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PRIME MINISTER

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By yesterday's closing date for new or revised offers for the Land Rover businesses, BL had received proposals from Lonrho, J C Bamford, Aveling Barford and Schroder Ventures (the management buy-out option). I enclose a summary of their proposals.

2 The bids cannot be taken at their face-value. For example, unlike the other three proposals, the Lonrho bid of £75m is believed to assume that Lonrho will take on certain of the existing debt attributable to Land Rover, the effect of which would be to increase the real price, perhaps substantially. Similarly, the JCB bid of £175m involves only a £40m immediate payment with the balance paid in instalments in 1988 and 1991 but dependent on the profits generated by Land Rover in the interim.

3 Given the uncertainties, BL intend to hold discussions with all the interested parties on 17 and 18 April to clarify their understanding of the proposals. The BL Board will then consider them at its meeting on 22 April. Should the need arise, the Board would hold a further meeting which they have provisionally fixed for 25 April.

4 There are broadly two possible outcomes of the Board's consideration:

- (i) the Board decides that none of the bids is in the best commercial interests of BL and recommends retaining Land Rover with a view to later

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flotation or other privatisation. If colleagues were to accept such a recommendation, I would see advantage in a quick Statement to the House on 23/24 April to end the uncertainties for the businesses involved and the political controversy surrounding them;

- (ii) the Board recommends the opening of full negotiations with one (or perhaps two) of the bidders. I suspect the arguments will not be clear-cut and that colleagues will need a little time to consider the issues that arise for Government. If therefore the Board seem likely to go down this route (and I hope to have forewarning of this early next week) I propose consulting the BL Chairman about the timing which they, and we, might follow in order to reach a final decision.

5 In the meantime, a signal has gone to GM about their interest in Land Rover on the lines we agreed. It was made clear that the Government stands ready to discuss any fresh proposals they may have for tackling the problems of the commercial vehicles sector. GM did not react badly and I have the impression that, as soon as the dust has settled, they may well be in touch to propose further talks.

6 You should also be aware that a decision has already been taken by GM to move to short-time working at Dunstable and that redundancies are also under consideration at Bedford with an announcement possibly early next month. The redundancies might represent the start of a phased run-down of the company although at present their scale is not yet clear. This may leave us open to criticism for not having

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concluded the GM deal but there is nothing I believe we could or should do to influence GM against going ahead with their plans. The fact is that even under the proposed rationalisation with Leyland Vehicles, some redundanceis at Dunstable were envisaged and I do not consider that action by GM now to slim down the Bedford operation need prejudice our hopes for a resumption of the dialogue with them on commercial vehicles.

7 I am copying this minute to Willie Whitelaw, Nigel Lawson, Norman Tebbit, Nicholas Ridley and John Wakeham.

PC

PAUL CHANNON

16 April 1986

DEPARTMENT OF TRADE AND INDUSTRY

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COMMERCIAL IN CONFIDENCE

LAND ROVER (UK) : BIDS SUBMITTED ON 15 APRIL

<u>Bidder</u>	<u>Interest</u>	<u>Price</u>	<u>Comment</u>
Lonrho	Land Rover/Range Rover	"In excess of" £75m	Lonrho assumptions on treatment of Land Rover debt still to be clarified. Could add up to £70m to real price.
Schroder Ventures/	Land Rover/Range Rover Freight Rover	£153m	Includes unsecured £40m convertible loan by BL (increase of £10m over previous offer).
J C Bamford	Land Rover/Range Rover Possibly Freight Rover	£175m	£40m on completion Balance of £135 payable in 1988 and 1991 but actual consideration will depend upon the achieved profits of LR in the interim. Prefer not to acquire Freight Rover but quote indicative price of £25m calculated on the same basis as the deferred element above.
Aveling Barford	Land Rover/Range Rover	Approx £55m	Net Working Capital plus royalty. Would propose to separate and sell off Range Rover.

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10 DOWNING STREET

From the Private Secretary

17 April 1986

BL

The Prime Minister was grateful for your Secretary of State's minute of 16 April on the present position reached on Land Rover Leyland.

I am copying this letter to Joan MacNaughton (Lord President's Office), Rachel Lomax (H.M. Treasury), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Richard Allan (Department of Transport) and Murdo Maclean (Chief Whip's Office).

(David Norgrove)

John Mogg, Esq.,
Department of Trade and Industry.

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RECENT DEVELOPMENTS

Informal approaches to my officials both direct from GM and via intermediaries - most recently Morgan Guarantee - suggest that GM might be prepared to purchase all of Land Rover Leyland on terms which would represent a substantial shift in their position.

I told the House on 25 March that while I would be prepared to consider a fresh approach from GM concerning Land Rover there would need to be a measure of real UK control over the future of the business at the outset and no certainty of full GM ownership and control within a relatively short period. I consider these to be the minimum terms if GM involvement in the Land Rover business is to be politically acceptable. The Morgan Guarantee proposals - copy at Annex A - envisage GM:

- acquiring 100 per cent control of Leyland Trucks, certain overseas operations, Freight Rover and Land Rover Parts;
- acquiring only a 49 per cent minority voting and economic interest in Land Rover;
- accepting Land Rover Board representation proportional to voting rights and not requiring a management contract;
- having the ability to increase its economic stake in the

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business should British interests wish to dispose of their shares but not increase its voting stake to take control until public flotation which they expect in 3-5 years or the attainment of specified volume output levels.

(Morgan Guarantee have clarified to my officials that an annual output level of at least 60,000 vehicles would probably be acceptable (1985 = 44,000, 1990 BL Corporate Plan 51,000 though GM would better this). They would now propose GM ownership upon achievement of this volume or upon flotation plus one year, whichever is earlier. The restrictions on GM increasing its voting interest beyond 49 per cent would be enshrined in the Articles of the company and could only be changed with my consent as the holder of a "golden share" - the same arrangement which prevents more than 15 per cent of Jaguar's shares being held by one investor until 1990.

BL would receive up to £180 million cash for the whole of LRL made up of £134m from GM and up to £46m from British investors or at least £170m if GM assumed the underwriting risk. Baring Bros are of the view that the latter option would be preferable to HMG as a clean solution. They consider the price to be acceptable in the circumstances especially given the negative worth of Trucks, the fact that GM will only have a minority interest in the sustainable profit earner Land Rover and will itself be contributing through its distribution outlets a major part of those profits.

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My own view has been that there is no point in officials signifying to GM that a formal proposal would be likely to be supported by Ministers unless GM accepted a minority voting and economic interest enforced by a golden share with full ownership not automatic and likely to be delayed for at least 5-6 years and with British control over the management. The Morgan Guarantee proposal meets these criteria in all but one respect : if Land Rover's track record over the next 3 years convinced the Board that a successful flotation was attainable, GM would gain control one year later. A provision preventing GM control before 1991 seems preferable.

If colleagues thought a deal on this basis was deliverable in the House and the country, it could bring wider benefits.

- it would help achieve our privatisation objectives for the whole of Land Rover Leyland;
- it would prevent the otherwise almost certain phased demise of the Bedford truck and van business at Dunstable and Luton;
- it could be presented as a reassertion of firm Government leadership which had brought the largest manufacturing corporation in the world back to the negotiating table on our terms.

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TACTICS

If we decide to signal our support for these proposals (subject to my suggested revision), GM have said they will only be prepared to submit a revised formal offer to BL on 15 April as required by the BL Board if personal phone contact between the GM Chairman and the Prime Minister establishes wholehearted Government support. To present proposals which would become immediate public knowledge, only to have them become the centre of acrimonious debate and final defeat would be unacceptable. That I am sure should also be our position. If GM confirm their willingness to present acceptable proposals on 15 April. On balance, I think it would be best to inform the House of this on 16 April. We should then decide when we want to announce the decision on the basis of BL Board recommendations. We should therefore ask the BL Board to convene a meeting to achieve this timescale. My own view is that we should allow time for proper consideration and announce our decision on Tuesday next week. The BL Board would therefore need to meet on Monday. Acceptance would be subject to final contract negotiations. and the other bids could lie on the table, if they are not withdrawn, until then. GM have said it would take about another 3 months to separate Land Rover from LRL and establish it as an independent British owned and controlled company. We should also ensure that GM confirm to us and make public their letter of intent providing their best assurances on such aspects as UK manufacturing, local content, R&D, exports and future investments.

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GM and BL should also be encouraged to market the benefits of the deal. Those in our party who last month lamented the collapse of the GM talks should also be mobilised and a strong and positive public campaign launched. Should a leak occur before or after any formal GM bid is submitted and in advance of my statement to the House, I suggest we take the lines proposed at Annex B.

If we decide to progress GM's proposals I look to my colleagues for advice on presentation and active support in implementing our policy.

VEHICLES DIVISION

14 April 1986

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10 DOWNING STREET

From the Private Secretary

Note for the record,

line to take of BL: GFT leaks

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In formal enquiries were made to Specials.
There is nothing further to report.
The BL Board will be considering
all offers.^{at}

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17/4.