



JR
Ceter Duguid.

10 DOWNING STREET

From the Private Secretary

14 January 1982

Dear Jonathan,

BL FUTURE STRUCTURE

The Prime Minister discussed your Secretary of State's minute of 22 December together with the Chancellor's minute of 12 January, with the Chancellor of the Exchequer and the Secretaries of State for Industry, Trade and Employment. Mr. Ibbs and Sir Robert Armstrong were also present.

The Secretary of State for Industry outlined the proposals which Sir Michael Edwardes and his Board had put forward on the future of the Leyland Group. His proposal that the Cars Group and the Unipart Group should be formed into one company and that the Leyland Group and the Land Rover Group should be formed into another was fully compatible with the Company's objectives for rapid privatisation to the maximum possible extent. There was also considerable internal logic in these two groupings: there would be two distinct businesses which could be more effectively managed as such rather than held together in an unwieldy combine which would be beyond the capacity of Chairman and Board to handle effectively. It would reduce the risk that collapse in one part of the Group, say the volume cars section, would bring down the more profitable parts. More importantly, it would insulate the businesses in the Group from the spread of labour relations problems from one part to another. There would be advantages from commonality in dealership and in parts. There would be no sense in the Department of Industry owning four separate and independent entities created out of the existing grouping.

In discussion, it was argued that many of these considerations pointed more powerfully to a proposal to split the Group four ways rather than two ways. Sir Michael Edwardes' present stance appeared to be inconsistent with his previous position and that of the Board - that all the vehicle interests of BL needed to remain inviolate as a single entity in order to maximise the opportunity for collaborative deals. In particular, the proposal to put Land Rover in an entirely separate company linked with the Leyland Group seemed to be a complete reversal of the argument earlier advanced by the Board. It was disturbing to learn that Land Rover seemed to be in a worse shape than it had been twelve months ago. There seemed to be considerable doubt

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about whether the Government's and the Board's objectives were the same. If the Government's original wishes had been met, Land Rover and Unipart would have been sold separately. The Board had been opposed to this, and the consequence was that we now had an unprofitable Land Rover and a very unsatisfactory Trucks Division. Further, even on the notion of collaboration, there seemed to be a misunderstanding between the Board and the Government. The Government saw collaboration as a means of acquiring equity partners for BL; BL's conception seemed to involve little or no financial responsibility on the part of their collaborating partner. There seemed to be no logic in the Board's present proposal; it looked more like management juggling than a coherent plan for putting the business in a position to be sold off successfully sooner rather than later.

BJ
The Prime Minister said that it was agreed that the Government should seek independent advice on the Board's present proposal, and alternative plans for the future of BL. The Secretary of State for Industry should, in conjunction with the CPRS, investigate the possibility of procuring the services of McKinseys for this purpose. McKinseys would need to be given a clear remit, and to be asked to report within six weeks. The Prime Minister would be grateful to be consulted about the terms of the remit proposed for McKinseys.

I am sending copies of this letter to John Kerr (HM Treasury), John Rhodes (Department of Trade), Barnaby Shaw (Department of Employment), Gerry Spence (CPRS) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

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Department of Industry.