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812

PREM 19/1802

The Future of British Leyland.

Part II

(JCB Booklet in Folder at rear).

INDUSTRIAL POLICY

PT I: SEPT. 1979

PT II: 10 MAR 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~13.3.86~~							
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PREM 19/1802

Material used by Official Historian

Dd 8398366 2M 11/83 JET

PART 11 ends:-

DRN to PM 30.4.86

PART 12 begins:-

DTI to DRN 1.5.86

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(86) 10th meeting, item 1	13/03/1986
CC(86) 12th meeting, item 1	20/03/1986
CC(86) 13th meeting, item 4	25/03/1986
MISC 126(86)	23/04/1986
CC(86) 17th meeting, item 6	24/04/1986

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 KK Date 6/11/2014

PREM Records Team

10 DOWNING STREET

Prime Minister [2]

Graham Day with the BL Board behind him, very strongly, intends to ~~bid~~ be rid of David Andrews this week. An announcement is likely to be made on Friday. (There will no doubt be accusations of victimisation.)

DLV
30/4.

SECRET

37

PRIME MINISTER

BL

DTI officials met people from GM at McKinseys this afternoon.

The people from GM felt unable to give any firm views without a clear steer from Detroit. The British end of the GM will be putting options to Detroit at the end of the week. They are likely to recommend that talks should be opened with the Government about Leyland Vehicles. DTI cannot say what view Detroit may take.

David Norgrove
29 April 1986

SECRET

SECRET

36

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel No: 233 3299
7471

29th April 1986

The Rt Hon Paul Channon MP
Secretary of State for Trade
and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1 0ET

Prime Minister 2

DKS
29/4

D Paul.

GENERAL MOTORS

Thank you for sending me a copy of your minute of 25 April to the Prime Minister.

You will no doubt be acutely concious, particularly following "The Times" front-page article today, of the damage which could result from further prolongation of ill-informed speculation about what arrangements may or may not be under discussion between HMG and GM.

While I agree that we should take up the offer of informal discussions, I believe that we should make it clear that, after the many months of negotiations between BL and GM, the latter should now be in a position to make very speedy judgements as to the commercial merits of an arrangement on the commercial vehicle activity of the two companies. We have seen, however, that deep difficulties can arise over the consequences, which are political more than economic, of GM's acquisition of parts of LRL. You have rightly highlighted the future for the Freight Rover plant.

All this suggests to me that the sooner that any discussions are moved from an informal to a formal basis, and involve Ministers so as to give political direction, the better. It may be right that Peter Morrison's visit should not be used in this context, but I would have wondered whether this pre-arranged visit and ostensibly social occasion offered an easy means to initiate such discussions.

I am sending a copy of this letter to the Prime Minister, Willie Whitelaw, Nigel Lawson, Nick Ridley and John Wakeham.

Yours Norman

NORMAN TEBBIT

Ind Pol: BL. PG 11

SECRET

Ref RLO 35

LO4AFV

10 DOWNING STREET

From the Private Secretary

29 April 1986

GM: LAND ROVER-LEYLAND

Thank you for your letter of 29 April which set out contingency briefing on contacts with GM over Land Rover-Leyland. The Prime Minister has noted this, and it is reassuring to have it to hand.

DAVID NORGROVE

Miss Catherine Bradley,
Department of Trade and Industry.

SECRET

010

34

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

JU137
Secretary of State for Trade and Industry

SECRET

29 April 1986

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

Prime Minister

I asked for this just in case. Content with line proposed in the attachment? The precise words would need to be decided if and when there is a leak.

DLS
29/4.

Dear David,

GM: LAND ROVER-LEYLAND

In addition to the standard briefing on BL for Prime Minister's Questions this afternoon, you asked for a separate contingency line to take should it become public:-

i that there were contacts involving GM following the 25 March Statement in which my Secretary of State announced the ending of the talks with GM;

ii that following the approach from McKinsey, exploratory talks are in prospect about a possible deal involving Leyland Trucks/Freight Rover.

In relation to the post-25 March discussions through intermediaries, these could not fairly be described as formal talks with GM. The status of the Bankers' Trust intervention was always unclear and, although Morgan Guaranty clearly had GM's confidence and authority to speak to the Department, the proposals they floated with us were their own ideas on what GM might have been ready to go along with. We believe therefore that these exchanges could reasonably be described as a "clarification" exercise.

In terms of the current McKinsey proposal, we do not yet know the strength of GM's interest in re-opening talks confined to Leyland Trucks and Freight Rover. There are certainly no GM proposals

1786 1986 BOARD OF TRADE BICENTENARY

before us. We believe therefore that the 'line to take' should be simply that the Government has indicated to GM a willingness for exploratory talks to take place on commercial vehicles (which we did directly with GM and through Morgan Guaranty on 14/15 April). I attach a suggested line to take covering both these issues should they become public knowledge.

Yours sincerely,

C Bradley

CATHERINE BRADLEY
Private Secretary

Encl

1786 1986 BOARD OF TRADE BICENTENARY

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137.1

CONTINGENT STATEMENTS IN CASE OF LEAKS

CONTACTS POST 25 MARCH

There were informal contacts between GM's advisers and DTI officials to clarify the terms on which Government would be prepared to resume the talks. Officials referred to the Secretary of State's Statement in the House (25 March) that, although fresh proposals from GM could be considered, GM's wish to have effective control of Land Rover from the outset and the assurance of full ownership and control within a relatively short period of time was not acceptable. Officials also said that special arrangements were necessary to safeguard UK interests including a measure of real UK control over the future of the Land Rover business.

No revised proposals were received from GM.

CURRENT POSITION

The Government has indicated to GM, in the context of their review at Bedford, that it would be content for exploratory discussions to take place with BL on the possibilities for collaboration in the field of commercial vehicles. No meetings for this purpose have yet been arranged.

1786 1986 BOARD OF TRADE BICENTENARY

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SECRET

33

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

28 April 1986

The Rt. Hon. Paul Channon MP
Secretary of State for Trade and Industry

Dear Paul

NBPN.

GENERAL MOTORS

You minuted the Prime Minister on 25 April about the possibility of informal discussions at official level with GM about Leyland Trucks and Freight Rover.

I am content for these discussions to go ahead, given the benefits that could result for both Leyland and Bedford. If they do, I should be grateful if my officials could be involved, as they were in the previous negotiations with GM.

I very much hope that these discussions will not delay in any way the negotiations for the sale of Leyland Bus. This should be a high priority, given the losses which this business is making. It would be one step forward in returning BL to the private sector. When do you expect these negotiations to result in a firm proposal?

I am copying this letter to the Prime Minister, Willie Whitelaw, Norman Tebbit, Nicholas Ridley and John Wakeham.

Yours

NIGEL LAWSON

IND POL BL PT11

10 DOWNING STREET

THE PRIME MINISTER

28 April 1986

Dear Sir Austin,

Thank you for your letter of 9 April about the privatisation of Land Rover-Leyland.

I share your concern about the prospects for Truck and Bus and I am grateful to you for the considerable efforts you have already made to resolve this problem.

I should also like to take this opportunity of thanking you most warmly for all that you have done for BL during your time as Chairman.

Yours sincerely

Margaret Thatcher

Sir Austin Bide

File

BM

10 DOWNING STREET

THE PRIME MINISTER

28 April 1986

Dear Mr. Bamford,

Thank you for your letter of 23 April.

I recognise that the decision not to proceed with the sale of Land Rover at this time must be a disappointment. But this letter gives me an opportunity to say that I wish you and JCB continuing success.

Yours sincerely

Margaret Thatcher

Anthony Bamford, Esq.

OA

SECRET

Pile 32

10 DOWNING STREET

From the Private Secretary

28 April 1986

Dear John,

GENERAL MOTORS

The Prime Minister was grateful for your Secretary of State's minute of 25 April about the possibility of further discussions with GM on Leyland Trucks and Freight Rover.

The Prime Minister is content, subject to the views of colleagues, that officials may take up the offer of informal discussions with GM. The Prime Minister is also content with the line which your Secretary of State agreed with Mr. Morrison for him to take when he visits GM in the United States.

I am copying this letter to Joan MacNaughton (Lord President's Office), Rachel Lomax (H M Treasury), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Richard Allan (Department of Transport) and Murdo Maclean (Chief Whip's Office).

Yours,

David.

DAVID NORGROVE

John Mogg, Esq.,
Department of Trade and Industry

SECRET

31

SECRET

Prime Minister

Agree to these further informal discussions with GM, subject to the views of colleagues, and that Mr Harrison should speak as proposed here?

DCS
25/4.

PRIME MINISTER

GENERAL MOTORS

McKinsey, acting for GM, have told my Department that a report will very shortly be put to senior GM executives. It will present a range of options for Bedford, including total closure. GM are also said to want to study the possibility of a deal with BL on commercial vehicles and have therefore suggested an informal meeting with my officials in the course of next week. McKinsey seem not to have dismissed the possibility that GM may be prepared to reach an understanding on Leyland Trucks alone. However, with the Bedford van operation losing more money than the trucks side, they also wish to discuss Freight Rover where GM may be ready to look at options short of full acquisition e.g a joint venture. It is not clear whether this idea represents McKinsey's rather than GM's thinking: it could however mean a willingness by GM to adopt a flexible approach.

2 Subject to your own and colleagues' views, I propose that my officials take up the offer of informal discussions to gain a clearer idea of the basis on which GM might be willing to open talks on commercial vehicles. GM are obviously anxious to reach early decisions on Bedford and we may have to move quickly if we are to influence events. We too have an equally urgent need to tackle the problems surrounding the future of Leyland Trucks. Discussion on Freight Rover will be more difficult and officials will need to make clear that, if vans are to be covered in any discussion, GM would need to be ready to help deal with the

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politically sensitive questions on the future use of the Freight Rover plant at Common Lane.

3 I should also mention that Peter Morrison will be meeting Mr Stempel during his forthcoming visit to the US which was arranged several months ago. Although this will be an informal, social occasion it is possible that Mr Stempel will be tempted to turn it into a negotiating session. There will have been no opportunity before then for colleagues to have considered the significant issues raised by a potential deal with GM on commercial vehicles. I have therefore agreed with Peter Morrison that he should not be drawn into a substantive discussion. However he could indicate that he is confident that a GM proposal on trucks would be considered seriously but emphasize the political problems we now face on Freight Rover.

4 I am copying this minute to Willie Whitelaw, Nigel Lawson, Norman Tebbit, Nicholas Ridley and John Wakeham

John Mogg

PAUL CHANNON
25 April 1986

(Approved by the Secretary of State and signed in his absence)

DEPARTMENT OF TRADE AND INDUSTRY

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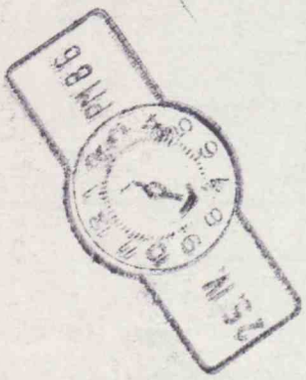

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PS/ *Secretary of State for Trade and Industry*

25 April 1986

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

Dear Daniel,

Thank you for your letter of 10 April 1986 requesting a draft reply to Sir Austin Bide's letter of 9 April about the problems of Leyland Trucks and Leyland Bus.

We advise the Prime Minister to reply, sympathising with Sir Austin's concern and expressing gratitude for his offer of help. The reply also provides a convenient opportunity for the Prime Minister to thank Sir Austin for his efforts as Chairman of BL.

... A draft reply to Sir Austin is attached.

Yours sincerely

C Bradley

CATHERINE BRADLEY
Private Secretary

DW1BCH

Please type

BT2AJR

DRAFT FOR THE PRIME MINISTER TO SEND TO

Sir Austin Bide
Chairman
BL Plc
106 Oxford Road
Uxbridge
MIDDLESEX
UB8 1EH

Thank you for your letter of 9 April about the privatisation of Land Rover-Leyland.

I share your concern about the prospects for Truck and Bus and I am grateful to you for the considerable efforts you have already made to resolve this problem. I should also like to take this opportunity of thanking you for all that you have done for BL during your time as Chairman.

yours warmly

DW1BCI

Ind Pol: BL. Pt 11.

J C BAMFORD EXCAVATORS LTD

By Appointment to Her Majesty the Queen
Manufacturers of Construction and Agricultural Equipment
J C Bamford Excavators Ltd

Rocester Staffordshire England ST14 5JP
Telephone Rocester (0889) 590312
Telex 36372 Fax No. 593612

Your ref
Our ref AB/cb
Date 23 April 1986

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London
SW1

Dear Prime Minister

I have pleasure in enclosing a copy of an annoucement we are making today, which demonstrates the strong support enjoyed by JCB from farmers and Land Rover dealers.

I would particularly draw your attention to the research among farmers. This group has extensive experience of both companies' vehicles: 91% of those expressing an opinion were in favour of JCB being in charge of Land Rover.

Similarly a majority of Land Rover dealers who expressed a preference opted for JCB.

If you have any further questions about our proposals for Land Rover please do not hesitate to get in touch with me, Rooney Massara or Don Hume at Rocester.

Yours sincerely

Anthony Bamford

ANTHONY BAMFORD
Chairman and Managing Director

Enc

NEWS RELEASE

DATE: 23rd April 1986
CONTACT: Don Hume, JCB: 0889 590312

LAND ROVER DEALERS AND FARMERS FAVOUR JCB

In a survey conducted by MORI, a majority of Land Rover dealers who expressed an opinion on the issue favoured JCB being in charge of Land Rover. Three out of four of the 101 Land Rover dealers in the sample expressed a view and, of these, 55 per cent were in favour of JCB being in charge.

The MORI survey, on behalf of JCB, shows that a high proportion of Land Rover dealers believe that JCB would improve Land Rover's performance in such areas as management, product quality and profitability - and a similar survey conducted simultaneously among farmers shows even greater support for JCB.

MORI asked Land Rover dealers to say, on a range of different aspects, whether they felt Land Rover would be better or worse than at present if JCB were in charge. On every aspect, far more of the dealers who knew JCB said Land Rover would fare better rather than worse under JCB, with the most dramatic contrasts being on profitability (62 per cent better, 3 per cent worse), competition with the Japanese (57 per cent better, 4 per cent worse) and exports (45 per cent better, 5 per cent worse). Other striking contrasts were in the assessments given by the Land Rover dealers on marketing and sales (46 per cent better under JCB, 9 per cent worse), product quality (50 per cent better, 8 per cent worse), and management (41 per cent better, 5 per cent worse).

The sample of farmers in England and Wales interviewed by MORI is significant as this particular group is familiar with the products of both companies with over half the sample of 300 either having used or owned JCB vehicles and 81 per cent having owned or used Land Rover vehicles.

CONTD...../2

Rocester Staffordshire England ST14 5JP Telephone Rocester (0889) 590312 Telex 36372 Fax No. 590588

As with the dealers, three out of four of the farmer respondents expressed an opinion - and, of these, 91 per cent were in favour of JCB being in charge of Land Rover and only 8 per cent were opposed.

MORI also asked those farmers who knew JCB to say whether they felt Land Rover would be better or worse than at present with JCB in charge. Overall, on every aspect, at least a third of respondents believed that with JCB in charge there would be an improvement - 61 per cent believed JCB would improve profitability and only one respondent said it would be worse under JCB. Again, a high proportion believed that Land Rover would be better off if JCB were in charge in terms of competing with the Japanese (59 per cent better, 4 per cent worse), product quality (51 per cent better, 2 per cent worse), product engineering (48 per cent better, 1 per cent worse), management (47 per cent better, 1 per cent worse) and marketing and sales (48 per cent better, 3 per cent worse).

- ENDS -

NOTE

For further information on the MORI poll, contact Peter Hutton at MORI - tel: 01-222 0232

For further information on JCB, contact Don Hume - tel: 0889 590312

Technical Note

Dealers

MORI interviewed a representative sample of the proprietors and managers of 101 of Land Rover's 226 authorised dealers in the United Kingdom. Interviews were conducted by telephone on April 21st and 22nd, 1986.

Copyright MORI, 1986

Farmers

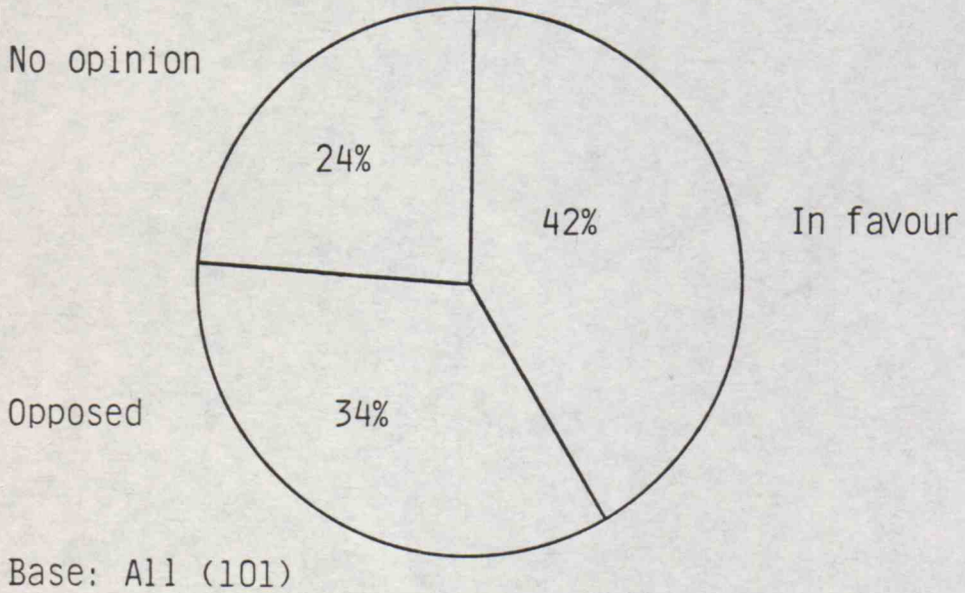
MORI interviewed a representative sample of 300 farmers on farms in England and Wales at least 100 acres. Interviews were conducted by telephone on April 21st and 22nd, 1986.

Copyright MORI, 1986

SUPPORT FOR JCB BEING IN CHARGE

Dealers

Q On balance, would you favour or oppose JCB being in charge of Land Rover?



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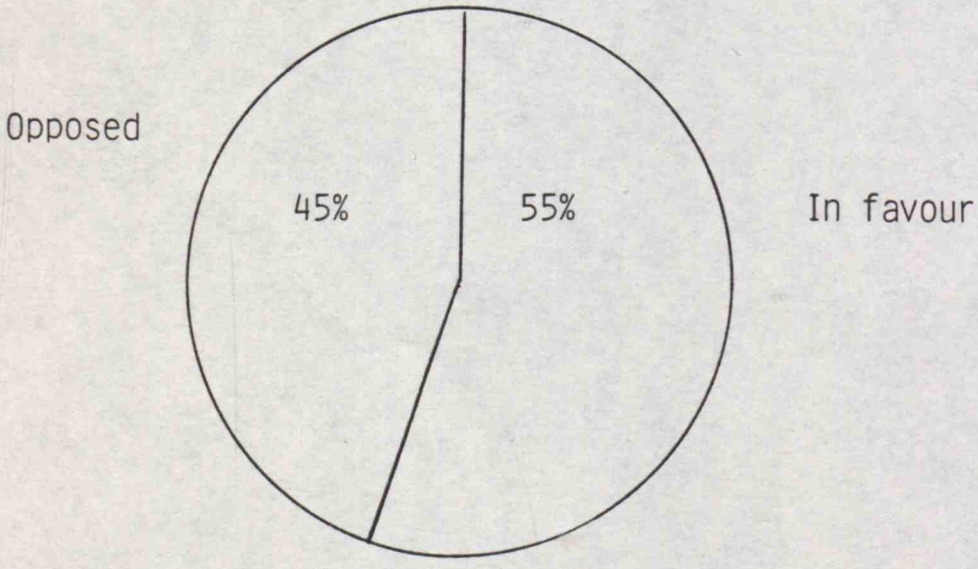


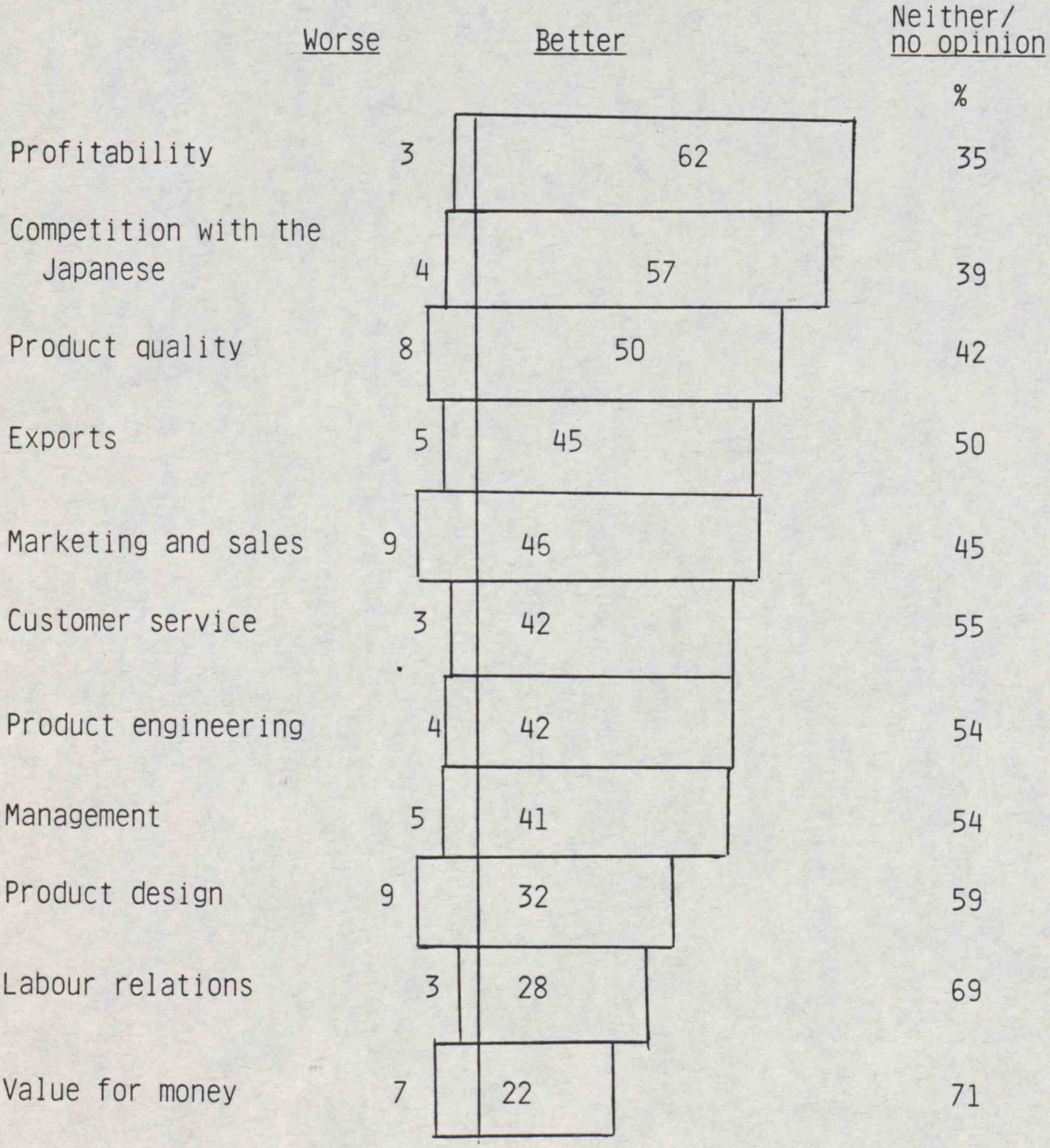
Base: Expressing an opinion (76)

Source: MORI

LAND ROVER UNDER JCB

Dealers

Q Now I am going to read out some things and would like you to tell me if JCB were in charge of Land Rover would you say it would be better or worse than at the moment or would it make no difference, so far as you know?



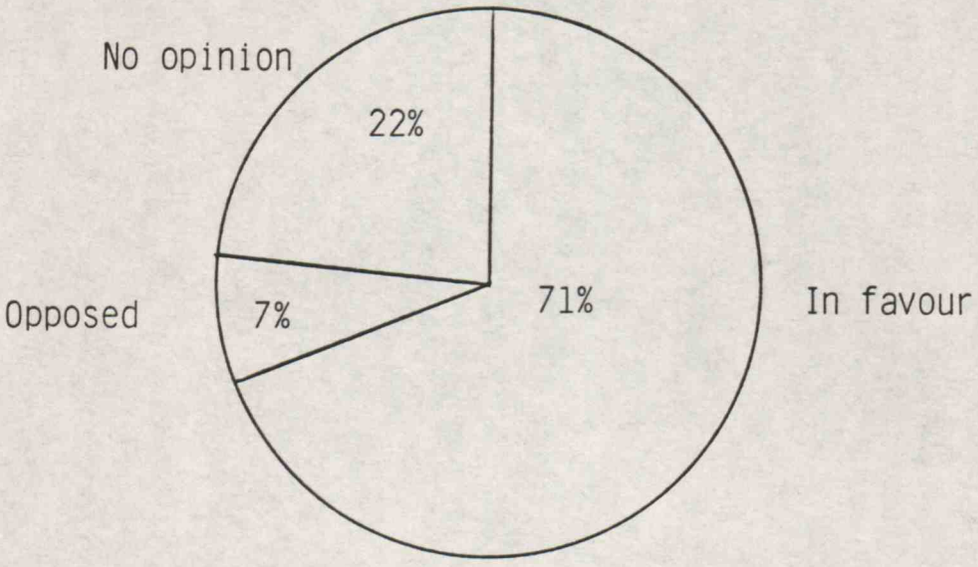
Base: Know JCB (74)

Source: MORI

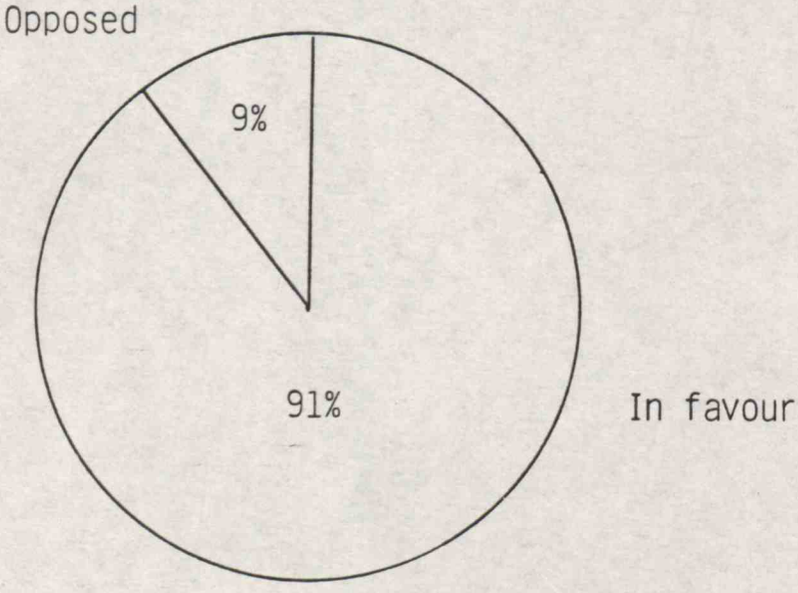
SUPPORT FOR JCB BEING IN CHARGE

Farmers

Q On balance, would you favour or oppose JCB being in charge of Land Rover?



Base: All (300)



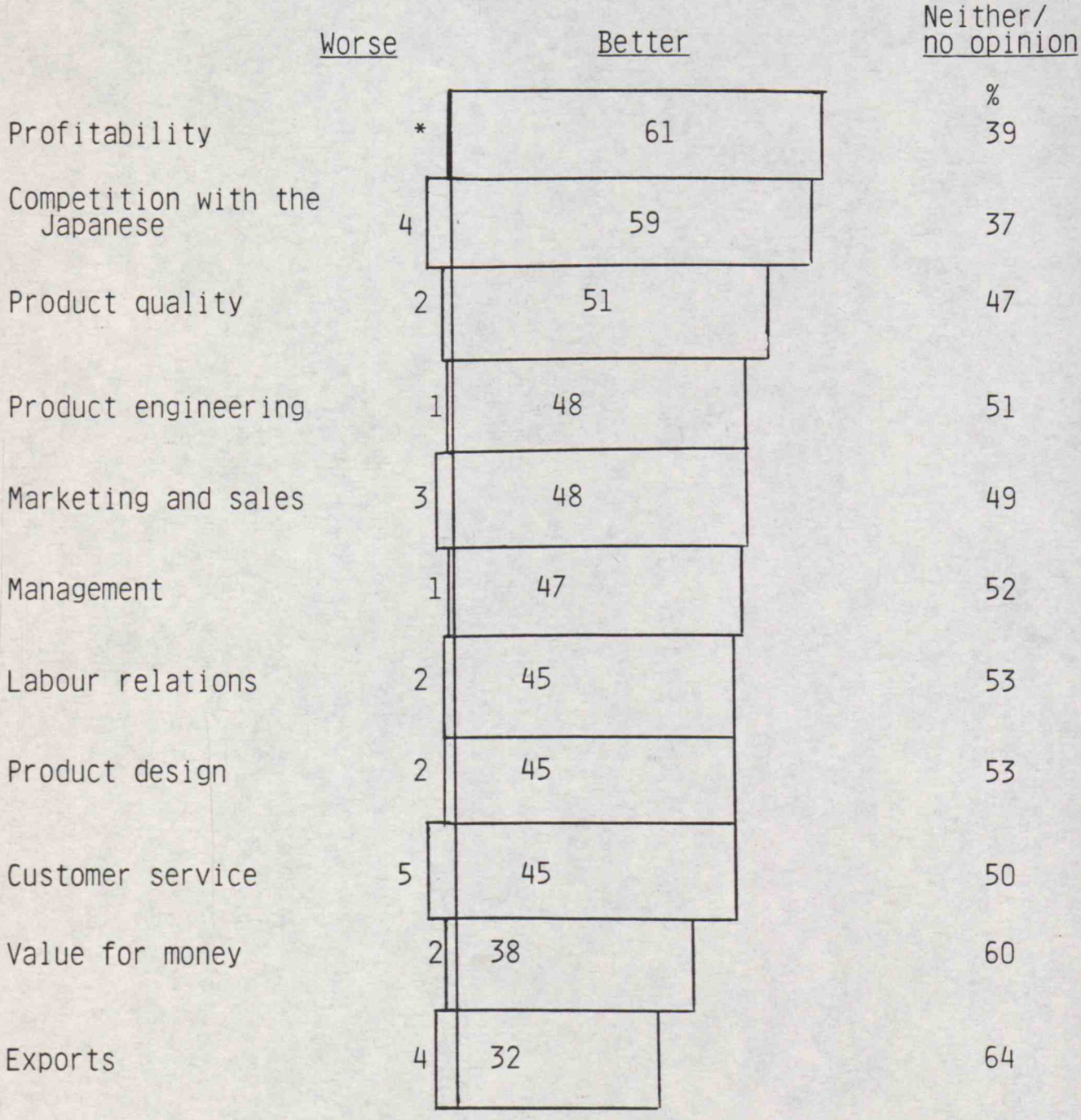
Base: Expressing an opinion (236)

Source: MORI

LAND ROVER UNDER JCB

Farmers

Q Now I am going to read out some things and would like you to tell me if JCB were in charge of Land Rover would you say it would be better or worse than at the moment or would it make no difference so far as you know . . .



Base:

Source: MORI

BL:

With your permission, Mr Speaker, I should like to make a Statement.

When I made my statement to the House on 25 March following the ending of the talks between BL and GM on the privatisation of the main Land Rover-Leyland businesses, I made it clear that BL would continue to study alternative ways forward for all the businesses concerned. In the particular case of Land Rover and Freight Rover, BL asked for proposals to be made by 15 April. As the House is aware, four proposals were received. These were from Aveling Barford in respect of Land Rover and Range Rover; J C Bamford in respect of Land Rover, Range Rover and **possibly Freight Rover; Lonrho in respect of Land Rover and Range Rover; Schroders (acting for a management and institutional consortium) for Land Rover, Range Rover and Freight Rover.**

The BL Board have carefully considered these proposals and they have weighed them against the option of retaining Land Rover and Freight Rover within BL for a possible flotation or trade sale at a later date. The Board have concluded, on both commercial and industrial grounds, that retention of the businesses within BL pending a later sale presents a more attractive option for BL than any of the bids which have been received. The Board have therefore recommended to the Government that none of the bids be pursued and that the companies be retained within BL while preparations for future privatisation are made. The Government have accepted the Board's recommendation.

JF2BHL

file XB
cc Mr Griffiths
DTI

10 DOWNING STREET

From the Private Secretary

23 April 1986

The Prime Minister has asked me to acknowledge and thank you for your letter of 22 April about JCB.

DAVID NORGROVE

R. W. Rowland, Esq.

AR

SECRET

Prime Minister 29 cc B&P
NB - the questions to ask in §4.

P 02026

From: J B UNWIN
23 April 1986

N.L.O.
23.4

MR NORGROVE

LAND ROVER/FREIGHT ROVER: MIC 126 6th MEETING

Not having been privy to the recent papers or discussions, I have not provided a formal brief for this afternoon's MISC 126 meeting. You may, however, like to have the following brief comments on Mr Channon's minute of 21 April, of which you kindly sent me a copy last night.

2. The analysis of the relative merits of the competing bids, as against retention and flotation, is extremely sketchy. It is very difficult to make an informed judgement on the basis of these figures. There are many uncertainties (eg on both the cash and deferred elements of the proposals) and no doubt negotiation would produce changes that could upset the ranking order.

3. However, on the evidence of these figures, and of the previous known background, the conclusions I derive are as follows:-

(i) the J C Bamford and Avelling Barford bids can be written off. It is scarcely conceivable that the cash element in either could be increased to make them genuinely competitive;

(ii) given that a crucial element in this issue has been to keep Land Rover British, the Lonhro bid does not have a sufficient cash advantage to make it worth considering further. To secure British ownership it would presumably either be necessary for the Government to be prepared to step in again, or in some way to secure Lonhro from foreign take over. The present cash margin, and any that could realistically be negotiated, would not warrant this;

(iii) this leaves the issue between Schroders and retention within BL and flotation. The Schroders' price is not a good one; it is significantly less than the putative GM deal (although the precise figures were never finalised). Schroders' strategy is also clearly to get out themselves in a couple of years time with a fat profit out of the planned flotation. The logical response, therefore, must be why should not the Government do this and take for BL and themselves the benefits of the flotation (the proceeds of which in mid-1988 in net present value terms BL estimate at around £200 million).

4. Such analysis as we have, therefore, points to the retention and flotation course (an option which both we and the Treasury have advocated in previous discussions). The Prime Minister will, however, wish to be satisfied that the analysis of the numbers is a robust one, and that the DTI have crawled over it very carefully. She may also want to question the Trade and Industry Secretary on whether there are any hidden snags in the form of eg prospective cash requirements for re-equipping investment between now and 1988. If this were the case (and you will recall that one of the criticisms of the management buy-out has always been that they could not raise the necessary finance for further needed investment), then the net benefit to the Government of retention and flotation would obviously be less. We need to be clear on this point now.

Consideration by Cabinet and presentation

5. The Prime Minister will presumably want the Trade & Industry Secretary to report the MISC 126 decision to the Cabinet tomorrow morning. In the circumstances, this would probably best be done orally. It might, however, be sensible for Mr Channon to have at hand a draft of the statement to be made tomorrow afternoon which could be circulated round the table if necessary. For obvious reasons, presentation of the decision will not be easy, and the Prime Minister may wish to give colleagues in the Cabinet generally an opportunity to comment. The statement would in any

case need to be cleared with the Prime Minister herself and the smaller group of key Ministers who have been directly concerned.

J B UNWIN

Cabinet Office
23 April 1986

SECRET

2 D

PRIME MINISTER

MISC 126

You cannot, I am afraid, have the benefit of the usual Cabinet Office brief for MISC 126 tomorrow, since they know little of the background.

The objective of tomorrow's meeting is to decide whether or not the Government should accept the BL Board's recommendation to turn down all of the bids.

Mr. Channon may circulate a short note at the meeting, and he will be in the best position to explain the commercial rationale which supports the Board's recommendation. You may also need to encourage other Ministers to speak: past experience shows that a rehearsal like today's inhibits people when it comes to the performance.

The conclusion you could reach might be as follows:

1. that MISC 126 recommends to Cabinet acceptance of the recommendation of the BL Board, namely that all of the bids should be rejected. The timing and manner of privatisation of the businesses will need to depend on their progress. But the preferred route is likely to be a flotation.

The conclusion should ideally budge the position on Freight Rover, leaving open the question whether it would form part of the flotation with Land Rover or whether it would be privatised separately.

G. E. Stevens (Duty Clerk)

pp DAVID NORGROVE

22 April 1986

SECRET

27

PRIME MINISTER

22 April 1986

BL

In taking a decision on the other bids for Land Rover the position of GM will need to be borne in mind. The management in Detroit are pressing Bedford for early decisions on their future. Whilst they are conscious that a deal with BL remains possible it is not their management style to hold off a decision indefinitely, and once such a decision is made, it is likely to prove irreversible whatever the economic logic.

Whenever discussions with GM are re-opened there will be cries of foul; the earlier the date the greater the shout. Even if such discussions followed the announcement of redundancies at Bedford and was in the context of what alternative options might be available, it would still be difficult. But delaying much beyond the end of May runs the risk that GM might take irreversible decisions. The discussions could also drag on into the summer recess, leaving the issue hanging over the country well into the pre-election party conference season.

We recommend re-opening discussions with GM in mid-May and that the other bids for Land Rover should be dismissed. If this timetable does not look possible then (most reluctantly) the arguments in favour of the management buy-out become rather stronger.

Peter Warry

PETER WARRY

LONRHO

Lonrho Plc
Cheapside House
138 Cheapside
London EC2V 6BL

Telephone 01-606 9898
Telex 885908
Telefax 01-606 2285
Cables Lonrho London

The Prime Minister
10 Downing Street
London, S.W.1.

22nd April, 1986

Dear Prime Minister,

JCB have placed advertisements in certain newspapers concerning the validity of their approach for Land Rover.

We were surprised at certain statements made by JCB and have researched from public records the history of the company.

The facts do not appear to support the statements made by the company (see attached).

In addition, JCB's approach to Land Rover appears to be as a sister equipment to its construction machinery when in reality the potential for Land Rover is greatest in the related passenger vehicle market in which JCB has no experience.

Land Rover, if it is to be sold into 'private hands', should, for the security of employment of the 10,000 plus employees, be sold to an organisation which has a substantial track record in all areas of motor and equipment market places - worldwide.

Yours sincerely,

R.W. Rowland

Registered office as above
Registered in England No. 103002

JCB / LAND ROVER

JCB and their adviser Lazards Brothers & Co. have issued press statements and published advertisements in The Sunday Times, The Times and The Daily Telegraph claiming that JCB products are a match for the Land Rover operations of BL.

These advertisements make various claims and indirectly attacks the management buy-out proposals as having the objective of 'looking to make a quick killing from a flotation on the stock exchange'.

What is the truth behind these claims and what questions should be addressed to JCB.

1. IS JCB BRITISH?

The corporate holding structure of JCB is most unclear. Indeed the advertisements are declared as being placed by J.C. Bamford Excavators Ltd, not the JCB UK holding company, JCB Service Ltd. Control of J.C. Bamford Excavators Ltd is through substantially a 74 per cent holding by JCB Services Ltd in the United Kingdom and 24 per cent holding by Abigail Holdings in Luxembourg .

JCB Service Ltd is owned as to one share held by a Jersey company and 48,708 shares held by a Netherlands company, Transmission & Engineering Services Netherlands. It is not possible to establish the owners of this company which is registered at a Dutch lawyers office (see Appendix A for holding structure).

The true shareholders behind these nominee companies are deliberately obscured.

Indeed, in addition, another major company in the JCB family of companies is JCB Transmissions. This company sold to J.C. Bamford Excavators in 1983 £8.7million of product. However, for reasons which are not immediately clear, the company was acquired by a lawyer's 'off the shelf' company on 31st August 1984 and in October 1984 this company was re-registered as an unlimited company. The major attraction according to Palmers Company Law manual of unlimited companies is that they are not required to publish their annual accounts.

For a company as clearly in the public eye, such as Land Rover, employing over 10,000 people, it is disturbing that JCB have pursued a lack of frankness about their affairs and to the company's true ownership, foreign or British.

This aspect requires clarification as any undertaking and suggested 'gold share' arrangements required by Government, need to be enforceable on identifiable persons.

2. DO JCB AND LAND ROVER FIT TOGETHER?

JCB Service (the UK holding company) had a turnover in the year to December 1983 of £131 million (the 1984 accounts are overdue under the Companies Act for filing). Land Rover's turnover in 1984 was over three times larger at £415million.

Land Rover employees in 1984 were nearly nine times larger at 10,897 (JCB Service employed 1257).

Land Rover assets employed in 1984 were approximately £270million, three times larger than JCB Service assets of £86million in 1983.

Land Rover exports approximately 50 per cent of its production, whereas the JCB accounts for 1983 show that close to 67 per cent of JCB's turnover is sold in the UK market. In fact, Land Rover exports at over £200million are nearly five times as large as JCB's.

JCB appear to be a small puppy with a large appetite.

3. HAS JCB MADE A LOSS IN ITS 40 YEARS OF TRADING?

The JCB UK holding company, JCB Service Ltd, in 1980 made only £75,267 on a turnover of £109.8million. However, the accounts revealed a charge of £725,320 described in the notes as a provision for losses in subsidiaries not consolidated.

If these subsidiaries had been consolidated the JCB Service would have shown a loss of £650,000.

Indeed, J.C. Bamford Excavators Ltd, in which company's name the advert was placed, reported a loss before tax of £2.9million in 1980.

This statement made by Lazards shows a lack of basic research underlying the various claims made by the advertisement.

4. JCB HAVE MADE A PROFIT OF £25MILLION IN 1985

Unfortunately, the 1985 accounts have not been filed with Companies House, nor indeed have the 1984 accounts been filed.

5. JCB DOESN'T HAVE ANY NET BORROWINGS

JCB Service owns 26 per cent of JCB Credit Ltd., the balance being held by Lombard & Ulster Ltd, a subsidiary of National Westminster Bank Plc. This company provides instalment credit facilities for JCB customers. In doing so allowing JCB to offer credit without having to find the finance from its own resources.

The borrowing on JCB Credit Ltd at September 1985 was £33.8million. This related debt is kept off the balance sheet of JCB Service, because this company is financially treated as an investment and not a subsidiary.

Unfortunately, the up to date position of overall JCB related debt cannot be calculated because of the failure by JCB to file current accounts. However, based on the latest available information the JCB associated debt would appear as follows:-

JCB Service (UK holding company) December 1983

Cash	£21.0million
Debt	
Overdraft	(5.0)million
Mortgage	(1.1)million
	(6.1)million
Net JCB Service Ltd. Cash in Hand	£14.9million
JCB Credit Ltd debt September 1985	£(33.8)million
JCB 'Group' net debt	£18.9million

In reality, therefore, the on and off balance sheet finance would indicate that JCB does have net borrowings.

6. JCB WORLD SHARE IS GROWING FAST

Whereas the world market place for 4x4 vehicles has shown dramatic increase over the last few years, the Economist in its article of November 6th, 1985 showed that the world backhoe-loader market - the single most important product of JCB (approximately 6,000 from total unit sales of equipment of 8,500) - has fallen 40 per cent. In 1979 nearly 50,000 units were sold by all manufacturers, falling to approximately 33,000 units in 1984.

JCB is of course fortunate to derive some protection in its important European markets (88 per cent of total JCB sales in 1983) by the ruling of the European Commission imposing additional import duty of 33 per cent on five Japanese importing companies.

The Japanese had increased their market share of the British market over three years from 6.5 per cent to 42 per cent.

No such similar protection has assisted Land Rover .

7. JCB IS STRONG IN THE USA

Certainly JCB has invested over a long period of time extensive marketing efforts in penetrating the USA market. JCB is reported to have lost £12million in the United States up to 1982.

The strength of the dollar during 1984 and 1985 has assisted the price effectiveness of JCB equipment in the American market, compared with the difficulties the company experienced when the pound was at $2.40.

It is during the period of American dollar strength relative to Sterling that JCB's share of American market has increased from 2.6 per cent to a reported 8 per cent.

8. JCB TAKES OVER 50 PER CENT OF THE UK MARKET (AND HAS DONE SO FOR 22 YEARS)

Prior to the Japanese being handicapped in the UK market place, this competition had forced out JCB other competitors, Ruston Bucyrus now out of production, Hymac going bankrupt (subsequently rescued), and Priestman reducing substantially its operations. Subsequently the lack of competition from local or Japanese manufacturers has assisted JCB securing a major share of the UK market. This position follows the success of the British Manufacturers of Construction Equipment and Cranes' application to the European Commission 'pushed', according the the Financial Times of 6th August 1984, by JCB so that as the survivor they have achieved a major share of the UK market.

This action by JCB was reported to be resented by major UK buyers and as Mr. Ronald Stuart, the then president of the Construction Plant Hire Association in Britain said 'we are set against that looks like protectionism'.

9. OVER THE LAST 10 YEARS JCB'S AVERAGE RETURN ON INVESTMENT HAS BEEN 27 PER CENT PER ANNUM

Because again of the failure to file up to date Report and Accounts, it is not possible to look at the last ten years ending with December 1985.

However, looking at the last eight years of Profit before Tax as an percentage return on capital and reserves (including minority interests) (Appendix B). Only 1976 has a return higher than 27 per cent per annum and the average for the eight years was 13.7 per cent.

Indeed the last five years' average return (1979/83) was only 10.4 per cent.

In addition, the 1983 Report and Accounts notes that Land and Buildings at £26.9million are stated at cost but 'it is the view of the Board that the aggregate market value of Land Buildings has increased significantly over the net book values as shown in the Balance Sheet'.

This 'significant' increase in book value of Land and Buildings would only serve to reduce again the return on JCB's shareholders' funds.

In summary, therefore, JCB has not the record it holds out for itself, in relative terms JCB is substantially smaller than Land Rover bringing with this the particular problems of management, finance and marketing which the Land Rover scale of operations can bring.

JCB isolates the Land Rover as a rough terrain vehicle for agriculture construction with military, local authority and government markets.

Land Rover and if JCB include Freight Rover, has a significant future potential in the personal vehicle market as well as in the transport vehicle market.

JCB has no experience in these vitally important areas of Land Rover distribution. The future plans of Land Rover rely heavily on the increasing contribution from these areas of activity.

From the comparative analysis of turnover (excluding USA, because Land Rover until recently had not had suitable acceptable equipment to export to the USA) the geographic distribution of turnover is as follows:-

	1983 JCB		1985 Land Rover/Range Rover	
	%	£000's	%	£000's
U.K.	74		28	
Europe	23		26	
Africa	1		13	
Middle East	1		10	
Other Regions	1		23	
	100	118,825	100	395,000
U.S.A.		12,357		NIL
		£131,182		£395,000

Lonrho on the other hand has turnover in motor and vehicle distribution in 1985 of £1.1billion. It is a distributor, a manufacturer, and it is a retailer of most vehicle marques in the world. It is one of the biggest retailers of agricultural earth moving and passenger vehicles in the UK. Also, Lonrho in continental Europe and in Africa has significant vehicle distribution. It sells worldwide over 250,000 passenger vehicles in addition to commercial vehicles.

Land Rover is well within the management strength of Lonrho.

MOTOR & EQUIPMENT DISTRIBUTION

Year September	TURNOVER	PBT	£millions
1985	1096.5	27.3	
1984	989.4	24.0	
1983	931.3	17.6	
1982	839.3	12.7	

MANUFACTURING

1985	434.2	19.4
1984	410.8	11.2
1983	418.9	14.4
1982	410.5	12.1

Also Lonrho's overall performance has shown a substantial increase

	Shareholders' Funds (including Minorities interests) £millions	PBT £millions	% Return	Gearing	Cash £millions
1985	793.6	158.3	19.9	62%	211.3
1984	786.9	135.4	17.2	76%	125.6
1983	659.1	113.2	17.2	89%	109.4
1982	648.1	75.1	11.6	91%	56.3

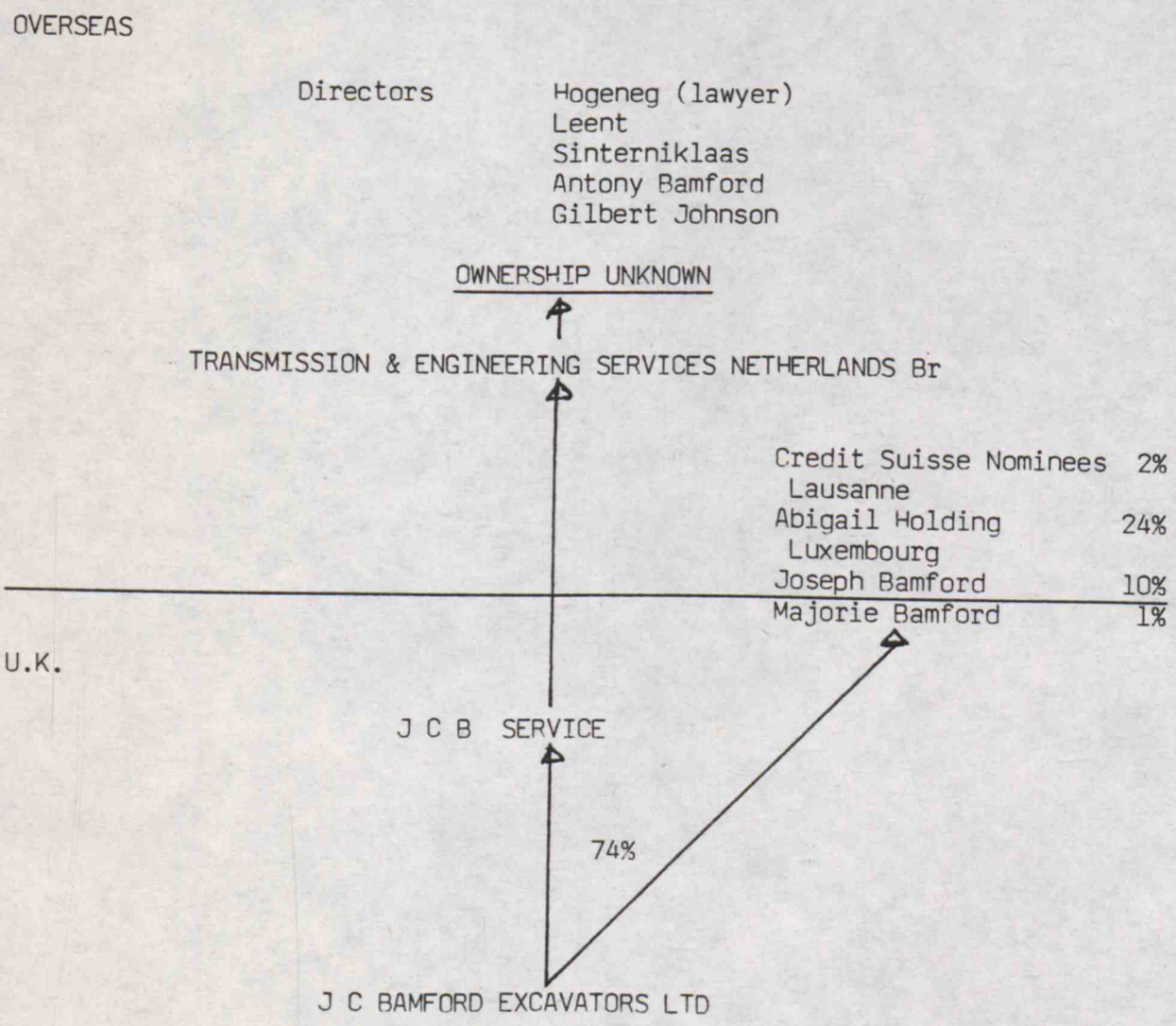
Source: Lonrho Annual Report and Accounts

However, Land Rover from the analysis in this paper is demonstrated as being outside the scale of experience of the obscurely controlled JCB organisation.

22.4.86.
TJR/MN

APPENDIX A

JCB CORPORATE HOLDING STRUCTURE



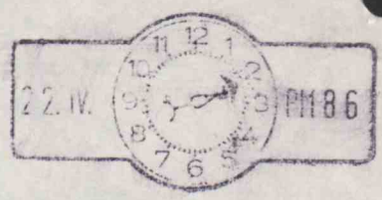
J C B

RETURN ON INVESTMENT

	CAPITAL & RESERVES (incl. Minority)	P.B.T.	% Return
1983	79.7	11.3	14.2
1982	73.5	9.8	13.3
1981	72.3	3.7 *	5.1
Ave. 3 years 1981-83	75.2	8.3	11.0
1980	73.0	0.1 *	0.1
1979	74.7	13.9	18.7
Ave. 5 years 1979-83	74.7	7.8	10.4
1978	63.4	14.8	23.3
1977	47.2	10.8	22.9
1976	7.3	2.8	38.4
Ave. 8 years 1976-83	61.4	8.4	13.7

* PBT is per Accounts and excludes extraordinary items re non-consolidated subsidiaries.

1) Land and Buildings at December 1983 of £26.9m are stated at cost, but Directors' Report states "it is the view of the Board that the aggregate market value of Land and Buildings has increased significantly over the net book value as shown in the Balance Sheet".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cc BLCP

SECRET

PRIME MINISTER

LAND ROVER/FREIGHT ROVER

BL have now completed their assessment of the four competing bids for Land Rover/Freight Rover and the BL Board meets tomorrow to consider issues. I enclose a summary of the main financial elements of each proposal. For ease of comparison a value of £30m has been added to three bids: this allows for the fact that only the fourth, the Schroders/MBO proposal, includes a bid for Freight Rover.

2 BL have also considered the relative merits of retaining Land Rover/Freight Rover with a view to later flotation or a trade sale. Of most significance these cover the benefits to BL's profit figures of the rationalisation of Land Rover facilities and the entry into the US market. On the basis outlined above BL estimates that in net present value terms Land Rover Limited might be floated in mid-1988 for around £200m.

3 Sir Austin Bide has made private soundings of his BL Board colleagues. He is very confident that the Board will recommend keeping Land Rover within BL and preparing the company for later flotation so that its full value is realised and the benefits flow back to BL (and indirectly to HMG).

4 If we accept that view we will face political criticism for not taking that decision some months ago thereby avoiding prolonged, damaging uncertainties for the businesses

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involved. We should however be able to mount a respectable defence against this - not least the need to give full consideration to the GM proposals and to test the market when other interested parties emerged. Having carefully examined the options, it is now the Board's firm commercial judgment that BL's best interests would be served by retaining the businesses and preparing them for later privatisation by other means.

5 I expect the Board to reach only a preliminary view tomorrow. This will allow colleagues to have the opportunity to comment before final decisions are taken. However, if we conclude that the Board's chosen course is the right one, I believe there would be strong advantages in an announcement this week - before the BL view leaks, as it almost inevitably will, and we are faced, yet again, with a series of damaging Parliamentary and public debates. This would point to a Statement on Thursday, 24 April.

6 I am copying this minute and its attachment to Willie Whitelaw, Nigel Lawson, Norman Tebbit and John Wakeham. I should welcome your own and colleages urgent views on how we should proceed.

John Mogg

PAUL CHANNON
21 April 1986

(Approved by the Secretary of State and signed in his absence)

DEPARTMENT OF TRADE AND INDUSTRY

JF6AFO

Proposal from	Schroder Ventures (on behalf of a consortium of institutional investors and the management)	Lonrho Plc	JC Bamford Excavators Limited	Aveling Barford Limited and others
Offer for	Land Rover, Freight Rover, their related parts businesses and certain overseas companies.	Land Rover, its parts business and certain overseas companies.	Land Rover, its parts business and certain overseas companies. Willing to consider the inclusion of Freight Rover.	Land Rover, its parts business and certain overseas companies.
Nominal value of offer or proposal	£153 million	£117 million	Claimed to be £150 million to £175 million plus a further £25 million if Freight Rover included.	Net working capital plus a royalty on Land Rover and Range Rover sales for the next 3 years (but extending to 10 years if Santana licence terminated).
Cash element and and financial liabilities to be taken over	£113 million	£117 million	£40 million	£68 million (estimated)
Non-cash or deferred element (nominal)	£40 million possibly rising to £53 million	None	Possibly £110 million to £135 million. Additional £25 million if Freight Rover included.	Possibly £17 million
Form of non-cash element	Convertible unsecured loan stock, interest free for 3 years.	-	Profit related payments.	Royalty on worldwide sales of Land Rover and Range Rover units.
Estimated present value of offer (see 6.1)	£143 million	£147 million*	£120 million*	£116 million*
	* Adjusted for Freight Rover, with an assumed value to BL of £30 million			
Business Plans	- Business to be conducted broadly in accordance with 1986 Corporate Plan.	- Land Rover to be expanded within Lonrho. - Possible involvement of minority technical partner.	- Land Rover to be run as a separate entity within the JCB Group.	- Range Rover business will either be separately disposed of or floated. - Particular strengths in Far East, China and South America claimed.
Other	- Planned flotation within 2 years when an additional £50 million would be raised. - Arrangements for employees to acquire up to 10% of the ordinary share capital of the new holding company.	- Offer conditional on net assets being not less than £115 million.	- Employee profit sharing scheme to be considered but dependent on productivity.	- Purchaser not specifically identified - Aveling Barford Limited would be a minority shareholder.

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

PRIME MINISTER

NBPN

BL

In his minute of 16 April, Paul Channon summarised the bids for Land Rover. In my view none of the offers is oustandingly attractive. As of now the runner appears to be J C Bamford, but the price depends very substantially on the future performance of the company.

As he mentions, there are two other possible courses. One is implicit in paragraph 5 of his minute. The other is to retain Land Rover with a view to flotation by BL. But the attraction of this latter option depends on feasibility, timing and the sale price that might reasonably be expected. I would like to suggest that DTI and Treasury officials, with the financial advisers, be commissioned to produce quickly for us an assessment of this possibility. We can then consider the full range of options open to us.

The Government's position could be made difficult (politically, and possibly in relation to the minority shareholders) if the BL Board takes a formal decision different from the course that we wish to adopt. Therefore if we have a firm preference, it would be advantageous for the Board to be aware of this before it takes a final decision.

I am copying this minute to Willie Whitelaw, Norman Tebbit, Paul Channon, Nicholas Ridley and John Wakeham.

N.L.

N.L.
21 April 1986

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PRIME MINISTER

B.L.

Mr. Channon reports, as expected, that the BL Board are likely to recommend against accepting any of the present offers for Land Rover.

Mr. Channon seeks your views and that of other colleagues both on the substance and on the timetable.

Would you like a meeting of the small group tomorrow afternoon? This would discuss: Yes please

(i) whether to go for a final decision and announcement this week, and if so whether there should be a meeting of MISC 126 before Cabinet; note that Mr. Walker will still be away on Thursday. You were earlier inclined to go straight for Cabinet

(ii) the substance, and whether politically the Government can now turn down quite a substantial bid from the management buy-out (and Lonhro) resting on the views of the BL Board.

I would also add:

(iii) the future of the approach from GM. If a further approach from GM in late May or early June became public knowledge the rejection of the bids now on the table would look pre-arranged and particularly if the approach made 10 days ago became public knowledge people would suspect duplicity. It seems increasingly unlikely that the Government could countenance an approach from GM as early as May or June. Should GM be told this now?

Perhaps we could have a word with you about this and the timing of any meeting at 0855 tomorrow morning, before Questions briefing starts.

D.N.

21 April 1986

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CC/BC

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/

18 April 19896

Prime Minister 2

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

MR

Dear David,

BL : SELF-CHANGING GEARS (SCG) AND CUMMINS

Since SCG was mentioned in some of the MISC 126 papers, colleagues will wish to know that the BL Board have now considered the approaches from Voith, ZF and Cummins and have decided to proceed with the sale to Cummins.

A disposal of this size does not require Government approval but, in view of the sustained level of interest in BL privatisation, colleagues should be aware that BL expects to announce the planned disposal to Cummins on Monday, 21 April 1986.

I am copying this to the Private Secretaries of the Members of MISC 126.

Yours ever

John Mogg

J F MOGG
Private Secretary

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PRIME MINISTER

B.L.

In the ranking of the bids for Land Rover, Aveling Barford and JCB are well below Lonrho and the Manangement Buy-out. The position on these latter two is not clear cut but DTI believe the Management Buy-out are slightly ahead of Lonrho.

The BL Board will be meeting on Tuesday, but DTI believe they will know the probable outcome on Monday evening.

It will be in everyone's interest to have the decision taken and announced as soon as possible. This points to taking BL at Cabinet on Thursday either without a meeting of MISC 126 or with MISC 126 immediately before Cabinet or with MISC 126 on Wednesday. There is, however, no need to decide the handling until we know what the BL Board are likely to recommend. This position also does not materially affect the decision whether to take competition policy at Cabinet or at E(A): it can be dropped or taken as time allows, whether it is on the agenda for either.

RDHamilton
Duty Clerk.

I prefer competition policy to go to E(A). It is not yet properly thought out.

DAVID NORGROVE
18 April 1986

B.L. can come direct to Cabinet if a decision is required to be announced that day.

CONFIDENTIAL (66) ECL

bc BS

10 DOWNING STREET

From the Private Secretary 17 April 1986

BL

The Prime Minister was grateful for your Secretary of State's minute of 16 April on the present position reached on Land Rover Leyland.

I am copying this letter to Joan MacNaughton (Lord President's Office), Rachel Lomax (H.M. Treasury), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Richard Allan (Department of Transport) and Murdo Maclean (Chief Whip's Office).

(David Norgrove)

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

CONFIDENTIAL

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No copies
cc B/S

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PRIME MINISTER

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DCS
16/4

BL

By yesterday's closing date for new or revised offers for the Land Rover businesses, BL had received proposals from Lonrho, J C Bamford, Aveling Barford and Schroder Ventures (the management buy-out option). I enclose a summary of their proposals.

2 The bids cannot be taken at their face-value. For example, unlike the other three proposals, the Lonrho bid of £75m is believed to assume that Lonrho will take on certain of the existing debt attributable to Land Rover, the effect of which would be to increase the real price, perhaps substantially. Similarly, the JCB bid of £175m involves only a £40m immediate payment with the balance paid in instalments in 1988 and 1991 but dependent on the profits generated by Land Rover in the interim.

3 Given the uncertainties, BL intend to hold discussions with all the interested parties on 17 and 18 April to clarify their understanding of the proposals. The BL Board will then consider them at its meeting on 22 April. Should the need arise, the Board would hold a further meeting which they have provisionally fixed for 25 April.

4 There are broadly two possible outcomes of the Board's consideration:

(i) the Board decides that none of the bids is in the best commercial interests of BL and recommends retaining Land Rover with a view to later

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flotation or other privatisation. If colleagues were to accept such a recommendation, I would see advantage in a quick Statement to the House on 23/24 April to end the uncertainties for the businesses involved and the political controversy surrounding them;

(ii) the Board recommends the opening of full negotiations with one (or perhaps two) of the bidders. I suspect the arguments will not be clear-cut and that colleagues will need a little time to consider the issues that arise for Government. If therefore the Board seem likely to go down this route (and I hope to have forewarning of this early next week) I propose consulting the BL Chairman about the timing which they, and we, might follow in order to reach a final decision.

5 In the meantime, a signal has gone to GM about their interest in Land Rover on the lines we agreed. It was made clear that the Government stands ready to discuss any fresh proposals they may have for tackling the problems of the commercial vehicles sector. GM did not react badly and I have the impression that, as soon as the dust has settled, they may well be in touch to propose further talks.

6 You should also be aware that a decision has already been taken by GM to move to short-time working at Dunstable and that redundancies are also under consideration at Bedford with an announcement possibly early next month. The redundancies might represent the start of a phased run-down of the company although at present their scale is not yet clear. This may leave us open to criticism for not having

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concluded the GM deal but there is nothing I believe we could or should do to influence GM against going ahead with their plans. The fact is that even under the proposed rationalisation with Leyland Vehicles, some redundanceis at Dunstable were envisaged and I do not consider that action by GM now to slim down the Bedford operation need prejudice our hopes for a resumption of the dialogue with them on commercial vehicles.

7 I am copying this minute to Willie Whitelaw, Nigel Lawson, Norman Tebbit, Nicholas Ridley and John Wakeham.

PC

PAUL CHANNON
16 April 1986

DEPARTMENT OF TRADE AND INDUSTRY

JF3AIG

COMMERCIAL IN CONFIDENCE

LAND ROVER (UK) : BIDS SUBMITTED ON 15 APRIL

Bidder	Interest	Price	Comment
Lonrho	Land Rover/Range Rover	"In excess of" £75m	Lonrho assumptions on treatment of Land Rover debt still to be clarified. Could add up to £70m to real price.
Schroder Ventures/	Land Rover/Range Rover Freight Rover	£153m	Includes unsecured £40m convertible loan by BL (increase of £10m over previous offer).
J C Bamford	Land Rover/Range Rover Possibly Freight Rover	£175m	£40m on completion Balance of £135 payable in 1988 and 1991 but actual consideration will depend upon the achieved profits of LR in the interim. Prefer not to acquire Freight Rover but quote indicative price of £25m calculated on the same basis as the deferred element above.
Aveling Barford	Land Rover/Range Rover	Approx £55m	Net Working Capital plus royalty. Would propose to separate and sell off Range Rover.

SECRET

22

PRIME MINISTER 2 DRS 16/4. 16 April 1987

LAND ROVER

1. GM

GM have taken the message exactly as we might have hoped. They anticipate some short time working at Bedford by the end of April and the first phase of redundancies to be announced at the end of May. During May they will be working up alternative plans for their truck operations and will retain Land Rover as a possible variant. They are likely to approach us again at the end of May or the beginning of June.

2. Other Bidders

BL/DTI have yet to conclude a formal assessment; my initial assessment is: the management buy-out have increased their offer from £114m to £124m, but have also increased from £30m to £40m the amount of that payment that will be in an unsatisfactory loan stock. Lonrho have clarified their bid to 'in excess of £75m'. Aveling Barford have broadened their bid to include Range Rover but it remains a royalty related payment and is probably worth between £100m and £125m.

JCB have bid £40m plus a gradually reducing percentage of Land Rover's profits over the five years to 1990. If Land Rover met its plans this would yield an extra £135m, making £175m in all. But of course if BL could guarantee that the company would meet its plans, then it would be able to float Land Rover on the Stock Market for considerably more than £175m.

None of the bids are particularly attractive and the BL Board are likely to reject them all.

Peter Warry

PETER WARRY

SECRET

26

10 DOWNING STREET

From the Principal Private Secretary

15 April 1986

Dear R. Bamford,

Thank you for your letter of today with which you enclosed some further information for the attention of the Prime Minister regarding the bid by J C Bamford Excavators Limited for the Land Rover Group.

I will place your letter before the Prime Minister and I know that she will wish me to thank you for writing.

Yours sincerely,

N. L. Wicks

N.L. Wicks

Anthony Bamford, Esq.

6

J C BAMFORD EXCAVATORS LTD

By Appointment to Her Majesty the Queen
Manufacturers of Construction and Agricultural Equipment
J C Bamford Excavators Ltd

Rocester Staffordshire England ST14 5JP
Telephone Rocester (0889) 590312
Telex 36372 Fax No. 593612

Your ref

Our ref APB/ms

Date 15 April 1986

N Wicks Esq, CBE
10 Downing Street
Whitehall
LONDON SW1A 2AA

Dear Mr Wicks

You will be aware an approach has already been made regarding the bid by J C Bamford Excavators Ltd for the Land Rover Group.

I enclose further information for the attention of the Prime Minister. This has already been presented to the Department of Trade and Industry, Hill Samuel and members of the British Leyland Board.

I should be grateful if you can ensure this is placed before the Prime Minister as soon as possible.

Yours sincerely

ANTHONY BAMFORD
Chairman and Managing Director

enc

J C BAMFORD EXCAVATORS LTD

By Appointment to Her Majesty the Queen
Manufacturers of Construction and Agricultural Equipment
J C Bamford Excavators Ltd

Rocester Staffordshire England ST14 5JP
Telephone Rocester (0889) 590312
Telex 36372 Fax No. 593612

Your ref

Our ref APB/ms

Date 15 April 1986

The Rt Hon Margaret Thatcher MP
10 Downing Street
Whitehall
LONDON SW1A 2AA

PRIVATE & CONFIDENTIAL

Dear Prime Minister

LAND ROVER GROUP

Because of your particular interest, I felt it would be appropriate for you to see the enclosed brochure which describes why I believe that my Company offers the most secure future for Land Rover. This information has already been presented to Hill Samuel, the Leyland directors concerned, and the Department of Trade and Industry.

I would particularly wish to bring to your attention the following advantages of my Company, which I believe set us apart from the other bidders.

- Our high standard of dedicated management has made us successful in increasing our world market share over the past few years against very strong Japanese and American competition - from 11% to 17%.

- Our Company is financially sound with an outstanding profit performance. We made a profit of £25 million pre-tax last year, and our average return on capital employed over the past 10 years has been 27%. We have no borrowings and have never made a loss in the Company's history. This contrasts with Land Rover's accumulative losses of £28 million over the past 4 years.

- We have an outstanding record of success in developing our share of the European and North American markets. In Europe we take 30% of the market (Land Rover - 9%), and in the USA we have developed our market share over recent years to the present level of 10% (Land Rover - nil). The future of the Company hinges on its being successful in these markets. We believe that our credentials to achieve the necessary performance are vastly superior to other bidders.

In conclusion I would reaffirm our intention to run Land Rover as a private business for development in the long term. We are not interested in making a quick killing by floating it on the Stock Exchange. In addition, it would be our intention for all employees to share in the future success of the Company by means of a profit sharing bonus. This is exactly in line with the policy which has been adopted in my own Company for the past few years.

Yours sincerely

Anthony Bamford

ANTHONY BAMFORD
Chairman and Managing Director

BL

RECENT DEVELOPMENTS

Informal approaches to my officials both direct from GM and via intermediaries - most recently Morgan Guarantee - suggest that GM might be prepared to purchase all of Land Rover Leyland on terms which would represent a substantial shift in their position.

I told the House on 25 March that while I would be prepared to consider a fresh approach from GM concerning Land Rover there would need to be a measure of real UK control over the future of the business at the outset and no certainty of full GM ownership and control within a relatively short period. I consider these to be the minimum terms if GM involvement in the Land Rover business is to be politically acceptable. The Morgan Guarantee proposals - copy at Annex A - envisage GM:

- acquiring 100 per cent control of Leyland Trucks, certain overseas operations, Freight Rover and Land Rover Parts;

- acquiring only a 49 per cent minority voting and economic interest in Land Rover;

- accepting Land Rover Board representation proportional to voting rights and not requiring a management contract;

- having the ability to increase its economic stake in the

business should British interests wish to dispose of their shares but not increase its voting stake to take control until public flotation which they expect in 3-5 years or the attainment of specified volume output levels.

(Morgan Guarantee have clarified to my officials that an annual output level of at least 60,000 vehicles would probably be acceptable (1985 = 44,000, 1990 BL Corporate Plan 51,000 though GM would better this). They would now propose GM ownership upon achievement of this volume or upon flotation plus one year, whichever is earlier. The restrictions on GM increasing its voting interest beyond 49 per cent would be enshrined in the Articles of the company and could only be changed with my consent as the holder of a "golden share" - the same arrangement which prevents more than 15 per cent of Jaguar's shares being held by one investor until 1990.

BL would receive up to £180 million cash for the whole ofLRL made up of £134m from GM and up to £46m from British investors or at least £170m if GM assumed the underwriting risk. Baring Bros are of the view that the latter option would be preferable to HMG as a clean solution. They consider the price to be acceptable in the circumstances especially given the negative worth of Trucks, the fact that GM willonly have a minority interest in the substainable profit earner Land Rover and will itself be contributing through its distribution outlets a major part of those profits.

My own view has been that there is no point in officials signifying to GM that a formal proposal would be likely to be supported by Ministers unless GM accepted a minority voting and economic interest enforced by a golden share with full ownership not automatic and likely to be delayed for at least 5-6 years and with British control over the management. The Morgan Guarantee proposal meets these criteria in all but one respect : if Land Rover's track record over the next 3 years convinced the Board that a successful flotation was attainable, GM would gain control one year later. A provision preventing GM control before 1991 seems preferable.

If colleagues thought a deal on this basis was deliverable in the House and the country, it could bring wider benefits.

- it would help achieve our privatisation objectives for the whole of Land Rover Leyland;

- it would prevent the otherwise almost certain phased demise of the Bedford truck and van business at Dunstable and Luton;

- it could be presented as a reassertion of firm Government leadership which had brought the largest manufacturing corporation in the world back to the negotiating table on our terms.

TACTICS

If we decide to signal our support for these proposals (subject to my suggested revision), GM have said they will only be prepared to submit a revised formal offer to BL on 15 April as required by the BL Board if personal phone contact between the GM Chairman and the Prime Minister establishes wholehearted Government support. To present proposals which would become immediate public knowledge, only to have them become the centre of acrimonious debate and final defeat would be unacceptable. That I am sure should also be our position. If GM confirm their willingness to present acceptable proposals on 15 April. On balance, I think it would be best to inform the House of this on 16 April. We should then decide when we want to announce the decision on the basis of BL Board recommendations. We should therefore ask the BL Board to convene a meeting to achieve this timescale. My own view is that we should allow time for proper consideration and announce our decision on Tuesday next week. The BL Board would therefore need to meet on Monday. Acceptance would be subject to final contract negotiations. and the other bids could lie on the table, if they are not withdrawn, until then. GM have said it would take about another 3 months to separate Land Rover from LRL and establish it as an independent British owned and controlled company. We should also ensure that GM confirm to us and make public their letter of intent providing their best assurances on such aspects as UK manufacturing, local content, R&D, exports and future investments.

JF1AZW

GM and BL should also be encouraged to market the benefits of the deal. Those in our party who last month lamented the collapse of the GM talks should also be mobilised and a strong and positive public campaign launched. Should a leak occur before or after any formal GM bid is submitted and in advance of my statement to the House, I suggest we take the lines proposed at Annex B.

If we decide to progress GM's proposals I look to my colleagues for advice on presentation and active support in implementing our policy.

VEHICLES DIVISION
14 April 1986

JF1AZW

Secret

File

20

10 DOWNING STREET

From the Private Secretary

Note for the record.

Time to take of BL: GEC leaks

Informal enquiries were made to officials.

There is nothing further to report.

The BL Board will be considering all offers.

DHR

14/4.

01 834 5863

72 Eccleston Square
London SW1V 1PJ

David Norgrove
No 10.

Attached Morgan Guaranty letter is still subject to some clarification and amendment especially on the key aspect of when HMG's Golden Share ~~option~~ would expire.

Richard Brown

DTI

CC B/VP

Morgan Guaranty Ltd

Alfred M. Vinton Jr
Vice Chairman

PO BOX 124,
30 Throgmorton Street,
London EC2N 2NT

Telephone
01-600 7545

Telex 8954804/5

R.Brown, Esq.
Department of Trade and Industry
Vehicles Division
Ashdown House
123 Victoria Street
London SW1E 6RB

Dear Mr Brown,

As you are aware, the Morgan Bank acted as financial advisor to General Motors Corporation in the latter's recent negotiations for the purchase of the Land Rover-Leyland business of BL plc.

Since the termination of those negotiations on March 21 1986, the Morgan Bank has been attempting to develop internally a structure for the transaction which would meet the legitimate objectives of General Motors Corporation, Her Majesty's Government and BL plc. The purpose of this letter is to outline to you a structure which apppears to secure the objectives of each party while providing adequate protection for the interests of both sides.

The Morgan Bank believes that an acquisition of Land Rover-Leyland based on the principles outlined below would represent an acceptable solution to General Motors Corporation. However, it is in our judgement unlikely that the company would be willing to submit a revised proposal incorporating this structure unless it receives appropriate assurances as to the ultimate likelihood of such a proposal proving acceptable to Her Majesty's Government.

The structure developed by the Morgan Bank is composed of the following major elements:

- General Motors Corporation ("GM") will own 100% of Land Rover-Leyland excluding the Land Rover four-wheel drive business (but including LRPE).

- GM will own 49% of the Land Rover four-wheel drive business, consisting of the operations currently managed by Land Rover Limited.

- GM will handle all sales and distribution of Land Rover products outside the United Kingdom.

Incorporated with limited liability in the State of Delaware, USA. A subsidiary of J.P. Morgan Incorporated New York, USA

- The balance of the Land Rover four-wheel drive business will be owned by a group of 10-20 UK institutions, whose shares will be held on the following basis:

  - the shares will initially be unlisted but a flotation of the institutional shareholdings will be expected to take place within three to five years

  - restrictions on the accumulation of shares will apply so that no individual shareholder other than GM will be able to control more than 5% of the voting rights of the outstanding stock; GM will be restricted to 49% of the voting rights under the terms of a golden share held by Her Majesty's Government

  - GM would have the right of first refusal over the economic interest in Land Rover represented by any shares offered for sale by the institutional investors

  - with the above exceptions, there would be no constraints on the transferability of the institutions' shares in Land Rover.

- Board representation will be proportional to the voting rights attached to shareholdings.

- The extinction of the golden share held by Her Majesty's Government would be triggered by flotation, a reduction below five in the number of investors other than GM holding shares in Land Rover, or the attainment of specified levels of unit production at Land Rover.

- Implementation of this structure will take place in three stages:

  - Purchase by GM of the entire Land-Rover Leyland Group

  - Transfer of the assets of the Land Rover four-wheel drive business to a new company

  - Offer of shares in the new company to UK institutions.

As you will recognise, this structure has some significant disadvantages for General Motors Corporation in relation to the transaction originally envisaged. In particular, General Motors Corporation will forfeit control of the Land Rover four-wheel drive business and will surrender its flexibility to achieve optimal funding for the entire Land Rover-Leyland group.

£134m

The new structure therefore implies a diminution in value for the Land Rover-Leyland group as a whole, and the value of the transaction on the revised basis is unlikely to exceed £180 million.

Of this amount, approximately £160 million is attributable to the Land Rover four-wheel drive business, which, when constituted as a separately incorporated entity, will be capitalised with £90 million in equity and £70 million in debt. The placement of 51% will therefore be intended to raise £46 million from the UK institutions (i.e. 51% of £90 million).

In the absence of the opportunity to pre-sell the shares to the institutions prior to the acquisition of Land Rover-Leyland, there is inevitably an element of uncertainty surrounding the proceeds of the anticipated placement, and General Motors Corporation will not be in a position to guarantee that the total value realised by BL plc (composed of a cash payment by General Motors Corporation of £134 million plus the proceeds of the placement up to £46 million) will in fact amount to £180 million. Any surplus on the proceeds of the placement over £46 million would mutually benefit BL plc and General Motors Corporation.

General Motors Corporation may be willing to contemplate the assumption of underwriting risk if that incremental risk were reflected in an appropriate reduction in its own cash payment.

If you believe that the transaction outlined in this letter has the potential to meet the objectives of Her Majesty's Government, the Morgan Bank would be happy to explore the structure with you in more detail at your convenience.

Yours sincerely,

pp Alfred M. Vinton, Jr.

Flotation

100%

134
46

£180

PRIME MINISTER

BL: GM

The note from Morgan Guarantee shows that GM have made a major shift in their position. There are of course several points where further discussion will be needed. But they have gone a long way towards meeting the criteria.

At this stage, you may however like to have a few comments on the timetable for the next few days, to think about overnight.

Unless you disagree, I shall set up a meeting of the inner group for early tomorrow, probably 1045, inviting the Lord President, the Chancellor of the Duchy of Lancaster, Mr. Ridley, Mr. Channon and the Chancellor.

This group will need to decide first whether the latest proposals offer a potentially acceptable deal and secondly whether the next step should be further private discussions with GM or a meeting of MISC 126.

The timetable for further discussion with GM is constrained by the quasi-deadline of 15 April which has been set for the submission of revised bids to BL. It would also be potentially difficult if GM submitted a bid to BL without a wider group of colleagues knowing they would be doing so, particularly if it became known that there had been discussions between Mr. Channon and GM in advance.

These arguments seem to point on balance towards a meeting of MISC 126 tomorrow afternoon, provided the smaller group tomorrow morning judges that the deal now on offer can be pushed through, subject to certain largely second-order changes. (I have asked DTI to prepare a draft paper for MISC 126 which Mr. Channon can bring with him tomorrow morning.)

One outcome of MISC 126 would be approval subject to certain changes. These could be discussed with GM late tomorrow afternoon so that they could put in their bid to BL on Tuesday.

A complication here is that DTI believe that Mr. Roger Smith, Chairman of GM, will want to speak to you personally before they put in their bid, in order to be assured that success will not again be snatched away from them at the last minute. It may well not be possible to go so firm on assurance, and in any case it may also be undesirable for you to speak to Mr. Smith. But it should be possible to get around this.

If MISC 126 meets tomorrow afternoon the story is very likely to be on the news tomorrow evening. There would be a case for Cabinet to meet on Tuesday morning to hear a report and, in effect, to take note of GM's wish to make a further bid and MISC 126's agreement that they should be allowed to do so. Cabinet would also need to meet if Mr. Walker and Mr. Fowler refused to go along with the proposal to countenance a bid from GM. (Neither MISC 126 nor Cabinet could decide to accept a bid from GM even in principle: the deadline for receipt of further bids would not have passed, nor at that stage would the Government have received the benefit of the advice of the BL board.)

The BL board is likely to meet on Tuesday night or Wednesday morning. Particularly if GM are in the field, it would be best if Cabinet took the decision on Thursday morning, possibly following a meeting of MISC 126.

This timetable would allow a statement on Thursday afternoon. There would also probably be pressure for a statement on Tuesday and Wednesday if GM's interest becomes known tomorrow.

Amanda Ross

pp DAVID NORGROVE
13 April 1986

SLH/72

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

From the Minister of State for Industry

THE HON PETER MORRISON MP

R G Smith Esq
Managing Director
Haxted Motor Co Ltd
Marlpit Hill
Edenbridge
Kent
TN8 6HZ

11 April 1986

Dear R. Smith,

Thank you for your letter of 13 March to the Prime Minister expressing concern about the future of the Austin Rover Group and raising a number of questions concerning trade in vehicles.

It was in order to end speculation and growing uncertainty arising from the Austin Rover Group (ARG) and Ford talks that Paul Channon indicated in the House of Commons on 6 February, that the possibility of the sale was not being pursued. I hope you will be reassured on this point.

As regards the future of BL I am sure you would agree that the Government's fundamental concern must be to consider what would best contribute to the long-term health of the vehicle manufacturing sector in this country. Whilst some of BL's operating companies have maintained or even improved their market share, much still needs to be done in a hostile trading environment. Both the Government and the BL Board believe the future of BL's operating companies could be best secured in the private sector rather than in public ownership and it has been the Government's long standing and publicly declared policy to return both the company and its constituent businesses either together or separately as soon as practicable. However, as you will know, the talks with GM on the Land Rover and Leyland van and truck businesses have now ended. Paul has also made it clear that there is no question of the talks with Ford and Austin Rover being reopened.

FRIARH

You raised a number of very specific questions concerning of the UK's trade in vehicles. I hope you will appreciate that I have received a number of such letters and am unable to reply in detail to each of them. I hope though that you will agree that where barriers to UK exports exist particularly in countries whose exports enjoy access to the UK the solution lies in pressing for their removal rather than restricting trade. The latter course would only encourage a descent into a greater degree of protectionism which would be particularly harmful to the UK, we do after all export nearly a third of our GDP, a much greater proportion than most of our major trading partners.

In seeking the removal of barriers to UK vehicles exports we have had some success with regard to both Japan and Spain. Japan has announced a number of import promotion packages which have been aimed at improving access to their market. These included measures designed to simplify procedures for the import of motor vehicles, in addition the Japanese have removed all tariffs on vehicles and are in the process of removing or reducing tariffs on vehicle components.

The disparity in treatment of cars in Spain stemmed from the trade agreement signed by the Community with Spain in 1970 which confirmed a generally high level of Spanish duties on imports of industrial products, including cars, from the Community and a very much lower level of duties for Community imports from Spain. Unfortunately these arrangements were in force when we joined the Community and we could not change them at the time. However we made it a major priority to change all this in the negotiations of Spanish membership of the Community. As a result, under Spain's Treaty of Accession, all her import duties on Community industrial products including cars will be eliminated over the next seven years. At the same time we have also secured a special reduced duty arrangement which will enable community manufacturers to export a substantial number of cars at lower rates of duty. Our share of the Community quota, which included a higher allocation for Austin Rover than for any other European manufacturer, is 5,000 cars in 1986. This is more than double our exports of cars to Spain in 1984. We expect an even higher figure for 1987.

FRIARH

I can well understand your points of concern. Thank you for bringing them to my attention I am sorry that I cannot comment in more detail at this stage but let me assure you that the Government's objective is to see a strong vehicle sector in the UK.

Yours sincerely

PETER MORRISON

FRIARH

PS/PM

RECEIVED
20 MAR 1986
REGISTRY

RECEIVED IN
21 MAR 1986
CORRESPONDENCE

10 DOWNING STREET

From the Private Secretary

20 March 1986

Dear Catherine,

I attach a letter the Prime Minister has received from Mr. Robin Smith of the Haxted Motor Company Ltd.

I should be grateful if you could arrange for a Minister or Private Secretary in your Department to reply to this on the Prime Minister's behalf.

TO MR MEADWAY (V/2)	Copies To
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE) PLEASE BY: 2/4/86	P/S MFT P/S JB MR MOUNTFIELD MR COCHRIN (V) MR BROWN (V/1) MR THORNTON (4P/2)

DAVID NORGROVE

Miss Catherine Bradley,
Department of Trade and Industry

RJ2515

HAXTED MOTOR COMPANY LTD

Marlpit Hill
Edenbridge
Kent TN8 6HZ
Telephone: (0732) 866202

AUSTIN ROVER

RGS/AM

13th March 1986

The Prime Minister,
House of Commons,
London,
SW1A OAA.

Dear Prime Minister,

I am writing to you as Managing Director of a Garage in Edenbridge, Kent, holding the Austin Rover franchise.

We have been established at this location for just two years, and carefully considered which product we would sponsor in our new outlet. In our opinion the market was now ready to 'Buy British' again and Austin Rover products were much improved, in fact leaders in the sphere of car design, and increasing their penetration of the market.

We have been very successful in our enterprise; starting with a staff of ten, we now employ twenty-five people and are considering expansion plans.

We feel that although the Government have made a statement that it was not planned to sell Austin Rover at present, we were disturbed to hear you stating on the radio that Austin Rover may still be sold.

You are correct in stating that the British tax payer has put large sums of money into Austin Rover and this has been wisely used to develop a completely new range of cars and re-equip the factories to increase production of cars to the same number per employee as the Japanese. Now is the time for the tax-payers to reap the benefit of their investment, not see Austin Rover sold off cheaply to foreign competition.

We are very concerned that you have not made it public information that Austin Rover and other manufacturers in this country are effectively having to accept that the U.K. operates a Free Market Economy, with which in itself there is nothing wrong, but which in isolation is extemely dangerous. This creates a situation which virtually invites manufacturers from all parts of the world to compete for the 1.8 million cars sold annually in the U.K., but does nothing to break down the barriers that prevent British industry from selling throughout the world markets.

cont'd. .....

Member of
MOTOR AGENTS ASSOCIATION

V.A.T. No. 395 1523 40
Directors: R.G.SMITH P.A. SMITH P.C. DALLINGER
Registered Office: Marlpit Hill, Edenbridge, Kent
Registration No: 1761864

The Prime Minister

13th March 1986

We would appreciate your answers to the following;-

1. Why is it that other countries are able to sell some 350,000 cars into Britain annually, but Britain is not allowed equal access overseas?

2. Japan operates a restriction whereby 99% of all cars sold in Japan are of Japanese manufacture, which in itself enables them to build a very strong base to export at subsidised prices.

3. The Korean car company has just reported record sales in the U,K. U.K. produced cars attract a duty rate of 70% to enter Korea, but Korean cars are zero-rated to enter the U.K.

4. At the time of Spanish accession to the E.E.C., a complex system of Quotas and Tariffs was established, forcing Austin Rover to compete on unequal terms with Spanish manufacturers in Spain until 1993. The Austin Rover quota for 1986 is 4,500 units, on which there is 17.4% duty. Austin Rover could sell more than this quota in Spain, but would then attract an additional punitive 33% duty. The result being that Spain will sell as many cars in one week to Britain, as Britain will sell to Spain in one year!

5. The Comecon countries are effectively closed to U.K. based manufacturers. However 33,000 cars per year come into the U.K. from this area.

6. There are many other countries enforcing import duty rates from 75% to 300% on U.K. produced cars, whereas Britain charges a rate of 10.3% on their cars imported into the U.K.

7. U.K. produced cars imported into Australia attract a duty of up to 95%, whereas Australian cars into Britain attract only 10.3%.

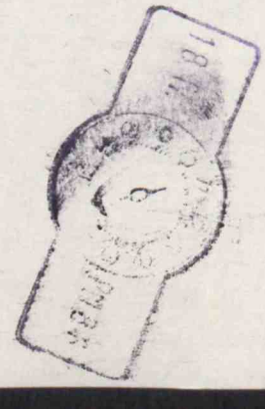
8. Within the E.E.C., a number of mechanisms are operated by individual member states to distort the market. The case of Spain has already been discussed. Further examples include emission incentives in Germany and Holland; price controls in Belgium; extreme sales taxes in Denmark; tariffs and quotas in Portugal; import deposits and differential import duties in Greece. In addition, public sector purchasing policies in all parts of the market effectively preclude normal competition.

It is all very well talking about free market economy and the drain on the tax payer. However, if politicians réally want a thriving industry, their time would be better spent in creating the right kind of environment to give equal opportunity and fair trade for British industry, rather than allowing it to struggle in the most competitive car market in the world, whilst many of the competitors and their governments seek ways to look after their own.

Yours sincerely,

Robin G. Smith
Managing Director

BL



SECRET

18C

PRIME MINISTER
cc Mr. Warry

BL: GM

Further to David's report to you tonight, the DTI have rung to say that GM have told them that they are now seeking the authority of Smith to put an informal proposition to the department via Morgan Bank. (Quite why Bankers Trust have dropped out is quite unclear). The Department will, if necessary, seek clarification from GM on its proposition, but will not negotiate. Mr. Channon is likely to want to see you, perhaps with the small group, on Monday morning.

GM have given indications that before putting a formal proposition to the department, they would want you to confirm to Smith that it would stand a strong chance of being accepted. The department are, rightly, being very cool about this idea.

N.L.W.

N L WICKS

11 April 1986

SL3APG

18B

SECRET

PRIME MINISTER

BL

I attach the paper which considers on what basis discussions with GM might be re-opened and how, if it was so decided, such a course should be pursued. The paper briefly records the criteria I believe would need to be met before formal discussions were begun, the range of options that might be pursued with GM that could meet these criteria, and the tactics and timing - including how we would handle leaks - of a further exchange with GM.

2 My paper considers only the possibilities we might explore with GM. My officials are preparing a separate paper which would set out alternative options if a deal with GM cannot be pursued.

John Mogg

pp PAUL CHANNON
15 April 1986

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

DEPARTMENT OF TRADE AND INDUSTRY

JF4BBM

999-49

SECRET

BL : GM

For GM involvement in the Land Rover business to be politically acceptable to colleagues, the party in and outside Parliament and the public it will have at the very least to meet the terms I explained to the House on 25 March, namely that there should be a measure of real UK control over the future of the business at the outset; and no certainty of full GM ownership and control within a relatively short period.

2 Informal approaches from GM to my officials suggest they might be prepared to discuss proposals involving:

(i) GM taking a 48 per cent minority voting interest with British interests a further 48 per cent and neutral parties 4 per cent; GM would have about 80 per cent economic interest under a dual share provision;

(ii) a general provision for the company to be floated when its business performance warranted it;

(iii) GM management responsibility but not necessarily through a formal management contract.

3 Flotation of the company might be feasible in 2 or 3 years time and GM could then purchase the controlling interest. Thus, this implies early GM ownership. At this stage I doubt whether this meets our objectives.

4 A variant on 2(ii) might be a provision which would prevent flotation until an annual output of 62,000 vehicles

JF4BBK

per year had been achieved, perhaps around 1991 (1985 output 44,000; BL Plan 1990 output 51,000 but GM would better this). Would this more open and longer timescale for GM ownership be acceptable?

5 GM might be persuaded to go further and offer to take a single class of share with 48 per cent voting and economic interest. We would need to consider special arrangements (similar to those for Jaguar) which would prevent GM acquiring a majority at least until a specified volume output had been achieved. Such a structure would represent a genuine GM minority and would therefore be preferable presentationally. Should we insist on such arrangements?

6 GM are likely to want the British interests to be fragmented amongst at least half a dozen investors. The more there are the greater their room for effective control. Does this matter? Alternatively, would we welcome a structure involving a full blown joint venture with just one UK interest - such as JCB who are bidding independently and interested in the long-term - and a 4 per cent neutral banking interest? This would make flotation and ultimate GM control less likely and certainly delayed long into the future. In my view this is most unlikely to be acceptable to GM.

7 Whatever we decide I consider that any deal must be simple so that:

(a) it is understandable and therefore easily saleable

(b) it is difficult for GM to withdraw from the negotiations once they have made the initial commitment

JF4BBK

(c) it can be concluded swiftly so minimising the political debate and uncertainty.

8 My own view is that there is no point in talking to GM unless we can achieve a GM minority voting and economic interest enforced by a golden share (paragraph 5) with GM ownership not automatic and likely to be delayed for at least 5-6 years (paragraph 4) and with British control over the management which would lie in GM hands.

TACTICS

9 If we decide to proceed along these lines, we shall need to adopt a two-stage approach:

First, we would need to let GM know informally, but authoratively, that there are certain elements which are non-negotiable. Such a message will be framed as a clarification of statements already made to the House. It could be given either through Bankers Trust or, now that GM have made direct contact with DTI officials, at official level to GM's HQ. Mr preference would be for the latter.

10 It would need to be made quite clear to GM that the only basis for proceeding would be for them to accept these non-negotiable elements and incorporate them within a proposal to the Government which would be the basis on which further negotiations would take place. If GM wish to pursue their contacts within these requirements, a paper would be considered by MISC 126 or Cabinet. This paper would propose a re-opening of formal negotiations with GM and an immediate announcement to this effect to the House.

JF4BBK

TIMING

11 From both GM's and the Government's view decisions need to be reached urgently. Apart from the obvious risk of a leak, both BL and the Government have repeatedly stressed the need for urgent decisions. GM are also under pressure to resolve Bedford's future as well as recognizing that the Management buy-out proposal might prove acceptable to HMG.

12 If colleagues wish to take negotiations forward we shall need to proceed urgently initially by informal contact with GM over the weekend. Colleagues should also bear in mind a number of the important matters that will occur over the next week or so. These include the deadline for bids to be submitted (15 April); my First order Questions (16 April) and the BL Board's wish to reach a final view on the bids (22 April).

CONTINGENT STATEMENTS IN CASE OF LEAKS

13 Should a leak occur over the weekend I suggest we take the following line:

> "GM made informal approaches to officials in the DTI to establish whether any terms could be agreed under which GM might take a stake in Land Rover. Officials reminded GM of the Secretary of State's commitment in the House (25 March) that, although fresh proposals from GM could be considered, they must not give GM effective control from the out set nor the assurance of full ownership and control within a relatively short period of time. Officials also said that special arrangements were necessary to safeguard UK interests including a measure of real UK control over the future of the business."

JF4BBK

DEPARTMENT OF TRADE AND INDUSTRY

Sir Austin BIDE

24/4

8 Apr

eck/ 10 April 1986

I enclose a copy of a letter which the Prime Minister has received from Sir Austin Bide.

I should be grateful if you would provide a draft reply which the Prime Minister might send to Sir Austin by Thursday 24 April.

(DAVID NORGROVE)

Miss Catherine Bradley,
Department of Trade and Industry.

Remind
Pass to me
for phone chase also.
24/4

ECL

SECRET

18A

PRIME MINISTER

10 April 1986

GM AND LAND ROVER

Tuesday is the revised closing date for bids for Land Rover. Paul Channon will therefore have to make a statement to the House on Wednesday or, at the very latest, Thursday of next week. He cannot make such a statement and remain silent about putative discussions with GM.

Because time is very short, we will not be able to enter into extended discussions with GM, but will have to conclude a deal essentially in one single shot. This argues strongly for keeping our response to GM, and any proposed deal, very simple.

At the meeting you will need to decide firstly, if there were a sensible deal that met all the criteria, is it still politically viable within the time available? And if it is possible, then what sort of proposal should be put to GM? On this latter point, you will need to decide:

i. whether GM should ever be allowed to gain a majority holding and, if so, when this should be allowed to occur, and if this date should be determined by the expiry of a golden share or though Land Rover achieving a pre-set volume of sales; and

ii. whether GM should be allowed management control and, if so, whether this should be merely de facto or contractual.

We recommend that GM should be told that they would be allowed to take a minority stake in Land Rover, and that the Government would wish to protect the UK majority either by a golden share expiring in, say, 1992, or through the 62,000 sales target. Management control would be de facto, but so long as they held only a minority stake, management control could not be contractual.

PETER WARRY

Peter Warry

SUBJECT
cc Master

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103 AHCP

18

10 DOWNING STREET

10 April, 1986.

From the Private Secretary

Dear John,

BL:GM

The Prime Minister this afternoon discussed with your Secretary of State, the Lord President, the Chancellor of the Duchy, the Secretary of State for Transport and the Chief Whip your Secretary of State's minute of today about GM's further interest in the purchase of parts of Land Rover Leyland.

It was agreed that officials should talk further with GM. They should say that the fresh proposals GM had made for the purchase of Land Rover did not meet the criteria Mr. Channon had set out for the House on 25 March. Mr. Channon would not in their view be prepared to put to colleagues for their consideration proposals which failed to meet those criteria. Any further proposals by GM would have to meet the criteria in full. Officials should stress that Ministerial colleagues collectively had not at this stage been consulted, and there could be no guarantee that proposals which met the criteria would be preferred to the other options. Those options would include a decision not to sell Land Rover at all at this stage.

Officials could indicate the broad shape of a deal which would in their view meet the criteria. This would be along the lines of paragraph 8 of your Secretary of State's paper. There should, however, be no need for 4% of the shares to be placed in neutral hands if the Government held a golden share.

GM should be asked to offer the best possible assurances on the future of Freight Rover and its employees, recognising the great concern felt in the West Midlands about the future of this company.

Officials would need to reiterate the other assurances which would be required.

GM should be told that a very quick response was needed: BL would begin to consider the available options on Tuesday of next week, 15 April. GM's response would have to represent their final position. There was no scope for a

SECRET

negotiation.

GM should be told the line the Government would take if news of their further approach were to become public. (The line indicated in paragraph 13 of your Secretary of State's paper should accord entirely with his statement in the House on 25 March. Thus the second sentence should be changed to read:

> "Officials reminded GM of the Secretary of State's Statement in the House (25 March) that, although fresh proposals from GM could be considered, GM's wish to have effective control from the outset, and the assurance of full ownership and control within a relatively short period was not acceptable".

A sentence should be added to say that a statement would be made to the House.)

GM should, finally, be urged to consider how they would present the deal if a revised bid from them were successful. A firm statement of their intention to make the UK the centre of their European commercial vehicle operations would certainly help the presentation. Their active support in the presentation of a deal would be essential.

Yours

David.

DAVID NORGROVE

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

SECRET

17A

PRIME MINISTER

GM: LAND ROVER LEYLAND

Lord Whitelaw cannot be at your meeting this evening, but he has seen Mr. Channon's minute and Sir Austin Bide's letter.

Lord Whitelaw is attracted by the GM approach, but wary. He is very far from wanting to close the door on the proposals and finds it interesting that GM have come back so soon. Against this, he feels that the new approach is slightly premature and he certainly would not want the Government to jump at the first fly.

He is very clear that if any serious negotiations were to begin with GM it would have to be discussed first with the full Cabinet and the House would need to be informed.

The Lord President believes that the substance of the proposal still falls short of what the Government would need in order to carry the deal through.

His feeling is that the next step should be a discussion between a DTI official and Bankers Trust. Bankers Trust would be told that if there were to be any possibility of pursuing the proposal further it would have to be improved, and they would have to understand that the House of Commons would need to be informed of any serious discussions.

If this low level approach leaked, the House of Commons would be told that DTI had received a letter from Bankers Trust. An official had been sent to investigate what lay behind it. The official had said that the offer was not a good enough basis on which to open discussions and that if they were to start the House would be told and the discussions would be in the open. Lord Whitelaw believes that a statement of this kind would be a sufficient protection of the Government's position.

DAVID NORGROVE

9 April 1986

SECRET

NBPT CONFIDENTIAL

PRIME MINISTER 9 April 1986

GM AND LAND ROVER

Richard Brown, the DTI Assistant Secretary who has been acting as the link man with GM, has received two separate telephone calls from GM today. Both calls indicate GM's flexibility towards the terms of any deal. In particular GM might be prepared to accept a genuine minority interest on both voting and economic rights. In other words, they might be prepared to accept just an ordinary 49% shareholding in the business.

This differs fundamentally from previous proposals, and provided it could be linked with a restriction on GM's ability to buy further shares (perhaps until a specified sales increase has been achieved) then it could be politically possible.

Obviously, we need to know if GM would really be prepared to do a deal on this basis. Pehaps we should take the initiative and tell them that HMG would be prepared to discuss a deal on the above basis if this would be of interest to GM. If they agreed, then a public statement could be made and negotiations recommenced.

P.F. Warry

PETER WARRY

CONFIDENTIAL

(6)

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Telephone: 0895 51177
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9th April, 1986

Private and Confidential

The Rt. Hon. Mrs. Margaret Thatcher, FRS, MP,
10 Downing Street,
London SW1

Dear Prime Minister,

Very many thanks for your letter of 3rd April telling me of the plan (subject to consultation) for secondary legislation under the forthcoming Financial Services Act to re-establish the pre-1956 prospectus provisions. This is excellent news and will, indeed, be most helpful.

May I take this opportunity before passing the Chair of BL to Graham Day at the end of the month, to tell you that though some of the behavioural aspects and, of course, the outcome of the GM affair were, to say the least, depressing, it was a comfort to know that your judgement of the best commercial choice was the same as ours.

We are, of course, pushing on as fast as possible towards identifying the most commercially tenable plan for the Land Rover/Range Rover and other commercial vehicle businesses.

The most difficult residual problems attach - as I am sure you know - to the Truck and Bus Companies. As to the first of these, there is a distinct likelihood that unless GM's interest in it can be revived, it will either be a perpetual "passenger" or have to be liquidated with whatsoever consequences.

Directors: Sir Austin Bide (Chairman)
Sir Robert Hunt CBE DL (Deputy Chairman)
D R G Andrews CBE
Sir Robert Clark DSC
R Horrocks CBE
Sir John Mayhew-Sanders
B. W. Pomeroy

Registered Office: 106 Oxford Road
Uxbridge, Middlesex UB8 1EH
Registered in England No. 1213133.

There may be a moment when a high level attempt to bring GM back to do the best deal that can be contrived is feasible. If it should be so, then I hope profoundly that you and the Secretary of State will be willing and able to take appropriate action. If, in such circumstances, I can be of the slightest help, I am, needless to say, at your disposal.

With kindest regards and best thanks for your efforts on BL's affairs during some trying years.

Sincerely.

Austin Bide.

Sir Austin Bide
Chairman

17

PRIME MINISTER

c. Professor Griffiths

GM: LAND ROVER-LEYLAND

The papers below explain that GM may be willing to negotiate some variant of the 48:48:4 deal discussed with the Government at an earlier stage. (The proposal has been put forward by Bankers Trust, but DTI say it seems to have Detroit's approval.)

Peter Warry tells me that the possibility of a deal between GM and Renault has been ruled out, and that GM now probably believe that there will be a deal with BL or not at all. If there is no deal with BL, they will probably start to close down Bedford, possibly beginning even before the summer recess. Mr. Channon also sees very gloomy prospects for Bedford.

The deal proposed by GM (Flag B) at a first reading seems to me quite close to the deal the smaller group considered on the Friday before deciding to issue the ultimatum to GM (see Flag C). Under both of them GM would put up most of the money but for a period would have a minority of the voting rights. GM propose to take full control in 1992 or when Land Rover output has increased by 50 per cent, whichever is the sooner. The deal under discussion by Ministers on the Friday of the ultimatum would probably have allowed GM to gain full control after four years.

The deal proposed by GM is, however, silent on one central issue. It does not describe the extent of the control which would be available to the British majority voting rights. Under the deal discussed on the Friday ultimate control on all matters would have rested with the majority British interests. If discussions are to begin again with GM, this would have to be explored first.

But in view of the similarities between the two deals, the immediate question has to be whether the position has changed

in a way which would make it feasible for the smaller group to reverse its conclusion of that Friday, and to decide that a deal of the kind proposed by GM could be accepted by Cabinet, Parliament and country. You will remember that Sir Keith Joseph and Mr. Edwards spoke out strongly in favour of GM at Cabinet, and Mr. Younger clearly concurred. A number of Conservative backbenchers spoke out on the risks to Bedford of turning down GM and since the decision was announced there have been supportive letters and editorials which point out, among other things, that Land Rover is not the jewel in the crown. The perceptions have changed to an extent. On the other hand, a deal with GM no would still meet strong resistance from Mr. Walker, Mr. Fowler and others because the probability would remain that GM would gain full control after a period of years and, no doubt, opponents of the deal would still see the risks to Freight Rover.

Mr. Channon is reluctant to re-open even exploratory discussions with GM, even at a junior official level.

The Policy Unit (Flag A) strongly recommend that secret talks without commitment should be restarted.

This new proposition clearly ought to be discussed. Would you like to have a first discussion with Mr. Channon alone or hold a meeting with the smaller group (Lord Whitelaw, Mr. Tebbit, Mr. Ridley and the Chief Whip)?

DRS

I should prefer to discuss it first with Mr Channon and the Chief Whip.

DN

8 April 1986

SECRET

16B

PRIME MINISTER

8 April 1986

GM AND LAND ROVER

When before Easter Paul Channon announced the ending of the GM talks, he repeatedly explained that the GM terms were unacceptable to Government because GM were insisting on effective control of the company from the outset, and an assurance of full ownership within a relatively short period. He also said (column 795 of Hansard, attached) that the Government were always ready to consider fresh proposals from GM. GM are now tentatively exploring whether the deal that was suddenly aborted at the last moment in March could now be achieved away from the public spotlight.

The proposal is for GM to take 48% of the voting rights in Land Rover and some 73% of the economic interest. British investors - such as JCB - would also take 48% of the voting rights, with the remaining 4% being held by neutral parties as yet to be determined. This structure would remain in force until vehicle sales had increased by roughly 50% from today's levels. At that point (which might never be reached) GM would be allowed to take control and buy out the other shareholders. And even then Land Rover might be floated. No dividends would be paid on the bulk of the equity until the 50% sales increase had been achieved, instead the money would be reinvested in modernising the facilities and expanding the business. (The initial proposals also give GM the options to take control in 1992, but they already know that such a term would be unacceptable to the Government.)

If a deal on these terms could be negotiated it would mean GM would not get effective control from the outset nor would it guarantee them ultimate ownership. Such terms would be wholly consistent with what PC said in the House. Indeed

far from being a further U-turn on BL, it would be a triumph for Britain over a major multi-national: GM would have returned and done business on our publicly stated terms. (For GM's part their face would be saved by securing an involvement in Land Rover).

Given the history of his dealings on BL, PC, unsurprisingly, is timid about pursuing such discussions. But the dangers are not all one way; GM have said that if the deal cannot be done then they will start taking the steps towards the staged closure of Bedford. First announcements could be in a matter of weeks and certainly before the summer recess. It will be impossible to avoid the linkage between the collapse of the talks and Bedford closure; the pressure on DTI will be intense.

If GM leak (as they might do) that they were prepared to meet the Government's stated pre-conditions, but were rebuffed despite PC's commitment to consider such proposals, then the position might become difficult to sustain.

The Times published a leader on Monday (attached) suggesting we should return to the 'second chance saloon': **this must surely be right.** Many MPs were prepared (after the event) to say what a good idea the GM deal would have been. For so long as these politically difficult issues are not grasped, criticism of our industrial policy can only mount.

The talks will require very careful handling to maintain secrecy and avoid premature commitment. It would be best if only Graham Day and the two or three DTI officials already dealing with the issue are involved. If possible a meeting of MISC 126 should be avoided until there is a worthwhile detailed proposal for it to consider.

Recommendation

Talks with GM hold out the chance of establishing a sensible industrial policy, saving Bedford Trucks and avoiding continuing subsidy for Leyland. No U-turn is involved, rather a vindication of PC's negotiating stance and his statement to the House. Given the prospective closure of Bedford and the commitment to consider new proposals, failure to pursue these talks would be most dangerous.

We strongly recommend that secret talks without commitment should be restarted, and that an early bilateral should be held with PC.

Peter Warry

PETER WARRY

British Leyland

3.31 pm

The Secretary of State for Trade and Industry and President of the Board of Trade (Mr. Paul Channon): As the House is aware, BL and the Government have been in discussion with several companies about the privatisation of the main Land Rover-Leyland businesses. Of these, General Motors have made proposals concerning Leyland Trucks, Freight Rover and Land Rover.

In relation to the truck and van sectors, the talks with GM concentrated on the possibilities for combining the respective Leyland and Bedford businesses, to the mutual benefit of GM and BL. In respect of Land Rover, where there are opportunities for Land Rover in expanding European and world markets, the Government were determined that, as a condition of privatisation, special arrangements should be concluded to safeguard UK interests, including a measure of real UK control over the future of the business. For its part, however, GM wished to have effective control of the company from the outset and an assurance of full ownership and control within a relatively short period, and it became clear that it was not able to compromise on these points. Despite the view taken of the GM proposal by the BL board from its commercial standpoint, this was not a basis for an agreement acceptable to the Government in the national interest.

GM has stated that it is not willing to proceed with an arrangement for Leyland Trucks and Freight Rover which excludes the Land Rover company. Therefore the talks have been ended.

The BL board will give further study to the alternative ways forward for all the businesses concerned. For Leyland Trucks, which operates in a depressed and fiercely competitive market, the board will continue to examine the possibilities for collaboration with other manufacturers and other ways to sustain its improving trend in performance. The Government continue to support the commercial development of this business, in accordance with established plans. For Land Rover and Freight Rover, the board will include in its examination the various expressions of interest which have already been announced, with a view to recommending the course most likely to achieve the privatisation of the businesses in a way which best secures their future.

Mr. John Smith (Monklands, East): Does the Secretary of State recognise that he has today announced the collapse of a venture that was ill-conceived in purpose, anti-British in effect and handled with almost unbelievable incompetence? Now that the Secretary of State has confirmed the ending of the talks, can he say that this is the final end of this discredited proposal? Can we exclude any notion of selling valuable parts of British Leyland to its competitors?

The Secretary of State will also no doubt recollect that only a few weeks ago he was standing at the Dispatch Box stating confidently that assurances could be given by General Motors to satisfy all United Kingdom interests. He was insisting on a sharp deadline for the submission of bids, so urgent was the matter that had to be determined.

Is it the case that,in the discussions that have just ended, the Government at one stage proposed that General Motors acquire 49 per cent. of Land Rover, with an option to increase its shareholding as time, and no doubt public opinion, passed on? What was the role of the Chancellor of the Duchy of Lancaster in those discussions? Is it not the case that he initiated the secret talks 18 months ago? Despite that, did he not elbow the Secretary of State aside in those discussions and, fearful of the political consequences of what he had initially proposed, bring the talks to an end?

Can we now be assured by the Secretary of State that there will be no question, during the lifetime of the Government, of Land Rover or any other part of the British Leyland Group passing out of British control? Is the Secretary of State aware that it is only the strongly expressed voice of Parliament and people that forced the Government to change direction on this issue?

Will the Government now consider apologising to the British Leyland group for the damaging commercial uncertainty which this whole affair has cost them, including the damage to the Austin Rover group caused by the Ford talks, which were also brought to an end by the voice of Parliament and people? Do the Government realise that, in hanging a "for sale" notice over the premises, they have been culpably negligent in their stewardship of a crucial part of British industry?

The Secretary of State says that the Government will continue to support the commercial development of Leyland Trucks in accordance with established plans. Since it is the established plans which have led us to this pass, is it not time to revise them? Can I suggest that the Government, for once, give proper backing to Leyland Trucks? Why do they not compliment it on its commercial success and stand behind it? Can the Secretary of State tell me whether it is true that the British Leyland board stopped the Austin Rover group putting advertisements in the British newspapers about the success of its ambitions because they ran contrary to the Government's then policy? I should like the Secretary of State to give me a specific answer to that question.

I have one final question to put to the Secretary of State. Since we are now in a fast-moving situation, can the House be given an assurance that there will be no further announcement about any sale of British Leyland before the House returns from the Easter recess? Can we be assured that, before any further moves are made, there will be a full debate in the House so that hon. Members in all parts of the House can express their opinions upon it?

Mr. Channon: I have seldom, if ever, heard a more exaggerated set of questions than that. I shall deal with the points the right hon. and learned Gentleman has raised in his exaggerated questions. I can assure him that no decisions will be taken about any of these matters before the House returns from the Easter recess. As to the question of a debate, my right hon. Friend the Leader of the House has alredy told the House the Government's position on that, and it remains unchanged.

As to the other questions raised by the right hon. and learned Gentleman, I have always made it clear to the House, at least I hope I have, that we wanted adequate assurances before we would be prepared to sell Land Rover to General Motors. There might have been a compromise. That is certainly something that was discussed. But it was quite impossible to reach a situation in which General Motors insisted on having effective control of the company and an assurance of full ownership

and control within a relatively short period. I could not recommend that to my colleagues or the House, and I think that that was right.

We shall continue with the established plans for trucks, which are already known. I hope that the BL board will now be considering all the options available to it, and will make recommendations to me. The Government will then consider them in the normal way.

Mr. Robert Atkins (South Ribble): Is my right hon. Friend aware that the fact that GM has pulled out means that Leyland Trucks, with its successful recent record in terms of its product, price and market share, will now need further investment from the Government and the taxpayer, just as other successful companies, such as British Aerospace have merited and gained such investment in recent years. Might not the partisan and short-sighted barriage of questions and statements from the Opposition have done more harm to the future and jobs of those working in Leyland Trucks than GM could ever do? Will my right hon. Friend resist the suggestion to hold an urgent debate on British Leyland, as that will do nothing more than exacerbate the problems which he is trying so hard to resolve?

Mr. Channon: I have already said that the Government will continue to support the commercial development of the truck business in accordance with the established plans. Of course the future of Leyland Trucks will be a matter for the board to consider in the normal way, and it will also come forward with proposals in the normal way. At present, there is no suggestion of any further equity being needed for Leyland Trucks or any other part of the Leyland business.

I cannot see any purpose in holding a debate until we have something to debate and until I have recommendations to put to the House.

Mr. David Steel (Tweeddale, Ettrick and Lauderdale): Does the Secretary of State agree that GM has a legitimate grievance in that, when it was first propositioned by his predecessor — now the chairman of the Conservative Party—in mid-1984, to take over the whole lot, no such conditions were attached to his eagerness to be rid of British Leyland's commercial vehicles? Conditions have been imposed only as a result of quite proper pressure in the House during the past few weeks. Does the right hon. Gentleman understand that representations are being made by Austin Rover retailers, because the damaging uncertainty hanging over the future of British Leyland as a whole is affecting showroom sales? Will he make it his business to restore calm in the future of BL as soon as possible?

Mr. Channon: My right hon. Friend the Chancellor of the Duchy of Lancaster publicly sought would-be buyers, as was made clear to the House some time ago. General Motors' original interest arose out of talks about mutual problems over trucks. It was always clear from the start that any interest in Land Rover/Range Rover might raise such difficulties.

I think that the whole House would like to pay tribute to Austin Rover's progress, and to congratulate the company on its increasing exports — [AN HON. MEMBER: "Then why flog it?"]—particularly to Europe. I am surprised that the Labour party does not seem to want to hear this part of my answer. In 1985, exports increased by 10 per cent. over the figure for 1984, and in the first three months of 1986, they are 35 per cent. up on the same period in 1985. The new Rover 800 executive car has excellent export prospects, and I hope that it will spearhead Austin Rover's re-entry into the American market.

Mr. Michael Heseltine (Henley): Does my right hon. Friend agree that the bus and truck industries of Britain and Europe now have huge excess capacity? When judging the board's recommendations, what criteria will he have in mind in determining a strategy that will protect British interests?

Mr. John Carlisle (Luton, North): Re-rat.

Mr. Channon: I agree that there is a huge excess capacity in the truck and bus business throughout western Europe. We will all have to consider that factor carefully. Indeed, the board of BL will have to consider it carefully in recommending a future course of action to me.

I shall ensure that all relevant factors are put before me before I make recommendations.

Mr. Michael Foot (Blaenau Gwent) *rose*——

Mr. Tam Dalyell (Linlithgow): On a point of order, Mr. Speaker. As one who has been had up for unparliamentary language, may I ask whether it is in order for an hon. Member to call another hon. Member a rat?

Mr. Speaker: I heard no such——

Several Hon. Members *indicated dissent.*

Mr. Speaker: Order. If an hon. member said that, I would ask him to withdraw it, but I—*[Interruption.]* Order. I repeat what I said yesterday. Let us keep our parliamentary language on a high and traditional level.

Mr. Foot: When did the Minister and the Government make the remarkable discovery that it was the desire and determination of General Motors to take over the whole business?

Mr. Channon: It was always clear that General Motors wanted to take over the whole business. What I have told the House is that we wished to see whether a compromise could be found that was acceptable to all the parties concerned. No compromise was found; therefore, the talks were broken off.

Mr. Richard Page (Hertfordshire, South-West): Would my right hon. Friend not agree that the breakdown of the talks is bad news for General motors and for British Leyland? Would he not accept that the misplaced jingoism of the past four weeks was started by the right hon. and learned Member for Monklands, East (Mr. Smith) with his intemperate private notice question of 3 February? Will my right hon. Friend make sure that the extra redundancies that there will be, and the extra demands for taxpayers' money, are laid firmly on the doorstep of Opposition Members?

Mr. Channon: It would not be right for me to speculate on the effect on General Motors. As to the effects on the British Leyland subsidiaries, I am sure that I will be able to bring to the House proposals made to me by the BL board that will offer them a secure future.

Mr. Terry Davis (Birmingham, Hodge Hill): In the light of his statement, will the right hon. Gentleman

[Mr. Terry Davis]

confirm that the talks broke down over Land Rover and that the Government were willing to see Freight Rover taken over by General Motors, with a consequent loss of 1,700 jobs in Birmingham?

Mr. Channon: The consequence that the hon. Gentleman suggests would not necessarily follow.

Mr. John David Taylor (Strangford): Is my right hon. Friend aware that the Land Rover management buy-out team has received no more than an acknowledgment of the proposals that it made three weeks ago? Is it not time that my right hon. Friend asked Hill Samuel and the Department of Trade and Industry to start talking to Schroder about the buy-out and to make some progress?

Mr. Channon: With respect to my right hon. Friend, he is not quite right about that. I have myself had two long meetings with Mr. Andrews and his colleagues, and I understand that they had a meeting with Hill Samuel that finished only recently; so talks are in progress, and all those matters are being fully studied.

Mr. George Park (Coventry, North-East): Will the Secretary of State now answer the question asked by my right hon. and learned Friend the Member for Monklands, East (Mr. Smith), and acknowledge the damage done to BL by the abortive negotiations? Will he abandon plans to fragment BL, and allow it to make progress of the kind that he himself has just referred to?

Mr. Channon: I do not want to do that, and I will not do so. I do not acknowledge what the hon. Gentleman says. Anyone who says that it is wrong to sell off constituent parts of BL should reflect on the success of Jaguar before he eats his words.

Mr. David Madel (Bedfordshire, South-West): Will my right hon. Friend confirm that, if negotiations between British Leyland and General Motors had been successful, General Motors would have made this country the centre of its European commercial vehicles operation, and that that would have been of great benefit to this country, bringing new investment and new employment? Given the concern of those who work in Bedford Commercial Vehicles, can my right hon. Friend impress upon General Motors the importance of GM continuing to manufacture commercial vehicles in Bedfordshire to sustain employment there?

Mr. Channon: On the latter part of that question, I am certain that it must be very much in the interests of all concerned that that should be the case. I share my hon. Friend's view of the matter. The first part of his question is a matter for General Motors, but I have certainly heard the suggestion made.

Mr. Jeff Rooker (Birmingham, Perry Barr): Is it right that the main board of British Leyland should continue to have only two executive directors? Will the Secretary of State assure the House that there will be no victimisation of any executive manager of BL who has opposed all or any part of this package which has been approved by the main board members, not all of whom are successful business men?

Mr. Channon: The House knows that a new chairman of the BL board is to take over in the next few weeks. He will no doubt wish to consider the composition of the board. I shall ask him to look at the hon. Gentleman's point, which is a very good one. I shall also ensure—although I am sure that there is no question of it, anyway—that there is no victimisation.

Mr. Hal Miller (Bromsgrove): In the light of the Opposition crowing in their isolationist joy about turning away much-needed investment in our truck and commercial vehicle industry, will my right hon. Friend tell the House, as a result of the developments that he has announced today, what discussions he has had with General Motors about keeping the design and development of commercial vehicles in this country and what future he envisages for the commercial vehicle industry now that Ford have joined up with Iveco and General Motors will be forced to consider alternatives?

Mr. Channon: Of course I agree with my hon. Friend about the wholly hypocritical attitude of the Labour party. First it was against the deal; now it complains because it is over. That is absolutely typical of its attitude. I have not had discussions with General Motors about the second part of my hon. Friend's question. That is a matter for General Motors, but it is a very important question. I very much hope that General Motors will continue to play such a role in this country.

Mr. D. N. Campbell-Savours (Workington): Has the Laird Group withdrawn its offer and proposals for the future of Leyland Bus, which would have meant the closure of the Workington plant? And what is the status of the discussions with Aveling Barford, which is visiting the Workington plant today?

Mr. Channon: No, I do not think that it has withdrawn its proposals. Aveling Barford has also made other proposals. The BL board will consider those and any other proposals that are put to it, including management proposals, if any are made, and will make recommendations to me in the course, I hope, of the next few weeks.

Mr. Graham Bright (Luton, South): Is my right hon. Friend not aware that this decision has cast an enormous question mark over the future of Bedford trucks and that the opportunity for General Motors to make this country the centre of its research, development and design for the whole of Europe has been blown? If GM does negotiate with Renault trucks or Volvo — we know that it is talking to them — those skills will be lost to Europe. That is exactly what we should be trying to stop. The GM deal would have enabled this country to have a proper truck manufacturing operation. The people of Luton and Bedfordshire will feel that this chance has been blown.

Mr. Channon: I very much hope that my hon. Friend's views will not be justified. I have no reason to assume that they will be justified. I am sure that GM will look carefully at all the alternative ways forward for the Bedford business, which I agree is extremely important for Britain and, I should have thought, for General Motors.

Mr. Ian Wrigglesworth (Stockton, South): Is the Secretary of State aware that his statement that a condition of the privatisation of Land Rover should be that it is retained in United Kingdom ownership is very welcome? However, is he also aware that the uncertainty is very damaging not only to this business but also to the volume car business? Will he seek to bring the discussions

particularly the management buy-out proposals of Mr. Andrews, to an early conclusion so that the uncertainty can be cleared up?

Mr. Channon: I thank the hon. Gentleman for his support in the first part of his question. I agree with him that it would be helpful if these matters could be brought to a conclusion in the reasonably near future.

Mr. Phillip Oppenheim (Amber Valley): Is my right hon. Friend aware that seven heavy truck manufacturers are still based in Britain, none of which exports substantially to Europe, but that, on the other hand, the whole of western Europe has only seven heavy truck manufacturers, all of which export substantially to Britain? Have we not lost a great opportunity to restructure the British truck industry? Will not GM now run off and make a deal with one of our European competitors? Is it not the Labour party that is wholly to blame, for trying to pull the Union Jack over the eyes of the voters?

Mr. Channon: I have never disguised from the House the fact that, if a satisfactory deal with General Motors had been worked out, it would have had many advantages. It is not possible to achieve that deal. We shall have to work on other solutions, and I hope we shall find a satisfactory one.

Mr. Andrew Faulds (Warley, East) Is not the lesson of this unhappy episode that the Government must never again try deceptively and surreptitiously, behind the back of the British public and behind the back of Parliament to dispose of such a vital part — [AN HON. MEMBER: "What role are you playing?"]—I am trying to protect British interests—to dispose of a vital part of British industry. Is it not true that this rotten manoeuvre was aborted only by the brilliant intervention of my right hon. and learned Friend the Member for Monklands, East (Mr. Smith)?

Mr. Channon: I refute entirely the allegation that the Government behaved deceptively. If the Opposition are seriously suggesting that all negotiations should be carried out in public, they will have a heavy price to pay.

Sir Paul Bryan (Boothferry): Since the most successful part of the motor industry in Britain is owned by the Americans and will probably shortly be owned by Nissan, what is wrong with Land Rover being owned by the Americans if they produce a better product?

Mr. Channon: I judged that it was right, and that it would receive the support of the House, if we could get a deal with General Motors on which there could be a compromise about the ownership of Land Rover. I was not prepared to recommend to my colleagues a situation in which General Motors had effective control of that company and the assurance of full ownership and control within a relatively short time.

Mr. Dave Nellist (Coventry, South-East): Is the Secretary of State aware that the workers in Coventry, the midlands and elsewhere, instead of hearing the Secretary of State continuing to tout around the world saying, "Anybody want to buy a car industry?", would have preferred a categorical assurance that Leyland would remain in public ownership? That would end the speculation and worry about workers' jobs.

The Secretary of State has said on a number of occasions that the large-scale volume production of vehicles is essential if we are to compete in international markets. Why does the Secretary of State not reverse the process of recent months and take into public ownership Vauxhall, Ford and Peugeot to create a British motor industry capable of the volume production necessary to compete in international markets?

Mr. Channon: Perhaps we shall see that unfold with all the details as we approach the general election. With regard to jobs, security and prosperity, one should consider what has happened at Jaguar since it was privatised. There has been an increase in its sales and employees. The idea that one has to keep industries in public ownership for them to be successful is a foolish and idiotic idea, believed only by Opposition Members.

Mr. Michael Grylls (Surrey, North-West): Will my right hon. Friend take comfort from the fact that there is widespread support for his policy of returning viable parts of British Leyland to the private sector? Will my right hon. Friend bear it in mind that British Leyland, although technically one company, is a group of companies? Although the truck division would undoubtedly prosper in General Motors, Land Rover and Range Rover are a specialist company, rather like Jaguar. They may well do better standing on their own, financed by the private sector.

Mr. Channon: I take note of what my hon. Friend says; it is a view that many people share.

Mr. Dalyell: Will the Secretary of State clarify what he meant in his opening remarks:

"The BL board will give further study to the alternative ways forward for all the businesses concerned"?

I stress "all".

Does not this resurrect the question of Bathgate? I ask the Secretary of State whether he or the Minister of State —who, frankly, has been very helpful in these matters when I and my colleagues have approached him in relation to the complex problems of Bathgate — will give particular attention to the shop stewards' and Scottish Office initiative in relation to Bathgate and Mr. Anthony Bamford. Can some machine capacity be retained at what is the biggest machine shop under one roof in Europe? I see the Secretary of State consulting the Minister of State. The suggestion makes sense. Can I have an assurance that the Department of Trade and Industry will take it seriously?

Mr. Channon: Naturally I shall consider seriously anything that the hon. Gentleman proposes. I am anxious not to reawaken hopes that will have to be dashed again. The chances of doing what he suggests are extremely remote, but I shall certainly have his suggestion examined.

Mr. Derek Conway (Shrewsbury and Atcham): As my right hon. Friend is under fire today for defending British interests, can I urge him not to be disheartened, and to appreciate that there is widespread support for the privatisation of parts, if not all of BL? Will he assure the House that the component sourcing policies of BL and parts thereof will be continued, and that the British industry will also be safeguarded in future?

Mr. Channon: I am most grateful to my hon. Friend. He raises an important point, with which I agree.

Mr. Jack Straw (Blackburn): Would the Secretary of State like to place on record his praise for the staff and work force of Leylad Trucks, whose products have risen

[Mr. Jack Straw]

to the top of the best-selling league, despite the damaging uncertainty which this farrago has created? Can he spell out precisely the time scale that he now has in mind for the so-called privatisation of Leyland Trucks, given the fact that his original time scale has been aborted?

Mr. Channon: I certainly agree with the hon. Gentleman about the immense progress that has been made in Leyland Trucks. He may recall that, in my original statement, I mentioned the trend in its performance, and I met a deputation from the unions in Leyland Trucks recently. I agree with the hon. Gentleman. I would prefer not to give him a firm answer about a timetable at this stage because that would be misleading. I must await recommendations from the BL board about the best way forward for Leyland Trucks, and I hope that I shall have proposals in the not too distant future.

Mr. David Gilroy Bevan (Birmingham, Yardley): Will my right hon. Friend, in accepting my thanks for this further statement, which is a step towards the protection of the jobs of the workers, many of whom live in my constituency, now please instruct the bankers of BL, through the board, to give full and proper information to the managers and all those other companies which are bidding for BL, and not the paucity of information which has been the apology so far given and which has shown their partiality and preference?

Mr. Channon: I am grateful to my hon. Friend for his support, but I cannot accept what he said in the last part of his question. As I said in my original statement, the board will now include in its examination the various expressions of interest which have already been announced so that it can recommend to me the best course forward. I am told that all normal information has been given, but I shall immediately check that with BL.

Mr. Robin Corbett (Birmingham, Erdington): Why is the Secretary of State such a dogmatic devotee of privatisation? Does he not recall that the former incompetent private owners of BL got it into such a mess that it had to be rescued with public funds? Will he now give the House an undertaking that the Government will keep their incompetent hands off BL and allow it to continue to succeed so that, as taxpayers, we can get back the moneys which we put in to rescue it?

Mr. Channon: I am afraid that I disagree with the hon. Gentleman. All experience shows—I cited Jaguar earlier—that, if we can get the subsidiaries of the companies into private hands, it will give the companies a better opportunity for a secure long-term future. That is true not only for the motor industry, but for every other industry.

Mr. Nicholas Lyell (Mid-Bedfordshire): Does my right hon. Friend accept that there is a great community of interest in the future of Leyland Trucks, Freight Rover and many other products in the continuation of reopening of negotiations with GM? Will he make it clear that it is not the British Government who are seeking to close the door on further negotiations?

Mr. Channon: As I have already said, the Government are always ready to consider fresh proposals, but at present there are no plans for the resumption of talks.

Mr. David Winnick (Walsall, North): Is the Secretary of State aware of the outrage felt in the west midlands at what the Government have done over BL and the way in which they have acted? Is it not a supreme irony that, when the chairman of the Conservative party was Secretary of State for Trade and Industry, he started negotiations with GM, yet he has told his Cabinet colleagues that selling to GM is simply not on?

Mr. Channon: The hon. Gentleman is vastly exaggerating what he calls the outrage in the west midlands, and, as usual, he is distorting the actions of my right hon. Friend, who has been extremely helpful at all stages, as indeed all my colleagues have been. This is a Government decision, and the hon. Gentleman is talking rubbish.

Several Hon. Members *rose*——

Mr. Speaker: Order. I will call the Conservative Members who have been standing, and the hon. Member for Sheffield, Hillsborough (Mr. Flannery), who has suddenly got to his feet, for a further five minutes. However, I must bear in mind that further business today is on a timetable.

Mr. Nicholas Budgen (Wolverhampton, South-West): Will my right hon. Friend place in the Library a copy of the final terms upon which GM was prepared to purchase Freight Rover, Leyland Trucks and Land Rover?

Mr. Channon: I shall certainly consider what my hon. Friend says, but the talks did not end in that way. I put various proposals orally to GM, but it was not prepared to accept them. So I do not think that that is a relevant issue at present.

Mr. Michael Fallon (Darlington): Now that the wedding is off, can my right hon. Friend assure me that taxpayers will not be asked to foot the bill?

Mr. Channon: Yes, Sir.

Mr. Nicholas Winterton (Macclesfield): Is my right hon. Friend aware that I am satisfield with his statement this afternoon—so much so, indeed, that when I heard during the weekend that the GM deal was off, I ordered a Range Rover yesterday? Is it not time that the House set an example and that many more right hon. and hon. Members brought British cars? I speak as a Rover user, and if hon. Members set an example, I am sure that the country would follow, and British Leyland in private hands would be a highly successful company.

Mr. Channon: I am extremely grateful to my hon. Friend for his support, which I have been accustomed to receive over the years on many occasions. If all the people who talked about BL bought a BL car, BL would have a higher proportion of the British share of the market than it does at present.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): Will my right hon. Friend accept that many of us have a great deal of sympathy for him in that he was landed with this problem so early in what will be a distinguished tenure of office? Will he further accept that many of us respect him for the difficult decision that he had to make, and believe that he has made the right one? Land Rover, which is a specialist manufacturer, should remain—not in a narrow, patriotic sense, but in a proper sense—in British hands. Will he go one step further and make the other proper decision, which is to back the zeal, ability,

willingness and money of the management-worker buy-out, and make an early decision so that this great company can go forward for its workers, for the country and for us all?

Mr. Channon: I am grateful, indeed, to my hon. Friend for his support which, again, I have been accustomed to receiving on many occasions. The management buy-out will be considered together with the other expressions of interest by the board in order to come forward with recommendations for the best course in the future. It would be wrong for me to prejudge that at this stage, but I know that there is considerable support in the House for that. There may well be other options available.

Mr. John Maples (Lewisham, West): Does my right hon. Friend appreciate that his statement will come as a great disappointment to those who were hoping for some rationalisation of the British truck industry? Does he agree that those who have wrapped themselves in phoney patriotism in an attempt to oppose that rationalisation will bear a great deal of responsibility if GM now finds itself a European partner, and we end up with no truck industry? Does he appreciate that, if he resumes negotiations with GM for the sale of a controlling interest in both Leyland Trucks and Land Rover, he will have considerable support behind him on these Benches?

Mr. Channon: I note what my hon. Friend says, but I cannot add to what I said earlier. There are no plans at present for the resumption of talks, and it would be misleading if I were to pretend otherwise. However, I note my hon. Friend's comments and I shall come forward with further proposals as soon as I can.

Mr. Roger King (Birmingham, Northfield): Is my right hon. Friend aware that, although the management buy-out is well accepted by many people, it also finds a great deal of favour among the work force? Is my right hon. Friend aware that the trade unions have said that they are willing to become involved financially in such a management buy-out? Such aspirations have been raised to a high level in the west midlands. We hope that they will be realised.

Mr. Channon: I acknowledge what my hon. Friend has said, but it would be quite wrong of me to express a view at this stage on the various alternatives.

Mr. Den Dover (Chorley): Does the Secretary of State agree that a much better bargain could be obtained for Leyland Trucks in a year or two if the division were kept in public hands until then?

Mr. Channon: I shall, of course, consider that possibility.

Mr. Speaker: Mr. Flannery.

Mr. Martin Flannery (Sheffield, Hillsborough): Thank you, Mr. Speaker, for balancing the questions——

Mr. Speaker: Order. The hon. Gentleman has only just started to rise.

Mr. Flannery: The hon. Gentleman has been standing up continually.

Does the right hon. Gentleman accept that a Japanese firm has a great rival to Land Rover—a four-wheel drive car which looks very much like the Land Rover? Is it not true that that Japanese firm is owned by General Motors of America? Does it not follow that, because costs in Japan are much lower, if General Motors gets hold of the Land Rover BL production machine here, it could, from America, in the interests of profit, easily close down Land Rover to make profits in Japan?

Mr. Channon: With respect to the hon. Gentleman, if there had been a deal with General Motors on Land Rover, we would have required satisfactory assurances from that company which would have ensured the future of the Solihull plant, the local content and the other things which I have described to the House many times.

Mr. Charles Wardle (Bexhill and Battle): Will my right hon. Friend accept that many Conservative Members and many people in the automotive industry consider world market share profitability and British jobs to be more important than all the jingoism of the past few weeks? Will he convey to General Motors and to Ford that they are as welcome to prosper and expand in this country as British firms are welcome to do in the United States?

Mr. Channon: My hon. Friend is absolutely right to draw attention to the importance of General Motors and of Ford in the British economy. They are both large employers which put a great deal of money and effort into the United Kingdom. I can assure my hon. Friend that the Government think that they are very welcome.

Mr. Michael Forsyth (Stirling): Is my right hon. Friend aware that a majority of Conservative Members regret the collapse of the General Motors talks, as a great opportunity lost? Would it not have been better for the Government to concentrate on securing a successful motor industry in Britain rather than to respond to the misguided and jingoistic calls from those who will leave a price to be paid in lost jobs and higher taxes?

Mr. Channon: I note what my hon. Friend says. I hope that I shall be able to come forward, in the not-too-distant future, with proposals on the future of Land Rover and Freight Rover which my hon. Friend will welcome.

Several Hon. Members *rose*——

Mr. Speaker: Order. I shall bear in mind when we next discuss this matter those hon. Members who have not been called today.

BL IN THE SECOND CHANCE SALOON

The Government's withdrawal two weeks ago from the talks with General Motors over acquiring British Leyland came into a familiar category of political actions: those which appear to be shrewd right up to the moment that they are actually carried out.

That particular decision, to be sure, appeared shrewd at a very low level. In the post-Westland climate of economic xenophobia, the government plainly felt itself vulnerable to the charge of undue tenderness towards American interests. Since Ministers were known to be seriously negotiating with General Motors over Leyland Trucks and Land Rover, this allegation was made by the Labour front bench with a great display of cynical jingoism which duly evoked the real thing on the opposite side of the House. Tory backbenchers, it seemed, were rallying round the principle that Land Rover must be kept British at all costs – even though the costs seemed likely to include being landed with the rest of British Leyland and its voracious appetite for subsidy.

In the face of apparently universal criticism, the government withdrew Land Rover from the proposed deal. GM accordingly withdrew from the negotiations.

Whereupon it became evident that a great mistake, of both policy and politics, had been made. The proposed deal would have both guaranteed the future of the British truck industry (in a European market marked by 50 percent excess capacity) by making it the base for GM's European operations, and lifted the burden of subsidy from the taxpayer. They are the reasons, after all, why Ministers initiated it in the first place. Its failure, on the other hand, actually threatens jobs in the UK car industry. There is a real risk that GM might respond to the breakdown of negotiations by closing down its loss-making Bedford plant at Dunstable and forming a joint truck operation with some other European producer.

When the Industry Secretary announced the breakdown of the GM negotiations in the Commons, several Tory backbenchers unexpectedly made these points. Mr Leon Brittan, the former Industry Secretary, reiterated them in speech to Conservative students last week. And most informed comment outside the Commons has regretted that the GM-Leyland deal did not go ahead.

But there the matter seemed doomed to rest. Considerations of face, ultimately irrational but politically potent, prevented the government from asking GM to reopen the negotiations.

With last week's publication of unexpectedly favourable profit and loss figures from British Leyland, however, an opportunity for reopening the dialogue with GN presents itself. The improvement on 1984 figures should not be exaggerated. Trucks and buses in particular made a loss of £52 million compared to £61 million in 1984.

Nonetheless, these are better results than anything available to the GM negotiators a fortnight ago. And they provide at least a paper justification for suggesting to the Americans that talks on a GM-BL deal should be reopened on this new basis.

Land Rover will initially have to be excluded from these talks for political reasons. And the rise of Land Rover's profits from £2 million to £10 million will be cited by economic jingoists as reason to keep the company under British ownership permanently.

Once negotiations are in train, however, no relevant topic is likely to be rigorously ruled out of order. And the arguments for GM's acquisition of the company remain strong. Higher profits notwithstanding, Land Rover has lost ground in world markets to Japanese competition in recent years. It needs a world-wide distribution network which GM offers. None of the alternative bids, in particular the management buy-out favoured by Tory backbenchers, offers an equal prospect of capital expansion. The benefits of a GM takeover of BL trucks, therefore, are not lost irrevocably. And if the government shows some fancy footwork, they need not be lost at all.

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PRIME MINISTER

GM : LAND ROVER-LEYLAND

I should report further developments over the weekend following soundings of my officials by GM.

2 GM are presently considering what they will do in the wake of the breakdown of talks with the Government. Prospects for Bedford remain very gloomy. Both their Truck and Van operations continue to be heavy loss-makers and there seems little hope of either business surviving in their present form. Indeed the entire Bedford operation faces the real prospect of a phased closure, a process which may well begin fairly soon.

3 It now appears that GM may be willing to negotiate some variant of the 48:48:4 deal discussed with the Government at an earlier stage. A proposal has been put forward by Bankers Trust (who were heavily involved in GM's acquisition of Lotus). This would, with one significant exception, (6(b) in the attached proposal prepared by Bankers Trust) go some way towards meeting the requirement we have laid down publicly that there should be a measure of real UK control over the future of Land Rover for a number of years and that there should be no contractual assurance of majority GM ownership in the future.

...

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SECRET

4 Although such an arrangement, if accepted by GM, would represent a significant advance in their negotiating position I doubt that what is being suggested is sufficiently different to make it acceptable to all our colleagues, and to the public at large.

5 You will see that in the proposals made by Bankers Trust, if paragraph 6(b) is deleted, there is a very high probability - but not the certainty - of GM control and ownership of Land Rover in a few years.

6 In the light of the events of recent months, I believe that I should repeat that a deal of this kind involving Land Rover/Range Rover is not, at present, politically negotiable. At the same time, however, I would emphasize to the company that the Government remains very ready to discuss the disposal of other BL businesses to GM on appropriate terms.

7 I would welcome your views on this course before proceeding.

P.C.

PAUL CHANNON
8 April 1986

DEPARTMENT OF TRADE AND INDUSTRY

JF2BEC

DEAL STRUCTURE OUTLINE
AS PROPOSED BY BANKERS TRUST

1. The Company would be capitalized initially with two classes of equity.

Voting Cumulative Preferred	L 30 million
Nonvoting Common	150
	L180 million

2. Dividend policy would be designed to meet the needs of the Company and the Investors.

   a. The Voting Cumulative Preferred would pay a quarterly dividend. The yield would approximate current market rates.

   b. The Nonvoting Common would pay no dividend until after the Trigger Date to provide capital for modernization and expansion.

3. Participation in the equity of the new company would be structured as follows:

	Voting Cumulative Preferred		Nonvoting Common	
	L Million	%	L Million	%
GM	L 14.4	48%	117.0	78%
British Investors	14.4	48	30.0	20
Neutral Parties	1.2	4	3.0	2
	L 30.0	100%	L 150.0	100%

4 GM would therefore have the majority of the economic interest but a minority of the voting interest.

	Economic Interest		Voting Interest
	L Million	%	%
GM	L 131.4	73.0%	48.0%
British Investors	44.4	24.7	48.0
Neutral Parties	4.2	2.3	4.0
	L 180.0	100.0	100.0%

5. Preferred dividend payments would be mandatory unless the Board of Directors votes to exclude such payment by reason of financial distress. If the dividend on the Voting Preferred is not paid for two consecutive quarters, the following events are automatically triggered:

   a. GM receive a call option on the Voting Preferred held by the British Investors at the Striking Price.

   b. The British Investors receive a put option from GM at the Striking Price.

   c. The Striking Price equals the issue price plus accrued dividends.

6. The Trigger Date would be the earlier of:

   a. December 31 of the first year in which at least 62,000 vehicles have been produced by the Company.

   b. December 31, 1991.

@ 50 % sales increase.

7. On the first business day after the Trigger Date:

   a. The Nonvoting Common shares held by the British Investors and Neutral Parties receive full voting rights.

   b. An equal number of GM's Nonvoting Common shares receive voting rights.

   c. The Voting Preferred receives conversion rights into Voting Common at book value.

   d. The Board of Directors of the Company has the right to declare a common stock dividend (such dividends are to be the same for Voting Common and Nonvoting Common).

   e. All holders of Voting Common receive the right to sell shares through a public flotation provided they follow procedures outlined in Item 8.

8. Voting Common may be sold to the public through the following procedures.

   a. A public flotation may be initiated by:

      - The Board of Directors of the Company.

      - Any holder of Voting Common or Voting Preferred wishing to sell shares.

b. The Initiator must declare his intention to sell at least 90 days in advance of such an offering.

c. Within 30 days of this announcement, the Initiator must provide other shareholders with an expected offering price as proposed by a reputable Merchant Bank retained by the Initiator.

d. Within 14 days after the announcement of the expected offering price, all British Investors and Neutral Parties wishing to participate with the Initiator in the flotation must declare their intention to sell.

e. Within 14 days of this declaration of intention to sell, GM must decide whether it wants to: i) participate in the flotation on a prorata basis, ii) exercise its right of first refusal, or iii) abstain from any direct involvement.

f. If GM decides to exercise its right of first refusal and considers the proposed offering price to be fair, it may purchase any or all shares offered at the Proposed Offering Price.

g. If GM decides to exercise its right of first refusal but considers the Proposed Offering Price to be unfair, it must retain a reputable Merchant Bank to estimate the price at which the proposed flotation could be executed.

h. If the difference between the offering prices estimated by GM's Merchant Bank and the Initiator's Merchant Banker is equal to or less than 15%, GM may purchase any or all of the shares offered at the average of the two prices.

i. If the difference between the two Proposed Offering Prices is greater than 15%, then GM and the Initiator will retain a third Merchant Bank agreeable to both.

j. After the third Merchant Bank renders its Proposed Offering Price, GM may either purchase any or all shares offered at the Proposed Offering Price of the third Merchant Bank or participate in the public flotation on a prorata basis.

9. In the event of the issuance of new Voting Common shares during the public flotation, a sufficient number of GM's Nonvoting Common shares will be awarded voting rights to permit it to retain a 48% of total votes.

10. If GM subsequently sells Nonvoting Common to investors domiciled in the United Kingdom, such shares would be accorded full voting rights.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 April 1986

Thank you for sending the Prime Minister a copy of your briefing pack on JCB's proposals for the future of Land Rover.

I am sure the Prime Minister will be interested to see it.

(David Norgrove)

Anthony Bamford, Esq.

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Your ref

Our ref PL/nm

Date 8 April 1986

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London
SW1

Dear Prime Minister

in folder at rear

I have pleasure in enclosing a briefing pack on JCB's proposals for the future of Land Rover. We at JCB are confident that we can provide Land Rover with all the resources necessary for it to expand and prosper while remaining under British ownership and management. In short, we believe it to be the ideal match, bringing together two of Britain's most internationally successful engineering companies.

If I can at any stage provide you with any additional information, please do not hesitate to contact me, or in my absence to talk to Rooney Massara, Marketing Director, or Don Hume, Public Affairs Officer.

Yours sincerely

Anthony Bamford

ANTHONY BAMFORD
Chairman and Managing Director

Prime Minister 4

Some more charts in this show what well run British manufacturing industry is capable of doing.

DAS

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CABINET OFFICE

With the compliments of

J. B. UNWIN

70 Whitehall, London SW1A 2AS
Telephone 01 233

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NOTE FOR THE RECORD

cc Mr Stark
Mr Wiggins o/r
Mr Roberts
Mr Norgrove - No 10

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LAND ROVER LEYLAND

It does not look as if MISC 126 will need to meet again until early next month.

2. Bidders have been given until 15 April to confirm and/or elaborate their bids. Some time will then be needed for evaluating them and since the Secretary of State will be away for a week or so in the United States, DTI are unlikely to be ready to submit further papers before the turn of the month.

J B UNWIN
7 April 1986

CONFIDENTIAL

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Prime Minister 2

PRIME MINISTER

3 April 1986

4/4

OPTIONS FOR LAND ROVER-LEYLAND

There are four possible options for Land Rover.

1. Sale to the management buy-out (MBO).

2. Sale to Lonrho (or another trade purchaser eg JCB).

3. Flotation by BL 'before the Election'.

4. Status quo.

GM must be discounted unless the Government can change its position. GM's walk-out was no bluff, and despite optimistic rumours, they could only return without losing face (which is important to them internationally) on the basis of the 51/49 supervisory board or something similar.

Of the four options on the table the front runners must be the MBO or flotation by BL. Both demonstrate the Government's continuing commitment to privatisation. Whilst some political arguments favour the MBO it will be criticised - either because it gives the City the opportunity to make a quick killing; or (paradoxically) because there will be insufficient funding to secure Land Rover as an independent manufacturer in the long term.

But the problem with BL has always been that of jam tomorrow, and although Graham Day will surely fulfil any commitment to privatise that he makes, he cannot guarantee that the Government will necessarily get a better deal in two years time. Nevertheless, as the arguments are finely balanced it may be better to stick with the flotation - which BL are likely to recommend - than cause a further row by pressing ahead with the MBO. (Especially as the actions of the MBO members were in no small measure responsible for undermining the GM proposals).

Peter Warry

PETER WARRY

CONFIDENTIAL

[THE EARL OF SWINTON.]

One question still remains: what of matters on which both primary legislation and articles are silent? I think this is a point my noble friend Lord Renton was making. The answer is in Clause 15(1), as, indeed, the right reverend Prelate said. Anything not specifically assigned falls within the conduct of the school; responsibility for that is vested in the governing body. In other words, Clause 15(1) achieves a large part of what this amendment attempts to do.

However, as I said at the beginning of this short speech, I acknowledge the strength of feeling expressed on this matter. I hope it is recognised why the amendment in its present form is unacceptable. However, I think that there may be a way forward. I know that a meeting is arranged for 10th April between my right honourable friend the Secretary of State for Education and Science, the right reverend Prelate the Bishop of London and his colleague the Bishop of Menevia. That meeting will provide a useful forum for this complicated matter to be discussed further and I have every confidence that agreement can be reached at that meeting. If this amendment is withdrawn, I undertake that the Government will, at the next stage, reflect any agreement at the meeting with any necessary amendment. Having said that, I invite the right reverend Prelate to withdraw this amendment.

The Lord Bishop of London: I am most grateful to the noble Earl for his careful and detailed answer. Clearly, there still remain certain differences between us with regard to the significance of the particular case and its practical implications. However, in view of what the noble Earl has said about his willingness to reconsider the matter and the meeting that I shall be having with the Secretary of State, I beg leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Baroness Hooper: This may be a convenient moment to take the Statement. I beg to move that the House do now resume.

Moved accordingly, and, on Question, Motion agreed to.

House resumed.

British Leyland

3.40 p.m.

Lord Lucas of Chilworth: My Lords, with the leave of the House, I will now repeat a Statement being made in another place by my right honourable friend the Secretary of State for Trade and Industry on the subject of British Leyland. The Statement is as follows:

"As the House is aware, British Leyland and the Government have been in discussion with several companies about the privatisation of the main Land Rover-Leyland businesses. Of these, General Motors has made proposals concerning Leyland Trucks, Freight Rover and Land Rover.

"In relation to the truck and van sectors, the talks with General Motors concentrated on the possibilities for combining the respective Leyland and Bedford businesses to the mutual benefit of General Motors and British Leyland. In respect of Land Rover, where there are opportunities for Land Rover in expanding European and world markets, the Government were determined that, as a condition of privatisation, special arrangements should be concluded to safeguard United Kingdom interests, including a measure of real United Kingdon control over the future of the business. For its part, however, General Motors wished to have effective control of the company from the outset and an assurance of full ownership and control within a relatively short period; and it became clear that it was not able to compromise on these points. Despite the view taken of the General Motors proposal by the British Leyland board from its commercial standpoint, this was not a basis for an agreement acceptable to the Government in the national interest.

"General Motors has stated that it is not willing to proceed with an arrangement for Leyland Trucks and Freight Rover which excludes the Land Rover company and that talks have therefore been ended.

"The British Leyland board will give further study to the alternative ways forward for all the businesses concerned. For Leyland Trucks, which operates in a depressed and fiercely competitive market, the board will continue to examine the possibilities of collaboration with other manufacturers and other ways to sustain its improving trend in performance. The Government continue to support the commercial development of this business in accordance with established plans. For Land Rover and Freight Rover, the board will include in its examination the various expressions of interest which have already been announced, with the view to recommending the course most likely to achieve the privatisation of the businesses in a way which best secures their future".

My Lords, that concludes the Statement.

Lord Bruce of Donington: My Lords, we are indebted to the noble Lord for having repeated the Statement made in another place. May I take the somewhat unusual course of congratulating the Government on achieving such a remarkable U-turn? It reflects very great credit upon them. I do not feel that the House would wish to withhold its approval from these mature considerations, following some vacillation that has done enormous harm to the British motor industry, that have now acknowledged the existence of a national interest. This is revolutionary. Hitherto, in the statements that have been made, we have been up against the harsh dictates of market forces and the harsh dictates of competition. Here, we have a Statement that the Government, presumably from the outset, were determined—the term is "were determined"—that there should be a measure of real United Kingdom control over the future of the business. This is somewhat astonishing in view of the vacillation and the conflicting statements that have been made both here and in another place concerning these various competitive offers.

Moreover, in the more recent discussions with General Motors, or, rather, following them, the Government decided that the proposals were not the

the opportunity to pay tribute to the work of the voluntary schools. I think we are rather apt to overlook the role that they play in our educational system.

I was chairman of governors of a Catholic school for many years, and I have been concerned with their work in London. I think it is significant that a table recently published of the schools to which people wanted to send their children, in order of importance and preference, certainly put the voluntary schools very much at the top. You can ask why. I have questioned many parents on this, and one of the reasons was that they found that they are well run, that they have a philosophy of belief which is encompassed in their education, and that they have a unique situation in our educational system.

While the situation now may not be difficult, there is always the possibility that a local education authority will want in some way to deprive the voluntary schools of certain of their functions. I think this amendment will safeguard that, and it is important that it is enshrined in legislation. I hope that for many years we shall maintain the number of voluntary and Church schools that we have, because of their unique quality, the remarkable pupils they turn out, and the fact that they do certain things that I am afraid that even in this day and age the public school sector cannot do.

The Earl of Swinton: The Government recognise the legitimate concern of the Churches to ensure that functions which have traditionally been exercised by aided and special agreement school governing bodies under articles of government cannot, under the new provisions in Clause 1 for the LEA to make instruments and articles of government, be removed from them. The Government share this objective. However, I have to say that we disagree with the right reverend Prelate on the basis for this argument.

The Government do not believe that there is a general principle to be extracted from the 1912 Gillow case, which related to a point of construction in the Education Act 1902. In any event, the 1944 Act represented a break from the previous scheme of things, providing a fresh start with functions to be allocated as seen best in articles of government subject to the overriding requirements of legislation. I am aware that the Churches have obtained a contrary opinion from that of the Government about the continuing relevance of the *Gillow* case. The Committee will be well aware that it is not entirely unknown for lawyers to reach conflicting opinions on the same point. The Government's view of the matter is supported by parliamentary counsel.

The amendment proposed purports to deal with those matters which are not covered by the primary legislation. It does, I suggest, have serious weaknesses. There is already substantial prescription on the allocation of functions—particularly as regards controlled schools—in existing legislation, and this will be extended by the present Bill. The Government believe that the allocation of functions not covered by the primary legislation should be made according to what is appropriate to the particular case. The Bill has been carefully drafted to ensure that these options are appropriately open.

For aided schools, in many respects it will be appropriate for the governing body to have the responsibility for these not otherwise assigned functions because it is acknowledged that they have, and should continue to have, greater autonomy from the LEA. Perhaps I may take a specific example. The Education Acts are silent about the appointment and dismissal of non-teaching staff at aided schools. We believe that the 1944 Act implies that care and maintenance staff are employed by the governing body, but I stress this is not explicit. However, articles of government have traditionally provided for non-teaching staff to be employed by the governing body, with one notable exception: almost invariably school meals staff are employed by the LEA. This amendment would mean that these staff had to be employed by the governing body. I am not sure this is necessarily what the Churches would want. The amendment would also cause problems for LEAs in making articles of government, because it could well conflict with the requirement in Clause 2(1)(*c*) that they have regard to the way the school has previously been conducted.

The Government believe that what is proposed in the Bill does, in effect, meet the Churches' concern. The substantial safeguards that are proposed for voluntary schools mean that they need not fear a whittling away of their distinctive powers in the new situation; indeed, we should be most distressed if it were otherwise, and no one more than myself, being an ex-member of a diocesan education committee and still a governor of a Church of England aided primary school.

The procedure is that, before new instruments and articles are made for voluntary schools, the local education authority will be bound by the extensive prescription in legislation and then required to have regard to the way in which the school has been conducted. We have already agreed that model documents should also be available for guidance, though doubtless—and this will please my noble friend Lady Vickers—we will discuss this further in the context of the right reverend Prelate's next amendment. The local education authority would then have to secure the agreement of the governing body (and the foundation governors on any matters that are of particular concern to them) or, in the case of a new school, the agreement of their shadow governing bodies.

In the absence of agreement, either side may refer the issue to the Secretary of State for his determination. It goes without saying that, in making such a determination, the Secretary of State must have regard to the merits of each particular case. At any time, the governors (or, as the case may be, foundation governors) may propose a change in the governmental documents which the local education authority will be under a duty to consider. Again, if there is not agreement on how to proceed, either side may refer the matter to the Secretary of State for his determination. All this, in fact, represents a substantial improvement as far as the majority of voluntary schools are concerned—those in the primary sector for which articles currently fall to be made by the local education authority without such safeguards.

basis of an agreement acceptable to the Government in the national interest. It would be outside the mood of the House if I was to be unduly cynical about this and say that we could possibly substitute electoral interest, particularly in the West Midlands. I do not wish to be uncharitable. I accept the fact that the Government now regard the national interest as being of some importance. This will be reassuring to the entire population of the United Kingdom. In continuation of that, and in view of the fact that the Government announce their intention to continue to support the commercial development of the business in accordance with established plans, may we now ask the Government to be really sensible and carry this to its logical conclusion?

In view of the hassles that have taken place over the past weeks, would it not be in the national interest to abandon this privatisation charade altogether? Would it not be best, in the interests of the British taxpayer, to continue to support British Leyland at a considerable saving to public funds of some billions above the expenditure it has made? Would it not be better, in any event, and fairer to the British taxpayer, even on the assumption that there is lurking in the Government's mind the continued desire to privatise, to continue to support Leyland until such time as there arrives the long-promised industrial recovery, concerning which the Government appear to be most confident and which, if it occurred, would necessitate or generate demand for British transport, trucks, Range Rovers and the lot, far in excess of existing demand?

Is it not the case that the Government, while exuding public optimism as to Britain's recovery, which itself would assist all these industries, are in fact suffering from private pessimism? In these circumstances would it not be better if the Government as a matter of honour (and in view of the fact, to use the words of the noble and learned Lord the Lord Chancellor, that they are a minority elective dictatorship who, I am afraid, are largely discredited now in the public mind) abandoned these proposals altogether until the British people have had an opportunity to pass a further verdict upon the Government?

Lord Ezra: My Lords, I should like to join the noble Lord, Lord Bruce of Donington, in thanking the noble Lord, Lord Lucas, for telling us about the Statement in another place. The Government have reached a decision in the current negotiations with General Motors. That is clear. What is not clear is what the alternative is. Here is a major sector of British industry that is in difficulty, not through any fault of its own but because it is in a general market problem, as the Statement indicated. Yet we are not clear what the alternative is. Is this not a demonstration of the lack of an industrial strategy for this country?

Should we not have, as an integral part of this Statement, an indication of what is now proposed? In the Statement which the noble Lord read out to us it is indicated that

"the Government continue to support the commercial development of this business"—

that is the Truck business—

"in accordance with established plans".

What exactly does that mean? Does it mean that the Government will be prepared to put the necessary investment into this business; that they will be prepared to provide the necessary marketing organisation for this business; that they are prepared to do what our Japanese competitors do: to have a real national effort to build up this sector of their industry; or does it mean that they will remain totally "laid back" and wait until some other bidder comes forward who happens, coincidentally, to meet the criteria—including the national criteria—which the Government have mentioned?

I think that we are entitled to know what the alternative policies are. The Government have been very clear in the reasons why they have not accepted the GM proposals. That is fine. But we now need to know the next step. Where shall we go in supporting and rebuilding this vital sector of British industry? Are we just going to let it continue through an uncertain, indeterminate period while we wait for alternative bidders; or will the Government say, "Let us get together with the enterprise and build it up so that it becomes a really powerful operation within Europe and in the rest of the world".

I think that we have reached a moment of great decision in respect of our motor industry. We have to decide one way or the other. At the moment I think that we have left this situation in limbo. I very much hope that in his reply the noble Lord will be able to indicate to us precisely what positive policy the Government have in mind.

Lord Lucas of Chilworth: My Lords, I am obliged to both noble Lords opposite for their reception of the repetition of this Statement. I shall do my best to answer the comments which they have made.

Let me first start with the noble Lord, Lord Bruce of Donington, in saying there has been no U-turn whatsoever by the Government. Your Lordships will recall that I gave certain assurances to the House over a number of weeks. At the outset, we sought certain assurances from General Motors. Among those assurances was the national interest element. Regrettably General Motors and the Government could not find sufficient common ground which is why General Motors wish to end the discussions.

I should remind the noble Lord, Lord Bruce of Donington, that the British taxpayer has put £2·2 billion into British Leyland in the past few years and has already underwritten a further £1·5 billion. Certainly very much more money would be needed and it has been the Government's policy, as declared at the last election, that British Leyland would be returned to the private sector as soon as was practicable. If I may say to the noble Lord, Lord Ezra, that is exactly what is now proposed. That is the policy. It remains for British Leyland's board to examine carefully how best this may be achieved.

Discussions are still continuing with a number of companies interested in Leyland Bus, Land Rover and Freight Rover, Land and Range Rover, in Land Rover only, and in Leyland Truck only. These discussions will be continuing.

The industrial recovery is not something at which one arrives. The recovery has been growing apace over

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the past six years, notably as a result of this Government's general policies. We enter the sixth successive year of advancement. I think that it would be wearisome to your Lordships if I repeated the figures that I have so often repeated in the past few weeks.

To answer the noble Lord, Lord Ezra, I think that our intentions are abundantly clear: to secure for British Leyland as a whole—particularly Leyland Bus, Land Rover and Freight Rover and Leyland Trucks—a secure future in a highly competitive international business to the betterment of both the taxpayer, the management, and those who work in that industry. In this we shall use our best endeavours over the next few weeks.

Lord Boyd-Carpenter: My Lords, while sympathising with my noble friend in having to repeat this Statement, may I ask him whether it means that it is the intention of Her Majesty's Government to go on pouring large quantities of the taxpayers' money into what *The Times* this morning so rightly describes as the unprofitable production of unwanted vehicles? Is my noble friend aware that any doubts that any of us may have had as to the wrongness of this decision have been entirely dissipated by the approval given to it by the noble Lord, Lord Bruce of Donington?

Lord Lucas of Chilworth: My Lords, my noble friend Lord Boyd-Carpenter asks a specific question: are the Government going to pour more taxpayers' money into the company? Since the British Leyland board have not asked the Government for any more money, I think that the question—and I say this with great respect to my noble friend—is a little hypothetical. We seek with the British Leyland board to find an alternative solution: that of returning the various businesses to the private sector where one would anticipate the buyers, and particularly the companies who are already discussing the various businesses, would provide the requisite capital to further the interest which I have just described.

Lord Mackie of Benshie: My Lords, would the Minister tell us which description he accepts: that of his noble friend of pouring money into an unsuccessful business; or his description of the sixth successive year of advance?

Lord Lucas of Chilworth: My Lords, I prefer my description. Certainly I think that my noble friend was referring to pouring money into a business which has not been able to fulfil—at this time anyway—its best ambitions: that of a larger car share. Although the truck business has a 16 per cent. share of the United Kingdom market, it has a very small share of the European market. It is a share of a market which has been fast declining.

With regard to Land Rover that company is the only one—between the bus company, the truck company and itself—that has turned any of its turnover into profit, and that only in the past two years.

Lord Shepherd: My Lords, in the process of privatisation—which I presume the noble Lord supports—would he not accept that in order to get a fair price for the shareholders (that is the state) and a continuity of employment for those who work within the industry, one should not decry what have been major achievements within British Leyland since the very dark days in the 1960s.

Is it not a fact that General Motors have expressed very keen interest, in terms of Leyland Trucks, as a consequence of the undoubted investment, design and imagination of those responsible for that segment of the business? However, will not the noble Lord agree that in a period of 18 months, which I think is the time that the Government have been in intense negotiations with General Motors, they had a clear view as to what was the national interest—that is, the retention of shares or some form of control over the national interest as far as this group is concerned—and that that impression must have been given to General Motors some months ago? However, it looks as though it has come just at the very last moment and that General Motors has decided to pull out.

Does not that remove any degree of confidence that any other negotiators might have in the process of the Government's intention as regards privatisation? Will not the noble Lord accept what the noble Lord, Lord Ezra, put most fairly and forcibly; namely, that there needs to be a clear statement of strategy and intention on behalf of the Government towards a very significant part of industry? We are not just considering British Leyland; we are considering all the other companies and organisations whose entire business is dependent upon the success not only of British Leyland but of all motor manufacturing and vehicle production in this country.

4 p.m.

Lord Lucas of Chilworth: My Lords, I endorse what the noble Lord, Lord Shepherd, said about the huge advance that both the management and workforce of British Leyand have made in recent years. Nevertheless, the fact remains that both the bus and truck businesses have not made any profit whatever for the past 10 or 12 years, and, as I suggested, in this intensely fierce international market they are unlikely so to do despite the fact that the product is better—particularly the trucks—and despite the fact that they now command 16 per cent. of the United Kingdom market.

There needs to be a further investment of both technology and money, and we believe that that would best be advanced through the private sector rather than continuing to put forward public money. General Motors' interest was known for some little while. In fact it was widely reported in the press as long ago as last autumn. While the negotiations were obviously of a commercially confidential nature it was undesirable to discuss them too broadly, and while General Motors knew that we sought certain assurances, negotiations were kept alive in the belief that our interests and its interests could be met. In the event, that was not to be. I should be happy to consider the wider aspects of industrial policy, but I fear that the House would not thank me were I so to do this afternoon.

Lord Soames: My Lords, as a member of a small European advisory council to General Motors, I did

not intend to intervene had it not been that the Minister talked about General Motors withdrawing from the negotiations. May I ask him to tell the House when it was that Her Majesty's Government informed General Motors of what they perceived to be the British national interest? Was it at the beginning of the negotiations or was it in comparatively recent days?

Lord Lucas of Chilworth: My Lords, as I understand it, it was during the course of negotiations that the assurances which we sought were made very clear. Various options were looked at, a number of which have been reported in the press. However, finally I think it was 21st March when we found that the gap was too wide.

Lord Shepherd: My Lords, will the noble Lord reply to the question, because it is very important? When was the breaking issue on the part of the Government laid before the negotiators of General Motors? It is no good saying that it was part of the negotiations. We wish to know when the breaking point arose.

Lord Lucas of Chilworth: My Lords, I do not believe that there was a particular breaking point. The matters were discussed and pieces were left over. I do not believe that one can say that at any one time there was a conversation which could be constructed to mean a breaking point. On 21st March General Motors felt that there was no further room for negotiation.

Baroness Seear: My Lords, there must have been a moment and a reason why the Government suddenly decided to make the decision that they made. When was it? What caused it? That is what your Lordships' House is asking.

Lord Lucas of Chilworth: My Lords, I have told the House the reasons for General Motors and the Government breaking off discussions. The reasons, which I shall repeat, were that the assurances which we sought regarding ownership and an element of United Kingdom control and United Kingdom management were matters with which General Motors was unable to agree, and we decided mutually that there was no point in continuing. Exactly on which date or day that happened I am afraid I do not know. Your Lordships will appreciate that I was not party to the discussions myself. However, as I have already said, on 21st March the Government decided that none of the points which were put to us would work and it was then felt by both the Government and General Motors that there was no point in continuing with the negotiations.

Lord Brougham and Vaux: My Lords, does my noble friend agree that the national interest is to have a bus and truck division manufacturing in this country? With a huge overcapacity as regards the bus and truck industry not only in England and Europe, but also world-wide, unless BL get into bed with someone in the way that Ford or Fiat have, in five to eight years' time there will not be a BL vehicle or a Bedford made in this country.

Lord Lucas of Chilworth: My Lords, I understand what my noble friend says. I would not like to hypothecate quite as much as he has. It has always been our intention from the outset that a negotiation, a collaboration or a merger would be desirable in the long-term interests of a British-based truck and bus manufacturing industry and of all those who worked in it. The British Leyland board and ourselves will continue to work to that end.

Lord Bruce of Donington: My Lords, is the noble Lord aware that the truthful way in which to answer the question put to him by his noble friend Lord Soames is to say, quite frankly, that the Government's final decision and their U-turn took place immediately following representations by Conservative Members of Parliament in the West Midlands to the Chairman of the Conservative Party—the Chancellor of the Duchy of Lancaster—Mr. Tebbit, who then decided that the political interest lay in the direction of the decision which the Government then reached?

Lord Lucas of Chilworth: My Lords, if my noble friend Lord Soames was dissatisfied with my answer to his question he no doubt would have made that abundantly clear to me. On the other hand, I have explained to the House quite clearly and honestly the circumstances which arose concerning the ending of discussions between the Government and General Motors.

Lord Gisborough: My Lords, is it not important that the company should be part of a large group with large capital available and with a large sales organisation? Is not the question of who owns the shares a red herring, because what does it matter? What is important is that the capital and so on should exist and that the jobs should be maintained. It really does not make a ha'p'orth of difference whether the shares are owned in Britain or anywhere else.

Lord Lucas of Chilworth: My Lords, that is a view shared by a number of people. What we remain concerned about is that there should be a strong manufacturing presence in the United Kingdom employing, I think it is, 29,000 people directly and several thousand others in the supply industries; and that is what both the British Leyland board and ourselves seek to achieve.

Lord Harris of Greenwich: My Lords, is the noble Lord aware that the question put earlier by the noble Lord, Lord Soames, has not been answered by him? It has been answered by the noble Lord, Lord Bruce of Donington, but not by him. Perhaps I may put it to the noble Lord again. He says that this decision, to which he was not a party—which we all recognise, but of course he has advice available to him—was taken on national interest grounds. The question is a simple one. These negotiations went on for a substantial period of time, as the noble Lord is well aware. When was that definition of the national interest made by Ministers?

Lord Lucas of Chilworth: My Lords, I cannot answer that question, and I do not believe that anybody else can, because various options on the various assurances which we sought were discussed over a period of many months. As I have said three

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times already, it was decided on 21st March that none of the options on all the various assurances which we were seeking in the national interest, in the interests of the industry, in the interests of the workforce, and so on, would work, and the talks ended on 21st March.

Lord Cledwyn of Penrhos: My Lords, with respect to the noble Lord, part of the answer is given in the Statement he has just read. It says:

"For its part, however, General Motors wished to have effective control of the company from the outset".

The Statement also says:

"the Government were determined that . . . . special arrangements should be concluded to safeguard United Kingdom interests, including a measure of real United Kingdom control".

When was that made plain? If that had been made plain from the start, the negotiations would have broken down at the start.

Lord Lucas of Chilworth: My Lords, I do not believe that the negotiations would have broken down at the start. In any kind of negotiation—and the noble Lord the Leader of the Opposition knows this very well—one puts on the table the optimum, and one moves around making adjustments to what one ideally would like and what is pragmatic. In the end, as I have said, none of the options available to us or to General Motors was considered suitable, and this was decided on 21st March.

Lord Mackie of Benshie: My Lords, perhaps the noble Lord, Lord Soames, could tell the House when General Motors was made aware of these objections.

Education Bill [H.L.]

4.13 p.m.

Committee stage resumed on Clause 1.

The Lord Bishop of London moved Amendment No. 3:

Page 2, line 12, at end insert ("and

(*c*) in the case of voluntary schools subject as aforesaid be in accordance with model instruments and articles to be incorporated in regulations made by the Secretary of State.").

The right reverend Prelate said: I shall not keep the Committee long on this particular amendment. I must first say that I am slightly confused because I did not quite hear what the noble Earl the Minister said in an earlier speech this afternoon about model instruments and articles.

The Earl of Swinton: May I say to the right reverend Prelate that all I said was that I would be referring to them during the right reverend Prelate's next amendment.

The Lord Bishop of London: I am obliged to the noble Earl. In the discussions we had with the department while this Bill was being drafted it appeared that there was some reluctance on its part that model instruments and articles should be published once again. I say "once again" because they had been generally available since the 1944 Act, and it is only recently that they have not been available. It is only the last edition of a well-known manual, *County and Voluntary Schools*, which has omitted them.

It has been argued that so many details, constraints and requirements appear in the Bill that the models are unncecessary. On the other hand, we would argue that because so much appears in the Bill already it would not involve an excessive amount of work to produce a set of models both for instruments and for articles. Our main point is simply that models are extremely helpful when conducting negotiations with local authorities under the terms of Clause 2 as it would be in this Bill.

The absence of models in recent months in the edition of *County and Voluntary Schools* that I referred to has caused the department itself some difficulties in producing instruments and articles following the 1980 Act. It would seem to me that for the benefit of everyone involved in implementing this Bill when it becomes law it would be of great assistance if the former practice could be provided for, whereby model instruments and articles will be made available, being incorporated in regulations made by the Secretary of State. I hope that the Minister will feel able to accept this amendment and secure that such models are available in the future. I beg to move.

The Earl of Swinton: I note that this amendment follows a suggestion made by the right reverend Prelate the Bishop of Rocheser during the Second Reading debate. We recognise the anxiety of the Churches that any function currently bestowed on governing bodies by articles of government should not be usurped by LEAs when the articles are remade. We also recognise that the suggestion that there should be model instruments and articles, produced by the Department of Education and Science, is intended to be helpful as it is thought that the existence of model governmental documents will reduce the number of questions referred to the Secretary of State because the LEA and the voluntary school governing body cannot agree on the terms of the instrument or articles, or both.

As my noble friend Lady Young indicated at Second Reading, the department is ready to offer model instruments and articles for guidance, but I hope the Committee will recognise that it would be quite impracticable for these to have any sort of statutory force. The circumstances of individual schools differ quite widely. The provisions of Clause 4, for the composition of aided and special agreement school governing bodies, allow there to be considerable variety, so that any framework to be imposed by statute would be so skeletal as to be meaningless.

Even within the provisions of Clause 3, which will apply a relatively tight formula to controlled school governing bodies, the category of foundation governors will include governors appointed from a variety of sources. When it comes to articles of government, the Bill requires certain functions to be specified, sometimes with no room for manoeuvre but sometimes as a minimum provision, allowing the articles for individual schools to make greater provision than the minimum if appropriate. On other matters, particularly where aided schools are concerned, the Bill is silent, and articles of government make the appropriate allocation of functions.

British Leyland

3.31 pm

The Secretary of State for Trade and Industry and President of the Board of Trade (Mr. Paul Channon): As the House is aware, BL and the Government have been in discussion with several companies about the privatisation of the main Land Rover-Leyland businesses. Of these, General Motors have made proposals concerning Leyland Trucks, Freight Rover and Land Rover.

In relation to the truck and van sectors, the talks with GM concentrated on the possibilities for combining the respective Leyland and Bedford businesses, to the mutual benefit of GM and BL. In respect of Land Rover, where there are opportunities for Land Rover in expanding European and world markets, the Government were determined that, as a condition of privatisation, special arrangements should be concluded to safeguard UK interests, including a measure of real UK control over the future of the business. For its part, however, GM wished to have effective control of the company from the outset and an assurance of full ownership and control within a relatively short period, and it became clear that it was not able to compromise on these points. Despite the view taken of the GM proposal by the BL board from its commercial standpoint, this was not a basis for an agreement acceptable to the Government in the national interest.

GM has stated that it is not willing to proceed with an arrangement for Leyland Trucks and Freight Rover which excludes the Land Rover company. Therefore the talks have been ended.

The BL board will give further study to the alternative ways forward for all the businesses concerned. For Leyland Trucks, which operates in a depressed and fiercely competitive market, the board will continue to examine the possibilities for collaboration with other manufacturers and other ways to sustain its improving trend in performance. The Government continue to support the commercial development of this business, in accordance with established plans. For Land Rover and Freight Rover, the board will include in its examination the various expressions of interest which have already been announced, with a view to recommending the course most likely to achieve the privatisation of the businesses in a way which best secures their future.

Mr. John Smith (Monklands, East): Does the Secretary of State recognise that he has today announced the collapse of a venture that was ill-conceived in purpose, anti-British in effect and handled with almost unbelievable incompetence? Now that the Secretary of State has confirmed the ending of the talks, can he say that this is the final end of this discredited proposal? Can we exclude any notion of selling valuable parts of British Leyland to its competitors?

The Secretary of State will also no doubt recollect that only a few weeks ago he was standing at the Dispatch Box stating confidently that assurances could be given by General Motors to satisfy all United Kingdom interests. He was insisting on a sharp deadline for the submission of bids, so urgent was the matter that had to be determined.

Is it the case that,in the discussions that have just ended, the Government at one stage proposed that General Motors acquire 49 per cent. of Land Rover, with an option to increase its shareholding as time, and no doubt public opinion, passed on? What was the role of the Chancellor of the Duchy of Lancaster in those discussions? Is it not the case that he initiated the secret talks 18 months ago? Despite that, did he not elbow the Secretary of State aside in those discussions and, fearful of the political consequences of what he had initially proposed, bring the talks to an end?

Can we now be assured by the Secretary of State that there will be no question, during the lifetime of the Government, of Land Rover or any other part of the British Leyland Group passing out of British control? Is the Secretary of State aware that it is only the strongly expressed voice of Parliament and people that forced the Government to change direction on this issue?

Will the Government now consider apologising to the British Leyland group for the damaging commercial uncertainty which this whole affair has cost them, including the damage to the Austin Rover group caused by the Ford talks, which were also brought to an end by the voice of Parliament and people? Do the Government realise that, in hanging a "for sale" notice over the premises, they have been culpably negligent in their stewardship of a crucial part of British industry?

The Secretary of State says that the Government will continue to support the commercial development of Leyland Trucks in accordance with established plans. Since it is the established plans which have led us to this pass, is it not time to revise them? Can I suggest that the Government, for once, give proper backing to Leyland Trucks? Why do they not compliment it on its commercial success and stand behind it? Can the Secretary of State tell me whether it is true that the British Leyland board stopped the Austin Rover group putting advertisements in the British newspapers about the success of its ambitions because they ran contrary to the Government's then policy? I should like the Secretary of State to give me a specific answer to that question.

I have one final question to put to the Secretary of State. Since we are now in a fast-moving situation, can the House be given an assurance that there will be no further announcement about any sale of British Leyland before the House returns from the Easter recess? Can we be assured that, before any further moves are made, there will be a full debate in the House so that hon. Members in all parts of the House can express their opinions upon it?

Mr. Channon: I have seldom, if ever, heard a more exaggerated set of questions than that. I shall deal with the points the right hon. and learned Gentleman has raised in his exaggerated questions. I can assure him that no decisions will be taken about any of these matters before the House returns from the Easter recess. As to the question of a debate, my right hon. Friend the Leader of the House has alredy told the House the Government's position on that, and it remains unchanged.

As to the other questions raised by the right hon. and learned Gentleman, I have always made it clear to the House, at least I hope I have, that we wanted adequate assurances before we would be prepared to sell Land Rover to General Motors. There might have been a compromise. That is certainly something that was discussed. But it was quite impossible to reach a situation in which General Motors insisted on having effective control of the company and an assurance of full ownership

Q6. **Ms. Clare Short** asked the Prime Minister if she will list her official engagements for Tuesday 25 March.

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

Ms. Short: Does the Prime Minister agree with the majority of women in Britain, and with many men, that pictures of naked women in mass circulation newspapers should be made illegal?

The Prime Minister: The Obscene Publications Act would already apply if the hon. Lady has any complaints to make.

Mr. Pavitt: On a point of order arising out of questions, Mr. Speaker. During Question Time, you will have heard a number of references to a voluntary agreement between the tobacco industry and the Minister for Health. I tried to see a copy of that agreement in the Library this morning, but hon. Members have not had the opportunity to see it. Can you give instructions so that such a copy can be placed in the Library, so that we can see what has been decided?

Mr. Speaker: This is a matter for the Minister, but I am sure that the Front Bench will have heard the hon. Gentleman's request.

Mr. Terry Fields: On a point of order, Mr. Speaker. Is it in order for members of the Arthur Daley tendency on the Conservative Benches to seek to muzzle genuine questions to the Prime Minister on a matter of national importance by their——

Mr. Speaker: Order. The hon. Gentleman had an opportunity to ask his question. I do not think that he was muzzled. I got up to give him some protection.

control within a relatively short period. I could not recommend that to my colleagues or the House, and I think that that was right.

We shall continue with the established plans for trucks, which are already known. I hope that the BL board will now be considering all the options available to it, and will make recommendations to me. The Government will then consider them in the normal way.

Mr. Robert Atkins (South Ribble): Is my right hon. Friend aware that the fact that GM has pulled out means that Leyland Trucks, with its successful recent record in terms of its product, price and market share, will now need further investment from the Government and the taxpayer, just as other successful companies, such as British Aerospace have merited and gained such investment in recent years. Might not the partisan and short-sighted barriage of questions and statements from the Opposition have done more harm to the future and jobs of those working in Leyland Trucks than GM could ever do? Will my right hon. Friend resist the suggestion to hold an urgent debate on British Leyland, as that will do nothing more than exacerbate the problems which he is trying so hard to resolve?

Mr. Channon: I have already said that the Government will continue to support the commercial development of the truck business in accordance with the established plans. Of course the future of Leyland Trucks will be a matter for the board to consider in the normal way, and it will also come forward with proposals in the normal way. At present, there is no suggestion of any further equity being needed for Leyland Trucks or any other part of the Leyland business.

I cannot see any purpose in holding a debate until we have something to debate and until I have recommendations to put to the House.

Mr. David Steel (Tweeddale, Ettrick and Lauderdale): Does the Secretary of State agree that GM has a legitimate grievance in that, when it was first propositioned by his predecessor — now the chairman of the Conservative Party—in mid-1984, to take over the whole lot, no such conditions were attached to his eagerness to be rid of British Leyland's commercial vehicles? Conditions have been imposed only as a result of quite proper pressure in the House during the past few weeks. Does the right hon. Gentleman understand that representations are being made by Austin Rover retailers, because the damaging uncertainty hanging over the future of British Leyland as a whole is affecting showroom sales? Will he make it his business to restore calm in the future of BL as soon as possible?

Mr. Channon: My right hon. Friend the Chancellor of the Duchy of Lancaster publicly sought would-be buyers, as was made clear to the House some time ago. General Motors' original interest arose out of talks about mutual problems over trucks. It was always clear from the start that any interest in Land Rover/Range Rover might raise such difficulties.

I think that the whole House would like to pay tribute to Austin Rover's progress, and to congratulate the company on its increasing exports — [AN HON. MEMBER: "Then why flog it?"]—particularly to Europe. I am surprised that the Labour party does not seem to want to hear this part of my answer. In 1985, exports increased by 10 per cent. over the figure for 1984, and in the first three months of 1986, they are 35 per cent. up on the same period in 1985. The new Rover 800 executive car has excellent export prospects, and I hope that it will spearhead Austin Rover's re-entry into the American market.

Mr. Michael Heseltine (Henley): Does my right hon. Friend agree that the bus and truck industries of Britain and Europe now have huge excess capacity? When judging the board's recommendations, what criteria will he have in mind in determining a strategy that will protect British interests?

Mr. John Carlisle (Luton, North): Re-rat.

Mr. Channon: I agree that there is a huge excess capacity in the truck and bus business throughout western Europe. We will all have to consider that factor carefully. Indeed, the board of BL will have to consider it carefully in recommending a future course of action to me.

I shall ensure that all relevant factors are put before me before I make recommendations.

Mr. Michael Foot (Blaenau Gwent) *rose*——

Mr. Tam Dalyell (Linlithgow): On a point of order, Mr. Speaker. As one who has been had up for unparliamentary language, may I ask whether it is in order for an hon. Member to call another hon. Member a rat?

Mr. Speaker: I heard no such——

Several Hon. Members *indicated dissent.*

Mr. Speaker: Order. If an hon. member said that, I would ask him to withdraw it, but I—*[Interruption.]* Order. I repeat what I said yesterday. Let us keep our parliamentary language on a high and traditional level.

Mr. Foot: When did the Minister and the Government make the remarkable discovery that it was the desire and determination of General Motors to take over the whole business?

Mr. Channon: It was always clear that General Motors wanted to take over the whole business. What I have told the House is that we wished to see whether a compromise could be found that was acceptable to all the parties concerned. No compromise was found; therefore, the talks were broken off.

Mr. Richard Page (Hertfordshire, South-West): Would my right hon. Friend not agree that the breakdown of the talks is bad news for General motors and for British Leyland? Would he not accept that the misplaced jingoism of the past four weeks was started by the right hon. and learned Member for Monklands, East (Mr. Smith) with his intemperate private notice question of 3 February? Will my right hon. Friend make sure that the extra redundancies that there will be, and the extra demands for taxpayers' money, are laid firmly on the doorstep of Opposition Members?

Mr. Channon: It would not be right for me to speculate on the effect on General Motors. As to the effects on the British Leyland subsidiaries, I am sure that I will be able to bring to the House proposals made to me by the BL board that will offer them a secure future.

Mr. Terry Davis (Birmingham, Hodge Hill): In the light of his statement, will the right hon. Gentleman

[Mr. Terry Davis]

confirm that the talks broke down over Land Rover and that the Government were willing to see Freight Rover taken over by General Motors, with a consequent loss of 1,700 jobs in Birmingham?

Mr. Channon: The consequence that the hon. Gentleman suggests would not necessarily follow.

Mr. John David Taylor (Strangford): Is my right hon. Friend aware that the Land Rover management buy-out team has received no more than an acknowledgment of the proposals that it made three weeks ago? Is it not time that my right hon. Friend asked Hill Samuel and the Department of Trade and Industry to start talking to Schroder about the buy-out and to make some progress?

Mr. Channon: With respect to my right hon. Friend, he is not quite right about that. I have myself had two long meetings with Mr. Andrews and his colleagues, and I understand that they had a meeting with Hill Samuel that finished only recently; so talks are in progress, and all those matters are being fully studied.

Mr. George Park (Coventry, North-East): Will the Secretary of State now answer the question asked by my right hon. and learned Friend the Member for Monklands, East (Mr. Smith), and acknowledge the damage done to BL by the abortive negotiations? Will he abandon plans to fragment BL, and allow it to make progress of the kind that he himself has just referred to?

Mr. Channon: I do not want to do that, and I will not do so. I do not acknowledge what the hon. Gentleman says. Anyone who says that it is wrong to sell off constituent parts of BL should reflect on the success of Jaguar before he eats his words.

Mr. David Madel (Bedfordshire, South-West): Will my right hon. Friend confirm that, if negotiations between British Leyland and General Motors had been successful, General Motors would have made this country the centre of its European commercial vehicles operation, and that that would have been of great benefit to this country, bringing new investment and new employment? Given the concern of those who work in Bedford Commercial Vehicles, can my right hon. Friend impress upon General Motors the importance of GM continuing to manufacture commercial vehicles in Bedfordshire to sustain employment there?

Mr. Channon: On the latter part of that question, I am certain that it must be very much in the interests of all concerned that that should be the case. I share my hon. Friend's view of the matter. The first part of his question is a matter for General Motors, but I have certainly heard the suggestion made.

Mr. Jeff Rooker (Birmingham, Perry Barr): Is it right that the main board of British Leyland should continue to have only two executive directors? Will the Secretary of State assure the House that there will be no victimisation of any executive manager of BL who has opposed all or any part of this package which has been approved by the main board members, not all of whom are successful business men?

Mr. Channon: The House knows that a new chairman of the BL board is to take over in the next few weeks. He will no doubt wish to consider the composition of the board. I shall ask him to look at the hon. Gentleman's point, which is a very good one. I shall also ensure—although I am sure that there is no question of it, anyway—that there is no victimisation.

Mr. Hal Miller (Bromsgrove): In the light of the Opposition crowing in their isolationist joy about turning away much-needed investment in our truck and commercial vehicle industry, will my right hon. Friend tell the House, as a result of the developments that he has announced today, what discussions he has had with General Motors about keeping the design and development of commercial vehicles in this country and what future he envisages for the commercial vehicle industry now that Ford have joined up with Iveco and General Motors will be forced to consider alternatives?

Mr. Channon: Of course I agree with my hon. Friend about the wholly hypocritical attitude of the Labour party. First it was against the deal; now it complains because it is over. That is absolutely typical of its attitude. I have not had discussions with General Motors about the second part of my hon. Friend's question. That is a matter for General Motors, but it is a very important question. I very much hope that General Motors will continue to play such a role in this country.

Mr. D. N. Campbell-Savours (Workington): Has the Laird Group withdrawn its offer and proposals for the future of Leyland Bus, which would have meant the closure of the Workington plant? And what is the status of the discussions with Aveling Barford, which is visiting the Workington plant today?

Mr. Channon: No, I do not think that it has withdrawn its proposals. Aveling Barford has also made other proposals. The BL board will consider those and any other proposals that are put to it, including management proposals, if any are made, and will make recommendations to me in the course, I hope, of the next few weeks.

Mr. Graham Bright (Luton, South): Is my right hon. Friend not aware that this decision has cast an enormous question mark over the future of Bedford trucks and that the opportunity for General Motors to make this country the centre of its research, development and design for the whole of Europe has been blown? If GM does negotiate with Renault trucks or Volvo — we know that it is talking to them — those skills will be lost to Europe. That is exactly what we should be trying to stop. The GM deal would have enabled this country to have a proper truck manufacturing operation. The people of Luton and Bedfordshire will feel that this chance has been blown.

Mr. Channon: I very much hope that my hon. Friend's views will not be justified. I have no reason to assume that they will be justified. I am sure that GM will look carefully at all the alternative ways forward for the Bedford business, which I agree is extremely important for Britain and, I should have thought, for General Motors.

Mr. Ian Wrigglesworth (Stockton, South): Is the Secretary of State aware that his statement that a condition of the privatisation of Land Rover should be that it is retained in United Kingdom ownership is very welcome? However, is he also aware that the uncertainty is very damaging not only to this business but also to the volume car business? Will he seek to bring the discussions,

rticularly the management buy-out proposals of Mr. ndrews, to an early conclusion so that the uncertainty can be cleared up?

Mr. Channon: I thank the hon. Gentleman for his support in the first part of his question. I agree with him that it would be helpful if these matters could be brought to a conclusion in the reasonably near future.

Mr. Phillip Oppenheim (Amber Valley): Is my right hon. Friend aware that seven heavy truck manufacturers are still based in Britain, none of which exports substantially to Europe, but that, on the other hand, the whole of western Europe has only seven heavy truck manufacturers, all of which export substantially to Britain? Have we not lost a great opportunity to restructure the British truck industry? Will not GM now run off and make a deal with one of our European competitors? Is it not the Labour party that is wholly to blame, for trying to pull the Union Jack over the eyes of the voters?

Mr. Channon: I have never disguised from the House the fact that, if a satisfactory deal with General Motors had been worked out, it would have had many advantages. It is not possible to achieve that deal. We shall have to work on other solutions, and I hope we shall find a satisfactory one.

Mr. Andrew Faulds (Warley, East) Is not the lesson of this unhappy episode that the Government must never again try deceptively and surreptitiously, behind the back of the British public and behind the back of Parliament to dispose of such a vital part — [AN HON. MEMBER: "What role are you playing?"]—I am trying to protect British interests — to dispose of a vital part of British industry. Is it not true that this rotten manoeuvre was aborted only by the brilliant intervention of my right hon. and learned Friend the Member for Monklands, East (Mr. Smith)?

Mr. Channon: I refute entirely the allegation that the Government behaved deceptively. If the Opposition are seriously suggesting that all negotiations should be carried out in public, they will have a heavy price to pay.

Sir Paul Bryan (Boothferry): Since the most successful part of the motor industry in Britain is owned by the Americans and will probably shortly be owned by Nissan, what is wrong with Land Rover being owned by the Americans if they produce a better product?

Mr. Channon: I judged that it was right, and that it would receive the support of the House, if we could get a deal with General Motors on which there could be a compromise about the ownership of Land Rover. I was not prepared to recommend to my colleagues a situation in which General Motors had effective control of that company and the assurance of full ownership and control within a relatively short time.

Mr. Dave Nellist (Coventry, South-East): Is the Secretary of State aware that the workers in Coventry, the midlands and elsewhere, instead of hearing the Secretary of State continuing to tout around the world saying, "Anybody want to buy a car industry?", would have preferred a categorical assurance that Leyland would remain in public ownership? That would end the speculation and worry about workers' jobs.

The Secretary of State has said on a number of occasions that the large-scale volume production of vehicles is essential if we are to compete in international markets. Why does the Secretary of State not reverse the process of recent months and take into public ownership Vauxhall, Ford and Peugeot to create a British motor industry capable of the volume production necessary to compete in international markets?

Mr. Channon: Perhaps we shall see that unfold with all the details as we approach the general election. With regard to jobs, security and prosperity, one should consider what has happened at Jaguar since it was privatised. There has been an increase in its sales and employees. The idea that one has to keep industries in public ownership for them to be successful is a foolish and idiotic idea, believed only by Opposition Members.

Mr. Michael Grylls (Surrey, North-West): Will my right hon. Friend take comfort from the fact that there is widespread support for his policy of returning viable parts of British Leyland to the private sector? Will my right hon. Friend bear it in mind that British Leyland, although technically one company, is a group of companies? Although the truck division would undoubtedly prosper in General Motors, Land Rover and Range Rover are a specialist company, rather like Jaguar. They may well do better standing on their own, financed by the private sector.

Mr. Channon: I take note of what my hon. Friend says; it is a view that many people share.

Mr. Dalyell: Will the Secretary of State clarify what he meant in his opening remarks:

"The BL board will give further study to the alternative ways forward for all the businesses concerned"?

I stress "all".

Does not this resurrect the question of Bathgate? I ask the Secretary of State whether he or the Minister of State —who, frankly, has been very helpful in these matters when I and my colleagues have approached him in relation to the complex problems of Bathgate — will give particular attention to the shop stewards' and Scottish Office initiative in relation to Bathgate and Mr. Anthony Bamford. Can some machine capacity be retained at what is the biggest machine shop under one roof in Europe? I see the Secretary of State consulting the Minister of State. The suggestion makes sense. Can I have an assurance that the Department of Trade and Industry will take it seriously?

Mr. Channon: Naturally I shall consider seriously anything that the hon. Gentleman proposes. I am anxious not to reawaken hopes that will have to be dashed again. The chances of doing what he suggests are extremely remote, but I shall certainly have his suggestion examined.

Mr. Derek Conway (Shrewsbury and Atcham): As my right hon. Friend is under fire today for defending British interests, can I urge him not to be disheartened, and to appreciate that there is widespread support for the privatisation of parts, if not all of BL? Will he assure the House that the component sourcing policies of BL and parts thereof will be continued, and that the British industry will also be safeguarded in future?

Mr. Channon: I am most grateful to my hon. Friend. He raises an important point, with which I agree.

Mr. Jack Straw (Blackburn): Would the Secretary of State like to place on record his praise for the staff and work force of Leylad Trucks, whose products have risen

[Mr. Jack Straw]

to the top of the best-selling league, despite the damaging uncertainty which this farrago has created? Can he spell out precisely the time scale that he now has in mind for the so-called privatisation of Leyland Trucks, given the fact that his original time scale has been aborted?

Mr. Channon: I certainly agree with the hon. Gentleman about the immense progress that has been made in Leyland Trucks. He may recall that, in my original statement, I mentioned the trend in its performance, and I met a deputation from the unions in Leyland Trucks recently. I agree with the hon. Gentleman. I would prefer not to give him a firm answer about a timetable at this stage because that would be misleading. I must await recommendations from the BL board about the best way forward for Leyland Trucks, and I hope that I shall have proposals in the not too distant future.

Mr. David Gilroy Bevan (Birmingham, Yardley): Will my right hon. Friend, in accepting my thanks for this further statement, which is a step towards the protection of the jobs of the workers, many of whom live in my constituency, now please instruct the bankers of BL, through the board, to give full and proper information to the managers and all those other companies which are bidding for BL, and not the paucity of information which has been the apology so far given and which has shown their partiality and preference?

Mr. Channon: I am grateful to my hon. Friend for his support, but I cannot accept what he said in the last part of his question. As I said in my original statement, the board will now include in its examination the various expressions of interest which have already been announced so that it can recommend to me the best course forward. I am told that all normal information has been given, but I shall immediately check that with BL.

Mr. Robin Corbett (Birmingham, Erdington): Why is the Secretary of State such a dogmatic devotee of privatisation? Does he not recall that the former incompetent private owners of BL got it into such a mess that it had to be rescued with public funds? Will he now give the House an undertaking that the Government will keep their incompetent hands off BL and allow it to continue to succeed so that, as taxpayers, we can get back the moneys which we put in to rescue it?

Mr. Channon: I am afraid that I disagree with the hon. Gentleman. All experience shows—I cited Jaguar earlier —that, if we can get the subsidiaries of the companies into private hands, it will give the companies a better opportunity for a secure long-term future. That is true not only for the motor industry, but for every other industry.

Mr. Nicholas Lyell (Mid-Bedfordshire): Does my right hon. Friend accept that there is a great community of interest in the future of Leyland Trucks, Freight Rover and many other products in the continuation of reopening of negotiations with GM? Will he make it clear that it is not the British Government who are seeking to close the door on further negotiations?

Mr. Channon: As I have already said, the Government are always ready to consider fresh proposals, but at present there are no plans for the resumption of talks.

Mr. David Winnick (Walsall, North): Is the Secretary of State aware of the outrage felt in the west midlands at what the Government have done over BL and the way in which they have acted? Is it not a supreme irony that, when the chairman of the Conservative party was Secretary of State for Trade and Industry, he started negotiations with GM, yet he has told his Cabinet colleagues that selling to GM is simply not on?

Mr. Channon: The hon. Gentleman is vastly exaggerating what he calls the outrage in the west midlands, and, as usual, he is distorting the actions of my right hon. Friend, who has been extremely helpful at all stages, as indeed all my colleagues have been. This is a Government decision, and the hon. Gentleman is talking rubbish.

Several Hon. Members *rose*——

Mr. Speaker: Order. I will call the Conservative Members who have been standing, and the hon. Member for Sheffield, Hillsborough (Mr. Flannery), who has suddenly got to his feet, for a further five minutes. However, I must bear in mind that further business today is on a timetable.

Mr. Nicholas Budgen (Wolverhampton, South-West): Will my right hon. Friend place in the Library a copy of the final terms upon which GM was prepared to purchase Freight Rover, Leyland Trucks and Land Rover?

Mr. Channon: I shall certainly consider what my hon. Friend says, but the talks did not end in that way. I put various proposals orally to GM, but it was not prepared to accept them. So I do not think that that is a relevant issue at present.

Mr. Michael Fallon (Darlington): Now that the wedding is off, can my right hon. Friend assure me that taxpayers will not be asked to foot the bill?

Mr. Channon: Yes, Sir.

Mr. Nicholas Winterton (Macclesfield): Is my right hon. Friend aware that I am satisfield with his statement this afternoon—so much so, indeed, that when I heard during the weekend that the GM deal was off, I ordered a Range Rover yesterday? Is it not time that the House set an example and that many more right hon. and hon. Members brought British cars? I speak as a Rover user, and if hon. Members set an example, I am sure that the country would follow, and British Leyland in private hands would be a highly successful company.

Mr. Channon: I am extremely grateful to my hon. Friend for his support, which I have been accustomed to receive over the years on many occasions. If all the people who talked about BL bought a BL car, BL would have a higher proportion of the British share of the market than it does at present.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): Will my right hon. Friend accept that many of us have a great deal of sympathy for him in that he was landed with this problem so early in what will be a distinguished tenure of office? Will he further accept that many of us respect him for the difficult decision that he had to make, and believe that he has made the right one? Land Rover, which is a specialist manufacturer, should remain—not in a narrow, patriotic sense, but in a proper sense—in British hands. Will he go one step further and make the other proper decision, which is to back the zeal, ability,

willingness and money of the management-worker buy-out, and make an early decision so that this great company can go forward for its workers, for the country and for us all?

Mr. Channon: I am grateful, indeed, to my hon. Friend for his support which, again, I have been accustomed to receiving on many occasions. The management buy-out will be considered together with the other expressions of interest by the board in order to come forward with recommendations for the best course in the future. It would be wrong for me to prejudge that at this stage, but I know that there is considerable support in the House for that. There may well be other options available.

Mr. John Maples (Lewisham, West): Does my right hon. Friend appreciate that his statement will come as a great disappointment to those who were hoping for some rationalisation of the British truck industry? Does he agree that those who have wrapped themselves in phoney patriotism in an attempt to oppose that rationalisation will bear a great deal of responsibility if GM now finds itself a European partner, and we end up with no truck industry? Does he appreciate that, if he resumes negotiations with GM for the sale of a controlling interest in both Leyland Trucks and Land Rover, he will have considerable support behind him on these Benches?

Mr. Channon: I note what my hon. Friend says, but I cannot add to what I said earlier. There are no plans at present for the resumption of talks, and it would be misleading if I were to pretend otherwise. However, I note my hon. Friend's comments and I shall come forward with further proposals as soon as I can.

Mr. Roger King (Birmingham, Northfield): Is my right hon. Friend aware that, although the management buy-out is well accepted by many people, it also finds a great deal of favour among the work force? Is my right hon. Friend aware that the trade unions have said that they are willing to become involved financially in such a management buy-out? Such aspirations have been raised to a high level in the west midlands. We hope that they will be realised.

Mr. Channon: I acknowledge what my hon. Friend has said, but it would be quite wrong of me to express a view at this stage on the various alternatives.

Mr. Den Dover (Chorley): Does the Secretary of State agree that a much better bargain could be obtained for Leyland Trucks in a year or two if the division were kept in public hands until then?

Mr. Channon: I shall, of course, consider that possibility.

Mr. Speaker: Mr. Flannery.

Mr. Martin Flannery (Sheffield, Hillsborough): Thank you, Mr. Speaker, for balancing the questions——

Mr. Speaker: Order. The hon. Gentleman has only just started to rise.

Mr. Flannery: The hon. Gentleman has been standing up continually.

Does the right hon. Gentleman accept that a Japanese firm has a great rival to Land Rover—a four-wheel drive car which looks very much like the Land Rover? Is it not true that that Japanese firm is owned by General Motors of America? Does it not follow that, because costs in Japan are much lower, if General Motors gets hold of the Land Rover BL production machine here, it could, from America, in the interests of profit, easily close down Land Rover to make profits in Japan?

Mr. Channon: With respect to the hon. Gentleman, if there had been a deal with General Motors on Land Rover, we would have required satisfactory assurances from that company which would have ensured the future of the Solihull plant, the local content and the other things which I have described to the House many times.

Mr. Charles Wardle (Bexhill and Battle): Will my right hon. Friend accept that many Conservative Members and many people in the automotive industry consider world market share profitability and British jobs to be more important than all the jingoism of the past few weeks? Will he convey to General Motors and to Ford that they are as welcome to prosper and expand in this country as British firms are welcome to do in the United States?

Mr. Channon: My hon. Friend is absolutely right to draw attention to the importance of General Motors and of Ford in the British economy. They are both large employers which put a great deal of money and effort into the United Kingdom. I can assure my hon. Friend that the Government think that they are very welcome.

Mr. Michael Forsyth (Stirling): Is my right hon. Friend aware that a majority of Conservative Members regret the collapse of the General Motors talks, as a great opportunity lost? Would it not have been better for the Government to concentrate on securing a successful motor industry in Britain rather than to respond to the misguided and jingoistic calls from those who will leave a price to be paid in lost jobs and higher taxes?

Mr. Channon: I note what my hon. Friend says. I hope that I shall be able to come forward, in the not-too-distant future, with proposals on the future of Land Rover and Freight Rover which my hon. Friend will welcome.

Several Hon. Members *rose*——

Mr. Speaker: Order. I shall bear in mind when we next discuss this matter those hon. Members who have not been called today.

BILLS PRESENTED

NATIONAL HEALTH SERVICE (AMENDMENT)

Mr. Secretary Fowler, supported by Mr. Secretary Edwards, Mr. Secretary King, Mr. Michael Jopling, Mr. Kenneth Clarke, Mr. John MacGregor, Mr. Secretary Rifkind, Mr. Barney Hayhoe and Mr. Ray Whitney, presented a Bill to apply certain enactments, orders and regulations relating to food to certain health service bodies and premises; to make further provision as to pharmaceutical services under the National Health Service Act 1977 and the National Health Service (Scotland) Act 1978 and the remuneration of persons providing those services, general medical services, general dental services or general ophthalmic services under those Acts; and for connected purposes: And the same was read the First time; and ordered to be read a Second time tomorrow and to be printed. [Bill 119].

REPRESENTATION OF THE PEOPLE (AMENDMENT)

Mr. Robert Rhodes James presented a Bill to amend the House of Commons (Redistribution of Seats) Acts 1949 and 1958, and the Representation of the People Act 1983, to provide for a reduction in the number of parliamentary constituencies to 500, with a minimum constituency population of 100,000, and for connected purposes: And the same was read the First time; and ordered to be read a Second time on Friday 16 May and to be printed. [Bill 120].

Immigration Act 1971 (Amendment)

4.17 pm

Mr. Max Madden (Bradford, West): I beg to move,

That leave be given to bring in a Bill to establish a right of appeal in the United Kingdom to those persons refused entry to the United Kingdom, including those persons visiting the United Kingdom.

Today, as on every other day, some 50 people mostly visitors to Britain from the New Commonwealth and Pakistan, will be refused entry to the United Kingdom. Last year, more than 18,000 people were refused entry to this country and more than 10,000 were black and Asian people from the New Commonwealth and Pakistan. Each person refused entry is given a form saying that they have been refused entry because an immigration officer does not believe that they are a genuine visitor. The form says that the person has a right of appeal but that appeal can be exercised only when the visitor has returned home.

The refusal ruins the person's holiday as they lose their fares and other expenses incurred. It is not surprising, therefore, that more than three quarters of the people compelled to return home do not bother to appeal. If their appeal was successful, most would not have the money or opportunity to return to this country.

My Bill seeks to provide an effective right of appeal which can be exercised by the person while he or she is in this country. That was first recommended in 1967 by Sir Roy Wilson, QC, who chaired the committee on immigration appeals. On the Second Reading of the Immigration Appeals Bill in 1969, the then Home Secretary, my right hon. Friend the Member for Cardiff, South and Penarth (Mr. Callaghan) said:

> "It is implicit in the Wilson Committee's Report that an appellant who has reached the United Kingdom and is refused entry on arrival should normally be allowed to remain here to await the determination of his appeal".—[*Official Report*, 21 January 1969; Vol. 776, c. 494.]

Regrettably, the provisions conferring that general right of appeal were never brought into force and were not included in the Immigration Act 1971, which repealed the 1969 Act but retained the basic appeals system.

Under section 13(3), the only rights of appeal that can be exercised here are by persons holding a current entry clearance or a current work permit. My right hon. and learned Friend the Member for Warley, West (Mr. Archer) said in Standing Committee on the Immigration Bill in 1971:

> "Every lawyer knows how difficult it is to prosecute any action, however simple, from a distance of 30 miles; and that to instruct legal advisers, interview witnesses, discuss documents not in one's possession, can be extremely difficult, even if one is operating between London and the provinces. Operating between London and Karachi would be virtually impossible. To insist that someone who has the right of appeal under the Bill should exercise it from such a distance, and in those circumstances, is to bring the whole procedure of appeal into contempt."—[*Official Report, Standing Committee B*, 20 May 1971; c. 1072.]

Nearly ten people refused entry as visitors turn for help every day to Members of this House or of another place. Hon. Members usually request a stop on the person's removal and that they be given temporary admission. Of the 8,500 people granted temporary admission last year, only 187 absconded.

Introducing a right of appeal which can be operated here, easily and simply, would be a victory for natural justice, as it would allow a person appealing to be present when his appeal is considered. An effective right of appeal

cc Pres
Q
TF

RESTRICTED

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

PS/
Secretary of State for Trade and Industry

24 March 1986

RESTRICTED

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

Dear David,

BL : STATEMENT

... I attach a copy of the draft statement which my Secretary of State will circulate at tomorrow morning's Cabinet. Time permitting we shall try to take account of any comments you have. I have sent a copy of my letter and its attachment to Rachel Lomax and Gill Rutter at the Treasury.

Yours sincerely,

John Mogg.

J F MOGG
Private Secretary

RESTRICTED

JF2BCD

DRAFT

STATEMENT

As the House is aware, BL and the Government have been in discussion with several companies about the privatisation of the main Land Rover-Leyland businesses. Of these, General Motors have made proposals concerning Leyland Trucks, Freight Rover and Land Rover.

In relation to the Truck and Van sectors, the talks with GM concentrated on the possibilites for combining the respective Leyland and Bedford businesses to the mutual benefit of GM and BL. In respect of Land Rover, where there are opportunities for Land Rover in expanding European and world markets, the Government was determined that, as a condition of privatisation, special arrangements should be concluded to safeguard UK interests, including a measure of real UK control over the future of the business. For its part, however, GM wished to have effective control of the company from the outset and an assurance of full ownership and control within a relatively short period; and it became clear that they were not able to compromise on these points. This was not a basis for an agreement acceptable to the Government.

GM have stated that they are not willing to proceed with an arrangement for Leyland Trucks and Freight Rover which excludes the Land Rover company and the talks have therefore been ended.

JF2BCC

1786 1986 BOARD OF TRADE BICENTENARY

The BL Board will now be examining the alternative ways forward for all the businesses concerned. For Leyland Trucks, which operates in a depressed and fiercely competitive market the Board will continue to examine the possibilities for collaboration with other manufacturers and other ways to sustain its improving trend in performance. The Government remains committed to the development of this business as envisaged in the approved Corporate Plan, laid before Parliament on 17 June 1985. For Land Rover and Freight Rover the Board will include in their examination the various expressions of interest which have already been announced, with a view to recommending the course most likely to achieve the early privatisation of the businesses in a way which best secures their future.

DW1AWB

1786 1986 BOARD OF TRADE BICENTENARY

DRAFT

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In relation to the Truck and Van sectors, the talks with GM concentrated on the possibilites for combining the respective Leyland and Bedford businesses to the mutual benefit of GM and BL. In respect of Land Rover, where there are opportunities for Land Rover in expanding European and world markets, the Government was determined that, as a condition of privatisation, special arrangements should be concluded to safeguard UK interests, including a measure of real UK control over the future of the business. For its part, however, GM wished to have effective control of the company from the outset and an assurance of full ownership and control within a relatively short period; and it became clear that they were not able to compromise on these points. This was not a basis for an agreement acceptable to the Government.

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JF2BCC

1786 1986 BOARD OF TRADE BICENTENARY

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- Brief is new for BL Board (Chancellor)
- Need to mention future of Rover jobs.

DW1AWB

1786 1986 BOARD OF TRADE BICENTENARY

999-49

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cc BL+P

Ref. A086/976

PRIME MINISTER

Land Rover-Leyland

FLAG A ——— (C(86) 10)

C(86) 10 reports for consideration by Cabinet the conclusions of MISC 126. You are familiar with the background and the most recent discussions. In brief, the report seeks the Cabinet's endorsement of the breaking off of negotiations with GM, in view of their refusal to consider any deal which did not guarantee them full control (and early ownership) of Land Rover/Range Rover; and authority to seek fresh advice from the BL Board on the remaining bids already on the table, and any other possible privatisation options. It will be important for the Chairman Designate, Mr Graham Day, to be associated with this reappraisal.

2. You will wish to ask the Secretary of State for Trade and Industry to report on the latest situation and to confirm the recommendations in the MISC 126 report. You will then wish to invite views from the Cabinet generally and to secure endorsement for the statement, consistent with the MISC 126 report, that the Secretary of State for Trade and Industry will make in the House later in the day (the Secretary of State should have a draft statement with him, but you will not wish to circulate this unless there is a particular call to do so).

JMS

for ROBERT ARMSTRONG

24 March 1986

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BRIAAD

cc B/CP CCPress TF

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

PS/
Secretary of State for Trade and Industry

24 March 1986

RESTRICTED

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

Prime Minister
Some suggestions marked on the final paragraph. Agree?
DLN
24/3

Dear David,

BL : STATEMENT

... I attach a copy of the draft statement which my Secretary of State will circulate at tomorrow morning's Cabinet. Time permitting we shall try to take account of any comments you have. I have sent a copy of my letter and its attachment to Rachel Lomax and Gill Rutter at the Treasury.

Yours sincerely,

John Mogg.

J F MOGG
Private Secretary

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JF2BCD

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DRAFT

STATEMENT

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In relation to the Truck and Van sectors, the talks with GM concentrated on the possibilites for combining the respective Leyland and Bedford businesses to the mutual benefit of GM and BL. In respect of Land Rover, where there are opportunities for Land Rover in expanding European and world markets, the Government was determined that, as a condition of privatisation, special arrangements should be concluded to safeguard UK interests, including a measure of real UK control over the future of the business. For its part, however, GM wished to have effective control of the company from the outset and an assurance of full ownership and control within a relatively short period; and it became clear that they were not able to compromise on these points. This was not a basis for an agreement acceptable to the Government.

GM have stated that they are not willing to proceed with an arrangement for Leyland Trucks and Freight Rover which excludes the Land Rover company and the talks have therefore been ended.

JF2BCC

1786 1986 BOARD OF TRADE BICENTENARY

(1)

give further study to

The draft makes it look as if this has not happened before.

The BL Board will [now be examining] the alternative ways forward for all the businesses concerned. For Leyland Trucks, which operates in a depressed and fiercely competitive market the Board will continue to examine the possibilities for collaboration with other manufacturers and other ways to sustain its improving trend in performance. (2) [The Government remains committed to the development of this business as envisaged in the approved Corporate Plan.] For Land Rover and Freight Rover the Board will [include in their examination] the various expressions of interest which have already been announced, with a view to recommending the course most likely to achieve the [early] privatisation of the businesses in a way which best secures their future.

Delete? further examine

Company in whole or in part

B. L Board

DW1AWB

1786 1986 BOARD OF TRADE BICENTENARY

COPY NO 1 OF 9

cc HMT

11

SECRET

PRIME MINISTER

BL : PRINCIPLES OF A DEAL WITH GM

We decided last night not to proceed with the GM deal on the basis available - i.e 100 per cent ownership of Land Rover subject to "entrenched rights". It was agreed that we would offer GM a compromise based on their having 49 per cent voting control for 4 years and a high probability of full control thereafter.

2 I have now consulted my merchant bank advisers. Their firm advice is that the package proposed last night would not be practicable as it would not attract UK institutional support. This is for two reasons:

(i) the institutions would require the potential to exercise effective ultimate control if GM management took steps which the institutions perceived as being against their interests.

(ii) with effectively only one potential buyer at the end of 4 years, the institutions would not be assured of a reasonable return on their investment.

3 The essential differences between the principles we discussed last night and those now proposed are summarized below:

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(i) In order to limit the amount required to be raised from UK institutions they would take only approximately 20 per cent economic interest.

(ii) GM's right to manage the business would be subject to the overriding control of the Board and, thus, the majority shareholders.

(iii) These would be no special constraints (other than the 49 per cent voting limit on GM) in relation to the raising of new capital by rights issues.

(iv) GM would not have a right of first refusal over the UK investors' shares.

4 Before I put this proposal to GM I must make clear to colleagues that there is little prospect of their agreeing to it. It is just possible that GM might prefer the total exclusion of Land Rover from the deal. If GM will not accept either, colleagues must recognize that we shall have ruled out a GM solution for Trucks and Vans as well as for Land Rover. I cannot seek a compromise from GM except on the basis that I have firmly decided that I cannot recommend to colleagues the full deal with "entrenched rights".

6 I should be grateful for colleagues confirmation as urgently as possible (and by no later than 3.00pm) that I am authorized to proceed in this way.

On solution for Trucks & Vans — LR

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7 Copies of this minute go to the Lord President, the Chancellor of the Duchy and the Chief Whip.

John Mogg

pp PAUL CHANNON
21 March 1986

(Approved by the Secretary of State and signed in his absence)

DEPARTMENT OF TRADE AND INDUSTRY

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PRINCIPLES OF A DEAL WITH GENERAL MOTORS

1. General Motors to have no more than 49 per cent of the voting shares, and around 80 per cent of the non-voting economic interest in Land Rover, the balance of the respective shares to be held in British hands for at least four years.

2. General Motors to have no contractual assurance of majority voting control but arrangements will be made which would prevent any other party gaining majority control for at least four years.

3. This will be achieved by:

   (i) a bar on GM acquiring more than 49 per cent of voting shares whether by acquisition or on a rights issue for the first four years;

   (ii) after four years, British holders of 51 per cent of voting shares would be free to sell their shares to GM or third parties;

4. General Motors to have management control of Land Rover subject to the ultimate control of the Land Rover Board.

5. Appropriate assurances to be given e.g on the location of manufacture, research and development and local content, as envisaged in the draft Letter of Intent.

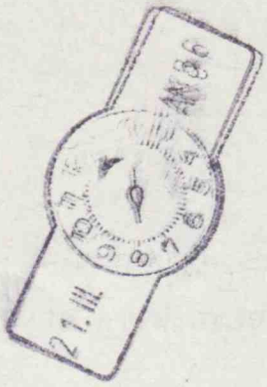
6. Freight Rover and Leyland Vehicles to be owned 100 per cent by General Motors, with appropriate assurances particularly about the future of Freight Rover.

7. General Motors would also undertake, though not contractually, to present the deal in a very positive manner, indicating their intention to make substantial investments in the businesses and to make the UK the centre of their European operations.

G. M. to have 100% Leyland - Freight Rover

DEPARTMENT OF TRADE AND INDUSTRY
21 March 1986

JF5BAL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1986

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SUBJECT CC MASTER DSG 16

cc Prof Griffiths

10 DOWNING STREET

From the Private Secretary

21 March 1986

BL: PRINCIPLES OF A DEAL WITH GM

The Prime Minister this afternoon discussed with your Secretary of State and with the Chancellor of the Duchy of Lancaster and the Chancellor of the Exchequer your Secretary of State's minute of today.

It was agreed that the deal described in the attachment to the minute, with the very high proportion of the capital being subscribed by GM, was not acceptable. It would be seen as an arrangement designed transparently to lead sooner or later to full control by GM.

It was further agreed that your Secretary of State should propose to GM a deal under which GM would purchase Freight Rover and Leyland Vehicles in their entirety, with appropriate assurances. Land Rover and Range Rover would not be offered to GM.

I am copying this letter to Joan McNaughton (Lord President's Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Rachel Lomax (HM Treasury) and Murdo Maclean (Chief Whip's Office).

David Norgrove

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

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cc BLP

PRIME MINISTER

21 March 1986

LAND ROVER-LEYLAND

If Land Rover cannot be sold to GM, then it ought to be sold to the Management Buy-Out (MBO). Failing to sell any of the Land Rover-Leyland businesses would make a nonsense of Government policy.

The press have been broadly supportive of our BL policy throughout the last two months, so if they are not to vilify this reversal then some concrete undertakings must be secured from the MBO. These could include:

1. Provisions to ensure the MBO do not sell out to make a quick killing. Shares should not be sold in the first 4 years, except:

   a. at a price equal or lower than the purchase price;

or b. after a full Stock Exchange listing has occurred (which the MBO expect by end 1987).

   HMG would need to retain a golden share to safeguard for 4 years foreign interests gaining more than a 25% holding.

2. Provisions to ensure the MBO abide by their assurances to maintain local content, and put sufficient investment into Freight Rover. One way to achieve this is through a financial penalty. This could be done by creating a debt of, say, £20m, which only becomes payable if the MBO break the assurances. The debt would probably have to be payable to HMG, but it could be made payable respectively to the (former) employees of Freight Rover or the British component supply industry, depending upon which assurance was broken.

3. Safeguards would need to be built into the articles (and protected by the golden share) to prevent the MBO selling the assets of the business or moving its base outside Britain.

Although the MBO have been prepared to give generalised assurances on most of these points, they may well prove reluctant to accept the binding commitments suggested. It would be best to negotiate these with the MBO in advance of any public statements about the demise of a GM deal.

Leyland Trucks

A Government decision to back the MBO cannot be allowed to cause the closure of Leyland Trucks. Therefore, regardless of cost, a commitment will have to be given to continue funding Trucks for so long as it meets its existing Corporate Plan. The search for partners for Leyland Trucks would continue, and it would remain Government policy to seek the early privatisation of Leyland Trucks, provided it was in the best interests of the Industry as a whole.

BL Board

The BL Board are wholly committed to the GM deal, and may insist on stating so publicly. Even though the Government owns 99.7% of the shares in BL, there are apparently legal difficulties in voting the shares against a BL Board recommendation. Under the MBO deal, the BL Board lose the incentive of extra Government money, as this is only required for writing off Leyland Trucks debts. Moreover, even if the Government were still persuaded to make a cash injection, the EC Commission might veto it.

At the end of the day, if the BL Board are not prepared to shift, it may be best to accept their resignations and the

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ensuing row. (Graham Day is unlikely to want to keep them anyway.)

An alternative device would be to threaten to withdraw the Varley Marshal assurances. Faced with such a threat, the BL Board would surely have to follow the Government line. But such a threat might be illegal.

Peter Warry

PETER WARRY

PRIME MINISTER

BRITISH LEYLAND

I would like to briefly register my concern at the reports in The Times, Financial Times and other papers today. I am concerned that the kind of arrangement outlined in these papers will mean - and will be seen to mean - that control will have passed to General Motors. It is open to debate whether such a move would be in the interests of Land Rover and it is difficult to see how it can be in the interests of Freight Rover. I do not know, of course, how accurate these reports are but I hope that we can seek to avoid fresh newspaper stories over the weekend prior to any discussions we may have next week.

I am copying this minute to members of MISC 126.

27th March 1986

N F

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PRIME MINISTER

BL

Mr. Channon first saw the BL representatives after your meeting this afternoon. They were disappointed about the decision, but took it reasonably well. The BL Board plan to meet at 1800 on Sunday. The GM decision will probably be known by then. If GM have decided against the Government proposal, the choice for the Board will lie between the management buy-out and Lonrho, or neither of them. The Board expect to need further time to consider these bids, and might take 2 - 4 weeks over the decision. They would also need to consider the bid for Leyland vehicles from Lancashire Enterprise Board.

Mr. Channon will see representatives of the BL Board later on Sunday evening.

Mr. Channon put the Government's proposal to GM. He discouraged them from giving an answer on the spot, but they said they would be recommending Detroit to turn down the proposal. DTI's view is that the answer will definitely be no.

DTI were keen to have a meeting of the smaller group early on Monday morning, followed by MISC 126 and a statement on Monday afternoon. They feel that the story is bound to break very quickly and would like to make the statement as soon as possible in order to stop the uncertainties.

The DTI's timetable would be very hard on the two Chancellors, with their speeches to make later in the day. It would also seem better for the Government to take this in a less hurried fashion.

/I recommend

I recommend that you hold a meeting of the smaller group at 0945 on Monday, as planned. You could then move to MISC 126, Cabinet, or both, on Tuesday, having taken the advice of the smaller group. Mr. Channon would make his statement on Tuesday afternoon, as planned. (Or of course, if really necessary, you could hold MISC 126 later on Monday.)

DAVID NORGROVE

21 March 1986

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10 DOWNING STREET

From the Private Secretary

21 March 1986

BL

The Prime Minister was grateful for your Secretary of State's minute of 20 March reporting his conversation with Mr. David Andrews and with the Managing Partner of Schroder Ventures.

David Norgrove

Tony Laurance, Esq.,
Department of Health and Social Security.

SECRET

Regina House
5 Queen Street
London EC4N 1SP

01 382 6660

STRICTLY PRIVATE & CONFIDENTIAL

Mrs Ryder
Personal Secretary to the Prime Minister
10 Downing Street
London SW1

21st March 1986.

Dear Mrs Ryder,

I have written the enclosed letter to the Prime Minister. In view of the sensitivity of the subject, and the unfortunate fact that my earlier letter of 22nd January was temporarily mislaid, I have sent it to you to ensure its safe arrival for the Prime Minister.

Yours sincerely,

David R G Andrews

SECRET

12

10 DOWNING STREET

From the Private Secretary

21 March 1986

Dear Rachel,

BL

As we discussed, I attach a copy of the principles of a deal with General Motors. These were considered by the Prime Minister yesterday evening. Mr. Channon has, I understand, revised them this morning and the revised version is to be discussed at 1530 this afternoon. I shall make sure that you get a copy of the revised version as soon as possible.

Yours

David

(David Norgrove)

Mrs. Rachel Lomax,
H.M. Treasury.

SECRET

PRINCIPLES OF A DEAL WITH GENERAL MOTORS

1. General Motors to have no more than 49 per cent of the shares of Land Rover; the remaining 51 per cent, or more, to be held in British hands.

2. General Motors to have no contractual assurance of majority ownership, but arrangements to be made which would prevent any other company gaining majority control.

3. For four years new capital to be subscribed in the 49:51 proportion, in such a way that a majority would remain in British hands even if some existing shareholders did not wish to subscribe. Thereafter, GM to be offered first refusal if existing shareholders did not choose to subscribe to new capital.

4. Appropriate assurances to be given, as already discussed, about sourcing, location of production, etc., of Land Rover.

5. General Motors to have full management control of Land Rover.

6. Freight Rover and Leyland Vehicles to be owned 100 per cent by General Motors, with appropriate assurances particularly about the future of Freight Rover.

General Motors would also undertake, though not contractually, to present the deal in a very positive manner, indicating their intention to make substantial investments in the businesses and to make the UK the centre of their European operations.

EL3AZJ

SECRET AND CMO

10

PRIME MINISTER

Seen by the Prime Minister
20/3.
DKW 20/3

As you know, I met on Tuesday David Andrews, the head of the Land Rover management buy-out team, together with the Managing Partner of Schroder Ventures. Among the points that they made I thought the following the most important:

(1) Mr Andrews would prefer a total buy-out of Land Rover and believes that the new company could be ready for flotation by the end of 1987. He believes practically all his senior managers would contribute to such a group.

(2) In principle, I think he would accept a position where General Motors had a minority stake in the company. He stresses, however, that it should be a minority stake and not a controlling one - for example, a stake of, say, 25 per cent or 30 per cent.

(3) Mr Andrews believes that Freight Rover is an integral part of the Land Rover group and has been an outstanding recovery story over the last four or five years. This in stark contrast to the poor record of Bedford vans.

(4) Mr Andrews says that Range Rover will be ready for its United States launch in February 1987 and that their strategy of 50 - 60 specialist dealers is superior to a wider number of general dealers. He is confident of the development of the business both in the United Kingdom and overseas.

I am copying this minute to members of MISC 126.

20th March 1986

N F

SECRET AND CMO

20. III. PM 8 6

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c: Mr Wicks

1. LORD PRESIDENT
2. PRIME MINISTER

BRITISH LEYLAND - PRESENTATION

This note sets out the position as I see it from a presentational point of view.

The media, having elevated Easter into the deadline for a decision on Trucks/Land-Rover, now believe things are coming to a head.

They believe the Prime Minister is in favour of the GM solution, even though I have emphasised the political problem which Land-Rover presents.

If there has been any movement in public opinion I believe it has been in favour of the GM solution. But attitudes seem well entrenched and I suspect that the reason the issue has gone relatively quiet is that the management buy-out "patriotic" faction believes it holds the winning cards.

[Just for the record: I personally am as convinced that the GM solution is correct, economically and commercially, as I am sure that, short - medium term, a management buy-out of Land-Rover is the easy route politically.]

It follows from this that the Government's remarkable recovery since the Westland affair, crowned this week by the Budget and fall in interest rates, would be set back by any decison to sell to GM. As a very minimum, this would send MPs back into their constituencies for Easter in an unhappy mood and would be a gift to the other parties in the Fulham by-election.

Presentationally there is therefore a case for postponing any GM takeover (and conclusion of negotiations) until after April 10 if GM is felt to be the only viable way forward.

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But that is only sustainable if negotiations can genuinely be spun out and a final decision postponed.

Missing the Easter deadline would cause presentational difficulties but I think this would be manageable.

It may, however, be concluded now that, whatever commercial advantage dictates, the GM route is politically impossible, either because:

i. it is simply not possible to get it through Cabinet; or

ii. it is possible to secure Cabinet approval only at very considerable cost verging on the unacceptable.

If it is not possible to kick the issue into touch until after Easter, and GM is simply not on whenever it is announced, we face an urgent presentational problem: namely the Prime Minister's authority.

Given that the media believe the Prime Minister is in favour of GM, it is crucial that she should be seen to be moving towards the management buy-out well in advance of any decision-taking Cabinet. It is at least possible to argue that such a line would do no damage to the Government's negotiating stance with GM.

The need for this is underlined by the fact that the Vickers management buy-out has been presented by some as a 23-1 defeat for the Prime Minister.

If it were agreed that early action is required, it would be possible to feed out a line for the weekend media which suggested that the management buy-out was being regarded with greater favour because it really looked to be all or

nothing with GM. It is quite conceivable that the media would regard this as a negotiating ploy by the Government; if so, so much the better.

But it would only serve its real objective if the Prime Minister's name were associated with it. That would be achieved automatically if I were given authority to brief on these lines at the 4pm Lobby on Friday. The desired result would be achieved only if others in deep briefing were specifically to say they believed the Prime Minister's position was shifting.

Once the media got a hint of this, they would ask many more questions, such as:

- what about the management buy-out's financial backing; overseas marketing facilities?

- what about the future of trucks in Great Britain?

- is the Government reconciled to Dunstable closing? etc.

It would be possible to fend off these questions, but it would be important to have a clear line to take on them.

Finally, I should make the point that when any statement is made it would be generally helpful if as many loose ends were tied up as possible - ie BL Buses; Austin Rover's foreseeable future.

BERNARD INGHAM
20 March 1986

NW 9

PRINCIPLES OF A DEAL WITH GENERAL MOTORS

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3. For four years new capital to be subscribed in the 49:51 proportion, in such a way that a majority would remain in British hands even if some existing shareholders did not wish to subscribe. Thereafter, GM to be offered first refusal if existing shareholders did not choose to subscribe to new capital.

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General Motors would also undertake, though not contractually, to present the deal in a very positive manner, indicating their intention to make substantial investments in the businesses and to make the UK the centre of their European operations.

EL3AZJ

8

Not seen by the Prime Minister
pp. DNS

PRIME MINISTER

BL

The timetable next week looks quite difficult if the end result of present discussions is going to be an ultimatum to GM.

One possibility is as follows. The meeting decides this evening to let the discussions with GM continue on the present basis, telling them that their terms may well not be accepted by Cabinet. The smaller group meets on Monday, decides that the GM terms are indeed unacceptable, and invites MISC 126 and Cabinet to agree to issue the ultimatum to GM. GM must presumably be allowed 24 hours to reply, and it is difficult then to see how any decision could be handled satisfactorily with the House. Would it be adequate for Mr. Channon to make a statement to the House on Wednesday afternoon announcing either a sale to GM on the Government's terms or that the management buy-out had been successful, and leave it at that as the only opportunity for discussion in the House before Easter?

To issue an ultimatum to GM on Monday would be awkward to handle in relation to MISC 126 and Cabinet on Tuesday.

This seems to point to issuing the ultimatum tomorrow. The implication would have to be that if GM went along with it you and the smaller group of Ministers would be prepared to push hard for it at MISC 126 and Cabinet.

DNS

DN

20 March 1986

File

D85

10 DOWNING STREET

From the Private Secretary

19 March 1986

Thank you for your letter of 19 March with which you enclosed a copy of your letter to the Secretary of State for Trade and Industry. Thank you also for the list of member organisations of the British Management Data Foundation.

David Norgrove

Anthony Cowgill, Esq., M.B.E.

BRITISH MANAGEMENT DATA FOUNDATION
(Limited by Guarantee)
Selwyn House, Cleveland Row, St James's, London SW1A 1DN
Telephone: 01-839 2798 01-930 5672

David Norgrove Esq
Private Secretary
10 Downing Street
London SW1

Ack with thanks pse.

Dear Mr Norgrove,

Confirming our telephone conversation yesterday, I attach a copy of the note I have sent to Paul Channon on the Land Rover affair, for the information of the Prime Minister.

Yours sincerely

Arthur Cowgill

PS. I attach a list of member organisations for information

19th March 1986
AC/PC

Registered in England No. 974633
Registered Office: 1 Cecil Court. London Road, Enfield, Middx EN2 6DD, Telephone: 01-363 7452

BRITISH MANAGEMENT DATA FOUNDATION

(Limited by Guarantee)

Selwyn House, Cleveland Row, St James's, London SW1A 1DN

Telephone: 01-839 2798 01-930 5672

From The Director
Anthony Cowgill MBE

Ack'd.

Prime Minister 4
DRN
20/3

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

Dear Secretary of State,

LAND ROVER – MANAGEMENT BUY OUT

You will by now have had some input from Industry regarding the future of the Land Rover organisation. You might, however, be interested to have a view from the perspective of a Foundation concerned with the competitiveness of British Industry in a world context - many of whose member companies have major interests overseas, particularly in the United States. This enables us perhaps to focus more sharply on the key aspects of this matter.

The fundamental point is that Land Rover has a niche with much potential, and which with proper marketing and drive and energy in its management along Jaguar lines, could produce outstanding results.

I believe considerations should not be muddied by concern for the Truck Division or other aspects of BL policy. It is only by enabling Land Rover to have its own identity, coupled with privatisation, that will allow the natural abilities of management and the work force to flourish.

Having discussed the future of Land Rover with my colleagues in member companies, I think you should know that there is very strong support for the current proposals of the Land Rover management team.

As far as funding is concerned, I have discussed this with, among others, Robin Caldecote, Chairman of 3is. I do not believe that General Motors would fund Land Rover to any greater extent than would be justified by its potential, and this would apply to funding decisions in UK.* On technical development, as someone who has led many teams of industrialists overseas to review manufacturing technology trends, particularly in Japan and the United States, I believe we should not underestimate our abilities in this field.

I believe it would be in the interests both of Land Rover, the supporting industries (in particular firms like ISTEL who provide the manufacturing systems) and of British Industry in general, for the Management Buy Out to be accepted by Government.

Niches which have major potential are what all industrial organisations are searching for worldwide. None of our major competitors in overseas countries would be likely to give up such a niche if it occurred in their own industry.

Yours sincerely
Anthony Cowgill

*There are considerable UK funds available for Land Rover if the management proposals are accepted.

19th March 1986
AC/PC

copy to PPS to Prime Minister

BRITISH MANAGEMENT DATA FOUNDATION

(Limited by Guarantee)

Selwyn House, Cleveland Row, St James's, London SW1A 1DN

Telephone: 01-839 2798 01-930 5672

MEMBER ORGANISATIONS

Allied Lyons

Allied Steel

Associated Octel

British Nuclear Fuels

British Telecom

Britoil

Ferranti

Greenall Whitley

Guest Keen & Nettlefolds

Imperial Chemical Industries

ICL

Jaguar

Lucas

Marks & Spencer

Pilkington Brothers

The Post Office

Rolls-Royce

Scottish & Newcastle Breweries

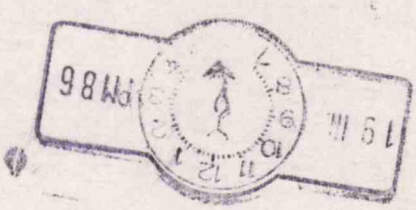
TI Group

Unilever

Wellcome Foundation

Westland Group

Registered in England No. 974633 Registered Office: 1 Cecil Court, London Road, Enfield, Middx. EN2 6DD. Telephone: 01 - 363 7452



MR NORGROVE

19 March 1986

LAND ROVER MANAGEMENT BUY-OUT

At the last meeting of MISC 126, Norman Fowler queried my statement that neither the Finance Director of Land Rover-Leyland nor the Finance Director of Land Rover itself had joined the management buy-out.

I have checked this information independently with the DTI, who confirm it is correct.

Peter Warry

PETER WARRY

Prime Minister

Leyland Vehicles lost £63 million in 1985 after interest and tax; Bedford Trucks lost £29 million.

DNW

19/3.

7

SUBJECT cc MASTER

NOTE FOR THE RECORD

BL

The Prime Minister today held a meeting with the Lord President, the Chancellor of the Duchy of Lancaster, Secretary of State for Transport, Secretary of State for Trade and Industry and the Chief Whip to discuss the position on BL.

Mr. Channon explained that GM had reverted to their refusal to accept arrangements which did not give them full control of Land Rover within a specified period. Their merchant bank had at one stage tabled proposals which would have left a majority shareholding in BL with British financial institutions. But these had been withdrawn even as DTI were considering them. Mr. Channon was convinced that GM would not change their view.

The meeting agreed that a sale to GM was the best option on industrial and commercial grounds. But there were likely to be substantial political difficulties. Strong support from Cabinet would be needed to carry it through successfully.

It was agreed that DTI would negotiate hard with General Motors to win the maximum concessions within the framework of the original Salton deal, covering among other things an undertaking by GM about capital investment in Land Rover, about locating their European headquarters in the UK and if possible allowing for employee participation at least by Land Rover workers.

DTI would prepare a paper for circulation by the weekend which would discuss the options in stark terms, bringing out in particular the consequences of a rejection of GM. DTI should also prepare a paper which could be published or drawn upon in the event that the Government decided to accept the GM deal.

DRN

David Norgrove
19 March 1986

PRIME MINISTER

19 March 1986

GM TALKS

Given that the GM talks now seem unlikely to produce any wholly satisfactory solution, it is important that when MISC 126 meets it is faced with a clear choice. To this end:

1. The original holding board idea to safeguard GM's assurances should be worked up in detail and in particular the presentation improved.

2. Nigel Lawson's suggestion of selling just Trucks and Freight Rover but retaining Land Rover should be put to GM.

3. GM must give a categorical answer on whether they would be prepared to purchase Trucks only.

4. A definitive statement of the BL Board's position should be put to MISC 126.

Norman Tebbit played a constructive rôle in the last MISC 126 meeting; to keep him on side it is essential that he accepts that GM have reneged on the deal he and PC negotiated. Ideally, he should be invited to speak to GM himself, but whatever happens he should be brought into the discussions early.

pp PETER WARRY

6

PRIME MINISTER

B.L.

Peter Warry's minute below reports the latest position on the discussions with GM. This has been confirmed to me by DTI.

The essence is GM's refusal to countenance any agreement which would not give them guaranteed management and shareholder control within some defined period. I understand that GM have come and gone on this: they placed on the table at one stage, and possibly more than one stage, an agreement which offered the possibility of meeting the Government's objectives, but then withdrew it.

So there is now a stand-off. It seems important for Mr. Channon to report back urgently. I have therefore arranged a meeting of the smaller group of Ministers for 0945 tomorrow lasting an hour.

The options are now:

(i) tell GM firmly that the Government can accept management control by GM but not shareholder control, though the Government would be prepared to offer arrangements which could in the end - though not inevitably - lead to GM control; or

(ii) accept that GM will not give way, and put to MISC 126 the choice between what GM are prepared to offer and the management buy out and its consequences.

The starting point for the discussion might be what happens if the Government decide on (i) and GM maintain their refusal. What would happen and could the Government live with the consequences? In industrial terms, Land Rover and Freight Rover would presumably go to the management buy out; Leyland vehicles would either close or the Government would have to

pump in extra resources (£150 - 200 million over the next few years has been mentioned to me); GM would rationalise its Bedford options or do a deal with Renault or close it all down.

We always expected tht GM would push the Government to the brink. The question is whether the Government would be prepared to accept the consequences if they walk away. The negotiation requires the Government to be prepared to see them walk away if we are to have any chance of striking a good deal (you could argue that it is only the appearance of being prepared to allow them to walk away which matters; but I doubt the poker playing abilities of our side in this high stakes game).

If you decide tomorrow that the risks of a breakdown are too great and that GM's terms will not be improved upon, the next stage is to put to MISC 126 the choice between the options, ie. a GM deal on GM terms, or the management buy out, as in (ii) above.

In that case there is nothing to be gained by a meeting of MISC 126 on Thursday. It would be better to hold the meeting early next week. This would give time for DTI to prepare a stark paper describing the consequences of each of the options. Note that the consequences of turning down the GM deal on GM terms are exactly the same in industrial (but not political) terms as the consequences of turning down the GM deal on the Government's terms.

For what it is worth, Nigel and I feel that it would be worthwhile to take GM to the brink and be prepared to say to them that a deal on their terms could not be recommended to Cabinet. Mr. Channon, if possible with Mr. Tebbit, should call Stempel back from the United States to do some straight talking with him.

DAVID NORGROVE
18 March 1986

SL2AGC

CONFIDENTIAL

PRIME MINISTER 18 March 1986

LAND ROVER

I have had a report back from the GM negotiations today. Although GM are prepared to agree to the letter of the 51% British holding, they are not prepared to agree to the spirit in any politically acceptable sense and are demanding that even the 51% is limited to three years only.

Underlying the stand-off appear to be two issues:

1. GM will not be satisfied with having just de facto management control, but insist it also be legally enforceable; and

2. they want guaranteed 100% ownership of the company within a short period. (At one stage the possibility of total ownership being gained through the achievement of increased sales volumes was discussed but this now seems to have gone away.)

If indeed GM are not prepared to budge from this position, then the best proposal we have on offer is the original one worked out over the weekend. Although it will need improvements in presentation, it does actually address the key areas of concern - a British majority holding board to ensure:

CONFIDENTIAL

1. that major manufacturing operation will remain in Solihull [Land Rover jobs];

2. that the major R&D operation will remain in the UK [not a screw driver operation]; and

3. that the local content of Land Rover will be maintained [supply industry jobs].

We would strongly recommend that DTI should try and develop this original proposal further, before coming back to MISC 126.

Peter Warry

PETER WARRY

5

51% - Board

G.M. 45%.

SECRET

AIDE MEMOIRE

LAND ROVER-LEYLAND

GM have firmly declined to offer an effective compromise which helps us politically.

2 We therefore now face a stark choice between:

(a) the original GM deal covering Leyland Trucks, Freight Rover and Land Rover, with certain entrenched provisions in respect of Land Rover only giving UK non-financial interests a right of veto for a period of years on principal place of manufacture, location of R&D, and substantial changes in local content.

(b) abandonment of the GM deal in full. This would leave us free to take up, or not, one of the other bids for Land Rover - probably the management buy-out which includes Freight Rover. There is no other realistic bid on the table for Leyland Trucks.

3 Course (a) is politically very difficult. But industrially it is in my view, and that of my Department and (strongly) of the BL Board far and away the best course. Alone of the options before us, it presents the opportunity of creating businesses in trucks, vans and 4x4s with a genuine chance of long-term survival and prosperity.

4 Course (b) may appease the West Midlands and "Land Rover is British" Lobby. But before we set off down this course we must consider its grave consequences:

(i) it will leave us with Leyland Trucks. Although still improving in performance, borrowings are set to increase to by £120m over the next 5 years even on its own forecasts, which are almost certainly optimistic. Although this could be raised from the Banks with Varley Marshall we cannot see any serious prospect of full viability. The BL Board believe closure would be the commercial course. 7,000-8,000 jobs would go, mainly in Lancashire. We could explore alternative purchasers or collaborators - we might try to interest Paccar, Renault, Daf or Volvo - but we would delude ourselves if we thought these likely to result in a viable solution.

JF3AEJ

(ii) Freight Rover, if sold to the Management buy-out, would survive in the short to medium term, but its prospects beyond the end of the decade would be poor.

(iii) Land Rover itself, if sold to the Management buy-out, would survive but not prosper. Its US sales prospects would be weaker than in GM hands. It would not have the finance or technical strength to broaden and up-date its product range.

(iv) More seriously still, GM options for Bedford Trucks and Vans would be limited. They could seek a rationalisation with another European truck manufacturer, like Renault; they might bring in Japanese kits with low UK content, on a basis which could threaten the voluntary restraint arrangement and our hard won deal with Nissan and Honda on local content; or they could close their UK operations for trucks, vans or both. The last is not a certainty; but it is a substantial possibility. 7,000 jobs would go (2,400 in trucks, 4,600 in vans).

VEHICLES DIVISION
18 March 1986

10 DOWNING STREET

1. David Norgrove 2

2. Prime Minister

BL

The Chancellor would like you to see the attached on BL, which - apparently - he has discussed with you.

Stephen

17/3

GRAHAM
BANNOCK
& PARTNERS LTD
53 Clarewood Court, Crawford Street, London W1H 5DF · Telephone: 01-723 1845

Mr Peter J. Cropper,
Special Adviser,
H.M. Treasury,
Parliament Street,
London
SW1

IN CONFIDENCE

12th March 1986

Dear Peter,

We agreed on the telephone that I would write to you with some views on Land Rover for you to pass on to Mr Lawson.

The symbolic, and therefore emotional, importance of Land Rover is that, with Jaguar and Rolls Royce and a few minor specialist producers and component suppliers like GKN, it is one of the last remaining bits of the once great British motor industry and its traditions of engineering excellence and innovation. Rover cars as an identifiable entity, along with Austin, Triumph and the rest, have now gone forever. Selling Land Rover, which like Jaguar never lost its identity in BL, to GM would be to perpetrate the mistakes of the government-encouraged mergers in the motor industry in the 1960s. It is not a question of being anti-American but of not again allowing Land Rover to go into a group, British or foreign, which cannot exploit its full potential.

BL siphoned off resources from Rover and Jaguar into the drain of the volume car business, which the Japanese and Americans are so much better at than we are, instead of into the specialist business where our indigenous individuality, originality and sense of quality could be fully used and where, as it happens, there were tremendous long-term market opportunities as BMW, Volvo and others have shown.

Incredibly, the Range Rover, which BL inherited on acquiring the Rover Company, was ready to go into production 20 years ago (and very nearly killed at birth by its new owners). In case you find this difficult to believe, I enclose a photostat of a picture I took in Solihull in 1967 of the prototype. Only now are there

firm plans to sell the Range Rover in the USA. The potential for this vehicle, and indeed for its much older and now ageing sister the Land Rover, remains, however, provided it is sold on quality and is kept up to date. There is considerable scope for new products. The greatest need may be for a lightweight short wheel-base Land Rover with superior fuel economy - a project which was also under study 20 years ago. The parts business and Freight Rover are also valuable assets.

GM cannot develop new products of the kind Land Rover needs. This is not GM's role or its strength as industry leader. Internal pressures would soon result in Land Rover's unique features being 'value engineered' out of existence and the 'marque' would become just another badge like MG or Buick or Pontiac. The box plate Land Rover chassis would be dropped and probably replaced with the cheaper, lighter construction used in Chevrolet 4x4's. The simple engine would go and with it the aluminium panels etc. None of that would matter if the changes were really innovative since big changes are necessary for contemporary markets, but GM's history suggests that they would not be. The Range Rover actually uses an ex-Buick (GM) aluminium engine which GM dropped as being too innovative for them. Rover bought the tooling and rights for this power unit in the 1960s. GM is not a holding company, it is an integrated business and has never left any of its acquisitions much autonomy as far as I know.

GM's world-wide distribution system might take up several thousand extra units in the short term, but it isn't the kind of specialist network that Land Rover really needs and would soon simply help to reinforce the inevitable dilution of the distinctive nature of the product which is the only way to meet competition with lower cost Japanese competitors. Distribution is not a problem for really good specialist products, as Jaguar has found.

Lonhro's deficiencies are of a different kind. They wouldn't have the incentive or the ability to move the Land Rover product development out of the country or integrate with other products, but equally it has no tradition of engineering. Their strength is in distribution, especially in Africa, but Africa is no longer a major potential market. The future, at least in the medium term, lies in the advanced countries.

The Range Rover was conceived out of the realisation that non-military, non-agricultural markets in the advanced countries for 4x4's were growing much faster than the traditional markets

upon which the company's strength was built in the 1950s and early 1960s. This new market is less cyclical than the traditional one, but it probably remains subject to bigger fluctuations than that for conventional passenger cars. This is why any purchase of Land Rover must be adequately financed in case the survival of the company were to be jeopardised by a temporary downturn in demand, especially given the demands that new product development will make, though these are often exaggerated because very large groups are unnecessarily costly places in which to carry out R&D for low volume products. This is why GM now actually have some of their development work carried out by smaller firms in Europe.

Failure is not likely in the short term if the Range Rover can be sold successfully in the US. For Jaguar, its dependence on the US market is a source of weakness; for Land Rover it is there waiting to be tapped.

Product distinctiveness, quality and development is crucial for a small specialist producer, which is what Land Rover is. Land Rover will have a tough job on its own but that is the only way it is likely to survive at all. The best solution for Britain and for Land Rover and its employees is the management buy-out, in my opinion, provided it can be adequately financed and provided the management is good enough, which recent developments there suggest it is. There is no reason, given time, why Land Rover should not be as successful as Jaguar. Indeed, it is a pity that the two companies cannot work together. This would go some way to reconstituting the Rover-Land Rover set up, so unhappily destroyed by the ill-advised BL merger in 1967. (Car sales prevented over-dependence upon the fluctuating 4x4 market).

I can claim some authority for the views expressed here. I worked with Rover for ten years with a two year break at the OECD. From 1964 until 1967 I was actively involved in the Range Rover development which was, in fact, my idea, arising as it did out of research I carried out. I resigned in 1967, having no confidence in the new owners. In 1968-70, latterly as Manager Advanced (Product) Programmes for Ford of Europe, I was able to witness and participate in the transfer of much of sovereignty over Ford of Britain's product development from Dagenham to Cologne and Detroit and understand the commercial realities which made that happen. I have watched developments since but cannot claim to have an up to date knowledge of Land Rover's present operations. Most of what I have written isn't much affected by these and all of their 4-wheel drive products were conceptually pretty well as they are now, or on the drawing board, by the time

I left. More's the pity, but there is still even more scope for new developments and plenty of people in this country capable of bringing them to fruition.

The Land Rover issue is one perhaps rare case where emotion, patriotism, practical politics and business reality all point to the same conclusion. A management buy-out would be wholly consistent with the Government's policies on wider share ownership and self-reliance. If the obstacle is really that only GM is prepared to pick up Leyland then, surely, they would still do that if the price were right. Leyland Truck doesn't have the prospects that Land Rover does because it does not have a unique slot in the market. Competition in the truck business is ferocious because of hopeless over-capacity and it probably does make sense to integrate Leyland with Bedford.

I hope this letter will be of help to Mr Lawson and his colleagues.

Yours sincerely,

Graham Bannock

Conservative Research Department

32 Smith Square Westminster SW1P 3HH Telephone 01-222 9511

Director: ROBIN HARRIS

CONSERVATIVE TRADE AND INDUSTRY COMMITTEE CONFIDENTIAL

Tuesday, 11th March 1986

Chairman: Michael Grylls

Speakers: David Andrews, representing the Land Rover management buy-out team plus colleagues

25 members present

Mr Andrews stated that the aim of the management buy-out option was to secure Land Rover's independence and financial viability. It was important that control should remain in the UK. A management buy-out would have three main advantages. It would build on established businesses. It would maintain the link with ARG, worth £20m a year to ARG (Land Rover was the biggest customer for ARG engines and they used ARG sales companies in Europe) Third, it would continue its franchise linkage with Leyland trucks.

Turning to the company's profitability, Mr Andrews said that Land Rover itself was on the turn. There had been a major rationalisation. The most recent half-year results showed a profit of £5.7m (up on the 1984 result of £2m). Sales in 1985 increased by 26 per cent and for the first time exceeded £500m. Land Rover dominated the UK four wheel drive market despite a strong Japanese challenge.

The company sold in most markets throughout the world. The USA was now a prime target for Range Rover which would be launched in 1987. They would be setting up a wholly owned company with 50-60 dealers concentrating on high income groups. Progress was being made and the company had had a good reception at the New Orleans Dealer Convention in February.

The 90 and 110 models had been introduced and were now firmly established. They had survived the MOD trials and Land Rover was seen as an acceptable producer for overseas markets. Range Rover product development was continuing. It occupied a unique niche and was experiencing sales increases of the order of 10-15 per cent a year.

As regarded the financial viability of the management buy-out option, Mr Andrews said that the demanding task of putting together a package in such a short space of time was a measure of confidence in it, confidence shared by four major institutions and a bank. A flotation was not feasible now. The aim would be to float - possibly in one or two years' time. Mr Andrews concluded by saying that he saw the need for an early decision, whichever way it went. The company was already begining to suffer in the market place would be damaged further if there were delays.

Mr John Ward asked why Land Rover did not have a bigger dealer network and why the company had not been successful in the past. Replying to the second question, Mr Andrews said BL had had money problems. In the 'seventies attention had been concentrated on cars. Furthermore during that period, the US safety and emission rules were subject to much change and the company did not have the engineering capacity to deal with this. It was a cause for hesitation.

Mr Tony Gilroy, managing director of Land Rover, said that the company had commissioned two independent market research reports on the US market. These, together with other assessments, showed the need to be selective about dealers. In America, once a franchise had been given, it was for life. It was expensive to buy dealers out, as Jaguar was now finding. The company had a good response with three good candidates for each franchise. Indeed the chairman of Porsche had said that Land Rover's was the right approach.

Mr Robert Atkins commented that one or two banks had suggested that following a management buy-out, Land Rover would last two or three years before needing to be bailed out. He asked about the possibility of a 49/51 split with GM and where Multipart fitted in. Mr John Moulton of Schroders Ventures, said that he had looked at the company in detail. If he had had to make a decision based on information in the press, he would not have gone ahead. But his team had examined a mass of information. As a result, he believed that the company could generate cash to reduce borrowings and fund all capital expenditure outlined in the corporate plan. This was based on the current use of cash. He felt that more could be squeezed out of the company when it was in the private sector. Under his plans, at flotation the company would have a further £50m and would be debtfree for the forseeable future, i.e. until the 1990s. Mr Moulton stressed that the company would be 'all right'.

Replying to the suggestion of a 49-51 split between GM and the management consortium, Mr Andrews said that this would defeat one of the group's primary objectives, namely to retain UK control. Furthermore he believed that GM only wanted Land Rover for its profits and its cashflow. He was not clear how the proposal as mooted would fulfil either the group's or GM's aims. He suspected GM's motives over Freight Rover. On Multipart, there would be a difficult practical problem if the bus business was hived off. At the moment no-one was working on a solution to this problem.

Mr John Taylor declared his support for the management's package but asked whether it had the goodwill of employees. He understood that the unions were hostile to GM, neutral on the management initiative whilst preferring the status quo. Mr Andrews said that he was not in a position to test opinion in a formal sense and Mr Gilroy said that it was difficult to get to know the views of the workforce. The trade unions were on the horns of a dilemma as the Labour Party wanted Land Rover to remain part of a nationalised BL. Mr George Simpson, managing director of Freight Rover, said that for his employees the GM option meant the dole. They were giving their wholehearted support.

Mr Tony Marlow asked four questions concerning the mix of risk capital as opposed to secured loans in the proposals, productivity, Land Rover's markets and the link between Land Rover's profitability and the dollar. Mr Moulton said that he could not divulge details of the financing of the package at Hill Samuel's insistence. He did say that the company would have more equity than before. Hill Samuel's decision was unfair and had made life more difficult.

Mr Gilroy said that no money had gone into Land Rover during the period 1971 to 1983 and none had gone into Range Rover from 1970 to 1981. Market share had declined. Now it was increasing, and was at its highest level since 1975. These increases were being matched by other succeses around the world. He criticized GM for suggesting that Range Rover could be sold through its truck outlets, and believed that Land Rover's approach was more appropriate than GM's.

Last year, twelve factories had been closed and for two successive years productivity had grown by 13 per cent. Despite the closures, only 50 man weeks had been lost due to industrial relations problems. The company's current exposure to the dollar was small. They could export at £1=$2. Nevertheless, it was not critical to the survival of the company. Mr George Simpson said that his company had raised its UK market share from 8 per cent in 1984 to 14 per cent in 1985. Productivity had increased by 60-70 per cent whilst Freight Rover had increased the number of people it employed.

Mr Anthony Beaumont-Dark asked about the possibility of Aa GM minority share holding which what he believed would be a spoiling tactic. Mr Andrews said that he doubted why GM had to buy Leyland Trucks if they had all the resources they appeared to have. They wanted Land Rover as a 'cash cow'. Mr Moulton, referring to the suggestion of a GM minority stake, said that there would be a practical problem to get GM to agree within the necessary timescale. Negotiations would be extremely complex and on GM's part they would require too much time. Mr Beaumont-Dark said that it was important for the management team to stress the benefits of being individualistic and said that they had many friends.

Mr Robert Adley spoke of the support of companies involved in distributing Land Rovers for the buy-out option. He personally wished them well. Mr Channon had talked of packs of information being made available to interested parties. It would appear that the managment team had not received co-operation. Had they been obstructed? He felt it was important to allay the political fears amongst colleagues who thought that they would be taking a chance with a 'bunch of nice chaps' as against GM. He would support them wholeheartedly. Meanwhile Mr Andrews and his team should do everything they could to say whether GM had had an unfair advantage.

Mr Moulton stressed that it was unusual to be asked to put together a bid in a couple of weeks. The Hill Samuel pack could have been better but he understood that they wanted all participants to have the same information. He wouldn't put it any harder than that. Instead the major consideration had been the time factor.

Mr Timothy Rathbone argued that the choice was not, as Mr Andrews had said, about Britishness but between a known and successful company and unknown and potentially successful team. He believed

that politicians would be attracted to the former. He thought that Land Rover's US dealer network of 50-60 was an admirable but David-like approach. Mr Andrews said that the position on US distribution had been arrived at after extensive research. It would not be the final shape or size of the network but it was important that the dealers made money from it. He would hope to build on that initial approach. It was important that Land Rover did not diffuse its effects on day one.

Mr Rathbone suggested that a better approach might be to go state by state. Whilst he could accept that Land Rover was doing the right thing in its present circumstances. GM would radically alter that. Surely with a strong link with GM, the advice would be different.

Mr Andrews replied that General Motors had previously agreed with the approach that Land Rover had embarked upon. Mr Gilroy spoke of Land Rover's high market perception in the US. They could sell 3000 units a year which would give each dealer 50 a year, the same as for the UK. Mr Simpson said that his management had displaced GM's in the marketplace with higher local content, greater profitability and better industrial relations. This reflected better management.

Mr Ken Warren suggested that the Treasury would favour the GM bid if it £100 m higher then the management buy-out option and asked about the suggestions that the management had been stifled in December. Who had done this? Mr Andrews said he had approached the BL chairman who had put it to the board. Mr Warren suggested that he should have asked the Secretary of State. Mr Andrews said that he had written to a senior minister in January but had received no reply. He felt that these matters were sensitive. On the question of a higher GM bid, he pointed out the continuing £10m contribution to ARG.

Mr Robert Adley said it was a pity that British companies couldn't emulate Saab Volvo who whilst having a small domestic market were very successful. Mr Andrews said he was confident that his team could do the same thing for Land Rover.

Rupert Darwall
12th March 1986

cc J. Wiggins

4

SECRET
NAMED DISTRIBUTION ONLY

Prime Minister

This was the deal worked out over the week-end.

DKS
18/3.

LAND ROVER LIMITED (LRL)

THE DEAL ON OFFER

GM agree in principle to the creation of a "Land Rover Holdings" company which would exercise control over certain critical aspects of Land Rover's activities.

2 Land Rover Holdings would hold 51 per cent of a separate class of share ('A' shares) in Land Rover Ltd, the operating company. UK interests would hold the majority of 'A' shares with GM holding the balance. GM would own all 'B' shares in Land Rover Ltd (giving them all, or substantially all, the profits).

3 The 'A' class (i.e British) shareholders would have power to veto any proposals by Land Rover Ltd dealing with:

(a) the UK as the principal location of manufacture of Land Rover vehicles;

(b) the UK as the principal location of R&D for Land Rover, particularly new model development;

(c) matters which would lead to a significant change in the level of UK content in the vehicles produced.

There would also be agreement that LR would 'consult' Land Rover Holdings on its future plans.

4 The Board of Land Rover Holdings would be apponted by UK interests and would include suitably prominent UK citizens.

COMMENT

5 The above gives real UK control over those issues of the business which have been the subject of criticism - where the R&D is carried out, where the vehicles are built and the level of UK componentry in the vehicles.

Land Rover Holdings would exist for at least 5 years; this is still being negotiated with GM and could be for a longer term perhaps related to the achievement of quantified targets agreed between HMG and GM.

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SECRET
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6 GM insist they cannot go further. Present proposals already represent a major compromise on their commercial freedom:

- normal GM practice is to operate an integrated 100 per cent-owned management structure
- they need freedom to integrate Land Rover with their total sales, manufacturing and technical operations
- this integration is not possible when independent parties have a wide-ranging voting majority
- financially, the improvement in performance seen for Land Rover is generated primarily by the resources GM bring to it.

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Secretary of State for Trade and Industry

PS/

CONFIDENTIAL

17 March 1986

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

Dear David,

BL

Since my Secretary of State saw the Prime Minister earlier today there have been a number of developments.

2 This afternoon my Secretary of State and the Chancellor of the Duchy met Mr Stempel. As a result of this discussion it was agreed that officials and representatives of GM and BL would meet overnight to take forward negotiations as urgently as possible. The basis of these negotiations - agreed in concept rather than with any legal precision - is that GM will take a substantial minority voting stake in Land Rover (probably 49 per cent) with UK financial institutions holding the balance of shares. Land Rover would have its own Board on which UK members would form a majority. Operational management would rest with GM.

3 Consideration is being given by officials to limiting the maximum percentage of shares to be held by individual UK investors and also to GM's views on when shares held by UK investors can be purchased by GM. GM have, however, noted that they will wish to see a reconsideration of the price so far negotiated for the purchase of Land Rover Leyland as a whole.

4 My Secretary of State has asked me to emphasize that these are difficult issues to resolve and that neither side is committed either in detail or in general to the principles noted above. Indeed, considerable technical difficulties remain

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and some hard negotiations on price will be necessary before the deal is in any shape to put to colleagues. It is also worth noting that GM is likely to take control of the company after an initial - at present undefined - period.

5 My Secretary of State intends to make a brief oral report to MISC 126 tomorrow. He does not, at this stage, think it wise to go into the detail of the discussions nor have I copied this letter to any other Minister.

Yours sincerely,

John Mogg.

J F MOGG
Private Secretary

1786 1986 BOARD OF TRADE BICENTENARY

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3

PRIME MINISTER

BL

The letter below gives a very brief statement of where things now stand with GM. It leaves open many important questions - for example, how Landrover would have a Board of which UK members would form a majority, and yet operational management would rest with GM. Clearly there is a great deal to be done on the proposal, and the meeting tomorrow should not expect to tie Mr. Channon's hands in negotiating it.

Mr. Channon will want to open the meeting by describing the position on his discussions with GM. But if he does not offer to do it, he should also describe the position with the other bidders, including Lancashire Enterprises and, particularly, the management buy-out, which has disappeared into the background in the present discussions: you will remember that at last week's meeting of MISC 126 the possibility of GM taking a minority interest with the management buy-out was a front runner.

During the discussion I suggest that you should try to bring Mr. Biffen in. It would be better to have his views in the open than to face his covert opposition, if that is what it is.

Consistently with not tying Mr. Channon's hands, you might try to get the Committee's agreement to the following propositions:

(i) any deal has to leave the Government in a position to be able to say that Landrover is staying British. The deal outlined by Mr. Channon offers the prospect of that and is worth pursuing further, urgently, with GM;

/(ii)

(ii) permanent British ownership of Landrover cannot be guaranteed. But the circumstances in which ownership might change need to be explored further. Mr. Channon should seek to avoid any politically difficult mechanistic or inevitable formula which would lead to control by GM;

(iii) that as part of the above, the transfer of Freight Rover and Leyland vehicles to GM, subject to satisfactory undertakings, would be politically acceptable;

(iv) that a package on these lines could be recommended to Cabinet as defensible both industrially and politically.

This may be too much to hope for. Mr. Fowler is likely to object to the transfer of Freight Rover. If a choice has to be made, it would seem better to concentrate on Landrover, leaving Freight Rover to be discussed at the next meeting. Mr. Fowler will find it increasingly hard to stand out against the deal as a whole if the Landrover part of the package can be settled satisfactorily.

If the Committee are drawn into discussion of more detailed aspects, one way of avoiding a mechanistic change of control would be for control only to change if British financial institutions were not willing to subscribe their share in any future exercise to raise further capital. This safeguard could, if necessary, be further buttressed by a golden share for a fixed period, say, five years, as with Jaguar.

Timetable

DTI officials resume negotiations with GM at noon tomorrow and are likely to be meeting for the rest of the day.

/You could

You could tell the Committee that the timing of the next meeting of MISC 126 will depend on the progress of those discussions. But one would be needed on Thursday if it seems possible to conclude discussions by Easter.

I am keeping in touch with DTI about the possibility of another meeting of the smaller group on Tuesday night or Wednesday.

Line to take with the Press

You will want to re-emphasise to the Committee the need to maintain confidentiality about the discussions. The line to take with the press might be much as last time:

> "The Committee heard a further report from the Secretary of State for Trade and Industry about the progress of his discussions. They had a useful discussion. They agreed that some further points remain to be clarified with the bidders. No decisions were reached."

DAVID NORGROVE

17 March 1986

CO4ACO

CONFIDENTIAL

PRIME MINISTER

17 March 1986

MISC 126

The possibility of GM taking a minority holding in Land Rover, but all of the two problem areas of Freight Rover and Leyland Trucks, is good news. If Land Rover is indeed the jewel in the crown, then it will generate cash and never need the extra funds that will give GM the opportunity to increase their holding. On the other hand, if it is not a success then it will quickly need new funding, and GM will rightly take control.

There will be inevitable accounting difficulties on transfer pricing, use of the US franchises etc, but these should be superable - although it may be necessary to make provision for some independent arbitration. Greater difficulty could arise through Land Rover's use of common GM services such as marketing, production technology, and particularly R&D. If the full opportunity of Land Rover is to be exploited, it is essential that the big company benefits that GM can provide are made available to Land Rover. An agreement will therefore be necessary on how such common services can be charged out.

Much of the incentive for GM comes from the prospect of being able to take control of the company, so it will be essential that an issue of new shares for extra funding cannot be blocked. The counterpart is that there must also be an agreement on dividend policy. The British shareholders must have the assurance that they will get a fair return from their investment; but obviously the higher the return they seek, the greater Land Rover's need for new cash will be, and therefore the more quickly GM shareholdings will grow.

Because of the restrictions that will be placed on the shares, it is unlikely they could be listed on the Stock Exchange, therefore there can be no true market in the shares. This means that special arrangements will be necessary to determine the price at which shares can be sold and new ones issued.

On the assumption that the shares will initially be divided something like 60:40 between Britain and GM, the following questions arise.

1. Should it only be British financial institutions that can subscribe, or should industrial companies be allowed to participate? [Yes]. Should the employees be encouraged to buy shares? [Yes]. And should BL retain an element? [No, this defeats the object of the exercise.]

2. Should all the shares be ordinary or should, say, 10% be convertible into debt at GM's option in, eg 4 years' time? [Probably]. Should more than 10% be convertible? [No]

3. Should the British shareholders be prevented from reselling? [Yes, for at least 3 years.]

4. When new funds are required, should all shareholders have the right to subscribe to new shares, or just GM? [All shareholders, more funds may be required either because Land Rover is doing badly, or because Land Rover is doing so well that it needs to invest, for example, in new production facilities.]

5. Should GM have the right compulsorily to buy shares from the minority holders once it has gained 75% control? [Yes, it needs this carrot, and the minority could be obstructive, like BL's minority shareholders.]

6. Could GM gain the right to subscribe the new shares by, for example, the achievement of sale targets in the US? [Possibly, if an extra carrot is needed.]

Peter Warry

PETER WARRY

CC B/UP

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PRIME MINISTER

Future of Land Rover Leyland

BACKGROUND

MISC 126 is meeting at noon on 18 March to hear an oral report from the Secretary of State for Trade and Industry on his negotiations with GM and the options now opened to the Government.

2. The underlying facts are essentially as reported in the Secretary of State's two papers considered at the Group's last meeting on 13 March (MISC 126(86) 4 and 5). The main arguments as set out in my brief for that meeting remain broadly valid.

3. GM have now offered a device in the form of a holding company which would give UK interests a veto for a limited period of years over any proposals to move the principal location of manufacture and the principal location of R & D for Land Rover away from the UK, and which would significantly reduce the UK content of Land Rover vehicles. Apart from this concession, which in reality is no more than a strengthening of the previous assurances, the GM position is that they are offering the whole Salton deal or nothing. There remains, however, some possibility of a last minute change of heart on GM's part (see

postscript below).

MAIN ISSUE

4. As things now stand, the Government's options are

i. The whole Salton deal, subject to the GM concession; or

ii. the Schroders/management buy-out of Land Rover and Freight Rover only; or

iii. retention of Land Rover and Freight Rover (alongside Austin-Rover), with a view to privatisation of all the BL light vehicle operations as soon as possible.

5. Even with the above concession, the GM deal carries the political costs of sale of Land Rover to a foreign purchaser, together with the almost inevitable closure in the medium term of Freight Rover. Land Rover would still end up in 100 per cent US control.

6. The management buy-out means the creation of a company doubtfully strong enough to provide the resources needed for product development and world-wide marketing. Leyland Trucks then remain in Government ownership, with a prospective cash requirement over the next five years of at least £120 million, which would add to the sums outstanding under the Varley-Marshall assurances. Meanwhile the future of GM's Bedford Truck and Van operations in South Bedfordshire would remain in question, with closure or increasing dependence on Japanese designs and components both strong possibilities.

7. Retention of Land Rover/Freight Rover alongside Austin-Rover would offer the possibility of a stronger UK company in a year or so's time, if the Austin Rover relationship with Honda prospers. But the problems of Leyland Trucks and the future of Bedford remain.

8. The crucial question thus facing Ministers is whether the political need to avoid the sale of Land Rover into 100 per cent US ownership is such as to override the other advantages of the Salton deal; and if it is, whether it would be better to go ahead now with independent privatisation of Land Rover/Freight Rover or to work towards a future privatisation of all BL's light vehicle operations.

HANDLING

9. The Secretary of State for Trade and Industry will wish to present his report on his talks with GM. All the other members of the Group will wish to express their views on the options as they have now emerged.

10. Failing a last-minute concession of real substance by GM, the Government have to decide whether to accept the Salton deal, in which case a very early announcement would be essential. If the Schroders' bid were accepted, again there would be advantage in an early announcement, in order to maintain the momentum of the establishment of the independent company. Equally, if Ministers decided to retain Land Rover/-Freight Rover alongside Austin Rover, an early announcement of that approach would also be desirable, in order to reduce uncertainty.

11. If the issues are not clearcut, and particularly if GM were to come up with some significant new proposal, some delay in any announcement would seem inevitable. In that event it would probably be as well to make clear now that no decisions would be taken until well after Easter.

CONCLUSIONS

12. If there are no further concessions from GM, you will wish the Group to reach preliminary conclusions, subject to consideration by the Cabinet on 20 March, on

i. whether to go ahead with the Salton deal; or, if not,

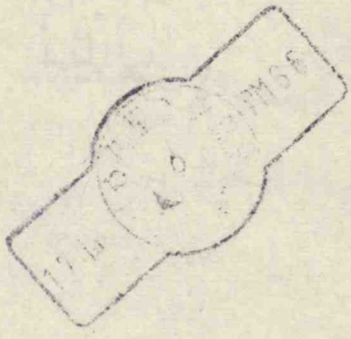
ii. whether to privatise Land Rover/Freight Rover now as an independent company or to retain these operations alongside Austin Rover with a view to later privatisatio of all BL's light vehicle operations.

J B UNWIN
Cabinet Office
17 March 1986

PS There are later reports of GM willingness to accept a UK majority shareholding in Land Rover (but not Freight Rover), with GM retaining management control (which would almost certainly mean no place for the present management). But it is not clear whether this also would only be temporary and it is difficult to believe that UK institutional investors would be ready to subscribe to any substantial amount in such an arrangement. However, if it were thought worth pursuing, a reasonable negotiating objective would be to insist that UK institutional shareholders could

subscribe new capital in proportion to their holdings. Conversely, to give GM preferential rights to subscribe new equity would be a clear pointer to eventual full US ownership. It is not clear whether GM would be ready to concede on this point, but it could properly be put to them that they would still have from the overall deal the advantages of 100 per cent control of the rationalisation of vans and trucks together with substantial participation in future world wide profits from Land Rover/Range Rover.

JBU



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London SW1P 3HH

Prime Minister 4
DHS
14/3

Release Time:

RT HON NICHOLAS RIDLEY MP

1200 hrs, Saturday
15 March, 1986 131/86

Extract from a speech by the Rt Hon Nicholas Ridley MP (Cirencester and Tewkesbury) Secretary of State for Transport, to the West Midlands Young Conservatives Association on Saturday, 15 March, 1986

I quite understand people's concern about the possibility of Landrover being sold to General Motors. People believe it is the only success story in our rather less successful indigenous car industry - British Leyland. There is something a little depressing about BL. Since Tony Benn "created it", amalgamating a number of good British companies quite unnecessarily, it has lost fortunes. It has cost every family in the land £200 in extra taxes. It cannot get its market share up. But at least we have got Landrover, people say - a world beater. I quite see that that leads people to object to a possible sale to an American Company.

But these propositions need examining a little closer. First we have no need to be ashamed of our industrial record since 1979. These figures are so startlingly good that if one had forecast them in 1979 one would have been laughed out of court:

Productivity in Manufacturing

up 29% since 1980

Manufacturing Investment

up 31% since 1981

/... Manufacturing Exports

Printed and published by Conservative Central Office, 32 Smith Square, London SW1P 3HH

Manufacturing Exports by Volume

up 21% since 1983

Industrial and Commercial Company Profits (excluding North Sea Oil)

up 75% since 1980

That is a startlingly good performance to set alongside Leyland's less successful performance.

Nor in fact has Landrover been as successful as is generally thought. In the latest year for which figures are available, Landrover UK lost, after interest, £3.9m, £3.7m before tax. It has no sales in the US, which is the world's biggest market and has less than half of the UK market. There is enormous scope for improvement - more sales, more jobs, more profits. It is Landrover's future that matters - how to give it the opportunity for gaining market share and expanding. That should be the criterion on which we should decide its future. People who share my concern to see less unemployment should judge on the basis of what is the best future for Landrover.

And finally we should not be alarmed by foreign ownership. We have as a nation overseas assets of £73.5bn having purchased masses of companies in other people's countries. Equally, foreigners have invested heavily here - but not so heavily as we have invested overseas. I read in the Birmingham Post recently that here in the West Midlands there were about 470 foreign owned firms, employing about 80,000 people. The US is the largest investor, owning more than 160 of those companies. Surely we welcome these companies and the jobs they bring? It is a compliment to us that they come here.

The Government is currently evaluating the offers that have been received, to see which is likely to be the best for Landrover and BL. But I really don't think we should decide the future of British Leyland on the basis of disliking American ownership. We should decide on what is best for jobs and expansion.

END.

PRIME MINISTER

LINE FOR USE AFTER MISC 126

You suggested a line to take after this morning's meeting of MISC 126:

"The Committee heard a report from the Secretary of State for Trade and Industry about his further discussions with those who had expressed an interest in bidding for parts of Landrover Leyland. There was a useful discussion. No decisions were reached. ~~The possible bid from the Lancashire Enterprises Ltd. and the West Midlands Enterprise Board has yet to be received, and~~ the Committee agreed that further discussions with the ~~interested parties~~ would be needed."

You may like to read this out to the Committee and get their agreement that this will be followed.

DLN

David Norgrove

13 March 1986

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Secretary of State for Trade and Industry

12 March 1986

PM saw today 13/3.
DRW

D R G Andrews Esq CBE
Gainford
Mill Lane
GERRARDS CROSS
Bucks
SL9 8BA

Dear D. R. G. Andrews

Thank you for your letter of 3 March 1986 about the Land Rover management Group's offer to acquire the Land Rover group of businesses. I am replying also on behalf of my Ministerial colleagues here to whom you have written similarly, and to your letter of 22 January to the Prime Minister, to which a reply is well overdue, but was overtaken by the various turns of events with which you will be familiar.

I was very pleased to have the opportunity to meet you and your Schroders Ventures colleagues on 10 March, and to discuss your proposition. I am also grateful for the speed with which you sent in the useful supplementary information in Mr Moulton's letter of 10 March. As you know, we and BL and our advisors are assessing the situation as rapidly as we can, with a view to an early decision, and we are glad of your support for the view that that is needed. My colleagues and I are determined to seek the best outcome, taking account of the interests of all the businesses involved and the paramount need to maximize, in the medium term and beyond, UK production and employment in the commercial vehicle industry and in those depending on it.

Thank you again for coming to see me earlier in the week.

PAUL CHANNON

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Secretary of State for Trade and Industry

12 March 1986

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PS/Mr Morrison
PS/Secretary
Mr Whittingdale
Mr Mountfield
Mr Cochlin V
Mr Meadway V2 (0/F)
Mr Brown V1
Mrs Bell V2a
Mr Webb Inf

The Rt Hon David Steel MP
House of Commons
LONDON
SW1A 0AA

VBSN

Dear David

Thank you for your letter of 25 February about the future of Land Rover.

As I have emphasized in the House on a number of occasions, before coming to any final conclusions on the future of BL the Government wish to consider all the options. The BL Board therefore, notified those companies that have expressed an interest that declarations of a firm intention to bid should be made by 4 March. This was not a deadline for completion of negotiations but the Government are determined to resolve this issue very speedily to avoid further commercial damage to the businesses involved. I know that this need for a quick decision is supported by David Andrews. I do assure you that proposals from all interested parties, including the management of Land Rover, will be considered on their commercial merits in relation to the future of BL as a whole.

Both the Government and BL recognize this is an uncertain and worrying time for the workforce, I know BL are doing their utmost to keep them informed of the position reached in negotiations. Peter Morrison is also meeting trade delegations to explain the position and to take note of their views. In this way I can assure you that the views of management and employees are being ascertained and will be taken fully into account before reaching any final decisions.

You also ask who initiated the talks between General Motors and BL. As part of the agreed policy of the BL Board and the Government continuously to review all options and opportunities to strengthen

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1786 1986 BOARD OF TRADE BICENTENARY

the company's businesses, the Government made a preliminary approach to General Motors in mid-1984 to establish whether, in principle, they would be interested in exploring with BL the possibility of a joint approach to the problems of the UK commercial vehicle industry. Following detailed studies carried out by the two companies, it was agreed in the autumn of 1985 that substantive talks should begin directed at the possible acquisition by General Motors of various part of Land Rover-Leyland. I should emphasize, however, that no decision has yet been taken and all firm offers are now being appraised carefully.

Finally you mentioned talks between Ford and Fiat. The Government is not directly involved in these discussions although Ford has notified the Government of discussions that it has been having with Fiat about a possible joint venture in the truck sector. I understand that no decisions have yet been reached and it would be for the companies to make any announcement of their joint plans.

Yours,

PAUL CHANNON

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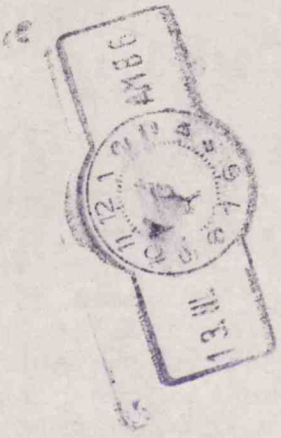

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Schroder Ventures

STRICTLY PRIVATE & CONFIDENTIAL

The Rt. Hon. Margaret Thatcher, MP
10 Downing Street
London SW1

Regina House
5 Queen Street
London EC4N 1SP

12th March 1986.

Fm Misc 126 JMo

Dear Prime Minister,

Land Rover

I attach a copy of a letter to the Secretary of State for Trade and Industry which presents a summary of the case for the management buy-out.

Yours faithfully,

J P Moulton
Managing Partner

Tel 01-382 6000 Telex London 885029 Facsimile 01-382 6913
Cables & Telegrams Schroder London EC2

Schroder Venture Advisers
Partners: Jon Moulton (Managing), Andrew Marchant,
Charles Sherwood, Schroder Ventures Ltd

Schroder
Ventures

Rt. Hon. Paul Channon MP
Secretary of State for Trade & Industry
1-19 Victoria Street
London SW1

Regina House
5 Queen Street
London EC4N 1SP

11th March 1986.

Dear Secretary of State,

LAND ROVER

A number of people have strongly suggested to us that we should write to you (and, by copy, to your colleagues in the Cabinet Committee) to put the case more fully for the management buyout. This letter is our response to those suggestions.

FINANCING

There is a concern that the buy-out will be inadequately funded to provide for the future needs of the business.

We have reviewed, along with the related business assumptions, the profit and cash flow projections for the business in considerable detail. The projections adopted for the purposes of raising finance for this transaction are after making such adjustments as we believe are necessary to construct a conservative and highly credible set of projections. Based upon those projections and the financing now contemplated, the company will fund all of its planned capital and development expenditures and at the same time reduce its level of debt substantially in the first three years.

The present management team have only been together in the business for a few years and their actions have greatly improved profitability and cash flow in a relatively short time. The projections are based upon the continuation of this record.

Assuming that the projections are achieved, it should be possible to list the company in the next two years or so and it will then be our intention to raise something around £50,000,000 of new money for the business. This would leave the business essentially debt-free and very well able to deal with its forseeable cash needs at that stage.

Perhaps the simplest way that we can demonstrate the adequacy of funding is that four major investors committed £40,000,000 of equity in very short order. Approximately £8,000,000 of this equity will be used to reduce the present gearing of the company.

contd\..

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Schroder Venture Advisers
Partners: Jon Moulton (Managing), Andrew Marchant,
Charles Sherwood, Schroder Ventures Ltd

LINKAGES WITH BL

An area which bears upon the financial attractiveness of our offer is that we will be continuing to buy goods and services from, and to distribute products through, BL. We estimate that the contribution to BL on this business is about £20,000,000 p.a.

FREIGHT ROVER

We have been asked why Freight Rover should form part of our offer.

It would be very difficult and expensive to separate Freight Rover from Land Rover. Engines, gearboxes and other components are supplied to Freight Rover from Land Rover and body pressings are supplied from Freight Rover to Land Rover now that Land Rover no longer has any press facilities. There is also commonality in both design and distribution of Freight Rover and Land Rover products.

Freight Rover is currently generating attractive returns and employs approximately 1800 people. We believe that if General Motors acquire this operation, its very existence would be threatened.

DISTRIBUTION

The view that the marketing strength of General Motors, particularly within the United States, will provide a better platform for Range Rover sales in that market is erroneous.

1. General Motors have previously indicated that they agree with the management's strategy for a dealer network in the U.S.and indeed Cadillac, a division of General Motors, turned down the opportunity to distribute Range Rover in 1985.

2. The management's belief, supported by all U.S. and European professional and motor industry advice, is that a new dealer network of about 60 dealers should be set up to service the US market effectively and enable dealers to earn adequate returns.

3. General Motors current plan is to sell Range Rover through their light truck and Buick outlets. The Range Rover is an exclusive niche product needing a specialised dealer network in the Jaguar/Porsche mould.

4. A European distribution agreement between Freight Rover and another major European producer is at an advanced stage of negotiation. This represents a major opportunity for the business.

contd\..

TECHNOLOGY

It has been stated that an independent Land Rover will suffer from inadequate technological resources whereas General Motors' engineering resources are unmatchable.

The plan produced to the financing institutions provides for £114 million of revenue expenditure on product development over the 5 years to 1990.

The two vehicle companies possess all the essential core engineering skills appropriate to their market requirements. These are extensively supplemented by the engineering development of key suppliers of bought-in components and by specialist work undertaken by external research and development organisations, including BL Technology Ltd. There is no need apparent for further technological input.

WIDER SHARE OWNERSHIP

The management buyout involves the offering of a 10% share in the business to the 9,900 people who work there, and a commitment by the institutions and management to extend ownership to the public at large on a flotation.

OPTIONS INVOLVING COOPERATION WITH GENERAL MOTORS

We believe that joint ventures and deals where GM take a minority stake in part or all of the business are not commercially attractive. In any case, we doubt that negotiations on these options could be concluded in less than several months.

There is, however, some useful scope for collaboration on products and markets with Bedford in the van market and we have offered to discuss such collaboration.

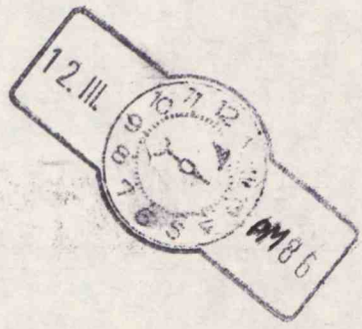
GENERAL

We believe that a decision on the future of Land Rover should be made as soon as possible. Customers and employees are looking for a rapid conclusion to the negotiations.

We would be delighted to provide you with an expansion of the above or to discuss further issues if you should so desire.

Yours truly,

Jon Moulton,
Managing Partner.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PRIME MINISTER

Future of Land Rover Leyland
MISC 126(86)4 and 5

BACKGROUND

The Group has two new papers. MISC 126(86)4 provides further information about the financial performance and prospects of all the BL businesses involved, together with Bedford vans and trucks, and surveys the recent performance of the European commercial vehicle industry and the market prospects for vans and trucks in the UK and Europe. MISC 126(86)5 assesses the alternative proposals received by BL.

Financial Performance and Prospects

2. The first paper shows that the European van and truck industry has faced a difficult five years, and holds out little prospect of major improvements between now and 1990. It also shows how much worse the UK industry has done than its continental competitors, despite the fact that the fall in the UK truck market between 1980 and 1985 was only about 10 per cent, as against 15 per cent in the European truck market. Import penetration of the UK van market increased from 24.5 per cent to 36 per cent over this period, and of the UK truck market from 21 to 37 per cent. The export performance of the UK industry was even worse, with the result overall that UK production of vans has fallen by about 45 per cent since 1979, and that of trucks by about 60 per cent. Meanwhile although the production of Land Rover and Range Rover has remained broadly flat since 1980, their share of the UK market has fallen from 64 per cent to 42 per cent (largely through Japanese competition).

3. The financial picture is equally depressing. Following several

1.3m

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years of substantial losses, borrowings attributable to trucks and buses amount to £320 million (of which trucks nearly £200-260 million), and those attributable to Land Rover and Freight Rover to a little more than £80 million. On current projections, Leyland Trucks are expected to return to operating profit in 1987, but remain in (relatively small) cash-flow deficit to the end of the decade. In so far as these (or any other vehicle manufacturers) forecasts can be trusted, the outlook is, however, better than that of Bedford; both the manufacturing capacity and the vehicles themselves are of good quality, and Leyland are at least holding their market share in the UK, while Bedford's is falling. Land Rover is forecast to have positive profits and cash-flow throughout the remainder of the decade, but this is before any allowance for the (expensive) establishment of a US marketing operation and may not allow enough for product development in later years. Freight Rover is projected to remain in profit until 1990, but at a declining level.

Alternative Proposals

4. The evaluation of the proposals contains nothing really new. The conditions attaching to the £76 million note offered by GM seem to have been significantly improved. This confirms the commercial superiority of the GM bid. The Schroder/Management buy-out proposals (which exclude Leyland Trucks) would have a high gearing, with equity accounting for only about 30 per cent of the initial balance sheet. Although the business forecast shows a positive cash-flow, which if achieved would make it easier to raise additional equity to finance product development, the Company would not start out from a position of strength. It is not clear how the Lonrho bid (which excludes Trucks and Freight Rover) should be judged; large demands have been made for additional information, which would in any circumstances be difficult to satisfy quickly. Aveling Barford's bid (for Land Rover only) makes little sense, since it seeks to separate Range Rover from Land Rover despite the integrated manufacturing facility. Lancashire Enterprises Limited and the West Midlands Enterprise Board have been given until 14 March to declare their hand; it seems inconceivable that they could prove serious contenders.

5. Not surprisingly, therefore, the BL Board's preliminary preference - they have yet to take a firm decision - remains for the Salton deal. Given the Board's legal duty to act in the best interests of the Company, a Government decision in favour of disposal arrangements at prices totalling less than the £230 million offered by GM would clearly create problems. Furthermore the lower the price at which the businesses are sold, the larger the eventual debt write-off (effectively in favour of Austin Rover) will have to be. This could add to the difficulty of securing EC Commission approval for the write-off under the State Aid Rules (discussed in paragraph 15 and 16 of the paper).

MAIN ISSUES

6. The main issue is how to carry the decision-taking process forward. The Trade and Industry Secretary does not give any indication of the GM response to the suggestion that Land Rover should be separated out from the deal and retained in majority UK ownership. This is crucial. GM seem to have resisted any suggestion that the terms of the deal should be varied. Mr Channon will therefore need to know how far he should press GM to accept an alternative solution for Land Rover: should he insist on this to the point of total breakdown of the GM deal?

7. The choices open to the Government appear to be as follows:

(a) The GM deal as hitherto proposed

This remains the best deal from the standpoint of BL's commercial interest and that of future overall employment in the UK van and truck industry. But it carries with it the political costs of foreign takeover of Land Rover, and the shut-down of the profitable Freight Rover plant in Birmingham.

(b) Management buy-out of Land Rover with GM taking the rest

The proceeds from this would probably be some £100 million

less than in the alternative case. It is also uncertain whether GM would accept it. They would almost certainly insist on Freight Rover remaining part of the deal with them, since vans are relatively more important to them than trucks. So although this solution would deal with the political problem of Land Rover, it would still be likely to result in the eventual closure of Freight Rover. These problems would remain if GM participated in an independent Land Rover operation; but in that event there would remain the difficulty of GM and the present management effectively competing for control.

(c) An independent Land Rover/Freight Rover, and no GM deal

It would clearly be preferable for GM to take over Leyland Trucks, whatever the solution for vans. But there must be a risk that refusal to contemplate 100 per cent sale of Land Rover to GM will scupper the whole deal. In that event, Leyland Trucks would either have to be carried on as an independent operation or closed. Meanwhile GM might either close their South Bedfordshire operations with a loss of 7,000 jobs, or at any rate rationalise them and rely more heavily on imported designs and components. If Bedfords were to close, the commercial future of Leyland Trucks might be somewhat improved, but much of the Bedford market share would no doubt be absorbed by increased imports. Leyland Trucks would inevitably face an uncertain future as an independent operation; with a continuing cash-flow deficit, Government-guaranteed borrowings would be likely to rise by £100 million or more over the rest of the decade.

8. The Group will thus have to consider whether the attraction of an independent solution for Land Rover warrants risking the collapse of the remainder of the GM deal if GM refuse to contemplate any variation in the Salton arrangements.

HANDLING

9. You will wish to invite the Secretary of State for Trade and Industry to present the issues to the Group, and to report further on his discussions with GM, and in particular to give his assessment of the likelihood of GM backing off if they were pressed. Thereafter the Chancellor of the Exchequer and the Secretary of State for Employment will wish to comment on the financial and employment aspects of the alternative courses open to the Government. The other members of the Group will all wish to express their views.

10. You will then wish to consider how the issues should be taken forward, and on what timescale. If the conclusion were that the original GM deal is likely after all to be the best bet, it would be desirable to secure the endorsement of the Cabinet for this on 20 March, followed by Parliamentary endorsement before the Easter Recess. If GM were to accept, within the next few days, the separation of Land Rover from the main deal (with or without GM participation in Land Rover), then the same timetable could be followed for the basic decision, although the precise details would no doubt take longer to negotiate. If, however, the conclusion were that the overriding objective is an independent future for Land Rover, even if this resulted in GM's withdrawal, an urgent decision would no longer be needed; the final decision could be taken when all the issues had been thoroughly explored and further talks held with GM and any of the other parties involved. The future of Leyland Trucks could then be reconsidered when the dust had settled.

11. The next step will be for the Trade and Industry Secretary to report back to the Group on his further discussions with GM. If a decision is to be taken, announced and debated in Parliament before the Easter Recess, he will need to report back on Tuesday or Wednesday of next week, 18 or 19 March, prior to consideration by the Cabinet.

CONCLUSIONS

12. You will wish the Group to reach conclusions on:

(i) The guidance to be given to the Secretary of State for Trade and Industry for his further discussions with GM.

(ii) A preliminary view on the likely timetable for final decisions, and

(iii) the lines to be taken in reporting the outcome of the Group's discussion to Cabinet tomorrow, and subsequently in response to further questions in Parliament.

J B UNWIN

12 March 1986
Cabinet Office

PRIME MINISTER 12 March 1986

BL

If a decision on the Land Rover-Leyland sale is to be announced and debated before the recess then Cabinet will need to decide on Thursday week. Three options are mooted:

1. All to GM: this is BL's recommendation and is manifestly the right commercial decision, and the one that does most to preserve jobs and industry.

2. GM minority holding in Land Rover: even if GM are prepared to go along with this there are real difficulties:
   - GM will still require management control which may not satisfy the critics.
   - If the price is less than GM's £200m+ BL will not recommend the proposal. But if the price stays at £200m+ then the management buy-out would have to pay virtually the same as they originally offered but get only half the business.
   - If a lower price were accepted this would necessitate a larger injection of funds from HMG which would make it still more difficult to obtain EC approval.
   - The complexity of the arrangements would considerably extend the timescale, and therefore the risk. The buy-out may not be able to raise the capital in the new circumstances.

3. GM just buy Trucks: even if GM were to agree to this the BL Board still have to be persuaded to accept the much lower bid from the management buy-out.

To go for an option that GM ultimately refuse would leave Leyland Trucks on our hands and therefore undermine the whole purpose of the negotiations. The BL Board would no doubt make capital out of the situation, and the DTI's

credibility following such a U-turn would be very low. Such a reversal of a sensible industrial policy could create not just lasting problems for the DTI but for the Government as a whole.

It is therefore essential that Paul Channon establishes GM's bottom line quickly. (GM's approach to David Young probably had more to do with them ascertaining HMG's bottom line than indicating any greater flexibility on GM's part). Once their line is established then Roger Smith, GM's Chief Executive, could appear before MISC 126 in person to remove any doubts.

The recent decision on Vickers Shipbuilders has usefully established the Government's preference for employee buy-outs and makes it is easier to reject the Land Rover management buy-out without undermining the whole policy in this area. There are, in any event, three crucial differences between Vickers and Land Rover.

a. British Shipbuilders is a nationalised industry whereas BL is a public company. The Government cannot instruct BL's Directors, nor apparently can HMG vote its shares in such a situation.

b. Vickers was an employee buy-out with 20% to 25% of the equity going to the employees, whereas Land Rover is basically a management buy-out which will retain much less of the equity.

But a part of the shares will be offered to employees.

c. The buy-out price is some 35% lower than GM, but was only 15% lower for Vickers, where there were also other offsetting considerations.

Agenda for MISC 126

The meeting of MISC 126 should be planned in the expectation of leaks. There is a choice between attempting to get

provisional agreement to a GM deal subject, for example, to GM accepting a minority holding in Land Rover, which PC would then try to negotiate. Or delaying detailed discussion of the GM proposal until PC has had a chance to establish their bottom line. On balance it is probably best to avoid a further debate on GM in the absence of any real facts. We therefore feel the meeting should:

1. Discuss the performance of the individual BL and GM subsidiaries in the light of DTI's useful factual paper (especially annexes C-G). This should help dispose of many of the myths and might persuade some of the doubters.

2. Narrow HMG's short list of bidders down to just GM and the management buy-out (leaving open our position on Lancashire Enterprise). If this leaks, it will help show that HMG is treating the management buy-out seriously.

3. Instruct Paul Channon to establish GM's bottom line on:

   - just buying trucks
   - minority holding in Land Rover
   - assurances on UK content etc
   - future of Freight Rover
   - financing arrangements

4. Commence work on presentation, in particular persuade the component supply industry to make a favourable statement in the event that GM were to be successful.

Peter Warry

PETER WARRY

10 DOWNING STREET

From the Private Secretary

11 March 1986

We discussed the outstanding letters to Mr. David Andrews of Land Rover.

The Prime Minister had not in fact yet signed her reply to the letter from Mr. Andrews of 3 March. I suggest that your Secretary of State might reply to this, together with the letter from Mr. Andrews of 22 January.

David Norgrove

Miss Catherine Bradley,
Department of Trade and Industry.

MICHAEL

c.c. Mr Norgrove

Michael Grylls telephoned to say he had just come from a well-attended meeting of the Trade and Industry Backbench Committee where they saw representatives of the Land Rover Management Buyout Consortium.

Great concern was expressed because David Andrews, Chairman of Land Rover Group, had written to the Prime Minister on 18th January (and the letter was delivered by hand), to ask to be allowed to proceed with preparing the management buyout offer which was being delayed by the BL Board. He has not received a reply.

I have spoken to David Norgrove about this. But I think you should ask David what is the position.

Bowen Wells also rang on the same matter.

(Michael Grylls would like to talk to you about this 735 6297)

SHANA
11.3.86

MISC 126(86)4
MISC 126(86)5

CONFIDENTIAL

PRIME MINISTER 2

11 March 1986

BL

You asked how Austin Rover's £1.6b capital expenditure programme for the period to 1992 was to be financed. It is not quite as bad as it sounds because most of the money comes from depreciation. Profit is always calculated after allowing for depreciation, so in effect each year's depreciation provision is money that is available and set aside for use, normally against future capital expenditure. Very crudely whilst Austin Rover's capital expenditure over the period is £1.6b their depreciation provision is £1.3b. They therefore only need £300m of new money.

The £300m comes mainly from additional borrowings of £250m. The remaining £50m is meant to be provided from profits which are also required to finance a £100m increase in working capital. Unfortunately, the likelihood is that Austin Rover will succeed in spending the money but not in generating the profit!

You also asked about demonstrator vehicles and the sale of new cars as second-hand. Last year Austin Rover sold roughly 18,000 demonstrator cars to dealers at discount prices. This is considerably more than the dealers required for actual demonstrating, and a fair proportion of these would have been sold directly as 'second-hand'.

Austin Rover have also artifically boosted their performance by two other tricks. Firstly, they sold an extra 10,000 cars wholesale to dealers at the end of last year on particularly advantageous terms. This dramatically improved their 1985 cash flow but as a consequence their performance in January and February of this year will have been proportionately worse.

CONFIDENTIAL

Because these cars were sold wholesale they will not have been registered until this year and therefore will not have affected last year's market share. But the other trick does affect the market share. Under this scheme, senior employees throughout BL are allowed to hire cars from Austin Rover. In order to boost the company's market share these cars are normally replaced twice each year. This and similar schemes enabled Austin Rover to 'sell' 20,000 cars during last year.

X Total Austin Rover sales last year were 480,000 cars but without the sale of the demonstrator vehicles and the employee cars their UK market share, instead of being a miserable 17.7% would only have been around 15.5%.

Peter Warry

PETER WARRY

X is I think slightly unfair. These cars were sold. The effect of BL's shenanigans was to sell them at a discounted price.

DHV
11/3.

PART 10 ends:-

PETER WARRY to PM 7/3/86

PART 11 begins:-

PETER WARRY to PM 17/3/86

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