

PRIME MINISTER

BILATERAL WITH MR. BRITTAN

Would you like to have five minutes with Mr. Brittan on your own before the meeting proper starts?

Mr. Brittan is coming to see you mainly about the position on the BL discussions. A note by Peter Warry is attached.

These discussions need of course now to be seen in the light of the Westland affair. If Landrover Leyland is eventually sold to GM, it will be most important to have a convincing line on why the sale has been made apparently without an opportunity for British and European companies to bid. I understand that a number of companies were in fact approached, but showed no interest. This is a weak line; no doubt other companies would in the event come forward to say that they would have been interested in buying Landrover Leyland if they had been offered the opportunity. ?

Accusations would be particularly damaging in the light of Mr. Heseltine's resignation speech.

Martin Sauer (Duty Clerk)

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17 January, 1986.

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PRIME MINISTER

17 January 1986

BRITISH LEYLAND

In your discussion with Leon Brittan and Nigel Lawson on 4 December, it was agreed:

1. That the GM bid for LandRover-Leyland should proceed and Government would reluctantly agree to write-off some of the debt that would remain after the sale.
2. That Ford should be encouraged in their bid for Austin Rover and Unipart.
3. That Charterhouse Japhet should proceed with their negotiations for Unipart in tandem with Ford's bid.
4. That Graham Day should take over from Sir Austin Bide as Chairman of BL, preferably by the end of January.

As always with BL, things have not gone quite to plan.

GM Bid for LandRover Leyland

Following delays and some negotiations, the present GM offer is £125 million in cash plus a further £125 million in equity. Our current bottom line is £186 million in cash or marketable debt. A BL/DTI team is currently in New York negotiating with GM to convert at least some of the proposed

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equity into marketable debentures. Some element of performance-related payment seems inevitable, but the Treasury are adamantly resisting this.

The talks must reach a conclusion soon if the momentum towards agreement is to survive. Even if agreement is reached, selling LandRover to an American company without an open competition will be presentationally difficult.

Ford bid for Austin Rover and Unipart

Although BL were not keen to pursue these talks, they were trapped into it when Ford met their condition of reciprocal disclosure of product plans, and the Government agreed that Austin Rover should also be allowed to attempt its own management buy-out. Nevertheless, just before Christmas, BL announced that, as a consequence of the negotiations with Ford, they were withdrawing from the discussions with Charterhouse Japhet for the sale of Unipart. By January, BL had had a further change of mind and decided that they could no longer pursue the talks with Ford, inter alia because of the damage it might do to their relationship with Honda. After much hard talking, I understand they have now agreed to commence the discussions with Ford, but with how much conviction remains to be seen.

This week, BL sent a deputation over to Honda in Japan, accompanied by Robin Mountfield of the DTI, and we may anticipate (on the experience of last Summer) that they will

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have procured a statement from Honda antagonistic to the discussions with Ford.

The first stage of discussions with Ford were originally to have been completed 30 days after the commitment was made, ie by now. I understand that discussions are not now scheduled to start until next week.

Charterhouse bid for Unipart

BL informed Unipart just before Christmas that negotiations would be postponed indefinitely. They have since refused any explanation or even a meeting. Leon Brittan wrote to Charterhouse on 9 January promising to clarify the position within one month. I believe Charterhouse can hold their bid in abeyance until 9 February, but every day thereafter will seriously reduce the chances of the bid being renewed.

Chairmanship

It is quite clear that until a new Chairman is announced, BL will continue in its devious and anarchic ways. This is a crucial time for BL, and not one during which the Government can afford to have a weak or antagonistic Chairman. Graham Day is the ideal choice and is keen to join immediately. Ideally, his appointment could be announced now, take effect on 1 February and have a two-month hand-over period with Sir Austin Bide, who could then depart on 1 April. (His

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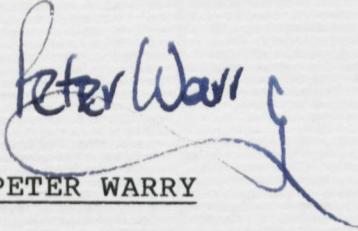
contract runs until October.) This would also fit in well with
Graham Day's plans for his successor at British Shipbuilders.

Conclusion

Until Graham Day is appointed, Leon Brittan is likely to
be beating his head against a brick wall. The key decision
must therefore be to announce Graham Day's appointment within
the next few days.

Ford should be told, and BL instructed, to complete the
first round of their discussions by 9 February without fail,
such that Charterhouse can be informed of a final decision on
that date. Honda may threaten, but they won't withdraw until
Ford takes over (if then).

Action on the GM talks will depend upon the
outcome of the New York discussions currently taking place.


PETER WARRY

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