CONFIDENTIAL

From:- THE PRIVATE SECRETARY

(1)

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

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 – though that disclosure was already learned on other sides
See copy heads report. How then can you prevent them?
mt

J Coles Esq
PS/Prime Minister
No 10 Downing Street
LONDON
SW1

16 February 1982

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

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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 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

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.

Ireland

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From: THE PRIVATE SECRETARY

Prime Minister

(2)

MCS 12/2

C.A.D.

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SWIP 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.

Inside front cover

... 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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Sir Kenneth Cork, G.B.E., D.Litt.

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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.

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.

So we would have to buy our own stock! i.e. we provide the money to pay ourselves on credit?

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 Cole

Prime Minister

To note

AR 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

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.

RTA

ROBERT ARMSTRONG

17 February 1982

CONFIDENTIAL

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

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,

Stephen

S W BOYS SMITH

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