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cc: Mr. Warry

10 DOWNING STREET

From the Private Secretary

28 January 1985

LAND ROVER - LEYLAND

The Prime Minister has seen your Secretary of State's minute of 25 January. She takes the view that the Government should do the best it can to secure special arrangements to protect the identity of Land Rover but should not make this a blocking point. She fears that if this attitude is pushed too far, it may jeopardise the whole sale to GM. She has commented that Land Rover had a marvellous product and good profits but that, as a result of poor management, it allowed the Japanese into the market and turned the Company from a major asset into a liability. GM might be able to rejuvenate the Company and make it prosperous once again.

I am copying this letter to Rachel Lomax (HM Treasury).

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

SECRET

PRIME MINISTER

As Mr Tebbit's minute concedes, there is little industrial logic in treating Land Rover differently from Leyland Trucks. It is losing money (not as always we are promised recovery) and I suspect its reputation for quality products is no longer justified.

But Mr Tebbit is suggesting that there is still a patriotic attachment to Land Rover which needs to be acknowledged in some way eg by negotiating an assurance that Land Rovers will, if they are made at all, be made in Britain, or by giving HMG some continuing control.

Agree control of Land Rover pass to GM only if satisfactory assurances are secured?

-Do the best we can - but do not make it a No-deal point

I fear that if we adopt this attitude we may lose the whole sale. The fact is that Land Rover had a marvellous product an excellent opportunity and good profits. It threw away its chances and allowed the Japanese to compete. Problems in control its management turned it into a liability. G.M. could reinvest it and make a prosperous one year not

J. Bowers
PP Andrew Turnbull
25 January 1985

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cc [handwritten initials]

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PRIME MINISTER

LAND ROVER-LEYLAND

I enclose a note by my officials describing the current state of play on discussions between GM and Land Rover-Leyland, which raises the difficult question of foreign ownership.

2 I am personally quite relaxed about GM taking control of Leyland Truck and Bus, provided this did not lead simply to closure of the Leyland facilities (although it would almost inevitably lead to some rationalisation). It is widely recognised that the UK truck and bus sector is in a parlous state and that, sooner or later, there are likely to be further casualties. Most informed observers will therefore see a link-up between Leyland and Bedford as a sensible move which will be of overall benefit to the industry. Bedford itself of course has a strong British identity, particularly in Commonwealth countries where it is active.

3 I see however a problem in relation to Land Rover. Land Rover as a name is strongly identified with a British product, and with British excellence in product design and engineering. I do not believe it will be easy to gain public acceptance for any course of action which can be presented as handing over such a particularly British undertaking to US control. We recognised in the case of Jaguar the desirability of preventing overseas control. I believe that we would meet strong political objectives, even if less well-founded in commercial reality, were Land Rover to pass into overseas control. It is not yet clear what degree of importance GM would attach to Land Rover as an element in the overall package which they have under study.

JH4ASK



COVERING SECRET

Nor would I wish to rule out any transfer: the attached paper discusses ways in which overt GM control may be averted. We need to explore further such mechanisms. It may be that GM's commercial intentions can be reconciled with the retention of Land Rover as a distinctive British company and product. But I feel, and on this I should be particularly glad of your views and Nigel's, that we should indicate to GM that in the absence of necessary assurances over identity, location of production, marketing and other matters, we could not agree to their acquiring control over Land Rover.

4 I am sending a copy of this minute to Nigel Lawson.

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25 January 1985

Department of Trade and Industry.

JH4ASK

LAND ROVER-LEYLAND : GM

The General Motors interest in Land Rover-Leyland (LRL), if sustained, represents an important opportunity to advance the Government's objectives for the privatisation of BL businesses; and to encourage a much-needed rationalisation of the UK truck industry. However, Ministers need to reach an early view on the political aspects of possible control of a significant part of BL by a foreign multinational, particularly if any proposed deal were to include Land Rover Ltd. If there are felt to be overriding objections to the latter, GM should be alerted now.

BACKGROUND

2. GM (and Ford) were approached by DTI in mid-1984 to determine their interest in a rationalisation of the UK commercial vehicle sector involving LRL. The GM response was positive and high-level, and exploratory talks with LRL have been followed up by a more detailed study of the opportunities for collaboration including the exchange of information on product plans and facilities. However, GM have told the DTI in confidence (they have not yet opened up the subject with LRL) that, while the immediate focus of discussion is collaboration in the development of a new range of medium trucks, GM are carrying out an internal study of "more comprehensive" solutions whereby GM would acquire control of major parts of LRL, perhaps excluding Freight Rover but certainly likely to include Leyland Truck and Land Rover Ltd and probably Leyland Bus. GM have undertaken to try to give HMG an indication of their intentions before Ministers take final decisions on the 1985 BL Corporate Plan.

ADVANTAGES

3. A merger of the Bedford and LRL commercial vehicle operations would have a number of attractions:-

(i) General

The UK truck industry is still suffering severely from lack of volume and under-utilisation of facilities and all three main producers - LRL, Ford, Bedford - are losing heavily.

On reasonable assumptions about domestic and export market growth it is certain for the foreseeable future that too much capacity will be chasing too little business. If an effective UK truck capability is to be retained, some measure of rationalisation is urgently needed to avoid steady decline.

(ii) Bedford

There has for some time been concern about the role of Bedford within a reorganised GM world truck operation. GM's growing links with Japan (Isuzu and Suzuki), a possible joint venture with Enasa in Spain and the acquisition of the MAN truck business in Germany by GM (still under negotiation) will add to the fears that the centre of GM truck activity in Europe might gradually move away from the UK with Bedford (like Vauxhall) becoming an assembly only activity.

A merger or acquisition of the Bedford operations with those of LRL would require a very substantial commitment by GM in the UK, would create in time a powerful new UK presence in European and world markets and offer a more solid and prosperous customer for the UK components industry.

(iii) LRL

From the 1985 Corporate Plan now under study it is apparent that Leyland Trucks will not approach commercial viability until the end of the decade. Even this expectation may be based on over-optimistic assumptions. Leyland Bus also faces severe short-term difficulties and recovery in later years of the Plan is regarded by the BL Board as high-risk. Land Rover (unlike Freight Rover) is currently unprofitable although it is expected to have sound prospects of recovery by 1987/8.

Nevertheless, although it is possible to envisage privatisation of certain elements of the LRL operation within a reasonable timescale major areas of the business, notably Trucks, will continue to represent a significant problem for BL and a liability for Government. Under GM, these businesses would have a parent with the resources to help them succeed.

DISADVANTAGES

4. There are nevertheless potentially difficult political and presentational issues to be addressed in terms of control or acquisition by a foreign multinational of significant parts of BL. Moreover, while GM overall makes a significant contribution to industry and employment in the UK, its public image at present is of a company which while enjoying a position of increasing success in the car market is meeting that demand with a high level of imports and whose domestic build is also largely assembled from imported components. A Bedford/LRL merger might therefore be criticised as an example of Government handing over LRL's significant

position in the UK market to an unsympathetic multinational which could gradually service that market from abroad. There could well be an even sharper reaction if the arrangements included Land Rover with its uniquely British image with a worldwide reputation for high-quality products.

It would be possible to attempt to counter such criticism in a variety of ways e.g.:-

- (i) the negotiation of a detailed understanding with GM on how it would propose to implement any merger with particular emphasis on R&D, production, facilities and employment;
- (ii) the retention of Government control over the Land Rover name which would give HMG direct influence over GM's policy towards that company post-merger;
- (iii) the formation of a joint company as a transitional measure before GM acquire full control (a sequence with GM themselves have floated informally with DTI). If desirable, a special structure might be sought for Land Rover so as to defer or rule out entirely ultimate control of that company by GM.

5. If Ministers believe that there is any area of the LRL business where Government should prevent GM control, GM should be given an early indication of this. It is possible that any such caveats might attract an unfavourable response from GM and influence their attitude to the whole package; but at least an equal risk would be involved in allowing GM to continue to work on the basis that there are no constraints.

Department of Trade and Industry
Vehicles Division

January 1985