



b/c P. Warry

## 10 DOWNING STREET

*From the Private Secretary*

11 March, 1985

BL PRIVATISATION

The Prime Minister has seen your letter to me of 5 March. She has noted that the privatisation of Unipart is now scheduled for end-1985. She regards this as very disappointing and has commented that the date must not be allowed to slip still further. She would be grateful if she could be informed if at any stage this looks likely to happen.

The Prime Minister welcomes the negotiations with GM for the sale of Land Rover-Leyland. While she hopes these negotiations will be successful she has suggested that the Department and the advisers should continue to identify and talk to alternative buyers.

Finally, the Prime Minister hopes that the paper on the Corporate Plan which will be put to Ministers shortly will identify radical options for the Austin-Rover Group and will address how the growth in exposure under the Varley Marshall assurances can be limited.

I am sending a copy of this letter to Rachel Lomax (HM Treasury) and to Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

A Lansley, Esq.,  
Department of Trade and Industry

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Prime Minister ①

Agree Policy Unit recommendations.

AT 8/3

MR TURNBULL

8 March 1985

*Agreed as amended  
MT*

BL PRIVATISATION

It is regrettable that the Unipart privatisation date has slipped from mid-1985 to end-1985; however, this is probably the best that can now be achieved. BL clearly understand that DTI want no further slippage. Norman Lamont has made this very plain to BL, nevertheless the caveats remain a concern.

It is encouraging that Norman Tebbit has bypassed the BL Board to ensure that GM understand our serious intent to dispose of Land Rover-Leyland. This should undermine any foot-dragging by BL. I believe the discussions are genuine, but you should be aware that the mid-May date is only for completion of the integration study. If successful at least two months more will be needed for the negotiations and commercial details.

It is therefore essential that the DTI's merchant bank not only advise if the businesses could be sold elsewhere but also find buyers for them. If the GM discussions founder, then other potential buyers will be in the wings, and if they are successful, then the alternative options strengthen our bargaining position.

The corporate plan shows a reduction in Austin Rover's profit of £99 million for the period 1984/89 compared to the previous plan; a further deterioration is indicated in paragraph 4 of the note. It is essential that the major decisions that have to be taken on ARG - for example, whether it can any longer strive to be a full-line, fully integrated manufacturer - are not delayed by the BL Board's intent to have a mid-year review.

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We recommend the Prime Minister:

1. Accept the Unipart timetable but ask to be informed of any slippage. *Yes - it must not slip.*
  2. Welcome negotiations with GM but hope that other possible buyers will also be approached, *should negotiations with GM fail. (The no. of buyers will be very small)*
  3. Request that the Corporate Plan paper identifies radical options for ARG and proposals for limiting Varley Marshall assurances.
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*Peter Warry*

PETER WARRY

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Secretary of State for Trade and Industry

5 March 1985

Andrew Turnbull Esq  
Private Secretary to  
The Prime Minister  
10 Downing Street  
London SW1

Dear Andrew,

BL PRIVATISATION

My Secretary of State has asked that we bring the Prime Minister and the Chancellor up to date on progress with the privatisation of Unipart and on GM's interest in Land Rover-Leyland. The correspondence rests with Timothy Flesher's letter of 24 December on Unipart and yours of 28 January regarding GM.

UNIPART

2 You will recall that in December discussion of BL's request that Unipart might acquire Motorists Discount Centres (MDC) revealed that the Board were not willing to confirm the target of mid-85 for the privatisation of Unipart that had been agreed in mid-84. We immediately took this up with Sir Austin Bide and made it clear that the absence of any firm date for the privatisation of Unipart was not acceptable.

3 The BL Board has now decided to adopt end-85 as the planning target date for the privatisation of Unipart. Sir Austin says that the Board are, in all reasonable circumstances, determined to hold to the end-85 date unless external events so alter the prospective results that they rule out a sufficiently attractive and genuine prospectus. Mr Lamont has been over the possible obstacles (the Treasury and the No 10 Policy Unit have the correspondence) with Sir Austin Bide in some detail and believes that the Board are now genuinely determined to meet the end-85 target.

4 Unipart has a special link with Austin Rover, and the Austin Rover 1985 Corporate Plan and model strategy are to be subjected by the BL Board to a mid-year review because of Austin Rover's disappointing performance and increasing uncertainty about the business, made worse by the German pressure for US equivalent emissions standards. Although the mid-year review of Austin Rover could lead to profit prospects and hence likely proceeds having to be marked down, there is no reason to suppose that it will impede

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the privatisation of Unipart this year. Mr Lamont has made it clear to Sir Austin that the deterioration of Austin Rover's prospects could be a reason for pressing ahead with the privatisation of Unipart.

5 Since the BL Board appear determined to privatise Unipart by end-85, my Secretary of State takes the view that we ought now to accept that we cannot force mid-85 privatisation on the Board. However he is determined that we should do all we can to ensure that the end-85 date is adhered to. We have just appointed Samuel Montagu as merchant bank advisers on the Unipart privatisation. We shall be asking them to examine the BL Board's outline plan for Unipart privatisation, which we expect very shortly, and their advice and involvement should give us a much firmer grip on events in the lead up to privatisation than has been possible up to now.

GM/LRL

6 Following the Prime Minister's response to his minute of 25 January, my Secretary of State wrote to the Chairman of GM to set a framework for the most recent round of discussions between BL and GM. He made it clear that he envisaged talks covering the entirety of the existing businesses of Bedford and Land Rover-Leyland (LRL) and the opportunities within these for rationalisation, including a joint venture or acquisition. He also pointed to the particular public and political interest in the UK in the Land Rover business and said that the extent to which any agreement would ensure its continuance and growth in the UK would be a matter of special concern to the Government.

7 BL and GM have now agreed to undertake together an intensive study to establish the most practical method of rationalising Bedford and LRL. The study will entail a comprehensive exchange of data and will cover a range of possibilities extending from technical and marketing collaboration through to full acquisition. The question of ownership is deliberately being set aside until the best method of rationalisation has been decided on, but we think that both sides now see the possibility of acquisition as an issue which will need to be considered at the appropriate stage.

8 The study is due to be completed by the middle of May. We should like decisions sooner, but the scope and importance of the study justify the wait. We shall be maintaining close contact with both parties as the study proceeds.

9 Despite the encouraging signs, it is of course possible that the discussions with GM will achieve little or nothing. My Secretary of State therefore also intends to ask the merchant bank, shortly to be appointed to advise on BL privatisation in general, to report on whether other buyers for some or all of the LRL businesses could be found.

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CORPORATE PLAN

10 Ministers here intend to report to colleagues on the BL 1985 Corporate Plan before the end of March. My Secretary of State believes that the privatisation of Unipart needs to be handled separately from now on. He also believes that it would not be sensible to try to reach decisions on piecemeal privatisation of LRL while a GM acquisition or joint venture is a serious possibility, and that he should therefore tell the BL Board that we are putting aside consideration of this part of their 1985 Plan for the moment. He would of course make it clear that, if GM's interest does not come to anything, the Government would wish to consider the possibility of privatising parts of the LRL business separately as soon as practicable.

11 I am copying this letter to Rachel Lomax (HM Treasury) and Richard Hatfield (Cabinet Office).

*Yours ever,*  
*A. D. Lansley*

ANDREW D LANSLEY  
Private Secretary

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