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CC B/UP

PRIME MINISTER

21 February 1986

BRITISH LEYLAND

1. GM Negotiations

GM want to set a mid-March deadline for a decision on the purchase, and for contracts to be signed by the end of the month. Provided reasonable progress was still being made, it seems unlikely they would enforce this deadline having already committed so much.

GM have firmly indicated that they would not buy Leyland Trucks without Land Rover. I doubt that they are bluffing. Although there is tremendous economic rationale in GM merging Bedford Trucks with Leyland Trucks, it may only be the lure of Land Rover that has prevented their finance people closing Bedford. GM finance are likely to view Leyland Trucks on its own as a Trojan horse that will merely double the £50m or so that Bedford and Leyland Trucks each lose separately.

2. Other Bidders for Land Rover and Leyland Trucks

Because Hill Samuel (BL's bankers) have insisted on a confidentiality agreement(!), the first people to receive financial information (Lonhro) did not get it until Wednesday afternoon (19 February). All bidders are required to indicate 'their firm intention of making an offer' by Tuesday 4 March. The offer has to identify the price level and any conditions

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attaching to it. There are already complaints about the tight timetable - even the earliest bidders will have less than a fortnight - but such a quick response is by no means unusual.

The most worrying bids are from Lonhro and the management buy-out. At best these are opportunistic, at worst wrecking. (David Andrews has consistently blocked all previous bids for Land Rover arguing that it could not survive on its own). As both these bidders now know the GM price, they will no doubt at least match GM, but subject to all sorts of impossible conditions. The trick will be to find a quick way of converting the conditions to adjustments in price.

But price must not be seen to be the overriding factor: jobs and the industry must be declared to be major considerations in deciding the ultimate buyer. The message must also be put out that unless a buyer is found for Leyland Trucks (and a partner for Bedford) then redundancies will be much higher than the £40m GM have reportedly provided.

### 3. Bids for Leyland Bus

The Laird Group only wish to buy the Leyland Bus plant at Leyland itself, but not those at Lowestoft and Workington. It may be possible to organise a management buy-out at Lowestoft but, unless Volvo are interested in buying the Workington plant, this will have to close with the loss of some 350 jobs. The Laird bid is sensible and will help consolidate their MCW subsidiary as an integrated British-based manufacturer. But

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their proposal is complex and it may prove quite difficult to persuade BL to negotiate seriously with them.

4. Bid for Unipart

The original bid before Christmas required BL to indemnify Charterhouse for their future costs if BL subsequently rejected a firm Charterhouse bid within the given price range. Subsequent events with first the Ford bid blocking Charterhouse, and then subsequently with Ford themselves being eliminated on political grounds, have only reinforced Charterhouse's conviction that they must get such a cost indemnity. They have put this to BL, so far without response. I believe we must agree such an indemnity, although it should be as narrowly defined as possible.

5. Preparing the Ground

GM have now started their PR campaign. They are planning to talk to suppliers, MPs, the media and so on. The Government must do everything to support them. The existing DTI Component Industry Liaison Group should be used as a forum to voice the support of the major suppliers for the GM deal.

But it is not just US companies buying British ones, the attached cutting from the Financial Times shows that last year UK companies spent £3½ billion buying 160 US ones. This needs to be more widely known.

You made  
this point  
in the House  
of course.

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6. Capital Injection

Assuming the GM deal goes through, we have already agreed to give BL an equity injection to wipe off the debt left over after the GM acquisition. If this is badly handled, it will appear like yet further Government subsidy to the Americans. Properly presented, it can look like a capital injection to help Austin Rover.

But it could also be the right time to consider disposing with Varley Marshall assurances altogether. This could only be done by paying off at least part of Austin Rover's existing debt. In presentational terms, this could be good for the Government and it would prevent Austin Rover claiming any longer that it was not taking a penny of Government subsidy.

7. Conclusion

The Government is broadly on course, but we need to sound more positive and convincing. DTI should make the timetable absolutely clear: initial bids by 4 March followed by at least a further fortnight of clarification and negotiation with the serious contenders.

We must also rebutt Labour's "jewel in the crown" arguments. Land Rover Ltd is not profitable, losses in each of the last four years have been £3m, £39m, £4m and an estimated £8m in 1985. DTI can give these figures without running down the company.

PETER WARRY

Peter Warry

These figures are after interest. On the same basis Leyland Vehicles lost over £90m in each of 1983 and 1984.

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# British groups spend more on US acquisitions

BY LIONEL BARBER

BRITISH COMPANIES spent \$5.2bn (£3.64bn) on acquisitions in the US last year, a 33 per cent rise on 1984, according to a survey by J. P. Mervis, a London corporate finance adviser.

The survey shows financial and corporate services formed the most popular sector by value. Medical and building sectors, however, significantly increased their respective shares of the total. The speciality chemicals sector, the biggest by value in 1984, was the smallest last year.

British companies acquired a total of 160 businesses in the US, compared with 142 in 1984. Between 1978-85 there were 812 acquisitions by UK companies, many of which were successful, says the survey.

Mr Jonathan Mervis, a corporate financier who has advised companies such as United Newspapers, Tarmac and Wolseley-Hughes on US acquisitions, said: "There is a lot of publicity about the failures, such as Midland Bank's acquisition of Crocker Bank, but there is a more successful side to the story."

Of acquisitions last year 92 were for values of less than \$10m. Some companies have been particularly acquisitive over the past two years. Six made a total of 47 acquisitions between them — Saatchi & Saatchi nine, BET eight, Bunzl eight, Laporte eight, Johnson Group Cleaners seven and Tate

& Lyle seven.

The survey argues that fluctuating exchange rates between sterling and the dollar has not affected UK companies' appetite for US companies. Though acquisitions fell sharply by number in 1982, following sterling's steep drop against the dollar, they have risen steadily ever since.

Mr Mervis attributes growth to:

- A decline in perceived industrial investment opportunities in the UK coinciding with North Sea oil revenue inflows.

- The size and scope of the US market, assisted by a common language.

- A widely-held view that the US is the main centre of capitalism and free enterprise.

The survey does not include additional new capital invested last year by all British companies in their US subsidiaries. It also excludes property and portfolio investment.

The \$5.2bn total includes acquisitions of \$500,000 or more. It compares with a total £7.09bn spent last year on acquisitions in the UK, according to Trade and Industry Department figures recently published.

*Survey of acquisitions in the US by British companies, with emphasis on 1984-85; J. P. Mervis & Co, 2, John Street, London WC1N 2HJ; £150.*

US foreign investment,  
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1985 TOP 10 ACQUISITIONS		
UK company	US acquisition	Price \$m
1 Hanson Trust	SCM	928.0
2 Sedgwick Group	Fred S. James	660.0
3 Beecham Group	Norcliff Thayer	395.0
4 Grand Metropolitan	Pearle Health	386.0
5 Standard Chartered	United Bank of Arizona	330.0
6 Blue Circle Inds.	Atlantic Cement	145.0
7 Blue Circle Inds.	Williams Brothers	90.0
7 Reed International	R. R. Bowker	90.0
9 RTZ	Pennsylvania Glass	80.0
10 Wolseley-Hughes	Carolina Builders	77.0



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HON PETER MORRISON MP

Release Time: 18.30 hrs Friday 21st  
February 1986 83/86

Extract from a speech by the Hon Peter MORRISON MP (Chester),  
Minister of State for Industry, speaking to the Chester Chamber  
of Commerce on Friday 21st February.

The debate surrounding the future of Leyland Trucks and Land Rover has rightly received a lot of attention. It is very important that an issue which affects the livelihoods of thousands of people should get the fullest airing in public. But there have been one or two comments recently which I have found extremely disturbing. Rather than concentrate on what is in the long-term interests of the companies concerned, some people have adopted a xenophobic attitude and at times have seemed to suggest that anything American has to be bad. Nor has this been restricted to British Leyland; it was also evident during the discussion about the future of Westland a few weeks ago.

Not only does such talk contribute nothing to the debate, it is also extremely damaging. In 1984, over half the investment which came into this country from abroad came from the United States. It currently stands at a total of some \$32 billion. In the motor industry, in particular, the American investment in this country has been enormous. Ford employs some 50,000 people in this country and indirectly

provides jobs for over 100,000 more. In the past five years, it has invested over £1 billion in the UK, with more still in the pipeline. General Motors employs a further 27,000 people and its investment over the past ten years has been over £1.2 billion. That commitment by both companies has not just been welcome, it has made a major contribution to our economic well-being. It is one which we cannot afford to lose. I am just as much pro-British as is everyone else but I hope we will hear no more anti-American talk. Because such talk, designed to whip up emotion for crude political reasons, could jeopardise thousands of jobs and for that reason, it should be utterly condemned.

That it is not to say that I do not recognise the very natural concern about the future if a deal with General Motors goes ahead. That is why the Government has made it absolutely clear that we would only consent to such a deal if we were satisfied that General Motors were prepared to give specific undertakings. In particular, we would require commitments on UK manufacture, on investment, on exports, on research and development, on the level of local content, and on Land Rover's retention of its distinct British image and identity. To suggest therefore that we would be simply handing the businesses over to the Americans with no concern for their future is frankly absurd.

Of course, since the existence of the talks with General Motors became public, other parties have indicated that they too might be interested in acquiring parts of the business. And, as we have made quite clear, each one will be carefully examined on its merits. Getting our motor industry on to a fully viable and competitive footing, thereby preserving British jobs, must be our prime concern.

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