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

TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

20 December 1984

Andrew Turnbull Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON SW1

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*ms*

*Pie Murter*

*interesting developments*

*Dear Andrew,*  
*RATIONALISATION*

PRIVATISATION OF THE UK COMMERCIAL VEHICLE INDUSTRY

In your letter of 28 November about BL you asked for a progress report on, inter alia, possible rationalisation. I am writing about the more radical possibilities separately because of the commercial and political sensitivity of the issue.

*21/12*

2 Following the E(A) decision on 4 April, officials this summer approached Ford and GM about a rationalisation of the truck industry involving Leyland Trucks and perhaps other parts of Land Rover-Leyland (LRL). The GM response was positive and they fielded a senior team for preliminary talks with the company which have been followed up by more detailed discussions.

3 Initially GM tabled a specific proposal for collaboration on the production of a new range of medium trucks but they have said privately to us that they intend to look at other areas and their interest seems serious. They have for example asked questions about the likely Government attitude towards foreign acquisition of LRL - including Land Rover - and towards the formation of a joint company which GM might find sensible as a transition towards a full merger. Moreover while Bedford is relatively secure on the van side, there are still major question marks over its truck operations which are still losing money heavily and where, to remain competitive, GM needs to invest a great deal of money over the next few years in products and facilities.

4 GM have promised to try to give the Department a clear indication of their thinking in a timescale which will allow Ministers to take it fully into account when reaching decisions on the 1985 BL Corporate Plan - ie we should be clear about their plans by the end of February. In the meantime they have urged that we should treat the matter in the very strictest confidence: premature publicity could seriously damage the prospects of a

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successful outcome. For this reason officials propose to handle the talks with GM outside the mainstream of discussions on the 1985 Corporate Plan, and the codeword SALTON will be used for discussion of BL/GM possibilities more radical than commercial collaboration.

5 Ford's initial reaction gave rise to doubts about whether they were interested at all. However, they have now told us that they intend to have exploratory talks with BL in January about the scope for collaboration and their interest sounds as if it might now become serious. We shall of course report further on any significant developments.

6 I am copying this letter to David Peretz (Treasury) and Richard Hatfield (Cabinet Office).

*Yours ever,*

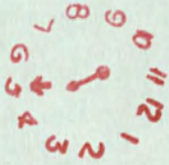
*Ruth*

RUTH THOMPSON  
Private Secretary

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