



Prime Minister

cc. JV

(2)

This is for discussion  
at a meeting arranged

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

for after

6 April 1982

Easter.

The Rt. Hon. Patrick Jenkin, MP.,  
Secretary of State for Industry

MLs 6/4

*Dr Patrick*

*MS*

#### BL FUTURE STRUCTURE

I have thought carefully about your minute of 16 March on the future structure of BL in which you come down on the side of the Board's proposal to split the company rather than the consultants' recommendation to preserve the present unified structure. As you say, we face a very difficult choice but my own inclination is to support retention of the existing structure.

I believe this course has four main points in its favour. First, I think it will be more difficult to contain the level of future Government support to BL if the provision has to be divided two ways. Flexibility in allocating money between the various parts of the company will diminish and individual Chairmen will tend to establish their own priorities. Moreover, in contrast to a Board able to exercise overall strategic management and control, the Chairmen will be reluctant to contemplate slimming or closing down loss-making activities when to do so would seriously emasculate their company's status. I am aware that the existing Board have given assurances that the two chairmen will adopt a robust attitude towards these issues, but the value of these assurances must be open to doubt. We could, I believe, have more confidence in such assurances if we could obtain them from a new Chairman of BL as a whole, as a condition of this appointment.

Second, there is the question of privatisation, in particular of Land Rover. On the face of it, it is not clear that the company's structure should necessarily impede this objective if the will is there to carry it out. On balance though I would have thought it is more likely to be achieved with the present unified structure (or by splitting the company up into quite separate and independent components). This is so whether we contemplated privatisation through outright sale or through a share issue. In the case of outright sale, it is hard to imagine the management of the Leyland/Land Rover Group agreeing to the loss of its profitable part, leaving it with a loss-making rump. And privatisation through a share issue would be more difficult if Land Rover is linked with the Leyland Group, whose future is the most doubtful



of the major components of the BL Group. A better possibility of achieving this form of privatisation is surely offered by keeping Land Rover under the umbrella of a holding company. (My own preference, incidentally, would be in favour of privatisation through the share issue route, though I would not rule out some degree of participation by an overseas manufacturer.)

Third, while I take note of your reservations concerning the consultants' judgements about some of the individuals, I am concerned to see that the consultants doubt whether the two potential Chief Executives are up to the job. My view is that our best approach would be to seek a successor for Sir Michael Edwardes as Chief Executive of the remaining BL structure. I recognise that it will not be easy to find a person with the necessary qualities but I cannot believe it is impossible. If necessary we could look abroad.

Finally, I am doubtful whether retaining a unified company need jeopardise the future of its viable parts. BL volume cars are slowly improving their image, although they have a long way to go. As for industrial relations, the consultants point out there is little evidence that trouble in one part of the Group spills over into others. Last November, for example, although Land Rover became involved, Leyland Vehicles was not affected. Similarly problems earlier this year were specific to the Leyland Group and did not affect other parts of BL.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Trade and Employment, Sir Robert Armstrong and Mr. Sparrow.

A handwritten signature in black ink, appearing to read 'Geoffrey Howe', written in a cursive style.

GEOFFREY HOWE