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PRIME MINISTER

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Future of Land Rover Leyland

BACKGROUND

MISC 126 is meeting at noon on 18 March to hear an oral report from the Secretary of State for Trade and Industry on his negotiations with GM and the options now opened to the Government.

2. The underlying facts are essentially as reported in the Secretary of State's two papers considered at the Group's last meeting on 13 March (MISC 126(86) 4 → FLAG B and 5). The main arguments as set out in my brief for that meeting remain broadly valid. → FLAG A.

FLAG C ←

3. GM have now offered a device in the form of a holding company which would give UK interests a veto for a limited period of years over any proposals to move the principal location of manufacture and the principal location of R & D for Land Rover away from the UK, and which would significantly reduce the UK content of Land Rover vehicles. Apart from this concession, which in reality is no more than a strengthening of the previous assurances, the GM position is that they are offering the whole Salton deal or nothing. There remains, however, some possibility of a last minute change of heart on GM's part (see

postscript below).

MAIN ISSUE

4. As things now stand, the Government's options are

i. The whole Salton deal, subject to the GM concession; or

ii. the Schroders/management buy-out of Land Rover and Freight Rover only; or

iii. retention of Land Rover and Freight Rover (alongside Austin-Rover), with a view to privatisation

of all the BL light vehicle operations as soon as possible.

5. Even with the above concession, the GM deal carries the political costs of sale of Land Rover to a foreign purchaser, together with the almost inevitable closure in the medium term of Freight Rover. Land Rover would still end up in 100 per cent US control.

6. The management buy-out means the creation of a company doubtfully strong enough to provide the resources needed for product development and world-wide marketing. Leyland Trucks then remain in Government ownership, with a prospective cash requirement over the next five years of at least £120 million, which would add to the sums outstanding under the Varley-Marshall assurances. Meanwhile the future of GM's Bedford Truck and Van operations in South Bedfordshire would remain in question, with closure or increasing dependence on Japanese designs and components both strong possibilities.

7. Retention of Land Rover/Freight Rover alongside Austin-Rover would offer the possibility of a stronger UK company in a year or so's time, if the Austin Rover relationship with Honda prospers. But the problems of Leyland Trucks and the future of Bedford remain.

8. The crucial question thus facing Ministers is whether the political need to avoid the sale of Land Rover into 100 per cent US ownership is such as to override the other advantages of the Salton deal; and if it is, whether it would be better to go ahead now with independent privatisation of Land Rover/Freight Rover or to work towards a future privatisation of all BL's light vehicle operations.

#### HANDLING

9. The Secretary of State for Trade and Industry will wish to present his report on his talks with GM. All the other members of the Group will wish to express their views on the options as they have now emerged.

10. Failing a last-minute concession of real substance by GM, the Government have to decide whether to accept the Salton deal, in which case a very early announcement would be essential. If the Schrodgers' bid were accepted, again there would be advantage in an early announcement, in order to maintain the momentum of the establishment of the independent company. Equally, if Ministers decided to retain Land Rover/-Freight Rover alongside Austin Rover, an early announcement of that approach would also be desirable, in order to reduce uncertainty.

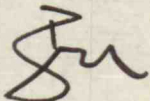
11. If the issues are not clearcut, and particularly if GM were to come up with some significant new proposal, some delay in any announcement would seem inevitable. In that event it would probably be as well to make clear now that no decisions would be taken until well after Easter.

#### CONCLUSIONS

12. If there are no further concessions from GM, you will wish the Group to reach preliminary conclusions, subject to consideration by the Cabinet on 20 March, on

i. whether to go ahead with the Salton deal; or, if not,

ii. whether to privatise Land Rover/Freight Rover now as an independent company or to retain these operations alongside Austin Rover with a view to later privatisatio of all BL's light vehicle operations.

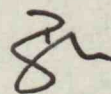


J B UNWIN  
Cabinet Office  
17 March 1986

PS There are later reports of GM willingness to accept a UK majority shareholding in Land Rover (but not Freight Rover), with GM retaining management control (which would almost certainly mean no place for the present management). But it is not clear whether this also would only be temporary and it is difficult to believe that UK institutional investors would be ready to subscribe to any substantial amount in such an arrangement. However, if it were thought worth pursuing, a reasonable negotiating objective would be to insist that UK institutional shareholders could

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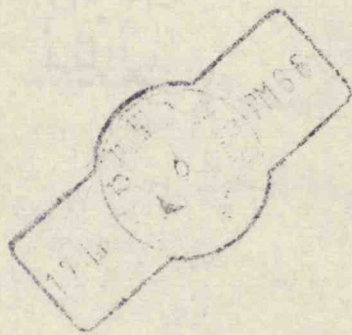
subscribe new capital in proportion to their holdings. Conversely, to give GM preferential rights to subscribe new equity would be a clear pointer to eventual full US ownership. It is not clear whether GM would be ready to concede on this point, but it could properly be put to them that they would still have from the overall deal the advantages of 100 per cent control of the rationalisation of vans and trucks together with substantial participation in future world wide profits from Land Rover/Range Rover.



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RT HON NICHOLAS RIDLEY MP

Release Time:

1200 hrs, Saturday  
15 March, 1986

131/86

Extract from a speech by the Rt Hon Nicholas Ridley MP (Cirencester and Tewkesbury) Secretary of State for Transport, to the West Midlands Young Conservatives Association on Saturday, 15 March, 1986

I quite understand people's concern about the possibility of Landrover being sold to General Motors. People believe it is the only success story in our rather less successful indigenous car industry - British Leyland. There is something a little depressing about BL. Since Tony Benn "created it", amalgamating a number of good British companies quite unnecessarily, it has lost fortunes. It has cost every family in the land £200 in extra taxes. It cannot get its market share up. But at least we have got Landrover, people say - a world beater. I quite see that that leads people to object to a possible sale to an American Company.

But these propositions need examining a little closer. First we have no need to be ashamed of our industrial record since 1979. These figures are so startlingly good that if one had forecast them in 1979 one would have been laughed out of court:

Productivity in Manufacturing

up 29% since 1980

Manufacturing Investment

up 31% since 1981

/... Manufacturing Exports

Manufacturing Exports by Volume

up 21% since 1983

Industrial and Commercial Company Profits (excluding North Sea Oil)

up 75% since 1980

That is a startlingly good performance to set alongside Leyland's less successful performance.

Nor in fact has Landrover been as successful as is generally thought. In the latest year for which figures are available, Landrover UK lost, after interest, £3.9m, £3.7m before tax. It has no sales in the US, which is the world's biggest market and has less than half of the UK market. There is enormous scope for improvement - more sales, more jobs, more profits. It is Landrover's future that matters - how to give it the opportunity for gaining market share and expanding. That should be the criterion on which we should decide its future. People who share my concern to see less unemployment should judge on the basis of what is the best future for Landrover.

And finally we should not be alarmed by foreign ownership. We have as a nation overseas assets of £73.5bn having purchased masses of companies in other people's countries. Equally, foreigners have invested heavily here - but not so heavily as we have invested overseas. I read in the Birmingham Post recently that here in the West Midlands there were about 470 foreign owned firms, employing about 80,000 people. The US is the largest investor, owning more than 160 of those companies. Surely we welcome these companies and the jobs they bring? It is a compliment to us that they come here.

The Government is currently evaluating the offers that have been received, to see which is likely to be the best for Landrover and BL. But I really don't think we should decide the future of British Leyland on the basis of disliking American ownership. We should decide on what is best for jobs and expansion.

END.