

BL

If a decision on the Land Rover-Leyland sale is to be announced and debated before the recess then Cabinet will need to decide on Thursday week. Three options are mooted.

1. All to GM: this is BL's recommendation and is manifestly the right commercial decision, and the one that does most to preserve jobs and industry.
2. GM minority holding in Land Rover: even if GM are prepared to go along with this there are real difficulties:
 - GM will still require management control which may not satisfy the critics.
 - If the price is less than GM's £200m+ BL will not recommend the proposal. But if the price stays at £200m+ then the management buy-out would have to pay virtually the same as they originally offered but get only half the business.
 - If a lower price were accepted this would necessitate a larger injection of funds from HMG which would make it still more difficult to obtain EC approval.
 - The complexity of the arrangements would considerably extend the timescale, and therefore the risk. The buy-out may not be able to raise the capital in the new circumstances.
3. GM just buy Trucks: even if GM were to agree to this the BL Board still have to be persuaded to accept the much lower bid from the management buy-out.

To go for an option that GM ultimately refuse would leave Leyland Trucks on our hands and therefore undermine the whole purpose of the negotiations. The BL Board would no doubt make capital out of the situation, and the DTI's

credibility following such a U-turn would be very low. Such a reversal of a sensible industrial policy could create not just lasting problems for the DTI but for the Government as a whole.

It is therefore essential that Paul Channon establishes GM's bottom line quickly. (GM's approach to David Young probably had more to do with them ascertaining HMG's bottom line than indicating any greater flexibility on GM's part). Once their line is established then Roger Smith, GM's Chief Executive, could appear before MISC 126 in person to remove any doubts.

The recent decision on Vickers Shipbuilders has usefully established the Government's preference for employee buy-outs and makes it easier to reject the Land Rover management buy-out without undermining the whole policy in this area. There are, in any event, three crucial differences between Vickers and Land Rover.

- a. British Shipbuilders is a nationalised industry whereas BL is a public company. The Government cannot instruct BL's Directors, nor apparently can HMG vote its shares in such a situation.
- b. Vickers was an employee buy-out with 20% to 25% of the equity going to the employees, whereas Land Rover is basically a management buy-out which will retain much less of the equity.
- c. The buy-out price is some 35% lower than GM, but was only 15% lower for Vickers, where there were also other offsetting considerations.

But a part of the shares will be offered to employees.

Agenda for MISC 126

The meeting of MISC 126 should be planned in the expectation of leaks. There is a choice between attempting to get

provisional agreement to a GM deal subject, for example, to GM accepting a minority holding in Land Rover, which PC would then try to negotiate. Or delaying detailed discussion of the GM proposal until PC has had a chance to establish their bottom line. On balance it is probably best to avoid a further debate on GM in the absence of any real facts. We therefore feel the meeting should:

1. Discuss the performance of the individual BL and GM subsidiaries in the light of DTI's useful factual paper (especially annexes C-G). This should help dispose of many of the myths and might persuade some of the doubters.
2. Narrow HMG's short list of bidders down to just GM and the management buy-out (leaving open our position on Lancashire Enterprise). If this leaks, it will help show that HMG is treating the management buy-out seriously.
3. Instruct Paul Channon to establish GM's bottom line on:
 - just buying trucks
 - minority holding in Land Rover
 - assurances on UK content etc
 - future of Freight Rover
 - financing arrangements
4. Commence work on presentation, in particular persuade the component supply industry to make a favourable statement in the event that GM were to be successful.

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