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Secretary of State for Trade and Industry

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| March 1985

The Rt Hon Peter Rees QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

D. Peter,

TALBOT AND IRAN

In my letter to you of 6 February I explained the current problems which Peugeot/Talbot have on their Iranian contract. I sought your agreement to a short term extension of cover to enable further car kits to be produced before payments could be drawn from ESCROW account. You responded in your letter of 8 February that you were prepared to agree to a limited extension but only if my Department bore a contingent liability for the £15 million cover against my Regional Selective Assistant account.

2 At EX I argued that I could not agree to this condition because it was the responsibility of ECGD to cover export credit risks. The Committee decided that in view of ECGD's financial position, additional cover should not be extended.

3 Since the arguments in favour of support were accepted by you I will not rehearse them in detail here. However, you should know that on Tuesday, 19 February the President of Peugeot and senior management from Peugeot and Talbot came to see Norman Lamont to reiterate their concern at the continued losses being suffered - £12m by the first week in March. They said that a decision on the future of the Stoke plant would have to be made at the end of March. M. Calvet was concerned that ECGD cover could not be extended and said that the company was trying to raise alternative private sector cover. This would however be considerably more expensive and he asked that the Government offer some financial help, thereby showing support for the continued operation at Stoke,



by meeting the difference between the premium costs involved in private sector cover and what ECGD cover would have cost.

4 I am inclined to accept this fairly moderate request on the grounds that it could have a material effect in preventing a precipitate plant closure; would compensate the company for the additional premium costs they were not expecting; and would accord with the spirit of Norman Lamont's February 1984 letter to M. Calvet in which he said that the government would consider sympathetically the possibility of financial assistance should the Iranian contract impose exceptional financial burdens on the company and affect the stability of its UK manufacturing operations.

5 I understand that the additional premium costs are of the order of £650K and I propose to adjust the terms of the interest repayments from Peugeot Talbot next due in June 1985 on the £28 million loan they have from us for the Iranian contract to reflect this. Possible alternative forms of direct support via Section 7 or Section 8 of the Industrial Development Act are not possible because no project involving fixed capital investment is involved. To use the general powers of Section 8 would require a separate sub-head to be raised and this would attract attention, including attention from the EC Commission which would be unwelcome to us and to the company.

6 Our officials will need to sort out the technicalities together, but I would be grateful for your agreement in principle to what I propose, so that Norman Lamont can write to M. Calvet informing him of our positive response as soon as possible.

7 As with my earlier letter, I am copying this to the Prime Minister, Geoffrey Howe, Michael Heseltine and Tom King.

NORMAN TEBBIT



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Treasury Chambers, Parliament Street, SW1P 3AG

Ms Maureen Dodsworth  
 Private Secretary to  
 Secretary of State for Trade and Industry  
 Department of Trade and Industry  
 1 - 19 Victoria Street  
 London  
 SW1E 2AU

7 March 1985

*Dear Maureen*

TALBOT AND IRAN

I am writing to confirm the Chief Secretary's reply to your Secretary of State's letter of 7 March which we discussed over the telephone earlier today.

The Chief Secretary was encouraged to hear that the position does not look as poor as it did, since Talbot wish to renew production as soon as possible at their own risk even before they have signed their Memorandum of Understanding with Iran. This suggests to him that the Stoke plant may not be in such jeopardy, and that Talbot have less cause to argue that the case falls within the scope of Mr Lamont's February 1984 letter. On balance, however, the Chief Secretary agreed that your Secretary of State should be prepared to meet the cost - up to a maximum of £650,000 - of the difference between the cost to Talbot of the premium for private sector cover over what ECGD cover would have cost.

The Chief Secretary felt that this assistance should be shown explicitly as a grant on your votes. I understand that, after receiving legal advice, you propose to provide the assistance by way of an interest relief grant under Section 7 of the Industrial Development Act 1982. You confirmed that your Secretary of State was prepared to find offsetting savings for the full amount of the grant from within his existing programme.

I am copying this letter to Andrew Turnbull (No. 10), Len Appleyard (FCO), Richard Mottram (Defence) and David Normington (Employment).

*Yours sincerely*  
*Richard Broadbent*

R J BROADBENT  
 Private Secretary