PREM 19/1537

PART 8

SECRET

C

MT

Confidential Filing

The Future of British Leyland.

INDUSTRIAL POLICY

Pt 1: SEPT 1979

Pt 8: APRIL 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~3.4.84~~		~~17/11/84~~					
~~4.4.84~~		~~19/11/84~~					
~~13.4.84~~		~~23/11/84~~					
~~17.4.84~~		~~28.11.84~~					
~~3.5.84~~		~~4.12.84~~					
~~1.5.84~~		~~24.12.84~~					
~~7.5.84~~		~~27.12.84~~					
~~16.5.84~~		~~28.1.85~~					
~~1.5.84~~		~~5.3.85~~					
~~6.84~~		~~11.3.85~~					
~~9.6.84~~		~~14.3.85~~					
~~21.6.84~~		~~25.3.85~~					
~~5.6.84~~		29/3/85					
~~28.6.84~~		ENDS					
~~17.7.84~~							
~~26.7.84~~							
~~20.7.84~~							
~~17.9.84~~							
~~5.10.84~~							
~~22.10.84~~							
~~1.11.84~~							

PREM 19/1537

PART 8 ends:-

Prof. Bhattacharyya to PM 29.3.85

PART 9 begins:-

FERB to DTI 1.4.85

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(A)(84) 14th Meeting	18/06/1984
E(A)(84) 30	06/06/1984
E(A)(84) 30	06/06/1984
CC(84) 19th Meeting, item 1 Limited Circulation Annex	17/05/1984
E(A)(84) 12th Meeting item 1 Limited Circulation Annex	16/05/1984
E(A)(84) 10th Meeting	04/04/1984

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. Gray Date 11/2/2014

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons HANSARD, 24 May 1984, columns 1262 to 1306: British Leyland (Closures)

Signed J. Gray Date 11/2/2014

PREM Records Team

cc/ PW.

DEPARTMENT OF ENGINEERING

PROFESSOR S. K. BHATTACHARYYA, B.Tech., M.Sc., Ph.D., C.Eng., M.I.Mech.E., F.I.Prod.E., F.B.I.M.
Lucas Professor of Manufacturing Systems

UNIVERSITY OF WARWICK
COVENTRY CV4 7AL

TELEX 31406
TELEPHONE COVENTRY (0203) 24011 Ext. 2155

SKB/mb

Confidential

29th March, 1985.

The Rt. Hon. Margaret Thatcher, M.P.,
10, Downing Street,
LONDON S.W.1.

Dear Prime Minister,

Further to our brief discussion last week, I am enclosing my personal views of the Austin Rover Group 1985 Corporate Plan and of the Company's long-term survival prospects. You will see from my comments that I do not feel that ARG can look forward to a financially viable future with the present senior management team.

You should be aware that Robin Mountfield of the D.T.I. has informed Harold Musgrove of his support for the Corporate Plan and of his concern about the cuts proposed by Peter Warry. This comment was presumably made in the context of the civil service review of the B.L. Corporate Plan.

In view of my role as an advisor to ARG and my links with the Department of Trade and Industry I trust my comments will be treated in strictest confidence.

On a separate matter, I should inform you that I have advised two industrial contacts who expressed an interest in the privatization of Land Rover to contact Norman Lamont and John Moore to start the ball rolling.

Developments in manufacturing at Warwick and the University Science Park are proceeding quickly and satisfactorily.

I shall be happy to let you have any further information or explanatory comment should you so wish.

With kind regards,

Yours sincerely,

S.K. Bhattacharyya

PROFESSOR S.K. BHATTACHARYYA

CONFIDENTIAL

SECOND REPORT ON AUSTIN ROVER GROUP

S.K. BHATTACHARYYA
UNIVERSITY OF WARWICK

AUSTIN ROVER GROUP

1) Last year the Austin Rover Group (ARG) failed to take 20% of the U.K. car sales market and made a loss of £26.1 m. In the first two months of 1985 the Company has an estimated loss of £7.3 m. This is the depressing background against which I make my comments and proposals below. I should make it clear that my proposals are designed to ensure the survival of ARG as a financially viable entity.

2) During the last five years the Company has made great improvements, particularly in the areas of design and manufacture. Labour productivity levels of the 'Metro' are as good as any in Europe and improvements in productivity are still being made across the whole range of cars. Quality has improved substantially over the last three years but further improvements still need to made especially at the top end of the range.

3) During this same period ARG has shed employees, closed factories and introduced major changes in shop floor practice, with the result that the Company is now broadly competitive in variable cost terms. Although manufacturing fixed costs have been reduced, increases in sales are nevertheless required to reduce unit costs to an acceptable level. This has not happened; even with a full model range ARG has not been able to increase sales and therefore the improvement in manufacturing efficiency has not produced the expected financial benefits.

4) Not surprisingly the style of management through this period has been inward looking and fairly brutal. For the future, however, ARG will require management skills of a different kind. We need senior managers with a greater understanding of the new technologies who can think and plan on a global scale and managers, who, whilst being no less forceful and determined, operate in a less autocratic and combative manner. The present style of management is repressive and fails totally to involve and benefit from the specialist staff within the Company.

5) The senior managers at the moment are:
Chairman - H. Musgrove
Managing Director - Operations - A. Barr, responsible for manufacturing and purchasing
Managing Director - Product Development, J.M. Snowdon, responsible for product engineering, design, product planning and business strategy
Director - Sales and Marketing - T. Taylor,
Director - Finance, Planning and Services - P. Reigner
Company Secretary - H. Coles
Personnel Director - A. Curtis - he is not a Board member.

<u>COMMENTS</u>:

a) Snowdon moved to his present post in January, 1985 from Product Planning, Sales and Marketing. He was not successful in sales and marketing. The Product Planning is out of control and he does not possess the relevant experience to take over a brief which includes product engineering and design. I have said before that responsibility for design and manufacturing ought not to have been separated but notwithstanding this view I do not feel that Snowdon has the necessary qualities or track record to justify his present post.

b) Taylor was responsible under Snowdon for U.K. sales and the fact that Austin Rover Group penetration of this market is still below 20% speaks for itself.

c) ARG had a first rate Personnel Director, G. Armstrong, who was largely responsible for the successful handling of wage negotiations and industrial relations over the last four years. He has recently left to become Personnel Director of the Metal Box Company.

d) In my view neither the Chairman of the Austin Rover Group Holding Board, R. Horrocks, nor Musgrove have the intellectual stature necessary to cope adequately with the demands of their posts. Equally damaging from the Company point of view is their inability to appoint senior staff of the right calibre and this is borne out particularly by the recent appointments of Snowdon and Taylor.

6) The fundamental strategic questions for ARG to answer are:

(i) Is it any longer possible to compete on a world wide basis with a full range of models?

(ii) If ARG retreated from its position as a world scale, full line manufacturer, what range of vehicles could it manufacture economically?

(iii) If ARG continued as a full line manufacturer could this be done more cheaply?

In my view it does not make sense for a company of the size of Austin Rover Group to contemplate the design and manufacture of a full range of models. Nor do I feel it is wise to attempt to provide a large number of derivatives and variations within a single model range. The basic strategy which I feel Austin Rover Group should adopt would require the company to build four models each having a limited number of derivatives and to consolidate its technological advances and concentrate its efforts on sales and marketing.

PRODUCT PLAN

7) With regard to the Product Plan I suggest that the following proposals would reduce the proposed capital expenditure envisaged in the 1985 Corporate Plan by £640 m. and also offer a more realistic way forward. (Financial detail in Appendix I).

(i) As suggested under paragraph 6 above the model range should be reduced to four with few derivatives and greater commonality between models. The present plan bears no relation to market realities and cannot be justified on technological grounds. I know of no other motor manufacturer which can support such a wide range of variants and derivatives on the basis of such a low sales volume. (Some details of the extraordinary range and scale of existing variants is shown in Appendix II).

(ii) The Product Plan assumes an average model life of 6-7 years. Successful competitors such as Volvo, Saab, Mercedes and BMW have a much longer floor pan life and I would suggest that ARG should extend their model life by 'face lifts' and 'reskinning'. Acceptance of this strategy would enable major expenditure on the next generation of models to be deferred by up to two years.

(iii) The current 'A' series engine (up to 1.3 litre) is outdated and cannot be updated in order to satisfy emission regulations. ARG plan to develop a completely new engine with an estimated cost of £121 m. In my view this is not necessary. Honda produce a reliable engine in this range which satisfies emission regulations and which ARG should consider buying. Similarly a new gearbox which is planned for 1989 should be abandoned in favour of the VW gear box which is currently used in some of the models in the lower range. ARG's engines above the 1.3 litre range are quite satisfactory.

(iv) Capital expenditure in the plan is based on a sales volume exceeding 750,000. If this were reduced to a more realistic level of 500,000 coupled with double shifting the expenditure plan could be cut significantly.

SALES AND MARKETING

8) (i) Sales is a disaster area. The low level of sales in 1984 has been excused on the grounds that models were unavailable because of industrial problems. This is not correct. Appendix III shows that the stock levels at the end of November, 1984 and December, 1984 (the period of the ARG strikes) were more than adequate to satisfy the market demand.

(ii) Sales planning leaves much to be desired. It was a mistake to make Germany the prime European target in 1984. It will be an even greater mistake to assume that the launch of the XX in the U.S.A. in Autumn 1987 will repeat Jaguar's success. The timing of the proposed ARG launch is most inappropriate since it follows the launch of the Honda version of the XX by twelve months. Moreover, Honda have a good distribution and dealership network in the U.S.A. whilst ARG as yet has none.

(iii) Sales figures for January and February, 1985 appear to be within the Company's target. I believe these figures have been contrived and do not represent the true picture. Furthermore, current internal sales estimates fall far short of those presented in the 1985 Corporate Plan. (See Appendix IV).

(iv) Responsibility for poor sales performance and planning must rest firmly with the Chairman and M. Snowdon.

Conclusion

9) The conclusion which must be drawn from the above comments is that whilst great advances have been made in the design and manufacturing functions, these have not been paralleled in other aspects of the ARG organisation. We have a product plan which is designed principally to maximise Government funding, a sales and marketing force which clearly has not measured up to the task and a senior, Board level, management which, with the exception of A. Barr, is devoid of ideas and talent.

It is this latter factor which is the principal reason behind ARG's continuing difficulties. At a recent meeting of senior staff, the Chairman, H. Musgrove, said in reply to a question about privatization, "As long as we are not making an enormous loss 'She' cannot touch us". This illustrates the defensive and short sighted approach which I feel is all too often at the root of ARG's problems. If ARG is to be 'turned around' it needs an immediate change of senior management. Messrs. Horrocks, Musgrove, Snowdon and Taylor should be replaced by managers who have a wider commercial experience but who, most importantly, must be people of a much higher intellectual calibre.

POST SCRIPT

I have just learned that Honda has responded to the offer by ARG to allow them to utilize spare capacity to assemble their own vehicles in the U.K. Whilst this will obviously provide ARG with additional short term income it will in the long run prove to be a poor deal. Honda will now be able to assemble in Europe without the usual heavy capital investment and without contributing more to the 'collaboration' with ARG than a rental payment. I suspect that ARG will use this agreement as the basis of a claim for further capital funding from Government. A better long term deal for ARG would have been an agreement under which Honda would manufacture the 1.3 engine in the U.K. and supply ARG in return for the use of their assembly facilities.

March, 1985

APPENDIX I

AUSTIN ROVER GROUP CORPORATE PLAN(1985)

CAPITAL EXPENDITURE

LEGEND

AR5	-	Rover 200 replacement
AR6	-	Metro replacement (4Dr)
AR7	-	Maestro replacement
AR16	-	New car Montego Varient
AR17	-	Montego Replacement
XX	-	Rover 3500 replacement Honda collaboration
LM10	-	Maestro
LM11	-	Montego

ADDRESSEE ONLY

CONFIDENTIAL

AUSTIN ROVER GROUP

1985 CORPORATE PLAN

CAPITAL EXPENDITURE - £m

PRODUCT	1983	1984	1985	1986	1987	1988	1989	1990	1991	TOTAL
METRO 85 MY	1.0	8.2	0.4	–	–	–	–	–	–	9.6
METRO 5 DOOR	9.8	5.8	0.5	–	–	–	–	–	–	16.1
METRO 86 MY	–	–	3.9	6.8	6.2	–	[illegible]	–	–	16.9
ROVER 200 FACELIFT	–	–	–	10.0	10.0	5.0	[illegible]	–	–	25.0
ACCLAIM & RESOURCING	16.4	20.0	0.9	–	–	–	–	–	–	37.3
LM10/11 VAN/ESTATE	74.0	42.0	1.9	–	–	–	–	–	–	117.9
LM10/11 CAPACITY INCR	0.3	5.0	0.1	–	–	[illegible]	[illegible]	–	–	5.4
XX - INCL. GEARBOX	2.1	22.0	82.9	12.1	10.9	–	–	–	–	130.0
XX NAS	–	–	–	2.5	2.5	[illegible]	–	–	–	5.0
XX COUPE	–	–	1.0	9.0	6.0	[illegible]	–	–	–	16.0
XX FACELIFT 1991	–	–	–	–	–	[illegible]	3.3	21.5	24.5	49.3
LM10 FACELIFT SPR 87	–	–	1.7	17.0	8.[illegible]	[illegible]	–	–	–	31.9
LM11 FACELIFT SPR 87	–	–	3.5	8.5	3.0	–	–	–	–	15.0
AR5 SPR 91	–	–	–	–	–	–	–	21.3	49.7	71.0
AR6 SPR 89	–	–	–	10.0	[illegible]	51.6	65.7	11.5	–	162.5
AR7 AUT 90	–	–	–	–	[illegible]	15.9	26.5	41.6	38.6	122.6
AR16 MID 88	–	–	–	3.4	[illegible]	26.2	16.8	–	–	73.2
AR17 AUT 89	–	–	–	[illegible]	–	10.4	26.5	25.4	3.9	66.2
AR16/17 FACELIFT 93	–	–	–	[illegible]	–	–	–	–	37.6	37.6
ENGINE'O' DIESEL	–	7.0	5.0	0.9	–	–	–	–	–	12.9
'K' SERIES	–	–	–	15.0	41.0	37.0	15.0	13.3	–	121.3
'S' SERIES	–	–	–	15.0	11.8	3.2	–	–	–	30.0
V6	–	–	[illegible]	[illegible]	–	3.9	24.0	14.1	–	42.0
FUEL INJECTION	–	0.5	2.5	2.2	–	–	–	–	–	5.2
SMALL CAR GEARBOX	–	–	–	11.5	15.7	23.0	9.0	13.3	–	72.5
OTHER PRODUCT	5.7	4.5	5.2	3.6	4.6	4.5	5.2	19.0	23.2	75.5
TOTAL PRODUCT	109.3	115.0	109.5	127.5	170.4	185.7	192.0	181.0	177.5	1367.9
NON PRODUCT										
FUELS ELEC ASSY/TEST	–	–	1.5	1.0	–	–	–	1.5	1.0	5.0
ROBOTICS	0.7	3.2	5.9	6.2	6.6	7.0	7.6	8.1	8.6	53.9
FORGE REFURBISH	–	0.8	1.7	1.5	2.0	–	–	–	–	6.0
STREAMLINING	0.8	–	–	–	–	–	–	–	–	0.8
ENGINEERING TEST CELLS	4.4	8.8	10.1	7.3	4.4	7.1	8.1	10.5	14.0	74.7
CIE	4.4	4.2	7.7	4.8	4.0	4.0	4.0	4.0	4.0	41.1
PRESSES	–	[illegible]	–	1.0	9.3	9.8	10.6	9.8	10.6	51.1
TOOLRM MODERNISATION	0.6	1.0	6.3	6.5	5.4	5.8	4.0	9.2	14.8	53.6
VENDOR TOOLING	0.9	1.5	1.6	1.7	1.8	1.9	2.0	2.1	2.2	15.7
PLANT PROJECTS	8.6	10.2	13.7	13.7	4.5	7.0	12.0	12.0	15.5	96.6
OTHER	1.3	10.3	10.4	8.8	1.6	1.7	1.7	1.8	1.8	39.4
TOTAL NON PRODUCT	21.1	40.0	58.9	52.5	39.6	44.3	50.0	59.0	72.5	437.9
TOTAL PLAN	130.4	155.0	168.4	180.0	210.0	230.0	242.0	240.0	250.0	1805.8
MEMO 1984 PLAN	115.4	180.0	170.7	189.4	227.6	255.5	267.5	236.4	241.1	1883.6
VARIANCE 85 B/(W)	(15.0)	25.0	2.3	9.4	17.6	25.5	25.5	(3.6)	(8.9)	
CUM	(15.0)	10.0	12.3	21.7	39.3	64.8	90.3	86.7	77.8	77.8

APPENDIX I

PROPOSED CAPITAL EXPENDITURE REDUCTION FROM THE PLAN

Modification and reduction in product range, realistic sales volume, and if necessary double shifting.

£m

A.	PRODUCT	
1.	Merge AR5 and AR7	80
2.	Postpone AR7 by two years	70
3.	Merge AR16 and AR17	70
4.	Out source smaller car gearbox	72
5.	AR6 modification (Reskin Metro, adjust floor plan and redesign front end)	80
6.	Out source small car engine K. series	121
7.	Scrap V6 engine	42
B.	NON PRODUCT	
a)	Engineering test cells	25
b)	Presses	20
c)	Tool room	20
d)	Plant projects	50
e)	Others	20
	TOTAL SAVING	640

APPENDIX I

AUSTIN ROVER GROUP CORPORATE PLAN

CAPITAL EXPENDITURE

REVISED COST VARIANTS

£m	AR5	AR6	AR7	AR16	AR17	'K' Engine	'S' Engine	Small Trans
Corporate Plan	71.0	162.5	122.6	73.2	66.2	121.3	30.0	72.5
Latest Cost Indications February 1985	98.7	176.4	198.1	148.4	126.4	161.5	40.6	118.5
Costs (0)/ U CP	(27.7)	(13.9)	(75.5)	(75.2)	(60.2)	(40.2)	(10.6)	(46.0)

NOTE

Capital expenditure overshoots.

APPENDIX II

APPENDIX II

MODEL VARIANTS

PARTS	AR XX (planned)	AR XX (proposed)	Honda XX	Rover 3500	Montego	Maestro
Fascia	384	148	160	128	134	134
Door Pads	110	84	16	68	128	134
Front Seats	92	70	24	34	44	44
Centre Console	50	25	8	33	6	6
Post Finishers	74	50	24	22	66	28
Rear Seats	38	19	4	18	37	31
Str. Wheel	18	14	4	16	11	10
Headlining	10	4	4	4	8	8
Carpet	8	6	4	30	36	40
P. Bodies	149	98	20	40	62	71
Bumpers	53	35	12	3	8	8
P. Units	62	34	4	33	14	14

APPENDIX III

APPENDIX III

SOURCE - FVF U.K. STOCKS

Model	End Nov. '84	End Dec. '84	Months Stock End Nov. '84
Mini	2735	3245	2.6
Metro Old	2109	1310	
Metro 3DR	10700	10010	
Metro 5Dr	6730	11175	
Total Metro	21638	26950	2.7
Rover 200	7779	10379	3.0
Maestro	7673	10770	2.1
Montego SAL	14618	17395	3.3
Montego EST	615	1869	
Total Montego	15233	19264	
Rover	3219	3362	
Others	225	111	
TOTAL A.R.	58502	74081	
Metro Van	1120	1384	2.2
Maestro Van	1695	2571	1.7
Ital Van	925	1039	
TOTAL A.R.	3740	4994	

Budgeted Stock Levels - 2.5

APPENDIX IV

APPENDIX IV

COMPARISON OF CORPORATE PLAN AND "INTERNAL" PLAN UPDATE

SALES VOLUMES

(000's)

	1985	1986	1987	1988	1989	1990
1985 Corporate Plan	532.6	518.4	585.3	639.7	684.5	746.3
Most Likely (Internal Plan)	432.8	423.3	460.1	488.5	515.1	543.8
(Under) Corporate Plan	(99.8)	(95.1)	(125.2)	(151.2)	(169.4)	(202.5)
U.K. Content	(76.5)	(61.9)	(69.4)	(85.4)	(86.0)	(93.5)

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

PRIME MINISTER

Meeting on British Leyland: 1530 on Monday, 1 April

A lot of reading here -

(i) Excellent steering brief by the Policy Unit (Flag A).

(ii) Mr. Tebbit's latest minute about the Honda overtures (Flag B).

(iii) Professor Bhattacharyya's report on Austin Rover - conclusions at Flag C).

(iv) Official Group report on BL Corporate Plan - summary at Flag D.

The purpose of the meeting is for you and the Chancellor to give the Secretary of State an early indication of your thoughts which he can take into account in preparing a paper for E(A) or a smaller group if the issues are too sensitive for E(A), for discussion in the week beginning 22 April.

I suggest that the points you should aim to cover (following the Policy Unit's steering brief) are:-

(i) Agree that things are going badly wrong at BL.

(ii) Agree on action to stop the rot at Austin Rover, as recommended by the Official Group and Policy Unit. (You may also want to say that the announcement on 11 April of an "understanding" between BL and Honda should not commit the Government until we know whether it will involve extra funding from the Government).

(iii) Agree on early privatisation of Unipart and looking for buyers for Landrover - Leyland.

(iv) Reduce BL's borrowing profile - Policy Unit's proposals at end of their minute.

F.E.R.B.

29 March, 1985

SECRET

12. A

PRIME MINISTER 29 March 1985

18 [90-95?]

BL

The objectives of the meeting should be to:

A. Agree BL is way off plan - cash, profits and privatisation
B. Stop the rot at Austin Rover
C. Ensure early privatisation of Unipart and Land Rover-Leyland
D. Put a limit on Varley Marshall Assurances

Time will need to be split equally between these issues. The Official Group on BL (report attached) covers these points and, whilst we have had to compromise on some detail, **we support all the Group's recommendations** (except on GM talks, see later). On reflection DTI mandarins think the recommendations too radical - you should not let them wriggle off this hook.

A. **WAY OFF PLAN**

Neither BL's financial results nor the cooperation of its management in privatising subsidiaries show any real change from past years. **The £12m loss for 1984 was £95m worse than plan and £44m worse than the 1983 outturn. On a comparable basis the new plan over the five years 1984-1988 shows profit down by £375m to just £397m and cash £206m worse.**

During the course of 1984 proposals from Volvo to acquire parts of Leyland Bus, and from DAF for a major joint venture with Leyland Trucks were rejected. BL reneged on the firm commitment to mid-1985 privatisation of Unipart despite a merchant bank being ready to undertake an immediate placing if the Unipart management had given the green light.

* All references to "profit" are to profit before interest and tax, these being the only consistent figures available.

SECRET

Today, apart from the GM bid, I am aware of two further separate bids for Land Rover and one for Self-Changing Gears. BL and DTI may well have others **but there is no doubt whatsoever that further interest could be secured if these businesses were to be genuinely for sale.**

B **STOPPING THE ROT AT AUSTIN ROVER**

Professor Bhattacharyya is also sceptical of the Honda deal

Norman Tebbit will want to raise Honda building cars at Cowley. This is a red herring: it is too early to know if it would make commercial sense. If ARG think it will earn them more than the sales they will lose to Honda - fine, it will make it easier for them to live within their means but in no way alter the necessity to do so. If DTI think another Japanese assembler will create more jobs than they displace - fine, but it has no bearing on decisions on ARG.

The ARG 1984 loss of £26m was £56m worse than plan whilst profit before tax for the five years 1984-1988 has reduced by £102m to a total of just £27m. The Official Group on BL were unanimous in considering even these diminished results highly optimistic. The BL board themselves express some scepticism but have avoided the issue by calling for a mid-year review of ARG.

For the first time for at least a decade, BL have a full modern model range, yet last year's market share of 17.7% was only the same as in 1980. They need around 25% for long term viability as a full range producer.

60-80,000

With gross over-capacity in Europe for the forseeable future there is no longer any real chance of ARG becoming an international full-line manufacturer without continuing and growing Government support (albeit through Varley Marshall assurances). Nor is there any prospect of a flotation. A new approach is required to at least contain borrowings to current levels (end 1984 £232m projected to rise to £457m by

1989). This will entail hard decisions and a smaller ARG; the main (overlapping) options are:

1. **Less extravagance:** limit model overlap and derivatives; increase model lives (the Montego has a planned life of only five years); greater use of facelifts as opposed to brand new models (consistent with much international practice). Potential saving by 1990 £500m.

2. **Investment savings:** plan for more realistic volume levels; higher plant utilisation, eg double and treble shifting. Potential saving by 1990 £150m.

3. **More international collaboration:** eg with Honda; buying in engines and gearboxes rather than making in-house. Potential saving by 1990 £250-500m.

4. **Market retreat:** fail to replace the Metro and Rover 200 and gradually become a manufacturer of medium and large cars similar to Volvo or BMW. Saving by 1990 £300m.

Critics will argue this is shortsighted and will prove far more expensive in the long term, but the evidence to date is that wholehearted support merely leads to runaway costs, the brake has to be applied some time. **So in line with the conclusions of the BL Group we recommend:**

1. **ARG be requested to develop radical plans along the lines identified above.**

2. **Such plans to reduce capital expenditure by at least £250m** (you may want to go further and link it directly to borrowings year by year so that all the promises are not stored up until 1989).

3. No new capital expenditure projects be approved until a satisactory plan has been produced. THIS IS THE KEY: it will stop ARG playing for time and put HMG in the driving seat. You should ask that the moratorium should not be lifted or breached without your approval.

4. Work on the new plans should start immediately following Monday's meeting.

See also Professor Bhattacharyya's comments on personnel - flag E.

C EARLY PRIVATISATION

In the meeting you should avoid discussing individual company performances (see Annex) and concentrate on ensuring an end 1985 sale of Unipart, and that all bidders for parts of Land Rover-Leyland are given a chance rather than having to stand aside until after GM have decided (as Norman Tebbit would like). This would be a recipe for more delay and more losses.

History shows that none of these businesses have prospered within BL, every delay to privatisation plans has cost money as profitable companies have slipped into loss; reducing prospective sale yields and increasing borrowings. Yet once released from the public sector most companies prosper creating both profit and jobs. You should dismiss the mirage of better prospects in the future and take action now to reduce this burden (and risk) on the public purse.

Unipart privatisation ought now to proceed satisfactorily by the year end. Treasury are suggesting a flotation rather than a placing. This is always their first choice but given the unique nature of Unipart's business and the lack of cooperation within BL for selling it, a placement would seem to be the simpler (less has to be disclosed) and more reliable route if the timetable is to be met.

We recommend you reiterate that Unipart must be sold by the year end.

For Land Rover-Leyland the GM talks represent one possibility but are unlikely to yield a firm bid before July. Other bidders exist but DTI would prefer to leave these to one side until after GM (arguing inter alia that the memorandum of understanding with BL prevents them conducting negotiations over BL's head, but this can surely be set aside). DTI must aim not just to have a bid from GM but also to have parallel bidders for each of the businesses. This will encourage GM to offer a realistic price and will give a good fall-back position should GM drop out. Of course GM must be told alternative bids are being pursued, just as we are already aware that GM are talking to MAN, DAF, and ENASA in Europe and perhaps others.

We recommend you insist that concurrent negotiations be actively pursued (both you and the Financial Secretary have recently sent Private Secrtary letters requesting this).

D **LIMITING VARLEY MARSHALL ASSURANCES**

If you have agreed the other areas then this should be easy. If you decide to dispense with an E(A) on BL then you should also rubber stamp those recommendations of the Group which have not been discussed.

The insidious practice whereby BL can pledge the Government's credit without any Government control whilst claiming to be free of Government support must end. The Group recommended this be best done by controlling borrowings - creditors being allowed to rise and fall dependent upon the level of business. **We recommend:**

1. BL be given a borrowings profile for the plan period which will achieve a reduction of £300m from planned levels.

2. That the profile be as below. This is a policy unit proposal, and although generous, DTI will contest the 1985 and 1986 reductions. But to have any effect these are the most important years to impact.

	1984	1985	1986	1987	1988	1989
Plan	522	682	758	756	753	724
Proposal	442*	600	600	550	500	424

* actual

Peter Warry

PETER WARRY

ANNEX

PERFORMANCE OF MAJOR BL SUBSIDIARIES (EXCLUDING ARG)

Unipart profit before tax for 1984 at £9m was only half that forecast mainly due to a £6m write-off representing losses concealed in past years by SU Butec. After allowing for the acquisition of Edmunds Walker the planned (1984-1988) profit before tax has reduced by £21m to £104m but is still optimistic.

Land Rover-Leyland has been signficantly helped by the exchange rate but remained in loss during 1984 (£49m) - a little better than 1983 (£66m) but rather worse than plan.

Within this **Land Rover** made a £0.6m profit in 1984 whilst plan profit (1984-1988) reduced from £142m in the 1984 plan to an optimistic £101m in the new plan.

Freight Rover is currently the most profitable manufacturing company within BL, profit in 1984 was £6m but plan profit (1984-1988) has dropped by £11m to £38m, and now looks comparatively conservative. Nevertheless, replacement of their principal models in 1989 at a cost of £64m looks difficult to justify financially and the Group have recommended alternative options be considered.

Leyland Trucks was unique in beating the 1984 plan (albeit by £1m) but the loss is still a staggering £50m. The forecast for 1984-1988 has also improved slightly to a loss of £74m (including the £50m above). Even this is optimistic. Trucks had a major review last year and so long as it remains on plan it is difficult to reopen the strategy.

Leyland Bus has shown the most dramatic collapse, the loss in 1984 was £12m and the plan (1984-1988) profit was reduced by £45m to just £8m. The Group considered even this highly optimistic and recommended all possible options for disposing of Bus be considered including those that could lead to the break-up of the business.

Land Rover-Leyland International Holdings constitutes all of the LR-L overseas companies, it made a loss before tax of £9m. Over the plan period the profit before tax more than halved from £72m to £29m. Even so the Group considered the revised forecast more vulnerable than the previous one. Politics may force the closure of Leyland Nigeria which in 1985 is planned to account for 6% of all truck sales and 5% of Land Rover sales.

B

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

JU239

PRIME MINISTER

We are to discuss on Monday 1 April the progress of BL and the handling of the 1985 Corporate Plan. With the Board committed to privatisation of Unipart this year, and the outcome of the talks with GM expected in May, the immediate questions revolve around Austin Rover.

2 After the significant progress made in earlier years, the 1984 results are a considerable disappointment. There are mitigating factors, notably an extremely hostile trading environment in which most volume car makers have been losing heavily. Nevertheless, conditions throughout Europe are unlikely to improve materially in the short-term and on the basis of the current plan (on which the BL Board have themselves expressed doubts) there are clearly significant risks attached to our continued support of ARG. Moreover, while BL is not seeking more aid, the fact remains that the Plan envisages a large capital investment programme and a significant increase in the Government's liability under Varley Marshall.

3 I therefore agree with the main recommendation of the report of the Official Group that we must look hard at the scope for reducing the Government's exposure to BL provided that in the process we do not so increase the degree of risk to the company

that the contingent liabilities become a reality. I am not sure that the £250m reduction in ARG capital expenditure, which it is proposed should be the Board's framework, is necessarily an indication of the savings which realistically could be achieved if we are to avoid impairing the company's recovery; but pitching our request at that level will at least ensure that the Board in its mid-year review will take a fundamental look at ARG's essential needs.

4 You should, however, know of developments with Honda which, if they come to fruition, will substantially alter the prospects for ARG and the assumptions on which the current plan is based. In discussion in Tokyo over the past few days, Honda and ARG have drawn up a package of proposals for further co-operation comprising:-

i collaboration on similar lines to the XX, on the development and manufacture of a new model, to replace the Maestro and Rover 200 series;

ii the sub-contract build by ARG at Cowley of various Honda cars, including the Ballade and Civic, with eventual volumes around 80,000 per annum;

iii investment by Honda in a new engine plant at Swindon to supply the Honda versions of the new collaborative car and the sub-contract models under (i) and (ii) above.

5 These proposals have not yet been put to the BL Board, which meets next week, or to the Honda Board which meets on 5 April. If both Boards given their approval, the intention is that the Honda President, Mr Kume, at the Swindon ground-breaking ceremony on 11 April will announce an "understanding" between the two companies to work for implementation of a programme on the above lines.

6 There is of course no certainty that the package will be agreed but, if successful, this new collaborative programme would represent a very significant deepening of Honda's commitment to working through ARG in its European marketing strategy. It would also have a major effect on the outlook for ARG. Half the ARG model line-up would be based on collaboration with Honda; Honda models would add around 120,000 units per annum to ARG volume; and around 5,000 new jobs would be created. The level of risk involved in our support for ARG would also be substantially reduced.

7 Obviously we shall need to take a close look at the detail of the proposals and in the meantime ensure that no public statement is made which commits the Government. There is nevertheless a good prospect that the BL Board's mid-year review will have a much more encouraging tone than we might otherwise have expected.

8 I must stress the extreme sensitivity of this information. BL believe that, if the news of the proposed collabration leaks

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

before the Honda Board meeting on 5 April, it could prejudice or abort the deal. I should be grateful therefore if the most stringent care could be taken to restrict those who know of the proposed collaboration. I am therefore copying this minute to the Chancellor only.

M McCarthy
pp
N T

29 March 1985

Approved by the Secretary of State and signed in his absence.

Department of Trade & Industry

CONFIDENTIAL

file

(70)

bcc Peter Warry

10 DOWNING STREET

From the Principal Private Secretary

25 March 1985

BRITISH LEYLAND

I write to confirm our conversation of this morning.

The Prime Minister would like to have a word with your Secretary of State and the Chancellor of the Exchequer about the progress of British Leyland and the handling of its latest Corporate Plan. You told me that the Corporate Plan was likely to be submitted to your Secretary of State by the end of this week, but would probably not be discussed by Ministers until after your Secretary of State returns from an overseas visit in the week beginning Monday 22 April.

We have therefore arranged for the Prime Minister to have a talk with your Secretary of State and the Chancellor of the Exchequer on Monday 1 April at 1530 here at No. 10. I will arrange for the Policy Unit to brief the Prime Minister on the latest Corporate Plan, and the Treasury will no doubt brief the Chancellor.

I am copying this letter to Rachel Lomax (H M Treasury) and Sir Robert Armstrong.

Robin

Callum McCarthy Esq
Department of Trade and Industry

CONFIDENTIAL

E. R.

c/ PW

MR BUTLER 25 March 1985

BL

The official report on BL should now go to DTI Ministers this week. However, DTI officials are hoping to deal with the BL Plan in Ministerial correspondence because decisions on the privatisation of Unipart and negotiations for the privatisation of Land Rover Leyland are already on-going, and because discusssion of Austin Rover should be delayed until the results of their planned mid-year review are available.

In fact there is an urgent need to avoid BL ducking the issues on Austin Rover by placing these into the limbo of a mid-year review. The Prime Minister could quite reasonably request an urgent meeting of Ministers to discuss the future of Austin Rover. Such a meeting could also review progress on the privatisation of the other parts of BL.

Peter Warry

PETER WARRY

COPY

BL

MARCH 1985

15/3/85

BL

By the time of last year's Corporate Plan, Ministers had become increasingly frustrated at the lack of progress in privatising any parts of Land Rover-Leyland. To head off this criticism BL promised a mid-year review to address the issues. This review dragged on into September and October by which time BL recommended it should be incorporated into the 1985 Corporate Plan which was to be delivered shortly. In the event the Corporate Plan did not arrive until the week before Christmas and the LRL privatisation strategy was a very small and very dead mouse labelled 'call us again in 1989'.

Austin Rover

The 1984 Corporate Plan for Austin Rover projected a total profit of £183 million for the six years 1984 to 1989 (after adjustments for accounting changes). The 1985 plan shows profits for the same period more than halved, down to only £84 million. Both officials and BL consider that there are major risks even with this much reduced plan. Even if met, the plan entails an expansion of gross Varley Marshall assurances of just under £½ billion.

Clearly, there is an urgent need to stem HMG's downside risks. BL have responded by offering a mid-year review! But action is needed now not next year, particularly if all delay is likely to yield is another dead mouse suggesting either total support or immediate closure. Yet there are many radical options between these extremes - none particularly palatable but all much better than continuing as we are.

There is, however, a school of argument that says it is the BL Board's responsibility to run the company (however badly it does it) and that officials should not and cannot second guess the BL Board: that they should act as . a highly paid postbox but nothing more.

It may be that we cannot wholly second guess the BL Board, but what is essential is that we do not allow them to play for time that is charged up to our meter. The right course must surely be to set a tight limit on Varley Marshall assurances now ie starting with 1985. It would then be their responsibility to produce plans to live within these constraints. If it creates major difficulties for them, then no doubt this will influence the urgency with which they develop new plans.

Land Rover-Leyland

The Salton talks, and particularly the Secretary of State's personal intervention, are most encouraging. But it would be wrong to put all of our eggs in this particular basket. We must ensure we have alternative actual bidders for parts of the LRL business, not only as a fall-back but also to help our negotiating position on Salton. This is not unethical, after all we know that they are already talking to at least three other European manufacturers.

P. W

2

10 DOWNING STREET

Prime Minister

Robin – this is appalling. I must discuss with Norman Tebbit now

Attached is the BL minute you discussed with John. As you know, we thought it would be most useful at the point when DTI submitted their conclusions. At long last, the Plan is to be submitted to Ministers by the end of next week

JF

22/3

68/252

SECRET

cc ~~PW~~

11

NBPM

AT 15/3

Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Lansley Esq
PS/Secretary of State for Trade & Industry
Department of Trade and Industry
1-19 Victoria Street
SW1

14 March 1985

Dear Andrew,

BL PRIVATISATION

Your letter of 5 March reported progress on the Unipart privatisation and on GM's interest in Land Rover-Leyland. Like the Prime Minister, the Chancellor and the Financial Secretary are both very disappointed that Unipart has slipped for reasons that are not altogether convincing. They feel that plans should now be put in hand that, subject to market circumstances, will ensure a flotation of Unipart before the end of the year. Samuel Montagu should be told that this is the Government's primary objective.

It is clearly important that the Government keeps in close touch with BL's negotiations with GM. It would not be uncharacteristic for BL to pursue negotiations less than whole-heartedly and steps need to be taken to minimise the risk of this. It would be helpful if the merchant bank shortly to be appointed to advise on BL privatisation in general, could participate in the negotiations as an observer and alert the Government to any obstacles that emerge. For this reason, the appointment of a bank needs to be done as soon as possible. In the meantime, it is important that other opportunities for disposing of LRL are actively pursued so that no time is lost if the GM negotiations break down.

While Treasury Ministers agree that those parts of BL's corporate plan which relate to Unipart and LRL should now be handled piecemeal, it is important that the remainder of the plan together with officials' appraisal is put before Ministers as quickly as possible. Some difficult decisions may need to be taken in the near future if radical options are to be put into effect during the life of this Parliament.

I am copying this letter to Andrew Turnbull and Richard Hatfield (Cabinet Office).

Yours sincerely

FP Bogan

MISS F P BOGAN
Assistant Private Secretary

Ind Pol. BL Pt 8.

SECRET

file

RAMAG2 10

b/c P. Warry

10 DOWNING STREET

From the Private Secretary

11 March, 1985

BL PRIVATISATION

The Prime Minister has seen your letter to me of 5 March. She has noted that the privatisation of Unipart is now scheduled for end-1985. She regards this as very disappointing and has commented that the date must not be allowed to slip still further. She would be grateful if she could be informed if at any stage this looks likely to happen.

The Prime Minister welcomes the negotiations with GM for the sale of Land Rover-Leyland. While she hopes these negotiations will be successful she has suggested that the Department and the advisers should continue to identify and talk to alternative buyers.

Finally, the Prime Minister hopes that the paper on the Corporate Plan which will be put to Ministers shortly will identify radical options for the Austin-Rover Group and will address how the growth in exposure under the Varley Marshall assurances can be limited.

I am sending a copy of this letter to Rachel Lomax (HM Treasury) and to Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

A Lansley, Esq.,
Department of Trade and Industry

SECRET

CST

CONFIDENTIAL

Prime Minister ①
Agree Policy Unit recommendations.
AT 8/3

Agreed as amended
ND

MR ~~TURNBULL~~ 8 March 1985

BL PRIVATISATION

It is regrettable that the Unipart privatisation date has slipped from mid-1985 to end-1985; however, this is probably the best that can now be achieved. BL clearly understand that DTI want no further slippage. Norman Lamont has made this very plain to BL, nevertheless the caveats remain a concern.

It is encouraging that Norman Tebbit has bypassed the BL Board to ensure that GM understand our serious intent to dispose of Land Rover-Leyland. This should undermine any foot-dragging by BL. I believe the discussions are genuine, but you should be aware that the mid-May date is only for completion of the integration study. If successful at least two months more will be needed for the negotiations and commercial details.

It is therefore essential that the DTI's merchant bank not only advise if the businesses could be sold elsewhere but also find buyers for them. If the GM discussions founder, then other potential buyers will be in the wings, and if they are successful, then the alternative options strengthen our bargaining position.

The corporate plan shows a reduction in Austin Rover's profit of £99 million for the period 1984/89 compared to the previous plan; a further deterioration is indicated in paragraph 4 of the note. It is essential that the major decisions that have to be taken on ARG - for example, whether it can any longer strive to be a full-line, fully integrated manufacturer - are not delayed by the BL Board's intent to have a mid-year review.

CONFIDENTIAL

We recommend the Prime Minister:

1. Accept the Unipart timetable but ask to be informed of any slippage. Yes – it must not slip.

2. Welcome negotiations with GM but hope that other possible buyers will also be approached, should negotiations with GM fail. [The no. of buyers will be very small]

3. Request that the Corporate Plan paper identifies radical options for ARG and proposals for limiting Varley Marshall assurances.

Peter Warry

PETER WARRY

TOTAL COPIES 10

COPY No one

SECRET

B/F with PM response AT 5/3

cc PW

9

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

5 March 1985

Andrew Turnbull Esq
Private Secretary to
The Prime Minister
10 Downing Street
London SW1

Dear Andrew,

BL PRIVATISATION

My Secretary of State has asked that we bring the Prime Minister and the Chancellor up to date on progress with the privatisation of Unipart and on GM's interest in Land Rover-Leyland. The correspondence rests with Timothy Flesher's letter of 24 December on Unipart and yours of 28 January regarding GM.

UNIPART

2 You will recall that in December discussion of BL's request that Unipart might acquire Motorists Discount Centres (MDC) revealed that the Board were not willing to confirm the target of mid-85 for the privatisation of Unipart that had been agreed in mid-84. We immediately took this up with Sir Austin Bide and made it clear that the absence of any firm date for the privatisation of Unipart was not acceptable.

3 The BL Board has now decided to adopt end-85 as the planning target date for the privatisation of Unipart. Sir Austin says that the Board are, in all reasonable circumstances, determined to hold to the end-85 date unless external events so alter the prospective results that they rule out a sufficiently attractive and genuine prospectus. Mr Lamont has been over the possible obstacles (the Treasury and the No 10 Policy Unit have the correspondence) with Sir Austin Bide in some detail and believes that the Board are now genuinely determined to meet the end-85 target.

4 Unipart has a special link with Austin Rover, and the Austin Rover 1985 Corporate Plan and model strategy are to be subjected by the BL Board to a mid-year review because of Austin Rover's disappointing performance and increasing uncertainty about the business, made worse by the German pressure for US equivalent emissions standards. Although the mid-year review of Austin Rover could lead to profit prospects and hence likely proceeds having to be marked down, there is no reason to suppose that it will impede

JH1CCH

the privatisation of Unipart this year. Mr Lamont has made it clear to Sir Austin that the deterioration of Austin Rover's prospects could be a reason for pressing ahead with the privatisation of Unipart.

5 Since the BL Board appear determined to privatise Unipart by end-85, my Secretary of State takes the view that we ought now to accept that we cannot force mid-85 privatisation on the Board. However he is determined that we should do all we can to ensure that the end-85 date is adhered to. We have just appointed Samuel Montagu as merchant bank advisers on the Unipart privatisation. We shall be asking them to examine the BL Board's outline plan for Unipart privatisation, which we expect very shortly, and their advice and involvement should give us a much firmer grip on events in the lead up to privatisation than has been possible up to now.

GM/LRL

6 Following the Prime Minister's response to his minute of 25 January, my Secretary of State wrote to the Chairman of GM to set a framework for the most recent round of discussions between BL and GM. He made it clear that he envisaged talks covering the entirety of the existing businesses of Bedford and Land Rover-Leyland (LRL) and the opportunities within these for rationalisation, including a joint venture or acquisition. He also pointed to the particular public and political interest in the UK in the Land Rover business and said that the extent to which any agreement would ensure its continuance and growth in the UK would be a matter of special concern to the Government.

7 BL and GM have now agreed to undertake together an intensive study to establish the most practical method of rationalising Bedford and LRL. The study will entail a comprehensive exchange of data and will cover a range of possibilities extending from technical and marketing collaboration through to full acquisition. The question of ownership is deliberately being set aside until the best method of rationalisation has been decided on, but we think that both sides now see the possibility of acquisition as an issue which will need to be considered at the appropriate stage.

8 The study is due to be completed by the middle of May. We should like decisions sooner, but the scope and importance of the study justify the wait. We shall be maintaining close contact with both parties as the study proceeds.

9 Despite the encouraging signs, it is of course possible that the discussions with GM will achieve little or nothing. My Secretary of State therefore also intends to ask the merchant bank, shortly to be appointed to advise on BL privatisation in general, to report on whether other buyers for some or all of the LRL businesses could be found.

SECRET

CORPORATE PLAN

10 Ministers here intend to report to colleagues on the BL 1985 Corporate Plan before the end of March. My Secretary of State believes that the privatisation of Unipart needs to be handled separately from now on. He also believes that it would not be sensible to try to reach decisions on piecemeal privatisation of LRL while a GM acquisition or joint venture is a serious possibility, and that he should therefore tell the BL Board that we are putting aside consideration of this part of their 1985 Plan for the moment. He would of course make it clear that, if GM's interest does not come to anything, the Government would wish to consider the possibility of privatising parts of the LRL business separately as soon as practicable.

11 I am copying this letter to Rachel Lomax (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours ever,

Andrew Lansley

ANDREW D LANSLEY
Private Secretary

THUANC

JH1CCH

SECRET

8 DSG

File

bc: Mr. Warry

10 DOWNING STREET

From the Private Secretary

28 January 1985

LAND ROVER - LEYLAND

The Prime Minister has seen your Secretary of State's minute of 25 January. She takes the view that the Government should do the best it can to secure special arrangements to protect the identity of Land Rover but should not make this a blocking point. She fears that if this attitude is pushed too far, it may jeopardise the whole sale to GM. She has commented that Land Rover had a marvellous product and good profits but that, as a result of poor management, it allowed the Japanese into the market and turned the Company from a major asset into a liability. GM might be able to rejuvenate the Company and make it prosperous once again.

I am copying this letter to Rachel Lomax (HM Treasury).

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

SECRET

E.R.

PRIME MINISTER

As Mr Tebbit's minute concedes, there is little industrial logic in treating Land Rover differently from Leyland Trucks. It is losing money (not as always we are promised recovery) and I suspect its reputation for quality products is no longer justified.

But Mr Tebbit is suggesting that there is still a patriotic attachment to Land Rover which needs to be acknowledged in some way eg by negotiating an assurance that Land Rovers will, if they are made at all, be made in Britain, or by giving HMG some continuing control.

— To the best we can - but do not make it a blocking point

Agree control of Land Rover pass to GM only if satisfactory assurances are secured?

mt

I fear that if we adopt this attitude we may lose the whole sale. The fact is that Land Rover had a marvellous product an excellent opportunity and good profits. It threw away its chances and allowed the Japanese to compete. Frankly in effect its management turned it into a liability. G.M. could rejuvenate it and make it prosperous once again

mt

J. Bowers
pp Andrew Turnbull
25 January 1985

0.10

cc PW

7

PRIME MINISTER

LAND ROVER-LEYLAND

I enclose a note by my officials describing the current state of play on dicussions between GM and Land Rover-Leyland, which raises the difficult question of foreign ownership.

2 I am personally quite relaxed about GM taking control of Leyland Truck and Bus, provided this did not lead simply to closure of the Leyland facilities (although it would almost inevitably lead to some rationalisation). It is widely recognised that the UK truck and bus sector is in a parlous state and that, sooner or later, there are likely to be further casualties. Most informed observers will therefore see a link-up between Leyland and Bedford as a sensible move which will be of overall benefit to the industry. Bedford itself of course has a strong British identity, particularly in Commonwealth countries where it is active.

3 I see however a problem in relation to Land Rover. Land Rover as a name is strongly identified with a British product, and with British excellence in product design and engineering. I do not believe it will be easy to gain public acceptance for any course of action which can be presented as handing over such a particularly British undertaking to US control. We recognised in the case of Jaguar the desirability of preventing overseas control. I believe that we would meet strong political objections, even if less well-founded in commercial reality, were Land Rover to pass into overseas control. It is not yet clear what degree of importance GM would attach to Land Rover as an element in the overall package which they have under study.

JH4ASK

Nor would I wish to rule out any transfer: the attached paper discusses ways in which overt GM control may be averted. We need to explore further such mechanisms. It may be that GM's commercial intentions can be reconciled with the retention of Land Rover as a distinctive British company and product. But I feel, and on this I should be particularly glad of your views and Nigel's, that we should indicate to GM that in the absence of necessary assurances over identity, location of production, marketing and other matters, we could not agree to their acquiring control over Land Rover.

4 I am sending a copy of this minute to Nigel Lawson.

NT

N T

25 January 1985

Department of Trade and Industry

JH4ASK

LAND ROVER-LEYLAND : GM

The General Motors interest in Land Rover-Leyland (LRL), if sustained, represents an important opportunity to advance the Government's objectives for the privatisation of BL businesses; and to encourage a much-needed rationalisation of the UK truck industry. However, Ministers need to reach an early view on the political aspects of possible control of a significant part of BL by a foreign multinational, particularly if any proposed deal were to include Land Rover Ltd. If there are felt to be overriding objections to the latter, GM should be alerted now.

BACKGROUND

2. GM (and Ford) were approached by DTI in mid-1984 to determine their interest in a rationalisation of the UK commercial vehicle sector involving LRL. The GM response was positive and high-level, and exploratory talks with LRL have been followed up by a more detailed study of the opportunities for collaboration including the exchange of information on product plans and facilities. However, GM have told the DTI in confidence (they have not yet opened up the subject with LRL) that, while the immediate focus of discussion is collaboration in the development of a new range of medium trucks, GM are carrying out an internal study of "more comprehensive" solutions whereby GM would acquire control of major parts of LRL, perhaps excluding Freight Rover but certainly likely to include Leyland Truck and Land Rover Ltd and probably Leyland Bus. GM have undertaken to try to give HMG an indication of their intentions before Ministers take final decisions on the 1985 BL Corporate Plan.

ADVANTAGES

3. A merger of the Bedford and LRL commercial vehicle operations would have a number of attractions:-

(i) General

The UK truck industry is still suffering severely from lack of volume and under-utilisation of facilities and all three main producers - LRL, Ford, Bedford - are losing heavily. On reasonable assumptions about domestic and export market growth it is certain for the foreseeable future that too much capacity will be chasing too little business. If an effective UK truck capability is to be retained, some measure of rationalisation is urgently needed to avoid steady decline.

(ii) Bedford

There has for some time been concern about the role of Bedford within a reorganised GM world truck operation. GM's growing links with Japan (Isuzu and Suzuki), a possible joint venture with Enasa in Spain and the acquisition of the MAN truck business in Germany by GM (still under negotiation) will add to the fears that the centre of GM truck activity in Europe might gradually move away from the UK with Bedford (like Vauxhall) becoming an assembly only activity.
A merger or acquisition of the Bedford operations with those of LRL would require a very substantial commitment by GM in the UK, would create in time a powerful new UK presence in European and world markets and offer a more solid and prosperous customer for the UK components industry.

(iii) LRL
From the 1985 Corporate Plan now under study it is apparent that Leyland Trucks will not approach commercial viability until the end of the decade. Even this expectation may be based on over-optimistic assumptions. Leyland Bus also faces severe short-term difficulties and recovery in later years of the Plan is regarded by the BL Board as high-risk. Land Rover (unlike Freight Rover) is currently unprofitable although it is expected to have sound prospects of recovery by 1987/8.

Nevertheless, although it is possible to envisage privatisation of certain elements of the LRL operation within a reasonable timescale major areas of the business, notably Trucks, will continue to represent a significant problem for BL and a liability for Government. Under GM, these businesses would have a parent with the resources to help them succeed.

DISADVANTAGES

4. There are nevertheless potentially difficult political and presentational issues to be addressed in terms of control or acquisition by a foreign multinational of significant parts of BL. Moreover, while GM overall makes a significant contribution to industry and employment in the UK, its public image at present is of a company which while enjoying a position of increasing success in the car market is meeting that demand with a high level of imports and whose domestic build is also largely assembled from imported components. A Bedford/LRL merger might therefore be criticised as an example of Government handing over LRL's significant

position in the UK market to an unsympathetic multinational which could gradually service that market from abroad. There could well be an even sharper reaction if the arrangements included Land Rover with its uniquely British image with a worldwide reputation for high-quality products.

It would be possible to attempt to counter such criticism in a variety of ways e.g.:-

(i) the negotiation of a detailed understanding with GM on how it would propose to implement any merger with particular emphasis on R&D, production, facilities and employment;

(ii) the retention of Government control over the Land Rover name which would give HMG direct influence over GM's policy towards that company post-merger;

(iii) the formation of a joint company as a transitional measure before GM acquire full control (a sequence with GM themselves have floated informally with DTI). If desirable, a special structure might be sought for Land Rover so as to defer or rule out entirely ultimate control of that company by GM.

5. If Ministers believe that there is any area of the LRL business where Government should prevent GM control, GM should be given an early indication of this. It is possible that any such caveats might attract an unfavourable response from GM and influence their attitude to the whole package; but at least an equal risk would be involved in allowing GM to continue to work on the basis that there are no constraints.

Department of Trade and Industry
Vehicles Division

January 1985

→ FILE

da

SECRET

10 DOWNING STREET

From the Private Secretary

27 December 1984

This is just to record that the Prime Minister has seen and noted your letter of 20 December about progress on the possible rationalisation of the UK commercial vehicle industry.

Timothy Flesher

Miss Ruth Thompson,
Department of Trade and Industry.

SECRET

COVERING CONFIDENTIAL

hle EA

10 DOWNING STREET

From the Private Secretary

MR HATFIELD
Cabinet Office

I attach a letter conveying the Prime Minister's views on the position reported in Ruth Thompson's letter of 20 December about BL. As you will see she envisages a meeting of E(A) within a few days of BL's proposals on Unipart coming forward in mid-January and I should be grateful if the Secretariat could bear this in mind.

BF

Timothy Flesher

24 December 1984

COVERING CONFIDENTIAL

JR

CONFIDENTIAL

hle ECL
CCPU.

E(A):
MWP
HMT
NIO
DEn
SO
WO
DOE
LPSO
CDLO
DEmp
MAFF
CS, HMT
DTp
PGen

10 DOWNING STREET

From the Private Secretary

24 December 1984

The Prime Minister has now seen your letter of 20 December covering a number of issues on the privatisation of various parts of BL. She has commented that the attitude of the BL Board will not do. Progress towards privatisation must be maintained as originally intended. She has asked therefore that there should be an opportunity to discuss the position as soon as possible after BL's proposals on Unipart come forward in mid-January.

I am copying this letter to the Private Secretaries to members of E(A) and to Richard Hatfield (Cabinet Office).

(Timothy Flesher)

Miss Ruth Thompson
Department of Trade and Industry

CONFIDENTIAL

CONFIDENTIAL

MO BL Pt 8 BL

BlUP 1/4

PRIME MINISTER

As discussed today.

Also attached are copies of notes sent to Mr Lamont.

Peter Warry

20 December 1984

PRIME MINISTER

BL 1985 CORPORATE PLAN

The BL Plan has arrived. For the 5 years 1984 through to 1988, compared to the previous Plan it shows a reduction of profit before interest and tax (PBIT) of £655 million, but on cash flow is £78 million better. However, if the Jaguar sale is excluded, then there is a deterioration of £375 million on profit, and £206 million on cash.

The overall figures in this Plan are:

£ million

	1984	1985	1986	1987	1988	1989
Sales	3,501	3,604	4,024	4,623	5,219	5,681
PBIT	9	11	72	144	182	210
Cash Flow	151	(160)	(75)	2	4	29
Return on Assets	1%	1%	5%	10%	12%	13%

Capital expenditure over these years if £1,522 million which compares with total end 1984 assets of only £1,312 million.

Despite the receipts of £293 million for Jaguar and a further £106 million on the partial disposal of the Indian subsidiary

CONFIDENTIAL

Ashok Leyland, BL require £335 million of new loans on which they expect Varley-Marshall guarantees from the Government. If creditors and other forms of finance are included, the amount the Government is on the line for will have grown by £600 million to £2,000 million by 1989 if nothing further is sold.

The Austin Rover Plan shows it still uncommercial in 1989 (return on assets 12 per cent) and the Board express concern as to whether even this is achievable. By contrast, Land Rover-Leyland is meant to be fully profitable by then, but this is dependent upon remarkable improvements in performance which from past results seems unlikely.

The track record is not good. Set out below are forecasts for next year's (1985) results as made in the last three Plans:

	1983 Plan	1984 Plan	1985 Plan
Overall BL			
PBIT	257	127	37*
Cash Flow	12	(100)	(160)*
Return on Assets	13%	8%	1%

* adjusted to remove the effect of the Jaguar sale

	Year 1985 as forecast in:		
	1983 Plan	1984 Plan	1985 Plan
Austin Rover			
PBIT	19	46	33
Cash Flow	(77)	(72)	(63)
Unipart			
PBIT	27	22	18
Cash Flow	10	14	2
Land Rover-Leyland			
PBIT	185	34	(15)
Cash Flow	67	(68)	(90)

The appalling Land Rover-Leyland forecasting (a deterioration of £200 million in the profits for the single year 1985) masks what is a comparatively good forecasting performance by Austin Rover. Our concern is that we have had all the good news at Austin Rover - they now have a fully competitive model range, but are unable to achieve more than 18 per cent penetration. For viability, they need nearer the 28 per cent that Ford has. It is going to be much more difficult for them to sustain their current static position than it has been to achieve dynamic improvement of recent years. If things start going wrong, it will happen quickly and expensively.

On privatisation, the Plan takes 20 pages explaining why nothing can be done on Land Rover-Leyland until 1989, yet ignores all the more obvious options of selling the profitable bits (Freight Rover, Self-Changing Gears, and possibly Scammell) or considering partial closures selling what one can in view of the further deterioration in profitability. Joint ventures are not mentioned at all.

Unipart is stated as being ready to be privatised in 1985 or shortly thereafter (but see accompanying note). Austin Rover is not a prospect this decade if they are to cling to not selling it at a discount on assets.

Overall, both the sales and the internal efficiency targets seem optimistic; yet despite this, far from being nearer a viable business or closer to privatisation, we in fact seem to be moving further away.

Peter Warry

PETER WARRY

IND. POL: BL: Pt 8

2 BF's.

SECRET

~~CC~~ NO. 2c

6

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

20 December 1984

Andrew Turnbull Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON SW1

TOTAL COPIES 10

COPY No. 1

Prime Minister
Interesting developments
JT 21/12

Dear Andrew,

~~PRIVATISATION~~ RATIONALISATION OF THE UK COMMERCIAL VEHICLE INDUSTRY

In your letter of 28 November about BL you asked for a progress report on, inter alia, possible rationalisation. I am writing about the more radical possibilities separately because of the commercial and political sensitivity of the issue.

2 Following the E(A) decision on 4 April, officials this summer approached Ford and GM about a rationalisation of the truck industry involving Leyland Trucks and perhaps other parts of Land Rover-Leyland (LRL). The GM response was positive and they fielded a senior team for preliminary talks with the company which have been followed up by more detailed discussions.

3 Initially GM tabled a specific proposal for collaboration on the production of a new range of medium trucks but they have said privately to us that they intend to look at other areas and their interest seems serious. They have for example asked questions about the likely Government attitude towards foreign acquisition of LRL - including Land Rover - and towards the formation of a joint company which GM might find sensible as a transition towards a full merger. Moreover while Bedford is relatively secure on the van side, there are still major question marks over its truck operations which are still losing money heavily and where, to remain competitive, GM needs to invest a great deal of money over the next few years in products and facilities.

4 GM have promised to try to give the Department a clear indication of their thinking in a timescale which will allow Ministers to take it fully into account when reaching decisions on the 1985 BL Corporate Plan - ie we should be clear about their plans by the end of February. In the meantime they have urged that we should treat the matter in the very strictest confidence: premature publicity could seriously damage the prospects of a

JH3BGZ

SECRET

999-1

successful outcome. For this reason officials propose to handle the talks with GM outside the mainstream of discussions on the 1985 Corporate Plan, and the codeword SALTON will be used for discussion of BL/GM possibilities more radical than commercial collaboration.

5 Ford's initial reaction gave rise to doubts about whether they were interested at all. However, they have now told us that they intend to have exploratory talks with BL in January about the scope for collaboration and their interest sounds as if it might now become serious. We shall of course report further on any significant developments.

6 I am copying this letter to David Peretz (Treasury) and Richard Hatfield (Cabinet Office).

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

Ind Pol: BL Pt 8.

CONFIDENTIAL

20 December 1984

PRIME MINISTER

UNIPART

You will recall that approval was given to Unipart to purchase the Motorists' Discount Centres, provided that the BL Board gave a firm commitment to the privatisation of Unipart by June 1985. BL have now decided not to proceed - Sir Austin Bide replied to Norman Lamont on 11 December in the following terms:

> "The BL Board has given long and careful consideration to the matter and has obtained the advice of Hill Samuel. This advice indicates that the proceeds of sale of the company in mid-1985 will at best be at a considerable discount to the book value of the assets involved, possibly by as much as 50 per cent. The Board has, in the light of this advice, reached the firm and unanimous conclusion that the sale of Unipart by mid-1985 would be contrary to its fiduciary duty to act in the best interests of the company."

Yet less than 6 months earlier, Sir Austin Bide was writing to Norman Tebbit on another purchase - that of Edmunds Walker. His letter of 19 July said:

CONFIDENTIAL

"You asked us to seek advice from Hill Samuel. Their letter is attached. Very briefly, their view, having regard only to matters within their area of expertise, is that without acquisition(s) Unipart cannot be floated in the foreseeable future on any acceptable level of proceeds. Similarly, placing is not practical. However with the acquisition of Edmunds Walker, Hill Samuel say that placement at indicative proceeds in the region of £75-100 million, should be possible in June 1985, and flotation in mid-1986."

This was the basis of the BL undertaking to a mid-1985 privatisation.

Clearly BL have broken their word and have carried Hill Samuel - men of straw - along with them. And although BL are now talking about an end-1985 privatisation date, we believe that the Hill Samuel advice may in fact say that privatisation before the end of 1986 is impossible.

Of course things in BL are not going to get better. Forecasts of Unipart profitability for the year 1985 have reduced from a PBIT of £49m in the 1981 Plan through £40m, £27m, £22m and finally £18m in the 1985 Plan. It will be interesting to see the final result.

To delay privatisation now in the hope of jam tomorrow - particularly when the BL Board are expressing extreme concern over the viability of Austin Rover - must be folly. There is not a choice between sale at a discount on asset value now, and sale at full asset value later; only sale at a discount now or later. But the asset value argument is a red herring anyway: most companies are sold at a discount - why should BL be different?

Unipart is one example of BL's lack of enthusiasm for privatisation, but it is not the only case. Sale of Land Rover-Leyland, either in part or whole, has been successfully resisted, always on the promise of a better price or a smaller loss if we defer it into the future. Whilst this delay has taken place, we have seen the return to profitability relentlessly slip back a year at a time when each new annual Plan is submitted. The extra Government funding consumed has made the financial arguments against early privatisation look small beer indeed.

The choice is stark. Either we allow BL to run themselves with effectively a blank cheque from the Treasury, and without more than lip service to Government objectives; or we put our foot down firmly. This would mean insisting that Unipart be sold by June 1985 at the latest - whatever the price, and whatever they consider their "fiduciary duties" to be. They will have good excuses why it cannot be done. These must be overridden.

E.R.

If the Board threaten to resign, we should accept their resignation and appoint a caretaker management with the sole brief of breaking up the business into separate independent companies and selling off thöse parts that they can. You need not worry about the impact of this on the individual subsidiaries: they would all operate far more effectively on their own and away from the dead hand of the BL Board.

Even if the BL Board agree to the sale, we should still appoint a government shareholders' representative onto the Board, to ensure that it is carried out.

DTI have given BL until mid-January to produce a detailed privatisation plan for Unipart. If they fail to deliver it by that date, or if they do but it is in breach of their mid-1985 undertaking, then we should immediately take the steps outlined above.

We must show we mean business, and therefore we should be ready to implement this literally on 16 January. I would suggest that an E(A) is pencilled in now in anticipation.

Peter Warry

PETER WARRY

CONFIDENTIAL

~~CE~~NO 2

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

This won't do. B-L must go as soon as possible. A meeting please within weeks of mid-Jan.

20 December 1984

Andrew Turnbull Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON SW1

Prime Minister:
BL is behaving badly over Unipart. They have been given until mid January to produce proposals for privatisation. Mid-1985 must remain the target (see Policy Unit note flagged)
AT 21/12

Dear Andrew,

BL

Thank you for your letter of 28 November. In it you raise a number of points relating to the progress in privatising various parts of BL.

Unipart

2 You will recall that, at the time of the acquisition of Edmunds Walker, the BL Board agreed as a quid pro quo to accept mid-1985 as an informal target for the privatisation of Unipart. While the date was not binding, we consider that the BL Board's acceptance of it as an informal target means that there would need to be very good reasons for it to be changed.

3 With the Prime Minister's agreement, the Board were recently told that Unipart could go ahead with the acquisition of the Motorist Discount Centre business on condition that the Board entered into a firm commitment to privatisation by June 1985. However the Board have now come to the conclusion, on the basis of advice from Hill Samuel, that the sale of Unipart in June 1985 would be at what they consider to be an unacceptable discount to asset value, which they believe would be contrary to their Companies Acts duties to the minority shareholders. They are also concerned about the prospects of the Austin Rover Group, and want to delay the sale of Unipart on the grounds that it might be desirable to transfer the parts and components bits of Austin Rover to Unipart if Austin Rover's prospects do not improve.

4 Mr Lamont therefore asked to see Sir Austin Bide and his colleagues on 12 December and impressed on them the Government's dissatisfaction at the suggestion that the Board were now looking to a date much later than their target of mid-1985 for the privatisation of Unipart. He has subsequently written to reinforce the message, and I enclose a copy of his letter.

JH3BHA

999-1

5 The Board have undertaken to come forward with proposals for Unipart privatisation by mid-January. Whether or not these are unsatisfactory - and Sir Austin's comments at the meeting with Mr Lamont suggested that they will be - my Secretary of State wishes to call in merchant bankers to provide an independent assessment of the sale prospects, and to consider the situation with colleagues on the basis of that assessment as well as on the basis of the Board's proposals.

Land Rover Leyland (LRL)

6 You are aware of the BL Board's delay in producing detailed studies of the privatisation options for Land Rover and Leyland Bus. As a result of this, in early November Mr Lamont met Mr David Andrews, the responsible executive Board member, and firmly stressed to him the need for the Corporate Plan properly to consider and evaluate all the options. We received the Plan on 12 December and you will be pleased to hear that the Board have addressed a satisfactory range of options in it.

7 Essentially, seven main options are considered:

(a) Sale of Land Rover Ltd in 1985.

(b) Sale of Land Rover (UK) plus African companies in 1985.

(c) Sale of Leyland Bus in 1985.

(d) to (f) As (a) to (c) above, but in 1986.

(g) Sale of LRL as a whole in 1989.

The Plan recognises that not all of these options are mutually exclusive; for example both Bus and one or other of the Land Rover options could be sold.

8 Having reviewed these various options the BL Board arrived at the conclusion that the best course would be to keep the company together, and to sell it as a single entity in 1989. Together with colleagues from Treasury and the Policy Unit we will be examining and questioning very carefully indeed the assumptions and reasons leading to this view. Our initial reaction is that there are good reasons for disputing the Board's view.

Rationalisation of the UK Commercial Vehicle Industry

9 Talks between LRL and GM are proceeding about a possible collaboration between the two companies on the production of a new range of medium trucks. Ford also intend to open discussions with

LRL to explore the opportunities for collaboration early in the New Year.

10 I am copying this letter to the Private Secretaries to the members of E(A) and to Richard Hatfield (Cabinet Office).

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

From the Minister of State for Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

Norman Lamont MP

CONFIDENTIAL

Sir Austin Bide
Chairman
BL plc
106 Oxford Road
UXBRIDGE
Middlesex
UB8 1EH

20 December 1984

Dear Austin

When we met on 12 December, you told me that the BL Board had felt unable to commit itself firmly to privatisation of Unipart by the end of June 1985. I said that, in these circumstances, the Government could not agree to Unipart's acquisition of MDC.

You also told me that BL was working on a detailed plan for the privatisation of Unipart, to be made available to the Department by mid-January, which would give the Board's views on when privatisation would be achievable. As I made clear to you, the Government attaches the highest importance to its privatisation aims for BL businesses and had hoped to see substantial progress made on this during 1985. We are therefore very disappointed that there should now be doubt about Unipart being privatised by mid-85, which was the informal objective set out in Norman Tebbit's letter to you of 1 August 1984. You will recall that you accepted this date as an informal objective in your own letter of 9 August 1984 - meaning in our view that, whilst the date was not binding, there would need to be good reason for it to be changed.

You mentioned at our meeting that the most recent estimate of proceeds from the sale of Unipart suggested that a mid-85 sale might mean a discount of about 50% on asset value, and that the Board felt that acceptance of this would be inconsistent with their duties towards their minority shareholders. However, as I said in my letter to you of 15 November, the Government not only own 99.7 per cent of the shares in BL but also effectively guarantee through the Varley-Marshall assurances the continuation of the business.

1MOAKD

For that reason, I am afraid I cannot accept that the possibility of assets being sold at a discount to their book value necessarily rules out a mid-85 privatisation of Unipart because of the rights of the minority shareholders. For the same reason, the Government is entitled to be satisfied that acceptable progress is made on privatisation and, as I said in my letter of 15 November, we believe that there can be cases when uncertainties about the future make an earlier sale preferable, even at the cost of giving up the prospect of higher proceeds at a later date.

The other main objection you raised at our meeting was that the prospects of the Austin Rover Group were now more uncertain. But we have always regarded the privatisation of Unipart as a separate issue from the future of the rest of BL, and any uncertainty surrounding Austin Rover is an argument for rather than against privatising Unipart as early as possible.

I should therefore be grateful if the Board would reconsider its objections to the privatisation of Unipart in mid-85. I hope very much that its proposals for the privatisation of Unipart - which I should like to receive as early as possible in the New Year - will accept that privatisation of Unipart by end June 85 is feasible, and that BL should plan accordingly. The Secretary of State and I should in any case like to call in a merchant bank to provide an independent assessment of the sale prospects: I shall be in touch with you again shortly on this point.

Yours ever

Norman

NORMAN LAMONT

1MOAKD

Ind Pol: BL Pt 8.

Jl
SH2AAH
cc Policy Unit

10 DOWNING STREET

From the Private Secretary

6 December 1984

Unipart

The Prime Minister has seen your letter to David Peretz of 4 December. She is prepared to agree to the acquisition of MDC by Unipart in preparation for early privatisation but she queries whether this is best done by acquiring RCH rather than by buying MDC from a receiver. She would like this alternative to be examined seriously.

She has noted that privatisation of Unipart is planned for mid-1985. She believes that this should be the very latest date and that concrete steps should be taken now to start preparations for disposal, such as the drafting of documents and the resolution of the main issues outstanding, eg the size of BL's residual shareholding, if any, and the handling of sale proceeds. She would be grateful for a report in the new year on the timetable for the various steps in the disposal.

BF

I am copying this letter to David Peretz (Treasury) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Miss Ruth Thompson,
Department of Trade and Industry

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

cc NO

NBPM
AT 7/12

FINANCIAL SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

6 December 1984

Dear Norman.

UNIPART

Nigel Lawson has asked me to reply to your letter of ~~4~~ attached December.

It seems to me that Unipart have a full appreciation of the risks involved in the acquisition of MDC and are capable of containing them. Their plans for turning MDC round derive from first hand, albeit pilot, experience of running retail outlets, and they have long term plans for representation in the retail DIY motor accessories and spares markets. In the light of these points I accept that the acquisition makes commercial sense for them.

The key question for us is the impact of the MDC acquisition on the timetable for disposing of Unipart. On this, I very much agree that we should not accept anything that might let privatisation slip beyond the present target date of mid 1985. I fully endorse your proposal to seek a formal commitment to privatise Unipart by end June as a condition of approval.

Subject to the commitment of the BL Board to Unipart privatisation not later than end June, (which means perhaps targeting slightly earlier to ensure sufficient flexibility in the light of market conditions) I am content that Unipart should be authorised to acquire RCH assets and liabilities. I suggest, however, that the BL Board should be asked, after the acquisition, to give their views, and the views of their Merchant Bankers, on all aspects of achieving the Unipart privatisation by the due date. This will include an early conclusion of the ARG/Unipart contract negotiations (end January perhaps), and taking a view on whether the sale should be by placement or flotation, on whether to retain a residual BL shareholding, and on the likely disposal of receipts. You will also wish to consider the appointment of a Merchant Bank to advise Government on this, and perhaps the later, BL privatisation.

I am copying this letter to the Prime Minister, and to Sir Robert Armstrong.

Yours
John

JOHN MOORE

MR TURNBULL 5 December 1984

UNIPART

BL wish to purchase an effectively bankrupt retail car parts chain (MDC) for £1. They will need up to £25 million to recapitalise the business. If Unipart were in the private sector this acquisition would make considerable commercial sense: it would distance them further from Austin Rover and secure additional outlets for Unipart's 'all makes' range. It could also save some jobs.

For this further nationalisation DTI propose that the agreed mid-1985 target for the Unipart sale should be converted into a binding understanding to a sale by end June 1985 provided markets do not deteriorate. This is manifestly inadequate and demonstrates the worth of BL promises.

We should not accept this: there are bidders around for Unipart but they have been reluctant to proceed without BL encouragement. It does however prove that the company could be quickly sold if the will is there.

DTI and Treasury think that the commitment to June a significant improvement as the mid-1985 target was - yet again - slipping. But why can taking on the extra complications of MDC make even that date more achievable? Surely it can only cause more delay. If one sells it quickly - a placement by end-March 1985 is possible - these problems will not have manifested themselves and there will be no time for BL to have found other excuses. With BL a bird in the hand is worth a whole flock in the bush.

Achievement of the March deadline would require the key contract with Austin Rover to be finalised in January (they have already spent 18 months on this) such that tender documents can be issued to interested merchant banks by end-

January. This would only include provisional financial results for 1984 and final audited figures would be sent out in February. To avoid accusations of a rushed sale we would need to give the banks two months to make their offers which implies a sale date of end-March. DTI would apparently have difficulty appointing their own merchant bank advisers consistent with this timetable but this surely can be overcome with some political will.

We must also decide who should get the proceeds of the sale; and what, if any, shareholding BL should retain (there are strong BL and City arguments for leaving them, say, 25%). If we can get the commitment to the sale date now, then these points can be considered before the tender documents are issued at end-January. The Government could also reserve its position to opt for a flotation (which would defer a sale) until then.

We therefore recommend the Prime Minister endorse the acquisition proposal but on the following terms:

1. BL agree to finalise the contract with Austin Rover and put out provisional tender documents by end-January so as to complete the placement by end-March.

2. Government will enter into discussions with BL to determine what shareholding (if any) should be retained by BL and how the proceeds of the sale should be handled.

If BL cannot accept these conditions then one must doubt their commitment to privatisation. And given their track record we would then strongly suggest that the acquisition of MDC is only likely to defer privatisation further.

Peter Warry

PETER WARRY

Unipart file

10 DOWNING STREET

From the Private Secretary

1

Prime Minister

Unipart want to make a further acquisition before privatisation. Treasury agree provided BL accept commitment to date no later than mid 1985. They also agree that placement rather than flotation is best method.

Policy Unit believe privatisation could be achieved even earlier.

Agree the acquisition provided BL start work now on preparations for disposal, including documents, BL residual shareholding, and handling of sale proceeds?

AT 5/12

This is costing 20-25 m

Unipart would pick it up much more cheaply from a receiver not

E. R.

CONFIDENTIAL

NBPM
AT 5/12

MR TURNBULL 5 December 1985

AUSTIN ROVER

DTI have bought the BL official line on the proposed board changes. They are wrong on industrial grounds and almost certainly equally wrong on political ones as well.

However, we cannot hope to run BL from No 10 through the DTI. We have put them on notice on the issue and regrettably I think we should let the matter rest there.

Peter Warry

PETER WARRY

CONFIDENTIAL

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/Secretary of State for Trade and Industry

4 December 1984

David Peretz Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear David,

UNIPART

The BL Board are seeking the Government's approval of the acquisition of Unipart of R C Hartley (Holdings) Ltd (RCH), a company owning a nationwide chain of retail vehicle accessory shops trading as Motorists' Discount Centres (MDC).

2 Treasury and No.10 Policy Unit officials have details of this proposed acquisition. It can be summarised as follows. RCH was a very profitable company until 1981-2. In 1983, a combination of over-rapid expansion, a lack of strategic direction and adverse trading conditions led to a sharp reduction of profits in 1982-3. Although Mr Hartley, the owner, then reassumed personal control, the company made a loss in 1983-4. During 1984 the business has continued to operate at a loss.

3 The company's borrowings (from the National Westminster Bank) now stand at £11m, and trade creditors at £13m. The high level of trade creditors, coupled with the bank's reluctance to lend any more, means that the business is unable to obtain sufficient new credit to finance adequate stock levels; and it consequently cannot generate cash to reduce its deficit. As a result, the bank is on the verge of appointing a receiver in the absence of a credible bid to rescue the company.

4 Unipart believe that they have the resources to turn MDC round to profit again. They say they could restock the shops within a week or so, eliminating the stock shortage which has been the main weakness in current months. In the slightly longer term, they believe they could use point of sale microcomputers to link the MDC shops into Unipart's extensive distribution network. As a result, they believe that although the acquisition would reduce Unipart's trading profits by £0.7m in 1985, they would improve by £2.8m in 1986 and £4.3m in 1987 and subsequent years. They believe that the acquisition would strengthen Unipart prior to privatisation by

JH3BFQ

reducing its dependence on Austin Rover, because MDC shops are aimed particularly at the DIY sector, and would therefore provide additional and secure outlets for Unipart's range of "all-makes" parts.

5 Unipart propose to pay only a nominal £1 for the MDC business. It would, however, be necessary to meet the outstanding obligations of the business, and they estimate the finance required, at between £21m and £25m. The basis of the present proposals is that the acquisition is conditional on an independent accountant's report that the business has a positive net worth.

6 Unipart are impressed by the personal qualities of Mr Hartley and propose to retain him as Managing Director. They also propose that Mr Hartley should hold deferred shares which would convert to 10% of the equity in MDC once trading profits reached £3m p.a. and the return on assets reached 15%. There would be provision for Unipart to buy out Mr Hartley, at a formula-determined price, at the request of either.

7 We need to consider what the Government's response to the BL Board's request should be. The Board clearly thinks that Unipart can start to turn MDC round quickly. That might well make Unipart more rather than less attractive to the market, despite the short-term adverse effect on profits - especially if there was to be a placement, where the institutions involved would be able to take a longer view; and, although it would be wrong to rule out a flotation, the placement seems the more likely route to privatisation at the moment. The IDU will be receiving copies of RCH's latest management accounts and also a report by an independent accountant on the net worth of the business. If the IDU's subsequent report concludes that BL's proposals are commercially sound, I believe that Government approval of Unipart's acquisition of MDC should be given, subject to satisfactory assurances on the timetable for the privatisation of Unipart.

8 On the privatisation of Unipart, the BL Board have already agreed to a target of mid-1985. We strongly believe that the Government should not agree to anything which might delay that. It would be unacceptable for this acquisition to be used as an excuse for mid-1985 to slip to late-1985. As a condition of approval, we therefore propose that the BL Board should give a formal commitment to privatise Unipart subject only to the possibility that marker conditions might deteriorate so much that Ministers accept that privatisation should be deferred. The Board should formally accept the binding nature of this target, and should record their understanding that mid-1985 means not later than the end of June.

9 RCH's bankers are on the verge of appointing a receiver to the company. Because of Unipart's interest, they have agreed to stay

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

their hand temporarily; but they will not wait long. I should therefore be grateful if you would let me know whether you are content with what I propose by Thursday 6 December.

10 I am sending copies of this letter to Andrew Turnbull at No.10 and Richard Hatfield.

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

JH3BFQ

11 12 1
10 2
9 3
8 4
7 6 5

B/F with PM response AT 4/12

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

CONFIDENTIAL

Andrew Turnbull Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1

4 December 1984

Dear Andrew

AUSTIN ROVER

Thank you for your letter of 19 November.

Mr Lamont has not himself discussed the possible organisational changes with Sir Austin Bide or Mr Horrocks. Such matters are ones into which the Department would not normally enquire, since they are very much within the commercial responsibilities of the Board. Nonetheless, in view of the concerns expressed by the Prime Minister, he asked officials in this Department to obtain a highly confidential account of the proposed changes and the reasons for them. I should stress that at this stage no final decision has been taken, and at present only a very limited number of people within BL know of the changes under consideration.

At present executive responsibilities on the BL Board are divided between the two managing directors, Mr Andrew Barr and Mr Mark Snowdon. Mr Barr has responsibility for product engineering and manufacturing; Mr Snowdon for product planning and sales and marketing. Recent studies by Austin Rover have identified two key weaknesses which have contributed to the company's failure to achieve its target market share. One is quality, which despite recent improvements is still below target. To address this it is proposed to expand Mr Barr's responsibility for manufacturing to give a special emphasis at Board level to quality. The second weakness is in sales and marketing. To address this, it is proposed to raise to the Board the present

1TUAHX

999-7

sales and marketing director, Mr Trevor Taylor, who would take over those responsibilities at Board level from Mr Snowdon. To allow Mr Barr time for his increased work on quality, and to equalise the loading of directors, responsibility for product engineering would pass from Mr Barr to Mr Snowdon.

The account we have obtained suggests that the proposed changes would not have the undesirable effects the Prime Minister fears. First, the practical constraints of the computer aided engineering system within Austin Rover are such that each discipline can only achieve its own objectives by cooperating fully with the other disciplines involved. Second, the level at which responsibilities for product engineering and manufacturing converge has moved up one level. If there are any conflicts between the priorities of different disciplines, Mr Musgrove would be at least as capable of resolving them as Mr Barr.

As is often the case with transfers of responsibility in a Board comprising able and ambitious people, these proposed changes have not been universally welcomed by those concerned. Mr Lamont however has great respect for Mr Musgrove's judgement and knows him to be fully aware of the importance of keeping in the van of technological developments in the industry. In Mr Lamont's opinion, he would not introduce any changes which would threaten Austin Rover's position in that respect.

A copy of this letter goes to David Peretz (Treasury)

Yours sincerely
Edward Hosker

E N R HOSKER
Private Secretary

1TUAHX

CONFIDENTIAL

cc: P.Gen. DEn
DTp. NIO
CS (HMT) HMT
MAFF MwP
DEmp CO.
CDL
LPS
DOE
WO
SO

10 DOWNING STREET

From the Private Secretary

28 November 1984

Dear Callum,

BL

The Prime Minister is concerned at the progress which is being made in developing proposals for the privatisation of various parts of BL.

At its meeting on 4 April, E(A) asked that work should be undertaken to separate Leyland Bus from Leyland Trucks and that options for its disposal at the earliest possible date should be prepared. At the same time, E(A) asked that the possibilities for rationalising the UK commercial vehicle industry should be explored. In responding to the corporate plan in May (my letter to you of 14 May), the Prime Minister welcomed the suggestion for a study of the steps that would be needed to turn Landrover into a separately saleable entity. She suggested that a time limit of three months be set for this work.

The May report of the official group on BL recommended that the Board of BL should be invited to bring forward as soon as possible detailed proposals on how the privatisation of Unipart by mid-1985 might best be achieved. In July E(A) agreed that Unipart should acquire Edmunds Walker in order to enhance the saleability of the enlarged company.

The Prime Minister would be grateful for a report on progress that is being made in each of these areas. She hopes that proposals will soon be brought to E(A) for decision.

BF

I am copying this letter to the Private Secretaries to members of E(A) and to Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

(Andrew Turnbull)

Callum McCarthy, Esq.,
Department of Trade and Industry

CONFIDENTIAL

E.R.

NBPM 5

AT 23/4

SECRET

MR TURNBULL 23 November 1984

UNIPART

Motorist Discount Centres - a high street retail car spares operation - is on the verge of bankruptcy. The business is highly complementary to that of Unipart, and would be a valuable diversification from its over-dependence on Austin Rover in advance of privatisation. The business could be purchased for a nominal sum but would require over £20 million spending to restore it to health.

BL have proposed its purchase to the DTI. DTI will hopefully be in favour but require some stronger statement from BL on the date of Unipart's privatisation. We would insist on a definite date before allowing more nationalisation so soon after their purchase of Edmunds Walker. BL are likely to resist any firm statement and may prefer to drop the acquisition rather than give such a commitment.

Unbeknownst to both BL and DTI we believe there may be an offer for the Unipart business in the £80 to £100 million range at which Hill Samuel (BL's merchant bankers) have already valued it. Such an offer will be made conditional on fuller information about Unipart, but more importantly on the deal being completed before Easter of next year.

If we can achieve sensible management both of the offer for the Unipart business and BL's proposal to purchase the Motorist Discount Centres, we could successfully skewer both BL and DTI on their own "petards".

Peter Warry

PETER WARRY

SECRET

CONFIDENTIAL

JKRAMQ

bc PW

10 DOWNING STREET

From the Private Secretary

19 November 1984

AUSTIN ROVER

The Prime Minister has been following with interest the progress that Austin Rover has been making in the integration of their computer-aided design and manufacture. Britain, and BL in particular, appear to be leading the world in this field. This success has been founded on first-rate computer work, and the melding of the manufacturing and the engineering functions under a single head.

The Prime Minister understands, however, that BL are considering some reorganisation of management responsibilities which could lead to a division of the design and management functions, and which could cause this technological lead to be lost to this country. She would be interested to know whether Mr. Lamont has discussed such a reorganisation with Sir Austin Bide and Mr. Musgrove; whether he shares her concern about this development; and, if so, whether there is anything that can be done to forestall it.

~~BF~~

I am copying this letter to David Peretz (HM Treasury).

AT,

Edmund Hosker, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

CONFIDENTIAL

Prime Minister (2)
Norman Lamont's letter is intended to record the formal position, but sometime soon there will have to be some tough talking to show who is boss.
AT 16/11

16 November 1984

MR TURNBULL

Norman's letter to Austin Bide covers the ground in a workmanlike but ponderous manner.

The BL Board are behaving with all the moral indignation you would expect from businessmen running a loss-making business that is bankrupt, and who believe that everyone is to blame but themselves.

The BL Board's stance of studied defence of the tiny minority of shareholders is a sham, as Norman points out. Their dogged resistance to privatising some parts of the business separately will lose more jobs and cost more money than had they got on with it when first requested.

Norman is right to seek a limitation in the Varley/Marshal assurances, right to insist on privatisation as a prime objective - of parts, if not of the whole - and right to demand retention of the corporate planning process.

?

The argument that they would be forced to sell assets at "less than a commercially justifiable value"? could have been dealt with more forthrightly. In the past, when the Board have refused to sell profitable businesses within the BL stable, they have resisted on the grounds that they would get more money later. What has often happened is that those businesses have then dived into loss, and required more and more public funds. It is to prevent this happening again that the businesses should now be privatised.

Conclusion

The arguments in the letter are sensible and sound, but the tone is still cautious. We must go on telling the BL Board the straight truth: they are the taxpayers' agents; without the taxpayer their united BL would be in the hands of the Receiver; and after years of action and taxpayers' money, BL is little nearer as a whole to good profits and success than it was when they began. This would normally be a case for changing the Board.

JOHN REDWOOD

GR Please type

Prime Minister
(i) Agree a letter to DTI as suggested? Yes
(ii) A draft reply to Professor B is attached. AT 16/11

15 November 1984

Yes

MR TURNBULL

AMQ

AUSTIN ROVER

Austin Rover (AR) have established a world lead in the integration of computer-aided design and manufacture. This has created dramatic improvements in productivity, quality and - most importantly - lead time. It has been achieved through Professor Bhattacharyya's work on the computer side, and the integration of the manufacturing and engineering functions in AR under Andy Barr.

Harold Musgrove, in pursuit of internal politics, now intends to redivide manufacturing and engineering: the key to their success.

The Prime Minister could consider writing to Norman Lamont in the following terms:

PS letter to Edmund Hosker DTI

> "The Prime Minister has been following with interest the progress that Austin Rover has been making in the integration of their computer-aided design and manufacture. Britain, and BL in particular, appear to be leading the world in this field. This success has been founded on first-rate computer work, and the

melding of the manufacturing and the engineering functions under a single head.

The Prime Minister understands, however, that BL are considering some reorganisation of management responsibilities which could lead to a division of the design and management functions, and which could cause this technological lead to be lost to this country. She would be interested to know whether Mr Lamont has discussed such a reorganisation with Sir Austin Bide and Mr Musgrove; whether he shares her concern about this development; and, if so, whether there is anything that can be done to forestall it."

I am copying this letter to David Peretz (Treasury)

A-T

Linda Reid

pp. PETER WARRY

→ PC NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

Sir Austin Bide
Chairman
BL Public Limited Company
106 Oxford Road
UXBRIDGE
Middlesex UB8 1EH

15 November 1984

Dear Austin

BL/GOVERNMENT RELATIONS

I am replying in Norman Tebbit's absence to your letter of 17 August.

I agree that the Memorandum of Understanding (MoU) between the Board and the Secretary of State has in general worked well. I particularly value its flexibility, which enables most issues between us to be settled in a pragmatic fashion. I agree that it would be useful to both sides to clarify the mutual understanding of the roles which the Board and Government have under the MoU. You raise a number of points in your letter, which are dealt with separately below.

CORPORATE PLAN

You suggest that we should move away from the present system under which the Board submits an annual Corporate Plan for the Government's approval. The Corporate Plan process is in fact a well-established one for publicly owned businesses, and I can see nothing in the circumstances of BL to justify an exception. Only last year, the Public Accounts Committee, in an examination of the monitoring of BL, broadly endorsed the procedure and the way it is carried out.

FORMAL DUTIES OF THE BOARD

Your statement of the law as it affects the formal duties of the Board is of course incontrovertible: however, as a basis for defining the relationship between us I do not believe it is quite

1MOAHN

adequate. The Government not only own 99.7 per cent of the shares in BL, but also effectively guarantee through the Varley-Marshall assurances the continuation of the business. This places upon the Government an obligation to be satisfied that your Corporate Plan incorporates acceptable decisions on investment as well as on progress towards privatisation. I do not think that a commercial holding company in the same relation to BL as is the Government would give the Board absolute discretion to take decisions without reference back, nor I am sure would the Board expect it. The MoU recognises this by providing that the Corporate Plan itself and major investment projects require the Secretary of State's approval. While it is not the Government's intention to "second-guess" the Board's commercial judgement, there may be occasions when the Government's wider interests mean that the views of the Board and the Government will not coincide. In that event, we obviously could not accept that the MoU should be so interpreted as to give automatic precedence to the views of the Board. Rather, I hope that we will continue, as in the past, to discuss the issues involved frankly and to agree, in the light of circumstances, the best way forward.

OBJECTIVES

On the revised objective which you propose, I welcome the increased emphasis on privatisation as the Board's overriding objective. However, both I and my colleagues think it is unfortunate that in the process the reference to the need to pursue a targeted programme of profitability improvement has been deleted. I should therefore be grateful if you would insert a second objective along the lines of what is currently the third objective.

OWNERSHIP OF PRIVATISED BL BUSINESSES

On the question of foreign ownership or control or privatised BL businesses, the Government would, other things being equal, naturally wish privatised businesses to remain, at least initially, in British hands. But the arguments will not always be as clear-cut as they were in the case of Jaguar. It is not obvious that a continuation of British ownership will necessarily be the best way of ensuring the future of all the businesses within BL, and it could be that a determination to retain British ownership would hamper attempts to privatise some of the businesses. Except, therefore, where there are special circumstances (as in the case of Jaguar) we would not wish our general preference for British ownership to be regarded as an overwhelming consideration, especially if insisting on it would stand in the way of privatisation.

On the question you raise about the retention by BL of a minority stake in privatised businesses, the Government recognise that in some cases the links (whether trading, marketing or technical) with companies remaining within BL may be so substantial as to justify a residual BL minority holding. We will however generally start from a presumption that the benefits of privatisation to the privatised company will be most completely felt if there is no residual publicly owned stake.

VARLEY-MARSHALL

On the Varley-Marshall assurances, no Government could contemplate with equanimity a position in which large contingent liabilities were allowed to build up without limits on either extent or time. The Government's liabilities will of course cease once all the businesses are privatised. Until then, it is only natural that the Government should wish to limit both its overall exposure under the assurances and the risk that the assurances will be called. We recognise that there is no prospect of withdrawing or substantially modifying the assurances in the immediate future, but as the company's performance improves we will continue to aim at this, even before complete privatisation is achieved, if it can be done without damaging the company or jeopardising the privatisation programme. One way of doing this might be to distinguish between existing borrowings of the company, which would continue to be covered by the assurances, and future borrowings, which might be sought on BL's own surety. I should be grateful if, either when you submit the 1985 Corporate Plan or within a month thereafter, you would let me have the Board's view on the feasibility of this suggestion. In the meantime, the Government believe that the company's financial objective should contain agreed limits on BL's borrowings so as to maintain control on at least one component of the Government's contingent liability; and discussions about this are in train.

DISPOSALS

You also raise the question of sales of parts of BL being accompanied by a "dowry". Naturally this is not something the Government wish to encourage. But it is certainly conceivable that the benefits to BL of being rid of a troublesome business which could do better elsewhere would outweigh the once-off financial loss, and make sense (just as you have already sold some of your) loss-making peripheral businesses at a substantial discount on book value.

Ind Pol
Pt 8 BL

Similar considerations apply to the idea of selling businesses at what you term "less than a commercially justifiable value" - by which I take you to mean selling at a particular time even when you believe that a sale at a later date would yield a higher price. There can be cases when uncertainties about the future make an earlier sale preferable, even at the cost of giving up the prospect of higher proceeds at a later date. It is impossible to set out in advance guidelines in this area: each case will have to be judged at the time on its merits.

MINORITY SHAREHOLDERS

Finally, I must tell you that the option of buying out the remaining minority shareholders is extremely unattractive to the Government. I am advised that neither of the procedures available under the 1948 Companies Act would be secure in the face of opposition or apathy from the minority; and the Government would clearly wish to avoid, if at all possible, new legislation. Consequently, this option is one that we could only consider, and even then without commitment, if it was manifestly and incontrovertibly clear that the existence of the minority was impeding either privatisation or BL's return to viability or both.

NORMAN LAMONT

15 NOV 1984

1MOAHN

SECRET

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Prime Minister (2)
To note
AT 15/11

Norman Lamont MP

SECRET

The Prime Minister
10 Downing Street
LONDON
SW1

15 November 1984

Dear Prime Minister

AUSTIN ROVER (ARG) STRIKE

You will wish to have an account of the latest position in this dispute and of expected developments over the next few days.

All of the smaller ARG plants are now working normally. But turnout at the main Cowley and Longbridge plants is still only modest and, while some limited operations are now possible, there is no immediate prospect of resuming large-scale car production. Despite intensive efforts directly and through the local media to win round the workforce, the company have no grounds for believing that the strike is likely to crumble.

Yesterday the company withdrew its appeal against the court decision not to grant an injunction against the AUEW. This followed the advice given, after a closed hearing, by Sir John Donaldson that a seven-point repudiation of the strike made by the union in open court was a sufficient indication to the union's members to the union's officials attitude to the strike, notwithstanding that it fell short of recommending members to return to work. Sir John said that it would be unusual to order a union to instruct its members to go back to work. (The injunctions obtained last week against six other unions ordered them not to induce, persuade, direct, instruct or encourage their members to strike.)

Separately the company are proceeding with civil action for contempt against the six unions who failed to respond within the time allowed to the injunctions granted last week (although one small union has subsequently urged a return to work). Hearings are

SECRET

1THAHA

likely to take place early next week. If the various court and other actions fail to secure a return to work, Austin Rover intend to consider issuing individual workers with letters warning them that by striking they are breaking their contracts of employment and that unless they return by a specified date they will be deemed to have dismissed themselves, under which circumstances they would not qualify for redundancy pay. This tactic has been successfully used by BL on a number of previous occasions. Ray Horrocks has however assured the Department that no action will be taken with the workforce until the outcome of the contempt hearings is known; and he has also said that he would consult Ministers before taking final decisions on this.

I am sending copies of this letter to the Chancellor of the Exchequer, the Secretaries of State for Employment and Energy and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN LAMONT

NBPM

AT 15/11

CC NW

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 5186
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

CONFIDENTIAL

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

15 November 1984

Dear Nigel

BL

will request if required

I attach for your information a copy of the letter I have now sent to Austin Bide in response to his letter of 17 August about BL/Government relations.

You will see that the reply takes account of all the comments made in your letter of 18 October to Paul Channon except your suggestion that the 1985 Corporate Plan should make proposals for separate financial objectives for the different businesses within BL. I agree with your thinking on this: there are already discussions about financial objectives in train at official level and I want these to deal with the setting of financial objectives for BL's constituent businesses. In addition, I recently told David Andrews, the Group Chief Executive of Land Rover-Leyland, that we wanted more detailed financial information about the different businesses comprising Land Rover-Leyland. However we are anxious to get to work on the Corporate Plan, and in particular to discuss the options for privatisation as soon as possible. I would be reluctant to risk delaying submission of the Plan by proposing, at this late stage, substantial additions to its scope.

I note the two points which you mention in your penultimate paragraph, and I agree that they should be taken up in the examination of the Corporate Plan.

1MOAHR

I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong.

NORMAN LAMONT

1MOAHR

NOVEMBER 1984

CONFIDENTIAL

BL PRIVATISATION

Earlier this year Ministers agreed to ask Land Rover-Leyland to try to find a buyer for their business and if this was not achieved within a few months, they would think about splitting it up for sale. There is a risk BL may continue to drag their feet or produce candidates who are ultimately unlikely to buy. They seem to have been fighting a successful rearguard action since 1979 to prevent piecemeal privatisation in the four wheel drive, bus and truck area. The result has been painful losses and surgery.

BL have put up three canards to try and slow down the pace of privatisation. Firstly, particularly with regard to Land Rover-Leyland, that the businesses are indivisible. It is now accepted in Whitehall that all of the businesses, even the smallest, are separate entities.

Secondly, they argue that one cannot split the profitable businesses from the total and merely leave a loss-making rump. Again, it is now fully accepted that the one thing that would concentrate the minds of the managers of BL is being left with the loss-making bits. This would also prevent them bleeding the profitable bits to subsidise the less profitable ones: draining away not only funds but transferring the actual business as well. Of course what is loss making and what is profit making is a moveable feast.

The third canard which flows from the second is that they cannot start selling off parts of BL until it is all profitable. This must be wrong. Not only are the City interested in buying loss-making companies as well as profitable ones - doubtless Land Rover could be sold - but if we permit this belief to continue then all we may do is support inactivity by the management, because the less they do to make it profitable the less Government can do to privatise it.

If BL continue to drag their feet (contrast the good and rapid progress being made by British Shipbuilders in a situation at least as difficult) then isn't there a point where Ministers have to say that they can no longer leave the matter solely to BL? This point could be made in the reply to Austin Bide's letter of 17 August.

The attached briefing note was for Norman Lamont prior to his recent meeting with David Andrews, to bring out from the inside some of the sharper questions and opportunities that can be raised if Ministers now wish to consider the sale of separate businesses.

CONFIDENTIAL

JMOABL

BL PRIVATISATION

1. Unipart

There is already a commitment to privatise Unipart. Its business outlook is unlikely to improve and its expansion into providing parts for other manufacturers' cars will be hindered by the financial constraints of operating within BL. Wouldn't it is best to decide before Christmas to place the company in the first quarter of 1985? Charterhouse Japhet would be prepared to undertake it. Could you announce this?

2. Land Rover-Leyland International Holdings

This is a recently formed holding company for the assorted overseas operations of Land Rover and Leyland. Many of these companies will be loss makers further subsidising the poor results of their UK counterparts. What action is being taken to sell them - particularly the 40% stake in Leyland Nigeria?

3. Land Rover

Land Rover used to be one of the most profitable parts of BL but due to lack of funds and its loss of separate drive and identity within the BL colossus, it has become a serious loss-maker. You can sell Land Rover: the product is a desirable flagship for other companies, either those already operating in the military sector, eg Vickers, GKN, United Scientific Holdings, or alternatively those in the construction or agricultural fields. Fiat, the Italian Company, could be interested. When does David Andrews intend to issue the sale prospectus?

4. Freight Rover

This is a small profitable subsidiary of Land Rover entirely separate in terms of physical facilities, accounting, management etc. The only common function is industrial relations which in any case is probably better separate. The company makes roughly £5 million profit per annum, but will need to replace its model range towards the end of the decade and this could lead to a negative cash flow. It would be better off outside the BL group. DAF is a sensible partner, as they have a good European distribution network but no van model. Have they been approached and if so with what success? What deadline has been placed for the sale of this business? Could it be sold to the trade or independently?

5. Leyland Vehicles

This comprises Leyland Trucks, Leyland Bus, Leyland Parts (equivalent to Unipart in the BL cars group), and Self Changing Gears Ltd. There are no physical or accounting links between any of these companies. Why do they persist with this managerial fiction?

6. Leyland Trucks

Almost unique within the truck world, Leyland Trucks effectively has no cooperation agreements with any other manufacturer. The Leyland Trucks operation will be down to its rump size after the closure of Bathgate and no further plant cuts would be sensible. Some cost cutting can still be achieved but this is unlikely to redress the £60 million or so losses that this company is likely to turn in year after year. Any opportunity to sell the company or to take on a joint venture which could ultimately lead to a sale should be adopted. Why was the DAF proposal for cooperation on light trucks and engines earlier this year rejected, (as have all previous joint venture proposals for Leyland Trucks, eg Iveco and Renault, other than the abortive Cummins deal)? If they will not take immediate steps to stem the loss how can we justify continuing support?

7. Scammell Motors Ltd

With the closure of Bathgate, Scammell (a Leyland Trucks subsidiary), will revert to being a self-contained profitable specialist business. What date has been fixed for its sale?

8. Leyland Bus

The bus manufacturing industry is in severe recession, in part due to our efforts on deregulation. There is no prospect of profitability being restored without a severe rationalisation of the industry. Why then did BL fail to pursue Volvo's approach this year to buy the Workington factory and other pieces of Leyland Bus? Although it would have been the end of Leyland Bus as a separate entity it could have met BL's and the Government's financial objectives. If they are not prepared to grasp these opportunities how to they intend to tackle the problem?

9. Leyland Parts

Hopefully Leyland Parts could be sold off on the same basis as Unipart. It already has arms length operations with Leyland Bus and Trucks. What are the plans for the flotation of this company?

10. Self Changing Gears Ltd

Two sensible offers have already been made for this business, and at least one other party is currently interested. These approaches have been dismissed out of hand. Like most BL companies it has no vital linkage with any others. Shouldn't they consider good offers for it?

11. Land Rover-Leyland

This is purely an organisational linkage between Land Rover and Leyland Vehicles Ltd and has no accounting or other common facilities apart from David Andrews himself. The franchising advantages are not important. Since its establishment, Land Rover-Leyland has slipped from profit to a very substantial loss. No action has been taken towards privatisation. Measures likely to reduce the drain on Government funds have been ineffective. The Group is a severe hindrance to the privatisation of its constituent parts and to the agreement of joint ventures. To date Government has said that these are matters for BL solely, but in the face of their total inactivity and the several hundred millions that this inactivity has cost, can you continue with this stance?

Peters copy.

10 DOWNING STREET

Callum McCarthy Esq
Private Office
Department of Trade & Industry
1 Victoria Street
London SW1

9 November 1984

Dear Callum

BL PRIVATISATION

As promised, I attach a covering note for the brief I produced for the meeting with Mr Norman Lamont.

Yours sincerely

Peter Warry

PETER WARRY

cc John Meadway Ashdown Hse
John Whittingdale
1 Vic St

BL PRIVATISATION

Earlier this year Ministers agreed to ask Land Rover-Leyland to try to find a buyer for their business and if this was not achieved within a few months, they would think about splitting it up for sale. There is a risk BL may continue to drag their feet or produce candidates who are ultimately unlikely to buy. They seem to have been fighting a successful rearguard action since 1979 to prevent piecemeal privatisation in the four wheel drive, bus and truck area. The result has been painful losses and surgery.

BL have put up three canards to try and slow down the pace of privatisation. Firstly, particularly with regard to Land Rover-Leyland, that the businesses are indivisible. It is now accepted in Whitehall that all of the businesses, even the smallest, are separate entities.

Secondly, they argue that one cannot split the profitable businesses from the total and merely leave a loss-making rump. Again, it is now fully accepted that the one thing that would concentrate the minds of the managers of BL is being left with the loss-making bits. This would also prevent them bleeding the profitable bits to subsidise the less profitable ones: draining away not only funds but transferring the actual business as well. Of course what is loss making and what is profit making is a moveable feast.

The third canard which flows from the second is that they cannot start selling off parts of BL until it is all profitable. This must be wrong. Not only are the City interested in buying loss-making companies as well as profitable ones - doubtless Land Rover could be sold - but if we permit this belief to continue then all we may do is support inactivity by the management, because the less they do to make it profitable the less Government can do to privatise it.

If BL continue to drag their feet (contrast the good and rapid progress being made by British Shipbuilders in a situation at least as difficult) then isn't there a point where Ministers have to say that they can no longer leave the matter solely to BL? This point could be made in the reply to Austin Bide's letter of 17 August.

The attached briefing note was for Norman Lamont prior to his recent meeting with David Andrews, to bring out from the inside some of the sharper questions and opportunities that can be raised if Ministers now wish to consider the sale of separate businesses.

JMOABL

BL file

10 DOWNING STREET

Norman Lamont Esq MP
Minister of State
for Industry
Department of
Trade and Industry
123 Victoria Street
London SW1

6 November 1984

Dear Minister

BL

John Redwood and I are coming to see you on Thursday morning, and I thought you might find it useful to have a brief note on some of the issues that could be worth discussing. This is attached.

Yours sincerely

Peter Warry

PETER WARRY

1. Parts are not indivisible: trying to make it so
2. Cannot sell off profitable bits and leave rump: must do if profitable are to survive
3. Should wait until profitable before sale:
(a) counterpart of (2) above
(b) not necessary
(c) rewards incompetence with status quo

BL PRIVATISATION

1. Unipart

There is already a commitment to privatise Unipart. Its business outlook is unlikely to improve and its expansion into providing parts for other manufacturers' cars will be hindered by the financial constraints of operating within BL. Wouldn't it is best to decide before Christmas to place the company in the first quarter of 1985? Charterhouse Japhet would be prepared to undertake it. Could you announce this?

2. Land Rover-Leyland International Holdings

This is a recently formed holding company for the assorted overseas operations of Land Rover and Leyland. Many of these companies will be loss makers further subsidising the poor results of their UK counterparts. What action is being taken to sell them - particularly the 40% stake in Leyland Nigeria?

3. Land Rover

Land Rover used to be one of the most profitable parts of BL but due to lack of funds and its loss of separate drive and identity within the BL colossus, it has become a serious loss-maker. You can sell Land Rover: the product is a desirable flagship for other companies, either those already operating in the military sector, eg Vickers, GKN, United Scientific Holdings, or alternatively those in the construction or agricultural fields. Fiat, the Italian Company, could be interested. When does David Andrews intend to issue the sale prospectus?

4. Freight Rover

This is a small profitable subsidiary of Land Rover entirely separate in terms of physical facilities, accounting, management etc. The only common function is industrial relations which in any case is probably better separate. The company makes roughly £5 million profit per annum, but will need to replace its model range towards the end of the decade and this could lead to a negative cash flow. It would be better off outside the BL group. DAF is a sensible partner, as they have a good European distribution network but no van model. Have they been approached and if so with what success? What deadline has been placed for the sale of this business? Could it be sold to the trade or independently?

5. Leyland Vehicles

This comprises Leyland Trucks, Leyland Bus, Leyland Parts (equivalent to Unipart in the BL cars group), and Self Changing Gears Ltd. There are no physical or accounting links between any of these companies. Why do they persist with this managerial fiction?

6. Leyland Trucks

Almost unique within the truck world, Leyland Trucks effectively has no cooperation agreements with any other manufacturer. The Leyland Trucks operation will be down to its rump size after the closure of Bathgate and no further plant cuts would be sensible. Some cost cutting can still be achieved but this is unlikely to redress the £60 million or so losses that this company is likely to turn in year after year. Any opportunity to sell the company or to take on a joint venture which could ultimately lead to a sale should be adopted. Why was the DAF proposal for cooperation on light trucks and engines earlier this year rejected, (as have all previous joint venture proposals for Leyland Trucks, eg Iveco and Renault, other than the abortive Cummins deal)? If they will not take immediate steps to stem the loss how can we justify continuing support?

7. Scammell Motors Ltd

With the closure of Bathgate, Scammell (a Leyland Trucks subsidiary), will revert to being a self-contained profitable specialist business. What date has been fixed for its sale?

8. Leyland Bus

The bus manufacturing industry is in severe recession, in part due to our efforts on deregulation. There is no prospect of profitability being restored without a severe rationalisation of the industry. Why then did BL fail to pursue Volvo's approach this year to buy the Workington factory and other pieces of Leyland Bus? Although it would have been the end of Leyland Bus as a separate entity it could have met BL's and the Government's financial objectives. If they are not prepared to grasp these opportunities how to they intend to tackle the problem?

9. Leyland Parts

Hopefully Leyland Parts could be sold off on the same basis as Unipart. It already has arms length operations with Leyland Bus and Trucks. What are the plans for the flotation of this company?

10. Self Changing Gears Ltd

Two sensible offers have already been made for this business, and at least one other party is currently interested. These approaches have been dismissed out of hand. Like most BL companies it has no vital linkage with any others. Shouldn't they consider good offers for it?

11. Land Rover-Leyland

This is purely an organisational linkage between Land Rover and Leyland Vehicles Ltd and has no accounting or other common facilities apart from David Andrews himself. The franchising advantages are not important. Since its establishment, Land Rover-Leyland has slipped from profit to a very substantial loss. No action has been taken towards privatisation. Measures likely to reduce the drain on Government funds have been ineffective. The Group is a severe hindrance to the privatisation of its constituent parts and to the agreement of joint ventures. To date Government has said that these are matters for BL solely, but in the face of their total inactivity and the several hundred millions that this inactivity has cost, can you continue with this stance?

File 3. Pa

10 DOWNING STREET

From the Private Secretary 1 November, 1984

AUSTIN ROVER

The Prime Minister has seen Mr. Lamont's minute of 31 October reporting on the industrial relations position at Austin Rover. She has noted that Austin Rover propose to invoke the 1984 Trade Union Act to try to secure a return to work. She considers it would be wise to take matters to the point where a ballot is forced and the result is known, at which point the position could be re-considered in the light of the general industrial relations situation at the time.

I am sending a copy of this letter to Michael Reidy (Department of Energy) and to David Normington (Department of Employment).

(Andrew Turnbull)

Edmund Hosker, Esq.,
Department of Trade and Industry.

010

(1)

2

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

JU457

We get as far as the results of the ballot - and then reconsider

31 October 1984

SECRET

The Prime Minister
10 Downing Street
London SW1

Prime Minister (7)
Agree that the politics of this are helpful, rather than the contrary, to the conduct of the coal dispute?

AT 31/10

Dear Prime Minister

AUSTIN ROVER

I spoke with Ray Horrocks this morning about the industrial relations situation at Austin Rover. Mass meetings are to be held on the company's pay offer at most plants on Thursday 1 November but, because of its relative size, the decisive meeting will be at Longbridge the following day. There is an outside chance that reason will prevail but Ray Horrocks' judgement is that the outcome will be rejection of the offer and immediate strike action.

You should know however that, in that event, and with no negotiating room for manoeuvre, the company would very probably decide to use the 1984 Trade Union Act to try to secure a return to work. As I understand it, this would initially involve obtaining an injunction on the trade unions to end the strike and arrange a secret ballot of the work force; non-compliance could lead to a suit for damages and possibly a consequential sequestration of union assets. If, however, a ballot were held and this supported a continuation of the strike, the company would then proceed with the constructive dismissal for breach of their employment contracts of all those of the work force who refused to return to work. Ray Horrocks' judgement is that this strategy offers the best chance of bringing employees back to work, although it may take some time.

?

Clearly, against the current general industrial relations background, the sequence of events at Austin Rover - which would I believe involve the first use by a major company of the provisions of the 1984 Trade Union Act - could well prove controversial. I shall ensure that your office is kept closely informed of developments.

/In view ...

SECRET

999-7

In view of the sensitivity of this letter I am copying it only to Peter Walker and Tom King.

Yours ever

Norman

NORMAN LAMONT
JU

Prime Minister ②
To note
AT 22/10

MR TURNBULL 22 October 1984

JAGUAR CARS: PAY CLAIM

The Prime Minister may be asked about this subject in the House.

The offer made by Jaguar has been represented in the press as 21% over two years. Actual new money amounts to 7% on basic rates in the first year and a further 7% one year later. The remaining increase is made up by consolidation of bonuses currently being paid. Unless productivity were to slump dramatically there is no give-away element in this. Jaguar also propose to increase the effective ceiling on bonus earnings from a maximum £30 per week to initially £36.25 per week.

Regrettably, this offer has been rejected by the union leaders. Shop stewards are now meeting to draft recommendations for industrial action commencing from 1 November. The outcome of such a recommendation is uncertain.

It is unfortunate indeed if privatisation is so swiftly followed by a strike. The offer is generous, but reflects the benefits to the employees of privatisation, especially where they have delivered significant productivity improvements.

Peter Warry

PETER WARRY

4.36

CONFIDENTIAL

NBPM

cc [illegible]

AT 22/10

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

18 October 1984

The Rt Hon Paul Channon MP
Minister for Trade

Dear Paul

Norman Tebbit wrote to me on 1 October about Austin Bide's letter of 17 August on BL/Government relations, indicating how he proposed to respond.

Sir Austin raises a number of important issues crucial to Government policy on BL over the next few years. Generally I agree with Norman's proposals, but there are some aspects which I believe we should emphasise. In particular, while the formal duties of the BL Board include the legal obligations to which Sir Austin makes reference, he must recognise that the Government as the major shareholder cannot abrogate its responsibilities. Moreover, because of the Varley Marshall assurances, we continue to underpin BL's borrowing past and future and this places upon us an obligation to be satisfied that the Plan incorporates acceptable decisions on investment as well as on progress towards privatisation.

Specific issues may also arise where the Government's wider interests may conflict with BL's commercial judgement. The Jaguar Executive share options scheme provides a recent example. I hope therefore that Norman will tell Sir Austin firmly and unequivocably that we cannot accept that BL should have the final say on <u>all</u> decisions which they may regard as of a commercial nature, particularly in a privatisation context.

I recognise that the dividing line between decisions appropriate to management and those where Government approval is needed may be difficult to define. But I am sure that given goodwill on both sides, the system can be made to work.

On objectives, I strongly support Norman's view that the reference to profitability should be retained. While privatisation might be said to subsume a profitability objective, an explicit commitment to achieve a sustained and growing level of profitability on the way to privatisation helps to impose commercial discipline on the company and provides a yardstick against which progress can be assessed. Moreover, a rising level of profits is crucial if BL is to generate sufficient funds to finance its investment programmes in the future on the way to disposal.

However, profitability targets for BL Group as a whole tend to lose much of their meaning as the disposal programme proceeds. The Jaguar sale, for example, will reduce BL profits as well as interest payments. I think it would therefore make more sense in future to express annual profit and cashflow targets for each business as well as for the Group as a whole, together with medium term objectives for return on assets. Norman might like to suggest Sir Austin incorporates this proposal in the 1985 Corporate Plan.

In the meantime, the Varley Marshall assurances remain in place. At the minimum, we need to contain the growth of our liabilities along the lines Norman suggests. But I hope we can eventually remove the assurances themselves. As an interim step, it might perhaps be possible to draw a line between past borrowing and all future borrowing. I appreciate this has been examined in the past, when it was concluded that withdrawal did not seem feasible in advance of disposal. I think, however, it would be worth officials taking another look.

As for progress on privatisation, we still await the further studies which were commissioned during the course of our discussions on the 1984 Corporate Plan. I understand that John Moore will be discussing this with Norman Lamont shortly.

There are also a range of specific privatisation issues which, as Norman suggests, will need to be considered case by case. On most, I agree with his approach. But on the proposal that BL should retain a minority stake in subsidiaries, I start from the presumption that the benefits of privatisation will be most completely felt if there is no residual publicly owned stake. I would not therefore want the response to Sir Austin to prejudice future decisions on Unipart by referring to it as a clear example where retention by BL of a minority shareholding might be justified, even though at the end of the day we might wish to concede this.

May I take this opportunity to mention two points which are causing me concern and which I suggest should be taken up in the examination of this year's Corporate Plan.

CONFIDENTIAL

First, I think we should aim for a speedier consideration of the issues than was possible last year. Six months is far too long to be locked into an annual review exercise of this kind. My main concern, however, relates to the Austin Rover Group, where the privatisation prospects seem to be deteriorating. Trench warfare appears to be breaking out again at Cowley, boding ill for this year's pay settlement. The new ARG models have not achieved the reputation for reliability they will need if they are to secure adequate market share. And I understand that the collaboration with Honda on the XX programme has gone badly awry. We shall need to take stock of these development, and be prepared to take a hard view of the implications for BL's future.

Copies of this letter go to the Prime Minister and to Sir Robert Armstrong.

Yours
Nigel

NIGEL LAWSON

Ind Pol: The Future of BL Pt 8

Blf w Treasury response

AT 5/10

SS DTI to Ch/Ex, 1.10.84

MR TURNBULL

5 October 1984

c Mr Redwood

BL - WHO SHOULD DRIVE?

The English for what Sir Austin Bide is saying is that Government should give the BL Board more licence than it has had of late. Norman Tebbit's draft reply is for the most part robust, but we think he could be firmer still. If the Prime Minister is minded to comment, she might draw upon the following.

1. The Corporate Plan

This is the one solid point in Sir Austin's letter, given that Government took six months to review the last Corporate Plan. Mr Tebbit could commit to a quicker response in future. (Incidentally, how does it look that Sir Austin's letter of 17 August is still the subject of a draft reply on 1 October?)

2. Duties of the Board

The fiduciary duties of Boards stem from their obligations to shareholders. In this case, Government is the overwhelming shareholder and has a perfect right to have the company run as it sees fit. In the eyes of the taxpaying public, a PLC owned by Government is the same thing as a nationalised industry corporation. And in the case of the latter, the Secretary of State does have legal rights to issue directives. Mr Tebbit could remind Sir Austin more forcibly of his rights as shareholder, and of his obligations as Secretary of State to taxpayers.

3. <u>Objectives</u>

Privatisation of the parts or of the whole should indeed be BL's main objective. But it would be unwise for Mr Tebbit to say to BL that profitability must precede privatisation. That merely gives BL cause for delay. It is not strictly true anyway - privatisation can not only precede profitability, but is often a spur to it.

4. <u>Ownership</u>

We strongly agree with Norman Tebbit's open-mindedness on foreign ownership or part ownership. Given the international nature of vehicle manufacturing and sourcing, he could actually encourage BL to give it greater consideration, while reserving his right to take each case on its merits.

5. <u>Varley Marshall Assurances</u>

Again, we strongly support Norman Tebbit's line. In the case of a nationalised industry corporation, Ministers would not dream of setting no limit to the EFL. Containing BL's borrowings is exactly parallel.

6. <u>Disposals</u>

Privatisation is not just adaptation to commercial reality, but an important political objective, pledged in the Manifesto. Government does have the right to drive the disposals programme along. That apart, Government is equally entitled, as shareholder and guarantor, to determine <u>financial</u> priorities, and to require BL to act accordingly.

It is astonishing that Sir Austin Bide writes, 'The Board cannot simply do as it is told'. It must either do that, or go.

7. Minority Shareholders

There is certainly no case for buying them out. If the minority shareholders purport to be sober, long term investors, they need their heads examined: certainly Government should not pay to steer them away from a nasty accident. If they are gadfly investors who buy in and out on the hopes of preferential treatment with each privatisation then, again, we should not worry. Markets have their spills as well as their thrills and the punters above all should see the funny side of it.

There are wider issues at stake, too. It should strike Mr Tebbit as significant that Sir Austin feels entitled to write in the terms that he used. Before the final reply goes, Mr Tebbit could ponder:

i. Do we need BL PLC? All Government's deliberations are now aimed at the individual businesses, not at the company as a whole.

ii. If Government keeps BL PLC, is there a case for making changes to the Board? Look at its track record and ask what claims it can make to 'commercial judgement'.

iii. Has the relationship between BL and DTI officials become too cosy? In our experience, DTI's sponsorship of the BL view to Government is far more assiduously done than the channelling of Government's requirements back to BL. Getting to grips with the old DoI's vast appetite for industrial intervention continues to be one of Mr Tebbit's main challenges.

R.Y.

ROBERT YOUNG

OLD

NBPM

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL

| October 1984

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

Dear Chancellor,

BL

I attach at Annex A a copy of a letter I have received from Sir Austin Bide about BL/Government relations. I apologise for the length of this letter, but Sir Austin's letter raises a number of important issues, and I should be grateful for your agreement to the way I propose to reply to it.

2 In my view the Memorandum of Understanding (MoU - copy at Annex B) between the Government and the Board has generally worked very well. I value its flexibility, which enables most issues between the company and the Government to be settled in a pragmatic fashion. But there have been occasions - like the recent debate over the introduction of senior executive share option schemes at Jaguar prior to flotation - where the Board has regarded as exclusively within its commercial remit a matter in which Government have a legitimate interest. I therefore welcome the opportunity to clarify with the Board our understanding of the roles assigned to Board and Government by the MoU.

CORPORATE PLAN

3 Sir Austin's appears to suggest that we should move away from the present system under which an annual Corporate Plan is submitted for our approval. I propose to reply that the Corporate Plan process is a well-established one for publicly-owned businesses and that I could see nothing in the circumstances of BL to justify making an exception in this case. Only last year, the PAC broadly endorsed the procedure and the way it is carried out.

FORMAL DUTIES OF THE BOARD

4 On the points raised by Sir Austin about the formal duties of of the Board, his statement of the law is of course impeccable;

JH3BAE

CONFIDENTIAL

but as a basis for defining the relationship between us I believe it is inadequate. The Government not only own 99.7 per cent of the shares in BL, but also effectively guarantee through the Varley-Marshall assurances the continuation of the business; and I do not imagine that a commercial holding company in a similar position would give the Board absolute freedom to take decisions without reference up, nor would the Board expect it. There are bound to be decisions of an essentially commercial nature in which we legitimately have an interest. Indeed, the MoU recognises this by providing that the Corporate Plan itself and individual investment projects require my approval. The Government must be involved in major decisions about the allocation of publicly owned resourses, and in particular in shaping the company's privatisation strategy. So I would propose to tell Sir Austin that, while it is in no way the Government's intention to "second-guess" the Board's commercial judgement, there are matters, some of them commercial in nature, in which Government properly has an interest and on which the Government's views and those of the Board may not necessarily coincide. In that event, I could not accept that the MoU should be so interpreted as to give automatic precedence to the views of the Board. Rather, I hoped that we would continue, as in the past, to discuss the issues involved frankly and reasonably and to agree in the light of the circumstancess of individual cases, the best way forward.

OBJECTIVES

5 On the proposed revised objective (the existing objectives are at Annex C) I welcome the increased emphasis on privatisation as the Board's overriding objective. You will see that in the process the reference in the existing objectives to pursuing a targeted programme of profitability improvement has been dropped, but I think this is acceptable as an improvement in profitability is an essential percursor of privatisation.

OWNERSHIP OF PRIVATISED BL BUSINESSES

6 On the question of foreign ownership or control of privatised BL businesses, I would propose to tell Sir Austin that the Government would naturally wish privatised businesses to remain at least initially in British hands, other things being equal. But the arguments will not always be as clear-cut as they were in the case of Jaguar. It is not obvious that a continuation of British ownership will necessarily be the best way of ensuring the future of all the businesses within BL, and it could be that a determination to retain British ownership would hamper attempts to privatise some of the businesses. Except, therefore, where there are special circumstances (as in the case of Jaguar) we would not wish our general preference for British ownership to be regarded as an overwhelming consideration, especially if insisting on it would stand in the way of privatisation.

JH3BAE

CONFIDENTIAL

7 On whether BL should be allowed to retain a minority stake in privatised businesses, I would propose to tell Sir Austin that the Government recognised that in some cases, of which Unipart is perhaps the clearest example, the links (whether trading, marketing or technical) with companies remaining within BL were so substantial as to justify a residual BL minority holding, which would be in keeping with the emerging pattern in the world vehicle industry in which such links are often underpinned by cross-shareholdings. In such cases we would of course be prepared to agree to the retention of such a shareholding. Other cases, where the justification was less clear cut, would be considered on their merits: but we would generally start from a presumption that the benefits of privatisation to the privatised company will be most completely felt if there is no residual publicly owned stake.

VARLEY-MARSHALL

8 On the Varley-Marshall assurances, I would propose to tell Sir Austin that no Government could contemplate with equanimity a position in which large contingent liabilities were allowed to build up without limits on either extent or time. The Government's liabilities will of course cease once all the businesses are privatised. Until then, it is only natural that the Government should wish to limit both its overall exposure under the assurances and the risk that the assurances will be called. We recognise that there is no prospect of withdrawing or substantially modifying the assurances in the immediate future, but as the company's performance improves we will continue to aim at this, even before complete privatisation is achieved, if it can be done without damaging the company or jeopardising the privatisation programme. In the meantime, BL's borrowings should be kept within agreed limits so as to maintain control on at least one component of the Government's contingent liability; and discussions about this are in train at official level.

DISPOSALS

9 Sir Austin also raises the question of sales of lines of BL being accompanied by a "dowry". Naturally this is not something we should wish to encourage. But it is certainly conceivable that the benefits to BL of being rid of a troublesome business which could do better elsewhere would outweigh the once-off financial loss, and make sense (just as BL have already sold some of their loss-making peripheral businesses at a substantial discount on book value).

10 Similar considerations apply to the idea of selling businesses at what Sir Austin terms "less than: a commercially justifiable value" - by which I take him to mean selling at a particular time even when he believes that a sale at a later date would yield a higher price. There will be cases when

CONFIDENTIAL

uncertainties about the future make an earlier sale preferable, even at the cost of giving up the prospect of higher proceeds at a later date. All we can tell Sir Austin, I think, is that each case will be judged on its merits.

11 Finally, there is no question that the remaining minority shareholders in BL have considerable nuisance value. If we were at any stage to carry a motion solely by virtue of our overwhelming majority of the shares, and against the demonsatrated wishes of the minority, there would at the least be scope for considerable embarrassment. And at some stage we are going to have to turn our minds to what is to happen to the minority when the last subsidiary is privatised and BL itself is wound up. However, I do not propose that we should now attempt to buy out the minority shareholders. The only secure means of achieving the objective would be new legislation. This would be very unpopular with our own backbenchers and would sit very uneasily with our overall privatisation objectives. I do not believe that it is a politically acceptable option except in the most extreme of circumstances. I therefore propose to tell Sir Austin that the option of buying out the minority is highly unattractive, and that we could consider it only if it was manifestly and incontrovertibly clear that the existence of the minority was impeding either privatisation or the company's return to viability or both - and even then without any commitment to accept it.

12 I am sending copies of this letter to the Prime Minister and to Sir Robert Armstrong.

Yours sincerely

M McCarthy

pp
NORMAN TEBBIT

seen and approved by the Secretary of State

JH3BAE

TO MR MEADWAY (V)	COPIES TO
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)	P/S NL
PLEASE BY: 28/8/84	P/S JB
IF DEADLINE CANNOT BE MET PLEASE PHONE 215 5422	P/S SIR BH MR MOUNTFIELD MR LINGARD (V)

BL Public Limited Company
106 Oxford Road, Uxbridge
Middlesex UB8 1EH
Telephone: 0895 51177
Telex: 263654
Cables: Leymotors Uxbridge Telex

SECRETARY OF STATE
FOR
TRADE & INDUSTRY

The Rt Hon Norman Tebbit, MP
Secretary of State
Department of Trade & Industry
1 Victoria Street
LONDON SW1

VIII 20 11:47

17 August 1984

Dear Secretary of State,

BL/GOVERNMENT RELATIONS

The purpose of this letter is to put down my views of the essential issues affecting the relationship between BL and Government. The Memorandum of Understanding adopted when the Department of Industry took over from the NEB Government's shareholding in BL, has served us tolerably well as a practical, albeit imprecise guide, to the conduct of our relationship. It does not, however, address the fundamental issue of the formal duties of the Board on the one hand and the Government on the other. I suggest that this letter, together with the correspondence deriving from it, be treated as an addendum to the present Memorandum of Understanding covering this aspect.

I approach the matter at this time when we are between Corporate Plans with a view to improving our understanding of each other's role and duties in what is inevitably an often complex and sometimes difficult relationship. We have already agreed that your officials and my Corporate Staff will address, as a matter of urgency, the modus operandi for hastening the process of Corporate Plan development and acceptance - always on the assumption that we both continue to believe that the submission to you of a formal Corporate Plan to be laid before Parliament is the best way in today's circumstances of HMG's reviewing the business.

I believe the first and fundamental step in the process of improvement is for us to reach an understanding on a clear and practical objective for BL.

The Rt Hon Norman Tebbit, MP 17 August 1984

In order to advance in this direction, the BL Board considered at its last meeting the following Objective which we believe is appropriate in today's circumstances:

> "To return BL and its constituent businesses, either together or separately, to the private sector as soon as practical, while satisfying the Board's fiduciary duties. In any case where this objective cannot be achieved, the Board will review the future of that business."

The next fundamental step is to ensure that there is a clear understanding all round about what are the operational procedures and boundaries of responsibility and authority between Government and the Board.

My views on that are as follows:-

a In Law it is the Board's fiduciary duty to determine in all respects what is in the best interests of the Company.

However, since the Government is Parliament's guardian of the public interest in BL and, the owner of an overwhelming majority of the Company's shares and the effective guarantor of the business by virtue of the Varley Marshall assurances, then:-

b The Board must, so far as proper observance of its fiduciary duty permits, take account of matters that a Government sees as important.

There are a number of such matters where the tasks ahead of us require that we take account of Government's views but where our knowledge of those views is at best imprecise.

i The position as to foreign ownership and control (whether de facto or de jure) of privatised BL businesses;

ii The retention of partial interests by BL in those businesses it privatises (this could be of major importance in the Unipart case);

iii The limitations you may wish to place on your obligations under the Varley Marshall assurances and the circumstances, if any, in which you would curtail or withdraw these assurances.

The Rt Hon Norman Tebbit, MP 17 August 1984

iv Ideas about "dowry" and similar plans that may involve sales at less than a commercially justifiable value.

v The desirability or otherwise of eliminating the cadre of minority shareholders.

I believe it is essential that Government's views on such matters be ascertained and made known to the Board at the earliest possible date. If the Board is in the dark until the last minute or beyond about such things then its ability to take them into account is inevitably and substantially curtailed and the inherent risks of the actions we propose to take are greatly magnified.

It has over the years been a matter of grave concern to members of the Board that the absolute nature of its fiduciary duty might not have been fully understood and accepted in Government circles. It follows from the views expressed above that the Board cannot simply do as it is told; and the Board's willingness to consider and, if consistent with its fiduciary duties, to take heed of Government's aims and problems in no way alters this basic fact. There have been many occasions when apprehensions have been voiced by the Board and generally referred to as second-guessing the Board's commercial judgement. Inevitably, privatisation in particular has raised the issue from time to time. It would assist greatly if you felt able to offer us assurances on this subject within the context of the views I have expressed in (a) and (b) above.

If you or your colleagues find my view on our relationship in any way controversial, I know you will not hesitate to say so and I would welcome discussion between us of any such points. I trust that in any event you will receive these views in the spirit intended; as an attempt to contribute constructively to making progress more swiftly and with less likelihood of a major mishap.

Sincerely
Austin Bide

Sir Austin Bide
Chairman

RELATIONSHIP BETWEEN BL AND SECRETARY OF STATE FOR INDUSTRY

MEMORANDUM OF UNDERSTANDING

1 In his relations with the company, the Secretary of State has two primary roles - that of holder of over 99% of the ordinary shares of BL, and that of overall sponsorship of the vehicle industry.

2. In relation to his sponsorship role, the Secretary of State will deal with BL on the same basis as with any other vehicle manufacturer.

3 As shareholder, the Secretary of State expects the Board of BL to operate as far as possible as an independent company; it is not the intention of the Secretary of State to concern himself with the day-to-day management of the company or to diminish in any way the responsibility of the Board for the conduct of the company's affairs. The Secretary of State requires the company to act commercially, and to seek a commercial return, to be defined from time to time after consultation with the company, on the capital employed in its operations.

4. The Secretary of State expects the company to

consult him about future plans and the way in which it proposes that they should be financed. Such consultations will be primarily based on the provision each year of a medium/long term Corporate Plan dealing with the strategic options available to the company and a short-term operating plan and annual budget. Once agreement has been reached, the Board will be responsible for implementing the plans. The Company will ensure that the Secretary of State is kept up to date on progress in this by regular provision of its management accounts and will advise the Secretary of State of any significant changes in relation to the agreed plans and also of any decisions which clearly have major economic or political implications. The company will prepare a summary of each year's Corporate Plan for presentation by the Secretary of State to Parliament.

5 The Secretary of State expects the Board to seek his approval before extending the company's activities into new areas of business, or disposing of significant existing interests, and before embarking on any new major programmes or major capital investment projects.

6 Proposals affecting the composition of the Board of BL will be the subject of prior consultation with the Secretary of State as majority shareholder

who will be given adequate time to consider any such proposals. The appointment of the Chairman will require the Secretary of State's approval, and he may also make nominations for the post.

7 The Chairman will have access to the Secretary of State to discuss any matters he or the Board wish to raise.

The Board's objectives are:-

1. To return all the constituent businesses, either together or separately, to the private sector as soon as practical. If the return of a constituent business carries the risk of reduced viability of the remainder, the issue should be put to the Secretary of State with options.

2. Consistent with 1, to dispose of peripheral activities so as to concentrate on vehicle manufacture and sales.

3. To pursue in the Corporate Plan a specifically targeted programme of profitability improvement, within stated limits of public funding, so as to achieve a rate of return that would attract external funds on normal commercial terms without Government support.

CONFIDENTIAL

Mr Turnbull

17 September 1984

THE RT HON DAVID YOUNG

I attach the Treasury's 2-page summary of BL privatisation.

The Prime Minister would be grateful if you could pursue the

X| preparation of plans for disposal of the Land Rover 4-wheel drive business as a separate operation, and the separate disposal of bus and truck, on the likely assumption that Ford and GM have now had time to turn it down.

JOHN REDWOOD

JOHN REDWOOD

Note

X| is ambiguous. The Prime Minister did not intend DY to take charge of privatisation but to "speak privately to Mr Tebbit" to chase progress and to offer help. I spoke to Mr Young's office to clarify this.

AT 18/9

CONFIDENTIAL

SECTION C: FUTURE PRIVATISATIONS

1. BL

Department	**Department of Trade and Industry**
Responsible Minister	**Mr Tebbit**
Responsible Treasury Official	**Mr Lovell**
Responsible Dept Official	**Mr Lingard**

Key Statistics	Turnover	£3421M		1983
	Manpower	101,000 (UK 80,000)		1983
	CCA Loss	£213M		1983
	Net Assets	£1036M		1983
	Public Expenditure Cost:	£520M	1981-82	
		£370M	1982-83	
		£90M	1983-84	

Decision in principle to privatise all or part. "Visible progress" required towards privatisation within 2 years (August 1982). This is defined as sale of or advanced preparations for the sale of at least 2 of the 5 BL groups by August 1984.

Restructuring necessary Yes

Legislation needed No

Regulation needed post-privatisation No

Advisers. BL appointed Hill Samuel to act for them in preparing Jaguar and Unipart for sale.

Capital structure post-privatisation agreed No

Personnel policies agreed No

Me... of sale In August, Unipart acquired Edmunds Walker for £15 million as a prelude to privatisation. Assuming no problems on assimilation, the target date for privatisation is mid 1985. Disposal will be by placement or flotation.

Employee involvement Not decided.

Likely timing of sale Unipart - mid 1985

Likely receipts Unipart - £75-100M

Public position Privatisation of BL expected within this Parliament by stages. As component businesses are restored to viability they will be disposed of.

Summary of current position

Of the other businesses: the BL Board have proposed privatisation of Land Rovers/Leyland Vehicles as a single business. The Government has indicated that it doubts whether privatisation of Land Rover/Leyland Vehicles as a whole will be feasible within an acceptable timescale. Exploratory discussions will shortly be taking place to establish whether there is a case for rationalisation of the UK commercial vehicle sector involving BL and Ford or GM. In the meantime BL have been asked to prepare options for the separate disposal of Land Rover and Leyland Bus, with assessments of the consequences of disposal for other parts of BL. The three month time limit set by the PM for the conduct of the Land Rover study has been exceeded; it now looks unlikely that the results of the study will be available much before the 1985 BL Corporate Plan. On Austin Rover, the BL Board have been asked to present in the 1985 Corporate Plan a consideration of the options for improving the prospects of privatisation earlier than is now foreseen, with the object of identifying privatisation prospects in 1987.

Disposal receipts from the sale of BL's component companies will not be paid to HMG but will be retained by BL to finance the remainder of the Group. This will allow BL to be independent of HMG equity after 1983-84.

Action expected during third quarter 1984-85

Unipart to assimilate EW. BL Board to prepare 1985 Corporate Plan, and complete separate studies.

Austin Rover
Jaguar
Unipart
Trucks
Buses

14 September 1

E.R.

Prime Minister
Agree a progress chasing letter?
AT 14/9

PRIME MINISTER

14 September 1984

BL

The DTI/BL approach to the agreed policy of piecemeal privatisation has become lackadaisical. In May, E(A) minutes recorded that a study of options for selling 4-wheel drive would be completed within 3 months. Where are the options for E(A) to decide the best route for extracting 4-wheel drive from BL?

It was also agreed that truck and bus combined would be offered for sale as a single unit to industry leaders as quickly as possible. In the likely event of the major companies turning down the proposition, bus, truck, Self-Changing Gears and the other component companies would be split up, and rapid progress made in selling the saleable parts. We do not think that either GM or Ford are seriously interested in the combined proposition, and so DTI should bring forward an action plan.

When Austin Bide was appointed Chairman, it was anticipated that two of the five main BL businesses would be sold within 2 years, and in practice only Jaguar has gone. We are therefore well behind target, and it is time the delays were brought to an end. Jaguar shows that the rewards in jobs, cash and PR can be considerable. Shouldn't this be pursued?

Surely David Young could have a word with N.T. directly
MT

JR

JOHN REDWOOD

CONFIDENTIAL

CCND

NBPM
AT 31/7

Treasury Chambers, Parliament Street, SW1P 3AG

30 July 1984

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

Dear Norman,

BL: UNIPART PRIVATISATION

I am replying to your letter to Nigel Lawson of 26 July enclosing advice from Hill Samuel on the acquisition of EW, and on the feasibility of privatising Unipart by mid-1985.

I am clear, as you are, that the advice from Hill Samuel confirms that the acquisition of EW is both commercially sensible and consistent with the early privatisation of Unipart. I am pleased to see that the BL Board are prepared publicly to acknowledge acquisition as a step towards privatisation. I also accept that the Board cannot realistically be pressed to go much beyond a formal commitment to privatise Unipart as soon as it is practical to do so. Even so, we shall need an informal target date at which to aim, and I am not yet convinced that flotation in mid-1985 would be as difficult as Hill Samuel advise. May I therefore propose that we ask BL to continue to work towards this target date, recognising that it will need to be reviewed according to the progress made in assimilating EW? On this basis, and subject to the other caveats you mention, I am content to allow BL to proceed with acquisition.

Copies of this letter go to the Prime Minister, to Members of E(A) and to Sir Robert Armstrong.

Yours
John

JOHN MOORE

CONFIDENTIAL

IND POL PT 8

BL

30 JUL 1984

010

CONFIDENTIAL

C-NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

NBPM

26 July 1984

AT 26/7

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1

D Nigel,

BL: UNIPART PRIVATISATION

As agreed at E(A) on 18 June, I subsequently wrote to Sir Austin Bide telling him that we were not unsympathetic to the proposal to strengthen Unipart prior to privatisation by purchasing Edmunds Walker (EW) for cash; but that before giving our approval we would need to see advice from Hill Samuel on the feasibility of privatising Unipart by mid-1985, the contribution the EW acquisition would make to that objective and some indication of the proceeds to be foreseen. I have now received Sir Austin's reply and I enclose a copy.

2 You will see that Hill Samuel's advice is that unless Unipart is allowed to acquire EW it will not be possible to privatise Unipart at an acceptable price in the foreseeable future. If the acquisition goes ahead, however, Hill Samuel believe that a placement of the shares would be possible in mid-1985 or a flotation in mid-1986. A placement of the whole of Unipart in 1985 might on current estimates raise some £75-100m.

3 The advice from Hill Samuel strengthens my view that the proposed acquisition is a commercially sensible step which would put Unipart in much better shape for privatisation. One might quibble over whether there would be absolutely no prospect of privatising Unipart without EW; on the other hand, officials in my Industrial Development Unit would argue that a flotation rather than a placement in 1985 might not be as difficult as Hill Samuel believe. So, looking at the matter overall it appears to me that in favourable circumstances privatisation of Unipart in 1985 might turn out to be possible if the acquisition is allowed to proceed. Given the inherent uncertainties of the market it would not be reasonable at this stage to expect the Board to guarantee privatisation by a particular date. However, you will note from

JH1APW

Sir Austin's letter that the Board are committed to privatise Unipart "as soon as it is practical to do so", and I think this is an acceptably binding commitment to privatisation for us to agree to the acquisition.

4 You will also note from Sir Austin's letter that he is prepared publicly to acknowledge that the acquisition of EW is a step in the privatisation of Unipart, which is of course also the line we would take. For presentational reasons it is of course vital to take this line, and I regard BL's readiness to go quite so far in public about their plans for a specific company (rather than generalities about BL as a whole) to be a significant and welcome advance.

5 The price BL expect to pay for EW is about £20m. This does not seem to me to be unreasonable for a business with assets of £22.4m, mostly in saleable inventory, and turnover of £55m p.a., and which might be expected to improve Unipart's prospects so markedly. The investment is in fact below the threshold at which my approval is formally needed, but I will make sure that BL keep us in touch on the price to be paid and the basis for the deal before agreement is finalised.

6 I should therefore be grateful for your agreement that BL should now be given the go-ahead to acquire EW on the basis propose which includes the condition that they should not get involved in a public contest (subject, of course, to the entirely separate exercise of any responsibilities I may have under mergers legislation). You will see from Sir Austin's letter that he has asked for a reply by 31 July. I understand that there are genuine commercial reasons for this request and I think that we should do our best to comply with it. I should therefore be grateful to receive your reply by 30 July.

7 I am sending copies of this letter to the Prime Minister and to other members of E(A) and to Sir Robert Armstrong.

Y Norman

NORMAN TEBBIT

JH1APW

BL Public Limited Company
106 Oxford Road, Uxbridge
Middlesex UB8 1EH
Telephone: 0895 51177
Telex: 263654
Cables: Leymotors Uxbridge Telex

CONFIDENTIAL

BY HAND

19th July 1984

Dear Secretary of State,

THE PURCHASE OF EDMUNDS WALKER

At its meeting yesterday, the BL Board considered further its plan to purchase Edmunds Walker for cash and your request for assurances and information to enable you to procure a final decision.

You asked us to seek advice from Hill Samuel. Their letter is attached. Very briefly, their view, having regard only to matters within their area of expertise, is that without acquisition(s) Unipart cannot be floated in the foreseeable future on any acceptable level of proceeds. Similarly, placing is not practical. However, with the acquisition of Edmunds Walker, Hill Samuel say that placement at indicative proceeds in the region of £75-100m, should be possible in June 1985, and flotation in mid-1986.

The Board confirms that the BL strategy is to privatise Unipart as soon as it is practical to do so and that the acquisition of Edmunds Walker is a step in that process. The Board also confirms that it is prepared to acknowledge this publicly when the acquisition is announced.

You will be aware that there is great urgency in this matter I therefore ask that you let me have your decision by 31 July and, if at all possible, before that date.

Sincerely
Austin Bide

Sir Austin Bide
Chairman

Enc

The Rt. Hon Norman Tebbit MP
Secretary of State
Department of Trade & Industry
1 Victoria Street
London SW1

[redacted]

HILL SAMUEL & CO. LIMITED

100 Wood Street, London EC2P 2AJ

Telephone - 01-628 8011
Cables - HILLSAM LONDON EC2
Telex - 888822
Fax - GP 1/2: DEX 4200 Tel - 01-726 4671

Foreign Exchange Dealers
Telephone - 01-606 8383
Cables - HILLSAMFEX LONDON EC2
Telex - 888471

STRICTLY PRIVATE & CONFIDENTIAL

CFC/TJS/LHT

The Directors
BL Public Limited Company
106 Oxford Road
Uxbridge
Middlesex

11th July, 1984

Dear Sirs,

In connection with the proposed acquisition by Unipart of Edmunds Walker, we have been asked by you, at the request of the Secretary of State for Trade & Industry, to consider the prospects for privatisation of Unipart by mid-1985, the contribution to such prospects that would be made by the acquisition of Edmunds Walker and an indication of the proceeds that would be likely to result upon privatisation.

Privatisation of Unipart in its present form

We have considered the privatisation of Unipart in its present form and have based our views upon the 1984 Corporate Plan of Unipart and our discussions with the Unipart management. In the limited time available to us it has not been possible to undertake any material independent examination of the market in which Unipart operates. In considering the scope for privatisation of Unipart in its present form, the following aspects of its business should be noted:-

(a) Unipart is presently profitable and cash generating and is projected to remain profitable and to continue generating significant amounts of cash. It has a sizeable asset base (even after the transfer of Land Rover parts stocks to Land Rover), largely comprising working capital, and it has a leading position within its sector.

(b) Unipart, however, operates in a declining sector of a static automotive parts market, as a result of the limitations imposed by its present distribution system. The major part of Unipart's business - both Contract Services and Unipart International - is channelled through a network of dealers shared with other BL product companies. Over the last five years, BL's market share has declined (but has now stabilised) and there has been a consequent decline in the number of

Cont/...

these dealers. In the circumstances, we regard it as a considerable achievement that Unipart has been able to maintain, through increasing its market share of Unipart's key products, at least a static trading record over the last five years as shown below:-

	1979 £m	1980 £m	1981 £m	1982 £m	1983 £m
Turnover	364.9	356.4	354.3	341.9	351.4
Operating Profit	26.1	17.3	14.8	13.6	17.4

(c) The dependency of Unipart on the BL vehicle companies, namely Austin Rover Group (ARG), Land Rover Group (LRG) and Jaguar Cars plc (Jaguar) is substantial. The separate flotation of Jaguar which is about to take place will materially diminish Unipart's dependency on the BL Group. The dependency on ARG, however, would be increased if LRG were to decide to take over the physical operation of their parts business. As stated in our letter to Mr F L Fitzpatrick of 4th October, 1983, we considered that it would be an essential pre-condition to any privatisation of Unipart that its dependency on BL was significantly reduced, given that substantially in excess of 50 per cent. of its gross revenue and profits are derived from a single customer, namely ARG.

(d) In view of the level of dependency of Unipart on the vehicle companies, the need for Unipart to provide a high quality of service is paramount. A possible cause for concern in the future is the level of systems development currently taking place within Unipart and projected to continue during the next two years. We are unable to express any views as to the impact on Unipart's quality of service in the absence of a successful implementation of these new systems.

(e) It is apparent that the automotive parts after-market is on the point of entering a period of restructuring, involving a process of rationalisation and re-alignment. We believe that Unipart must participate in this restructuring in order to achieve its Corporate Plan objectives and, in particular, a reduction in the dependence of Unipart's business on BL. We consider this issue further below.

The combination of the above factors make Unipart in its present form without acquisitions a difficult candidate for privatisation. The Company's dependency on the BL Group continues to be a major obstacle to the introduction of private sector capital.

In the light of the above, we do not consider that it will be feasible to float Unipart in its present form without acquisitions as an independent company at any acceptable level of proceeds in the foreseeable future. We have considered below the possibility of BL disposing of Unipart by way of a trade sale to a third party or by means of a placing.

Acquisition of Edmunds Walker

In our letter of 4th October, 1983, we examined the possibility of reducing Unipart's dependency on BL either by the organic growth of the Company's business or by its inorganic growth, through making acquisitions. The scope for Unipart to grow organically away from its dependence on BL is, we believe, limited. The present extent of import penetration suggests that the area of growth in the UK parts after-market lies in the development of Unipart's all-makes business. The growth of this would appear to be dependent upon increasing the number of distribution outlets available to it. In view of the accelerating rationalisation taking place within the automotive parts industry, there may, however, be insufficient time for Unipart's all-makes business to grow from within and to retain its competitive position in its market.

The business of Edmunds Walker

We have considered an evaluation by Unipart's management, prepared in February 1984, of the proposed acquisition of Edmunds Walker. This document was prepared on the basis of the 1984 Corporate Plan of Unipart, an underlying assumption of which was that the market environment in which Unipart operates was relatively stable. The analysis of the profitability of the enlarged Unipart Group following an acquisition of Edmunds Walker was presented on a base plan and an opportunity case plan. The business objective of the base plan was predominantly the elimination in the short to medium term of losses being incurred by Edmunds Walker. The opportunity case plan envisages increasing sales of Unipart products through these outlets and,hence, a further improvement in profit margins. There is set out in the Appendix to this letter Unipart's management projections of the assets employed and profit before interest and tax of the enlarged group. These projections have not been adjusted to take account of the later date at which the proposed acquisition would now take place.

Common to both plans is the increase in the number of Unipart distribution outlets with an established presence in the independent motor trade which the acquisition would provide.

In the time available to us, we have not been able to analyse in depth the impact that an acquisition of Edmunds Walker would have on Unipart's business but we accept that it will make a significant contribution to reducing Unipart's dependence on the BL Group. However, whilst this acquisiton should go some way towards reducing Unipart's dependency and maintaining its position in a changing industry, it might be necessary for Unipart to retain sufficient flexibility for further expansion thereafter.

Privatisation of the Enlarged Unipart Group

In our draft memorandum of 27th March, 1984, we examined the following three methods whereby private sector capital might be introduced into Unipart, namely,

(a) an offer for sale;

(b) a placing; and

(c) a trade sale.

Offer for Sale

We do not consider that an offer for sale of Unipart will be feasible within the timescale proposed by the Secretary of State, ie by mid-1985. The dependence of Unipart on the BL Group would still be excessive at this time. Moreover, as we illustrated in our letter to Mr N J Carver of 4th April, 1984, the trading record of the enlarged group would not, by that stage, be established and, indeed, the acquisition of Edmunds Walker and its early losses following acquisition could lead to reduced proceeds for the Group. The earliest date at which an offer for sale could be contemplated will be determined by the following factors:-

(i) a reduction of the degree of dependency to an acceptable level at the time of flotation and a sufficient level of comfort being obtained that the business relationship between ARG and Unipart would be maintained for a satisfactory period after a flotation.

This may be facilitated by BL retaining a shareholding in Unipart following a flotation. In addition, consideration may have to be given to extending the life of the ARG contract for which the first termination date is presently 1st January, 1988;

(ii) the achievement of the Corporate Plan objectives of Unipart's existing business and the rationalisation of Edmunds Walker proceeding as envisaged by Unipart's management. An offer for sale prospectus will require that a satisfactory trading record has been established for the enlarged Group and that subsequent trading performance is reasonably capable of being forecast;

(iii) the prospects for Unipart in the light of the impact of changes in Unipart's market; and

(iv) stockmarket conditions and the economic and political environment generally.

In view of the above pre-conditions - which are not intended to be exhaustive - we would not expect a public flotation to become a practical possibility until the second half of 1986.

Placing

A means of attracting private sector investment in Unipart at a date closer to the envisaged timetable of mid-1985 would be a placing with a small number of financial institutions. Before a private placing can be undertaken it is essential, however, that the Company is committed to undertaking an eventual flotation, or that institutions are assured of some other means of disposing of the shares placed. Without such a commitment, it would be unlikely that an acceptable level of interest would be shown by potential investors in a private placing.

A satisfactory placing at an acceptable valuation will also presuppose that the conditions for a successful flotation would be met and that Unipart's management were confident of its prospects and the maintenance of its competitive position.

Type of Placing

We consider that rather than attempting to undertake a more conventional placing amongst a large number of institutions, consideration should be given to approaching a small number of institutions who would each take a sizeable holding of between £5 and £10 million in the company. This would give the opportunity of approaching the interested parties and explaining to them in some detail the relatively complicated business in which they would be asked to invest. To the extent that a placing reduced the scope for BL to participate in any eventual flotation of Unipart, it could reduce, given the dilution of BL's holding, the total proceeds accruing to BL. We, therefore, would advise that consideration should be given to a placing in which BL retained an economic stake in the Company, even if voting control were relinquished.

Proceeds of Placing

We believe that considerable qualifications attach to any indication of the likely proceeds of a placing attempted in the second half of 1985.

We have referred above to the following factors:-

(i) the trading record of the enlarged group following the acquisition of Edmunds Walker;

(ii) the dependency of Unipart on ARG; and

(iii) the long-term lack of growth of the parts industry and its likely restructuring.

The following factors would also have to be taken into account:-

(a) Cash flow and dividend capacity.

As part of the BL Group, Unipart has not hitherto been required to pay significant amounts of interest or dividends to its parent company. Private investors in Unipart would require a return on their investment in the form of dividends or, if appropriate, interest. Unipart's dividend-paying capacity will be influenced by its tax position and in particular whether substantial tax losses presently carried forward will be available. This is a matter that will have to be kept under review.

(b) Net assets

Unipart is obliged to carry considerable levels of working capital but the level of stocks relating to the business of the contract services division is subject to variation depending on the outcome of negotiations between Unipart and the vehicle companies. This might affect any valuation based on the net assets of the Company.

There are a number of factors specific to a placing and we have outlined these in our letter of 4th April, 1984. In short, the trading record at the earlier date will necessarily be shorter and less established. In addition, in view of the unlisted nature of the shares being placed, institutional placees will be looking for a discount on the likely proceeds of a subsequent flotation to compensate for the lack of marketability and the risks of an unlisted investment.

Based on the factors outlined above we believe that institutions should in present market conditions be prepared to subscribe for shares in a placing of Unipart in June 1985 on the basis of a valuation of the whole of the Company in the region of £75 - £100 million.

In the above comments, we have not referred to the possibility of BL disposing of Unipart to a third party. In principle, such a disposal could be undertaken at any time and the proceeds could be anticipated to be higher, given that a single purchaser should be prepared to pay a premium for control of the company. We understand, however, that the BL Board is of the opinion that the relationship between ARG and Unipart must not be prejudiced and this could rule out a number of potentially interested parties. In the circumstances we have made no attempt to establish whether any third party might be interested in acquiring Unipart and can express no view as to the possible proceeds of such an acquisition.

Conclusion

In summary, if Unipart is unable to make acquisitions, it appears likely that the industry may reorganise in such a way as to inhibit the prospects for Unipart's future growth. Under these circumstances, the value of Unipart is likely to decrease over time and the prospects of its privatisation, other than by way of a trade sale, which may not be acceptable to BL, will diminish.

If, however, the acquisition of Edmunds Walker by Unipart enables it to achieve the projections envisaged by management then, subject to the conditions outlined in this letter being met, we consider that Unipart can be privatised by mid-1985 in the manner outlined above.

We should be happy to discuss any of the foregoing with you or with the Department should you so wish.

Yours faithfully,

T J Swete

Director

APPENDIX

OPPORTUNITY CASE PLAN

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Average Assets Employed					
Unipart Corporate Plan	126.0	106.0	103.0	110.0	118.0
Edmunds Walker	17.5	19.3	21.6	25.0	27.1
Total Assets Employed	143.5	125.3	124.6	135.0	145.1
Profit Before Interest & Tax					
Unipart Corporate Plan	19.0	22.0	25.0	28.0	31.0
Edmunds Walker	-0.1	4.9	6.9	8.0	9.1
Total PBIT	18.9	26.9	31.9	36.0	40.1

cc NO

NBPM AT 19/7

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

19 July 1984

CONFIDENTIAL

The Rt Hon Viscount Whitelaw PC CH MC
Lord President of the Council and
Leader of the House of Lords
Privy Council Office
Whitehall
LONDON
SW1A 2AT

Dear Willie,

JAGUAR CARS FLOTATION

You and colleagues will wish to be aware that, subject to market conditions, BL plan to announce on 25 July the commencement of the sale of the company's shareholding in Jaguar plc, by means of a public offer for sale on the Stock Exchange. It is planned that the prospectus should be publicly available on 27 July and applications received before 3 August.

2 Before and during the period following publication of the prospectus Ministers should avoid making statements which could have implications for the flotation or which could, in the extreme, give rise to allegations of misrepresentation or non-disclosure in the prospectus.

... 3 I attach a note cleared by my legal advisers, setting out guidance on Government statements during the offer period. I should be grateful if you and copy recipients would draw it to the attention of all Ministerial colleages.

4 While my concern is directed particularly at statements and comments made outside Parliament, it should also be taken as applying to Parliamentary proceedings. Such proceedings are of course privileged and cannot de jure be used to found a legal action. However, I do not think that a Parliamentary statement which was misleading in the context of the Jaguar flotation could be defended satisfactorily by invoking Parliamentary privilege. Any attempt to do so would gravely undermine the Government's reputation in the conduct of flotation, with adverse consequences for future privatisation.

JH4AEJ

5 I am sending a copy of this letter and the note to the Prime Minister, to Cabinet colleagues and to Sir Robert Armstrong.

Yours

Norman

NORMAN TEBBIT

Encl

JH4AEJ

CONFIDENTIAL

JAGUAR FLOTATION

Notes for Guidance on Government Statements during the Offer Period

The period reserved for the flotation of Jaguar begins in little over a week. Before and during the period following publication of the Prospectus to be issued in connection with the flotation, Ministers should avoid making statements which could have implications for the flotation or which could, in the extreme, give rise to allegations of misrepresentation or non-disclosure in the Prospectus. There follow some Notes for Guidance on the general principles involved:

1. In broad terms, the greatest care should be taken in relation to statements which:

(a) could be relied on by purchasers of shares in Jaguar as constituting an inducement to them to buy shares in the company independently of information contained in the Prospectus;

(b) might be regarded as indicative of an omission from the Prospectus of material information relating to Jaguar or the flotation;

(c) could have an effect on the market price of the Jaguar shares in circumstances where underwriters or purchasers of those shares (either on the basis of the Prospectus or subsequently in the market) might allege that the information contained in the statement should have been disclosed in the Prospectus.

2. In particular, care should be taken to avoid statements which might be regarded as having a material bearing on Jaguar's prospects or on the particular environment in which it is to operate. In addition, statements which could conflict with, or be regarded as putting a materially different interpretation upon, statements of fact or opinion contained in the Prospectus could also give rise to problems and should therefore not be made without careful consideration of the implications.

3. Whilst they should not be regarded as an exhaustive list for the purpose of the general guidelines set out above, the following matters of sensitivity should be noted:

(a) statements of opinion with particular reference to Jaguar, its financial position or prospects or the sector and business environment in which it is to operate;

(b) forecasts on the future trend of exchange rates;

(c) statements of Government policy - in particular statements having a direct bearing on the tax regime applying to vehicles material to Jaguar's financial position or prospects;

(d) statements of opinion in relation to Jaguar which are or appear to be based on facts particularly within the knowledge of the maker of the statement so as to cause the person relying on the statement to have reasonable grounds for believing that the statement is so based. In the case of a company such as Jaguar, whose performance as part of BL is known to have been closely monitored by Government, there must be a particular risk that any statements of opinion by Ministers in connection with it will be perceived to be based on facts within their knowledge and relied on as such;

(e) statements as to the Government's future conduct in relation to matters of particular concern to Jaguar, its business or its shareholders;

(f) statements which place a legal interpretation on any facts relevant to Jaguar and capable of affecting the flotation;

(g) statements which only partially disclose facts, or which reveal some facts, all of which are true, but which fail to reveal other matters affecting the weight of those stated.

4. It should be noted that even though statements were true at the time they were made, they may cease to be true later. Because questions could arise as to the accuracy of the Prospectus from this point of view, special consideration may need to be given to the manner in which correcting statements are made.

5. Ministers should be aware that while the period in the immediate run-up to the flotation and during the offer period are particularly sensitive from the standpoint of the kind of statements which may appropriately be made, care should also be taken thereafter in relation to any statement which could cast doubt on the completeness, fairness or accuracy of the Prospectus at the time of its publication.

6. In the light of the foregoing, it would seem desirable that Ministers should confine their remarks to:

(a) statements which use or repeat facts published prior to the flotation, provided that such statements remain true;

(b) statements of fact or opinion contained in the Prospectus, subject to the proviso in (a);

(c) statements which, while within the areas of sensitivity referred to in earlier paragraphs of this note, have been specifically cleared from the standpoint of their implications for the flotation.

18 July 1984

CONFIDENTIAL

CCN9

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM

AT

29/2

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

29 June 1984

Dear Nigel

JAGUAR PRIVATISATION

Norman Lamont copied to me his letter of 22 June about the Jaguar executive share option scheme and I have since seen your letter of 25 June to Norman Tebbit.

I strongly support what you say. We must not allow ourselves to be bulldozed by the BL Board in this way, and they must be pressed to change their minds.

If BL force the issue and we are obliged to concede, it cannot fail to make life more difficult for us in future privatisations. I am particularly concerned at the implications for the British Airways sale. I agree with you that we must not let the Jaguar case be cited as a precedent. So in my view we should be prepared if necessary to disassociate ourselves publicly from what the BL Board have done.

I am copying this letter to the recipients of yours.

Yours ever

Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL

IND PM. PT 8

BL

ce NQ

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JU647
Secretary of State for Trade and Industry

28 June 1984

CONFIDENTIAL

NBPM

AT 29/2

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

Dr Nigel

JAGUAR PRIVATISATION

Thank you for your letter of 25 June. I telephoned Sir Austin Bide (who was abroad on business) on the evening of 26 June. He was quite clear that the arrangements for the introduction of the Jaguar executive share option scheme, at an earlier stage than approval of them all by Jaguar shareholders would permit, had been decided upon by the BL Board, and that there was at this stage no possibility of their conclusions being altered.

I indicated to him the risks inherent in that situation to the future relations between the Government and the Board, but he still felt that it was impossible for the Board to change its position. It was clear that to continue further our present refusal to accept (however reluctantly) the arrangements on the basis set out in paragraph 7 of Norman Lamont's letter, which the Stock Exchange has accepted, would rapidly lead to the loss of the July Jaguar flotation, either by BL Board resignations or otherwise.

With regard to future privatisation in my field of responsibility, I have no difficulty in giving you the assurance sought in paragraph 4 of your letter: this will not constitute a precedent. I have, therefore, told my officials to let BL know that they may proceed with the approach in paragraph 7.

Copies of this letter go to the Prime Minister, the members of E(A), and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

CONFIDENTIAL

IND POL
B.C.
Part 8

CONFIDENTIAL

NBPM

cc AO

AF 25/6

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

25 June 1984

The Rt Hon Norman Tebbit MP
Secretary of State for Trade
and Industry

Dear Secretary of State

JAGUAR PRIVATISATION

will request if required

Norman Lamont wrote to me on 22 June to tell me of BL's reaction to our decision that the proposed executive share option scheme should not be endorsed before the Jaguar flotation.

I must say that I find BL's behaviour wholly deplorable. The Board have clearly exceeded their authority in entering into service agreements on implied (and exceedingly generous) conditions for which they had not secured explicit Government approval. Indeed, they seem to have disregarded the Government's views on the subject completely.

I do not accept that, even at this late stage, the position is necessarily irretrievable. Mr Egan and his colleagues are eagerly awaiting privatisation and have committed themselves to staying with Jaguar. I should be most surprised if a change in the mechanics for approving the scheme caused them to walk away from the company. Mr Egan has already said that he hopes to negotiate an increase in salary after privatisation and, given his association with Jaguar's recovery, must surely have equal confidence that the shareholders will accept a share option scheme.

I therefore think it important that you should personally press the BL Board to change their minds, as E(A) agreed. However, if they push the matter to the point of threatening resignation, I would very reluctantly be prepared to acquiesce on the basis proposed in paragraph 7 of Norman's letter, if you and he were convinced this was necessary to save the flotation. But I should also need an assurance from you and other colleagues that this situation would not be taken as a precedent and would never recur with either BL or any other disposal candidate. Otherwise it would be all too easy for any publicly owned company or nationalised industry to offer its executives options of this nature and then to claim that a disposal was conditional on their promises being underwritten by the Government.

I am copying this letter to the recipients of yours.

Yours sincerely

Margaret O'Mara

NIGEL LAWSON
(approved by the Chancellor and signed in his absence)

IND Pa : BL px8

→ cc BY

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Prime Minister
Agree Mr. Lamont's recommendation in para. 12?
CDP 22/6

22 June 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Yes.

Dear Chancellor,

MT

JAGUAR PRIVATISATION

When we considered Jaguar privatisation in E(A) on 18 June we agreed that, while a generous executive share option scheme was desirable to retain and motivate the senior management of the company after flotation, it would be preferable to leave it to the new shareholders in Jaguar, rather than the Government as majority shareholder in BL, to endorse the detailed terms of the scheme. As we agreed, Norman Tebbit subsequently wrote to Sir Austin Bide to convey the Government's views on this and other points.

2 After discussing the matter with his Board Austin Bide responded to Norman's letter saying that it was now not feasible to devise a method whereby final approval of the scheme could be left to the new Jaguar shareholders. We were naturally very concerned to receive this reply, and I therefore yesterday saw Ray Horrocks (in Austin Bide's absence overseas) to find out why the Board took this view.

3 I have to report to you that the Board are very firm in their view that the scheme cannot be left for the Jaguar shareholders to approve (which they obviously could not do for some time after the flotation, for practical reasons). The problem is that John Egan and his colleagues have signed service agreements on the clear understanding that the Board would recommend the scheme to shareholders before flotation and that the starting point for the scheme would be the date of flotation. The Board have given a written commitment that they intend to put the scheme in place, subject to shareholders' approval, before flotation.

4 I naturally pressed Ray Horrocks as to why the Board had put themselves and us in this position. He pointed out that the Government had specifically requested BL to develop a share incentive scheme and a share option scheme. That was indeed the conclusion we reached, you will recall, at E(A) on 15 February when we decided that there should be such schemes if a blocking 25% employee shareholding was not practicable. We conveyed that decision to the Board, and for that reason they proceeded to

JH4ABP

negotiate as they did with the Jaguar executives.

5 The question whether the scheme should be put in place before or after flotation was not explicitly addressed at that stage, but our agreement in principle to the idea of a scheme was taken by the Board to mean that, provided we were satisfied that the scheme was not over-generous, we would approve its introduction before flotation. It was not until after we had discussed the issue again on 4 April that the Board realised that there was a question about whether the scheme should be introduced before or after flotation and by that stage they had already committed themselves in negotiations with the Jaguar executives.

6 Against this background I reluctantly conclude that we have no prospect of persuading the Board to defer introduction of the scheme until after flotation, and that indeed they have some force in their arguments. They have, however, pointed out that even if introduced before flotation the scheme will be subject to both the implicit and the explicit assent of Jaguar shareholders. Implicit, because the grant of options under the scheme is conditional on a successful flotation, and there will only be a successful flotation if investors accept the scheme as set out in the offer for sale documentation. Explicit, because the rules of the scheme provide for it to be terminated at any time by a resolution of Jaguar shareholders in general meeting. So it is only the initial allocation of options, based on the 1983 results, which would be based solely on the explicit approval of Government and the implicit approval of Jaguar shareholders.

7 However, BL appreciate the difficulty the Government would face in openly approving before flotation a scheme which could be cited as a precedent in subsequent privatisations. They have therefore suggested that the scheme should be specifically mentioned in the prospectus as introduced on the initiative of the Jaguar Board (thus ensuring that it would be implicitly improved by anyone who purchased the shares) but that it should not be the subject of a resolution by BL shareholders. The prospectus would, however, mention that the scheme could also be terminated at any time after the flotation by the shareholders. This would both distance the Government, as the major shareholder in BL, from the approval of the scheme and stress the control that Jaguar's shareholders would have over the scheme. One problem with the suggestion is whether it is acceptable to the Stock Exchange. We have been endeavouring to find out whether it would be acceptable, but have not yet received firm advice. However, I thought you should be made aware of the latest position.

8 In the event that the Stock Exchange is unable to accept this procedure, the Board believes it would have no choice but to propose to the Extraordinary General Meeting, which will have to approve the disposal, a resolution approving both the disposal and the option scheme. That would leave us in the position of having

CONFIDENTIAL

to vote down disposal in order to vote down the option scheme, and we clearly do not want to have to vote down the disposal. I believe therefore that we should, in those circumstances, accept the Board's proposal.

9 In all this our main interest is to avoid letting this essentially secondary issue stand in the way of our overriding objective of securing the successful flotation of Jaguar on 24 July. Time is not on our side: the documents to be circulated to the BL shareholders (including the crucial resolution to be put to the EGM) have to be finalised by Tuesday 26 June if the timetable to flotation is to be met. If the timetable is missed, flotation will almost certainly not be possible this year (given the BT overhang in the Autumn) and, given the timing of the XJ40 launch, will probably slip to mid-1985 at the earliest. There is no time left for further negotiation with the Board.

10 I recognise that the option of introducing the scheme before flotation but without the explicit approval of the BL shareholders (and with the provision for subsequent termination by Jaguar's shareholders) is not exactly what colleagues sought, but I believe that - if accepted by the Stock Exchange - it would go some way towards meeting the concerns expressed at E(A).

11 If this option does not pass the Stock Exchange, for the reasons I have given the BL Board would see no alternative to putting the scheme in place at flotation with the explicit approval of BL's shareholders and we should have, if we wished to block it, to accept the political damage associated with a delay in flotation. I would repeat the point made at our meeting that this privatisation is not like others in that it is a flotation by the BL Board and not by the Government. It is BL's name which will appear on the prospectus.

12 I would therefore propose, unless I hear to the contrary during Monday 25 June, to tell the Board that we are content with the suggestion that the option scheme should be introduced before flotation but not explicitly approved by the BL shareholders, if this procedure is acceptable to the Stock Exchange: and if not, that we are now prepared to accept that the scheme should be put in place before flotation on the basis of a resolution by BL shareholders.

13 I am copying this letter to the Prime Minister, to other Members of E(A) and to Sir Robert Armstrong.

Yours sincerely

Kate Rhind

for NORMAN LAMONT

JH4ABP

ACNO

NBPM AT 22/6

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

21 June 1984

Dear Andrew,

UNIPART

Thank you for copying to me your letter of 20 June to Callum McCarthy.

The Chancellor of the Duchy has asked me to say that he did not understand the decision of E(A) on the acquisition of Edmunds Walker to have been as unqualified as your letter suggested. His view is supported by the minutes of the meeting which refer to the decision being "subject to advice being obtained from a merchant bank" and, later, "if approval was eventually given...."

If the advice from the merchant bank is unsatisfactory the Chancellor of the Duchy would hope that there would be a further opportunity to consider the matter.

The Chancellor of the Duchy also understands that in the light of the "Varley/Marshall" assurances the money would, de facto, be guaranteed by Her Majesty's Government.

I am copying this letter to David Peretz and Callum McCarthy.

Yours ever,

Alex Galloway

A K GALLOWAY
Private Secretary

Andrew Turnbull Esq
10 Downing Street
London SW1

Ind Pol B2

- 2 JUN 1984

File

bc: Mr. Young

28g

10 DOWNING STREET

From the Private Secretary

20 June 1984

UNIPART

The Prime Minister has seen the minutes of the E(A) meeting on Monday 18 June and has noted the decision to allow Unipart to acquire Edmunds Walker. She hopes that in any announcement as much emphasis will be given to the ultimate objective of privatising the enlarged company as to the acquisition of E.W. She has also commented that she trusts that HMG is not guaranteeing the money being used to acquire E.W.

I am sending copies of this letter to David Peretz (H.M. Treasury) and Alex Galloway (Chancellor of the Duchy of Lancaster's Office).

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

10 DOWNING STREET

Prime Minister (2)

To note the decision of E(A) on Uniport. In order for the acquisition of Edmunds Walker not to look like nationalisation by a Government committed to the opposite it is essential that ultimate objective of privatising combined unit be stressed.

Agree I put this to DTI? Yes MT

AT

19/6

But - you know that I feel I am restricted in what I can say because D.T. is a director of Q.H. It is

P.T.O

a pity – because if I
weren't so restricted I
should be making it quite
clear that I am appalled
that Unipart should
be acquiring any company
from the private sector. That
is not our job.

I trust BLMC is not
guaranteeing the money

MT.

NBPM AT 19/6

MR TURNBULL 19 June 1984

UNIPART

At the meeting with the Chancellor on Wednesday, the Prime Minister could just ask about the E(A) decision to allow BL Unipart to go ahead and nationalise Edmunds Walker.

This issue will require very careful handling as the press will say that we have gone into the business of nationalising the motor components industry and may make some acid comments about the lack of direction in our BL strategy. The commitment to privatise Unipart in a year could always slip or prove difficult, and needs to be stressed in any press release.

JOHN REDWOOD

DAUAAL

JF6569A

CONFIDENTIAL

BL 1984 CORPORATE PLAN

I am making available in the Library of the House and in the Vote Office a report by BL on its recent performance and details of the 1984 Corporate Plan. The published results of BL show that, in 1983, the company achieved its objective of breaking even at the trading level for the first time since 1978. Productivity + quality standards within the company has continued to improve markedly. The House will, I am sure, wish to congratulate the company on these achievements, and on the range of new models successfully launched over the past year, including the larger Sherpa vans, the Land Rover One-Ten, the Maestro, and - most recently - the Montego. The Corporate Plan, which the Government has now approved, sets out the basis on which the company's solid progress towards viability and its return to the private sector will be maintained.

A particular problem for BL in this year's Plan has been Leyland Trucks, which faces an exceptionally depressed market at home and, particularly, overseas, showing little signs of major improvement in the medium term, and severe over-capacity throughout Europe. The Government has endorsed the Board's Plan to continue the Leyland Trucks business, but accepts the need for radical action to reduce costs and adjust to the medium term prospects for the market. The company has informed its workforce at its Bathgate plant today of the phased closure of that plant over the next 1½ years. Leyland Bus too has suffered from a depressed market at home and will also have to reduce its capacity to a level more consistent with market prospects. The company has today informed its workforce at the Charles H Roe plant in Leeds of the closure of that plant later this year.

This is a bus plant, in Denis Healey's constituency

CONFIDENTIAL

The Government, like the company, greatly regrets these measures, which are however necessary to establish a viable prospect for the remainder of the commercial vehicles business and the employment in it.

It has been the long established objective of the BL Board to return its businesses to the private sector. The House will be aware of the sustained improvement in recent years in the performance of Jaguar Cars. As a result of this improvement, the BL Board are now able to propose as a first step, subject to the approval of the shareholders of BL plc, that Jaguar Cars should be returned to the private sector later this year. It is the Board's intention to proceed by means of a public offer for sale of Jaguar. The Government warmly welcomes these plans. and I look forward to keeping the House informed of progress in the coming weeks.

PRIME MINISTER

The Bathgate announcement will be made by the Company around lunchtime and so will be public knowledge before Questions. You will not, therefore, be able to deflect all questions to the statement. DTI will provide more detailed briefing tomorrow, though the principal line will be that the closure is inevitable given the development of the truck market, particularly overseas.

The statement also includes reference to the closure of the Charles H Roe bus plant in Leeds. Though this was always in the Corporate Plan, BL have only just decided to bring forward announcement to coincide with Bathgate. It probably makes sense to get both out of the way together.

Agree the terms of the statement?

AT

Yes

21 May 1984

CENO

Chancellor of the Duchy of Lancaster

18 mths run down

PRIME MINISTER

BRITISH LEYLAND CORPORATE PLAN - NEED FOR ADDITIONAL FINANCE

In CC(M) Meeting folder

The correspondence just circulated about Bathgate includes a letter of 8 May from Norman Tebbit to Nigel Lawson in which it is stated that BL:

> "will need to borrow commercially as well as maintaining its existing borrowing facilities."

Much the same point but in the context of Austin Rover was made in paragraph 5 of Norman Tebbit's memorandum of 9 May when he said that:

> "part of the finance necessary .... is planned to be raised by further borrowing, against the Varley-Marshall assurances (effectively on Government credit) ...."

Now that the published accounts of BL for the year to 31 December 1983 are available, there would seem to be no need for such additional finance and I believe we should firmly say that it will not be forthcoming.

The published accounts show that, contrary to what is contained in the Corporate Plan, the total cash outflow for 1983 amounted to only £105 m against the £205 m given in the Corporate Plan. For 1984, the Corporate Plan shows a cash outflow of £95 m, for 1985 £100 m and for 1986 £9 m. Against this, BL still have £110 m outstanding from the 1981 and 1983 commitments, and they propose retaining the £250 m or so from the sale of Jaguar. If the £110 m is set off against the £250 m this still leaves BL with £140 m which would cover them for 1984 and for nearly half their stated requirement for 1985 as well. Quite apart from the fact that the accounts show that the Corporate Plan greatly overstated BL's need for money, with some economy they should be able to get through without either the £110 m or additional loan finance. The past history shows that they will need to be told so firmly: otherwise we will be faced with a claim that we have agreed.

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

A.C.

A C
16 May 1984

Ind Pol: BL P48

1

P.01288

PRIME MINISTER

Leyland Trucks: The Timing of Announcements

BACKGROUND

FLAG E

On 4 April, the Ministerial Sub-Committee on Economic Affairs broadly approved a new strategy for Leyland Trucks put forward by the British Leyland (BL) Board (E(A)(84)10th Meeting). The Sub-Committee did not however take a final decision about the future of the Bathgate truck plant, which is scheduled for closure at the end of this year under the strategy.

2. Formally the position, as recorded in the minutes, is that the Sub-Committee will resume discussion of Bathgate in the Summer in the light of the whole BL Corporate Plan, unless problems emerge in the meantime. However, it was understood at the meeting that the closure of Bathgate was unavoidable. The only issue was when an announcement should be made; and the minutes reflect the desire of the Secretary of State for Scotland to postpone the announcement till mid-June, after the elections to the European Parliament.

FLAG F

3. In his minute of 1 May 1984, the Secretary of State for Trade and Industry argues that an earlier announcement is necessary. At E(A)(84)10th Meeting, the Sub-Committee agreed that Jaguar should be privatised, by means of a flotation on 24 July. Mr Tebbit has now been advised that the BL Board must have Government approval for the whole BL Corporate Plan before it can dispose of Jaguar; if not, it would risk breaching Stock Exchange requirements. As explained in his minute of 9 ~~March~~ May, that approval is required this week to keep the Jaguar flotation on schedule. Once the Corporate Plan is approved, the closure at Bathgate will have to be announced. Provisional arrangements are being made for an announcement on Tuesday 22 May 1984.

FLAG G

4. You discussed the timing of the closure announcement last week with Mr Tebbit and Mr Younger. Our understanding is that

Mr Younger appreciates the case for an earlier announcement than he would have liked. But he is concerned about an announcement so soon after the Scottish Party Conference and before the European elections. He is anxious for the Sub-Committee to consider the closure announcement formally and to be fully aware of the economic and political implications of another major plant closure in Scotland, particularly at a time of troubled industrial relations notably at Ravenscraig. But we understand he will not oppose a closure announcement next week.

MAIN ISSUE

5. The issue is:

are the Sub-Committee content to approve announcement early next week of the closure of the Bathgate truck plant?

6. The Sub-Committee will not wish to reopen the question of the closure itself; at E(A)(84)10th Meeting, it was accepted that there was no alternative.

7. The sale of Jaguar cannot proceed on schedule without immediate approval of the BL Corporate Plan; that in turn makes the announcement of the closure at Bathgate unavoidable. It is not disputed that if the flotation is delayed beyond 24 July, there is a high risk that it will have to be postponed till next year, in order to make room for the more important flotation of British Telecom in the Autumn.

8. The Sub-Committee will therefore need to decide whether the political gains from delaying the announcement outweigh the high risk of losing the privatisation of Jaguar this Summer and consequent disruption of the privatisation programme. In reaching their decision, the Sub-Committee will wish to take into account the current sensitive state of industrial relations in Scotland.

9. If the Sub-Committee approve the closure announcement, you will wish to stress the need for avoiding any leak beforehand. A leak this week would be highly embarrassing for Mr Younger; it seems that a Scottish Office Minister said at the Scottish Party Conference that no decision on Bathgate had yet been reached. He considers a minimum interval of ten days is necessary before the announcement in order to avoid political embarrassment.

Equity Injection for BL

10. There is a separate dispute between Mr Tebbit and the Chancellor of the Exchequer about whether the decision reached at E(A)(84)10th Meeting, that BL should not receive a £110 million equity injection previously earmarked for the company, should be announced at the same time. We understand however that Mr Lawson will not press for this to be announced next week. If this question is raised you may like to suggest that the Ministers concerned should resolve the matter between themselves.

Not so. Mr Lawson is pressing for a statement on BL's renunciation of the £110 million - See Flag H

HANDLING

11. You will wish to ask the Minister of State, Department of Trade and Industry (Mr Lamont) to make the case for an announcement of the Bathgate closure next week. You will wish to invite the Secretary of State for Scotland to reply. The Chancellor of the Exchequer may also wish to comment.

CONCLUSIONS

12. You will wish the Sub-Committee to reach conclusions on the following:

- whether the Government should announce early next week the intention to close the Bathgate truck plant.

PG

P L GREGSON

15 May 1984

H H

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 5186
(Switchboard) 215 7877

From the Minister of State for Industry

NORMAN LAMONT MP

CONFIDENTIAL

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

15 May 1984

Dear Andrew,

LEYLAND TRUCKS: CLOSURE OF BATHGATE

E(A) is looking at the timing of the announcement tomorrow, and we feel they should also have an opportunity to consider a politically related presentational point on what is said at the same time on overall Government funding for BL.

I attach copies of an exchange of letters between Mr Tebbit and Mr Lawson setting out the problem, which E(A) remitted to them on 4 April. It is essentially a presentational one about what should be said publicly, as the BL Board accept privately that they can have no expectation of asking for any part of the outstanding £110m.

The main difficulties we see in the course proposed in the Chancellor's letter are:

(i) since the BL Board proposed the closure of Bathgate to us in December they have frozen investment there. The Government's opponents and the workforce have argued that the withholding of this £6m of investment funds is imperiling Bathgate's future. It will be much more difficult to win the argument that the closure is due to economic non-viability, not lack of finance, if we announce at the same time the withdrawal of finance previously held out as available if needed.

(ii) it is very doubtful in the circumstances whether the Board will agree at this stage publicly to relinquish their "claim" on the £110m. They will have in mind, for instance, the very slight chance that market conditions might make the Jaguar flotation in July impossible. The formula at the end of the Chancellor's letter would be much less politically attractive if it had to be in terms of a Government withdrawal of funds.

For these reasons we feel that the Prime Minister may want E(A) to consider whether the advantages of an announcement on the outstanding £110m do indeed outweigh the risk of complicating the handling of the announcement of the closure of Bathgate, which will be exceedingly difficult in Scottish, economic and political terms.

I am sending copies of this letter and attachments to the Private Secretaries to the members of E(A) and to the Secretary of the Cabinet.

Yours ever,

Kate Rhind

KATE RHIND
Private Secretary

CONFIDENTIAL

Prime Minister (2)

Chancellor's reactions very much in line with yours

AT 15/5

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

PRIME MINISTER

BL 1984 CORPORATE PLAN

Norman Tebbit's minute to you of 9 May covers those aspects of the Corporate Plan we have not yet discussed. I am generally content with Norman's proposals and agree that our immediate aim should be to safeguard the timetable for Jaguar privatisation.

2. There are just a few points I should like to register:

(i) Austin Rover Group. I am concerned about the size of the capital expenditure programme and hope that the study will consider ways of reducing HMG's responsibility for it.

(ii) Unipart. I am sure that the company should be privatised as soon as possible. I am not wholly convinced that the proposed acquisition is essential for privatisation but should like to think more about the issues involved before coming to a firm view. We can defer a decision on this for the moment.

(iii) Land Rover. I support Norman's suggestion that BL should be required to prepare firm options on privatisation prospects. However, I should say now that I do not believe that BL's proposal for privatising Land Rover and Leyland Vehicles as a single entity makes much commercial sense and certainly does not offer quick enough progress on Land Rover. I suggest we should therefore prepare for a separate sale of Land Rover as soon as possible.

(iv) Leyland Trucks. I very much agree with Norman that the decision to close Bathgate - painful as it is - must be taken now.

(v) Future Financial Regime. I endorse the view of the inter-departmental report that we need to find a way of controlling BL's borrowing so as to simulate the constraints which operate on commercial businesses. I hope that this will be a first step towards withdrawal of the Varley-Marshall assurances. I should be grateful if my officials could be associated with the discussions that are to be held with BL about this.

3. I am sending copies of this minute to the other members of E(A) Committee and to Sir Robert Armstrong.

Margaret O'Mara

N.L.
15 May 1984
(approved by the Chancellor and signed in his absence)

15 MAY 1984

10 DOWNING STREET

Prime Minister

You have already seen and approved the outstanding decisions on BL's Corporate Plan which is at Flag G, subject to injecting more vigour and urgency into the further work being called for. There is no reason for E(A) to open up these decisions which are being cleared in correspondence. You will see from the attached that the Chancellor's reactions are in line with yours

AT

15/5

4.80

1984 V 14   14:03

CONFIDENTIAL

For information:
Mr Hearing V-8
PS/NL
PS/JB
PS/Sec I
Mr Sterling
Mr Dobbs
[redacted]
Mr Mountfield ✓
Mr Richford Sols
Mr Boyce IDU

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

14 May 1984

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

Dear Norman

JAGUAR PRIVATISATION

You wrote to me on 8 May about the withdrawal of the Varley Marshall assurances in respect of Jaguar, and about the handling of the proceeds and the £110m outstanding of money previously promised to BL.

I am quite content with the arranged Parliamentary Question and Answer you propose to give on the Varley Marshall assurances on Jaguar and I accept that the assurances given in connection with BL cannot be withdrawn without careful preparation and planning. For the moment, therefore, I agree we must confirm that they will continue to apply to the company. However, we should not lose sight of the possibility of their eventual withdrawal and I will be commenting on this when I respond separately to your 9 May minute to the Prime Minister.

In the meantime, while BL continue to add to their borrowing, Government exposure will also continue to increase. The figure is already formidable. Moreover, we have put nearly £1 billion into BL in the form of equity. Government aid, given either directly or through the Varley Marshall assurances, has thus been on a very substantial scale and following our agreement at E(A) on 4 April, we must insist that the BL Board formally acknowledge that their receipt of the proceeds of the Jaguar privatisation is subject to their relinquishing any claim to the outstanding £110m. The Board should be left in no doubt that there can be no question of the company receiving further equity assistance and I think there would be advantage in making this known publicly.

I do not believe it could be seriously argued that the withdrawal of the £110m still outstanding is in some way connected with the closure of Bathgate. The decision to close has been made by BL management on the basis of a commercial appraisal. It is not lack of finance which has led to the decision but the fact that the continued operation of Bathgate cannot be justified on economic grounds. We must ensure that any statements about the closure make this patently clear.

I also cannot see that a public announcement will affect any negotiations the Board may be having with their creditors. The fact that the Varley Marshall assurances will continue to be in place must be a much more important consideration in these negotiations.

The value of a public announcement would be to remove any temptation for the Board to ask for the money if their expectations were disappointed. It would also demonstrate to the workforce that the Government should not be regarded

CHANCELLOR OF THE EXCHEQUER

as a source of funds to help the company out of its difficulties. This seems to me to be a major advantage which must outweigh any possible benefits that could derive from the company's discussions with their bankers or the avoidance of possible criticisms about Bathgate.

I suggest therefore that we should state publicly that BL will receive the full proceeds of the Jaguar privatisation and that the Board have agreed to relinquish their claim for the outstanding £110m in the light of this decision and the improvement in the company's financial prospects.

Yours
Nigel

NIGEL LAWSON

CONFIDENTIAL

FCE SH

bcc: Bob Young

cc: HMT DIEnd NIO MAFF DIEn CSO HMT SO DITrans WO CO DOE LPSO CDLO

10 DOWNING STREET

From the Private Secretary

14 May, 1984

Dear Callum,

BL Corporate Plan

The Prime Minister has seen your Secretary of State's minute of 9 May and the Report of the Official Group on British Leyland attached to it. On Austin-Rover, she welcomes the proposal to scrutinise the capital expenditure programme and expects this to be rigorous to ensure that expenditure is strictly necessary and not merely "nice to have". She has suggested that substantial economies in capital expenditure could be made through more collaboration on engines and gear-boxes and through more outsourcing. In examining the programme, she believes it would be helpful to set an objective of securing economies which will improve net cash flow by around £200 million over the period 1984/87. She has noted your Secretary of State's suggestion that BL should bring forward proposals for accelerating the prospects for privatisation. She wonders whether this really needs to wait for the 1985 Corporate Plan, i.e. another year, and suggests that proposals be brought forward in six months, based on a target for privatisation in 1987.

On Unipart, she has noted that further collective discussion will be required but she has expressed no view on the issues involved.

On Land Rover, she welcomes the proposal that BL be asked to prepare a study of the steps that would be needed to turn Land Rover into a separately saleable entity. She has suggested that a time limit of three months be set for this work.

Following discussions with your Secretary of State and the Secretary of State for Scotland, it has been agreed that the outstanding questions on Leyland Trucks will be raised at E(A) on Wednesday, 16 May.

/I am

CONFIDENTIAL

SH

I am copying this letter to Private Secretaires to members of E(A) and to Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

ANDREW TURNBULL

M. C. McCarthy, Esq.,
Department of Trade and Industry

ANNEX A.

BL Public Limited Company
35-38 Portman Square
London W1H 0HQ
Telephone: 01-486 6000
Telex: 263654
Cables: Leymotors London W1 Telex

TO MR MCADIWAY (V)
DRAFT REPLY IF APPROPRIATE)
PLEASE BY: 1/5/84
IF DEADLINE CANNOT BE MET PLEASE PHONE 215 5422

P/S NL
P/S JB
P/S SEC (I)
MR STERLING
MR MANZIE
MR MOUNTFIELD (V)
MR DOBBS

CONFIDENTIAL

BY HAND

19th April 1984

Dear Secretary of State,

Privatisation of Unipart Group -

Acquisition of Edmunds Walker

In my letter to you of 26th March, you will recall that I asked for agreement in principle to the privatisation strategy for Unipart Group, as set out in the 1984 Corporate Plan. This strategy was based on:-

i. Acquiring, if commercially justified, one or more related businesses to give the Group a broader business base, thus strengthening its privatisation prospects; or

ii. Privatising as is, should acquisitions for whatever reason not take place.

The Plan stated that two possible acquisitions were being considered - Quinton Hazell (a subsidiary of Burmah Oil Plc) and Edmunds Walker (the component distribution arm of AE PLC). Discussions with the latter company and study of the implications of acquiring Edmunds Walker have now reached the stage where a clear case for the acquisition can be demonstrated that will have advantages to the commercial strength and therefore value of the resulting entity, which in turn will be greatly beneficial in achieving the privatisation objections for it.

Various financing methods have been examined, taking full account of the known Government objections to extending Varley-Marshall assurances.

Cont....

In the event it has not been possible to devise a method of financing which can with certainty avoid an extension of those assurances whilst being commercially acceptable. Compared with cash, all other options are complex, time-consuming to implement and expensive. The BL Board has, therefore, decided that the commercial and strategic case justifies the acquisition of Edmunds Walker for cash even though this involves, but only until privatisation, the extension of Varley-Marshall assurances.

The Board has authorised me to request your approval to this course of action, on the clear understanding that it will not be regarded as setting a precedent. The investment involved will be approximately £20 million. Although this level of spending is below the amount at which we are required to seek Government approval, the acquisition involves other issues calling for your approval.

Sincerely

Austin Bide

Sir Austin Bide
Chairman

The Rt. Hon. Norman Tebbitt, MP,
Secretary of State,
Department of Trade & Industry,
1 Victoria Street,
London SW1

NBPM

cc DO

AT 14/5

Chancellor of the Duchy of Lancaster

SECRETARY OF STATE FOR TRADE AND INDUSTRY

UNIPART

You asked on your minute of 9 May to the Prime Minister for comments on your proposals.

with AT

If privatised, Unipart would be regarded by the market as an independent parts wholesaler. The question is its viability as such.

Wholesaling as an economic activity has been on the decline for many, many years. The reasons are obvious. Wholesaling involves double handling and duplicated stock investment. With the increasing size of retail outlets, breaking bulk - which is the raison d'etre of wholesaling - is less and less necessary. Increasingly manufacturers have been assuming their own wholesaling function dealing direct with retailers. Sometimes manufactuers buy up wholesalers to achieve the economies of integration. The fact that two of the independent parts wholesalers - Edmunds Walker and Quinton Hazell - are in the market for sale suggests that the automobile industry is no exception to the general decline and unprofitability of wholesaling.

Against this background there <u>is</u> a case for rationalising the wholesale business in car parts. To some extent the BL Board's proposal for acquiring Edmunds Walker as part of the privatisation of Unipart points in this direction. The article in Saturday's Times - on which no doubt you will be commenting - suggests that GKN are on the same track. Apart from the question mark hanging over the whole strategy, there is clearly no case for two of us trying to do the same thing. The only effect will be to drive up the price to the detriment of the ultimate winner, whether that be BL or GKN. My own preference if we decide to sever Unipart from the rest of BL would be to vacate the field in favour of GKN by seeing if we could sell Unipart to them.

I am circulating this minute to the Prime Minister, other members of E(A) and Sir Robert Armstrong.

A. C.

A C
14 May 1984

ND POL
BL
PT 8

14 MAI 1984

File

MR TURNBULL   11 May 1984

AUSTIN ROVER GROUP CORPORATE PLAN

We spoke about the Policy Unit suggestion that BL look for ways of improving ARG's nett cash flow by around £200 million over the period 1984-87 - principally via capital expenditure reductions.

Total capital expenditure by ARG over the four years is £737 million.

Of that, £197 million is aimed at 'non product' items, ie general improvements not tied to particular model types. This component of expenditure is invariably overbid and underspent. We judge that trimming it back by around £10 million per annum is a reasonable target.

The remaining £540 million is product related. We question three main items.

i. the timing of AR6 (Metro replacement in 1988), which accounts for £82 million over 1986 and 1987. Slipping by one year would give an improvement of £59 million.

ii. the need at all for AR16 (Ambasssador replacement in 1987). It is not clear why ARG need to take on the upper medium 5 door sector after an absence of what will be 4/5 years. It is possible that AR16 would dent Montego and XX sales more than it would dent other competitors. AR16 will cost £50 million between 1984 and 19[redacted]87.

iii. whether the engine strategy needs to cost £141 million over four years - £36 million for making and 'sorting out' Honda's V6 engine for XX, and £105 million for developments of the smaller engines. We judge the questionable element to be of the order of £40-£50 million.

These three queries add up roughly to £150 million, which, with the non-product queries, give a total of £190 million.

If this amount could be cut out in toto, there would be a further cash saving because of lower borrowing costs (the increase in the value of ARG's asssets is funded entirely by debt from 1984 on). We estimate the interest savings at around £20 million over the four years.

JMEAAU

An additional "incidental" non-cash benefit would be a profit improvement through lower depreciation - perhaps of around £5 million per annum, or £20 million over the four years.

RY

ROBERT YOUNG

JMEAAU

Pr

CONFIDENTIAL

PRIME MINISTER FROM ANDREW TURNBULL

BL TRUCKS

MR. TEBBIT AND MR. YOUNGER MET IN PERTH EARLIER TODAY. I UNDERSTAND THEY AGREED THAT BL TRUCKS SHOULD BE DISCUSSED AT EA ON WEDNESDAY (MR. LAMONT WILL ATTEND IN PLACE OF MR. TEBBIT), AND POSSIBLY AT CABINET ON THURSDAY. AN ANNOUNCEMENT OF ANY DECISION WOULD BE MADE ON THE TUESDAY OF THE FOLLOWING WEEK.

I SUSPECT THESE ARRANGEMENTS ARE AS MUCH ABOUT FORM AS SUBSTANCE. MINISTERS WILL HAVE REPEATED IN PERTH THAT NO DECISION HAS BEEN TAKEN, AND IT IS THOUGHT IMPORTANT THAT BEFORE ANY ANNOUNCEMENT IS MADE THAT THERE SHOULD HAVE BEEN FORMAL MEETINGS AT WHICH THE DECISION WAS SEEN TO HAVE BEEN TAKEN.

AT

11 MAY, 1984.

CONFIDENTIAL

PRIME MINISTER

BL Corporate Plan

Mr. Tebbit seeks to clear the remaining decisions on the BL Corporate Plan by correspondence. In principle, it is unsatisfactory that such important issues are being pushed through in such haste, particularly as the papers have been with the Department for so long. In practice, too much damage may not have been done as the problem has been gone over in great detail by officials, including the Policy Unit, and Mr. Tebbit's recommendations are likely to be generally acceptable to colleagues.

The Policy Unit accept the basic thrust of the recommendations - see para 16 of Mr. Tebbit's minute - but at a number of points they wish to inject more urgency or rigour:

(i) On Austin-Rover, Mr. Tebbit is proposing to scrutinise capital expenditure. The Policy Unit suggest that a target for savings could be set. The point to establish is whether the capital expenditure programme is of the "would be nice to have" kind or the "this is the minimum we can get by with" kind.

(ii) Mr. Tebbit proposes to ask BL to set out in its next Corporate Plan what can be done to improve the prospects for privatisation. This is likely to come up about a year from now. Policy Unit suggest this study be completed in six months, with a target date for privatisation of 1987.

/(iii) On

(iii) On Unipart, Policy Unit share Mr. Tebbit's doubts about the wisdom of privatising Unipart separately. In the past we have lost out from the Edwardes' theory of holding on to the prosperous bits of BL for the good of the organisation as a whole. Jaguar, Land Rover and Leyland Buses have suffered in consequence. It is possible, however, that Unipart might be the one case where it is better to hold on. One needs to decide whether the privatisation of Austin-Rover is a genuine possibility in the foreseeable future. If it is, there is a case for retaining Unipart. Alternatively, one might conclude that the privatisation of Austin-Rover is unlikely to be achieved, in which case it makes sense to dispose of Unipart as soon as possible. If Unipart is to be sold, there is a case for acquiring Edmunds Walker first. Certainly these issues merit further discussion.

(iv) On Land Rover, Policy Unit agree that a study of early privatisation should be undertaken and propose a deadline of three months.

Agree Mr. Tebbit's proposals, subject to the qualifications suggested by the Policy Unit?

AT

Andrew - D.T. is a director of Q.H. It seems to me therefore that I can't enter into discussion of Unipart at all in view of the proposed alternatives

MT

ANDREW TURNBULL
11 May, 1984

cc No

G

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

PRIME MINISTER

BL 1984 CORPORATE PLAN

We have already discussed Jaguar privatisation and Leyland Trucks in E(A). For the timing reasons set out in my minute of 1 May to you, we need now to settle our policy on outstanding points arising from the BL Corporate Plan, including Leyland Trucks and Bathgate; discuss our decisions with the Board; and announce the outcome, by the third week of May. Otherwise our intention - now firm, following further advice from Kleinwort Benson - to float Jaguar on 24 July will be at rapidly increasing risk.

2 The principal outstanding issues concern the Austin Rover Group, Land Rover and Unipart. The attached Report from the Official Group on BL represents unanimous official advice on them from the interested Departments (DTI, HM Treasury,

JH2AHW

Employment, Scottish Office and No 10 Policy Unit). I hope we may be able to reach agreement on all outstanding points except Unipart (which I feel merits collective discussion, which can take place at a later date) by correspondence. On this basis I would hope to be able to proceed to an announcement of our overall approval of the Plan late next week.

BACKGROUND

3 We need to consider the 1984 plan against this year's achievements. The overall picture for 1983 is that BL broke even at the trading level - for the first time since 1978 - with a PBIT of £4.1m, in line with the forecast in the 1983 Plan. The overall cash outflow was contained to £91m, £267m better than the 1983 Plan figure. But underlying these improvements are sharply diverging performances within the Group, with Austin Rover and Jaguar doing substantially better than foreseen, and Land Rover and Leyland Vehicles doing worse. The radical improvements at Longbridge therefore conceal to some extent the worsening position at Land Rover and Leyland Vehicles.

4 A similar pattern is seen in the development of the 1984

Plan: car operations are expected to improve faster than previously foreseen (I note in particular officials' assessment (paragraph 2.7) of Austin Rover's improved productivity; Austin Rover's performance in productivity, and commercially and financially, represents a considerable success for our economic policies, for which we ought perhaps to take more credit in public than we have done). On the other hand expectations for commercial vehicle operations have been adjusted downwards markedly. We have already considered within E(A) remedial and risk-limiting actions in respect of the main parts of Leyland Vehicles, and I am discussing these decisions with the Board.

AUSTIN ROVER

5 Austin Rover is progressing broadly on the lines established as a result of decisions on previous Corporate Plans. Most of the very substantial capital expenditure necessary for the model programme can be financed internally, but a part of the finance necessary for this expanding business is planned to be raised by further borrowing, against the Varley-Marshall assurances (effectively on Government credit). This model programme could not be pruned without serious damage to market sector

coverage and hence market share forecasts. However, I propose that the capital expenditure programme - in which individual capital projects over £25m each require separate Government approval - should be kept under careful review to see if it can be reduced, for instance by increased collaboration.

6 The long term solution to this unsatisfactory situation can only be privatisation. The Board assess the prospects for this in the Plan period as "fragile", but obviously they will be improved somewhat if the recent improvement in Austin Rover's commercial results and reputation continue. The company's collaborative strategy is closely linked to some of the possibilities for privatisation. I therefore recommend that the Board should be asked to bring forward proposals in its 1985 Corporate Plan, for improving as far as possible privatisation prospects earlier than now foreseen. These should take account of the development of the company's collaborative strategy.

UNIPART PRIVATISATION

7 This raises several difficult issues. First while a bird in the hand is certainly worth two in th bush, I should

remind colleagues that our ultimate objective of returning ARG to the private sector will be made more difficult by disposal of Unipart. Officials refer (para 5.6 of the attached report) to widespread continuing scepticism about the desirability of separating Unipart from the BL product companies, which is contrary to normal practice in the car industry. Obviously the separation and privatisation of Unipart represents a balance between the commercial interests of BL as a whole and our privatisation policy, but I am confident the Board would have told us if the path being followed was impractical or seriously damaging, and they have not done so. I, therefore, do not regard either of these points as overriding objections to our proposal to separate and privatise Unipart.

8 A further awkward decision arises: very recently, in line with one of the possible ways forward mapped out by the Board in the Plan, the Board have recommended an acquisition for cash (about £20m), as a preliminary to privatisation, of Edmunds Walker (EW), the component distribution arm of AE plc. The Board believe the acquisition would create a commercially stronger combined entity, which it will be easier to privatise. Their main reasons are that:

- Unipart's perceived over-dependence on its contract with Austin Rover in particular will be lessened;

- EW's distribution system and administration can profitably be rationalised with Unipart's;

- Unipart will acquire access to non-franchised garages, who do an important proportion (over a third and growing) of the servicing of BL and other cars but to whom they have currently no distribution channel.

9 I have considered other options. We might tell BL that acquisition before privatisation is ruled out altogether, or that they should try to employ a less direct method of acquisition (such as those described in para 5.9 of the official report). But BL have already considered, and rejected chiefly on grounds of delay and greater expense, other methods of financing the acquisition, such as disposing of shares representing a minority of Unipart. The unanimous advice of the official group favours acquisition of EW for cash, provided BL commit themselves to the privatisation of Unipart by mid-1985. A public commitment

on these lines would be essential if we were to agree to this acquisition.

10 It seems to me that, while the Board may somewhat overstate the case, the acquisition of EW would help Unipart privatisation forward significantly. If we decide to opt for early privatisation, this is risky and does not fit well with industrial considerations; and given the congestion of the markets we cannot float Unipart in its present form this year. If we go forward on the basis of the industrial case advocated by the Board, the components business would need to be run on an entirely commercial basis, and the officials' recommendation has much to be said for it. If we did opt for this course, I would make it clear to BL that I could not support them if they engaged in a contest with another company to acquire EW; and that any monopolies aspect would have to be considered on the merits of the case. I cannot exclude the possibility that I might receive advice from the Director General of Fair Trading that a merger between Unipart and EW should be referred to the Monopolies and Mergers Commission.

11 Stripped of inessentials the choice before us is straightforward but difficult. Do we seize the earliest and

simplest opportunity to achieve privatisation as a political objective, or do we accept the industrial and commercial case for privatisation by the route proposed by the Board and endorsed by our officials? As I have said, I believe this decision is sufficiently controversial to merit further collective consideration, but I would welcome any initial reactions colleagues may have.

LAND ROVER

12 Our decision on 4 April to separate Leyland Bus within Leyland Vehicles Ltd, as a prelude to privatisation, needs to be complemented by a decision on privatisation policy towards the other UK part of the Land Rover-Leyland Group, Land Rover UK Ltd (Land Rover and Freight Rover). I endorse the official recommendation (para 6.8 of their report) that the Board should be asked (in parallel with the work on Leyland Bus) to prepare a study of the steps that would be needed to turn Land Rover into a separately saleable entity, as a basis for a full review of the privatisation options within Land Rover-Leyland.

JH2AHW

LEYLAND TRUCKS

13 Before the Corporate Plan decisions can be announced, we need to complete our consideration of the future of the Bathgate plant of Leyland Trucks. I explained in my minute of 1 May why a decision cannot be put off very much longer without unacceptable risks to Jaguar privatisation. I therefore ask the Committee now to endorse the recommendation at para 12 (i) of E(A)(84)19. The timing and mechanics of the announcement will need to be settled with BL and I will let you know what is proposed.

FUTURE FINANCIAL REGIME

14 You may also wish to note that the Report proposes controlling BL's borrowings in the years ahead, taking into account the fact that the company's borrowing is in effect against the Government's credit. This will reproduce the capital constraints which are imposed on commercial businesses by the market as well as providing the opportunity for limiting, as well as reducing, the Government's exposure under the Varley-Marshall assurances. We shall be pursuing this separately and promptly with BL.

JH2AHW

CONCLUSIONS

15 Decisions on the points in paragraphs 5-13, with those we have taken in E(A) on 15 February and 4 April, will open the way to our approving the major items in the BL 1984 Corporate Plan, except for the specific proposals on Unipart. I propose that the other lesser issues should be agreed on the basis of the report from the Official Group on BL. After discussion with the Board, we will circulate to those concerned a draft of a Parliamentary statement covering these points on which decisions need to be announced at this stage. I am pursuing the outstanding minor points on Jaguar privatisation on the basis of the arrangements set out in your summing up at E(A) on 4 April, but these points do not need to be cleared in detail before the Corporate Plan decisions and the principles of Jaguar privatisation can be announced.

16 I recommend:

i the proposals on Austin Rover capital expenditure and privatisation policy in paras 5 and 6;

JH2AHW

ii that decisions on the precise method of privatising Unipart (paras 9-11) should be deferred for collective consideration at a later date;

iii steps towards Land Rover privatisation as in para 12;

iv completion of our consideration of Leyland Trucks as in para 13; and

v that subject to the specific decisions on the various points we should approve the 1984 Corporate Plan on the basis set out in para 15 above.

16 In view of the timetable pressures I should be glad of any reactions from colleagues by 15 May. This timetable is imposed on us by the demands of the Jaguar flotation.

JH2AHW

17 I am sending copies of this minute, with attachments, to other members of E(A) and to Sir Robert Armstrong.

NT

N T

9 May 1984

Department of Trade and Industry

JH2AHW

BL'S 1984 CORPORATE PLAN

FINAL REPORT BY THE OFFICIAL GROUP ON BL

I INTRODUCTION

1.1 We have reported separately on the BL Board's proposals for the privatisation of Jaguar and on the options for Leyland Trucks. In this report we consider, first, the performance of the various subsidiaries (excepting Leyland Vehicles) in 1983; second, the financial projections over the Plan period for BL as a whole, and their implications; and third, the business prospects and privatisation strategy for Austin Rover Group Holdings, Unipart and Land Rover. Our conclusions and recommendations are drawn together in a final section.

II SUMMARY OF PERFORMANCE IN 1983

2.1. Overall, BL has achieved its objective of breaking even before interest and tax in 1983, recording a trading profit of £4.1 million, in line with the forecast of £4m in the 1983 Corporate Plan. However, this overall result conceals a widely diverging performance within the Group, with Austin Rover Group Holdings (ARGH) and Jaguar performing significantly better than Plan and Land Rover, Leyland Vehicles and to a lesser extent Land Rover-Leyland International Holdings (LRLIH) falling well short of their Plan projections:-

1983 Profit/(loss) before interest and tax (£m)

	ARGH	Unipart	Jaguar	Land Rover	LVL	LRLIH	Total[1]
Actual	2.0	17.0	55.0	(14.0)	(70.0)	18.0	4.1
1983 Plan forecast	(64.0)	20.0	10.0	17.0	(12.0)	31.5	4.0
Actual better/ (Worse) than Plan	66.0	(3.0)	45.0	(31.0)	(58.0)	(13.5)	0.1

2.2. BL overall contained its cash outflow in 1983 to £(91)m, £267m better than Plan. This improvement can be attributed largely to ARGH (£111m better than Plan) and Jaguar (£98m better than Plan):-

Cashflow in/(out) (£m)

	ARGH	Unipart	Jaguar	Land Rover	LVL	LRLIH	Total
Actual	(95)	11	56	(9)	(69)	(1)	(91)
1983 Plan forecast	(206)	12	(42)	(14)	(50)	7	(358)
Actual better/ (Worse) than Plan	111	(1)	98	5	(19)	(8)	267

---

[1] Throughout, "BL total" includes certain central services and consolidation adjustments and may not equal the sum of the individual results shown.

Austin Rover Group Holdings (ARGH)

2.3. In a year in which the total industry volume (TIV) soared to 1.79m units, 15.5% up on 1982 and an all-time record, ARGH improved its market share from 17.24% in 1982 to 18.01% in 1983. The market share fell short of the company's Corporate Plan target of 18.5% for the year as a whole, but because of the higher than expected TIV UK sales totalled 323,000 units as against 287,000 units in the Plan (and as against 268,000 in 1982). One reason for the shortfall of market share was that supply of Maestros was limited by the capacity of the production lines at a time when demand was very strong: with work on the parallel LM11 line and some associated common facilities now complete this should be less of a problem in 1984. In volume terms sales of Maestro (at 65,000 units) were very close to the target figure of 67,000 despite the fact that some 8,000 vehicles were lost as a result of the four-week "washing-up" strike at Cowley in April. A second reason for the market share shortfall was that demand for older models, particularly Ital and Ambassador (itself fairly recent, but a facelift of the older and unsuccessful Princess), fell away more rapidly than expected. This led ARGH to decide to discontinue the Ambassador from the end of 1983 rather than end-1984 as originally intended. Production of the Ital had always been intended to cease at the end of 1983.

2.4. In contrast to the higher than expected UK sales volumes, ARGH's export volumes were disappointing, and overall ARGH's sales totalled 458,000 units as against a forecast of 475,000 in the Plan (a 3.5% shortfall). Sales revenues overall were £1,799m as against a Plan forecast of £1,829m (a 1.6% shortfall).

2.5. The main reasons for ARGH's very much better than expected trading profit were:-

a) higher than expected UK sales, which after allowing for the changed sales mix increased PBIT by some £35m; and

b) better than expected cost performance, which accounted for a further improvement of £35m.

Other factors which affected the PBIT performance included greater than expected list price increases (PBIT up £7.5m - but this effect is more than offset by the level of discounting), more favourable than expected exchange rates (up £2.3m) and better overhead coverage (up £7.4m), offset by worse than expected export volume and mix (down £12.2m) and greater than expected marketing costs (PBIT down £18.5m). This last factor reflects the intense competition which existed in the UK car market throughout 1983, leading to the offer of substantial discounts on list prices, and which shows signs of persisting into 1984.

2.6. ARGH's loss before tax of £(18.2)m was £103.8m better than the Plan forecast of £(122)m, and this was the main contributing factor to the much better than expected cashflow (£(95)m as against a forecast of £(206)m). Working capital (increased by £56m as against £47m in the Plan) and capital expenditure (at £126m as against £129m) were broadly on target.

2.7. Productivity in ARGH rose by some 20% during 1983 and is now running at over 12 cars/man/year. (In some months during 1983 productivity of over 14 cars/man/year has been achieved - well ahead of current French performance and at or above the European average: an outstanding achievement considering BL's record in the 1970's.)

Unipart

2.8. Unipart improved its trading profit from £14.3m in 1982 to £17.0m in 1982, despite an only marginal increase in sales revenue from £339m (of which £253m was in the UK) to £342m (£256m in the UK). This increase in sales revenue, though small, exceeded expectations (in fact a decrease of £10m had been foreseen) and has been achieved with a smaller workforce (4,600) than was forecast in the Plan (5,000). Given the strong growth in the UK car market during 1983, which should to some extent have fed through to Unipart's sales revenues, the increase in revenue is perhaps somewhat disappointing. However, as with other parts manufacturers Unipart depends for a significant proportion of its revenue, and for an even larger proportion of its profits, on the aftermarket, which can be expected to lag the new car market for obvious reasons. As forecast in the 1983 Plan, export sales revenues increased only marginally on the disappointing 1982 level during the year, reflecting in particular the continuing economic difficulties in major Middle Eastern and African markets.

Jaguar

2.9. Jaguar's sales volumes increased from 21,400 units in 1982 to 28,500 units in 1983 (2,500 units more than forecast in the 1983 Plan). Within the overall increase in sales revenue from £327m in 1982 to £490m in 1983 (Plan forecast £356m), domestic sales revenue increased by 25% from £152m to £191m and export sales revenue by 70% from £175m to £298m, reflecting in large part the continued strength of the US dollar.

2.10. Jaguar's trading profit of £55m exceeded the 1983 Plan forecast by £45m. The main reason for this variance was the stronger than expected US dollar, which averaged $1.52 = £1 over the year as against the Plan forecast of $2.05 = £1. Even if Jaguar's sales volumes in the USA had only achieved Plan forecasts, rather than exceeding them as they did, the exchange rate effect would have increased the company's profits by some £28m.

2.11. Productivity at Jaguar continued to improve during 1983: it averaged about 3.4 cars/man/year over the year (broadly in line with the 1983 Plan forecast), as against 2.96 cars/man/year in 1982.

Land Rover (UK) Ltd

2.12. Land Rover continued to suffer during 1983 from depressed conditions in its main overseas markets. Sales revenues, at £369m, were only 81% of the Plan forecast of £453m. Export sales volumes of Land Rovers totalled only 19,100 units, just over 50% of the 1983 Plan forecast of 37,800 units and nearly 40% below the export volumes achieved in 1982.

The main reason for this decline in export sales does not appear to be any shortcoming in Land Rover's products - the new One Ten was launched in March and has been favourably received both at home and abroad - but that many of Land Rover's most important markets in Africa and the Middle East continue to suffer from economic difficulties and a lack of foreign exchange. Land Rover has tried to compensate for this by attempting to export more to Europe, but European margins are much smaller and profitability is therefore reduced.

2.13. Within Land Rover UK, Freight Rover recorded a small trading profit of £0.2m in 1983, £1m better than expected and a substantial improvement on the 1982 trading loss of £(2.3)m. Sales volumes, at 15,800 units, comfortably exceeded the 1983 Plan forecast of 13,400 units, and the Sherpa K2 achieved a 22.3% share of the PV2 (panel van up to 2.5 tons) market as against 16.6% in 1982 and a 1983 Plan forecast of 19.5%. The new, wide-bodied Sherpa MT210 was introduced late in the year, in only a limited number of variants at first, and has so far made little impact on the market.

Land Rover - Leyland International Holdings (LRLIH)

2.14. LRLIH is a newly formed subsidiary of Land Rover-Leyland and includes all the group's overseas subsidiaries. The two largest subsidiaries are Ashok Leyland in India and Leyland South Africa: there are also a number of other assembly plants, mostly in Africa. There is frequently a local minority holding in LRLIH subsidiaries.

2.15 LRLIH's trading profit of £18m fell £(13.5)m short of the 1983 budget figure of £31.5m (1983 Plan forecasts are not available because of organisational changes within Land Rover-Leyland). This shortfall against budget can largely be attributed to two companies within LRLIH:

a) Ashok Leyland, in India, has suffered because of the depressed Indian trading conditions resulting from severe credit restrictions and the monsoon failures and drought, which seriously affected agriculture, the main economic stimulant to market growth.

b) Leyland South Africa has been seriously affected by the recession in the South African economy. This was reflected in the extremely competitive trading conditions in the commercial vehicle market, with the TIV some 25% below 1982 levels and margins under severe pressure. Full year BL unit sales were 85% of budget at 5,800, although sub-contract assembly units were 64% above budget at 8,000.

III THE FINANCIAL PROSPECTS FOR BL AS A WHOLE

3.1 This discussion of BL's overall forecast results relates to the company as it is presently constituted, including Jaguar, so as to allow comparison with the 1983 Plan. However, in setting financial objectives for 1984 and later it will be necessary to take account of the effect on these forecasts of the various privatisation actions foreseen, most immediately the sale of Jaguar.

3.2 The 1983 Corporate Plan showed BL returning to profit before tax in 1984 and achieving a cumulative profit before tax of £644m in the period 1984-87. In the 1984 Plan the return to profit before tax is deferred to 1985 and the cumulative profit in the period 1984-87 is reduced to £304m. This overall deterioration obscures movements in opposite directions within Cars Operations and Land Rover-Leyland. The 1984 Plan for Cars Operations shows a distinct improvement over the 1983 Plan, with a pre-tax profit first achieved in 1984 rather than 1985 and with cumulative pre-tax profits over the period 1984-87 rising from £68m in the 1983 Plan to £348m. However, this improvement is more than offset by the deterioration in the forecast results for Land Rover-Leyland, where the return to pre-tax profit has been deferred from 1984 to 1986, and a 1984-87 cumulative pre-tax profit of £576m in the 1983 Plan has turned into a cumulative loss of £(39)m.

3.3 The profit forecasts can be broken down by operating company as follows:

FORECAST PROFIT/(LOSS) - £M

	1984	1985	1986	1987	1988	Total 1984-88
Trading profits						
ARGH	18	46	56	89	105	314
Jaguar	51	26	66	85	100	328
Unipart	19	22	25	28	31	125
Land Rover	3	31	49	50	52	185
Leyland Vehicles Ltd (LVL)	(42)	(17)	3	14	36	(6)
LRLIH	6	20	27	36	42	131
Other companies/ consolidation	(3)	(1)	(1)	-	1	(4)
Total BL trading profit	52	127	225	302	367	1073
Interest charges	(88)	(101)	(107)	(106)	(106)	(508)
Total BL profit after interest and before tax	(36)	26	118	196	261	(565)

Over the period 1984-87, the differences in profit forecasts between the 1984 Plan and the 1983 Plan can be broken down as follows:

1984 PLAN PROFIT FORECASTS BETTER/(WORSE) THAN 1983 PLAN (£M)

	1984	1985	1986	1987	Total 1984-87
Trading profits					
Cars Operations	59	18	36	68	181
Land Rover-Leyland	(149)	(151)	(129)	(118)	(547)
Other companies/consolidation	1	3	2	-	6
Interest charges	29	21	5	(10)	45
Total BL profit before tax	(60)	(109)	(86)	(60)	(315)

3.4 Although cashflow over the Plan period is also worse than in the 1983 Plan, the deterioration is less marked than for profit: over the period 1984-87, a cash outflow of £(191)m is forecast, £(109)m worse than the 1983 forecast. The cashflow forecasts, broken down by operating company are as follows:

FORECAST OPERATING CASHFLOW IN/(OUT)[1] (£M)

	1984	1985	1986	1987	1988	Total 1984-88
ARGH	(84)	(31)	7	30	28	(51)
Jaguar	5	7	5	9	20	46
Unipart	28	12	17	20	22	100
Land Rover	(16)	8	55	41	37	125
Leyland	(31)	(20)	(5)	18	27	(11)
LRLIH	1	1	5	(5)	(5)	(3)
Other companies/consolidation	8	24	14	6	12	63
Interest charges	(88)	(101)	(107)	(106)	(106)	(508)
Asset reduction on Ashok deconsolidation[2]	83	-	-	-	-	83
BL TOTAL	(95)	(100)	(9)	13	35	(156)

Note:

1. ie excluding interest charges/receipts (which in the BL accounts are somewhat arbitrarily allocated between operating companies but which are shown here as a separate item).

Note:
2. During 1984 BL's holding in Ashok Leyland (India) will fall below 50% in consequence of the issue to Indian shareholders of a convertible debenture. The deconsolidation of Ashok from BL's accounts generates an apparent cash inflow of £83m in 1984; but because this does not represent a movement of funds it is separately identified above.

As for profits, the cashflow forecasts for Cars Operations in the 1984 Plan are better than those in the 1983 Plan, but this improvement is more than outweighed by the deterioration in the forecasts for Land Rover-Leyland.

1984 PLAN CASHFLOW FORECASTS BETTER/(WORSE) THAN 1983 PLAN (£M)

	1984	1985	1986	1987	Total 1984-87
Cars Operations	46	26	(5)	39	106
Land Rover-Leyland[1]	(80)	(135)	(72)	(51)	(338)
Other companies/ consolidation	30	(3)	8	5	40
Ashok deconsolidation	83	-	-	-	83
BL TOTAL	79	(112)	(69)	(7)	(109)

Note:
1. Excluding the effect of Ashok deconsolidation.

BL ECONOMIC ASSUMPTIONS

3.5 BL's economic assumptions were discussed with Treasury Economists last year. However, partly due to subsequent developments eg the Budget, there are some differences between BL and Treasury forecasts. The Treasury now regard BL's forecasts of GDP, manufacturing output and consumer spending as on the pessimistic side. Their inflation, earnings and interest rate forecasts are also pessimistic. On exchange rates the Treasury are forecasting that sterling will be weaker against the US dollar but stronger against European currencies than BL.

3.6 If domestic prospects are better than BL assume this should have a favourable impact on the Corporate Plan. On the other hand if sterling is stronger than BL expect compared to European currencies this will have adverse effects on BL's competitive position in both domestic and overseas markets. The overall effect of the differences is difficult to judge with more bullish domestic prospects tending to be offset by an adverse exchange rate effect.

CONCLUSIONS

3.7 For the first time in many years BL does not expect to need any injections of Government equity over the Plan period. Instead its activities will be financed from profits, the proceeds of privatisation, and borrowing. However, BL's borrowings will be against the surety of the Varley-Marshall assurances and cannot be regarded as a purely commercial source of funds. We believe that there will be a need in the years ahead for some means of controlling BL's borrowings so as to simulate in some way the capital constraints imposed on commercial businesses by the market.

3.8 The Memorandum of Understanding between the Government and BL envisages that the Government will establish short-term financial objectives, as well as long-term strategic objectives, for the company. It has been the practice so far to set objectives based on the limitation of losses and on the restriction of drawdown of Government equity. Neither of these concepts is any longer relevant to BL, and the financial objectives for 1985 and later years will have to be on a different basis than in previous years. One suitable form of objective may be the establishment of a target rate of return on assets. But we also recommend that the objectives should take into account the fact that the company's borrowing is in effect against the Government's credit. Apart from achieving the objective set out in paragraph 3.7, this would also provide the opportunity for limiting, and in due course reducing, the Government's exposure under the Varley-Marshall assurances.

IV AUSTIN ROVER GROUP HOLDINGS (ARGH)

Business plans

4.1 The 1983 Corporate Plan for ARGH included a product strategy based on at least five different models on three distinct vehicle platforms. In the 1984 Plan the strategy has been developed and simplified so as to increase the market coverage while reducing the number of vehicle platforms to two. The strategy now aims at the development by the late 1980s of two distinct vehicle families: one family would cover the small and lower medium sectors, while the second would cover the upper medium and executive sectors. [redacted] Within each family the models would share essentially the same basic structure, although short wheelbase (swb) models would have a fillet cut out of the middle; and variations between models would largely be achieved by means of panel modifications. The objective is to arrive by the end of the 1980s at the following model line up:

Small/lower medium family

swb	AR6 (Metro replacement)
Long Wheelbase (lwb)	AR5 (booted, Acclaim replacement)
	AR7 (hatchback, Maestro replacement).

Upper medium/executive family

swb	AR17 (booted, Montego replacement)
	AR16 (hatchback, Ambassador replacement).
lwb	XX (booted and hatchback, Rover replacement).

These models would give ARGH coverage of nearly all the important market sectors, as the following table shows:

Sector	Sector share of total market	4-door variants		5-door variants		3-door variants		Other
		Share of sector*	ARGH model	Share of sector*	ARGH model	Share of sector*	ARGH model	ARGH model
Small	25.1%	-	-	10%	AR6	90%	AR6	-
Lower medium	33.4%	20%	AR5	40%	AR7	25%	AR7	-
Upper medium	27.0%	45%	AR17	35%	AR16	-	-	AR17 estate
Executive	7.5%	50%	XX	25%	XX	-	-	XX Coupe

* estimate

4.2 The upper medium/executive family is to be derived downwards from the XX, which is itself due for introduction in 1985. The small/lower medium family is to be designed upwards from the AR6, which is planned for introduction in 1988. The launch dates currently forseen for the models are as follows:

Small/lower medium family

AR6	Mid-1988
AR5	Mid-1989
AR7	Early 1991.

Upper medium/executive family

XX	Late 1985
AR16	Late 1987
AR17	Early 1989.

In the interim, there will be changes to existing models to enhance their marketability. Among major developments, a Metro facelift and five-door derivative will be launched in 1984, as will an Acclaim facelift; and a Maestro facelift will be introduced in 1987.

4.3 The increased market coverage provided by this model strategy is expected to lead to an increase in market share from 18.0% in 1984 to 23.5% by the end of the decade, slightly better than foreseen in the 1983 Corporate Plan:

ARGH UK Market Share (%)

	1984	1985	1986	1987	1988	1989	1990	1991
1984 Plan	20.0	22.0	23.2	23.4	23.4	23.5	23.5	23.5
Better/(worse) than 1983 Plan	(0.4)	(0.4)	0.8	1.0	N/A	N/A	N/A	N/A

ARGH are also forecasting generally higher market sizes than previously over the Plan period, with the result that forecast UK sales volumes exceed those foreseen in the 1983 Plan.

UK Sales Volumes (000 units)

	1983	1984	1985	1986	1987	1988
1984 Plan	320	350	381	376	398	412
Better/(worse) than 1983 Plan	33	13	34	18	40	N/A

4.4 ARGH are also planning to devote major efforts to exporting:

Export volumes (000)

1983	1984	1985	1986	1987	1988
112	110	153	170	161	173

Most of this export growth is expected to be in sales to Continental Europe, although the XX is also to be sold in the USA. Within Europe, ARGH will be concentrating on France, Italy and Germany, which account for 70% of Europe's volume potential and where margins tend to be higher than in smaller markets where there are no indigenous vehicle manufacturers. The Maestro, Montego, XX, Acclaim facelift and 5-door Metro are all expected to contribute to this export growth - the last particularly in France and Italy, where the Metro has already achieved some success and 5-door small cars are particularly popular. ARGH admit that an increase in exports to these countries on the scale envisaged is a substantial task: the company's image suffered abroad during the 1970s at least as much as it did in the UK, and the recent improvement of image in the UK has not yet been reflected abroad. Nonetheless, ARGH feel that as they re-establish a reputation for quality and reliability the export volumes projected are achievable. In support of the export effort ARGH are rationalising and developing their dealer networks in Europe; and an extensive rally and motor sport programme is envisaged to help overcome the company's image problem.

4.5 Manpower in ARGH is forecast to rise slightly in 1984 and 1985 and then to decline slightly for the remainder of the Plan period. Productivity is expected to continue the strong improving trend of recent years, although at a slightly slower pace than foreseen in the 1983 Plan:-

	1981	1982	1983	1984	1985	1986	1987	1988
Manpower (000)	51	41.5	41.9	42.4	43.2	42.2	41.7	41.2
Productivity (Cars/man/ year)	8.0	9.5	12.0	12.6	14.3	14.6	15.3	16.2
Productivity higher/(lower) than in 1983 Plan	-	-	(0.1)	(1.4)	0.1	(0.5)	(0.3)	N/A.

Capital expenditure over the Plan period is expected to be rather higher than foreseen in the 1983 Plan:-

Capital expenditure (£m)	1982	1983	1984	1985	1986	1987	1988	1984-87 total
1984 Plan	92	112	173	167	181	216	242	737
1983 Plan	109	129	152	138	113	197	N/A	600
1984 Plan higher/(lower) than 1983 Plan	(17)	(17)	21	29	68	19	N/A	137

In the early years, the major part of this increase in capital expenditure can be attributed to increased levels of non-product expenditure, that is to say, cost-saving projects designed to improve efficiency across the product range but not associated with any one model launch. This increased capital expenditure is expected to be offset, mostly by improved profits, so that the cash outflow over the Plan period is expected to be slightly less than in the 1983 Plan:

	1982	1983	1984	1985	1986	1987	1988	1984-87 total
Profit/(loss) before tax (£m)								
1984 Plan	(129)	(26)	(20)	5	8	34	46	27
1983 Plan	(169)	(122)	(68)	(46)	(21)	(8)	N/A	(143)
1984 Plan better/(worse) than 1983 Plan	35	96	48	51	29	42	N/A	170
Cashflow in/(out) (£m)								
1984 Plan	(150)	(92)	(123)	(72)	(41)	(25)	(31)	(261)
1983 Plan	(293)	(206)	(132)	(78)	(18)	(55)	N/A	(283)
1984 Plan better/(worse) than 1983 Plan	143	114	9	6	(23)	30	N/A	22

Risks

4.6 ARGH's recovery plan depends heavily on an increase in market share from 18.0% in 1983 to 23.2% by 1986. The first stage of this increase depends on an increase in the market share of Maestro (from a running rate of 4.4% in 1983 to 5.5% in 1984, falling back to 4.8% thereafter) and the capture of a substantial portion of the market by Montego (5.4% by 1985); subsequent growth in the Plan period depends on the XX, which is forecast to capture around 2.5% of the market (nearly twice as much as the Rover, which it is replacing). These are demanding targets, against the background of fierce competition from Vauxhall and Ford. However, Maestro has achieved a 5.25% market share in the first three months of 1984, while Metro is once again outselling its target (of 6.2%) with a market share of 8.0%. If this pace can be maintained there seems to us to be a reasonable chance that ARGH's targets will be achieved. If they are missed, however, the effect on ARGH's profitability would be serious: BL estimate that a 5% volume shortfall in ARGH's UK sales over the Plan period would reduce the company's trading profit by some £25m in 1984 rising to £38m in 1988.

4.7 Of the other risks over which ARGH has some influence, if not control, the main one seems to be the risk of prolonged industrial unrest. Although there may be difficulties over the pay negotiations in the Autumn - the first for two years - we believe this risk to be lower than in previous years. The rapid resolution of a recent dispute at Longbridge, superficially similar (in the triviality of its cause) may be an indicator of improving employee relations. The remaining risks to ARGH's recovery are largely outside ARGH's control: the level of economic activity (and its effect on TIV) and the exchange rate (particularly against other European currencies) are perhaps the most important. As noted in paragraphs 3.5-3.6 above, we believe ARGH's domestic forecasts to be a little pessimistic and their exchange rate forecasts a little optimistic. We cannot at this stage judge the effect on ARGH's profits if Treasury, rather than BL, expectations are realised.

4.8 There might also be a risk to ARGH if UK car prices had to be held down in response to EC action to narrow the price differential between the UK and Continental Europe. In fact, ARGH's forecasts imply a narrowing of the differential over the Plan period, partly because of an ARGH policy of matching Continental inflation but pricing slightly below UK inflation, and partly because of the assumptions made about the exchange rate of sterling against European currencies. The exchange rate changes which are expected to contribute to this narrowing of differentials would in any event have some beneficial effects on UK producers as against Continental producers; and Japanese pricing pressure would be reduced. If differentials were to be artificially reduced further than is expected, ARGH's belief is that volume car manufacturers, few of whom are making very substantial profits, would in practice tend to level prices up rather than down; and that the effect of a reduced differential would therefore be minimal. Whilst this may be over-optimistic, it is certainly possible that any reductions in UK prices would be partly offset by increases in Continental prices, so increasing ARGH's export earnings and compensating in part for reduced domestic revenue. It is also relevant that a reduction in the differential would make the UK a less attractive market for foreign manufacturers, and could therefore provide ARGH with an opportunity to increase market share.

Conclusion

4.9 ARGH is continuing broadly on the path set out in previous Plans, and its projected results - which are rather better than was foreseen last year - appear to be reasonably achievable. Our major doubt concerns ARGH's ability to fund from its own resources or from borrowing on its own credit (rather than against the Varley-Marshall assurances) the substantial capital expenditure foreseen throughout and beyond the Plan period. We have asked ARGH whether it would be possible to reduce the number of planned models or take other steps to reduce the capital investment required. We have been told that the achievement of the market share forecasts in the Plan depends on achieving the market sector coverage illustrated in paragraph 4.1 above. ARGH believe that if anything there is insufficient capital expenditure planned for engine and gearbox development. We recognise the force of ARGH's arguments, but believe nonetheless that the company's capital expenditure programme should be kept under careful review in order to see whether there is any possibility of reducing it, for instance, by increased collaboration. Individual capital projects which fall for the Government's approval - that is, those costing over £25m - should be appraised against this background. We believe that a revised financial objective of the kind recommended above (in paragraph 3.8) will in fact encourage BL to take a similarly critical view of investment projects.

Privatisation

4.10 The results in the Corporate Plan do not suggest that privatisation of ARGH as it stands is very likely within the Plan period: the Board themselves assess the possibility as "fragile". We have therefore explored with BL whether it would be possible to proceed towards privatisation by establishing joint companies with collaborative partners (assuming the partners to be willing, on which we have no evidence one way or the other) to produce collaborative models, starting with the XX. Their view is that this would not be a feasible course of action. They have pointed out that, following the rationalisation programmes of recent years, ARGH's operations are highly integrated, so that many facilities are common to several models and could not be allocated to individual models and transferred to joint companies of the kind proposed. Examples include the panel press shop at Swindon, the foundry at Longbridge and the paint shops at Cowley and Longbridge. Almost the only tangible assets which could be transferred to such joint companies would be the final assembly line. Even this would require an arbitrary division of factory space and overheads between ARGH and the joint companies, and it does not appear practicable. It might be possible to form joint companies to handle sales and marketing of collaborative models: but this would deprive ARGH of a sizeable part of its profits and would not be commercially acceptable.

4.11 We have also asked BL whether there is any prospect of a collaborative partner investing equity in ARGH itself. They have told us they do not see this as likely within the next few years, during which period the business is not expected to be profitable enough to attract equity funds from anyone, whether collaborative partners or not. Nor is it yet clear that ARGH's collaborative future lies exclusively with one company (Honda); for instance, engine collaboration might well be with some other company, and future model collaboration might be with more than one company. The best privatisation strategy, they argue, is to continue to improve the company's profitability to a level at which it could hope to raise capital on ordinary commercial terms. Collaboration, to which they are fully committed in appropriate cases, is seen as a means to this end rather than as a means of securing direct equity participation by a collaborative partner.

Recommendation

4.12 We accept the force of BL's arguments on this subject. Nonetheless, we recommend that the Board should be asked, in its 1985 Corporate Plan, to bring forward proposals, taking account of the development of the company's collaborative strategy to improve so far as possible the prospect of privatising ARGH at an earlier stage than is now foreseen.

V UNIPART

Business plans

5.1 Unipart's profits are forecast to grow slightly less quickly than was foreseen in the 1983 Corporate Plan:

Profit before tax (£m)

	1982	1983	1984	1985	1986	1987	1988	Total 1984-87
1984 Plan	3	17	18	24	28	33	39	103
1983 Plan	6	16	21	26	30	34	N/A	111
1984 Plan better/ (worse) than 1983 Plan	(3)	1	(3)	(2)	(2)	(1)	N/A	(8)

All three main divisions of Unipart contribute to this increase in profits; Unipart International, the aftermarket distribution operation; Unipart Contract Services, offering a replacement parts warehousing, control and distribution service to vehicle manufacturers (initially all BL product companies, but with the intention of diversifying); and SU Butec, the parts manufacturing division:

Profit before tax by division (£m)

	1983	1984	1985	1986	1987	1988
Unipart International	6.0	7.1	8.7	10.8	12.6	14.3
Unipart Contract Services	8.0	11.0	13.0	15.0	17.0	21.0
SU Butec	1.9	2.0	3.2	3.7	4.7	5.3

5.2 Partly in order to achieve the above results against the background of a BL vehicle parc which has been in decline for several years and can only be expected to recover gradually, and partly in order to prepare the company better for privatisation, all three divisions are taking steps to reduce their dependence on BL companies (and in particular on ARGH). Thus:

a. Unipart International is concentrating its attention on the "all-makes" aftermarket.

b. Unipart Contract Services will initially be handling only BL companies' replacement parts business, but is hoping to offer similar services to other vehicle companies in the future. In the longer term the company intends to diversify beyond vehicle parts: potential markets where the company's particular skills could be profitably applied are said to include consumer durables, electronic machinery and leisure equipment.

c. SU Butec, apart from developing its "all-makes" range of aftermarket parts, intends to seek contracts to supply other vehicle manufacturers with equipment.

5.3 Over the Plan period, Unipart International is seeking to increase its turnover of "all-makes" parts from £107m (in 1983) to £135m (in 1988), an increase of 26%. This may not be easily achievable in a market which is expected to remain broadly static, as longer service intervals and greater reliability counterbalance the expected increase in the size of the vehicle parc. Unipart Contract Services, being dependent initially on BL parts, is vulnerable to the risk that demand may be lower than expected if the BL product companies' sales targets are missed. On the other hand, the forecasts for Contract Services make no allowance for revenue from the planned diversification. We think it unlikely that any other vehicle company will allow Unipart, closely linked to BL as it is bound to be for some years, to handle its replacement parts business; but the chances of diversifying outside the vehicle sector may be more promising. SU Butec too assumes increased turnover (from £72m in 1983 to £100m in 1988) in a broadly static market. About half of this expected increase can be attributed to inflation: in volume terms, the main areas of growth are expected to be in non-BL original equipment sales, up by some 150% by 1988 (though still by then constituting less than 20% of SU Butec's business).

Conclusions

5.4 Over Unipart as a whole, there hangs the major handicap of a static market resulting from larger service intervals and improved reliability, into which all divisions must make further inroads if they are to achieve their Plan. This depends above all on being price competitive and improving the cost effectiveness of manufacturing, storage and distribution systems. This is clearly well understood by Unipart, as is illustrated by the use of modern manufacturing techniques within SU Butec and of computerised warehousing in Contract Services; and, given the company's recent record, we believe the forecasts contained in the Plan to be reasonably achievable.

Privatisation

5.5 The Board's preferred strategy for Unipart privatisation is based on a perception that the company as it is presently constituted, with a very heavy dependence on BL and particularly on ARGH would be viewed by the market as unattractive and that a correspondingly poor price would be obtained. The Plan suggests that it would be possible to overcome this disadvantage by widening Unipart's distribution (and possibly product) base before privatisation by merger with other component companies. The two companies which have been identified are Edmunds Walker (EW) a distribution subsidiary of Associated Engineering (AE), and Quinton Hazell, a manufacturing and distribution subsidiary of Burmah Oil. EW's turnover is about one-sixth, and Quinton Hazell's one-third, of that of Unipart. Since submitting the Plan, Sir Austin Bide has written to the Secretary of State for Trade and Industry (copy at Annex A) formally seeking agreement to the acquisition of EW for up to £20m cash as the first stage in this process.

5.6 Discussion in the Group has revealed deep and widely held concerns (though not a unanimous view) that the proposed separation of Unipart from the rest of BL may not be to the advantage of either Unipart or the remaining companies within BL. If Unipart is separated from BL, ARGH will (so far as we can establish) be the only volume car manufacturer in the world without full ownership and control of its parts distributor. This prospect is viewed with considerable scepticism throughout the motor industry. There is a strong possibility that over time the product companies will gradually rebuild their own parts organisations and that Unipart will eventually be left only its non-BL business. Nonetheless, apart from Jaguar, Unipart presents the only prospect of early privatisation (as promised by BL in 1982) of a substantial business, and we have appraised the Board's proposals on that basis.

5.7 The vehicle parts aftermarket in which Unipart operates is divided into a number of sectors:

a. Franchise workshops are operated by dealers franchised by the vehicle manufacturers and carry out repairs on the franchising manufacturer's vehicles only. (For repairs under warranty it is a condition that franchise workshops are used). They are supplied by the manufacturer's parts distributor - for BL companies, Unipart Contract Services. Franchise workshops account for about 33% of all sales of parts for incorporation in BL vehicles.

b. The independent motor trade includes independent garages, not franchised as dealers, carrying out repairs on any make of vehicle. The stocks held by these garages are fairly small, and they are supplied by factors who purchase and warehouse a wide range of parts, some of them "all-makes" parts. Unipart is not significantly represented in this sector, which accounts for about 38% of all parts sales.

c. The DIY retail trade comprises High Street shops selling a wide range of components, many of them "all-makes" parts, to individual motorists. Unipart is represented in this sector by Unipart International. DIY sales account for about 12% of all parts sales.

d. Fleet operators often do their own repairs, and account for some 9% of parts sales.

e. Free-fit and specialist centres offer quick replacement or repair of specific items (eg exhausts, tyres), often using "all-makes" parts. This sector, in which Unipart is represented by Unipart International, accounts for about 7% of parts sales.

The proposed acquisition of EW, whose outlets are mostly in the independent motor trade, is intended to enhance Unipart's coverage of the market. The acquisition would increase very substantially the effective market available to Unipart Contract Services, and would provide additional outlets for the "all-makes" parts manufactured by SU Butec or procured by Unipart International. At the same time costs would be controlled by rationalising the Unipart and EW warehousing, distribution and administrative networks.

5.8 We are not entirely convinced that the dependence of Unipart on ARGH, substantial though it undoubtedly is, would be quite as unappealing to the market as BL believe. The Board themselves point out that the contracts concluded between ARGH and Unipart would not be terminable until 1988, and only after two years' notice, which would give Unipart plenty of time to take corrective action; and the contracts could only be terminated at some considerable cost to ARGH, who would have to find some other way of distributing spare parts (probably by re-establishing their own distribution network). It would, in our view, probably be possible to privatise Unipart as it is, although the perceived dependence on ARGH might depress the proceeds. But we are convinced that the proposed acquisition of EW, by providing Unipart with a more diversified distribution base, would considerably enhance Unipart's attractiveness, provided of course that Unipart management can demonstrate their ability to turn EW round into profit and that the prospects for a successful privatisation would be better after a merger than before.

5.9 The question then arises how a merger should be effected. There seem to be three main options, although variants could be devised. The simplest option, in commercial terms, would be a straightforward acquisition by Unipart for cash. The Board have expressed a strong preference for this course. Second, it might be possible to arrange that no cash changed hands but that each parent company took shares in the merged company proportionate to the respective value of the companies merged. A third option would involve a third party, possibly a consortium of institutions, who might purchase the "target" company and then arrange a cashless merger with Unipart along the lines of the second option. In both the second and the third options, we would expect the non-BL party holding shares in the merged company to seek to realise its investment at the time of privatisation. The Board's view is that these options would be unnecessarily complex and almost certainly more expensive than acquisition for cash.

5.10 The question whether any or all of these options is acceptable as a precursor to privatisation is essentially a political one. The first option, acquisition for cash, could be seen by some as "back-door nationalisation", and it would certainly be seen as an unconventional precursor to privatisation. In our view, however, given the commercial justification, it would be acceptable if it was accompanied by a clear undertaking by the Board (and possibly a public statement) that the merged entity would be privatised by, say, mid-1985, barring a major downturn in the market in the meantime.

5.11 The second and third options, although considerably more complex and commercially less attractive (to BL and the other parties) than the first, appear on their face to be more consistent with the overall privatisation policy. There is, however, a serious drawback. The putative external shareholder will, even if there is a guaranteed redemption of his investment by privatisation, wish to be compensated for the risk he bears in the meantime, probably be taking a larger than proportionate share in the merged company. Thus the proceeds to BL on privatisation would be reduced when privatisation took place, probably by more than the cash BL would otherwise have paid for EW in the event of a cash acquisition. If, for any reason, privatisation were deferred and BL were obliged to buy out the external shareholder, it is by the same token likely that the cost to BL would be greater than the cost of a straightforward acquisition now. We believe it is for these reasons that the Board has dismissed these options as being "complex, time-consuming to implement and expensive" (see Annex A).

5.12 To summarise, the Board have identified two major options for the privatisation of Unipart. The first is privatisation of the company as it stands. The second involves the prior acquisition of EW and the subsequent privatisation of the merged entity. We believe that the acquisition proposed under this second option would be a useful step towards privatisation, and we recommend that the BL Board should be authorised to negotiate a simple purchase for cash of EW, so long as a suitably binding commitment on the subsequent privatisation of Unipart can be agreed. We have not been able to take a view on whether the proposed price of about £20m is reasonable (although it is not obviously unreasonable, given EW's net assets of £22.4m) but this is not a matter on which a view need be taken in advance of the Board's opening negotiations.

5.13 There are two other important questions which will need to be addressed in due course. One is whether privatisation should be by flotation on the stock market or by sale to a single buyer. Our initial view is that there is little chance of a UK company in the component industry making an acceptable offer for Unipart, two-thirds of whose turnover comes from distribution. This area of the business has been relatively unprofitable for some time, and some companies (eg AE) have publicly stated their intention of concentrating on manufacturing and if possible withdrawing from distribution. Similarly, the GKN bid for AE last year was aimed primarily at AE's manufacturing operations. Outside the component industry it is difficult to see who would find Unipart's business complementary to their own (and Burmah's publicly stated intention of disposing of QH may be a pointer to the likely attitude of non-vehicle companies to the component industry). However, one possibility which the Board have discarded, because they thought that it would be unacceptable to the Government, would be a sale to one of the large American component companies. The American vehicle industry does not demonstrate the same close dependence of particular distributors on particular vehicle manufacturers, so that there are a number of large independent distributors. Some of these might be interested in acquiring Unipart. This would avoid the disadvantage to BL of selling Unipart to the distribution arm of one of their domestic competitors; on the other hand, it would put the BL companies in the perhaps unattractive position of having their parts distribution network controlled from the USA. It could also lead to further import penetration of the UK car parts market. Against this background we believe that it would in all likelihood be necessary to privatise by way of flotation; but that the possibility and implications of finding a single buyer, whether British or foreign, should be investigated further.

5.14 The second major question will be whether BL should retain a minority stake in the privatised Unipart. The Corporate Plan suggests that BL may propose retaining a stake of around 40%. The reservations which we express above (in paragraph 5.6) about the implications of separating Unipart from the rest of BL will clearly be relevant when the time comes to consider this question. On the other hand, Ministers' decision against a residual BL holding in Jaguar suggests that they will wish to consider carefully whether the benefits, both to BL and to Unipart, of a retained minority shareholding might equally well be secured by means of appropriate contractual arrangements. No decision is needed on this point at this stage, but it does need to be raised with the Board as a matter to which Ministers will wish to pay attention.

Recommendations

5.15 We recommend:

a. that the Board should be given approval to proceed with negotiations for the purchase of EW from Associated Engineering, subject to the negotiation of a suitable binding commitment to proceed with Unipart privatisation by mid-1985 and subject also to final confirmation that the price is reasonable;

b. that the Board should be invited to bring forward as soon as possible detailed proposals as to how privatisation by mid-1985 might best be achieved, such proposals to take account not only of the relative merits of flotation and sale to a single party but also to the justification for the currently proposed retention by BL of a minority stake in Unipart.

VI LAND ROVER (UK) LIMITED (LR)

Business plans

6.1 The forecasts for LR in the 1984 Plan display a marked deterioration on those in the 1983 Plan:

Profit/(loss) before interest and tax* (£m)

	1982	1983	1984	1985	1986	1987	1988	Total 1984-87
1984 Plan	(2)	(14)	3	31	49	50	52	133
1983 Plan	3	17	30	48	63	64	N/A	205
1984 Plan better/(worse) than 1983 Plan	(5)	(31)	(27)	(17)	(14)	(14)	N/A	(72)

*1983 Plan figures for profit before tax are not available on a comparable basis.

This deterioration is primarily due to a further reduction in the level of expected export volumes of Land Rovers and Range Rovers:

Export volumes (000)

	1982	1983	1984	1985	1986	1987	1988
Range Rover							
Plan	10.4	9.5	11.1	11.8	12.8	13.0	13.4
Better/(worse) than 1983 Plan	(0.3)	(1.8)	(2.5)	(7.2)	(7.6)	(8.3)	N/A
Land Rover							
Plan	31.0	20.7	26.1	31.0	33.3	35.9	36.3
Better/(worse) than 1983 Plan	(0.7)	(17.1)	(15.7)	(13.6)	(13.4)	(11.0)	N/A

6.2 The reduced level of exports foreseen for Range Rover is almost entirely accounted for by the decision not to attempt to enter the North American market, at least for the time being. This reflects two main factors. First, their most recent market survey indicates a demand for about 3000 Range Rovers annually in North America, less than half the level projected in the 1983 Plan. At this level of sales the cost of adapting vehicles to US legislative requirements is prohibitive. Second, developments in the UK and other markets have been such that LR's engineering priorities have been changed: all available engineering resources are now being concentrated on developing the "Ninety" (see below) and other, less immediately necessary, projects have been deferred.

6.3 The reduced levels of Land Rover exports in the Plan are accounted for by two main factors. First, many of Land Rover's traditional markets, especially in Africa and the Middle East, are suffering severe economic problems and have cut back sharply on imports; and sales in these markets are expected to recover only slowly. In Nigeria, for instance, imports of Land Rovers (in the form of kits for local assembly) fell from 5,700 units in 1981 to 500 in 1982 and 300 in 1983, and are expected to rise to only 2000 units over the Plan period. To some extent this reduction in expectations is offset by the prospect of a local assembly operation in Algeria, which could lead to exports of over 2000 units per year by 1986. Second, the past few years have seen increased Japanese competition in the four-wheel drive (4 x 4) market world-wide. Many of the Japanese vehicles have been less robust than Land Rovers, and correspondingly cheaper: but they have been suitable for a number of less demanding applications for which Land Rovers have until recently been unrivalled. Some Japanese manufacturers are now also moving into the heavy duty sector which LR occupies, and this has led LR to review its product strategy.

6.4 LR's product strategy review is not yet complete: but its conclusions so far can be summed up as follows:

(a) The growth to date in the 4 x 4 market has been essentially product-led, with growth stimulated by the introduction of new, often fairly light and relatively inexpensive, models. LR is not represented in the sectors showing most rapid growth.

(b) There has also been some growth in the slightly up-market versions of some heavy duty vehicles - eg long wheelbase station wagons. In these sectors LR was suffering because of the excessively utilitarian appearance of its models.

(c) LR see little prospect of success, operating from a UK cost base and with the financial, engineering and management resources available to LR, in developing a model to compete head-on in the "new", lighter (and high volume) sectors. This would be an expensive project and would divert attention from developing the areas in which LR's strengths lie - eg durability, versatility and whole life costs in tough conditions.

(d) Nonetheless, LR do intend to assemble a light 4 x 4 vehicle, under licence from Suzuki, at their Santana plant in Spain, partly to fill empty capacity and partly as a test of its capabilities in this area. (Initial indications are that the Spanish Government will require a high level of local content in this vehicle. If not, the project could threaten the UK's local content policy on Japanese investment in the motor industry, and this development will have to be closely watched.

The review of product strategy is expected to be completed shortly; but some product actions have already been decided upon. Most importantly, LR has decided to concentrate engineering resources on the proposed "Ninety", a smaller (90" wheelbase) version of the One Ten (110" wheelbase) model introduced in 1983. The Ninety is to be introduced in mid-1984, and will replace the existing 88" wheelbase model, which LR believe is less able to compete in the growing leisure market (a belief which is borne out by a decline in sales of the 88"). The plan to develop the Ninety replaces a less ambitious plan to transfer some characteristics from the One Ten to the existing 88" model. At a more detailed level, LR will be increasing the specification of some heavy-duty models to meet the failing identified at (b) above.

6.5 LR have also reacted vigorously to the reduced export prospects by announcing an unexpectedly radical rationalisation of their facilities. At present production is spread over nine different sites, eight in the West Midlands and one at Pengam, Cardiff. Over the next two years, eight of these plants are to be closed and production is to be centered on the main plant at Solihull. There will be about 1600 redundancies. The rationalisation is expected to reduce the breakeven production level to 40,500 units annually. (Sales of Range Rovers and Land Rovers together in 1983 totalled 41,300 units). The rationalisation plan was announced, after consultation with the Government, in November 1983 and appears to have been accepted by the workforce.

Risks

6.6 The major risk is that export markets will not recover to the extent foreseen. Only a slow increase is foreseen for Range Rover exports: but Land Rover exports are expected to increase by 26% in 1984 and a further 19% in 1985. There must be some doubt whether such a rapid recovery can be achieved, especially if LR continues to be isolated from the light 4 x 4 sector which has shown strongest growth in recent years. On the other hand, the forecasts are still only for a recovery to a level somewhat below what has been achieved fairly recently.

Land Rover exports (000 units)

1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
33.4	38.1	35.6	31.0	20.7	26.1	31.0	33.3	35.9	36.3

Similarly, even in those African markets where, by virtue of their local assembly facilities, LR are in an entrenched position, sales are forecast to increase to levels lower than have been seen quite recently:

African exports by market (000 units)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Nigeria	2.6	5.7	0.5	0.3	0.4	2.0	2.0	2.0	2.5
South Africa	1.2	1.8	0.8	0.3	0.7	1.1	1.2	1.2	1.2
Zimbabwe	-	0.1	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Algeria	-	-	-	-	-	0.3	2.1	2.2	2.2
Other	3.6	3.2	1.3	0.7	0.7	1.3	1.4	1.5	1.5
TOTAL	7.4	10.8	3.0	1.7	2.3	5.2	7.2	7.9	7.9

It is difficult to assess accurately the risk that these forecasts will be missed; but, at least in the early years, it must be substantial. (It may be relevant to note that Leyland Trucks, who depend on many of the same markets, are forecasting a rather slower recovery of export volume in 1984 and 1985, especially in Africa).

6.7 In the longer term, we are concerned at the prospect that LR's product base may become too narrowly based to compete effectively in the market against an ever-growing Japanese threat. We acknowledge the force of LR's argument that they should concentrate on their strengths and not attempt to compete in areas where they have no expertise and where the LR reputation is not established. This strategy may well be the right one: but on the other hand it bears a disturbing resemblance to the strategy once pursued by the British motorcycle industry in the face of Japanese competition. The outcome of the current review of product strategy will clearly be crucial to LR's future.

Conclusions

6.8 The environment in which LR operate has continued to deteriorate. Economic difficulties continue to beset LR's traditional markets, and the company's export projections must be considered risky. We are concerned at the prospect of an undue narrowing of LR's market coverage, although on this we await the outcome of the current review of product strategy. Against this background we consider that there are clear risks to the achievement of the Plan. Although the new management in Land Rover have acted with considerable conviction in developing and implementing a rationalisation plan which matches fixed costs more closely to expected sales volumes, it is too soon to tell whether a similarly thorough approach will be applied to the other problems facing the business. We recommend that it should be a condition of approving the Plan that LR supply, at the latest in the 1985 Plan, a detailed review of their product and market strategy. Such a review will need to take into account the scope for collaboration with other vehicle manufacturers, and it will be highly relevant to the review of the scope for privatisation which we propose in paragraph 6.11 below.

Privatisation

6.9 As in the 1983 Corporate Plan, the Board's preferred strategy is to privatise Land Rover-Leyland as a single entity. However, because of deterioration within both Land Rover and Leyland Vehicles, the forecast performance of the Group is now considerably worse than in the 1983 Plan. The Group is not now expected to return to profit before tax until 1986, and on the Board's own assessment (which we accept) the projected performance of the Group would be unlikely to warrant privatisation before 1987 or 1988. It does not seem acceptable to us that the preferred strategy should involve such a lengthy delay before privatisation is achieved unless all the alternatives have been thoroughly explored and found to be unacceptable.

6.10 We have therefore asked BL for an appraisal of the options for privatising Land Rover on its own. In reply they have pointed out that the deterioration in Land Rover's prospects means that it is unlikely that privatisation could in any event take place before 1986. More broadly, they have argued that to sell off Land Rover separately would undermine Leyland Trucks and accelerate its decline (frustrating the decision Ministers have taken to reject the closure option for Leyland Trucks), and could also damage Land Rover. There are two important links between Land Rover and Leyland Trucks: Freight Rover's and Leyland Trucks' UK distribution networks are closely linked and require continued joint franchising to remain viable; while Freight Rover needs continued close links with Land Rover because of the increasing level of component commonality. Similarly, both Land Rover and Leyland Trucks depend for a considerable proportion of their exports on the overseas assembly plants owned by Land Rover-Leyland International Holdings (LRLIH), which in turn require volume from both companies in order to be viable. If Land Rover were sold to another vehicle manufacturer, which BL see as the most likely prospect, they think it unlikely that either link would survive. It is conceivable, they argue, that such a purchaser would also purchase LRLIH because of the protected position that company enjoys in a number of markets: but if so, it would be in an attempt to gain entry to the market for its own trucks, not Leyland's. Similarly, they argue that a purchaser of Land Rover would distribute Freight Rover through its own distributors to the probably fatal detriment of Leyland Trucks.

Recommendation

6.11 These are powerful arguments, reflecting strongly held views within BL. But we are not convinced that they are, as BL claim, sufficiently strong to lead to the conclusion that Land Rover-Leyland should be kept together with a view to privatisation in 1987 or later. We recommend therefore that the Board should be asked to prepare, within a specified timescale, a study of the steps that would be needed to turn Land Rover, with or without LRLIH, into a separately sellable entity, with an indication of the timescale in which they could be accomplished. The study should take into account the possibility of proceeding towards privatisation by collaboration and/or merger with another company with capacities complementary to those of LR, particularly in the light 4 x 4 sector. The study should also include a full analysis of the effects of separate privatisation of Land Rover on Leyland Vehicles. Such a study would provide the basis for a full review of the privatisation options within Land Rover-Leyland.

VII SUMMARY OF RECOMMENDATIONS

Financial objectives for BL as a whole

7.1 We recommend that BL's financial objectives for 1985 and subsequent years should take account of the fact that the company's borrowing is in effect against the Government's credit, both so as to simulate the capital constraints imposed on commercial businesses by the market and so as to provide the opportunity for limiting, and in due course reducing, the Government's exposure under the Varley-Marshall assurances. (Paragraph 3.8).

Austin Rover Group Holdings Ltd (ARGH)

7.2 We recommend that the Board should be asked, in its 1985 Corporate Plan, to bring forward proposals, taking account of the company's collaborative strategy, to improve so far as possible the prospect of privatising ARGH at an earlier stage than is now foreseen. (Paragraph 4.12).

Unipart

7.3 We recommend:

a. that the Board should be given approval to proceed with negotiations for the purchase of Edmunds Walker from Associated Engineering, subject to the negotiation of a suitable binding commitment to proceed with Unipart privatisation by mid-1985 and subject also to final confirmation that the price is reasonable; and

b. that the Board should be invited to bring forward as soon as possible detailed proposals as to how privatisation by mid-1985 might best be achieved, such proposals to take account not only of the relative merits of flotation and sale to a single party but also to the justification for the currently proposed retention by BL of a minority stake in Unipart. (Paragraph 5.14).

Land Rover (UK) Ltd

7.4 We recommend that Land Rover should be asked to supply, at the latest in the 1985 Plan, a detailed review of their product and market strategy. Such a review will need to take into account the scope for collaboration with other vehicle manufacturers, and it will be highly relevant to the review of the scope for privatisation which we recommend below. (Paragraph 6.8).

7.5 We also recommend that the Board should be asked to prepare within a specified timescale a study of the steps that would be needed to turn Land Rover, with or without LRLIH, into a separately sellable entity, with an indication of the timescale in which they could be accomplished. The study should take into account the possibility of proceeding towards privatisation by collaboration and/or merger with another company with capacities complementary to those of LR, particularly in the light 4 x 4 sector. The study should also include a full analysis of the effects of separate privatisation of Land Rover on Leyland Vehicles. Such a study would provide the basis for a full review of the privatisation options within Land Rover-Leyland. (Paragraph 6.11).

CONFIDENTIAL

SUBJECT
c. Master Set

file
cc Mr B. Young.

10 DOWNING STREET

From the Private Secretary

10 May 1984

Dear Callum,

British Leyland Corporate Plan

Your Secretary of State saw the Prime Minister today to discuss the BL Corporate Plan. Also present were the Chancellor and Mr. Lamont. He emphasised that early decisions, preferably next week, were needed on the BL Corporate Plan, including Leyland trucks, if the timetable for the privatisation of Jaguar were to be adhered to. The Prime Minister recognised the need to keep to this timetable but she was concerned about the way an announcement immediately after the Scottish Conference would be interpreted. There were also concerns expressed by the Secretary of State for Scotland to be considered. Your Secretary of State reported that the Lord Privy Seal had urged him to make any announcement by an oral statement rather than by written answer. The Prime Minister asked your Secretary of State to speak to the Secretary of State for Scotland while he was in Perth. She would also speak to Mr. Younger later in the day and then try to resolve the issue.

I am copying this letter to David Peretz (HM Treasury) and John Graham (Scottish Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry

SLIABU

CONFIDENTIAL

CONFIDENTIAL

1. ~~PF~~
2. NBPM

c.tyo

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

AT - shouldn't this be classified?

AT 9/5

9 May 1984

Dear Ruth,

LEYLAND TRUCKS

The Lord Privy Seal has seen your Secretary of State's and the Chancellor of the Exchequer's minutes of 1 and 8 May respectively to the Prime Minister, which set out the necessity for an announcement by the middle of this month of the impending closure of Bathgate.

As I suggested when speaking to Callum McCarthy yesterday, the Lord Privy Seal feels that it would be most inappropriate for such an announcement to be made other than by an Oral Statement in the House, and should be obliged if you would proceed on this basis. No doubt you will be in touch with me in due course about the precise timing of the announcement.

I am copying this letter to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Scotland and the Chief Whip.

Yours
Charles

C M J MARSHALL
Private Secretary

Ruth Thompson
Private Secretary to the
Secretary of State for Trade and Industry

CONFIDENTIAL

Ind Pol
BL PK8

PRIME MINISTER 9 May 1984

BRITISH LEYLAND - THE RESIDUAL CORPORATE PLAN

The Corporate Plans of Austin-Rover, Unipart and Land Rover have now been dropped from E(A)'s discussion on 10 May, with the result that substantive issues now have to be dealt with by post. This is quite deplorable. We are talking here of businesses with sales exceeding £2 billion, using assets of nearly £1 billion, and having a high public profile. And we have had the plans for six months. Your earlier hopes for a crisper response from Government to the state industries have gone unheeded. We urge you to take a firmer line.

1. AUSTIN ROVER GROUP HOLDINGS

Performance is beginning to look more respectable, especially as regards labour productivity.

£ million	1983	1984	1985	1986	1987	1988
Sales	1799	2155	2690	3040	3320	3660
Profit After Interest	(18)	(21)	(4)	(4)	28	30
Cash Flow	(95)	(123)	(72)	(41)	(25)	(31)
Year End Assets	550	654	722	759	812	873
Capital Expenditure	112	173	167	181	216	242
Cars per man/year*	12.0	12.6	14.3	14.6	15.3	16.2

* In 1981 8.0, and in 1982 9.5.

But it is too early to say that ARGH have finally turned the corner:

- trading cash flow remains unsatisfactory, because capital expenditure still handsomely exceeds profitability;
- the plan is lightweight on its assessment of what moves the competition will make. Although the product planning is now much sharper than it was, UK companies too often assume that competitors will stand still while we catch up;
- the forecast results are acutely sensitive to ARGH's share of the UK market, which, since it is so competitively contested, cannot be taken for granted.

DASAAF

Despite improving performance, the BL Board is not pressing for privatisation or even for equity based forms of collaboration. Why? We suspect that DTI sponsor too comfortable a life in the public sector. Improved cash flow would bring privatisation closer. We judge that BL should be made to feel the discomfort of pressure towards privatisation. Lower capital expenditure would help. It not only conserves cash, but improves profitability by reducing depreciation and interest charges. Why not, for instance outsource or collaborate on engines and gearboxes?

We recommend:

i. that BL look again at ARGH's capital expenditure requirements, with a view to improving nett cash flow by around £200 million over the period 1984-87.

(You do not have to accept that lower capital expenditure means fewer new models and therefore uncompetitiveness. What about good old-fashioned economies and new-fashioned collaboration?)

ii. that DTI ask BL to spell out, within six months, what more needs to be done to make ARGH fit for privatisation in 1987.

2. UNIPART

The performance of Unipart as a freestanding entity is acceptable from Government's point of view:

£ million	1983	1984	1985	1986	1987	1988
Sales	338	352	319	336	354	373
Profit After Interest	17	18	24	28	33	39
Cash Flow	3	28	14	21	26	31
Year End Assets	140	112	100	107	114	122

The key questions are:

(i) whether and when Unipart should be privatised separately;

(ii) whether Unipart should be authorised to acquire Edmunds Walker, for not more than £20 million, in order to gain access to the non-franchised trade in spare parts.

Privatising Unipart separately would not be difficult. Subject to completing its contractual negotiations with BL's product companies, it could bring in about £100 million, and could be sold during the first half of 1985.

But the bulk of Unipart's profits are derived from Austin Rover, of which it is essentially the spare parts operation. No other motor manufacturer in the world handles his spare parts through a third party company because the profitability of spares is too great to surrender. The motor industry will be astonished if Government wishes this upon Austin Rover.

There is commercial logic in Unipart's wish to acquire Edmunds Walker, although that same logic points to a price well below £20 million. But politically, we cannot have a state enterprise taking over a (failing) private sector subsidiary.

E(A) should decide firstly if Unipart is to be sold separately, and secondly if it should acquire Edmunds Walker - not the other way about.

If Unipart is to be sold separately, we support the DTI view that the acquisition of Edmunds Walker must be irrevocably coupled with a commitment to privatise. We would regard a minority holding by Austin Rover in Unipart as acceptable, but not essential.

If Unipart is to stay with Austin Rover, it must drop the Edmunds Walker ambition.

3. LAND ROVER

This is a business which failed to see:

(i) the pace at which Japanese competitors were establishing all wheel drive knowhow and economies of scale in low-cost sectors, ready for an assault upon Land Rover's premium sector;

(ii) difficulties building up in its traditional (and now debt-ridden) markets, especially in Africa.

If we look further back into history, Land Rover shows just how dangerous it can be to use good businesses to cross subsidise bad ones in the same corporation.

The recent results, and the new plan, run as follows:

DASAAF

£ million	1983	1984	1985	1986	1987	1988
Sales	359	461	562	612	654	698
Profit After Interest	(42)*	(7)	18	39	45	50
Cash Flow	(25)	(26)	(5)	45	36	35
Year End Assets	193	212	235	229	238	253

* Including £20 million reorganisation costs.

The plan looks so much better than recent history because the current management is now vigorously reducing its costs, principally by pruning its spider's web of plants back to one key factory at Solihull. The product range is also going through major improvements, which have been well received.

But all this will not put right LR's market problems. This business now badly needs a buyer or a partner who can provide both the financial strength to pull LR back into the profitable premium-price vehicle maker it ought to be, and the distribution network to give LR access to markets which it cannot quickly build up on its own. Land Rover is a "niche" business which needs something bigger and more solid to sit on.

We reject BL's persistent assertion that it should be possible - and is preferable - to privatise Land Rover with Leyland Trucks on the grounds that Land Rover is "icing on the cake". Some icing and some cake!

We agree with DTI's urging that Land Rover should prepare - quickly - a paper setting out how Land Rover could be privatised as a single entity. The options are not numerous. We suggest a maximum of 3 months.

ROBERT YOUNG

DASAAF

SECRET

PRIME MINISTER

Meeting with Mr. Tebbit and the Chancellor

There are two items on the agenda for this meeting, which Mr. Lamont is also attending as he will be in charge next week while Mr. Tebbit is away. First, you will want to discuss whether an early decision should be taken on BL trucks. Mr. Tebbit and the Chancellor both favour early action. Mr. Tebbit has had discussions with Kleinwort Benson whose reservations about the flotation of Jaguar ahead of BT have been overruled. The way is now clear to resolve the outstanding issues on the BL corporate plan which is a necessary step in the preparation of the Jaguar prospectus.

Following this discussion, you will want to talk to Mr. Younger in Scotland on Friday before coming to a final view.

Mr. Tebbit has also spoken to the potential bidder in the takeover about which he spoke to you recently. He will report on this, and suggest possible responses if there are further developments.

AT

9 May, 1984.

SECRET

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
5422
Telephone (Direct dialling) 01-215)
GTN 215)
(Switchboard) 215 7877

Secretary of State for Trade and Industry

8 May 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

D Nigel,

JAGUAR PRIVATISATION

A number of issues relating to Jaguar privatisation need to be resolved following our discussions in E(A) on 4 April. Officials are looking into the questions raised about the golden share and the share option scheme. This letter is about the two other main outstanding issues: the withdrawal of the Varley-Marshall assurances in respect of Jaguar; and the handling of the decision that BL should not receive the £110m outstanding from the money they have previously been promised.

2 On the Varley-Marshall assurances, the most natural way of withdrawing them would be to make a statement referring back to the most recent reaffirmation of the assurances (Keith Joseph's statement of 31 March 1981, of which I attach a copy) and saying that after privatisation they would no longer apply in respect of Jaguar's obligations. But this course would involve drawing attention to the original assurances and, by implication, reaffirming them, which would run counter to the decisions of E(A). It will therefore be necessary to avoid making overt reference to earlier statements, and I attach a suggested form of words (which could appropriately be used in replying to an arranged Parliamentary Question). I should be grateful to know whether you are content with the draft.

Not attached to this ... copy

3 While on the question of the Varley-Marshall assurances, I should make one point clear. I am in no doubt that the continued existence of the assurances is crucial to BL's survival, at least for the next few years. Although the company has now reached the stage where it can operate without further Government funding, it will need to borrow commercially as well as maintaining its existing borrowing facilities. But the present capital structure of the company, with past losses accumulated on the balance sheet, is such that without the assurances BL would not be able to

JH3ADW

negotiate new facilities, and the current facilities would be withdrawn. Without the assurances, therefore, the company would be effectively insolvent and the Board would have no option but to proceed to closure of the business. Therefore, whatever the form of the statement we make about Jaguar, if I am subsequently asked whether the assurances continue to apply to BL I shall have to confirm that they do. Similarly, officials must continue to be authorised to confirm to BL's lenders and trade creditors that Keith Joseph's statement accurately defines the Government's position in respect of BL's obligations.

4 On the question of equity funding, I am confident that the BL Board will accept that the retention by BL of the proceeds of Jaguar privatisation existinguishes any claim to any of the £110m outstanding from previous Corporate Plan approvals. They have asked me, however, whether it is absolutely necessary to announce this at the time of announcing Corporate Plan approval. Their concern is that a public withdrawal of the equity possibility would complicate their negotiations with the banks over their existing medium term loans, and would induce the banks to demand larger repayments out of the proceeds of privatisation than they are currently envisaging. While, therefore, the Board would be prepared to give a firm commitment not to ask for any further equity payments, they would prefer us not to state publicly at this stage that the money had been withdrawn. If asked directly, the Board would like us to say that the money remained available if need could be established.

5 I can see distinct advantage in this course of action from the Government's point of view in not announcing at this stage that the money has been withdrawn. It now appears very likely that our decisions on the Corporate Plan and the closure of Bathgate will be announced within a short period of each other. We shall of course be arguing that the closure of Bathgate is a purely commercial decision, reached by the BL Board and not imposed by Government. But we can expect our opponents to represent the closure as a decision of Government, and to argue that Bathgate could be saved with sufficient investment. (It has already been argued - quite wrongly - both in the House and outside that the investment of only £6m would make Bathgate viable.) It would give our opponents ammunition if we were to announce now that the finances available to BL were to be reduced by £110m, and would give them the opportunity to argue that if the money had not been withdrawn Bathgate would not have closed. I therefore suggest that we should agree to the Board's request that the statement announcing our decisions on the Plan should remain silent on the question of the last £110m. However, I think that the Board's suggested response to a direct question goes rather too far: I would prefer to acknowledge that £110m remains undrawn from the sums previously

indicated as available, and that the company's need for this money would be judged in the light of its improved performance and of its retention of the proceeds of Jaguar privatisation. I should be grateful for your agreement to this.

Yours ever
Norman

NORMAN TEBBIT

JH3ADW

CONFIDENTIAL

BF in recking folder for Thursday AT 8/5 CC NBO

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

LEYLAND TRUCKS

Norman Tebbit minuted you on 1 May about the closure of Bathgate. I agree with him that in the circumstances there is no alternative to announcing this, together with other Corporate Plan decisions, by the middle of this month.

2. Norman also mentioned Kleinworts' concern about the effect which a July flotation of Jaguar might have on the BT sale. As he says, Kleinworts have expressed these views before and we were aware of their advice when we originally decided on the July date. I do not think anything has happened since which should lead us to a different conclusion and I therefore continue to support a July flotation.

3. Copies of this minute go to the other members of E(A) and to Sir Robert Armstrong.

NL

(N.L.)
8 May 1984

CONFIDENTIAL

Ind Pol: Future of BL Pt 8.

E.R.

PRIME MINISTER (1) cc: Mr. Young

BRITISH LEYLAND TRUCKS

I have had further discussions with the Private Offices of Mr. Tebbit and Mr. Younger. They have not been able to identify a time for a meeting. However, I think this can be resolved without a meeting. It has emerged that Mr. Younger is not seeking to put a veto on announcement of a decision on Bathgate as part of the decisions on the BL Corporate Plan needed to meet the timetable for Jaguar privatisation. His main purpose is to be sure that you are aware of the political consequences in Scotland of such a decision. The attached note from the Policy Unit indicates how long it is taking to deal with the Corporate Plan.

Agree that the Bathgate decision be announced in May?

The remaining parts of the BL Corporate Plan - Land Rover, Austin Morris and Unipart - will come up on the agenda of the 10 May meeting of E(A).

AT

I ought to see them both - especially with the Scottish Conference this week

MT

4 May 1984

CCN9

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

AT p.a.

CONFIDENTIAL

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON SW1

3 May 1984

Dear Andrew,

BL CORPORATE PLAN

with AT

My Secretary of State has seen a copy of the Secretary of State for Trade and Industry's minute of 1 May to the Prime Minister. He understands that E(A) will consider the outstanding issues over the privatisation of Jaguar at its meeting on 10 May. He will unfortunately be unable to attend that meeting, because it falls in the middle of the Scottish Conservative Party Conference in Perth. He remains very concerned about the timing of the announcement of Ministers' conclusions about BL Trucks, for the reasons which he explained at E(A) on 4 April. Mr Younger hopes it might be possible for the timing issue to be resolved separately during the Prime Minister's visit to Perth the following day; the Secretary of State for Trade and Industry is also due to address the Conference earlier that day.

I am copying this minute to the private secretaries to the other members of E(A) and to Richard Hatfield.

Yours sincerely,

John Graham

J S GRAHAM
Private Secretary

Ind. Bd. Pt 8

Future of BL.

CONFIDENTIAL

(1)

PRIME MINISTER

Leyland Trucks

E(A) decided that no announcement should be made about closure of Bathgate ahead of the European Elections. Although it was agreed at the meeting that the Government's public line should be that no decisions had been taken on BL's Corporate Plan, reports of the imminent closure of Bathgate appeared in the Scotsman.

Mr. Tebbit argues that considerations relating to the profits of Jaguar require an acceleration of the timetable. He would like to complete the decision and announcement by mid-May. He is hoping, if possible, to do this in correspondence.

Mr. Younger's office has been in touch with us. He is very unhappy about this as he feels that the original argument about the European election is still valid. He thinks an announcement could cause the loss of a finely-balanced European constituency, but whatever the outcome, Party workers in Scotland are likely to feel aggrieved, believing an announcement of the decision before the election to be a self-inflicted wound.

The arguments are difficult to balance. Mr. Younger's political considerations need to be set against Mr. Tebbit's policy concerns on the timing of the Jaguar flotation. It is unlikely this can be settled in correspondence. E(A) on 10 May is not a runner as Mr. Younger will be in Scotland at the conference. He has written suggesting a meeting in Perth. This does not run either as Mr. Tebbit will have gone by the time you arrive.

Agree a meeting will be needed (which I will try to arrange)?

AT

Yes M

Andrew Turnbull

2 May 1984

CONFIDENTIAL

MR TURNBULL 2 May 1984

BATHGATE

We strongly support Norman Tebbit's view that an announcement about the BL Corporate Plan - including a decision on Bathgate - must be made soon.

Strictly speaking, the BL plan does not envisage the immediate closure of Bathgate. Truck assembly continues to the end of 1984 and engine assembly to the end of 1985, so the announcement could and should refer to a run down.

The gut reaction of the unions will probably be very hostile. But the phasing of the closure should help to moderate their behaviour; and so should BL's intention to recommend closure of the whole of Leyland Trucks if the Bathgate workforce topples Leyland from its already precarious position in the fiercely competitive UK truck market. In fact, BL management's capability in handling quite severe bouts of contraction and reorganisation now looks remarkably good.

We remain concerned about undue delay in handling corporate plans. There is really no good excuse (a) for the slippage of Jaguar privatisation from May to July or (b) for the risk which Mr Tebbit now attaches to the July date. The Prime Minister has previously expressed hope for more rapid responses to corporate plans, but she has gone unheeded this time round. The timetable is as follows:

November 1983	- BL delivers Corporate Plan to DTI, minus the section on Leyland Vehicles
December 1983	- Leyland Vehicles plan arrives
January 10th 1984	- Officials' group meetings begin
February 15th 1984	- 1st E(A) meeting on Jaguar
April 4th 1984	- E(A) meeting on Leyland Vehicles and 2nd meeting on Jaguar
May 10th 1984	- E(A) slot for third meeting on Jaguar

No dates yet for E(A) to consider Austin Rover, Unipart or Land Rover.

We expect state industries to behave in a commercial manner, but the Government response is hardly commercial in its tardiness. An article on P6 of today's FT starts to make the delay public.

R.Y.

ROBERT YOUNG

CONFIDENTIAL

CONFIDENTIAL

cc NS

F

PRIME MINISTER

LEYLAND TRUCKS

When you summed up the discussion on Leyland Trucks at E(A) on 4 April, you indicated that the Sub-Committee should resume discussion of Bathgate in the early summer, subject to the possibility that we might discover after consultation with the BL Board that such a course could throw up major difficulties.

2 We have now been into this with Sir Austin Bide, Chairman of BL, and I am satisfied that we shall have to move somewhat faster than this if we are to keep open the possibility of achieving the planned flotation date of 24 July for Jaguar. I have just received advice from Kleinworts, who are advising us on the British Telecoms flotation, that a Jaguar flotation in July might have a "seriously prejudicial" effect on the BT issue. We have considered and discounted similar advice before, when we agreed to proceed with the July date for Jaguar. I am now

JH3ADV

urgently reassessing the position; but if we are to keep open the July option, we cannot delay decision on the various BL issues now before us. The BL Board has to have our decisions on the whole of the Corporate Plan before it can formally commit itself to the disposal of Jaguar, otherwise it would risk breaching Stock Exchange requirements in respect of the continuing business of BL. Having reviewed the flotation timetable, BL say that the aiming date for Corporate Plan decisions has to be 15 May for planning purposes, with any delay thereafter being at the price of a rapidly escalating risk of missing 24 July. We have examined the timetable underlying this and I see no prospect that Corporate Plan decisions as late as mid-June could avoid wrecking the Jaguar flotation.

3 It follows, therefore, that we should make our dispositions on the basis that the closure of Bathgate will have to be announced in mid-May; regrettably, rumours of the closure have already been widespread, particularly in the Scottish press. I intend to bring forward my

JH3ADV

proposals on the outstanding points in the BL Corporate Plan in early May.

4 I am sending copies of this minute to the other members of E(A) and to the Secretary of the Cabinet.

NT

N T

1 May 1984

Department of Trade and Industry

JH3ADV

Ind. Pol. Pt 8

B.L.

4.12

cc DB

NAPM AT 17/4

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 April 1984

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

Dear Norman

LEYLAND TRUCKS

You wrote to me on 13 April about the publication of BL's preliminary results.

Although the timing is awkward, I am concerned that further delay might jeopardise the Jaguar privatisation timetable. In view of this, I see no alternative to BL publishing their results on Wednesday.

Copies of this letter go to those who received yours.

Yours

Nigel

NIGEL LAWSON

IND POL: BL PT8

10 DOWNING STREET

Prime Minister (2)

Mr Tebbit sees no alternative to allowing BL to publish results which include a provision for closure of Bathgate albeit not separately identified.

Despite the authoritative account of the E(A) discussion in the Scotsman, the Press offices here and at DTI have stuck to the line that no decisions have been taken

AT
13/4

Told Mr McCarthy that Prime Minister was content.

AT 16/4

~~CCNO~~ ✓ CCBI

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
Telephone (Direct dialling) 01-215)
GTN 215) ....
(Switchboard) 215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL

13 April 1984

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

D Nigel,

LEYLAND TRUCKS

We decided at E(A) on 4 April that we were not ready to take a decision on the future of Leyland Trucks plant at Bathgate, West Lothian. We have therefore told the BL Chairman, Sir Austin Bide, that decisions on the 1984 BL Corporate Plan as a whole are some weeks away.

2 The Board has now informed my Department that they intend to publish their preliminary results for 1983 next Wednesday, 18 April. The arrangements become effectively irrevocable on Monday. These include (within £73m of extraordinary items) some £40m of provisions against the closure of Bathgate, although this cause is not identified as such. Instead, their proposed statement says that final decisions on restructuring in Land Rover-Leyland have not yet been taken pending Government approval of the Corporate Plan. Sophisticated commentators will be able to deduce that the provisions most likely relate to Bathgate, so as a result speculation about its closure will clearly be increased (but in no way confirmed).

3 There have, unfortunately, been several press reports since our discussion in E(A) which have increased speculation that the closure of Bathgate is only a matter of time. This has made the task of BL management in handling the industrial relations situation at that plant much more difficult. But those responsible in BL judge that the proposed statement on the preliminary results minimises the risk of making thing more difficult.

4 There would be serious difficulties in persuading the Board to alter or postpone their preliminary results. I do not see

JH3ABW

how, given their duty to report on a true and fair basis, we could seek to persuade them to take the provisions for Bathgate out. The Board have been unequivocally advised by their Auditors that they have to make this provision in the 1983 Accounts. There are also good commercial reasons, relating to the Montego launch and Jaguar privatisation, for getting the relatively good figures on the cars side out soon. The figures are already three weeks or so late.

5 I am very conscious that these dates are all inconvenient and difficult. But, given the publicity which has already occurred, I have concluded against pressure to attempt to dissuade the Board from putting out their preliminary results, and a statement on them, next week.

6 I am sending copies of this letter to the Prime Minister, to the other members of E(A), and to Sir Robert Armstrong.

Yours

Norman

NORMAN TEBBIT

JH3ABW

Ind Pol B2 Pt 8

P.01266

PRIME MINISTER

The Privatisation of Jaguar
(E(A)(84)18)

BACKGROUND

On 15 February E(A)(84)5th Meeting), the Ministerial Sub-Committee on Economic Affairs agreed that proposals should be brought forward for the flotation of 100 per cent of Jaguar, in a way which would provide for the possibility of blocking an attempt by an overseas company to gain effective control. The preferred alternative was a discretionary golden share mechanism: but consideration was also to be given to a blocking 25 per cent shareholding which would be wholly owned by the managers and employees of Jaguar. If the latter option were not pursued, arrangements should be made to introduce share option and incentive schemes.

2. A report on the alternative mechanisms for blocking an overseas takeover prepared by the Interdepartmental Official Group on British Leyland (BL) is attached to the memorandum from the Secretary of State for Trade and Industry (E(A)(84)18). Also attached at Annex III is a summary of Jaguar's business plan and projections, as requested by E(A)(84)5th Meeting.

3. In his memorandum, Mr Tebbit supports the conclusion of the Official Group that a blocking employee shareholding is not practicable. He is however satisfied that an adequate golden share provision can be devised. He proposes that the golden share should last for a minimum of 10 years, rather than no more than 5 years as recommended by officials.

4. Mr Tebbit also recommends that the proposed share option and share incentive schemes should be endorsed; the share option scheme will however need to be revised to bring it into line with the Inland Revenue's new requirements.

5. Finally Mr Tebbit points out that a substantial UK company has expressed an interest in acquiring Jaguar. (We understand that the company concerned is Rothmans but this is of course commercially sensitive information.) He recommends that the preparations for flotation on 24 July should proceed as planned, but that if a substantially higher offer is received, it should be put before the Sub-Committee for consideration.

MAIN ISSUES

6. The main issues are:

i. should the idea of a blocking employee shareholding now be rejected?

ii. should the 100 per cent flotation of Jaguar therefore proceed on the basis of a golden share provision?

iii. what should be the time limit on the golden share provision?

iv. are the proposed share option and incentive schemes acceptable?

v. what should be the response to an outright bid for Jaguar in the period up to flotation?

Blocking employee shareholding

7. The maximum shareholding which might be subscribed by the

8,000 employees and the management of Jaguar seems to be about 5 per cent of the total. Devices to boost this to 25 per cent (around £50 million) would burden Jaguar with extra debt, damage its financial position and depress the flotation price. The shareholders in any trust established to hold the 25 per cent block cannot be forced in law to vote the same way when faced with a takeover bid. Treasury Ministers share Mr Tebbit's view that a blocking employee shareholding is not practicable.

Golden share provision

8. The Official Group are satisfied that the issue of a golden share to the Secretary of State can be justified by BL as in its own interests and those of Jaguar in the short term. The risk of legal challenge from a BL minority shareholder is thought to be low.

9. There is unlikely to be any dispute about the general specification of the golden share provision. It follows broadly the format employed in the previous flotations and that planned for British Telecom. It is thought likely in practice to deter foreign bids. It could not be used to block a bid from a Community company in favour of a lower bid from a British company, but this risk will have to be accepted.

10. There is a difference of views about how long the golden share provision should last. Mr Tebbit believes that the period should be 10 years, with the Secretary of State having power to redeem at any time after that. The Official Group recommended that the share should lapse without qualification after 5 years. The Chancellor of the Exchequer favours sticking to the strict 5 year limit.

11. Mr Tebbit argues that it cannot be known when Jaguar could

be sold (implicitly to a foreign owner) without political embarrassment and that the share ought to run until the idea of Jaguar as a public company fades. The Sub-Committee will need to weigh these political considerations against the possibility of reduced sale proceeds and some greater risk that a golden share provision of longer duration might attract legal challenge. If a compromise is sought it might be possible to reach agreement on a 5 year period, with a power to redeem after that date. The golden share provision would still in practice last as long as the Government wanted but reference to 5 years rather than 10 years might be better presentationally.

Employee share schemes

12. It is proposed that 5 per cent of the shares be set aside for preferential allocation to the employees; and that there be an employee share incentive scheme. This should have a beneficial impact on floation and help secure the commitment of the workforce. A share option scheme for management is also proposed. As originally drafted it was considered generous by the Official Group; it is now being modified in the light of budget changes. Subject to approval of this revised option scheme by the Chancellor, the Sub-Committee will wish to approve the proposals for share subscription, incentive and option schemes.

An outright bid

13. Mr Tebbit proposes to bring any outright bid for Jaguar in the period up to flotation before the Sub-Committee, if it is likely to result in "substantially higher proceeds than flotation". But sale proceeds and the need to encourage wider ownership of shares are only two relevant aspects to any such bid. The potential commercial and technological advantages which a link between Jaguar and a major UK company might create,

should also be taken into account. The Sub-Committee may therefore wish to suggest that any firm bids for Jaguar should be brought before them for consideration.

HANDLING

14. You will wish to invite the Secretary of State for Trade and Industry to introduce his proposals. The Chancellor of the Exchequer will wish to comment on how the proposals fit into the privatisation programme. The Secretary of State for Energy may wish to comment on the rejection of his proposal for a blocking shareholding held by employees. The Foreign and Commonwealth Secretary may wish to comment on the EC reaction to a golden share provision.

CONCLUSIONS

15. You will wish the Sub-Committee to reach conclusions on the following:

i. whether the option of a blocking shareholding to be held by Jaguar employees should be rejected;

ii. whether plans for 100 per cent flotation of Jaguar should now proceed on the basis of a golden share provision;

10 years.

iii. what time limit should apply to the golden share provision;

iv. whether the share subscription, incentive and option schemes should be approved, subject to Inland Revenue requirements;

v. the handling of approaches from potential UK purchasers before flotation.

PLG

P L GREGSON

3 April 1984

PRIME MINISTER

PRIVATISATION OF JAGUAR - E(A) on 4 APRIL

1. We are entirely content with Mr Tebbit's conclusions that:

   (i) there is no point in pursuing a 25% employee shareholding as a blocking mechanism against foreign control of Jaguar; and that

   (ii) the golden share approach is the right way forward.

2. But a minimum ten year life for the golden share seems to us vastly excessive. It will depress the share price needlessly, and in our view could acutally deter possible rescuers from making an approach if or when Jaguar runs into difficulty. The life of the golden share should be related to how long Jaguar can be sure of surviving on its own resources, not on sentiment.

We recommend a life of five years maximum.

3. By the same token, we suggest a more open-minded attitude towards single UK based bidders who offer to purchase Jaguar before flotation. We recommend that, if a single bidder offers greater financial security for Jaguar, short term or long, and is prepared to pay a premium for control, however small, we should take his approach seriously.

R.Y.

ROBERT YOUNG

Policy Unit
2 April 1984

CONFIDENTIAL

CC/ND

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

2 April 1984

Dear Secretary of State

LEYLAND TRUCKS

You ask E(A) colleagues to endorse your view that with AT Leyland Trucks should not be closed in 1984 (E(A)(84)18). As I shall not be represented at the meeting, I am putting my support for your view in writing.

While the public finance arguments are narrowly balanced, I am sure that we should take account of the damage that a complete closure would do to the motor components industry, which is concentrated in the already hard-hit West Midlands. I am already under pressure from our political supporters there, and others, to increase assistance to the area. It would be wrong to accept anything which would increase that pressure unless there were a very much stronger case on industrial and financial grounds.

/ Copies go to members of E(A) and to Sir Robert Armstrong.

Yours sincerely

A.H. Davis

for PATRICK JENKIN

Approved by the S of S and signed in his absence

The Rt Hon Norman Tebbit MP

IND POL: Future of BL
Pt 7

PRIME MINISTER

LEYLAND TRUCKS - E(A) ON 4 APRIL

1. The Paper

Mr Tebbit's summary paper is, for the most part, excellent. We strongly support his view that BL must be considered not as a whole but business by business. The spadework done by officials on Leyland Trucks has resulted in a much greater degree of unanimity than on previous BL topics, and you should exploit that to make tough but necessary decisions stick.

2. Leyland and the UK Truck Industry

Leyland Trucks are in an appalling state. Under Michael Edwardes' chairmanship, the Board became preoccupied with the internal problems of the Cars Group and allowed the truck business to slide. There was discontinuity of management, compounded by some bad appointments. Worse, from 1978 on, the truck market at home and abroad went into sharp decline and Leyland quite simply failed to see that they were on the slippery slope of a diminishing share of a diminishing market, coupled with excessive costs and a price war. The results* were disastrous:

Cash Flow	1979	80	81	82	83	Total
£ million	(74)	(107)	(76)	(130)	(91)	(478)

Leyland is not a strategic part of a UK commercial vehicle industry which is fundamentally viable. The only indigenous makers left outside Leyland are ERF and Dennis, whose scale is tiny. Ford, Bedford, Foden and Seddon-Atkinson are all US owned, and the latter two are desperately weak.

* These results are for the now disbanded Leyland Group. They are broadly, but not strictly, comparable with the figures which follow in paragraph 3.

3. Leyland's Proposal

Leyland's proposal is principally to close Bathgate and withdraw from engine manufacture. On this basis, forecast results are:

Cash Flow - £million outturn

1984	85	86	87	88	Total
(72)	(74)	(62)	(45)	(39)	(292)

Policy Unit and the Officials Group regard this as totally unacceptable. Bathgate and engine manufacture should indeed be closed down but that is not enough. Conclusions of official group are summarised in paras 6.1 to 6.6.

4. Possible solutions

Closure. Total closure in 1984 is tempting. It is safe, but expensive (c.£300 million), particularly because of PSBR costs on top of closure costs. It would deny Government and taxpayers the chance to recoup something for Leyland's better assets: the new truck designs, the bus and parts businesses, the transmissions business (Self Changing Gears) and indeed the relatively new assembly plant at Leyland in Lancashire.

Find a "British" buyer. We agree that the first step should be to explore whether Ford or Bedford would take the Leyland commercial vehicle business whole. Like Mr Tebbit, we do not rate the chance of success highly, but these two, with their sizeable UK manufacturing investment in trucks, have most interest in not seeing Leyland's share snapped up by the Continental Europeans.

The exploration need and should not take long - two months as a target and three months at most. (Scott Lithgow took two). You should not trust BL to do the exploration, for the simple reason that they do not wish to. DTI ought to consider non-Government assistance in disentangling the market and commercial issues at stake.

Find another buyer. We would strongly argue that no other bidder should be shut out. DTI are unsound on this point. Perhaps this time they could be cured of their selective xenophobia. Why is it proper for Nissan to come here with a huge subsidy, but improper for, say, Volvo or Hino to buy existing assets which Leyland have squandered? Scottish Office will want to seek a buyer for Bathgate. We should let them try.

Break-up and Sell. If it proves impossible to dispose of the business whole, we must then move quickly to sell the parts. Leyland Bus , Leyland Parts and Self Changing Gears are self-contained, and can be sold separately or in combination. There would probably be competitive bidding. Scammell, which makes very heavy trucks and military specials at Watford, could be massaged into a self-contained unit and sold with the heavy conventional truck designs.

If we reached the break-up option, we are stuck with the closure of the Leyland works in Lancashire, as well as of Bathgate.

Common Problems. Unless we believe that Leyland Trucks will shortly return to massive profitability, any solution is going to involve writing off about £170 million of accumulated debt. That much and more has already been lost - we must not throw more away in trying to recoup it.

Under any option, the closure of Bathgate could precipitate a disastrous strike Leyland wide. In that event, we would have to go straight to break-up.

Finally, if E(A) rejects BL's own proposals, there is a good chance of a row between Government and the BL Board. Given the Board's track record, and the example of Government's common sense approach to Scott Lithgow, you should not flinch from a show-down on commercial or political grounds.

5. <u>Conclusions</u>

(a) Approve the closure of Bathgate and Leyland's withdrawal from engine manufacture.

(b) Explore disposal of the whole business to Ford, Bedford or any other bidder, within a maximum of three months.

(c) If that fails, break the business up and sell the pieces within a further three months.

(d) Be prepared for a confrontation with the BL Board.

R.Y.

ROBERT YOUNG

Policy Unit
2 April 1984

P.01264

PRIME MINISTER

British Leyland 1984 Corporate Plan: Leyland Trucks

(E(A)(84) 19)

BACKGROUND

The 1984 British Leyland (BL) Corporate Plan shows that Leyland Trucks is in trouble. Despite a forecast increase in sales volume from 10,900 in 1983 to 17,600 in 1988, and a decline in manpower from 9,400 at the end of 1983 to 4,900 at the end of 1988, cash flow is negative over the whole period, and losses, even before interest and taxation, are forecast for every year except 1988. Over the period 1984-88 total forecast negative cash flow is £292 million (though some £170 million of this is interest on debts already occurred and therefore unavoidable); and total losses before interest and taxation are £126 million.

2. The Board of BL do not wish to close Leyland Trucks. They believe that it would be more expensive, by some £34 million, than continued operation. The Secretary of State for Trade and Industry, in his memorandum E(A)(84)19, supports the Board's view; so does the interdepartmental group of officials whose report is annexed to the memorandum. The Secretary of State argues that, apart from the additional cost to BL, there would be extensive redundancies among suppliers (with an estimated cost to the public sector borrowing requirement of £200 million) and that much of Leyland's existing market share would fall to overseas producers. However, he suggests that officials should be instructed to monitor the progress of the business, to ensure that opportunities for reducing costs are not missed, and to explore the prospects for merger with another UK manufacturer or (as an outside possibility) disposal to a foreign vehicle manufacturer.

3. The BL Board's own plan suggests closure of the Leyland Trucks plant at Bathgate in Scotland, withdraw from engine manufacture, and transfer of axle manufacture to Albion in Glasgow. Mr Tebbit proposes that the closure of Bathgate should be announced in early April.

4. E(A)(84)19 and the associated report by officials also discuss Leyland Bus. Mr Tebbit proposes that action should be taken to allow Leyland Bus to be sold at an early date, and in particular that it should be set up as a separately saleable entity.

MAIN ISSUES

5. The main issues before the Sub-Committee are as follows.

(i) Should the Government seek to insist on the closure of Leyland Trucks?

(ii) If not, are there any modifications which it should require to the BL Board's plans for Leyland Trucks?

(iii) Should the closure of Bathgate be accepted; if so, should the announcement be made at the beginning of April?

(iv) Are the proposals in E(A)(84)19 regarding Leyland Bus acceptable?

The closure option

6. The main arguments for and against closure of Leyland Trucks are set out in the papers. The Sub-Committee will also wish to consider the following.

(a) Even in 1988 Leyland Trucks is forecast to be making only exiguous profits before, and therefore heavy losses after, interest and taxation. Forecasts at such long range tend to be optimistic. There is therefore little prospect that Leyland Trucks will be a viable company for the foreseeable future. Closure may be forced on BL if results deteriorate; closure after two or three years' losses would be the most expensive course.

(b) It is argued that slimming down Leyland Trucks as proposed by the BL Board, should make it more saleable in two or three years' time than it is now. Against that, two or three years' heavy losses, with no immediate prospects of viability, could work the other way.

(c) The Board of BL is opposed to closure. To overrule their views could raise both legal and political problems.

(d) Closure would require additional funding. The EC Commission have been making difficulties over the possibility of granting additional equity to BL and have said that they would need to consult other member states under Article 93(2) of the Treaty of Rome. If the money were needed we could well face difficult negotiations with the Commission, though it seems unlikely that we shall ultimately be faced with an outright refusal.

Modification to BL plans

7. If the Sub-Committee agree that no attempt should be made to require BL to close Leyland Trucks, they may still consider that stronger action is needed than that proposed by the Board. In particular, they may wish the following to be pursued.

(a) Merger The BL Board is unenthusiastic about the possibility of merger with either Ford or Bedford. Mr Tebbit therefore proposes that the Board should be asked to agree that the DTI should, with BL staff, explore rationalisation possibilities. You may wish to ask that officials from the Treasury and the No 10 Policy Unit should be closely involved in order to ensure that the possibilities are pursued vigorously.

(b) Sale The Sub-Committee will probably wish to invite the Secretary of State for Trade and Industry to investigate the possibility of selling Leyland Trucks, or parts of it. They will wish to consider whether there should be any predisposition in favour of a British buyer; and whether, if the only prospects for sale are for sale to a foreign buyer, that is a significant objection. Again, it may be desirable to associate Treasury and Policy Unit officials with any studies.

8. The proposal in paragraph 8 of E(A)(84)8 for the establishment of 'trigger figures' for key results and indicators, and for monitoring progress and possible opportunities for improvement, are likely to be readily accepted in principle. You will probably wish to invite the Secretary of State for Trade and Industry to report in more detail after the discussions with BL which he proposes.

Closure of Bathgate

9. In the light of the prospects for Leyland Trucks there seems little alternative to closing Bathgate: closure is forecast to save £42 million over the period 1983-88 in fixed and capital costs, and the withdrawal from engine manufacture to reduce working capital by £32 million. We understand that the Secretary of State for Scotland is being advised to accept this judgement. He is, however, likely to suggest that the possibility of disposing of Bathgate to a foreign manufacturer should be explored. The Secretary of State for Trade and Industry may object to this on the grounds that it will increase foreign penetration of the UK market.

10. If they agree that Bathgate should be closed, the Sub-Committee will need to consider when that should be announced. The BL Board are anxious to avoid the end of April, when the LM 11 car will be launched. Delay into May would cost money. The Secretary of State for Trade and Industry therefore proposes an announcement in the first half of April. The timing will however need to be considered in relation to tactics for handling the miners' strike. It will presumably be for BL, not the Government, to make the announcement.

Leyland Bus

11. E(A)(84)19 proposes that action should be taken to allow early sale of Leyland Bus, either with Trucks, or separately. The Sub-Committee are likely to agree with these proposals. They may, however, be concerned that the possibility (which seems fairly slight) of selling Trucks and Bus together should not be allowed to stand in the way of separate sale of Bus. You may wish to invite the Secretary of State for Trade and Industry to submit an early report to the Ministerial Sub-Committee on Disposal of Public Sector Assets (E(DL)) on the options.

HANDLING

12. You will wish to invite the Secretary of State for Trade and Industry to open the discussion. Both the Chancellor of the Exchequer and the Chief Secretary, Treasury are likely to have comments. The Secretary of State for Scotland will be particularly concerned about the position of Bathgate. The Secretary of State for Employment will wish to comment on employment implications.

CONCLUSIONS

13. You will wish the Sub-Committee to reach conclusions on the following:

(i) Should the Government seek to require the Board of BL to close Leyland Trucks?

(ii) If not, should the Government agree that Bathgate should close? If so, when should the decision be announced?

(iii) Do the plans of the BL Board for Leyland Trucks require any modification, particularly regarding

- the possibility of merging Trucks with the operations of another manufacturer in this country;
- the possibility of sale to another (probably overseas) manufacturer;
- the establishment of trigger points for review?

If so, what arrangements should be made within Government for carrying out the necessary work?

(iv) What work should be done on the possible sale of Leyland Bus?

PG

P L GREGSON
Cabinet Office.
2 April 1984

-3 APR 1984

PART 7 ends:-

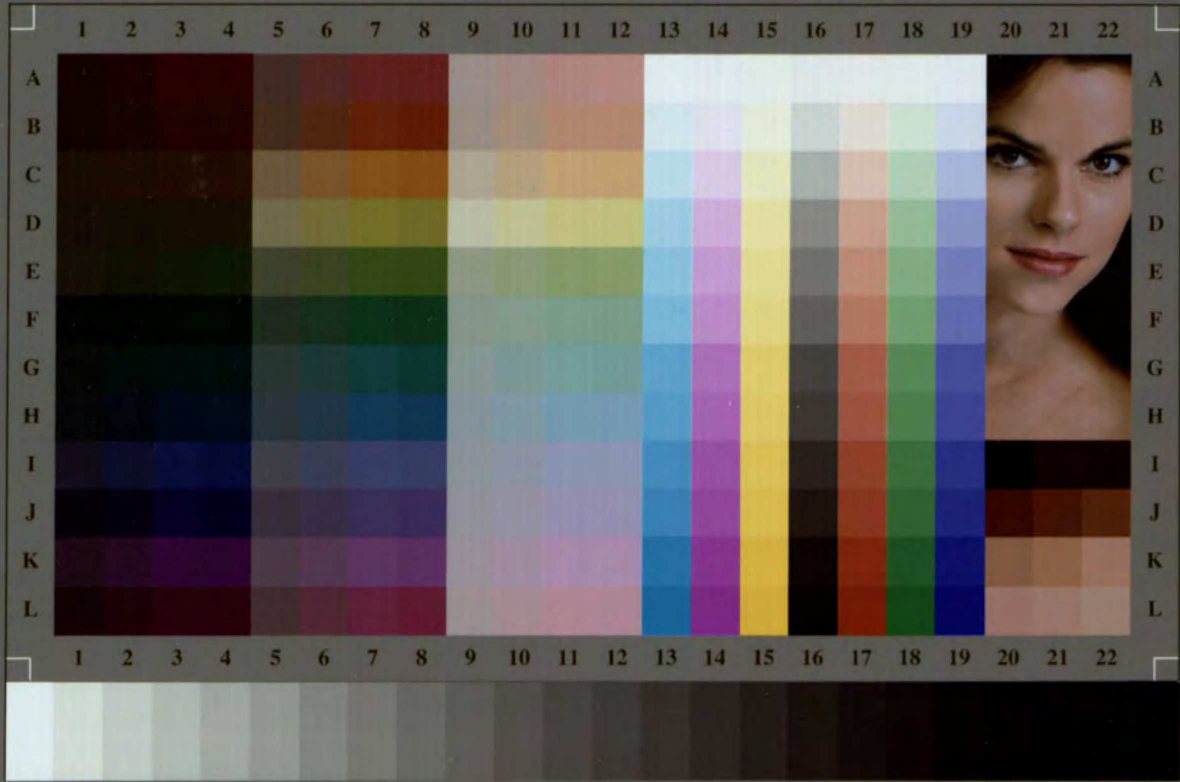
E (A) (84) 19 27.3.84

PART 8 begins:-

P Gregson to PM (P.01264) 2.4.84

KODAK Q–60 Color Input Target

C M Y



IT8.7/2–1993
2007:03

Q-60R2 Target for KODAK Professional Papers

FTP://FTP.KODAK.COM/GASTDS/Q60DATA

Kodak