



NORTHERN IRELAND OFFICE  
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SECRETARY OF STATE  
FOR  
NORTHERN IRELAND

Prime Minister

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

*Alan - provided no more  
fod. - Mark. - see A.W.'s  
note*

The Receivers' proposals for transferring  
DMCL 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

*Alan Walters supports this proposal  
for the reasons set out in his  
note at A, provided that this  
represents the end of Government  
support.*

*Walters  
4/8*

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*

PP 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

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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

9 August 1982 N10

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.

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I have no doubt - that the best & clearest - course I can see



would be liquidation

I doubt - Mr

whether Hill Samuel will find any worthwhile prospect of much finance - except in the belief

10 DOWNING STREET

From the Private Secretary

that gov. would come to their aid. There can not do, if any

Prime Minister

purchase or seize - they could pick up whole plant - for virtually nothing

You indicated that you would be willing to agree to the Receiver's proposals for transferring

De Lorean to a new UK Consortium provided that this was the end of the Government's side of liquidation involvement.

You will see from the letter immediately below that the Chief Secretary doubts whether the receiver's 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 EEA were unable to reach agreement?

LM 6/8

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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

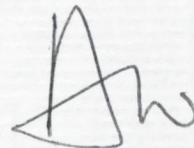
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for what he can get, then he will realise very little, probably £2m or £3m; thus even on a financial basis it would be preferable to ~~have~~ the management buy-out option. And there is a good chance that the new firm will make a go of it. But it is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

4 August 1982



ALAN WALTERS

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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. WR  
6/8

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.

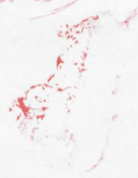
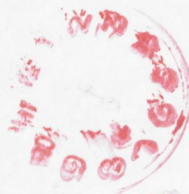
Taking all of this into account, I would give very little weight to the prospect of getting back any of our past investment; and much more to the risk that we shall be back on another costly drip feed, in defiance of all the lessons we have learnt. I do appreciate that there are jobs at issue. But I 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





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ce JV

CABINET OFFICE  
Central Policy Review Staff

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

Qa 06022

From: John Sparrow

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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

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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,*  
*JS*

John Sparrow





From the  
Minister of State  
Norman Lamont MP

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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

*Yours*  
*Norman*