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PS/ Secretary of State for Industry

6 May 1982

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Thurley on.
MS

Prime Minister (2)

I asked, on your

behalf, for this report.

Mus 6/5

Dear Michael,

BL : FUTURE STRUCTURE

Following our telephone conversation earlier this week, I am writing to give you a summary of my Secretary of State's meeting with Sir Michael Edwardes on 27 April to discuss the Government's future intentions towards BL.

2 The Secretary of State explained to Sir Michael Edwardes the outcome of Ministers' discussion on 21 April of the BL Board's proposals on future structure : namely that BL should sell off the Land Rover business by the end of 1983; that BL should be allowed to retain the net proceeds of the sale; that the additional equity of £150m which BL had requested for 1983/84 would not be available from the Exchequer; and that the Government had not approved the BL Board's proposals on future structure. Sir Michael Edwardes reacted calmly, though clearly he was unhappy with this outcome. In response, he made three main points. On future handling, he said he would report back urgently to his full Board, who would wish to study the implications in detail; in due course he would wish to give the Secretary of State a considered response, but at this stage he could not say how long this would take or in what form it would be given. Secondly, the Government's intentions on funding in 1983/84 and on the disposal of Land Rover appeared to undermine the integrity of the 1982 Corporate Plan, which the Board would therefore need to review thoroughly. Thirdly, he indicated clearly that he would accept the Government's decision on future structure (while commenting that the maintenance of a unitary structure would make the achievement of recovery by BL more difficult), and that he would therefore plan ahead on the basis of a unitary structure.

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3 In further discussion of the sale of Land Rover, Sir Michael Edwardes suggested that the net proceeds of a sale in 1983 could well be zero or even negative. He asked whether Ministers would be prepared to review the position if it became clear that this would indeed be the outcome. The Secretary of State replied that the Government would expect BL to be able to realize substantial net proceeds from a sale of Land Rover, though he recognised there could be no certainty that it would yield the full £150m which the BL Board had identified as their requirement for 1983/4. If the net proceeds of sale fell short of £150m, the Government would be prepared to discuss with BL how any financing gap might be filled. But Ministers had not reached the conclusion they had on the sale of Land Rover on the basis of zero or negative net proceeds. If it became clear that this would indeed be the outcome then Ministers would obviously have to look again at the whole question of disposal, or at least of its timing.

4 On the possible methods of selling Land Rover, the Secretary of State emphasized to Sir Michael that the Government would wish to maximize the proceeds while simultaneously maintaining Land Rover manufacture in the UK and safeguarding the relevant defence interests. He said he was open to the Board's advice on the best way to proceed. In view of the undesirability of triggering a suspension of BL's loan stocks, he would be prepared for the BL Board to approach a few individual buyers in the first instance, which might include Vickers and GKN. Sir Michael Edwardes emphasized the importance of avoiding any leak of the Government's intentions regarding Land Rover in view of the consequences for BL's loan stocks; and the Secretary of State agreed that he would emphasize the importance of this to his colleagues. With this in mind, the Secretary of State, has asked me to point out that any disclosure at this stage of the Government's intentions regarding Land Rover or, indeed, of the decision not to provide the further £150 million of equity capital required by BL, could undermine confidence in the company, and have a detrimental effect on its prospects of recovery.

5 As regards the future structure of the BL Board, Sir Michael Edwardes advised strongly that his present role as combined Chairman and Chief Executive should be split, probably into a non-executive Chairman and a separate full-time Chief Executive, after his departure. He was asked to let the Department of Industry have his considered views on the suitability of Mr Horrocks or Mr Andrews for the Chief Executive job within a unitary structure.

6 I am sending copies of this letter to Peter Jenkins (HM Treasury), Barnaby Shaw (Department of Employment), John Rhodes



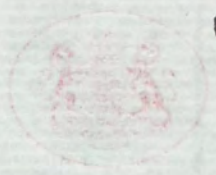
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(Department of Trade), Colin Balmer (Lord Trenchard's office, MOD), Gerry Spence (CPRS) and David Wright (Cabinet Office). I should be grateful if circulation of this letter could be restricted in the same way as previous correspondence on this subject.

Yours sincerely,

Jonathan Spencer

J P SPENCER
Private Secretary



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