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PREM 19/1801

PART 10

MT

SECRET

New Cover

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The Future of British Leyland.

INDUSTRIAL POLICY

Part 1: Sept. 1979

Part 10: Sept. 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PART 10 ends:-

PETER WARRY to PM 7/3/86

PART 11 begins:-

PETER WARRY to PM 11/3/86

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(86) 5th meeting, item 4	06/02/1986
CC(86) 6th meeting, item 1	13/02/1986
CC(86) 7th meeting, item 1	20/02/1986
CC(86) 8th meeting, item 1	27/02/1986
CC(86) 9th meeting, item 2	06/03/1986
Misc 126 (86) 2	26/02/1986

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 _____ Date 6/11/2014

PREM Records Team

(1.)

Mrs Ridley.

to invitees — PL call meeting for 20.45. Stress that it is to be kept very confidential, and attendance is very restricted. Arrange Hoj C or No 10 as is convenient.

N.L.W.

PRIME MINISTER

LEYLAND

You wanted a small meeting to discuss the handling of Thursday's MISC 126 on Wednesday evening of:- 10.3

Mr Channon ✓
Mr Ridley ✓
Mr Tebbit ✓
Mr Wakeham ✓
Whitelaw ✓

PL Note above. ✓

Mr. Wicks all content 20.45 Wed HC

I really think we ought to ask Lord Whitelaw. He is such a pillar of support generally and the Lords are an important dimension. So ask Lord Whitelaw? Yes NT

The latest travel plan shows that you will not be back in Central London from Italy until 1930. Rocco Forte's reception ends at 2030.

Timing for the Leyland meeting could be either:

2015 (if you do not go to Rocco Forte's reception: after all, you went to his engagement party)

or

2045, if you went to his reception

You can have supper either before or after the meeting, as you wish.

Shall we go for 2015 (and not going to Rocco Forte's) or 2045?

20.45 — if others can come

N.L.W.

Would the HC be more convenient? NT

N.L. Wicks

7 March 1986

MJ2BPO

British Leyland

3.30 pm

Mr. Stan Thorne (Preston) *(by private notice)* asked the Secretary of State for Trade and Industry if he will make a statement regarding Lancashire Enterprise Ltd.'s firm indication of interest in respect of the purchase of British Leyland.

The Secretary of State for Trade and Industry (Mr. Paul Channon): I understand from BL that Hill Samuel has offered a meeting this week with Lancashire Enterprise Ltd. to explore further the nature of its proposals following its preliminary expression of interest indicated to Hill Samuel on 4 March.

Mr. Thorne: That reply comes to me as a surprise, particularly if we refer to the statement made yesterday in the House by the Secretary of State, from which I quote:

"The deputation was given a full opportunity to declare a firm indication of interest but it did not do so."

In reply to my right hon. and learned Friend the Member for Monklands, East (Mr. Smith)——

Mr. Speaker: Order. Will the hon. Gentleman please paraphrase?

Mr. Thorne: By inviting me to paraphrase, Mr. Speaker, you are inviting me to do what the Secretary of State did yesterday — deliberately or otherwise to mislead the House. I do not wish to do that, so I am quoting what the Secretary of State said.

Mr. Speaker: Order. The hon. Gentleman must stick to the rules.

Mr. Thorne: I shall read, because I am talking about what the Secretary of State said.

Mr. Ivor Stanbrook (Orpington): On a point of order, Mr. Speaker. The hon. Gentleman is out of order.

Mr. Speaker: Order. The hon. Member for Preston (Mr. Thorne) knows that we have a very busy day ahead of us. Will he please get on with his supplementary question?

Mr. Thorne: I am doing my best to be brief, Mr. Speaker, but if you continue to interrupt I shall be in difficulty. In regard to LEL, the Secretary of State said:

"every assistance was given to it to try to get it into a position to make a firm indication of interest, but I understand that by last night it had not given any such indications." — [*Official Report*, 5 March 1986; Vol. 93, c. 312-16.]

That statement was made by the Secretary of State in spite of the fact that LEL, the firm I am talking about, had already sent a telex to Hill Samuel which read as follows ——

Mr. Speaker: Order. I granted the hon. Gentleman a private notice question, not an Adjournment debate. He must ask a question, please.

Mr. Thorne: You draw attention to the fact that you granted the private notice question, Mr. Speaker. I assume that you did so on the basis of my being able at least to give the facts to the House——

Mr. Speaker: Order. This is a private notice question. Will the hon. Gentleman please ask a question?

Mr. Thorne: If I were to ask a short question of the Secretary of State, it would be why he misled the House yesterday but, to do that, I have to demonstrate the basis for my claim that he misled the House. That is why I shall read to you, Mr. Speaker, the telex that was sent to Hill Samuel at 6.25 pm on 4 March. It said:

"This telex is intended to formally confirm that interest prior to tonight's deadline".

In other works, LEL got its name before Hill Samuel before the midnight deadline on 4 March.

Mr. Channon: I did not mislead the House yesterday. I have checked carefully what I said yesterday, and it was wholly accurate. By the appropriate night, Lancashire Enterprises Ltd. had not put in a firm intention to make a bid which those whom I described to the House yesterday had done. Nevertheless, Hill Samuel has helpfully offered a meeting. It seems to me that that is a helpful suggestion, not an unhelpful one, and I cannot understand why the hon. Gentleman is making a fuss.

Mr. Robert Atkins (South Ribble): Is my right hon. Friend aware that the pressure for consideration of LEL's offer has the support of all parties on Lancashire county council, including the Conservative party, and the support of my Conservative-controlled borough council? Does he agree that, in view of the wide disparity between the time allocated for General Motors to consider the matter and that avaiable for other bidders, some flexibility should be granted when a difinite interest is involved, such as my right hon. Friend has generously been able to do in relation to Leyland Bus?

Mr. Channon: There should be the meeting which Hill Samuel has suggested with LEL, and then all these matters can be examined.

Mr. Jack Straw (Blackburn): Is not the Secretary of State aware that one of the reasons why Lancashire Enterprises Ltd. was not able to declare a "firm indication of interest"—the right hon. Gentleman's words—until late on Tuesday night was that Hill Samuel had repeatedly refused to grant it the necessary documentation to put together proposals? Although we are glad to learn that, at this late stage, the Secretary of State has relented, as has Hill Samuel, to declare that negotiations with LEL must go ahead, will he instruct Hill Samuel to give LEL exactly the same documentation as was received by General Motors?

Mr. Channon: With respect to the hon. Gentleman, that is not exactly true. Unlike all the other people, LEL has not signed a confidentiality agreement — [HON. MEMBERS: "It has not been asked."] It most certainly has been asked. There were telephone conversations last week, and still no action was taken. With respect to the hon. Gentleman, I am afraid that he is grossly exaggerating the situation. Nevertheless, Hill Samuel has offered a meeting. That seems an extremely helpful way forward. We should see what happens.

Mr. John Mark Taylor (Solihull): Of the offers that were in by the deadline, especially that of Lonrho, did any involve the introduction to Land Rover of a high technology plant?

Mr. Speaker: Order. That question is out of order. The private notice question relates to Lancashire Enterprises Ltd.

Mr. Paddy Ashdown (Yeovil): Will the Minister now answer this question directly? As the giant American consortium General Motors has had 18 months to put its

The Prime Minister: The growth of world population is discussed in international forums, particularly when we deal with our aid programmes. My hon. Friend will understand that we try to help those programmes that are designed to reduce the increase.

Mr. Ashton: Is the Prime Minister aware that every hon. Member is being badgered every day about the Shops Bill? In order to influence hon. Members before they vote will she arrange for the Second Reading of the Bill to take place at 9.30 am on a Sunday, in the same way that we meet on a Friday, and, so that we may experience the effects of the Transport Act 1985, will she arrange for everybody to get here by public transport?

The Prime Minister: The hon. Gentleman makes his point. I think that I have got it. I think that it was in favour of extra choice in Sunday trading.

Mr. Rathbone: Will my right hon. Friend find a moment today, or before the end of the week, to have a word with my right hon. Friend sitting on her right, the Minister for Agriculture, Fisheries and Food, and inquire of him why in the world British farmers are encouraged to grow opium poppies as a cash crop in the face of all the other admirable activities of her Government to fight drug misuse?

The Prime Minister: My right hon. Friend says that he is looking into it. Strenuous efforts are made to ensure that the growth of that crop, necessary for pharmaceutical drugs, cannot be turned to illegal use.

Q4. **Mr. Dormand** asked the Prime Minister if she will list her official engagements for Thursday 6 March.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Dormand: Will the Prime Minister give urgent attention to the plight of sacked miners? Is she aware that there are 11 from my constituency, 74 from my county of Durham and 520 nationally, that many of them have won their appeals through industrial tribunals and that many have been acquitted by the courts? Before she adopts a Pontius Pilate role, saying that is a matter for the National Coal Board, will she realise that the re-employment of those miners will be the biggest single step that can be taken to begin to restore good relations in the coal industry, and will she bring pressure to bear on the coal board to do that?

The Prime Minister: The hon. Gentleman in part anticipated my reply. Of course it is a matter for the NCB but also I understand that one case is before the courts, to which I can make no reference. That is a matter for the courts to decide. The hon. Gentleman is aware tht the important thing is to have an efficient coal industry. Productivity has increased enormously. It needs to increase a good deal further, particularly with the fall in the price of oil, which has to compete with coal. The hon. Gentleman will be aware that, despite the improved performance, the taxpayer will still put something like £1·5 billion into the coal industry this year.

Q6. **Mr. Martin** asked the Prime Minister if she will list her official engagements for Thursday 6 March.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Martin: Does the Prime Minister agree that it is a scandal that some pensioners have died from hypothermia, some are living below the poverty line and some cannot turn on the heating because they fear the very high electricity and gas charges? What will the Prime Minister do for our elderly citizens?

The Prime Minister: I gave the figures in answer to another question; I shall repeat them. When the Labour Government were in power, the amount available for heating addition was £90 million. In 1979 deaths from hypothermia were at the highest level ever. Since then we have increased the amount available for heating to £400 million and there are amounts for severe weather payments. May I also remind the hon. Gentleman that in the lifetime of the Labour Government the price of electricity went up by 6 per cent. every four months and that under this Government the price of electricity has gone up only by 6 per cent. in three years? So pensioners have had a far better deal under this Government than they ever had under a Labour Government.

bid together, will he give the House a clear indication that this bid, which is British and local, will not be — *[Interruption.]*

Mr. Speaker: Order. All this takes up a great deal of time.

Mr. Ashdown: I will have my question. Will the Secretary of State give an undertaking that the bid, which is British and local, will not be decided on the grounds of a technicality?

Mr. Channon: I made the position clear regarding General Motors yesterday. Nothing has changed since 3.30 yesterday afternoon. In fact, Hill Samuel offered a meeting with Lancashire Enterprises Ltd. at 11 o'clock yesterday morning. When I came into the Chamber, no reply had been received. It seemed to me a helpful step that there should be a meeting to allow them to get on with it.

Mr. Robert Adley (Christchurch): My right hon. Friend might agree that there are few more nauseating noises than those made by someone who wants an American takeover one week and a British flag-waving operation the next. Leaving that aside, can my right hon. Friend help me? He has not yet managed to convince me that the Government are genuinely even-handed in their assessment of the General Motors bid as opposed to this bid and the other British bids. He has not yet managed to convince me that genuine equality of information has been offered for this bidder and for the other British bidders as opposed to the information to General Motors. Could he please try harder?

Mr. Channon: I tried hard at the same time yesterday afternoon to satisfy my hon. Friend. I am happy to come down every afternoon and do my best. I can only repeat the answer that I gave my hon. Friend yesterday, which assured him that we were treating all the firm indications of bids with extreme care.

Mr. John Smith (Monklands, East): The Secretary of State will understand that we are looking forward with interest to his daily appearances next week. Before then, can he answer two simple questions? First, is it not the case that Lancashire Enterprises Ltd. showed its firm interest before what he called the "close of play"? Secondly, what is the purpose of this meeting? Will it be open to the Government to receive a bid from Lancashire Enterprises Ltd. as a result of what transpires at the meeting? Will he please answer that yes or no?

Mr. Channon: It is clear that LEL did not put in a firm intention to make a bid by the appropriate time. However, at the same time, it did put in a telex which I have described to the House and to the right hon. and learned Gentleman. I understand from Hill Samuel that the purpose of the meeting which it suggested was to explore all those points. If suitable assurances can be found, I would not wish to rule out anyone on a technicality.

Mr. John Butterfill (Bournemouth, West): On a point of order, Mr. Speaker.

Mr. Speaker: Does it arise directly out of questions?

Mr. Butterfill: Yes, Sir.

Mr. Speaker: I shall take it, then.

Mr. Butterfill: You will have heard the question from the hon. Member for Liverpool, Garston (Mr. Loyden), Mr. Speaker, relating to the dismissal of local councillors and you may have seen early-day motion 547 in the name of the hon. Member for Liverpool, Riverside (Mr. Parry) calling for the dismissal of the judges who disqualified those councillors.

[That this House regards with grave concern the decision of Mr. Justice Glidewell, Mr. Justice Caulfield and Mr. Justice Russell to disqualify democratically elected councillors from Liverpool and Lambeth; notes that judges are themselves appointed and not elected; and calls for the immediate dismissal of these judges.]

Is it not a gross abuse of this House to use an early-day motion to call for the dismissal of judges whose duty it is to uphold the laws made by the House?

Mr. Speaker: It is perfectly in order. In fact, the only way in which it is possible to criticise a judge is to put down a motion.

Business of the House

3.44 pm

Mr. Neil Kinnock (Islwyn): May I ask the Leader of the House to state the business for next week?

The Lord Privy Seal and Leader of the House of Commons (Mr. John Biffen): Yes, Sir. The business for next week will be as follows:

MONDAY 10 MARCH—Debate on a motion to take note of the 1986 farm price proposals and the proposed milk outgoers scheme. Details of relevant EC documents will be given in the *Official Report*.

Debate on a motion on the second report of the Privileges Committee in Session 1984-85 (House of Commons paper No. 555).

TUESDAY 11 MARCH—Until about Seven o'clock debate on a motion to take note of EC document 5635/85 relating to a common policy and liberalisation of shipping. Details of relevant documents will be given in the *Official Report*.

Motions on the Local Government (Temporary Provisions) (Northern Ireland) Order and the Appropriation (Northern Ireland) Order.

At Ten o'clock the Question will be put on all outstanding supplementary Estimates and Votes.

WEDNESDAY 12 MARCH — Opposition Day (10th Allotted Day). Until about Seven o'clock a debate entitled "The City" followed by a debate entitled "Support for Students in Further and Higher Education". Both debates will arise on Opposition motions.

Afterwards, a debate on a motion to take note of EC documents relating to Community steel. Details of the documents concerned will be given in the *Official Report*.

THURSDAY 13 MARCH — Proceedings on the Consolidated Fund (No. 2) Bill.

FRIDAY 14 MARCH—Private Members' motions.

MONDAY 17 MARCH—Progress on remaining stages of the Gas Bill (1st Allotted Day).

The House will wish to know, Mr. Speaker, that it will be proposed that the House should rise for the Easter Adjournment on Thursday 27 March until Tuesday 8 April.

[Monday 10 March

CAP PRICE FIXING

Relevant European Documents

(a) 10174/85	*Milk production: outgoers scheme*
(b) 8480/85	*Reform of the Common Agricultural Policy*
(c) 5098/86	*Corrigendum to 8480/85*
(d) 4130/86	*Future of Community Agriculture*
(e) 10492/85	*Reform of Cereals Regime*
(f) 4150/86	*Beef Regime*
(g) 4075/86	*Report on situation in agricultural markets 1985*
(h) 4963/86	*CAP Prices 1986-87*

Debate on Tuesday 11 March

SHIPPING

Relevant European Document

(i) 5635/85	*Maritime transport policy*

Wednesday 12 March

STEEL OBJECTIVES

Relevant European Documents

(j) 5194/84	*Steel industry objectives for 1985*
(k) 8293/85	*Community steel policy after 1985*
(l) 9300/85	*Steel production quotas*
(m) 9301/85	*Aid to the steel industry after 1985*
(n) 8779/85	*Social measures in the coal and steel industries: Contributions to the ECSC Budget, 1985–1987*
(o) 4493/86	*Compensatory measures against United States restrictions on certain steel imports*

Relevant Reports of European Legislation Committee

(a) HC 21–iii (1985-86) paragraph 2.
(b) HC 5–xxx (1984-85) paragraph 10.
(c) HC 21–xiii (1985-86) paragraph 1.
(d) HC 21–ix (1985-86) paragraph 1.
(e) HC 21–vii (1985-86) paragraph 2.
(f) HC 21–x (1985-86) paragraph 3.
(g) HC 21–xiii (1985-86) paragraph 1.
(h) HC 21–xiii (1985-86) paragraph 1.
(i) HC 5–xxi (1984-85) paragraph 5.
(j) HC 78–xxii (1983-84) paragraph 2.
(k) HC 5–xxx (1984-85) paragraph 9.
(l) HC 5–xxxi (1984-85) paragraph 6.
(m) HC 5–xxxi (1984-85) paragraph 6.
(n) HC 21–iv (1985-86) paragraph 1.
(o) HC 21–viii (1985-86) paragraph 2.]

Mr. Kinnock: I am tempted to ask the Leader of the House whether he will take up the kindly offer of the Secretary of State for Trade and Industry to provide us with daily statements on the continuing saga of the British Leyland affair. If we have daily statements, they will have to be made before the close of play and we shall have to call the period injury time.

In answering questions yesterday, the Secretary of State for Trade and Industry refused repeatedly to give a time scale or timetable for the scale of Land Rover, Freight Rover, Leyland Trucks and related businesses. Today's press reports suggest that the Government plan to complete the sale by Easter. Can the right hon. Gentleman tell me whether that is true? Will he ensure that in any event the House is given time to debate the matter before we rise for the Easter recess on 27 March?

In view of the sentiments expressed by a senior spokesman for the President of the United States about that Administration's hostility towards Nicaragua and its readiness to contemplate the use of military force against that country, will the right hon. Gentleman ensure that the Foreign Secretary makes a statement next week on the Government's attitude towards President Reagan's policy? If his policy was carried into effect, it would pose a further threat to the stability of the central American region.

In view of the apparently well-founded story in this morning's edition of the *Financial Times* about proposals for narrowly limiting the future programme content and powers of the BBC, will the right hon. Gentleman give an assurance that no action will be taken in that direction until the House has had a chance to consider it and to raise objections to it?

Mr. Biffen: The time scale and timetable, to quote the words of the Leader of the Opposition, for the handling of Leyland were outlined yesterday in the House by my right hon. Friend the Secretary of State for Trade and Industry.

As for a debate on the matter this side of the Easter recess, perhaps that is something that we can consider

R11/3 PRO.

Donald E. Petersen
Chairman of the Board

Ford Motor Company
The American Road
P.O. Box 1899
Dearborn, Michigan 48121-1899

March 5, 1986

Dear Prime Minister:

I am glad to have your letter of February 14 and grateful for the reassurance it contains. Neither I nor my predecessors have ever had any doubt about your own commitment to Ford Motor Company's various operations in Britain. We have also appreciated your understanding of the changing nature of our complex international business.

I have to say, however, that we would be a great deal less than thoughtful if we failed to recognize that our honest initiative in regard to Austin/Rover produced some quite hostile responses. They were of the kind we did not anticipate and still find hard to understand completely. Our British management, in particular, is very disturbed.

Certainly, now is not the time to do more than thank you most sincerely for your letter and for your personal attention to the matter. However, I am hopeful that you may agree that a useful purpose could be served, later in the year when I am in Britain, to talk about these matters with you or, if you wish, with your chosen ministers.

A more substantial understanding of these recent and, to us, disturbing developments, would be helpful as we come towards some important strategic decisions that face us.

Yours sincerely,

Donald Petersen

The Rt. Hon. Mrs. Margaret Thatcher
Prime Minister
10 Downing Street
London W1
England

APPOINTMENTS IN CONFIDENCE

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

cc Q Prep TF BG WLW

Secretary of State for Trade and Industry

PS/

APPOINTMENTS IN CONFIDENCE

5 March 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David,

BL : STATEMENT

... I attach a copy of the latest text of a Statement we propose to make this afternoon at 3.30pm. At present the final paragraph remains provisional on Mr Hares' agreeing some fairly detailed points on his terms and conditions. The hope is that there will be no problems and that the Statement will be given as drafted.

2 Copies of my letter and its attachment go to the Private Secretaries of the Lord President, the Chancellor, the Chief Secretary, the Chancellor of the Duchy, Foreign Secretary, the Chief Whip and Leader of the House.

Yours ever,

John Mogg

J F MOGG
Private Secretary

Encl

JF3ADS

1786 1986 BOARD OF TRADE BICENTENARY

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cc B/VP

27

PRIME MINISTER

LAND ROVER LEYLAND

Flag A — MISC 126(86)3

BACKGROUND

This paper by the Secretary of State for Trade and Industry responds to the remits given him at the previous meeting of MISC 126 on 27 February. You are already aware of all the background.

Flag B

2. The invitation to companies other than GM to give acceptable indications by 4 March of their firm intention to bid for parts of Land Rover-Leyland (LRL) has not flushed out an obviously more attractive offer. The candidates now are

i. GM - for all LRL businesses apart from the buses; (£230 million)

ii. Schroders (on behalf of LRL management) for Land Rover and Freight Rover only; (about £144 million)

iii. Lonrho for Land Rover (including Range Rover) only; (in the range of £12-155 million depending on assumptions/ interpretations.)

iv. Aveling Barford for Land Rover without Range Rover. (£100 per vehicle sold in next 3 years, plus 'net working capital).

In addition BL are in separate discussions with the Laird Group and Aveling Barford on the future of Leyland Bus, and management buy out proposals may also be received. (These discussions are proceeding in a slower timescale.)

3. The next step will be for the BL Board and the DTI to evaluate the proposals. The advantages of the GM proposals were already well recognised in the earlier E(A) discussion, and it appears that GM place a much higher value on Land Rovers/ Freight Rover (about £200 million) than the other bidders.

The management buy-out offer plainly has political attractions, although the Company might prove relatively weak financially, and less well able to finance model replacements, as well as lacking any marketing strength and expertise in the US. This approach, of course, does nothing to solve the problems of Leyland Trucks, or of the Bedford Van and Truck businesses. The Lonrho bid excludes Freight Rover, and so would be consistent with a UK solution for Land Rover combined with GM purchase of Trucks and Freight Rover; but the financial terms are apparently hard to evaluate. Nevertheless the Lonrho bid will require further study. The Aveling Barford bid appears to have little merit: it excludes Range Rover, despite the fact that Land Rover and Range Rover are an integrated operation; the Company is small and although apparently British is actually foreign-owned; and the financial terms do not look promising. The BL Board are expected to give their views after their next meeting on Tuesday 11 March.

4. The Trade and Industry Secretary outlines in the concluding section of his paper the further approach he proposes to make to GM (at a meeting on the afternoon of Thursday 6 March with Mr Stempel, the Executive Vice President with responsibility for commercial vehicles worldwide). There are four elements to this:

a. a strengthening of the assurances GM would give about their future conduct of their UK commercial vehicle business if the deal were approved;

b. the possibility of keeping the Freight Rover plant in operation at least until 1990;

c. the possibility of extracting Land Rover from the deal, so opening the way to either a 100 per cent UK solution or to a joint venture with GM in which there would be a UK majority shareholding;

d. an improvement in the financial terms of GM's offer, notably on the marketability of the note in which £76 million of the consideration is to be paid.

Plainly there would be a significant price if GM were to make concessions on extending the life of the Freight Rover plant, or diluting their holding in Land Rover; Mr Channon judges that GM would not be willing in any event to exclude Freight Rover from the deal, since vans are, if anything, more important to them than trucks. And plainly there would be difficulty in amalgamating the management buy-out in a joint venture with GM, unless GM were willing to rely on the present management for the degree of effective control they would wish to have, despite their minority shareholding position. (A delicate balance will need to be struck in these discussions between improving the offer from HMG's standpoint and avoiding repelling GM altogether.

5. Annex A to the paper presents some necessarily partial further information about the financial results and prospects of the LRL and GM businesses taken separately and taken together. This shows clearly that over the three years 1986-88 only Land Rover of the LRL businesses offers the prospect of substantial profits and a positive cash flow. The figures given for the combined businesses in 1989 must be pretty speculative; but the direction of the comparison - improvements in cash flow of £20 million each on trucks and Land Rover, and approaching £10 million on vans - must be correct. It would be as well to establish that these comparisons allow fully for the substantial future investments which GM promise in section 6 of the draft letter of assurance attached at Annex B.

MAIN ISSUES

6. The questions before MISC 126 are essentially procedural; there can be no question of taking any decisions until the alternative bids have been evaluated (and the BL Board has given its views on them), and the scope for changes in the GM deal has been fully explored. When the results of this further work are ready to be put before the Group, it will be necessary

for the report to cover also

a. options for the future of Leyland Trucks if the GM deal does not go ahead;

b. the best assessment that can be made about the future of the Bedford Van and Truck businesses in that event; and

c. how the Government would handle the competition implications (and particularly the possibility of a reference to the Monopolies and Mergers Commission) of whatever arrangements were decided.

7. The immediate decisions facing the Group are

i. the timing and content of a further report to be made by the Secretary of State for Trade and Industry, and the implications of this for the timing of the Government's eventual decisions;

ii. the question of the proposed early approach to the European Commission to notify them of the Government's intentions in the light of the state aid rules.

Timing and content of further papers for the Group

8. It should be possible to make substantial progress with the evaluation of the alternative bids, and also to explore with GM the scope for variations in the shape of the deal they have offered, in time for a further meeting of the Group before Cabinet on 13 March. The BL Board's evaluation should also be available for that meeting. As noted above, the further report would need to cover possible alternative options for the future of Leyland Trucks, and how to handle the MMC dimension. Thereafter it would be reasonable to look to Cabinet on 20 March to take the final decision, probably on the basis of the recommendations of a further meeting of the Group shortly before that date.

Approach to the European Commission

9. The Trade and Industry Secretary apparently contemplates an immediate approach to the Commission, before any decisions are reached. It may be that this is tactically the best course as well as legally the correct one; but there can surely be no question of allowing the Commission any effective voice in the Government's decisions - the Commission's powers relate to the approval of state aids, which in this case would mean the right-off of debt which would otherwise be a burden on Austin-Rover, the business which is not affected by any of the proposals currently under consideration. It would be as well to establish the Trade and Industry Secretary's precise intentions on the timing and content of the proposed approach to the Commission, to ensure that it does not impede the Government's decision-taking, or introduce unnecessary new political risks.

HANDLING

10. The alternative bids suggest that a UK solution for Land Rover should be feasible, and leave open the possibility that this might be consistent with a GM solution for Leyland Trucks. In that event, however, there looks to be no long term future for Freight Rover. On the other hand, if there is no GM deal on trucks and vans, politically awkward consequences arising out of the rationalisation of Bedford Trucks and Vans must be expected; and the Government, having rejected the GM offer, could find it hard to avoid some of the blame for this. This is the essential political dilemma the Group faces. You will wish the Secretary of State for Trade and Industry to introduce his paper. Thereafter the Chancellor of the Exchequer will no doubt wish to review the prospects from an economic and financial standpoint. The other Ministers - the Lord President of the Council, the Chancellor of the Duchy, and the Secretaries of State representing Midland constituencies - will wish to comment on the political aspects. You will wish to avoid any firm decisions, and to emphasise the problems of over-capacity and

of generating the funds required for the development of new models, which will need to be tackled in the commercial vehicle sector, whatever decisions are taken about the future of the individual LRL businesses.

CONCLUSIONS

11. You will wish to reach conclusions on

i. the timing and content of the further report to be made to the Group by the Secretary of State for Trade and Industry;

ii. provisionally, the timing of the Cabinet's final decisions on LRL; and

iii. the timing and content of the proposed approach to the European Commission.

J B UNWIN
Cabinet Office
5 March, 1986

Att in final form

Latest draft 17-30

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MISC 126(86)3 COPY NO

CABINET

MINISTERIAL GROUP ON LAND ROVER-LEYLAND

BL : LAND ROVER-LEYLAND

Note by the Secretary of State for Trade and Industry

At its meeting on 27 February, MISC 126 asked me to prepare a further paper reporting latest developments, considering possible further approaches to GM and how the presentation of the Government's position might be improved.

LATEST DEVELOPMENTS

2 On expiry of the 4 March deadline, the following parties had ~~indicated~~ their firm intention to bid for individual businesses within Land Rover-Leyland (LRL).

given acceptable indications of

LEYLAND TRUCKS/LAND ROVER/FREIGHT ROVER	INDICATIVE BID (£m)
GM	230
LAND ROVER/FREIGHT ROVER	
Schroder (on behalf of LRL management)	C.144
LANDROVER/ ~~RANGE ROVER~~	
Lonrho	12/155
~~LANDROVER~~ Aveling Barford	net working capital + £100 for every vehicle sold over next 3 years

Only GM is ~~therefore~~ interested in all the LRL businesses.

3 A vague expression of interest in LRL has been received from Lancashire Enterprise Ltd. Paccar (in respect of Leyland Trucks), Volvo (Leyland Bus) and Chase Manhatten (Land Rover) decided not to pursue their interest in

has / was decided / not to pursue them. ~~it~~

JF3ADR

CMO UNTIL

acquisition. BL are also in discussion with the Laird Group and Aveling Barford on the future of Leyland Bus and certain management proposals may also be received. A longer timescale is involved but I hope the possibilities for Leyland Bus will become clearer by the end of March.

4 The proposals are now under study by BL, my Department and the respective merchant banking advisers. The BL Board meet on 11 March and I expect to receive their recommendation - including whether or not to pursue further any of the alternative proposals - immediately thereafter. ~~The initial reaction of BL at Staff level however is that, on industrial and commercial grounds, the GM proposals remain the front runner and offer the only comprehensive solution to the problems of the business.~~

PRELIMINARY EVALUATION

5 Our objective ~~is~~ remains to secure a viable and internationally competitive commercial vehicle industry in the UK offering prospects for long-term job security against a background of European over-capacity, loss making companies and necessary rationalisation. Which of the options seems most likely to secure this?

SCHRODER (LAND ROVER/FREIGHT ROVER/MANAGEMENT

6 The option has political attractions in keeping the sensitive Land Rover business in British hands and involving management and workforce in the ownership of the company. In commercial terms however it appears to involve a substantial increase in the debt burden of the company, with future profits being to some extent diverted to meet interest charges rather than being reinvested in needed product and facility expenditure. Marketing weaknesses such as the lack of any US distribution network for Land Rover and an inadequate European network for Freight Rover would have to be addressed. The problems of Leyland Trucks, Bedford Trucks and Beford Vans would not be solved. (Annex A contains financial information on the businesses). If as a result the Bedford operations were to close there would be a direct loss of ~~7,000~~ 6,700 jobs and many more in component companies. If Leyland Truck continued to rely on Varley Marshall backed borrowings, the Government's potential liability on this business would increase by over £100m by 1990.

7 Nevertheless because of its political attractions, this option needs further evaluation.

LONRHO

8 The cash offer for Land Rover covers such a wide range that it is difficult to form a judgement on the financial implications. Depending on what is intended, the £12m cash offer could be derisory and saddle the business with worse debts than under the management buyout option. At the £155m level however the offer has financial attractions - though not as good as the probable £200m out of the £230m total value placed on the business by GM. It also has political attractions since British ownership would be secured. Questions on the commercial implications however need to be addressed. While Lonrho has strengths in vehicle distribution and retailing, experience in manufacturing is limited. Its financial resources and Land Rover assembly operations in Africa are assets which should benefit the company but it has no relevant marketing presence in the largest 4x4 market in the world, the USA.

9 Whether it could provide a ~~stop~~ change in the nature of a business which currently has 47 per cent excess capacity must therefore be questioned. Lonrho's lack of interest in Freight Rover (which needs Land Rover profits and cash flow to sustain itself) is a ~~major~~ risk, while this option also offers no solution to the problems of Bedford van or Leyland and Bedford trucks.

10 Further discussions and analyses are necessary.

AVELING BARFORD

11 This construction equipment manufacture ~~only~~ had a turnover of £31m in 1984 with profits of £0.75m. It does not offer the financial strength or distribution and retailing outlets of Lonrho, has no real presence in the US market and is not bidding for Range Rover despite the integrated nature of the Land Rover manufacturing facility. While ~~ostensibly~~ a British company its current shareholders are foreign and despite its relevant manufacturing experience it offers less than Lonrho.

GENERAL MOTORS

12 The GM proposal covers all the relevant businesses except Bus. It could provide a comprehensive solution to the immediate problems of the lossmaking Bedford and Leyland Truck operations and in the medium term the problems of Bedford Vans. ~~The probable~~ closure of the Freight Rover facility is balanced by the improved competitiveness of the

Luton facility and hence the overall van business. Land Rover ~~which although~~ likely to be able to sustain itself independently ~~is nevertheless exposed to growing competition~~ particularly from the Japanese, and the GM deal would add financial technical and marketing strength especially in the vital US market. Annex A notes what GM expect to bring to the deal by 1989 - the contribution to Land Rover is particularly significant. It also shows the negative cash flows of the LRL businesses other than Land Rover and hence the desirability of keeping the business together if at all possible.

CONCLUSIONS

13 We should not take any immediate decisions on Lonrho, the management buyout or Aveling Barford: the BL Board will assess these and ~~present~~ conclusions at their Board Meeting on 11 March. Nor should we take immediate decisions on Leyland Bus where assessment of possible courses is in hand.

14 On GM, I have a meeting arranged for the afternoon of Thursday, 6 March with Mr Stempel, the Executive Vice-President of GM with responsibility for commercial vehicles worldwide. Subject to colleagues' agreement I propose to say that we are still considering alternative bids but remain very serious in our interest in the GM proposals. As they will know, however, this matter has become politically highly sensitive, ~~but~~ against this background the Government wish them to consider four aspects of the proposed deal:

(a) Strengthening of asssurances: the language of the proposed letter needs considerable improvement, and on substance I want to explore several further points.

(b) The future of Freight Rover: the ~~likely~~ early closure of the Freight Rover plant in Birmingham is an increasingly sensitive point: GM should consider reviewing their position on this so that the future of the plant is guaranteed at least until 1990, ~~and offer what comfort they can on possible alternative uses of the plant thereafter.~~

(c) Land Rover: GM should consider, and give us ~~their further~~ and final views, on whether the Land Rover 4x4 business can be extracted from the deal on trucks and vans, leaving us free to

pursue a UK solution. I do not favour this course from an industrial viewpoint since I believe Land Rover would have a more secure future with GM than under the alternatives; but we need to know whether GM would in fact proceed on trucks and vans without Land Rover. (I see no prospect whatever of their proceeding on trucks without vans, which are if anything more important to them). If they are not willing to extract Land Rover altogether, they should consider some element of UK participation in it; to be politically useful this would need to leave ultimate working control in UK hands, but conversely to be acceptable to GM would almost certainly need to leave effective management control with GM. Because of the latter point, it is unlikely that the UK element could include the present management buyout proposal, since that would lock GM into using the existing management. An alternative UK industrial or institutional package would therefore need to be procured if we wished to pursue this possibility and if GM were willing to contemplate it. Colleagues should be warned however that either of these courses risks considerable delay

(d) Financial terms: of the £230m offer by GM, £154m is in cash and £76m in the form of a note. The size of the firm cash element presents difficulties especially in relation to other bids for Land Rover. GM will need to prove the size of the cash element, or at least improve the marketable quality of the note. If the scope of the deal were altered however (e.g on Land Rover) these figures would in any case have to change radically.

15 We should now take immediate steps to notify our intentions (giving alternatives where appropriate) to the European Commission under the state aid rules. We must accept the substantial risk that this will lead to a formal Procedure under Article 92.2, which will on any basis take several months to resolve, with at least a possibility that the Commission would in the end block the injection of equity into BL to pay off the debts of the Land Rover-Leyland businesses. This would not necessarily postpone the GM deal (or whatever alternatives we decide upon), but would leave the full weight of BL's debt on the Austin Rover

business, thus making it impossible for the Austin Rover business to achieve viability. We must be prepared to use all possible political pressure to prevent this outcome.

16 On presentation, we cannot yet come out firmly in favour of any of the proposals before us. Until we are ready to make decisions, therefore, we have to accept a difficult political period. We should seek to alleviate this by emphasizing the major problems faced by the commercial vehicle industry across Europe, the inevitability of rationalisation and the inescapability of taking possibly painful decisions of some kind in the very near future.

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DEPARTMENT OF TRADE AND INDUSTRY
5 March 1986

ANNEX A

FINANCIAL DATA

PROFIT/(LOSS) BEFORE INTEREST & TAX (£m)

	1985 (est)	1986 (Forecast)
Leyland Trucks Ltd	(31.1)	(16.8)
Leyland Parts Ltd	4.6	6.7
Land Rover Ltd	2.0	22.3
Freight Rover Ltd	7.1	7.8
LR Parts & Equipment Holdings	2.0	0.9
LR-L International Holdings	1.4	6
Bedford Trucks	(14.0)	N/A
Bedford Vans	(24.0)	N/A

PROFIT (LOSS) BEFORE TAX (£m)

	PBT	
	1985 Estimate	1986 (Forecast)
Leyland Trucks Ltd	(63.1)	(47.8)
Leyland Parts Ltd	3.3	6.9
Land Rover Ltd	(5.9)	15.1
Freight Rover Ltd	7.0	6.9
LR Parts & Equipment Ltd	2.0	0.8
LR-L International Holdings	(12.4)	(8.0)
Bedford Commercial Vehicles (Trucks and Vans)	(60)	N/A

ANNEX A

PROFIT AND CASH FORECASTS FOR COMBINED BUSINESSES

£m	1986/8 3 yr total
PBIT	
Trucks	29
Vans	(4)
4 x 4	93
Other (incl parts)	37
CASHFLOW	
Trucks	(18)
Vans	(39)
4 x 4	60
Other	5

GM CONTRIBUTION TO COMBINED BUSINESSES

£m		1989
CASHFLOW		
Trucks	- Leyland alone	(1)
	- Combined businesses	20
Vans	- Leyland alone	(1)
	- Combined businesses	6
4 x 4	- Leyland alone	12
	- Combined businesses	33

Annex B

7273D

TO: Department of Trade and Industry

ATTACHMENT I

WORKING LEVEL DRAFT
February 17, 1986

During the course of the talks which led to the execution of comprehensive agreements for the acquisition by GM of LR-L and the consolidation of those operations with its Bedford operations, representatives of the Department of Trade and Industry and representatives of GM had a number of discussions regarding the future of the new entity.

GM was very pleased to find that GM and Her Majesty's Government shared the common goal of fostering a profitable, internationally competitive commercial vehicle operation based in the U.K. For GM's part, achievement of this goal facilitates GM's corporate objectives of providing high quality transportation products for its customers worldwide and earning an acceptable return on its investment. GM understand that from the standpoint of the Government, the existence of a profitable, competitive domestic commercial vehicle operation is a high priority in order to provide secure jobs in the long term and to generate tax revenues.

Furtner, the combined Bedford/LR-L operations, having gained important efficiencies through rationalization, will form a strong base from which to build GM's overall European commercial vehicle business. GM believes that concentrating these efforts in the U.K. has major advantages and is consistent with its long-standing participation in the U.K. commercial vehicle business.

GM's representatives had discussions with you on GM's plans for the new organization with respect to product, manufacturing, exports, and future investments. As indicated, these plans represent GM's current thinking based on the state of the international commercial vehicle industry today and GM's best projections for the future. At the same time, both parties recognize that it would be unrealistic to believe that these plans could be maintained if substantially changed circumstances, such as a sustained economic downturn, made them inconsistent with the mutual goal of GM and Her Majesty's Government of maintaining a profitable, internationally competitive U.K. commercial vehicle operation. Of course, one important factor affecting GM's ability to operate on a profitable basis and offer competitive products is the continuing support of the U.K. government in fostering a suitable environment for maintaining viable manufacturing industries in the U.K.

Thus, subject always to operating profitably and being able to offer internationally competitive products, GM indicates that its current plans for the new operation are as follows:

1. PRODUCT

GM's plans are that the new operation offer a full line of internationally competitive commercial vehicles, including a broad range of vans, light, medium and heavy duty trucks, 4 x 4's and speciality and military vehicles. The product range will initially be based on the best of the LR-L and Bedford products, with new products being added and developed as appropriate, drawing on the strengths of the combined entities, as well as GM's worldwide product availability and design and development resources.

2. LOCAL CONTENT LEVELS

GM's plans with respect to existing model lines are to maintain EEC and British manufactured content levels commensurate with those currently being achieved by LR-L and Bedford. With respect to future model lines, GM aims to achieve levels broadly similar to current levels.

3. MANUFACTURING

GM recognizes that there can be many benefits resulting from its achieving and maintaining a viable commercial vehicle manufacturing base in the U.K. GM plans call for the U.K. to continue as the major GM manufacturing base in Europe for the commercial vehicles referred to in paragraph 1, consistent with GM's desire to offer high quality, competitive vehicles, and with the Solihull plant of Land Rover being retained, with flagship status, as the main manufacturing base for Land Rover products, which will continue to have a special British character, consistent with the same desire to offer high-quality, competitive vehicles.

4. EXPORT

GM plans that the new operation will, over time, significantly increase its level of exports and become a strong and viable competitor in the European commercial vehicle industry. GM also intends to accelerate current North American export plans for the Land Rover products by substantial sales through its existing distribution network. The level of these exports will, of course, depend on various factors, including manufacturing costs and exchange rates.

5. RESEARCH AND DEVELOPMENT

GM will continue to concentrate its European-based research and development acitivities for commercial vehicles in the U.K. GM believes that the combined Bedford/LR-L research and design facilities and capabilities will be cost effective and benefit from access to GM's worldwide technological resources.

6. FUTURE INVESTMENTS

GM recognizes the importance of effective new investment to bring about increased competitiveness of the European commercial vehicle operations created by the combination of LR-L and Bedford. In this regard, capital expenditures and development expenses in the U.K. are estimated to total £240 million in connection with the Truck and Van businesses in the five years following the acquisition. Projections which have been made available to GM indicate capital expenditures for the Land Rover business of approximately £135 million over the same period. GM believes that these plans are quite appropriate and reasonable, but wishes to confirm them after a full evaluation.

GM trusts this letter accurately reflects our mutual understanding. If you should have any questions regarding these matters in the future, or if you should desire specific information as has been the practice in the past with Bedford, GM would be happy to accommodate you.

Sincerely yours,

British Leyland

3.31 pm

The Secretary of State for Trade and Industry and President of the Board of Trade (Mr. Paul Channon): With permission, Mr. Speaker, I wish to make a statement.

As I informed the House on 19 February, an invitation was extended to interested parties to declare by 4 March a firm intention to make a bid for one or more of the Land Rover, Freight Rover, Leyland Trucks and related businesses.

I can now report to the House that appropriate declarations have been made to BL's bankers by Schroder Ventures on behalf of some institutions and some members of BL management in respect of Land Rover, Range Rover and Freight Rover; by Lonrho in respect of Land Rover and Range Rover; and by Aveling Barford in respect of Land Rover only. General Motors has also confirmed its intention to make a bid for Land Rover, Range Rover, Freight Rover and Leyland Trucks.

The Laird Group and Aveling Barford are each in discussion with BL regarding the acquisition of Leyland Bus, for which proposals on behalf of some members of the management are also expected. Discussions in relation to Leyland Bus are taking place over a slightly different timescale from those concerning other Land Rover-Leyland businesses. I shall make a further statement to the House on these in due course.

The BL board is giving careful consideration to all the proposals received on or before 4 March and I hope to have its recommendations shortly. The board and the Government remain anxious to end the present uncertainty surrounding the businesses as soon as possible in the interests of the companies, management and work force and dealers and suppliers.

I take the opportunity to inform the House of a forthcoming change in the chairmanship of BL. Sir Austin Bide's appointment as chairman of BL was extended in late 1984 on the basis that he would continue as chairman until a convenient moment for his retirement was reached. Sir Austin has kindly agreed to remain as chairman until decisions have been made on the future of the main Land Rover-Leyland businesses. That will represent the start of a new phase in the development of BL and, on my nomination, the BL board proposes to invite Mr. Graham Day, at present chairman of British Shipbuilders, to join the board and to become full-time chairman of BL at a date to be determined. I express the Government's thanks and add my warmest pesonal tribute, to Sir Austin, under whose leadership BL has achieved notable progress.

I am appointing Mr. Phillip Hares, the present deputy chief executive and board member for finance of the corporation to succeed Mr. Graham Day as chairman of British Shipbuilders.

Mr. John Smith (Monklands, East): As this tangled web becomes more and more confusing and complex, is it not clear that the Government should never have departed from the concept of British Leyland remaining a integrated and public sector operation strongly supported by the British Government?

Will the Secretary of State confirm that the Government approached General Motors as long ago as April 1984, and for 18 months General Motors has been able to consider and negotiate its position, while all other bidders have been given little more than 20 days? Does that not show that the Government were already predisposed to sell the lot to General Motors? In view of the representations made to the Minister of State by my right hon. Friend the Member for Swansea, West (Mr. Williams) and my hon. Friends the Members for Blackburn (Mr. Straw) and for Preston (Mr. Thorne), why is it that Lancashire Enterprises Ltd. does not appear in the list of those permitted to make a bid for parts of the operation?

What will the time scale be? Is it correct, as is widely rumoured, that the Government will impose a time scale whereby the whole operation has to be completed by the end of this month? Given the fact that the Secretary of State confirms that the only bidder for Leyland Vehicles is General Motors, has that not put the Government in a hopeless position whereby General Motors will be able to insist on acquiring Land Rover as a condition for acquiring Leyland Vehicles? How do any sensible Government put themselves in such a hopeless bargaining position?

After this asset-stripping operation is completed, what will the new chairman be chairman of? Should he not be called chairman of Austin Rover? The Secretary of State will have seen a report on the back page of the *Financial Times* today, of a speech by Mr. Bob Lutz, chairman of Ford of Geneva. The article says:

> "Ford was willing to restart talks about a possible takeover of Austin Rover . . . He said the Government had panicked recently when it told Ford to end the talks".

What is the Secretary of State's comment on that? In view of that ominous statement, will he give us a crystal-clear guarantee that, throughout the lifetime of this Government, there will be no talks by the Government, or by British Leyland at their instructions, with Ford about the Austin Rover Group?

Mr. Channon: I shall try to deal with the points that the right hon. and learned Gentleman has raised. What he said about selling is unreasonable. It has been known for many years that the Government had every intention of privatising British Leyland and its component parts. That has been known ever since the last general election. There is no question of reopening talks with Ford or Austin Rover and any rumours to that effect I disown and reject. I am satisfied that bidders had adequate time to put in a firm indication of interests. We shall study them carefully on their merits, and there is no question of any Member of the Government having made up their minds before these careful considerations have taken place. I assure the House that that is the case. [HON. MEMBERS: "That is not what the Prime Minister said."] That is indeed what my right hon. Friend said.

We shall consider carefully the indications of interest that have come in. As to Lancashire Enterprises Ltd., people from it had meetings with my hon. Friend the Minister of State early yesterday, and every assistance was given to it to try to get it into a position to make a firm indication of interest, but I understand that by last night it had not given any such indications.

Mr. Michael Grylls (Surrey, North-West): Does my right hon. Friend agree that, whatever the outcome of the consideration of these different bids, parts of BL are now desirable packages and it is a good thing to have several different bidders so that one can choose from them? Does he accept that Government are no longer a good owner because these businesses need considerable sums of capital

African National Congress

12. **Mr. Caborn** asked the Secretary of State for Foreign and Commonwealth Affairs if he will give an account of the circumstances appertaining to, and the dicussion during recent meetings between, the African National Congress and representatives of Her Majesty's Government.

Mrs. Chalker: We arranged the meeting in Lusaka on 3 February between a senior official of the Foreign and Commonwealth Office and representatives of the African National Congress to reinforce the urgent need for dialogue within South Africa, and the general suspension of violence called for in the commonwealth accord.

Mr. Caborn: I welcome that statement. I also welcome the hon. Lady's recent speech in which she called for the unconditional release of Nelson Mandela, and said that that would show to the world that South Africa meant business. Does she not find a twinge of inconsistency in calling for that release, but being unwilling to meet representatives of the African National Congress in London?

Mrs. Chalker: There is absolutely no inconsistency. We have always said that we believe that the unconditional release of Nelson Mandela would constitute a major act of national reconciliation in South Africa, and could provide the impetus for genuine dialogue for a peaceful settlement. We have stressed the importance of that move to the South African Government. In the same way, the official level contacts with the ANC are also to promote dialogue and to get it to renounce violence, and so to bring a peaceful end to the present awful position in South Africa.

Mr. Forth: Will my hon. Friend confirm that meeting ANC representatives in no way condones or supports the techniques of terror that they are prone to use in South Africa? What would be her reaction if a foreign country approached Her Majesty's Government to make representations on the legitimate imprisonment of one of our citizens?

Mrs. Chalker: My hon. Friend is right. In no way do we condone violent behaviour. However, I must tell him that when a foreign Government approach us, we consider each approach on the facts as they are known to us. One cannot give a blanket response to cover the wide variety of approaches with which we must deal from many different countries.

Falkland Islands

13. **Dr. Marek** asked the Secretary of State for Foreign and Commonwealth Affairs what discussions he has had with European Economic Community partners concerning the United Kingdom's attitude to negotiations with Argentina over the Falkland Islands; and if he will make a statement.

Mr. Eggar: As I explained to the House on 18 December 1985, our EC partners are briefed, as appropriate, on the international aspects of our Falklands policy, bilaterally and within the framework of European political co-operation. We have ensured that they are aware of our commitment to the Falkland islanders, and of our desire for better relations with Argentina.

Dr. Marek: Is the Minister aware that one step along the path towards normalising relations with Argentina would be to end the unprincipled and extremely damaging fishing free-for-all in the waters round the Falkland Islands? Is he aware that many hon. Members, the islanders and Argentina want it ended? If he cannot get anywhere at the Food and Agriculture Organisation talks in Rome, will he do something himself quickly?

Mr. Eggar: We share the hon. Gentleman's anxiety about fishing off the Falklands. As he knows, we are actively pursuing efforts to achieve agreement on multilateral arrangements for fisheries under the auspices of the FAO. We have urged other Governments to co-operate with the FAO, and we were heartened by the signs that Argentina is ready to support the FAO initiative.

investment if they are to keep up with the international market, and the Government will always have more pressing demands on their money for things such as schools and hospitals, and industries in which they have an interest will always come bottom of the list? The sooner these firms are returned to the private sector, the better for the firms, the better for production and the better for the people who work in those firms.

Mr. Channon: I entirely agree with my hon. Friend. He has made three very important points. First, he draws attention to the fact that, under this Government, British Leyland is in a much better state than it was when the Opposition had control of it. Secondly, it is quite true that large sums of capital investment are required in various parts of British Leyland if they are to be in a position to compete in the long term. Thirdly, what we are trying to do and what we shall continue to try to do is to secure the long-term commercial future of these industries and the jobs of the people who work in them.

Mr. David Steel (Tweeddale, Ettrick and Lauderdale): Having talked yesterday to both the management and the shop stewards at Land Rover, may I put a question to the Secretary of State that I have asked repeatedly both of him and of the Prime Minister? What formal consultations will there be with the 8,000 employees of Land Rover about their future before decisions are made? We appreciate that in terms of making a fast buck or short-term employment the case for selling the whole organisation to General Motors must seem attractive to the Government, but in terms of the long run—the design, manufacturing and engineering capacity of this country—surely it is worth while to take a little longer and to try to find British-based solutions for each division of the company?

Mr. Channon: On the right hon. Gentleman's last question, I think I am right in saying that Mr. Andrews makes it clear in his letter that he is anxious for a quick solution because he thinks that it is very damaging if this uncertainty drags on. I cannot therefore agree with the right hon. Gentleman that we should take a long time. We want to have a reasonable period in which to consider the indications of interest that have been expressed and to put forward proposals that meet the best long-term interests of the companies concerned. There the right hon. Gentleman and I are at one. Consultation with the work force is a matter for the companies concerned. They tell me that they are keeping their work force informed continually and that they will continue to do so. My hon. Friend the Minister for Industry has received deputations from the work force and from the trade unions and we shall be delighted to continue to do so.

Mr. Hal Miller (Bromsgrove): Will my right hon. Friend confirm that not only was it the long-standing policy of the Government to return these businesses to private ownership once they were profitable but that that was also the declared policy of the British Leyland board and of the subsidiary boards? Will he also confirm that we should welcome the fact that these enterprises have become successful, that a return to the private sector is now possible and that the Government's decision will be based upon the best interests of those who work for and supply those companies?

Mr. Channon: My hon. Friend is entirely right. As I have explained to the House on a number of occasions, the BL board agrees with that policy. It is entirely right that these subsidiaries should be returned to the private sector. If the Opposition had been in power, the companies certainly would not be in a profitable state.

Mr. Terry Davis (Birmingham, Hodge Hill): Will the Secretary of State confirm that Freight Rover has consistently made a profit on the manufacture and sale of Sherpa vans in this country, whereas General Motors is making a loss on its van operations in this country? Will he also confirm that Freight Rover is now selling more vans than General Motors is selling in this country? Does he agree that for General Motors to take over Freight Rover would be for a loser to take over a winner?

Mr. Channon: I had better give the hon. Gentleman the figures for 1983 and 1984 for Land Rover (UK) Ltd. I can give him the published figures for the first half of 1985; I do not have the later figures. In 1983, Land Rover (UK) Ltd.—which includes Land Rover, Freight Rover and parts and equipment—made a loss of £14·5 million. In 1984 there was a small profit of £2·4 million. In the first half of 1985 the profit, before interest and tax, was £5·7 million.

Mr. Davis: Freight Rover.

Mr. Channon: Of course, one has to split the figures between Freight Rover and Land Rover. I agree with the hon. Gentleman to the extent that, in so far as one can appropriately work out the interest payments and apportion them correctly, Freight Rover is more profitable than Land Rover.

Mr. John Mark Taylor (Solihull): In considering the options for the future of Land Rover, will my right hon. Friend take all factors into account and not merely the biggest bid?

Mr. Channon: Yes, I have explained to the House that we are trying to seek the best long-term future for the companies and, as my right hon. Friend the Prime Minister said yesterday, for the jobs of those concerned.

Mr. Tony Benn (Chesterfield): May I ask the Secretary of State about the interests of the American Government in this sale? Have the Government been in touch with the United States Government and is it a fact that General Motors has been able to say to the British Government that, if it is allowed to acquire parts of British Leyland, the United States will place orders with British Leyland following the sale and that that is the real reason why the sale is going through?

Mr. Channon: No, Sir; I repudiate what the right hon. Gentleman says.

Mr. David Madel (Bedfordshire, South-West): In relation to the bid from General Motors, can my right hon. Friend assure me that the Government will be seeking clear and firm assurances from General Motors on the future of jobs and investment in the Bedford truck plant in Dunstable before deciding whether to accept GM's bid? There is great anxiety in Dunstable, for obvious reasons.

Mr. Channon: Yes, I understand my hon. Friend's concern and naturally I shall want to discuss that matter before coming to any decision. Indeed, we should discuss what will happen in either eventuality — whether the General Motors bid goes through or whether it does not.

Mr. D. N. Campbell-Savours (Workington): Is it true that the chief executive of the Laird Group has written to

[Mr. D. N. Campbell-Savours]

the chairman of British Leyland saying that the only basis on which Laird is willing to take over Leyland Bus is if the two plants at Workington and Lowestoft are closed and the Farington plant reduced but retained? Will the Secretary of State rule out that option today at the Dispatch Box? Will he also give me the assurance that in the event that the management buy-out is submitted and is fully funded, it will be given the maximum consideration by the Department, but that if it is not fully funded it will still be treated as a new corporate plan and an alternative option for a Leyland Bus reporting direct to the Leyland board and being retained in public ownership?

Mr. Channon: On the hon. Gentleman's last point, we shall naturally consider any properly funded management buy-out proposals from the management of Leyland Bus. Indeed, I say in my statement that we expect that proposals may come. We shall naturally consider them carefully.

I understand that Laird has given a preliminary view of its proposals to British Leyland. Nothing final has been proposed and we shall consider that on its merit on the same criteria — what will be best for the long-term commercial future of the company.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): Will my right hon. Friend accept that, as my hon. Friend the Member for Solihull (Mr. Taylor) said, when we come to a solution as to how the Land Rover problem in particular is to be dealt with, we shall not be preoccupied with making a quick buck—the best sum—but what is in the best long-term interests of the motor manufacturing companies of Britain?

Bearing in mind the Government's preoccupation with those over the other side of the Atlantic solving our problems, was there no British industrialist who would have had the confidence of the manufacturing entities in Britain who could have been appointed instead of yet another person from across the Atlantic? There are good people in Britain who have the confidence of the manufacturing companies in the west midlands and the whole of Britain. Why always overseas?

Mr. Channon: I am rather surprised by my hon. Friend's last point. Mr. Day is a British citizen and he comes from Canada. That has not usually debarred people from appointment in Britain. As to my hon. Friend's first point, I can confirm that we are looking at the long-term interests of the companies concerned.

Mr. Andrew Faulds (Warley, East): As to the work forces and the managements of the various parts of BL, is it a question of management informing the work forces about developments or consulting the work forces about developments?

Mr. Channon: The management and the work force must carry out the normal procedures in cases of this kind. I am extremely anxious, as my hon. Friend the Minister of State has shown, to receive deputations, if they are appropriate, from any of the trade unions that wish to come and see me and make their case direct to the Government.

Mr. Richard Page (Hertfordshire, South-West): May I endorse the calls by my hon. Friends for a long-term solution and ask my right hon. Friend to ignore the siren voices for short-term expediency? Has not the way in which the Opposition have tangled the publicity on this matter added to the time constraints faced by my right hon. Friend in finding the right solution and restoring market confidence to British Leyland as soon as possible?

Mr. Channon: My hon. Friend is entirely right. It is essential to bring these talks to a reasonably early conclusion after full consideration has been given to these matters. I repeat what I have told other hon. Members: we are anxious to achieve the solution that is best in the long-term interests of those in the company.

Mr. Stan Thorne (Preston): Is the right hon. Gentleman aware, following the meeting yesterday morning with the Minister, that Lancashire Enterprises Ltd. sent a telex to Hill Samuel stating its intention to make a bid? Will the right hon. Gentleman confirm that that has not happened?

Mr. Channon: My information is that the company had not, by the close of play, expressed a firm indication —[HON. MEMBERS: "Play?"]

Mr. Dennis Skinner (Bolsover): Public schools coming out now.

Mr. Speaker: Order. The Secretary of State.

Mr. Skinner: The right hon. Gentleman should declare his innings.

Mr. Channon: I shall answer the question if I am allowed to do so. My hon. Friend the Minister saw a deputation yesterday led by the hon. Member for Blackburn (Mr. Straw). The deputation was given a full opportunity to declare a firm indication of interest but it did not do so.

Mr. John Carlisle (Luton, North): Will my right hon. Friend accept that there is some significance in the fact that only General Motors has bid for the whole package, including the loss-making aspect of Leyland Truck? Will my right hon. Friend refute the allegations by the Opposition and by my right hon. Friends the Members for Old Bexley and Sidcup (Mr. Heath) and for Henley (Mr. Heseltine) that General Motors is not a good employer? We in Luton refute those allegations and look forward to the amalgamation of the two companies.

Mr. Channon: I am sure that General Motors has been an excellent employer in the Bedford region. I think that that is well recognised.

Mr. Skinner: What is the right hon. Gentleman's average?

Mr. Channon: Very bad, I would say. My hon. Friend the Member for Luton, North (Mr. Carlisle) is quite right. We must consider what will be best in the long-term interests of the truck industry.

Mr. Dave Nellist (Coventry, South-East): Is the right hon. Gentleman aware of the overwhelming opposition of trade unionists inside Leyland and of working people in Coventry, the midlands and elsewhere to selling off to private profiteers, whether American or British, any part or all of Leyland? Will the right hon. Gentleman get in touch with the Leyland board and condemn its actions in the past two weeks in attempting to soften up the work force by dismissing two Transport and General Workers Union conveners at Land Rover, Solihull and Unipart, Coventry for their stated opposition to privatisation?

Mr. Channon: I regret that I am unlikely to be able to please the hon. Gentleman in conducting these negotiations. I think that an early-day motion has been tabled about the point he raised. That is another matter.

Mr. Patrick Cormack (Staffordshire, South): Can my right hon. Friend give the House an unequivocal assurance that the Government would prefer a British solution?

Mr. Channon: We want a solution that is in the best long-term interests of those involved.

Mr. Norman Atkinson (Tottenham): If the bid from General Motors for the Leyland heavy vehicle division is rejected, what contingency plans have the Government made for heavy vehicle manufacture?

Mr. Channon: We must first of all consider all the indications of interest that have come in, and then decide what to do.

Mr. Den Dover (Chorley): Will my right hon. Friend pay particular attention, if the truck division is separated from the bus division, to the 2,000 workers at Multipart, Chorley, which is a highly computerised, extremely efficient and profitable operation? The workers want to ensure that they can service both Leyland Bus and Leyland Truck and other manufacturers in future.

Mr. Channon: I will certainly bear in mind what my hon. Friend has said in his important intervention.

Mr. Doug Hoyle (Warrington, North): Will the Secretary of State accept that he is not playing a cricket match and that this matter affects people's livelihoods? The hon. Gentleman said that he wants a quick decision, so will he give us the actual timetable as that is very important? Will the right hon. Gentleman bearin mind that the employees of British Leyland have no confidence in being informed by a management that previously denied that any talks were taking place? It is not information but consultation that is needed. Can he say what wages will be paid to the employees? The employees should have a say in the matter when their jobs are at risk.

Mr. Channon: I have already answered the hon. Gentleman's last point in the reply that I gave to his hon. Friend the Member for Warley, East (Mr. Faulds). In reply to his point about the speed of the decision, I have tried to explain to the House on a number of occasions that we want the quickest conclusion possible that is consistent with arriving at a decision after a detailed examination of the indications of interest that have been put forward. It is in no one's interest that the matter should be dragged out. I cannot today say what the timetable is, as a detailed study has not yet been made of the indications that have come forward.

Mr. John Stokes (Halesowen and Stourbridge): Is my right hon. Friend aware that the main concern among the hard-headed workers in BL is the security of their jobs? They do not like the politicking on the Opposition benches. Is my right hon. Friend further aware that not all BL employees and BL suppliers wish to remain pensioners of the taxpayer?

Mr. Channon: I am grateful for my hon. Friend's comments, and I agree with them.

Mr. Robin Corbett (Birmingham, Erdington): What time scale has the Secretary of State given to the British Leyland board? Is the Secretary of State aware of the complaints from bodies such as the West Midlands enterprise board that they were denied access to information from British Leyland? Will he ensure that all those who need information to which General Motors has had access for about 18 months, will now get that information?

Mr. Channon: I am assured that anyone who has asked for information has received it. I have already tried several times to answer the question about the time scale. We shall be as quick as we can but the matter will require some study and the House would expect that proper study would be made before proposals were put forward.

Mr. Robert Adley (Christchurch): On that last point, is my right hon. Friend aware that I was informed this morning that Lonhro was unable to have meetings with the management of BL, was unable to meet the work force and was not supplied with the information which it would have normally have expected to receive if it was to put in a bid? Will my right hon. Friend give the House a simple, straightforward assurance that what I have just said is wrong and that all the bidders were provided with precisely the same information as was available to General Motors?

Mr. Channon: Lonhro and everyone else who asked, was given a packet of information which I am assured by my advisers, as well as by the advisers to BL, was normal practice. Lonhro has made a firm indication of interest and we shall treat that seriously and consider the proposals.

Mr. Ian Wrigglesworth (Stockton, South): Does the Secretary of State accept that the motor industry plays a central and strategic role in manufacturing industry in any country in the western world? Will he therefore give us an assurance that at least one motor manufacturer in this country will remain under the control of people in this country so that that strategic role can be properly performed?

Mr. Channon: I have already told the House, in answer to the right hon. Member for Chesterfield (Mr. Benn), that there is no question of any talks going on in connection, for example, with Ausin Rover. I think that that answers the hon. Gentleman's point.

Mr. Alan Howarth (Stratford-upon-Avon): Does my right hon. Friend accept that those who are prepared to be rational on this subject are actually much more numerous than he may have supposed at times in recent weeks and today, that they agree with him that British Leyland ought to be in the private sector and that if it is to be successful there, it will need access to substantial capital and to major markets? If British participants are credibly able to offer those benefits, so much the better. Would my right hon. Friend agree that last-ditch little Englander attitudes threaten jobs and the future prosperity of British Leyland?

Mr. Channon: I am sure that my hon. Friend is right. We must have a solution that takes account of the points that he has made and one that is in the interests of those who will work in the industries and so keep a viable industry in this country.

Mr. Harry Ewing (Falkirk, East): Is the Secretary of State aware that, under the chairmanship of Graham Day, more than 20,000 employees of British Shipbuilders lost their jobs and that, far from giving BL employees confidence in the future, Graham Day's appointment alone will strike fear into their hearts? Will the Secretary of State

[Mr. Harry Ewing]

confirm that the bid from General Motors includes a substantial sum for the immediate declaration of 1,000 redundances in BL and that GM is on public record as saying that 1,000 people will lose their jobs almost on the day that it takes over BL?

Mr. Channon: None of the indications of interest have been examined in detail, but that is clearly a point that one would wish to consider in detail with anyone who comes forward with suggestions. I am surprised at the hon. Gentleman's comments about Graham Day as he was appointed by the Labour Government in the mid-1970s. The hon. Member for Liverpool, Walton (Mr. Heffer) said of Graham Day:

"He was well thought of on Merseyside, particularly in Cammell Laird. He did a first-class job."—[*Official Report*, 9 December 1976; Vol. 923, c. 629.]

I can give quotations from any number of Labour Members if the House wishes.

Several hon. Members *rose*——

Mr. Speaker: I will call those hon. Members who have been rising in their places.

Mr. Tony Favell (Stockport): If the talks between Austin Rover and Ford are truly dead, will my right hon. Friend tell the board and workers of Austin Rover to get their fingers out because in the past 25 years British car manufacturers' share of the home market has dropped from 90 per cent. to 34 per cent.? Does he agree that if yesterday's prophecy by the chairman of Ford (UK) turns out to be right and the abandonment of the talks turns out to be a tragedy for Britain leading to widespread job losses and Austin Rover ends up in the lap of Honda of Japan, a lot of people will have a lot to answer for, including Members of Parliament who blocked that deal?

Mr. Channon: I agree to some extent with my hon. Friend — at least to the extent that it is exceedingly important for Austin Rover to increase its share of the United Kingdom and European car markets. It has under 4 per cent. of the European car market. I very much hope that it will achieve that increase. It has already made some improvement and I hope that that will continue.

Mr. Eddie Loyden (Liverpool, Garston): Will the Secretary of State resist making quick decisions on this matter and give careful consideration to the long-term future of the British car manufacturing industry? Will he now respond to the question asked by my hon. Friend the Member for Warrington, North (Mr. Hoyle) and say what weight he believes should be given to the opinion of the work force about the future of the industry in which they work?

Mr. Channon: We will, of course, give careful consideration. We must try to achieve reasonably speedy but careful consideration. The House must understand that the two aspects are not necessarily inconsistent. I hope that the closest talks will take place with the work force. Indeed, the companies concerned tell me that they are engaged in talking to the work force, and my colleagues and I are very happy to receive any further deputations.

Sir Paul Bryan (Boothferry): Can my right hon. Friend explain why Labour Members are happy to implore the Japanese Nissan company to set up in this country but will have nothing to do with co-operation with American companies which have already supplied far greater and better employment than BL in the past 20 years?

Mr. Channon: It is impossible for me to explain the workings of Labour Members' minds.

Mr. Bill Michie (Sheffield, Heeley): Have BL workers and ex-BL workers who have a share interest in BL been properly and legally consulted in this matter?

Mr. Channon: I understand that all legal requirements are taking place. Now that the indications of interest are in, it is essential that the usual procedures be followed.

Mr. Frank Dobson (Holborn and St. Pancras): What interest has Aveling Barford shown in Leyland Bus and how is that company's interest connected with the Laird bid?

Mr. Channon: So far, we have had only preliminary indications from Aveling Barford. Subject to correction, I do not think that there is any connection with the Laird Group. I will certainly take advice on that, but I am not making a statement about Leyland Bus today.

Mr. Jeff Rooker (Birmingham, Perry Barr): Just as BL came into the public sector largely by accident, are we not in danger of getting rid of it by accident? Is the Secretary of State bound to accept the views of the BL board, as he said in his statement? What is wrong with workers having a vote in their own and their families' future?

Lastly, will the Secretary of State place in the Library a copy of every statement made by Ministers since the last general election which could be taken by business men outside as an invitation to the effect that BL or parts of it were up for auction? Where is the evidence for that and can it be placed in the Library?

Mr. Channon: My own statements in the past month would fill a book, so anxious has the House been to hear from me in the past few weeks. The House knows that we have always made it clear that in our view the best future for the car industry and other industries is a return to the private sector, which is far better for them than the public sector.

PRIME MINISTER 5 March 1986

LAND ROVER-LEYLAND SALE

The following bids have been received:

Aveling Barford:	Land Rover excluding Range Rover
Lonrho:	Land Rover
Management buy-out:	Land Rover and Freight Rover
GM:	Land Rover, Freight Rover & Leyland Trucks

All the bidders are also interested in various of the overseas subsidiaries. All the other interest in Leyland Trucks has evaporated, and unless the GM deal goes through its future (and that of Bedford) must be bleak.

GM have never formally split their £230m offer into constituent parts but indications during the negotiations suggest their price for Land Rover on its own would be around £200m. If a generous £10m is ascribed to the Truck business, this leaves £20m as the price for Freight Rover. On these assumptions, the comparison of bids is as below:

Land Rover only

	£m
1. GM	200
2. Lonrho	12 to 155
3. Aveling Barford	circa 70

Land Rover plus Freight Rover

	£m
1. GM	220
2. Management buy-out	144*

* This includes taking over £30m of leasing commitments which GM is, conservatively, not assumed to do.

Aveling Barford and Lonrho's bids appear to be all cash whilst the management buy-out bid is £84m in cash and £30m in loans. The GM bid is £154m cash and £76m in loans.

On any realistic commercial basis the GM bid is best, and overwhelmingly so when the disposal of Leyland Trucks is also taken into account. The Annex to this paper discusses the performance of the individual BL companies and what each of the bidders will contribute.

Aveling Barford is a British company but foreign-owned in just the same way as Bedford. Lonrho is of course British but they indicate they might take 'a minority technical partner akin to the Honda/Austin Rover relationship'.

GM will maintain the British identity of Land Rover, keeping the bulk of manufacture and R&D in the UK. They are prepared to give assurances that the UK content of both existing and new models in Land Rover and Leyland Trucks will be maintained at broadly current levels. GM are also prepared to find ways of avoiding the closure of Freight Rover in the immediate future.

Conclusion

Price and employment argue strongly in favour of GM. Presentationally BL would be wise to hold further discussions with the other bidders and supply them with more information, but this should not alter their preference for GM. When BL report, Government must be ready with a propaganda campaign to explain the decision.

LEYLAND BUS

DTI intend to take a decision on Leyland Bus by the end of the month. The Laird Group have put in a sensible bid which involves taking over the bus plant of Leyland in Lancashire but not buying the ones at Lowestoft or Workington. Aveling Barford have yet to do more than express interest, Volvo have now withdrawn, and a management buy-out for the whole business seems highly improbable. Workington will therefore close with the loss of some 400 jobs but a local management buy-out of the Lowestoft plant could be possible. **The Laird bid should be progressed quickly before Leyland Bus runs up yet larger losses.**

UNIPART

The Charterhouse Japhet bid is running into difficulties with a strike at Unipart itself, the House of Lords decision on copyright, still worse problems on stock losses emerging at Edmunds Walker, and as yet no agreement from BL to paying their accounting and legal costs in the event that BL reject the Charterhouse proposal. These problems are not insuperable. The House of Lords decision damages Austin Rover who take the bulk of the profit on the spares far more than Unipart, who also gain by being able to more easily sell spares for other manufacturers' cars. **But there is no doubt that if the sale is to succeed then Charterhouse are going to need more encouragement than has been forthcoming so far.**

Peter Warry

PETER WARRY

ANNEX

LAND ROVER LTD

£m

	1982	1983	1984	1985
Profit Before Interest	3	(14)	1	2
Profit After Interest and tax	(3)	(39)	(4)	(8)
Assets Employed	192	153	160	170
Manpower (000s)	10.1	9.5	8.9	8.1
Sales (£m)	368	306	338	395
Unit Sales: Land Rover	39.9	28.2	26.4	30.3
(000s) Range Rover	13.1	12.1	12.0	13.5

The Land Rover and Range Rover products are no longer unique. Their share of the world (open) markets have fallen from 16% in 1981 to 13% in 1985, and the decline is expected to continue. In the UK the Japanese have caused Land Rover's share to fall from just under 60% in 1981 to just over 40% today. In 1985 there were 6,741 Land Rovers sold in the UK compared to the 6,140 Japanese equivalents made by Diahatsu, Mitsubishi, Nissan, Suzuki, Subaru and Toyota.

Despite the losses Land Rover has made in each of the last four years it continues to forecast profits for future years. Latest plans are for a profit before interest of £20m in 1986 rising to £50m by the end of the decade. This is based on a forecast increase of nearly 50% in Range Rover sales over the next four years even though performance over the last four years has been static.

If Land Rover is to stem the Japanese tide and break into the US market then it will need strong financial backing and a lot of marketing muscle. Only GM can offer both. Lonrho and possibly Aveling Barford can offer financial backing, but the management buy-out can offer neither.

FREIGHT ROVER LTD

£m

	1982	1983	1984	1985
Profit Before Interest	(2)	Nil	6	7
Profit After Interest and tax	(3)	(1)	4	7
Assets Employed	18	25	28	28
Manpower (000s)	1.3	1.4	1.6	1.8
Sales (£m)	52	66	87	112
Units (000s)	13.0	15.8	17.7	18.4

Freight Rover has 14% of the British market but makes only nominal exports. If Freight Rover holds onto this share in an increasingly competitive market for the rest of the decade (as it hopes) then it will be doing very well.

Freight Rover's forward projections are considerably more modest than those for Land Rover. Profits (before interest) are forecast to peak at £10m in 1988 and then fall back to half that level by 1990. Cash flow over the period is negative because of the need to replace the existing Sherpa Van in 1989 with a new model which will involve a £70m investment (against an asset base of only £28m).

Making vans is becoming an increasingly international business where economies of scale are essential. The link up with Bedford offers the best hope of achieving this. Without such a tie-up Freight Rover's future beyond the next few years must be debatable, and especially with a management buy-out would have difficulty in funding the £70m investment in the new model.

APPOINTMENTS IN CONFIDENCE

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

Secretary of State for Trade and Industry

PS/

APPOINTMENTS IN CONFIDENCE

5 March 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David,

BL : STATEMENT

... I attach a copy of the latest text of a Statement we propose to make this afternoon at 3.30pm. At present the final paragraph remains provisional on Mr Hares' agreeing some fairly detailed points on his terms and conditions. The hope is that there will be no problems and that the Statement will be given as drafted.

2 Copies of my letter and its attachment go to the Private Secretaries of the Lord President, the Chancellor, the Chief Secretary, the Chancellor of the Duchy, Foreign Secretary, the Chief Whip and Leader of the House.

Yours ever,

John Mogg

J F MOGG
Private Secretary

Encl

JF3ADS

1786 1986 BOARD OF TRADE BICENTENARY

STATEMENT : BL

As I informed the House on 19 February, an invitation was extended to interested parties to declare by 4 March a firm intention to make a bid for one or more of the Land Rover, Freight Rover, Leyland Trucks and related businesses.

I can now report to the House that appropriate declarations have been made to BL's bankers by Schroder Ventures on behalf of some institutions and certain members of BL management in respect of Land Rover, Range Rover and Freight Rover; by Lonrho in respect of Land Rover and Range Rover; and by Aveling Barford in respect of Land Rover only. General Motors have also confirmed their intention to make a bid for Land Rover, Range Rover, Freight Rover and Leyland Trucks.

The Laird Group and Aveling Barford are each in discussion with BL regarding the acquisition of Leyland Bus for which proposals on behalf of certain members of the management are also expected. Discussions in relation to Leyland Bus are taking place over a slightly different timescale from those concerning other Land Rover-Leyland businesses. I shall make a further Statement to the House on these in due course.

The BL Board are giving careful consideration to all the proposals received on or before 4 March and I hope to have their recommendations shortly. The Board and the Government remain anxious to end the present uncertainty surrounding these businesses as soon as possible in the interests of the companies, management and workforce and their dealers and suppliers.

JF3ADP

I should also like to take the opportunity to inform the House of a forthcoming change in the Chairmanship of BL. Sir Austin Bide's appointment as Chairman of BL was extended in late 1984 on the basis that he would continue as Chairman until a convenient moment for his retirement was reached. Sir Austin has kindly agreed to remain as Chairman until decisions have been made on the future of the main Land Rover-Leyland businesses. This will represent the start of a new phase in the development of BL and, on my nomination, the BL Board propose to invite Mr Graham Day, at present Chairman of British Shipbuilders, to join the Board and to become full-time Chairman of BL at a date to be determined. I should like to express the Government's thanks, and to add my own warmest personal tribute, to Sir Austin under whose leadership BL has achieved notable progress in the most difficult commercial circumstances.

I am appointing Mr Phillip Hares CBE, the present Deputy Chief Executive and Board member for Finance of the Corporation to succeed Mr Graham Day as Chairman of British Shipbuilders.

JF3ADP

FILE

DA

CONFIDENTIAL

cc LPO DOT
ITMT D/M
D/N DTI
LPSO CW
DTHS CO
CAL

10 DOWNING STREET

From the Private Secretary

4 March 1986

Dear Malcolm,

CC MASTER.

BL

Mr. Gilroy Bevan MP, with Sir Reginald Eyre, Mr. Roger King, Mr. John Taylor and Mr. Anthony Beaumont-Dark, came to see the Prime Minister this afternoon about the proposal to sell Land Rover Leyland. Mr. Morrison was present for the early part of the discussion.

All five MPs expressed their strong concern about the possibility that Land Rover and Freight Rover might be sold to General Motors. They reported the strong opposition of Conservative supporters and more generally within their constituencies. None of the MPs was opposed on principle to a sale. However they argued that to sell to General Motors would create major political difficulties. Particular concerns were expressed about the effect on component suppliers, and Mr. Gilroy Bevan argued that amalgamation of Freight Rover with the Bedford Vans business would open the way to increased imports of Japanese products as surplus dealers switched away from the amalgamated company.

In place of a sale to General Motors, the MPs urged a management buy out of Land Rover and Freight Rover. They said the management would expect to pay the financing costs of the buy out by increased output which would be achievable within present capacity. The management expected that within a few years they would be able to seek a flotation to increase the capital available to the business. The MPs recognised that this would probably be very profitable for the management.

The MPs argued that General Motors should be encouraged to take a minority holding in Leyland Vehicles, along the lines of the joint ventures which General Motors already had with Hughes Tools, UDS and Isuzu. Mr. Beaumont-Dark and Mr. Gilroy Bevan asserted their belief that General Motors would be prepared to buy Leyland Vehicles without Land Rover and Freight Rover. (Mr. Gilroy Bevan based this belief on his discussions with Mr. Bob Price of General Motors.)

There were some differences between those present. Mr. Beaumont-Dark believed that the commercial arguments were in favour of accepting the General Motors bid: his opposition was based on fears about the political effects. Sir Reginald Eyre seemed to favour a joint venture with General Motors for Land Rover and Freight Rover, as well as Leyland Vehicles, if a management buy out did not in the end prove possible. Mr. Gilroy Bevan appeared to back the management buy out only provided that it would be followed by a flotation.

I am sending copies of this letter to the Private Secretaries to members of MISC 126 and to Michael Stark (Cabinet Office).

John,

David.

(David Norgrove)

Malcolm McHardy, Esq.,
Department of Trade and Industry.

PRIME MINISTER

UNIPART

You may have seen the recent House of Lords judgment which said that manufacturers do not have copyright protection for car spare parts. The judgment may have wider implications, but the note below gives a first assessment of the effect of the judgment on Unipart.

(DAVID NORGROVE)
4 March 1986

SRWAQH

Prime Minister 2

DTI are replying, together with an earlier letter from Mr Andrews.

DR 10/3

Gainford
Mill Lane
Gerrards Cross
Bucks
SL9 8BA

3rd March 1986

R4/3

Dear Prime Minister,

I am writing to you on behalf of the Land Rover management group which has, through Schroder Ventures and with the support of four of the largest UK financial institutions, made an offer to acquire the Land Rover group of businesses.

Our initiative has attracted a good deal of public interest and we are now in a position to write to you about our intentions.

We have three primary aims in taking this initiative.

The first aim is to secure an independent future for the business, with control located in the UK.

The second aim is to secure sound financial backing for the future, so that it can succeed and prosper as an independent business.

The third aim is to give all employees in the business the opportunity to share in its success.

The time allowed to us to gather the necessary financial support in order to put forward an offer has been very short. We do not complain about that. Continuing uncertainty is damaging the business and an early decision is required on its future.

Nevertheless the readiness with which the major financial institutions have agreed to support the management buy-out is an indication of their confidence in the soundness of this proposal.

The shortness of time available does condition the format of the offer. We are advised that it is out of the question to organise a Jaguar style flotation at this time - though our objective, and that of the financial institutions backing us, is to achieve a Stock Exchange listing and flotation as quickly as possible. This will enable the British public, who have shown great support for us and confidence in Land Rover, to join with us in this business venture by subscribing further new capital to enable the business to develop and grow.

contd\

The management will have a significant equity stake in the business and we have agreed with the financial institutions that all other employees should have the opportunity to contribute to the initial ordinary capital of the business. We do not want these employees individually to risk substantial sums in the business, but we do want them to have the opportunity of taking a stake in it with effect from the start. 10% of the ordinary capital has been set aside for this purpose.

Her Majesty's Government has asked for assurances about the future in respect of UK manufacture, UK and EEC content, exports, the development and maintenance of R and D facilities in the UK, the level of investment, rationalisation of products and facilities, employment prospects and product and market synergies. Our objective is to continue the business broadly in line with present plans. We believe this plan and the financing behind the offer provides the assurances required.

We should also add that we would wish to maintain close collaboration links with the Austin Rover Group - we are one of their biggest customers for engines and cars; with BL Technology - we are a major customer for the use of their technical facilities and services; and with Istel Ltd, BL's systems company - we are a major customer for their services. These are major benefits for Austin Rover and Istel which may not necessarily be available to the same degree from other potential purchasers of Land Rover.

We would also wish to maintain close collaborative links with Leyland Trucks, whoever its future owner may be, particularly in respect of UK and overseas franchising and distribution where both groups share many mutually beneficial interests.

In conclusion I should like to add my personal thanks to the BL board and to the Secretary of State for giving my colleagues and I the opportunity of making this offer.

It commands wide public support, it is supported by respected city institutions and it will, I believe, release in ways not possible from any other offer, the priceless capital of any business - the goodwill and motivation of all who work in it and for it.

Yours faithfully,

David R G Andrews

LAND ROVER DEALER COUNCIL

THE RT HON PAUL CHANNON, PC, MP
SECRETARY OF STATE FOR TRADE AND INDUSTRY
DEPARTMENT OF TRADE AND INDUSTRY
ROOM 803
1 - 19 VICTORIA STREET
LONDON SW1H 0ET

26th February 1986

Dear Mr Channon

May I thank you on behalf of all Land Rover Dealers for the opportunity to present our views today. All Dealers have been individually contacted and I can report my findings as follows.

It is felt that Land Rover should ideally remain a British Company and that it should not be part of the Leyland commercial vehicle package. Land Rover is a specialist, not commercial vehicle.

The Dealers prefer a management 'buy-out' for the short term thus enabling the proper considerations to be made for the early flotation on the stock exchange. In so doing enough capital can be raised to support model development. The Land Rover new plant already has the production capacity to increase volume.

Assurances are sought concerning the newly completed Franchise Plan and Agreement after nearly two years of negotiation. It is felt that implementation should not be changed from 1st May 1986.

Many dual franchised Dealers would find profitability difficult to achieve in the volume car market without the strength of Land Rover involvement.

A vote of confidence is offered in management at Land Rover who have succeeded in restoring the viability of the Franchise.

Their major achievements are:

(a) Engineering development and reliability
(b) Quality assured products
(c) A much enhanced public relations image

Finally it is felt that the rapid expansion of production to meet unsure markets would not be wise. It would be better to develop and build a quality product revered for its durability which would sustain profit levels sufficient to maintain a viable and British product of fame and quality.

Yours sincerely

J M LIKE (Chairman)

LAND ROVER
RANGE ROVER

010

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

From the Minister of State for Industry

Private Secretary to
THE HON PETER MORRISON MP

David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

Prime Minister I
Agree that Mr Morrison should not use VI in his line to take, below. The timetable should stand. DFW 3/3

3 March 1986

Dear David

BL : POSSIBLE ALTERNATIVE BIDS

Jack Straw MP tried unsuccessfully to obtain a debate under S.O 10 today over Lancashire Enterprise Ltd's attempt to get the 4 March 'deadline' extended and complaint about the non-provision of information.

The background and draft briefing for Prime Minister's questions tomorrow are attached. As you know Mr Straw is to see Mr Morrison tomorrow at 9.30 am with Alan Williams MP and Stan Thorne MP, and it seems very likely that the outcome of that meeting will be thrown back at the Prime Minister in some way or other at her questions tomorrow.

Subject to the Prime Minister's views, the line Mr Morrison proposes to take tomorrow morning is:

i he has naturally had enquiries made as to the approaches on behalf of the enterprise boards to Hill Samuel;

ii he understands that there were two approaches to Hill Samuel last week, with the Enterprise Board's interest only disclosed in one; that each was told that the information sought could be disclosed under confidentiality undertakings provided the identities of the interested parties were disclosed and there was some reasonable prospect that they could raise the sort of money at issue;

1MOBTJ

iii that neither enquirer had come back to Hill Samuel;

iv that Hill Samuel remained ready to provide information on the basis stated already (point ii);

v that March 4 was and remains the deadline for expressions of firm intentions to make an offer (a copy of the Hill Samuel letter is attached).

vi but that he would have to consult his Ministerial colleagues and the BL Board before the present timetable could be adjusted, in the light of the urgent need to stop uncertainty and reach conclusions as soon as reasonably possible on the future of the businesses.

If the Prime Minister has any comment on this line I should be grateful if you could let me have them by 9.15am tomorrow.

Yours sincerely

Malcolm McHardy

MALCOLM MCHARDY

lMOBTI

COMMERCIAL IN CONFIDENCE

TO: PS/Mr Morrison

cc PS/Secretary of State
PS/Mr Butcher
PS/Mr Whittingdale
PS/Secretary
Mr Mountfield
Mr Cochlin
Mr Meadway V2

FROM: Mrs C E D Bell
V2a
Room 270
Ashdown House
212-0198

3 March 1986

UNIPART PRIVATISATION

IMPLICATION OF THE HOUSE OF LORDS RULING ON COPYRIGHT PROTECTION

I understand that Mr Morrison enquired about the implication of the House of Lords ruling.

I spoke on the telephone to Mr Carver, Director of Business Strategy, BL, who had discussed this question with Mr Neill, Managing Director, Unipart, today.

Mr Carver said that BL had yet to make a full assessment of the implications of the ruling, but the first view was that the effect on Unipart would be broadly neutral. More competitors would come into certain sectors of the market, but Unipart too would be able to re-source some components and improve its margins. Mr Carver's preliminary assessment was that the ruling should not delay privatisation or reduce the price.

We shall be asking BL for a more considered assessment in due course.

Catherine Bell

MRS C E D BELL

999-80

1786 1986 BOARD OF TRADE BICENTENARY

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DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister of State for Industry

Private Secretary to
THE HON PETER MORRISON MP

David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

March 1986

Dear David

I attach a copy of the briefing for the Prime Minister's meeting with Mr Gilroy-Bevan.

Yours sincerely

Malcolm McHardy

MALCOLM MCHARDY

1MOBTM

PRIME MINISTER'S MEETING WITH DAVID GILROY BEVAN MP AND DELEGATION OF WEST MIDLANDS MPS ON TUESDAY 4 MARCH.

OBJECTIVE

To listen to the views of West Midlands MPs about the possible sale of Land Rover-Leyland.

LINE TO TAKE

1 Welcome opportunity to meet delegation. Understand concerns about employment.

2 Concern of Government and the BL Board is the long-term future for these businesses. Although there has been a substantial improvement in BL's performance much still needs to be done in an increasingly hostile trading environment. The commercial vehicle industry generally is suffering from over capacity. In reaching decisions on future of BL's operating companies and Government must consider the considerable risks of maintaining status quo.

3 Leyland Trucks and Leyland bus are still heavily loss-making. Land Rover and Freight Rover taken together are making a profit at the trading level but not sufficient to meet the interest on their debt burden. It must be very difficult for these businesses to finance major investments in new products and facilities over the next few years. Their future could best be secured in the private sector rather than in public ownership.

4 Only efficient operating units producing competitive products which people at home and abroad want to buy will strengthen the manufacturing base and secure jobs in the long term.

5 The deadline of today (4 March) which BL has set is for firm expressions of interest, not bids. The time provided is reasonable, in view of the need to stop this damaging period of uncertainty.

6 Before coming to any final conclusions on the future of BL's operating companies, the Government will wish to consider all the possible options on their commercial merits, subject to the need to minimise delay. European or British alternatives, if put to the BL Board, will of course be considered. But it is the long term security of operations that is of concern to the Government rather than the nationality of their owners. I can well understand your points of concern but I hope you will appreciate the difficulties of commenting on specific points at this stage.

Vehicles Division
DTI
3 March 1986

1786 1986 BOARD OF TRADE BICENTENARY

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BACKGROUND

The Prime Minister is familiar with the background to the discussions about the future of BL. BL's talks with General Motors, covering Leyland Trucks, Land Rover and Freight Rover, are at an advanced stage, but no formal offer has been received.

Alternative bids

Commercial parties interested in Land Rover and/or Leyland Trucks have been told by BL to indicate by 4 March whether they have a firm intention to make an offer and to outline their general intentions for the business.

Current expressions of interest at the time of writing are from:

Land Rover	-	Lonrho: Schroders (acting for the management buy-out) *Chase Manhattan (US private investors); Aveling Barford
Freight Rover	-	Lonrho: management buy-out
Leyland Bus	-	Laird Group; Aveling Barford; Volvo

*Paccar/Cummins (US) have withdrawn their interest in Leyland Trucks.

Mr Morrison met Mr Gilroy Bevan on 17 February to hear his views about the possible sale of Land Rover-Leyland to General Motors. A copy of the note of the meeting is at Flag B.

An aide memoire showing Midlands MPs constituency interests in BL companies in the region is at Flag C.

Vehicles Divison
DTI
3 March 1986

* Confidential - not public knowledge

Leyland Vehicles

3.33 pm

Mr. Jack Straw (Blackburn): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the refusal of Her Majesty's Government to extend the deadline of 4 March and to provide proper information, so as to enable Lancashire Enterprises Ltd. and others to prepare properly costed bids for Leyland Vehicles as an alternative to a takeover by General Motors."

This matter is obviously specific. As to its importance, four days ago, the Prime Minister told the House, in answer to my right hon. Friend the Leader of the Opposition:

"Those who are interested in making genuine bids—the trade unions could have done the self-same thing—could have obtained the information from the Department of Trade and Industry or British Leyland."—[*Official Report*, 27 February 1986; Vol. 92, c. 1066.]:

On the Jimmy Young show last week, the Prime Minister said of those talking of alternative bids to General Motors that they should

"put up or shut up".

Lancashire Enterprises Ltd., with the West Midlands enterprise board, has sought to do that—put up a bid. It is hoping to sponsor a federated management buy-out in which the major investment will be made by the finance institutions, with a stake from the enterprise boards and from the management and work force. Contrary to the pledge given by the Prime Minister four days ago, the request for information met with a point-blank refusal. Messrs Hill Samuel, on behalf of British Leyland and the Government, have refused to provide any information unless a series of onerous conditions are met. However, they have caught Lancashire Enterprises Ltd. in a catch 22 trap, for these conditions can be met only with the information which Hill Samuel is refusing to provide. In other words, the Government are creating conditions which make it impossible for any others but General Motors to get to the starting line. No prospectus has been provided.

As to the urgency, the deadline set by the Government expires tomorrow. It has taken General Motors at least nine months of work, and I understand that it has not yet formally submitted a bid. The National Carriers buy-out —greatly applauded by Conservative Members—of a size similar to that proposed for Land Rover took nine months to reach fruition. The Government's proposed time scale for counter-bids to that of General Motors for Leyland Vehicles is laughable. It makes a mockery of the Government's claim to be serious about alternative bids.

Yesterday, the former Conservative Prime Minister, the right hon. Member for Old Bexley and Sidcup (Mr. Heath) suggested that Leyland Vehicles was to be sacrificed and sold off to General Motors as part of a private deal between the White House and Downing street. This Government's tactics in blocking other bids suggest that the right hon. Member is right. The deadline in this case can be extended only if there is an emergency debate today or tomorrow.

Mr. Speaker: The hon. Member for Blackburn (Mr. Straw) asks leave to move the Adjournment of the House under Standing Order No. 10, for the purpose of discussing a specific and important matter that he thinks should have urgent consideration, namely,

"the refusal of Her Majesty's Government to extend the deadline of 4 March and to provide proper information, so as to enable Lancashire Enterprises Ltd. and others to prepare properly costed bids for Leyland Vehicles as an alternative to a takeover by General Motors."

I have listened with care to what the hon. Member has said and I fully understand the case that he has made, but the only question that I have to decide is whether this matter should take precedence over the business set down for today or tomorrow. I regret that I do not find that the matter meets all the criteria laid down in the standing order. I therefore cannot submit his application to the House.

Mr. Stan Thorne (Preston): On a point of order, Mr. Speaker.

Mr. Speaker: No, I will take the other Standing Order No. 10 application first.

Nuclear Waste (Disposal)

3.37 pm

Mr. Douglas Hogg (Grantham): I also beg to ask leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the anxieties, potential financial loss and planning blight caused by the announcement that Fulbeck airfield is a possible site for disposing of nuclear waste."

Last week, my right hon. Friend the Secretary of State for the Environment announced that Fulbeck airfield is to be one of four possible sites for disposing of nuclear waste. My constituents have greeted this announcement with a justifiable mixture of shock, disbelief, grave concern and total opposition.

Mr. Dennis Skinner (Bolsover): I bet they have.

Mr. Hogg: They are sentiments that I wholly share.

As part of this application, I need to make it clear that my constituents and I will resolutely oppose this application unless and until four conditions are satisfied.

The first is that the Nuclear Industry Radioactive Waste Executive must prove that this method of disposing of waste is the only proper way of disposing of that material. Secondly, it must be proved that Fulbeck is the only proper site. Thirdly, it must be established that the scheme is absolutely safe. Lastly, all financial damage must be fully compensated. My constituents and I do not believe that any, far less all, of these conditions will be satisfied. Unless and until they are, we are wholly opposed to what NIREX has in mind.

As to recent developments which justified this application, there is clear and pressing evidence that contracts for the sale of property will fall through as a consequence of this application and that severe financial loss will be suffered by my constituents.

It is against this background that I ask for leave to move the Adjournment of the House.

Mr. Speaker: The hon. Member for Grantham (Mr. Hogg) asks leave to move the Adjournment of the House under Standing Order No. 10, for the purpose of discussing a specific and important matter that he thinks should have urgent consideration, namely,

"the anxieties, potential financial loss and planning blight caused by the announcement that Fulbeck airfield is a possible site for disposing of nuclear waste."

I regret that I have to give the same answer to the hon. Member as I gave to the hon. Member for Blackburn (Mr. Straw). I do not consider that the matter that he has raised is appropriate for discussion—*[Interruption.]* Order. I do not consider that the matter that he has raised is appropriate for discussion under Standing Order No. 10. I therefore cannot submit his application to the House.

Mr. D. N. Campbell-Savours (Workington): On a point of order, Mr. Speaker.

Mr. Speaker: I will take the hon. Member for Preston (Mr. Thorne) first.

Mr. Stan Thorne (Preston): On a point of order, Mr. Speaker. In reply to the application of my hon. Friend the Member for Blackburn (Mr. Straw) under Standing Order No. 10 you referred to the importance of tomorrow's business as one of the reasons why you felt obliged to reject the application. One item of tomorrow's business is the Salmon Bill——

Mr. Speaker: Order. I think that the hon. Gentleman misheard. I said that the application did not meet all the criteria laid down in the Standing Order. That is a different matter.

Mr. Thorne *rose*——

Mr. Speaker: Order. If the hon. Gentleman is challenging my decision, I am not interested.

Mr. Thorne: Further to that point of order, Mr. Speaker. The urgency of this matter in Lancashire——

Mr. Speaker: Order. That is a continuation of the application. I will take the point of order from the hon. Member for Workington (Mr. Campbell-Savours).

Mr. Campbell-Savours: Have your received notice, Mr. Speaker, from the Government Chief Whip that he intends to apply for a debate on nuclear waste tomorrow under Standing Order No. 10?

Mr. Speaker: If he had made an application, I would have heard it.

STATUTORY INSTRUMENTS &c.

Ordered,

That the draft Mental Health (Northern Ireland) Order 1986 be referred to a Standing Committee on Statutory Instruments &c.

That the draft Mental Health (Northern Ireland Consequential Amendments) Order 1986 be referred to a Standing Committee on Statutory Instruments &c.—*[Mr. Durant.]*

Prime Minister 2

Aiusgirl statement

NCL

3.3

NT3445 5 HHH 296

LEYLAND TRUCKS' MANAGEMENT BACKS TAKEOVER

LEYLAND TRUCKS' MANAGEMENT TODAY BACKED A TAKEOVER OF THEIR OPERATION BY THE AMERICAN GIANTS GENERAL MOTORS.

MANAGING DIRECTOR MR LES WHARTON TOLD THE COMPANY'S 8,000 WORKERS IN A LETTER TODAY THAT THE MOVE COULD BRING MORE BUSINESS AND INCREASED INVESTMENT.

PROSPECTIVE BIDDERS FOR PARTS OF THE BL EMPIRE INCLUDING LAND ROVER, HAVE UNTIL MIDNIGHT TOMORROW TO DECLARE THEIR INTENTIONS.

SO FAR, GM HAS MADE A FIRM OFFER FOR LAND-ROVER AND LEYLAND TRUCKS AND A MANAGEMENT CONSORTIUM HAS SUBMITTED PROPOSALS FOR LAND-ROVER.

MR WHARTON TOLD WORKERS AT THE DIVISIONS PLANTS IN LEYLAND, LANCS, GLASGOW AND WATFORD: ''IT IS BECAUSE WE HAVE IMPROVED SO MUCH DURING THE LAST FEW YEARS THAT A COMPANY WITH THE WORLD-WIDE STATURE OF GENERAL MOTORS HAS EXPRESSED AN INTEREST IN US AND WE SHOULD REGARD IT AS A COMPLIMENT.

''WITH APPROPRIATE ASSURANCES AN ACCEPTABLE OFFER FROM GM COULD WELL PROVIDE US WITH ACCESS TO WIDER MARKETS WHICH WOULD PRODUCE DEMAND FOR HIGHER PRODUCTION VOLUMES FROM US.

''IT COULD WELL PROVIDE A SOURCE OF FUNDS FOR FUTURE INVESTMENTS IN PRODUCTION AND DISTRIBUTION.''

LATEST FIGURES FOR LEYLAND TRUCKS SHOW LOSSES WERE HALVED IN 1984 TO £29 MILLION AND IT IS BELIEVED THAT LAST YEAR'S FIGURE HAS BEEN SUBSTANTIALLY REDUCED.

MORE FIRM PROPOSALS FOR THE BL DIVISIONS ARE EXPECTED TO BE MADE BEFORE TOMORROW'S DEADLINE EXPIRES.

TINY ROWLANDS' LONRHO GROUP AND THE GRANTHAM-BASED TRUCK MANUFACTURERS AVELING BARFORD REGISTERED AN INITIAL INTEREST IN LAND-ROVER, BUT HAVE YET TO SUBMIT FIRM PROPOSALS.

THREE GROUPS ARE BELIEVED TO BE INTERESTED IN TAKING OVER THE BUS DIVISION

- VOLVO, THE LAIRD GROUP AND A MANAGEMENT CONSORTIUM ALTHOUGH NO FIRM PROPOSALS HAVE YET BEEN SUBMITTED TO BL.

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032124 MAR 86

Prime Minister! BL file

This is worth reading. You might like to discuss tomorrow whether and how to use it at Question Time.

DLV 3/3

MS

ROWE & MAW

Solicitors

N N GRAHAM MAW
J K OLDALE
D W M COUPER
F G MARKHAM
GEORGE E STRINGER
M J B WEBSTER
A J M BLACKLER
STUART C JAMES
D F GOODWIN
R A POWLES

J W TOOMEY
R D LINSELL
JANE HEATH
A G WHITE
J M DENKER
C P ASHCROFT
S D GARE
D G GIDNEY
B H SKELDING
M A PITHER

J M RUSHTON
I CHRISTIE
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Your Reference	Our Reference	Date
	007	28th February 1986

R 3/3

PPS?

The Right Honourable Mrs Margaret Thatcher MP
10 Downing Street
London SW1

Dear Prime Minister,

The "Keep Land Rover British" Campaign

Last Friday afternoon, 21st February, I was consulted by Mr Kelvin van Hasselt to see if I could come up with some ideas to help the Campaign.

I have seen a copy of Mr van Hasselt's letter to you of 18th February.

Mr van Hasselt explained that the Unions were apprehensive and unenthusiastic (to put it no higher) as to the possible acquisition of the Land Rover business by General Motors, and were not much more enthusiastic about the proposed management buy out.

I said that in my opinion, having regard to HMG's wish to see both the Land Rover business and the BL Truck business sold off together, it was unrealistic to think that words, petitions and speeches were any substitute for attractive alternatives. I said that that meant finding another possible buyer - one who ideally would take on both Land Rovers and Trucks, and I said that that, in turn, meant finding money, whether a bid was put in for one or both.

I was told by Mr van Hasselt that he had had discussions with the Unions, and in particular with the Transport and General Workers Union. I came up with an idea, which I am proud to see anticipated your own idea as expressed last Tuesday in the House in reply to the Leader of the Opposition.

My idea, as I in effect expressed it to Mr van Hasselt, was as follows:-

> "Unions are, often unfairly, criticised for taking a destructive attitude towards the businesses and managements upon whom they are dependent for the job security of their members. These criticisms are particularly prevalent currently in connection with the newspaper industry. Surely Unions should be seen to be helping their members, not by (negative) protectionism of outdated practices which lead to the financial failure of the businesses in which they work, but by positive support of British Industry at its best - of which Land Rover (despite managments's alleged lassitude in exploiting export potential) is perhaps a potentially glowing example. Such positive support means the Unions concerned must put their money where their mouths are - and be prepared to put up equity (risk) money out of Union funds into seeking to secure a better future and job security for their members than might result from the (unacceptable) alternatives".

I told my client that I did not underestimate the problems, even if conceptually my idea found potential favour with the Transport and General Workers Union.

I was worried in particular about:-

- the time factor;
- the inter-relationship between a Union-Funds-backed project and the management-sponsored buy-out;
- the costs (which might in the result be spent on an abortive exercise) in studying the papers and seeking the necessary support: if these tasks are to be undertaken and an extension of time is obtained, such costs could be quite extensive;
- The presentation of a viable structure (including acceptable management) which would assure for the future (from national, international and institutional points of view as well as being in the long-term interests of Union members) a strong (and therefore profitable) enterprise of which we could all be proud, with the consequential benefits to the UK economy and real opportunities for further decreases being made in the all too-high level of unemployment from which the nation is so grievously suffering.

Mr van Hasselt wrote accordingly to Mr Ron Todd, General Secretary of the Transport and General Workers Union, setting out verbatim the section quoted above and also referring to my

"worries" (also as above). The letter was read over the telephone to Mr Todd and he apparently replied that the proposals did not represent a possibility so far as the Union was concerned, because the Union did not feel able to support any one company - and anyway the requisite Union Committee meeting had not been convened to take place until the end of March!

I consider that Mr Todd's response was (perhaps typically) disappointing.

My client has fully authorised me to write this letter to you and, to save any misunderstanding, you are free to make such use of this letter as you may deem fit. I am not sending a copy of this letter to anyone else.

I have the honour to be your most obedient servant.

Nigel Graham Maw

Nigel N Graham Maw

B/F
10/3

10 DOWNING STREET

Prime Minister

Agree to write to DTI copied only to Treasury along the lines suggested by Peter Wang?

DRN
28/2

I would rather discuss with Paul Channon + John Wakeham first pls

CONFIDENTIAL

Prime Minister 2

PRIME MINISTER

DHS
28/2

28 February 1986

WHICH ROAD FOR AUSTIN ROVER?

Assuming that the Land Rover-Leyland sales come to fruition, then the Government is left with the problem of continuing to support Austin Rover or of finding someway of privatisating it. The table below sets out the performance of the company over the last two years and the forecasts that it is making for the rest of the decade.

	Actual		Forecast				£m
	1984	1985	1986	1987	1988	1989	1990
Sales	1874	2237	2492	2997	3384	3637	3780
Profit Before Interest	(26)	(4)	20	57	82	86	94
Profit After Interest & Tax	(25)	(52)	(26)	Nil	17	19	20
Cash Flow	(68)	(69)	(96)	(38)	(32)	(57)	(45)
Total Debt	232	311	407	445	477	534	579
Market Share	17.7%	17.7%	18.9%	19.4%	19.9%	20.4%	21.3%

Unfortunately, Austin Rover's forecasts have been persistently optimistic, they are already revising downwards their 1986 Corporate Plan projections. The figures below show the forecast that Austin Rover made of their profit and market share for 1985 in their 1984 and 1985 plans and what they actually achieved.

1985	As forecast in 1984 Plan	As forecast in 1985 Plan	Actual
Profit Before Interest	£46m	£33m	£(4)m
Market share	22.0%	20.3%	17.7%

If similar results apply to their 1986 Corporate Plan forecasts - as seems likely - then there can be no chance of viability under the present strategy of being a fully integrated volume car manufacturer. Market share which is critical to this strategy has fluctuated between only 17.7% and 18.7% in the first five years of this decade, despite predictions that the modern model line-up would lift their share nearer 25%. They are still predicting over 21% by 1990 but it is exceedingly difficult to think of any car company from whom they are likely to take market share over these years.

New management and a new strategy could help stem the tide of losses. But even if all their existing £311m of debt is written off tomorrow, it must still be most unlikely that they can survive within the public sector without either more Government funding or more guarantees.

Disposal must be the right option. There are five basic ways that this could be encompassed.

1. Trade sale to some enterprising (or foolish) British company.

2. Consortium buy-out - a group of financial institutions probably with some management/employee participation.

3. Flotation by offer for sale to the general public.

4. Giving the company to the employees.

5. Honda taking over the business.

CONFIDENTIAL

Whatever option is chosen writing off the existing £311m of debt will almost certainly be necessary. Part of this debt will be borrowings directly from banks and part from BL itself. Obviously writing off the bank debts will require an injection of funds directly from HMG but some of the debts to BL will only be 'book' ones and no extra money will be necessary.

Trade sale

There is no other British car company to buy Austin Rover and none of the component suppliers are either financially strong enough or foolish enough to be likely to make such a bid. Nevertheless if a private company or an entrepreneur were interested then they might be prepared to take the company away for nothing provided it was debt free. The Government would only be able to justify such a course if the buyer were able to give convincing assurances about the future of the business which is unlikely.

Consortium buy-out

This is just about possible. Austin Rover have already held top secret discussions with banks who are prepared to consider the idea. The banks have seen some of the financial numbers but I cannot believe they know the full horror of the situation. Nevertheless the city is at present flush with funds and has been prepared to invest in some highly unlikely ventures.

With reputable bankers and both employee and management participation, such a buy-out should be politically acceptable. It may be possible to achieve merely by writing off the existing debt and requiring the bankers to put say, £200m into the company, preferably by way of a purchase price for the shares.

CONFIDENTIAL

Flotation

Normally companies need at least a three year track record of solid profits and cash flow together with good forward prospects for a flotation. The shares could of course be given away free although the Stock Exchange might have strong views on the matter.

But the less that is paid for the shares the more the Government would be seen to be responsible for ensuring the company did not fall quickly into receivership. Even with a £200m dowry as well as writing off the debt this would remain a hazardous exercise.

Giving the company to the employees

Superficially this sounds highly attractive, although the employees have of course far less right to the company than the taxpayers who have subsidised their jobs for the last ten years. But giving the company to the employees suffers from the same difficulties as a flotation, perhaps more so. It seems inevitable that the company would get into difficulty and Government would find it exceedingly difficult to walk away.

Selling to Honda

Honda's interest in Austin Rover is almost certainly limited to its use as a stepping stone for entering the European market. Europe is vital for Honda: it has less than 10% of the Japanese market and sells under 300,000 cars there (compared to 1.3 million by Toyota). But in the US Honda runs neck and neck with Toyota as the largest non-American importer/manufacturer selling almost double the number of cars that it does in Japan. This is clearly the strategy Honda would like to adopt in Europe.

It has already bought a 300 acre site in Swindon where it plans to start manufacturing engines although its true aspirations must go much further. Collaboration and subcontract assembly by Austin Rover is a low cost, low risk way for Honda to establish itself in Europe. Once established it is unlikely to want to maintain the links with Austin Rover for anything other than political reasons.

Nevertheless, if the Government made absorbing Austin Rover a pre-condition of Honda's expansion into Europe, then Honda might find it a small price to pay. It could start with a 25% equity stake and increase in stages. If Honda were prepared to do this at all, then Government would only write off the existing debt and indeed may not even need to go this far.

But politically once the Americans are out of the way the Japanese may become the new bogeymen.

Conclusion

Of the 'British' solutions the consortium buy-out with management/employee participation is the best, albeit still improbable, runner. It is also the route least able to be criticised as the giving away of a priceless national asset. Graham Day should be encouraged to pursue this vigorously.

As a first step the Government could write off Austin Rover's £311m debt at the same time as writing off the residual debt left over from the Land Rover Leyland sale. This would help disguise the cost of disposing of Land Rover Leyland and also appear a very positive measure for Austin Rover. Adroit negotiation with the bankers might enable the Government to announce at the same time the ending of Varley Marshall assurances.

Peter Warry

PETER WARRY

CONFIDENTIAL

E(A)(86) 3
E(A)(86) 3rd
E(A)(86) 5th

PRIME MINISTER

Thanks on MB

BRITISH LEYLAND

You asked for the evidence that E(A) knew of the management interest in buying-out Land Rover and Freight Rover when the decision was taken to support Salton.

The letter from Andrews was dated 22 January. It was received here on 23 January and sent by me that day to the DTI, Treasury and Cabinet Office. I asked DTI to take it into account in their paper for E(A) if that had not been finished.

The paper for E(A) (Flag A) was circulated on 23 January and did not mention the Andrews letter. But a management buy-out is mentioned twice, in paragraph 5(d) and paragraph 17. Paragraph 17 says:

> "The management of those operating companies would themselves favour this option [management buy-out] but the BL Board decided in December that this option should not be pursued in view of the Salton talks."

The Andrews letter is not mentioned in the minutes of the E(A) meeting which took place on 28 January (Flag B). One of the Secretaries (John Wiggins) has a record in his notebook that you referred to it in your opening remarks. I remember that there was some puzzlement around the table at this point. I also remember that the letter was referred to again more fully later in the meeting by Mr. Channon. This is not recorded in the Cabinet Office notebooks.

The Andrews letter is not recorded as having been mentioned at Cabinet on 6 February. Nor is it recorded as having been mentioned at the E(A) which followed Cabinet on 6 February (Flag C).

CONFIDENTIAL

The possibility of a management buy-out was mentioned by Mr. Channon at Cabinet on 13 February. He is recorded as having said:

> "There was also a possibility of a management buy-out of Land Rover. He did not think that these offers could be ignored, even though they were late in the day."

This is I think the only reference to a management buy-out in any of the minutes. But the reference in the E(A) paper for 23 January is itself an ample basis for your comments at Misc 126 yesterday.

DN

28 February 1986

SECRET

FILE CAJACK

26

10 DOWNING STREET

From the Private Secretary

MR. J.B. UNWIN

LANDROVER/LEYLAND

Thank you for your minute of today about the papers for MISC 126 next Thursday and about the timetable.

You are expecting the first of the papers for next Thursday to address the alternatives to the GM deal. I would think it ought also to discuss the GM deal itself. As you know, a number of people yesterday were very unhappy about the prospect that GM might close down the Freight Rover production line in Birmingham, and the Chancellor, among others, wanted a clearer statement of the undertakings that we might get from GM. These and other aspects ought surely be discussed in the paper as a baseline for comparison.

I have suggested separately to John Mogg that the papers for Thursday ought also to give much more factual background about Landrover/Leyland and about Bedford. They should include, among other things:

- balance sheets for the different operating companies:
- market shares and how they have been moving:
- discussion of the product ranges and how they would fit together under the various options:
- discussion of the life left in the products and the likely capital requirements for development and production of replacements.

No reputable business would take even preliminary decisions on the basis of the information about the businesses which Ministers have so far had.

I am copying this to Sir Robert Armstrong and to Mr Wiggins.

DAVID NORGROVE
28 February 1986

SECRET

SECRET

25

P 01939

MR NORGROVE

cc Sir Robert Armstrong
Mr Wiggins

LAND ROVER LEYLAND (LRL)

Mr Wiggins and I discussed with the Trade and Industry Secretary and Mr Mogg this morning the likely timetable for future consideration of LRL. It may be helpful to you to know the outcome.

2. As the Minutes of yesterday's MISC 126 will record, we need two papers for consideration at MISC 126 next Thursday (6 March). These are:-

(i) a report of the alternatives to the GM deal, in the light of the bids received by BL by the 4 March deadline. This should also cover the future of Leyland Trucks if Land Rover were sold separately and GM withdrew;

(ii) a paper on the possibility of a joint venture between GM and the Management buyout in respect of Freight and Land Rover. This should also cover the question of the assurances to be given by GM, and any other "wheeses" of a similar kind that DTI might think worth considering.

Mr Channon should also be giving further consideration to how to improve the presentation of the Government's position, although he need not necessarily put in a further paper on this for the next MISC 126 meeting.

3. Thereafter, the precise timetable must depend on developments. If there is no serious alternative to the GM deal, and the BL Board took a decision in favour of this early in the week beginning Monday, 10 March, it might just be possible to bring the issues to Cabinet for a decision on 13 March. It would be more realistic, however, to think in terms of Cabinet on 20 March. If a decision were reached then, it could be announced that afternoon (it would be fatal to defer it over the week-end), to be followed by a debate on, say, Wednesday 26 March. Since the contract would not be signed until the second half of April, the Government's position could

be defended as consistent with the assurances given to the House by the Minister of State and the Leader of the House.

4. I think it would be sensible to plan on this timetable for the time being, with a further meeting of MISC 126 before Cabinet on 13 March. But we shall obviously need to reconsider if the situation is complicated by Lonhro or other bids next week.

J B UNWIN

PM86

cc BU

24

SECRET

P 01934

PRIME MINISTER

Land Rover Leyland
MISC 126(86)2

BACKGROUND

E(A)(86)3rd Meeting of 28 January endorsed the agreement reached between BL and General Motors (GM) providing for the purchase by GM of Leyland Trucks, Land Rover and Freight Rover, together with a substantial part of the related international operations. This was reaffirmed at E(A)(86)5th Meeting of 6 February. At Cabinet on 20 February (CC(86)7th Meeting) you said you would set up a small Ministerial Group to review tactics and handling. The Group's terms of reference are:

> "To consider handling and tactics in relation to the negotiations between BL PLC and General Motors for the acquisition of Leyland Trucks, Land Rover and Freight Rover and discussions with other parties on this and on Leyland Bus".

This meeting - and the Note by the Secretary of State for Trade and Industry (MISC 126(86)2 - is about tactics, handling and timing; the substance of the issue will be the subject of a further Memorandum by the Secretary of State for Trade and Industry which will need to be considered separately by Ministers in due course.

2. Also relevant is the statement made in the House on 18 February by the Minister of State for Trade and Industry, Mr Morrison. He said:

> "My hon Friend will appreciate that my right hon Friend the Secretary of State is not using the House as a negotiating House. Obviously negotiations will take place with all the separate parties, whether GM or other parties. When a

conclusion to negotiations is reached, my right Hon Friend will immediately make a statement to the House and he will accept that it will be for the House to debate and decide upon the result of those negotiations".

This commitment was reaffirmed later by the Lord Privy Seal.

3. The firms that have expressed an interest in possible acquisition of Land Rover Leyland and Leyland Trucks are listed in paragraph 3 of Mr Channon's paper. He believes, however, that only the Lonrho interest and the Shroders-led management buy-out are likely to present serious alternatives to the GM proposal; it is too early to assess the strength of the Paccar/Cummins interest in Leyland Trucks.

Proposals

4. BL and GM are keen to end the uncertainty. BL has invited all parties to make clear by 4 March whether they intend to make an offer and to set out their general plans for the businesses concerned. This deadline has been severely criticised in the House. In addition, GM have separately sought an assurance from Mr Channon that BL will be able to negotiate exclusively with GM by Friday 14 March. Mr Channon suggests that following a final decision by the BL Board during the week beginning 10 March on whether to pursue any of the alternative proposals, Ministers should take a collective decision no later than the week beginning 24 March.

MAIN ISSUES

5. The main issues for discussion at this meeting are tactics in relation to the timing and presentation of the Government's decision, and in particular handling in Parliament.

Timing

6. Timing will depend on whether an acceptable alternative to the

GM proposals emerges. If not, and if the BL Board still decide to pursue the GM proposal, an announcement before Easter appears feasible, though the timetable is tight. On this scenario, the BL Board will decide on the alternative proposals during the week beginning 10 March; the Government will need to take a collective decision thereafter (Mr Channon's suggestion is not later than the week beginning 24 March); and a debate would fall after that (either 25/26 March or after the Recess (week beginning 7 April). An alternative possibility, if the timetable could be accelerated, would be Cabinet discussion on 20 March followed by a debate on 25/26 March. This would clear the decks well before Easter, but would be very tight indeed. BL and GM would then aim to sign contracts by around 18 April, with the possibility of an Extraordinary General Meeting a month later. The timetable would be extended by some two weeks if one or more alternative bid needed more consideration.

7. The timetable, in particular the 4 March deadline, has aroused much criticism on the grounds that it does not give other interested parties the necessary time (and data) to develop alternative bids. But BL and GM believe that uncertainty and speculation is harming their businesses; and their view, and that of BL's and DTI's advisers, is that the data given is adequate and the timescale consistent with commercial practice. You will wish to invite the Group's views on whether this is defensible, or whether any consideration should be given to extending the deadline.

European Community (EC) and Monopolies & Mergers Commission (MMC) Considerations

8. There are potentially very troublesome problems here, which are left hanging in the paper, but which could seriously upset the prospect of an early deal. On the EC, Commission clearance under state aid rules will be necessary for a write-off of around £50 million of BL debt ascribed to the LRL businesses to be acquiared by GM. Informal soundings suggest this would not prove particularly difficult in respect of the GM deal as this offers the prospect of significant

rationalisation. But alternative proposals not involving rationalisation could well encounter difficulties and in any event, the formal processes could last several months.

9. On the MMC, a submission is expected to be put in the next few days to the Director General of Fair Trading who will then advise the Secretary of State for Trade and Industry whether the GM deal should be referred. A recommendation that it should be referred would clearly be embarrassing for the Government and would almost certainly cause the GM deal to collapse. Rejection of such a recommendation would equally cause grave political difficulty.

10. You may wish to invite the Trade and Industry Secretary to report further urgently on both these problems and the extent to which they constitute a real threat to the proposed GM deal.

Presentation

11. The most difficult aspect of the proposed deal is clearly the inclusion of Land Rover. But it is doubtful whether Land Rover would have a viable future on its own (its traditional markets are declining and it needs access to the US market, which GM can offer) and all the signs are that the deal is simply not on with GM unless Land Rover is included (under the proposed terms of the deal GM in effect get Leyland Trucks free apart from bearing the £40 million redundancy costs). You will therefore wish to discuss how the Government can get its case over more effectively. Important considerations are:

(a) How better to get over the employment consequences both of the GM deal and failure to clinch it (without making explicit reference to the risk to Bedford);

(b) how to exploit the helpful Declaration of Intent which GM are apparently prepared to make on product sourcing, local content levels, exports, UK based research and development and future investment;

(c) how best to handle the concern of the LRL workforce about a GM takeover? The Government position would be much stronger if it could point with conviction to fuller consultation with the workforce;

(d) how to get over the fact that only the GM deal so far seems to offer a serious prospect of keeping at least some part of Leyland Trucks in business without continuing to soak the taxpayer;

(e) how to put over even more effectively the argument about the general benefits of US investment in the UK, and of the UK's own overseas investment.

12. The briefing circulated by Mr Channon last weekend was helpful. You may wish to invite him to update this by developing further some of the points raised above.

Parliamentary Handling

13. The statement by the Minister of State quoted in paragraph 2 above could raise a problem on handling in Parliament. Clearly it will not be tolerable for the Government to make the negotiation of the deal with GM or anyone else subject to the outcome of debate in the House. But the House may regard an announcement of a decision by the Government to authorise BL to carry negotiations forward with GM to a conclusion as effectively closing off the options before they have had a chance to have their way. The answer to this will presumably be that:-

- the Minister of State also made it clear that the House cannot be used "as a negotiating House";

- the House will have had innumerable opportunities to express their views;

and - the contracts would not be signed until after the debate.

You will, however, wish to seek the Group's views on this, and on the possible implications of any delay as a result of Parliamentary handling for the deal itself.

Next Steps

14. You may wish to invite Mr Channon to report developments briefly to Cabinet after the meeting. You may then think it sensible to hold further meetings of the Group at the same time immediately before Cabinet in the coming weeks until the issue is resolved.

HANDLING

15. You will wish to invite the Secretary of State for Trade and Industry to introduce his Note. The Secretaries of State for Energy and Social Services will have views in the light of their own personal experience of the West Midlands; the Lord Privy Seal and the Parliamentary Secretary, Treasury may wish to comment on the parliamentary aspects of the issue. The Lord President of the Council and the Chancellor of the Duchy of Lancaster may have general political and presentational points.

CONCLUSIONS

16. You will wish the Group to reach decisions on:

(a) whether it is right to stick to the 4 March deadline for declaration of alternative bids;

(b) whether to aim for a collective decision no later than the week beginning 24 March, with an announcement and debate before Easter;

(c) whether to invite the Trade and Industry Secretary to report further urgently on the implications of the European

Community and Monopolies and Mergers Commission complications;

(d) how best to put over the Government's case more effectively (perhaps with the help of a further briefing note by Mr Channon);

(e) what tactics should be pursued in future handling of the issue in Parliament;

(f) what arrangements should be made for future monitoring of developments by the Group.

J B UNWIN

26 February 1986
Cabinet Office

CONFIDENTIAL

PRIME MINISTER

26 February 1986

BRITISH LEYLAND

The important tasks for MISC 126 are to:

i. agree (officially) to maintain an open mind on the bids until after 4 March;

ii. undertake that there will be at least a further fortnight for detailed discussions of any worthwhile bids;

iii. make sure the Government gets the presentation right.

On presentation, the main accent must be jobs and industry so as to remove the impression that the sole concern is auctioning off national assets(!). In particular, it would be helpful to get some of the facts publicly known:

- Land Rover Ltd is a loss-making concern.

- Its product is no longer unique. It is under attack, particularly by the Japanese.

- If Land Rover is to survive long-term, then it needs a partner like GM to help it exploit its strengths.

CONFIDENTIAL

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- Rationalisation in the truck industry is inevitable. The only issue is whether Bedford and Leyland Trucks are picked off separately, or whether they combine to make a stronger competitive force.

- It is not HMG that are forcing GM on BL, but BL who have looked at innumerable European partners and found them all wanting.

It would also be helpful if DTI could announce that the businesses will only be sold to purchasers who are prepared to promise (as GM are) that:

i. the local content of existing and future models will remain at broadly current levels;

ii. Land Rover will retain its distinct British identity with all models being primarily designed and built within the UK.

Peter Warry

PETER WARRY

CONFIDENTIAL

CONFIDENTIAL

PRIME MINISTER

26 February 1986

LAND ROVER MANAGEMENT BUY-OUT

I have just had sight of the Land Rover management buy-out proposal. At best, they are offering £114m for Land Rover and Freight Rover, £30m of which will be in the form of unsecured loan stock. I suspect in fact the price may be less, as it is dependent upon a rather high figure for the debts of the business at the year end.

The offer has to be accepted by noon on 5 March, and in accepting such an offer BL would be required to break off all talks with other potential bidders for a period of 90 days, during which detailed negotiations for the management buy-out would take place.

I would stress that these are very much preliminary understandings of their offer, and it would be best to wait until DTI give a more definitive view.

Peter Warry

PETER WARRY

Borrowings

Land Rover	£84M
Leyland Vehicles (Truck & Bus)	£320M

i.e only 20% of borrowing relate to ~~Truck & Bus~~ Land Rover, ~~and I believe much of this is interest free~~

PRIME MINISTER

BL

Two things.

First, news of Sir Austin Bide's replacement has begun to leak. Mr. Channon thinks an announcement ought to be made next week. He will try to have a moment with you to discuss that, between Cabinet and ODI.

Secondly, you may want at MISC 126 to agree a form of words which can be used after Cabinet about the discussions on BL. One possibility might be as follows:

> "A group of Cabinet Ministers this morning reviewed progress towards the sale of Land Rover-Leyland and a report was made to Cabinet.
>
> Cabinet took note that the negotiations between BL and GM were continuing and that other parties expressing an interest had been asked to declare by 4 March their firm intention to make an offer. All offers would be considered ~~seriously~~ and further discussions with the parties would then be held as necessary. Cabinet agreed that it was in the best interests of the commercial vehicle industry in this country to return Land Rover-Leyland to the private sector. They agreed that a decision should be reached as quickly as possible in the interests of the companies and their employees."

DRN

(DAVID NORGROVE)
26 February 1986

SRWAPV

PRIME MINISTER

BL

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DRN

(DAVID NORGROVE)
26 February 1986

SRWAPV

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DEPARTMENT OF TRADE AND INDUSTRY
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LONDON SW1H 0ET
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Secretary of State for Trade and Industry

PS/

25 February 1986

COVERING CONFIDENTIAL

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

cc J Wiggins

Paragraphs 15 & 16 are being dropped from the final version.

DKV
26/2

Dear David,

BL

I attach a copy of the draft MISC 126 paper which we shall circulate tomorrow evening in time for Thursday morning's discussion.

2 Although my Secretary of State has yet to see the draft he would be very grateful any comments the Prime Minister has so that they may be incorporated in a final text.

Yours ever

John Mogg

J F MOGG
Private Secretary

Encl

JF2AXI

1786 1986 BOARD OF TRADE BICENTENARY

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PRIME MINISTER

LAND ROVER: LEYLAND

Below is the paper the Secretary of State for Trade and Industry would like to circulate to the MISC group for its meeting before Cabinet on Thursday.

It seems acceptably factual and even handed (save for the substitution of "would" for "should" in paragraph 2).

I wonder about the wisdom of including paragraph 15 which sets out the criteria against which the BL board should judge the GM deal and alternative proposals. They seem to me to some extent not something for the BL board (e.g. the Britishness of Land Rover and the extent of the contribution made to resolving over-capacity in the truck and van sectors - those are more for the Government). More important, to include these criteria risks opening up the discussion in a way which would be premature and possibly damaging. People would start to argue, and try to tie the discussions down too closely. mr

Paragraph 16 also looks a little inept: it implies that the Government will be in a position to take a decision immediately after 4 March.

Agree that paragraphs 15 and 16 should be omitted? Yes mr

Agree also that the paper should be circulated at lunch-time tomorrow (Wednesday)?

DNV

Yes mr

David Norgrove
25 February 1986

EXTRACT FROM A SPEECH BY THE RT HON PAUL CHANNON MP, (SOUTHEND WEST) SECRETARY OF STATE FOR TRADE AND INDUSTRY SPEAKING TO THE TRADE AND INDUSTRY FORUM AT CONSERVATIVE CENTRAL OFFICE ON THURSDAY 20TH FEBRUARY 1986 at 2-45 pm.

In the last few weeks, a lot has been said about the negotiations which have been taking place between British Leyland and General Motors; a lot of it has been both short-sighted and uninformed. And so I would like to set the talks in their proper context by stating a few facts about the commercial vehicle industry today.

Throughout the 1960s and the early 1970s, makers of heavy trucks in Europe prospered. They traded at a profit and expanded their capacity to meet the demand. However, in the latter part of the 1970s, as a result of the economic recession and the oil crises, demand collapsed. The industry ran into deep trouble as, between 1979 and 1984, sales of heavy trucks fell by more than 30 per cent. And today it is estimated that European heavy truck manufacturers are faced with unused capacity of some 40 to 45 per cent. Losses in the sector across Europe have been estimated at £350 million in 1983 and over £400 million in 1984. Nor was the truck industry in Britain immune from this trend. Between

KJ4AEW

them, Leyland Trucks and Bedford made a total loss of £225 million in 1983 and 1984, and forecasts suggest little improvement in 1985. In the face of this appalling situation, rationalisation of the industry is inevitable. Mergers have increasingly been seen as an obvious way forward. One thing has become clear: the present situation could not continue even had we wanted it to.

This then is the background against which the talks with General Motors have been taking place. A merger between Bedford and Land Rover-Leyland, if satisfactory assurances are received, offers one way out of both companies' present difficulties. Both are under-utilised; both are losing money and despite the obvious merits of their products, both businesses are failing to generate the income which they need to fund the next generation of vehicles. Such a position cannot be maintained.

You will of course appreciate that my first concern has to be the preservation of a viable commercial vehicle industry in the UK and thus the preservation also of thousands of jobs which are dependent upon it. But if that is to be achieved, we have to face up to the fact that hard choices have to be made. To ignore the problems, as some would apparently have us do, would in the long term send the industry to its doom. That is one thing that I am not prepared to see.

As I have said, a GM deal offers a possible solution to these problems. But it has also been suggested that Land Rover has only been included within it so as, in some way, sweeten the deal. It is a suggestion which I utterly reject. The Land Rover company produces a marvellous product - one which is capable of beating the competition throughout the

world. But despite all the progress made, its financial performance is still not robust. Although making a small profit, it is not generating the financial resources which are required in order to develop new products. And it has no sales whatsoever in the biggest market for four-wheel drive vehicles in the world - the United States. A deal with General Motors could solve these problems. It could give Land Rover instant access to the huge and lucrative US market. It could also provide the technical and financial resources which the company needs if it is to improve both its product and its sales. Land Rover is therefore a part of the potential deal because it will be good for Land Rover.

Of course, the Government is not suggesting that a sale of Land Rover and of Leyland Trucks to General Motors has to be the best or only solution. Others have also expressed interest in all the different businesses. And, as we have made clear, each offer will be examined carefully on its merits. But the problems facing the industry cannot be ignored. The GM deal seems likely to offer real solutions to real problems. So may any other alternative proposals that may be made. But, it is vital that decisions are also taken quickly. Prolonged speculation about the companies' future can only do damage to their business. To delay taking decisions or even worse to turn a blind eye to the problems which they face, would jeopardise both them and the thousands of jobs which they provide. It would also be irresponsible in the extreme.

Confidential: CMO

Draft

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MISC 126(86)2
24 February 1986

COPY NO

CABINET

MINISTERIAL GROUP ON LAND ROVER-LEYLAND

Note by the Secretary of State for Trade and Industry

Refer to earlier ppr.

We need to consider carefully the handling and timing of the discussions between BL and GM and of the alternative proposals which may come forward for individual parts of the business.

Table of figures (losses) in annex.

GM TALKS

If approved this would allow

2 BL and GM are working towards a resolution of all outstanding issues, ~~and~~ signature of contracts in about 6 weeks. Annex A sets out the outstanding issues to be resolved between GM and BL. Both companies are seriously concerned about the prospects of delay and have expressed a strong wish that, following a recommendation of the BL Board, a Government decision should be taken and announced before Easter i.e slightly in advance of contract signature. GM have separately asked me for an assurance that, by Friday, 14 March, BL will be in a position to negotiate exclusively with GM.

ALTERNATIVE PROPOSALS

3 Presently the following parties have declared an interest in the possible acquisition of individual businesses within LRL. (Those whose interest is not publicly disclosed are asterisked).

(a) LAND ROVER/RANGE ROVER

Lonrho

Land Rover/Freight Rover management buy-out proposal (advised by * Shroders)

* Chase Manhattan (on behalf of "wealthy US private investors")

Aveling Barford

(b) **FREIGHT ROVER**

Lonrho

Management buy-out proposal (with Land Rover)

(c) **LEYLAND TRUCKS**

* Paccar/Cummins (US)

4 All these parties have been told by BL to indicate by 4 March whether they have a firm intention to make an offer (but they will be expected to give an "indication" on the level and form of consideration) and to outline their general intentions for the businesses involved. At this stage my feeling is that only the Lonrho and the Schroders' led management buy-out proposals are likely to present serious alternatives to the GM proposal for the Land Rover/Freight Rover businesses. The strength of the Paccar/Cummins interest in Leyland Trucks has yet to be tested.

5 The 4 March dates for a statement of 'firm intention' by these alternative interests should be held to if BL and Government are to have reasonable time to evaluate the options yet keep open the possibility of an announcement of a GM deal in late March/early April. Slippage of a few days would not be critical but a much extended timetable would create a serious risk that GM would lose interest.

6 There are separate discussions in respect of LRL businesses not covered by the negotiations with GM. These are notably Leyland Bus and with agreement imminent a small subsidiary, Self-Changing Gears. I attach a status report on these talks at Annex B. I hope the prospects for privatisation of Leyland Bus will be clear by the end of March.

TIMETABLE

7 On the assumption that no acceptable alternative emerges, and that the GM proposals are approved at this stage an announcement seems feasible before Easter. This timetable may need to be slightly extended to allow more detailed study of any alternative bid. This produces the following alternative timetables.

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CABINET MEMBERS ONLY

	Week Beginning	Week Beginning
Evaluation of Alternative Bids by BL and HMG	3 March	3 March
BL Board Decision on alternative bids	10 March	10 March (further consideration of bids necessary)
Government Decision	24 March	7 April
Government Statement	24 March	7 April
Debate	24 March	7 April

(Note: Budget and the Budget debates leave only 25/26 March likely to be free)

BL Extraordinary General Meeting — Approx 3 weeks later

(Note: Recess from 28 March to 7 April)

EC COMMISSION

8 On present calculations, the GM deal will require a write-off of BL debt ascribed to the LRL businesses to be acquired by GM of around £50m. This is to avoid the residual BL companies being adversely affected by privatisation. This process will require voted funds and also EC Commission clearance under the EEC state aid rules. Informal soundings suggest there may be no insuperable difficulties in respect of the GM deal in that significant rationalisation will result and can be offered to the Commission as "counterpart" under the state aid rules. Alternative proposals to those made by GM not involving rationalisation may prove considerably more difficult. In either case the formal processes may take several months to complete and therefore fall outside the dates identified above. Special arrangements in the interim to handle debt write-off may therefore be required.

CONCLUSIONS

9 The central dilemma for us is that although politically it would be attractive to separate Land Rover from the GM deal the industrial and commercial arguments are likely to point the other way. Moreover, during his visit to Detroit

on 17 February Sir Robert Clark (Chairman of Hill Samuel and a non-executive Director on the BL Board) was given a firm indication that if Land Rover was taken out of the package the deal with GM would collapse. Sir Robert's considered view was that GM would press this point to the brink "and possibly beyond". He advised also that if the talks with BL were not to succeed he believed that GM might take drastic steps to solve their UK Commercial vehicle operations, perhaps involving the closure of Bedford Trucks with the loss of several thousand jobs.

10 The immediate tactical and presentational issues are likely to surround:

(a) the speed with which the Government wishes to reach a decision. In fact the pace is in the main being set by GM/BL. Both are seriously worried at the damage which uncertainty and speculation is creating for their respective businesses. The recent request by GM that BL be in a position by 14 March to negotiate exclusively with them underlines the urgency and leaves us with a problem if one or more of the alternative proposals are worth pursuing.

(b) the "inadequate" time and data allowed to the alternative interested parties to formulate bids. A date of 4 March has been set by BL within which the relevant parties must indicate a firm intention to make a bid. The view of the BL Board, and BL's and my Department's advisers is that the data given is adequate and the timescale, although tight, is not inconsistent with commercial practice. In fact, both companies are disturbed that the "alternative bids" exercise is being undertaken at all. Given the stage of negotiation reached with GM, it would normally be highly unusual, if not improper, to throw the field open to other parties.

(c) the possible employment consequences of a deal with GM, with another grouping or, indeed, without any change to the present organisation. There will be job losses under any circumstances - though the extent and timing and location have yet to be determined, and this is a message we shall need to consider urgently how best to get across.

It should be noted, however, that the consequences of not going ahead with the GM deal are likely to be significantly worse than an other proposal.

(d) the Monopolies and Mergers implications. The Director General of Fair Trading will shortly consider whether to recommend that a deal with GM should be referred to the MMC. (Informal confidential guidance can, with my permission, be given to the interested parties). Should the Director General decide to recommend a reference of the GM/BL deal this would mean a delay of several months and could weel result in the agreement the falling apart. It is open to met on wider public interest grounds but the Government would then undoubtedly be accused of steamrollering the deal through.

(e) Politically the timing is extremely awkward. Even if the Government manages to meet the timetable outlined above there will be a long period of uncertainty which would certainly be exploited by the Opposition and some of our own side. Once Ministers have taken their collective decision we shall also need to seek the agreement of the House as soon as possible.

P C

Department of Trade and Industry
24 February 1986

ANNEX A

BL : GM TALKS

OUTSTANDING ISSUES

The topics to be resolved include the following.

(a) Consideration

The current GM proposal is to pay BL £230 million comprising £154m in cash and £76m in the form of a note, a fixed interest debenture, which would not be immediately marketable and which would need to be held initially by BL. The BL Board believe this is already an acceptable financial package but BL are still negotiating for an increase in the proportion represented by cash and/or an improvement in the terms of note to make it more readily marketable. There may be scope for some modest improvement but significant movement is unlikely.

(b) Declaration of Intent

GM and my Department have been negotiating over a unilateral "Declaration of Intent" by GM comprising the assurances that Parliament has been told need to be satisfactory as a condition of sale. The indications are that we shall have very helpful statements on the things that matter notably product sourcing, local content levels, exports, UK based research and development and future investment. The Declaration will be one of the central issues in the political and industrial defence of any deal and I shall provide colleagues with further guidance on this as soon as I am in a position to do so.

(c) Commercial Issues

There are important, primarily commercial, issues still under discussion between GM and BL. There are complex trade mark issues (both Austin Rover and Land Rover use and need to retain the name "Rover") and contracts to cover arrangements between the LRL businesses and the residual BL subsidiaries - and to address the position of dealer franchises - will also be needed.

JH1CUQ

(d) Mergers Policy

I shall need to decide at the appropriate time, and in the light of advice from the Director General of Fair Trading, whether or not there should be a reference to the Monopolies and Mergers Commission (MMC). BL and GM are shortly, jointly, to make a preliminary approach to the Office of Fair Trading and this should give us an indication of the timing and substantive problems that might be involved. Both companies believe that, commercially their respective businesses could not cope with a 6-9 months delay inherent in an MMC inquiry.

JH1CUQ

ANNEX B

LRL BUSINESSES NOT COVERED IN GM TALKS

These involve Leyland Bus and Self-Changing Gears.

LEYLAND BUS

2 Discussions are in train between BL and the other significant UK bus producer (Laird Group Metro Cammell Weyman) which might lead to the acquisition of Leyland Bus by Laird and subsequent rationalisation. Volvo and Aveling Barford have also more recently expressed interest and have been supplied financial data and offered discussions with BL. Under any of these options significant rationalisation and job losses are likely to be involved given the downturn in the UK market, the modest export prospects and the over-capacity in the UK industry. These discussions are likely to take place over a slightly longer time-scale than those involving GM although there remains an urgent need to stem the substantial losses by Leyland Bus.

SELF-CHANGING GEARS

3 This is a small subsidiary which the BL Board has agreed to sell to Cummins, a US engine manufacturer but with important manufacturing interests in the UK. The German firm, Voith and certain UK individuals (almost certainly without substance sufficient to complete a deal) have also expressed interest. Cummins remains the BL Board's preferred choice and is likely to succeed. There is no impact on the GM talks.

JH1CUR

CABINET OFFICE

With the compliments of

J. B. UNWIN

70 Whitehall, London SW1A 2AS
Telephone 01 233

23.

SECRET

P 01925

From: J B UNWIN
21 February 1986

DR WALKER

cc Mr Stark
Mr Wiggins
Mr Robertson
Mr Norgrove - No 10

COPY FOR

BL: MISC 126

To confirm my conversations with you, Mr Stark and Mr Norgrove this morning:

(i) the formal notice for the first meeting of MISC 126 should not issue until next week, when we have a revised time for the meeting (Mr Norgrove thought this might be on Wednesday afternoon, 26 February). In the meantime Committee Section should not ring round until this afternoon to postpone the meeting aranged (so far by telephone only) for Monday morning;

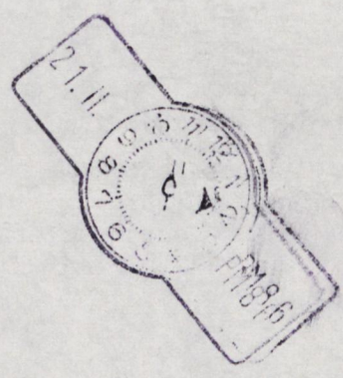
(ii) the revise of MISC 126(86)1 (giving the composition and terms of reference), adding Lord Young and the Transport Secretary to the membership of the Group, should not be circulated in advance of the first meeting of the Group but should be handed round at that meeting;

(iii) the initial paper by DTI should not be circulated before this weekend (Mr Norgrove undertook to relay this to the DTI Private Office). If the first meeting of the Group is next Wednesday, then it will probably also be best to delay circulation until Tuesday. Would you please monitor this closely and ensure that the paper is not circulated until I have been consulted;

(iv) the letters of invitation from Sir Robert Armstrong to Lord Young and Mr Ridley should also not issue until next Monday.

J B UNWIN

SECRET



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Secretary of State for Trade and Industry

PS/

21 February 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David,

BL

At Cabinet yesterday, my Secretary of State was invited to circulate some briefing material to all his Cabinet colleagues. This is now attached. It comes in three parts. The first sets out some important background information; the second provides a series of Question and Answer supplementaries; and the third is an extract of a speech given by my Secretary of State yesterday.

2 Copies of this letter and attachments go to all Private Secretaries of Cabinet Ministers and to Michael Stark in Sir Robert Armstrong's office.

Yours ever,

John Mogg

J F MOGG
Private Secretary

Encls

JF4AXP

1786 1986 BOARD OF TRADE BICENTENARY

BL : SUPPLEMENTARY BRIEFING

Q1 HAVE THE GOVERNMENT ALREADY ACCEPTED THE GM OFFER?

A. No. Discussions between BL and GM are continuing. Proposals by GM and other interested parties will be considered on their commercial merits in relation to the future of BL as a whole.

Q2 ARE NOT THE DEADLINES SET IMPOSSIBLY TIGHT?

A. The BL Board have notified those companies who have expressed interest that they wish to have any declarations of a firm intention to make an offer to be made by 4 March. This is not a deadline for completion of discussions but the Government are determined to resolve this issue very speedily to avoid further commercial damage to the businesses involved.

Q3 WHEN WILL THE WORKFORCE BE CONSULTED?

A. Both GM and BL are informing their workforces of the position reached in the negotiations.

Q4 IS NOT THE BL BOARD PROVIDING INSUFFICIENT INFORMATION AND INADEQUATE TIME FOR OTHERS TO MAKE REALISTIC BIDS?

A. The time provided by the BL Board for expressions of interest to be met by other companies is entirely reasonable in view of the need to stop this period of damaging uncertainty. If companies with an interest feel they have inadequate information they should raise this with the BL Board.

Q5 WHY SELL LAND ROVER TO FOREIGNERS?

A. The Government wants to ensure the best possible future for all BL businesses. Central to the Government's

policy is the wish to secure a viable UK-based commercial vehicle industry. The positive advantages of US investment in the UK are being entirely ignored.

Q6 WHY SELL BL BUSINESSES JUST WHEN THEY TURN THE CORNER?

A. The Government's concern - like that of the BL Board - is the long-term future for these businesses. Although there has been a substantial improvement in BL's performance much still needs to be done in an increasingly hostile trading environment. Leyland Trucks and Leyland Bus are still heavily loss-making. The industry is suffering from considerable over-capacity. Land Rover and Freight Rover are making modest profits but both need to make major investments in new products and facilities over the next few years. Their future could best be secured in the private sector rather than in public ownership.

Q7 WILL THE GM BID BE REFERRED TO THE MMC AND THE DGFT?

A. The Secretary of State will decide whether or not a reference should be made to the Monopolies and Mergers Commission in the light of advice from the Director General of Fair Trading.

Q8 WILL THERE BE MASSIVE REDUNDANCIES?

A. Whatever option the Government chooses - including the option of doing nothing - rationalisation and some loss of jobs is inevitable, but no decisions have been taken on this aspect. What the Government is doing is to look for a solution which assures the long-term security of the great bulk of jobs in the industry.

Q9 WOULD ASSURANCES FROM GM BE USELESS?

A. No. GM are a major US company and are ready to make public their intentions for the future of the businesses. The details of such assurances are

presently under discussion. Even with commitments that are not legally binding I am confident that GM would not depart from them unless they were faced by some over-riding economic or industrial circumstance and, even then, only after discussion with the Government.

Q10 AS WITH WESTLAND IS NOT THE GOVERNMENT SELLING ITS BEST MANUFACTURING INDUSTRY TO EUROPE?

A. It is the long-term security of our manufacturing operations that is of concern to the Government rather than the nationality of its owner. If European or British alternatives are put forward the BL Board will, of course, consider them.

Q11 WON'T GM TURN THE BL BUSINESSES INTO SCREWDRIVER OPERATIONS?

A. No decisions have yet been reached in the talks between BL and GM. However the Secretary of State for Trade and Industry said on 3 February that, if a deal with GM could be agreed, the company would be willing to give full undertakings that the majority of the products sold by the businesses involved would be manufactured in the UK; that the products would continue to have high local content; that there would be a substantial level of exports; that research and development facilities will be maintained and developed in the UK; that Land Rover will retain its distinct British identities; and that an appropriate level of investment will be injected into the businesses to achieve competitive future models and facilities.

Q12 WILL THE HOUSE HAVE THE OPPORTUNITY OF DEBATING THIS DEAL BEFORE IT IS FINALLY CONCLUDED?

A. The Leader of the House said on 20 February repeated that "when a conclusion to negotiations is reached the Secretary of State for Trade and Industry will immediately make a statement to the House and he will accept that it will be for the House to debate and decide upon the result of those negotiations."

JF4AXL

Q13 GM OFFER IS £230m?

A. The financial arrangments for the proposed acquisition are among the outstanding issues yet to be resolved in the discussions with GM. No bid has yet been received from GM.

Q14 WHEN DID THE NEGOTIATIONS START?

A. As the Secretary of State for Trade and Industry said in the House on 19 February, discussions have been going on for quite a long time.

[If pressed: many months]

JF4AXL

BL : LAND ROVER-LEYLAND

This note sets out the background to the present negotiations for the privatisation of BL's commercial vehicle businesses and describes the position reached in the discussions with GM and other interested parties. It concludes with a series of questions and answers and an extract of the Secretary of Sttae's recent speech.

BACKGROUND

Trucks

2 Throughout the 1960s and part of the 1970s, European heavy truck manufacturers were trading profitably and expanding their capacity to meet the demand. But in the late 1970s as a result of the oil crises and economic recession the industry ran into deep trouble:-

- In Europe, sales of heavy trucks fell more than 30 per cent between 1979 and 1984;

- In Britain, there was a rather bigger fall, around 35 per cent;

- Total exports from Europe reduced by nearly 32 per cent.

3 As a result, European heavy truck manufacturers now have unused capacity estimated at around 40-45 per cent. Most are losing money. Across Europe, there were losses estimated at £350m in 1983 and over £400m in 1984. In the UK, Leyland Trucks and Bedford between them lost a total of £225m in 1983 and 1984. 1985 forecasts suggest continuing heavy losses. There is the prospect only of a minor recovery in the market in the late 1980s. No one expects demand to recover to the levels of the 1970s.

4 Retrenchment has already taken place but more needs to be done. "Everyone is talking to everyone". In the UK, Paccar (US) acquired Foden in 1980 . Enasa (Spain) has taken over Seddon Atkinson. Ford is talking to Fiat (Iveco).

Vans

5 Bedford and Freight Rover are heavily dependent on the UK market - which is expected to remain flat for the rest of the decade. Competition will be fierce - Ford's new Triton (Transit replacement), Renault, Mercedes and the Japanese will be in the forefront. Bedford and Freight Rover market shares will be eroded as their products age. Both will need to replace their model line-up by 1990.

JF4AXM

6 Yet Freight Rover is only modestly profitable and will not itself have the resources to fund the required investment. A combination of Bedford and Freight Rover will on the other hand enable new product development and the associated investment to be spread over much higher volumes.

Land Rover

7 Land Rover/Range Rover has been profitable in recent years but not hugely so. Currently it has a profit of a few million pounds on a turnover of around £400m. It faces increasing competition in the UK market and is weak in the private leisure sector - a segment where the Japanese have been making rapid strides last year winning over 50 per cent of the market - from under 35 per cent in 1980.

8 Prospects in Land Rover's traditional African and Middle East markets are poor with total markets being constrained by foreign exchange shortages and by decreases in economic activity in the oil producing countries.

9 Land Rover has no sales in the USA - the world's largest 4X4 sports/utility market with annual sales of over half a million vehicles. General Motors will give Land Rover instant access to this huge and lucrative market. It will also be in a position to provide Land Rover with the technical and financial resources to support the major expenditure envisaged on the facilities and new product development.

Buses

10 Not part of the GM talks but it is in a desperate situation with large and growing losses in 1984 and 1985. Urgent action is needed. The weak state of demand in the UK bus market, and the limited scope for exports, has prompted discussions between the Laird Group (MCW) and Land Rover-Leyland which could lead to a much-needed rationalisation of UK bus capacity. Volvo and Aveling Barford, who have also expressed interest, have been invited to submit their own proposals regarding the future of Leyland Bus.

PRESENT POSITION

11 Expressions of interest in some of the businesses in the possible GM package have been received, and the names of those who are prepared to have their interests disclosed have been announced (Lonrho, Aveling Barford and the Management Buy-out Group). They have been asked to indicate by 4 March whether they have a firm intention to make an offer. This

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time limit has been set by the BL Board in order to keep to an absolute minimum the period of uncertainty which is immensely damaging to the companies concerned.

12 Regarding Leyland Bus, discussions with Metro Cammell Weyman (a Laird subsidiary) and Volvo are proceeding. Aveling Barford have also expressed an interest and the distinct possibility of a Management Buy-out has been mentioned. The timetable is a slightly later one but the prospects should be clearer towards the end of March.

ASSURANCES

13 The Government will insist on satisfactory assurances from GM about the future of the businesses in the UK before any deal with GM is finalised. GM are willing to give undertakings that the majority of the products sold by the businesses involved would be manufactured in the UK, that the products would continue to have a high local content, that there would be a substantial volume of exports, that R&D facilities would be maintained and developed in the UK, that Land Rover would retain its distinct British identity and that an appropriate level of investment would be injected into the business to achieve competitive future models and facilities.

JF4AXM

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Release Time:

RT HON PAUL CHANNON MP

Immd Thursday 20th February 1986 80/86

Extract from a speech by the Rt Hon Paul Channon MP, (Southend West) Secretary of State for Trade and Industry speaking to the Trade and Industry Forum at Conservative Central Office on Thursday 20th 1986.

In the last few weeks, a lot has been said about the negotiations which have been taking place between British Leyland and General Motors; a lot of it has been both short-sighted and uninformed. And so I would like to set the talks in their proper context by stating a few facts about the commercial vehicle industry today.

Throughout the 1960s and the early 1970s, makers of heavy trucks in Europe prospered. They traded at a profit and expanded their capacity to meet the demand. However, in the latter part of the 1970s, as a result of the economic recession and the oil crises, demand collapsed. The industry ran into deep trouble as, between 1979 and 1984, sales of heavy trucks fell by more than 30 per cent. And today it is estimated that European heavy truck manufacturers are faced with unused capacity of some 40 to 45 per cent. Losses in the sector across Europe have been estimated at £350 million in 1983 and over £400 million in 1984. Nor was the truck industry in Britain immune from this trend. Between them, Leyland Trucks and Bedford made a total loss of £225 million in 1983 and 1984, and forecasts suggest little improvement in 1985. In the face of this appalling situation, rationalisation of the industry is inevitable. Mergers have increasingly been seen as an obvious way forward. One thing has become clear: the present situation could not continue even had we wanted it to.

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This then is the background against which the talks with General Motors have been taking place. A merger between Bedford and Land Rover-Leyland, if satisfactory assurances are received, offers one way out of both companies' present difficulties. Both are under-utilised; both are losing money and despite the obvious merits of their products, both businesses are failing to generate the income which they need to fund the next generation of vehicles. Such a position cannot be maintained.

You will of course appreciate that my first concern has to be the preservation of a viable commercial vehicle industry in the UK and thus the preservation also of thousands of jobs which are dependent upon it. But if that is to be achieved, we have to face up to the fact that hard choices have to be made. To ignore the problems, as some would apparently have us do, would in the long term send the industry to its doom. That is one thing that I am not prepared to see.

As I have said, a GM deal offers a possible solution to these problems. But it has also been suggested that Land Rover has only been included within it so as, in some way, to sweeten the deal. It is a suggestion which I utterly reject. The Land Rover company produces a marvellous product - one which is capable of beating the competition throughout the world. But despite all the progress made, its financial performance is still not robust. Although making a small profit, it is not generating the financial resources which are required in order to develop new products. And it has no sales whatsoever in the biggest market for four-wheel drive vehicles in the world - the United States. A deal with General Motors could solve these problems. It could give Land Rover instant access to the huge and lucrative US market. It could also provide the technical and financial resources which the company needs if it is to improve both its product and its sales. Land Rover is therefore a part of the potential deal because it will be good for Land Rover.

Of course, the Government is not suggesting that a sale of Land Rover and of Leyland Trucks to General Motors has to be the best or only solution. Others have also expressed interest in all the different businesses. And, as we have made clear, each offer will be examined carefully on its merits. But the problems facing the industry cannot be ignored. The GM deal seems likely to offer real solutions to real problems. So may any other alternative proposals that may be made. But, it is vital that decisions are also taken quickly. Prolonged speculation about the companies' future can only do damage to their business. To delay taking decisions or even worse to turn a blind eye to the problems which they face, would jeopardise both them and the thousands of jobs which they provide. It would also be irresponsible in the extreme.

END

CC B/LD

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PRIME MINISTER

21 February 1986

BRITISH LEYLAND

1. GM Negotiations

GM want to set a mid-March deadline for a decision on the purchase, and for contracts to be signed by the end of the month. Provided reasonable progress was still being made, it seems unlikely they would enforce this deadline having already committed so much.

GM have firmly indicated that they would not buy Leyland Trucks without Land Rover. I doubt that they are bluffing. Although there is tremendous economic rationale in GM merging Bedford Trucks with Leyland Trucks, it may only be the lure of Land Rover that has prevented their finance people closing Bedford. GM finance are likely to view Leyland Trucks on its own as a Trojan horse that will merely double the £50m or so that Bedford and Leyland Trucks each lose separately.

2. Other Bidders for Land Rover and Leyland Trucks

Because Hill Samuel (BL's bankers) have insisted on a confidentiality agreement(!), the first people to receive financial information (Lonhro) did not get it until Wednesday afternoon (19 February). All bidders are required to indicate 'their firm intention of making an offer' by Tuesday 4 March. The offer has to identify the price level and any conditions

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attaching to it. There are already complaints about the tight timetable - even the earliest bidders will have less than a fortnight - but such a quick response is by no means unusual.

The most worrying bids are from Lonhro and the management buy-out. At best these are opportunistic, at worst wrecking. (David Andrews has consistently blocked all previous bids for Land Rover arguing that it could not survive on its own). As both these bidders now know the GM price, they will no doubt at least match GM, but subject to all sorts of impossible conditions. The trick will be to find a quick way of converting the conditions to adjustments in price.

But price must not be seen to be the overriding factor: jobs and the industry must be declared to be major considerations in deciding the ultimate buyer. The message must also be put out that unless a buyer is found for Leyland Trucks (and a partner for Bedford) then redundancies will be much higher than the £40m GM have reportedly provided.

3. **Bids for Leyland Bus**

The Laird Group only wish to buy the Leyland Bus plant at Leyland itself, but not those at Lowestoft and Workington. It may be possible to organise a management buy-out at Lowestoft but, unless Volvo are interested in buying the Workington plant, this will have to close with the loss of some 350 jobs. The Laird bid is sensible and will help consolidate their MCW subsidiary as an integrated British-based manufacturer. But

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their proposal is complex and it may prove quite difficult to persuade BL to negotiate seriously with them.

4. **Bid for Unipart**

The original bid before Christmas required BL to indemnify Charterhouse for their future costs if BL subsequently rejected a firm Charterhouse bid within the given price range. Subsequent events with first the Ford bid blocking Charterhouse, and then subsequently with Ford themselves being eliminated on political grounds, have only reinforced Charterhouse's conviction that they must get such a cost indemnity. They have put this to BL, so far without response. I believe we must agree such an indemnity, although it should be as narrowly defined as possible.

5. **Preparing the Ground**

GM have now started their PR campaign. They are planning to talk to suppliers, MPs, the media and so on. The Government must do everything to support them. The existing DTI Component Industry Liaison Group should be used as a forum to voice the support of the major suppliers for the GM deal.

But it is not just US companies buying British ones, the attached cutting from the Financial Times shows that last year UK companies spent £3½ billion buying 160 US ones. This needs to be more widely known.

You made this point in the House of course.

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6. Capital Injection

Assuming the GM deal goes through, we have already agreed to give BL an equity injection to wipe off the debt left over after the GM acquisition. If this is badly handled, it will appear like yet further Government subsidy to the Americans. Properly presented, it can look like a capital injection to help Austin Rover.

But it could also be the right time to consider disposing with Varley Marshall assurances altogether. This could only be done by paying off at least part of Austin Rover's existing debt. In presentational terms, this could be good for the Government and it would prevent Austin Rover claiming any longer that it was not taking a penny of Government subsidy.

7. Conclusion

The Government is broadly on course, but we need to sound more positive and convincing. DTI should make the timetable absolutely clear: initial bids by 4 March followed by at least a further fortnight of clarification and negotiation with the serious contenders.

We must also rebutt Labour's "jewel in the crown" arguments. Land Rover Ltd is not profitable, losses in each of the last four years have been £3m, £39m, £4m and an estimated £8m in 1985. DTI can give these figures without running down the company.

These figures are after interest. On the same basis Leyland Vehicles lost over £90m in each of 1983 and 1984.

PETER WARRY

Peter Warry

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Financial Times Thursday February 20 1986

British groups spend more on US acquisitions

BY LIONEL BARBER

BRITISH COMPANIES spent $5.2bn (£3.64bn) on acquisitions in the US last year, a 33 per cent rise on 1984, according to a survey by J. P. Mervis, a London corporate finance adviser.

The survey shows financial and corporate services formed the most popular sector by value. Medical and building sectors, however, significantly increased their respective shares of the total. The speciality chemicals sector, the biggest by value in 1984, was the smallest last year.

British companies acquired a total of 160 businesses in the US, compared with 142 in 1984. Between 1978-85 there were 812 acquisitions by UK companies, many of which were successful, says the survey.

Mr Jonathan Mervis, a corporate financier who has advised companies such as United Newspapers, Tarmac and Wolseley-Hughes on US acquisitions, said: "There is a lot of publicity about the failures, such as Midland Bank's acquisition of Crocker Bank, but there is a more successful side to the story."

Of acquisitions last year 92 were for values of less than $10m. Some companies have been particularly acquisitive over the past two years. Six made a total of 47 acquisitions between them — Saatchi & Saatchi nine, BET eight, Bunzl eight, Laporte eight, Johnson Group Cleaners seven and Tate & Lyle seven.

The survey argues that fluctuating exchange rates between sterling and the dollar has not affected UK companies' appetite for US companies. Though acquisitions fell sharply by number in 1982, following sterling's steep drop against the dollar, they have risen steadily ever since.

Mr Mervis attributes growth to:

- A decline in perceived industrial investment opportunities in the UK coinciding with North Sea oil revenue inflows.
- The size and scope of the US market, assisted by a common language.
- A widely-held view that the US is the main centre of capitalism and free enterprise.

The survey does not include additional new capital invested last year by all British companies in their US subsidiaries. It also excludes property and portfolio investment.

The $5.2bn total includes acquisitions of $500,000 or more. It compares with a total £7.09bn spent last year on acquisitions in the UK, according to Trade and Industry Department figures recently published.

Survey of acquisitions in the US by British companies, with emphasis on 1984-85; J. P. Mervis & Co, 2, John Street, London WC1N 2HJ; £150.

US foreign investment, Page 28

1985 TOP 10 ACQUISITIONS

	UK company	US acquisition	Price $m
1	Hanson Trust	SCM	928.0
2	Sedgwick Group	Fred S. James	660.0
3	Beecham Group	Norcliff Thayer	395.0
4	Grand Metropolitan	Pearle Health	386.0
5	Standard Chartered	United Bank of Arizona	330.0
6	Blue Circle Inds.	Atlantic Cement	145.0
7	Blue Circle Inds.	Williams Brothers	90.0
7	Reed International	R. R. Bowker	90.0
9	RTZ	Pennsylvania Glass	80.0
10	Wolseley-Hughes	Carolina Builders	77.0

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L/DN

L/Prime Minister

21/2

HON PETER MORRISON MP

Release Time: 18.30 hrs Friday 21st February 1986 83/86

Extract from a speech by the Hon Peter MORRISON MP (Chester), Minister of State for Industry, speaking to the Chester Chamber of Commerce on Friday 21st February.

The debate surrounding the future of Leyland Trucks and Land Rover has rightly received a lot of attention. It is very important that an issue which affects the livelihoods of thousands of people should get the fullest airing in public. But there have been one or two comments recently which I have found extremely disturbing. Rather than concentrate on what is in the long-term interests of the companies concerned, some people have adopted a xenophobic attitude and at times have seemed to suggest that anything American has to be bad. Nor has this been restricted to British Leyland; it was also evident during the discussion about the future of Westland a few weeks ago.

Not only does such talk contribute nothing to the debate, it is also extremely damaging. In 1984 over half the investment which came into this country from abroad came from the United States. It currently stands at a total of some $32 billion. In the motor industry, in particular, the American investment in this country has been enormous. Ford employs some 50,000 people in this country and indirectly

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provides jobs for over 100,000 more. In the past five years it has invested over £1 billion in the UK, with more still in the pipeline. General Motors employs a further 27,000 people and its investment over the past ten years has been over £1.2 billion. That commitment by both companies has not just been welcome, it has made a major contribution to our economic well-being. It is one which we cannot afford to lose. I am just as much pro-British as is everyone else but I hope we will hear no more anti-American talk. Because such talk, designed to whip up emotion for crude political reasons, could jeopardise thousands of jobs and for that reason, it should be utterly condemned.

That it is not to say that I do not recognise the very natural concern about the future if a deal with General Motors goes ahead. That is why the Government has made it absolutely clear that we would only consent to such a deal if we were satisfied that General Motors were prepared to give specific undertakings. In particular, we would require commitments on UK manufacture, on investment, on exports, on research and development, on the level of local content, and on Land Rover's retention of its distinct British image and identity. To suggest therefore that we would be simply handing the businesses over to the Americans with no concern for their future is frankly absurd.

Of course, since the existence of the talks with General Motors became public, other parties have indicated that they too might be interested in acquiring parts of the business. And, as we have made quite clear, each one will be carefully examined on its merits. Getting our motor industry on to a fully viable and competitive footing, thereby preserving British jobs, must be our prime concern.

END

CCB/LR

22

SECRET

PRIME MINISTER

B.L.

You are meeting the Lord President, Chancellor of the Duchy and Chief Whip on Monday morning at 0930 and Mr Channon on Monday afternoon at 1430. The Chancellor of the Duchy may leave at 1000 for an appointment at Stoke Mandeville.

The folder includes a note by Peter Warry and the briefing on BL requested at Cabinet yesterday.

A slot has been marked down for a meeting of the wider group on BL on Wednesday afternoon. This is at present marked in your diary; no-one else has been told. One question for discussion at your meeting on Monday morning might be whether one of the people present should talk to Mr Walker or Mr Fowler before a wider meeting.

BL's accounts for 1985 will be published in early April.

I have emphasised to DTI that in any further briefing on BL they should make it clear that their references to Land Rover profits (and BL losses) are before interest, that Land Rover has made losses after interest in the past few years and that the Government has not, of course, received any dividends on the £2.2 billion of equity which it has injected into the company.

DTI are putting together a set of figures after interest which could be used in public.

DRN

DAVID NORGROVE
21 February 1986
CAJACN

SECRET

Prime Minister (10)

Reference (96)

DR 3/3

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(8) Mrs Bell
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(10) + DAVID NORGROVE (NO 10)

FROM:

MALCOLM McHARDY
PS/Mr Morrison
Rm 711, 1V/S
215 5186

18 February 1986

NOTE OF A MEETING WITH WEST MIDLAND MPs TO DISCUSS THE PROPOSALS TO RETURN LAND-ROVER LEYLAND TO THE PRIVATE SECTOR ON 17 FEBRUARY 1986

The Minister met Mr Gilroy Bevan, Mr Beaumont-Dark, Sir Reginald Eyre, Mr King and Mr John M Taylor to discuss the current situation on the potential return of the various parts of Land-Rover Leyland to the private sector. Mrs Bell and Mr Blake from Vehicles Division were also present.

Mr Gilroy Bevan accepted the need for a rationalisation of the bus side of Leyland but this was about all. It was agreed however that the Leyland Bus question was a separate one. Mr Gilroy Beven believes that GM has ulterior motives for obtaining Leyland Trucks. According to him Scammell is developing a new type of truck for the launching of rockets which is attracting considerable interest inside the Pentagon. By buying Leyland Truck, GM is simply doing away with serious competition.

GT have much better reasons than this. See the Economist article in your box.
DR 3/3

He is also worried about the future of the Freight Rover Division since half the workforce of 1800 comes from his Yardley constituency. He believes that the company has a lot to offer and could easily be sold off either as part of Land-Rover or separately. It has steadily improved its market share over the past few years and could improve even more. The main competitors Bedford Vans and Ford had their own problems. The Bedford operations were losing a lot of money and he had strong doubts whether the new Ford Transit van would take off.

On Land Rover, Mr Gilroy Bevan pointed out that the company had just undertaken a massive rationalisation of its operations. This had affected performance and a sale at this stage would simply mean that the company would go for a bargain basement price. He is also extremely concerned at the defence implications if the company were sold to GM. He pressed very strongly for Land Rover to be kept in British hands.

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Mr Beaumont-Dark said he was not against the break-up of BL and its return to the private sector although he had some difficulty in understanding why the negotiations had been conducted with GM. Bedford was in a worse state than Leyland Trucks. On Land Rover/Freight Rover he understood that market research in the United States had shown that there were markets for these vehicles. He believes given their recent performances that both these companies are being offered as inducements for GM to buy the Leyland Truck operation.

Roger King is also very worried about Freight Rover. He realises that the company's site is very cramped and that if the deal with GM were to proceed, there is a very real danger that the line would go to Bedford. He also made some play on the fact that if the deal with GM were to go ahead there would be knock on effects throughout the country. There would be 300 dealers with no van range to offer and scores of paint, component and other suppliers who would lose business.

Mr Morrison noted their concerns. It was agreed by the MPs that much of the uncertainty had been caused by the way the disclosure of the discussions between BL and GM had been made. The Minister said that it would have been much better if the companies had been able to finalise their own discussions first and present a total package for consideration.

Discussion then turned to the current position on the possible sales. The Minister explained that a number of companies had made informal approaches expressing interest in parts of Land-Rover Leyland although some had asked for their interest to be kept confidential at present. He mentioned that Volvo had now joined Laird as a potential buyer of Leyland Bus and Lonrho was interested in Land Rover. On Leyland Trucks, the Minister explained that it was generally recognised that there was a need for rationalisation. The BL Board's advice had been that the most sensible course to resolve the problem, both for commercial and industrial reasons, was for both companies to merge. On the defence point, the Minister pointed out that a merger would not create any strategic problems.

1WEBFI

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Mr King went back to the question of Freight Rover, which he felt could certainly be floated by itself. The Minister pointed out that while the company was successful now, it would require at least some £70-£80 million investment over the next few years in order to develop a new product range. If the company was not returned to the private sector, this money would have to be found from public funds. Mr King felt that this was a small amount for a company with such potential, and which aimed to satisfy its customers needs. On Land Rover, there was a strong feeling among the MPs that the Government had misread the situation and that the Government had made a mistake in allowing it to be included in the negotiations. The Minister pointed out the advantages in terms of the financial resources and marketing and distribution that GM could offer. However the MPs were concerned that GM would not meet any undertakings agreed with the Government on components and research and development. Mr Gilroy-Bevan pushed hard for all negotiations with GM to be stopped or at least delayed until other prospective buyers had had a chance to catch up.

Mr Morrison thanked the MPs for making their case so clearly (although in fact the discussions added little to what has gone on before.)

Malcolm McHardy

MALCOLM MCHARDY

1WEBFI

Company	Location	Employment	Constituency	MP	Bordering constituencies and MPs		
ARG	Longbridge	15000	Birmingham Northfield	Roger King C	Birmingham Edgbaston	Jill Knight	C
					Erdington	Robin Corbett	L
					Hall Green	Sir Reginald Eyres	C
					Hodge Hill	Terry Davis	L
					Ladywood	Clare Short	L
					Northfield	Roger King	C
					Perry Barr	Jeff Rooker	L
					Selly Oak	Anthony Beaumont-Dark	C
					Small Heath	Dennis Howell	L
					Sparkbrook	Roy Hattersley	L
					Yardley	David G Bevan	C
	Cowley	12338	Oxford East	Steven Norris C	Oxford West	John Patten	C
					Henley?		
					Banbury?		
					Witney?		
					Wantage?		
	Coventry (HQ)	2207	Coventry South East	David Nellist L	Coventry North East	George M Park	L
					North West	George Robinson	L
					South East	David Nellist	L
					South West	~~The Hon Nicholas Soames~~ JOHN BUTCHER	C
	Swindon	3354	Swindon	Simon Coombs C	North Wiltshire?		
					Devizes?		
	Llanelli Radiators and Pressings	2265	Llanelli	Denzil Davies L			
	SU Butec Birmingham	578	Meriden/Erdington	Iain Mills C/ Robert Corbett L	Birmingham constituencies		

Company	Location	Employment	Constituency	MP	Bordering constituencies and MPs		
BL Technology	Gaydon Works	600	Stratford on Avon	Alan Howarth C			
Land Rover	Solihull	8400	Solihull	John Taylor C	Birmingham constituencies		
Freight Rover	Common Lane, Birmingham	1634	Birmingham, Hodge Hill	Terry Davis L	Birmingham constituencies		
Leyland Trucks	Leyland, Lancs	4668	South Ribble	Robert Atkins C	Preston	Stan Thorne	L
					Blackburn	Jack Straw	L
					Chorley	Den Dover	C
					Lancashire West	Kenneth Hind	C
	Albion, Glasgow	1257	Glasgow, Hillhead	Roy Jenkins SDP	Glasgow Garscadden	Donald Dewar	L
	Bathgate, Lothian (Closure due 1986)	1100	Linlithgow	Tam Dalyell L	Livingston	Robin Look	L
	Scammell, Watford	695	Watford	Tristan Garel-Jones C	Hertsmere	Cecil Parkinson	C
Leyland Bus	Farington, Lancs	1793	South Ribble	Robert Atkins C	As for Leyland, Lancs		
	Workington, Cumbria	480	Workington	Dale Campbell Savours L	Copeland	John Cunningham	L
	Lowestoft, Suffolk	490	Waveney	James Prior C	Great Yarmouth	Michael Carttiss	C
					South Norfolk	John MacGregor	C
Leyland Parts	Chorley, Lancs	1400	Chorley	Den Dover C	As for Leyland, Lancs		
Unipart	Cowley	1796	Oxford East	Steven Norris C	As for Cowley above (see ARG)		

Company	Location	Employment	Constituency	MP	Bordering Constituencies and MPs		
Bedford	Luton	4600	Luton South	Graham Bright C	Luton North	John Carlisle	C
					North Herts	Ian Stewart	C
					Mid Beds	Nicholas Lyell	C
					S.W. Beds	William Madel	C
					West Herts	Robert Jones	C
					St Albans	Peter Lilley	C
					Welwyn Hatfield	Christopher Murphy	C
	Dunstable	2360	S.W. Bedfordshire	William Madel C	Buckingham	George Walden	C
					Luton North	John Carlisle	C
					Luton South	Graham Bright	C
					Mid Beds	Nicholas Lyell	C
					North Herts	Ian Stewart	C
					West Herts	Robert Jones	C
					Milton Keynes	William Benyon	C
Ford	Dagenham	18500	Dagenham	Bryan Gould L	Romford	Michael Neubent	C
			Barking	Ms Jo Richardson L	Ilford N	Vivian Bendall	C
					Ilford S	Neil Thorne	C
					Hornchurch	Robin Squire	C
					Erith & Crayford	David Everett	C
	Halewood	11000	Liverpool Garston	Eddie Loyden L	Knowseley South	Sean Hughes	L
					Liverpool Moseley Hill	David Alton	Lib
					Halton	Gordon Oakes	L
	Southampton	3300	Southampton Itchen	Chris Chape C	Southampton Test	James Hill	C
					Romesy & Waterside	Michael Colvin	C
	Langley	2000	Eton & Slough	John Watts C	Beaconsfield	Timothy Smith	C
					Windsor & Maidenhead	Dr Alan Glyn	C
					Wycombe	Ray Whitney	C
					Wokingham	Sir Wm Van Straubenzee	C
					Chesham & Amersham	Sir Ian Gilmour	C

Company	Location	Employment	Constituency	MP		Bordering Constituencies and MPs	
Ford	Bridgend	1800	Barry	Raymond Gower	C	Bridgend	
						Bridgend	
	Swansea	1500	Port Talbot	John Morris	L	Swansea	
						Neath	

Ray Powell	L
Peter Hubbard Miles	C
Alan Williams	L
Donald Anderson	L
Donald Coleman	L

British Leyland Subsidiaries

3.30 pm

Mr. John Smith (Monklands, East) *(by private notice)* asked the Secretary of State for Trade and Industry if he will make a further statement on the disposal of British Leyland subsidiaries in the light of the deadline on negotiations announced by the Government.

The Secretary of State for Trade and Industry and President of the Board of Trade (Mr. Paul Channon): As I told the House on Monday, other proposals for the future of the Land Rover, Freight Rover and Leyland Trucks businesses, which are the subject of current discussions between BL and GM, would be considered on their commercial merits. I named those who were willing to have their interests made public. Since then there has been no material change in the position.

As I said on Monday, it is in the interests of all concerned in the industry that these negotiations should come to a successful end as soon as they conceivably can so that damaging uncertainty can be removed. Accordingly, those companies indicating an interest in one or more of these businesses have been asked by the BL board to indicate by 4 March whether they have a firm intention to make an offer.

Mr. Smith: When the Secretary of State made his statement on Monday 17 February, why did he not tell the House about the deadline of Tuesday 4 March and also about the deadline requiring those wishing to meet BL senior management to do so before 28 February? I understand that the Secretary of State gave information about this to the lobby yesterday evening. Given that a letter was sent by Hill Samuel, apparently acting on behalf of the Government, informing interested parties of those deadlines on 14 February—three days before the right hon. Gentleman's last statement to the House—why did not the Secretary of State tell the House of Commons that those deadlines had been set?

Will the Secretary of State confirm that one of the interested parties—General Motors—has been having secret discussions for the past nine months? In those circumstances, why has such a sharp deadline been set for the others? Does this mean that the Government are merely going through the motions in respect of other intending purchasers? When, if at all, is it proposed to consult the representatives of the thousands of employees whose livelihood is entirely connected with the future of British Leyland subsidiaries?

As the Secretary of State apparently confirmed to the lobby yesterday evening, it seems that there are now six named bidders for Land Rover. Has it occurred to the Government that it might be wise to keep that company rather than sell it as everyone else seems so interested in acquiring it?

Will the Secretary of State also confirm that he told the lobby yesterday that if the General Motors proposal went ahead it would probably require a reference to the Monopolies and Mergers Commission? Will he clarify that point, which was put to the lobby but has never been discussed in the House?

Finally, will the hon. Gentleman reflect on what the Minister of State said last night? When asked whether there would be an Adjournment debate on this, the Minister of State replied that the House of Commons was sovereign. Does that mean that there will be a full parliamentary debate on the whole issue before any deal is struck?

Mr. Channon: As for what the right hon. and learned Gentleman said about the Monopolies and Mergers Commission, I did not say that to the lobby. [*Interruption.*] I did not mention the Monopolies and Mergers Commission.

As for consultation with the work force — [*Interruption.*] I have never mentioned the Monopolies and Mergers Commission. As to the work force, the BL board told me that it intends to communicate with the work force at once, or as soon as possible. [HON. MEMBERS: "When?"] That is a matter for the board, but I think at once.

As for secret discussions with General Motors, I do not think that anybody can say that they were very secret. The discussions have been going on for quite a long time, as I have explained to the House many times. [HON. MEMBERS: "How long?"]

As for the so-called deadline, I should have thought that the right hon. and learned Gentleman had at least this in common with the Government—we must come to a conclusion about these matters in the reasonably near future. Surely any responsible hon. Member on either side of the House, whatever his views about the future of those companies, should wish for a conclusion at a very early date. That is why I think it is right for the BL board to do as it has—to say that, by 4 March, other businesses should have a firm intention to make an offer. I hope that they will then be appraised during March and that we shall be able to come to conclusions soon.

Mr. Steve Norris (Oxford, East): Is my right hon. Friend aware that many of us agree entirely with him that, in the interests of those who work in the company, we should bring any negotiations to a conclusion as speedily as possible? Does he further agree that it is damaging to the work force to see all of these negotiations, at the instigation of the Opposition, conducted in public to their detriment?

Mr. Channon: I agree with my hon. Friend on both counts. We must try to act in the interests of people in those companies and to reach a sensible conclusion rather than make party political capital.

Mr. Terry Davis (Birmingham, Hodge Hill): Why are the merchant bankers Hill Samuel involved in these discussions? Who appointed them? Is there any connection with the fact that a director of BL is also a director of Hill Samuel? Is this another example of the City of London taking an opportunity to feather its nest at the expense of British industry?

Mr. Channon: The hon. Gentleman is talking hysterical nonsense. The British Leyland board, like other companies in these circumstances, has its own merchant bankers, and Hill Samuel happens to be the merchant bank acting for it.

Mr. Michael Heseltine (Henley): Does my right hon. Friend agree that it would be better to reach the right decision more slowly than the wrong decision more quickly? Will he bear in mind that in Britain's negotiations with Ford, Chrysler and General Motors there have been promises and assurances but very little compliance with either?

Marine Nature Reserve

14. **Mr. Kenneth Carlisle** asked the Secretary of State for the Environment whether he will make a statement on progress being made to establish the first marine nature reserve.

Mr. Waldegrave: Good progress is being made at Lundy. The Nature Conservancy Council hopes to go out to consultation in the spring and put formal proposals to my right hon. Friend in the summer.

Mr. Carlisle: I respect my hon. Friend's efforts to achieve voluntary agreement for the first marine nature reserve, but it is now more than four years since the Wildlife and Countryside Act gave us the obligation to establish such reserves. If voluntary agreement for a marine nature reserve is not reached in the very near future, will my hon. Friend ensure that Parliament takes powers so that the Government can impose the first reserve?

Mr. Waldegrave: I gave a pledge — to my hon. Friend, I believe—that we must have a reserve within 12 to 18 months of a commitment that I made some time ago. We are still within that time scale, but we are watching the situation very closely, because no further slippage would be tolerable.

Mr. Dennis Skinner (Bolsover): On a point of order, Mr. Speaker.

Mr. Speaker: I will take the point of order afterwards.

Mr. Skinner: So long as I can make it before the Minister of State leaves the Chamber.

Mr. Channon: I want to come to the right conclusion in reasonably quick time because I believe that that is essential in the interests of the companies concerned and of all of those who work in them and want them to succeed in the future.

Mr. Tam Dalyell (Linlithgow): My right hon. and learned Friend the Member for Monklands, East (Mr. Smith) referred to the letter of 14 February. Why did not the Secretary of State tell the House of Commons about the deadline?

Mr. Channon: I have not seen the letter of 14 February. *[Interruption.]* Nor is it in any way surprising that that should be the case. Hill Samuel is the merchant banker to the BL board, not to me.

Mr. Alex Fletcher (Edinburgh, Central): Will British bidders be given a reasonable time scale in which to submit their bids? Should not Ministers give preference to British bidders quite unashamedly, not because we are anti-American—far from it—but because the assurance of British ownership should be more acceptable to the Government than assurances from overseas owners, no matter how prestigious they may be?

Mr. Channon: I can assure my hon. Friend, as I have done on many occasions, that we shall give serious consideration to any bids. No bids have so far been received.

Mr. David Steel (Tweeddale, Ettrick and Lauderdale): Will the Secretary of State recognise that both sides of the House want a clear assurance that it is the policy of the Government that British Leyland should remain British Leyland and that it should not become American Leyland? Therefore, as a matter of policy, should not preference be given to those bids that come from other British companies? Will the right hon. Gentleman confirm that this decision cannot be left to the BL board itself as national assets are involved?

Mr. Channon: The Government's policy is to have the best solution for these companies, whether it be American or British. I am far more concerned with the need to achieve a proper future for these companies, and that, I suggest, is what any responsible hon. Member should be working towards.

Mr. Hal Miller (Bromsgrove): In the face of all this synthetic indignation, does my right hon. Friend accept that ever since the Government announced their intention to privatise British Leyland it has been quite plain that bids were open for any part of British Leyland? In view of the Opposition's belated and mischevious attempt to make political capital out of this and to cause further delay and uncertainty among all those who supply truck and bus and Land Rover, who work in the company and who sell the product, surely there is a need for an early and decisive conclusion to this matter?

Mr. Channon: I entirely agree with my hon. Friend, and I hope that that is the general wish in the House.

Mr. Jack Straw (Blackburn): The Secretary of State is giving the impression that he is not answering the question that has been put to him three times by my right hon. and learned Friend the Member for Monklands, East (Mr. Smith) and two of my other hon. Friends. Was he aware of the letter sent by Hill Samuel, whether he read it or not? Was he aware of the deadline? If he was, why was the House not told of it when he made his statement on Monday?

Mr. Channon: I answered the hon. Gentleman's question a moment ago. I have given the House the fullest information in my possession, and I have answered any questions that the House has put to me; I shall go on doing so. During the past two weeks there has been a private notice question on 3 February, a debate on 5 February, a statement on 6 February, questions on 12 February, a private notice question on 17 February, a debate on 18 February, and another private notice question on 19 February. The idea that hon. Members have not had the chance to question me is ridiculous.

Mr. David Madel (Bedfordshire, South-West): Will my right hon. Friend confirm that any arrangement between General Motors and Leyland Trucks will not succeed unless the management and unions in those firms are able to agree the details? As neither the management at plant level nor the unions yet know the details of any proposal, what is the point of constantly raising the matter in this House? Neither the work force nor management have yet had any firm proposals on which to negotiate.

Mr. Channon: As my hon. Friend knows, at the present stage no bids have been received from any quarter for these companies. We must try to get to a situation where sensible decisions can be taken, but negotiating in public, as the Opposition would clearly like to do, is very damaging for the future of the companies concerned.

Mr. D. N. Campbell-Savours (Workington): May we have an assurance that, whatever happens in the end, Japanese Isuzu diesel engines will not be fitted to Land Rover or Range Rover?

Mr. Channon: When I last spoke in a debate such as this, I said that satisfactory assurances would have to be obtained before I could recommend any deal to the House.

Mr. John Mark Taylor (Solihull): Will my right hon. Friend accept, and take note of, the virtues of management buy-outs with worker participation, such as in the National Freight Consortium? Will he consider the application of such a scheme to the future of Land Rover, and will he consider it consistent with wider ownership of shares, which our party has always advocated?

Mr. Channon: As I told my hon. Friend on another occasion, if a serious proposal comes forward, it will be considered.

Mr. Andrew Faulds (Warley, East): If the right hon. Gentleman knew of the deadline set out in the letter of 14 February, why did he not previously tell the House of its existence?

Mr. Channon: I have set no deadline—4 March is simply the date by which BL expects alternative interested parties to declare a firm intention of making an offer. That seems to be wholly reasonable. I have kept nothing from the House.

Mr. Robert Atkins (South Ribble): Will my right hon. Friend confirm that it has always been the inviolate rule of British Leyland to tell the work force before anybody else what is going on that affects its interest? Does he agree that those of us who have a real interest in the work force, those of us who have a constituency interest as I do,

[Mr. Robert Atkins]

as the Member for Leyland, find the activities of the Labour party, supported by those who will jump on any bandwagon, scurrilous and disgraceful and worrying the work force even more than it is now?

Mr. Channon: I entirely agree with my hon. Friend.

Mr. Ian Wrigglesworth (Stockton, South): As there has been considerable speculation about the fact that General Motors will not purchase other parts of BL unless Land Rover is included, will the Secretary of State give an assurance that the Land Rover part of the deal can be disentangled from the General Motors bid, and that a purchaser from Britain can make a serious offer for it?

Mr. Channon: Any proposal will be looked at on its merits. I understand that the GM board wishes to buy both companies or neither, but, as I have already tried to explain, I would never agree to a deal for Land Rover unless I were convinced that is would be in the long-term interest of Land Rover—and that with a GM deal if satisfactory assurances can be obtained and with the American outlets available—I could see a secure and good future for Land Rover.

Mr. Derek Conway (Shrewsbury and Atcham): Concern about this matter comes not only from the west midlands but equally from my constituency, where several hundred jobs are involved. Does my right hon. Friend accept that we should prefer to see a longer negotiating time scale if that meant that a British bid could be acceptable? I accept that it is difficult to conduct negotiations via the House, but I hope that, before the lobby, the House of Commons will have a say as to where a nationalised industry which should remain British goes.

Mr. Channon: I assure my hon. Friend that there will be time for any serious bid from any source to be considered. No bids have yet been seen. There have been some declarations of interest in the companies concerned. I agree that bidding companies must be given an opportunity to make their proposals. I believe that what the BL board proposes is adequate.

Mr. John Evans (St. Helens, North): Is the Secretary of State aware that the widespread doubt and uncertainty has largely been created by his own inept and incompetent performance? Will he acknowledge that this is not just a question of Leyland, and if there is any reduction in production by BL it will have a major impact on the Pilkington factory in St. Helens, which is a major supplier of glass to the industry? Will he bear that in mind?

Mr. Channon: I shall bear that in mind. I reject the first part of the hon. Gentleman's question. Some of the major component suppliers to this industry, and I have permission to quote Guest Keen and Nettlefolds — *[Interruption.]* So hon. Members wish to laugh at the components manufacturers. GKN has said that, subject to satisfactory assurances, the Bedford-Leyland merger and the GM ownership of Land Rover would be desirable from the United Kingdom point of view.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): Will my right hon. Friend accept that many of us agree that this virtually daily questioning is not helpful to solving the problem? But will he also bear in mind that it underlines not just the wishes of the House but the fact that the people of this nation wish to see not an American dream come true to control our motor industry but a British dream come true—a viable British alternative to the problem? Carelessly and quickly selling out is like marriage, which is meant to be for ever; and once one has sold out it is for ever. Will my right hon. Friend make sure that before he sells out to General Motors he gives the British people a genuine chance to control their destiny?

Mr. Channon: My hon. Friend has made his views clear on many occasions and I respect them. I have already assured the House that I will give a genuine chance to any serious bid that comes forward and I repeat that assurance to my hon. Friend today. I am grateful to him for what he said in the first half of his question. It is difficult for all those involved in the companies to have this daily barrage which the Opposition are clearly trying to create for party political reasons.

Mr. Stan Thorne (Preston): Is the Secretary of State aware that an official group from British Leyland came to the House yesterday to make it clear that, in its opinion, the bus and truck division, in which it has invested considerable skill and effort, must remain in public hands?

Mr. Channon: That is a view that I understand, but it has never been the Government's view because we believe that we should privatise those industries.

Mr. Patrick McNair-Wilson (New Forest): Does my right hon. Friend agree that had it not been for United States investment in Britain since the war our industrial base would be a great deal smaller than it is and, since a large part of that investment was sanctioned by the Labour party when it was in power, will he reject this hypocritical anti-Americanism and put the interests of the work force and the business first in any discussions that take place?

Mr. Channon: Yes, I will. American investment in Britain has been very much welcomed and there has been substantial British investment in the United States. Labour Members, with their anti-American taunts, are playing a dangerous game. They are threatening the livelihoods of thousands of people employed by American companies in Britain, including General Motors and Ford.

Several Hon. Members *rose*——

Mr. Speaker: Order. We must move on.

21

PRIME MINISTER

BRITISH LEYLAND

Sir Robert Armstrong's brief for Cabinet tomorrow suggests that you will want to remind the Cabinet that E(A) has firmly endorsed the GM proposals.

The problem here is that if you show a closed mind to Cabinet about the other bids, that will quickly be transmitted to the outside world as a closed mind. Privately, it already seems likely that none of the other bids, singly or in combination, will meet the Government's objectives. But the Government will want itself seriously to consider them and to confirm to the House that it will seriously consider them.

I suggest your line tomorrow, in the light of Mr. Channon's report, might be:

> "As the Secretary of State said, there have been a number of approaches about buying parts of Land Rover-Leyland. Not surprisingly, there have been many more for Land Rover than for Leyland Trucks. The BL Board and DTI will want to consider the serious bids seriously. The GM bid endorsed by E(A) remains the only one for both Land Rover and Leyland Trucks.
>
> The tactics and handling of all this will also need to be considered very carefully, and I have set up a small group of Ministers closely concerned to review these. I am sure that the Cabinet would want the Secretary of State to keep Cabinet informed as all this goes forward week by week and there will be a full collective discussion before final decisions are taken."

David Wolfson is particularly concerned that the Government should be seen to consider all serious bids. He also believes that it would be wrong to over-emphasise the need for speed: after all, other bids are sometimes referred to the Monopolies

Commission for a six month study, and the Government would be criticised if GM takes over Leyland Trucks hastily on the grounds that this is necessary to protect the business, and then GM starts to close substantial parts of it.

David has also pointed out that Leyland Trucks represent only a little over one-quarter of Land Rover-Leyland in terms both of turnover and of employment. He argues that this makes it more difficult to refuse to sell Land Rover separately in order to be able to dispose of Leyland Trucks at the same time.

He may be putting in a separate note to you, in which he will no doubt express his concerns better than I can.

David Norgrove

19 February 1986

DG2AWA

Ref. A086/572

PRIME MINISTER

Cabinet: Parliamentary Affairs

British Leyland

The Secretary of State for Trade and Industry will report briefly on the current situation on the bid by General Motors (GM) for Leyland Trucks, Land Rover and Freight Rover, and the reports of interest by other companies in acquiring parts of Land Rover Leyland (LRL). So far as we know, no specific bids have been made, and no proposal so far advanced appears to cast doubt on the greater industrial and commercial logic of the GM bid (the "Salton" proposals). As evidenced in the House yesterday, however, strong opposition to the proposals is being mounted both from the Opposition and among West Midlands Government backbenchers.

2. You will not want to have substantive discussion at this stage. At the minimum, any alternative proposals will need to be considered thoroughly by the BL Board before any new judgments can be made. You will also want to remind the Cabinet that at its meetings on 28 January and 6 February (E(A)(86) 3rd and 5th meetings) E(A) firmly endorsed the GM proposals. You will, however, want to indicate that you have decided to set up a small Group of Ministers closely concerned to review tactics and handling in relation to the negotiations between BL and GM; and that, in the light of developments, you will arrange a full collective discussion at E(A) and/or Cabinet before final decisions are taken.

NO. Other bids as well.
" in relation to the bids now in prospect for Land Rover - Leyland."

BRIAAM

Nuclear Waste Disposal

3. The Lord President will report briefly on the lines of his separate minute to you. There should be little substantive discussion.

RCA

ROBERT ARMSTRONG

19 February 1986

BRIAAM

010

CABINET OFFICE

With the compliments of

J. B. UNWIN

70 Whitehall, London SW1A 2AS
Telephone 01 233

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SECRET

P 01920

From: J B UNWIN
19 February 1986

SIR ROBERT ARMSTRONG

cc Mr Wiggins
Dr Walker
Mr Norgrove - No 10

COPY FOR

BL

The Prime Minister decided this morning to set up a small Ministerial Group to consider handling and tactics in relation to the GM bid for Land Rover Leyland (less Leyland Bus), following the decisions at E(A) on 28 January and 6 February to support the GM proposals.

2. The Prime Minister proposes to refer to this at Cabinet tomorrow when the Trade and Industry Secretary reports on the current situation. There is then likely to be a further substantive discussion at E(A) and/or Cabinet when the negotiations have been completed, but the timing of this is not yet clear. There would be great advantage in getting this settled before Easter, but this may not prove possible.

3. The first meeting of the new Group has been arranged for next Monday morning. There would be advantage in announcing the Group and issuing invitations to members as soon as possible. I attach suitable drafts.

J B UNWIN

SECRET

SECRET - CMO

Draft letter of invitation from Sir Robert Armstrong to members

Ministerial Group on Land Rover Leyland

Following the decisions reached at E(A)(86)3rd and 5th Meetings, the Prime Minister has decided that a Group of Ministers should be set up under her chairmanship with the following terms of reference:

> "To consider handling and tactics in relation to the negotiations between BL PLC and General Motors for the acquisition of Leyland Trucks, Land Rover and Freight Rover and discussions with other parties on this and on Leyland Bus."

2. The Prime Minister has instructed me to invite you to be a member of this Group. The Lord President of the Council, the Chancello of the Exchequer, the Secretary of State for Energy, the Lord Privy Seal, the Secretary of State for Social Services, the Chancellor of the Duchy of Lancaster, the Secretary of State for Trade and Industry and the Parliamentary Secretary, Treasury [delete name of addressee] are also being invited to be members of the Group.

Sir Robert Armstrong

010

Reference.....

TO:

Mr Meadway V2

cc PS/Prime Minister
PS/Sir Brian Hayes
Mr Mountfield
Mr Cochlin
Mrs Bell
Mr Pryor Director
WMRO

FROM:

ANDREW ADAMS
MOS Office (Mr Morrison)
Rm 711, 1V/S
215 5186

19 February 1986

Mr Morrison has agreed to meet a delegation representing the West Midlands Regional Council of the Trades Union Congress on Monday 3 March at 2.30 to discuss the proposed sale of BL subsidiaries.

I would be grateful for briefing and names of officials who will attend by noon Friday 28 February.

AMAd

ANDREW ADAMS

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REVD
19FEB1986
MINISTER OF STATE

TRADES UNION CONGRESS
West Midlands Regional Council

Regional Secretary: Sir David Perris, M.B.E., J.P.

10 Fleetshore Street, Birmingham, B5 4HU. *Telephone:* 021-622 2050

Our Reference: DP/VMD Your Reference:

18th February 1986

The Hon. Peter Morrison, MP,
Minister of State for Industry,
Department of Trade & Industry,
1 Victoria Street,
LONDON. SW1H 0ET

Dear Mr. Morrison,

B.L.

I write to confirm my telephone conversation with your private office today, when it was agreed that you would kindly receive a small deputation on Monday, 3rd March 1986 at 14.30 hours, in order that we might make representations to you concerning the proposed sale of B.L.

Our representatives will be:

Mr. Sid Platt - TUC Regional Chair; Regional Officer, N.A.L.G.O.

Mr. R. Marston - Regional Vice-Chair; Regional Officer, T.G.W.U.

Mr. P.C. Higgs - Chair, Economic Policy Committee;
Divisional Officer, Amalgamated Union of
Engineering Workers-EFC Section.

Yours sincerely,

David Perris
Regional Secretary

20. 11.
AM 8 6

British Leyland

Motion made, and Question proposed, That this House do now adjourn.—*[Mr. Sainsbury.]*

10.7 pm

Mr. David Gilroy Bevan (Birmingham, Yardley): I am obliged that I have been fortunate enough to be able to have an Adjournment debate on one of the most vital industries in the heartland of Britain, in Birmingham. So far, there has been no debate on the machinations that have affected the car factory near my constituency. I make a declaration of interest in PPG Industries, but I am nevertheless more concerned to make a declaration of interest on behalf of the numerous members of my constituency who work either in Freight Rover or in Range Rover. Probably over 60 per cent. of the work force actually resides in Yardley.

I shall briefly refer to the construction of the Land Rover Leyland Group. It comprises Leyland Vehicles Limited, Land Rover Group and LRIH which is a company dealing with international matters. Land Rover Group includes Land Rover and Freight Rover. I am not concerned about Leyland Vehicles, the heavy group. The truck division is reputed to have accumulated losses of £500 million. However, it is worth noting that General Motors may not just be interested in Land Rover, Range Rover and Freight Rover as sweeteners. However, it may be interested in the truck division so that it can get its hands on Scammell, which is a subsidiary of Leyland Truck.

Mr. Robert Atkins (South Ribble): Will my hon. Friend accept that in Leyland Truck as well as in Leyland Bus uncertainty and lack of information is causing most of the aggravation to the work force?

Mr. Bevan: I agree. I shall deal later with the bus division.

Through its Scammell subsidiary, the truck division is one of the two companies that has put in tenders for the £120 million defence order that is shortly to be issued by the Ministry of Defence for rapid fire rocket launchers, which will be able to serve up at a collossal rate of fire power the ammunition needed for those fire launchers. That might be the entrée for General Motors, which is an excellent American company. That might be the real reason why General Motors is trying to get the 1 billion dollar order that may be forthcoming from the Pentagon for similar rocket launchers at a later date. If that is its strategy, it means that it is not intent upon obtaining Land Rover as a sweetener. If that is its intent, we must look at it again.

There are 8,500 people involved in Land Rover, the majority of whom are from Yardley. There are 1,700 people at Freight Rover. The Land Rover factories—14 throughout the United Kingdom—were located as far away as Cardiff. They are now centred upon Lode Lane, Solihull, a few hundred yards over the boundary. All that they have bequeathed to Yardley, Acocks Green and Tyseley are eight empty, old factories.

I do not object to that move because it did not adversely affect the employment of my constituents. However, their future needs to be assured. Their concern has been expressed to me during the several visits that I have made to factories in the area, on tours in the area and by letters. Their concern is not merely for themselves. They want to continue to work for what they consider to be a unique British manufacturing company in the case of Land Rover and Range Rover.

The only active factory that is left in Yardley—those eight plants having been bequeathed to the Lode Lane complex where they are rationalised into one unit and are able to compete and take orders from the rest of the world—is BL Technology. It is worth looking at Freight Rover. It is located in Common Lane. Again, that is not in my constituency but the constituency of the of the hon. Member for Birmingham, Hodge Hill (Mr. Davis). It is interdependent. Land Rover supplies the engines and the gear boxes: the 3·5, the two litre diesel and the 77 mm gearboxes. Freight Rover supplies Land Rover with the pressings, which is another interdependency. Austin Rover supplies the engines and the axles. Perkins now supplies a diesel engine. There is, therefore, an interdependency in the estalishments.

It is not true to say that there is vast overproduction in the Land Rover and Range Rover side of the business. There is none. Not a single vehicle is kept in stock. Every vehicle that is made by Range Rover and Land Rover is sold, so there is no stock piling. In the rapid growth market to which I refer, which is the four wheel drive market throughout the world, we must note with apprehension that General Motors, which has a shopping list at its disposal and which is reputed to have some £5·77 billion to spend in buying companies, and only a fortnight ago bought the "Lotus" company, also owns 35 per cent. of Isuzu, a four-wheel drive light truck manufacturing business which has doubled its turnover in the last year, and is selling well. Freight Rover with its particular vehicle, the Sherpa, has 13·9 per cent. of the market, a sizeable percentage and far bigger than the figure to which my right hon. Friend the Prime Minister referred on television last night of 4 per cent. for the whole industry in Europe.

Mr. John Mark Taylor (Solihull): In the context of the Prime Minister's interview last night, in which she referred to the virtue of wider share ownership, does my hon. Friend not consider that, with its recovery plan well advanced, floating Land Rover on a management buy-out with employee participation might even now represent an opportunity to achieve wider share ownership?

Mr. Bevan: Indeed, I welcome it. I would have thought that my hon. Friend has seen a paragraph which I intended saying later in my speech. His pre-emption, however, is welcome. Of course I consider that that would be a reasonable option, and one which is after all encouraged in almost every theatre of operations.

In regard to the shipyards which will be privatised later this year, if that is the option chosen, in regard to its operations it will consider a management buy-out with management, the work force and the investors all comprising part of such a buy-out.

What I object to—I do this as an erstwhile surveyor and one who carried out many estate deals prior to my coming to this place, with many qualifications, dare I say, for doing so—what I consider to be quite the wrong way of negotiating the sale of this or any other business is to do it in secrecy, to do it behind closed doors and to do it with merely one other customer in pre-determined mind. That is no way to create a deal, that is no way to excite the best figure from the market. It is so extraordinary that, following the leak of this particular

[Mr. Bevan]

matter, the tree is being shaken and down from the branches of that tree come purchasers, and every day that continues like falling leaves on the industrial greensward below.

More and more we are told that Lonrho is now interested. We are told that Aveling Barford is interested, a previous subsidiary of BL. We are told tonight that three other firms are interested, although I do not know which firms they are. But the more we know about the matter, the more interest there will be. It would be wrong to announce at this stage, having treated in secret with a predetermined purchaser, that the omelette must be served up by Easter. A very addled egg will be delivered if this time limit is put upon it.

We must ask—why all the rush? We have invested £2 billion in the company, as the Government are always kind enough to remind us. The Government have no money. They have only the people's money and, therefore, they have invested taxpayers' money in this ingredient and act as trustees. They must get a decent yield from that investment. The Government are not considering, are they, taking back any portion of the £1·6 billion that they have invested in the form of guarantees, letters of credit or the agreements that have been mentioned? There is no suspicion of that. Therefore, normally one would have asked that time be allowed for the reformation and rationalisation of Land Rover so that it can produce its supurb new models—the 90 and 110 versions of the Land Rover and the Vogue version of the Range Rover, which goes faster, which has a fifth gear, and which is an excellent vehicle for the markets of north America. I understand that an organisation of about 60 distributing agents is about to be appointed. Since there cannot now be time for that to happen, let us privatise if we must, but let us privatise to the best British buyer, in which the people can take a shareholding.

Mr. Roger King (Birmingham, Northfield): My hon. Friend has explained why General Motors would be interested in Land Rover and Range Rover, but why on earth is it interested in Freight Rover? That company shares a factory with Austin Rover, obtains its components from Austin Rover, sells its products to Austin Rover, and produces a range identical to that produce by General Motors. Could it be that General Motors wishes to buy it simply to close it down?

Mr. Bevan: That is the fear of my constituents.

Yesterday, my hon. and learned Friend the Member for Mid Bedfordshire (Mr. Lyell) said that the people of Luton would be happy to see such an arrangement between General Motors and British Leyland. That is precisely why the people of Birmingham are unhappy. They want the British flag to continue flying over their enterprise. They know that Bedford Trucks is about to announce a loss of about £120 million. As my hon. Friend the Member for Birmingham, Northfield (Mr. King) said, the ranges are identical. The people of Birmingham foresee possible doom and eclipse if the matter continues.

The bus business is different. In a previous existence, as chairman of the West Midlands passenger transport authority, I ordered buses from British Leyland and Metro Cammell at £7 million a time, but that is no longer possible. The grant has gone, there has been privatisation and all sorts of things, including delicensing, have taken place. I would be happy for the bus division to go to Laird where there is a natural home of it at Metro Cammell, but not this.

Mr. Terry Davis (Birmingham, Hodge Hill): Will the hon. Gentleman give way?

Mr. Bevan: I am afraid that I must deny the hon. Gentleman an intervention.

Land Rovers and Range Rovers are individually crafted as no other vehicle is. We know that 70 per cent. of models produced are exported. There was a 40 per cent. increase last year in exports to Switzerland and a 10 per. cent. increase to Europe. The vehicle, with its immense potential, is about to be sold off in a shotgun wedding as a bartered bride. We ask that the marriage banns be given time to be read properly so that the names of the suitors can be understood, and that our belief in the factory be allowed to continue with the British flag above it and not struck, as the flag over Fort Dunlop has been, and not even as the flag over Westland has been.

10.24 pm

The Minister of State, Department of Trade and Industry (Mr. Peter Morrison): I am more grateful than usual that my hon. Friend the Member for Birmingham, Yardley (Mr. Bevan) has had the opportunity to discuss the future of Range Rover, Freight Rover, and Land Rover. I gather that there was a little local difficulty earlier today about possible developments on the future of British Leyland as a whole.

We have had a very busy day in the Department of Trade and Industry. We have had a lot of discussions about the future of BL. Indeed, as my hon. Friend the Member for Solihull (Mr. Taylor) will remember, we had earlier today a delegation composed of trade unionists from Range Rover and Land Rover, and members of the local council. We discussed the future of Range Rover and Land Rover at great length. Despite the fact that we have had a busy day discussing the future of BL, since my right hon. Friend the Secretary of State made a statement yesterday afternoon in answer to a private notice question, there have been no new developments.

I listened carefully to my hon. Friend. I am aware that the future of Land Rover (UK) has been argued and discussed in the west midlands and the country as a whole. It has been discussed publicly and privately, with conviction and cogently. As my hon. Friend the Member for South Ribble (Mr. Atkins) said, the present uncertainty is bound to be a worry. I disagree with my hon. Friend the Member for Yardley in that I do not think that it would be sensible for that uncertainty to go on and on. Keeping the future shrouded in mist would cause serious anxieties among employees and be bad for the future of the businesses.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): We are all sympathic about the busy day that my hon. Friend has had. Will he forgive me if I say that we are even more sympathetic about the busy days that lie ahead of him? Before he concludes those busy days, will he give the House one pledge, that before he closes the chapter on this lamentable affair, before he agrees on what will happen to Land Rover and British trucks, and before any agreement is signed the House will, bearing in mind the importance of the issue, debate it before ink is put to paper? That would satisfy many of us, and we would go to bed happy after our busy day as well.

Mr. Morrison: I know that my hon. Friend is a very busy man. We have known each other for 20 years. My right hon. Friend the Secretary of State has made it quite clear that, when any announcement of anything concrete is to be made, it will be made to the House and it will be debated. I quite appreciate what my hon. Friend has just said.

Mr. Terry Davis: Will the hon. Gentleman give way?

Mr. Bevan: May we therefore discount the statement that my right hon. Friend the Secretary of State made yesterday in the House that he would inform the House when negotiations had been concluded? That is not enough, as my hon. Friend the Member for Birmingham, Selly Oak (Mr. Beaumont-Dark) has pointed out.

Mr. Morrison: My hon. Friend will appreciate that my right hon. Friend the Secretary of State is not using the House as a negotiating House. Obviously negotiations will take place with all the separate parties, whether GM or other parties. When a conclusion to negotiations is reached my right hon. Friend will immediately make a statement to the House and he will accept that it will be for the House to debate and decide upon the result of those negotiations.

Mr. Terry Davis: We are dealing with a serious point. What is of concern to hon. Members on both sides is that there should be a debate in the House after negotiations have been concluded but before anything is signed, sealed and sold off. We are anxious not just to know the result of negotiations but to have an opportunity to debate the result before the matter is finally signed. The hon. Gentleman should go a little further—as his right hon. Friend did not do yesterday — and give us that assurance.

I should like two other assurances. *[Interruption.]* These are important matters for my constituents who work at Freight Rover. Will the Minister follow up the assurances given yesterday by his right hon. Friend about consulting the people who work at Land Rover and Freight Rover and give us an assurance tonight that they will be consulted before anything is signed, sealed and delivered so that the House may debate the issue in the knowledge of what the people who work in the companies want?

Will he also make sure that in the negotiations a legally enforceable undertaking is sought that production of Sherpa vans will not be removed from Washwood Heath and production of Land Rovers will not be transferred from Solihull to Spain?

Mr. Morrison: On the first point, the hon. Gentleman and I came to the House on the same day and I have always understood that the House was sovereign; the House has total and complete control over what happens. If the House decides to go in a particular direction, that is the decision of the House.

On the hon. Gentleman's last point, I understand from his constituency point of view why he raises it, but it would be totally misleading of me to make any predictions about what may happen because at this stage I do not know what deal there may be with whom, albeit I have accepted that the deal with General Motors is further down the course than the others. In those circumstances, he will understand that I cannot commit myself. I understand the crucial and important point that he has made on behalf of his constituents.

In the few seconds which are left, may I talk about the future of Land Rover, Range Rover and Freight Rover? Of course, they are all crucially important, but my right hon. Friend and I have to consider them in the context of the vehicle industry as a whole. Land Rover, Range Rover and Freight Rover comprise one of the many jewels in the crown of the west midlands. But I hope that the House will appreciate that tens of thousands of jobs are dependent upon foreign car manufacturers. Ford, General Motors and other car manufacturers are established vehicle manufacturers in this country. To a great extent, in some cases to a major extent, they source from United Kingdom component suppliers.

My hon. Friends from the west midlands should remember that in west midlands terms it is dangerous industrially and politically to appear to be anti-American. If we appear to be anti-American the business and jobs that come with American investment may be driven away. *[Interruption.]* The shadow Secretary of State for Scotland, the hon. Member for Glasgow, Garscadden (Mr. Dewar), knows perfectly well that there is a substantial number of jobs in the Scottish economy thanks to American investment, as is the case in other parts of the United Kingdom.

I hope that all hon. Members agree that the Government's policy must be directed towards a competitive United Kingdom based commercial vehicle industry. We have to decide on the future not just of Land Rover and Range Rover, but of Freight Rover, Leyland Trucks and Leyland Bus. My hon. Friend the Member for South Ribble knows Leyland Bus very well. That company is not part of any potential deal with General Motors and can be set aside for the purposes of this debate. Nevertheless, it is crucial that solutions are found for the bus industry, too, and those solutions will not be easy to find.

I think it is accepted that there is over-capacity in the truck industry, and some people say that in Europe that over-capacity is 40 per cent. For that reason, if we are to maintain a competitive truck manufacturing industry, we cannot stay precisely where we are. We have to ensure that the truck industry becomes more efficient to meet the demands of the market place. If it does not become more efficient, we have to accept the fact that it could disappear.

My hon. Friend the Member for Yardley raised, as he did last night when he came to see me, the defence implications. I assured him last night that we are satisfied about that. I accept that Freight Rover has been successful over the past few years, and that has been due to the good work of the management and the work force. The problem with the van industry is not dissimilar, and if we did not look properly at the problem we would be courting potential disaster for the whole of the industry in the United Kingdom.

I accept entirely the points made by my hon. Friend the Member for Yardley about Freight Rover. I hope that he will accept that it is right to look at the industry as a whole. Strong arguments were advanced in favour of retaining Land Rover, Range Rover as an independent United Kingdom company. My hon. Friend the Member for Yardley and several of my hon. Friends have made that point. Management buy-out is talked about. I understand that. I was brought up in the back of a Land Rover, and as the youngest son I still sit in the back of a Land Rover, so I know about the Union Jack flying over Land Rover. But we have to look at the long-term future, and I would like my sons and grandsons also to be brought up in the back of a Land Rover. The important——

[Mr. Morrison]

The Question having been proposed after Ten o'clock and the debate having continued for half an hour, MR. DEPUTY SPEAKER *adjourned the House without Question put, pursuant to the Standing Order.*

Adjourned at twenty-three minutes to Eleven o'clock.

clearly an important public consideration in the choice by Government of any system to be adopted in the future.

It was for all these various reasons that the committee unanimously concluded that the balance of argument was firmly against the introduction of transferable allowances although we were all well aware that this conclusion might well be controversial. The idea that the tax system should support marriage—currently exemplified by the married man's allowance which would, in effect, continue with transferable allowances—is deeply embedded in our thinking. It was with this in mind that the committee comment in their report that the issue of transferable allowances provides a crucial test of the strength of the commitment to equality for women.

We all still tend to think in terms of the "traditional" family. A view expressed in the evidence from several bodies was that the system should not encourage wives to take up paid employment. But we must recognise the great changes that have taken place in our society, particularly in recent decades. The fact is, as we say in paragraph 7 of our report, that the traditional family, rightly or wrongly, is no longer the norm. In 1982, for example, the number of married men with working wives substantially exceeded the number with wives not in paid employment. Against this background and the trends in this direction, it seems more appropriate to assert that the system should not discourage wives from working. At the end of our analysis, therefore, we agree with the principal conclusion of the Commission that the aim of equal treatment is best served by a system of totally independent taxation of earned income.

I had hoped to deal briefly with three further points to which we all attach great importance; but in view of the time and the fact that a number of your Lordships are waiting for the business that follows, I will simply confine myself to saying that the questions of child benefit and payment of child care allowances, questions of child care expenses and the very complex but important issue of how to deal with investment income were all matters to which we gave very careful consideration. I know, however, that several noble Lords, and particularly members of the sub-committee who are going to take part in this debate a little later today, will be dealing with these issues and will deal with them from their experience and in far greater depth than I can at this moment of time.

I will only conclude by expressing my personal thanks to all the members of the sub-committee for their patience and courtesy and for the way in which they applied their knowledge and experience to this very difficult topic. We all hope that the Commission's memorandum and our report on the issues it raises will be fully taken into account by the Government in framing their proposals. I beg to move.

Moved, That this House takes note of the Report of the European Communities Committee on Income Taxation and Equal Treatment for Men and Women (1st Report, 1985–86, H.L. 15).—(*Baroness Serota*.)

British Leyland Subsidiary Companies

3.42 p.m.

Lord Lucas of Chilworth: My Lords, it may be for the convenience of the House if I repeat in the form of a Statement an Answer being made in another place in relation to British Leyland. The Statement is as follows:

"The aim of the Government and of the BL board is to secure an internationally competitive United Kingdom commercial vehicle industry, and to improve the long-term prospects for BL's constituent businesses.

"As I informed the House on 3rd February, discussions are at an advanced stage between BL and General Motors in respect of Leyland Trucks, Land-Rover, Freight Rover and certain related overseas operations. Discussions are also taking place with the Laird Group about the future of Leyland Bus.

"I can confirm to the House that, of the companies that are willing to have their interest in the businesses made public, Lonrho are in contact with BL concerning Land-Rover and Freight Rover; Aveling Barford have expressed an interest in Land-Rover and Leyland Bus; and Volvo have expressed an interest also in Leyland Bus. Proposals for a management buy-out are also expected to come before the board.

"As my right honourable friend the Prime Minister confirmed in the House on 11th February, the other proposals will be considered on their commercial merits in relation to the future of BL as a whole".

My Lords, that concludes the Statement.

Lord Bruce of Donington: My Lords, we on this side of the House are grateful to the noble Lord for having repeated the Statement, which we are afraid does not take us very much further. The noble Lord will recall that on the last occasion when I had the pleasure of questioning him on the matter he was not, even at that stage, prepared to say whether the various deals he had in mind were going to be mergers or take-overs. Today what he has said is that there are a number of companies which are interested in taking over the Land-Rover interests, the buses and so on. Previously there was Volvo. Now there are Lonrho and Cammell Laird. If all these various companies are competing so hard to acquire these various interests, why on earth are the Government trying to get rid of them? Are they not interested? Is the noble Lord aware that the impression given by the Government all the way through this business is that they are prepared to put great sections of British industry up for auction?

Is the noble Lord further aware, and will he convey to his colleagues, that it is known today that General Motors, who were interested in Range Rover, are on the Stock Exchange at this time busily acquiring shares in Jaguar because they want to build up their ultimate control of that company? When is this sordid business going to stop? When are the Government going to take very seriously their responsibilities as trustees of the

[LORD BRUCE OF DONINGTON.]
British public and of the British taxpayer? If they have not got the capability of doing that, why can they not find those who have?

In the meantime, is the noble Lord aware that his Statement will do nothing to allay the very grave anxieties in the West Midlands at the present time which have been increasingly expressed by the employees of all the companies concerned? In view of that, will he take steps to ensure that this matter is taken before the full Cabinet on Thursday next?

Lord Diamond: My Lords, may I, on behalf of these Benches, say how very much we appreciate the courtesy of the Minister in repeating the Answer to the Private Notice Question asked in another place? I wish I could go further and thank him for the content of the information he has given, but, alas! one cannot do that because we are no wiser now than we were before.

The noble Lord will remember that I myself pressed him—and I was not by any means the only one—when he was making a Statement a few days ago to say whether the intention of the negotiations was to achieve an amalgamation, by which I had in mind the kind of partnership which helped both partners, or whether what he had in mind was a take-over which merely removed from the Government the responsibility for producing further cash, if that was necessary in the interests of the company. It is not right to say that we got no answer at all, because the Minister was very clear in saying that he was not going to say one word more on that topic. We are still in the same situation.

A great deal of interest is expressed in these sections of Leyland. We now know, of course, that the heart of Leyland is secure: the Government have rapidly backed off that ridiculous, unpatriotic, uncommercial and irresponsible idea because we all know that volume car business is central to the economy of any industrial country. We are delighted that the pressure, mainly from our own Back Benches, has meant that the Government rapidly backed off that one. So what we are now dealing with are peripheral, very important, activities which are not central to the business itself. Please can we be told what is in the Government's mind with regard to these? The information that the Minister has given so far is totally inadequate. We must look forward and see what is the protection for the employees in this industry, and by that I mean not only in Leyland, but in the industry as a whole.

So far as car manufactures are concerned, the figures are now very clear and the position is well established. Whereas when the industry was in wholly British hands one had above 90 per cent. of an individual car being made in this country, now that Ford, General Motors and so on have taken over the proportion has been reduced to somewhere below 40 per cent., and in one case to 22 per cent. That is the situation in which all those in the allied parts of the industry are interested. We had a most valuable speech, I might almost say without discourtesy, by the noble Lord, Lord Lucas, on the occasion of the last question and answer session which brought this out very strongly.

So can we be told first, what the Government are doing to secure the future employment of all those engaged in the industry as a whole in relation to these negotiations? Are the Government seeking merely to get rid of their financial responsibilites? One can understand that if finance is continually required, the business needs looking at. You have to look at some method whereby you improve the business so that the continual call for finance ceases to be made. Is the noble Lord purely concerned with that, or is he doing what we hope he is doing, which is to see that by arrangements of a partnership kind made either with employees and management—which we would naturally prefer—or with other interested manufacturers who have commmercial outlets, the position of this company will be improved to the extent that more of these units will be made and sold in larger parts of the country, with greater employment therefore resulting both for the direct employees and for the employees in allied industries? Those are the matters which which we are particularly concerned, but I am sorry to say that we are really no wiser now than we were when the matter was last raised.

Lord Lucas of Chilworth: My Lords, the Statement which I have made is, as I am sure noble Lords will appreciate, in response to a Private Notice Question. It was, as I said earlier this month, the intention of the Secretary of State for Trade and Industry to make available to Parliament any new issues that arose, and that is exactly what my right honourable friend has done.

The noble Lord, Lord Bruce of Donington, will recall that we made it abundantly clear that British Leyland would be returned to the private sector as soon as was possible, and that is exactly what is being done. The noble Lord, Lord Diamond, asked what the Government are doing to secure the long-term future. At the beginning of my Statement, I said that it was the aim of the Government, and indeed of the British Leyland board,

"to secure an internationally competitive United kingdom commercial vehicle industry, and to improve the long-term prospects of BL's constituent businesses".

It is against that background that the conversations are taking place not only with General Motors but with others whose identity I have made known this afternoon.

Your Lordships will recall that I said last week that in the commercial vehicle field there is a worldwide over-capacity. There is a loss in both General Motors and British Leyland on their commercial vehicle activities. General Motors have come along with a number of proposals. Subject to certain assurances being given, it was our intention, with the advice of the British Leyland Board, to accept those proposals. Since that time other companies have entered the field. Due consideration will be given to those proposals which they are making to the British Leyland board and we will take note of what they have to say in regard to that.

As regards the point made by the noble Lord, Lord Diamond, about overseas interest in our motor manufacturing industry, all I can remind your Lordships about is that both the Ford Motor Company and General Motors have been operating in this country for a great many years with great success. General Motors have given an assurance that they will

raise their local content to 60 per cent.; Peugeot, the newest entrant, have said 65 per cent.; and then comes the Ford Motor Company, in that order. At the end of the day it is the wish of the Government to secure for the motor vehicle industry a viable internationally competitive industry, through which will be secured the jobs of those who are employed in that industry.

Baroness Fisher of Rednal: My Lords, coming from the West Midlands, I must say that what the noble Lord has said this afternoon is no encouragement to that part of the world. It seems amazing that in the second month of this Industry Year the Government are having detailed talks—the noble Lord said they are at an advanced stage—about selling off our manufacturing capacity. The noble Lord must realise that the West Midlands, which had the largest manufacturing base in the country until it was destroyed, again finds itself in a difficult position. Surely it is hypocritical of the Government to have an Industry Year and, at the same time, to be selling off parts of industry.

The noble Lord said that component parts will still be manufactured in this country. At the noble Lord, Lord Diamond, said, British Leyland have a high reputation in the field of components and up to 90 per cent. of the components they buy are manufactured in this country. I can tell the noble Lord of two very large factories that were closed down three years ago when Vauxhall and Ford decided not to use the components they were manufacturing, with the result that 3,000 jobs were lost there. I must say to the noble Lord that his words this afternoon give no encouragement for the employment prospects of not only the Midlands but elsewhere in this country.

4 p.m.

Lord Lucas of Chilworth: My Lords, I am most grateful to the noble Baroness for her views, which I do not share, since a number of different views emanate from the West Midlands. People there know very well the grave danger which the industry is in at the present time, particularly with over-capacity throughout Europe. The fact that the West Midlands find themselves in a difficult position again is unfortunate and regrettable. It is certainly a result of the world and, more particularly, the European position. I should perhaps say that Industry Year is, of course, an initiative by the Royal Society of Arts and not of the Government. In fact, it is an awareness campaign rather than a direct campaign.

With regard to British Leyland's local content, the noble Baroness with her knowledge of the West Midlands will appreciate that British Leyland has undertaken a number of associations with overseas companies—notably Honda, in regard to research and development and some manufacturing processes; and with European companies such as VW and Audi and also Peugeot with regard to gearbox and transmission design and production—so British Leyland itself knows the importance of collaboration and of joining in one form or another with other companies in order to reduce the extraordinarily high cost of further development in various products.

With regard to the noble Baroness's question concerning the component manufacturers in relation to Vauxhall Motors and the Ford Motor Company, however harsh it may sound one must ask the question: why did those two companies place component procurement in other places? The answer is that the other places were more competitive. That is what this motor industry is about—it is highly competitive—and it is British Leyland's wish as well as that of the Government's to ensure that there is a continuing company particularly in the truck business, which is why the company has encouraged discussions with a number of companies to see how best this long term viability may be sustained.

Lord Maude of Stratford-upon-Avon: My Lords, is my noble friend aware that there is really not much point in a company using 90 per cent. of British components if the end result is that it cannot hold its share of the market and has to rely on continuous subsidies from the taxpayer? Surely the answer is to find somebody who can manage this company profitably and successfully and ensure the future of the jobs there?

Lord Lucas of Chilworth: My Lords, I am most grateful to my noble friend who puts the matter so much more succinctly than I was able to do so in my earlier remarks.

Lord Mackie of Benshie: My Lords, I hope that the noble Lord will not abandon entirely the patriotic stance which one might expect from the Conservative Party. I trust that when the alternatives come up and when they are studied instead of losing heart, selling to the highest bidder and getting out, they will study the fact that British enterprise has made a job of a number of companies (and indeed of nationalised industries) and will not turn tail and run away. It is no good saying that the alternatives will be studied by the board of British Leyland because the Government own the company and therefore they will take the final decision.

Lord Lucas of Chilworth: My Lords, I can assure the noble Lord that the Government have no intention of abandoning any stance, least of all that of procuring for the British-based motor manufacturing industry a continuity of production, a continuity of employment, a continuity of competitiveness in the European and world markets. It is those interests which are in the forefront of our minds; not necessarily the highest bidder.

Lord Marsh: My Lords, can the noble Lord give the House some indication of how much public money has been placed in British Leyland so far in an unsuccessful effort to keep it independent?

Lord Lucas of Chilworth: My Lords, in the past 10 years some £2.3 billion of public money has been put into British Leyland through all its companies. Guarantees of loans under the Varley Marshall understanding amount to another £1.5 billion, which is not an inconsiderable amount of money to support a British-based industry.

Lord Shepherd: My Lords, does the noble Lord understand that there is some concern when he speaks

[LORD SHEPHERD.]
of the Government and the board of British Leyland having a common interest? It may be a common interest, but can the noble Lord give an assurance that the board of British Leyland will be free to make its own commercial decisions in this matter and that there will be no question of directions by the Government to the board that would in any way proscribe its acting commercially in reaching a decision?

Secondly, can the noble Lord give an assurance that so far as concerns the Government, all the new approaches that have arisen will be more than just taken note of by the Government, that they will be most actively considered, that there is no question that there is to be a commitment for the sale to General Motors, and that all the new people who have come forward shall have a free and fair opportunity to make their bids for the purchase of these parts of the organisation if that is what the board of British Leyland decides is right and proper to do?

Lord Lucas of Chilworth: My Lords, the noble Lord, Lord Shepherd, asks a number of questions. It is for the board of British Leyland to consider what is in the best interests of its company and recommend to the Government, who are after all on behalf of the taxpayer the principal shareholder, what it thinks is in that company's best interests. It is for the Government as trustees to ensure that the best interest of the country, the employees and indeed the future is taken account of in reaching a decision. Noble Lords will I hope forgive me for repeating this, but in the case of the proposals of General Motors one would be looking for the satisfaction of a number of assurances with regard to those matters and others before the Government gave any approval.

With regard to new approaches, bearing in mind what I have said, it would be in the best interests of the company and indeed of the Government on behalf of the taxpayer to ensure that those new approaches received all and proper consideration; and I think that I can give the noble Lord that assurance.

Lord Williams of Elvel: My Lords, will the noble Lord confirm that the opening offer price made by General Motors for the commercial vehicle division was zero on the grounds that if there were any value in the business it would be eroded by the cost of redundancies which it estimates at £400 million? Furthermore, will the noble Lord tell the House who are the professional advisers acting for the Government and for British Leyland in this matter?

Lord Lucas of Chilworth: My Lords, I do not agree with the noble Lord, Lord Williams of Elvel, that there was a zero figure attached. General Motors and British Leyland joined together in discussions to ensure the viability of a commercial truck industry. In those discussions British Leyland made it clear that the long term interests were served by the proposals which have been made fairly clear, and fairly clear publicly. I am not, I regret to say, able to answer the noble Lord's other question, purely and simply because I do not know the answer.

Lord Hatch of Lusby: My Lords, the noble Lord has not yet answered the question put by my noble friend Lord Bruce of Donington. Is it not the case that British Leyland was taken over by the Government originally when the private sector was found to be incapable of sustaining it? Is it not also the case that British Leyland has been a success story since it was taken over by the Government, even if not as much of a success story as Renault in France, supported by the French Government? In view of its record and the forecast that its fortunes are now on the upturn, will the noble Lord answer the question put by my noble friend Lord Bruce of Donington? If all these private companies are so anxious to buy into British Leyland, why is it that the Government are not anxious to retain that national industry? Are the Government not interested in the future of British industry? Are they prepared to see this country as the only major industrial country without any indigenous motor car or motor vehicle industry?

Lord Lucas of Chilworth: My Lords, I am not prepared this afternoon to look back over 15 years.

Baroness Jeger: Why not, my Lords?

Lord Lucas of Chilworth: My Lords, because I do not believe that looking back over 15 years as to the reasons why British Leyland required the support of the taxpayer through government funding would be very helpful in meeting the challenge of the mid-1980s and 1990s.

That there has been a remarkable turnaround in the attitudes of and, to some extent, the success of British Leyland there is no doubt. However, at the end of the day the truck division has been losing millions of pounds quite consistently. It has lost something like £60 million a year for the past three years and a loss of around the same the kind of figure is forecast for 1985. That is what the Statement is about: the bus and truck side of British Leyland.

Whether there is an upturn in the division's fortunes is perhaps debatable. Although it has achieved a somewhat larger share of the declining market for trucks, nevertheless that share still shows considerable losses. In regard to the noble Lord's final question, as to why it is that a number of companies are now coming forward wanting to buy various parts of the division and why the Government go along with that line, we made it clear when we came to office that it was our long-term intention to return that company to the private sector as soon as that was possible. It is now being made possible by offers from a variety of companies. We shall take advantage of offers that take into consideration those interests that I have outlined on more than one occasion this afternoon and which I outlined last week. If those interests can be satisfied then we shall go ahead with out declared policy. That is consistent.

Perhaps I may now reply to the noble Lord, Lord Williams of Elvel, as the answer to his particular question has come to hand. Baring's are advising Her Majesty's Government and Hill Samuel are advising British Leyland.

Lord De Freyne: My Lords, we are talking about the motor industry and about industry in general. We brought Mercedes here and we brought Volkswagen here. They were built here. I was one of the people who started that. We built it up and it was a big industry. Now what do we have? Nothing. Why do we not join with them? Why do we not go together—

The Lord President of the Council (Viscount Whitelaw): My Lords, I must interrupt my noble friend, and I apologise for doing so. The House will appreciate that we have a very important debate before us. A large number of Members will be taking part in that debate, which, if I may humbly say so, was most admirably introduced by the noble Baroness, Lady Serota. Members wishing to take part have been waiting a long time, and there is another Answer to a PNQ to follow. I believe that the House will wish to consider how soon we may move on to the other debates.

Lord Diamond: My Lords, perhaps I may ask for clarification of something that the Minister was kind enough to say in reply to a question of mine. I refer to the point that when General Motors took over Vauxhall, the proportion of British content in the cars manufactured dropped from 90 per cent. to about 22 per cent. The Minister has told the House that he is now making some kind of arrangement whereby 66 per cent. or some similar percentage of British content will be assured for the future. Can the Minister tell the House, first, how that is to be achieved; secondly, what steps have been taken to make possible an offer by the management—that is, by the management and the employees—for the purchase of that which it is proposed to sell? Finally, can the Minister assure the House that a statement will be made by the Government before any decision is taken on those matters?

Lord Lucas of Chilworth: My Lords, I thought that I had answered the noble Lord, Lord Diamond, last week, but I am happy to repeat that General Motors truck production has something of the order of 80 per cent. local content. That company has given an assurance of 60 per cent. local content. That company has given an assurance of 60 per cent. local content in regard to its car production in the United Kingdom. It is on target to achieve that figure this year. That was the assurance given last year.

So far as a management buy-out is concerned, due consideration commensurate with the interests I earlier described will be given to any proposal. In regard to a statement, I regret that I cannot give the noble Lord, Lord Diamond, the assurance he seeks. However, I have a feeling that matters of moment will be brought to the attention of Parliament one way or another.

Lord Bruce of Donington: My Lords, in view of the answer given by the noble Lord the Minister to his noble friend Lord Maude of Stratford-upon-Avon, will he make it clear that the Government have no criticism to offer of the existing management of British Leyland? It might be inferred from the Minister's assent to the implications of the question put by his noble friend that he associates himself with the criticism therein implied. Will the Minister also say whether it is the view of his department—or of the Government, if they know about it—that there is an over-capacity in the production of Range Rovers and Land Rovers?

Lord Lucas of Chilworth: My Lords, the noble Lord, Lord Bruce of Donington, does trespass. He is putting words into my mouth. I answered my noble friend properly and fully in complimenting British Leyland on its recent success but at the same time saying that it has a long way to go in what is a hard and very competitive industry. I do not think that I should alter what I said earlier.

Lord De Freyne: No, my Lords. May I just——

Viscount Whitelaw: No, my Lords!

Severe Weather Fuel Payments

4.18 p.m.

Lord Trefgarne: My Lords, with your Lordships' permission, I should like to repeat in the form of a Statement the reply to a Private Notice Question on severe weather payments being given in another place by my honourable friend the Minister of State for Social Security. The Answer is as follows:

> "The main help for claimants in meeting their heating costs are the scale rates which cover normal living expenses. In addition, there is an extensive range of heating additions which give further help; for example, for all householders over 65 and families with a child under five. Expenditure on these additions totalled some £400 million in 1984-85—£140 million more in real terms than in 1978-79.
>
> "The regulations also provide for single payments to claimants who have extra fuel costs arising from exceptionally severe weather. Last winter, decisions were handled using trigger points based on meteorological office information. The system was widely criticised and was ruled invalid by the social security commissioners last autumn. In the light of this, the chief adjudication officer issued further guidance on the handling of claims.
>
> "It is for the independent adjudication officers in each locality to decide whether there has been a period of exceptionally severe weather and to determine subsequent claims. I understand that some designations have been made and that others are under consideration".
>
> My Lords, that concludes the Statement.

Baroness Jeger: My Lords, may I ask the Minister how the Government are working out the standards of coldness and severity? What is happening in various areas of the country where there are different weather conditions? How are people—for example, old ladies in a top back room—able to get some conditional help? I have been reading all the reports and I cannot understand how the Ministry is working out what is "cold" and what is "hot". It is very important that people should know how the Government are working out the whole situation.

British Leyland

3.30 pm

Mr. John Smith (Monklands, East) *(by private notice)* asked the Secretary of State for Trade and Industry if he will make a statement on the Government's policy on BL subsidiary companies in view of the increasing number of rival bids to acquire them.

The Secretary of State for Trade and Industry and President of the Board of Trade (Mr. Paul Channon): The aim of the Government and of the BL board is to secure an internationally competitive United Kingdom commercial vehicle industry, and to improve the long-term prospects for BL's constituent business.

As I informed the House on 3 February, discussions are at an advanced stage between BL and General Motors in respect of Leyland Trucks, Land Rover, Freight Rover and certain related overseas operations. Discussions are also taking place with the Laird Group about the future of Leyland Bus.

I can confirm to the House that, of the companies that are willing to have their interest in the businesses made public, Lonrho is in contact with BL concerning Land Rover and Freight Rover; Aveling Barford has expressed an interest in Land Rover and Leyland Bus; and Volvo has expressed an interest also in Leyland Bus. Proposals for a management buy-out are also expected to come before the board.

The Government and the BL board will consider other proposals on their commercial merits in relation to the future of BL as a whole.

Mr. Smith: Is the Secretary of State not aware of the growing puzzlement, concern and dismay in this country that the Government appear to be presiding over an auction of some of the best of British industry? Can he tell us clearly why this is happening at all? Why is it necessary for this to be going on?

When it seems to make sense to General Motors to acquire Leyland Vehicles and Land Rover, when it seems to make sense to Lonrho to bid for Land Rover, when it seems to make sense to Aveling Barford to make a bid, and when it makes sense to Volvo to acquire Leyland Bus, why on earth does it not make sense to British Leyland to retain and develop these valuable assets in the British interest?

Can the right hon. Gentleman tell us what view the Government take about General Motors buying Jaguar shares with a view to acquiring that company, which, if the deal with BL that we are told is well advanced goes through, will mean that General Motors will, in more or less one operation, acquire a whole clutch of vital British interests and successes?

Does the Secretary of State not think that he should raise the question in the Cabinet later in the week, in the hope that the political results of his folly will be borne in upon his colleagues and this dishonourable sellout will be brought to an end?

Mr. Channon: As usual, the right hon. and learned Gentleman is interested only in trying to cause the maximum amount of trouble, without considering— [*Interruption.*] The attitude of the Opposition, in laughing at that, proves my point. They are not trying to consider the commercial future of the industries and the people who work in them; they are merely trying to get the maximum political capital out of them. [HON. MEMBERS: "Rubbish".] That is typical of the Opposition, with their irresponsible, hopeless and vindictive attitude.

Mr. Alex Fletcher (Edinburgh, Central): I congratulate my right hon. Friend on the skilful way in which he has attracted British bids for BL and its subsidiaries. Will he give an undertaking that those bids will be considered entirely on their merits?

Mr. Channon: Yes, As I told the House on 12 February, and as my right hon. Friend the Prime Minister has said, we will consider these bids.

Mr. David Steel (Tweeddale, Ettrick and Lauderdale): Does the Secretary of State agree that there is, or ought to be, a clear distinction between foreign ownership of the British car industry, or parts of it, and foreign participation or participation and co-operation, such as already exists between, for example, BL and Honda? In that connection, will the right hon. Gentleman register our surprise that the board of the Land Rover company did not know of the General Motors deal that was being stitched up until it became public?

Will the right hon. Gentleman give the House an assurance that if the Government are determined to go ahead with the privatisation—we assume that they are—they will give a fair wind and priority to bids from British concerns and participation and cooperative ventures from foreign concerns that do not involve foreign takeover of the companies?

Mr. Channon: I am surprised at what the right hon. Gentleman says about Land Rover. The BL board has always been in favour of the General Motors' proposals, provided that the assurances which I outlined to the House last week can be obtained to get the best possible results for BL subsidiaries. As I have told the House on many occasions, I am trying to get the best solutions for these companies, and, as my right hon. Friend the Prime Minister has said on a number of occasions, we shall naturally consider the other bids.

Mr. David Madel (Bedfordshire, South-West): As the talks between General Motors and BL Trucks are to do with livelihood of thousands of people who want to work in a successful British truck company, is my right hon. Friend able to say whether there have been any signs from General Motors as to how long negotiations are likely to continue?

Mr. Channon: I confirm what my hon. Friend said in the first part of his question. As I have said before, it is in the interests of all concerned in the industry that these negotiations should come to a successful end as soon as they conceivably can, so that we can remove the damaging uncertainty and the worries. I hope that the talks will come to a conclusion soon.

Mr. Michael Foot (Blaenau Gwent): Is it not a fact that BL, under public ownership, had a fine record of ordering components from British firms? Could not this record be put in jeopardy if either of the alternative sell-offs proposed by the Government should go ahead? Can the right hon. Gentleman give any guarantee that, if BL is sold off, such purchases will continue?

Mr. Channon: I have already been through the assurances with the House on a number of occasions and, clearly, satisfactory assurances will have to be obtained.

[Mr. Channon]

In spite of the great progress that has been made, we must face the fact that Leyland Vehicles lost £61 million in 1984, on top of £70 million in 1983, that Land Rover is only just in profit, and that there is a serious commercial problem which the House should address seriously.

Mr. Roger King (Birmingham, Northfield): During his negotiations, will my right hon. Friend look carefully at the position of Freight Rover, which is an exceedingly profitable part of the Leyland Land Rover organisation? In particular, in the event of a sell-off, whether to Lonrho or anybody else, will he pay particlar attention to the 300 Austin dealers, who will not have a light van to sell, and to the number of component suppliers in the west midlands who may, as a result of any sale, find their sales of components jeopardised?

Mr. Channon: We shall consider all the points that my hon. Friend makes, and I am sure he will agree that, in the interests of all dealers and everybody else concerned, we should get a speedy and satisfactory conclusion, to provide a good long-term future for these businesses.

Mr. Terry Davies (Birmingham, Hodge Hill): How do the Government intend to consult those who work at BL?

Mr. Channon: There will be talks with the employees through the usual consultation machinery.

Mr. Nicholas Soames (Crawley): Grateful though my right hon. Friend will no doubt be for the helpful intervention of Mr. Rowland of Lonrho, will he resist that blandishment? Land Rover already has a satisfactory market in the middle east and Africa. Is not Land Rover's greatest need for major opportunities to sell in the United States of America—something that one of the options at which my right hon. Friend is looking will provide?

Mr. Channon: It is the case that if the General Motors deal goes ghrough, one of the major attractions will be the opportunites that will be available in the United States.

Mr. D. N. Campbell-Savours (Workington): Is the Secretary of State aware that my attempts to promote a joint venture, and my invitation to Volvo to visit the BL plant in my constituency was blocked by a member of the BL board? Is he aware that the meetings that I arranged this week with the Parliamentary Under-Secretary of State for Transport, with the Minister of State, Department of Trade and Industry with two senior Leyland Bus managers, including the managing director of Leyland Bus, was blocked once again by a member of the BL board? Will he remove these blocks and ensure that when proposals for a management buy-out in Leyland Bus are submitted, they will be given the fullest possible consideration by members of the board—that is, in the event that the Minister insists on pressing on down this route?

Mr. Channon: I assure the hon. Gentleman that any such proposals will be considered on their merits. Volvo has expressed an interest in Leyland Bus, which will be carefully considered. The Minister of State is to meet the hon. Gentleman later this week, with the managers to whom he referred. I hope that I have given satisfactory answers on all three points.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): Does my right hon. Friend accept that many of us welcome the first few words of his statement, in which he said that his aim was to have a viable industry? That is right. Does he further accept that the lorry industry's problems, both General Motors' and BL's are different from those of Land Rover and Freight Rover? Is it not a good idea to separate the two? In view of the interest by Aveling and Lonrho—and I believe, by others—in Land Rover, surely there is no reason to offer a sweetener. If my hon. Friend must sell, why not have a proper auction, so that everyone knows that for once the country is getting the right price?

Mr. Channon: I am fully aware of my hon. Friend's views. I assure him that in any solution that comes forward in due course I shall bear in mind what he has said. I am particularly anxious to ensure the best possible future, not only for the freight business, but for Land Rover itself. That is one of the prime aims of the consultations and discussions.

Mr. Andrew Faulds (Warley, East): Will consultations with the work forces be held before, or after, any deals are completed?

Mr. Channon: I have already answered that.

Mr. John Mark Taylor (Solihull): Does my right hon. Friend accept that the recovery plan for Land Rover is seen to be working and that vital steps have been taken at Land Rover to put it on a promising and prosperous road? If that continues just a little longer, could we not have a promising flotation, like that for Jaguar?

Mr. Channon: That is possible. Although there has been a great deal of progress in Land Rover, there is a great deal further to go. In 1984 Land Rover's United Kingdom turnover was £490 million, but its profits were only £2 million, following a loss of £14 million the year before. A serious commercial problem must be addressed.

Mr. George Park (Coventry, North-East): I accept that public money has gone into Land Rover and Freight Rover, but now that part of BL is emerging into profitability and has good prospects, would it not make more sense to allow the taxpayer to have the benefits, indirectly through the Treasury, than hive off the company so that the benefits go to Detroit?

Mr. Channon: I note what the hon. Gentleman says, but I repeat that I am trying to find a solution that is in the long term interests of Land Rover and Freight Rover.

Mr. Robert Adley (Christchurch): I sympathise with my right hon. Friend in the problems that he had to pick up when he took over his new job, but does he remember telling me the other day that he had received no other bids or expressions of interest other than from General Motors? Will ne now make it clear that he welcomes this widening of interest? In view of the warfare between predecessors in his Department and Lonrho, will he ensure that new interests are considered even-handedly with everyone else?

Mr. Channon: I have made it clear to the House that all serious proposals will be considered on their merits.

Mr. Tony Benn (Chesterfield): Does the Minister recall that over 20 years ago when the previous Conservative Government agreed to the sale of Rootes to Chrysler a number of assurances were given that were not worth the paper on which they were written? Since the sale

profitable British company is a matter of great concern, why can we not have a ballot of workers to allow them to determine the future of the company, whose wealth they have created through their own labour?

Mr. Channon: The right hon. Gentleman is right. I, too, recall similar declarations in the past, and that is very much in my mind. The usual consultation will take place with the work force.

Mr. Nicholas Lyell (Mid-Bedfordshire): Will my right hon. Friend bear in mind that the people of Luton see real potential advantages from a merger between General Motors and the truck division of BL?

Mr. Channon: I appreciate what my hon. and learned Friend has said. We want a solution that will help, not hinder, the prospects of all sections of that business.

Mr. Doug Hoyle (Warrington, North): Does the Secretary of State accept that the Opposition speak for the national interest, the interests of the lorry industry, the interests of the Leyland workers and, unlike some in this House, the interests of those who work in Luton?

The right hon. Gentleman said that Leyland Commercial Vehicles was not profitable, that the bus company was not profitable and that Land Rover has only just broken into profitability. Can he explain, therefore, why so many people want to buy those vehicles? Now that taxpayers' money has been put into that business, will he reconsider and allow it to move forward as a financial success in public ownership?

Mr. Channon: I have given the House the figures for the losses in the truck division for 1983 and 1984. I do not have the 1985 figures, which will be published in the usual way when they are available.

Great progress has been made in Land Rover and other parts of BL. However, the House is deluding itself if it imagines that the problems are over, that hard decisions can be avoided, or that there is some magic road down which we can go without making difficult choices.

Mr. William Cash (Stafford): Does my right hon. Friend agree that we cannot continue to kid ourselves all the time, and that it is about time that the management and work force of BL reached the conclusion that they have to produce the goods in competition with Japan and other countries? If they reach that conclusion, perhaps they will produce quality goods that can compete fairly in world markets.

Mr. Channon: Substantial strides have already been made. If we can, we must achieve an increasing share of the market and a solution that is in the long-term interests of all the companies in the BL group.

Mr. Tam Dalyell (Linlithgow): I thank the Minister of State for his courteous attitude towards my hon. Friend the Member for Falkirk, East (Mr. Ewing) and myself when we visited him last Wednesday to discuss the problems of Bathgate.

Is there not a dilemma, in that millions of pounds of public money have been poured into the huge Bathgate site by the West Lothian district council, the Scottish Office and the right hon. Gentleman's Department? Therefore, should not the district council and the civil servants in the Scottish Office and the Department have some say in the future of that site? Surely that should not be left entirely to a commercial decision by Leyland Vehicles? A moral issue is involved in determining the future of that site that affects the whole of central Scotland.

Mr. Channon: As the hon. Gentleman knows, decisions on Bathgate were taken some considerable time ago. Nothing that I have said today or on earlier occasions changes the position. The hon. Gentleman and his hon. Friend the Member for Falkirk, East (Mr. Ewing) raised important points with my hon. Friend the Minister of State, and those matters will receive careful consideration.

Mr. Gerald Howarth (Cannock and Burntwood): Does my right hon. Friend agree that, in large measure, BL's problems stem from the Labour Government's encouragement of a merger in 1968 between Leyland and the British Motor Corporation and the number of plants that were kept open? Does he further agree that it is not the business of the Government to build motor cars? However, if there is to be a disposal, would it not be more sensible, if possible, to sell to a British bidder rather than to a foreign bidder?

Mr. Channon: I had better not delve into the history of BL. Strong views are held in many quarters of the House on the issues that my hon. Friend raised. I am trying to achieve the best possible solution for the future of the subsidiary companies. I shall inform the House when negotiations are completed.

Mr. Wrigglesworth (Stockton, South): Why does the Secretary of State continue to talk down the achievements of Land Rover? Does he not agree that it has made profits every year, barring 1983, since it was established in 1948? Is he not aware that in its interim statement BL forecast greater profits than those about which the right hon. Gentleman has just told the House and, that it has now achieved record sales? Is he aware that we are not asking for a magic solution, but simply for the same solution for Land Rover that Jaguar had in the past?

Mr. Channon: I am not in the least talking Land Rover down. I have said again and again, and I repeat in case there is any doubt, that the Land Rover products are excellent. They have a worldwide reputation, of which all those involved can be proud. What I must do is to give the House the actual figures, and those that I have given the House this afternoon show the company's financial position.

Mr. Patrick Cormack (Staffordshire, South): If we have excellent British products and if we have had recent improvement, why the hurry to flog off BL?

Mr. Channon: Because, as I told the House last week, there are serious commercial problems in many of the companies. We must try to get them on to a basis of certainty for the future. *[Interruption.]* I am extremely surprised that the Opposition would like this damaging uncertainty to go on—the damaging uncertainty which has largely been created by the irresponsible tactics of the Opposition.

Mr. Jack Straw (Blackburn): Why does the Secretary of State deliberately set out to rubbish the achievements of BL, and Leyland Trucks in particular, and of the thousands of people who work in the company, as he has done from the Dispatch Box this afternoon, when last month the figures issued by the Society of Motor Manufacturers and Traders showed that Leyland was at the

[Mr. Jack Straw]

top of the league for the sale of heavy trucks and that General Motors' Bedford subsidiary had slipped to fifth place? What is in it for Leyland to be taken over by the failing General Motors? What information has the right hon. Gentleman of General Motors' plans to produce a world lorry, which would seriously undermine any design and development capability of Leyland Trucks?

Mr. Channon: I have in no sense rubbished the achievements of Leyland Vehicles. *[Interruption.]* I certainly have not. If it is rubbishing the achievements of Leyland Vehicles to tell the truth about the figures, that is astonishing. The House should recognise that there is immense over-capacity in this area. There are serious commercial problems and substantial losses between Leyland Vehicles—£61 million in 1984 and £70 million in 1983. To imagine that those problems can be wished away by a magic wand is simply ridiculous.

Several Hon. Members *rose*——

Mr. Speaker: Order. This is an extension of Question Time. I regret that I cannot call everyone, but I shall ensure that those who are not called will get preference when we discuss the matter again.

Mr. John Smith: On a point of order, Mr. Speaker. It is my intention to move an application under Standing Order No. 10 in view of the inadequate response that we have received from the Secretary of State and his deliberate evasion of a number of important questions. May I have your advice on when I should do so?

Mr. Speaker: At the appropriate time, which is after private notice questions.

Exceptionally Severe Weather Payments

3.53 pm

Mr. Michael Meacher (Oldham, West) *(by private notice)* asked the Secretary of State for Social Services if in the light of the recent decision of the Social Security Commissioners he will make a statement about fuel payments in periods of exceptionally severe weather like the recent cold snap.

The Minister for Social Security (Mr. Tony Newton): The main help for claimants in meeting their heating costs is the scale rates which cover normal living expenses. In addition there is an extensive range of heating additions which give further help, for example, for all householders over 65 and families with a child under five. Expenditure on those additions totalled some £400 million in 1984-85—£140 million more in real terms than in 1978-79.

The regulations also provide for single payments to claimants who have extra fuel costs arising from exceptionally severe weather. Last winter decisions were handled using trigger points based on meteorological office information. The system was widely criticised and was ruled invalid by the Social Security Commissioners last autumn. In the light of this the chief adjudication officer issued further guidance on the handling of claims.

It is for the independent adjudication officers in each locality to decide whether there has been a period of exceptionally severe weather and to determine subsequent claims. I understand that some designations have been made and that others are under consideration.

Mr. Meacher: Now that the Social Security Commissioners have ruled that the Government's system of exceptionally severe weather payments of last winter was invalid, is it not an abdication of Government responsibility that the buck has been passed to local officers to decide for themselves whether there has been a period of exceptionally severe weather and, if so, how much extra claimants should have to spend on fuel? Are the Government not washing their hands of this matter in issuing a circular that does not define "period", "exceptionally severe weather" and "trigger points"? Which local offices have so far started making payments according to the circular of 6 December, as the temperature has now fallen as low as minus 11 deg in Scotland and the north-east and minus 17 deg in the Cambridge area? Why are local officers apparently not advertising the availability of these payments, bearing in mind that it has now been freezing for some weeks?

As the previous standardised system notoriously led to unequal treatment of different places with the same low temperature, is it not clear that the present wholly random alternative will lead to far greater inequities and unfairnesses? Are we not seeing the first example of that abandonment of claimants' rights in favour of local discretion and uncertainty which will soon become the order of the day under the Government's proposed social fund?

Mr. Newton: The hon. Gentleman has not acknowledged that the position last winter was, in one important respect, the same as this winter. The decision has always been a matter for the local adjudication officers. The

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Reference CU36

TO:

Mr Meadway V

cc PS/Prime Minister
PS/Secretary of State
PS/Sir Brian Hayes
Mr Mountfield
Mr Cochlin
Miss Bowe Inf
Mr Whittingdale
Miss Samuel Inf

FROM:

ANDREW ADAMS
MOS Office (Mr Morrison)
Rm 711, 1V/S
215 5186

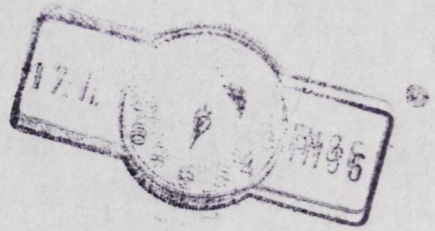
14 February 1986

Mr Morrison has agreed to meet a delegation on behalf of all unions with members at Leyland Vehicles Ltd to discuss the proposed takeover by General Motors of Leyland Trucks and Land Rover. The meeting has been fixed for Tuesday 25 February at 10.00 am. I will let you have a full list of all those attending as soon as I have it.

I would be grateful for briefing and names of officials who will attend by noon Friday 21 February.

AMA

ANDREW ADAMS



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cc DT
FCO

10 DOWNING STREET

THE PRIME MINISTER

14 February 1986

Dear Mr. Petersen.

I want you to know of my regret that Ford's discussions with the Austin Rover Group could not be carried further.

The discussions have been broken off before a decision could be taken on the basis of full knowledge and analysis of the facts. However, once the existence of the discussions became the subject of public debate, the resulting speculation, uncertainty and public apprehension made this unavoidable. The studies and hence the uncertainty would necessarily have continued for some weeks, with damaging effects on Austin Rover and perhaps also on Ford.

Although the possibility of a sale of the Austin Rover Group to Ford will not be pursued, I want you to be in no doubt that the Government strongly supports the commitments you have made and continue to make to Britain. Paul Channon, the Secretary of State for Trade and Industry, has made this very clear to Bob Lutz and has emphasised it publicly on many occasions over the last few days.

I should like to add my own personal support for Ford's operations in Britain. I believe this country remains an excellent base for your company's operations and future investment.

Yours sincerely

Margaret Thatcher

OA

Mr. Donald E. Petersen

CONFIDENTIAL

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

Secretary of State for Trade and Industry

CONFIDENTIAL

11 February 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David,

FORD AND BL

As my Secretary of State told the Prime Minister last week, Mr Bob Lutz, the Chairman of Ford of Europe was informed on 6 February that the Government had decided that the possibility of the sale of Austin Rover to Ford should not be pursued. Mr Lutz was clearly most disappointed and frustrated. In his view Ford had to compete with the Japanese, notably Nissan, who were able to establish state-of-the-art UK facilities with flexible working practices under a single union agreement on a greenfield site. At the same time, in Ford's view, they were faced by a highly subsidised public sector company taking investment decisions with public funds which a private sector company would not approve.

Mr Lutz told my Secretary of State that Ford of Europe would now have to undertake a fundamental rethink of its product and facility strategy and that the future of its relatively high cost UK assembly plans in particular would come under close scrutiny.

My Secretary of State considers that we should try to mend any broken fences with Ford as soon as possible and at the highest level. As a first step he recommends that the Prime Minister should write personally to Mr Donald Petersen, the Chairman of Ford in Detroit. I attach a draft letter. Over the coming weeks my

...

JF3ACC

1786 1986 BOARD OF TRADE BICENTENARY

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Ministers and officials here will of course continue to maintain close contacts with Ford of Europe and Ford of Britain.

I am copying this letter to Len Appleyard (FCO).

Yours sincerely,

John Mogg

J F MOGG
Private Secretary

Encl

JF3ACC

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Please type

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

Mr Donald E Petersen
Chairman of the Board
Ford Motor Company
PO Box 1899
Dearborn
MICHIGAN 48121-1899
United States of America

I want you to know of my disappointment that the initiative Mr Bob Lutz took in proposing exploratory merger discussions with the Austin Rover Group cannot be carried further.

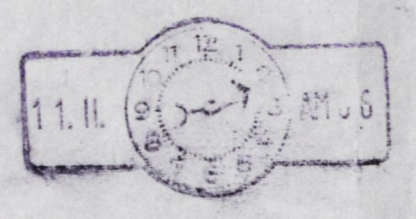
The British Government would have preferred to have seen these talks continue so that a decision in principle could have been taken on the basis of a considered analysis. However, once their existence became the subject of public debate, the resulting speculation, uncertainty and public apprehension meant that this was not possible. The studies and hence the uncertainty would inevitably have continued for some weeks and in the present political climate this would not have been in the best interests of either Austin Rover or Ford.

Although the possibility of a sale of the Austin Rover Group to Ford will not be pursued, I want you to be in no doubt that the Government strongly supports the undoubted commitments you have made and continue to make to the British economy. Paul Channon, the Secretary of State for Trade and Industry, has made this very clear to Bob Lutz and has emphasized it publicly on many occasions over the last few days.

JF3ACD

I should like to add my own personal support for Ford's operations in the United Kingdom. ~~I hope you will continue to regard~~ I believe this country ~~as~~ has an excellent base for your company's future investment.

JF3ACD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CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

Subject cc master

cc BG ✓

10 DOWNING STREET

From the Private Secretary

11 February 1986

Your Secretary of State and Mr. Morrison today discussed with the Prime Minister your Secretary of State's minute of 11 February.

It was rapidly agreed that most of the approaches listed in the annex to the minute were probably being made to try to block the GM deal. Nevertheless, the Government could not refuse to consider them. To do so would be politically very difficult, and in any case the Prime Minister had undertaken at today's Questions that the Government would consider any approaches. But they would need to be considered as quickly as possible, and a time limit should be set. It might be possible to ask the companies to put a price range of their interest within, say, a fortnight. Pressure would need to be put on the BL Board to ensure that they gave full and proper information to the companies which had expressed an interest.

The Prime Minister invited your Secretary of State to mention these further approaches at Cabinet on Thursday.

Your Secretary of State said that Mr. Graham Day had said he was ready to take over the Chairmanship of BL. Sir Austin Bide had on several occasions expressed his willingness to go whenever it suited the Government. It was agreed that Sir Austin Bide could be told that Mr. Day would be taking up the post at around the end of March.

Please keep the further circulation of this letter to a minimum.

I am sending a copy of this letter to Tony Kuczys (HM Treasury).

(DAVID NORGROVE)

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

CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

PRIME MINISTER 11 February 1986

NEW BIDS FOR BL

Eight new bids have been received for parts of BL, at this late stage in the GM negotiations these are more of an embarrassment than a help. But DTI are right to avoid a further public row by requiring that the new bids should be given proper consideration - it is only a pity that DTI were reluctant to do this last year. The Volvo approach was reported in Saturday's Financial Times and others will no doubt follow.

Of the bids for Leyland Trucks none has the industrial logic of GM and none of them look serious. David Brown dabbled with a bid for Vosper Thorneycroft but subsequently withdrew, Renault had extensive discussions with Leyland Trucks in 1978 which went nowhere, and Paccar (who recently purchased the Foden truck company) may be put off by the scale of the liabilities.

The bids for Land Rover look more serious but none seem likely to pay as much as the very generous price GM are offering, and only the management buy-out is offering to take Leyland Trucks as well. Negotiations for Leyland Bus are not far advanced and Volvo's interest should be encouraged.

To avoid BL rebuffing these further bids out of hand, it is essential that DTI monitor the discussions and ensure that as much information as possible is given to the potential bidders, including the 1985 draft accounts. We should ask for a price range within two weeks. Hopefully this will eliminate all the new bidders, but if any are realistic, then at least a further fortnight would have to be allowed for more detailed discussion and negotiations.

Peter Warry

PETER WARRY

PRIME MINISTER

SALTON

Mr. Channon's minute on BL is below. He is coming in with Mr. Morrison at 1745 for half an hour.

There are two issues:

(i) How the new approaches are to be handled;

(ii) Whether and how other Cabinet colleagues are to be consulted or informed.

The Chancellor has seen Mr. Channon's minute. He has pointed out that the main problem is to sell Leyland Truck, and Land Rover is on offer to GM only because they would not take Leyland Truck without it. He suggests that in considering these further approaches the Government and the BL Board should concentrate on the approaches for Leyland Truck, and particularly that from David Brown, which is the only British approach. The approaches for Land Rover can be left to tick over until Leyland Truck is settled. (It would, incidentally, be very odd to sell Leyland Truck to Renault when the Government has said that the most secure future for BL will lie in the private sector).

Treasury officials think DTI are optimistic to believe that bids could be prepared by these newly interested companies within two weeks.

On the question of informing colleagues, the Chancellor takes the view that these further approaches are a matter for the BL Board. E(A) could meet when there is a proposition to discuss. There is no sense in circulating the information to colleagues at this stage.

The knowledge of the further approaches is quite likely to leak. Is there not a risk that some colleagues (e.g. Mr. Fowler and Mr. Walker) would be further annoyed if they discovered that the DTI knew of them and did not tell members of E(A)?

DHN

David Norgrove

11 February 1986

(DG2AVF)

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PRIME MINISTER

SALTON

The negotiations with GM are being vigorously pursued and, unless there are unforeseen complications, I expect to be in a position to announce the conclusion of a Heads of Agreement between the companies by the end of the month.

2 We are however faced with an immediate difficulty in how we handle approaches from other parties for various parts of Land Rover-Leyland which have been made since news of the GM talks became public. I enclose a list of those who have so far expressed interest but others may emerge over the next few days. Clearly there must be a real risk of all this becoming public knowledge in the near future.

3 On industrial grounds, none of the proposals made - even in combination - appears to offer the benefits we expect from SALTON notably rationalisation of truck and van production in the UK and a strong motor industry parent for Land Rover with the technical and financial resources and world-wide distribution to make the businesses internationally successful. The BL Board also believe that a deal with GM offers the most promising way forward and would not wish to reply to any of these new approaches in a way which would prejudice the SALTON talks.

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4 The options include:-

(a) to rest on the present judgement of the BL Board that SALTON is the preferred choice on straight commercial grounds;

(b) to invite BL to examine these new options thoroughly and to advise us on the best package;

(c) to ask the Board to arrange for these new approaches to be given a reasonable level of examination and invite cash bids from the parties on the basis of published (or very limited additional) information. This would need to be completed in a timescale which did not unduly delay conclusion of a deal with GM eg. say two weeks.

5 I strongly recommend that we pursue option (c). In present circumstances, I do not believe Option (a) is a politically defensible way forward. Whatever the industrial merits of SALTON we should most certainly be attacked for allegedly having pressured the Board into dismissing potentially attractive alternatives, including a British solution for Land Rover.

6 Option (b) is equally unattractive as it would require several months of study and there would be a serious risk of losing the GM deal. Option (c) on the other hand would allow an opportunity to gain some appreciation of the price others

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are willing to pay for individual parts of LRL; would enable us to claim that these options had been looked at in a considered way by the BL Board and been found wanting; and (although we would need to carry GM with us) would mean minimum delay to the SALTON timetable.

7 You may wish to discuss the handling of all this.

8 I am copying this minute only to the Chancellor of the Exchequer.

PC

PAUL CHANNON

11 February 1986

Department of Trade & Industry

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INTERESTED PARTIES

SALTON BUSINESSES

PARTY	INTERESTED IN
Dutton Forshaw Motor Group (Lonhro)	Land Rover Freight Rover
Volvo	Land Rover
JCB	Land Rover
Cummins Engine Company/ Paccar Truck (both US-owned)	Leyland Truck (primarily)
David Brown Engineering	Leyland Truck
Renault	Leyland Truck
LRL Management Buyout	Land Rover and Freight Rover

NON-SALTON BUSINESSES

Volvo	Leyland Bus

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put in by the Secretary of State for Employment being a member of the House of Lords and therefore utterly unaccountable to the House and to hon. Members whose areas will not get one penny out of this meagre announcement? We are unable to ask why we have been left off the list. It is an outrage——

Mr. Speaker: Order. The hon. Gentleman knows that that is not a matter for me. The Paymaster General is, after all, a member of the Cabinet.

British Leyland

4.55 pm

The Secretary of State for Trade and Industry (Mr. Paul Channon): Yesterday, I informed the House that talks were at an advanced stage on the proposal for a merger between Land Rover—Leyland and the Bedford Commercial Vehicle subsidiary of General Motors. It is the Government's intention that, subject to satisfactory terms and conditions, and the receipt of firm undertakings from GM on its manufacturing and sourcing intentions, these negotiations should be brought to an early and successful conclusion.

I also confirmed that, following an approach by the Ford Motor Company, wide-ranging but, at this stage, exploratory discussions with the Austin Rover Group were in progress which might lead to a proposal for the merging of those businesses. I wish to inform the House at the earliest opportunity of the most recent developments affecting these discussions, in particular as regards Austin Rover.

The Government would have preferred to have waited until the exploratory talks had clarified the difficulties and opportunities a merger might have created and then taken a decision in principle, on the basis of a considered analysis, whether to pursue the possibility further. Speculation surrounding these exploratory talks has itself given rise to very great public concern and uncertainty. If that were to continue for an extended period, it could have seriously damaged the prospects for Austin Rover's business, its employees, its suppliers and its dealers. Nor would such a period of uncertainty have been helpful to many people associated in comparable ways with Ford's business in this country. Concern about these developments was expressed very clearly on both sides of the House in yesterday's debate. The Government have given full and immediate consideration to the situation so created. We have decided that the right way to end the uncertainty is to make it clear that the possibility of the sale of Austin Rover to Ford will not be pursued.

It is the Government's intention, with the agreement of the BL board, that negotiations should be pursued for the separate privatisation of Unipart by the early placement of shares with United Kingdom institutions.

Collaborative arrangements in the motor industry will become increasingly necessary and important. Austin Rover Group's successful relationship with Honda is an example of that. I hope that Ford and Austin Rover will also consider positively other opportunities for collaboration. I should like to pay tribute to Ford's contribution to the British economy through research and development, manufacturing and employment.

I hope that the Government's decision and the ending of uncertainty will leave Austin Rover free to devote its efforts to the further development and growth of its volume car business, building on creditable progress which has already been achieved.

Mr. John Smith (Monklands, East): Can the Secretary of State explain why he has managed to attract some members of the Cabinet to sit beside him today although he was signally left on his own with his unfortunate task yesterday?

As for the proposals for Land Rover-Leyland vehicles and Bedford, can the Secretary of State tell us what is the

[Mr. John Smith]

difference between what he calls a merger and a takeover? Are the Government involved in the discussions to ensure that no arrangement which sells our crucial British interests is arrived at? What are the implications in terms of jobs and of the location of manufacturing plant?

In view of the history of an industry in which assurances have frequently been given, how will any assurances be made binding and unbreakable? Will the Government arrange for a full debate in Government time at an appropriate stage so that the full implications for jobs and British interests can be assessed properly before any conclusion is arrived at?

In making it clear on behalf of the Opposition that I welcome with relief the decision taken by the Cabinet this morning to abandon talks about the sale of the Austin Rover Group to Ford, may I remind the Secretary of State that he and his colleague, the Minister of State, derided the Labour party's motion yesterday suggesting that the talks be abandoned forthwith? Although the right hon. Gentleman and his colleagues voted last night against the motion that the talks should be abandoned, is it true that the Cabinet had to accept the force of the Labour party's case?

Has the Secretary of State reflected on the fact that if the Opposition had not exposed the existence of the talks, flushed out the Secretary of State on Monday and had not debated the issue yesterday in a way that allowed the full force of parliamentary and public opinion to be expressed, the likelihood is that the secret talks would have been continuing with the prospect of the sale of Austin Rover still alive. Why were talks that were never in the public interest ever started?

Why are the Government persisting in the sale of Unipart, the loss of which will only weaken the strength and integrated force of the British Leyland group at a time when all its strength is required to survive and prosper now that, at last, it has been permitted to remain British?

Mr. Channon: The hon. Gentleman asked about General Motors in relation to Land Rover-Leyland. As the House will remember, I made a full statement a few days ago. I outlined, with care and in some detail, the undertakings that we would require before any deal with General Motors would be acceptable to the Government. The question of a further debate in the House is a matter for my right hon. Friend the Leader of the House. Obviously, the right hon. and learned Gentleman's point is noted.

As to the reason for deciding not to pursue the talks between Austin Rover and Ford, I have tried to explain why, in my view, it is essential at this stage to end uncertainty. I believe that it is in the interests of Austin Rover and Ford. It will be widely welcomed in the House that the Government have taken an early decision to end that damaging uncertainty.

Mr. Steve Norris (Oxford, East): I thank my right hon. Friend for his statement, which will be warmly welcomed by the work force of Austin Rover at Cowley. I especially thank him for the speed with which he has killed the damaging speculation, which arose as a result of the leak of the confidential talks. Will my right hon. Friend bear in mind the workers of Unipart who, contrary to what the right hon. and learned Member for Monklands, East (Mr. Smith) suggests, welcome the move towards privatisation? Will they have the opportunity to be included in any anticipated share issue?

Mr. Channon: I am extremely grateful to my hon. Friend for his support. He certainly welcomes our decision. I shall take on board his point about the work force of Unipart. I believe that our decision on the privatisation of Unipart will be widely welcomed.

Mr. David Steel (Tweeddale, Ettrick and Lauderdale): Will the Secretary of State answer the question that I put to the Prime Minister earlier? Why is the Land Rover division not being treated separately, for example, as a management-employee buyout? Will he confirm that it is profitable, that Land Rover has been a symbol of British engineering round the globe for almost 40 years and that it is of crucial importance to our armed forces? If it is not treated separately, the suspicion will remain that it has been put in as a succulent carrot along with the truck and bus division at the same time as an announcement that production of the American jeep is ceasing? Will he justify that?

On the matter of the Leyland truck and bus divisions, why are the Government not giving a similar commitment to open negotiation and public discussion, which the right hon. Gentleman pointed out would have happened if the Ford deal had been going ahead?

Turning to the Austin Rover Group, will he confirm that the British Leyland board will be left to get on with the management of that company? Given the successful turn-round, will he confirm that no public money has been put into the company in the past three years and that it now has a successful range of vehicles, which are competing well, not only on the domestic market, but in the European market? Does he agree with the right hon. and learned Member for Monklands, East (Mr. Smith) that in this episode there is one cause for rejoicing, which is the fact that the House of Commons has been able to change the Government's mind?

Mr. Channon: It is very nice to welcome the right hon. Gentleman to these discussions. On public expenditure, as the House has been informed on many occasions, guarantees under the Varley-Marshall assurances of up to £1·5 billion are available to BL, which is a factor that the House would do well to bear in mind. I am convinced that the proposals regarding Land Rover are in the best interests of the company. That is also the view of the British Leyland board. I would not put forward the proposals to the House if I was not convinced that they were in the best interests of Land Rover, including the opportunities that will arise from increased distribution in the United States. I hope that the talks will go well. Obviously, I shall keep the House in touch with the progress of the negotiations.

Mr. Roger King (Birmingham, Northfield): Does my right hon. Friend accept the grateful thanks of many workers in the west Midlands and Birmingham that the cloud of doubt over the future of Austin Rover has now been lifted? Does he accept that the work force and the management will work and continue to work with new models designs and with productivity plans to produce, in collaboration with other manufacturers, the type of products that will lead the company into renewed prosperity in the knowledge that the Government have been able to give a helping hand?

Mr. Channon: Yes. I hope that my hon. Friend will join me in encouraging British Leyland to make progress along those lines, so that it increases its share of the market and makes increasing efforts to produce profitable results. In that way we can ensure a secure future for Austin Rover without it being a drain on the taxpayer.

Mr. Andrew Faulds (Warley, East): Would the right hon. Gentleman care to comment on the report I have had that a deal has already been agreed between Bedford Motors, part of General Motors, and Leyland and that it was probably signed on 27 January, but could not be announced that day because that was the day that the Westland fib fabrication exercise was at its height?

Mr. Channon: That is a strange allegation. I have known the hon. Member for Warley, East (Mr. Faulds) for a long time and occasionally we hear those remarks. As I have already told the House, talks are at an advanced stage on the proposal for a merger between Land Rover-Leyland and Bedford Commercial Vehicles. No decisions have been taken. I assure the House that that is the exact position.

Mr. Kenneth Warren (Hastings and Rye): I welcome my right hon. Friend's decision to stop the Austin Rover talks. Will he use the opportunity to discuss with the owners of motor vehicle assembly plants how to get more British content into their vehicles and will he draw into the discussions the motor components buyers, whose future rests on the success of the assemblers?

Mr. Channon: My hon. Friend makes a good point and I am grateful for his support. He will remember that my predecessor announced an improvement in content in December. The figures that I gave to the House yesterday about Ford are extremely impressive.

Mr. Terry Davis (Birmingham, Hodge Hill): In view of the links between Austin Rover and Freight Rover, will the Secretary of State reconsider his insistence on including Freight Rover on the menu being offered to General Motors? Alternatively, will he insist on an undertaking that the manufacture of Sherpa vans and the jobs that go with it remain at Washwood Heath?

Mr. Channon: I will not consider taking out Freight Rover. It is part of the discussions that are taking place. I have already explained to the House the sort of assurances that I shall be seeking and I have nothing to add.

Mr. John Mark Taylor (Solihull): Does my right hon. Friend accept that, on behalf of the 8,000 Land Rover employees who work in my consitiuency, I shall be looking to him and hope that he will look to General Motors if this deal goes through, for guarantees on British indentity, British content, flagship status for the Land Rover plant at Lode Lane at Solihull, research and development in Solihull and increased commitments to exports, not least to America?

Mr. Channon: I understand and share my hon. Friend's views about all those matters. I assure him that the proposal is good news for his constituents, good news for the future of the company and good news for Land Rover.

Mr. George Park (Coventry, North-East): Although I welcome the news that the talks between Ford and Austin Rover have been abandoned, can we be assured that they will not be resurrected with another company? Will the Government do two things to assist Austin Rover? Will they take positive steps to improve the miserable Spanish export quota allocated to Austin Rover, and will they finally do something about the differential tariffs which give great advantages to firms such as General Motors, but work against the best interests of Austin Rover in trying to export to Spain?

Mr. Channon: The hon. Gentleman is right to draw attention to the extremely unsatisfactory Spanish tariff system. We inherited the position from negotiations long ago. As a result of fresh negotiations before Spain's accession to the Common Market, those differences in tariff will be reduced over a period. At the same time, our reduced duty quota will be increased. Now that Spain has acceded to the European Community, the end of that ridiculous system is in sight.

Mr. Michael Grylls (Surrey, North-West): Does my right hon. Friend accept that, as usual, the attitude of the Opposition is hypocritical? They know perfectly well that thousands of British workers have good and secure jobs with Vauxhall and Ford, and that many American workers have good jobs with British firms in the United States. Is not investment international? Would it not be in the interest of the trucks part of British Leyland, and Land Rover in the long term, to be part of a big group with worldwide marketing facilities, and would it not increase jobs in Britain?

Mr. Channon: I agree with my hon. Friend. As I tried to point out yesterday, Ford in the United Kingdom employs about 50,000 people, supports more than 100,000 other workers through its dealers and suppliers and spends nearly £750 million a year on product development in Europe, about half of it in the United Kingdom. Any Opposition Member who attacks that does a grave disservice to Britain and to the constituents of many hon. Members.

Mr. Tam Dalyell (Linlithgow): As a former parliamentary private secretary to Rab Butler, does the Secretary of State recollect that it was the Government in which he served who required the then British Motor Corporation to come to Bathgate? It grew into the greatest concentration of machine tools under one roof in Europe. In those talks, what obligation do the Government believe they have towards Bathgate?

Mr. Channon: The hon. Gentleman knows the present position at Bathgate, which is unchanged by my announcement. If we are going back into the history of British Leyland, I should say that the Labour party has a lot to answer for.

Mr. Robert Atkins (South Ribble): Does my right hon. Friend recognise that the uncertainty that surrounds the future of the Leyland truck and bus divisions is still very much evident? Does he also agree that the possible purchase of Leyland Bus by Laird is not mentioned in his statement? Will he comment on that and say whether another offer is in prospect for that, too? Will he also comment upon the position of Multipart, which is another successful aspect of the Leyland group? As a matter of urgency, will he answer the questions raised by me and my hon. Friend the Member for Bromsgrove (Mr. Miller) in

[Mr. Robert Atkins]

the debate yesterday, so that I can alleviate the anxiety of people in my constituency which, after all, includes the town of Leyland where this great company was born?

Mr. Channon: I shall study carefully what my hon. Friend said yesterday and write to him about the points that I have not already covered. As to the trucks division, the merger proposals are at an advanced stage, and I hope that it will not be long before I can inform the House of the arrangements. As he said, talks are continuing with Laird. My statement today does not relate to Leyland Bus, but I shall keep my hon. Friend closely in touch with progress.

Mr. Allan Roberts (Bootle): Is the Minister aware that the British public would have expected him to have the good grace to thank the Official Opposition who, with a little help from the right hon. Member for Old Bexley and Sidcup (Mr. Heath), saved Austin Rover from an American takeover? Although we have been watching the disintegration of the Government before our eyes, the British public did not expect that the Opposition would achieve so much power in such a short time. But why are the Government still considering the privatisation of Unipart? Have the Conservative party in Government completely lost their patriotism?

Mr. Channon: Unipart will go to British sources, so I do not know what the hon. Gentleman is talking about. I have never heard such rot in my life. We are proposing the privatisation of Unipart, and I believe that the Government's privatisation programme has wide support inside and outside the House.

Mr. Hal Miller (Bromsgrove): Will my right hon. Friend accept congratulations on having the good sense and courage to put an early end to the uncertainty, greatly aggravated by the attempts by the Opposition to make political capital out of the matter? Will he not be deterred by the damaging leak from ensuring that further discussions on collaboration with Austin Rover are pursued and that alternative sources of financing are examined?

Mr. Channon: I thank my hon. Friend for his remarks, and I greatly welcomed his constructive speech yesterday. It is right to end the uncertainty that existed, because that is in the interests of the companies concerned. As he said, the Opposition are clearly not interested in the issues—only in trying to stir up trouble.

Mr. Nigel Spearing (Newham, South): Is it not terrible that Britain imports railway locomotives from the United States while closing long-established engineering works, such as those at Swindon? Is this with the permission of the Minister——

Mr. Speaker: Order. The hon. Gentleman is going rather wide of the subject of the statement.

Mr. Spearing: Does the Minister agree with that import, and can he tell us whether that deal has anything to do with——

Mr. Speaker: Order. The hon. Gentleman cannot pursue that line. It is a completely different matter.

Mr. Spearing: On a point of order, Mr. Speaker. May I conclude my question?

Mr. Speaker: I do not think it will help, because I do not think the Minister can answer it. This statement deals with British Leyland. If the hon. Gentleman can relate his question to British Leyland, he may continue.

Mr. Spearing: I was about to conclude the question, which the Minister could answer and which is directly connected to the statement. I was about to ask the Minister whether that deal has anything to do with the one between British Leyland and General Motors.

Mr. Channon: The hon. Gentleman asks about something completely different from the subject of my statement. I shall be in touch with him, but my statement has nothing to do with what he asks.

Mr. Edward Heath (Old Bexley and Sidcup): May I thank my right hon. Friend for the decision he has announced this afternoon, and may I assure him that the decision reached by the Cabinet about Austin Rover and Ford is absolutely right? However, I must tell him that he has done nothing to alleviate the very real fears and anxieties expressed by Conservative Members yesterday about General Motors taking over the remainder of British Leyland. My right hon. Friend referred to a "merger". Is it not accurate to say that what is proposed is a complete takeover by General Motors of British Leyland and that control would leave Britain and go to Detroit? That is what many of us strongly oppose, and we shall maintain our opposition.

Mr. Channon: I am grateful to my right hon. Friend for the first part of his question, but he will not expect me to agree with what he said in the latter part. I have already explained to the House the exact details of what is proposed between General Motors and the Land Rover-Leyland group, and, in due course, I shall inform the House of the exact arrangements, if and when the companies produce arrangements that are satisfactory to the Government.

I assure my right hon. Friend that if I was not convinced that the proposals are in the interests of Land Rover and the other parts of British Leyland about which we are talking, I would not put them before the House. I am convinced that such a merger would, if the assurances are satisfactory, lead to substantial benefits to both companies.

Mr. Dave Nellist (Coventry, South-East): Do not the S-bends during the past 96 hours show that the Cabinet is looking increasingly like a headless chicken running around in its death throes?

In persisting in the statement promoting a multinational takeover of British Leyland Truck and Buses by General Motors, is the right hon. Gentleman continuing to tell the House that there is 40 per cent. overcapacity in that sector of the vehicle market? If so, has he tried to convince Oxfam and other aid agencies of that 40 per cent. overcapacity? Is he not aware that they cannot get trucks for Ethiopia and the Sudan to shift food for the millions of starving people?

Mr. Channon: I am saying that there is substantial overcapacity. I explained that to the House yesterday. I also explained the reasons that led me to believe that if a merger on acceptable terms could be arranged, that would be in the interests of all concerned.

Sir Kenneth Lewis (Stamford and Spalding): While congratulating my right hon. Friend on his speedy

footwork, may I ask what difference there will be to the amount of contribution that the Government are making now, and will have to make in the future, to British Leyland if the General Motors' proposals come to fruition?

Mr. Channon: It is clear that the sections of British Leyland that will be involved in any merger between Bedford Commercial Vehicles and General Motors—if satisfactory terms are arranged — are those parts currently making a substantial loss, which is something the House should recognise.

Mr. Ian Wrigglesworth (Stockton, South): How can the Secretary of State justify the sale of Land Rover to General Motors? Do not the BL interim results show that last year Land Rover made a profit of £5·7 million and had record sales? Is he not aware that the sale of Land Rover will cause widespread dismay, not only among the work force but among all customers of Land Rover throughout the world? Having decided not to go ahead with the discussions with Ford, will the right hon. Gentleman consider the implications for the collaboration with Honda? Does it not place a great cloud over future collaboration? What is to be the future of the arrangement with Honda?

Mr. Channon: As I said in my statement, I hope that collaboration with Honda will continue. Austin Rover's collaboration with Honda has been very sucessful, and I see no reason why that should change. I very much hope that it does not.

There are substantial advantages for Land Rover in any deal that may be agreed—and that is the view of the BL board, not just my view. The opportunities for Land Rover in the United States, taking advantage of General Motors' distribution network, could lead to greater sales of Land Rover in the United States and other markets and to substantial opportunities for Land Rover's work force and management. If those assurances I have mentioned can be obtained, it will be a very good deal.

Several Hon. Members *rose*——

Mr. Speaker: Order. I shall call the three hon. Members on the Government Benches who have been rising. I hope that they will be brief.

Mr. Patrick Cormack (Staffordshire, South): Is my right hon. Friend aware that any objective observer will regard the way in which he has listened to and informed the House as both exemplary and impeccable? However, will he bear in mind that there is still widespread disquiet about the future, especially of the Land Rover-Range Rover group? Will he consider carefully what has been said on that subject from the Conservative Benches?

Mr. Channon: Naturally, I will consider anything that is said from any quarter of the House. I must repeat my belief that I have expressed on a number of occasions to the House that this is the best opportunity for Land Rover. I am exceedingly grateful to my hon. Friend for what he said in the early part of his question.

Mr. Bowen Wells (Hertford and Stortford): Will my right hon. Friend accept my heartiest congratulations on the wisdom of his statement today? Has he now abandoned all attempts to try to find other sources of finance for the Austin Rover group? It will require additional resources if it is to increase employment, production and its market penetration both in Europe and in the United States. I hope that my right hon. Friend has not abandoned that pursuit.

Mr. Channon: I am grateful to my hon. Friend. Austin Rover's forward plans do not require further Government equity finance. Its financial requirements will be considered in the usual way, in the context of its corporate plans.

Mr. Tony Baldry (Banbury): Does my right hon. friend appreciate that the people of Oxfordshire welcome the long-term guarantee of Austin Rover at Cowley making cars that people both here and abroad want to buy, thanks to ever more competitive design marketing and delivery, while at the same time, not being dependent on the Government always being prepared to write cheques on the taxpayers' account?

Mr. Channon: My hon. Friend is entirely right about that. We must try to get Austin Rover's share of the European car market higher than it is at present.

Mr. John Smith: The Secretary of State appears to be satisfied that he can find what he calls suitable assurances. Can he give the House an assurance that he will not sanction any arrangements that mean the effective takeover of Leyland Vehicles by General Motors so that the power to take decisions passes from Britain to Detroit?

Will the right hon. Gentleman explain to the House what he meant by the political history of this matter when he attempted to criticise the Labour party? Does he not recollect that when British Leyland collapsed as a private sector operation in 1975, it was rescued by the Labour Government against the wishes of the then Conservative Opposition, many of whom are sitting in front of me?

Mr. Channon: I cannot give the right hon. and learned Gentleman the undertaking that he seeks. As he well knows from my statement on Monday, I outlined to the House precisely the full undertakings that I would require. On the second part of the right hon. and learned Gentleman's question, I think that the least said about the history of the matter by the Opposition, the better.

Mr. Nellist: On a point of order, Mr. Speaker. Will you take a few moments later this afternoon to consider the fact that the Secretary of State's statement was made available to the press well before 3 o'clock, yet shortly before 4 o'clock his Private Office denied that the draft of the statement had been finalised? It was not until almost 5 o'clock that the right hon. Gentleman gave his statement to Members of Parliament. Is this Secretary of State carrying on where the last one left off?

Mr. Speaker: That is not a matter for me. If the hon. Gentleman is saying that the statement given to the press was leaked before the House heard it, that is a different matter. However, I do not think that the hon. Gentleman was alleging that.

Royal Navy

Motion made, and Question proposed, That this House do now adjourn.—*[Mr. Archie Hamilton.]*

Mr. Speaker: As the House knows, we have a rather late start to the debate. A considerable number of right hon. and hon. Members have indicated their wish to take part. I hope that, in view of the time element, they will keep their contributions brief.

5.27 pm

The Minister of State for the Armed Forces (Mr. John Stanley): This last year has been a busy and effective period for the Royal Navy. Within the NATO area, the Navy has taken part in a series of important national and NATO exercises in the eastern Atlantic, the Norwegian sea, the Baltic, the North sea, the Channel and the Mediterranean. Out of area, the Navy has maintained a constant presence in the south Atlantic, the Caribbean and in the vicinity of the Gulf.

Since our last debate on the Royal Navy, Royal Navy ships have visited a total of 83 countries, including the first visit to a Warsaw pact country, Romania, since 1979. The Navy has made a significant contribution to the surveillance of Warsaw pact shipping worldwide, and has ensured the round-the-clock viability of Britain's strategic deterrent.

Since the last Navy debate, the Navy has also taken delivery of 13 new ships and 22 aircraft, and orders for further ships and equipment for the Navy have been placed to a total value of more than £3 billion.

Mr. Martin J. O'Neill (Clackmannan): How many ships has the Minister ordered?

Mr. Stanley: I shall come to that point later.

Other navies have been busy too—busy in operations and busy in construction. In July last year we saw the largest ever exercise by the Soviet northern fleet, designed apparently as a demonstration of how it might attempt to thwart NATO's reinforcement of Norway and establish Soviet sea control, not merely in the north Norwegian sea and the Barents, but in the south Norwegian sea and the north Atlantic. It was an impressive exercise, although the House will wish to know that the Royal Navy remains confident that, in conjunction with its NATO allies, it could establish sea control in areas of the north Atlantic and Norwegian sea, when so required.

The Russians currently have the largest submarine fleet in the world, with nearly 400 submarines now in service, including 63 nuclear ballistic missile submarines. At least six different classes of submarine are under construction, and a new submarine is continuing to be launched on average once every 35 to 40 days. The Soviet Union has an increasingly formidable fleet of surface warships that includes 320 ships of frigate size and above, and it has just launched the first of a new generation of aircraft carrier of a displacement approximately half as much again as the Kiev class.

The Russians are steadily improving their amphibious shipping. They have the largest stocks of mines in the world. They have one of the largest merchant fleets, the largest oceanographic fleet and the largest fishing fleet. Ships of all these fleets are regularly employed in naval and intelligence collection tasks in addition to their non-military roles. They also have a strong, and, still growing, naval aviation arm, with aircraft such as the Backfire with a significant conventional and nuclear stand-off capability against surface ships.

Admiral of the Fleet of the Soviet Union Sergey Gorshkov can put his feet up on the mantlepiece, well content with his service to his country. There is no reason to expect any slowing down in the pace of the Soviet naval programme under his successor Admiral of the Fleet Chernavin. Admiral Chernavin is a submariner. For the foreseeable future, the Soviet navy will constitute a major, and growing, challenge to the NATO countries.

I stress that the challenge is to the NATO countries as a whole, and it is NATO's collective response to the Warsaw pact's naval threat—not just Britain's—that is all-important. Fortunately, the NATO countries taken together are still way ahead of the Warsaw pact in the strength of their surface fleet, particularly in sea-borne tactical air power. We also continue to have significant advantages in other sectors such as the submarine detection technologies, replenishment at sea, and in the calibre of our seamen.

Many of these NATO maritime advantages are represented by the United States navy and that makes the commitment of the Labour party to send the main element of the USN in this country packing, all the more reprehensible and irresponsible. We should be doing all that we can to strengthen the USN's presence in Europe, and not weakening it.

I move on to the Royal Navy's contribution to our defences both in the NATO area and outside. Later on, I shall come to the naval programme.

Of the European members of NATO, the Royal Navy provides the biggest single contribution to NATO's surface fleet. Of the naval assets committed to NATO, the Royal Navy provides the only European ballistic missile firing submarines, the only European nuclear powered hunter-killer submarines, and the only European aircraft carriers and amphibious ships. In defence, it is certainly always possible to argue that we should do more, but I do not think that anyone can reasonably suggest that we are not shouldering our fair share of NATO's maritime defence.

I shall mention two other operational commitments inside the NATO area with which the Royal Navy is continuously involved. The first is fishery protection, provided by the fishery protection squadron, based on Rosyth. Following a recent internal review of our fishery protection arrangements, the Government have concluded that the Royal Navy should continue its fishery protection responsibilities.

Over the years the squadron has developed a great deal of expertise in the surveillance of fishing vessels, in boarding them at sea, and in the abstruse but all-important subject of United Kingdom and EEC regulations governing the protection of a wide range of fish.

In addition to its primary fishery protection role, the squadron also provides valuable back-up to the civil authorities for search and rescue operations, for the protection of our offshore oil and gas platforms and for possible use in support of the Customs and Excise, for instance against drugs traffickers. The work of the Royal Navy's fishery protection squadron is often, I am afraid, largely unsung, but it does a very important job in small ships, often in thoroughly unpleasant sea conditions, and it does it extremely well.

concession—I ask him to consider whether some kind of concession could be made—I shall have to test the opinion of the House.

5.1 p.m.

On Question, Whether the said amendment (No. 1) shall be agreed to?

Their Lordships divided: Contents, 83; Not-Contents, 118.

DIVISION NO 1

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Resolved in the negative, and amendment disagreed to accordingly.

British Leyland

5.11 p.m.

The Parliamentary Under-Secretary of State, Department of Trade and Industry (Lord Lucas of Chilworth): My Lords, with the leave of the House, I will now repeat a Statement made by my right honourable friend the Secretary of State for Trade and Industry in another place on the subject of British Leyland. That Statement is as follows:

"Yesterday I informed the House that talks were at an advanced stage on the proposal for a merger between Land Rover Leyland and the Bedford Commercial Vehicle subsidiary of General Motors. It is the Government's intention that subject to satisfactory terms and conditions, and the receipt of firm undertakings from General Motors on their manufacturing and sourcing intentions, these negotiations should be brought to an early and successful conclusion.

"I also confirmed that following an approach by the Ford Motor Company, wide ranging but at this stage exploratory discussions with the Austin Rover Group were in progress which might lead to a proposal for the merging of these businesses. I wish to inform the House at the earliest opportunity on the most recent developments affecting these discussions in particular as regards Austin Rover.

[LORD LUCAS OF CHILWORTH.]

"The Government would have preferred to have waited until the exploratory talks had clarified the difficulties and opportunities a merger might have created, and then taken a decision in principle, on the basis of a considered analysis, whether to pursue the possibility further. Speculation surrounding these exploratory talks has itself given rise to very great public concern and uncertainty. If this were to continue for any extended period it could have seriously damaged to the prospects for Austin Rover's business, its employees, its suppliers and its dealers. Nor would such a period of uncertainty have been helpful to many people associated in comparable ways with Ford's business in this country. Concern about these developments was expressed very clearly on all sides of the House in yesterday's debate. The Government have given full and immediate consideration to the situation so created. We have decided that it would be wrong for the uncertainty to continue, and the right way to end it is to make clear that the possibility of the sale of Austin Rover to Ford will not be pursued.

"It is, however, the Government's intention, with the agreement of the BL board, that negotiations should be pursued for the separate privatisation of Unipart by an early placement of shares with United Kingdom institutions.

"Collaborative arrangements in the motor industry will become increasingly necessary and important. Austin Rover Group's successful relationship with Honda is an example of this. I hope that Ford and Austin Rover will also consider positively other opportunities for collaboration. I should like to pay tribute to Ford's contribution to the United Kingdom economy through research and development, manufacturing and employment.

"I hope the Government's decision and the ending of uncertainty will leave Austin Rover free to devote their efforts to the further development and growth of their volume car business, building on the creditable progress which has already been achieved."

My Lords, that concludes the Statement.

Lord Bruce of Donington: My Lords, we on this side of the House are grateful to the noble Lord for repeating that Statement. It would seem that there are certain marginal advantages in the return to Cabinet Government, because the decision not to continue with the Ford negotiations was expressly repudiated by the Government only yesterday. This is what the Government said yesterday:

"The question that we must address is: can or should BL continue as it is, whether in public or private ownership? I believe that it cannot do so. Even if it could, it should not, because in today's world standing still means dropping backwards."

Concluding his speech in winding up, the Minister said:

"At this stage, we should negotiate as best we can."—[*Official Report,* Commons, 5/2/86; cols. 345-47.]

Now today we have in the Statement:

"I hope my decision and the ending of uncertainty will leave Austin Rover free to devote their efforts to the further deveopment and growth of their volume car business, building on the creditable progress which has already been achieved."

It is amazing what public opinion, and opinion even within the ranks of the party opposite, can do. It is good to see that the first time there was Cabinet discussion on the subject a different decision was reached to that reached by the Department of Trade and Industry.

However, having now decided the principle that Government go to on to say that they are continuing, and advising the company to continue, its proposals in regard to the merger that was the subject of the noble Lord's Statement on Monday last. We should have thought, applying the principle that we should develop British industry and that we should stick up for Britain, that the first part of the deal would also be annulled. It is quite clear that the Government have considered, not having discussed it in Cabinet—and we have it on record in the other place—and have decided, presumably at today's Cabinet meeting or one held last night, that they cannot at this stage back out of the General Motors deal. This is clearly something on which we shall have further debate. There must be a debate in this House in which this whole matter can be ventilated.

The Statement makes no mention at any point about the negotiations in regard to the buses. The noble Lord referred to it himself in his Statement on Monday last. He said:

"Separate discussions are taking place with the Laird Group, who own Metro Cammell Weyman, about the future of Leyland Bus."—[*Official Report,* 3/2/86; col. 906.]

To turn to today's Statement, Leyland Bus is still in limbo. We shall be glad to hear any further information the noble Lord has about that because it has not been mentioned.

The noble Lord referred in both Statements—there was a Statement in another place and in the debate there yesterday—to a merger affecting these other interests, including Land Rover. Does the noble Lord mean "merger" or does he mean "take-over"? Which? If there is a merger on, that implies a degree of shared capital risk. Are we sure that the Government wish to continue with a shared capital risk in something which, according to their speeches, they are quite prepared to flog off to United States' interests?

Will the noble Lord enlarge further on this and will he state categorically whether, in the light of previous undertakings that have been given by General Motors in regard to the maintenance of the British components, the Cabinet consider that it is likely to maintain the British component in the latest deal with which the noble Lord has made us acquainted?

Viscount Chandos: My Lords, on behalf of the Alliance Benches, I also should like to thank the noble Lord, Lord Lucas of Chilworth, for repeating the Statement on the future of British Leyland and its key subsidiaries. I think that these Benches greet the Statement with a mixture of relief, continuing apprehension and absolute stupefaction.

I am surprised that the Statement omits to reveal that the Government will be offering a new testing ground for British Leyland on the Road to Damascus. There is stupefaction that the Government have allowed the preliminary discussions proposed by the Ford Motor Company to be pursued and yet, as soon

as this sad and unworthy secret became known, they can declare that the uncertainties that were created justified breaking off the negotiations. British Leyland is still a public company quoted on the London Stock Exchange and sooner or later the deal that the tiny circle of Government Ministers was prepared to consider would have had to have been circulated in detail to shareholders, employees and the general public, as indeed the Statement acknowledged.

Many public companies which propose mergers or takeovers, or are subject to takeover bids themselves, become affected by uncertainty: for the employees, the shareholders, the trading partners and customers. But where they believe that there are genuine commercial grounds for a link, they willingly tolerate the inevitable uncertainty and speculation in order to achieve their aims. In the case of the proposed acquisition or merger of Austin Rover with the Ford Motor Company, the hasty, undignified but still welcome retreat by the Government shows that a more balanced and less prejudiced assessment of Austin Rover's progress and prospects, and a more careful preliminary analysis of the effects of a sale to Ford, would have avoided the management of Austin Rover being forced into precipitate and commercially damaging negotiations.

The competence of this Government in exercising stewardship over nationalised industries, which in his book Sir Michael Edwardes compared unfavourably even with that of the last Labour Government—or should I say the incompetence of this Government?—is the best but possibly the only advertisement for continued privatisation. I suspect that the blushes of the Secretary of State for Trade and Industry are only spared by his ability to attribute this tragi-comic *pas de deux* to another misjudgment on the part of his predecessor.

As I said, the stupefaction is mixed with relief that the Government have at least pulled back from their ill-considered attempt to abdicate from responsibility for Austin Rover, but also with apprehension that the future of Land Rover Leyland is in the melting pot. There is universal recognition that Leyland trucks technology, products and facilities are now superior to those of Bedford, while Land Rover is a company coveted by companies and investors throughout the world. If this deal really makes sense, can the noble Lord assure the House that every effort has been made and will continue to be made to achieve a genuine merger of Land Rover Leyland with Bedford, as the noble Lord, Lord Bruce of Donington, also advocated, and not a sale of the company to General Motors, whatever conditions are attached?

In a genuine merger British Leyland could retain a stake—a substantial one—and the employees could acquire a stake, and still General Motors, as a joint venture shareholder, could provide its international marketing network. Can the noble Lord, Lord Lucas, assure us that this approach, which any competent, commercial management would have pursued, has not been ignored in the Government's rush to pass one more buck for a few more quick ones.

Finally, can the noble Lord also assure us that in the future in its actions, its propaganda, its policies and its leaks, the Government will actually assist Austin Rover-BL and its constituent parts to achieve the aims of developing their business to which this Statement I hope sincerely referred.

Lord Lucas of Chilworth: My Lords, I acknowledge the receipt of this Statement by the noble Lord, Lord Bruce of Donington, and the noble Viscount, Lord Chandos. I think that there is very little to which I have to respond and perhaps I shall do it best by saying that the Government have responded quickly to both public and parliamentary opinion as expressed yesterday—as properly they should—and have come to the Houses of Parliament with the conclusion of that decision. I am surprised that there should be any criticism of the Government on that score.

The noble Lord, Lord Bruce of Donington, asked specifically about the position of the buses. I have nothing more to add to the statement and comments that I made on the 3rd February when I repeated a Statement made in another place that negotiations with the Laird group for the bus arm of Leyland were proceeding. That position remains the same three days later.

As regards the General Motors truck division and the Leyland truck and Land Rover arm of British Leyland, noble Lords will appreciate from Monday's Statement that this is quite a different matter from Austin Rover group and Ford. I said on Monday that negotiations were in an advanced stage. If I may just repeat this afternoon's Statement, it is the Government's intention that, subject to satisfactory terms and conditions, and the receipt of firm undertakings from General Motors on their manufacturing and sourcing intentions, these negotiations should be brought to an early and successful conclusion. That remains the position.

Other than that, I would remind your Lordships that for some many years now General Motors truck subsidiary, Bedford, has had its European headquarters, its European research and development arrangements and its manufacturing arrangements centred in the United Kingdom. General Motors have put in £1.2 billion worth of investment over the past 10 years; it employs 27,000 people; local content for 1986 will be 60 per cent. on its car and truck operations, and it is on target to meet the commitment which was made last year. I do not believe that one should criticise General Motors for being anything less than supportive of the United Kingdom's manufacturing industry. I say the same of Ford, whose interest in investment, employment and development in their area of industry is second to none in so far as support for the United Kingdom is concerned.

We are disappointed—the Statement says so—that the discussions between Ford and ARG were not allowed to proceed so that a calm and careful analysis could be made of any proposals. As regards assisting BL, the Government remain committed to British Leyland, the Austin Rover group, in securing all the opportunities for that group to prosper and to achieve their fair share of the domestic and overseas market. One would look for the board of Austin Rover group to continue with their collaborative arrangements and perhaps make others, such as with Honda, Peugeot, or VW-Audi, in a variety of ways, and that is how they would probably be able to succeed.

5.30 p.m.

The Lord Bishop of Birmingham: My Lords, I shall be brief. I thank the noble Lord for the Statement that he made. As he said, it will do a great deal to alleviate the deep anxiety and distress in my city of Birmingham about the future for employment. I wonder whether he can say something about the consultation that will be taking place with the workforce before further arrangements are made, because of the consternation that will be caused among the workers on hearing that arrangements are being made, as it were, over their heads.

What I want to ask the noble Lord most of all is this. In the arrangement that he spoke about concerning Land Rover, Unipart and Leyland Trucks, the West Midlands is likely to be affected as a centre of component making. That is an important part of the industry. We have to consider not just the assembly of the cars and the trucks but the components and the service industries that depend upon them. I think that the people of my dioceses will ask themselves what effect the arrangements for these other parts of BL will have on employment. In my diocese I have one ward with an unemployment rate of over 41 per cent.; in another it is over 35 per cent. There will be deep anxiety that the arrangements may cause more unemployment. Anything that he can say to give people confidence will be greatly welcomed.

Lord Lucas of Chilworth: My Lords, I am most grateful to the right reverend Prelate for his contribution and indeed for his questions. As I explained on Monday, and I thought this afternoon, the Leyland Trucks, Land Rover and General Motors negotiations are at an advanced stage. I think that the House will agree that it would be wrong of me to pre-empt the result. However, we believe that an arrangement between two of the largest truck makers in the United Kingdom would be in the best long-term interests of the people employed in the truck industry. Across Europe that industry is in decline and there is massive over-capacity.To join the activities of those two important companies would be in the best interests of the industry. It would make it better able to compete in the European and the world markets to the long-term advantage of those employed in that sector.

Lord Bruce-Gardyne: My Lords, can my noble friend tell us what is Austin Rover's current share of the United Kingdom market in its respective class? Can he also tell us whether it is now the intention of Her Majesty's Government to put the £1.5 billion guarantees to British Leyland into the category of public expenditure, since it must be likely as a consequence of today's Statement that that guarantee could be called?

Lord Lucas of Chilworth: My Lords, speaking from a fairly reliable memory, I can tell my noble friend that the Austin Rover group has 18 per cent. of the United Kingdom domestic car market and a rather small share of the European market; but one hopes that it is expanding. If my memory serves me right, it has 19 per cent. of the truck market in the United Kingdom. The Government stands behind the so-called Varley-Marshall arrangements.

Lord Bruce of Donington: My Lords, may I press the noble Lord a little further? I asked him whether he would confirm that the arrangements, which he says are at an advanced stage, so he ought to know the form, are strictly merger or take-over? Exactly the same considerations apply to his statement about the Cammell group. He referred to separate discussions taking place with the Laird group about the future of Leyland Buses. Are those discussions with a view to merger or take-over? Surely he knows which term applies, even at this stage.

Lord Lucas of Chilworth: My Lords, I am not in a position either to agree with the noble Lord or disagree. I have said that the Leyland-General Motors negotiations are in an advanced stage, but the detailed arrangements as to how they may be completed and put together have not been arrived at. The Laird group discussions are not at such an advanced stage. I should certainly not wish in either case to prejudice the negotiators, particularly those of British Leyland, in suggesting in any way from this Dispatch Box how they should proceed or what should be the outcome.

Lord Thorneycroft: My Lords, is my noble friend aware that far from being criticised, his Secretary of State is to be commended, after only a few days in office and one debate, on having responded to some of the views expressed to him? It would indeed be a sorry day for Parliament if Ministers were to be bitterly criticised every time that they respond to arguments put forward in this House or in another place.

Will my noble friend continue to bear in mind that the danger to jobs in the motor vehicle industry is just as great or greater if we do nothing whatsoever than if we move out and try to expand and enlarge the size of the operating units? Will he press upon the noble Lord, Lord Bruce, that the simplistic and intensely nationalist view that he had been putting forward from that Bench, and indeed the fears of the right reverend Prelate, should not be allowed to weigh too much with us, for if we took that simplistic and nationalist view not only in the motor industry but in many others the damage to jobs in this country would be incredibly large?

Lord Lucas of Chilworth: My Lords, I am most grateful to my noble friend for his questions. I am sure that your Lordships will share my admiration for his great knowledge not only of parliamentary affairs but of business and commence. It is in the light of that experience that he asks such apposite questions. There is a great danger to jobs if we fail to recognise the importance of investment, both internal and from overseas, in our industries. The investment comes not only with money but with technical expertise and a whole range of other advantages to our industry.

The noble Lord, Lord Bruce, quoted fairly extensively from what my right honourable and honourable friends from the Department of Trade and Industry said in the debate in another place last night. He will remember that it was said that the motor industry is moving at a fast pace across the world; no longer can we build cars plainly for the domestic market, nor indeed for the European market. We need to build for world markets. Collaboration is vital if our

manufacturing base is to be secured and, as I said to the right reverend Prelate, jobs in the industry preserved in the long term.

Lord Hatch of Lusby: My Lords, the noble Lord the Minister said in his original Statement that the negotiations over Austin Rover are to come to an end. Most Members of the House, I believe, welcome that. Can he tell us, though, what has changed since yesterday? Is it not the case, as the noble Lord, Lord Thorneycroft, has suggested, that the Minister has been influenced by the voices from another place—and quite rightly so? But how does it come about that the debate in the other place took place yesterday? What would have happened if there had been no leak about these negotiations? Can he tell this House whether the Government intended to pursue those negotiations, if possible to a conclusion? Can he also tell the House where the leak came from which was the occasion for the debate on which, apparently, the Government, and particularly the Department of Trade and Industry, have completely reversed their policy? What has happened since yesterday, and why?

Lord Lucas of Chilworth: My Lords, really, I am so surprised at the noble Lord, Lord Hatch of Lusby. I made clear in repeating the Statement that the Government would have much preferred to have waited until the exploratory talks had clarified the difficulties and the opportunities that a merger might have created. Then we could have taken a decision in principle and discussed it on the basis of a considered analysis. However, because certain events took place—I have little doubt in an endeavour to embarrass the Government—speculation surrounding those talks rose and gave great uncertainty both to the public and, indeed, to the two companies. This was explored during the debate yesterday in another place. As a result of public expression and as a result of parliamentary expression, my right honourable friend the Secretary of State for Trade and Industry and colleagues decided that no useful purpose to the two companies would be served if a decision was prolonged. I have made that clear in the Statement. As to the question of what would have happened had this matter not been raised on Monday, since the matter was raised and since things did happen I can see no profit in speculation.

Lord Stoddart of Swindon: My Lords, may I ask the noble Lord a quick technical question on the issue of manufacturing and sourcing intentions of GM? The noble Lord mentioned twice in his answers that GM already had 60 per cent. United Kingdom content. Is that what the Government are thinking about? I would remind him that Nissan has given an undertaking of 80 per cent. United Kingdom content. Does United Kingdom content mean United Kingdom content or EC content?

Lord Lucas of Chilworth: My Lords, in fact, I did not say that General Motors had 60 per cent. United Kingdom content or, indeed, local content. What I did say was that we had received assurances that local content of GM's products across the range would reach 60 per cent. in 1986. On Monday, I said in answer to the noble Lord, Lord Bruce of Donington, who said it was 46 per cent., that it was, in fact, 48 per cent. They are on target to reach the undertakings that they gave. I might remind the House that in the truck area local content is 80 per cent.

Lord Diamond: My Lords, may I press the noble Lord further on an essential matter that he has not found it possible to answer? Is he aware that what the whole House is interested to know is whether the negotiations which are still going on—the details of which he naturally does not want to disclose—are negotiations aimed at securing a take-over or at securing an amalgamation?

Lord Lucas of Chilworth: My Lords, the noble Lord, Lord Diamond, can press me as much as he likes. I have said all I am able, or willing, to say about that matter other than repeating that the negotiations are aimed at securing a viable truck industry in this country and securing the long-term employment prospects of those engaged in it.

Lord Brookes: My Lords, the Minister will, I hope, allow me to express what I wish to say in the form of a statement rather than a question, because my remarks are rather difficult to phrase. I speak from some knowledge of the industry. The upside worth of the proposed deal with General Motors—it is very much upside for GM—can also be upside for this country. We are talking—and the Minister is talking—about trucks, as if Bedford and Leyland were common or similar. They are very different. Bedford produces trucks in the light to medium range and only touches the borders of the heavy range of trucks. Leyland was once, years ago, the great European leader, expressed in its lovely calendars of beautiful ladies—"To Leyland, she's a lady". I hope that the Minister will take care that the lady is not raped in the process of the situation. The great attraction for General Motors—it is not a disadvantage to our own country—is that General Motors badly needs a European base for heavy commercial vehicles. Leyland might well have a better future in such a circumstance than it is likely to have with any other partner.

The other great upside worth for GM in this deal is, of course, the Range Rover and the Land Rover—something which, I believe, is entirely missing from GM's international marketing package. So there are great advantages to General Motors in this situation. All that I pray is that the Government, influencing the use and power of their shareholding will ensure that there is substance, purpose and commitment in the local content—that is, British content so far as conditions permit—imposed as part of this deal. I believe that GM, faced with an attractive target like this, should be very willing to negotiate upon those aspects. The great danger when dealing with a multi-national in the car industry is——

A noble Lord: Speech!

Lord Brookes: My Lords, forgive me. May I ask the Minister to be mindful of the danger that if General Motors were to switch its castings and forgings to plants in Europe which it owns, merely to fill them up,

[LORD BROOKES.]

that would not be fair competition. I am sorry for almost having made a speech, but I believe that it was worth saying.

Lord Lucas of Chilworth: My Lords, of course I recognise my noble friend's great interest in this industry, in which he has played an important part as principal of a component manufacturer. I would not wish this afternoon to comment in detail upon his remarks other than to say that nothing stands still, least of all the motor industry. It would be wrong for me to commit any company into an action several years hence. I repeat, however, that General Motors have demonstrated over many years very good faith in the United Kingdom, particularly in the truck industry. We have no feeling that they would change course from that which they have employed over so many years.

Shops Bill [H.L.]

5.49 p.m.

Consideration of amendments on Report resumed.

Lord Denning moved Amendment No. 2.

After Clause 1, insert the following new clause:

("*Local authority supervision of Sunday trading*

.—(1) The provisions of this section shall be construed in the light of the general proposition that the special character of Sunday ought to be preserved, as far as practicable, as a day of leisure in which a person is not required to pursue his weekday work and is free to do as he chooses.

(2) Sunday trading, that is, the opening of shops for trade or business on Sundays (which has hitherto been precluded or restricted by Part IV of the Shops Act 1950) shall in future be permitted only in the circumstances and to the extent allowed by the local authority.

(3) Every shopkeeper who desires to open his shop for trade or business on Sundays shall apply to the local authority for permission to do so.

(4) In deciding whether to grant or refuse permission, the local authority shall take into account all relevant considerations such as—

(*a*) the nature of the shop and the goods to be sold there and the size and situation of it; and

(*b*) the effect, in their opinion, which the opening of it on Sunday would have on the shopkeeper, the shop worker, the customers, the passers-by and the residents of the area.

(5) In order to achieve a degree of uniformity over the country the Secretary of State shall issue a Code of Practice for the guidance of local authorities, but such a code shall not be issued unless a draft of it has been laid before and approved by a resolution of each House of Parliament.

(6) Any interested person may appeal within a reasonable time to the Secretary of State against a grant or refusal of permission to open a shop for trade on Sundays, and the Secretary of State may allow or reject the appeal on written representations or on public hearing as he thinks fit.

(7) If any shopkeeper should open his shop for trade or business on a Sunday without the permission of the local authority, he shall not be guilty of a criminal offence, but the local authority may apply to a Circuit Judge for an injunction to restrain him from repeating it; and the judge shall have available to him all the remedies usual for breach of an injunction.").

The noble and learned Lord said: My Lords, at Committee stage there was much discussion on several amendments. Useful comments, and objections, were made to some of our amendments. I have tried to take all those into account and to present to your Lordships what I hope will be an acceptable way of preserving our Sunday. If your Lordships have the amendment before you, you will see that in a rather unusual form of construction we try to state, in the first subsection, the principle that,

"the special character of Sunday ought to be preserved, as far as practicable, as a day of leisure in which a person is not required to pursue his weekday work and is free to do as he chooses".

If that principle is accepted I think it follows, as I will show, that the whole of the rest of the clause should be accepted.

In stating that principle I have gone back to the important departmental committee chaired by Lord Crathorne, a very distinguished Member of this House, and including the Home Secretary, Mr. Chuter Ede. I have taken the words from that committee's report. Let me read them to you:

"We came to the conclusion that the special character of Sunday ought to be preserved as far as practicable as a day of leisure in which a person is not required to pursue his weekday work and is free to do as he chooses".

It goes on:

"The special character of Sunday would be seriously impaired if the majority of shops were open as on weekdays and most shop assistants were required to work on that day. It is however, generally recognised that some goods and services are required on a Sunday".

In 1964 that committee thought that the practical way of doing this was to revise that list of exceptions. As has been said, in the course of experience that schedule of exceptions has been criticised, put to scorn and the like. I am afraid that there is no chance of getting any list of exemptions through your Lordships' House now. However, does that mean that there is no practicable way of securing our Sunday? That is what the Government would put forward.

It is for those reasons that the following clauses are suggested. The next clause permits Sunday trading, but only,

"in the circumstances and to the extent allowed by the local authority".

That has been going on a good deal. But the local authority have had the control hitherto, and there has been some variation. Some have enforced prohibition; others have not.

If I may turn to the Auld Report, it felt that there was a great deal to be said for the local authority being able to have the control. In paragraph 219 the report said:

"In fact, shopping seems to us to be one area where a reasonable case might be made for local discretion. Shopping is primarily a local activity, employing local people, and it would be local residents who would be disturbed by any untoward noise or traffic congestion".

The Act of 1950 and the others have therefore entrusted this matter to the local authorities. They are, after all, democratically representing the people; they represent the tradesmen in the districts. Your Lordships will know how they are formed. After considering that the ground for opposition, set out in the Auld Report at paragraph 226—

"But the major difficulty with a pattern of local variations, and it is one that would apply whatever the method of local determination, would be the lack of consistency inherent in the system, both geographically and over time"—

it goes on to say that policies may vary. One local authority may have a different view from another. A person from one area may go just across the border to find a shop that is open.

SECRET

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cc Master

NOTE FOR THE RECORD

The Prime Minister saw Mr. Channon and Mr. Morrison briefly after the statement on BL today. They discussed the next steps both on policy and personnel in relation to BL. The Prime Minister expressed the view, which was shared by Mr. Channon and Mr. Morrison, that the Government should now press ahead as quickly as possible both with the General Motors negotiations and Unipart privatisation. Mr. Channon expressed the view that the General Motors negotiations ought to take about a month although the privatisation of Unipart would take rather longer. He undertook to get a plan of campaign to the Prime Minister within about a week.

There was also a brief discussion of the proceeds of the Unipart sale. The Prime Minister said that she thought that these, like the proceeds from Jaguar, ought to be set aside against the Varley Marshall guarantee.

On personnel it was agreed that changes of Chairmanship should not be made in the immediate aftermath of the decisions taken that day and probably not until the General Motors negotiations were finished. The alternative candidate could probably be held for a while yet although he had, it was understood, received another offer. He was in any event abroad for the next week or so. There was general agreement on the desirability of his being in post as soon as possible after the General Motors negotiations were completed.

There was a brief discussion of the procedures to be followed with colleagues to obtain agreement to the alternative candidate. The Prime Minister expressed the view that this should be done in such a way as to maximise confidentiality.

TIM FLESHER

6 February 1986

VC4AFR

Seen by PM 6/2

PRIME MINISTER 6 February 1986

DEPENDENCE OF COMPONENTS SUPPLIERS ON AUSTIN ROVER

I have just received the information below on Austin Rover's top 12 suppliers. It shows that on average only 7% of their automotive component turnover comes from Austin Rover. The highest dependence is Pilkingtons at 37% but this is only a peripheral business for them. Perhaps most interesting is they appear to sell almost twice as much to Ford as they currently do to Austin Rover.

		Sales to Austin Rover	Sales to Ford	Motor Component t/o	£M ARG Share of t/o
1.	Lucas	110	130	1100	10%
2.	GKN	36	100	981	4%
3.	BSC ..... figures not relevant				
4.	TRW	19	51	91	21%
5.	Dunlop ..... figures not available				
6.	Automotive Products	18	24	223	8%
7.	Pilkingtons	22	17	59	37%
8.	Butec ..... - a BL subsidiary				
9.	BSG	3	27	N/a	N/a
10.	Armstrong Equipment	9	20	108	8%
11.	T.I.	3	23	200	2%
12.	AE	8	18	316	3%
	TOTAL	228	410	3078	7%

Peter Warry

PETER WARRY

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F0015

PRIME MINISTER

BL: Austin Rover Group
E(A)(86) 8

BACKGROUND

1. E(A)(86) 3rd Meeting on 28 January invited the Secretary of State for Trade and Industry to provide further information to enable the Sub-Committee to reach decisions on whether or not to pursue the Ford approach. More information was needed on the effect of the Ford proposal on components manufacturers in the Midlands; the likely reaction of different Japanese manufacturers to the prospect of such a deal; the impact of the Salton deal on the amounts outstanding covered by the Varley Marshall assurances, and the likely future trend in ARG liabilities covered by these assurances; and the possible longer term impact on car and component manufacturing in the United Kingdom of the integration of ARG into Ford's European operations. The Secretary of State for Trade and Industry was invited to submit a further paper covering these points, with his considered assessment of the deal and of the possible alternatives. This brief covers the new material; attached — the brief submitted for the earlier discussion remains relevant.

Proposals

FLAG A — 2. In E(A)(86) 8, the Secretary of State for Trade and Industry proposes:

a. to submit a further paper to E(A) before the end of February, in the light of Ford's assessment of their proposals;

b. an urgent approach to Honda to explore whether Honda can be persuaded toa financial participation in ARG to enable an ARG placement before the end of the decade.

MAIN ISSUES

3. The main issues are:

a. whether to continue discussions with Ford;

b. whether to approach Honda.

The Ford Proposal ('Maverick')

3. Mr Channon's paper E(A)(86)8 represents only a partial answer to the Sub-Committee's requests for further information. The effect of the Ford proposal on components manufacturers in the Midlands remains unclear. It is stated that 'all but a handful' of the top 50 suppliers to Ford and ARG supply to both companies, but this gives no reassurance without further elucidation. Ford have indicated that they would accept clear and detailed undertakings on sourcing, local content, R & D, and manufacture, but further information on this will be needed too. The impact of the Ford proposal on the automotive components sector is being assessed by Ford and ARG; Ford's assessment will be ready before the end of February. It would be helpful if the ARG assessment could be ready in the same timescale.

4. The table at Annex A gives some information about the impact of Ford and BL total operations (i.e. including trucks, tractors, etc) in each case on the UK economy. The Secretariat have sought to clarify this picture so as to identify more clearly the total impact of each company's operations on total UK economic activity (i.e. allowing for bought-in components, etc) and on the trade balance (i.e. allowing for imports and exports of vehicles and parts). The 1984 figures are summarised in the following table:

	Ford total	Ford c ars	£ million BL total (separate inform-ation not available today about ARG only)
Net UK value added by company	1043	551	1706
Total UK value added (inc. bought-in components)	1955	848	2673
Net trade balance	-506	-410	+686

Complete comparable information about GM is not available, but the net trade balance on cars is in deficit to the tune of about £1 billion. The record of GM and Ford, particularly in importing both complete cars and components, is likely to be a matter of some concern, not least to independent UK component manufacturers (this bears on the point made by the Secretary of State for Energy at the last meeting).

5. DTI think the most likely reaction of Honda to Maverick would be to terminate their association with ARG and to establish an assembly plant on a greenfield site in Europe, with Swindon a leading contender. This would be controversial; it would be seen as adding to existing over-capacity in Europe; and it would be a major competitor to the Ford-ARG business. Indeed, the prospect that Honda might react in this way could affect Ford's approach towards Maverick. On the other hand, substantial benefits could accrue to the UK if Honda were to establish an integrated and successful manufacturing operation in the UK.

6. DTI think the effect of Maverick on Nissan would probably be to encourage them to move to the second phase of full manufacture, currently planned to reach 100,000 a year by 1990, somewhat earlier.

7. Mr Channon's paper E(A)(86)8 also reports the outcome of his discussions with Ford on possible alternatives to Maverick. At E(A)'s last discussion of this issue, the possibility was suggested of merging ARG and Ford (Europe) into a European holding company, separate from the US Ford company; or of a

joint venture between ARG and Ford. Neither prospect is attractive to Ford: Ford are opposed to any outside shareholding in Ford companies and there is no real prospect of persuading them to depart from their firm corporate policy.

8. If the whole of BL continued in effective Government ownership, total borrowings would be expected to rise from £680 million at end 1985 to £800 million at end 1986, and to remain at this level until 1990. Total Varley-Marshall exposure would increase from £1800 million to £2100 million over this period. The Salton deal would reduce these figures to £500 million at end 1986 and £600 million at end 1990 in respect of ARG/Unipart borrowings, and £1175 million and £1525 million respectively for total remaining Varley-Marshall exposure.

9. E(A)(86)8 does not deal explicitly with the future of Unipart. As was made clear in the previous discussion, separate privatisation would not be consistent with the sale of ARG to Ford; and it would similarly be impossible to decide on separate privatisation while the possibility of early privatisation of ARG as an independent company with Honda support was being explored. If both these approaches failed, separate privatisation would again become an immediate possibility.

10. Both the Salton and the Maverick deals are such as to require the Director-General of Fair Trading to advise the Secretary of State on the desirability of a reference to the Monopolies and Mergers Commission; in both cases it seems likely his advice would be in favour of a reference. Since a reference would in practice frustrate any such deal, the Secretary of State would have to reject the advice on wider public interest grounds. Rejection of recommendations for references would no doubt be cited as additional grounds for objections to either deal; this would add to the political problems Ministers would face.

Honda

11. E(A)(86)8 also considers early privatisation of ARG as an independent company as a possible alternative to Maverick, on the basis of advice provided by Barings. That advice (Annex B of E(A)(86)8) is that privatisation of ARG will not be feasible until the 1990s unless Honda can be persuaded to participate in an international consortium of investors. Barings doubt whether Honda will wish to make a substantial commitment of the scale required: so far they have preferred to keep their options in Europe open and they may wish to continue with this strategy. But the threat of Maverick may induce them to change their position. Mr Channon therefore proposes urgent talks with Honda to see if this alternative is feasible. He suggests that the basis of these talks with Honda should be:

a. we would intend, within a year or so, to offer the remaining shares to financial institutions together with about 10 per cent given to employees;

b. we would write off BL borrowings attributed to ARG and Unipart;

c. we would seek public assurances from Honda to the effect that they regarded ARG as the central feature of their European strategy and that any greenfield operation in Europe whether for major components e.g. engines and for car assembly would be co-ordinated with and agreed by ARG;

d. we in return would undertake to give Honda pre-emptive rights in the ARG Articles of Association enabling them to have an option to purchase any block of shares which might be offered to a third party.

12. No public announcement would be made of these talks, and the negotiation of arrangements with Honda would be unlikely to be completed very quickly. Particular attention would be

likely to focus on the form and conditions attaching to the Honda equity stake, and the timing of the Government's withdrawal from the Varley-Marshall assurances. If, however, the fact of the talks were disclosed, the Government could reasonably point to the need to explore all possibilities in the interests both of ARG employees and of UK taxpayers as effectively shareholders in the company.

HANDLING

13. You will wish to invite the Secretary of State for Trade and Industry to present his paper. The Chancellor of the Exchequer will wish to comment on the privatisation and financial aspects of the Ford and Honda proposals. The Foreign and Commonwealth Secretary and the Lord President of the Council may wish to comment on the external and political aspects of the proposals. The Secretary of State for Energy may wish to comment on the impact of the proposals on the economy in the West Midlands. Department of Employment Ministers will wish to comment on employment aspects.

CONCLUSIONS

14. You will wish the Sub-Committee to reach conclusions on

(i) Whether or not to authorise continued discussions between ARG and Ford, with a view to the Secretary of State for Trade and Industry bringing a further paper before the Sub-Committee by the end of this month containing both the Ford parent Board's considered judgment on whether they wished to proceed, and his own assessment of their proposals.

(ii) Whether or not an urgent approach should at the same time be made to Honda as proposed in paragraph 15 of E(A)(86)8.

(iii) Subject to the above decisions, and the outcome of today's debate, what should be said in response to further questions.

J B UNWIN
Cabinet Office
5 February 1986

SECRET

17

5 February 1986

PRIME MINISTER

E(A) - BL

This DTI paper takes us back to where we were a year ago. The structure is:

1. Don't take a decision on full negotiations with Ford until end February. This kills the Unipart sale, but without creating any commitment to seriously pursue the ARG sale. It is right not to make a final decision until full information is available, but is quite wrong to funk the initial political decision.

2. Start negotiations with Honda. This should ensure that the Ford interest withers away but without securing a better alternative. If Honda want to use Austin Rover as an integrated element of their European strategy, then they will require full control. This has the same disadvantages as the Ford deal, but many times bigger - not least that it is far less likely to happen, and would only happen much later. The convertible loan stock achieves nothing: if the Government doesn't give a guarantee, then no-one will invest; and if it does, then the Government remains on the BL hook whilst the investors take a risk-free ride.

Whichever way the decision goes - and we believe the industrial/employment case for Ford is overwhelming - it is essential that the decisions are taken tomorrow.

If a deal with Ford (on appropriate terms) is politically sustainable, then:

a. **There should be no further talks with Honda.** They are only likely to jeopardise the Ford deal.

b. **Graham Day should be appointed immediately** (albeit initially as Bide's deputy). BL deliberately leaked the negotiations, and will continue to sabotage the talks unless discipline is restored.

c. The Charterhouse bid for Unipart should reluctantly be allowed to lapse.

If a deal with Ford is not possible, then:

a. **The Unipart bid should be unblocked.** We have promised an answer by 9 February.

b. **Graham Day should still be appointed immediately:** we will need him even more desperately.

c. **The £680m borrowings cap which BL agreed last year must be enforced.**

Peter Warry

PETER WARRY

CONFIDENTIAL

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

Secretary of State for Trade and Industry

PS/

CONFIDENTIAL

4 February 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David,

OPPOSITION DAY DEBATE ON BL

We spoke earlier on the telephone about the Government amendment to the Opposition motion for tomorrow's debate. I now attach the draft amendment, and would be grateful for clearance as soon as possible.

2 I am copying this letter and attachment to Alison Smith (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), and Jeremy Wright (MoD), and Paul Pegler (Chief Secretary's Office).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

Encl

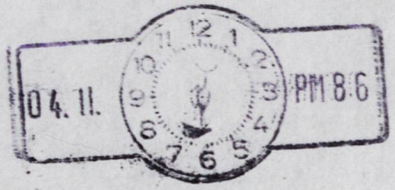
JF2AUW

1786 1986 BOARD OF TRADE BICENTENARY

999-1

Notes with approval the Government's continuing determination to work towards a viable and internationally competitive automotive industry located in the United Kingdom; and endorses the view that subject to satisfactory terms and conditions, the merger of the commercial vehicle activities of Land Rover Leyland and Bedford would contribute to that objective and provide the best prospects for secure long-term employment in the industry.

JF2AUV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3 February 1986

PRIME MINISTER

BL BIDS - IS FOREIGN OWNERSHIP BAD?

1. Q. **Does foreign ownership mean less British jobs?**

A. Britain is the free world's largest tractor manufacturer with 80% of production exported. None of the companies are British-owned, indeed the only British-owned company recently went into receivership. Foreign ownership is wholly consistent with an expanding British manufacturing base. It is the competitiveness of industry, not its ownership, that is most important in determining if it is good for Britain.

2. Q. **Is Ford just an American raider?**

A. Ford's European headquarters are located in Britain as is their largest European R&D centre. All of the trucks and most of the tractors that Ford sell in Europe are made in Britain. Ford produce in Britain roughly double the number of engines and gearboxes that BL do. Ford's exports from the UK are 40% more by value than those of BL.

3. Q. **Won't foreign ownership of BL damage its British suppliers?**

A. The component supply industry depends upon the competitiveness of all the British-based manufacturers. The Government would only be prepared to sell parts of BL if, firstly it believes that this will lead to a more competitive motor industry, (and therefore more jobs in the long term), and secondly only if the new owners were prepared to give a commitment on levels of UK content.

If as a result of a sale of Austin Rover, Honda then concentrated on their own plant at Swindon, this would give an extra British-based manufacturer for the component industry to sell to.

4. Q. **If Ford buys Austin Rover, won't Honda pull out of Britain?**

A. Honda are already making a significant commitment to a British base at Swindon where they have purchased a 300 acre site. Their links with BL are important both to Honda and to an independent Austin Rover. But if Austin Rover merged with Ford, Honda might then wish to speed up the rate of development of their site at Swindon in order to establish a complete European manufacturing base in Britain.

Preliminary studies suggest that if Honda established an independent manufacturing unit in Britain, twice as many jobs could be created as might be displaced through the increased competition. The comparison would be still more favourable if the alternative were for Honda to establish a manufacturing plant not in Britain but elsewhere in Europe. Honda have, however, made no proposals to establish independent manufacturing in the UK, and the Government has given no advance commitment.

5. Q. **If Ford buys Austin Rover will this mean mass redundancies at Longbridge and Cowley?**

A. No. Some rationalisation of common functions is inevitable, but the advantages of combining R&D effort, and opening Ford's well-developed European sales network to BL models, may well offset such losses. Mass redundancies would only occur if, instead, Austin Rover had to stand on its own and without further Government support.

6. Q. **Aren't most of Ford's components imported and won't therefore BL's suppliers be hit?**

A. The local content of the models that Ford currently manufacture in the UK is around 80%. This compares with BL's current local content of around 90%, which will reduce when the new Rover built in collaboration with Honda is launched later this year.

Firm commitments on local content levels would be a pre-condition of any sale of Austin Rover to Ford.

7. Q. **Aren't some suppliers heavily dependent upon Austin Rover for their business?**

A. Of the top 50 independent suppliers to BL and Ford none sell even half their output to BL. All but a handful sell to both Ford and BL, and therefore would not expect to be affected by any change of ownership.

8. Q. **Isn't the Government contemplating selling Austin Rover just when it has finally become competitive?**

A. Austin Rover's performance has certainly improved but it is still not making profits and requires a substantial cash injection over the coming years if it is to invest in new models. It is Government policy that such investments are much better made in the private sector than by the public sector. None of the European public sector motor companies are making profits.

9. Q. **Are the Government selling BL over the heads of its management and without any consultation?**

A. The BL Board have been involved throughout and have approved both the negotiations with GM and also the

exploratory discussions with Ford. The initiative for the Austin Rover talks came from Ford rather than HMG; these are at a very early stage and the Government have yet to decide whether they should even be allowed to proceed to full negotiations.

Peter Warry

PETER WARRY

British Leyland

3.32 pm

Mr. John Smith (Monklands, East) (*by private notice*) asked the Secretary of State for Trade and Industry if he will make a statement about the future of British Leyland Vehicles and possible disposals.

The Secretary of State for Trade and Industry (Mr. Paul Channon): With the approval of the BL board, discussions are in progress between BL and General Motors with the aim of creating an internationally competitive United Kingdom commercial vehicle industry and improving the long-term prospects for the constituent BL companies. These talks cover Leyland Trucks, Land Rover, Freight Rover and certain related overseas operations. Discussions are at an advanced stage, but a number of important issues remain to be settled Separate discussions are taking place with the Laird Group, which owns Metro Cammell Weyman, about the future of Leyland Bus.

As to the other BL businesses, it remains the policy of Her Majesty's Government to return them to private ownership as soon as practicable. Talks with other car manufacturers on a variety of potential business ventures are in progress; some of them are wide-ranging, but are at an exploratory stage, and it is too early to tell whether they will lead to any potential equity stake, acquisition or merger.

Mr. John Smith: The Secretary of State's statement reveals that discussions are at an advanced stage, but the House has not been told anything until today. Does not that statement confirm the fears expressed by the Shadow Chancellor of the Exchequer, my right hon. Friend the Member for Birmingham, Sparkbrook (Mr. Hattersley), in a speech yesterday in Birmingham? Is it not appalling that the Government are willing even to contemplate the disposal of the largest part of the British truck and bus manufacturing industry to an American competitor? Is the right hon. Gentleman not aware that his predecessor was forced to say on 23 October last year:

"after lengthy discussions, Vauxhall is not yet ready to go further in proving that it really is a British car producer."—[*Official Report,* 23 October 1985; Vol. 84, c. 285.]

In that context, is it not naive and foolish to expect that company to preserve any British element in what it acquires? Is there no part of British industry that is safe from the destructive purposes of the Government? Is there nothing that is not for sale? Will the Secretary of State confirm that a team from General Motors is currently in Leyland compiling a detailed dossier of our business? As the purpose of General Motors in buying Leyland would be to buy a market share, or rather to buy out the British market share and get its hands on modern facilities, which have been provided on a publicly financed basis at a cost of £320 million in the recent investment programme, will there not be large job losses in Bedford as well as Leyland? What is the estimate of the number of jobs that will be lost in both Bedford and Leyland?

What will the future be for the Land Rover and the Range Rover? Will not the job lot disposal of these prestigious British products be seen at home and abroad as a dreadful and shameful British retreat? Is it not a sad day when the British Government can even think of such a thing? If this deal goes ahead, will it not be the case that the British armed forces will have almost no British owned suppliers of the vehicles upon which they depend?

Mr. Speaker: Order. This is a private notice question, not a statement.

Mr. Smith: Can the Government explain why all other countries in western Europe seem to want to stay in this industry, but the British Government do not? Can the Secretary of State say what protection there will be for independent British research and development? Is not this episode typical of the Government's industrial policy? It involves the destruction of jobs, the permanent loss of an industry, the loss of independent research and development and the surrender of crucial British interests.

Mr. Channon: No, Sir. I strongly repudiate many of the points that the right hon. and learned Gentleman has raised in his question. As I have already explained, no decision has been reached in the talks between British Leyland and General Motors. When firm conclusions are reached I shall make a full statement to the House. Were a deal to be reached, General Motors would give full undertakings that the majority—*[Interruption.]*

Mr. Speaker: Order.

Mr. Channon: I am surprised that on an issue like this the Opposition are not anxious for me to be heard. I am trying to explain these important matters. After what the right hon. and learned Gentleman has been saying, he should be crying, not laughing.

General Motors would be willing to give undertakings that the majority of the products sold by the businesses involved would be manufactured in the United Kingdom, that the products would continue to have a high local content, that there would be a substantial level of exports, that research and development facilities would be maintained and developed in the United Kingdom, that Land Rover would retain its distinct British identity, and that an appropriate level of investment would be injected into the business to achieve competitive future models and facilities.

If these talks were to come off, it would be the Government's aim to ensure that the jobs and the future of Land Rover and these other companies were more, not less, secure. That is what we are fighting for—not for some shibboleth, like the right hon. and learned Gentleman—to try to get a viable industry that will be secure for the future.

Mr. Speaker: Order. I remind the House that private notice questions are an extension of question time.

Mr. David Madel (Bedfordshire, South-West): I welcome my right hon. Friend to his new post. As General Motors and British Leyland are well established commercial vehicle manufacturers in this country, will my right hon. Friend confirm that it is Government policy to strengthen their manufacturing base? Will he remember that General Motors has a long, distinguished history of supplying first-class defence equipment to this country for this country's needs?

Mr. Channon: My hon. Friend is right in the latter part of his question. He is also right in the first part of his question, and I very much welcome his support.

Mr. George Park (Coventry, North-East): Is the Secretary of State aware of a recent early-day motion,

[Mr. George Park]

sponsored by Conservative Members, paying tribute to the efforts of the workers and management of British Leyland? Does he imagine that his announcement will encourage either the workers or the management to make great efforts when they know that the inevitable rationalisation will mean that their jobs are likely to go down the drain?

Mr. Channon: I believe that my announcement, and what may possibly take place, should be—I do not say that it will be—of comfort to the work force. They should realise that their future is likely to be secure in a motor industry and in a truck industry that will have secure futures. Over £2 billion has been pumped into British Leyland during the past few years. We need to ensure that this industry is able to function successfully in the foreseeable future.

Mr. John Carlisle (Luton, North): I support the words of my hon. Friend the Member for Bedfordshire, South-West (Mr. Madel), on the basis that General Motors is a successful company and that the merger could be to the benefit of British Leyland and it ill befits the right hon. and learned Member for Monklands, East (Mr. Smith), who turned up at Ellesmere Port in a Japanese car to talk to officials of the company, to talk of British content. General Motors has an excellent record in Britain, and I have every confidence that should the merger take place it will be to the benefit of all workers concerned.

Mr. John Smith: On a point of order, Mr. Speaker.

Mr. Speaker: I shall take it later, if I may.

Mr. Channon: I very much welcome my hon. Friend's support, and I am grateful to him for what he said.

Mr. A. J. Beith (Berwick-upon-Tweed): Does the right hon. Gentleman recognise that one of the duties that he has taken over is that of seeking to ensure that we have a viable British-owned motor industry? What has happened to the Government's philosophy of privatisation? Was it not intended to bring ownership to the employees and to the British people; not to sell off job lots in the American market?

Mr. Channon: I and my right hon. Friends are seeking to create conditions in which the companies about which I have been talking this afternoon will be able to have a more secure future than they have had in the past, and where their people will be able to look forward with confidence to the future of their companies. That is my aim. I would not allow talks to proceed unless I received satisfactory assurances to that effect, and I am sure that I will.

Mr. Iain Mills (Meriden): Will my right hon. Friend confirm that it is in the the best interests of my constituents who work for Land Rover, the Austin Rover group and Unipart that the alternative to the suggestions that he has made may well be greater public investment, and that the exploration of the sort of co-operative venture that he has suggested would be beneficial to those constituents?

Mr. Channon: Yes, Sir.

Mr. Doug Hoyle (Warrington, North): Why does the right hon. Gentleman believe that it is so good for the employees that no talks have taken place with the trade unions? Indeed, it has been denied to the trade unions that talks are taking place. What does the right hon. Gentleman mean when he says that the majority of products will be manufactured here? What will be the effect on the component industry, particularly in view of General Motor's poor record on buying components in Britain? Will he confirm that the bus and coach division could go to the wall, with the loss of 1,000 jobs? Does it not prove that in relation to the manufacturing industry the Government are not bothered about running the estate but only with selling the valuables in the manor house?

Mr. Channon: No, Sir. It means no such thing. It means that we are trying to achieve a situation in which the employment prospects and wellbeing of those in the companies concerned will be better rather than worse in the future. If a deal with General Motors were to be reached—and that is by no means certain—I shall have to be satisfied on the point that the hon. Gentleman raised about the majority of the products. We shall need to have a proper understanding about them.

Mr. Patrick Cormack (Staffordshire, South): Does my right hon. Friend, whom I welcome to his post, think that British shareholders might be interested in the Range Rover and Land Rover, and for the rest could there be a European solution?

Mr. Channon: That is an ingenious idea which my hon. Friend, with his ingenious mind, so typically puts forward. I am convinced that the proposals for Land Rover offer the best possible future, that it could have. It will have extra opportunities in the United States, and that is very much in the interests of Land Rover.

Mr. Terry Davis (Birmingham, Hodge Hill): What arrangements will the right hon. Gentleman make to consult those who work at British Leyland and Metro Cammell Weyman about their future before their jobs are sold off?

Mr. Channon: I do not accept the premise on which the hon. Gentleman concluded his question. As I have said, discussions are in progress. No decisions have been taken. The House will continue to be kept informed.

Mr. Richard Page (Hertfordshire, South-West): Does my right hon. Friend agree that the reality of the situation is that there is over-capacity in vehicle manufacturing in the world and that any sale will give the opportunity to broaden the narrow retail outlets, possibly to overseas markets? Will he confirm that manufacturing capacity will be part of the condition of any sale?

Mr. Channon: That is an important point, with which I agree.

Mr. D. N. Campbell-Savours (Workington): Is this not an example of the Government dropping the Union Flag and raising the Stars and Stripes once again over British industry? Is it not true that this American corporation has made it clear that it does not want the Leyland Bus division? If that is the case, what will be done with it? What is the future of the Leyland plant in my constituency?

Mr. Channon: As I told the House, separate discussions are taking place with the Laird group about the future of Leyland Bus. I should have thought that the hon. Gentleman would welcome that, rather than being so contemptuous about it.

Mr. Michael Grylls (Surrey, North-West): Does my right hon. Friend remember that the Labour party bitterly opposed the privatisation of Jaguar, which has been an outstanding success, not least for all the people who work in Jaguar? Does it not prove the Luddite attitude of the Opposition, because everybody knows that the future of the motor industry lies in international co-operation? If there is a possibility of a joint venture between British Leyland and a Japanese firm, would we not welcome that as well?

Mr. Channon: My hon. Friend is entirely right, and it is typical of the Opposition today, as so often in the past, that they oppose any attempt to try to solve sensibly some of the serious commercial problems—attempts that are very much in the interest of all concerned.

Mr. Jeff Rooker (Birmingham, Perry Barr): If the workers of Land Rover and Range Rover and the management said that they would prefer the Jaguar solution, would the Government stand in their way? Why did the Secretary answer yes to the question from the hon. Member for Meriden (Mr. Mills), who said that a better solution to that of the Secretary of State for the job security of the people of the Meriden constituency and others was more public investment?

Mr. Channon: I do not think that I said yes. I shall look at what I said, but I think that the hon. Gentleman has misunderstood. *[Interruption.]* How interesting it is that when the affairs of a great industry such as this are being discussed the Opposition treat them with such frivolity. They are not interested in the future of British Leyland or its Trucks division. All that they are interested in is making petty mischief, as usual.

Dame Jill Knight (Birmingham, Edgbaston): Is my right hon. Friend aware that the future of scores, if not hundreds, of small businesses in the west midlands depends on their being able to provide parts to British Leyland? May we be certain that that future is being considered in any arrangement to be made?

Mr. Channon: I assure my hon. Friend that the point that she has raised is very much in my mind. I am grateful to her for referring to it again.

Mr. John Smith: On a point of order, Mr. Speaker. In view of an intervention by the hon. Member for Luton, North (Mr. Carlisle), which I fear could mislead people, I make it utterly clear that I own and drive a British car, and have never had nor driven a Japanese car.

Later—

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): On a point of order, Mr. Speaker. Bearing in mind the importance of the BL issue, why did we have such a very short time to ask questions about it? For the entire motor industry and all the people of the midlands, nothing is more important. We waste more time in the House on trivia than we spend on important matters such as this.

Mr. Speaker: Order. I said at the beginning—the hon. Gentleman knows this well—that a private notice question is an extension of Question Time.

Mr. Beaumont-Dark: It is a disgrace.

Mr. Speaker: Order. The hon. Gentleman must not argue with me from the Floor.

Mr. John Carlisle: Further to an earlier point of order, Mr. Speaker. The right hon. and learned Member for Monklands, East (Mr. Smith) said that I had said he owned a Japanese car. To correct the record, what I said was that he visited Ellesmere Port in a Japanese car. Perhaps he would like to clarify that — [HON MEMBERS: "Withdraw"].

Mr. Speaker: Order. That is not a matter for me.

Mr. Andrew Faulds (Warley, East): On a point of order, Mr. Speaker. Further to the comments of the hon. Member for Birmingham, Selly Oak (Mr. Beaumont-Dark), may I stress that some of us whose constituents' work is affected by the disastrous statement that we have just had, at the first appearance at the Dispatch Box of the new Secretary of State for Trade and Industry, are entitled to have a chance to ask questions, and not have such a very brief period terminated when there were still many hon. Members on their feet?

Mr. Speaker: The House should understand that a Private notice question, which the Chair grants, is an extension of Question Time.

Mr. David Winnick (Walsall, North): It was a statement.

Mr. Speaker: It was not a statement.

Mr. Winnick: It should have been.

Mr. Speaker: That is a different matter. It was not a statement. I was asked whether I would grant a private notice question on this matter, and I did so. I think that the House has had a fair run on it. No doubt we shall return to the matter.

Sir John Biggs-Davison (Epping Forest): Further to that point of order, Mr. Speaker. Is it not the case that we have a very important debate to follow, which must end at 7 o'clock? Therefore, is it not right that we should pass to that debate as quickly as possible?

Mr. Speaker: The hon. Gentleman is absolutely right.

Questions to Ministers

3.47 pm

Mr. Jack Straw (Blackburn): On a point of order, Mr. Speaker. Earlier, during Question Time, there was an important disclosure by the Attorney-General that both he and the Solicitor-General had been wholly kept in the dark by the Prime Minister about what she knew about the source of the leak——

Mr. Speaker: Order. As I understand it, this is an extension of the full 10 minutes that we had on this matter, during which the hon. Gentleman asked a question.

Mr. Straw: Further to that point of order, Mr. Speaker. That is my point. Is it not outrageous and ludicrous that on such an important point, the Attorney-General should be subject to only 10 minutes of questions each month? Will you confirm that it is within the rules of the House for you and the Government to agree to an extension of Question Time by placing such important questions to be answered after 3.30?

Mr. Speaker: That is not a question for me. If the Government or the Minister concerned wish to answer questions at the end of Question Time, that is in order. I judge that on this occasion the Attorney-General did not do that because he had Question 49 to answer.

Protection of Military Remains Bill

3.50 pm

Mr. Willie W. Hamilton (Fife, Central): On a point of order, Mr. Speaker. You will recall that on Friday last, the Protection of Military Remains Bill was passed unanimously by the House. All its stages were passed unanimously, which is almost unique in the House. It is dismaying to see on the Order Paper today motion No. 4 in the name of the Leader of the House:

> That the Proceedings of 31st January in Committee and on Third Reading of the Protection of Military Remains Bill be null and void.

In effect, the Leader of the House is saying that a Bill, which was proposed by the hon. Member for Hampshire, East (Mr. Mates), shall be null and void despite the decision of the House that it should pass all its stages without a single vote.

We know that the Government are anxious to get away from Westland to matters of national importance, but is this not carrying things a little too far? The Leader of the House is trying to get a motion passed, presumably without debate, which rescinds the unanimous decision of the House last Friday. It shows contempt towards the House, and I invite the right hon. Gentleman to withdraw the motion and allow the Bill to proceed.

Mr. Speaker: I think that I can help the House on this matter. The Bill passed all its stages without notice. Normally, as the House knows, Bills do not pass all their stages in one sitting. I understand that the Bill in question requires a money resolution, which was not on the Order Paper. It will be necessary to move that before the Bill can proceed.

337 *AUSTIN ROVER—YEAR OF SUCCESS*

Mr Roger King
Mr David Gilroy Bevan
Sir Reginald Eyre
Mr Steve Norris
Mr Gerald Howarth
Mr A. Beaumont-Dark

★ 25

Mr Tim Yeo

That this House congratulates the management and workforce of Austin Rover Group on achieving a 99.95 per cent. dispute-free production year in 1985 resulting in an increase in car output of 22 per cent. ; notes the significant gains in sales throughout the European market as competitive products and good quality make themselves felt ; looks forward with fond regard to the production of the five millionth Mini ; is confident that with the additional impact of the forthcoming new Rover model further significant gains will be made in sales, thereby enhancing employment prospects and growing prosperity for employees, suppliers and the community at large ; and urges all prospective new car purchasers to support success by buying success.

As an Amendment to Mr Roger King's proposed Motion (Austin Rover—Year of Success):

Mr George Park
Mr Roy Hughes
Mr Peter Hardy
Mr Lewis Carter-Jones
Mr Jack Thompson
Mr Ernie Ross

★ 7

Mr William McKelvey

Line **9**, at end add 'but regrets the lack of Government action to bring parity in trading between the United Kingdom and Spain in motor vehicles, which particularly affects Austin Rover.'.

Larger print

Reduced duty print.

Scaling down of duty over 7 years
- more than 50% reduction in 3 years

★ *The figure following this symbol gives the total number of names of Members appended, including those names added in this edition of the* ***Notices of Questions and Motions.***

336 *NEWS INTERNATIONAL*

Mr Terry Fields
Mr Dave Nellist
Mr Tony Benn
Miss Joan Maynard
Mr Dennis Skinner
Mr Bob Clay

★ 24

That this House condemns the attempts by News International, with the backing of other millionaire publishers, to break the wages, conditions and union structures of Fleet Street printers by introducing legally-binding, so-called no-strike agreements and by banning the closed shop; views with horror the development of concentration-camp security arrangements at the Tower Hamlets plant involving cameras and barbed-wire filled ditches; notes the massive profits made for Mr Murdoch of an average £35 million a year from The Sun and The News of the World; and calls on the Prime Minister, with her frequent demands to return the unions to their members, to respect the 80 per cent. vote by the print workers against Murdoch's plans and publicly to repudiate his intransigence and provocative actions.

As an Amendment to Mr Terry Fields' proposed Motion (News International):

Mr Ian Grist
Mr Neil Thorne
Mr Gwilym Jones
Mr Sydney Chapman
Mr Andrew MacKay
Mr David Gilroy Bevan

★ 10

Mr W. Benyon Mr Peter Thurnham

Line 1, leave out from 'House' to end and add 'applauds the efforts of News International in attempting to force Fleet Street newspaper production into the latter half of the twentieth century in the face of Luddite and ruinous opposition in which the interests of readers and advertisers are never considered.'.

★ *The figure following this symbol gives the total number of names of Members appended, including those names added in this edition of the Notices of Questions and Motions.*

cc DN
TF
Press
PH
DTC

MR JOHN SMITH'S PNQ : DRAFT ANSWER

With the approval of the BL Board discussions are in progress between BL and General Motors with the aim of creating an internationally competitive UK commercial vehicle industry and improving the long term prospects for the constituent BL companies. These talks cover Leyland Trucks, Land Rover, Freight Rover and certain related overseas operations. Discussions are at an advanced stage but a number of important issues remain to be settle.d Separate discussions are taking place with the Laird Group who own Metro Cammell Weyman about the future of Leyland Bus.

AS to the other BL businesses, it remains the policy of HMG to return them to provate ownership as soon as practicable. Talks with other car manufacturers on a variety of potential business ventures are in progress; some of these are wide ranging but are at an exploratory stage and it is too early to tell whether these will lead to any potential equity stake, acquisition or merger.

JF4AVW

10 DOWNING STREET

DRN

Total Commitment for Varley Marshall Estimated at

£1.5 billion of which £680 million is formal borrowing the rest is other creditors.

Amanda
28.1.86.

CCBUP

15

SECRET

PRIME MINISTER 27 January 1986

BRITISH LEYLAND

GM Bid for Land Rover-Leyland (LR-L)

There can be no doubt that LR-L is a lame duck that will get no better. GM's offer is generous and likely to be far more than can be obtained by any other means. It is very late in the day to start pushing a management buy-out which would yield less than GM and still leave the Government with the unhappy choice of closing Leyland Trucks or continuing to fund losses currently running at £50m per annum.

Undoubtedly there will be criticism if the GM sale goes through, both for selling to an American company and at under half the asset value. But the talks with GM have been regularly reported in the press for several months now without adverse comment, and it would be surprising if this blew up into a major row. The weakness is the lack of an open offer for sale of Land Rover-Leyland, although this is counter-balanced by informal soundings made by the DTI.

The three realistic choices are to close Leyland Trucks and sell Land Rover to a management buy-out; to continue to fund ever-growing losses from Land Rover-Leyland; or to sell it to the Americans. None of these choices are politically attractive, but the GM sale has the best chance of securing long term employment and also offers the highest proceeds; we therefore recommend that the GM offer be approved.

SECRET

Ford Bid for Austin Rover

The choices and solutions are much the same as for Land Rover-Leyland: it is highly unlikely that Austin Rover in its present form will ever be viable, (although changed management might make a consortium buy-out just about possible). Realistically, therefore, the Government can either close it, continue to fund it, or sell it to Ford.

Some market share will be lost in the amalgamation with Ford, but if Ford believed the alarmist figures put forward by Austin Rover, then they would not be interested in buying it. The question is will more jobs be lost by combining with Ford than by raising taxes to continue subsidising Austin Rover, (even Austin Rover's own figures are for another £300m before the end of the decade).

Selling to Ford, if it is achievable, appears to be the best option. This will be opposed by the BL management and there must be a danger that they may ultimately succeed in discouraging Ford from buying. By this stage the Charterhouse bid for Unipart, which is currently in suspension, could also have been lost. The only way to ensure Ford are given proper access and cooperation in their investigations such that a speedy conclusion can be reached is to change the top management of BL now.

Provided Graham Day is appointed quickly, (albeit initially as an under-study to Austin Bide), then we recommend the Ford bid should be allowed to proceed. If this cannot be done, then it may be better to face up to the realities of the BL management and oblige them to sell Unipart to Charterhouse and forego the better prize of selling the whole lot to Ford.

Peter Warry

PETER WARRY

SECRET AND CMO

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CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel No: 233 3299
7471

27 January 1986

David Norgrove Esq
Private Secretary to the Prime Minister
No 10 Downing Street
LONDON
SW1

Dear David,

BL: LRL AND ARG

The Chancellor of the Duchy, as you will know, is unable to attend the meeting of E(A) on 28 January which is to discuss E(A)(86)3 and E(A)(86)4. He has, nevertheless, had an opportunity to see the papers. This letter reflects his views.

The political and industrial environment in which the sale of LRL or ARG has to be considered has been changed in recent weeks. The effect of the heated debate on Westland has been to focus attention on the extent of US ownership of sectors of British industry. While the effect in absolute terms is slight, and the dichotomy between a US or European focus for industrial cooperation is a false one, undeniably there has developed a growing strand of political opinion which professes itself deeply disturbed at the extent of US influence over UK industrial sectors and the transfer of production and technology out of the UK which flows from it. In cooperation with European countries, so the argument runs, a counterbalance is found to US or Japanese industry. The temperature of this debate has been heightened, within the vehicle industry itself, by GM's recent acquisition of Lotus Cars.

The Chancellor believes that it is necessary, first, to consider these propositions on their industrial merits.

The need for rationalisation in the commercial vehicles sector has been clear for some time. In the absence either of a link-up with GM or another major truck manufacturer (and none other seems likely to step forward), or a continuing financial guarantee from Government, Leyland Trucks and Bus would be loss-makers, a continuing potential charge on the Exchequer, and would not contribute to the necessary rationalisation of the industry. The arguments set out in paragraph 16 of the Secretary of State for Trade and Industry's paper point to the improbability of success

attendant on options (c) or (d) as described in paragraph 5. Equally improbable, it seems, would be a negotiated sale to another party. But the transfer of the business to the private sector is the course most likely to introduce greater competitive edge to the business and Bedford has a sound image as a UK-based producer. On its merits, therefore, the Chancellor believes that it would be right to proceed with a negotiated sale to GM. He would wish to emphasise the importance, however, of a public Declaration of Intent from GM, including a commitment as to the use of the Land Rover marques on UK-built vehicles. Indeed, there may be an enforceable agreement that only UK-built vehicles would be badged as Land Rover or Range Rover.

As regards the proposition set out in E(A)(86)4, the Chancellor accepts that the unit fixed costs of car production have grown to the point where in some cases, they match the variable costs. The pressures, therefore, to spread those fixed costs over a larger volume of production are almost inescapable. Even the most efficient and flexible production techniques, such as those used by Mazda, can hardly compensate for the need to spread the growing costs of model design. A shortage of engineering resources has hampered ARG's progress and, while ARG's cooperation with Honda goes part of the way to spreading these design costs, it will fall short of the merger proposed by Ford, and will not enable ARG to retain less than a full design and build capability.

But the arguments against a Ford acquisition are powerful. It would significantly reduce the competition in the UK market in the short-term. It would risk a further increase in import penetration into the UK market, during a period of rationalisation between ARG and Ford operations and during any dislocation to plans for ARG's model range if Honda feel obliged to withdraw from their agreements.

The continuation of ARG on its present basis is, however, not an easy option. The prospects for privatisation are distant and likely to be delayed further in the current state of over-capacity in the European passenger vehicle sector. It is in the private sector that the management of ARG are most likely to implement the strategies necessary for survival. The protracted discussion leading up to the 1986 BL Corporate Plan showed the constraints which public ownership have placed on the company. On its industrial merits, therefore, the Chancellor would wish to proceed further with the Ford discussions.

But these proposals need to be put in a wider political context. The Chancellor believes that the combination of these proposals in the current climate of opinion will make them very controversial indeed. The support of the BL Board for the GM proposal and, conversely, the deep mistrust of the ARG management for Ford's intentions, are likely to be crucial. The impact of a covert campaign by the ARG management against a Ford sale could be highly damaging politically in the West Midlands, particularly when placed alongside the redundancies expected at Leyland and Freight Rover in Birmingham in 1988.

The Chancellor of the Duchy could not recommend that it would be right to proceed with the Ford proposal as at present constituted.

However, the Chancellor would consider it worthwhile to explore further variants on the Ford proposal, which would seek to merge ARG and Ford (Europe)'s capacity into a European holding company, separate from, and not subsidiary to, the US Ford company, but in which equity holdings would be held by Ford of the US, by a range of European institutional shareholders, and by HMG itself. While this company could continue to collaborate with Ford worldwide on design and sales, it could be represented as an important step towards the creation of a European car industry operating on the scale necessary to counter the weight of the US and Japanese majors.

The Chancellor would wish E(A) to invite the Minister of State for Industry to re-open discussions with Ford on this basis.

I am copying this letter to the private secretaries to members of E(A), to Joan MacNaughton (Lord President's Office), Len Appleyard (FCO), Murdo Maclean (Chief Whip's Office), Michael MacHardy (Office of the Minister of State for Industry), and to Michael Stark (Cabinet Office).

Yours Sincerely,

A. Lansley

ANDREW LANSLEY
Private Secretary

SECRET

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PRIME MINISTER

BL Privatisation
(E(A)(85)3(and 4 Revise))

BACKGROUND

The Government's firmly established policy is to return the various elements of BL to the private sector as opportunity offers. The major achievement so far has been the flotation of Jaguar as an independent company. Meanwhile BL's successive corporate plans have aimed at improving the performance of the company to the point where further major elements could be transferred to the private sector. Following a series of meetings you held in the early summer of 1985, it was agreed

(i) that exploratory discussions with General Motors (GM) on the possible rationalisation of their and BL's van and truck operations should be taken forward to a conclusion;

(ii) that the Austin-Rover Group's (ARG) plans, notably for continuing an extended collaboration with Honda, should be approved; and

(iii) BL would work towards the privatisation of Unipart by the end of 1985.

2. The talks with GM have now been brought to a conclusion, and GM have offered to pay £230 million for Leyland Trucks, Land Rover and Freight Rover, together with a substantial part of the related international operations. Under these arrangements (the 'Salton' proposals) GM would also bear the £42 million redundancy costs arising from the rationalisation

of the present GM (Bedford) van and truck operations and those of LRL (Leyland Trucks, Freight Rover Vans, and Scamell heavy and military trucks. GM would not take over any of that part of BL's current debt which is attributable to the LRL operations.

3. Since last summer work on ARG's collaboration with Honda has gone forward, although the Company's performance in the market has continued to fall short of projections in the Corporate Plan. For 1985 the latest ~~output~~ forecast is a small loss before interest and tax, as compared with a profit of over £30 million shown in the 1985 Corporate Plan. There have been comparable, but smaller, deteriorations in profit expectations for the remainder of the current decade. The privatisation of Unipart (the spare part/components operation associated with ARG cars) has been delayed as a result of unforeseen difficulties in consolidating the BL operations with those of Edmunds Walker, a component company acquired in 1984. It is against this background that Ford have expressed interest in the purchase of ARG (including Unipart), so making possible a rationalisation of Ford's UK car operations with those of BL.

MAIN ISSUES

4. The main issues before the Sub-Committee are

(i) whether to approve the GM purchase of the bulk of LRL's operations, on the terms negotiated; and

(ii) whether to ask BL to clarify with Ford the terms on which the latter would be ready to purchase ARG's UK operations (the 'Maverick' proposals).

Salton

5. LRL have made losses of the order of £50 million in each of the last four years, largely on Leyland Trucks, but increasingly on the manufacture of buses; Land Rover and Freight Rover, by contrast, are modestly profitable (the details

are in Annex 1 to E(A)(86)3). Meanwhile GM have been making substantial losses on their Bedford van and truck operations, and some sort of rationalisation to reduce excess capacity is inevitable. Although the provisions of the Treaty of Rome prevent the Government from concluding a legally binding agreement with GM, the Company have offered firm assurances about maintaining high levels of LRL content in their commercial vehicles, and about their plans for the development of Land Rover as a UK-based manufacturer of specialist vehicles to be sold worldwide. Meanwhile the Laird Group have expressed an interest in buying Leyland Bus, to be reationalised with their Metro Cammell Weyman bus manufacturing operation. The debt currently attributable to LRL is about £480 million; after offsetting against this the £230 million to be received from GM, and about £100 million cash currently available to BL out of the Jaguar sale proceeds, the disposal to GM and Laird of LRL's current businesses is likely to require a total debt write-off of about £150 million. In other words the Government will have to repay this amount of outstanding loans to BL.

5. For Leyland Bus the only alternative to rationalisation with Metro Cammell Weyman - at a cost to the Government of £100 million - is likely to be closure, probably at a still higher cost. Ministers will need to take a view on this later, when present discussions have been carried further forward. For the rest, the paper canvasses three alternatives to the Salton proposals:

(i) Finding other purchasers. There is no sign of an alternative purchaser for the truck business, either in the UK or overseas. Land Rover, and possibly Freight Rover, might, however, be saleable to another UK company or a consortium of UK companies.

(ii) Retention of the businesses within BL. The businesses have a doubtful track record, and Leyland Trucks in particular faces severe competition and a continuing outflow of cash. Freight Rover, while currently profitable, will need a large

amount to finance model replacement. Land Rover, which is in a relatively better position, will also face heavy capital expenditure around the end of the decade. With the possible exception of Land Rover, all these businesses will continue to face heavy competition and a situation of chronic over capacity.

(iii) Privatisation of LRL businesses. Separate privatisation, or a management buy out, of Land Rover (perhaps including also including Freight Rover) is a real possibility. (The LRL Chief Executive's letter of 22 January makes the case for a management buy out, not least on the ground that this would be an appropriate recognition of the great efforts made by these companies to improve their situation.) But this would leave the unsaleable rump of Leyland trucks, and the separation of trucks and Land Rover in overseas markets would undoubtedly weaken both.

Below: To Chancellor will reply on your behalf

to you

Maverick.

6. The strongest argument for pursuing the Maverick proposals is that they represent the best opportunity the Government are likely to have to privatise ARG during the current decade. With Europe-wide over capacity, and the increasingly strong challenge of the Japanese, Ford's wish to strengthen their position, after the failure of their talks with Fiat, is readily understandable; and Ford are undoubtedly better placed to deploy the financial and other resources which will be needed to upgrade and improve the ARG model range than ARG are themselves. Useful savings could be made in R & D and management costs, and ARG would have access to Ford technology, purchasing power and quality control.

Note that ARG and Ford would have 44% Nat. market.

7. But there are strong counter arguments in industrial, employment and political terms. The evolution of the Ford and GM car businesses in Europe shows that these companies have regard to their own interests on a European scale, with the result that Ford and Vauxhall have an adverse balance of trade

in respect of their UK car operations. Although ARG's collaboration with Honda would not be ended overnight, there can be little doubt that it would gradually wither away, to the considerable disadvantage of ARG's future model range. Although the ARG management's estimate that up to a third of their business would be lost as a result of the ending of the collaboration may be an exaggeration, there would certainly be a significant loss. And although Ford have suggested that their take-over of ARG would not be followed by early major plant closures, it must be doubtful whether - given the extent of European over-capacity - all four major plants would continue in operation into the 1990s. Productivity at Ford's UK plant (9 cars per man-year) is well below both ARG's and the European average (both about 14 cars per man-year), so Ford's UK plants might prove distinctly vulnerable in anything beyond the short-term. The suggestion that the gap left by the end of the Honda collaboration (including ARG assembly of Honda models) might be filled by alternative arrangements with Ford's Japanese associate Mazda is speculative; and with Ford's own plants generally under-loaded, the scope for them to divert work from their own European operations into ARG plants does not look very great.

Ford's UK plants must be vulnerable anyway

8. The Department of Trade and Industry assess that sale of ARG to Ford in the course of 1986 might produce £250 million, given that ARG appears to have a medium term profit potentiality of about £50 million a year. With debts attributable to ARG standing at £300-400 million, the net cost to the Government of privatising ARG in this way, in terms of the remaining borrowing which would have to be repaid, would be of the order of £100 million. The alternative is to retain ARG in effective Government ownership, and accept some modest increase in the Government's exposure under the Varley-Marshall assurances so as to make possible necessary capital expenditure, and meanwhile press the company to strain every nerve to fit itself for privatisation - probably by a placement with the institutions in two to three years time.

9. There remains the question of Unipart. The attitude of Ford - that they will only buy ARG if they can get Unipart as well - may call into question the Government's previous intention to pursue separate privatisation. The same considerations would tell in favour of retaining Unipart within ARG in order to make ARG as attractive a prospect as possible for early privatisation on whatever basis.

10. Finally, there is the question whether there are any other possibilities which might be explored. We understand that the Chancellor of the Duchy of Lancaster (who is of course unable to attend the meeting) has suggested that it might be possible to take ARG into a European Ford operation which would be independent of the US parent, and which would build a European company better able to compete with the Japanese which would at the same time be more sensitive to UK industrial needs. If the Sub-Committee were to conclude that a straightforward sale of ARG to Ford would not be acceptable, it would be open to the Government to respond to Ford's interest in ARG by suggesting the possibility of an arrangement on the lines indicated by Mr Tebbit. There could, however, be no assurance that Ford's response would be helpful, or that it would be easy by this means to safeguard UK industrial and economic interests in the medium and longer-term, given that the Government would not wish to retain a shareholding indefinitely in a European company.

letter below

HANDLING

11. Separate consideration will need to be given to the Salton and Maverick proposals, but at the same time the Sub-Committee's conclusions on each will need to take into account their attitude to the other. You will wish to invite the Secretary of State for Trade and Industry to introduce discussion of the two papers; in view of his recent appointment, he may wish to have the support of his Minister of State, who is the author of the Maverick paper (Mr Brittan is the author of the Salton paper). Thereafter Treasury Ministers will wish to give their view of the privatisation, competition and public sector cash flow

indications of the proposals. The Foreign and Commonwealth Secretary and the Lord President of the Council (both of whom have been specially invited) will wish to comment respectively on the external and political aspects of the proposals; the Department of Employment Ministers will wish to comment particularly on the industrial aspects. I suggest that you should seek to reach a conclusion first on Salton, and then tackle Maverick.

CONCLUSION.

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

1. On Salton, whether

   (a) ✓ to endorse the agreement reached with GM, or

   (b) to pursue alternative possibilities, including the separate privatisation of Land Rover/Freight Rover, meanwhile accepting the high risk that Leyland Trucks will have to be kept going as a loss-maker in Government ownership (DTI officials advise that there is little prospect of persuading GM to agree to exclude Land Rover/Freight Rover from the deal);

2. On Maverick, whether

   (a) to authorise detailed discussions with Ford on the terms on which they would take over ARG, recognising that the fact of these discussions would be bound to become public knowledge very quickly, or

   (b) whether to pursue alternative arrangements with Ford on the lines indicated by the Chancellor of the Duchy of Lancaster, or

   (c) whether to accept retention of ARG in Government ownership for the time being, under conditions

designed to maximise the prospects for its successful privatisation in two-three years time.

J B UNWIN
Cabinet Office
27 January, 1986

10 DOWNING STREET

Prime Minister.

GM after Saab would probably end up with about 25% of the UK medium van and truck market.

Ford after Maverick would have 44% of the relevant UK market.

DCV

27/1

From: THE PRIVATE SECRETARY

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

David Norgrove Esq
10 Downing Street
LONDON
SW1

27th January 1986

Dear Mr Norgrove

CABINET E(A) COMMITTEE MEETING 28 JANAURY 1986

Mr King regrets that, provided the Prime Minister is agreeable, he will not be attending the E(A) Committee meeting on 28 January, as he will be in Northern Ireland.

I am copying this letter to Michael Stark in Sir Robert Armstrong's Office.

Yours sincerely

Brian Porter

pp N D WARD

SECRET - ORIEL

12

10 DOWNING STREET

From the Private Secretary

23 January 1986

SALTON

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

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

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

(DAVID NORGROVE)

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

JB.

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

106 Oxford Road
Uxbridge
Middlesex UB8 1EH

Telephone: Uxbridge (0895) 51155

22nd January 1986

The Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1

Dear Prime Minister

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

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

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

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

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

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

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

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

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

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

Yours sincerely

D R G Andrews

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

INDUS POL: BL.: Pt 10.

SECRET

10

PRIME MINISTER

BILATERAL WITH MR. BRITTAN

Would you like to have five minutes with Mr. Brittan on your own before the meeting proper starts?

Mr. Brittan is coming to see you mainly about the position on the BL discussions. A note by Peter Warry is attached.

These discussions need of course now to be seen in the light of the Westland affair. If Landrover Leyland is eventually sold to GM, it will be most important to have a convincing line on why the sale has been made apparently without an opportunity for British and European companies to bid. I understand that a number of companies were in fact approached, but showed no interest. This is a weak line; no doubt other companies would in the event come forward to say that they would have been interested in buying Landrover Leyland if they had been offered the opportunity. ?

Accusations would be particularly damaging in the light of Mr. Heseltine's resignation speech.

Martin Sarner (Duty Clerk)

pp. DN

17 January, 1986.

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SECRET

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PRIME MINISTER 17 January 1986

BRITISH LEYLAND

In your discussion with Leon Brittan and Nigel Lawson on 4 December, it was agreed:

1. That the GM bid for LandRover-Leyland should proceed and Government would reluctantly agree to write-off some of the debt that would remain after the sale.

2. That Ford should be encouraged in their bid for Austin Rover and Unipart.

3. That Charterhouse Japhet should proceed with their negotiations for Unipart in tandem with Ford's bid.

4. That Graham Day should take over from Sir Austin Bide as Chairman of BL, preferably by the end of January.

As always with BL, things have not gone quite to plan.

GM Bid for LandRover Leyland

Following delays and some negotiations, the present GM offer is £125 million in cash plus a further £125 million in equity. Our current bottom line is £186 million in cash or marketable debt. A BL/DTI team is currently in New York negotiating with GM to convert at least some of the proposed

equity into marketable debentures. Some element of performance-related payment seems inevitable, but the Treasury are adamantly resisting this.

The talks must reach a conclusion soon if the momentum towards agreement is to survive. Even if agreement is reached, selling LandRover to an American company without an open competition will be presentationally difficult.

Ford bid for Austin Rover and Unipart

Although BL were not keen to pursue these talks, they were trapped into it when Ford met their condition of reciprocal disclosure of product plans, and the Government agreed that Austin Rover should also be allowed to attempt its own management buy-out. Nevertheless, just before Christmas, BL announced that, as a consequence of the negotiations with Ford, they were withdrawing from the discussions with Charterhouse Japhet for the sale of Unipart. By January, BL had had a further change of mind and decided that they could no longer pursue the talks with Ford, inter alia because of the damage it might do to their relationship with Honda. After much hard talking, I understand they have now agreed to commence the discussions with Ford, but with how much conviction remains to be seen.

This week, BL sent a deputation over to Honda in Japan, accompanied by Robin Mountfield of the DTI, and we may anticipate (on the experience of last Summer) that they will

have procured a statement from Honda antagonistic to the discussions with Ford.

The first stage of discussions with Ford were originally to have been completed 30 days after the commitment was made, ie by now. I understand that discussions are not now scheduled to start until next week.

Charterhouse bid for Unipart

BL informed Unipart just before Christmas that negotiations would be postponed indefinitely. They have since refused any explanation or even a meeting. Leon Brittan wrote to Charterhouse on 9 January promising to clarify the position within one month. I believe Charterhouse can hold their bid in abeyance until 9 February, but every day thereafter will seriously reduce the chances of the bid being renewed.

Chairmanship

It is quite clear that until a new Chairman is announced, BL will continue in its devious and anarchic ways. This is a crucial time for BL, and not one during which the Government can afford to have a weak or antagonistic Chairman. Graham Day is the ideal choice and is keen to join immediately. Ideally, his appointment could be announced now, take effect on 1 February and have a two-month hand-over period with Sir Austin Bide, who could then depart on 1 April. (His

contract runs until October.) This would also fit in well with Graham Day's plans for his successor at British Shipbuilders.

Conclusion

Until Graham Day is appointed, Leon Brittan is likely to be beating his head against a brick wall. The key decision must therefore be to announce Graham Day's appointment within the next few days.

Ford should be told, and BL instructed, to complete the first round of their discussions by 9 February without fail, such that Charterhouse can be informed of a final decision on that date. Honda may threaten, but they won't withdraw until Ford takes over (if then).

Action on the GM talks will depend upon the outcome of the New York discussions currently taking place.

Peter Warry

PETER WARRY

010/1283

SECRET

CC BG
CC B.U
NBPM.

9

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Leon Brittan QC MP
Secretary of State
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

16 December 1985

Dear Leon.

BL PRIVATISATION: GM/LAND ROVER-LEYLAND

You wrote to Nigel Lawson on 12 December about the next stage of negotiations with GM.

As you say, it is difficult to assess GM's intentions, but we do know that Bedford is performing very badly, and it must be GM's wish to stop the losses by one means or another. If they are to remain in the truck and van business in Europe almost certainly this can be done only by a substantial increase in market share, and a quick improvement in their products. BL offer both. I fully recognise that on our side there are strong financial and industrial reasons for Salton, but the price must be one which can be justified, particularly in relation to Land Rover. Also, I am bound to be concerned at the size of the equity injection into BL, which will vary inversely with the price.

I agree that we should seek to maintain the momentum of the negotiations so that at the next meeting (which I understand GM have now set back until after Christmas) only a relatively small gap remains between the two sides. As you say, that requires GM to make the £121 million debenture immediately cashable. If that is not possible, I agree that the exclusion of Land Rover from the deal should be considered. Truck and vans are our main problem.

If GM can offer at least £186 million (net of redundancy costs) in cash or cash equivalent I am content that our negotiators' bottom line should be £230 million, on the understanding that they will start at a substantially higher figure, say £250 million, and make every effort to bring GM up from £186 million.

You suggest that if necessary our negotiators should explore an offer of a small deferred cash consideration, related to performance. I assume that this would not be cashable, and Nigel and I are strongly of the view that

SECRET

we should not share in the risk of the new company in any way. That is contrary to the whole idea of privatising BL. (I understand that your officials have quoted Brooke Marine and Vospers as examples where the government has been prepared to retain a performance related interest. But because the prosperity of this sort of shipyard depends on winning just a few orders it is extremely difficult to value the companies particularly in the absence, as in these cases, of competing bids. The truck and van business is totally different).

It is difficult to believe that GM would be seriously interested if the amount were only a small fraction of the price, and it is very doubtful whether this could be a make or break issue on the deal. What we could find is that the issue comes to dominate negotiations as GM seeks to increase the amount, and probably relate performance to truck and vans as well as Land Rover. You will gather that I would need a great deal of convincing that we should entertain a quasi equity stake in the new company.

I am copying this letter to the Prime Minister.

Yours ever,

JOHN MacGREGOR

IND POL

B. LEYLAND

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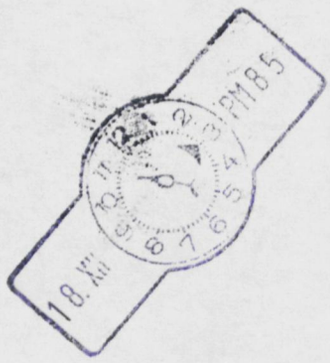

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SECRET

LO3ARB
cc Brian Griffiths
cc B. Unwin

10 DOWNING STREET

From the Private Secretary

13 December 1985

BL PRIVATISATION: GM/LAND ROVER-LEYLAND

The Prime Minister has seen your Secretary of State's letter to the Chancellor of the Exchequer of 12 December.

The Prime Minister is content with the proposed negotiating position to be taken by the UK side in the next round of negotiations with GM. Indeed, if, during the negotiations, officials feel that the two sides are still too far apart, she would be prepared for your Secretary of State to authorise a bottom line at a somewhat lower level than the one described in your Secretary of State's letter.

I am copying this letter to Tony Kuczys (H.M. Treasury).

DAVID NORGROVE

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

SECRET

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a B. Victoria

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
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JU904
Secretary of State for Trade and Industry

12 December 1985

SECRET

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

Dear Nigel,

BL PRIVATISATION: GM/LAND ROVER- LEYLAND

Following our meeting with the Prime Minister on 4 December, there was a round of discussions in London between the joint BL/HMG team and GM representatives, ending on 7 December.

The concluding positions showed a wide gap between the two sides as regards the financial structure of the combined Bedford/LRL operation and the price to be paid. GM stressed the importance of some level of BL or HMG equity participation. They could only put up £65m in cash and wanted £121m of the consideration to be in the form of a non-guaranteed debenture secured on the new company. On price GM talked in terms of £210m, net of redundancies, provided the UK side took one-third of the equity in the new business and accepted the debenture. The UK side said that what was proposed was unacceptable. Both sides noted the difficult points for the other, expressed the intention of reconsidering their position, and reaffirmed their overall desire to conclude a deal. It is expected that the discussions will resume in the US on 19 December with the UK team led by Sir Robert Clark.

A major difficulty is assessing GM's intentions. It may be that their inability to put up more than £65m cash is only a negotiating position: their cash and other resources are very substantial. Alternatively there may be real limits to the price

they are prepared to pay up front especially given the risks in the business. It is worth remembering that important GM talks on trucks with MAN in Germany and Enasa in Spain have both foundered this year. I think it is important therefore to give the negotiating team some flexibility to try and conclude a deal. If the momentum is lost the risk of failure could be real. I see four main elements to the negotiating brief:

FINANCING

I do not think that we should rule out a major element of debt in the financing of the new company if our negotiating team believe this to be necessary to secure a deal. But it is essential that the element of consideration represented by the £121m debenture should be direct cash equivalent once it is in BL's hands and, if GM are not prepared to guarantee it, it must be so structured that BL can sell it immediately on completion. I can see no way in which BL or HMG could take a debt of this kind. GM appear to understand the importance of this and both they and the UK merchant bank advisers are working on it.

PRICE

We need to develop further our ideas on what price we are prepared to settle for, assuming that the structure and financing of the package are satisfactory. The proper comparison for assessing our bottom line is what could be obtained next year by separate privatisation of Land Rover, and this could be well below the figure of £220m we have used in negotiating with GM, which rests on a vulnerable rising profit trend. Our joint objective remains to reach broad agreement on a price bracket, with the exact price to be finalised in further negotiations. I suggest that the negotiating team's bottom line instruction should be a GM cash or cash equivalent figure of £186m net of redundancies - implying about £226m with redundancies. We should aim for £230m net of redundancies as the top end of the bracket. I emphasise that this would be a bottom line: obviously the negotiating team would aim for a higher bracket.

LAND ROVER

If the GM side are not prepared to move far on central issues and claim that they are cash constrained, to the point where the prospect of a deal is at risk, I believe the team should have discretion to float the idea of taking Land Rover out of the package. Although GM have emphasised its importance to them, Land Rover is not central to the industrial rationalisation which is in the truck and van

parts of the package, which both we and GM have pressing reasons to secure. Its removal might help GM if their need to limit their cash input to the deal is over-riding.

RISK

I think that our position should continue to be that neither BL nor HMG can take equity in the new company. But GM obviously attach a lot of importance to some of the risk residing with the UK side and may reduce the price they are prepared to pay disproportionately if we are prepared to take none - or, indeed, may walk away from the negotiations. I suggest that the team should be authorised to explore a small element of deferred cash consideration, related to performance. Any such consideration should be payable in proportion to how far Land Rover production volumes exceeds an agreed production floor related to LRL's own forecasts. Any such consideration should, however, be in addition to the £186m bottom line. This bottom line should not be breached without referring back to Ministers in London or fully reserving Ministers' position until they have seen a detailed proposal.

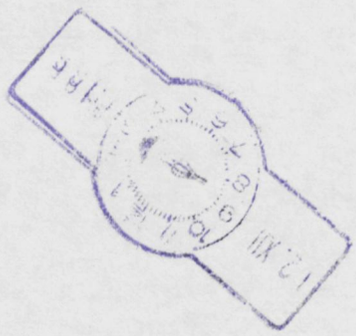
TIMING

I hope these proposals are acceptable to you. If not we shall need to discuss the position not later than Monday 16 December, since Sir John Clark and the negotiating team will be leaving for the next round of negotiations in the US on 18 December.

I am copying this letter to the Prime Minister.

LEON BRITTAN

IND . POL : B L : PE10



Prime Minister

Agree to write as proposed?

DRS
12/12

Yes

PRIME MINISTER 12 December 1985

BL PRIVATISATION: GM/LAND ROVER-LEYLAND

At the second session of negotiations last week GM adjusted their opening bid of a little over £100m to an offer of £65m cash, £121m of non-guaranteed debt and a small equity stake in the new joint venture. This was in response to our opening proposal of £360m. The third round of negotiations are scheduled for next week. Unless the gap between the two sides is reduced to a bridgeable level, there must be a grave danger that the hawks within GM will kill the deal.

For the new negotiations Leon Brittan proposes that officials should have a bottom line of £186m in cash or marketable debt. Instead of equity he proposes, if possible, we should aim for some additional deferred consideration related to performance. If GM baulk then officials should have authority to suggest that GM buy just the ailing Truck and Van businesses, allowing us to offer the more saleable Land Rover elsewhere.

Treasury officials, who see this more as a PES type negotiation, think the bottom line price of £186m is far too low. We, on the other hand, think it may be too high - our valuation of the businesses was little more than GM's £100m opening offer. Now that the residual debt issue is settled BL are broadly indifferent on price.

We recommend you write to Leon Brittan endorsing his proposals, indicating concern lest GM take fright, and suggesting that, if during the negotiations officials feel that they are still too far apart, then you would be prepared for him to authorise a revised bottom line at a somewhat lower level.

Agreed

Agreed

Peter Warry

PETER WARRY

SECRET

Subject cc master.

10 DOWNING STREET

4 December 1985

From the Private Secretary

Dear John,

BL PRIVATISATION

Your Secretary of State today discussed with the Prime Minister his minutes of 25 November and 2 December about proposals for privatising parts of BL. The Chancellor and the Minister of State, Department of Trade and Industry, were also present.

Your Secretary of State explained that the decision whether to encourage Ford to bid for ARG and Unipart was essentially political. A takeover might or might not make industrial sense, and Ford would be considering that further in the course of their studies. BL would need to be given an opportunity to make proposals of their own. But essentially there was no prospect in sight for privatising ARG other than Ford's.

It was agreed that the Ford approach was very well worth pursuing. The BL Board should be allowed no opportunity to obstruct or delay the discussions, though it would be necessary to look at any proposals they might make. The BL Board should be instructed to proceed urgently with the negotiations now in progress for the separate sale of Unipart. If the Ford discussions reached a sufficiently firm stage quickly enough, their offer for Unipart should also be considered.

The meeting also agreed that discussions with GM over the sale of LRL should move ahead as quickly as possible. The companies should be sold for what they would fetch: they would otherwise continue as a drain on the public purse. The main issue was the treatment of debt relating to LRL which would remain with BL plc after the sale of LRL. The Chancellor saw no real need to extinguish this debt until the remainder of BL had been sold: to do so would give the appearance that the Government was injecting further funds into BL, it would add to public expenditure and it risked being seen as a reduction in the proceeds from the GM deal.

In discussion of this aspect, it was argued that if the debt remained with BL, some of the Government's supporters would say BL was being saddled with debt which had been incurred by companies now sold. It would also be easier to clear the debt in two tranches than in one.

SECRET

It was agreed that, as your Secretary of State had proposed, it would be preferable to extinguish the debt relating to LRL at around the time of the sale to GM, if that went through. The precise timing of the payment should be discussed with the Treasury: if Heads of Agreement were signed in 1985-86 and legal completion took place in 1986-87 there might be scope for making the payment in either year as the Chancellor might prefer in the light of the public expenditure and fiscal position.

Your Secretary of State reported that Graham Day would be prepared, if asked, to take over the chairmanship of BL. This would need to be considered in the light of progress towards privatisation of BS. Your Secretary of State also undertook to consider how far the payment to BL which had been agreed could be used to push the BL Board to resolve the future of Leyland Bus.

I am copying this letter to Tony Kuczys (H.M. Treasury).

Yours ever,

David.

(David Norgrove)

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

SECRET

CC B'UP

PRIME MINISTER

(4)

3 December 1985

MEETING ON BL

The issues for tomorrow's meeting with Leon Brittan and Nigel Lawson are:

1. GM bid for Land Rover-Leyland

a. **Should HMG give BL any equity injection to help cover the residual debt that would be left after the sale?** Reluctantly yes, otherwise BL may sabotage the deal.

b. **Should the method of fixing the equity injection be settled now or when a price is agreed?** Now, otherwise there is no purpose in offering extra equity.

c. **Should the injection also cover the cost of other unrelated rationalisations such as Leyland Bus?** Yes, provided it is paid only after these long overdue rationalisations have been completed.

d. **Should the Government ultimately accept the current £105m GM offer if GM don't increase it?** Yes, the price is just about financially defensible and will end the need for continued support. It will however be politically awkward.

e. **What should be our negotiating limit in the first round of discussions tomorrow?** £200m, our opening bid is to be £320m compared to GM's £100m. If negotiating momentum is to be maintained the price gap needs to be credible.

2. Ford offer for Austin Rover

a. **In principle should the Government be prepared to sell ARG to Ford if the terms are right?** Yes, ARG is too small to survive as a full line manufacturer without

continuing Government support; Ford thinks itself to be too small which is why it wants to combine with ARG.

b. **Ford believe Unipart to be an essential part of the deal, but Charterhouse Japhet have just made a good bid. Can the two proposals be pursued in tandem?** Yes, provided Ford adhere to their 30 day study and indicate a very broad price range. Charterhouse could be reimbursed for aborted expenditure if we then decide to sell to Ford.

c. **Should BL be allowed to put forward their own ARG privatisation proposal.** Yes, provided they undertake to keep to the 30 day timetable and provided we remember that BL commitments to privatise at a date in the future have never been honoured.

d. **Should we still settle the residual debt issue on the GM bid now?** Yes, the issues are unrelated, we still need to ensure BL's commitment to the GM sale.

e. **Should these bids delay the plans to appoint Graham Day as chairman?*** No, it is most unlikely that both the Ford and GM offers will succeed. Even if they do there will still be a year's work at BL carrying the bids through. This should give plenty of time to find Day another job without losing him to the private sector. (DTI are also thinking of promoting Harold Musgrove - another Michael Edwardes but without his intelligence. There is no need to do this in advance or in conjunction with Day's appointment).

* This possibility was ventured at your meeting with Mr Britton some weeks ago.

Peter Warry

PETER WARRY

10 DOWNING STREET

Prime Minister

Mr Britton would like 5 minutes with you if there is time, at the end of the meeting, about Michael Howard and Lloyds. Papers at end of folder.

DLW
3/12

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SECRET

cc PMS
BLNP
cc Brittan

FROM: CHIEF SECRETARY
DATE: 3 December 1985

5

PRIME MINISTER

BL PRIVATISATION: GM/LAND ROVER-LEYLAND

I agree with much of what is in Leon Brittan's minute of 25 November to you, discussing certain aspects of the sale of Land Rover-Leyland. In presenting the case for the Salton sale, it will be important to have undertakings from GM on future development and production in the UK. A lever to ensure performance, such as that proposed, would be useful. However, all this may affect the price GM is prepared to pay, and we will have to take a final judgement on these matters in the context of the total package.

2 There should be a good employment case to be made in favour of the deal because the future of both Bedford and LR-L on their own indicates substantial contraction, with job losses at least as great as those under Salton. It would be useful if we could have estimates of these job losses.

3 A similar argument would have to be used in the case of Buses, but the circumstances are more difficult because only part of the business has a potential buyer; the rest will have to be closed down. Also it will be clear that there is an overall cost to divesting BL of the bus operation, even though this would be substantially less than the losses that would otherwise have to be funded by BL.

SECRET

4 I agree that Leyland Bus should be sold off as quickly as possible, although January may be a little optimistic. Depending on the timing of the negotiations we will need to decide whether it is better to announce the bad news about Bus separately from Salton, depending on how good the news will be on the latter.

5 I hope that we can rely on the BL Board to press ahead as quickly as possible with the Bus sale. If there are doubts about this, we need to consider what action to take.

This is a bit disingenuous. There is not that much time. The negotiators need a steer tomorrow.

6 On Salton, I agree that we should negotiate a price which leaves all but the statutory redundancy costs with GM. On the price itself, officials are having a further meeting with GM this week. As the intention of both sides is to reach a quick agreement, I think that we should soon after that meeting decide upon the negotiating limits on price for the further negotiations.

7 I do not agree that BL should receive a capital injection from the Government. It is difficult to believe that banks would not be prepared to lend to BL. They have all along been able to rely upon the Government's Varley Marshall assurance, rather than BL's balance sheet.

8 BL would have substantially less debt, even with a sale price of only £120 million, than it would without the sale of LR-L. LR-L has not been servicing its debt but adding to it. To the extent that it might become profitable in the future, this should be reflected in the sale price, which will reduce the debt transferred.

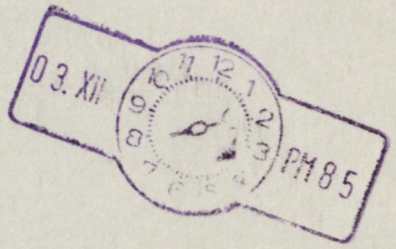
9 As regards the West Midlands lobby, if there is a case for not increasing the debt on the ARG balance sheet it will be possible to leave it unchanged, the LR-L debts being held in BLMC or BL PLC. ARG's accounts and performance would then be unaffected by the sale of LR-L.

10 I do not see the question of ARG privatisation being relevant. When ARG is privatised the remaining BL debts will have to be repaid. Unless ARG had by then gone through a very profitable period its debts would require a substantial capital injection at the time of privatisation. An injection now in relation to LR-L debt will not avoid that.

11 In my view there are three strong reasons against a capital injection. First, the public expenditure involved. I note that Leon foresees this as a claim on the Reserve. Second, the presentation of the sale would be made much more difficult. The injection would highlight that the operations had been sold without their debts, and commentators will deduct the injection from the sale proceeds to show how little the purchasers have paid, particularly in the case of Salton which includes Land Rover. Third, it has been our policy not to put further public money into BL. The reversal of that policy, involving a very substantial sum could have an unfortunate psychological effect on shop floor/management relations.

12 The one remaining issue is the attitude of the BL Board. I recognise that they will have to be able to say that the sales are in the best interests of the Company. That should be demonstrable without a capital injection. I hope therefore that Leon will be able to persuade them to take into account our view, as principal shareholders, that continued negotiations should <u>not</u> be made conditional on a capital injection.

JOHN MacGREGOR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SECRET

PRIME MINISTER

FORD/AUSTIN ROVER ("MAVERICK")

The Chairman of Ford of Europe, Mr Bob Lutz, came to see me recently to say that Ford would like to embark on detailed studies with a view to their acquisition of Austin Rover and Unipart. No approach has however been made to BL as Ford first wish to be sure that Government would regard acquisition as a politically acceptable way forward. On Wednesday morning we are to discuss how to respond when we meet on Wednesday.

2. The Ford interest, which has the knowledge and approval of Detroit, is driven by fears of a growing Japanese presence in Europe, whether the result of imports or direct investment, and by a conviction that on existing volumes Ford will be unable to achieve a level of competitiveness necessary to tackle the Japanese head-on. They believe that sooner rather than later the European motor industry will need to restructure in order to mount an effective challenge to the Japanese and that the smaller manufacturers - other than those who have found a particular market niche or who can rely on substantial Government support, will find it increasingly difficult to prosper.

3. This thinking was reflected in Ford's prolonged but unsuccessful talks with Fiat and Mr Lutz acknowledged that ARG was in this sense a second-best solution. Even with acquisition of ARG Ford would still need to collaborate with others. Nevertheless, Ford expect detailed analysis to show that the addition of 500,000 cars to their volume would produce substantial cost savings through the integration of research and development, administration, component manufacture/sourcing and car assembly .

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SECRET

4. Ford would be willing to negotiate a detailed Memorandum of Understanding with Government to cover their future manufacturing and sourcing intentions. Their aim would be to preserve the Austin Rover marques and distribution capability. They envisage in the early years that the main commonality in vehicles would be in floor-pans and power trains with a fully co-ordinated model range achieved during the 1990s. Product differentiation would be based on the respective strengths of the two companies - for example, Ford believe that, properly planned and supported, there would be a good opportunity over time to develop a premium image for ARG with marques such as Rover and MG. In the interim ARG would benefit from Ford distribution in Europe and the USA.

5. Apart from peripheral activities, Ford do not anticipate significant closures arising from a merger. This aspect would obviously need to be kept under review, particularly at the turn of the decade when rationalisation of the model line-up would begin to take effect. But decisions then would depend entirely on the success or otherwise of the venture in maintaining and hopefully increasing European market share and closure of one of the four UK assembly plants is certainly not part of Ford's current thinking.

6. The Ford approach clearly raises important industrial and commercial issues - the enclosed check-list of potential advantages/disadvantages covers most of the ground. A considered view on the industrial and commercial merits of the proposal can only reached once detailed studies have been carried out by the two companies, although Ford seem convinced that the outcome both for them and ARG would be substantial and positive. They do not however wish to undertake this work if at the end of the day they are likely to be faced with a political veto. They are therefore seeking a qualified "green light" i.e. an indication of political willingness for the venture to go ahead <u>if</u> the detailed appraisal shows this would benefit the UK; and if Ford's proposals for implementing the merger are judged to be satisfactory.

JF2ANI

7. At a political level, a take-over would leave us open to the charge of having abandoned any prospects of a British-owned volume car producer. Moreover, if the Salton project with GM as well as Maverick proceeds, there will be criticism that we have sold off to US multinationals both mainstream businesses of a company in which the taxpayer has invested a great deal of money; and that the future of these businesses will increasingly be determined not by UK considerations but by multinationals with worldwide operations over whom HMG has little influence. We shall of course be able to mount a respectable defence against such criticisms - not least, in the case of Maverick, by pointing to Ford's impressive UK record in terms of R&D, manufacturing and employment; and, unlike the Salton commercial vehicle venture, the Ford proposal is unlikely to be complicated by the prospect of significant closures in the short-medium term.

8. In my view, however, the central issue revolves around the alternative outlook and privatisation prospects for Austin Rover. The company has unquestionably achieved a noteworthy improvement in performance in recent years. PBIT has moved from a deficit of £112m in 1982 to a forecast profit of just under £10m in 1985; productivity has been raised from 6 to 14 cars per man since 1979; and, while UK market share has not improved as much as had been hoped, ARG has apparently withstood the Vauxhall challenge more successfully than Ford.

9. Nevertheless there is room for another, more pessimistic, school of thought which would argue that ARG is a relatively small company trying to compete in all the main product categories but under severe pressure from the major multinationals. It does not have (nor on its own the opportunity to establish) a specialist image like, for example, BMW. Renewal of the model range, to be completed with XX, has not led to significant changes in market share and with fiercely competitive conditions likely to continue across Europe, and with ARG forced to compromise in its reactions to new emissions standards and related

999-49

incentives, the company will remain highly dependent on the UK domestic market and will find it an increasing struggle to earn the funds necessary to regenerate the business and carry through major new product and component programmes. It is, moreover, worth pointing out that in spite of the improvement that has taken place ARG has consistently fallen short of the more optimistic forecasts that it has put forward. The absence of fresh Government money, and the constraints we have imposed on its commercial borrowings, will not make this any easier to achieve. Moreover, even on its own forecasts, ARG will have a cumulative negative cash flow of £400m by 1990 implying substantial increases in Varley-Marshall exposure.

10. Even with the benefits of the Honda collaboration, a "go it alone" policy for ARG under this scenario would be highly risky. The prospects of a public sale this decade would be remote and the likelihood of requests for further Government funding, or at least higher borrowings, would be very high. The prospects of a sale to another manufacturer could in due course be considered but Honda have shown no interest (even if we were to regard them as acceptable owners of ARG) and it is hard to identify others in Europe or elsewhere who would be interested in acquisition and in retaining a strong UK manufacturing presence.

11. I believe therefore that, although it raises some very difficult questions for us, the Ford approach offers the only realistic early opportunity for achieving our privatisation objectives. If the studies show the venture has industrial and commercial logic, we shall again have to tackle the question of ARG debt which Ford are not prepared to inherit. It is not possible to speculate usefully on the size of the problem but, if it is to be kept manageable, there is obviously a strong argument for solving the question of LRL debt in the context of the SALTON talks as I have separately proposed.

JF2ANI

SECRET

12. If we do decide to pursue the Ford interest, the BL Board will need to be persuaded to follow this through seriously and quickly. To help in the presentation, if we go down this route, I would propose to tell the Board that we would be willing to consider alongside the Ford proposal any reasonable alternative routes to ARG privatisation which they might care to put forward; and for this purpose they should also assume that Government would be ready in principle to consider special treatment of the outstanding debt . This would I think be helpful in our relationships with the Board and would enable us at the end of the day justifiably to claim that we had examined all reasonable alternatives to the Ford option.

13. But before any of this arises we have to face up to the fundamental, essentially political questions: Are we prepared to contemplate sale to Ford at all, with the almost certain necessity of providing what will be depicted as a dowry to go with it? Or do we prefer to follow the course of keeping ARG going at present in the hope of some other privatisation, but in the knowledge its viability is at best questionable? The industrial logic favours the former course.

14. I am copying this minute to the Chancellor of the Exchequer.

L. B.

L B

2 December 1985

DEPARTMENT OF TRADE AND INDUSTRY

JF2ANI

SECRET

ANNEX A

FORD/ARG : ADVANTAGES/DISADVANTAGES

FOR GOVERNMENT

PROS

- early privatisation, providing a long-term solution for ARG and an end both to Varley-Marshall contingent liabilities and to the potential need for further Government funding of ARG;

- maintenance of a domestic base for the UK components industry if commitments made on local content;

- greater prospect of retaining UK technological base, likely to weaken in ARG and Ford under alternative strategies;

- secures major Ford commitment to the UK as alternative to Ford (US) preference for a deal with the Japanese;

- offers more robust possibilities for UK car exports.

CONS

- abandons any prospect of a UK-owned volume car manufacturer;

- Ford undertakings on manufacture etc will protect the short-medium term position. But longer-term these will have less force and decisions will be those of a foreign multinational with world-wide options. Limited HMG influence;

- concentration of Ford activity in the UK increases UK vulnerability in any future Ford Europe rationalisation. Closure of one of the four British assembly plants at the end of the decade a distinct possibility;

- Ford ownership of ARG may prompt Honda to press for its own assembly plant at Swindon, raising difficult questions for HMG;

- individual ARG and Ford market shares may be difficult to sustain in a combined operation and lead to increased import penetration;

- raises question of write-off of outstanding ARG debt;

- reduced competition in the UK market (MMC considerations).

FOR ARG

PROS

- access to Ford's financial strength enabling higher levels of benefits from the pooling of R&D resources with those of Ford and less reliance on overseas, particularly Japanese, technology and products;
- investment than would be possible under Government funding constraints;
- access to management strengths of Ford;
- access to Ford's US and European distribution network raising throughput, lowering unit costs and increasing profitability;
- economies of scale on major components;
- beneficial links with Honda might still be retained;
- better able to cope with new European emissions legislation.

CONS

- strategy willbe dictated from outside the UK by a foreign multinational;
- short-medium term, increased production from association with Ford may be offset by loss of sub-contract/collaborative build for Honda;
- ARG productivity and industrial relations performance may be 'infected' by Ford's relative lack of progress at Dagenham and Halewood;
- production volumes may not be sustained unless product differentiation policy is successfully implemented and accepted in the market place;

FOR FORD

PROS

- an immediate increase in UK/European market share;
- opportunity to deflect Ford (US) from basing strategy on a partnership with the Japanese;
- higher volumes produce economies of scale throughout the combined operation, particularly in relation to the design and production of major components;

- potential to secure substantial reduction in combined fixed overheads in particular through closure of one of the four UK assembly plants.

- particular synergy in engines where ARG well-placed to specialise in small engines with Ford strong in medium;

- increased sales of ARG product through Ford's European dealership generating revenue and profit on distribution and manufacturing activity; creation of potential premium Ford marque in Europe and USA;

CONS

- the merger would produce substantial but not overpowering economies of scale and further links with a major European manufacturer (and/or collaboration with Japan) may still prove necessary;

- Ford control over ARG may induce Honda to 'go it alone' at Swindon creating a new, highly efficient UK competitor;

- the considerable risks inherent in any major rationalisation merging managements, facilities, products, components and industrial relations structures;

- the combined market share may be significantly less than anticipated.

VEHICLES DIVISION

November 1985

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PM85

Confidential

PRIME MINISTER 29 November 1985

BL PRIVATISATION - GM/LANDROVER-LEYLAND

GM's opening offer is just over £100m net of redundancy costs compared to an asset value of some £450m. This is not unrealistic (it is virtually what we predicted in September) but will still be difficult to justify publicly. DTI are hopeful of negotiating the price up to £220m using the rationalisation savings that can be achieved for Bedford Trucks, which like Leyland Trucks is losing some £50m p.a.

Although optimistic, this might be obtainable if HMG and BL can present a united and vigorous negotiating stance. But BL will not be cooperative unless they are assured that most of the residual debt remaining after the sale of these businesses is extinguished by a new equity injection from the Government. At worst BL would be looking for a £250m injection.

There is, of course, no justification for BL demanding any equity injection - all of the residual debt is the fruit of BL's mismanagement. Nor is there any financial case. The banks have been happy enough in the past to rely on the Varley Marshall assurances in lending BL money to fund its losses and pay interest on its borrowings. There is no reason for them to stop making such risk free profits now.

BL want an equity injection that will ensure that Austin Rover is not adversely affected by the residual debt left over after the GM sale. They calculate the requirement as a £140m equity injection if the £220m sale price is achieved, this being adjusted £ for £ for any shortfall. But any residual debt relates to the BL Group rather than ARG, and as ARG has not been and will not be financing that debt, there can be no true additional burden on ARG.

Even if the basic BL argument for an equity injection were accepted it certainly need not be £140m because this includes extinguishing £90m of Leyland Bus debt which does not form part of the sale to GM. The £140m injection also improves BL's debt/equity gearing ratio: if this were merely to be maintained at its existing ratio then only an £80m injection would be required.

Whilst we should press GM to increase their offer, even the present offer is acceptable: if the businesses are not sold then losses will continue and borrowings mount. The equity injection will score against PSBR but this is little to pay compared to the long term savings, and it really only amounts to relabelling BL's debt (but for which HMG are responsible) as HMG's debt.

Despite the total lack of justification, we believe some sweetener is essential to secure BL's commitment. The actual amount is for horse-trading. We recommend that BL should be told that HMG would, in principle, be prepared to:

i. maintain the overall BL gearing ratio, ie £80m injection assuming £220m proceeds;

ii. increase this to the DTI's proposed £140m, ie "ARG not worse off" when and only when the disposal of Leyland Bus and the other residual businesses has been completed;

iii. in both cases the existing cap on BL's borrowings would be reduced appropriately.

Peter Warry

PETER WARRY

SECRET

(2)

PRIME MINISTER

29 November 1985

BIDS FOR UNIPART AND AUSTIN ROVER

Charterhouse Japhet have today made a formal bid for Unipart of £50m+. This is less than the £75m to £100m expected before Unipart went into the ill-advised Edmunds Walker acquisition, but is still some 50% more than the value Samuel Montagu (DTI's advisers) put on the business. It will be surprising if BL accept the offer without some arm twisting. Even if they do agree there is still the small possibility of snags emerging from the accountant's investigation and legal agreement.

But a much bigger issue has arisen: Ford want to buy Austin Rover. The interest seems genuine and they want to move fast. The declared reasons are economies of scale and the threat of Head Office forcing a link up with the Japanese just as Ford have done in the US. But they must also be motivated by the relatively poor showing of their new Sierra and Scorpio models, (BL's equivalents are better designed for their target markets), and Honda establishing a major presence in the UK on the back of ARG.

Ford anticipate that the two companies would retain their separate identities until around 1990 when both companies would need to introduce new models. They expect that all four assembly plants would still be needed; this seems optimistic, but large scale redundancies would certainly be unlikely before 1989.

Ford are also interested in Unipart. This will need careful handling if we are not to lose the firm bid already in hand, for the speculative one in the bush.

SECRET

Ford are unlikely to offer very much for ARG, but as ARG plan to double their borrowings to £600m by 1991, any price will save us money. If both Ford for ARG, and GM for LR-L are successful, then BL could be history by the middle of 1986. The downside is the political difficulty of selling the whole of BL to foreign multinationals, and the crystalisation of Varley Marshall debt which could cost the contingency reserve £400m.

Ford want to know if in principle we would countenance such a deal. The answer is surely yes. Leon Brittan plans to discuss this with you and the Chancellor next week.

Peter Warry

PETER WARRY

CC BLOP

TOTAL COPIES 9

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SECRET

CF

CC PW

To await Tpy comments.

DLS

26/11

cc B Unwin

PRIME MINISTER

BL PRIVATISATION : GM/LAND ROVER-LEYLAND

At our meeting on 3 October we discussed amongst other things the negotiations with GM on the sale of Land Rover Leyland. We agreed these should be seriously pursued but that certain issues needed careful handling.

2 My Department and BL staff, with advice from merchant banks and in close consultation with the Treasury and the Policy Unit, have prepared various papers for the next round of negotiations. The issues do not seem at this stage to raise major problems for us to resolve. I summarize the key recommendations in paragraphs 4 to 9 below.

3 More difficult is the question of what to do, and when, about the portion of BL's debt to the banks associated with the businesses to be sold that will not be covered by the price paid by GM. I set out my views in paragraphs 10 to 13 below.

EMPLOYMENT IMPLICATIONS

4 The industrial logic of the co-rationalisation plan is strong, and the expected facility and employment changes and timings have been worked through. The main job losses are 700 at Watford (Scammell) and 800 (net) at Dunstable (Bedford) in 1986, followed by 1,900 in Birmingham (Freight Rover) in 1988 and 1,000 at Leyland in 1990, though net job

JF5AOL

losses should be under 3,000. The real alternative however is not "no job losses" but at least severe contraction, perhaps worse, of the separate Leyland and Bedford truck businesses, each having been losing over £50m p.a. and with no major recovery in prospect.

UK MANUFACTURE

5 One potential criticism of any deal will be that once the businesses are in GM control, their UK manufacturing activities will go the same way as Vauxhall's went under GM control in the seventies, with much of the manufacturing of Leyland and Bedford products taking place aboard. I do not consider this is GM's intention but to answer this, we need a detailed Memorandum of Understanding with the objective of ensuring

- that the overwhelming majority of products sold by the combined entity will be manufactured in the UK;

- that these products will have a very high UK content in line with what is currently achieved and in particular that major components will be manufactured here;

- that the company will aim at a substantial level of exports;

- that a significant R&D operation will be maintained and developed in the UK;

- that Land Rover products will be manufactured and retained as an overwhelmingly British produced product;

999-49

- that an appropriate level of investment will be injected into the business to achieve competitive future models and facilities.

Some of these points will need to be quantified and I have asked my officials to prepare a negotiating position on these in consultation with the Policy Unit and Treasury. I envisage that GM would become firmly and publicly committed to this but legally binding commitments will not in general be possible though I am exploring the scope for incorporating sanctions, for instance by tying up the Land Rover trade mark in some way rather than having it sold outright.

6 We are also keeping on the table, essentially to strengthen our negotiating hand in getting more information from GM, the thought that HMG/BL might keep a minority holding, perhaps 30 per cent, in the combined LRL/Bedford business. There is however no substantial advantage, to BL or to HMG, of such a financial holding and my real objective remains to secure a total GM acquisition.

LEYLAND BUS

7 A related problem is that of the future of Leyland Bus, which in 1985 is running up losses of about £20m on a turnover of £90m and has no substantial upturn in prospect. The very sharp drop in bus orders leave its future extremely bleak. We should press BL to negotiate to sell what of its business is saleable to the Laird Group (owners of the other UK bus manufacturers MCW) or another buyer, by the end of January, in the hope of getting this bit of bad news out of the way before any deal with GM

999-49

is announced.

PRICE

8 At the end of October, GM's opening offer was about £140m on the basis that we separately picked up the bill for the net cost of the redundancies (about £35m). Particularly in view of the policy on the Redundancy Fund in the Chancellor's Autumn Statement I consider we should refuse to pick up any of the part of the redundancy bill beyond whatever the statutory provisions may require at the time, and let the residue come off the price paid to BL, despite the presentational advantage of having that figure as high as possible.

9 As to the price GM should pay, our tactics are to negotiate about the value of the combined businesses to them. This should be greater than their opening bid which focussed only on the value to BL of the businesses to be sold. We need to know more of GM's view of the prospects and opportunities for the combined businesses before trying to decide whether any price that might be arrived at in negotiations would be publicly defensible.

BL FUNDING

10 Officials have explored the full range of options; not surprisingly the more BL get from GM the less painful the choices for us. If the price obtained from GM were low, the debt left with BL from LRL's past operations might be more than the banks were prepared to support, even with the Varley-Marshall assurances in place. Given the Varley-Marshall assurances, it seems to me that the banks

999-49

might if pressed be more accommodating than BL think, though the problem of interest on the old debt would remain.

11 But the real problem is political; the deal will have enough natural opponents, some of them on our own backbenches, to make it essential to avoid also bringing out against us the West Midlands lobbies associated with Austin Rover. We also want to avoid a level of debt that worsens the medium term prospects of privatizing Austin Rover. And I know that the BL Board will not be able to endorse any GM price until the issue of debt has been resolved.

12 I therefore recommend that we should be prepared to pay off sufficient of the debt relating to past operations of LRL businesses for us to be able to say that the cars side of BL is not being burdened with past debts run up by LRL businesses. We should compel BL to use almost all its centrally held cash deposit and obviously we should also use all the proceeds from the sale of LRL to GM. Even so, for the main residual operating companies (Unipart and ARG) to be left unaffected, we should still need to inject about £140m if we negotiated GM's opening offer up to £220m, with pound for pound more the less that was obtained.

13 I do not see any possibility of offsetting savings on DTI programmes for a one-off payment of this kind; so I see no alternative to its being treated, if the deal comes off, as a charge on the contingency reserve.

14 The BL Board meet on 28 November with GM returning for further negotiations on 4/5 December. Decisions by colleagues by the end of next week on the points raised in this minute would enable negotiations to proceed, if

999-49

2

PRIME MINISTER

25 October 1985

BL

There have been interesting developments on BL whilst you have been abroad.

1. With Leon's agreement, and much to BL's embarrassment, I had Charterhouse Japhet renew their bid for Unipart. BL are now obliged to treat this offer seriously and there is a real chance that Unipart will now be sold; possibly by Christmas.

2. BL have been forced to accept the appointment of a DTI nominee director. It is proposed that the new director will have the specific duty of showing all papers to Leon. Of course, much of the discussion will now occur in a shadow board but this still represents a major step forward. I suggested Kumar Bhattacharyya as the nominee, but a city accountant who has previously spent a period of secondment with DTI has been chosen.

3. BL have submitted their 1986 Corporate Plan two months earlier than normal. As predicted BL have disregarded the £680m 'cap' and borrowings are now forecast to rise to at least £800mn by the end of next year. I am hopeful that Leon will reject the plan.

Peter Warry

PETER WARRY

SECRET

successful, to a signing of Heads of Agreement in January or February next year.

15 A copy of this minute goes to the Chancellor of the Exchequer.

L. B.

L B
25 November 1985

Department of Trade and Industry

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BL

RT8.4 CONFIDENTIAL

cc PS
cc B. Unwin

NBPM.

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

7 October 1985

The Rt. Hon. Leon Brittan QC MP
Secretary of State for Trade and Industry

Dear Leon

BL PRIVATISATION

Your minute to the Prime Minister of 26 September reported developments on two fronts: Unipart privatisation and GM's interest in Land Rover-Leyland.

The former is very bad news. Unipart was to have been the second of two privatisations originally targeted for mid-1984, and already substantially delayed. However, I recognise that we now have little choice but to defer privatisation once again. This decision has already been taken by the BL Board, and Samuel Montagu's preliminary advice is in the same sense. You have rightly set action in train to discover who was responsible for what occurred and to pursue the earliest possible revised date for privatisation. On the latter, one option I should wish to see examined further is a prior year adjustment to the Unipart 1984 Accounts to recreate for 1985 the stock provision of £3.3 million negotiated on acquisition but subsequently released to profit and loss in large measure. Beyond this, I am sure we must expect a discount on the Unipart price with an early revised date for privatisation, and I endorse the firm line you intend to take on this with the BL Board. We cannot afford a resurgence of the BL Board doubts over price that have already deferred the sale once.

Your news on the SALTON negotiations is encouraging, although important issues lie ahead. I am glad to hear that the BL Board are content in principle with the GM acquisition. I share your belief that the rationalisation of UK commercial vehicles capacity will be needed anyway before long, and I therefore have no qualms about moving to the next stage of negotiations with GM as you propose. In doing so, we shall clearly need to secure a defensible price for the sale, especially in view of the presentational problems which we shall face. We shall need to be as tough negotiating for the taxpayer as GM will be on behalf of their shareholders.

As far as the structure of the operation is concerned, I would need considerable persuasion that anything less than 100 per cent of the businesses should be sold. It is worth considering, however, whether it would be helpful, either for negotiating purposes or more generally, to separate out from the package deal profitable companies like Land Rover for separate privatisation. We shall also need to pursue separately, but to the same timescale, the privatisation of Leyland Bus, in which GM have denied any interest.

Finally, while I am grateful for your offer to accept Treasury officials on the proposed steering group, I believe there will also be occasions when Treasury officials should join DTI officials in representing the Government at the tripartite negotiations themselves. I hope this causes you no difficulties.

A copy of this letter goes to the Prime Minister.

NIGEL LAWSON

IND POLICY

BRITISH LEYLAND

PT 10

CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

BEMAZH

SUBJECT
cc Master.

CF file

cc HMT

cc B. Unwin.

10 DOWNING STREET

From the Private Secretary

3 October 1985

Dear John,

BL

Your Secretary of State, accompanied by the Hon. Peter Morrison, came to see the Prime Minister this evening to discuss BL, on the basis of your Secretary of State's minute of 26 September.

In the course of discussion it was agreed that:

i) the proposal for a Government nominee or observer to be placed on the Board of BL should be pursued;

ii) work should start towards finding a replacement for Sir Austin Bide, whose appointment was due to expire in autumn 1986; it would be sensible to allow a substantial hand-over period, as had been achieved for the Chairmanship of the NCB;

iii) the negotiations with GM on the sale of Land Rover - Leyland should be seriously pursued; it was recognised that this would need to be handled very carefully in view of the likely scale of redundancies and the emotive question of the ownership of Land Rover; a deal would have to be absolutely defensible in financial terms; there would be tough discussions and it might be necessary to imply in guarded terms a willingness to sell Land Rover separately;

iv) the scale of the problems with Unipart needed further exploration, but it should be privatised at the earliest possible moment;

v) it had been reported that BL were forecasting borrowings to rise above their "capped" limit of £680m for 1985; this was unacceptable, and BL would have to live within the limit.

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

Yours sincerely,

David Norgrove.

David Norgrove

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

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SRW

PRIME MINISTER

1 October 1985

BILATERAL WITH LEON BRITTAN ON BL

The Unipart and Land Rover-Leyland privatisation (briefs attached) typify the BL problem and form a useful platform from which to start the discussion, and in particular to emphasise the long history of broken promises which Leon Brittan now inherits. You will also want to mention BL/DTI politics (based on information from our sources close to BL) and how the press have been manipulated.

Other related topics are:

Vehicle Emissions: Austin Rover got an extra £135m through their revised corporate plan earlier this year to cope with the new permissive directive, but look likely to come back for yet more.

Borrowings: Norman Tebbit 'capped' BLs borrowings at £680m for 1985 with the intention that this should be reduced in later years. BL are already forecasting borrowings rising to £695m this year and making warning noises about later years.

Austin Rover: following the saga over buying engines from Honda you will want to be assured that Austin Rover will stick to the plan and meet their targets on cost, performance and delivery, both on engines and new models.

Peter Warry

PETER WARRY

PRIME MINISTER 27 September 1985

BL PRIVATISATION

UNIPART

The story so far:

August 82: 2 BL businesses to be sold by August 1984.

19 July 84: (Bide to Tebbit) If Government agree to purchase of Edmunds Walker, then BL will commit to a Unipart sale by mid-1985.

November 84: Proposal for the further purchase by Unipart of Motorist Discount Centres which Government were (wrongly) prepared to agree to if BL would reconfirm the mid-1985 sale date. This led to:

11 Dec. 84: (Bide to Lamont) BL won't honour mid-1985 date as proceeds would be too small and because of uncertainties on vehicle emissions. Following further argument:

28 Jan. 85: (Bide to Lamont) Unipart will be sold by end 1985. A No.10 letter (11 March) asked that you be informed should any slippage seem likely.

Now BL say this last promise will also be broken and privatisation may slip into 1987 [and perhaps be lost altogether]. The reasons given are problems with the Edmunds Walker purchase (which was meant to facilitate privatisation) and again the all-purpose excuse of vehicle emissions. This was all entirely predictable and, indeed, was predicted.

But what BL don't reveal is that, at their Board Meeting on 16 July, they rejected a very acceptable offer for Unipart from a reputable merchant bank. In rejecting the offer, BL must already have been fully aware of the impact of vehicle emissions, and would be incompetent not to have an inkling of the Edmunds Walker problems showing up in the accounts for the previous month end - the very reasons they are now using for delaying the sale. (In case DTI are unaware of this offer I shall let Leon Brittan know on a personal basis).

Leon's response is excellent, but whilst this is only the first time they have broken faith with him, it is just one in a long line of broken promises since 1979, and a tougher approach could be considered. There are three options which you might like to discuss at your bilateral next Thursday.

1. Stop all further borrowings by withholding Varley Marshall assurances from them, and so force privatisations to finance the business.

Or 2. (If BL have not told DTI of the offer for Unipart) then dismiss the BL Board and appoint a caretaker to oversee the privatisations;

Or 3. Directly offer Unipart to the merchant bank who are still interested in buying it.

LAND ROVER-LEYLAND

GM's interest is good news; the rationalisation is likely to save more jobs in the long term than it will lose in the short term. But GM are only at the starting line; BL (and perhaps GM) will provide plenty of chicanes before they reach the chequered flag.

The biggest of these is money. GM want to take on the businesses, but leave BL with the bank borrowings (at least £350m). They will then fix a price for each company based upon expected future earnings - which should yield near to £100m for Land Rover, but at best will be zero for Leyland Trucks. This would leave BL with net debts from these businesses of at least £250m.

BL will doubtless use their agreement to any sale as a lever to extract Government money to repay these debts; and we will be in a weak position to refuse. As these borrowings are the same Varley Marshall assurances that DTI have repeatedly said are of no concern, it would be wrong for DTI to get away scot-free and add the whole of any sum required by BL to their existing PES totals.

But this is for the future: the first problem is to ensure we have more than one entrant in the race. To date DTI have argued that, because GM were offering to take all of Land Rover-Leyland off our hands, no other bidders should be allowed to embarrass them. This was always a weak argument, but is now entirely invalid as the GM are really only bidding for Trucks (which will integrate nicely with their own Bedford operation) and the highly saleable Land Rover and FreightRover companies. Other potential bidders exist, and DTI were meant to have instructed Barings back in March to look for yet others.

If we continue to give GM the purple corridor treatment, then not only are proceeds likely to be less, but we have no back up against (Unipart type) mishaps. Given that GM have been allowed to string the "negotiations" out for over a year so far - with promises of decisions first in February, then to May, June, and end August; and that they are still talking to three other European manufacturers, then they can hardly take offence if others are now also given a chance to bid. Moreover, the longer we delay bringing in other bidders, the more difficult it becomes to do so.

DTI will argue that bringing other bidders in will give BL a better chance to delay and confuse; but if the management cannot be trusted, then they should be removed, not pandered to.

We recommend you endorse the negotiations with GM and the proposals for monitoring them, and (provided we are prepared to be ruthless with the BL Board), also tell GM that other bidders will be allowed a chance.

Peter Warry

PETER WARRY

cc P Ibbs
cc B Unwin

CONFIDENTIAL

PRIME MINISTER

BL PRIVATISATION

You should be aware of important recent developments on two fronts: Unipart and GM's interest in Land Rover-Leyland.

UNIPART

2 The BL Board have reported to me totally unexpected and infuriating news which appears to rule out the preparation of a viable prospectus for a successful privatisation in 1985. I have expressed my indignation to Sir Austin Bide in no uncertain terms.

3 Grave problems of stock control in Edmunds Walker (which Unipart acquired in September 1984) have come to light and will lead to Unipart profits for 1985 being no more than £11m against the anticipated £13.4m. Worse, the defects in the accounting and stock control systems are such that intensive enquiries have so far failed substantially to explain the cause of the problems and it is expected that the auditors will have to qualify the Edmunds Walker and Unipart accounts for the first half of 1985. In particular it is not yet clear whether the problems are continuing ones or are once and for all consequences of the original acquisition.

JH3CEX

999-49

4 The earliest that the evaluation of another stock count might provide a full explanation is mid-October. However, until there is an explanation of the problem and a proven strategy for dealing with it the BL Board cannot recommend a revised timetable. Sir Austin Bide has undertaken to let me have this as quickly as possible. Nevertheless, I have to say that the preliminary advice of Samuel Montagu, my Department's advisers, confirms that in the circumstances privatisation by public offer for sale or private placement is unlikely to be possible this year. Their definitive advice will arrive in the next few days.

5 The state of affairs that has come to light is unacceptable and disgraceful. I have set in hand an urgent and thorough enquiry to establish the facts, notably why the nature and scale of the problems at Edmunds Walker were not picked up before acquisition, or very soon thereafter, and tackled vigorously before they became a threat to the privatisation timetable; what were the precise responsibilies of BL's advisers and how they performed; and in general who was responsible for what occurred. I will of course let colleagues have a copy of this report as soon as it is completed.

6 I also wish to be fully satisfied that the remedial action now in hand by the company will deliver the earliest possible revised date for privatisation. I have instructed my officials, in conjunction with their Treasury and Policy Unit colleagues, to pursue this with BL. The problems whilst unquantified and not put to rights are likely to mean some delay - I reluctantly accept that. But once their extent has been established and remedial action has been taken, I start from the position that the drop in profits will simply be reflected in the price. Such a reduction in the price must not, in my view, provide any excuse for a

999-49

further delay in the sale, and I have already made this very clear to Sir Austin Bide.

GM : LAND ROVER-LEYLAND

7 I can, however, report more positive news on GM's interest in LRL. At talks in Detroit on 12 September GM indicated their intention to bid for a major part of the LRL Group including Leyland Trucks, Land Rover and Freight Rover. The only significant exclusions are Leyland Bus (for which there are alternative potential purchasers) and certain overseas operations yet to be defined.

8 Although no firm decisions have been taken, the following pattern of rationalisation appears to be envisaged:-

- consolidation of commercial truck manufacture at Leyland, Lancashire, with consequent closure of Bedford's commercial vehicle facilities at Dunstable;

- consolidation of military vehicle production at Dunstable (involving closure of Leyland's Scammell operations currently at Watford);

- rationalisation of the Bedford and Freight Rover van ranges probably with eventual consolidation of manufacturing at Luton;

- Land Rover at Solihull to continue as a specialist manufacturer of Land Rovers and Range Rovers.

JH3CEX

9 The scale and timing of redundancies in the plants at risk is not yet clear but might eventually be of the order of 4500 to 5500 jobs principally at Dunstable, Watford and Birmingham. Nevertheless my view is that perhaps sooner rather than later further rationalisation in the commercial vehicles industry would in any case have been necessary; the GM proposal offers orderly rationalisation whilst providing the opportunity for early, substantial privatisation in what has been regarded as an intractable problem area.

10 Nevertheless there is still some way to go before we can be confident that it is a runner. GM's immediate need is to have confirmation that HMG and the BL Board are content in principle for such an acquisition to go ahead. The Board have already given their endorsement and, subject to your views and those of the Chancellor of the Exchequer, I propose we do the same. In that event, the next step would be a formal presentation by GM of their proposals, including their "order of magnitude" valuation of the businesses to be acquired, as a prelude to detailed negotiations. These promise to be extremely tough.

11 GM's opening position is likely to be that they are unwilling to pay out much cash for these operations, given the situation of the various businesses, the scale of the rationalisation required and the difficulties of integration. GM say, furthermore, that they are not willing to take on any of the debt associated with LRL, which has a debt: equity ratio of 90:10 on £540m assets employed. GM are likely to seek to base valuation on potential

999-49

earnings and cash flow rather than the book value of the assets. GM may also look for help with rationalisation costs.

12 On the structure of the consolidated operation, GM would prefer 100 per cent ownership but, provided they have clear management control and a majority holding, they would be flexible on a retained minority BL holding if it emerged from the negotiations that this would be a sensible arrangement.

13 GM's aggressive opening stance is predictable and we shall need to see how far they are prepared to move in negotiation. I am anxious that the negotiations - which I envisage will embrace a detailed understanding with GM on commitment to continued manufacturing in the UK as well as fundamental questions of debt and price - should proceed as rapidly as possible. It is by no means certain than an acceptable deal will emerge. In this context, as Government interests are central, I do not believe we should rest solely on BL management to conduct the negotiations. I intend therefore to propose a tripartite group involving DTI and its merchant banking advisers as well as GM/BL to be responsible for decisions on the major issues. The brief for these negotiations will of course need very careful consideration and I suggest that a small steering group of officials from this Department, Treasury and the Policy Unit should get together to prepare the ground.

14 I am sending a copy of this minute to the Chancellor of the Exchequer.

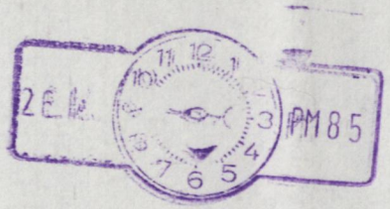
L.B

L B

26 September 1985

JH3CEX

Department of Trade and Industry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MR NORGROVE 6 September 1985

ARG BORROWINGS

Last year's closing figure of borrowings has not been included in the DTI table, which would otherwise show that during the first five months of the year, Austin Rover's borrowings increased by roughly £100 million. The close correlation between the actual and budgeted figures is misleading as the budget was not finally established until April and thus there has been only one month during which they could diverge.

Austin Rover are expected to take just 17.1% of the market in August; their overall 1985 market share will be under 18% and could be a new all-time low. This compares with just under 30% on nationalisation in 1975, and a little over 19% in 1979.

Peter Warry

PETER WARRY

Prime Minister
Note at end.
DLV
6/9.

PRIME MINISTER

3 September 1985

DEPARTMENT OF TRADE AND INDUSTRY - THE NEXT MOVES

Now that there is a new Secretary of State, it is important to regain the initiative on British Leyland and British Steel. Shouldn't you invite Leon in for a private discussion? You cannot avoid discussing personalities, and Leon needs reassuring that his is a crucial job.

Why not ask Robert Armstrong to find an alternative Deputy Secretary job for Robin Mountfield? He is very bright and able: now that small firms, tourism and deregulation are going to DEmp, why not use his talents and broaden his experience by transferring him from DTI? He has been all too close to BL for many years.

At BL itself, it would be worth doing one or more of the following:

a. Terminating Sir Austin Bide's contract as Chairman early and paying to do so - he is only part-time (expires, October 1986). A strong new Chairman could be appointed, to sell off the non-cars business.

b. Following the disappointing run of results (sales and profits) and the likelihood of further cash problems this autumn, you could consider terminating Harold

Musgrove's contract at Austin-Rover, again buying it out. The way would then be open to appoint a suitable tough Chief Executive of Austin-Rover Cars.

c. Strengthening the Austin Rover Board by the addition of Professor Bhattacharyya as a non-executive, and perhaps the return of Geoff Armstrong in a senior executive capacity.

d. Making it clear to the Board of BL that disposal of the four-wheel drive business, the bus business, and the truck business, is expected within the next year, and that their own continued employment on the BL Board depends on success with those ventures. The latest GM promise is to tell us this month: this should be the last delay for them.

Possible names to run the Group include, in my order of preference:

You have suggested Criss as a possibility for BSC. DRS

Graham Day - if you don't want him for NCB.

Christopher Hogg - probably needing a new challenge after sorting out Courtaulds.

Cecil Parkinson - but there could be a row about the public sector connection of BL for an MP Chairman.

Not permitted to take an offering part if paid from public funds.

Trevor Holdsworth - had some luck at GKN, but worth considering.

Ron Halstead - if he could be tempted away from the lush pastures of Beecham.

Any new Chairman needs scope to appoint a friend or two to the Board to improve his chances of success.

At **British Steel**, attention needs to be redirected to disposal of peripheral businesses, and to the privatisation of the successful Phoenix operations and the other "long legs" of the business. Agreed targets and objectives for disposal should be established this autumn for the next year: Sir Robert Haslam may be persuaded to follow such an approach.

JOHN REDWOOD

Prime Minister

(i) John Redwood has heard that Graham Day is on head hunters' lists and may be bored with British Shipbuilders.

(ii) Leon Brittan (by now) / a DTI will know that Haslam is likely to go to the NCB. John Redwood believes that Day would be very suitable for BSC or BL.

(iii) Agree to discuss this and the minute generally with Leon Brittan at an early private meeting?

Yes

(iv) Agree that Nigel Wicks or I should take up the proposal on Robin Plumtfield with Robert Armstrong?

DRN
6/9

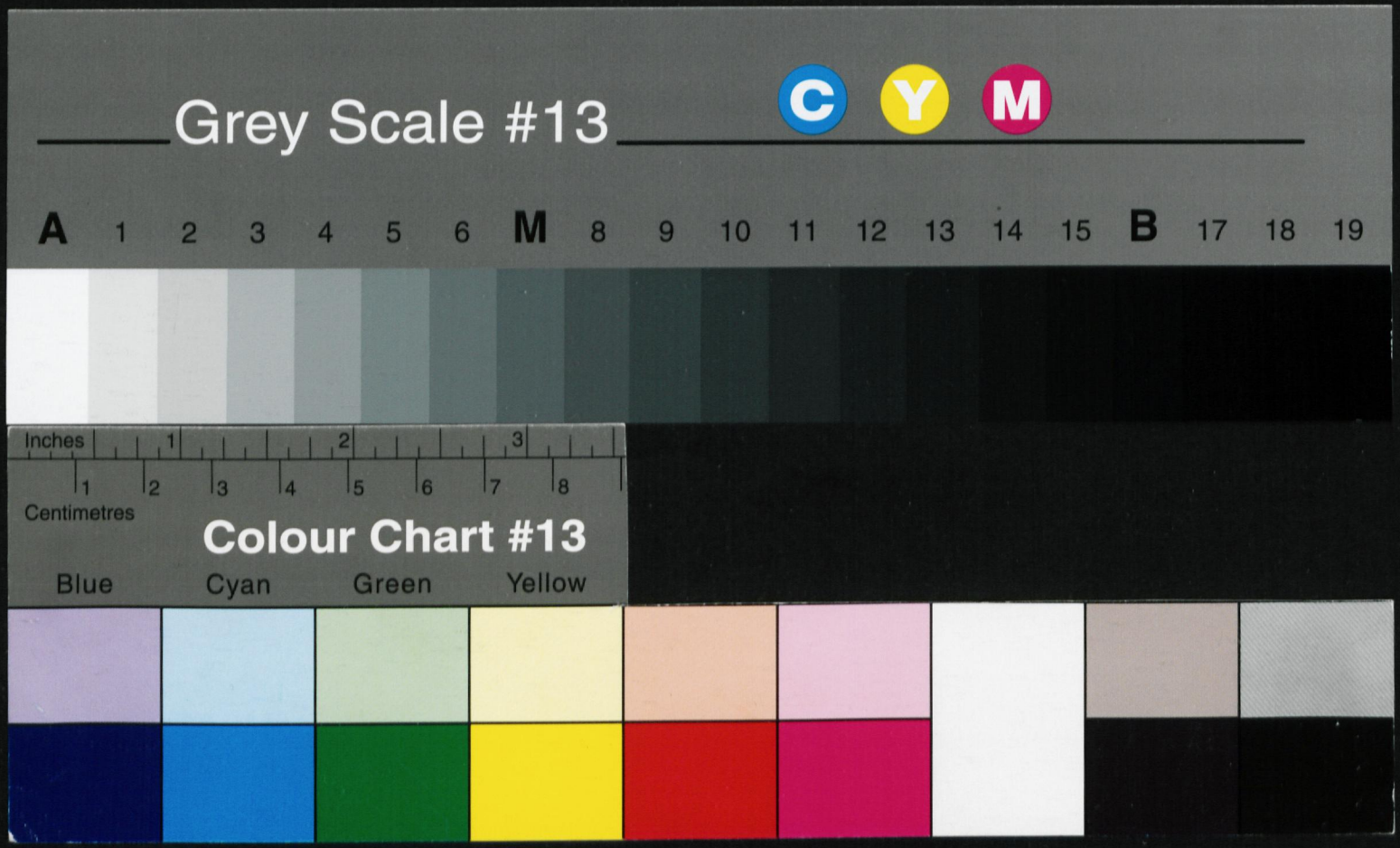
PART 9 ends:-

AT Note for record - undelivered

PART 10 begins:-

JR to PM 3.9.85

~~P. Worry to DW. 6/9/85~~


Grey Scale #13
C
Y
M
A 1 2 3 4 5 6 M 8 9 10 11 12 13 14 15 B 17 18 19
Inches
Centimetres
Colour Chart #13
Blue
Cyan
Green
Yellow