

cc B/CP
✓
2PRIME MINISTER

BL

Paragraph 10 of Mr. Channon's minute provides an agenda for decisions.

The key decision is whether to reopen discussions with GM. Mr. Channon says that the initiative will have to come from the Government. If this is really the case, it is vital that the Government should not meet with a rebuff in the end if the discussions restart.

But is it really so necessary for the initiative to come clearly from one side? If Graham Day is touring major companies he can talk to GM and say that of course the Government would be interested in discussing any options which might secure the future of Leyland Vehicles.

It is, however, a little ominous that Mr. Stempel wants the approach to come from the Government. Is the problem that he has not cleared his line within GM, or that he needs to show that the Government is keen in order to buttress his own arguments in favour of a deal with BL?

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19 May, 1986.

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10 DOWNING STREET

From the Private Secretary

Prime Minister

Paragraph 10 of Mr Chammon's minute gives a clear list of issues for decision. All his proposals seem right, on their merits, though the timing, as ever, is difficult.

Agree, subject to the views of colleagues, and with the qualifications proposed by Peter Wary?

OR

✓ Agree an early meeting of the inner group?

1. Check the latter
not

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These are sensible proposals. The contentious ones are GM and Honda but neither of these need immediate Ministerial decision. Indeed Graham Day would be upset to think Ministers were taking final decisions on ideas that are only initial impressions after a few days in office, and before he has had a chance to work them up properly.

GM

GM is almost the last hope for Leyland Trucks, just as Leyland Trucks is the last hope for Bedford in the UK. It would be a tragedy if short-term political expediency prevented a deal being done. It is such an obvious solution that if Graham Day were not to explore it, then it would be evident that Government had instructed him not to do so. There can be no safe course, but it must be right for Day to have exploratory talks. Although GM would like prior political commitment they are unlikely to turn Day away. If these talks lead onto negotiations then the political assurances should be given and the House informed.

Honda

The very one-sided relationship with Honda must clearly be changed. Land Rover is unlikely to be viable as an isolated company. Graham Day is still developing his overall strategy and he will not have this in a form worth discussing until early June. At that stage it would be useful for you and Paul Channon to have a private chat with him (in advance of his talks with Honda in early July), and preferably before any discussion in the small group of Ministers.

Unipart

The sale of Unipart has been a key (although uncompleted) element of the strategy of the previous BL management. In different circumstances it could be questionable. But having given so much public commitment to its sale, unless a satisfactory deal ultimately proves impossible, it ought really to be pushed through .

Name

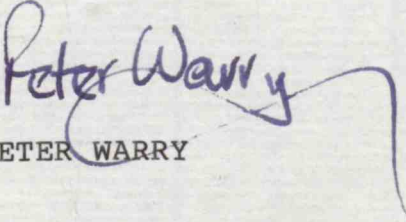
The change of name is sensible and needs early agreement in order that it can be passed by the AGM in time for the launch of the new XX car.

Recommendations

We recommend you write:

1. Agreeing to the change of name and to pressing ahead with Bus and Unipart.
2. Agreeing to exploratory talks with GM but suggesting that the small group would need to meet before full negotiations started or any political commitments were given.
3. Agreeing to informal soundings with Honda but prepared for a discussion with colleagues if others think this desirable.

In the meantime a private meeting should be arranged early June with yourself, Graham Day and Paul Channon, and before wider discussion with colleagues.


PETER WARRY

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PRIME MINISTER

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You will be interested in recent developments.

GM

2 GM postponed the informal talks mentioned in my minute of 25 April but Peter Morrison's meeting with GM Executive Vice-President Mr Bob Stempel, went ahead on 4 May. I enclose a note of that meeting. Its key points are:

- (i) that GM would be interested in discussing a deal on Trucks and, preferably, Vans but they want the Government to make the first move.
- (ii) that GM would soon need to press ahead with "painful" action to stem Bedford's losses, but closure of Bedford does not seem likely in the immediate future.

3 Politically it is tempting to leave the problem of Trucks and Vans to simmer down for several months. We could consider separate options for Leyland (e.g retaining and funding it or seeking a deal with Paccar who appear to be still interested in Trucks) but an agreement with GM is the only option which tackles rationalisation of the commercial vehicle sector. Given that objective:

- (i) there are major industrial risks in doing nothing. GM are signalling their urgent need to

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resolve their future strategy, and whilst they would like to do this in co-operation with BL the signs are they will not defer action for very long. GM are likely in any case to announce redundancies at Bedford in the near future which will be needed whether or not a merger with Leyland takes place. But a decision on a deal with Leyland is needed urgently before GM move to more drastic action affecting the longer-term position of the Bedford businesses which could be damaging politically;

- (ii) in Parliamentary terms we have a commitment to have a debate on the results of any talks with GM. If a deal is to be negotiated in time for a vote before the Summer Recess, negotiations must begin in the next few weeks. To delay this until after the Recess would almost certainly be too late to hold GM back from alternative action;
- (iii) even if we wanted to keep this issue out of the political arena for a while, it is unlikely we shall be allowed to do so. I have just received a letter from John Smith enquiring whether talks with GM are still continuing, and there have been several Parliamentary Questions. Peter Morrison's meeting with Mr Stempel is being reported to the House and we cannot afford a disingenuous reply to Smith's enquiries.

4 These factors point towards grasping the nettle in the near future by reviving the talks with GM on Trucks and possibly, Vans. Relevant factors include these:

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- (i) on past form, GM would require management control and would much prefer full acquisition. But we might consider whether it would be politically easier to handle a joint venture (there is the Ford/Iveco precedent), either for Vans alone or for both Trucks and Vans. This might allow us to point up the need for rationalisation rather than allowing a deal to be portrayed as a sell-out to the Americans. A joint venture might also be easier to sell to the Commission, since a full acquisition by GM of Trucks and Vans without Land Rover might command a very small price or even require a "dowry".
- (ii) there are strong industrial grounds for including Vans which is a bigger problem for Bedford than Trucks. But the possible closure of Freight Rover's Common Lane plant would be politically difficult. GM might well be able to help on this, either by giving assurances about continued manufacture of vans there or by undertaking to put alternative automotive work there. We should make discussion about vans conditional upon such undertakings being given.

5 As part of his programme of visits to major car companies Graham Day has proposed that he should take up GM's invitation to visit Detroit and use this as an occasion to open the subject of commercial vehicles. Peter Morrison and I believe that GM will not re-open formal talks without clear political assurances that we firmly intend to see them through to a successful conclusion. This poses a dilemma. It would be foolish to announce fresh talks with GM only to

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discover subsequently that GM were unable to meet the conditions we felt politically necessary e.g on Common Lane. Yet informal talks to establish the ground-rules for formal negotiations might well leak and we would again be accused of secretly plotting a sell-out to GM. Nevertheless on balance I believe we must reach some broad understanding with GM on the framework for any talks before any announcement to the House and we should invite Graham Day to initiate discussions accordingly with GM in close consultation with my Department.

AUSTIN ROVER

6 I have also discussed with Day the future of the Austin Rover Group (ARG) whose fortunes depend critically upon the success of the new Rover 800 which you are to help launch in July. Day has been struck by ARG dependence on Honda and on ARG's vulnerability should Honda decide to pursue a strategy which excluded ARG. He has therefore decided that one of his main priorities is to talk to Honda about their longer-term ambitions in Europe and what part ARG might play. He wants to explore Honda's willingness, in principle, to take a minority equity stake in ARG perhaps with some employee/institutional shareholding and a continuing Government interest as an interim measure. Amongst Day's thoughts on the possible future structure of the BL Group is his idea that Land Rover should be put with ARG. Such a reorganisation would undoubtedly make ARG far more attractive but would, of course, be politically very high risk. Such a structure is, he believes, a possible route towards privatisation. Day is, well aware of the political implications of foreign participation in any BL business and the importance of avoiding any suggestion of an eventual Honda control over ARG. There are of course also problems

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with the continuing Government shareholding envisaged in his preliminary ideas: but there are important industrial arguments in favour of consolidating ARG's relationship with Honda.

7 Subject to your views, I propose to tell Day that we are content that he should explore with Honda, but without commitment, what their plans are, and whether these include, in principle, a willingness to take a minority stake at some stage in ARG. I shall ask that he should, at this stage, avoid discussing any particular percentages and, given his thoughts on the possible reshaping of the Group (see paragraph 8 below), avoid outlining the structure to which this holding might relate.

OTHER PRIVATISATION

8 Day is determined that the present discussions with Charterhouse about Unipart privatisation be pursued without undue delay. He has, however, said that he wishes to consider whether the separate privatisation of Unipart is likely to damage ARG or otherwise restrict the options available for that company, notably in connection with the proposed approach to Honda. Within the commercial vehicles field, his priority will be Leyland Bus where, as Nigel Lawson notes in his letter of 28 April, there is an urgent need to stop the cash outflow from BL. He does not believe that discussions with the various contenders have been approached in a sufficiently structured way and he has put in hand steps to remedy this. Given his own conflict of interest (through his Laird Directorship) he has established a special committee of the BL Board to oversee these negotiations and he is hopeful that the BL Board can reach preliminary views on the options later this month.

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THE NAME OF THE BL GROUP

9 Day has also given me his tentative thoughts on the future structure of the BL Group where he sees much merit in putting Land Rover with ARG. Day has also been strongly advised by his marketing and advertising consultants that the "BL" and "Austin" names should be dropped in favour of concentration on the "Rover" name which still has some appeal in the market-place. He will therefore probably propose that "BL" should be replaced by "Rover Group plc" within which there would be a "Rover Cars" and a "Leyland" division.

10 Subject to your views, I propose that:

- (i) we invite Graham Day to initiate discussions with GM, in close consultation with us to establish whether a satisfactory basis exists for formal negotiations;
- (ii) in the light of the outcome of these informal exchanges we should decide whether to re-open talks on Trucks and Vans and give GM the political assurance they seek;
- (iii) if appropriate, we announce to the House that we have authorised a re-opening of these talks;
- (iv) we allow Graham Day to make informal soundings with Honda about their longer-term ambitions in Europe and, in particular, in relation to ARG;
- (v) the Unipart privatisation should be pursued without delay although Day should give some

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assessment of any potential damage if, for example, the Honda option is pursued;

- (vi) recommendations be sought urgently from BL on the privatisation of Bus; and
- (vii) we do not raise any objection to the name "BL" being changed to "Rover Group plc".

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

P.C.

PAUL CHANNON

16 May 1986

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CONFIDENTIAL

MEETING HELD AT REGENCY HOTEL, NEW YORK CITY
ON 5 MAY BETWEEN MR PETER MORRISON, MINISTER OF STATE (DTI)
AND MR BOB STEMPEL, EXECUTIVE VICE PRESIDENT
TRUCK AND BUS DIVISION, GENERAL MOTORS

The meeting was held at the request of the Minister of State. It was clearly much appreciated by Mr Stempel who is concerned, on his part, that GM's actions over the next few months would be understood by HMG.

2. Mr Morrison explained the political background which had led the Government to withdraw from the negotiations over acquisition of the BL commercial vehicle business. He emphasized the importance which the Government continue to attach to GM's contribution to the British auto industry. While it was not practical politics to envisage that the sale of Land Rover would form the basis of any future talks, any future proposals that GM put forward to acquire BL's truck business would encounter much lower-key opposition which could be handled without any undue difficulty. However, there would be a particular problem in current circumstances in dealing with any GM proposal to acquire BL's van business because of its potential implications for the Common Lane plant.

3. Mr Morrison emphasized his willingness to provide guidance at any time to Mr Stempel as any new proposals emerge. He could understand the company's perplexity at the way that political opposition to GM's proposals had emerged. If new negotiations were to get underway it would be important at the outset to be clear about the public statement of their parameters to avoid future charges of further secret talks. Mr Morrison thought it important that GM should have a meeting with the new BL Chairman as soon as he has had an opportunity to size up the situation.

4. In discussion the following points were made:

- (i) GM had studied with great care the wording of the Secretary of State's statement to the House on 25 March. They considered that in the context in which it was made, it was a very moderately and responsibly phrased announcement. GM appreciated the fact that the Government had resisted the temptation to blame GM for the breakdown;
- (ii) GM recognized that further approaches to negotiate with BL any acquisition involving Land Rover would be a non-starter;
- (iii) GM will be taking necessarily painful action to stem Bedford's losses. This should not be interpreted as in any way a hostile action on the company's part. There was no other suitor in sight and appropriate business decisions had

to be made on the assumption that BL would for the present retain control of their truck business;

- (iv) GM had attached great importance to staying in the U K truck business, particularly as a supplier of military vehicles. Mr Stempel said explicitly that this was a point to which Secretary Shultz attached importance. While GM could not see as yet the means by which Bedford could achieve long term viability on its own, the company recognised that any decision to withdraw from their U K business would be irreversible. The company would be extremely loathed to take such a step;
- (v) GM did not consider they are in the present climate able to take first step to reopen discussions with the British Government on BL. Such a move would be misunderstood in the UK. Mr Stempel's personal belief was that the British public opinion could be encouraged to change in time as the result of retrenchment by Bedford & Leyland and - even more important - the impact of the Ford-Iveco merger which had major implications for the European truck market. He doubted whether there was a great deal of appreciation outside the business of the extremely poor prospects for Bedford & Leyland as independent entities in the European truck market;
- (vi) GM were giving careful consideration to the possibility of improving their UK image by appointing an experienced British industrialist to run their business in the UK;
- (vii) The political difficulties in current circumstances of a bid for BL's van business were understood. Fierce local pride in an operation was sometimes an asset since it could quite often be the single ingredient that kept an unpromising facility viable;
- (viii) GM considered there had been slow but very definite improvements in the performance of the UK component supplying industry. GM would be looking at the possibility of sourcing some U S requirements outside the UK; centralizing responsibility for European production of catalytic converters in the UK. Mr Stempel took note of the potential political as well as the industrial benefits to the UK of locating future Rochester Products fuel injector manufacturing investment in the UK which the company will be discussing with IBB, New York later in the week.

John Hagestadt.

J V Hagestadt
Director
Invest in Britain Bureau, New York
5 May 1986

