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PS/ Secretary of State for Trade and Industry
CONFIDENTIAL

24 July 1986

Tony Kuczys Esq
 Private Secretary to the
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 LONDON
 SW1P 3AG

Dear Tony,

STATEMENT ON UNIPART AND LEYLAND BUS

... I attach the latest version of a statement which my Secretary of State will be making this afternoon in the House. This is currently being considered with Treasury officials. My Secretary of State has not seen this latest version but it is based on his comments on previous drafts. I should be most grateful for any urgent comments that you or David Norgrove to whom I am copying this letter may have on the statement. I shall keep you informed of any amendments.

Yours sincerely

Bradley

CATHERINE BRADLEY
 Private Secretary

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 BOARD OF TRADE
 BICENTENARY

DRAFT PARLIAMENTARY STATEMENT ON UNIPART AND LEYLAND BUS

On 6 February I informed the House that it was the Government's intention, with the agreement of the Rover Group Board, that negotiations should be pursued for the separate privatisation of Unipart by the early placement of shares with United Kingdom institutions.

2 With the approval of the Government the Rover Group have reached agreement in principle, subject to contract, for the sale of a 75% shareholding in Unipart to a consortium comprising Unipart management and a group of UK investment institutions led by Charterhouse Bank. It is proposed to reserve up to 5% of the ordinary share capital for Unipart employees. Rover Group will receive up to £50m, depending in part on Unipart's future performance. The Rover Group will subscribe up to £3.75 million for its 25 per cent share in the restructured company, on the same terms as the consortium.

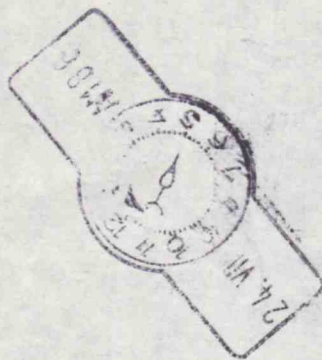
3 Rover Group's close links with Unipart will be retained through its significant holding in Unipart, and by contractual arrangements agreed between Austin Rover Group and Unipart. Return to the private sector will enable Unipart to develop and diversify its operations, while continuing to meet the requirements of Rover Group.

4 On Leyland Bus my hon Friend the Minister of State for Industry informed the House on 27 June that the Rover Group had

received tenders for Leyland Bus from Aveling Barford, the Laird Group, and a Leyland Bus management consortium. The Rover Group have recommended and the Government have agreed that the tender from the management consortium should be taken forward to the contract stage.

5 The Rover Group have therefore reached agreement in principle, subject to contract, for the sale of Leyland Bus and a 33 per cent shareholding in Leyland Parts to a consortium of Leyland Bus management and investment institutions. It is also proposed that employees will be able to participate in the shares of the new Leyland Bus holding company. The Rover Group would receive about £11.7 million for Leyland Bus and the shareholding in Leyland Parts.

6 As I have consistently made clear to the House, there is substantial overcapacity in the traditional bus market and some measure of rationalisation would be inevitable under whatever ownership. It is the intention of the management team to decide urgently on the most effective new structure for their manufacturing operations and on employment levels. Some job loss will be involved, including the future closure of Eastern Coach Works at Lowestoft. However, the Government accepts the view of the Rover Group that the proposals by Leyland Bus management are soundly based and provide an opportunity to develop a viable bus manufacturing industry in the UK.



Unipart and Leyland Bus

5.35 pm

The Secretary of State for Trade and Industry and President of the Board of Trade (Mr. Paul Channon):

On 6 February, I informed the House that it was the Government's intention, with the agreement of the Rover group board, that negotiations should be pursued for the separate privatisation of Unipart by the early placement of shares with United Kingdom institutions.

With the approval of the Government, the Rover group has reached agreement in principle, subject to contract, for the sale of a 75 per cent. shareholding in Unipart to a consortium comprising Unipart management and a group of United Kingdom investment institutions led by Charterhouse bank. It is proposed to reserve up to 5 per cent. of the ordinary share capital for Unipart employees. Rover group would receive up to £50 million, depending in part on Unipart's future performance. The Rover group would subscribe up to £3.75 million for equity in the restructured company.

Rover group's links with Unipart will be retained through its holding in Unipart, and by contractual arrangements agreed between Austin Rover group and Unipart. Return to the private sector should enable Unipart to develop and diversify its operations, while continuing to meet the requirements of Rover group.

On Leyland Bus, my hon. Friend the Minister of State informed the House on 27 June that the Rover group had received tenders for Leyland Bus from Aveling Barford, and Laird group, and a Leyland Bus management consortium.

The Rover group has recommended and the Government have agreed that the tender from the management consortium should be taken forward.

The Rover group has, therefore, reached agreement in principle, subject to contract, for the sale of Leyland Bus and a 33 per cent. shareholding in Leyland Parts to a consortium of Leyland Bus management and investment institutions. It is also proposed that employees will be able to participate in the shares of the new Leyland Bus holding company. The Rover group would receive about £11.7 million for Leyland Bus and the shareholding in Leyland Parts. The details of the sale contract remain to be negotiated.

As I have consistently made clear to the House, there is substantial overcapacity in the traditional bus market and some measure of rationalisation would be inevitable under whatever ownership. It is the intention of the management team to decide urgently on the most effective new structure for their manufacturing operations, and on employment levels. Some jobs losses will be involved, including the future closure of Eastern coach works at Lowestoft. However, the Government accept the view of the Rover group that the proposals by Leyland Bus management are soundly based and provide an opportunity to develop a viable bus manufacturing operation.

Mr. John Smith (Monklands, East): Why does it make sense to amputate 75 per cent. of Unipart, which is a successful and integrated operation, from the rest of the Rover group? If it is desirable to diversify the development of Unipart, why can that not be done with it remaining wholly in the ownership of the Rover group? Is it another example of the Government's ideological obsession with

selling off all the profitable parts of the public sector? Will the Secretary of State tell the House more about the price? How much is to be paid now and how much in the future? How is the price related to future profitability and what will be the capital of the restructured company?

Will the Secretary of State confirm that, in plain language, his ominous references to the rationalisation of Leyland Bus and to new employment levels mean many job losses, starting with the depressing loss of the entire plant at Eastern Coach Works in Lowestoft? How many jobs will go in all?

Does the Secretary of State now appreciate the catastrophic results of the Government's public transport policy? This is not an example of a cyclical fluctuation of demand, or of an industry in structural decline. The reduction in bus orders from 5,801 in 1980 to a projected 1,850 in 1986 results directly from the ending of the bus grant, deregulation proposals and the ending of revenue support for bus services. The jobs which will be lost are the direct result of a transport policy which has not only ruined public transport but, as we have seen today, has meant that a successful bus industry is in danger of disappearing.

In such circumstances, is it not the Government's duty to give special help and support to the areas and individuals who have suffered, and who will suffer, and to help the new company as it seeks to grapple with problems caused by the Government?

The Government should have retained Leyland Bus in the Rover group so that, as an integrated operation, it could have the best chance of success. However, as the Government were determined, whatever the arguments, to sell off Leyland Bus, Opposition Members prefer the management-trade union consortium to the other bidders.

Why does the Secretary of State, curiously, refer only to the participation of the management and investment institutions? Why does he not refer to the participation of Unity Trust, the trade union financial institution which represents all the employees in the trade unions at the plant? Will the Secretary of State undertake that the Government will not put any obstacles in the way of Unity Trust's successful involvement in the company?

Finally, when does the Secretary of State think that he can come to the Dispatch Box without a message of industrial contraction and ever-increasing job losses?

Mr. Channon: I shall try to answer the points raised by the right hon. and learned Gentleman. First, I shall try to give him details of the price of Unipart. Under the terms of the deal, approximately £50 million will be paid to the groups; of this, £30 million will be payable on completion, with a deferred element of £5 million plus interest from the marketing of Unipart shares, and up to £15 million if Unipart achieves specified future profit targets. Those are the parameters within which the deal has been structured. I do not agree with the right hon. and learned Gentleman. I believe that Unipart could have a very flourishing future in the private sector; that view is widely shared by Conservative Members.

I have never disguised from the House that there are serious problems in the bus industry. They would remain whether Leyland Bus was in public or in private ownership, and it is quite irresponsible of any hon. Members to say otherwise. There have been considerable changes in the bus market over a period of years. A new type of bus seems to be emerging as the probable bus of

[Mr. Channon]

the future. I am sure that Leyland Bus's future management will be watching those developments carefully. It would not be right to retain Leyland Bus within the Leyland company. It would have a much better chance under the control and ownership of the management buy-out. I have been told today that Unity Trust is seriously interested in participating, and if that is so, it is something which I very much welcome. I am sure that the House will join me in hoping that the consortium will be successful in the future.

Mr. Robert Atkins (South Ribble): As one who has pressed privately and publicly for this, the optimum decision, in terms of the offers made, to be taken, I welcome this decision greatly, and it will be welcomed by my constituents who work in the Leyland Bus factory in Farington in South Wirral. Is not that a tribute to the management team led by Ian McKinnon, and the trade union team led by Derek Bullen, who have invested so much time, trouble and now presumably money in securing the long-term future of Leyland Bus? I thank particularly my right hon. Friend, and my hon. Friend the Minister of State, who have listened carefully to the points of view of all involved.

Does the Secretary of State agree that there are still difficult decisions to be taken? Does he also agree that the joint approach of trade unions, management and others which has so characterised the campaign of the management buy-out offer, should be used to good effect to ensure that the rationalisation of the company is sensitive and productive and secures it a long-term and viable future?

Mr. Channon: I am extremely grateful to my hon. Friend for welcoming these proposals. He has been a doughty fighter for his constituency and for this company which is located there. A great deal of credit must go to my hon. Friend for this result. I share my hon. Friend's views about the quality of the management and about Mr. McKinnon. I tried to support Mr. McKinnon and his colleagues in Thailand a little while ago in my previous job, and I shall do what I can to continue helping them. I have already told the House that difficult decisions will have to be taken, but I have every confidence that the new structure of the company will provide a good method for creating a viable bus manufacturing industry.

Mr. D. N. Campbell-Savours (Workington): I welcome the Government's decision to reject the Laird bid which, in effect, would have closed the Leyland Bus plant in Workington. However, although I wish that Leyland Bus had been retained, reporting directly to the Rover board, I accept that the management consortium's proposals secure the future of the Leyland Bus plant in my constituency. I look forward to the future and ask the Secretary of State to do so too.

Does the right hon. Gentleman realise that there is another obstacle. Despite what he said, we are faced with redundancies in Workington and Farington. They may not be substantial, but they will certainly affect the populations of both areas to some extent. The Secretary of State knows that the future of the Workington plant is very much dependent on the rail business, on Railbus and on DMUs. Will he take a personal interest in ensuring that we get the work? If the Leyland bus and rail plant in

Workington is to survive it needs that business and it will not survive without it. I ask the Secretary of State to make a long-term consideration and to take a special interest in ensuring that we get that work for the future.

Mr. Channon: I am absolutely confident that the company's management will be keen to get the rail orders referred to by the hon. Gentleman. He has raised that point on a number of occasions with my hon. Friend the Minister of State and myself, and we shall, of course, take note of his comments. If the hon. Gentleman will not mind me saying so, we have taken seriously his campaign for Workington and for this factory in his constituency. My hon. Friend visited Workington recently. We take great account of the views of the hon. Gentleman and I am glad that he is partially pleased with our decision today.

Mr. Steve Norris (Oxford, East): Given the appalling record of previous Governments in the management of the motor industry, will my right hon. Friend accept that there will be a widespread welcome on the Conservative Benches for the progressive liberalisation of parts of the former BL company? May I express, on behalf of my constituents in the Unipart business, a warm welcome for his proposals, which will allow them to participate in the ownership of the company and in its subsequent successful growth? I particularly welcome the retention of a 25 per cent. holding in the company by Rover group which will allow Rover group to benefit from the increased work of the Unipart business and will also ensure that the Austin Rover contract with Unipart, which is so vital in its short-term future, will be there to ensure that the company is a profitable and viable concern in future.

Mr. Channon: I am grateful to my hon. Friend for his welcome for the Unipart proposals. I know of their tremendous importance in Oxford, East, and particularly Cowley. I strongly share his views about Unipart's prospects. I hope that it will be successful in the private sector. I think that my hon. Friend is right and that for the Rover group to retain a shareholding in Unipart is a good idea. The deal with Rover is safeguarded by the contractual arrangements agreed between Austin Rover and Unipart not very long ago. I hope that there will be no problem about that. I am grateful to my hon. Friend for his advice on these difficult subjects during the past few months.

Mr. Dave Nellist (Coventry, South-East): What other major car manufacturer, be it Ford, Vauxhall or Honda, has sold off one of its regular valuable sources of income, its spares division, and thereby threatened its own viability? Is not it particularly odious that Unipart has been built up with public money and now that it is to become part of the private sector its first priority will be profits? Even if it does not make those profits, Rover will not get the full sale price that the Secretary of State has announced today.

Finally, what guarantees have been given to the work force of Unipart, given that earlier this year, in February and subsequently, I have raised with the Secretary of State on a number of occasions, in the House and privately in his office, the legitimate fears of Unipart's work force about privatisation, as expressed through Mr. John Hughes, the Transport and General Workers Union convenor at Coventry, which led to his sacking by that management? What guarantee does the Secretary of State

have from the management that Mr. Hughes will be reinstated and that no other workers will be disciplined or sacked because of their trade union's fears about privatisation?

Mr. Channon: I know that the hon. Gentleman has always been opposed to the proposal and, as he points out, he has expressed that forcibly to me in public and private. I fear that I cannot satisfy him on that point. The hon. Gentleman will have to pursue the matter of Mr. Hughes with the company and not me. That is not a matter in which I can intervene.

The Rover group board believes that its best interests are served by selling Unipart now and the Government agree. The board is satisfied that proper safeguards have been built into the contractual arrangements between Austin Rover and Unipart for the foreseeable future and I hope that that future will be successful.

Mr. Kenneth Warren (Hastings and Rye): I welcome the expedition with which my right hon. Friend has accomplished his part of the deal. Is it not a good thing to have this marvellous test of the way in which management and trade union relationships have been built up in Rover to see the way in which the Leyland deal has been constructed? However, will he assure the House that Rover's integrity is in no way diminished, in the sense that it can now go forward from these two deals and concentrate on the areas where it is manifestly successful?

Mr. Channon: Yes, I think that I can give my hon. Friend that assurance. I am grateful to him for his remarks generally and on the collaboration between management and trade unions in the case of Leyland Bus. Indeed, my hon. Friend the Member for South Ribble (Mr. Atkins) came to see me on many occasions with trade union representatives and I was impressed by the constructive desire to keep the company going and the desire to work constructively for the future.

Mr. Paddy Ashdown (Yeovil): I join others in welcoming the Secretary of State's decision to come down in favour of the management buy-out in part or in full. However, does he realise that laying aside only 5 per cent. of the shares in Unipart for worker participation is far too little and looks like a cosmetic exercise? What percentage of shares are likely to be laid aside for employees for Leyland Bus? In particular, what is the ratio of participation in Leyland bus between the management buy-out and the investment institutions?

Mr. Channon: I am grateful to the hon. Gentleman for his general welcome of the proposals. On Unipart, it is intended to reserve up to 5 per cent. of the ordinary share capital for employees. It is also intended to introduce schemes enabling employees to buy further shares in the company on comparable terms with investors. On flotation, if that should take place, it is envisaged that employees will be given preferential application rights. Therefore, it is better than it seems at first glance and we shall obviously keep matters under continual consideration.

The full details of Leyland bus and the participation of employees have not yet been completely worked out. They are under consideration and there is the participation, which in principle has been agreed, of Unity Trust. May I write to the hon. Gentleman with more details when they are known?

Mr. Michael Grylls (Surrey, North-West): Will my right hon. Friend confirm that, whatever the out-of-date Labour party may say this afternoon, the workers in these two parts of the Rover group will welcome their return to the private sector so that they too can enjoy the fruits of their hard work and success, as the Jaguar workers are? Will my right hon. Friend be able to hold out the same carrot of privatisation for those who work in the Austin Rover car group? Although that may not be an immediate prospect, they should have that in their sights for the future so that they too can participate in their own businesses.

Mr. Channon: As my hon. Friend knows better than anyone, that has always been our intention. We said so at the last general election and the Government's position is unchanged on that point. My hon. Friend is entirely right to point to the great success of Jaguar and the great example that of privatisation that offers. Privatisation presents great prospects to employers and managers in these companies. That is being increasingly recognised.

Mr. Terry Davis (Birmingham, Hodge Hill): If Unipart and Leyland Bus will be run by exactly the same people who are already running those activities, why does the Secretary of State think that they will be more successful in private ownership than in public ownership?

Mr. Channon: Experience shows that that is the case.

Mr. Kenneth Hind (Lancashire, West): I congratulate my right hon. Friend on an imaginative plan on behalf of many of my constituents who work at the Farington plant for Leyland Bus. May I say on their behalf that they will welcome the opportunity to participate in the shareholding of that company on its return to the private sector? Will he give an assurance that, in the division of the present integrated businesses of bus and truck at Leyland, the parts sector going into the bus business will be adequately provided for to ensure that the business will remain viable?

Mr. Channon: Yes, I can give my hon. Friend the assurance that the business will remain viable. In general, I can meet his points and I am grateful to him for his welcome for what is proposed.

Mr. Joe Ashton (Bassetlaw): Is it not a fact that, in the past seven years, the Government have run the bus industry down to a third of what it was when they took office, creating massive redundancies in my trade union, and this sell-off is to increase the Exchequer's profits to create funds for a proposed election tax cut? What good is a tax cut to somebody without a job or who cannot afford a motor car and is waiting for a bus that does not come? Is he aware that the only reason that many of the workers have welcomed the proposal is because it is the least worst of the three options compared with Aveling Barford and Laird? The whole sorry picture of bus manufacture under the Government has been nothing but a disgrace.

Mr. Channon: The hon. Gentleman exaggerates. There have been dramatic changes in the bus industry. The market is changing and people must be responsive to change. Most of the changes were inevitable and would have taken place whatever the policies of successive Governments. The prospect offered to Leyland Bus under these arrangements gives it the best chance of success in a difficult market. I think that the view is widely shared in the House and by a great many of the workers, and I hope that they will have a successful time in the new company.

Mr. Tony Baldry (Banbury): Given the rather churlish welcome by the Opposition to the wider share ownership prospects of this launch, will my right hon. Friend confirm that 5 per cent. of this company is worth between £3 million and £4 million, and that thus each worker in Unipart could if he wished purchase up to £4,000-worth of preferential shares? That is to be warmly welcomed and shows the prospects that exist for privatisation and the growing confidence in the competitive qualities of British manufacturing industry and the car industry in particular.

Mr. Channon: I am grateful to my hon. Friend for pointing out those facts. As I said to the hon. Member for Yeovil (Mr. Ashdown), I hope that there will be other opportunities for the employees of Unipart. That will be widely welcomed by the workers there and is a good example of how privatisation can work satisfactorily and to the benefit of all concerned.

Mr. Doug Hoyle (Warrington, North): The Secretary of State should not take too much note of his hon. Friends, who would not know a worker if they fell over one. Instead of taking note of their comments, will he begin to answer the questions that were put earlier? The first question was, can he name any other motor manufacturer which does not own and control a spares business? Will he then tell us the advantages of selling off Unipart and why it has been sold at a knockdown price of £50 million when last year it was valued at £100 million? Is this not just pure political dogma? While the Leyland Bus deal is the best of some bad offers, surely it would have been better to leave Unipart with British Leyland because the same management will still run it. Will he tell us how many jobs will be lost at Lowestoft, at Leyland and at Workington, and whether the workers who lose their jobs will be cheering him then?

Mr. Channon: I cannot agree with the hon. Gentleman. It is the view of the Rover group board that the arrangement about Unipart is a good idea. It also takes the view that it has negotiated the best possible price for Unipart with Charterhouse. If I might take one example of a company in the position to which he has referred, the obvious example is Jaguar. It has not been a howling failure since it was privatised. I note that the hon. Gentleman laughs at that. It is interesting to see Opposition Members laughing at Jaguar, which is such an outstanding success.

I have already told the House that unfortunately it seems that the Leyland Bus Eastern Coach Works at Lowestoft will have to close, but if any way can be found to keep it open we will try to help. I believe that some 484 people are employed at the Eastern Coach Works. That was the figure at the last convenient date. The management will have to consider carefully the future of these companies, but it has confirmed to me that it intends to keep open the works at Farington and Workington and that news will be widely welcomed in the House.

Mr. Ernie Ross (Dundee, West): The Secretary of State told us that some form of rationalisation will take place. Can he tell us exactly how many redundancies will occur as a direct result of his statement? As my right hon. and learned Member for Monklands, East (Mr. Smith) said, it is because of the Government's deregulation of the bus services that people do not need so many buses. The House knows that, much earlier the Secretary of State had his fingers burnt when he tried to sell the whole of British Leyland. The workers should know that, now he is starting off by selling Leyland Bus and Unipart. Next to go will be trucks and then the Rover group itself will be under threat. Given that the Leyland work force was on holiday on 17 July, does he not think that this is rather a disgusting holiday postcard to sent to those workers who will come back to some form of rationalisation that will mean job losses?

Mr. Channon: The hon. Gentleman underestimates that which the workers in these factories have known for a long time: that losses were being made in the bus industry and that whatever ownership it was in, rationalisation measures had to be taken. It would have been irresponsible of me not to mention the decisions of the Government at the earliest date that we could before the House went into recess. It has proved possible to do that and to have delayed the statement would have been irresponsible. Indeed, I have been pressed time and again to announce measures as soon as conceivably possible. For the reasons that I have given to the House on at least three occasions, I cannot give a figure for the number of redundancies. That is because final proposals by the management have yet to be made. The management will have to look carefully at the business. This solution offers a reasonable long-term prospect and offers that prospect to Farington and Workington. I should have thought the House would welcome that.