

Prime Minister

Agree to write as proposed?

DES

12/12

Yes not

PRIME MINISTER

12 December 1985

BL PRIVATISATION: GM/LAND ROVER-LEYLAND

At the second session of negotiations last week GM adjusted their opening bid of a little over £100m to an offer of £65m cash, £121m of non-guaranteed debt and a small equity stake in the new joint venture. This was in response to our opening proposal of £360m. The third round of negotiations are scheduled for next week. Unless the gap between the two sides is reduced to a bridgeable level, there must be a grave danger that the hawks within GM will kill the deal.

For the new negotiations Leon Brittan proposes that officials should have a bottom line of £186m in cash or marketable debt. Instead of equity he proposes, if possible, we should aim for some additional deferred consideration related to performance. If GM balk then officials should have authority to suggest that GM buy just the ailing Truck and Van businesses, allowing us to offer the more saleable Land Rover elsewhere.

Treasury officials, who see this more as a PES type negotiation, think the bottom line price of £186m is far too low. We, on the other hand, think it may be too high - our valuation of the businesses was little more than GM's £100m opening offer. Now that the residual debt issue is settled BL are broadly indifferent on price.

We recommend you write to Leon Brittan endorsing his proposals, indicating concern lest GM take fright, and suggesting that, if during the negotiations officials feel that they are still too far apart, then you would be prepared for him to authorise a revised bottom line at a somewhat lower level.

Should not

Should not

Peter Warr

PETER WARRY