



10 DOWNING STREET

From the Private Secretary

MR HATFIELD
Cabinet Office

BFI I attach a letter conveying the Prime Minister's views on the position reported in Ruth Thompson's letter of 20 December about BL. As you will see she envisages a meeting of E(A) within a few days of BL's proposals on Unipart coming forward in mid-January and I should be grateful if the Secretariat could bear this in mind.

Timothy Flesher

24 December 1984

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From the Private Secretary

24 December 1984

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The Prime Minister has now seen your letter of 20 December covering a number of issues on the privatisation of various parts of BL. She has commented that the attitude of the BL Board will not do. Progress towards privatisation must be maintained as originally intended. She has asked therefore that there should be an opportunity to discuss the position as soon as possible after BL's proposals on Unipart come forward in mid-January.

I am copying this letter to the Private Secretaries to members of E(A) and to Richard Hatfield (Cabinet Office).

(Timothy Flesher)

Miss Ruth Thompson
Department of Trade and Industry

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Secretary of State for Trade and Industry

20 December 1984

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

This won't do. B-L must go as soon as possible. A meeting please within a week of mid. Nov. Gen.

Prime Minister:

Dear Andrew,

BL

BL is behaving badly over Unipart. They have been given until mid January to produce proposals for privatisation. Mid-1985 must remain the target (see Poney vnt note flagged)

Thank you for your letter of 28 November. In it you raise a number of points relating to the progress in privatising various parts of BL.

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Unipart

2 You will recall that, at the time of the acquisition of Edmunds Walker, the BL Board agreed as a quid pro quo to accept mid-1985 as an informal target for the privatisation of Unipart. While the date was not binding, we consider that the BL Board's acceptance of it as an informal target means that there would need to be very good reasons for it to be changed.

3 With the Prime Minister's agreement, the Board were recently told that Unipart could go ahead with the acquisition of the Motorist Discount Centre business on condition that the Board entered into a firm commitment to privatisation by June 1985. However the Board have now come to the conclusion, on the basis of advice from Hill Samuel, that the sale of Unipart in June 1985 would be at what they consider to be an unacceptable discount to asset value, which they believe would be contrary to their Companies Acts duties to the minority shareholders. They are also concerned about the prospects of the Austin Rover Group, and want to delay the sale of Unipart on the grounds that it might be desirable to transfer the parts and components bits of Austin Rover to Unipart if Austin Rover's prospects do not improve.

4 Mr Lamont therefore asked to see Sir Austin Bide and his colleagues on 12 December and impressed on them the Government's dissatisfaction at the suggestion that the Board were now looking to a date much later than their target of mid-1985 for the privatisation of Unipart. He has subsequently written to reinforce the message, and I enclose a copy of his letter.

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5 The Board have undertaken to come forward with proposals for Unipart privatisation by mid-January. Whether or not these are unsatisfactory - and Sir Austin's comments at the meeting with Mr Lamont suggested that they will be - my Secretary of State wishes to call in merchant bankers to provide an independent assessment of the sale prospects, and to consider the situation with colleagues on the basis of that assessment as well as on the basis of the Board's proposals.

Land Rover Leyland (LRL)

6 You are aware of the BL Board's delay in producing detailed studies of the privatisation options for Land Rover and Leyland Bus. As a result of this, in early November Mr Lamont met Mr David Andrews, the responsible executive Board member, and firmly stressed to him the need for the Corporate Plan properly to consider and evaluate all the options. We received the Plan on 12 December and you will be pleased to hear that the Board have addressed a satisfactory range of options in it.

7 Essentially, seven main options are considered:

- (a) Sale of Land Rover Ltd in 1985.
- (b) Sale of Land Rover (UK) plus African companies in 1985.
- (c) Sale of Leyland Bus in 1985.
- (d) to (f) As (a) to (c) above, but in 1986.
- (g) Sale of LRL as a whole in 1989.

The Plan recognises that not all of these options are mutually exclusive; for example both Bus and one or other of the Land Rover options could be sold.

8 Having reviewed these various options the BL Board arrived at the conclusion that the best course would be to keep the company together, and to sell it as a single entity in 1989. Together with colleagues from Treasury and the Policy Unit we will be examining and questioning very carefully indeed the assumptions and reasons leading to this view. Our initial reaction is that there are good reasons for disputing the Board's view.

Rationalisation of the UK Commercial Vehicle Industry

9 Talks between LRL and GM are proceeding about a possible collaboration between the two companies on the production of a new range of medium trucks. Ford also intend to open discussions with

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LRL to explore the opportunities for collaboration early in the New Year.

10 I am copying this letter to the Private Secretaries to the members of E(A) and to Richard Hatfield (Cabinet Office).

*Yours ever,
Ruth*

RUTH THOMPSON
Private Secretary

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