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PRIME MINISTER

BL PRIVATISATION : GM/LAND ROVER-LEYLAND

At our meeting on 3 October we discussed amongst other things the negotiations with GM on the sale of Land Rover Leyland. We agreed these should be seriously pursued but that certain issues needed careful handling.

2 My Department and BL staff, with advice from merchant banks and in close consultation with the Treasury and the Policy Unit, have prepared various papers for the next round of negotiations. The issues do not seem at this stage to raise major problems for us to resolve. I summarize the key recommendations in paragraphs 4 to 9 below.

3 More difficult is the question of what to do, and when, about the portion of BL's debt to the banks associated with the businesses to be sold that will not be covered by the price paid by GM. I set out my views in paragraphs 10 to 13 below.

EMPLOYMENT IMPLICATIONS

4 The industrial logic of the co-rationalisation plan is strong, and the expected facility and employment changes and timings have been worked through. The main job losses are 700 at Watford (Scammell) and 800 (net) at Dunstable (Bedford) in 1986, followed by 1,900 in Birmingham (Freight Rover) in 1988 and 1,000 at Leyland in 1990, though net job

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losses should be under 3,000. The real alternative however is not "no job losses" but at least severe contraction, perhaps worse, of the separate Leyland and Bedford truck businesses, each having been losing over £50m p.a. and with no major recovery in prospect.

UK MANUFACTURE

5 One potential criticism of any deal will be that once the businesses are in GM control, their UK manufacturing activities will go the same way as Vauxhall's went under GM control in the seventies, with much of the manufacturing of Leyland and Bedford products taking place aboard. I do not consider this is GM's intention but to answer this, we need a detailed Memorandum of Understanding with the objective of ensuring

- that the overwhelming majority of products sold by the combined entity will be manufactured in the UK;
- that these products will have a very high UK content in line with what is currently achieved and in particular that major components will be manufactured here;
- that the company will aim at a substantial level of exports;
- that a significant R&D operation will be maintained and developed in the UK;
- that Land Rover products will be manufactured and retained as an overwhelmingly British produced product;

- that an appropriate level of investment will be injected into the business to achieve competitive future models and facilities.

Some of these points will need to be quantified and I have asked my officials to prepare a negotiating position on these in consultation with the Policy Unit and Treasury. I envisage that GM would become firmly and publicly committed to this but legally binding commitments will not in general be possible though I am exploring the scope for incorporating sanctions, for instance by tying up the Land Rover trade mark in some way rather than having it sold outright.

6 We are also keeping on the table, essentially to strengthen our negotiating hand in getting more information from GM, the thought that HMG/BL might keep a minority holding, perhaps 30 per cent, in the combined LRL/Bedford business. There is however no substantial advantage, to BL or to HMG, of such a financial holding and my real objective remains to secure a total GM acquisition.

LEYLAND BUS

7 A related problem is that of the future of Leyland Bus, which in 1985 is running up losses of about £20m on a turnover of £90m and has no substantial upturn in prospect. The very sharp drop in bus orders leave its future extremely bleak. We should press BL to negotiate to sell what of its business is saleable to the Laird Group (owners of the other UK bus manufacturers MCW) or another buyer, by the end of January, in the hope of getting this bit of bad news out of the way before any deal with GM

is announced.

PRICE

8 At the end of October, GM's opening offer was about £140m on the basis that we separately picked up the bill for the net cost of the redundancies (about £35m). Particularly in view of the policy on the Redundancy Fund in the Chancellor's Autumn Statement I consider we should refuse to pick up any of the part of the redundancy bill beyond whatever the statutory provisions may require at the time, and let the residue come off the price paid to BL, despite the presentational advantage of having that figure as high as possible.

9 As to the price GM should pay, our tactics are to negotiate about the value of the combined businesses to them. This should be greater than their opening bid which focussed only on the value to BL of the businesses to be sold. We need to know more of GM's view of the prospects and opportunities for the combined businesses before trying to decide whether any price that might be arrived at in negotiations would be publicly defensible.

BL FUNDING

10 Officials have explored the full range of options; not surprisingly the more BL get from GM the less painful the choices for us. If the price obtained from GM were low, the debt left with BL from LRL's past operations might be more than the banks were prepared to support, even with the Varley-Marshall assurances in place. Given the Varley-Marshall assurances, it seems to me that the banks

might if pressed be more accommodating than BL think, though the problem of interest on the old debt would remain.

11 But the real problem is political; the deal will have enough natural opponents, some of them on our own backbenches, to make it essential to avoid also bringing out against us the West Midlands lobbies associated with Austin Rover. We also want to avoid a level of debt that worsens the medium term prospects of privatizing Austin Rover. And I know that the BL Board will not be able to endorse any GM price until the issue of debt has been resolved.

12 I therefore recommend that we should be prepared to pay off sufficient of the debt relating to past operations of LRL businesses for us to be able to say that the cars side of BL is not being burdened with past debts run up by LRL businesses. We should compel BL to use almost all its centrally held cash deposit and obviously we should also use all the proceeds from the sale of LRL to GM. Even so, for the main residual operating companies (Unipart and ARG) to be left unaffected, we should still need to inject about £140m if we negotiated GM's opening offer up to £220m, with pound for pound more the less that was obtained.

13 I do not see any possibility of offsetting savings on DTI programmes for a one-off payment of this kind; so I see no alternative to its being treated, if the deal comes off, as a charge on the contingency reserve.

14 The BL Board meet on 28 November with GM returning for further negotiations on 4/5 December. Decisions by colleagues by the end of next week on the points raised in this minute would enable negotiations to proceed, if

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successful, to a signing of Heads of Agreement in January or February next year.

15 A copy of this minute goes to the Chancellor of the Exchequer.

L. B.

L B
25 November 1985

Department of Trade and Industry

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