

PRIME MINISTER27 June 1986LEYLAND TRUCKS

GM's finance-men have won the day and Bedford is now set on a contractionary path. Unless HMG is prepared to effectively rescue Bedford at the taxpayers' expense, there is probably little that can be done to influence GM's actions. Certainly there is no case for being hustled by GM's need to make early decisions if this compromises Leyland Trucks' other opportunities.

A link up with DAF has long been one of Trucks' most sensible opportunities (but blocked in the past by a former BL director). DAF are a profitable company but they need Leyland's added size to make them really viable and take them into new markets such as North America. They are not really a nationalised industry in the British sense and a merger with Leyland could facilitate an early flotation and the divestment of HMG's stake. A straight deal with DAF should be much easier to achieve than a tripartite one including GM, and is likely to be at least as beneficial for the UK.

Paccar are an American company employing some 12,000 people of which 445 are employed by Foden. Despite sales falling from 745 trucks in 1984 to only 450 in 1985, Foden recorded a small profit in 1985 compared to losses in the two previous years. Paccar would need to acquire both Leyland Trucks and ERF outright: any rationalisation of Leyland with these two minnows which left HMG still involved would be unlikely to be in both Paccar's interest and HMG's.

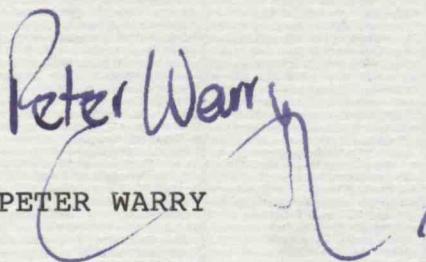
There is no need to decide at this stage which option is better, only if any should be ruled out. Clearly, the more options pursued (provided there are not too many) the

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greater the chance one has of landing a successful deal. If Graham Day believes the opportunities are worth pursuing then it would be wrong to second-guess him.

There is also the question of a statement. Any publicity is bad: it is the publicity which as much as anything ultimately frightened away GM, and other companies will want to avoid it as much as possible. Moreover, the more the Government gets involved in statements and indeed in the negotiations, the more difficult and dangerous the whole process becomes. DAF have particularly stated that they want no Government-to-Government contact.

We firmly believe that the Government should stay out of these discussions as far as humanly possible; it would make Graham Day's life a lot easier and probably the Government's as well. If any statement has to be made surely it could be limited to saying that Graham Day has been instructed to explore all possible avenues for Leyland Trucks, and that Parliament will be informed in ample time if and when any of these approaches reaches the stage where Ministers are being asked for decisions.


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