

PRIME MINISTERLEYLAND TRUCKS - E(A) ON 4 APRIL1. The Paper

Mr Tebbit's summary paper is, for the most part, excellent. We strongly support his view that BL must be considered not as a whole but business by business. The spadework done by officials on Leyland Trucks has resulted in a much greater degree of unanimity than on previous BL topics, and you should exploit that to make tough but necessary decisions stick.

2. Leyland and the UK Truck Industry

Leyland Trucks are in an appalling state. Under Michael Edwardes' chairmanship, the Board became preoccupied with the internal problems of the Cars Group and allowed the truck business to slide. There was discontinuity of management, compounded by some bad appointments. Worse, from 1978 on, the truck market at home and abroad went into sharp decline and Leyland quite simply failed to see that they were on the slippery slope of a diminishing share of a diminishing market, coupled with excessive costs and a price war. The results* were disastrous:

Cash Flow	<u>1979</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>83</u>	<u>Total</u>
£ million	(74)	(107)	(76)	(130)	(91)	(478)

Leyland is not a strategic part of a UK commercial vehicle industry which is fundamentally viable. The only indigenous makers left outside Leyland are ERF and Dennis, whose scale is tiny. Ford, Bedford, Foden and Seddon-Atkinson are all US owned, and the latter two are desperately weak.

*

These results are for the now disbanded Leyland Group. They are broadly, but not strictly, comparable with the figures which follow in paragraph 3.

3. Leyland's Proposal

Leyland's proposal is principally to close Bathgate and withdraw from engine manufacture. On this basis, forecast results are:

Cash Flow - £million outturn

<u>1984</u>	<u>85</u>	<u>86</u>	<u>87</u>	<u>88</u>	<u>Total</u>
(72)	(74)	(62)	(45)	(39)	(292)

Policy Unit and the Officials Group regard this as totally unacceptable. Bathgate and engine manufacture should indeed be closed down but that is not enough. *Conclusions of Official group are summarised in paras 6.1 to 6.6.*

4. Possible solutions

Closure. Total closure in 1984 is tempting. It is safe, but expensive (c.£300 million), particularly because of PSBR costs on top of closure costs. It would deny Government and taxpayers the chance to recoup something for Leyland's better assets: the new truck designs, the bus and parts businesses, the transmissions business (Self Changing Gears) and indeed the relatively new assembly plant at Leyland in Lancashire.

Find a "British" buyer. We agree that the first step should be to explore whether Ford or Bedford would take the Leyland commercial vehicle business whole. Like Mr Tebbit, we do not rate the chance of success highly, but these two, with their sizeable UK manufacturing investment in trucks, have most interest in not seeing Leyland's share snapped up by the Continental Europeans.

The exploration need and should not take long - two months as a target and three months at most. (Scott Lithgow took two). You should not trust BL to do the exploration, for the simple reason that they do not wish to. DTI ought to consider non-Government assistance in disentangling the market and commercial issues at stake.

Find another buyer. We would strongly argue that no other bidder should be shut out. DTI are unsound on this point. Perhaps this time they could be cured of their selective xenophobia. Why is it proper for Nissan to come here with a huge subsidy, but improper for, say, Volvo or Hino to buy existing assets which Leyland have squandered? Scottish Office will want to seek a buyer for Bathgate. We should let them try.

Break-up and Sell. If it proves impossible to dispose of the business whole, we must then move quickly to sell the parts. Leyland Bus, Leyland Parts and Self Changing Gears are self-contained, and can be sold separately or in combination. There would probably be competitive bidding. Scammell, which makes very heavy trucks and military specials at Watford, could be massaged into a self-contained unit and sold with the heavy conventional truck designs.

If we reached the break-up option, we are stuck with the closure of the Leyland works in Lancashire, as well as of Bathgate.

Common Problems. Unless we believe that Leyland Trucks will shortly return to massive profitability, any solution is going to involve writing off about £170 million of accumulated debt. That much and more has already been lost - we must not throw more away in trying to recoup it.

Under any option, the closure of Bathgate could precipitate a disastrous strike Leyland wide. In that event, we would have to go straight to break-up.

Finally, if E(A) rejects BL's own proposals, there is a good chance of a row between Government and the BL Board. Given the Board's track record, and the example of Government's common sense approach to Scott Lithgow, you should not flinch from a show-down on commercial or political grounds.

5. Conclusions

- (a) Approve the closure of Bathgate and Leyland's withdrawal from engine manufacture.
- (b) Explore disposal of the whole business to Ford, Bedford or any other bidder, within a maximum of three months.
- (c) If that fails, break the business up and sell the pieces within a further three months.
- (d) Be prepared for a confrontation with the BL Board.

R.Y.

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Policy Unit
2 April 1984