ANY SUBSTANCE TO THE ALLEGATIONS, AND THIS WILL BE RELEVANT TO FUTURE DEALINGS WITH THE COMPANY, AND IN PARTICULAR TO WINTERTON'S REPORT OF A FORTHCOMING REORGANISATION OF THE US HOLDING COMPANY WHICH MIGHT AFFECT CONTROL OF HMG'S INVESTMENT.

THEREFORE, AFTER THE INFORMAL CONSULTATIONS I MENTIONED TO YOU, THE SOLICITOR GENERAL HAS PRIVATELY APPROACHED THE DPP, WHO HAS AGREED TO ARRANGE FOR A SENIOR POLICE OFFICER TO BE IN TOUCH WITH MR. WINTERTON IMMEDIATELY TO PURSUE MATTERS.

WOODFIELD TOLD ME THAT THERE ARE OTHER PROBLEMS WITHIN THE NI COMMERCE DEPARTMENT AT PRESENT WHICH MAKE THIS STORY PARTICULARLY UNTIMELY IF IT PROVES TRUE.

CARRINGTON

NNNN

2132(H) M8S 107858 400M 2/76 A.G.3640/4

Ireland.

XY 2

File No.

Department 10 DOWNING STREET

Drafted by (Block Capitals) MIKE PATTISON

Tel. Extn. 01-930-4433

OUTWARD

TELEGRAM

Security Classification SECRET 2

Precedence IMMEDIATE

DESKBY 2300 Z

FOR COMMS. DEPT. USE

Despatched (Date) (Time) Z

POSTBY Z

PREAMBLE

(Time of Origin) Z(G.M.T.)

(Security Class.) SECRET

(Codeword)

(Restrictive Prefix)

(Caveat/ Privacy Marking)

(Deskby) Z

TO IMMEDIATE (precedence) CANBERRA (post) Tel. No. of

AND TO (precedence/post)

AND SAVING TO

REPEATED TO (for info)

SAVING TO (for info)

Distribution:-

Copies to:-

[TEXT]

DEDIP

FOLLOWING PERSONAL FOR WHITMORE, PRIME MINISTER'S PARTY, FROM PATTISON, 10 DOWNING STREET

MR NICHOLAS WINTERTON

Winterton wrote to Ian Gow earlier in the week, seeking a meeting with the Prime Minister to discuss questions of fraud against the British Government. He felt he could not take these matters up directly with the Secretary of State, because of the risk of a leak - inadvertent or otherwise - to the company concerned through the department.

/ Winterton

Winterton telephoned yesterday to report that the matters in question might now break publicly within a very short timescale, and he was anxious that the Prime Minister should therefore be informed as early as possible, so that she could initiate whatever enquiries she thought necessary, independently of the department concerned.

Winterton's information comes via a constituent from a British employee of the De Lorean parent company in the US. She claims to have access to documentary evidence of "massive fraud left right and centre" against HMG. Winterton has seen certain papers which he says make "very interesting reading", and he has access to two files left in England by the informant on a recent visit.

Winterton reports that these matters could very shortly become public in the US, as a result of a tax fraud investigation which is likely to be the fall-out from a row between Mr. De Lorean and one of his senior executives, William Haddad. Winterton's informant is being assisted by a Black American attorney named Clarence Jones, who is something of a national figure because he previously acted for Martin Luther King.

/ From

NOTHING TO BE WRITTEN IN THIS MARGIN

From what we know so far, the allegations concern major fraud against HMG on the part of the company, but apparently no more than negligence on the part of the NIO. Winterton says the informant has long been resident in the United States but has finally felt that her basic loyalty to the UK requires her to expose these matters.

Given the history of scepticism about De Lorean on the part of many in the UK, there is no particular reason to expect these allegations to prove better founded than earlier ones. But they appear to come from a new source, and it seems essential to initiate enquiries immediately.

If matters do surface in the USA, it will be helpful to be able to show that investigations are already in progress here. If nothing happens in the USA, we will nevertheless find out quickly whether there is any substance to the allegations, and this will be relevant to future dealings with the company, and in particular to Winterton's report of a forthcoming reorganisation of the US holding company which might affect control of HMG's investment.

Therefore, after the informal consultations I mentioned to you, the Solicitor General has privately approached the DPP, who has agreed to arrange for a senior police officer to be in touch with Mr. Winterton immediately to pursue matters.

Woodfield told me that there are other problems within the NI Commerce Department at present which make this story particularly untimely if it proves true.

MESSAGE ENDS

(16939) Dd.897300 200m 9/72 G.W.B.Ltd. Gp.863

XY 42

File No. .....

Department 10 DOWNING STREET

Drafted by (Block Capitals) MIKE PATTISON

Tel. Extn. 01-930-4433

OUTWARD TELEGRAM

Security Classification: SECRET

Precedence: IMMEDIATE 1

DESKBY 2300 Z

FOR COMMS. DEPT. USE

Despatched (Date) ..... (Time) ..... Z

POSTBY ..... Z

PREAMBLE

(Time of Origin) ..... Z(G.M.T.)

(Security Class.) SECRET

(Codeword) .....

(Restrictive Prefix) .....

(Caveat/ Privacy Marking) .....

(Deskby) 2300 Z

TO IMMEDIATE (precedence) CANBERRA (post) Tel. No. ..... of .....

AND TO (precedence/post) .....

AND SAVING TO .....

REPEATED TO (for info) .....

SAVING TO (for info) .....

Distribution:-

Copies to:-

[TEXT]

DEDIP
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/ Winterton

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/ From

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From what we know so far, the allegations concern fraud against HMG on the part of the company, but apparently no more than negligence on the part of the NIO. The informant has apparently been resident in the United States for many years but, according to Winterton, has finally felt that her basic loyalty to the UK requires her to expose these matters.

Given the history of scepticism about De Lorean on the part of many in the UK, there is no particular reason to expect these allegations to prove better founded than earlier ones. But it is clearly essential that we should initiate proper enquiries at the earliest possible moment. After the informal consultations I mentioned to you, the Solicitor General has privately approached the DPP, who has agreed to arrange for a senior police officer to be in touch with Mr. Winterton immediately to pursue these matters. Mr. Clarence Jones and his client are ready to travel to the UK at short notice.

CW

Is it imeritave for the recipients of this letter to get it by the end of today ?

In other words, by hand to all ?

Reply to [illegible] +
[illegible] —
[illegible] —
[illegible]

(hidden Walters
Duguid)

#13

CONFIDENTIAL

File AH

cc D/I
Emp
ENV.
SO
WO

Trade
Energy
Tsy & Sy
CO

10 DOWNING STREET

From the Principal Private Secretary

21 May 1981

Walters
Dugmid.

Dear Stephen,

DE LOREAN

The Prime Minister has seen your Secretary of State's minute of 20 May 1981 about the difficulties which the De Lorean motor plant is facing as a result of the present security situation in Belfast, and as I told you on the telephone this morning, she agrees, though with some reluctance, that the Government guarantee for the company should be increased in the way Mr Atkins proposes. She has commented, however, that if the disruption which De Lorean is suffering at present goes on, Ministers will have to review the future of the whole operation.

The Prime Minister is content that Mr Atkins should announce the Government's decision by a Written Answer tomorrow, Friday, 22 May.

I am sending copies of this letter to Ian Ellison (Department of Industry), Terry Mathews (Treasury), to the Private Secretaries to the other members of E(EA) and to David Wright (Cabinet Office).

Yours ever,

Clive Whitmore.

Stephen Boys-Smith Esq.,
Northern Ireland Office.

CONFIDENTIAL

CONFIDENTIAL

2 pps

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

21 May 1981

Clive Whitmore Esq
10 Downing Street
London SW1

Dear Clive

DE LOREAN

We spoke on the telephone about the Northern Ireland Secretary's letter of 15 May to my Secretary of State and his minute to the Prime Minister of 20 May.

2 My Secretary of State thinks that, on industrial grounds, there is no case for pouring further public money into the De Lorean project. In his view it should never have been started. My Secretary of State notes, however, that some of De Lorean's present difficulties are the direct result of terrorist attacks and it seems to him that the need to counter terrorism is more important than the industrial policy considerations which arise. He is therefore prepared to agree with the line taken by the Northern Ireland Secretary.

3 I am copying this letter to Stephen Boys-Smith (Northern Ireland Office) and to Terry Matthews (Treasury).

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

CONFIDENTIAL

21 MAY 1981

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Humphrey Atkins MP
Secretary of State
Northern Ireland Office
Great George Street
London SW1P 3AJ

20 May 1981

Dear Humphrey.

DE LOREAN MOTOR COMPANY

will request Argoed

Thank you for your letter of 15 May on this subject.

I am greatly concerned that the company are again in a position where they need to turn to Government for further assistance. However, in the circumstances which you explain in your letter and which your officials have enlarged on in discussion with mine, I would be prepared to acquiesce with extreme reluctance in the existing Government guaranteed loans being increased from £10 million to £17 million.

It is intended that the increased borrowing to be guaranteed by the Government should be for repayment by 31 December 1981 like the existing £10 million. You refer, however, to the possibility that the company may not be able to extinguish the debt by then. I find the prospect of a further proposal for Government support at that stage alarming and my acquiescence in your putting your present proposal to the Prime Minister is conditional on your giving urgent consideration to devising the best way of getting the Government out of potential liability to the company as soon as possible. My officials would be glad to discuss with yours how this can best be done.

The terms of the new borrowing facility should be at least as good as those applying to the existing loans. If, therefore, the Prime Minister approves your proposal, I should be grateful if the terms of the new borrowing and of your proposed Parliamentary announcement could be cleared with my officials.

I am sending copies of this letter to the Prime Minister and Keith Joseph.

Yours ever Leon

LEON BRITTAN

21 MAY 1981

CONFIDENTIAL

SECRETARY OF STATE FOR NORTHERN IRELAND

PRIME MINISTER

DE LOREAN

Amongst the features of the difficult situation here which has developed since the death of Sands on hunger strike has been a series of attacks upon and other disruption of the De Lorean Motor plant. The factory is located on the fringes of the predominantly Roman Catholic Twinbrook Estate, to which the body of Sands was brought prior to the funeral. In spite of a very substantial presence of Security Forces on the ground, local disorder on the night of Monday 4 May was so intense that rioters were able to set fire to part of the plant's office accommodation located in a range of temporary buildings, with a consequential serious loss of virtually all personnel records and also of some production drawings. The damage caused will be the subject of a claim under the Northern Ireland Compensation Code.

2. Although precautions since then have been successful in preventing further physical damage to the plant, the company's perimeter has on several occasions come under attack, and on the night of Tuesday 12 May shots were fired into the factory area, holing a major water tank which feeds the factory sprinkler system. There has had to be, on numerous occasions, a substantial presence within the plant itself. In addition, the work force have been subjected to repeated attempts to intimidate them into leaving work to join rallies, etc.

3. In face of all these pressures, and located as they are in a difficult and tense area, the attempts of the majority of the work force to get to work have been commendable. However, production in the plant has inevitably been seriously disrupted

CONFIDENTIAL

...../2

on successive occasions, and at a time when the company's plans call for a steady build-up in the momentum of its production line. These difficulties led the company, on 6 May, to decide to divert a ship which would, on previous plans, have left from Belfast with a shipment of cars on or about 13 May. The next shipment is now due out on 23 May.

4. As you will recall, we had decided in February, faced by evidence of cost increases many of which were genuinely beyond the company's control, to add to existing measures of Government support a guarantee for bank borrowing of £10m. Since that date we have consistently told Mr De Lorean and his associates and also made it clear in Parliament that the company must live within this funding limit.

5. From our monitoring of the company's affairs it has for some time been clear that the company would have very little room for manoeuvre. Indeed, it could only see its way through the period until income from sales began to build up by significantly extending its commercial creditors.

6. However, we now face a new situation. The deferment of a shipment and therefore of receipts has opened a cash gap which, if it cannot be filled, will inevitably lead to a very early decision to cease trading. In these circumstances an important and prestigeous Government-backed enterprise would be seen to be brought to its knees by the Provisional IRA and its sympathisers. In the process our industrial development efforts, particularly in America, would be virtually destroyed.

7. Although the plant is now calm, and absenteeism for instance is at its lowest ever, it is not possible to look ahead too far with any confidence. If disorder in the area were to be repeated

and sustained over a lengthy period, and the resumption of the planned acceleration of production to be indefinitely delayed, the cost of support could prove too high to bear. But I am sure it would be wrong to allow the operation to sink at this stage, and I am convinced that we should provide a guarantee, for up to £7m, of borrowing to see the company through the crisis and into calmer waters.

8. It should also be noted that the irrecoverable loss of production and sales will affect the company's forward cash requirements and possibly the year end position when the guarantees for the £10m lapse. However, it is too early to take any decision on that matter; and I would propose to indicate to the company that the terms of the agreement on the guarantees stand.

9. It is helpful that the company has made a preliminary announcement which could lead to a substantial injection of private money this year.

10. I thought carefully about seeking support for a higher "umbrella figure", say £10 million, within which I would operate as circumstances dictated, but I have concluded that it is right that, while we should show the company that Government will join in combating the efforts of unlawful elements to put it out of business, it is equally right that we should act in such a way that it will be recognised that at the end of the day the success of the venture depends upon the company's efforts.

11. I expect to receive the support, albeit with reservations, of both Leon Brittan and Keith Joseph, to whom I have written about the company's problems, in taking this course, and I hope

it will be acceptable to you. The need is to act very quickly if the company is to continue to trade.

12. Apart from the substantive decision about further assistance, there is the difficult question of presentation to be resolved. A case could be argued for not revealing this new guarantee so as not to alarm creditors or give encouragement to the terrorists.

13. However, I have no doubt that, in view of assurances previously given to Parliament, I must inform the House and propose a written Answer on Friday immediately before the Recess. The Answer would make it very clear that further funding was consequent upon the terrorist action.

14. I would be most grateful for your approval (subject to the views of Leon Brittan and Keith Joseph) to proceed as I have suggested, both in relation to further but limited support and to an announcement of that decision.

15. I am copying this minute to Leon Brittan and Keith Joseph, and to other members of E(EA).

H A

20 May 1981

jg

E.R.

CONFIDENTIAL

DE LOREAN

DRAFT PQ

Q. Have De Lorean Motor Cars Ltd sought any additional finance following the recent attack on their premises?

A. Part of the company's office accommodation was destroyed by fire started by a petrol bomb attack on 5 May 1981. No damage was caused to the main factory buildings or equipment, but for some while following the fire manning and productivity levels were severely reduced because of disturbances in the vicinity of the factory. The disruption of production and shipment of cars has adversely affected the company's cash flow. A claim for compensation is being pursued by the company under the Criminal Damage legislation and the Department of Commerce has agreed to provide a further time-limited guarantee of £7m in respect of the additional commercial loans which will be required.

CONFIDENTIAL

jg

Ireland 2

cc Mr. Duguid

Mr Alexander
To see

PRIME MINISTER

Confirmation from the Northern Ireland Office that the latest assistance agreed to the De Lorean project will be the last - except in so far as they might eventually come up with a second stage project, for example for a second model (which seems unlikely). However, the letter draws attention to the continuing cash difficulties of the company. In other words, we may be faced with having to let the project fail.

MS

TL.

25 March 1981

From: THE PRIVATE SECRETARY

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

Tim Lankester Esq
Private Secretary
10 Downing Street
London SW1

25 March 1981

Dear Tim,

DE LOREAN MOTOR CARS LIMITED

In your note of 9 February to Ian Ellison you referred to the Prime Minister's agreement to the provision of further assistance in the form of Bank guarantees to this Company "on the basis that this will be the very last measure of assistance to the project".

In order to set the record completely straight as well as to up-date you, I think that I should tell you:

(a) the guarantees underpinning up to £10M of Bank-borrowing are the last amount of selective assistance which will be made in respect of the DMC-12 car project;

(b) the Company is, of course, still due to be paid the final amounts of assistance under the earlier selective assistance agreements (grant aid of £11.15M remains to be paid of which £9.75M will be retained by Department of Commerce in repayment of loans made to the Company), but these are included in the commitments listed in Mr Butler's answer to Mr Jock Bruce-Gardyne's Parliamentary Question on 12 March 1981, Official Report Vol. 1 No. 66, Cols 994-995 (attached);

(c) the Company is also entitled to draw various forms of assistance under standard schemes which apply to all manufacturing companies (grants in respect of capital expenditure not grant-aided under the selective assistance agreements (akin to RDGs), security staff grants, training grants, etc.).

The project to which the pattern of assistance relates is, of course, the current project for the production of the DMC-12 sports car. If, but only if, the company were in future to establish a record of achievement and viability, to meet in full all its obligations to Government in terms of loan repayments, payment of royalties etc, and to put itself in a position to

...../2

obtain substantial private backing, the Department of Commerce would expect to be free to consider from it (as from any established company in Northern Ireland) proposals for Government assistance towards further development, eg by way of production of a second model. However, there can be no question of this at the moment.

Mr de Lorean continues to be unpredictable and difficult in his dealings with Government. As you may have seen, there was recent press publicity, undoubtedly inspired by Mr de Lorean himself, in which he returned to the suggestion that Government could greatly improve the sales prospects of the car by waiving various payments due to it, and thereby making possible a lower selling price. In response to this it is to be made absolutely clear yet again that the Government stands firmly by the line stated by Mr Butler in the House of Commons on 12 February, that is to say that the guarantee of £10M of borrowing represents the last word in terms of support for the present project. In the course of last week there were disturbing suggestions of a further cash crisis because the initial shipment of cars had slipped back. The latest information, however, is that the technical problems which have caused this slippage have been overcome, that the company should be able to make a first shipment of saleable cars on or about 12 April, and that it can live within available resources during the launch period. It is clear, however, that the company faces a difficult period ahead until cash from sales begins to accumulate, and that any further serious problems could again create an urgent cash crisis. The Department of Commerce and NIDA are monitoring the situation very closely.

I am sending a copy of this letter to Ian Ellison (Department of Industry and Terry Matthews (Treasury).

Yours sincerely

Mike Hopkins

M W HOPKINS

jg

De Lorean Motor Cars Limited

9. **Mr. Bruce-Gardyne** asked the Secretary of State for Northern Ireland what is now the aggregate cost to public funds of all subventions irrevocably committed to the De Lorean Corporation; what is the current level of employment by the corporation; what is the ratio of the latter to the former; and what is his best estimate of compensation payable in the event of withdrawal of Her Majesty's Government's support.

13. **Mr. Cryer** asked the Secretary of State for Northern Ireland if he will make a statement on the financial control of De Lorean Cars.

Mr. Adam Butler: The Government's commitment to the DMC-12 project comprises grants of £28·5 million and loans of £20·7 million. The Northern Ireland Development Agency has subscribed £17·8 million in the form of participating preference share capital. De Lorean Motor Cars Ltd. currently employs about 1,030 people.

It would be misleading to relate the gross total of these figures, which include loans, and share capital, to the present numbers employed as these are expected to double; while account must also be taken of the receipt by Government of royalties on cars sold.

The Government have informed the House that they will honour the commitment to the company which was entered into by the previous Goverment. The question of compensation does not arise.

My officials and the Northern Ireland Development Agency receive regular and detailed information on the company's financial position and are in regular contact with the company's arrangement.

Mr. Bruce-Gardyne: I am grateful to my hon. Friend for those details. We shall want to study them with care. May I congratulate my hon. Friend on resisting the latest financial blandishments by this American gentleman, so far? Has he noticed the American gentleman's plans to build another car plant in the South of Ireland? What plans do we have to scrutinise financial cross-fertilisation between Belfast and Shannon?

Mr. Butler: We must see whether the De Lorean companies establish themselves in Southern Ireland. I am anxious to see that the present exercise is successful. We regularly monitor the companies' financial affairs. We see monthly statements of one type or another, quarterly statements and the audited financial accounts.

Mr. Cryer: Will the Minister confirm that the Department has a majority of voting shares and therefore retains effective control? Does he accept that some degree of financial accountability is owed to the House? Therefore, will he ensure that parliamentary questions about such matters as the contract with Lotus Cars and the fees paid to directors are answered in the House, so that we can be confident that the project is going ahead with the minimum of reward to the directors, and that they are not making a fat killing?

Mr. Butler: The Government do not have the majority of voting shares. NIDA's share is only in redeemable preference share capital. In addition, we have two nominees on the boards of the car company and the parent company in America so that we are able to keep a close scrutiny on what goes on. The hon. Member for Keighley (Mr. Cryer) never ceases to ask questions about this company. It is not right to disclose commercially confidential information.

Alan Clark: Since my hon. Friend, in common with any objective analyst, must now be discarding any notion that these cars will be built or sold commercially, will he assure the House that he thinks that the project has some merit as a job creation scheme?

Mr. Butler: Any company employing 1,000 people in Northern Ireland, with prospects of increasing the number to 1,400 in June, is well worth supporting. My hon. Friend mentioned the commercial nature of the exercise. I wish that he would come to Northern Ireland and see the plant. It is remarkable. It is turning out cars at the rate of between 20 and 25 a day and the first are expected to be shipped before the end of the month.

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10 DOWNING STREET

From the Private Secretary

9 February 1981

The Prime Minister has considered your Secretary of State's minute of 6 February reporting on the E(EA) discussion of the latest De Lorean proposal. She is prepared to go along with the proposed further guarantee, but on the basis that this will be the very last measure of assistance to this project.

I am sending copies of this letter to Roy Harrington (Northern Ireland Office), to the Private Secretaries to members of E(EA) and to David Wright (Cabinet Office).

TL

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

PRIME MINISTER

DE LOREAN

In his minute of 3 February, the Secretary of State for Northern Ireland drew your attention to his recommendation, in E(EA)(81)3, that the Government should agree to guarantee further borrowing of up to £10 million by the De Lorean Sports Car Company.

2 The Government is under no legal obligation to give further support to this project. The Secretary of State is, however, satisfied that unless further funding is made available the company will run out of cash by the end of February and the project will collapse just as the car has been launched and exports are starting. De Lorean can borrow the necessary sum from the Banks but only if the Government give a guarantee. If this were not forthcoming, and the project did collapse, there is little doubt that Mr De Lorean would lay the blame squarely at our door.

3 In these circumstances, and in the light of the points in paragraph 5 of E(EA)(81)3, the Sub Committee reluctantly agreed at their meeting on 5 February that, subject to your approval, the Secretary of State should be authorised to give the necessary guarantee. The loans in question are required for immediate working capital needs and will be repaid by the end of the year. Over this period the Company's cash flow should improve and there is a reasonable chance that the guarantee will not be called and, therefore, that there will be no public expenditure. If this

turns out to be wrong, the Secretary of State has accepted that he will have to find the resulting public expenditure from within his present programme. He will arrange for the detailed terms of the guarantee to be agreed between the Northern Ireland Office and the Treasury.

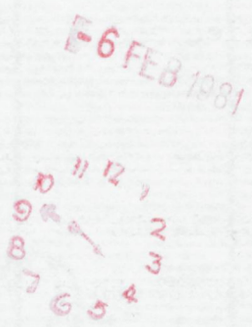
4 The longer term future of the project remains uncertain but, if it is to fail, the Sub Committee agrees with the Secretary of State that this must be seen to be demonstratably the responsibility of Mr De Lorean and not the fault of the Government.

5 I am sending copies of this minute to the Secretary of State for Northern Ireland, to the other Members of E(EA) and to Sir Robert Armstrong.

KJ

6 K J
February 1981

Department of Industry
Ashdown House
123 Victoria Street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SECRETARY OF STATE FOR NORTHERN IRELAND

Prime Minister

The S of S for Industry will minute you on the outcome of E(EA) discussion.

MR MAD 24/2

PRIME MINISTER

DE LOREAN

You will recall that, after the E(EA) meeting on 31 July last (E(EA)(80) 17th Meeting, item 3) you intervened to stiffen up the terms on which the last £14 million of government assistance should be given to the de Lorean project (your Private Secretary's letter of 5 August to the Department of Industry).

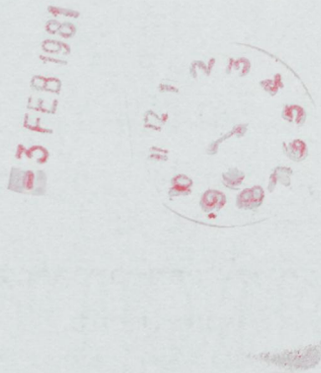
I think that in view of this I should now draw your attention to the paper I am circulating to the Sub-Committee (E(EA)(81)3) about Mr de Lorean's request for further assistance in the form of a guarantee for borrowings of up to £10 million. As you will see from the paper, the company can only obtain private finances to allow the car to be launched if the Government provides a guarantee. I have been reluctant to propose that such a guarantee should be given, but I am convinced that, for reasons mainly special to Northern Ireland, we should accede to this request.

I am copying this minute to the Secretary of State for Industry and to Sir Robert Armstrong.

HA

(Signed on behalf of the Secretary of State in his absence)

3 February 1981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10 DOWNING STREET

From the Private Secretary

5 August 1980

The Prime Minister has read the minutes of the meeting of E(EA) on 31 July, and has made the following comment on your Secretary of State's summing up of the discussion on the De Lorean sports car project. In regard to the further assistance of £14 million, she has indicated that - in her view - an understanding that no further assistance will be available is not enough. She would like the further £14 million to be made available on condition that further assistance is ruled out, and she has said that this condition should be put in writing.

I understand that the Secretary of State for Northern Ireland and his officials are seeing Mr. De Lorean this morning, and we have already spoken to Roy Harrington.

I am sending copies of this letter to the Private Secretaries to members of E(EA), Roy Harrington (Northern Ireland Office), David Edmonds (Department of the Environment), Bill Beckett (Law Officers' Department), Garth Waters (Ministry of Agriculture, Fisheries and Food), Godfrey Robson (Scottish Office) and David Wright (Cabinet Office).

T. P. LANKESTER

I.K.C. Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

E(EA)(80)17th Mtg

31.7.80

CONFIDENTIAL

Item 3. DE LOREAN SPORTS CAR PROJECT

The Sub-Committee had before them a copy of a letter dated 25 July from the Secretary of State for Northern Ireland to the Secretary of State for Industry seeking agreement to the provision of increased Government support for the De Lorean sports car project.

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the project had been started by the previous Administration, with considerable support from public funds. The agreement with the company included an undertaking by the Northern Ireland Department of Commerce to consider an application by the company for further assistance if the projected levels of public support for the project proved insufficient because of factors beyond the company's control. The company was now seeking some £14 million under this provision, the bulk of which would be provided during the present financial year. However, McKinsey's, who had been monitoring the project for the Northern Ireland Development Agency, believed that the project could, in fact, require rather more support than this, possibly as much as £21 million in total. To support the project to this extent from public funds would mean that the cost of the new jobs which it would create would be very high. Moreover, there was considerable risk that the project might prove commercially unsuccessful given the very changed economic circumstances of the motor car industry since it had been started; and that Mr De Lorean might seek even more Government support at a later stage. On the other hand, if the Government refused the extra finance now requested, there was a strong possibility that Mr De Lorean would take the Government to court. He could, in any case, create a considerable public fuss which could only hinder the Government's efforts to attract new investment to Northern Ireland, and in this he would be supported by the 350 American dealers who together had invested some 8 million dollars in the project. The impact of the closure of the project on the local community also had to be considered. The De Lorean factory was situated in West Belfast, a mainly Catholic area with a very high unemployment rate, where Grundig had recently announced that they would be closing their factory with the loss of some 1,000 jobs. If the Government did not provide the extra finance sought by De Lorean this would be contrasted with their treatment of Harland and Wolff, which was situated in the Protestant area of Belfast. To refuse support would undoubtedly have an impact on the security situation in Northern Ireland at a time of year when emotions were, in any

case, running high; and might also damage the present bi-partisan policy being pursued in the House of Commons by the Government and the Opposition. He had therefore concluded that the Government had no choice but to acquiesce. He would, however, seek to limit further public assistance to the project to the levels forecast by McKinsey; to ensure that as much of this assistance as possible was repayable; and to ensure that the Government's present commitment to fund the project was clearly terminated without the possibility of court action in the future. He would also make it clear to Mr De Lorean that there could be no possibility of Government support for the production of another sports car by his company.

THE ATTORNEY GENERAL said that the agreement between the previous Administration and the De Lorean company was not a contract in law. It did, however, commit the Secretary of State to give reasonable consideration to the provision of more help from public funds if the need for this did arise from factors not within the company's control. The Secretary of State was not committed to provide such assistance, merely to give a request reasonable consideration. But, if an action should be entered before the courts, it was likely that they would conclude that the implication of the agreement was that increased Government assistance would be forthcoming. Moreover, it was by no means clear that such an assurance had not been given verbally to Mr De Lorean during the course of the original negotiations. There was, therefore, every prospect that Mr De Lorean could commence an action against the Government, with no certainty as to its outcome. It would, however, be possible for the Government to provide the extra assistance now sought by the company on the firm understanding that no further public support would be forthcoming, thereby ruling out the prospect of successful court action in the future.

THE SECRETARY OF STATE FOR INDUSTRY, summing up a brief discussion, said that the Cub-Committee reluctantly agreed that the Government should provide the extra finance sought by Mr De Lorean. This should, however, be on the basis that there would be no further public support for this project, and the Secretary of State for Northern Ireland should ensure

that this was agreed with Mr De Lorean in a way that would rule out the prospect of a court action in the future against the Government. There was, however, a substantial difference between the levels of further Government support sought by Mr De Lorean and those predicted as likely to be necessary by McKinsey. The Secretary of State for Northern Ireland should therefore seek to limit further Government support for this project to the £14 million specifically requested by Mr De Lorean. The Sub-Committee had, however, reluctantly agreed that he could provide assistance totalling £21 million, as suggested by McKinsey, if further examination showed this to be absolutely necessary. He should also make it clear to Mr De Lorean that there could be no prospect of Government support for a further project of this sort.

The Sub Committee -

1. Took note, with approval, of the Secretary of State's summing up of their discussion.

2. Invited the Secretary of State for Nothern Ireland to negotiate with Mr De Lorean the provision of further public assistance of £14 million (or, if absolutely necessary, £21 million) on the clear understanding that there could be no further assistance from public expenditure for this project and in such a way that any prospect of court action against the Government in the future would be ruled out.

An understanding is not enough. We must have an enforceable condition that any action is ruled out and that condition should be part of a written agreement

Cabinet Office
1 August 1980

MUFAX TO:
CELIA HADDEN
FROM MIKE HOPKINS
DESK BY 4.00 P.m
13/4

CONFIDENTIAL MUFAXED

In. Gen. 71

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

cc: PS/SoS (B)
PS/Mr Rossi (L&B)
PS/Mr Shaw (L&B)
PS/PUS (L&B)
PS/Mr Bell
Dr Quigley
Mr Mais
Mr Cowan

Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London SW1

25 July 1980

Dear Keith.

DE LOREAN SPORTS CAR PROJECT

I am writing to consult you and the other members of E(EA) about the policy decisions which I face on extra funding for the De Lorean project. Ideally, I should like to have waited, before writing in this way, until I know whether I shall have resources available for this purpose: this depends on the outcome of separate discussions which I am having with John Biffen on my resource problems in 1980/81 and the possibility of aid from the Contingency Reserve. I am, however, under great pressure from the De Lorean Company to reach an early decision, not least because the Company would actually collapse by about the end of August unless extra funds are forthcoming, and I am anxious to put the policy issues to colleagues before the summer recess, so that a decision can be taken in principle subject to the availability of resources.

You will be aware of the background to the project which is located in West Belfast, an area of exceptionally high unemployment and social deprivation and a continuing threat to security. The previous Administration decided two years ago to support it with very substantial aid from public funds. The project was to manufacture a new high performance sports car (the DMC-12) - then at only an embryonic design stage - mainly for sale in the United States. It was forecast to employ up to 2,000 workers with annual sales of up to 30,000 cars pa; and the total funding from public sources was to amount to £53m, comprising £17.76m subscribed by the NI Development Agency in the form of redeemable preference shares; grants totalling £18.7m towards capital expenditure; a loan towards the balance of the estimated building costs of £6.7m; and employment grants of £9.7m. An additional feature in the offer of assistance (which has also been in other offers made by the Department in recent years) was an undertaking by the Northern Ireland Department of Commerce to consider an application by the Company for further assistance if the expenditure projected for the establishment of the undertaking proved insufficient because of

factors beyond the Company's control, including inflation and adverse changes in the sterling/dollar exchange rate affecting the cost of plant, machinery or tooling. I have made it publicly clear that, whatever reservations one might have about the decisions taken by the previous Government, we shall honour the commitments made by that Administration. It is also public knowledge that the Company is seeking substantial additional funding.

It is now clear that the figures on which our predecessors agreed were based on an optimistic assessment of the likely duration and cost of the development programme for the DMC-12. Frankly, it comes as no surprise that the target of bringing a brand new car from greenfield site to mass production in two years proved unattainable. For example, the entirely new moulding technique envisaged for the plastic used in the car's bodywork ran into problems and had to be replaced by an alternative; the production of detailed drawings by the development engineers has taken longer than scheduled; the car's engine will after all need to undergo no less than 13 weeks of testing to meet the requirements of the United States Environment Protection Agency which the Company had been led to believe in previous discussions with the Agency would not be necessary. What is impressive is that even on the most pessimistic revised schedules, De Lorean would still have managed to bring the DMC-12 into production in well under 3 years.

The Company's own latest estimate is that it will need about £14m more - all of it this year - to get the car into the market next January. Of this, around £8m is attributable to the impact of inflation, £2½m to a major change in building design to meet the requirements of local fire and planning regulations, and £3½m to programme slippage. McKinsey, who are monitoring the project for the Development Agency, suggest in their latest report that further delays are likely which could bring the figure nearer to £22m, of which up to £19m would be needed this year. The McKinsey figure reflects the belief that the Company will not receive cash from sales until April 1981, partly through a further delay in commencing production but also because of a need to keep early production in "quarantine" to ensure the quality of the initial shipment. A significant part of the £8m difference between the Company's figure and McKinsey's - and prudence dictates that we should assume the latter may turn out to be right - is therefore a short-term requirement for working capital.

The following factors seem to me the most important in considering our response:-

(a) The legal advice is not clear cut, but we must assume that De Lorean would take action against the Government and there is a chance that we could be held to have breached the agreement (cf para 2 above) if we refused any further funds despite inflation and other factors outside the Company's control. Whilst it is possible that we could successfully defend such an action, our defence would be costly; and if we lost, payments in damages would obviously have been better applied to keeping the project going.

(b) Whether or not a formal claim for damages against the Government succeeded, we could expect damaging and widespread publicity, particularly in the United States (John de Lorean would see to that), which would cast doubt on the certainty of agreements entered into with the NI authorities and greatly reduce our

prospects of securing additional investment. The Company could argue with some force that the spirit, if not the letter, of their understanding with the Government in 1978 had been breached.

(c) To expect the Company to get further private backing at this stage would be quite unrealistic, well before the product has even been launched. Soundings taken with the European Investment Bank confirm that they too would not be attracted at this stage. Thus, if the Government does not provide the extra funds, the project will immediately collapse. Our credibility with the minority population would be severely undermined: unemployment in Northern Ireland at 14.7% is double the rate in Great Britain and is even higher in depressed Catholic areas like West Belfast. The decision would be contrasted with our treatment of Harland and Wolff; we would be accused of ignoring the worsening unemployment situation which will become even more difficult in this part of West Belfast when the Grundig factory (immediately next door to the De Lorean plant) closes in the Autumn (with the loss of 1,000 jobs); a 'spin-off' development in West Belfast to employ 400 people on the manufacture of car trim would also collapse.

(d) McKinsey's are reassuring that physical progress with the project has been and remains impressive. There is no doubt about the professionalism, experience and determination of the management team. There is still a reasonable chance that the DMC-12 project will be sufficiently successful and achieve a level of sales to pave the way for private funding of a second model which is vital if the Company is to remain in business in the long term. Despite the problems of the US car industry I am told that generally the sports car segment is holding up relatively well and that the recession in the USA is not biting as deeply on the West Coast - De Lorean's main target area for sales - as elsewhere. The 350 dealers in the USA who handle the car, all of whom have equity investments in the Company of 25,000 dollars each, have undertaken to sell in excess of 30,000 cars over the two years 1981 to 1982, which is equivalent to the McKinsey assessment that 15,000 sales pa may be attainable. In addition, a Canadian distributor has already been signed up and De Lorean also has plans for sales to Europe and the Middle East. The expected retail price of the DMC-12 is 24,000 dollars - about £10,000.

Putting these points together, I am clear that I have no realistic alternative but to make extra funds available, up to £22m if necessary, not all of which should be required in 1980/81, to enable the DMC-12 to reach the market place. I shall make it clear that the Company must from then on stand on its own feet, and that there is no question of Government funding towards a second model. Moreover, for the DMC-12 project I propose to negotiate the minimum possible amount of non-repayable assistance. If the McKinsey estimate of £22m turns out to be right, it should be possible to secure a substantial part of this by means of a short-term loan or Guarantee (cf para 4 above), and as much of the balance as the project can reasonably stand should be a repayable loan rather than grants.

I hope that you and the other members of E(EA) will feel able to endorse my proposed action, subject to the availability of the necessary resources, without a meeting of the Sub-Committee. If, however, it is felt necessary to discuss the matter I should be grateful if it could be included on the agenda at a very early date.

I am sending copies of this letter to the members of E(EA) and to Sir Robert Armstrong.

Yours ever

Humphrey

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CONFIDENTIAL

Have written to Chief Secretary, The Chancellor and Mr Atkins have reached agreement on a cash claim on the Contingency Reserve (£35m plus a possible £13m). Agree subject to any objections from colleagues?

PRIME MINISTER

NORTHERN IRELAND: CLAIM ON THE CONTINGENCY RESERVE

The Secretary of State for Northern Ireland wrote to me on 4 July making a claim on the Contingency Reserve because of particular resource problems he faces this year (I enclose a copy of his letter). Following detailed examination of the claim between our respective officials, I have discussed the position with Humphrey Atkins and this minute reports the outcome.

2. In his letter, the Secretary of State said that the difficulties arose mainly on the industrial development front and he quantified them "as of the order of £50 million". In fact, further consideration has revealed the gap between requirements and resources to be nearer £60 million. This of course represents a major claim and, as you know, the position on the Reserve this year is very tight and causes me considerable concern. In these circumstances it is essential that we take a rigorous approach to any proposal that involves additional expenditure on programmes.

3. The problem facing the Secretary of State before he put forward his claim involved sums considerably larger than the £60 million. But the bid has been held to that figure by some difficult decisions involving the elimination of demands totalling about £85 million and the reallocation of sums totalling about £50 million. By doing this he has gone a long way to close the gap foreseen this year between the resources available to him and the demands likely to be made on them. I am

satisfied that there is no scope for the Secretary of State to make further major reductions but he has agreed to find a further £6 million.

4. In the light of our discussion, I am prepared to make available £35 million from the Reserve. This does not include finance for the De Lorean car project, which I deal with below.

5. The Secretary of State's claim includes additional finance of £19 million for the De Lorean car project which involves the creation of up to 2000 new jobs in West Belfast. The case for providing additional finance has been put to E(EA) Committee and I have agreed that this should depend on their decision. If the Committee decides that further funds should be made available to the project on merits, I have agreed with the Secretary of State that a further £13 million should be allowed this year as a separate claim on the Contingency Reserve.

6. Unless you or any of our colleagues wish the matter to be discussed in Cabinet, the Secretary of State would like to announce the addition to his programme and the necessary reallocations in the House before the Recess. In the announcement, the terms of which would be agreed in the usual way, he would say that he was receiving an addition to his allocation from the Reserve, in order to make it clear that this did not represent an increase in the overall total of public expenditure.

7. I take this opportunity to mention that any additional expenditure on the fishing industries in the UK will also be a charge on the Contingency Reserve. We are to discuss this in E Committee shortly.

8. I am copying this minute to other members of Cabinet, the Minister of Transport, and to Sir Robert Armstrong.

WJB

JOHN BIFFEN
29 July 1980

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Colour Chart #13
Blue Cyan Green Yellow
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