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PRIME MINISTER

Prime Minister

BL

I have seen your Private Secretary's letter of 7 July recording the discussion which you had with the Chancellor and me on 6 July.

2 I am writing in order to bring you up-to-date with events at my subsequent meeting with the BL Board on 6 July, and to outline the likely course of developments on the BL front over the next few weeks.

3 I had a productive meeting with Michael Edwardes and his Board at which I told them that I had been substantially convinced by the Board's view that the early privatisation of Land Rover would overall be detrimental rather than beneficial in terms of public finance, and that in consequence I intended to set this proposal to one side for the present. However, I wished to pursue the alternative which he had put forward of specific proposals for collaboration with other manufacturers or for partial privatisation, and in particular the timescale of these. I also said that I attached great importance to the Board's firm commitment not to ask for any additional Government finance beyond the £150 million identified in the last two Corporate Plans less the net proceeds from sales of minority stakes, and that this commitment should be independent of BL's success in

To say that £150m is the last requirement for funds but that the Govt guarantee must remain is surely a contradiction in terms.

The next step will be a draft formal commitment from the Board, as in para 6 then you may wish a discussion with colleagues, unless agreement can be reached in correspondence.

MLs 9/7





into

turning their ideas on collaboration ~~in~~ reality. The £150 million referred to was, of course, in addition to the £990 million of public funding for BL which Keith Joseph announced in January 1981, and would depend on approval of the 1983 Corporate Plan. Michael Edwardes assured me that the Board's commitments on funding would continue beyond his own departure, and he readily agreed that the best way of ensuring this was to choose a successor to him from among the existing Board members. He told me outside the meeting that he would be prepared to go to enormous lengths to try to persuade Sir Austin Bide or Sir Robert Hunt to take on the chairmanship.

4 In further discussion, the Board asked me whether a clear commitment to no further Government funding after the £150 million would preclude a reconstruction of BL's balance sheet at a later date if this were necessary to permit a successful privatisation of BL as a whole; this was the only exception the Board would contemplate to their commitment on the ending of Government funding. I said that if necessary a form of words would need to be found to cover this point, and this would have to be applied to as precise a set of circumstances as possible.

5 On the question of the Varley/Marshall assurance which was the other important topic which I discussed with the Board, I should perhaps point out that your Private Secretary is not quite right in attributing to me the remark that BL would accept that the Government's guarantee of their credit would lapse at the time of the last injection of funds from the Government. Our objective

I think this  
is a fair  
criticism.

MLJ





will, of course, be to end BL's present dependence on this assurance at the earliest opportunity, but this will have to be done progressively; if, for example, the Unipart company were clearly viable at the point of sale of a 40 per cent stake, the Varley/Marshall assurance might well cease to be relevant to its particular circumstances.

6 The next steps with BL will be as follows. Michael Edwardes has promised to let the Department have by the end of the week beginning 12 July a draft public statement on collaboration and privatisation which he would propose to make at the time of the announcement of BL's half-yearly results on 15 September. I also expect him to let me know next week whether Sir Austin Bide or Sir Robert Hunt is willing to serve as non-executive Chairman of BL when he leaves BL at the end of the year. If these matters can be satisfactorily resolved, and the Government is in agreement, Michael Edwardes would hope to make an announcement about the succession by the end of July. I have told him that before the Government could reach a conclusion on all these matters, I would need first to consult my colleagues, and that I would want to seek their agreement to what was proposed before the end of July.

7 I am sending copies of this minute to Geoffrey Howe, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

PJ

P J

9 July 1982





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6 - JUL 1982

CONFIDENTIAL





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10 DOWNING STREET

From the Private Secretary

12 July 1982

BL

The Prime Minister has seen your Secretary of State's minute of 9 July about recent developments in your Secretary of State's discussions with the BL Board.

The Prime Minister notes that the next step will be a draft formal commitment from the Board as set out in paragraph 6 of your Secretary of State's minute.

The Prime Minister has commented that there is an inconsistency between asserting that the £150 million identified in the last two Corporate Plans is the last BL requirement for funds and the assertion that the Government's guarantee of BL's credit would remain after the time of this last injection of funds from the Government. The Prime Minister has further commented that a "reconstruction" of the balance sheet would also be inconsistent with the £150 million being the last requirement for funds.

I am sending copies of this letter to John Kerr (HM Treasury), Barnaby Shaw (Department of Employment), John Rhodes (Department of Trade), Gerry Spence (CPRS) and David Wright (Cabinet Office).

**M. C. SCHOLAR**

Jonathan Spencer, Esq.,  
Department of Industry.