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PRIME MINISTER

27 January 1986

BRITISH LEYLAND

GM Bid for Land Rover-Leyland (LR-L)

There can be no doubt that LR-L is a lame duck that will get no better. GM's offer is generous and likely to be far more than can be obtained by any other means. It is very late in the day to start pushing a management buy-out which would yield less than GM and still leave the Government with the unhappy choice of closing Leyland Trucks or continuing to fund losses currently running at £50m per annum.

Undoubtedly there will be criticism if the GM sale goes through, both for selling to an American company and at under half the asset value. But the talks with GM have been regularly reported in the press for several months now without adverse comment, and it would be surprising if this blew up into a major row. The weakness is the lack of an open offer for sale of Land Rover-Leyland, although this is counter-balanced by informal soundings made by the DTI.

The three realistic choices are to close Leyland Trucks and sell Land Rover to a management buy-out; to continue to fund ever-growing losses from Land Rover-Leyland; or to sell it to the Americans. None of these choices are politically attractive, but the GM sale has the best chance of securing long term employment and also offers the highest proceeds; we therefore recommend that the GM offer be approved.

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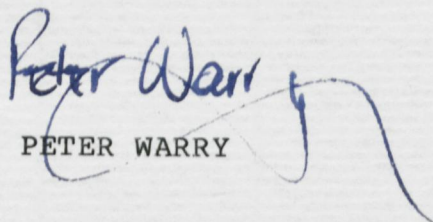
Ford Bid for Austin Rover

The choices and solutions are much the same as for Land Rover-Leyland: it is highly unlikely that Austin Rover in its present form will ever be viable, (although changed management might make a consortium buy-out just about possible). Realistically, therefore, the Government can either close it, continue to fund it, or sell it to Ford.

Some market share will be lost in the amalgamation with Ford, but if Ford believed the alarmist figures put forward by Austin Rover, then they would not be interested in buying it. The question is will more jobs be lost by combining with Ford than by raising taxes to continue subsidising Austin Rover, (even Austin Rover's own figures are for another £300m before the end of the decade).

Selling to Ford, if it is achievable, appears to be the best option. This will be opposed by the BL management and there must be a danger that they may ultimately succeed in discouraging Ford from buying. By this stage the Charterhouse bid for Unipart, which is currently in suspension, could also have been lost. The only way to ensure Ford are given proper access and cooperation in their investigations such that a speedy conclusion can be reached is to change the top management of BL now.

Provided Graham Day is appointed quickly, (albeit initially as an under-study to Austin Bide), then we recommend the Ford bid should be allowed to proceed. If this cannot be done, then it may be better to face up to the realities of the BL management and oblige them to sell Unipart to Charterhouse and forego the better prize of selling the whole lot to Ford.


PETER WARRY



10 DOWNING STREET

DRN

Total Commitment
for Varley Marshall
Estimated at

£1.5 billion of

which

£680 million is
formal borrowing
the rest is other
creditors.

Amanda
28.1.88.