

SECRET

PRIME MINISTER

Meeting with Mr. Tebbit and the Chancellor

There are two items on the agenda for this meeting, which Mr. Lamont is also attending as he will be in charge next week while Mr. Tebbit is away. First, you will want to discuss whether an early decision should be taken on BL trucks. Mr. Tebbit and the Chancellor both favour early action. Mr. Tebbit has had discussions with Kleinwort Benson whose reservations about the flotation of Jaguar ahead of BT have been overruled. The way is now clear to resolve the outstanding issues on the BL corporate plan which is a necessary step in the preparation of the Jaguar prospectus.

Following this discussion, you will want to talk to Mr. Younger in Scotland on Friday before coming to a final view.

Mr. Tebbit has also spoken to the potential bidder in the takeover about which he spoke to you recently. He will report on this, and suggest possible responses if there are further developments.

AT

9 May, 1984.

SECRET

CONFIDENTIAL



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Secretary of State for Trade and Industry

2 May 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

D. Nigel,

JAGUAR PRIVATISATION

A number of issues relating to Jaguar privatisation need to be resolved following our discussions in E(A) on 4 April. Officials are looking into the questions raised about the golden share and the share option scheme. This letter is about the two other main outstanding issues: the withdrawal of the Varley-Marshall assurances in respect of Jaguar; and the handling of the decision that BL should not receive the £110m outstanding from the money they have previously been promised.

2 On the Varley-Marshall assurances, the most natural way of withdrawing them would be to make a statement referring back to the most recent reaffirmation of the assurances (Keith Joseph's statement of 31 March 1981, of which I attach a copy) and saying that after privatisation they would no longer apply in respect of Jaguar's obligations. But this course would involve drawing attention to the original assurances and, by implication, reaffirming them, which would run counter to the decisions of E(A). It will therefore be necessary to avoid making overt reference to earlier statements, and I attach a suggested form of words (which could appropriately be used in replying to an arranged Parliamentary Question). I should be grateful to know whether you are content with the draft.

*Not attached
to this ...
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3 While on the question of the Varley-Marshall assurances, I should make one point clear. I am in no doubt that the continued existence of the assurances is crucial to BL's survival, at least for the next few years. Although the company has now reached the stage where it can operate without further Government funding, it will need to borrow commercially as well as maintaining its existing borrowing facilities. But the present capital structure of the company, with past losses accumulated on the balance sheet, is such that without the assurances BL would not be able to

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negotiate new facilities, and the current facilities would be withdrawn. Without the assurances, therefore, the company would be effectively insolvent and the Board would have no option but to proceed to closure of the business. Therefore, whatever the form of the statement we make about Jaguar, if I am subsequently asked whether the assurances continue to apply to BL I shall have to confirm that they do. Similarly, officials must continue to be authorised to confirm to BL's lenders and trade creditors that Keith Joseph's statement accurately defines the Government's position in respect of BL's obligations.

4 On the question of equity funding, I am confident that the BL Board will accept that the retention by BL of the proceeds of Jaguar privatisation extinguishes any claim to any of the £110m outstanding from previous Corporate Plan approvals. They have asked me, however, whether it is absolutely necessary to announce this at the time of announcing Corporate Plan approval. Their concern is that a public withdrawal of the equity possibility would complicate their negotiations with the banks over their existing medium term loans, and would induce the banks to demand larger repayments out of the proceeds of privatisation than they are currently envisaging. While, therefore, the Board would be prepared to give a firm commitment not to ask for any further equity payments, they would prefer us not to state publicly at this stage that the money had been withdrawn. If asked directly, the Board would like us to say that the money remained available if need could be established.

5 I can see distinct advantage in this course of action from the Government's point of view in not announcing at this stage that the money has been withdrawn. It now appears very likely that our decisions on the Corporate Plan and the closure of Bathgate will be announced within a short period of each other. We shall of course be arguing that the closure of Bathgate is a purely commercial decision, reached by the BL Board and not imposed by Government. But we can expect our opponents to represent the closure as a decision of Government, and to argue that Bathgate could be saved with sufficient investment. (It has already been argued - quite wrongly - both in the House and outside that the investment of only £6m would make Bathgate viable.) It would give our opponents ammunition if we were to announce now that the finances available to BL were to be reduced by £110m, and would give them the opportunity to argue that if the money had not been withdrawn Bathgate would not have closed. I therefore suggest that we should agree to the Board's request that the statement announcing our decisions on the Plan should remain silent on the question of the last £110m. However, I think that the Board's suggested response to a direct question goes rather too far: I would prefer to acknowledge that £110m remains undrawn from the sums previously



indicated as available, and that the company's need for this money would be judged in the light of its improved performance and of its retention of the proceeds of Jaguar privatisation. I should be grateful for your agreement to this.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a stylized flourish above the name.

NORMAN TEBBIT

Faint, illegible markings at the top of the page.

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