

CC B/UP 9

PRIME MINISTER

LEYLAND TRUCKS

The questions for decision are:

- (i) should either, both or neither of the approaches for Leyland Trucks be pursued;
- (ii) should MISC 126 be consulted;
- (iii) should a public statement be made?

The sensitive suggestion from the point of view of MISC 126 and Midlands MPs is of course the inclusion of Freight Rover in the approach from GM and DAF.

You might ask where things stand on the assessment of the bids for Leyland Bus. Any discussions and announcements on this over the next few weeks would increase the risk of appearing disingenuous if colleagues and the public are not told about the discussions on Leyland Trucks.

DN

(DAVID NORGROVE)

30 June 1986

DCA.54



PS/ Secretary of State for Trade and Industry

SECRET

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215

(Switchboard) 01-215 7877

COPY NO 1 OF 7 8

30 June 1986

erbg
B/WP

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David,

LEYLAND TRUCKS

As background for tomorrow's meeting on this subject, my Secretary of State has asked me to circulate a note by officials.

I am copying this letter and its attachments to the Private Secretaries of the Lord President, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Chief Whip and the Secretary of State for the Environment.

Yours ever,
John

J F MOGG
Private Secretary

JF1BEQ

17
19
86
BOARD OF TRADE
BICENTENARY



SECRET

LEYLAND TRUCKS : CURRENT DISCUSSIONS

Note by Officials

An exploratory discussion has been held between BL, GM and DAF on the possibility of DAF involvement in a merger of Leyland and Bedford truck operations. DAF have undertaken to inform BL by 7 July whether they are prepared to begin substantive discussions. Separately the US company Paccar has expressed interest in the possible acquisition of Leyland Trucks and rationalising this with Paccar's existing UK subsidiary, Foden. The remaining UK independent Truck maker, ERF, might associate themselves with this venture.

DAF/LEYLAND/BEDFORD

2 The Dutch Government has a minority interest in DAF Trucks. (DAF Trucks shareholding is owned as to 37.5 per cent by the Van Doorne Family Trust, 25 per cent by the Dutch State Mines - Government owned - and the remaining block of 37.5 per cent - the former International Harvester stake - by a consortium comprising the above shareholders plus the Netherlands Investment Bank).

3 Thinking is at a very early stage but it is possible to identify what benefits DAF might enjoy if some link with Leyland and Bedford could be made. With their existing product range, predominantly heavy trucks, DAF's growth opportunities are limited: a venture such as this might be one way of developing a much stronger, and more broadly based, position in Europe. DAF could use a merged Bedford/

JF1BEP



SECRET

Leyland company (Newco) as the channel for the sale of heavy trucks in the UK market whilst looking to the UK operations as a source of light/medium trucks. The latter would represent an extension of the existing collaboration with Leyland under which DAF are to market on the Continent under a DAF badge the Leyland Road Runner light truck and Sherpa Van.

4 As both their product and facilities are less modern, the Bedford contribution to any merger would be relatively limited but there might be a continuing military role. Their existing UK market share and dealerships would however be of value and they might also be able to make available the results of the development work being carried out on a new generation of heavy and medium trucks.

5 In terms of facilities, as with the earlier GM talks, the Leyland plant would presumably be favoured over Bedford's Factory at Dunstable. Under the earlier discussions with GM (SALTON), the Dunstable facility would have been helped by the transfer of Leyland's specialist Scammell production from Watford (which would be closed) but, in current circumstances, DAF and BL may have other ideas.

PACCAR

6 For Paccar, acquisition of Leyland Trucks would represent the US company's first significant venture in Europe. In product terms, PACCAR/Foden's strengths are in specialist heavy trucks like Scammell. By acquiring Leyland, they would, acquire a broader products range which could help in their efforts to develop sales in the US market where European manufacturers are already achieving some success.

JF1BEP



SECRET

7 In terms of facilities, Foden's plant is modern but basic (while ERF's is both basic and old). Foden's output of 700 vehicles and ERF's of 1,800 per annum could probably be accommodated at Leyland or Scammell.

LEYLAND TRUCKS

8 The latest financial data on Leyland Trucks is attached at Annex A. Annexes B and C provide further information on other manufacturers.

IMPLICATIONS FOR HMG

EC aspects?
Monopolies & merger aspects?
9 Under either a GM/DAF/Leyland venture or a Paccar acquisition it would be necessary for Government (probably through equity injection) to pay off the debt attributable to Leyland Trucks - currently around £340m. This would be influenced by the degree to which industry rationalisation was achieved. A stronger case on 'rationalisation' grounds could be made with a tripartite venture involving DAF than with a sale to Paccar even though the latter would include Foden and perhaps ERF.

10 More generally, a sale to Paccar would:

- remove Leyland Trucks from the scope of the Varley Marshall assurances (LT borrowings alone are forecast to rise to £470m by 1990);
- distance Government from any subsequent rationalisation needed to restore Leyland Trucks to viability;

£0.30.30-

JF1BEP



SECRET

- leave Government, open to criticism that it had "abandoned" Bedford.

11 The effect of any GM/DAF/Leyland venture would depend on whether DAF were willing to take a majority shareholding and management control of the merged operation; or whether, like GM, it would insist on a minority position without management responsibility. Under the former, the Varley Marshall assurances would no longer apply and, with DAF seen to be in clear control, Government would not be closely identified with subsequent rationalisation. A "solution" would have been found for Bedford and the Government's privatisation objectives would have been largely achieved - particularly if BL could negotiate a guaranteed disposal of its minority shareholding in a year or two.

12 However, if BL were obliged to take management control accompanied by a majority or substantial minority shareholding, the situation would be less clear-cut. Industry rationalisation would be achieved but Government would remain closely involved in the fortunes of Leyland Trucks (as well as Bedford) and full privatisation would be some years off.

DEPARTMENT OF TRADE AND INDUSTRY

30 July 1986

JF1BEP

LEYLAND TRUCKS: LATEST FINANCIAL FORECASTS

	Actual			Latest Forecast*			£m	
	1983	1984	1985	1986	1987	1988	1989	1990
Sales Revenue	250	258.5	290.8	269	299	348	369	394
PBIT	(86.4)	(50.1)	(31.1)	(45)	(10)	4	7	15
PBT	(104)	(74.9)	(63.2)	(83)	(46)	(33)	(33)	(30)
Cash flow	(76)	(65.6)	(23.8)	(75)	(44)	(29)	(34)	(30)
Borrowings	231	228.1	258.3	334	378	407	441	471

* Updates 1986 Corporate Plan. Figures provided by BL on 27.6.86



TRUCK MANUFACTURERS

	<u>1985 OUTPUT</u>	<u>PLANT LOCATIONS</u>	<u>EMPLOYMENT</u>	<u>1985 PBIT</u>
LEYLAND	14,000	Leyland, Lancashire Watford Albion, Nr Glasgow	4,668 695 1,257	(31.1)
BEDFORD	14,799*	Dunstable (Trucks)	2,360 (Dunstable)	N/A operating loss (42.7) net loss (73.0)
DAF	14,382*	Holland/Belgium	N/A	N/A net profit FL20.4m (at today's exchange rate about £5.4m)
ERF	1,950*	Sandbach (Cheshire)	1,000	(0.444)
FODEN (PACCAR)	870	Sandbach (Cheshire)	445	0.890 (Paccar UK Ltd)

* Figures include bus and coach production. Probable that production of bus and coaches during 1985 by Bedford was 1,000; ERF 100; DAF 1000.

UK TRUCK MARKET: REGISTRATIONS

1985

	SECTOR (GVW): 3.5/7.5	7.5/12	12/15	Over 15	Total Sales
Leyland	2582	311	708	3738	7339
Bedford	2672	812	1073	1017	5574
DAF	0	0	0	1163	1163
ERF	0	0	0	433	433
Foden (Paccar)	0	0	0	250	250

UK TRUCK MARKET: REGISTRATIONS

1995

SECTOR (GVW): 3.57.5 7.57.5 12.7.5 Over 15.7 Total
24169

3339	2738	706	241	Exford
2274	1077	1072	812	Bellard
3163	1163	0	0	DAF
433	433	0	0	LF
280	220	0	0	Foden (Paccar)

