

PRIME MINISTER

1 October 1985

BILATERAL WITH LEON BRITTAN ON BL

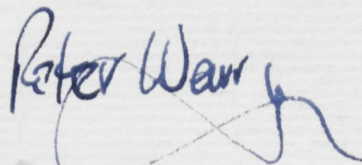
The Unipart and Land Rover-Leyland privatisation (briefs attached) typify the BL problem and form a useful platform from which to start the discussion, and in particular to emphasise the long history of broken promises which Leon Brittan now inherits. You will also want to mention BL/DTI politics (based on information from our sources close to BL) and how the press have been manipulated.

Other related topics are:

Vehicle Emissions: Austin Rover got an extra £135m through their revised corporate plan earlier this year to cope with the new permissive directive, but look likely to come back for yet more.

Borrowings: Norman Tebbit 'capped' BLs borrowings at £680m for 1985 with the intention that this should be reduced in later years. BL are already forecasting borrowings rising to £695m this year and making warning noises about later years.

Austin Rover: following the saga over buying engines from Honda you will want to be assured that Austin Rover will stick to the plan and meet their targets on cost, performance and delivery, both on engines and new models.



PETER WARRY

PRIME MINISTER

27 September 1985

BL PRIVATISATION

UNIPART

The story so far:

August 82: 2 BL businesses to be sold by August 1984.

19 July 84: (Bide to Tebbit) If Government agree to purchase of Edmunds Walker, then BL will commit to a Unipart sale by mid-1985.

November 84: Proposal for the further purchase by Unipart of Motorist Discount Centres which Government were (wrongly) prepared to agree to if BL would reconfirm the mid-1985 sale date. This led to:

11 Dec. 84: (Bide to Lamont) BL won't honour mid-1985 date as proceeds would be too small and because of uncertainties on vehicle emissions. Following further argument:

28 Jan. 85: (Bide to Lamont) Unipart will be sold by end 1985. A No.10 letter (11 March) asked that you be informed should any slippage seem likely.

Now BL say this last promise will also be broken and privatisation may slip into 1987 [and perhaps be lost altogether]. The reasons given are problems with the Edmunds Walker purchase (which was meant to facilitate privatisation) and again the all-purpose excuse of vehicle emissions. This was all entirely predictable and, indeed, was predicted.

But what BL don't reveal is that, at their Board Meeting on 16 July, they rejected a very acceptable offer for Unipart from a reputable merchant bank. In rejecting the offer, BL must already have been fully aware of the impact of vehicle emissions, and would be incompetent not to have an inkling of the Edmunds Walker problems showing up in the accounts for the previous month end - the very reasons they are now using for delaying the sale. (In case DTI are unaware of this offer I shall let Leon Brittan know on a personal basis).

Leon's response is excellent, but whilst this is only the first time they have broken faith with him, it is just one in a long line of broken promises since 1979, and a tougher approach could be considered. There are three options which you might like to discuss at your bilateral next Thursday.

1. Stop all further borrowings by withholding Varley Marshall assurances from them, and so force privatisations to finance the business.
- Or 2. (If BL have not told DTI of the offer for Unipart) then dismiss the BL Board and appoint a caretaker to oversee the privatisations;
- Or 3. Directly offer Unipart to the merchant bank who are still interested in buying it.

LAND ROVER-LEYLAND

GM's interest is good news; the rationalisation is likely to save more jobs in the long term than it will lose in the short term. But GM are only at the starting line; BL (and perhaps GM) will provide plenty of chicanes before they reach the chequered flag.

The biggest of these is money. GM want to take on the businesses, but leave BL with the bank borrowings (at least £350m). They will then fix a price for each company based upon expected future earnings - which should yield near to £100m for Land Rover, but at best will be zero for Leyland Trucks. This would leave BL with net debts from these businesses of at least £250m.

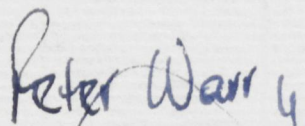
BL will doubtless use their agreement to any sale as a lever to extract Government money to repay these debts; and we will be in a weak position to refuse. As these borrowings are the same Varley Marshall assurances that DTI have repeatedly said are of no concern, it would be wrong for DTI to get away scot-free and add the whole of any sum required by BL to their existing PES totals.

But this is for the future: the first problem is to ensure we have more than one entrant in the race. To date DTI have argued that, because GM were offering to take all of Land Rover-Leyland off our hands, no other bidders should be allowed to embarrass them. This was always a weak argument, but is now entirely invalid as the GM are really only bidding for Trucks (which will integrate nicely with their own Bedford operation) and the highly saleable Land Rover and FreightRover companies. Other potential bidders exist, and DTI were meant to have instructed Barings back in March to look for yet others.

If we continue to give GM the purple corridor treatment, then not only are proceeds likely to be less, but we have no back up against (Unipart type) mishaps. Given that GM have been allowed to string the "negotiations" out for over a year so far - with promises of decisions first in February, then to May, June, and end August; and that they are still talking to three other European manufacturers, then they can hardly take offence if others are now also given a chance to bid. Moreover, the longer we delay bringing in other bidders, the more difficult it becomes to do so.

DTI will argue that bringing other bidders in will give BL a better chance to delay and confuse; but if the management cannot be trusted, then they should be removed, not pandered to.

We recommend you endorse the negotiations with GM and the proposals for monitoring them, and (provided we are prepared to be ruthless with the BL Board), also tell GM that other bidders will be allowed a chance.



PETER WARRY