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P.01222

PRIME MINISTER

The Privatisation of Jaguar

(E(A) (84) 13)

BACKGROUND

British Leyland's (BL's) main strategic objective is to return all the constituent businesses, together or separately, to the private sector. The BL Corporate Plan for 1984 proposes the flotation of Jaguar on the Stock Exchange, with BL retaining a substantial shareholding (between 25 and 30 per cent) so that they can prevent control of Jaguar passing to another company. A provisional date has been arranged for the flotation of 1 May 1984; in order to meet that, Government approval for BL's proposal is required within the next fortnight.

2. General Motors (GM) are also interested in acquiring all of, or a controlling interest in, Jaguar. No other potential buyer of a major stake in Jaguar has emerged.

3. The interdepartmental Official Group on BL considered the BL proposal, acquisition by GM and other options for the privatisation of Jaguar but could not agree on recommendations for Ministers. Their report is attached to Mr Tebbit's

FLAG A — memorandum E(A) (84) 13. Within the Group views differed on:

- the desirability of selling all or part of Jaguar to another vehicle manufacturer (inevitably foreign);
- the desirability of allowing BL to retain a minority stake in Jaguar.

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The matters discussed in the annex to the official paper (for example that BL should retain the proceeds of the sale of Jaguar, and that the Varley-Marshall assurances would not apply to Jaguar after privatisation) have been agreed among the departments mainly concerned and are unlikely to be raised at the meeting.

4. In the memorandum E(A)(84)13, Mr Tebbit seeks the Sub-Committee's approval for BL's proposal for the privatisation of Jaguar.

MAIN ISSUES

5. The main issues are as follows:

a. should there be a sale of Jaguar to a foreign vehicle manufacturer; or

b. should the company be sold by a flotation on the Stock Exchange, and, if so,

c. should BL be allowed to retain a shareholding sufficient to prevent another company gaining effective control.

Sale to a foreign manufacturer

6. Mr Tebbit sees major disadvantages in a sale to GM or some other foreign vehicle manufacturer: a loss of British identity for Jaguar; commercial damage to BL because of potential competition with the top of the Austin-Rover range and the loss of joint franchising; possible legal challenges from BL's minority shareholders which could delay the sale; and, most of all, political opposition to a sale seen to be against the wishes of both BL and Jaguar management.



CONFIDENTIAL

7. Against these considerations the Sub-Committee will have to weigh the possible advantages of a sale to GM: higher sales proceeds and the benefits of a link with a major world manufacturer giving a sounder financial base and better access to markets and to new technology.

Flotation on the Stock Exchange

8. If the Sub-Committee do not favour sale to GM or a foreign vehicle manufacturer, but wish to proceed with privatisation, the only feasible option at present is a flotation. The basis of the flotation will have to take account both of the Sub-Committee's views on foreign control and of the doubts about Jaguar's long term viability as an independent company. Jaguar is a low volume, specialist producer, vulnerable to a single unsuccessful model venture and to fluctuations in the dollar/sterling exchange rate. It needs links with another major company to provide a sounder financial base, and preferably with another vehicle manufacturer providing R & D and franchising support.

9. For these reasons Mr Tebbit would argue against 100 per cent flotation. Although the sale proceeds would be higher than under a partial flotation, Jaguar would have an uncertain future. In particular it could mean eventual sale to GM or some other foreign manufacturer. The Government would be distanced from that outcome but might look foolish for not selling to GM in the first place, especially as, under this scenario, the higher sales proceeds would accrue to the Jaguar shareholders rather than to BL.

10. It has been suggested that the way round the difficulty of ultimate foreign control might be to combine 100 per cent flotation with a "golden share", limiting ownership or control to the UK, of the kind which has been envisaged in some other

CONFIDENTIAL

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contexts, for example oil and aerospace. The problem is that there are serious doubts as to whether, in respect of a company such as Jaguar, such a provision would prove to be effective in Community law. If Ministers were attracted by this option the legal considerations would need to be examined in much more detail. If Ministers were unwilling to contemplate a subsequent takeover of Jaguar by a foreign manufacturer, they would need a high degree of confidence about the likely effectiveness of a "golden share". There would remain the political difficulties of justifying such a provision. Finally the option of 100 per cent flotation with a golden share would not answer the need for a continuing association between Jaguar and some major company, preferably a vehicle manufacturer.

Flotation with a substantial BL holding

11. Mr Tebbit therefore favours BL's proposal for flotation with a BL holding of just over 25 per cent. Although the sales proceeds would be lower, it would be less disruptive to Jaguar, would minimise the damage to BL, and would keep open options for the future. One option considered in the officials' report which is not a live possibility at present is takeover by a major British company not in the vehicle business. This might in the end prove to be the best solution. Meanwhile however BL's proposal would provide an opportunity to get some private sector money into the car business, and the substantial private stake in Jaguar should not only further the privatisation programme but should help to motivate the Jaguar management and workforce.

HANDLING

12. You will wish to ask the Secretary of State for Trade and Industry to introduce his proposals and the Chief Secretary, Treasury will then wish to reply. The Chancellor of the Exchequer may wish to comment on how the proposals fit in with

CONFIDENTIAL



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the privatisation programme; and the Foreign and Commonwealth Secretary may have a view on the international implications of restricting the control or ownership of Jaguar to the UK.

CONCLUSIONS

13. You will wish the Sub-Committee to reach conclusions on the following:

- i. should a foreign company, such as GM, be allowed to acquire Jaguar; or
- ii. should there be a flotation on the Stock Exchange in May 1984; and, if so
- iii. should this be on the basis proposed in E(A)(84)13 with BL retaining a shareholding of just over 25 per cent;
- iv. how and when should the Government's intentions be made known.

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