

PRIME MINISTER

c. Professor Griffiths

GM: LAND ROVER-LEYLAND

The papers below explain that GM may be willing to negotiate some variant of the 48:48:4 deal discussed with the Government at an earlier stage. (The proposal has been put forward by Bankers Trust, but DTI say it seems to have Detroit's approval.)

Peter Warry tells me that the possibility of a deal between GM and Renault has been ruled out, and that GM now probably believe that there will be a deal with BL or not at all. If there is no deal with BL, they will probably start to close down Bedford, possibly beginning even before the summer recess. Mr. Channon also sees very gloomy prospects for Bedford.

The deal proposed by GM (Flag B) at a first reading seems to me quite close to the deal the smaller group considered on the Friday before deciding to issue the ultimatum to GM (see Flag C). Under both of them GM would put up most of the money but for a period would have a minority of the voting rights. GM propose to take full control in 1992 or when Land Rover output has increased by 50 per cent, whichever is the sooner. The deal under discussion by Ministers on the Friday of the ultimatum would probably have allowed GM to gain full control after four years.

The deal proposed by GM is, however, silent on one central issue. It does not describe the extent of the control which would be available to the British majority voting rights. Under the deal discussed on the Friday ultimate control on all matters would have rested with the majority British interests. If discussions are to begin again with GM, this would have to be explored first.

But in view of the similarities between the two deals, the immediate question has to be whether the position has changed

in a way which would make it feasible for the smaller group to reverse its conclusion of that Friday, and to decide that a deal of the kind proposed by GM could be accepted by Cabinet, Parliament and country. You will remember that Sir Keith Joseph and Mr. Edwards spoke out strongly in favour of GM at Cabinet, and Mr. Younger clearly concurred. A number of Conservative backbenchers spoke out on the risks to Bedford of turning down GM and since the decision was announced there have been supportive letters and editorials which point out, among other things, that Land Rover is not the jewel in the crown. The perceptions have changed to an extent. On the other hand, a deal with GM no would still meet strong resistance from Mr. Walker, Mr. Fowler and others because the probability would remain that GM would gain full control after a period of years and, no doubt, opponents of the deal would still see the risks to Freight Rover.

Mr. Channon is reluctant to re-open even exploratory discussions with GM, even at a junior official level.

The Policy Unit (Flag A) strongly recommend that secret talks without commitment should be restarted.

This new proposition clearly ought to be discussed. Would you like to have a first discussion with Mr. Channon alone or hold a meeting with the smaller group (Lord Whitelaw, Mr. Tebbit, Mr. Ridley and the Chief Whip)?

DL

DN

I should prefer to discuss
it first with Mr. Channon
and the Chief Whip.

8 April 1986