



COVERING CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215)
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

25 February 1986

COVERING CONFIDENTIAL

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

✓ J Wiggins
Paragraphs 15 & 16

*are being dropped from the
final version.*

OKS
26/2

Dear David,

BL

.. I attach a copy of the draft MISC 126 paper which we shall circulate tomorrow evening in time for Thursday morning's discussion.

2 Although my Secretary of State has yet to see the draft he would be very grateful any comments the Prime Minister has so that they may be incorporated in a final text.

Yours ever
John Mogg

J F MOGG
Private Secretary

Encl

JF2AXI

17 86
19
BOARD OF TRADE
BICENTENARY

PRIME MINISTER

LAND ROVER: LEYLAND

Below is the paper the Secretary of State for Trade and Industry would like to circulate to the MISC group for its meeting before Cabinet on Thursday.

It seems acceptably factual and even handed (save for the substitution of "would" for "should" in paragraph 2).

I wonder about the wisdom of including paragraph 15 which sets out the criteria against which the BL board should judge the GM deal and alternative proposals. They seem to me to some extent not something for the BL board (e.g. the Britishness of Land Rover and the extent of the contribution made to resolving over-capacity in the truck and van sectors - those are more for the Government). More important, to include these criteria risks opening up the discussion in a way which would be premature and possibly damaging. *People would start to argue, and try to tie the discussions down too closely.* *nr*
Paragraph 16 also looks a little inept: it implies that the Government will be in a position to take a decision immediately after 4 March.

Agree that paragraphs 15 and 16 should be omitted? *Yes nr*

Agree also that the paper should be circulated at lunch-time tomorrow (Wednesday)?

DLV
Yes nr
David Norgrove
25 February 1986

EXTRACT FROM A SPEECH BY THE RT HON PAUL CHANNON MP,
(SOUTHEND WEST) SECRETARY OF STATE FOR TRADE AND INDUSTRY
SPEAKING TO THE TRADE AND INDUSTRY FORUM AT CONSERVATIVE
CENTRAL OFFICE ON THURSDAY 20TH FEBRUARY 1986

ac 2-45 pm.

In the last few weeks, a lot has been said about the negotiations which have been taking place between British Leyland and General Motors; a lot of it has been both short-sighted and uninformed. And so I would like to set the talks in their proper context by stating a few facts about the commercial vehicle industry today.

Throughout the 1960s and the early 1970s, makers of heavy trucks in Europe prospered. They traded at a profit and expanded their capacity to meet the demand. However, in the latter part of the 1970s, as a result of the economic recession and the oil crises, demand collapsed. The industry ran into deep trouble as, between 1979 and 1984, sales of heavy trucks fell by more than 30 per cent. And today it is estimated that European heavy truck manufacturers are faced with unused capacity of some 40 to 45 per cent. Losses in the sector across Europe have been estimated at £350 million in 1983 and over £400 million in 1984. Nor was the truck industry in Britain immune from this trend. Between

them, Leyland Trucks and Bedford made a total loss of £225 million in 1983 and 1984, and forecasts suggest little improvement in 1985. In the face of this appalling situation, rationalisation of the industry is inevitable. Mergers have increasingly been seen as an obvious way forward. One thing has become clear: the present situation could not continue even had we wanted it to.

This then is the background against which the talks with General Motors have been taking place. A merger between Bedford and Land Rover-Leyland, if satisfactory assurances are received, offers one way out of both companies' present difficulties. Both are under-utilised; both are losing money and despite the obvious merits of their products, both businesses are failing to generate the income which they need to fund the next generation of vehicles. Such a position cannot be maintained.

You will of course appreciate that my first concern has to be the preservation of a viable commercial vehicle industry in the UK and thus the preservation also of thousands of jobs which are dependent upon it. But if that is to be achieved, we have to face up to the fact that hard choices have to be made. To ignore the problems, as some would apparently have us do, would in the long term send the industry to its doom. That is one thing that I am not prepared to see.

As I have said, a GM deal offers a possible solution to these problems. But it has also been suggested that Land Rover has only been included within it so as, in some way, sweeten the deal. It is a suggestion which I utterly reject. The Land Rover company produces a marvellous product - one which is capable of beating the competition throughout the

world. But despite all the progress made, its financial performance is still not robust. Although making a small profit, it is not generating the financial resources which are required in order to develop new products. And it has no sales whatsoever in the biggest market for four-wheel drive vehicles in the world - the United States. A deal with General Motors could solve these problems. It could give Land Rover instant access to the huge and lucrative US market. It could also provide the technical and financial resources which the company needs if it is to improve both its product and its sales. Land Rover is therefore a part of the potential deal because it will be good for Land Rover.

Of course, the Government is not suggesting that a sale of Land Rover and of Leyland Trucks to General Motors has to be the best or only solution. Others have also expressed interest in all the different businesses. And, as we have made clear, each offer will be examined carefully on its merits. But the problems facing the industry cannot be ignored. The GM deal seems likely to offer real solutions to real problems. So may any other alternative proposals that may be made. But, it is vital that decisions are also taken quickly. Prolonged speculation about the companies' future can only do damage to their business. To delay taking decisions or even worse to turn a blind eye to the problems which they face, would jeopardise both them and the thousands of jobs which they provide. It would also be irresponsible in the extreme.

Confidential. CMO

Dzgr

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

MISC 126(86)2
24 February 1986

COPY NO

CABINET

MINISTERIAL GROUP ON LAND ROVER-LEYLAND

Note by the Secretary of State for Trade and Industry

Refer to earlier pp. 1
We need to consider carefully the handling and timing of the discussions between BL and GM and of the alternative proposals which may come forward for individual parts of the business.

Table of figures (losses) in annex.
GM TALKS

If approved this would allow
2 BL and GM are working towards a resolution of all outstanding issues, and signature of contracts in about 6 weeks. Annex A sets out the outstanding issues to be resolved between GM and BL. Both companies are seriously concerned about the prospects of delay and have expressed a strong wish that, following a recommendation of the BL Board, a Government decision should be taken and announced before Easter i.e slightly in advance of contract signature. GM have separately asked me for an assurance that, by Friday, 14 March, BL will be in a position to negotiate exclusively with GM.

ALTERNATIVE PROPOSALS

3 Presently the following parties have declared an interest in the possible acquisition of individual businesses within LRL. (Those whose interest is not publicly disclosed are asterisked).

(a) LAND ROVER/RANGE ROVER

Lonrho

Land Rover/Freight Rover management buy-out proposal (advised by * Shroders)

* Chase Manhattan (on behalf of "wealthy US private investors")

Aveling Barford

CONFIDENTIAL
CABINET MEMBERS ONLY

JH1CUP

(b) FREIGHT ROVER

Lonrho

Management buy-out proposal (with Land Rover)

(c) LEYLAND TRUCKS

* Paccar/Cummins (US)

4 All these parties have been told by BL to indicate by 4 March whether they have a firm intention to make an offer (but they will be expected to give an "indication" on the level and form of consideration) and to outline their general intentions for the businesses involved. At this stage my feeling is that only the Lonrho and the Schrodgers' led management buy-out proposals are likely to present serious alternatives to the GM proposal for the Land Rover/Freight Rover businesses. The strength of the Paccar/Cummins interest in Leyland Trucks has yet to be tested.

*At least a further
two weeks
for firming up
proposals, for
more detailed
discussions*

5 The 4 March dates for a statement of 'firm intention' by these alternative interests should be held to if BL and Government are to have reasonable time to evaluate the options yet keep open the possibility of an announcement of a GM deal in late March/early April. Slippage of a few days would not be critical but a much extended timetable would create a serious risk that GM would lose interest.

6 There are separate discussions in respect of LRL businesses not covered by the negotiations with GM. These are notably Leyland Bus and with agreement imminent a small subsidiary, Self-Changing Gears. I attach a status report on these talks at Annex B. I hope the prospects for privatisation of Leyland Bus will be clear by the end of March.

TIMETABLE

7 On the assumption that no acceptable alternative were to emerge, and that the GM proposals are approved at this stage an announcement seems feasible before Easter. This timetable may need to be slightly extended to allow more detailed study of any alternative bid. This produces the following alternative timetables.

Which...

Spelt Rink rather vagner, in words, Bump out

CONFIDENTIAL
CABINET MEMBERS ONLY

*EGN & fact of
signing by BL Board*

| | <u>Week Beginning</u> | <u>Week Beginning</u> |
|--|-----------------------|---|
| Evaluation of Alternative Bids by BL and HMG | 3 March | 3 March |
| BL Board Decision on alternative bids | 10 March | 10 March (further consideration of bids necessary) |
| Government Decision | 24 March | 7 April |
| Government Statement | 24 March | 7 April |
| Debate | 24 March | 7 April |

(Note: Budget and the Budget debates leave only 25/26 March likely to be free)

BL Extraordinary General Meeting Approx 3 weeks later

(Note: Recess from 28 March to 7 April)

EC COMMISSION

8 On present calculations, the GM deal will require a write-off of BL debt ascribed to the LRL businesses to be acquired by GM of around £50m. This is to avoid the residual BL companies being adversely affected by privatisation. This process will require voted funds and also EC Commission clearance under the EEC state aid rules. Informal soundings suggest there may be no insuperable difficulties in respect of the GM deal in that significant rationalisation will result and can be offered to the Commission as "counterpart" under the state aid rules. Alternative proposals to those made by GM not involving rationalisation may prove considerably more difficult. In either case the formal processes may take several months to complete and therefore fall outside the dates identified above. Special arrangements in the interim to handle debt write-off may therefore be required.

(CONCLUSIONS) The way ahead & criteria

9 The central dilemma for us is that although politically it would be attractive to separate Land Rover from the GM deal the industrial and commercial arguments are likely to point the other way. Moreover, during his visit to Detroit

CONFIDENTIAL
CABINET MEMBERS ONLY

Spill out:
money to go
to BL.

Take
in 10d

Probably
a
bit
late

on 17 February Sir Robert Clark (Chairman of Hill Samuel and a non-executive Director on the BL Board) was given a firm indication that if Land Rover was taken out of the package the deal with GM would collapse. Sir Robert's considered view was that GM would press this point to the brink "and possibly beyond". He advised also that if the talks with BL were not to succeed he believed that GM might take drastic steps to solve their UK Commercial vehicle operations, perhaps involving the closure of Bedford Trucks with the loss of several thousand jobs.

10 The immediate tactical and presentational issues are likely to surround:

- need for speed in reaching*
- (a) the speed with which the Government wishes to reach a decision. In fact the pace is in the main being set by GM/BL. Both are seriously worried at the damage which uncertainty and speculation is creating for their respective businesses. The recent request by GM that BL be in a position by 14 March to negotiate exclusively with them underlines the urgency and leaves us with a problem if one or more of the alternative proposals are worth pursuing.
- likely surprise decision*
- (b) the "inadequate" time and data allowed to the alternative interested parties to formulate bids. A date of 4 March has been set by BL within which the relevant parties must indicate a firm intention to make a bid. The view of the BL Board, and BL's and my Department's advisers is that the data given is adequate and the timescale, although tight, is not inconsistent with commercial practice. (In fact, both companies are disturbed that the "alternative bids" exercise is being undertaken at all. Given the stage of negotiation reached with GM, it would normally be highly unusual, if not improper, to throw the field open to other parties.)
- For oral use*
- (c) the possible employment consequences of a deal with GM, with another grouping or, indeed, without any change to the present organisation. There will be job losses under any circumstances - though the extent and timing and location have yet to be determined, and this is a message we shall need to consider urgently how best to get across.

CONFIDENTIAL
CABINET MEMBERS ONLY

It should be noted, however, that the consequences of not going ahead with the GM deal are likely to be significantly worse than an other proposal.

- (d) the Monopolies and Mergers implications. The Director General of Fair Trading will shortly consider whether to recommend that a deal with GM should be referred to the MMC. (Informal confidential guidance can, with my permission, be given to the interested parties). Should the Director General decide to recommend a reference of the GM/BL deal this would mean a delay of several months and could well result in the agreement the falling apart. It is open to met on wider public interest grounds but the Government would then undoubtedly be accused of steamrolling the deal through.
- (e) Politically the timing is extremely awkward. Even if the Government manages to meet the timetable outlined above there will be a long period of uncertainty which would certainly be exploited by the Opposition and some of our own side. Once Ministers have taken their collective decision we shall also need to seek the agreement of the House as soon as possible.

P C

Department of Trade and Industry
24 February 1986

CONFIDENTIAL
CABINET MEMBERS ONLY

-5-

JH1CUP

ANNEX A

BL : GM TALKS

OUTSTANDING ISSUES

The topics to be resolved include the following.

(a) Consideration

The current GM proposal is to pay BL £230 million comprising £154m in cash and £76m in the form of a note, a fixed interest debenture, which would not be immediately marketable and which would need to be held initially by BL. The BL Board believe this is already an acceptable financial package but BL are still negotiating for an increase in the proportion represented by cash and/or an improvement in the terms of note to make it more readily marketable. There may be scope for some modest improvement but significant movement is unlikely.

(b) Declaration of Intent

GM and my Department have been negotiating over a unilateral "Declaration of Intent" by GM comprising the assurances that Parliament has been told need to be satisfactory as a condition of sale. The indications are that we shall have very helpful statements on the things that matter notably product sourcing, local content levels, exports, UK based research and development and future investment. The Declaration will be one of the central issues in the political and industrial defence of any deal and I shall provide colleagues with further guidance on this as soon as I am in a position to do so.

(c) Commercial Issues

There are important, primarily commercial, issues still under discussion between GM and BL. There are complex trade mark issues (both Austin Rover and Land Rover use and need to retain the name "Rover") and contracts to cover arrangements between the LRL businesses and the residual BL subsidiaries - and to address the position of dealer franchises - will also be needed.

(d) Mergers Policy

I shall need to decide at the appropriate time, and in the light of advice from the Director General of Fair Trading, whether or not there should be a reference to the Monopolies and Mergers Commission (MMC). BL and GM are shortly, jointly, to make a preliminary approach to the Office of Fair Trading and this should give us an indication of the timing and substantive problems that might be involved. Both companies believe that, commercially their respective businesses could not cope with a 6-9 months delay inherent in an MMC inquiry.

ANNEX B

LRL BUSINESSES NOT COVERED IN GM TALKS

These involve Leyland Bus and Self-Changing Gears.

LEYLAND BUS

2 Discussions are in train between BL and the other significant UK bus producer (Laird Group Metro Cammell Weyman) which might lead to the acquisition of Leyland Bus by Laird and subsequent rationalisation. Volvo and Aveling Barford have also more recently expressed interest and have been supplied financial data and offered discussions with BL. Under any of these options significant rationalisation and job losses are likely to be involved given the downturn in the UK market, the modest export prospects and the over-capacity in the UK industry. These discussions are likely to take place over a slightly longer time-scale than those involving GM although there remains an urgent need to stem the substantial losses by Leyland Bus.

SELF-CHANGING GEARS

3 This is a small subsidiary which the BL Board has agreed to sell to Cummins, a US engine manufacturer but with important manufacturing interests in the UK. The German firm, Voith and certain UK individuals (almost certainly without substance sufficient to complete a deal) have also expressed interest. Cummins remains the BL Board's preferred choice and is likely to succeed. There is no impact on the GM talks.