



From the Minister for Trade

DEPARTMENT OF TRADE AND INDUSTRY

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Rt Hon John MacGregor MP
 Chief Secretary to the
 Treasury
 Parliament Street
 LONDON
 SW1P 3AG

6 November 1986

Jean John

*Prime Minister
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PEUGEOT TALBOT AND IRAN

In your letter of 22 July you agreed to the extension of a further period of ECGD cover to Peugeot Talbot for their contract in Iran subject to a number of conditions. Discussions have been taking place with the company on how some of those conditions are to be met and in particular how ECGD's exposure should be reduced once the present period of cover comes to an end in December.

However, during the course of these discussions Peugeot told ECGD in confidence that they will announce on 7 November that they are putting the Stoke plant that manufactures the Peykan kits for Iran on to a care and maintenance basis. No deliveries have been called for by the Iranians since December 1985 and Talbot now think it unlikely that any letters of credit will be produced which would allow them to ship goods during this financial year. The company is not terminating the contract but is seeking to act in a non-provocative way that recognises that they have produced kits for a full year without any payments being made.

There is no immediate action for us to take. The cover last agreed for Peugeot Talbot was within a ceiling of £25m until the end of December 1986. But we do need to decide whether steps should be taken now by ECGD to minimise further loss. The company tell us that they are close to the ceiling of £25m but expect to remain within it. However, they have asked for an extension of the period of cover until the end of February 1987 to allow them to complete a number of kits for which parts are already available.



Rt Hon John MacGregor MP

November 1986

Before we consider any extension of cover or whether any further costs should be incurred by the company under existing cover, ECGD needs to look carefully at the detail to assess the best way of proceeding so as to minimise the losses which it now seems could arise. I have agreed that ECGD officials should approach the company to conduct an audit on this particular operation to assess the most sensible way forward. I will write again when we are in a position to make recommendations on further action, although I must say at this stage that I am sceptical about yet another extension of cover for Peugeot Talbot.

I am copying this letter to the Prime Minister and to other EX colleagues and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'Alan Clark', with a large, stylized flourish at the end.

ALAN CLARK

L05APP

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ccfc

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
 Secretary of State
 Department of Trade and Industry
 1 - 19 Victoria Street
 London
 SW1

22nd July 1986

Dear Paul,

CDP
22/7**PEUGEOT TALBOT AND IRAN**

Thank you for your letter of 17 July in which you suggest that in addition to extending ECGD pre-credit risk cover for Peugeot Talbot, the firm should be told now that when the Iranians do issue Letters of Credit we intend to scale down ECGD's exposure.

In the light of that assurance, I am prepared to agree to the extension of pre-credit risk cover until 31 December 1986 within a ceiling of £25 million on condition that:

- (i) Peugeot are informed now of the intention to phase out and that the £25 million is a firm ceiling even if fresh Iranian Letters of Credit are not received before 31 December 1986;
- (ii) Peugeot Talbot are asked to minimise the further use of cover within the £25 million ceiling; and
- (iii) premia are raised, as you suggest, to a level which more clearly reflects the increased risk.

I suggest our officials discuss quickly the arrangements by which the phasing down is to be secured so that Peugeot can be told in detail and so have the longest possible notice to enable them to gear production to the available cover.

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I assume you will inform the House of the extension of cover on the lines of your statement of 28 October 1985. I should be grateful if this too could be cleared with my officials.

I am copying this letter to the Prime Minister, Willie Whitelaw and Geoffrey Howe.

Yours ever,
JH

JOHN MacGREGOR

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JU917
 Secretary of State for Trade and Industry

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17 July 1986

The Rt Hon John McGregor MP
 Chief Secretary to the Treasury
 HM Treasury
 London SW1

John John,

*EDP
17/7*

PEUGEOT TALBOT & IRAN

/ at Top

Thank you for your letter of 30 June about this case. In view of your own comments and those of the Foreign Secretary and the Prime Minister, I hope we can now settle this matter by correspondence.

Clearly we must avoid the risk that if by the end of the year the Iranians have not issued sufficient Letters of Credit to cover all Talbot's outstandings, ECGD pre-credit risk support is sought for £25 million for yet another period. We must make it clear to Peugeot Talbot that it is our intention when the Iranians do issue Letters of Credit, to scale down the ECGD pre-credit risk exposure. Gradually we must move to a position where Peugeot Talbot incur production costs with ECGD cover only when Letters of Credit have been issued. We must also raise the premium rate to a level which more clearly reflects the increased risk.

On this basis I hope you can agree that Peugeot Talbot should be told that ECGD pre-credit risk cover will be extended until 31 December 1986 within a ceiling of £25 million.

I am copying this letter to the Prime Minister, the Lord President, and Geoffrey Howe.

[Signature]
 PAUL CHANNON *[Signature]*

**17
1986**
**BOARD OF TRADE
BICENTENARY**