

PRIME MINISTER

23 May 1985

BL CORPORATE PLAN

Private Office have suggested it would be better if I do not attend the meeting. The three areas to concentrate on are:

1. Engines,
2. Borrowings/Varley Marshall and
3. Future BL Structure/Privatisation

Engines

If ARG were prepared to buy British built engines from Honda then profit and cashflow could be substantially improved. "The Best Plan" (page 4 of my main brief) shows how this would be achieved.

NT is likely to say that Honda will not collaborate with ARG on engines, but the real issue is will Honda supply them, and would they be suitable? I believe Honda engines could be supplied from Swindon that would fully meet emissions standards and would help, not hinder, ARG (pages 3/4 of my note).

Collaboration with Honda is probably right, but it should include the supply of their engines. Honda could be informed of this qualified approval now so that the preliminary agreement could be signed, and then ARG be asked to work up a revised plan with Honda engines, perhaps for submission after the summer recess. In the meantime, ARG should not proceed with their plans for the K series and V6 engines.

Borrowings/Varley Marshall

As turnover rises so Varley Marshall assurances will increase. At the end of 1984 these assurances were some £560m for ARG and £1,550m for BL as a whole. The plan says these will rise to £1,060m for ARG and £2,150m for BL by 1989. Depending on how the sub-contract manufacture for Honda is structured, a further £1,200m could be added to these totals (but it need not be this much).

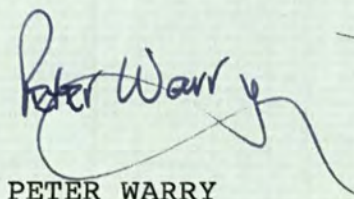
BL forecast a jump in borrowings of £220m between 1984 and 1985 to £679m. NT is proposing a cap of £680m which, if the £220m jump is justified, would require future small reductions in borrowings.

A different strategy could significantly reduce the borrowings in later years. You could argue for a tighter limit, say £600m, and then reduce that by the anticipated Unipart proceeds down to £500m.

Privatisation and BL Structure

Land Rover-Leyland negotiations with GM have been going on since last summer and look like lasting into this. At least five other bids have been put on the shelf in the meantime so as to give GM a clear run. Isn't it time that serious negotiations with all interested parties started?

The BL Board is little more than a postbox for its two operating arms; BL Cars and Land Rover-Leyland. Couldn't it be dismantled and BL divided into two entirely separate companies?


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