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PRIME MINISTER

Land Rover Leyland

MISC 126(86)2

BACKGROUND

E(A)(86)3rd Meeting of 28 January endorsed the agreement reached between BL and General Motors (GM) providing for the purchase by GM of Leyland Trucks, Land Rover and Freight Rover, together with a substantial part of the related international operations. This was reaffirmed at E(A)(86)5th Meeting of 6 February. At Cabinet on 20 February (CC(86)7th Meeting) you said you would set up a small Ministerial Group to review tactics and handling. The Group's terms of reference are:

"To consider handling and tactics in relation to the negotiations between BL PLC and General Motors for the acquisition of Leyland Trucks, Land Rover and Freight Rover and discussions with other parties on this and on Leyland Bus".

This meeting - and the Note by the Secretary of State for Trade and Industry (MISC 126(86)2 - is about tactics, handling and timing; the substance of the issue will be the subject of a further Memorandum by the Secretary of State for Trade and Industry which will need to be considered separately by Ministers in due course.

2. Also relevant is the statement made in the House on 18 February by the Minister of State for Trade and Industry, Mr Morrison. He said:

"My hon Friend will appreciate that my right hon Friend the Secretary of State is not using the House as a negotiating House. Obviously negotiations will take place with all the separate parties, whether GM or other parties. When a



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conclusion to negotiations is reached, my right Hon Friend will immediately make a statement to the House and he will accept that it will be for the House to debate and decide upon the result of those negotiations".

This commitment was reaffirmed later by the Lord Privy Seal.

3. The firms that have expressed an interest in possible acquisition of Land Rover Leyland and Leyland Trucks are listed in paragraph 3 of Mr Channon's paper. He believes, however, that only the Lonrho interest and the Shroders-led management buy-out are likely to present serious alternatives to the GM proposal; it is too early to assess the strength of the Paccar/Cummins interest in Leyland Trucks.

Proposals

4. BL and GM are keen to end the uncertainty. BL has invited all parties to make clear by 4 March whether they intend to make an offer and to set out their general plans for the businesses concerned. This deadline has been severely criticised in the House. In addition, GM have separately sought an assurance from Mr Channon that BL will be able to negotiate exclusively with GM by Friday 14 March. Mr Channon suggests that following a final decision by the BL Board during the week beginning 10 March on whether to pursue any of the alternative proposals, Ministers should take a collective decision no later than the week beginning 24 March.

MAIN ISSUES

5. The main issues for discussion at this meeting are tactics in relation to the timing and presentation of the Government's decision, and in particular handling in Parliament.

Timing

6. Timing will depend on whether an acceptable alternative to the




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GM proposals emerges. If not, and if the BL Board still decide to pursue the GM proposal, an announcement before Easter appears feasible, though the timetable is tight. On this scenario, the BL Board will decide on the alternative proposals during the week beginning 10 March; the Government will need to take a collective decision thereafter (Mr Channon's suggestion is not later than the week beginning 24 March); and a debate would fall after that (either 25/26 March or after the Recess (week beginning 7 April)). An alternative possibility, if the timetable could be accelerated, would be Cabinet discussion on 20 March followed by a debate on 25/26 March. This would clear the decks well before Easter, but would be very tight indeed. BL and GM would then aim to sign contracts by around 18 April, with the possibility of an Extraordinary General Meeting a month later. The timetable would be extended by some two weeks if one or more alternative bid needed more consideration.

7. The timetable, in particular the 4 March deadline, has aroused much criticism on the grounds that it does not give other interested parties the necessary time (and data) to develop alternative bids. But BL and GM believe that uncertainty and speculation is harming their businesses; and their view, and that of BL's and DTI's advisers, is that the data given is adequate and the timescale consistent with commercial practice. You will wish to invite the Group's views on whether this is defensible, or whether any consideration should be given to extending the deadline.

European Community (EC) and Monopolies & Mergers Commission (MMC) Considerations

8. There are potentially very troublesome problems here, which are left hanging in the paper, but which could seriously upset the prospect of an early deal. On the EC, Commission clearance under state aid rules will be necessary for a write-off of around £50 million of BL debt ascribed to the LRL businesses to be acquired by GM. Informal soundings suggest this would not prove particularly difficult in respect of the GM deal as this offers the prospect of significant


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rationalisation. But alternative proposals not involving rationalisation could well encounter difficulties and in any event, the formal processes could last several months.

9. On the MMC, a submission is expected to be put in the next few days to the Director General of Fair Trading who will then advise the Secretary of State for Trade and Industry whether the GM deal should be referred. A recommendation that it should be referred would clearly be embarrassing for the Government and would almost certainly cause the GM deal to collapse. Rejection of such a recommendation would equally cause grave political difficulty.

10. You may wish to invite the Trade and Industry Secretary to report further urgently on both these problems and the extent to which they constitute a real threat to the proposed GM deal.

Presentation

11. The most difficult aspect of the proposed deal is clearly the inclusion of Land Rover. But it is doubtful whether Land Rover would have a viable future on its own (its traditional markets are declining and it needs access to the US market, which GM can offer) and all the signs are that the deal is simply not on with GM unless Land Rover is included (under the proposed terms of the deal GM in effect get Leyland Trucks free apart from bearing the £40 million redundancy costs). You will therefore wish to discuss how the Government can get its case over more effectively. Important considerations are:

(a) How better to get over the employment consequences both of the GM deal and failure to clinch it (without making explicit reference to the risk to Bedford);

(b) how to exploit the helpful Declaration of Intent which GM are apparently prepared to make on product sourcing, local content levels, exports, UK based research and development and future investment;



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(c) how best to handle the concern of the LRL workforce about a GM takeover? The Government position would be much stronger if it could point with conviction to fuller consultation with the workforce;

(d) how to get over the fact that only the GM deal so far seems to offer a serious prospect of keeping at least some part of Leyland Trucks in business without continuing to soak the taxpayer;

(e) how to put over even more effectively the argument about the general benefits of US investment in the UK, and of the UK's own overseas investment.

12. The briefing circulated by Mr Channon last weekend was helpful. You may wish to invite him to update this by developing further some of the points raised above.

Parliamentary Handling

13. The statement by the Minister of State quoted in paragraph 2 above could raise a problem on handling in Parliament. Clearly it will not be tolerable for the Government to make the negotiation of the deal with GM or anyone else subject to the outcome of debate in the House. But the House may regard an announcement of a decision by the Government to authorise BL to carry negotiations forward with GM to a conclusion as effectively closing off the options before they have had a chance to have their way. The answer to this will presumably be that:-

- the Minister of State also made it clear that the House cannot be used "as a negotiating House";
- the House will have had innumerable opportunities to express their views;



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and - the contracts would not be signed until after the debate.

You will, however, wish to seek the Group's views on this, and on the possible implications of any delay as a result of Parliamentary handling for the deal itself.

Next Steps

14. You may wish to invite Mr Channon to report developments briefly to Cabinet after the meeting. You may then think it sensible to hold further meetings of the Group at the same time immediately before Cabinet in the coming weeks until the issue is resolved.

HANDLING

15. You will wish to invite the Secretary of State for Trade and Industry to introduce his Note. The Secretaries of State for Energy and Social Services will have views in the light of their own personal experience of the West Midlands; the Lord Privy Seal and the Parliamentary Secretary, Treasury may wish to comment on the parliamentary aspects of the issue. The Lord President of the Council and the Chancellor of the Duchy of Lancaster may have general political and presentational points.

CONCLUSIONS

16. You will wish the Group to reach decisions on:

(a) whether it is right to stick to the 4 March deadline for declaration of alternative bids;

(b) whether to aim for a collective decision no later than the week beginning 24 March, with an announcement and debate before Easter;

(c) whether to invite the Trade and Industry Secretary to report further urgently on the implications of the European



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Community and Monopolies and Mergers Commission complications;

(d) how best to put over the Government's case more effectively (perhaps with the help of a further briefing note by Mr Channon);

(e) what tactics should be pursued in future handling of the issue in Parliament;

(f) what arrangements should be made for future monitoring of developments by the Group.

J B UNWIN

26 February 1986
Cabinet Office