6

PRIME MINISTER

B.L.

Peter Warry's minute below reports the latest position on the discussions with GM. This has been confirmed to me by DTI.

The essence is GM's refusal to countenance any agreement which would not give them guaranteed management and shareholder control within some defined period. I understand that GM have come and gone on this: they placed on the table at one stage, and possibly more than one stage, an agreement which offered the possibility of meeting the Government's objectives, but then withdrew it.

So there is now a stand-off. It seems important for Mr. Channon to report back urgently. I have therefore arranged a meeting of the smaller group of Ministers for 0945 tomorrow lasting an hour.

The options are now:

(i) tell GM firmly that the Government can accept management control by GM but not shareholder control, though the Government would be prepared to offer arrangements which could in the end - though not inevitably - lead to GM control; or

(ii) accept that GM will not give way, and put to MISC 126 the choice between what GM are prepared to offer and the management buy out and its consequences.

The starting point for the discussion might be what happens if the Government decide on (i) and GM maintain their refusal. What would happen and could the Government live with the consequences? In industrial terms, Land Rover and Freight Rover would presumably go to the management buy out; Leyland vehicles would either close or the Government would have to pump in extra resources (£150 - 200 million over the next few years has been mentioned to me); GM would rationalise its Bedford options or do a deal with Renault or close it all down.

We always expected tht GM would push the Government to the brink. The question is whether the Government would be prepared to accept the consequences if they walk away. The negotiation requires the Government to be prepared to see them walk away if we are to have any chance of striking a good deal (you could argue that it is only the appearance of being prepared to allow them to walk away which matters; but I doubt the poker playing abilities of our side in this high stakes game).

If you decide tomorrow that the risks of a breakdown are too great and that GM's terms will not be improved upon, the next stage is to put to MISC 126 the choice between the options, ie. a GM deal on GM terms, or the management buy out, as in (ii) above.

In that case there is nothing to be gained by a meeting of MISC 126 on Thursday. It would be better to hold the meeting early next week. This would give time for DTI to prepare a stark paper describing the consequences of each of the options. Note that the consequences of turning down the GM deal on GM terms are exactly the same in industrial (but not political) terms as the consequences of turning down the GM deal on the Government's terms.

For what it is worth, Nigel and I feel that it would be worthwhile to take GM to the brink and be prepared to say to them that a deal on their terms could not be recommended to Cabinet. Mr. Channon, if possible with Mr. Tebbit, should call Stempel back from the United States to do some straight talking with him.

DRN

DAVID NORGROVE

18 March 1986

SL2AGC

5

512 - Board

G.M. 452.

SECRET

AIDE MEMOIRE

LAND ROVER-LEYLAND

GM have firmly declined to offer an effective compromise which helps us politically.

2 We therefore now face a stark choice between:

(a) the original GM deal covering Leyland Trucks, Freight Rover and Land Rover, with certain entrenched provisions in respect of Land Rover only giving UK non-financial interests a right of veto for a period of years on principal place of manufacture, location of R&D, and substantial changes in local content.

(b) abandonment of the GM deal in full. This would leave us free to take up, or not, one of the other bids for Land Rover - probably the management buy-out which includes Freight Rover. There is no other realistic bid on the table for Leyland Trucks.

3 Course (a) is politically very difficult. But industrially it is in my view, and that of my Department and (strongly) of the BL Board far and away the best course. Alone of the options before us, it presents the opportunity of creating businesses in trucks, vans and 4x4s with a genuine chance of long-term survival and prosperity.

4 Course (b) may appease the West Midlands and "Land Rover is British" Lobby. But before we set off down this course we must consider its grave consequences:

(i) it will leave us with Leyland Trucks. Although still improving in performance, borrowings are set to increase to by £120m over the next 5 years even on its own forecasts, which are almost certainly optimistic. Although this could be raised from the Banks with Varley Marshall we cannot see any serious prospect of full viability. The BL Board believe closure would be the commercial course. 7,000-8,000 jobs would go, mainly in Lancashire. We could explore alternative purchasers or collaborators - we might try to interest Paccar, Renault, Daf or Volvo - but we would delude ourselves if we thought these likely to result in a viable solution.

JF3AEJ

(ii) Freight Rover, if sold to the Management buy-out, would survive in the short to medium term, but its prospects beyond the end of the decade would be poor.

(iii) Land Rover itself, if sold to the Management buy-out, would survive but not prosper. Its US sales prospects would be weaker than in GM hands. It would not have the finance or technical strength to broaden and up-date its product range.

(iv) More seriously still, GM options for Bedford Trucks and Vans would be limited. They could seek a rationalisation with another European truck manufacturer, like Renault; they might bring in Japanese kits with low UK content, on a basis which could threaten the voluntary restraint arrangement and our hard won deal with Nissan and Honda on local content; or they could close their UK operations for trucks, vans or both. The last is not a certainty; but it is a substantial possibility. 7,000 jobs would go (2,400 in trucks, 4,600 in vans).

VEHICLES DIVISION
18 March 1986

cc J. WIGGINS

4

SECRET
NAMED DISTRIBUTION ONLY

Prime Minister
This was the deal worked out over the week-end,
DW
18/3.

LAND ROVER LIMITED (LRL)

THE DEAL ON OFFER

GM agree in principle to the creation of a "Land Rover Holdings" company which would exercise control over certain critical aspects of Land Rover's activities.

2 Land Rover Holdings would hold 51 per cent of a separate class of share ('A' shares) in Land Rover Ltd, the operating company. UK interests would hold the majority of 'A' shares with GM holding the balance. GM would own all 'B' shares in Land Rover Ltd (giving them all, or substantially all, the profits).

3 The 'A' class (i.e British) shareholders would have power to veto any proposals by Land Rover Ltd dealing with:

(a) the UK as the principal location of manufacture of Land Rover vehicles;

(b) the UK as the principal location of R&D for Land Rover, particularly new model development;

(c) matters which would lead to a significant change in the level of UK content in the vehicles produced.

There would also be agreement that LR would 'consult' Land Rover Holdings on its future plans.

4 The Board of Land Rover Holdings would be appointed by UK interests and would include suitably prominent UK citizens.

COMMENT

5 The above gives real UK control over those issues of the business which have been the subject of criticism - where the R&D is carried out, where the vehicles are built and the level of UK componentry in the vehicles.

Land Rover Holdings would exist for at least 5 years; this is still being negotiated with GM and could be for a longer term perhaps related to the achievement of quantified targets agreed between HMG and GM.

17 19 86
JF BOARD OF TRADE BICENTENARY

SECRET
NAMED DISTRIBUTION ONLY

6 GM insist they cannot go further. Present proposals already represent a major compromise on their commercial freedom:

- normal GM practice is to operate an integrated 100 per cent-owned management structure

- they need freedom to integrate Land Rover with their total sales, manufacturing and technical operations

- this integration is not possible when independent parties have a wide-ranging voting majority

- financially, the improvement in performance seen for Land Rover is generated primarily by the resources GM bring to it.

FlAYY