

PRIME MINISTER

MISC 126

You cannot, I am afraid, have the benefit of the usual Cabinet Office brief for MISC 126 tomorrow, since they know little of the background.

The objective of tomorrow's meeting is to decide whether or not the Government should accept the BL Board's recommendation to turn down all of the bids.

Mr. Channon may circulate a short note at the meeting, and he will be in the best position to explain the commercial rationale which supports the Board's recommendation. You may also need to encourage other Ministers to speak: past experience shows that a rehearsal like today's inhibits people when it comes to the performance.

The conclusion you could reach might be as follows:

that MISC 126 recommends to Cabinet acceptance of the recommendation of the BL Board, namely that all of the bids should be rejected. The timing and manner of privatisation of the businesses will need to depend on their progress. But the preferred route is likely to be a flotation.

The conclusion should ideally budge the position on Freight Rover, leaving open the question whether it would form part of the flotation with Land Rover or whether it would be privatised separately.

as. E. Stevens (Duty Clerk)

pp DAVID NORGROVE

22 April 1986

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Pme Minutes ²⁹ *cc B*
NB - the quarters to
ask in §4. *cc BHP*

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From: J B UNWIN
23 April 1986

MR NORGROVE

N.L.U.

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LAND ROVER/FREIGHT ROVER: MIC 126 6th MEETING

Not having been privy to the recent papers or discussions, I have not provided a formal brief for this afternoon's MISC 126 meeting. You may, however, like to have the following brief comments on Mr Channon's minute of 21 April, of which you kindly sent me a copy last night.

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2. The analysis of the relative merits of the competing bids, as against retention and flotation, is extremely sketchy. It is very difficult to make an informed judgement on the basis of these figures. There are many uncertainties (eg on both the cash and deferred elements of the proposals) and no doubt negotiation would produce changes that could upset the ranking order.
3. However, on the evidence of these figures, and of the previous known background, the conclusions I derive are as follows:-

(i) the J C Bamford and Avelling Barford bids can be written off. It is scarcely conceivable that the cash element in either could be increased to make them genuinely competitive;

(ii) given that a crucial element in this issue has been to keep Land Rover British, the Lonhro bid does not have a sufficient cash advantage to make it worth considering further. To secure British ownership it would presumably either be necessary for the Government to be prepared to step in again, or in some way to secure Lonhro from foreign take over. The present cash margin, and any that could realistically be negotiated, would not warrant this;

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(iii) this leaves the issue between Schrodgers and retention within BL and flotation. The Schrodgers' price is not a good one; it is significantly less than the putative GM deal (although the precise figures were never finalised). Schrodgers' strategy is also clearly to get out themselves in a couple of years timewith^a a fat profit out of the planned flotation. The logical response, therefore, must be why should not the Government do this and take for BL and themselves the benefits of the flotation (the proceeds of which in mid-1988 in net present value terms BL estimate at around £200 million).

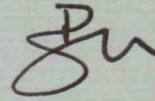
4. Such analysis as we have, therefore, points to the retention and flotation course (an option which both we and the Treasury have advocated in previous discussions). The Prime Minister will, however, wish to be satisfied that the analysis of the numbers is a robust one, and that the DTI have crawled over it very carefully. She may also want to question the Trade and Industry Secretary on whether there are any hidden snags in the form of eg prospective cash requirements for re-equipping investment between now and 1988. If this were the case (and you will recall that one of the criticisms of the management buy-out has always been that they could not raise the necessary finance for further needed investment), then the net benefit to the Government of retention and flotation would obviously be less. We need to be clear on this point now.

Consideration by Cabinet and presentation

5. The Prime Minister will presumably want the Trade & Industry Secretary to report the MISC 126 decision to the Cabinet tomorrow morning. In the circumstances, this would probably best be done orally. It might, however, be sensible for Mr Channon to have at hand a draft of the statement to be made tomorrow afternoon which could be circulated round the table if necessary. For obvious reasons, presentation of the decision will not be easy, and the Prime Minister may wish to give colleagues in the Cabinet generally an opportunity to comment. The statement would in any

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case need to be cleared with the Prime Minister herself and the smaller group of key Ministers who have been directly concerned.



J B UNWIN

Cabinet Office
23 April 1986

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