

SUBJECT  
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## 10 DOWNING STREET

*From the Principal Private Secretary*

1 April 1985

## BRITISH LEYLAND

The Prime Minister held a discussion with the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and the Minister for Industry about the British Leyland Corporate Plan this afternoon. Mr. Gregson (Cabinet Office) and Mr. Warry (No. 10 Policy Unit) were present.

Your Secretary of State said that the performance of British Leyland had been disappointing. But the scale of its operation had to be taken into account. It was a larger producer than Ford, Vauxhall, Talbot and Jaguar taken together. It also had to be borne in mind that the capacity of vehicle producers exceeded the supply and that many other volume producers had recently been losing money in trying to protect their share of the market. Unless the Government were prepared to cut its losses and close down British Leyland, the only available course was to restrict the company's borrowing and reduce the Government's exposure. With this end in view, the Company should sell off as many parts of the Group as were viable, but it should be recognised that there would be a rump with which the Government would be left which would include the Austin Rover Group. In dealing with the remaining problems of the Group, the Government should restrict investment and borrowing on the lines recommended by the Official Group. It should also encourage an arrangement with Honda on the lines set out in his minute of 29 March, provided that satisfactory terms could be agreed.

The Chancellor of the Exchequer shared the dissatisfaction of his colleagues on the way in which the affairs of British Leyland had been moving. But unless the Government were to close the Group, he believed that there was no alternative to endorsing the conclusions of the Official Group, in particular that Austin Rover should be asked to prepare options for reducing its capital expenditure budget over the planned period by at least £250 million, that it should go ahead with selling Unipart as soon as possible, and with the discussions with General Motors about the disposal of Land Rover-Leyland and

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that borrowings covered by the Varley Marshall Assurances should be limited to £300 less than forecast.

Summing up the discussion, the Prime Minister said that the picture presented by the Corporate Plan was appalling. It reflected very badly on the management of the Group, and there had to be doubts about the production and sales strategy of Austin Rover in particular. It was essential to limit the calls which the Group were making on the taxpayer, under the cover of the Varley Marshall Assurance. It was essential that Unipart should be sold as soon as possible and that all possible avenues for the disposal of Land Rover-Leyland and any other parts of the Group which could be sold - should be explored urgently. The Official Group's recommendations should be implemented quickly, and in particular Austin Rover should be asked to produce proposals for reducing the capital budget by at least £250 million over the period of the Plan and drawings under the Varley Marshall Assurances should be restricted as proposed by the Official Group. The Secretary of State should consider proposals for setting a profile for the reduction of these drawings, commencing with borrowings of £600 million for years 1985 and 1986. There were grounds for anxiety that the deal with Honda might simply result in Austin Rover losing more sales while giving Honda access to established production facilities and an established workforce: the Government's position in relation to the Honda deal must therefore be reserved until the terms could be considered. The treatment of the proceedings of the Unipart sale would also need further consideration, since the first priority for the use of such proceeds must be to reduce British Leyland's indebtedness to the taxpayer. The Secretary of State should bring forward proposals on these matters as the situation developed.

I am copying this letter to Rachel Lomax (HM Treasury) and Richard Hatfield (Cabinet Office).

(F.E.R. BUTLER)

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