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PRIME MINISTER

4

3 December 1985

MEETING ON BL

The issues for tomorrow's meeting with Leon Brittan and Nigel Lawson are:

1. GM bid for Land Rover-Leyland
  - a. Should HMG give BL any equity injection to help cover the residual debt that would be left after the sale? Reluctantly yes, otherwise BL may sabotage the deal.
  - b. Should the method of fixing the equity injection be settled now or when a price is agreed? Now, otherwise there is no purpose in offering extra equity.
  - c. Should the injection also cover the cost of other unrelated rationalisations such as Leyland Bus? Yes, provided it is paid only after these long overdue rationalisations have been completed.
  - d. Should the Government ultimately accept the current £105m GM offer if GM don't increase it? Yes, the price is just about financially defensible and will end the need for continued support. It will however be politically awkward.
  - e. What should be our negotiating limit in the first round of discussions tomorrow? £200m, our opening bid is to be £320m compared to GM's £100m. If negotiating momentum is to be maintained the price gap needs to be credible.
2. Ford offer for Austin Rover
  - a. In principle should the Government be prepared to sell ARG to Ford if the terms are right? Yes, ARG is too small to survive as a full line manufacturer without

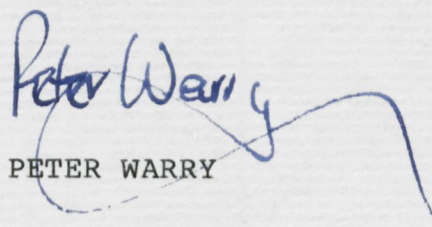


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continuing Government support; Ford thinks itself to be too small which is why it wants to combine with ARG.

- b. Ford believe Unipart to be an essential part of the deal, but Charterhouse Japhet have just made a good bid. Can the two proposals be pursued in tandem? Yes, provided Ford adhere to their 30 day study and indicate a very broad price range. Charterhouse could be reimbursed for aborted expenditure if we then decide to sell to Ford.
- c. Should BL be allowed to put forward their own ARG privatisation proposal. Yes, provided they undertake to keep to the 30 day timetable and provided we remember that BL commitments to privatise at a date in the future have never been honoured.
- d. Should we still settle the residual debt issue on the GM bid now? Yes, the issues are unrelated, we still need to ensure BL's commitment to the GM sale.
- e. Should these bids delay the plans to appoint Graham Day as chairman? No, it is most unlikely that both the Ford and GM offers will succeed. Even if they do there will still be a year's work at BL carrying the bids through. This should give plenty of time to find Day another job without losing him to the private sector. (DTI are also thinking of promoting Harold Musgrove - another Michael Edwardes but without his intelligence. There is no need to do this in advance or in conjunction with Day's appointment).

\* This possibility was  
mentioned at your meeting  
with Mr Britton four weeks  
ago.

  
PETER WARRY



10 DOWNING STREET

Prime Minister

Mr Brittan would like  
5 minutes with you if there  
is time, at the end of  
the meeting, about  
Michael Howard and Lloyds.  
Papers at end of folder.

DLN  
3/12