

PRIME MINISTERBL

The letter below gives a very brief statement of where things now stand with GM. It leaves open many important questions - for example, how Landrover could have a Board of which UK members could form a majority, and yet operational management would rest with GM. Clearly there is a great deal to be done on the proposal, and the meeting tomorrow should not expect to tie Mr. Channon's hands in negotiating it.

*Proposed
Committee*

Mr. Channon will want to open the meeting by describing the position on his discussions with GM. But if he does not offer to do it, he should also describe the position with the other bidders, including Lancashire Enterprises and, particularly, the management buy-out, which has disappeared into the background in the present discussions: you will remember that at last week's meeting of MISC 126 the possibility of GM taking a minority interest with the management buy-out was a front runner.

During the discussion I suggest that you should try to bring Mr. Biffen in. It would be better to have his views in the open than to face his covert opposition, if that is what it is.

Consistently with not tying Mr. Channon's hands, you might try to get the Committee's agreement to the following propositions:

- (i) any deal has to leave the Government in a position to be able to say that Landrover is staying British. The deal outlined by Mr. Channon offers the prospect of that and is worth pursuing further, urgently, with GM;

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- (ii) permanent British ownership of Landrover cannot be guaranteed. But the circumstances in which ownership might change need to be explored further. Mr. Channon should seek to avoid any - politically difficult, mechanistic or inevitable formula which would lead to control by GM;
- (iii) that as part of the above, the transfer of Freight Rover and Leyland vehicles to GM, subject to satisfactory undertakings, would be politically acceptable;
- (iv) that a package on these lines could be recommended to Cabinet as defensible both industrially and politically.

This may be too much to hope for. Mr. Fowler is likely to object to the transfer of Freight Rover. If a choice has to be made, it would seem better to concentrate on Landrover, leaving Freight Rover to be discussed at the next meeting. Mr. Fowler will find it increasingly hard to stand out against the deal as a whole if the Landrover part of the package can be settled satisfactorily.

If the Committee are drawn into discussion of more detailed aspects, one way of avoiding a mechanistic change of control would be for control only to change if British financial institutions were not willing to subscribe their share in any future exercise to raise further capital. This safeguard could, if necessary, be further buttressed by a golden share for a fixed period, say, five years, as with Jaguar.

Timetable

DTI officials resume negotiations with GM at noon tomorrow and are likely to be meeting for the rest of the day.

/You could

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You could tell the Committee that the timing of the next meeting of MISC 126 will depend on the progress of those discussions. But one would be needed on Thursday if it seems possible to conclude discussions by Easter.

I am keeping in touch with DTI about the possibility of another meeting of the smaller group on Tuesday night or Wednesday.

Line to take with the Press

You will want to re-emphasise to the Committee the need to maintain confidentiality about the discussions. The line to take with the press might be much as last time:

"The Committee heard a further report from the Secretary of State for Trade and Industry about the progress of his discussions. They had a useful discussion. They agreed that some further points remain to be clarified with the bidders. No decisions were reached."

DRW

DAVID NORGROVE

17 March 1986

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