



DEPARTMENT OF INDUSTRY
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 Secretary of State for Industry

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8 October 1982

Michael Scholar Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 London SW1

Prime Minister (2)

Your meeting with Sir A

Bide is, of course, about
 patents. But I thought

you might find a short

Dear Michael,

... As agreed, I attach background and defensive
 briefing for the Prime Minister's use when she sees Sir Austin Bide on 12 October. As
 the meeting with Sir Austin is on a non-BL matter, with other people present, we have
 confined the briefing to key recent issues.

memorandum

on BL

useful.

Yours ever,

MCS 8/10

Caroline Varley

CAROLINE VARLEY
 Private Secretary



BACKGROUND BRIEFING

BL AND SIR AUSTIN BIDE

Chairmanship

Sir Austin Bide assumes the non-executive Chairmanship of BL on 8 November 1982, at a salary of £65,000 a year. Sir Michael Edwardes relinquished the executive Chairmanship on 1 October, his executive duties passing to Mr Ray Horrocks and Mr David Andrews; Sir Michael remains non-executive Chairman until 8 November, and thereafter will be a non-executive Board director until around the end of the year.

Profitability

BL's half-year results for 1982 show a much improved position - a trading loss of £61.3m (1981 - £143m) and a net loss of £143.4m (1981 - £225.8m). BL have recently reaffirmed publicly their expectation of breaking even at the trading level in 1983.

Government Funding

Of the £900m approved for 1981/82 and 1982/83, £700m has so far been provided. BL have stated publicly that they will not need all the £150m they had previously expected to request in the financial year 1983/84. No further Government money is required to fund the company's operations after 1983/84 (again, a public commitment).

Privatisation

A letter of 4 August from Sir Michael Edwardes to the Secretary of State for Industry (copy attached) sets out the agreement between the Board and the Government on further funding and on progress towards privatisation. At a recent meeting with Mr Jenkin, Sir Austin has affirmed his commitment to the terms of this letter, and to the provision of a more detailed programme of privatisation in the 1983 Corporate Plan (which is due to be considered by the BL Board on 13 October).

Mr Jenkin publicly endorsed these plans in his Conference Speech on Tuesday 5 October; Sir Michael Edwardes has since privately expressed satisfaction with the way this was handled.

Forthcoming Party Political Broadcast

Sir Austin Bide may like to know that Jaguar's success will be highlighted in a forthcoming 5-minute Party Political Broadcast on 20 October.



POINTS TO MAKE IF APPROPRIATE

BL AND SIR AUSTIN BIDE

The Prime Minister may wish to:

- welcome Sir Austin to his important new job, and wish him well;
- note that BL's latest half-year results provide evidence of the slow but steady return to profitability which is essential for privatisation;
- note that BL have publicly referred to their intention to introduce private capital into their mainstream business within the next two years, as a first stage towards an eventual return of the whole company to private ownership.

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FROM SIR MICHAEL EDWARDES

4th August 1982

The Rt.Hon. Patrick Jenkin, MP,
Secretary of State for Industry,
Ashdown House,
123 Victoria Street,
London SW1.

CONFIDENTIAL

13:51

New Secretary of State,

Further to the very constructive meeting which you had with the BL Board on 6th July, it may be helpful if I confirm the Board's position on the matters we discussed.

With regard to privatisation, I confirm that it is the Board's objective to return BL in whole, and probably by instalments, to the private sector as soon as practicable. We acknowledge the wish of Government to show early and visible progress to this end, consistent with maintaining the recovery strategy in the Corporate Plan.

Prior to the meeting, we had tabled for illustrative purposes a profile indicating one of the possible routes to full privatisation which will be examined in the privatisation strategy which is being developed for the 1983 Corporate Plan. Until the necessary studies for the 1983 Plan have been completed, it would be unproductive to try to set out the other available options for achieving a return to the private sector or to be more specific about the individual actions which will comprise each option. However, the Board believes

Continued... ..

The Rt.Hon. Patrick Jenkin, MP,
Secretary of State for Industry.

4th August 1982

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the Board believes/

that it can offer a broad commitment to the Government on certain issues, based on the following assumptions:-

1. that the Board will be able to appoint one of the present non-executive Directors as Chairman (I am now putting to the Board the formal proposal that Sir Austin Bide and Sir Robert Hunt should be appointed non-executive Chairman and Deputy Chairman respectively);
2. that the Government consequently approves the Board's proposals for succession which provide for the maximum continuity at Board and top management levels;
3. that an objective on the lines set out in my second paragraph above will be agreed between the Board, the new Chairman and the Government;
4. that the Government does not proceed with its proposal for the total disposal of Land Rover, while satisfactory progress is being made towards the achievement of (a) and (b) below;
5. that, subject to approval of the 1983 Corporate Plan, the Government agrees to provide, in addition to the £990m already committed, such part of the £150m equity funding envisaged in previous Plans for the period after March 1983 as is not offset by estimated proceeds from the sale of minority interests (see (a) and (b) below) and which can be demonstrated to be needed to fulfil the Plan; and
6. that the major financial targets in the current Corporate Plan are broadly achieved each year, as is expected to be the case for 1982 - non-achievement is of course covered by my letter of 26th January 1981 to your predecessor.

* All the directors
Support it in fact. 4.

Continued.. ..

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On these assumptions, the Board commits itself firmly to the following specific objectives within the overall objective enunciated above:-

- (a) To limit BL's requirement for Government funding to the amounts referred to in 5 above. This will mean that the final £150m funding requirement envisaged in previous Plans should be significantly reduced and that, subject to receipt of the balance of the funds already approved by the Government, there will be no further Government funding requirement for maintenance of the business after the financial year beginning in April 1983. The only circumstances in which Government funds might be needed thereafter would be:-
- i. In the event of a total or partial collapse of the business, the Varley/Marshall/Joseph assurances that the Government will meet BL's obligations would be triggered; the Board sees no possibility of the Government being relieved of these assurances until full privatisation is complete, but the Board will explore the practicality of reducing the scope of the assurances, e.g. the possibility that in conjunction with the sale of minority equity stakes certain subsidiaries might be able to borrow externally on their own account without the comfort of the assurances.
 - ii. We have an unacceptable balance sheet for private sector purposes, and as we privatise we will need to remedy the position for those companies taking on outside shareholders or joining the private sector. There might be a need for Government finance immediately prior to privatisation, but the aim would be at least to recover any outlay by the proceeds of disposal

Continued.. ..

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4.

- (b) To devise a strategy for full privatisation in the 1983 Corporate Plan which offers visible progress within the next two years towards privatisation by such means as the sale of minority equity stakes in BL's more profitable businesses; which builds on existing collaborative arrangements (such as Austin Rover/Honda) and seeks new opportunities for collaboration (such as the informal approaches we have made to International Harvester, DAF and more recently Volvo about links with our commercial vehicles business) in order to make BL's constituent businesses more attractive for ultimate privatisation; and which maps out possible routes for the full return of all parts of BL to private ownership by the late 1980's, setting target dates wherever possible.
- (c) To make a public statement this autumn (if possible at the press conference for BL's half-year results on 15th September) underlining the Board's commitment to privatisation. A draft of such a statement is attached.

*Yours Sincerely,
Patrick Jenkin*

Enc:

FOR HALF YEAR STATEMENT

PRIVATISATION

As I said in my report to shareholders in March of this year, the division of BL into separate operating units increases operating efficiency and also makes it easier to inject private sector funds into some or all of these businesses when they reach a commercially attractive stage. The Board now feels that with the continuing progress being made towards profitability, it is realistic to seek private sector funds over the next two years for BL's mainstream businesses. The Board sees these developments as the first step towards an eventual return of BL to private ownership.

Private sector funds, coupled with the continuing progress of the businesses, would, the Board believes, enable it to bring forward the time when the Company can sustain itself without Government funding. The 1983 Corporate Plan will be submitted on this basis. The Board envisages that the final £150m of Government funding required in the 1982 Plan will be significantly reduced, thus bringing this funding to an end earlier than expected in previous Corporate Plans.

TRADE : PROTECTION OF INTELLECTUAL PROPERTY.