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24 March 1986

CABINET

LAND ROVER-LEYLAND

Note by the Secretary of the Cabinet

I attach a paper prepared by the Ministerial Group on Land Rover-Leyland (MISC 126).

Signed ROBERT ARMSTRONG

Cabinet Office

24 March 1986

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LAND ROVER - LEYLAND
Report by the MISC 126 Group

The MISC 126 Group was established following discussion by the Cabinet on 20 February (CC(86)7.1) to review the tactics and handling of discussions relating to the possible disposal of BL's Leyland Truck, Land Rover and Freight Rover businesses. Separate consideration is being given to the disposal of Leyland Bus (see paragraph 9 below).

Bids received

2. Following that discussion potential purchasers of the BL businesses in question were invited to submit, by 4 March, firm indications of interest, together with their views on the future development of the businesses and an indication of the terms they would offer. In the event bids were received

- a. from General Motors (GM) for the bulk of Land Rover-Leyland's (LRL) businesses other than Leyland Bus;
- b. from Schroder Ventures (with which the current Land Rover management were associated) for Land Rover, Range Rover and Freight Rover;
- c. from Lonrho for Land Rover and Range Rover;
- d. from Aveling-Barford for Land Rover only (i.e. excluding Range Rover).
- e. In addition a more speculative expression of interest in Leyland Trucks was received from Lancashire Enterprises Limited (LEL).

The course of the negotiations

3. The details of the bids have been clarified, so far as possible, in further discussions involving BL, the Department of Trade and Industry, and the Company's and the Department's financial advisers. The BL Board has had preliminary discussions of the bids, but has made no definitive recommendation to the Government as its principal shareholder.

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4. It has been clear throughout that the best prospect for the establishment of a strong UK manufacturer of trucks lay in the rationalisation of the current BL and GM operations. Some rationalisation of UK van manufacturing capacity may well also be inevitable, and this could have been achieved by bringing together Freight Rover and Bedford vans. There is no comparable need for rationalisation of UK 4-wheel drive vehicle manufacture; but the Land Rover and Range Rover operations need the financial and marketing support of a major manufacturer with world-wide interests. MISC 126 accordingly concluded that sale of Leyland Trucks to GM would be desirable and that the possibility should be explored with GM of arrangements which would maintain a UK controlling interest in Land Rover, with GM taking a substantial shareholding and contributing thereby to the development of that company's world-wide business. MISC 126 concluded, however, that it would not be acceptable for GM to take outright control of Land Rover now, as part of a wider deal.

5. The Secretary of State for Trade and Industry accordingly pursued his discussions with GM on this basis. It eventually emerged on 21 March that GM would not agree to any arrangement which did not give them immediate strategic and management control of Land Rover, together with a clear and public assurance that they would achieve majority ownership within a relatively short time. The Secretary of State told GM he could not recommend this to colleagues, and asked them whether they would be willing to do a deal confined to trucks and vans. GM refused to consider this alternative, and thereupon broke off the negotiations. Subsequently the BL Board met informally, and indicated that they regretted the Government's inability to accept GM's total offer, which they considered offered the best prospects for the development of the businesses concerned, their employees and BL's shareholders.

Next steps

6. MISC 126 considered the resulting situation on 24 March. They concluded that the Government could not go ahead with the deal as originally put forward by GM, which would have given them 100 per cent of Land Rover. It will now be necessary to

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reappraise the options for BL's LRL businesses in the light of the new situation created by the withdrawal of GM.

7. In the first instance this will be a matter for the BL Board, which will shortly be joined by the Chairman-designate, Mr Graham Day. The BL Board will evaluate further the Schroders and Lonrho bids. It appears less likely that the Aveling-Barford bid (because it excludes Range Rover which is part of an integrated manufacturing operation with Land Rover) and the LEL bid (because it apparently has no substantial financial backing) can be taken further, though some further study will be necessary. Other possible approaches to the early privatisation of Land Rover and Freight Rover will also be considered; whatever route is eventually chosen must carry with it assurances that the company will have the financial and technical resources needed for commercial success in world markets, and that the Government will be seen to have made a satisfactory deal in the interests both of the company's employees and of the general taxpayer. The Secretary of State expects to receive a report on possible ways forward from the BL Board by the end of April.

8. Particular care will be needed in dealing with the future of Leyland Trucks. This company has good manufacturing facilities, a good record of productivity improvement, and a range of products which is competitive in the market place. That was its attraction to GM. It will be important, now that the company will not benefit from the rationalisation of its operation with Bedford, to avoid creating an impression that it has no long-term future; but equally the Government must avoid any commitment to maintaining Leyland Trucks' operations on their present scale, whatever their future commercial performance may be.

Leyland Bus

9. Leyland Bus has not been included in the discussions with GM, and separate negotiations are under way for disposal of this business. There are four options on the table: continuation of a stand-alone Leyland Bus, sale to the Laird

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Group plc (parent of Metro-Cammell Weymann, bus and coach manufacturers), a management buy-out proposal and an expression of interest from Aveling Barford. BL are pressing for clarification of the last two by about 8 April, so that they can make recommendations to the Government on the same timescale as their report on the other LRL businesses. Volvo and Walter Alexanders (a Scottish vehicle body manufacturers) have declined to make merger or take-over proposals; Volvo may be prepared to consider collaboration.

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