

CONFIDENTIAL

POLICY UNIT

10 February 1984

PRIME MINISTER

PRIVATISATION OF JAGUAR

② For E(A) on Wednesday. No need to read annex to E(A)(84)13 apart from pages 12-15 and be additional annex at the back. AT 10/12

The DTI are under the influence of the BL Board. BL have been dragged into agreeing to the disposal of two subsidiaries against their will and are now fighting a rearguard action.

The DTI are right that maximum proceeds would come from sale to General Motors. Industrial logic also favours this route. However, you could support the DTI in rejecting sale to an overseas buyer on political grounds.

The DTI should not be supported in their preference for a residual 25% BL holding. A golden share can be used to block future takeover. Many of BL's minority shareholders have bought their shares in the last year on the back of press speculation that they will obtain preferential application forms for Jaguar and Unipart. Those people are hardly likely to oppose complete sale.

A segregated Jaguar would not necessarily sever all its links with the 10% of BL dealers who currently sell Jaguars. Nor could it be guaranteed that a 75% private Jaguar would wish to preserve all the existing dealership links. The DTI fails to show how retaining a portion of Jaguar shares in BL assists the eventual privatisation of Austin-Rover and have already argued privately that there is no realistic prospect of privatising Austin-Rover during the life of this Parliament.

The DTI are correct that Jaguar on sale will pass outside the government debt guarantee. BL and some in the DTI wish to go further and positively reaffirm the Varley-Marshall assurances on the rest of BL's debt, probably because Norman Lamont has started raising good questions about how enduring and how large the government's commitment to BL's debts has to be. It would be better to say nothing in case in due course a way can be found to disengage a little.

The DTI are also correct that the sale proceeds will have to go to BL. These proceeds could replace any other government monies for the Group.

We recommend E(A) supports:

1. the DTI in ruling out foreign takeover;

CONFIDENTIAL

2. sale of 100% by flotation in the first half of 1984;
3. the use of a Golden share to block early takeover after flotation; ?? - inconsistent with 2.
4. caution in making the other pledges to BL that the Board are seeking as the price of their acquiescence.

Attached is a handling brief based on key issues raised in the officials' paper.



JOHN REDWOOD
10 February 1984

CONFIDENTIAL

JAGUAR

The key issues are:

1. Jaguar is small and needs a partner.

Quite true, but Jaguar will start with a strong balance sheet and should not need financial support beyond its own reach within the first three years or so of independent life. A partner from the outset is not undesirable, but not essential either.

2. Jaguar is vulnerable to the £/\$ relationship.

Quite true now, and likely to remain so. This would argue in favour of ownership by a company which can (a) stand the ~~swings~~^{swings} and (b) can offset the disadvantage within the USA.

3. Jaguar needs to retain its existing trading links with BL, partly for technology reasons and partly because of the established dealer network.

Not true on either count.

(a) We see no reason why Jaguar cannot continue to buy services, if its commercial judgement inclines that way, from BL Technology. Even the BL proposition that BL should retain 25%-30% of Jaguar would require an arm's length trading relationship between Jaguar and BL Technology. Jaguar should be free to buy technical services wherever it can, or to develop its own. The same applies to body tooling and panels. Rolls-Royce has bought from BL and others, on an arm's length basis, for many years.

(b) As to preserving the dealer network, the argument has limited validity in the UK and none overseas. If the majority of shared outlets with Austin Rover are effective, an independent Jaguar will want to keep them, and even a new owner will think twice before tearing up the arrangements. Overseas, Austin Rover can offer Jaguar next to nothing.

4. Part of the Jaguar appeal is its Britishness.

Quite true. British sentiment would be offended if Jaguar were sold overseas.

For the longer term, however, we should distinguish between a true multinational like General Motors, which lacks any strong national

CONFIDENTIAL

/hue

CONFIDENTIAL

- 2 -

hue, and an overseas purchaser such as BMW, Daimler Benz or Toyota who are very clearly part and parcel of strong national cultures.

5. Since Jaguar needs to keep a relationship with BL in the short term and may need a relationship with a volume vehicle maker in the longer term, the logical course of action is to leave a minority "controlling" interest with BL.

This is nonsense. Financially, BL can offer Jaguar nothing without recourse to the taxpayer. We judge that a 25%-30% holding by BL in Jaguar will circumscribe Jaguar's freedom to pursue its best commercial interests, and will be somewhat diversionary for BL.

ky.

ROBERT YOUNG
10 February 1984

CONFIDENTIAL