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Part A.

SECRET

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COMMERCIAL - IN - CONFIDENCE

Begins : 23/1/86 .

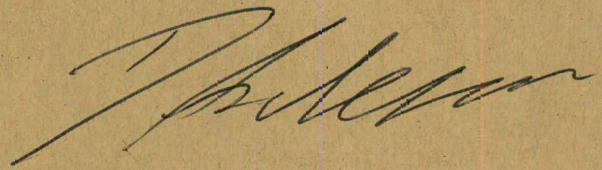
Ends : 19/10/89 .

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PO CH | NL | 0434
PT.A.

Chancellor's (Lawson) Papers:
Trends In The Motor Industry.

DD's: 25 Years



26/1/96.

PO CH | NL | 0434
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J VC
hup

10 DOWNING STREET

From the Private Secretary

23 January 1986

Keep

SALTON

The Prime Minister has received a letter, enclosed, from Mr D.R.G. Andrews, Chairman and Chief Executive of Land Rover-Leyland. It will of course be for your Secretary of State to reply.

You will of course want to take account of this letter in the paper for E(A), if this has not already been finalised.

I am copying this letter to Brian Unwin (Cabinet Office) and Peter Warry in the No. 10 Policy Unit.

(DAVID NORGROVE)

John Mogg, Esq.,
Department of Trade and Industry.

CH/EXCHEQUER	
REC.	23 JAN 1986
ACTUAL	Mr Perry
COPIES TO	PS/CST

29/11

JRS.

010
D. R. G. ANDREWS, C.B.E.

106 Oxford Road
Uxbridge
Middlesex UB8 1EH
Telephone: Uxbridge (0895) 51155

22nd January 1986

The Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1

Dear Prime Minister

I am writing to you to express my concerns about the possible sale by BL plc of Land Rover UK Ltd and related businesses as a consequence of the SALTON negotiations.

The BL Board reviewed the current status of these negotiations at its meeting on Tuesday 20th January. Although I am a member of the BL Board, and the Group Chief Executive responsible to the Board for the Land Rover-Leyland companies, I did not participate in these discussions. The reason for this was my declaration of interest in the outcome of the SALTON negotiations. My declared interest is in exploring the feasibility of a consortium backed management buy-out of Land Rover UK Ltd and related overseas businesses with five senior colleagues. When I first stated this interest, in December last, the BL Board did not grant permission for me to pursue this alternative for clear and understandable reasons.

In the circumstances, I owe it to my colleagues in the buy-out initiative, and to employees of Land Rover UK Ltd, to draw your attention to deep concerns about certain aspects of the SALTON proposals, which led to the request to explore an alternative privatisation route for the Land Rover group of companies.

ANDREWS

→ P.M.

22/1

These concerns do not relate to the price now offered by SALTON which now seems to satisfy the professional advisers. The concerns relate to the intentions of the other party, which are damaging to Land Rover UK Ltd and its employees, and to our inability to explore any privatisation alternative.

The other party is explicit in its intentions. It is to close the Freight Rover business at Washwood Heath, Birmingham, and to transfer van production to Luton. You doubtless will be aware that Freight Rover was formed into a separate business within Land Rover UK Ltd in 1981 at a time when it was losing money. Since its formation it has been turned around - new products have been introduced, market share has been recovered, good profits earned (25% return on assets in 1985) and new jobs created.

The other party also intends to use Opel (ie German sourced) and Isuzu (ie Japanese sourced) powertrain technology "where appropriate" in the vans. This means the displacement of Austin Rover and Land Rover engines and transmissions presently made in the West Midlands for imported engines and transmissions.

There are 1,800 people employed by Freight Rover at Washwood Heath in Birmingham. In addition employees of Land Rover at Solihull, and of Austin Rover, at Longbridge, are also threatened by the intention to substitute imported engines and transmissions for UK engines and transmissions.

A decision to close a business is comprehensible, and explainable, if it is a substantial money loser, without the prospect of recovery. This is not Freight Rover's situation. It has achieved a profitable recovery. This is not, apparently, the case of the Bedford van business at Luton which is, and is predicted to remain, a money loser. Under SALTON Freight Rover is to be sacrificed and its profits used to offset the losses incurred by the Bedford van business. The resultant business is predicted to be only marginally profitable. I think this is an indefensible transaction, even more so in view of the discount allowed in the price offered to cover Freight Rover closure and redundancy costs.

I am also concerned about prospects for Land Rover under SALTON. On its own admission Land Rover presents no obvious rationalisation benefits to the other party. But it will be used as the cash source for the commercial vehicle business, to the detriment of Land Rover itself. It is also clear that the other party will explore the displacement of Land Rover's own componentry by imports from other of its foreign subsidiaries and associates.

The circumstances of this form of privatisation of the Land Rover group of businesses will be seen as a poor reward to its many employess who have worked so hard to build a successful business for the future. I know that the progress towards privatisation of BL businesses has been as much a concern to you, as I assure it has been to those who, like myself, have been working long and hard to restore them to health and viability. It is for this reason that I request that you give consideration to the deep concerns expressed in this letter.

Yours sincerely

D R G Andrews

D R G ANDREWS
Chairman and Chief Executive
Land Rover-Leyland Limited



FROM: A C S ALLAN

DATE: 2 February 1987

MR WALLER

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr F E R Butler
Mr Monck
Mr Burgner
Mr Bent
Mr Slade**LEYLAND TRUCKS**

The Chancellor was grateful for your minute of 28 January. He feels we must not be influenced overmuch by the Commission. While DAF is preferable ceteris paribus, we will need very good reasons for not accepting the better offer.

ACSA
A C S ALLAN

ALLAN
→ WALLER
2/2



FROM: A C S ALLAN
DATE: 2 February 1987

MR WALLER

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr F E R Butler
Mr Monck
Mr Burgner
Mr Bent
Mr Slade

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ACSA
A C S ALLAN



DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215

5422

GTN 215

(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL

16 February 1987

Rt Hon Malcolm Rifkind MP
Secretary of State for Scotland
Scottish Office
Whitehall
London SW1A 2AU

RECEIVED
16 FEB 1987 16/2
MR WALLER
PS/OST PS/ST
SIR P. MIDDLETON
MR TER BUTLER
MR HANCOCK MR BURGER
MR BENT MR SLADE

Dear Malcolm,

LEYLAND TRUCKS : CUMMINS

Thank you for your letter of 11 February.

I do of course understand your concern about the Cummins' factory at Shotts as well as the Albion axle plant and the impact on Leyland's component suppliers is an issue I shall look at very carefully in evaluating the relative merits of any deal.

I expect to have the Rover Group Board's recommendations very shortly and will bring forward my proposals to colleagues as soon as possible thereafter.

I am copying this letter to members of E(A) and to Sir Robert Armstrong.

[Handwritten signature]

*Principal Private Secretary cc RG
No action/reply required
here.*

Paul

PAUL CHANNON

[Handwritten initials and date]
17/2/87

JG1AQX



*Pseachic
out*

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Cathy Ryding
Private Secretary
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

17 March 1987

Dear Cathy,

I understand that the Caterpillar issue may be raised during the Budget Debate. A background brief for the Chancellor of the Exchequer is attached.

CH/EXCHEQUER	
REC.	18 MAR 1987
ACTION	CST
COPIES TO	
	Enc

*Yours
Andy*

ANDY RINNING
Private Secretary

HMP07610

fmf

CATERPILLAR (UK) LTD

BACKGROUND

1. On 14 January 1987, Caterpillar publicly announced their intention to close their Uddingston facility. Despite representations by the Prime Minister and the Secretary of State for Scotland, on 3 February the company reconfirmed their decision to close.
2. On 10 February Mr Lang announced he had instructed his officials to open discussions with Caterpillar local management with a view to preparing a profile of the facility, and marketing it, if this proved necessary. Officials were also asked to have discussions with representatives of the workforce.
3. On 12 and 20 February Industry Department for Scotland (IDS) and Scottish Development Agency (SDA) officials met Caterpillar local management. On 20 and 25 February IDS and SDA officials met representatives of the workforce. On 5 March, the Secretary of State for Scotland met representatives of the workforce involved in the sit-in at Uddingston.

DISCUSSIONS WITH CATERPILLAR

4. On 12 and 20 February IDS and SDA officials met local management of Caterpillar. They indicated their willingness to prepare a detailed profile of the facility, including the plant and machinery which they would be prepared to leave behind, but that the major, sophisticated plant installed in 1984 and 1985 would be taken away for use in other Caterpillar facilities.
 5. Officials were advised that Caterpillar could provide an outline of the Uddingston facility quite quickly, but further work on preparing a detailed profile would be held up by their inability to obtain access to the plant. They have not yet approached AUEW to request access.
 6. An outline of the facility in the form of a draft Profile of Personnel Resources, Supplier Base, and Facilities and Equipment was given to officials on 25 February. Caterpillar also provided a statement that they are willing to consider the sale of the land and buildings at Tannochside
- IPP076A2 1

to any prospective buyer, competitor or otherwise, at the time of the closure in 1988. However, they would only be willing to sell some of the machinery and equipment if assurances and guarantees are given that it will not be used to produce components for their industry where there is already severe over-capacity.

7. On 12 March Caterpillar (UK) Ltd wrote to all members of the workforce involved in the occupation of the Uddingston plant to say that unless normal working is resumed by 23 March the company will abandon all attempts to have an orderly phased closure. In that event, their employment would be terminated from 11 May 1987 and only pay-in-lieu of notice and legal redundancy pay entitlement would apply, apart from rights under the company's pension plan. Caterpillar went on to say that if normal working were resumed by 23 March the company would resume limited production for some months, guarantee no compulsory redundancies before 16 July, negotiate redundancy pay provisions in excess of legal entitlement, and provide financial counselling, job placement and retraining.

CURRENT POSITION

8. The Secretary of State for Scotland has agreed that the following statement should be held against enquiries:-

"It is for individual members of the workforce to make up their minds on the basis of the company's letter. They will obviously want to think carefully about whether the continuation of the sit-in is in their best interests.

9. IDS and SDA officials are presently continuing with the preparation of a plant profile and seeking to identify potential users who might be interested in the Uddingston facility.

IDS/IA Division
17 March 1987

Tony
PUD

FROM: T U BURGNER
DATE: 16 July 1987

MR CULPIN

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Monck
Mr Scholar
Mr Waller
Ms Roberts

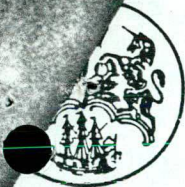
**SELECT COMMITTEE ON TRADE AND INDUSTRY:
UK MOTOR COMPONENTS INDUSTRY: REPORT**

We have just heard from DTI that the Select Committee is publishing their report this morning - DTI have sent us a summary of their conclusions and recommendations. Virtually all the recommendations are addressed to Government, most of them for DTI. A number of them involve increased or additional subsidies. In addition there are four recommendations ((1)(3)(4) and (11)) which are of particular interest to the Treasury. (1) is the old point about abolishing the car tax. The remainder are more wide ranging, but all equally familiar.

2. DTI intend to deal with all questions on the basis that the Government will consider the conclusions and recommendations fully and that they will be answered in due course when the Government replies to the Select Committee. That is of course the formally correct line, but on recommendations (3)(4) and (11) some flavour of the Government's existing position on these points could no doubt be added if press interest is directed to the Treasury.

TU

T U BURGNER



SELECT COMMITTEE ON TRADE AND INDUSTRY: UK MOTOR COMPONENTS INDUSTRY: REPORT

Summary of Conclusions and Recommendations

- (1) Now that the UK-based manufacturers once again supply over half of the new cars sold in the UK we feel that this is the appropriate time for the Government to abolish the special car tax.
- (2) We consider it is imperative that the Government looks favourably on any request for financial support from companies entering or re-entering key strategic areas where UK component suppliers are non-existent or uncompetitive, perhaps by encouraging joint-ventures.
- (3) We urge that the Government does whatever lies in its power to maintain currency stability at levels close to those obtaining at present, in order to boost an export led recovery in the motor industry.
- (4) We recommend that the Government, in consultation with the industrial and financial sectors, should urgently examine ways in which disadvantages suffered by UK manufacturers in their dealings with financial institutions might be overcome. Lower interest rates would aid the motor components industry.
- (5) We recommend that the Government offers relevant inducements to ensure that design authority in the motor industry, wherever possible, is in the UK.
- (6) We strongly believe that free trade should be seen to operate multilaterally to the mutual benefit of trading nations, rather than being an idealistic position maintained heroically, but, unilaterally by the UK Government. There must be more rigorous and comprehensive official surveys of hidden or unofficial trade barriers in the motor industry.
- (7) Where local content of a car is monitored we recommend that the Government measures this content as a percentage of the value of the ex-works cost rather than ex-works price.
- (8) Whilst we do not recommend that a minimum percentage of a vehicle be of EEC origin, we believe it is important that a high percentage of the high-added-value components and as high a proportion as possible of the power train items should be manufactured in the UK.
- (9) We recommend that the Government supports any new schemes to offer language training to engineers and designers in the UK motor industry, perhaps on an equal partner, pound for pound basis with the companies.
- (10) We urge the Government to support British Higher Education Institutions in any measures they can take to train more systems engineers.
- (11) We urge the Government to consider modifying the 1986 Finance Act so as to allow 100 per cent tax allowances against Research and Development in the first twelve months of research on any project.
- (12) It is important that the Government should not be dilatory in implementing safety and environmental legislation. We recommend that the Government consults UK vehicle producers and component makers with regard to any relevant legislation.
- (13) We invite the Government to take proper note of the Lords *BL v Armstrong* ruling and ensure that copyright protection does not extend to functional and mundane items, which include most spare parts. This is essential for the survival of the UK motor component industry.

FROM: M HAIGH
DATE: 29 JULY 1987

mp

FINANCIAL SECRETARY

cc Miss Sinclair
Mr Wetherell

cc. PS/Amcellor
Sir P. O. Johnston
Mr. Culpin

S482: CATERPILLAR (UK) LTD

This is to seek your agreement to consent in this case.

2. You will recall the controversy a few months ago about Caterpillar's proposal to close a works in Glasgow, ship out some of the manufacturing plant to overseas locations, and resume production there of the products currently made in Glasgow. The 'transfer of a trade or business' in this way requires S482 consent. The Scottish TUC latched on to this and suggested that the S482 power could be used to stop Caterpillar removing plant from the Glasgow site (and so making the closure effectively irretrievable). No consent had actually been applied for at that point.

3. This pressure abated when Caterpillar agreed to suspend immediate action while tripartite working parties looked for possible alternative employers at this site. The standstill ends shortly.

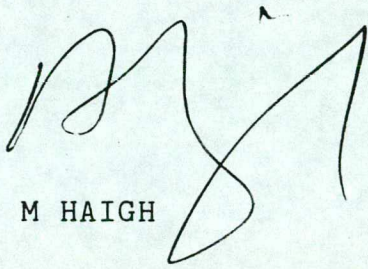
4. In the meantime, Caterpillar have now applied for consent to move plant and production from Glasgow to their overseas sites. There seems no basis for refusing consent on tax grounds. There is likely to be no loss of tax in the short and medium term. Perhaps the contrary: the transfer will precipitate a recapture of past capital allowances and may eliminate a current source of UK-deductible losses.

5. I take it you would not wish to consider refusal on any other grounds. But you will wish to be aware of the possible controversy in due course. Scottish Office officials (who make no objection to consent being granted) expect renewed fuss about the close-down once the standstill period is over. Once Caterpillar start removing plant, the question is going to arise whether they have S482 consent to do so. Once it is clear that they do, the complaint may be that

consent 'undermined' the efforts of the current working groups or showed bad faith on the part of Caterpillar. At that point, the line would be that

- details of consents are confidential [if not revealed in terms by Caterpillar]
- consents are based on tax considerations. If there is no tax grounds for refusing consent in a particular case, Ministers do not think it right to refuse it for other reasons
- Caterpillar's departure in due course was not an issue in recent tripartite work. Aim was to give a breathing space for the effort to find replacements

6. I would be grateful for your agreement to consent being granted. The applicants are looking for a response within the next few days.



M HAIGH



[Handwritten signature]
[Handwritten initials]

FROM: J J HEYWOOD
DATE: 31 July 1987

MR HAIGH

cc PS/Chancellor
Sir P Middleton
Mr Culpin
Miss Sinclair
Mr Wetherell

S482: CATERPILLAR (UK) LTD

1. The Financial Secretary is content for the consent to be granted (your minute of 29 July).

9.2

JEREMY HEYWOOD
Private Secretary



20

FROM: J J HEYWOOD
DATE: 22 September 1987

MR OWEN

cc **PS/Chancellor**
Sir P Middleton
Sir T Burns
Mr Odling-Smee
Mr Sedgwick
Mr Bottrill
Mr Davies
Mr Barrell
Mr Davis

RECENT TRENDS IN MOTOR INDUSTRY TRADE

1. The Financial Secretary was most grateful for your minute of 21 September which he found very interesting indeed.

9.17

JEREMY HEYWOOD
Private Secretary

FROM: D W OWEN

DATE: 21 September 1987

- Sedgwick*
Darrell
1. MR BOTTRILL
 2. FINANCIAL SECRETARY

cc: PS/Chancellor
Sir P Middleton
Sir T Burns
Mr Odling-Smee
Mr Sedgwick
Mr Davies
Mr Barrell
Mr Davis

RECENT TRENDS IN MOTOR INDUSTRY TRADE

You asked for a note setting out recent figures for trade in motor vehicles and components.

Historical trends

2. The balance of trade in motor industry products has turned around from an annual surplus of about £1½ billion in the mid 1970s to a deficit of nearly £4 billion in 1986, as illustrated in Chart 1 which shows quarterly figures (not seasonally adjusted, exports fob, imports cif) compiled by the Society of Motor Manufacturers and Traders (SMMT). Charts 2-4 show that the deterioration reflects a rise in the deficit on trade in passenger cars and a move from surplus to deficit on trade in commercial vehicles and motor vehicle parts and accessories. The UK only became a net importer of parts and accessories in early 1986.

3. Longer term trends in vehicle trade are shown in Chart 5. Net exports of cars rose from 370,000 vehicles in 1954 to a peak of 670,000 in 1969. During the 1970s exports fell and imports rose sharply so that by 1979 we were a net importer of 650,000 cars. Since then imports have been relatively flat but exports have drifted down further and net imports have risen to 870,000 cars. Net exports of commercial vehicles also peaked in 1969. These developments have been accompanied by a fall in UK output of vehicles in the period from the 1960s to the early 1980s, with some recovery in the most recent period.

Recent developments

4. Recent quarterly and monthly figures for trade in cars are set out in Table 1 (Overseas Trade Statistics, seasonally adjusted, as published in the monthly DTI trade press notice). These show a very marked rise in the volume of car exports in early 1987 which has been sustained through to the middle of the year. In the three months to July the volume of exports was 34 per cent higher than a year earlier and 47 per cent above the trough in 1984. Much of the rise in volume over the past few years reflects a shift away from relatively low value products (in particular, Talbot kits for Iran, exports of which have now ended), towards high value products such as Jaguars. This is clearly illustrated in Chart 6 which shows that the average export price per car has risen much more rapidly than the corresponding import price since 1982.

5. On the other hand imports of cars fell very sharply, in both volume and value terms in the first quarter of 1987. Although there was a bounce back in the second quarter the volume of imports in the three months to July remains 3 per cent lower than a year earlier and only 2½ per cent higher than the average level in 1979.

6. The fall in imports and rise in exports led to a fall in the car trade deficit to £1303 million in the first half of 1987 compared with £1835 million in the second half of 1986. The improvement in the balance largely reflects decisions by the major multinationals - Ford and GM - to source more of their production in the UK. The depreciation of sterling against the Deutschemark almost certainly had some influence on these decisions, but anecdotal evidence suggests a more important factor was the longer term improvement in reliability and productivity in UK plants over the past few years. Company plans are consistent with further increases in UK production over the next few years.

7. This interpretation is supported by the figures in Table 2, which show that the improvement in the trade balance has occurred despite a sustained high level of UK car registrations, while UK car production has risen rapidly to a level in the latest three months 16½ per cent higher than a year earlier. The substitution of UK

Table 1: Trade in passenger motor cars (OTS figures, seasonally adjusted)

	Volume indices 1980=100		Values £ million		
	Exports	Imports	Exports	Imports	Trade balance
1979	108.3	127.6	837	2600	-1763
1980	100.0	100.0	838	2112	-1274
1981	99.3	95.9	904	2221	-1317
1982	93.6	110.1	960	2882	-1922
1983	85.6	125.5	1003	3659	-2656
1984	82.4	119.9	1050	3670	-2620
1985	99.4	127.9	1343	4165	-2822
1986	93.2	131.6	1362	4809	-3447
1986 1	89	126	299	1116	-817
2	95	125	340	1136	-796
3	97	142	362	1279	-917
4	91	133	361	1279	-918
1987 1	114	103	459	1054	-595
2	120	121	488	1196	-708
1987 May	114	122	156	414	-258
June	109	128	150	416	-266
July	141	143	192	468	-276
% change 3 mths to July on previous 3 mths	+1	+27			
on a year earlier	+34	-3			

Table 2: Car production, registration and import penetration

	Passenger car production (s.a., thousands, monthly ave)	Car registrations	Import penetration (Per cent)
1979	89	142	56
1980	77	127	56
1981	80	125	55
1982	74	132	57
1983	87	151	57
1984	76	147	57
1985	87	153	57
1986	85	157	54
1986 1	79	146	52
2	84	156	55
3	89	162	55
4	88	160	51
1987 1	90	158	48
2	96	162	50
1987 May	96	171	50
June	103	167	51
July	99	161	44
% change latest 3 months on previous 3 months	8	8	
on a year earlier	16½	9	

production for imports has led to a fall in import penetration to below 50 per cent on average in the first seven months of 1987 compared with a level of over 55 per cent in the first half of the 1980s. Chart 7 shows a longer run of figures which suggest that import penetration has fallen to the lowest sustained level since early 1978.

8. Although the broad trends in car production and trade over the past year have clearly been encouraging there are some rather worrying features in the most recent figures. As already mentioned, imports of cars rose rapidly in the three months to July (up 27 per cent in volume terms) although this does seem to have been associated with a rise in registrations and not with any significant rise in import penetration. But, more worryingly, SMMT figures show a surge in imports of parts and accessories in the second quarter (Chart 4) which takes the trade deficit for the motor industry as a whole to a record £1.1 billion (Chart 1). Not surprisingly some of the direct benefits to the current account from higher UK car production and exports are being offset by a rise in the imports of components.

David Owen

D W OWEN

EA2

Chart 1

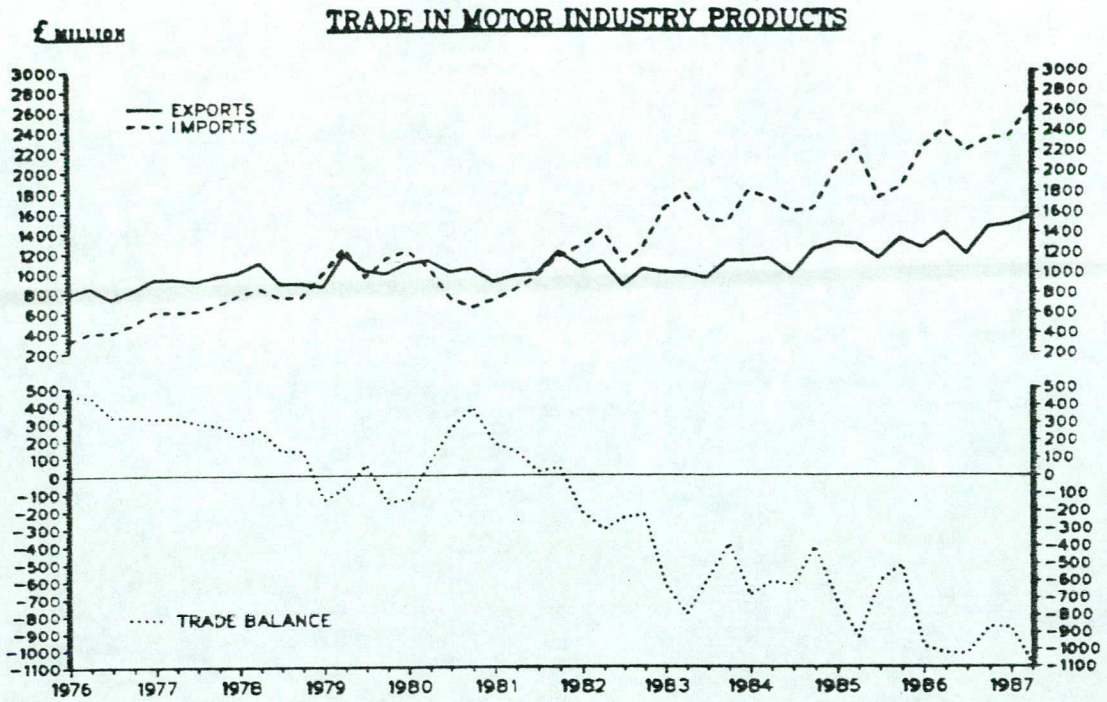


Chart 2

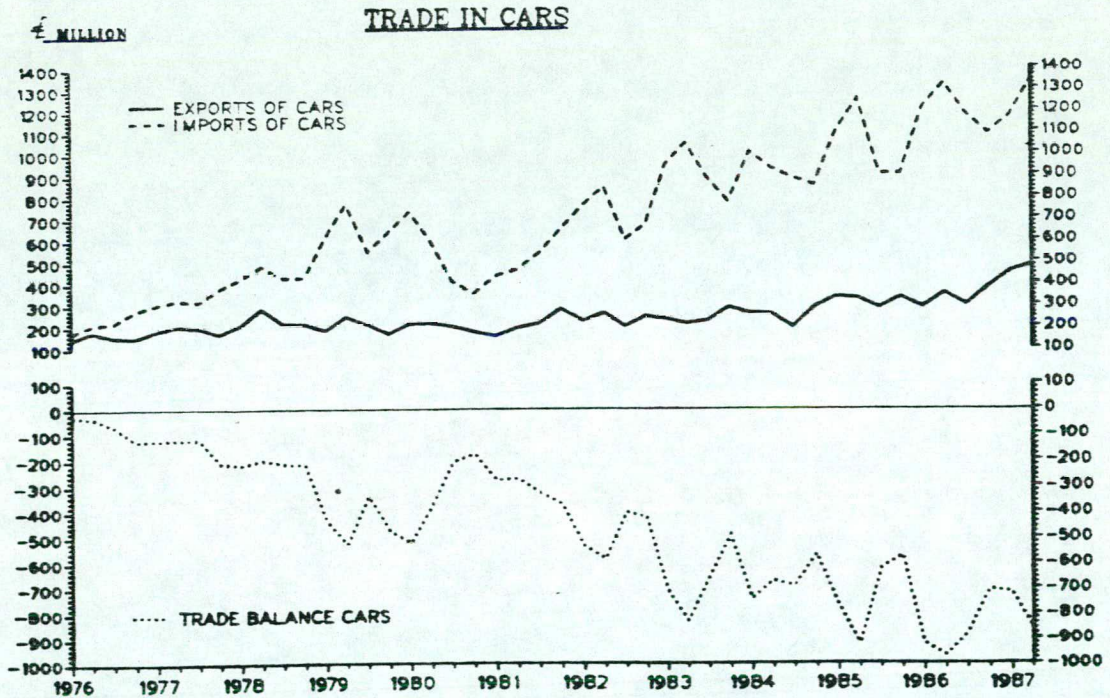


Chart 3

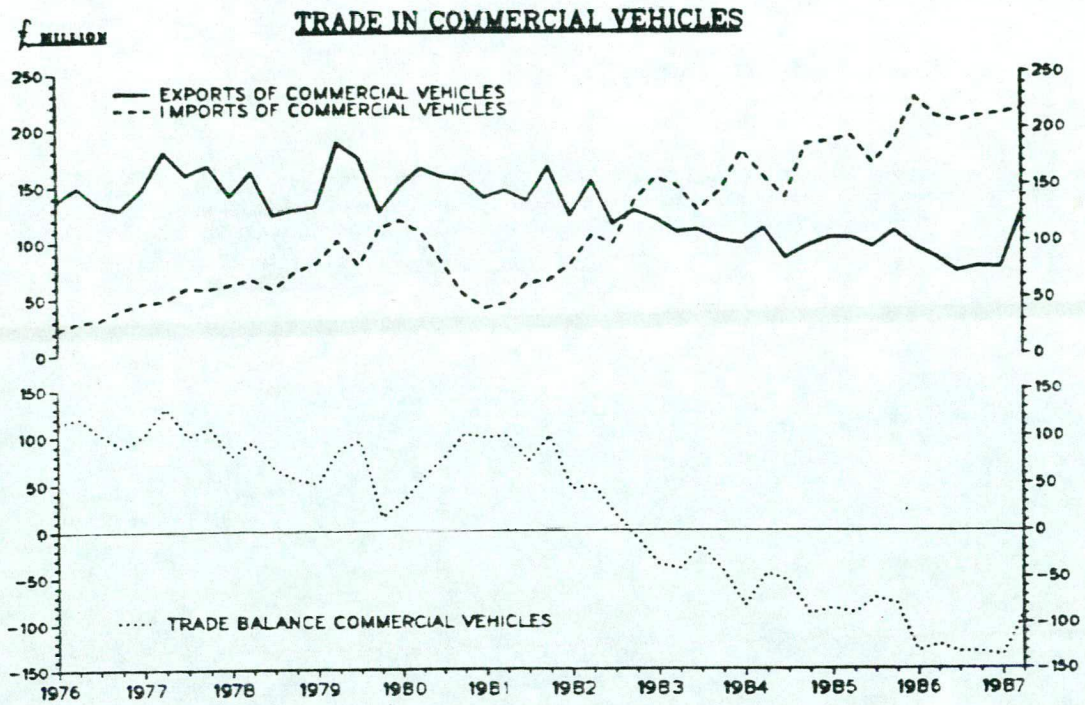


Chart 4

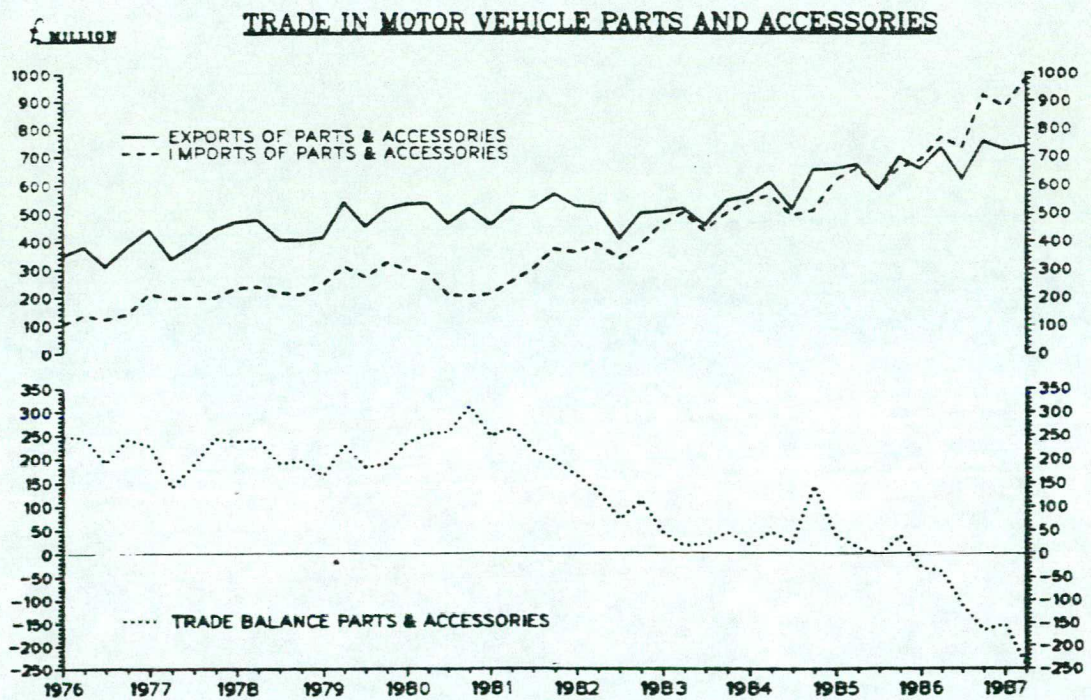


Chart 5

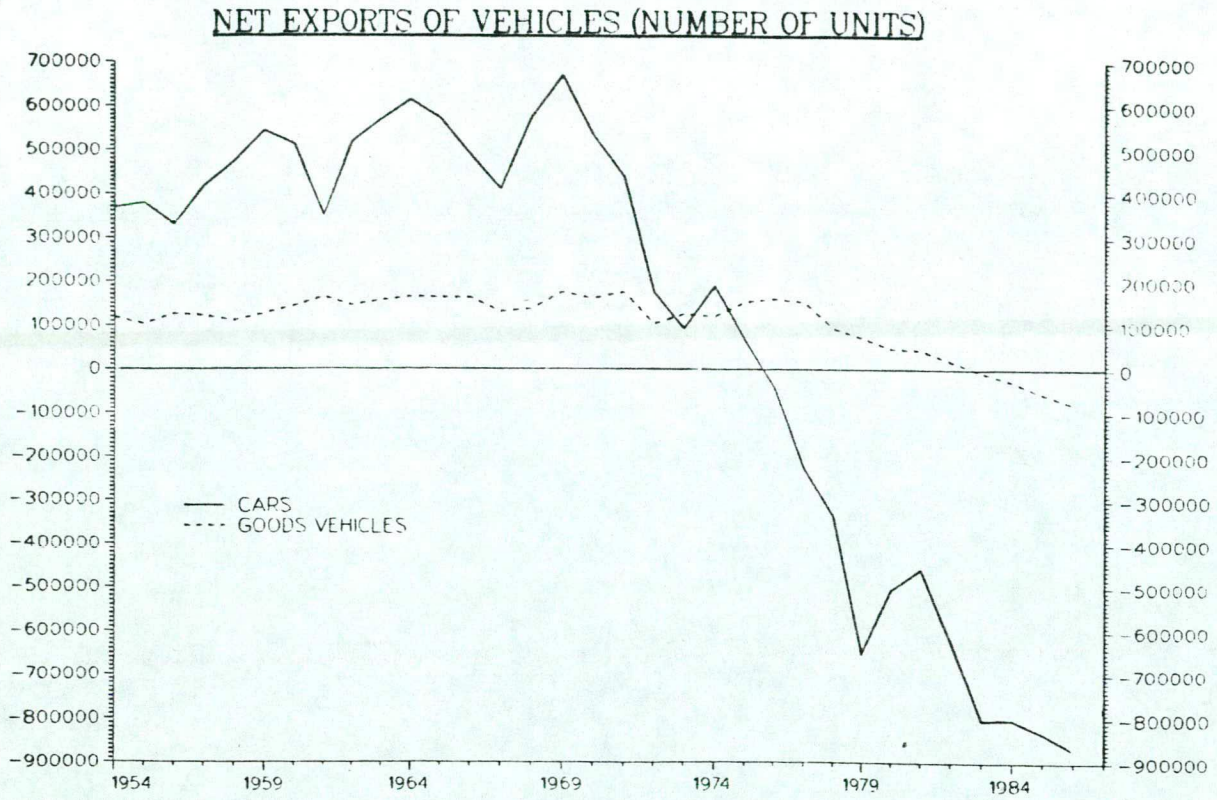


Chart 6

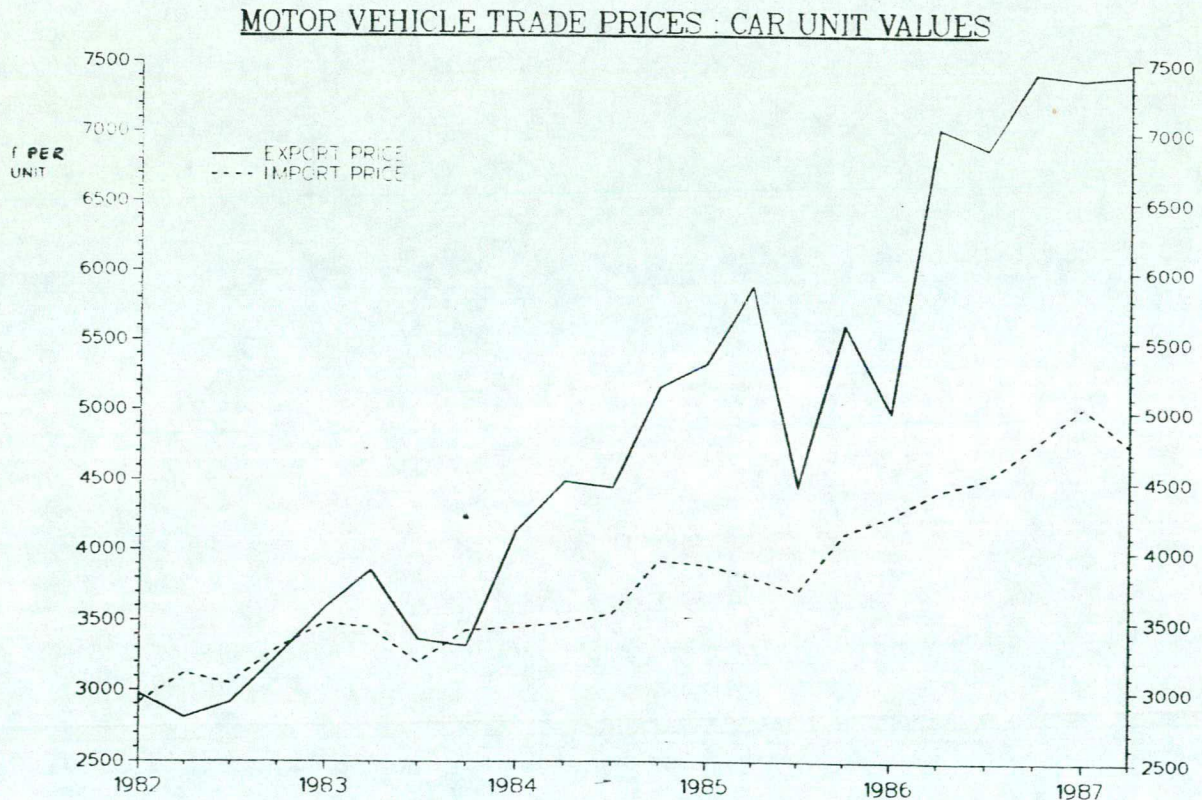
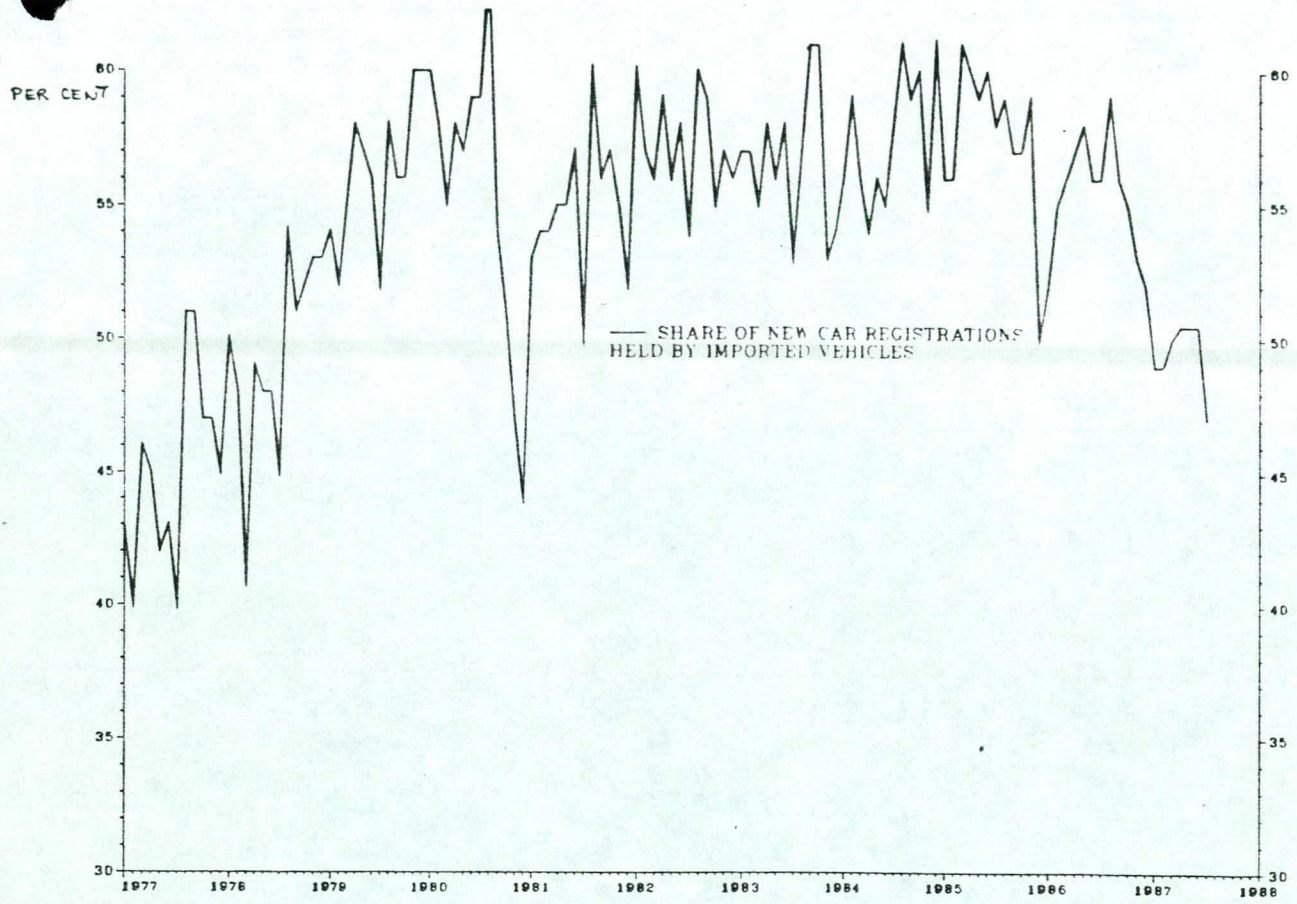


Chart 7: Import penetration



PS/CHANCELLOR.

pwp

FROM: G R WESTHEAD
DATE: 3 February 1988

NOTE OF A MEETING HELD IN 51/2, TREASURY CHAMBERS, AT 4.00pm ON TUESDAY
2 FEBRUARY 1988

Those Present:

Economic Secretary	-	HM Treasury
Mr Michie	-	"
Ms French	-	Customs and Excise
Mr Arnold	-	Inland Revenue
Sir Godfrey Messervy	-	President of the Society of Motor Manufacturers (SMMT)
Sir Anthony Fraser	-	Director of the Society of of Society of Motor Manufacturers (SMMT)
Mr Pelling	-	"

**SOCIETY OF MOTOR MANUFACTURERS AND TRADERS (SMMT) : 1988 BUDGET
REPRESENTATIONS**

As a backdrop to suggested fiscal incentives that would be outlined later in the meeting, Sir Godfrey Messervy began by summarising the success of the British Motor Industry in recent years and his hope that it could go on to even greater things in the future. He noted that whilst industry on average had achieved productivity increases of 5.4% per annum in the 1980s the motor industry had managed 6.8%. In 1987 exceptional growth of 12% in productivity had been recorded. On the employment front, the basic trend was flat, but with some marginal improvement. The motor industry now employed some 550,000 people. Import penetration in the car market was falling - from 56% to 51% over the past year and the cash value of exports had increased by 47% in the first 9 months of 1987, compared with an increase of only 3% in imports over the same period. By 1992 the industry should have the capacity to produce 1.5 million vehicles a year, against 1.2 million in 1987 (Nissan would manufacture 200,000 by 1992).

2. Against this background, Sir Godfrey Messervy said that it was

essential to maintain domestic demand if employment levels were to be safeguarded. Exports would probably grow in any case, but a high level of domestic demand was crucial. He asked that the Government should remove the various tax burdens faced by the motor industry in order to prevent a downturn in the years ahead. He asked Sir Anthony Fraser to outline the SMMT's specific proposals.

Car Tax

3. Sir Anthony Fraser said that car tax was a key issue. It distorted demand. Ministers were already aware of the SMMT's long-held view that it should be abolished. But mindful of the difficulties faced by the Government, not least as far as revenue was concerned, SMMT now advocated a phased reduction rather than outright abolition. They pointed to a study the SMMT had commissioned that had concluded that a reduction in car tax was more beneficial to the economy than a reduction in income tax. Any marked reduction in car tax led to a sizeable increase in demand.

4. The Economic Secretary asked if there were other reasons why SMMT now advocated phasing out car tax rather than once-for-all abolition. Sir Anthony Fraser said that because car production had increased to such an extent in recent years some companies were now operating at optimum output. They would be worried if there was a sudden surge in demand which might only be met through imports. It was important that there should be a sustained increase in British production. SMMT thought that a phased reduction in car tax was now the best means of achieving this. But they thought it would be important, if it was decided to pursue this option, not to announce that car tax was going to be phased out, since the public may hold off from purchasing cars and this could distort the market.

Deduction of VAT on Company Cars

5. Sir Anthony Fraser said that it was anomalous that VAT incurred on business motoring should not be deductible. The SMMT supported the proposal outlined in the EC twelfth directive which proposed that only 50% of the VAT on cars purchased for business purposes should be non-deductible. This would increase demand by 50,000 units

per annum.

Capital Allowances

6. Sir Anthony Fraser said SMMT wanted a full restoration of 100% capital allowances. If that was not feasible, then they hoped for a 25% allowance on a straight-line basis - ie a 4 year write-off. This was particularly important in the commercial vehicles field where owners held on to vehicles for longer than they ought. Restoration of the allowances would be beneficial to demand.

"Operating" Taxes

7. Sir Anthony Fraser said that the cost of running motor vehicles in the UK was higher than anywhere else in the European Community. He thought this a sad fact.

Excise Duties on Static Engine Testing

9. Sir Anthony Fraser said he thought there was a good case for relief from duty for oil used in engine testing and hoped it would be given full consideration by Ministers. He noted that only £3 million revenue was at stake.

Cheaper Abroad?

10. The Economic Secretary asked whether it was still an attractive option to buy a car abroad and import it into the UK. Sir Anthony Fraser said that in the early 1980s, when sterling had been a petro-currency, it had indeed been an attractive option to purchase cars in countries such as Belgium and Denmark and then import them back into the UK. However, the weakening of sterling against European currencies in recent years had effectively eliminated this problem.

11. Mr Michie asked how the total tax on cars in the UK (car tax and VAT) compared with other countries in the EC. Sir Anthony Fraser said that the two taxes represented an equivalent rate of 24.6% on the retail value, whereas in Germany the tax was only 14%. He acknowledged that in some other countries eg France, the rate of

was higher than that in the UK, but pointed out that in these countries the higher rate applied to a range of products not just cars.

12. The Economic Secretary thanked SMMT for coming to see him and said the Government was pleased to note the success the British motor industry was now achieving and he hoped this could be sustained. He would pass on SMMT's comments to the Chancellor.

G R Westhead.

G R WESTHEAD

Assistant Private Secretary

cc Distribution

PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Sir P Middleton
Mr Culpin
Mr Scholar
Miss Sinclair
Mr Michie
Mrs Burnhams

PS/IR

PS/C&E
Mr Allen - C&E



pmf

CHIEF SECRETARY	
REC.	- 4 FEB 1988
ACTION	<i>Mr Levolta</i>
TO	<i>CX PMG Mr Anson</i>
	<i>Dame Anne Mellor Mr Bugner</i>
	<i>Mr Gilmore Mr CJS Kelly</i>
	<i>Mr Call Mr Luce Mr Truman</i>

Prime Minister

NUS STRIKE

1. The strike by the National Union of Seamen is affecting Irish Sea, North Sea and Channel UK flag ferry services. The situation has deteriorated today: few Sealink or P&O services are operating. Foreign ferries have not so far been affected. I attach a note giving details of the position, and of the way the dispute has developed.

2. Passengers have generally been coping (there are few bookings at this time of year), but a backlog of freight is likely to build up.

3. Sealink and P&O are pursuing action in the courts against the NUS for contempt, following the union's failure to obey the injunctions on Monday against its action. P&O have obtained a hearing for 10.30 am tomorrow; Sealink's is likely to be on Friday. Both sides in the dispute will be going to ACAS at the weekend.

4. I am keeping a close watch on the situation, and shall keep my colleagues informed. I am sure it would be wrong for the Government to intervene in any way, and both Sir Jeffrey Sterling and James Sherwood have made clear that this is their view too.

5. I am copying this minute to Cabinet colleagues and Sir Robin Butler.

P.C.

PAUL CHANNON

3 February 1988

NUS STRIKE

The Situation at 3 February

SEALINK

Harwich/Hook of Holland - UK Sealink vessel not operating;
Dutch Sealink vessel operating.

Dover/Calais - French Sealink vessel operating;
2 UK Sealink vessels not operating

Folkestone/Boulogne - one vessel not operating

Newhaven/Dieppe - route unaffected (French vessels)

Fishguard/Rosslare -)

Holyhead/Dun Laghaire -) not operating

Stranraer/Larne -)

P&O

Only two P&O ferries, to Orkney and Shetland, are operating.

Services from Hull, Felixstowe, Dover, Portsmouth and Stranraer are affected.

Other Companies

The smaller British ferry operators are having some trouble, but most services are still operating at least to some extent.

Background

1. As a cost-cutting measure the Isle of Man Steam Packet Company (IOMSP) last year withdrew from certain agreements with the seafaring unions, giving three months' notice. When the notice expired in December, the company offered new terms of employment, and the NUS seafarers concerned (on the Douglas/Heysham ferry route) went on strike.

2. The IOMSP is 42% owned by Sealink. The unions claim that the IOMSP dispute has been triggered by Sealink as a test of union strength. Sealink denies this.

3. A Manx industrial tribunal was set up to try to solve the dispute, but the NUS refused to attend following legal advice that the IOM tribunal did not have jurisdiction to hear the case.

4. Sealink and P&O European Ferries have also been seeking cost-cutting measures on their routes. In particular P&O have been seeking large crew reductions at Dover. The NUS have threatened strike action over this, and NUMAST have raised the question of safety and crew fatigue. NUMAST and NUS have been assessing what joint action they could take to halt P&O moves.

Escalation of Strike

5. Last weekend the NUS called for industrial action from Tuesday 2 February by crews in other ferry companies in support of the strikers sacked by IOMSP.

6. P&O and Sealink have obtained High Court injunctions against the NUS requiring the union to withdraw the call, on the grounds that a strike would be unlawful secondary action, taken without a ballot and in contravention of industrial relations legislation.

7. The NUS argue that the national strike call is to press all ferry operators to honour current agreements and so is primary action. NUS members are apparently to be balloted on whether to launch an all-out strike. Mr McCluskie of the NUS is understood to have consulted solicitors on 2 February about this.

8. It is possible - though we have no confirmation of this - that the union may initially be relying on section 42(2) of the Merchant Shipping Act 1970. This enables seafarers to give 48 hours' notice of terminating their employment under a crew agreement, and automatically holds a ship if it is in a safe UK port. No ballot is required for notice to be given under section 42(2).

9. Section 42(2) can be abused, eg by different sections of a crew giving and withdrawing notice one after the other, which effectively results in industrial action without the breaking of contracts of employment. The Government accepted in the Lords an amendment to the Merchant Shipping Bill (now in the Commons) to repeal section 42(2).

DTP

February 1988



CC
PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Burgner
Mr D J L Moore
Mr Robson

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

Mrs M E Brown
Mr Waller
Mr M Williams
Mr Bent
Mr Call
Ms Wheldon - T.Sol

12/5/88.

REVIEW OF SPECIAL SHARES

During the BP takeover bid for Britoil, when we faced decisions on using the Britoil special share, I asked officials to review the 12 special shares held by Government in privatised companies to see what lessons could be learnt. I discussed the review with interested colleagues recently and this minute reports our conclusions.

We agreed to adopt a standard form for the Government special share when we decide to take one in future privatisations: a 15 per cent limit on the shares held by any one person, or group of persons acting in concert. We intend to limit any additional restrictions, such as the right to ensure that the Chairman and Chief Executives are UK citizens, to industries in which security issues are important.

We considered the existing special shares under three broad headings: defence suppliers; monopoly utilities; and fledgling companies.

Four of the existing shares are defence related. Two - Rolls-Royce and British Aerospace - have identical aggregate 15 per cent limits on foreign held shares, which the EC Commission are now querying. We agreed that these shares should continue, and will argue that they are permitted by the defence exemption in Article 223 of the Treaty of Rome. However, if as we suspect, a concession is needed, we would offer to increase the limit on holdings from 15 per cent

MARKET SENSITIVE



to 24.9 per cent, if that looks like solving the problem. But the Commission may press for greater changes. If so, we shall reconsider tactics when we know more about Commission objectives. We also believe the VSEL Consortium special share should be retained, since this firm is the sole manufacturer of nuclear submarines. But we are less convinced about the Sealink special share; we have no special shares in the other ferry companies whose vessels would also be needed to move troops and materials to the continent in a war. Paul Channon agreed that, should Sealink ask for their special share to be redeemed, he would consult colleagues.

Three of the existing shares are classed as monopoly utilities. We agreed to maintain the BT and Gas shares, but some doubt was expressed about the BAA share. Given that BAA was only privatised last summer, and that strong assurances were given in both Houses, we agreed to retain this special share for the present, subject to review in a year or so.

The other five special shares are in fledgling companies, for which temporary protection against takeover is reasonable for a period after privatisation. Those for Enterprise Oil and Jaguar are already due to expire automatically at the end of 1988 and in 1990 respectively. The temporary limit of 15 per cent on individual shareholdings in Rolls-Royce (as distinct from the limit on aggregate foreign shareholdings mentioned above) will also expire on 1 January next year. There is no automatic redemption of the Britoil share, but we have already decided to redeem it as soon as there is defensible evidence that BP are honouring their agreement with us. In addition, Cecil Parkinson agreed that the Amersham International special share should be redeemed on a date to be decided. We agreed that the Cable and Wireless special share should be retained, subject to review in 5 to 7 years time, because of the security implications.



Finally, we considered future privatisation. On Steel, we accepted Kenneth Clarke's suggestion that a special share should be taken in the standard form, and that the share should die automatically after 5 years. On Electricity, both Cecil Parkinson and Malcolm Rifkind wanted to take special shares not just for the nuclear companies but for the other distribution and generating companies as well. This was agreed, but both undertook to consider whether these shares could also be time limited. On Water, Nicholas Ridley's view was that there was no need for special shares for the 10 Water plcs. But this may need to be considered in the light of the treatment of the electricity companies.

I am copying this minute to the Secretaries of State for Foreign Affairs, Home Affairs, Defence, Environment, Trade and Industry, Scotland, Transport, Health and Energy, and to Sir Robin Butler.

A handwritten signature, likely 'N.L.', consisting of stylized initials.

[N.L.]

12 May 1988

FROM: M SHARRATT
DATE: 22 JUNE 1988

1. MR WHITE
2. CHIEF SECRETARY

cc PS/Chancellor
PS/FST
Sir P Middleton
Mr Anson
Sir A Wilson
Mr Philips
Mr Monck
Mr Beastall
Miss Peirson
Mr Call
Mr Leithead T.Sol

LEGAL ACTION BY JOHN DE LOREAN AGAINST RECEIVERS OF DMCL

The joint Receivers of De Lorean Motor Cars Ltd (DMCL) have asked the Secretary of State for Northern Ireland for an indemnity against any costs or liabilities arising from legally defending a claim against them by John de Lorean.

2. Sir Kenneth Cork and Mr Paul Shewell (succeeded in 1985 by Mr Christopher Hughes) of Cork Gully were appointed as joint receivers of DMCL by the Government in 1982. Since then, they have been trying to recover assets of the company and have instituted legal proceedings against John de Lorean and others for the recovery of funds believed to have been misappropriated.

3. In April this year, John de Lorean filed a Complaint in the Federal Court in California against 10 parties including Sir Kenneth Cork, Mr Shewell, Mr Hughes, Cork Gully and Mr Malcolm Schade, the US lawyer acting for the Government and the Receivers. He alleges that the defendants have conspired to maliciously and wrongfully institute proceedings against him 'with the intention of harming and humiliating him and to encumber his assets to the extent that he was unable to defend himself'. He is claiming damages of \$600m against each defendant.

4. There seems little doubt that the action by de Lorean is vexatious and that it is without foundation. De Lorean's objective is thought to be to force a break in the ranks between the Receivers and the Government and to obscure the legal action

against him. Sir Kenneth Cork believes that the action is a front for an action against the Government but does not think it will become a major issue.

5. However, the Receivers will need to take the claim seriously and will incur further legal costs in their defence against it. They have sought the Secretary of State's agreement to use funds arising in the receivership to finance their costs and if these are insufficient, for funds they have previously paid over to the Northern Ireland Industrial Development Board to be returned. In addition, Sir Kenneth Cork has asked that the Government provide an indemnity against any costs or claims arising as a result of the action.

6. The Receivers do hold professional indemnity insurance but there is a £17½m excess before the insurers become liable and even then, it is uncertain whether the policy covers damages arising from an action brought in respect of conspiracy to defraud.

7. Failure to give Sir Kenneth Cork and his colleagues the indemnity they seek would go a long way to realising de Lorean's objectives in bringing his action and it could be very damaging to the Government's general position vis a vis the de Lorean affair. In particular, the defence of the action would be in the hands of Cork Gulley's insurers who might choose to settle rather than fight the claim. That in turn would undermine the Receivers' action against de Lorean and the Government's legal action against Arthur Anderson.

8. However the Receivers are acting solely for the Government as the sole priority creditor - the claims of the statutory preferential creditors having already been met - and any indemnity should cover only the costs and damages of Cork Gully, Sir Kenneth Cork, and Messrs Shewell, Hughes and Schade. Negotiations with the insurers should also be pursued with a view to their sharing the risks of defending the action.

9. The indemnity would be a non-statutory guarantee and assuming the amount at risk would be in excess of £100,000, the Secretary

State would need to give Parliament 14 days prior notice of his intentions.

10. If you agree, I propose to tell Northern Ireland officials that the Treasury is content for the indemnity to be given providing:

(a) they pursue negotiations with the insurers to share the costs and any damages but the insurers must give an undertaking to be guided by the Government in their tactics;

(b) the indemnity must be specific to the present joint Receivers, Cork Gulley, Mr Shewell and Mr Schade.

(c) appropriate arrangements are made for Parliament to be informed.

M. Sharratt

6P M SHARRATT



AVID MAPPIN (OFFSHORE) MANAGERMENTS


1 ENNISMORE GARDENS MEWS · LONDON SW7 1HX

Direct telephone 01 581 5011 • Direct fax 01 584 4122

23rd. June 1988
Ian Morison Esq.,
Group Corporate Affairs
Midland Group
Poultry
London EC2P 2 BX

MORRIS/MORISONS' DAY!

I shall remember for a long time the day your kind letter arrived (yesterday morning) and Dominic Morris, one of the Prime Minister's Private Secretaries - (business mangers) came for dinner here at 1 Ennismore Gardens Mews.



The theme for the evening was simply that 'the more prosperous SHOULD help the less gifted'!

The team I had assembled to meet him was very much first eleven (even though I have only ten places at the dinner table). Each, including the two Ladies, present were very much 'Centre Court' players in their own right.

We played well together because the team, other than Norman Blackwell who had an immoveable appointment met together over lunch the same day, so every member knew what another had to offer.


Over that lunch we decided together in which direction we'd like move forward.

The team came up with two simple but extremely positive messages. During Dinner Norman Blackwell, who has been part of the No 10 Policy Unit came up with a third one of equal significance.

I will, as your kind letter suggested, visit once again the CENTRE FOR NEGATIVE VIBES at 5 Threadneedle Street and one or two other Midland Managers who are long term friends of ours.

Wearing my SHAREholder's hat, thereafter, I'll seek to SHARE with you and Peter the three thoughts that the team SHARED with Dominic Morris and one very significant thought he SHARED with us!

If that meeting does nothing else I predict that it will TOTALLY CHANGE the way in which you would structure the last paragraph of your letter of June 17th.



I look forward to the FIRST DAY of the NEW MIDLAND BANK. (which might well be called - Morris or Morison day!) The day when 47,064 Midlanders can SHARE in your responsibilities for Community affairs.

Meanwhile I wish Gene Lockhart well, I KNOW what a hard job he has undertaken!

Best regards

David Mappin
(Helping to make things happen?)

Director David Mappin FGA Company Secretary Carol Mappin
Registered Office: 2 Creechurch Lane EC3A 5AY VAT No 239 5479 23 Company No 1182576



Houston OTC '76

DAVID MAPPIN (OFFSHORE) MANAGERMENTS

I ENNISMORE GARDENS MEWS · LONDON SW7 1HX

Direct telephone 01 581 5011 · Direct fax 01 584 4122

24th June 1988
Derek Sinstead Esq.,
Midland Bank
5 Threadneedle Street
EC

Dear *Derek* Prebriefing meeting notes.

It will be nice to meet up with you again, this time wearing a Midland Bank shareholders hat! Ian Morison suggested that I call and I'd hope that you could spare the time either at 8am one morning or at the close of business. I'd like to bring Peter Lucas with me. (MAPPIN PARRY LUCAS sent by mail for your interest.)

WORM OPTICAL TECHNOLOGY.

Archiving:

My colleagues have recently installed a fast archiving system for Coutts Bank and I'd be interested to compare this with your existing facilities at Threadneedle Street.

Filing:

Next Wednesday at 3pm we are demonstrating a paperless retrieval system for several divisions of both FORD OF BRITAIN & FORD OF EUROPE. This system will handle both structured (wordprocessed & spreadsheet) text and unstructured text (- It is font independent and therefore can find and retrieve such things as FINANCIAL TIMES reports on any subject.) and let you know instantly what Sir Kit has said on any subject.

I'd like to compare your facilities against the offer being made to FORD.

CD Rom TECHNOLOGY.

Product Service Manuals.

For the 300 financial services you may be required to offer during the course of the week, Derek, currently you probably require paper based information, (something like 14ft of A4 paper and weighing 3cwt.) This will fit onto one six inch optical disc, weighing just 1 ounce troy. Through my initiative, a proof of concept system is now going into Austin Rover. By September, this system will permit AR dealerships to provide up to the minute information on any hirepurchase arrangements a client may wish to make when buying a new car from any number of offers available and/or any mechanical service required can be scheduled and costed.

I'd like to compare this with the speed with which you can provide accurate information to a client sitting on the otherside of your desk who may also require IMMEDIATE response and ACTIONABLE costings.

Fax + Optical Disc Techology:

British Telecom have enlisted our help in two specific areas both of which I will have discussed with Ford Motor Company and Austin Rover, before I meet up with you. One would permit me to retrieve today's bank statement at the close of business over my fax via a BT Premium Line from an optical disc down loaded from the mainframe or mini looking after 5 Threadneedle Street.

The other is a sophisticated new product (an information system which BT are persuading MAPPIN PARRY LUCAS), will make the business life of an Area Bank Manager much more effective.



- 2 -

I would like also to see whether your team has access to CBT in house, what courseware and what use is made of it! At Alliance & Leicester offices team members stay late and arrive early to learn how to sell mortgages.

*Hopefully this prebriefing note will make our meeting worthwhile and give us something specific and positive to pass back to Ian Morison and Peter White.
Kind personal regards,*

David Mappin.
(Helping to make things happen!)



MAPPIN PARRY LUCAS
CONSULTANTS IN GROWTH MANAGEMENT

DISCUSSION PAPER
ON THE PROBLEMS & OPPORTUNITIES OF
HARNESSING NEW INFORMATION TECHNOLOGIES

Prepared for:
THE MINISTRY OF DEFENCE
TRAINING MANAGERS CONFERENCE
(I.V. GROUP)

Mappin Parry Lucas
1, Ennismore Gardens Mews
London SW7

PURPOSE

This paper has 2 objectives which are as follows :-

1. To consider some of the issues which both suppliers of new information technologies and their potential customers have to resolve to reap full advantage of what is on offer.
2. To demonstrate how Mappin Parry Lucas assists in the resolution of these problems to the long term benefit of both customers and suppliers.

In considering this paper, we ask you to remember that, as an established consulting practice, we do not work for the suppliers of information technologies and derive no financial benefit from them. Our clients are the actual or potential users of I.T. and we therefore jealously preserve our independence to the benefit of these clients.

Nevertheless, from our past assignments we have had the opportunity to study and understand the problems on both sides of the demand and supply equation. We would submit that it is a failure to appreciate these issues which has led, not only to some disenchanted relationships between customer and supplier, but also to a slower up-take in new technologies than need be the case.

THE CUSTOMER'S PERSPECTIVE

For illustrative purposes only, we list below some of the issues and questions which the purchaser of I.T. has to face. Obviously, the weighting will vary from organisation to organisation.

1. Do we recognise the true significance and impact of technologies we seek to embrace?

Some do. Others have the feeling they have a 'tiger by the tail' and are hesitant about progressing the matter with sufficient intensity and priority. Others don't and the net result is a series of ill-considered applications and under-utilised capacities. Our experience is that it is usually when the subject is accorded priority from top management in an organisation (a top-down interest rather than bottom-up) that programmes are given sufficient visibility and organisational commitment.

2. Do we recognise the organisational impact of I.T. and what it presupposes?

In some cases, I.T. has the capacity to alter job specifications and the scope and relationships between functions. There is a ripple effect when this stone is dropped into the water.

Additionally, however, we need to recall that it represents capital expenditure of some significance which will hopefully not have to be repeated very often.

So I.T. anticipates future organisational patterns and the development of job specifications and functions.

In this context we need to ask ourselves whether we have established our intended organisational scenario and whether we can grow our I.T. applications in pace with its development.

In other words, do we have an I.T. strategy to provide a framework within which specific applications are taken on board.

3. Have we really analysed and defined our usage needs with regard to a specific projected I.T. application?

This sounds self-evident and in most cases is done - often offered as a service from our potential suppliers. Nevertheless we include the obvious because it really does require an in-depth analysis. More significantly, it normally has to be undertaken on an inter-departmental basis. This tests the vertically organised structure and often requires a task force approach. A superficial study of this aspect is insufficient.

4. Have we identified and anticipated the training needs involved in specific applications?

You will readily agree that I.T. is not really about technology - be it hardware or software. It is really about people and the way they relate to their jobs and their colleagues in their jobs. I.T. demands changes in attitudes and behaviour on a day to day practical basis. So what will it take to bring these changes about quickly and harmoniously? From a management perspective, apparently small changes in behaviour can make the difference between utilisation and non-utilisation of I.T. So training needs have to be analysed in depth - there is no short cut.

5. Have we really considered all the I.T. options applicable to our defined and developing needs?

Probably not is the answer and we can understand why. I.T. is a booming industry in terms of its technological capabilities. The options on offer seem to multiply daily. Faced with such an apparent embarrassment of riches - not always well marketed - it is tempting to take the easy way out. In other words, we fall back on an established relationship with a supplier or we choose the biggest name in the industry on a fail-safe decision basis. This is not always the best policy.

6. Have we really studied and understood our suppliers?

Do we really understand where they are coming from, what their pressures are, what they can do and what they cannot do? Have we really appraised their resources? Does our contract, within our own constraints of responsibility, make demands on them that they can reasonably be expected to deliver? In our experience, relationships are often at arm's length.

7. Given all the foregoing, have we accorded sufficient organisational priority to the subject of I.T.?
Have we devoted enough management time to it?

In many cases the answer is negative. The reason is simple. The subject pre-supposes the involvement and understanding of not only the Management Services Department or the Training Department etc. It also demands the involvement of heavily committed line management who, like the rest of us, have more than enough to do with their time. In the private sector, one hears the view - "if we don't get today right there won't be a tomorrow". All too often I.T. is a question for tomorrow.

THE SUPPLIER'S PERSPECTIVE :

In many respects the supplier perspective is the obverse of the customers - not surprisingly because they seek to resolve the same issues as the customers.

1. At the heart of the matter the supplier has to come to terms with the constraints imposed by the economics of his own company.

Like all commercial organisations, he has to make sales and make sales on time - this month, this quarter, this year. He is also constrained to make these sales at lowest costs and highest margin. There's nothing wrong in that.

However, the nature of the sale requires a long term commitment to a client project. If the client hasn't done his homework, the supplier has to offer to do it. But how much time can he really afford for it? He has to make a commercial decision on this.

2. The supplier has to recognise that his product pre-supposes organisational changes and behaviour changes in the client's operations which are notoriously slow to effect.

There is therefore a stress situation between the pressure to make a sale this quarter for understandable economic reasons on the one hand and the process of evolution necessary for his product to be successful in operation. All suppliers will protest their immunity to this problem.- but no protest can invalidate what for them is an economic fact of life.

3. Suppliers also have to ask themselves whether they are relating to the whole client organisation or just a service department

If the latter, as is often the case, they are in effect asking the service department to undertake their selling process - missionary work - throughout the rest of the client organisation. If the former, then their staffing on the project will make a major impact on their margins. It is a difficult dilemma.

4. Suppliers in the I.T. industry have to ask themselves whether the industry has become technology oriented rather than customer need based.

The fact of being capable of producing data faster and faster in greater and greater quantities does not mean that clients need it or indeed can handle it. It is a common factor to many such 'technology boom' markets that suppliers lose sight of the customer and become fascinated with their own technological capability. Furthermore, have they produced a product which the customer not only wants today but can use, add to or adapt to service his organically changing needs?

Lastly, has he developed his technological options so fast that his clients cannot possibly comprehend let alone select from his options.

Our friends in the supplying industry know that we feel the I.T. industry spends too much time talking to itself and not enough time really understanding its customers needs.

5. The supplier has to ask himself whether he really is - or can be - staffed to service the management needs of his clients.

The industry is technology based and nothing can alter that. The result is that many I.T. companies are too heavily staffed with technologists and insufficiently with people with management experience in companies like their customers' who understand, by reason of that experience, the real nature of the customers problems.

6. The implication is one of required staffing levels to meet customer requirements making unacceptable demands on the economics of I.T. suppliers

Outside the largest I.T. suppliers it is fair to say that many companies are under pressure to keep their staffing levels to a level which pre-empts full client service. On the software side it is a reasonably easy business to

enter. Suppliers have to come to terms with the relationship between clients' service needs and their own actual resources. Each will make his own decision on this.

7. As a consequence of all the foregoing, suppliers have a basic decision to make on how far they can really go in practice to cater for their customers real needs in what is, after all, a business of long lead times.

HOW CAN MPL HELP

1. The foregoing reads like two lists of 'Seven Deadly Sins'. Mercifully, where they apply - and they do not apply everywhere - they are sins of omission rather than commission.

They do, however, demonstrate that I.T. makes a major challenge both to customers and suppliers. This challenge, if not met, allows a yawning gulf to open up between customer and supplier and is responsible for slow application of new I.T. systems to the frustration of suppliers and lack of progress in customers organisations.

2. The MPL role is to assist in bridging that gulf to the advantage of our clients who are users of I.T. and not suppliers.
3. We are able to provide this service because :-
 - (a) We are independent of specific suppliers.
 - (b) We provide the time and investigation which ensures that customer staff work is done in depth.
 - (c) Of independent external status, we are able to identify or evaluate needs in client companies rather differently than can be done on an internal basis.
 - (d) We are staffed only by senior consultants each of whom has extensive line management experience. They have been responsible for such capital decisions in major corporations. Furthermore, they understand organisational behaviour patterns and they understand management needs.

- (e) From our past experience we have a breadth of vision on suppliers and their options on offer.

This is why major corporations have asked us to assist in the development of their I.T. strategies and application programmes.

In one case a major hardware supplier has asked us to re-evaluate his approach to and understanding of a large industry sector. They have not asked us to make sales for them which would be contrary to our ethics.

M



FROM: ZOE EVEREST-PHILLIPS
DATE: 23 June 1988

MR SHARRATT

2- CC:
PS/Chancellor
PS/Financial Secretary
Sir Peter Middleton
Mr Anson
Sir Anthony Wilson
Mr H Phillips
Mr Monck
Mr Beastall
Miss Peirson
Mr White
Mr Call
Mr Leithead (Try. Sols)

LEGAL ACTION BY JOHN DE LOREAN AGAINST RECEIVERS OF DMCL

The Chief Secretary was grateful for your note of 22 June and is content with the line you are proposing to take with the Northern Ireland Office.

Zoe Everest-Phillips

ZOE EVEREST-PHILLIPS
Assistant Private Secretary

MAPPIN PARRY LUCAS
CONSULTANTS IN GROWTH MANAGEMENT

1, Ennismore Gardens Mews
London SW7 1HX

Phf

24th. June 1987

J Chris Stevenson Esq.,
HM Customs & Excise
Management Services Divison
3rd Floor, West Wing,
New Kings Beam House,
22 Upper Ground
SE 1 9PJ

cc Jonathan Taylor Treasury
Paul Freeman CCTA

Dear Ans

Many thanks for your letter of 21st June. John Thurston has since telephoned and confirmed a meeting at 10.30 with two of his colleagues and I understand that you will meet Keith Parry and I afterwards.

As all of us are, in a sense, 'Shareholders' in HMC & E Limited. I've suggested that John joins a meeting I've set up for Ministry of Defence Training experts on Friday July 1st. at Convergent Systems 10 Macklin Street Covent Garden. SHARING that experience will, I believe, SAVE your team a great deal of time, money and effort.

Duplicating the enormous effort Peter Monson and Dr. John Miles have put into CBT is quite unnecessary. They are particularly skilled in evaluating the technology and they are also quite clear in their own minds who can provide quality services and who are the 'COWBOYS'.

When Keith & I met Paul Freeman at CCTA recently he challenged us to THINK ABOUT THE ROLE of people on this PLANET in the light of emerging technology!

If you care to look through the correspondence I've been having with the Midland Bank for example, you'll realise that I, personally, am mainly interested in putting time against organisations who can be motivated to help young people.

I feel confident that some of the areas of interest which I have suggested to DEREK SINSTEAD of Midland Bank 5 Threadneedle Street will be just as relevant to your organisation.

REFERENCE SAMPLES ENCLOSED - THE DRUG MENACE!

As yet, we are not knowledgeable enough to be specific but I believe the TAMPER EVIDENT LABELS (which disintegrate) or the TAMPER PROOF LABELS (which VOID any guarantee) will be helpful in combating the DRUG MENACE aimed at our young people especially now that the LABELS have been tied to optical disc archiving. I hope you'll feel that this is a possibility worth exploring.

Meanwhile thank you for writing!

David
David Mappin
Managing Partner.



David Mappin, F.G.A.
London Office
Tel. 01-581 5011
Fax. 01-584 4122

Keith Parry, MA(Oxon), F.Inst.D.
Greenwich Office
Tel. 01 317 8182
Fax. 01-854 8421

Peter Lucas, Dip.M., F.Inst.M.
Oxford Office
Tel. (049) 161 3366
Fax. (049) 161 2934

DAVID MAPPIN (OFFSHORE) MANAGERMENTS

I ENNISMORE GARDENS MEWS · LONDON SW7 1HX

Direct telephone 01 581 5011 • Direct fax 01 584 4122

*IF WE SAVE YOU MONEY
BY ELIMINATING SOME OBVIOUSLY WASTEFUL PRACTICES
USING STATE OF THE ART TECHNOLOGY
WOULD YOU SPEND SOME OF THIS MONEY
ON PROJECTS TO HELP YOUNG PEOPLE
WHOSE TALENTS ARE BEING WASTED?*



12 final non excess

Y sees approval transfer

Y says who is a loan to ? not defined & BAC

Placements for 550

Final Sale

? vi

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ROVER GROUP

MEETING BETWEEN LORD YOUNG AND SUTHERLAND, 5 JULY

SUMMARY

800

1. AFTER 3 HOURS OF DIFFICULT DISCUSSIONS, SUTHERLAND AND LORD YOUNG AGREED AD REFERENDUM ON A DEAL INVOLVING COMMISSION ACCEPTANCE OF:

- POUNDS STERLING (PS) 469M DEBT WRITE OFF (PS 25M MORE THAN THE COMMISSION'S PREVIOUS POSITION).
- PS 78M "REGIONAL AID."
- PS 25M RESULTING FROM REMOVING THE RING FENCING ON CAPITAL ALLOWANCES.

THIS THEREFORE INVOLVES A REDUCTION OF PS 228M IN THE INTITIAL UK NOTIFICATION. ALL ATTEMPTS TO REDUCE THIS FIGURE FURTHER FOUNDERED ON STRONGLY HELD COMMISSION CONCERNS ON THE OVERALL AID INTENSITY.

2. IF THE DEAL IS CONFIRMED, THE NEXT STEPS WILL BE FURTHER DISCUSSIONS WITH DGIV OFFICIALS ON 7 JULY TO TIDY UP LOOSE ENDS: AIDS CHEFS ON 12 JULY: AIMING AT A COMMISSION DECISION ON 13 JULY. LORD YOUNG AND SUTHERLAND AGREED ON MAINTAINING ABSOLUTE CONFIDENTIALITY UNTIL THE DECISION.

DETAIL

3. IN INITIAL EXCHANGES, SUTHERLAND SAID THAT HIS STARTING POINT WAS A READINESS TO ACCEPT A DEBT WRITE-OFF OF PS 444M AND AN INSISTENCE THAT OUR INTITIAL NOTIFICATION (OF PS 800M) MUST BE REDUCED BY AT LEAST PS 210M. HE WAS READY TO LOOK FOR A METHOD OF BRIDGING THE GAP OF AROUND PS 150M BETWEEN THESE TWO FIGURES. LORD YOUNG MADE CLEAR IN RETURN HIS WISH TO PRESS SUTHERLAND FURTHER ON THE PS 210M BOTTOM LINE. DETAILED SUBSEQUENT DISCUSSION, HOWEVER, CONCENTRATED ON THE MAKE UP-OF THE PS 150M BRIDGING FIGURE.

4. LORD YOUNG SOUGHT WITHOUT SUCCESS TO PERSUADE SUTHERLAND THAT THE WHOLE PROBLEM COULD BE SOLVED IF THE PS 156M FOR WHOLESALE VEHICLE FINANCE, WHICH WAS REGARDED BY THE AUDITORS AND THE BANKS AS A DEBT, WAS TREATED IN WHOLE OR IN PART AS SUCH BY THE COMMISSION. SUTHERLAND SAW NO BASIS THAT WOULD ENABLE HIM TO DO THIS

CONSISTENT WITH THE COMMISSION'S APPROACH: THE WVF MONEY WAS REGARDED BY THEM AS OPERATING CAPITAL TO FINANCE STOCKS, AND NOT TRUE DEBT.

5. SUTHERLAND, FOR HIS PART, STATED A READINESS TO ACCEPT PS 78M IN REGIONAL AID (BASED ON A COMMISSION ESTIMATE THAT PS 477M OF THE FIGURES WE HAD GIVEN DGIV CONSTITUTED INVESTMENT OVER THE 5 YEAR PERIOD THAT WAS ELIGIBLE FOR REGIONAL AID UNDER COMMISSION CRITERIA, GIVING A FIGURE OF PS 389M IN PRESENT VALUE, 20 PER CENT OF WHICH CAME TO PS 78M). THIS THEREFORE LEFT A FIGURE OF PS 72M TO MAKE UP THE PS 150M BRIDGE. SUTHERLAND ARGUED THAT THIS DIFFERENCE SHOULD BE MADE UP ENTIRELY FROM THE ADVANTAGES TO BAE OF THE CARRY FORWARD TAX LOSSES, WHICH THE COMMISSION CLAIMED WERE WORTH AT LEAST PS 70M. LORD YOUNG EXPLAINED REPEATEDLY THAT THE TAX ADVANTAGES WERE AT BEST UNCERTAIN AND UNDOUBTEDLY NOT WORTH ANYTHING LIKE THE SUM THE COMMISSION CLAIMED: THE ONLY QUANTIFIABLE ADVANTAGE WAS PS 25M FLOWING FROM THE REMOVAL OF THE RING FENCING ON THE CAPITAL ALLOWANCES. SUTHERLAND KEPT COMING BACK WITH THE ARGUMENT THAT THE TAX CARRY FORWARD OF THE TRADING LOSSES WAS WORTH SOMETHING, AND INDEED PROPOSED AT ONE STAGE THAT THE PS 500M CEILING PLACED ON THE CARRY FORWARD AT THE TIME OF THE ANNOUNCEMENT OF THE DEAL SHOULD BE REDUCED TO PS 350M SO AS TO ENSURE THAT THE ADVANTAGE WAS NO MORE THAN PS 49M (ALL THAT WAS NECESSARY TO MAKE UP THE REMAINDER OF THE PS 150M).

6. LORD YOUNG TRIED VARIOUS ALTERNATIVE APPROACHES:

- INCREASING THE SUM ALLOWED FOR REGIONAL AID.
 - PRESSING THE COMMISSION TO TAKE ACCOUNT OF THE FACT THAT ROVER'S CURRENT DEBT (AS AT MID JULY) WAS PS 160M HIGHER THAN THE AUDITED LEVEL AT THE END OF 1987 AND WAS EXPECTED TO RISE BY ANOTHER PS 93M BY THE END OF THE YEAR. IF THE INCREASE IN DEBT WAS LIMITED TO THE PS 100M WHICH THE COMMISSION WERE INSISTING SHOULD BE LEFT ON THE BALANCE SHEET, THIS WOULD CREATE HEADROOM OF PS 60M.
 - REDUCING THE PS 150M SALE PRICE OF ROVER TO BAE BY PS 50M OR SO.
- BUT SUTHERLAND FIRMLY RESISTED ALL SUCH APPROACHES, ON THE GROUNDS THAT THEY WOULD INCREASE THE OVERALL AID INTENSITY TO AN UNPRECEDENTED LEVEL WHICH COULD NOT BE JUSTIFIED. THE ATTRACTION TO HIM OF THE TAX ROUTE WAS THAT IT DID NOT INVOLVE SUCH AN INCREASE IN AID INTENSITY.

7. FINALLY, WHEN IT WAS CLEAR THAT ALL OTHER AVENUES HAD FAILED AND SUTHERLAND WAS STILL PUSHING THE TAX ADVANTAGE POINT, LORD YOUNG AGREED TO SPLIT THE DIFFERENCE, AND REQUIRE THE COMMISSION ONLY TO ACCEPT AN ADDITIONAL PS 25M OF DEBT WRITE-OFF. FOR PRESENTATIONAL

REASONS, HE ALSO SOUGHT AN INCREASE IN THE TAX CARRY FORWARD FOR TRADING LOSSES. AFTER 10 MINUTES OF REFLECTION, SUTHERLAND ACCEPTED THE ADDITIONAL DEBT FIGURE, BUT WOULD NOT COUNTENANCE ANY INCREASES IN THE TAX LOSSES.

8. THE RESULTING FIGURES WERE CONFIRMED AS IN PARA 1 ABOVE. LORD YOUNG NOTED THAT HE HAD TO PERSUADE BAE TO ACCEPT A REDUCTION OF PS 228M AS WELL AS TO CONSULT HIS COLLEAGUES. HE HOPED TO BE ABLE TO GIVE A DEFINITIVE RESPONSE BY NOON ON 6 JULY. SUTHERLAND SAID THAT HIS AGREEMENT WAS ONLY AD REFERENDUM TOO AT THIS STAGE.

RESTRUCTURING

9. SUTHERLAND SAID THAT THE COMMISSION WOULD REQUIRE WRITTEN CONFIRMATION OF THE INVESTMENT AND RESTRUCTURING COSTS HITHERTO ONLY CONVEYED UNOFFICIALLY. THEY WOULD ALSO NEED THE DETAILS OF THE PROPOSED RESTRUCTURING IN WRITING, IN THE FORM OF A SIDE LETTER WHICH WOULD BE KEPT ENTIRELY SECRET. ON THE OTHER HAND, HE WOULD HAVE TO REFER TO THE GLOBAL CAPACITY REDUCTION AS PART OF THE LEGAL DECISION AUTHORISING THE AID. PRESSED BY LORD YOUNG, SUTHERLAND SAID THAT HE ENTIRELY RECOGNISED THE POLITICAL SENSITIVITY OF THE ISSUE, BUT DID NOT CONSIDER THAT HE COULD GET AWAY WITH LESS IN THE COMMISSION. LORD YOUNG ASKED SUTHERLAND TO PRESENT THE MATTER IN THE MOST FELICITOUS WAY POSSIBLE. IF THE GLOBAL FIGURE BECAME PUBLIC (WHICH, UNLESS IT LEAKED FROM OTHER CABINETS, IT NEED NOT DO UNTIL AFTER THE SUMMER BREAK WHEN THE COMMISSION DECISION WAS TRANSLATED AND SENT TO OTHER MEMBER STATES), HE WOULD HAVE TO PLAY THE MATTER DOWN HIMSELF, NOTING FOR EXAMPLE THAT BAE WAS SIMPLY TAKING OVER THE RG CORPORATE PLAN AS IT HAD EXISTED FOR SOME TIME.

NEXT STEPS/PUBLIC HANDLING

10. LORD YOUNG AND SUTHERLAND AGREED ON THE NEED TO MAINTAIN ABSOLUTE CONFIDENTIALITY ON THE EXISTENCE OF A PROVISIONAL DEAL AND ON THE DETAIL UNTIL THE COMMISSION DECISION. MEANWHILE, THE PRESS LINE WOULD BE A BLAND ONE THAT A MEETING HAD TAKEN PLACE, THAT SOME PROGRESS HAD BEEN MADE, THAT THERE WOULD BE FURTHER CONTACTS, AND THAT THE HOPE REMAINED THAT THE ISSUE COULD BE SETTLED SOON. SUTHERLAND CONFIRMED THAT HE WAS AIMING FOR A COMMISSION DECISION ON WEDNESDAY, 13 JULY, ALTHOUGH ONE OR MORE OF HIS COLLEAGUES MIGHT CAUSE DIFFICULTIES. IT WAS AGREED IN THE MARGINS THAT DTI OFFICIALS WOULD HAVE A FURTHER ROUND WITH DGIV ON 7 JULY TO TIDY UP THE LOOSE ENDS.

POSTSCRIPT

11. WE HAVE DEBRIEFED TO THE COMMISSION SECRETARY GENERAL.

SECRET

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MDADAN 2542

WILLIAMSON SAID THAT HE SAW NO PROBLEM IN THE ISSUE GOING SMOOTHLY THROUGH THE COMMISSION. HE ALSO TOOK NOTE OF THE POSSIBLE NEED TO DISCOURAGE SUTHERLAND FROM CREATING DIFFICULTIES IF WE USED MIRRORS TO DEAL WITH THE PS 228M GAP.

HANNAY

YYYY

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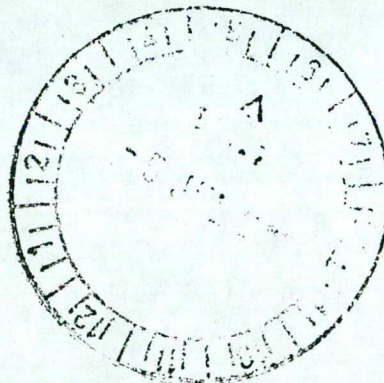
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ADVANCE 11

PS/S OF S
MR KERR
HD/ECD (I)
ARTHUR FCO
MR BUDD CAB OFF
PS/LORD YOUNG DTI

SIR B HAYES DTI VIC ST
MR COCHLIN DTI VIC ST
MR NEVILLE-ROLFE DTI VIC ST
MRS BELL VM DTI ASHDOWN HSE
MR WALLER TSY

NNNN



PAGE 4
SECRET

SECRET



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

Jeremy Godfrey Esq
PS/Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1

6 July 1988

Dear Jeremy

BILATERAL MEETING WITH THE CHANCELLOR

Your Secretary of State had a bilateral meeting with the Chancellor this morning.

Rover Group/BAe

Lord Young reported on his discussions with Sutherland yesterday. This had been a difficult meeting. At one stage Sutherland had sought to reduce the ceiling on the useable tax losses to £350 million. The eventual outcome was, however, that Sutherland could accept some £547 million (£469 million debt write off, and £78 million regional aid). Sutherland could also agree to remove the ring fence on capital allowances. This provided an additional £25 million to £50 million. This left a gap of some £200 million compared with the original deal. Lord Young had put this to Professor Smith last night, and Smith was considering whether it would be acceptable. (Day had privately indicated that he could go to an immediate placement on this basis).

Lord Young said that Professor Smith had indicated that he would want, at least, two further concessions. First, he would look for some deferred payment of the £150 million consideration. Lord Young had in mind a period of no more than 12 months. The Chancellor said he would be prepared to go along with this, provided of course that Commission objections could be overcome. Lord Young said the second concession sought by Smith was for the 15 per cent limit on foreign shareholdings in BAe to be dropped, and replaced by a limit of 5 per cent on individual shareholdings. BAe wished to make a rights issue later this year, and saw the 15 per cent limit as a barrier to their raising additional capital. The Chancellor said that other Ministers, in particular the Defence Secretary, had an interest in the limit on foreign shareholdings. One possibility might be to convert the 15 per cent limit to one on non-EC holdings, and combine it with a 5 per cent

cc: White letter
to CST, FST, PEM,
Monik;
(A)+(C) - Mike Walker
(D) - Wynn Owen

Prof
(Rover
App).

(A)



limit on individual holdings. This might have attractions with the Commission.

(B) BP: KIO

There was a brief discussion of possible action which might follow the MMCs recommendations. The Chancellor said he would consult further.

(C) Airbus

Lord Young said the A320 was causing difficulties. Airbus was losing money on each one sold. It was agreed that Airbus should be made to face up to commercial reality, and increase the price accordingly.

(D) EC Merger Control

Lord Young said he would be circulating a paper on this. This would suggest that we should not block the Commission's proposals, but ensure that they were properly limited to questions of competition. The directive should be set in such a way that it ensured that a level playing field was created. The Chancellor said that there would continue to be difficulties because of the different company structures in the UK and in other EC countries. The structure of cross holdings in Germany, for example, meant that companies were protected against takeover even in the absence of national controls. This did not apply in the UK. This provided a perfectly respectable reason for us to object to the Commission proposals; we should say that we would resist them until other markets were as open as ours.

Yours ever

A handwritten signature in black ink, appearing to read 'J M G Taylor'.

J M G TAYLOR
Private Secretary

Charullo

Rover

12/7/88

prop

(1) D.Y. wanted consideration could be reduced
by \$125m.

I don't like
(2) @ all.
Strategy for a
wide ASA?

(... Gap	-	360m
	-	150m ASA
	-	125m reduced consideration
Net Gap		<u>85m</u>

(2) Paul says is D.Y. attempted bounce
(in a big way!) of making allowance for moving
Trading boxes sideways. He is pushing this strongly.

D.Y. + GH want to put pressure on
Federal Reserve to agree (it is bridges present
practice).

PM thinks it won't work + is
keen to press the transmission case firmly. JTO

She is concerned that to mean a deal
will weaken b. Ac with this air-bus
+ other problems.

[Signature]

Confidential

Chancellor

dti

the department for Enterprise

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The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

P. Gray Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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ACTION	Mr Waller
COPIES TO	CST, FST, Sir P. Middleton Mr N Monck Mr T Burgner

12/7

Direct line 215 5422
Our ref PS2BAQ
Your ref
Date 12 July 1988

Dear Paul,

BAe/ROVER

We have had further difficult discussions with British Aerospace this morning, starting with Professor Smith's ... attached reply to Lord Young's letter yesterday.

The Secretary of State and Professor Smith have now provisionally agreed the following package, which paves the way for an announcement tomorrow:

	£m
Commission - approved aid	547
Minorities and BAe acquisition costs	9.5
Rover Group acquisition costs	1.5
BAe contribution to Columbus waived	5
Tax (BAe's estimate of value)	35
Value of deferral to 31.3.90 (sic) [BAe figure]	22
	<u>£620m</u>
	=====

(We would not intend this detailed breakdown to become public).

These figures compare with Professor Smith's previous "bottom line" of £612m, but carry an unquantified risk to the £22m interest saving were the Commission to spot and attack the deferred £150m payment. We shall be in touch with the

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Treasury to discuss the best way of presenting the deferral in published Estimates, to minimise that risk. There is a similar risk attached to the cost of buying out the minority.

In addition, the Secretary of State has agreed to provide Professor Smith with some limited comfort on the Department's readiness to consider financial support for non-Rover projects, were the Commission successfully to challenge any elements of the package. Such aid would of course have to meet the criteria of relevant schemes at the time. We have also agreed to repeat to British Aerospace the Chancellor of the Duchy's formulation in the House of Commons that the Government would not enforce the on-sale restrictions if it were against the public interest to do so. I attach the relevant Hansard extract.

Negotiations this morning inevitably held up work on the proposed statement and my Secretary of State will now bring a draft with him to this afternoon's meeting.

I am sending copies of this letter to Alex Allen (HM Treasury) and Lyn Parker (FCO).

Yours ever

Neil Thornton

NEIL THORNTON
Private Secretary

Mr. Andrew Smith (Oxford, East): Will the Minister tell the House his definition of a "substantial part" of the undertakings of the subsidiaries? Will he also make clear to the House whether British Aerospace will actually be required to forgo any of the advantages it has enjoyed? The Minister significantly used the phrase "could be required". Will he clarify that point?

Mr. Clarke: We have not defined that aspect in any substantial or quantified terms—it will be a matter for judgment at the time. Plainly, one can consider extremes.

A small site or particular building might be shed without the terms I have mentioned being relevant. On the other hand, the sale of a substantial part of the business, if it were a significant part of the business, would certainly mean that the conditions would apply. As to the hon. Gentleman's second point, he is quite right; in that we have not made the conditions inflexible. It is not necessarily the case that they will be insisted upon by the Government. That provides for the possibility that there could be favourable circumstances in which the Government decide that it is in the public interest, as well as in the interests of the company, that such permission should be given. There might be some perfectly desirable commercial reason, raising no controversy on either side of the House, why that should be done.

Circumstances might arise in which British Aerospace wished to dispose of a subsidiary company. Therefore, we leave open the possibility that the Government might waive the condition. For the moment, British Aerospace has no intention of doing any of the things I have talked about, which I believe is why it accepted that condition. We do not foresee any circumstances in which we would want to see an on-sale of the kind I have described. However, we would expect the conditions to bite if British Aerospace suddenly decided to sell for reasons that were not readily accepted as being in the public interest.



From: CHAIRMAN

Professor Roland Smith

Direct Line: 01-389 3923

12th July, 1988

Rt. Hon. Lord Young of Graffham,
Secretary of State for Trade and Industry,
Department of Trade and Industry,
Room 803,
1 Victoria Street,
London, SW1H 0ET.

My dear Lord Young,

ROVER GROUP

I refer to your letter of yesterday's date which you handed to me at a meeting in your office. I believe I made clear my surprise and concern that, once again, the arrangements agreed between us in principle in order to enable the planned purchase of HMG shares in Rover to proceed had altered and again to British Aerospace's disadvantage.

I am about to start a meeting of my Board which includes on the Agenda a review of the Rover situation and was meant to seek the Board's approval to proceed. I have to tell you, however, that, as a result of taking soundings from colleagues following our meeting yesterday, there seems no prospect of our departing from the terms set out in my letter to you of 6th July (which was itself written after much soul searching).

There is no point going into detail here as to the proposals included in your letter to me. Suffice it to say there are some points which, apart from any question of merits, neither I nor my advisers can understand.

I re-affirm my Board's wish that this acquisition goes through, but I now have grave reservations as to whether this is possible without reverting to the financial requirements set out in my letter of 6th July.

I am also seriously concerned, as you know, at your advice that some statement may be made as to specific closure plans for Rover. It is Rover's view, and our own, that this would be likely to provoke a strong adverse reaction from the Unions and employees, thereby endangering Rover's prospects in which we are reposing such confidence.

.../...

I am ready to meet with you again as early as you wish. Even if, as I hope, you are able to revert to the previous terms, there is much to be done before an announcement is possible.

Yours sincerely,

Richard Smith.



15th. July 1988

Ian Morrison Esq.,
Director Group Corporate Affairs,
Midland Group
Cheapside
EC

From 1 Ennismore Gardens Mews
SW7 1HX

Dear

Although it was pleasant to meet Derek again there isn't any real value in pulling punches as neither Peter Lucas or I were AT ALL impressed other than by the dedication of the team working there. Perhaps in the questions I addressed at your AGM I might have used the words 'out of date' rather than 'archaic' in relation to the archival systems and document retrieval methodology at 5 Threadneedle Street had I been privileged to see the first floor rather than the Banking hall.

With the rapid advances being made on the information technology front one recognises that it is impossible for every part of the organisation to be equipped with the very latest technology. As a shareholder I appreciate that we have to obtain a return from investments made in 'last generation' technology - even if in hindsight it was a wrong purchase decision. What alarmed me was that I was being shown technology which was not properly assisting in the tasks for which it was purchased and yet I was being told that it was 'the best'. It was being offered as a demonstration of progress that the branch had made. It was a clear demonstration of the lack of 'wider vision' which is possibly at the heart of the BANK's current problems.

Nothing in this letter should be construed as a criticism of the people I met who work for Derek. The burden under which they work would be quite intolerable for me!

Four factors impede progress:

FEAR & MENTAL CLIMATE

DIRT & PHYSICAL CLIMATE

A CLOSED MIND!

In house IT Skills training (an apparent lack of CBT.)

These words were vocalised, not by me, but they were used to focus our discussion afterwards. They could be the paragraph heads for any Shareholder Group to consider, since they influence the 'bottom line' adversely. **WE COULD NOT DECIDE WHICH OF THE FOUR WAS THE MOST INFLUENTIAL WITHOUT FURTHER STUDY!**

FACTORY FARMING METHODS MUST BE ELIMINATED:

What upset us the most was seeing good people using technology in conditions that equate or were akin to poultry farming! I'd hope that Sir Archie Foster will show you his plans for Esso's new Leatherhead HQ. This, distance or quided learning techniques and home work stations explain how we feel that team members should perceive the future benefits of **INFORMATION TECHNOLOGY.**

Background:

We had had a HIGH TECH meeting in OLD STREET at nine which meant that Peter had started from Oxford at 0630 and I from Beccles at 0636hrs. . We arrived 12 minutes late and we were rushed through departments which were supposed to impress us!

We were left with no clear understanding of why it was thought necessary to spend £900000 on COSMETICS subject to the approval of the CITY FATHERS at 5 Threadneedle Street. We are clear that if Merchant Taylors want their building to be occupied by an international banking team then they must weigh your needs against the option you may have to move to the ISLE of DOGS (or where ever). If FRANKFURT overtakes LONDON as a financial Centre it will be because they will have addressed the need for CHANGE more efficiently.

SOLID PROGRESS DEPENDS UPON OTHER ASPECTS OF CHANGE (BEHAVIOUR & ATTITUDE)

A much more progressive attitude would include the following problem opportunity areas.

1. Consider and understand CUSTOMERS & their NEEDS:

2. Consider what does this branch of the Bank NEED to do to service NEEDS better and be more efficient! (For a start there is a large amount of unstructured and structured paper work 'floating around'. We KNOW that if we had asked your team members what they really thought we could TOGETHER, suggest better ways!)

3. How can technology deliver the above (NOT, - 'I am having this technology thrust upon me!') (We gave Derek a copy of the Paper we have just given to training managers at the request of the MINISTRY OF DEFENCE.)

4. Motivate team members by:

- Sharing problems*
- Agreeing objectives*
- Implementing plans 'together' as a team.*

5. Improve the working environment dramatically to achieve these objectives.

Team members need to:

- Believe objectives can be met by sustained effort!*
- Be working in climatic conditions that contribute to their physical and mental wellbeing.*

(I have previously compared the work of the Midland Bank to the work of IBM and Hewlett Packard and I have been to a very large number of both IBM and HP offices and neither of these Companies would even ask their staff to work in such an appalling climate. - My remarks about FEAR, DIRT & CLIMATE apply!) What ever the excuse is about the ground floor there is NO EXCUSE FOR THE SECOND FLOOR!

*SOME REALLY INTERESTING QUESTIONS
CONCERNING INFORMATION TECHNOLOGY
FOR YOU TO CONSIDER?*

ARE YOU REALLY SURE THAT:

- * Your management values at the corporate level are those that encourage innovation.*
- * Your working environments are appropriate to optimum output.*
- * Your management culture really does give you a window on the world of new technology.*
- * Your management is really sensitive to the personal challenge to behaviour patterns and relationships that I.T. poses for your staff and the stress and health factors that are implicit.*
- * Do you feel that a yawning gulf of misunderstanding separates you from your suppliers.*

If these issues are relevant to you I suggest that you seek the best external advice available and I have therefore asked Keith Parry to make contact with you. Keith's telephone number is 01 317 8182.

It would not be right for me to contribute commercially on the technology front but I will ask Keith to keep me in touch with progress.

(MPL are consultants to Hewlett Packard.- See note page 23 in the MAZAGINE MEASURE - FOR THE PEOPLE OF HEWLETT PACKARD - MAY JUNE 1988 issue.)

I would however like to have a meeting with you to discuss how the Midland could contribute to the issues raised on the next page.

Best regards,

David Mappin.

DAVID MAPPIN (OFFSHORE) MANAGERMENTS

I ENNISMORE GARDENS MEWS · LONDON SW7 1HX

Direct telephone 01 581 5011 • Direct fax 01 584 4122

*IF WE SAVE YOU MONEY
BY ELIMINATING SOME OBVIOUSLY WASTEFUL PRACTICES
USING CURRENTLY AVAILABLE TECHNOLOGY
WOULD YOU SPEND SOME OF THIS MONEY
ON PROJECTS TO HELP YOUNG PEOPLE
WHOSE TALENTS ARE BEING WASTED?*



FROM: D J BARTON
DATE: 21 JULY 1988

1. MR WHITE ✓ *W 21/7*
2. CHIEF SECRETARY ✓

cc PS/Chancellor
PS/FST
Sir P Middleton
Mr Anson
Sir A Wilson
Mr Phillips
Mr Monck
Mr Beastall
Miss Peirson
Mr Call
Mr Leithead T.Sol

LEGAL ACTION BY JOHN DE LOREAN AGAINST RECEIVERS OF DMCL

Mr Sharratt's minute of 22 June recommended that an indemnity be given to the joint receivers of De Lorean Motor Cars Ltd (DMCL) against any costs arising from legally defending a claim brought against them by John De Lorean. You agreed (Miss Everest-Phillips note of 23 June) subject to certain conditions. The purpose of this note is to recommend, following further representations by the Northern Irish and more definitive advice from the Treasury Solicitor on the position of the insurers, that these conditions be relaxed and that a general indemnity be given.

2. Mr Sharratt's minute of 22 June set out the background to the Complaint, filed in the Federal Court in California, by John De Lorean against the parties acting for the Government and the receivers. As Mr Sharratt explained, there was a strong feeling that the Claim was vexatious and frivolous and without foundation and that Mr De Lorean's objective was thought to be to try and force a break in the ranks between the receivers and the Government and to obscure the legal action against him.

3. You agreed that we should impose certain conditions on the Treasury's acceptance of the need to grant an indemnity. These were that the Northern Irish pursue negotiations with the insurers to share the costs and damages; that the indemnity should be specific to the receivers; and that arrangements be made for Parliament to be informed. But we have received representations that these conditions are almost certainly impractical and in any case risky (in the case of the insurers); and might either encourage third party litigation or be construed as prejudicial

to the Government's case (in the case of informing Parliament). In addition, it is not clear whether the indemnity, if approved, would be a statutory or non-statutory one. The nature of the indemnity will have a bearing on the way in which it needs to be notified to Parliament (see paragraph 8 below).

4. The Joint Receivers have, in fact, requested two indemnities. The first is in respect of the action against them by Mr De Lorean himself and the other arises out of the action against Lotus Cars, Bushell, the late Colin Chapman's Estate and De Lorean. In respect of the latter, the receivers are apprehensive and seek "belt and braces" assurances before their Default judgement against De Lorean in the US.

Insurers

5. As far as the insurers are concerned, our original view was that if they were not involved they were likely to precipitate a settlement which might be unfavourable to the Government. In addition, it was felt that the Government should not carry the responsibilities that insurers should bear.

6. However, liability for claims of this magnitude are laid off through many brokers and it would take considerable time and effort to make sense of the insurance position. In addition, there is a risk that, pursuing negotiations with US insurers would delay things further and so enable Mr De Lorean to have more time to dispose of assets.

7. More importantly, however, the Treasury Solicitor has taken the view that, regardless of the insurance position, the parties concerned were entitled to expect Government to indemnify them, by virtue of the fact that they were appointed by Government and were acting solely on its behalf and with its support in the matters which underlie Mr De Lorean's claim against them. We find this argument compelling.

8. Clearly, the receivers have acted in good faith and been meticulous in keeping Ministers informed of developments. In addition, we believe that if the receivers had asked for an indemnity when they were first appointed, there was no doubt that

it would have been given. In the circumstances we recommend that a general indemnity be given to the Joint Receivers (past and present) and Cork Gully in respect of actions taken in the Courts for claims by and against John De Lorean and DMCL. There is some uncertainty as to whether Mr Malcolm Schade (the US lawyer acting on the Government's behalf) should also be indemnified, because he is the agent of Cork Gully, and consequently he may be covered by any indemnity given to the Joint Receivers. Northern Ireland officials are pursuing this point.

Statutory Guarantee

9. Our original information was that the indemnity would be a non-statutory guarantee. IDB now argue that it could qualify as a statutory guarantee under IDB's powers to provide financial assistance under the Industrial Development (NI) Order 1982. They have also argued that furthermore it would be a guarantee issued in the normal course of business. (A department's acceptance of a contingent liability in the normal course of conducting its business would not require separate notification to Parliament, if the department already had Parliamentary Authority for conducting that business eg. through an existing vote provision). We do not accept this latter point - major and protracted litigation in the US courts is in our view clearly outwith the normal course of business of a regional development agency - and long may it remain so.

10. However, a statutory guarantee is one that is given under specific statutory powers to give guarantees. It is not clear that such powers exist in this case. Whilst the giving of statutory guarantees need only be reported to Parliament after the guarantee has been given (unless statute provides otherwise), non-statutory guarantees must be notified to Parliament 14 clear sitting days before they are given in order to provide an opportunity for Parliament to object if it is not happy.

11. In view of the uncertainty of the status of the guarantee which NIO wishes to give, we consider it advisable to play safe and follow the prior notice procedure. There are, however, two problems:

CONFIDENTIAL

a. Public knowledge might increase the risk of the indemnity being called, or might encourage third party litigation and could be prejudicial to the Government's case. There are precedents in such cases for informing the PAC by means of a confidential letter. We recommend that the NIO follows that procedure in this case;

b. The second problem is one of timing. The letter to the PAC should provide sufficient time for objections and as a matter of courtesy should cover the normal 14 day period. However, because of the recess this would not be feasible. ~~But~~ The indemnity will need to be given by Mr King before the House breaks up for the recess on 29 July. In cases where the full 14 days notice cannot be given it is necessary to explain in the minute why. NIO will need to cover this in the letter to the PAC.

CONCLUSION AND RECOMMENDATION

12. There are major difficulties to the detriment of the Government's action against De Lorean and DMCL involved in pursuing negotiations with the insurers. These would be unlikely to reach a satisfactory conclusion and would only succeed in delaying matters. We recommend therefore that a general indemnity be given to the Joint Receivers (past and present) and Cork Gully in respect of all the claims by and against John De Lorean and DMCL (and, should it prove necessary, a specific indemnity for Mr Schade). The Northern Irish should inform Parliament by means of a confidential letter from Mr King to the Chairman of the PAC, also explaining why the normal 14 day notice had not been given in this case.


D J BARTON

CONFIDENTIAL

CONFIDENTIAL



FROM: MISS C EVANS

DATE: 25 July 1988

MR BARTON

pmj

cc:
PS/Chancellor
PS/Financial Secretary
Sir Peter Middleton
Mr Anson
Sir A Wilson
Mr H Phillips
Mr Monck
Mr Beastall
Miss Peirson
Mr White
Mr Call
Mr Leithead (T.Sols)

LEGAL ACTION BY JOHN DE LOREAN AGAINST RECEIVERS OF DMCL

The Chief Secretary was grateful for your minute of 21 July and is content with the recommendation in paragraph 12. He sees no option but to agree to a general indemnity given the Treasury Solicitor's advice, with which he agrees.

Campy Evans

MISS C EVANS
Private Secretary



Inland Revenue

Business Tax Division
Somerset House

FROM: J H REED

DATE: 9 NOVEMBER 1988

1. MR MCGIVERN *Note at end. JHR*
2. FINANCIAL SECRETARY

VAUXHALL MOTORS: ELLESMERE PORT

behind // This note concerns some tax issues raised by Vauxhall in connection with their proposed investment in a new paint-shop at Ellesmere Port (they have waived confidentiality so that we can tell you about their tax affairs). The Treasury are today sending a note to the Chief Secretary about the public expenditure aspects of the proposed investment. We have agreed each other's notes in draft.

The issue

2. The Treasury note describes the proposed investment. We have had a meeting with Vauxhall who told us that even with the grant they have applied for (and seem to be expecting) from the DTI the Ellesmere Port investment is not sufficiently attractive (at least, in the eyes of the Chairman of General Motors). So they are looking for a tax benefit to make it more attractive. And they argue that the tax system currently penalises them so it is right that they should be given some relief.

3. The tax point concerns Vauxhall's pension fund. This has a big surplus. They propose to reduce this by increasing the benefits paid to pensioners but this will leave a surplus of about £100 million which they wish to refund to Vauxhall (the

cc PS/Chancellor
PS/Chief Secretary
Mr Monck
Mr Moore
Mr Culpin
Mr Gilhooly
Mr Waller
Ms Chaplin

Mr Isaac
Mr McGivern
Mr Corlett
Mr Kuczys
Mr Reed
PS/IR

1986 legislation on pension fund surpluses will require this if the fund is not to lose tax exemption on part of its assets). When they make this refund it will be subject to the special tax introduced in 1986. This is a flat-rate charge of 40 per cent without any deductions.

4. They say that this tax is unfair because they have not yet received any benefit from the tax relief for the pension contributions they have made. The reason for this is that they have been, and still are, tax-exhausted. They say that it is unfair that they should pay the special tax (at 40 per cent) when they have not received any benefit (at the current CT rate of 35 per cent) from their pension contributions which are attributable to the amount of the proposed refund. They have asked to be relieved from, or at least be given some deferment for a number of years of, the special tax.

5. They have given us some projections in support of their case: we are unable to confirm their accuracy but have no reason to doubt them. These show that they will get effective tax relief for their pension contributions in October 1990, when they will be liable to CT on their 1989 profits. In other words if they had not made the pension contributions which have given rise to the proposed refund they would have had to pay more CT in October 1990.

6. The time of payment of the special tax will depend upon how long it takes for us to agree with Vauxhall the amount of the refund. If Vauxhall use up all the time they are allowed under the regulations, they can ensure that the tax is not payable until the end of 1989 or early 1990 (depending upon how long it takes us to approve the refund). And the pension fund could lend money (on commercial terms) to Vauxhall until the refund was made. This delay would mean that the time of payment of the special tax would occur less than a year before Vauxhall received the benefit of the tax relief for the pension contributions. But of course the special tax is at a rate of 40 per cent while the reduction in CT is at a rate of

only 35 per cent. So, they arguably would still have grounds for feeling that in their case the 40 per cent flat-rate charge has a good deal of rough justice.

7. When the special tax was introduced in 1986, Ministers recognised that it would not necessarily claw-back the exact amount of the tax saving resulting from the (excessive) pension contributions. The tax saving would depend on:

- the tax rate at which the contributions were relieved (which could have been at 52 per cent, or even higher if the employer were unincorporated and so liable to income tax);
- the date when the employer received effective tax relief for the contributions; and
- the value of the tax exemption for the income and gains received by the pension fund.

8. Although the Vauxhall pension fund has in one sense benefited from the tax exemption for its income and capital gains (as distinct from Vauxhall's tax relief for contributions to the fund), it could be argued that there has been no real benefit. The point being that if the pension contributions had not been made and Vauxhall had retained the money it would not yet have paid any additional tax as a result because it would still have been tax-exhausted.

9. The reason the special tax is free-standing, so that for example a company's tax losses cannot be set against it, is that it prevents various kinds of tax avoidance that would otherwise be possible. This is consistent with Ministers' intention that the special tax should deter a predator in a take-over from stripping the pension fund.

Case for a concession

10. Vauxhall arguably have some cause for complaint that the special tax as it affects them, is more rough than just. But the special tax was meant to give a reasonable result overall, recognising that some companies would do well and others would do badly - it would have been wholly impracticable to tailor the tax charge to reflect the value of the tax relief obtained by each company. Furthermore, any relief for Vauxhall would require legislation. The relief could in principle either be some off-set for Vauxhall's tax losses or some deferment of the liability to the special tax. But in either case the relief would have to run generally and it could prove expensive. We therefore recommend against introducing a relief.

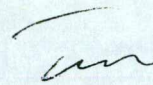
11. Vauxhall have argued that there is a link between the special tax on the proposed refund and the investment at Ellesmere Port. They say that the money from the refund would be used to finance the investment, and they also say that the GM headquarters in Detroit may be inclined against approving the investment if no tax relief is given: but this linkage is unconvincing. On a strict analysis there are two separate issues:

- getting rid of the surplus in the pension fund, and the tax consequences of this; and
- whether or not to invest in Ellesmere Port.

The first issue has to be faced whether or not the investment in Ellesmere Port goes ahead. But the real point seems to be that the Chairman of General Motors is said to perceive such a linkage (perhaps because he regards the 40 per cent tax as unfair); and, more practically, that Vauxhall are looking for a tax hand-out to supplement the grant that they are seeking. On balance, we assume that Ministers would not see a sufficient case for new legislation on these grounds.

Conclusion

12. If you are content, we shall tell Vauxhall that no tax relief will be forthcoming.



J H REED

Financial Secretary.

Ministers recognised when this regulation was introduced that it would bite in cases such as this ie in tax exhausted cases. I do not think the case for change has been out.

JHR
9/11

FROM: M PARKINSON

DATE: 9 November 1988

1. MR WALLER *9/11*
2. CHIEF SECRETARY

cc. Chancellor
 Financial Secretary
 Economic Secretary
 Sir Peter Middleton
 Mr Anson
 Mr Monck
 Mr Scholar
 Mr Burgner
 Mr Culpin
 Ms Roberts
 Mr Spasojevic
 Mr Isaac (IR)
 Mr J Reed (IR)
 Mr Call
 Mr Tyrie

VAUXHALL MOTORS: ELLESMERE PORT PAINTS PLANT

1. DTI officials have sought our approval for offering an RSA grant in the range of £6.452m to £8.065m to Vauxhall Motors Ltd, a subsidiary of General Motors Corporation of the USA (GM). Our approval is needed because this is above the £5m delegation limit. We recommend that you write to Mr Newton accepting his judgement, but expressing our doubts about the case on additionality grounds, and emphasising that no more than £8.065m should be conceded.

2. There is also a taxation angle to the case, relating to the attitude of GM's Chairman to the tax charge which will be levied on the withdrawals from Vauxhall's pension fund. This is discussed in more detail in the Revenue's submission of 9 November to the Financial Secretary.

Background

3. Vauxhall Motors Ltd has applied for RSA assistance of £10m towards a project costing £56.25m over 1988 to 1990 for constructing a new enamel paint shop; the present paint facility

Attached
behind.

is the last within GM Europe to use the inferior acrylic lacquer technique. Without the project Vauxhall believe that 1613 jobs will be lost at Ellesmere Port by 1991, as production of two-coat metallic cars will be reallocated within GM Europe. The company has spare capacity and mothballed factories on the Continent. The Vauxhall management also believe that, without the project, the long term future of the plant could be in doubt.

4. The Ellesmere Port project has to be sanctioned by the Chairman of GMC, Roger Smith. He is understood to have some antipathy to the Ellesmere Port plant, believing the plant to have a poor labour relations record in the past and low productivity. He is also concerned to secure deferral of tax payments over a 10 year period following the release of surplus pension fund monies (on which Inland Revenue are submitting to the Financial Secretary). Although the company have had a sympathetic hearing from Inland Revenue, if Ministers do not offer any tax concession - we and the Revenue do not recommend any concession - the company will press very hard for a large RSA grant.

Assessment

5. DTI are satisfied that the project meets the normal viability and economic efficiency criteria. The cost per job saved is £4-5,000 compared to the maximum in the guidelines of £17,000 in a development area. The main argument in favour is the regional case, safeguarding 1613 jobs which would otherwise be lost through reduced production; the Wirral and Chester TTWA had an unemployment rate of 14.7% in July 1988. Lack of investment would cast doubt on the long term viability of the plant, which employs over 4,500. The industrial case is less convincing, based on reducing import penetration rather than bringing in high technology etc. (GM have a pretty cavalier attitude to the interests of producer countries in achieving a balance between domestic sales and output - despite their professed preference for such a balance - and have not sited their R&D or product development activities in the UK.)

6. The main doubt about the eligibility of the project concerns additionality. The return on the project without grant is 17.5 per cent which exceeds the company's normal 15 per cent threshold rate. But the company claim that 20 per cent is required, which equates to a grant of £10m, to persuade the Chairman of GMC to invest in Ellesmere Port in view of the downside risks. These risks relate to the sensitivity of the analysis to the assumption that volume loss will be avoided by updating the paint facility.

7. This argument is not very convincing; the rate of 20 per cent has not been arrived at by a formal risk analysis but is thought by Vauxhall to be a sufficient level to persuade the Chairman. However DTI are particularly concerned with the threat that if neither grant nor a concession on the pension fund tax charge are forthcoming, the Chairman of GMC will decide against the project in view of the surplus capacity elsewhere, for example at Antwerp, despite the project's rate of return. In this sense, they argue that the project is additional.

Conclusion

8. The case for RSA support rests on the regional jobs argument - the cost per job is well within the guidelines. (The range of support proposed by DTI is based on figures of £4-5,000 per job rather than any more closely measured assessment). However in other respects the case is not convincing, particularly on additionality. In normal circumstances we would recommend rejection. But we know Mr Newton firmly supports the case, placing great weight on the Chairman's threat (which DTI assess to be a real one) to locate the paint plant on the Continent thereby undermining the long term future of the Ellesmere Port plant. The DTI's Industrial Development Advisory Board (of senior businessmen) also supports the case on these grounds. Against this background an outright rejection on RSA would very probably prompt an appeal against the decision to colleagues from Mr Newton - an appeal which might well win the day given the unemployment position of Merseyside. There would also be a danger that this

would open up the whole tax issue where, as explained in the Revenue submission, any relief would have to be applied generally and so could prove expensive. In these circumstances you may feel it would be preferable to accede to Mr Newton's RSA proposal.

9. We therefore recommend that you should agree that RSA can be negotiated in the range suggested by the DTI, but making clear that this is the absolute maximum and that this is to be accommodated within existing provision (DTI have not sought extra funding).

10. A letter is attached, which has been drafted on the basis that the Financial Secretary and you agree with the Revenue's advice on the tax aspect.

Maria Parkinson

M PARKINSON

DRAFT LETTER FROM THE CHIEF SECRETARY TO MR NEWTON

VAUXHALL MOTORS LTD

1. My officials have drawn my attention to the application from Vauxhall Motors Limited for assistance of £10m for a £56.25m project to construct a new enamel paint shop at Ellesmere Port. On advice from IDAB I understand you propose to negotiate RSA in the range of £6.452m to £8.065m.

2. Although I can understand your wish to safeguard 1,613 jobs in this high unemployment area of the country, I have to say that there are some strong doubts as to whether this project is genuinely additional i.e. whether it would not go ahead anyway without grant. Even without grant, the project's rate of return would exceed the company's 15 per cent threshold. The grant would not substantially increase the return. Nor can it be claimed that there are potentially significant technology transfer gains from bringing the plant up to the standards of existing best practice. These considerations would normally weigh against agreeing to the application.

3. That said, I appreciate that the location of the investment appears to depend crucially on the attitude of the Chairman of GM, who is taking a close personal interest in the outcome of the discussions with the Inland Revenue on the tax charge arising from the withdrawal of surplus funds from the Vauxhall pension fund. Norman Lamont and I have considered this issue and we agree that there is no good case for any concession to the company on the tax front, which would have to apply generally if conceded to Vauxhall. But in these exceptional circumstances I am prepared to agree to the offer of a RSA grant within the limits proposed. This is on the basis that you judge that a grant in the range suggested is justified on additionality grounds as being the minimum necessary to safeguard the jobs and prevent the investment being switched to the Continent. The £8.065m must, however, be an absolute maximum (I hope the outcome is well under this) and must be accommodated within your existing RSA provision.

Smalton



CC: PPS, CST, EST
Sic. P. Middleton
Mr. ANSON
Mr. Monck
Mr. Scholack

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Antony Newton MP
Chancellor of the Duchy of Lancaster
and Minister for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

Mr. Waller
Mr. Burgree
Mr. Culpin
Mr. M. Parkinson
Ms. Roberts

[Handwritten signature]

10 November 1988

Mr. Spasojevic
Mr. ISAAC IC.
Mr. Reed IC.
Mr. Tycie
Mr. Call PS/IC.

Antony Newton

VAUXHALL MOTORS LTD

My officials have drawn my attention to the application from Vauxhall Motors Limited for assistance of £10m for a £56.25m project to construct a new enamel paint shop at Ellesmere Port. On advice from the IDAB, I understand you propose to negotiate RSA for this project in the range of £6.452m to £8.065m.

Although I can understand your wish to safeguard 1,613 jobs in this high unemployment area of the country, I have to say that there are some strong doubts as to whether this project is genuinely additional; that is whether it would not go ahead anyway without grant. Even without grant, the project's rate of return would exceed the company's 15 per cent threshold. The grant would not substantially increase the return. Nor can it be claimed that there are potentially significant technology transfer gains from bringing the plant up to the standards of existing best practice. These considerations would normally weigh against agreeing to the application.

That said, I appreciate that the location of the investment appears to depend crucially on the attitude of the Chairman of GM, who is taking a close personal interest in the outcome of the discussions with the Inland Revenue on the tax charge arising from the withdrawal of surplus funds from the Vauxhall pension fund. I have carefully considered the tax issue. Bearing in mind that any tax relief (which would in any event require legislation) would have to apply generally and therefore involve considerable potential costs in terms of reduced tax receipts, I believe that no concession should be made to the company on this point. But in these exceptional circumstances, I am prepared to agree to the offer of an RSA grant within the limits proposed. This is on the basis that you judge that a grant in the range suggested is

RS/10.11

justified on additionality grounds as being the minimum necessary to safeguard the jobs and prevent the investment being switched to the Continent. The £8.065m must, however, be an absolute maximum (I hope the outcome is well under this) and must of course be accommodated within your existing RSA provision.

NORMAN LAMONT

COMMERCIAL IN CONFIDENCE



FROM: R C M SATCHWELL
DATE: 16 November 1988

MR REED - IR

cc PS/Chancellor
PS/Chief Secretary
Mr Monck
Mr Culpin
Mr Moore
Mr Gilhooly
Mr Walter
Mrs Chaplin

PS/IR

VAUXHALL MOTORS: ELLESMERE PORT

This is just to confirm the decision reached at the Financial Secretary's meeting last week, and conveyed in his letter of 10 November to Mr Newton, that no concession should be made to Vauxhall on the tax charge arising from the withdrawal of surplus funds from the company's pension fund. You are now free to tell the company that no tax relief will be forthcoming.

R C M SATCHWELL
Private Secretary

CH/EXCHEQUER	
REC.	17 NOV 1988 ✓ 17/11
ACTION	
COPIES TO	CST, Sir P.M. DOOLEY
	Mr ANSON, Mr MONCK
	Mr BURGNER, Mr MOORE
	Mr TURNBULL, Mr MACAUSLAN
	Mr WALLER

The Rover Group plc
 7-10 Hobart Place
 London SW1W 0HH
 Telephone: 01-235 4311
 Telex: 926880

16 November 1988

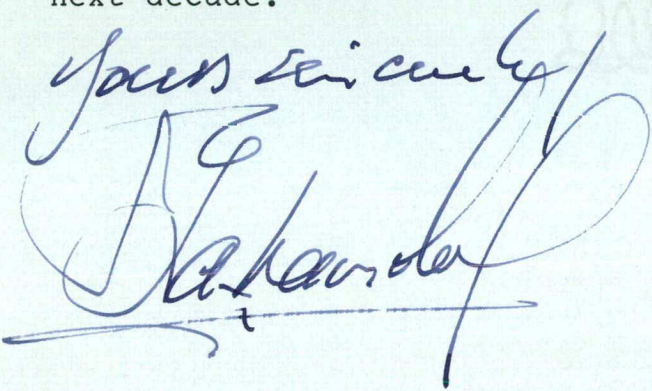
A C S Allan Esq
 Private Secretary to the Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 London SW1P 3AG

Ch.
 A short 'thanks' from me?
 JGD

Dear Mr. Allan

I thought it would be courteous to let you know of the new appointment of a Managing Director for the Rover Group announced today in the enclosed documents.

I look forward to working with George Simpson to strengthen further the Company and help its future development into the next decade.

Yours sincerely


J GRAHAM DAY

The Rover Group plc
7-10 Hobart Place
London SW1W 0HH
Telephone: 01-235 4311
Telex: 926880

16 November 1988

TO: ROVER GROUP MANAGERS

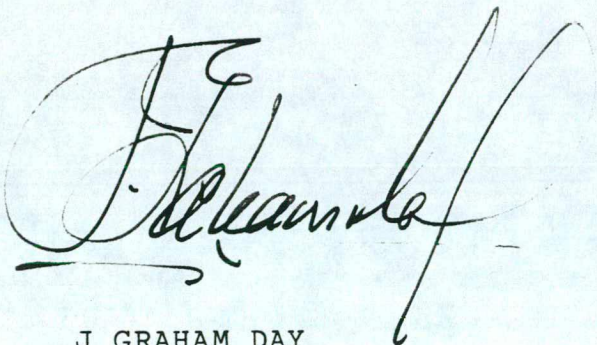
The attached announcement issued today by British Aerospace gives details of a new appointment and brings us into line with the new, devolved structure BAe is introducing from January 1 next year.

As part of the new structure each of the BAe businesses will operate with a Chairman and Managing Director.

My position as Chairman means that I continue to have overall responsibility for the performance of the Rover Group and represent the business on the main BAe Board as well as fulfilling my broader responsibilities as a Director of that Board.

George Simpson is appointed to the new position of Managing Director, Rover Group and will have responsibility for all Rover activities. I am delighted that George is rejoining the Company after successfully establishing Leyland DAF, where he is Chief Executive, within the enlarged DAF BV Group.

George first joined the then BLMC in 1969 and spent 5 years in the car operations at Longbridge before transferring to Leyland Vehicles. He has been Managing Director of Freight Rover and was Managing Director of Leyland Trucks before the merger with DAF.



J GRAHAM DAY

NEWS RELEASE



BAe 179/88

Wednesday, November 16, 1988

ROVER GROUP APPOINTS MANAGING DIRECTOR

As has already been announced, British Aerospace Public Limited Company ("British Aerospace") is implementing a new organisational structure on January 1, 1989, including the reconstitution of its Divisions as subsidiary companies and related management changes.

Consistent with the new organisation, the following Rover Group changes are announced effective January 1, 1989:

Mr. J. Graham Day, presently Chairman and Chief Executive of the Rover Group, will relinquish the role of Chief Executive but continue as Chairman, responsible to Sir Raymond Lygo - Chief Executive of British Aerospace - for the overall performance of the Rover Group. Mr. Day also continues as a Director of British Aerospace.

Mr. George Simpson is appointed to a new position as Managing Director, Rover Group, accountable to Mr. Day for the operations of that business. Mr. Simpson, aged 46, has a long experience within the motor industry and is presently Chief Executive, Leyland DAF.

For further information
please contact:

Mr. Brian Johns
Rover Group
7-10 Hobart Place
London SW1W 0HH

Tel: 01-235 4311

Issued by:

Press Office
British Aerospace
Brooklands Road
Weybridge
Surrey KT13 OSF

Tel: Weybridge (0932) 853444



pmf

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

18 November 1988

J Graham Day Esq
Chairman and Chief Executive
The Rover Group plc
7-10 Hobart Place
London SW1W 0HH

Dear Mr Day

Thank you for your letter of 16 November to Mr Allan here,
announcing Mr Simpson's appointment.

Yours sincerely
Jan Allan Day

J M G TAYLOR
Private Secretary

UNCLASSIFIED

FROM: M PARKINSON (IAE3)
 DATE: 2 MAY 1989
 EXT: 4472

PS/ECONOMIC SECRETARY

cc PS/Chancellor
 PS/Chief Secretary
 PS/Paymaster General
 PS/Sir Peter Middleton
 Mr Monck
 Mr Odling-Smee
 Mr Burr
 Mr Ilett
 Mr Revolta
 Ms Young
 Mr Melan

Mr R. G. Allen

Mr Wilson

MITSUBISHI - INVITATION TO ECONOMIC SECRETARY

You asked for advice about the invitation from Sir Peter Parker, Chairman of Mitsubishi Electric UK, to the Economic Secretary, to luncheon on 30 June.

2. After sporadic talks over the last four years negotiations are starting in earnest between the Scottish Office and Mitsubishi over a possible semiconductor project in Europe. Scotland and West Germany are the main contenders for the project, worth an estimated £400m and 600 new jobs. Mitsubishi are apparently expecting similar RSA treatment to Fujitsu who recently received RSA of £30m for another semiconductor project. The Scottish Office have sought approval for a level of support of around £15m.

3. The Chief Secretary has written (20 April) that at this relatively early stage no indicative offer for RSA can be made before care appraisal papers are available, and in any case there can be no presumption that RSA is warranted. It is difficult to predict the pace or course of negotiations but it is possible that the matter could still be live by the end of June and that the luncheon might be used to lobby the Economic Secretary even though the theme for discussion at the luncheon is a broader one - "Current situation and Future Trends of Trading in Western Europe". The advice therefore is that unless the Economic Secretary is especially minded to accept this invitation, we would advise him to decline on this occasion.

4. IAE3 and EC1 agree.

Mark Parkinson

M PARKINSON

13/7
dti

the department for Enterprise

*What pos. in the
+ various French
Special Shares?*

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

CH/EXCHEQUER	
REC.	07 JUL 1989 ✓ 7/1
ACTION	MR MONCK
COPIES TO	POST, B/EST SIR P MIDDLETON MR ANSON MR I WILSON MR D JL MOORE MR ROBSON MR BENT

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref PS4CIZ
Your ref

Date 7 July 1989

Nigel Lawson

Proced in to NM

MR REVOLTA
MRS CHAPLIN
MS WHELDON T/SOL

ROLLS-ROYCE AND BRITISH AEROSPACE FOREIGN SHAREHOLDING LIMITS

Last April you chaired a meeting on the Review of Special Shares. Your minute of 12 May 1988 to the Prime Minister reported the outcome. On the foreign shareholding limits in the Articles of Rolls-Royce and British Aerospace - which are protected by the Government's Special Share in each case - we agreed that we should continue to pray in aid in our negotiations with the Commission the defence exemption in Article 223 of the Treaty of Rome, but we could offer to increase the limit on foreign shareholdings from 15 per cent to 25 per cent if that looked like producing a settlement.

Through a series of meetings at official level and my own contacts with Arthur Cockfield and then with Martin Bangemann we have managed to persuade the Commission to consider seriously a deal which would involve an increase in the limit and a review of the need for the limit after five years.

In line with the views of colleagues I pressed Mr Bangemann to accept an increase to 24 per cent. However this was not enough for him. We then talked around compromises involving the disenfranchisement of foreign shareholders above a 24 per cent limit or the issue of an additional tranche of non-voting shares that foreigners could buy, but these would have been complicated to operate and neither company was at all enthusiastic. Instead at my meeting with Mr Bangemann on Tuesday I floated an increase in the limit to 29.5 per cent (still with a review after five years) subject to colleagues and the companies agreeing to this. He agreed to try out the proposal on his Commission colleagues. I understand he did this at the Commission meeting on Wednesday though without any

decision being reached.

As there seems a fair chance that the Commission will accept my proposal I would like your agreement and that of colleagues to offer this formally to the Commission. Both Rolls-Royce and British Aerospace support it. Indeed as you may know their Chairmen have both been pressing me to allow some increase in the 15 per cent limit on the grounds that it unduly depresses their share prices. I believe an increase to 29.5 per cent (ie under the 30 per cent trigger point in the Take-over Code that would oblige a shareholder to make a mandatory bid) will not prejudice our defence interests and would be defensible in Parliament. I do not think that investors in the companies should have cause for complaint since the companies consider that an increase in the limit should boost their share price. In theory a single foreign shareholder who acquired a sufficient proportion of the shares or a large foreign concert party would be able to influence the affairs of the company by, for example, blocking the passing of special resolutions. In my view the risk of this happening is small and neither of the companies seemed concerned about it.

As for the review of the need for the limit after five years this would be without commitment on our part though it is quite likely that the structure of the defence industry and the pattern of defence procurement will be sufficiently different by then for us to want to review the case for preserving UK control via an explicit limit on foreign shareholdings.

The alternative to increasing the limit to 29.5 per cent is to stand firm on our present offer of 24 per cent and let the Commission decide whether to take us to the European Court. There are signs that they feel less sure of their legal position if the limit were increased to 24 per cent, but there still seems to me a distinct risk of them activating formal legal proceedings under Article 169. The Commission have for some time been keen to whittle down the ability of Member States to rely on the exemption in this Article and unless we are driven to it - which I do not think we are in this instance - it would not be in our interests to give the Commission an opportunity to encourage the European Court to make general pronouncements on the scope of Article 223.

I would appreciate an early response as the Commission are due to consider this issue again at the meeting on 12 July. I would like to be able to offer the compromise formally to Martin Bangemann before then.

dti

the department for Enterprise

I am copying this letter to the Prime Minister,
Geoffrey Howe and George Younger and to Sir Robin Butler.

*Lord
Nair*



FCS/89/152

CH/EXCHEQUER	
REC.	11 JUL 1989
ACTION	MR MUNCH
COPIES TO	PS/IST, R/EST SER P MIDDLETON MR ASSON, MR WELDON MR DJ L MOORE, MR ROBSON MR BENT, MR REVOTA MRS CHARLEN MR WHELDON-T/SU.

11/7

SECRETARY OF STATE FOR TRADE AND INDUSTRY

Rolls-Royce and British Aerospace Foreign Shareholding Limits

1. Thank you for copying to me your letter of 7 July to Nigel Lawson.
2. I agree that we should formally offer a 29.5% limit, with a 5-year review. This offers the best chance yet to avoid a court case and the risk of an unwelcome ruling on the scope of Article 223.
3. Copies of this minute go to the Prime Minister, the Chancellor, the Defence Secretary and the Cabinet Secretary.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
11 July 1989

CONFIDENTIAL

FROM: D C W REVOLTA (IAE2)
DATE: 11 July 1989
EXT: 4659

CHANCELLOR

cc Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Wilson
Mr Moore
Mr Robson
Mr Stevens
Mr S Kelly
Mrs Chaplin

*Still wait
Ch.
Mr.
I asked Mr Monck to
change for your question about French GB.
to be covered in this brief, but it seems
to have been missed.
I am afraid this is now v. urgent.
Content to write no proposal? (I'll get
the question answered separately). 11/7*

ROLLS ROYCE AND BRITISH AEROSPACE FOREIGN SHAREHOLDING LIMITS

Lord Young has written (letter of 7 July) to seek agreement that he should make a formal offer to the Commission of an increase in the foreign shareholding limit from the present 15% to 29.5%, to be reviewed after 5 years. He is looking for a response in time for a meeting of the Commission on Wednesday.

Recommendation

2. We recommend that you accept Lord Young's proposal.

Background

3. There had been rumblings within the Commission from the time that RR was privatised about the 15 per cent foreign shareholding limit. Their concern was brought to a head, however, in February 1988 by the forced sale of foreign-held shares above that limit. Lord Cockfield wrote to Lord Young on 25 March 1988, in effect threatening infraction proceedings against the UK under Article 169 of the Treaty of Rome. You agreed last April, in the context of the review of special shares generally, that Lord Young should seek to find an accommodation with the Commission, which ideally would involve retaining the foreign shareholding limit but negotiating some increase in that limit from 15 per cent, in order to head-off such proceedings. Negotiations since then have proceeded at a slow pace, and a number of compromise solutions have been aired involving different possible limits on the shareholding. Reliance on the defence exemption in Article 223 of the Treaty of Rome was seen as a fallback only if no compromise could be reached on the percentage limit.

4. Treasury interests in this are:

(i) to avoid any major challenge to the defence exemption in Article 223 - this would argue for keeping away from court hearings since we cannot readily control the scope of the argument, which could possibly repercuss on Special Shares policy.

(ii) to monitor handling so as to avoid the risk that these two companies might try to extract a price for a change in their Articles, for example in the levy negotiations which were in progress with each company earlier this year.

5. Since the whole issue was raised by the Commission in the first place, we should seize this opportunity if as Lord Young believes the Commission can now be persuaded to live with the compromise position put forward by the UK. Both RR and BAe are content with the proposed change, which they think will benefit their share prices; and the read-across to levy negotiations is no longer a problem since those discussions have been completed successfully.

6. A draft letter is attached. This advice has been agreed with PE2.

R F Budock

PP D C W REVOLTA

CONFIDENTIAL

DRAFT

Rt Hon Lord Young of Graffham
Secretary of State for Trade & Industry
Department of Trade & Industry
1-19 Victoria Street
London SW1

*Pse type final
pl.
[date yesterday]*

ROLLS ROYCE AND BRITISH AEROSPACE FOREIGN SHAREHOLDING LIMITS

Thank you for your letter of 7 July. I am content that you should make a formal offer of the compromise proposal of an increase in the foreign shareholding limits of both companies to 29.5%, with a 5 year review.

I am copying this letter to ^{the} recipients of yours.

NIGEL LAWSON

dti

the department for Enterprise

CH/EXCHEQUER	
REC.	12 JUL 1989
ATTN	CST
COPIES TO	

12/7
Pmf

Return to Law on new state L or this;

~~PRIME MINISTER~~

12/7/89.

I am writing to let you know that Honda will be announcing tomorrow that they are to invest £300m in a vehicle assembly plant on their site at Swindon and that they and Rover Group will announce that they are putting their long standing collaborative arrangements on a firmer footing by taking minority cross shareholdings.

This means that the three major Japanese car companies will have investment totalling £1.8 billion in the UK by the mid-90s, creating 8250 direct jobs and at least as many again in the supplying industries.

I therefore expect there to be considerable Parliamentary interest in this announcement, not least because it disproves the notion that greenfield investment by Honda would result in their cutting their collaborative links and leaving Rover Group high and dry. Just as Nissan and Toyota were the subject of oral statements I propose, as discussed at Cabinet this morning, to make the short statement attached, welcoming Honda's decision to make this major investment in the UK and to strengthen its links with the Rover Group. I shall take the opportunity to stress that Rover Group is now fully in the private sector taking decisions independently of Government, and that it is therefore for them at their Press Conference with Honda (in which DTI officials will not be participating) to describe the details of their enhanced collaboration.

You may like to know that my officials have taken informal soundings of the Commission and have confirmed that the deal between Honda and Rover Group does not cause difficulty with last year's State Aid decision.

dti

the department for Enterprise

I am sending copies of this letter to Geoffrey Howe,
Nigel Lawson, John Wakeham, John Belstead, David Waddington and
Bertie Denham.

A handwritten signature in black ink, appearing to be 'G. Howe', with a horizontal line drawn through it.

D Y
(Approved by the Secretary of State and
July 1989 signed in his absence)

DEPARTMENT OF TRADE AND INDUSTRY

the
Enterprise
initiative

The logo for the Enterprise Initiative, featuring the text 'the Enterprise initiative' with a stylized arrow pointing upwards and to the right.

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

PARLIAMENTARY STATEMENT ON RG/HONDA

My Lords, with the leave of the House, I would like to make a statement on a major Japanese inward investment project in the motor sector by Honda. I shall go on briefly to set it in the context of an enhancement of the important relationship between Honda and Rover which has developed over more than 10 years. The companies will be making their own more detailed announcement about the latter aspect later this afternoon.

Since shortly after their return to full private ownership last year, Rover have been discussing with Honda how best mutually to strengthen each other's position in Europe. One element in these discussions has been Honda's site at Swindon, which has already been developed for engine manufacture. I am sure the House will join me in welcoming today's announcement that Honda are to extend that facility to full manufacture of cars for the European market. The new plant will add some 1300 jobs to Honda's existing workforce at Swindon as well as providing additional business opportunities for RG's own Swindon facility from which it will source pressings. The project will involve additional investment of around £300m and no financial assistance has been requested.

The plant is scheduled to commence manufacture at the end of 1991 with a limited volume of Honda cars in direct substitution for shipments they would otherwise make from Japan to the UK. One year later a full range of production operations will start with output rising rapidly to 100,000 cars per annum in 1994; this will include cars Honda will build there for Rover who will

continue to build cars for Honda at Longbridge. Honda have indicated their wish to achieve the maximum commercially feasible level throughout the project and it is their firm intention to reach an 80% level within 18 months of the start of full commercial operations.

The companies have now decided to cement their Partnership through significant minority cross-shareholdings between Honda's UK manufacturing company and Rover Group. They believe this will have important commercial benefits for both companies, illustrating their importance to one another in joint development and production while at the same time respecting each other's individual identity. I see it as a vote of confidence by Honda in the UK, but more particularly in Rover Group, and a tribute to the efforts of Rover's management and workforce in restructuring that company to meet the exacting standards of today's market place. I am confident that today's announcement amounts to a further step in the renaissance of the UK motor industry, ensuring that it will play a significant role in the European market of the 90s. I commend it to this House.



- cc PS/Chief Secretary
- PS/Financial Secretary
- Sir P Middleton
- Mr Anson
- Mr Monck
- Mr D J L Moore
- Mr Robson
- Mr I P Wilson
- Mr Revolta
- Mr Stevens
- Mr S Kelly
- Mrs Chaplin

bf h 2f
13/7

Treasury Chambers, Parliament Street,
01-270 3000

12 July 1989

Rt Hon Lord Young of Graffham
 Secretary of State for Trade
 and Industry
 Department of Trade and Industry
 1-19 Victoria Street
 LONDON
 SW1H 0ET

[Dominic]

Dear Secretary of State

ROLLS ROYCE AND BRITISH AEROSPACE FOREIGN SHAREHOLDING LIMITS

Thank you for your letter of 7 July. I am content that you should make a formal offer of the compromise proposal of an increase in the foreign shareholding limits of both companies to 29.5 per cent, with a five year review.

I am copying this letter to the recipients of yours.

Yours sincerely
Nigel Lawson

pp NIGEL LAWSON
[Approved by the Chancellor and signed on his behalf]



10 DOWNING STREET
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	14 JUL 1989 ✓ 14/7
ACTION	CST
COPIES TO	

From the Private Secretary

13 July 1989

Dear Gareth,

HONDA

The Prime Minister was most grateful for your Secretary of State's minute received yesterday concerning today's announcement of the Honda investment at Swindon and the arrangements for minority cross shareholdings. She has also noted the informal view from the Commission that the deal does not cause difficulty with last year's State Aid decision.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office), Alex Allan (HM Treasury), Steven Catling (Lord President's Office), Nick Gibbons (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and Douglas Slater (Government Whips Office, House of Lords).

*Yes.
Pc*

(PAUL GRAY)

Gareth Jones, Esq.,
Department of Trade and Industry.



FROM: J M G TAYLOR

DATE: 13 July 1989

bf 20/7

MR REVOLTA

Taylor
px phone
JG

- cc PS/Chief Secretary
- PS/Financial Secretary
- Sir P Middleton
- Mr Anson
- Mr Monck
- Mr D J L Moore
- Mr Robson
- Mr I P Wilson
- Mr Stevens
- Mr S Kelly
- Mrs Chaplin

ROLLS ROYCE AND BRITISH AEROSPACE FOREIGN SHAREHOLDING LIMITS

The Chancellor was most grateful for your note of 11 July. As you will have seen, he wrote to Lord Young as drafted.

2. The Chancellor would be grateful to know what the position is (in terms of eg limits on foreign shareholdings) in relation to the various French special shares. I should be grateful for advice.

JG

J M G TAYLOR

Ch/
An interesting note by Miss G.
As Mr Moore says, "national interest"
can be used to cloak discriminatory action - but
it is less obviously "xenophobic" than explicit limits on foreign holdings.

FROM: MISS GASELTINE
(PE2)
EXT: 4778
DATE: 19 July 1989

- 1. MR MOORE *It will be interesting to see how* cc
- 2. PS/CHANCELLOR *Review arrangement described in 6ii*
operates. It appears to enable the
Minister to pick & choose under the
national interest clause.

PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Robson
Mr Revolta
Mr I P Wilson
Mr Stevens
Mr S Kelly
Mr Fray
Mrs Chaplin
Mr Call

Thanks
Most of our
Special Shares,
of course

John
Chancellor
Minister
of Finance
to make
the
national
interest
clause
work
for
the
UK
and
other
countries

FRENCH SPECIAL SHARES

Your minute of 13 July, concerning the Rolls-Royce and British Aerospace special shares, requested advice on special share arrangements for privatised companies in France.

2. Under the Chirac government, the arrangements to protect privatised companies against hostile takeover bids primarily took the form of creating a stable, long term shareholder base rather than the use of special shares. In most of the large companies privatised between 1986 and the beginning of 1988, the Government and company in question selected in advance of the full offer for sale a "noyau dur" or "hard core" of shareholders, "friendly" institutions who would each hold between 0.5% and 5% of equity and together hold 20-30% of equity. In return for the privilege, they would pay a premium of 2.5-10% on the share price and, under the privatisation law of August 1986, would be obliged to retain their holding for a minimum of two years and to seek the prior agreement of the company's board before making any disposal during the following three years. Over seventy French and foreign companies were selected to form part of hard core groups.

John
Chancellor
Minister
of Finance
to make
the
national
interest
clause
work
for
the
UK
and
other
countries

3. The remaining 70% of the equity of a privatised company would typically be sold 10% to employees, 15-20% to international investors, 5% reserved as free shares and 40% in a general public offer. Theoretically, therefore, a predator could still acquire 70% of equity and bid for the company as a whole. But in practice a 30% blocking minority is seen as a sufficient deterrent. The French system is such that to attempt a takeover of a major French company against the wishes of the Government would be risky and bureaucratically difficult.

4. However, under the 1986 law the Government may also choose to put in place for a particular company straightforward limits on equity holdings. First, the Government may retain a special share, which gives the Minister of the Economy an effective veto over any person or concert party holding more than 10% of equity. This lapses automatically after 5 years. The special share has only been used for three companies: Elf (of which only 11% of shares out of a Government holding of 68% were sold), for energy security reasons; Havas, which has extensive media and publicity interest; and Matra, which is active in the defence and space sectors and is regarded as of strategic importance. Secondly, the Minister may decree that no one person may acquire more than 5% of shares; it does not seem that this has ever been done.

5. In addition, the law contains two discriminatory provisions:

i. a limit of 20% (including any hard core holdings) is placed on the initial acquisition of shares by foreigners in aggregate. (Companies under foreign control are those at least 40% owned by foreigners.) Since the limit applies only to the initial offer, the proportion of foreign holdings may increase later as a result of market trading. Although the EC Commission were reported to raise serious objections to this provision when the law was at the draft stage, they later adopted a flexible attitude, assuming that the limit would not be used against EC citizens and saying they would consider consistency with the Treaty of Rome on a case by case basis. They have raised no further objections;

ii. acquisitions by foreigners of more than 5% of the shares of certain companies engaged in sensitive activities (defence, public order and health) covered by Articles 55, 56 and 223 of the Treaty of Rome require the prior approval of the Minister. The law does not say how consistency with the Treaty is to be proved; again, this provision has not been used (as noted above, a non-discretionary special share was used for Matra).

6. The Rocard Government is now taking steps to undermine the "noyaux durs" approach and at the same time to strengthen overall barriers against takeover by introducing special share arrangements more along UK lines for all privatisation candidates. A law amending the 1986 law, which came into effect on 10 July 1989, has two provisions:

i. all those who hold shares in privatised companies are to become free to dispose of them as and when they wish;

ii. any person or body wishing to increase their stake in a privatised company above 10% must make a prior declaration to the Minister of the Economy, who has up to 10 days within which to impose a veto on grounds of national interest. "National interest" will presumably be determined at the Minister's discretion, but companies likely to be safeguarded in this way would probably be those involved in such sectors as defence, health, media, banking and cultural heritage. The provision will lapse at the end of 1992. By relying on case by case Ministerial decision, the arrangement could be used to discriminate against non-French investors, although there is no sign that this is the intent.

Kate Gaseltine
MISS K GASELTINE



FROM: J M G TAYLOR
DATE: 21 JULY 1989

A large, stylized handwritten signature in dark ink, possibly reading 'JMG'.

MISS K GASELTINE

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Moore
Mr Robson
Mr Revolta
Mr I P Wilson
Mr Stevens
Mr S Kelly
Mr Fray
Mrs Chaplin

FRENCH SPECIAL SHARES

The Chancellor was grateful for your note of 19 July.

2. He has commented that most of our own special shares, in Mr Moore's words, 'enable Ministers to pick and choose under the national interest cloak' and make no explicit distinction between UK and overseas bidders.

A smaller, stylized handwritten signature in dark ink, possibly reading 'JMG'.

J M G TAYLOR

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold all your ordinary shares of 20p each in Rolls-Royce plc please forward this document and the accompanying form of proxy to your bank, stockbroker or other agent through whom the sale was effected, for transmission to the purchaser.



ROLLS-ROYCE plc
65 Buckingham Gate, London SW1E 6AT

14th August, 1989

To the shareholders and participants in the employee profit-sharing scheme

Dear Shareholder,

Increase in foreign shareholding limit

Your Board has believed for some time that an increase in the 15 per cent. limit on foreign shareholding in Rolls-Royce plc, imposed by HM Government at the time of the Company's return to the private sector, would be desirable because of the international nature of the Company's business and a continued demand from foreign investors which is constrained by the limit.

As at 7th August, 1989 (the latest practicable date prior to the printing of this letter) the number of shares registered as foreign-held was approximately 127.8 million, representing 13.4 per cent. of the issued share capital.

The Board therefore is pleased that HM Government has agreed, following its discussions with the European Commission, that the Company can now amend its Articles of Association to increase the permitted limit on foreign shareholding to 29.5 per cent. This amendment requires approval by a special resolution of shareholders: a notice convening an Extraordinary General Meeting at 11.30 a.m. on 11th September, 1989 and including a resolution for this purpose is set out on the reverse of this letter.

The second resolution in this notice, if passed, will have the effect of revoking all disposal notices served on holders of Excess Foreign-held Shares under the previous 15 per cent. limit in respect of which the relevant shares have not been transferred by the date the resolution is passed, save to the extent that the proposed 29.5 per cent. limit is already exceeded at that date.

Your directors recommend all shareholders to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting, as they intend to do in respect of their own beneficial holdings. HM Government, as holder of the Special Share, has given its formal consent to the proposed amendment.

Shareholders will find enclosed a form of proxy for use at the Extraordinary General Meeting, which you are requested to complete and return in accordance with the instructions printed thereon as soon as possible, but in any event so as to arrive no later than 11.30 a.m. on 9th September, 1989. The return of a form of proxy will not preclude you from attending the meeting and voting in person if you wish to do so. For participants in the employee profit-sharing scheme, a form of direction is enclosed which should be returned so as to arrive no later than 11.30 a.m. on 7th September, 1989.

Yours sincerely,
Sir Francis Tombs
Chairman

ROLLS-ROYCE plc

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Rolls-Royce plc will be held at The Victoria Rooms, Queens Road, Clifton, Bristol on Monday, 11th September, 1989 at 11.30 a.m. for the sole purpose of considering and, if thought fit, passing the following resolutions which will be proposed as special resolutions:

1. THAT the Articles of Association of the Company be amended by the deletion of the word "fifteen" where it appears in Article 43(D)(ii)(a) and Article 43(D)(ii)(b) and by the substitution therefor in each case of the figures "29.5".
2. THAT, subject to the passing of resolution number 1 set out in this Notice of Meeting:
 - (A) all notices served under Article 43(G), in respect of which the relevant shares have not been transferred by the date of passing of this resolution, be hereby revoked, save for notices in respect of shares which the Directors determine (in accordance with the provisions of the Articles of Association) would still continue to be Excess Foreign-held Shares (as defined in the Articles of Association) after the passing of resolution number 1 set out in this Notice of Meeting; and
 - (B) the shares subject to notices so revoked shall cease to be Excess Foreign-held Shares (as so defined) and the restrictions applicable to such shares under the provisions of Article 43(G) shall cease to apply.

By order of the Board

Anthony Warrington
Secretary


14th August, 1989

NOTES:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company. Appointment of a proxy will not preclude a member from attending and voting at the meeting should he/she subsequently decide to do so.
- (2) To be effective, forms of proxy must be lodged with the Registrar not less than 48 hours before the time fixed for holding the meeting. The address of the Registrar is National Westminster Bank PLC, Registrar's Department, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7YA.

UNCLASSIFIED

FROM: A J COOPER (EA1)
DATE: 15 AUGUST 1989
EXTN: 5391



MR O'DONNELL

cc PS/Chancellor
PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Odling-Smee
Mr Scholar
Mr Peretz
Mr Riley
Mr Sedgwick
Mr S Davies (MP1)
Mr Hibberd (EA1) o/r
Mr Grice (MG2)
Mr Ritchie (EB)
Ms Wallace
Mr Brooks (MG)
Mr Owen (EA1)
Miss Simpson (IDT)

CAR SALES IN THE FIRST TEN DAYS OF AUGUST

1. SMMT figures now available show that 307,238 new cars were registered in the first ten days of August, compared with 303,206 in the same period last year. The year-on-year increase is therefore small - 1.3 per cent - and it remains unclear whether sales for the month as a whole will exceed last year's record of 477,305. Industry commentators have been predicting another record August but the CBI/FT survey published yesterday reported that motor traders expected sales, on balance, to be lower than last year.

2. If you require a line to take, I suggest the following:

- little growth in the volume of new car registrations so far this August compared with the same period last year, following a marked fall (-4.5 per cent) in July. But it is too early to tell whether the slowdown observed in other components of consumers' expenditure is now affecting the car market.

A J Cooper
A J COOPER



c. PPS
Sir P Middleton
Mr Monck

PPS

Ford of Europe Incorporated

Murray L. Reichenstein
Vice President - Finance

Brentwood Essex CM13 3BW
England

September 19, 1989

Sir Terence Burns
Second Permanent Secretary
Chief Economic Adviser
H M Treasury
Parliament Street
London SE1P 3AG

✓

Dear Sir Terence,

I thought you would want to know a little more about the background to the announcement we are making today about our decision to seek a minority shareholding in Jaguar plc.

The outlook for the prestige car markets, both in Europe and North America, is one of increasing competitive pressures. All the major Japanese manufacturers, for example, are planning to introduce new up-market brands which will compete directly with Jaguar and the already strong German companies. In this environment, the smaller companies will find it increasingly difficult to survive and prosper. An association between Jaguar and Ford could make Jaguar a stronger competitor in world markets, and would therefore be in the best interests of the company, its employees and shareholders and the British motor industry.

/.....

324/19/9

September 19, 1989

Sir Terence Burns

Page: 2

Should our stake in Jaguar grow at some time in the future (the maximum shareholding permitted under Jaguar's articles until the end of 1990 is 15 percent), it would be our intention to maintain it as a separate and autonomous entity and reinforce its image as a manufacturer of exclusive and high quality cars. In the longer term, the benefits to Jaguar would include:

- Ford's considerable financial strength;
- Ford's experience of operating for 21 years as the most "European" of all the major car companies -- of particular benefit with regard to "1992";
- Ford's experience and strength in the United States -- Jaguar's most important market;
- cost savings on purchased materials and components because of Ford's much greater volume of purchases;
- and, most important, access to the full range of Ford's advanced technologies and research (as we have discussed in the past, these include considerable in-house expertise in electronics).

I would be very pleased to meet with you and to explain our position in more detail if you should so wish.

Regards,

J. Munday

p6p

FROM: A J COOPER (EA1)
 DATE: 19 OCTOBER 1989
 EXTN: 5391

SIR PETER MIDDLETON

cc : PS/Chancellor 12/2
 Sir Terence Burns
 Mr Odling-Smee
 Mr Riley
 Mr Sedgwick
 Mr Hibberd (EA1)
 Mr Owen (EA2)
 Mr Patterson (EA1)

*Comments from Sir Peter
 on the change in
 the treatment of cars
 might be disturbing the
 figures of consumption
 & investment. This suggests that it doesn't work.*

BUSINESS EXPENDITURE ON CARS AND CONSUMERS' EXPENDITURE

The table below shows the implications of allocating all business expenditure on cars to consumers' expenditure rather than to company investment. Given the very rapid growth of business expenditure on cars recently, this procedure obviously raises the rate of growth of consumers' expenditure.

(Percent changes on year earlier)

	Business Expenditure on cars	Consumer spending on durables*	Durables + business cars	Total consumer spending*	Total consumer spending + business cars
1987	14.1	7.3	8.5	5.4	5.5
1988	13.2	11.0	11.4	6.9	7.0
1988 Q1	8.0	11.4	10.7	7.9	7.9
Q2	14.6	9.5	10.5	6.9	7.0
Q3	20.5	13.1	14.4	6.9	7.2
Q4	13.0	9.5	10.2	5.9	6.0
1989 Q1	20.5	8.5	10.9	3.5	3.9
Q2	19.6	7.4	9.8	5.6	5.9

* CSO published figures

2. However, these figures are not particularly informative. The CSO do not consider the estimates of business expenditure on cars to be reliable. And it is not possible to distinguish purchases by car rental companies and by firms for their sales force - both of which should clearly be treated as investment rather than consumption - from purchases that provide extra income to staff who do not require a car in their work, which perhaps ought to be treated as consumption.

3 Even if it were possible to identify the appropriate component of business expenditure on cars and allocate it to consumer spending, the consistency of the national accounts would dictate that an equal sum should also be added to personal incomes. The level of personal saving would therefore be unchanged, and the saving ratio would fall only because of the (relatively small) increase in incomes. Such an effect would be minimal.

Adrian Cooper
A J COOPER