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SUBJECT CC MASTER

10 DOWNING STREET

From the Principal Private Secretary

21 May 1986

Dear John,

BL

The Prime Minister held a meeting yesterday to discuss your Secretary of State's minute of 16 May. Your Secretary of State, the Lord President, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Secretary of State for Transport, the Chief Whip, the Minister of State for Industry and Professor Brian Griffiths were present.

The Minister of State reported on his recent meeting with Mr. Stempel of GM. Mr. Stempel had recognised HMG's political predicament, and that the take-over of Land Rover by GM was now not possible. He had emphasised that harsh decisions would in any case be necessary for Bedford. The Minister of State had told Mr. Stempel that he saw no political difficulties in GM taking over BL's Truck operation, but there could be difficulties in a takeover of Vans. Mr. Stempel had commented that GM had a good relationship with BL Vans people and there could be a way through the difficulty. He had emphasised that it was up to HMG to make the first move.

The Prime Minister reported that, as DTI had already been told, a source close to GM had informed Professor Griffiths that GM had decided not to go forward with any further proposal to BL on Commercial Vehicles. According to this source, Detroit were now contemplating the sale of Bedford, perhaps retaining a minority stake. They wished to make urgent progress; BL wished to take matters more slowly. The

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Minister of State commented that the report from this source was not easily reconcilable with his conversation with Mr. Stempel.

The following points were made in discussion:

i) it was suggested that GM were genuinely uncertain about what to do, with different factions in the company favouring different courses. The company needed to make up their mind what they wanted. But so did the Government.

ii) There was general agreement that BL should not take over Bedford. Another possibility, though one which the Prime Minister did not like, was a joint venture between BL and GM of their truck operations subject to satisfactory assurances from GM. The risk here was that BL might be forced in due course to acquire a larger share of the joint venture if GM decided to pull out. Against this it was argued that it would be better for the public sector to have a 50% share in such a joint venture than its present 100% share of the BL operation.

iii) It would be politically extremely unwise for the Government to be seen to be re-opening negotiations with GM. There was less risk in an approach from Graham Day as part of his discussions with one or two major foreign car companies. If Graham Day reported interest from GM, Ministers would then need to decide what to do.

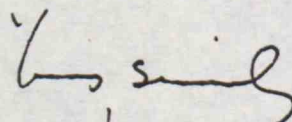
iv) If BL Trucks division were not taken over, a great deal of public money would need to be spent on sustaining the Trucks operation. It was inconceivable that it could be closed this side of the election.

v) The BL Board would be next week considering the future of their Bus division.

Summing up the discussion the Prime Minister said that it was agreed that:

1. Graham Day should, as part of his discussions with major manufacturers abroad, have discussions with GM in order to ascertain their latest views. The Group would meet again to decide the Government's response in the light of his report.
2. He should sound out Honda about their long term ambitions in Europe and, in particular, in relation to ARG.
3. The BL Board should be invited to put recommendations to the Government quickly on the privatisation of Buses.
4. There was no objection to BL changing its name to "Rover Group plc" if that is what the Board wished.
5. Land Rover operation could be separated from Freight Rover. While it could be made part of the ARG Group for the purpose of management reporting, it should not be merged into the ARG Group so that it could not be readily sold as an independent unit.

I am sending copies of this letter to Joan MacNaughton (Lord President's Office), Rachel Lomax (HM Treasury), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Richard Allan (Department of Transport), Murdo Maclean (Chief Whip's Office), Malcolm McHardy (Minister of State for Industry's Office) and Professor Griffiths.


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