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MR BELL:

DE LOREAN

We will need to alert the Secretary of State very soon to possible further funding difficulties facing this project. I would expect to be in a position to do this early in January, by which time we and NIDA will have had further discussions with the Company and, as a result, I hope a clearer view of (a) the scale and timescale of the problem and (b) possible options for dealing with it if Ministers are prepared to consider further help. In the meantime you and the other recipients of this minute may find it useful to have the following summary of the position as we at present understand it.

1. The latest (December) monitoring report prepared by McKinsey & Co, who are monitoring the project for NIDA, consider that there could be an additional cash requirement of up to £8m before the car is launched and revenue-earning - the precise amount will depend on the launch date and the Company's ability to secure further economies. We are hampered in our efforts to refine this figure by John de Lorean's continuing desire to present the situation as being better than it really is; but our current view is that it would be prudent to think in terms of £5-6m, assuming that first deliveries of the car slip back a few weeks into March 1981 but not later.
2. The package of loan assistance provided in the Summer was negotiated on Mr de Lorean's assurance to the Secretary of State that he could raise any additional funding required privately. So far he has failed to do this (other than arrange an export financing line of credit with the Bank of America, which is not directly relevant). Mr de Lorean's personal line - a further difficulty in assessing the true position - is still that he can raise whatever is required; but he appears to be basing this judgement on (a) a much more optimistic view of his cash needs than we believe to be the case and (b) an interpretation of the present agreements between DOC/NIDA and the Company under which further financial benefits can be negotiated (see 3 below). The senior de Lorean staff seem to be much closer to our view in their assessment of the Company's chances - virtually nil, in our view - of securing further private funds without Government backing before the car is successfully launched.

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3. So far John de Lorean has been attempting to minimise his short-term funding difficulties (perhaps relying on a last-minute appeal to Government when new cash starts to be needed in February) in order to concentrate on his plans for funding the project after market launch. He is talking of a very early share floatation, for which a prospectus is being prepared, and is bringing very wide pressure to bear on NIDA to the effect that, unless the Agency agrees to assist the project by such suggested devices as waiving entitlement to royalties on car shipments and allowing the Company to redeem the NIDA shareholding at no cost, we can expect legal action and undesirable publicity for the fact that the Company was in dispute with its sponsors. He is also repeating his argument that 50% of the Government's £14m loan should have been in the form of grant. We doubt if there is any legal basis for any further claims on either the Department or NIDA (this is being checked) and it is difficult to see how a public dispute could facilitate private fund raising, and I mention the possibility only to highlight the kind of obstacles we are having to surmount to reach an appreciation, agreed with the Company, of its funding requirements and prospects.

4. Despite John de Lorean's peculiar approach, he is undoubtedly right to stress the urgency of arranging funding for the post-launch period. Whatever view Ministers may take on an application for further assistance to the project, should one be made, it would not be possible to contemplate further aid in the short-term unless there were reasonable prospects of surviving the post-launch period.

5. Our immediate task, with NIDA, is to establish as clear a view as possible on the facts of the situation and agree realistic forecasts. In the light of the Prime Minister's intervention in the summer we have no authority to hold out any possibility of further aid; but the Secretary of State will no doubt wish to discuss with his colleagues as soon as possible if the stark alternative is likely to be the abrupt end of the project.



F T MAIS
DEPARTMENT OF COMMERCE
23 December 1980

cc PS/PUS
MR McALLISTER
MR LYTTLE
MR McCANN

P.S. You may wish to consider whether, in the light of these uncertainties, the factory should still be included in the Chancellor's tour on 6 January. My own view is that the arguments in favour are, if anything, enhanced by the possibility that the Chancellor may become involved in further Ministerial consideration of the case.

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