

PRIME MINISTER

BL

This will be a difficult meeting. Mr. Tebbit's paper considers various ways in which BL's capital expenditure could be cut back, thereby reducing the growth in liabilities covered by the Varley/Marshall assurances. The "no small car" and the "restricted medium car range" options do not look effective as ways of achieving this. Discussion is likely to centre on the issue of buying-in engines and gearboxes.

ARG, supported by Barings (although somewhat luke-warmly), supported by Mr. Tebbit, argue that buying-in engines would be bad for ARG in the long run and impossible anyway because Honda would not supply.

Policy Unit are sticking to their guns in arguing that the outstanding liabilities can be reduced if collaboration with Honda is extended to buying-in engines. They argue that not only is Honda willing to supply but that this will produce significant benefits for ARG. Discussion will be difficult when there is not even agreement on the facts. This is an issue which will have to be argued through.

The other key issue, on which you will have Lord Young's support, is whether BL should be divided into two parts, ARG and Land Rover-Leyland. This would effectively wind up BL as a holding company. The business is already operated in this way and bringing the legal framework into line would finally lay the ghost of the old philosophy of bigger is better.

There is a lot of paper but it can be read selectively.

Essential

- i) Mr. Tebbit's paper, ie the first seven pages of E(A)(85)28.

ii) Cabinet Office brief

iii) Policy Unit brief

Optional

i) Summary of the Corporate Plan beginning on page 72 of E(A)(85)29.

ii) A summary of Barings' report ie the first page of Annex B to E(A)(85)28.

(iii) *The draft Memorandum of Understanding which you have already seen.*

We have set aside 45 minutes in the diary tomorrow before Cabinet for you to look again at the papers and to discuss the issues with John Redwood and Peter Warry.

AT

ANDREW TURNBULL

22 May 1985

VC2AGS