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10 DOWNING STREET

From the Private Secretary

21 April 1982

Dear Jonathan,

BRITISH LEYLAND: FUTURE STRUCTURE

The Prime Minister held a meeting this afternoon to discuss the BL Board's proposals on future structure. Your Secretary of State was present, together with the Chancellor of the Exchequer, the Secretaries of State for Employment and Trade, Mr. Lamont (Minister of State for Industry), Sir Peter Carey, Mr. Sparrow and Mr. John Hoskyns.

Your Secretary of State said that, following the Prime Minister's last meeting on this subject, he had considered very carefully the validity of BL's proposals. In doing so, he had been helped (although by not as much as he had hoped) by the conclusions of the Corporate Consulting Group (CCG), and meetings with both Sir Michael Edwardes and members of his Board together with the CPRS and CCG. His conclusion had been that the Board had the better of the argument, and that it would be right to proceed with BL's two company plan. He had felt, ever since taking up his appointment as Secretary of State, that DOI expenditure was too much tilted towards propping up failing industries rather than towards assisting the industries of the future. For this reason, and in order to meet the Government's privatisation objectives, he was proposing that BL should be told that the additional equity of £150 million which they had requested for drawing in 1983-84 (the Board's commitment not to seek further government money beyond this £150 million was clear) would not be available from the Exchequer, and could only come from the proceeds of the sale, by the end of 1983, of Land Rover. He had not discussed this proposal with the BL Board and his colleagues should be aware that the Board would be likely to be very hostile to the proposal. There would be a major row; and, perhaps, senior resignations, and industrial trouble in the cars division. Premature repayment of some loan stocks might be triggered by this disposal. It might, too, be that the BL Board would, in the light of this decision, wish to think again about their proposals for re-organisation of BL's structure.

In discussion, it was argued that there was much to be said for pushing ahead with privatising Land Rover as proposed, notwithstanding the position of the BL Board. Sir Michael Edwardes had in the past resisted the Government's desire to proceed rapidly with privatisation, with the threat that he would not go on as Chairman if forced to go too fast in this direction. Since his appointment came to an end in a matter of months, this

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argument no longer applied. There was a strong case, aside from the £150 million funding argument, for selling off Land Rover. It would be a successful and profitable company in the private sector. To sell it off would be a major task, and it would be important for the Board and the Government to devote their energies to that end, and not to be diverted into the task of re-structuring the company.

In further discussion it was argued that the unified structure of BL magnified and dramatised the problems of the company. A two company solution would make more manageable the media's habit of criticising the company whenever possible. Further, a split into two companies would much reduce the risk of industrial relations problems in one part of the group spilling into other parts. Finally, two smaller companies would be easier to manage than one major company, and the financial exposure of the company and the Government would be less if one or other of the two companies rather than the whole, unified, company went down. Against this, it was argued that there was a natural synergy between Cars and Unipart, and that this ruled out a four-company solution. Further, a successor company consisting of the Trucks and Buses divisions together with Land Rover would be much more resistant to privatisation of Land Rover than a single, unified, company would be; and the managerial and administrative effort in effecting the division of the present company into two would be very considerable. There was, finally, no necessity for a labour dispute in one part of the Group to spill into another. There were, for example, sometimes strikes at Halewood when there was no strike at Dagenham.

Summing up, the Prime Minister said that it was agreed that the sale of Land Rover should be BL's first priority. Of the various methods of privatisation set out in your Secretary of State's minute of 16 April there was much to be said for a sale to another company, perhaps to an engineering or defence company. BL should be allowed to retain the proceeds of the sale subject to the Government's accepting the 1983 Corporate Plan, and they should be told that the further £150 million would not be available from the Exchequer but must be found from the proceeds of realisation of assets. Sir Michael Edwardes should be asked to proceed with the privatisation of Land Rover on this basis as rapidly as possible. On future structure, the Prime Minister said that the balance of view at the meeting was that a unitary structure was clearly preferable to a division into two companies: there was a strong wish to avoid the diversion of effort into restructuring, away from the primary tasks of privatising Land Rover and running the rest of the company. It might be that BL itself would reach this conclusion in the light of the view the Government had now taken. Ministers would need to consider further the question of the successor to Sir Michael Edwardes, and the objectives for BL which the successor should be given. It would be important that Sir Michael Edwards' successor should understand, and accept the government's objectives; and that he should be appropriately qualified to carry them out.

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I am copying this letter to John Kerr (HM Treasury), Barnaby Shaw (Department of Employment), John Rhodes (Department of Trade), Peter Mason (Department of Industry), Sir Peter Carey, Colin Balmer (Lord Trenchard's Office, MOD), Gerry Spence (CPRS) and David Wright (Cabinet Office). I should be grateful if all recipients of this letter would restrict access to it to the maximum degree possible.

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.

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