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Secretary of State for Trade and Industry

PS/

21 February 1986

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

Dear David,

BL

At Cabinet yesterday, my Secretary of State was invited to circulate some briefing material to all his Cabinet colleagues. ... This is now attached. It comes in three parts. The first sets out some important background information; the second provides a series of Question and Answer supplementaries; and the third is an extract of a speech given by my Secretary of State yesterday.

2 Copies of this letter and attachments go to all Private Secretaries of Cabinet Ministers and to Michael Stark in Sir Robert Armstrong's office.

Yours ever,

John Mogg

J F MOGG
Private Secretary

Encls

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BOARD OF TRADE
BICENTENARY

BL : SUPPLEMENTARY BRIEFING

Q1 HAVE THE GOVERNMENT ALREADY ACCEPTED THE GM OFFER?

A. No. Discussions between BL and GM are continuing. Proposals by GM and other interested parties will be considered on their commercial merits in relation to the future of BL as a whole.

Q2 ARE NOT THE DEADLINES SET IMPOSSIBLY TIGHT?

A. The BL Board have notified those companies who have expressed interest that they wish to have any declarations of a firm intention to make an offer to be made by 4 March. This is not a deadline for completion of discussions but the Government are determined to resolve this issue very speedily to avoid further commercial damage to the businesses involved.

Q3 WHEN WILL THE WORKFORCE BE CONSULTED?

A. Both GM and BL are informing their workforces of the position reached in the negotiations.

Q4 IS NOT THE BL BOARD PROVIDING INSUFFICIENT INFORMATION AND INADEQUATE TIME FOR OTHERS TO MAKE REALISTIC BIDS?

A. The time provided by the BL Board for expressions of interest to be met by other companies is entirely reasonable in view of the need to stop this period of damaging uncertainty. If companies with an interest feel they have inadequate information they should raise this with the BL Board.

Q5 WHY SELL LAND ROVER TO FOREIGNERS?

A. The Government wants to ensure the best possible future for all BL businesses. Central to the Government's

policy is the wish to secure a viable UK-based commercial vehicle industry. The positive advantages of US investment in the UK are being entirely ignored.

Q6 WHY SELL BL BUSINESSES JUST WHEN THEY TURN THE CORNER?

A. The Government's concern - like that of the BL Board - is the long-term future for these businesses. Although there has been a substantial improvement in BL's performance much still needs to be done in an increasingly hostile trading environment. Leyland Trucks and Leyland Bus are still heavily loss-making. The industry is suffering from considerable over-capacity. Land Rover and Freight Rover are making modest profits but both need to make major investments in new products and facilities over the next few years. Their future could best be secured in the private sector rather than in public ownership.

Q7 WILL THE GM BID BE REFERRED TO THE MMC AND THE DGFT?

A. The Secretary of State will decide whether or not a reference should be made to the Monopolies and Mergers Commission in the light of advice from the Director General of Fair Trading.

Q8 WILL THERE BE MASSIVE REDUNDANCIES?

A. Whatever option the Government chooses - including the option of doing nothing - rationalisation and some loss of jobs is inevitable, but no decisions have been taken on this aspect. What the Government is doing is to look for a solution which assures the long-term security of the great bulk of jobs in the industry.

Q9 WOULD ASSURANCES FROM GM BE USELESS?

A. No. GM are a major US company and are ready to make public their intentions for the future of the businesses. The details of such assurances are

presently under discussion. Even with commitments that are not legally binding I am confident that GM would not depart from them unless they were faced by some over-riding economic or industrial circumstance and, even then, only after discussion with the Government.

Q10 AS WITH WESTLAND IS NOT THE GOVERNMENT SELLING ITS BEST MANUFACTURING INDUSTRY TO EUROPE?

A. It is the long-term security of our manufacturing operations that is of concern to the Government rather than the nationality of its owner. If European or British alternatives are put forward the BL Board will, of course, consider them.

Q11 WON'T GM TURN THE BL BUSINESSES INTO SCREWDRIVER OPERATIONS?

A. No decisions have yet been reached in the talks between BL and GM. However the Secretary of State for Trade and Industry said on 3 February that, if a deal with GM could be agreed, the company would be willing to give full undertakings that the majority of the products sold by the businesses involved would be manufactured in the UK; that the products would continue to have high local content; that there would be a substantial level of exports; that research and development facilities will be maintained and developed in the UK; that Land Rover will retain its distinct British identities; and that an appropriate level of investment will be injected into the businesses to achieve competitive future models and facilities.

Q12 WILL THE HOUSE HAVE THE OPPORTUNITY OF DEBATING THIS DEAL BEFORE IT IS FINALLY CONCLUDED?

A. The Leader of the House said on 20 February repeated that "when a conclusion to negotiations is reached the Secretary of State for Trade and Industry will immediately make a statement to the House and he will accept that it will be for the House to debate and decide upon the result of those negotiations."

Q13 GM OFFER IS £230m?

A. The financial arrangements for the proposed acquisition are among the outstanding issues yet to be resolved in the discussions with GM. No bid has yet been received from GM.

Q14 WHEN DID THE NEGOTIATIONS START?

A. As the Secretary of State for Trade and Industry said in the House on 19 February, discussions have been going on for quite a long time.

[If pressed: many months]



BL : LAND ROVER-LEYLAND

This note sets out the background to the present negotiations for the privatisation of BL's commercial vehicle businesses and describes the position reached in the discussions with GM and other interested parties. It concludes with a series of questions and answers and an extract of the Secretary of State's recent speech.

BACKGROUND

Trucks

2 Throughout the 1960s and part of the 1970s, European heavy truck manufacturers were trading profitably and expanding their capacity to meet the demand. But in the late 1970s as a result of the oil crises and economic recession the industry ran into deep trouble:-

- In Europe, sales of heavy trucks fell more than 30 per cent between 1979 and 1984;
- In Britain, there was a rather bigger fall, around 35 per cent;
- Total exports from Europe reduced by nearly 32 per cent.

3 As a result, European heavy truck manufacturers now have unused capacity estimated at around 40-45 per cent. Most are losing money. Across Europe, there were losses estimated at £350m in 1983 and over £400m in 1984. In the UK, Leyland Trucks and Bedford between them lost a total of £225m in 1983 and 1984. 1985 forecasts suggest continuing heavy losses. There is the prospect only of a minor recovery in the market in the late 1980s. No one expects demand to recover to the levels of the 1970s.

4 Retrenchment has already taken place but more needs to be done. "Everyone is talking to everyone". In the UK, Paccar (US) acquired Foden in 1980. Enasa (Spain) has taken over Seddon Atkinson. Ford is talking to Fiat (Iveco).

Vans

5 Bedford and Freight Rover are heavily dependent on the UK market - which is expected to remain flat for the rest of the decade. Competition will be fierce - Ford's new Triton (Transit replacement), Renault, Mercedes and the Japanese will be in the forefront. Bedford and Freight Rover market shares will be eroded as their products age. Both will need to replace their model line-up by 1990.

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6 Yet Freight Rover is only modestly profitable and will not itself have the resources to fund the required investment. A combination of Bedford and Freight Rover will on the other hand enable new product development and the associated investment to be spread over much higher volumes.

Land Rover

7 Land Rover/Range Rover has been profitable in recent years but not hugely so. Currently it has a profit of a few million pounds on a turnover of around £400m. It faces increasing competition in the UK market and is weak in the private leisure sector - a segment where the Japanese have been making rapid strides last year winning over 50 per cent of the market - from under 35 per cent in 1980.

8 Prospects in Land Rover's traditional African and Middle East markets are poor with total markets being constrained by foreign exchange shortages and by decreases in economic activity in the oil producing countries.

9 Land Rover has no sales in the USA - the world's largest 4X4 sports/utility market with annual sales of over half a million vehicles. General Motors will give Land Rover instant access to this huge and lucrative market. It will also be in a position to provide Land Rover with the technical and financial resources to support the major expenditure envisaged on the facilities and new product development.

Buses

10 Not part of the GM talks but it is in a desperate situation with large and growing losses in 1984 and 1985. Urgent action is needed. The weak state of demand in the UK bus market, and the limited scope for exports, has prompted discussions between the Laird Group (MCW) and Land Rover-Leyland which could lead to a much-needed rationalisation of UK bus capacity. Volvo and Aveling Barford, who have also expressed interest, have been invited to submit their own proposals regarding the future of Leyland Bus.

PRESENT POSITION

11 Expressions of interest in some of the businesses in the possible GM package have been received, and the names of those who are prepared to have their interests disclosed have been announced (Lonrho, Aveling Barford and the Management Buy-out Group). They have been asked to indicate by 4 March whether they have a firm intention to make an offer. This

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time limit has been set by the BL Board in order to keep to an absolute minimum the period of uncertainty which is immensely damaging to the companies concerned.

12 Regarding Leyland Bus, discussions with Metro Cammell Weyman (a Laird subsidiary) and Volvo are proceeding. Aveling Barford have also expressed an interest and the distinct possibility of a Management Buy-out has been mentioned. The timetable is a slightly later one but the prospects should be clearer towards the end of March.

ASSURANCES

13 The Government will insist on satisfactory assurances from GM about the future of the businesses in the UK before any deal with GM is finalised. GM are willing to give undertakings that the majority of the products sold by the businesses involved would be manufactured in the UK, that the products would continue to have a high local content, that there would be a substantial volume of exports, that R&D facilities would be maintained and developed in the UK, that Land Rover would retain its distinct British identity and that an appropriate level of investment would be injected into the business to achieve competitive future models and facilities.

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Release Time:

RT HON PAUL CHANNON MP

Immd Thursday 20th
February 1986 80/86

Extract from a speech by the Rt Hon Paul Channon MP, (Southend West) Secretary of State for Trade and Industry speaking to the Trade and Industry Forum at Conservative Central Office on Thursday 20th 1986.

In the last few weeks, a lot has been said about the negotiations which have been taking place between British Leyland and General Motors; a lot of it has been both short-sighted and uninformed. And so I would like to set the talks in their proper context by stating a few facts about the commercial vehicle industry today.

Throughout the 1960s and the early 1970s, makers of heavy trucks in Europe prospered. They traded at a profit and expanded their capacity to meet the demand. However, in the latter part of the 1970s, as a result of the economic recession and the oil crises, demand collapsed. The industry ran into deep trouble as, between 1979 and 1984, sales of heavy trucks fell by more than 30 per cent. And today it is estimated that European heavy truck manufacturers are faced with unused capacity of some 40 to 45 per cent. Losses in the sector across Europe have been estimated at £350 million in 1983 and over £400 million in 1984. Nor was the truck industry in Britain immune from this trend. Between them, Leyland Trucks and Bedford made a total loss of £225 million in 1983 and 1984, and forecasts suggest little improvement in 1985. In the face of this appalling situation, rationalisation of the industry is inevitable. Mergers have increasingly been seen as an obvious way forward. One thing has become clear: the present situation could not continue even had we wanted it to.

This then is the background against which the talks with General Motors have been taking place. A merger between Bedford and Land Rover-Leyland, if satisfactory assurances are received, offers one way out of both companies' present difficulties. Both are under-utilised; both are losing money and despite the obvious merits of their products, both businesses are failing to generate the income which they need to fund the next generation of vehicles. Such a position cannot be maintained.

You will of course appreciate that my first concern has to be the preservation of a viable commercial vehicle industry in the UK and thus the preservation also of thousands of jobs which are dependent upon it. But if that is to be achieved, we have to face up to the fact that hard choices have to be made. To ignore the problems, as some would apparently have us do, would in the long term send the industry to its doom. That is one thing that I am not prepared to see.

As I have said, a GM deal offers a possible solution to these problems. But it has also been suggested that Land Rover has only been included within it so as, in some way, to sweeten the deal. It is a suggestion which I utterly reject. The Land Rover company produces a marvellous product - one which is capable of beating the competition throughout the world. But despite all the progress made, its financial performance is still not robust. Although making a small profit, it is not generating the financial resources which are required in order to develop new products. And it has no sales whatsoever in the biggest market for four-wheel drive vehicles in the world - the United States. A deal with General Motors could solve these problems. It could give Land Rover instant access to the huge and lucrative US market. It could also provide the technical and financial resources which the company needs if it is to improve both its product and its sales. Land Rover is therefore a part of the potential deal because it will be good for Land Rover.

Of course, the Government is not suggesting that a sale of Land Rover and of Leyland Trucks to General Motors has to be the best or only solution. Others have also expressed interest in all the different businesses. And, as we have made clear, each offer will be examined carefully on its merits. But the problems facing the industry cannot be ignored. The GM deal seems likely to offer real solutions to real problems. So may any other alternative proposals that may be made. But, it is vital that decisions are also taken quickly. Prolonged speculation about the companies' future can only do damage to their business. To delay taking decisions or even worse to turn a blind eye to the problems which they face, would jeopardise both them and the thousands of jobs which they provide. It would also be irresponsible in the extreme.

END