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PRIME MINISTER

Leyland Truck and Bus

(A paper by the Secretary of State for Trade and Industry is to be distributed at the meeting.)

DECISIONS

You will wish MISC 126 to authorise an immediate statement (probably on 2 December) by the Secretary of State for Trade and Industry on

- i. progress towards the sale of Leyland Bus; and
- ii. the fact that talks are under way with DAF and Paccar for the sale of Leyland Trucks (and also, in the case of DAF, the sale of Freight Rover).

2. You will also wish the Group to endorse the need for the write-off of a large part of the debt associated with the Leyland Truck and Bus operations during the current financial year, although there would be no immediate public statement about this. The objective would be to announce final conclusions on the future of Leyland Trucks and the debt write-off, ~~in the context of a general statement in February 1987 also covering the Rover Group's car operations.~~

*probably in February next year.*

BACKGROUND

3. You have already discussed the position with the Ministers most closely concerned. MISC 126 should enable the support of a wider group of Ministers to be secured for Mr Channon's proposals, including that of some Ministers with a close interest in the West Midlands industrial scene.



Leyland Bus

4. We understand that negotiations are continuing for the management buy-out of the Leyland Bus operations. It should be clear soon whether all the outstanding questions can be settled. The closure of one plant (at Lowerstoft) has already been announced, and further rationalisation is almost certainly inevitable. A substantial amount of debt (up to £200 million) will need to be written-off in the context of this sale, and the cash receipts will be negligible; but the Government will have freed itself of future responsibility for a loss-making operation, and no better alternative is in sight. It seems likely that the market for buses (as opposed to mini-buses) will remain depressed.

Leyland Trucks

5. There are two disposal options:

i. sale to Paccar (Foden), possibly with equity participation from Cummins Engines and from the independent UK Truck Manufacturer ERF. This option is confined to Leyland Trucks, and does not include Freight Rover;

ii. formation of a joint company with DAF, which would cover both Leyland Trucks and Freight Rover.

6. The Paccar option would mean complete disposal of the Leyland Trucks operation, but the associated rationalisation would be likely to mean the loss of at least 4,000 of the 8,500 jobs currently provided by Leyland Trucks, ERF and Foden taken together. Moreover there would be no assured future for Freight Rover, which would probably have to close around 1990 when it ceases to be economic to manufacture the present range of vans. If Rover had to retain Leyland Trucks, the rationalisation then required would probably mean at least as many job losses as in the case of sale to Paccar.



7. The DAF option involves the formation of a joint company in which Rover would retain a 25-30 per cent share until the company can be floated in 2-3 years time. The immediate job losses would be only about half those involved in the Paccar option, and there would be a continuing future for Freight Rover, which is already scheduled to begin manufacture of vehicles for DAF on a contract basis. Although there would be some continuing UK public sector shareholding in the Leyland Trucks operation, there would be no question of the UK Government undertaking any responsibility for the new company's future debts. But the new company could not be expected to assume more than a small proportion of the debts outstanding in respect of the Leyland Truck operations. Altogether a write-off of up to £450 million is likely to be required, in addition to a £200 million in respect of Leyland Bus.

#### European Community Aspects

8. Approval of the Commission will be required for the write-off of debt, since this counts as a State aid. Informal soundings suggest that there are unlikely to be any difficulties in the case of Leyland Bus. But in the case of Leyland Trucks, the Commission may well want to investigate further, and might seek to place obstacles in the Government's way. From the European standpoint, the DAF option is obviously superior, since the rationalisation involved would go wider than the UK. Ultimately, however, the write-off must be accepted - it would clearly be unavoidable if the businesses simply ceased operation. The write-off is a delicate issue, and the Government will not wish to be drawn on it in any way in advance of further confidential discussions with the Commission.

#### Austin Rover

9. The Corporate Plan on which Mr Graham Day is now working will need to cover the Austin Rover car operations as well as vans, trucks and buses. Austin Rover's market share has continued to decline, so that difficult decisions may be needed. But it is too soon for specific proposals to be formulated, and there is no need for any discussion of the future of the car operations on this



occasion.

HANDLING

10. You will wish to invite the Secretary of State for Trade and Industry to summarise the present position on Leyland Bus and Trucks for MISC 126 colleagues, in the light of the paper to be distributed at the meeting. The Chancellor of the Exchequer may wish to comment on the financial aspects of the options, while the Minister of State, Foreign and Commonwealth Office will wish to advise on the European Community aspects. The Lord President of the Council and the other Ministers will wish to comment on the political and industrial aspects, and the Lord Privy Seal and Chief Whip on the Parliamentary aspects.



J B UNWIN

Cabinet Office

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