

PRIME MINISTER

LAND ROVER-LEYLAND

Agree that both sets of talks should be pursued, subject to the views of colleagues?

It is however an uneasy position to have talks proceeding which might affect the future of Freight Rover without a wider group of colleagues, including Mr. Walker and Mr. Fowler, being aware of them. Agree also therefore that we should move towards a meeting of the smaller group probably for your return from the European Council, as a possible prelude to a meeting of the MISC Group, followed by an announcement? (The smaller group could of course stop this process if that seemed right at the time.)

I think we must discuss with the smaller group.

mb.

N.L.W.

js DAVID NORGROVE
20 June 1986



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S B/UP

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Prime Minister

PRIME MINISTER

Agree that both sets of talks should be pursued and that To Channon should consider roughly the question of an announcement?*

LAND ROVER-LEYLAND

** subject to colleagues*

DLV

30/6

Graham Day met the GM Executive Vice-President, Robert Stempel, in New York on 12 June. Stempel explained that GM were still considering the options for Bedford but made clear that a serious runner was the total closure of their UK commercial vehicle operations. GM were willing to talk to BL about an amalgamation of their truck and van interests but would not be willing to take a majority interest or management control of the merged entity. Discussion then moved on to the possibility of identifying a third party in Europe who might be ready to contribute to a rationalisation. Daf, with whom Leyland already have a collaboration agreement, was mutually agreed to be the most likely contender and Graham Day, together with GM executives, met the Daf Chairman for an exploratory discussion yesterday. This went well and Daf appeared interested, in principle, in the idea of a holding in a merged Bedford/Leyland company. They have undertaken to study the proposal urgently and to let Graham Day have a considered response by 7 July.

2 Separately, there has been renewed interest in Leyland Trucks (but not Freight Rover) by Paccar, a significant US manufacturer of heavy-duty trucks and owners of the UK company, Foden, which they bought in 1980. At recent talks with Peter Morrison and subsequently with Graham Day, Paccar have indicated a genuine interest in a rationalisation involving Leyland Trucks, Foden, and the other independent truck manufacturer, ERF (who are interested in talking).

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Having registered their interest, Paccar now await a BL and Government response.

3 There are two issues for consideration:

- (i) whether we encourage the tripartite talks with GM and Daf;
- (ii) whether we should allow talks with Paccar to be pursued.

4 The tripartite approach is the only one offering a possible solution for Bedford and an orderly restructuring of the industry. But on what terms? As GM seem determined to avoid financial and management control, we could (unless Daf take it on) be faced with BL not only with a significant minority stake in the merged company but also having responsibility for managing the combined businesses through a painful rationalisation. Although the risks would be shared with GM/Daf, and we may succeed in extracting Leyland Trucks from the scope of the Varley Marshall assurances, full privatisation would be some years off. Nevertheless, the options for Bedford and Leyland are narrowing rapidly and, despite the difficulties, I believe we must allow the talks to proceed at least until we have a clearer picture of what is proposed.

5 Paccar, on the other hand, would offer a 'clean' early privatisation of Leyland Trucks and would also achieve some measure of rationalisation by bringing in the ERF and Foden businesses. US control could be controversial but provided we handle it right this time, this should be manageable. The serious position of Leyland Trucks is widely accepted and there is far less emotion surrounding it than with the Land

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Rover issue. Indeed we are being urged by those who were opposed to the original GM deal, to take urgent action with Leyland trucks. Therefore I suggest we ask Graham Day to pursue as quickly as possible the Paccar option along with the GM/Daf talks.

6 To avoid the difficulties we faced earlier this year over conducting "secret" talks with GM and Ford, I think we shall need to consider making it publicly known at an early stage that these various discussions are in progress - not in a way which suggests that either of them is the preferred course but simply as part of a review of options on the future of Leyland Trucks.

7 Copies of this minute go to Willie Whitelaw, John Wakeham, Norman Tebbit, Nigel Lawson and Nicholas Ridley.

John Hogg

pp

PAUL CHANNON

20 June 1986

(Approved by the Secretary of State and signed in his absence)

DEPARTMENT OF TRADE AND INDUSTRY

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