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20 December 1984

PRIME MINISTER

UNIPART

You will recall that approval was given to Unipart to purchase the Motorists' Discount Centres, provided that the BL Board gave a firm commitment to the privatisation of Unipart by June 1985. BL have now decided not to proceed - Sir Austin Bide replied to Norman Lamont on 11 December in the following terms:

"The BL Board has given long and careful consideration to the matter and has obtained the advice of Hill Samuel. This advice indicates that the proceeds of sale of the company in mid-1985 will at best be at a considerable discount to the book value of the assets involved, possibly by as much as 50 per cent. The Board has, in the light of this advice, reached the firm and unanimous conclusion that the sale of Unipart by mid-1985 would be contrary to its fiduciary duty to act in the best interests of the company."

Yet less than 6 months earlier, Sir Austin Bide was writing to Norman Tebbit on another purchase - that of Edmunds Walker. His letter of 19 July said:

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"You asked us to seek advice from Hill Samuel. Their letter is attached. Very briefly, their view, having regard only to matters within their area of expertise, is that without acquisition(s) Unipart cannot be floated in the foreseeable future on any acceptable level of proceeds. Similarly, placing is not practical. However with the acquisition of Edmunds Walker, Hill Samuel say that placement at indicative proceeds in the region of £75-100 million, should be possible in June 1985, and flotation in mid-1986."

This was the basis of the BL undertaking to a mid-1985 privatisation.

Clearly BL have broken their word and have carried Hill Samuel - men of straw - along with them. And although BL are now talking about an end-1985 privatisation date, we believe that the Hill Samuel advice may in fact say that privatisation before the end of 1986 is impossible.

Of course things in BL are not going to get better. Forecasts of Unipart profitability for the year 1985 have reduced from a PBIT of £49m in the 1981 Plan through £40m, £27m, £22m and finally £18m in the 1985 Plan. It will be interesting to see the final result.

To delay privatisation now in the hope of jam tomorrow - particularly when the BL Board are expressing extreme

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concern over the viability of Austin Rover - must be folly. There is not a choice between sale at a discount on asset value now, and sale at full asset value later; only sale at a discount now or later. But the asset value argument is a red herring anyway: most companies are sold at a discount - why should BL be different?

Unipart is one example of BL's lack of enthusiasm for privatisation, but it is not the only case. Sale of Land Rover-Leyland, either in part or whole, has been successfully resisted, always on the promise of a better price or a smaller loss if we defer it into the future. Whilst this delay has taken place, we have seen the return to profitability relentlessly slip back a year at a time when each new annual Plan is submitted. The extra Government funding consumed has made the financial arguments against early privatisation look small beer indeed.

The choice is stark. Either we allow BL to run themselves with effectively a blank cheque from the Treasury, and without more than lip service to Government objectives; or we put our foot down firmly. This would mean insisting that Unipart be sold by June 1985 at the latest - whatever the price, and whatever they consider their "fiduciary duties" to be. They will have good excuses why it cannot be done. These must be overridden.

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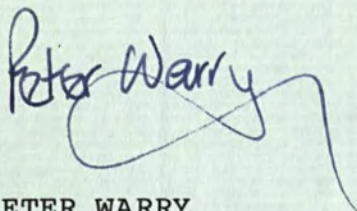
E. R.  
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If the Board threaten to resign, we should accept their resignation and appoint a caretaker management with the sole brief of breaking up the business into separate independent companies and selling off those parts that they can. You need not worry about the impact of this on the individual subsidiaries: they would all operate far more effectively on their own and away from the dead hand of the BL Board.

Even if the BL Board agree to the sale, we should still appoint a government shareholders' representative onto the Board, to ensure that it is carried out.

DTI have given BL until mid-January to produce a detailed privatisation plan for Unipart. If they fail to deliver it by that date, or if they do but it is in breach of their mid-1985 undertaking, then we should immediately take the steps outlined above.

We must show we mean business, and therefore we should be ready to implement this literally on 16 January. I would suggest that an E(A) is pencilled in now in anticipation.



PETER WARRY

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