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NORTHERN IRELAND OFFICE  
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

*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.*

10 December 1981

*MAP  
"x"  
Yes. May!*

*have a note from  
the Treasury about the  
treatment of various guarantees for  
PSIR 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 circumstances 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*

*JP*

JAMES PRIOR

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

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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

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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.

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● 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).

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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,

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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

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## ANNEX 1: ASSISTANCE TO DE LOREAN

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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)	<u>9.750</u>	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)	<u>14.000</u>	20.718
Subscription of preference share capital by the Northern Ireland Development Agency		<u>17.757</u>
		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.

## ANNEX 2: PERFORMANCE

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Monthly Production Performance 1981

	<u>Feb</u>	<u>Mar</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug.</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov.</u>
Plan	188	818	1663	2858	4543	5423	7103	8463	10223	11903
Actual	-	64	483	839	1309	1744	2642	3619	4901	6191

Employment

	<u>Feb</u>	<u>Mar</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug.</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov.</u>
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

## CASH FORECAST

£'000's  
(£1 = \$ 2.00)

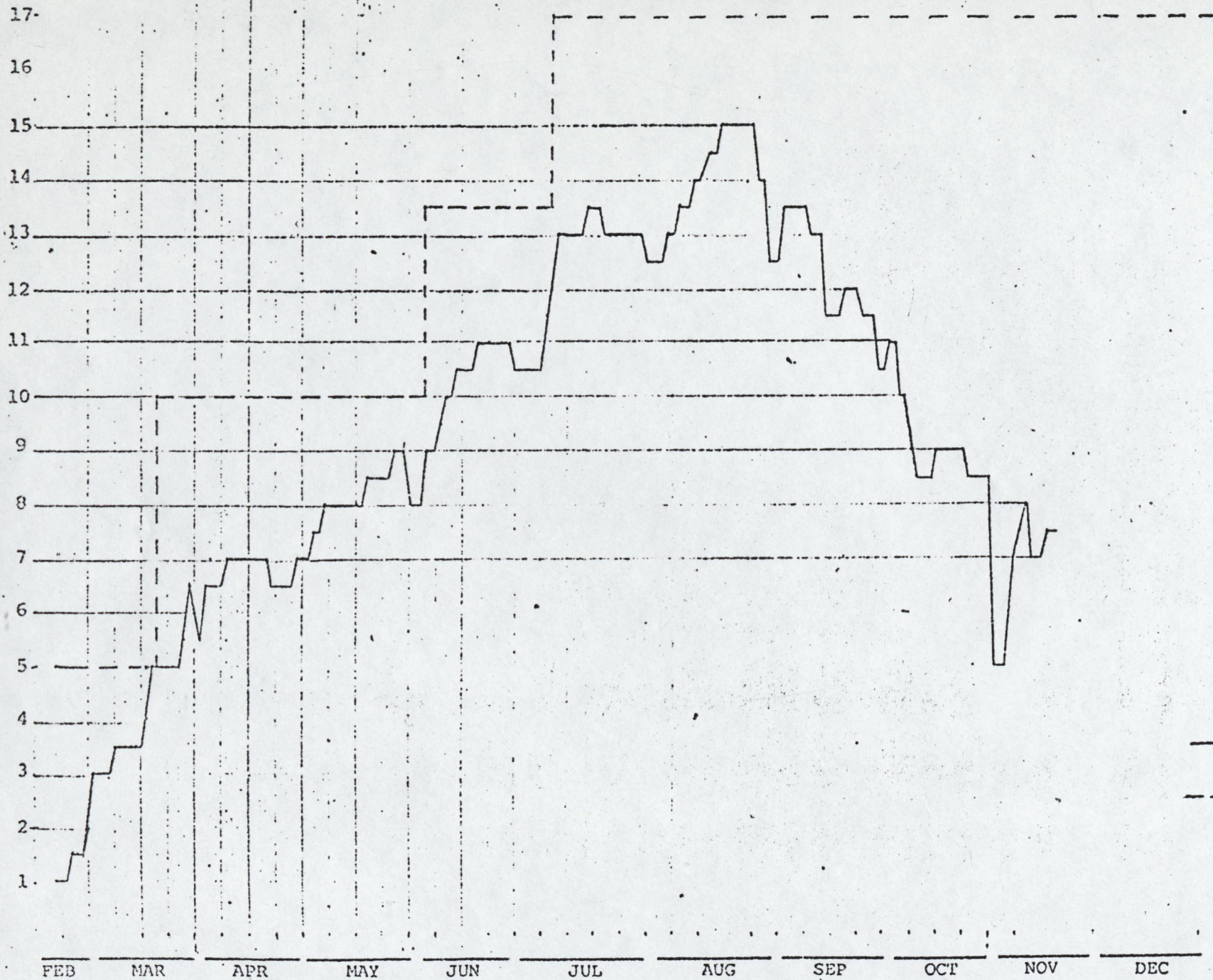
Period Ending	1981 Dec.	1982 Jan.	Feb.	March	Apl.	May	June	July	Aug	Sept	Oct	Nov.
<u>Cash Outflow</u>												
Raw Materials	7133	5836	7066	7040	7832	5899	7198	8228	2987	7454	6673	7601
Other Variable Costs	990	860	860	1075	860	900	900	900	900	900	900	900
Fixed Costs	1100	1100	1100	1100	1100	1100	1100	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
<u>Cash Inflow</u>												
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 <sup>car</sup> price increase of 10% operative on 1 December 1981 and any allowances for inflation.
  3. The figures for July & August 1982 reflect the impact of the July holiday period.

Millions

UTILISATION OF SHORT TERM BANK LOAN FACILITIES - 1981

Annex 4.



— Total Facility Utilised  
- - - Maximum Facility Available

10 DEC 1981





✓ CC AD  
AW

(4)

Prime Minister

Foreign and Commonwealth Office  
London SW1

15 December 1981

Dec 17/12

MS

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 etc

*[Handwritten signature]*

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street

5 DEC 1981



*cc. A. Duguid**Prime Minister**(2)**14/12*

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)*