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John Coles Esq
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1) Mr. DeLorean
2) Return to me.

A.J.C. $\frac{19}{2}$ 19 February 1982

Dear John

h.a. 19/2.

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 American 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 tune 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 companies 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.

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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

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).

119 FEB 1982



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