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master.*



ce B. Brown

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10 DOWNING STREET

From the Private Secretary

4 December 1985

Dear John,

BL PRIVATISATION

Your Secretary of State today discussed with the Prime Minister his minutes of 25 November and 2 December about proposals for privatising parts of BL. The Chancellor and the Minister of State, Department of Trade and Industry, were also present.

Your Secretary of State explained that the decision whether to encourage Ford to bid for ARG and Unipart was essentially political. A takeover might or might not make industrial sense, and Ford would be considering that further in the course of their studies. BL would need to be given an opportunity to make proposals of their own. But essentially there was no prospect in sight for privatising ARG other than Ford's.

It was agreed that the Ford approach was very well worth pursuing. The BL Board should be allowed no opportunity to obstruct or delay the discussions, though it would be necessary to look at any proposals they might make. The BL Board should be instructed to proceed urgently with the negotiations now in progress for the separate sale of Unipart. If the Ford discussions reached a sufficiently firm stage quickly enough, their offer for Unipart should also be considered.

The meeting also agreed that discussions with GM over the sale of LRL should move ahead as quickly as possible. The companies should be sold for what they would fetch: they would otherwise continue as a drain on the public purse. The main issue was the treatment of debt relating to LRL which would remain with BL plc after the sale of LRL. The Chancellor saw no real need to extinguish this debt until the remainder of BL had been sold: to do so would give the appearance that the Government was injecting further funds into BL, it would add to public expenditure and it risked being seen as a reduction in the proceeds from the GM deal.

In discussion of this aspect, it was argued that if the debt remained with BL, some of the Government's supporters would say BL was being saddled with debt which had been incurred by companies now sold. It would also be easier to clear the debt in two tranches than in one.

It was agreed that, as your Secretary of State had proposed, it would be preferable to extinguish the debt relating to LRL at around the time of the sale to GM, if that went through. The precise timing of the payment should be discussed with the Treasury: if Heads of Agreement were signed in 1985-86 and legal completion took place in 1986-87 there might be scope for making the payment in either year as the Chancellor might prefer in the light of the public expenditure and fiscal position.

Your Secretary of State reported that Graham Day would be prepared, if asked, to take over the chairmanship of BL. This would need to be considered in the light of progress towards privatisation of BS. Your Secretary of State also undertook to consider how far the payment to BL which had been agreed could be used to push the BL Board to resolve the future of Leyland Bus.

I am copying this letter to Tony Kuczys (H.M. Treasury).

Yours ever,

David.

(David Norgrove)

John Mogg, Esq.,
Department of Trade and Industry.