

PREM19

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INDUSTRIAL POLICY

(Future of British Leyland)

(Part 1)

PREM

19/71



PART 1

549
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The future of British Leyland.

INDUSTRIAL
POLICY
Part 1.

SEPTEMBER 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
7.9.79							
12.9.79							
2.10.79							
5.10.79							
30.10.79							
11.79							
5.11.79							
7.11.79							
25.11.79							

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● PART 1 ends:-

CC(79) 25th Concs : Item 2 13.12.79

PART 2 begins:-

S/S Industry to PM 14.12.79

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(79) 19 th Conclusions, Minute 6	01/11/79
CC(79) 23 rd Conclusions, Item 4 (Extract)	28/11/79
E(79) 74	05/12/79
E(79) 18 th Meeting: <i>Limited Circulation Annex</i>	10/12/79
CC(79) 25 th Conclusions, Item 2	13/12/79

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed *Wayland*

Date *31 October 2009*

PREM Records Team

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Ind Pol.



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/Secretary of State for Industry

12 December 1979

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister.

A not very encouraging
signature report.

Dear Tim

BL

fuw
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As requested by E Committee on 10 December, my Secretary of State and the Chief Secretary tonight saw Sir Arthur Knight and asked him whether the new Board of NEB could provide the Government with a considered assessment of the BL Plan.

Sir Arthur said that his Board had already taken the view that they could not responsibly do so in a short time; they would need to familiarize themselves in some depth with the Plan and with the assumptions and thinking underlying it. They would also need to question closely Sir Michael Edwardes and his senior management. This would inevitably take time, particularly since the NEB Board members are all part-time and normally meet once a month; it would also distract the BL management from the immediate problems of the company. It would probably take two months for the NEB to get in a position to provide the Government with a proper assessment.

In the light of Sir Arthur's comments, the Chief Secretary and my Secretary of State concluded that the Government would have to reach its decision without a formal report from the new NEB. The Secretary of State for Trade concurs in this conclusion.

My Secretary of State and the Chief Secretary, who were joined by the Secretary of State for Trade, met Sir Michael Edwardes, who was accompanied by Austin Bide, one of BL's non-executive directors. My Secretary of State made it clear that, whilst the Government appreciated the urgency and would reach a decision as soon as reasonably practicable, there was no possibility of this in time for Sir Michael to sign the deal with Honda on 20 December. Sir Michael accepted this and said that, without the Government's backing for his Plan, he would not feel justified in signing the Honda deal. He would therefore tell Honda that signature would have to be postponed for a few weeks. In his view there was a grave risk that Honda would pull out.

Since the Honda deal was crucial to the BL Plan (because it offered the only means of providing a new mid-car model quickly), its loss would mean that the BL Board would have to withdraw the Plan and review the position. If Honda withdrew this would

/certainly ...



certainly become public knowledge, as in all probability would the withdrawal of the Plan, and this could well provoke a crisis of confidence which would put the company immediately at risk.

My Secretary of State is unable to judge the seriousness of the threat, or the likelihood of Sir Michael being able to persuade Honda to keep the deal open for a further period. He considers, however, that colleagues should be aware of the situation as presented by Sir Michael.

BL have provided the revised forecasts of cash flow and profitability which E Committee requested. The Secretary of State for Trade will be discussing these in detail with BL before the end of the week.

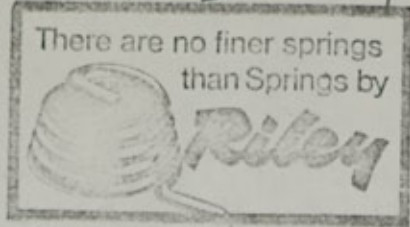
My Secretary of State hopes that it will also be possible to arrange this week the first meeting between the Ministerial Group and the BL Board to seek clearer definition of the circumstances in which the BL Board would themselves decide that the Plan was no longer viable and would initiate the company's rundown.

I am sending copies of this letter to the Private Secretaries to Members of E Committee and to Sir Robert Armstrong and Sir Kenneth Berrill.

Yours sincerely

Ian Ellison

I K C ELLISON
Private Secretary



Robert Riley Ltd. Rochdale, Tel: 44651

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NEB MAY DROP RESPONSIBILITY FOR COMPANY'S AFFAIRS

Bid likely for BL buses and trucks

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

THE FUTURE of BL has again been thrown into the melting pot. A northern businessman is preparing a bid for the truck and bus business.

At the same time, the National Enterprise Board has told the Government that it no longer wants to take responsibility for BL's affairs.

The businessman is Mr. David Brown, who runs his own company, DJB Engineering, in the north-east. He is to meet Sir Michael Edwardes, BL chairman, next Tuesday to discuss how a bid might be mounted for Leyland Vehicles, having already lobbied Ministers and senior civil servants.

The meeting could escalate the row over whether parts of BL, such as MG and Land Rover should be sold.

It could, also, lead to other companies expressing an interest in the Leyland Vehicles subsidiary, which manufactures buses, trucks and agricultural tractors.

The NEB's determination to rid itself of BL more quickly than the Government had hoped emerged at a meeting on Tuesday between Sir Keith Joseph, Industry Secretary, and Sir Arthur Knight, who succeeded Sir Leslie Murphy as chairman of the Board during the recent row over Rolls-Royce.

Sir Arthur handed BL's corporate plan—including its request for new funds totalling £300m. to £350m.—to Sir Keith and said that he and his fellow Board members (almost all of whom are new) did not feel qualified to take a view on it.

He also made it clear that the new Board did not consider it had a long-term role, standing between the commercial decisions taken by the BL Board and the political decisions of Sir Keith. It therefore did not wish to be responsible for BL, and expected the Industry Department immediately to take over the direct role of monitoring the motor company.

Sir Arthur is aware that there may be legal snags in carrying

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- Leyland Vehicles should realise net value Page 6
- £25m titanium plant planned for Shotton and Herbert may sell part of group Page 7
- TGWU plans boycott of BL rescue talks Page 8

this through until the current Industry Bill becomes law, and he has offered to make his Board staff concerned with BL available to help the Department.

Mr. Brown's bid comes at a specially sensitive time for BL because, even though Sir Michael's recent labour relations victories have won him considerable political support from the Government, there is some concern in Whitehall about his overall plans.

The Central Policy Review Staff (the Think Tank) is conducting a special inquiry into BL, along with work being done in the Industry Department and other Ministries.

The old NEB was aware of
Continued on Back Page

Mr. Brown's interest in buying Leyland vehicles last June. Mr. Brown is a member of the NEB's northern regional board, and gained some support for his ideas.

But the BL Board rejected the approach, saying the time was not ripe, and the NEB accepted that verdict.

Two weeks ago Mr. Brown (who is not connected with the long-established David Brown engineering concern) met Sir Peter Carey, Industry Department permanent secretary, and explained his ideas for taking over and developing the company. Then he wrote to Sir Michael that he would like to discuss how a bid might be mounted, and yesterday a meeting was fixed for next Tuesday.

BL would not confirm last night that the future of Leyland Vehicles was the subject for discussion. A spokesman said that "areas of mutual interest" were to be explored.

Mr. Brown said last night that he was interested in purchasing the company and believed he had financial support. "Before ever proposing the idea I asked whether I could raise £100m to £150m in the City, and my advisers and contacts said they would be willing to back me with that kind of money providing the terms were right."

Mr. Brown's financial advisers are Guinness Mahon, which said last night: "We believe he could run Leyland Vehicles, and that we could raise the finance, providing the idea has the good wishes of the BL Board."

It is thought that Mr. Brown would head a new company with equity from financial institutions, as well as with funds from his own existing resources. Estimates of what Leyland Vehicles is worth vary widely, from around £100m to over £400m.

Mr. Brown's present company has only 640 employees while Leyland Vehicles has 24,000. But he considers his general managerial experience, plus goodwill from major UK diesel engine and other component manufacturers, would help solve Leyland Vehicle's problems.

He proposes to develop the product line with new designs, especially for its agricultural tractors and its trucks. He would also make more use of engines produced by other UK manufacturers, so reducing BL's reliance on its own engines.

Sir Arthur Knight is determined to show that he intends to run the NEB as independently as possible from the Government, and his stance over BL forms part of this strategy.

But the Industry Department last night was not prepared to acknowledge that it had fully taken over the monitoring of BL.

BL also said it was not aware of any switch.

Brazil shuts exchanges

BY HUGH O'SHAUGHNESSY

International...
domestic food...
covered by...
tion's anti-...
any case...

Ref: A0897

PRIME MINISTER

BRITISH LEYLAND
(E(79) 74)

BACKGROUND

1. The choice is stark. Either the Government cuts its losses now - at a PSBR cost in 1980-81 of some £1,400 million and 200,000 unemployed; or it finds £130 million extra in 1980-81 in the hope that British Leyland (BL) will struggle through to viability (with a less than 50/50 chance of success). In his paper, Sir Keith Joseph recommends the second course, and, in particular -

a. approval of BL's corporate plan covering the next five years, but without any firm commitment on funding beyond the end of 1980;

b. the precise limit of funding for 1980 to be left to the Chancellor and himself to negotiate, so as to minimise the excess over existing PESC provisions;

c. an announcement of the Government's approval of the plan to be made before the Christmas recess, without waiting for the completion of the BL wage negotiations. The need for urgency arises because otherwise BL will lose the opportunity of signing a collaborative deal with the Japanese firm Honda, for a new middle-sized car - the LC9 which BL plan to assemble from mainly Honda components.

2. Sir Keith Joseph concedes in his paper that the chances of success of the plan are less than 50/50, and that "sooner or later it is likely to be clear that there is no hope for BL in its present form and that continued run-down and break-up are inevitable." But he thinks support at least for another year is inevitable, partly because of the presentational difficulty of pulling the

rug without giving Sir Michael Edwardes a chance after his recent successes with the workforce, and partly to avoid the resignation of the BL Board and the resulting sudden collapse of BL after the very high redundancies and PSBR costs which this would entail.

HANDLING

3. After asking Sir Keith Joseph to introduce the paper, you might guide the Committee to concentrate on the main issues -

- a. Does the plan have any real chance of success?
- b. Is there a credible alternative strategy?
- c. Even if the plan has little chance of success, is conditional financial support for an extra year the best option?
- d. Timing - in relation to the wage negotiations and Honda deal - and presentation.

4. Some points that might be made on each of these issues are as follows -

A. The chances of success of the plan

5. These are poor; and you might ask Sir Kenneth Berrill for his views: the CPRS have very strong doubts. The reasons for the doubts include -

- a. Every annual plan of BL (including this one) forecasts major improvements; but every year things get worse instead of better. Most fundamentally BL's market share for cars in the United Kingdom has slumped from 35 per cent in 1974 to 20 per cent this year and 16 per cent in the last 2 months. BL's position is similar with commercial vehicles and in exports. The basic cause of BL's uncompetitiveness is its low productivity: two thirds that of its European competitors, and less than that in relation to the Japanese. To be competitive, BL needs to improve its productivity by something like 50 per cent. It begins to look as if the illness is terminal: Things seem to have gone too far for these

trends to be reversed even with new models, the first of which are not due anyway until the end of next year, when all their competitors will have new models too. So BL's expectation in their future plan of an increase in market share to $24\frac{1}{2}$ per cent by 1985 looks highly optimistic. Even improvements in the strike record are not going to help much: BL's big problem for the last year has been inability to sell the cars they produce.

b. BL's main proposals for new cars after the Honda model (the LC10 and LC11) look very risky, because they will be produced in much smaller numbers than most of their competitors.

c. The situation has already deteriorated since the plan was written. As Sir Keith says (end of paragraph 6), BL have just told his Department that part of the money earmarked in the plan for next financial year (up to £100 million equity) will instead be needed in this financial year. This is mainly because their profit forecast for 1979 has changed from a £13 million profit before interest and tax in the plan to a £50 million loss. This in turn is mainly due to a further downward shift in BL's market share in cars in the last few months, which is equally making the assumptions in the plan about sales out of date.

B. Alternative Strategies

6. The key question is whether the BL Board have done - or indeed can be expected to do - enough to examine alternatives. In the long run, disposal of as much of BL as possible as going concerns to other manufacturers (including foreign manufacturers such as the Japanese) may be the best way of keeping the plants alive. If so, then arguably the sooner this is done the better, as disposals might be easier if BL had deteriorated less far. There has been one proposal for a takeover of Leyland Vehicles - reported in the press on Friday. But this particular bid may not be much of a starter. BL have examined some options in the past and still have some collaborative deals in mind. But these are on a limited scale. The main problem is that, as long as the BL Board are primarily concerned with making their existing plan work, it may be difficult for them simultaneously to plan disposals of major parts of their business,

especially if these imply effectively the end of BL as an entity. Yet if alternatives are not prepared in advance, it seems very likely that the Government will be faced with exactly the same choice next year about whether or not to fund the next plan (except that BL will be even weaker), with the same arguments in favour of continuing funding. Sir Keith suggests (paragraph 10) that the plan should be approved "on the understanding that the BL Board will keep me regularly informed...about progress...and will seriously explore further disposals, in particular the truck and bus business." Should BL be given a rather firmer push towards looking at the scope for disposals - including the car business?

C. Funding the Plan

7. The key questions here are -

a. Is there a case for rejecting the plan, rather than funding it? It is likely that Employment and perhaps even the Treasury will join Industry in wanting to keep BL in being. If the plan is funded for a year and then fails, the extra cost may be about £200 million (again very uncertain) on top of the eventual costs of collapse.

b. What level of funding should be given? BL's bid in their plan is shown against PESC allocations below -

£ million	BL's bid	Amount in PESC	Difference (in 1979 prices) (adjusted) (ie implied call on the contingency reserve)
1980/81	297*	150	150
1981/82	93	75	28
1982/83	13	-	22
1983/84	27	-	30
	<hr/>	<hr/>	<hr/>
Total	430	225	210

*NB: Sir Keith now says some of this £297 million will be needed in 1979/80.

The £225 million in PESC represents what is left of the £1,200 million which Lord Ryder said in 1974 was necessary to bring BL back to viability. Sir Keith's main argument for allowing more is that estimates made 5 years ago are bound to be subject to changes in the light of events, particularly inflation. He also thinks it might be possible for him to negotiate a lower level of funding closer to PESC, but he thinks that there is no chance of getting the BL Board to accept funding right down to PESC levels. So insisting on funding up to PESC levels and no more would in his view amount to rejection of the plan, the Board's resignation and BL's collapse. You might particularly ask Sir Keith about the latest request for extra funding this year. Does this mean the total of this and next year would still be the same?

c. Is there further scope for private sector finance? Sir Keith proposes to explore this in negotiations with BL. The scope seems there, but limited. One important point is that switching from public to private funding will not help the Government's total financial exposure, as the Government effectively guarantees private sector loans.

D. Timing of decisions

8. The main questions here are -

a. Can the Government give BL any kind of support for the plan before the wage negotiations for their car workers are completed? In a recent letter the Chancellor implied not. Sir Keith disagrees: the wage negotiations might take some time (the management are trying to negotiate a very tough package), and in the meantime BL could collapse suddenly. As an alternative could the Government approve the plan, but make it clear their approval would be later withdrawn if the wage negotiations ended unsatisfactorily? Would this strengthen the managements hand in trying to get a tougher settlement.

b. Should BL be allowed to sign up with Honda on 20 December? The arguments for this seem quite strong: it is a way of keeping options open (the cancellation charges if BL later pull out are only £5.5 million). But how definite an assurance is needed about Government approval for the plan before Honda will be prepared to sign?

CONCLUSIONS

9. The basic decision is whether to support the plan at all for another year, recognising the plan's low chance of success and that support within PESC limits seems impossible. If colleagues do decide that further support is desirable or inevitable, then you will want to record the conditions attaching to approval. These might be -

a. A one-year commitment only;

b. Negotiations with BL by the Secretary of State for Industry and the Chancellor for funding arrangements as close as possible to present PESC ceilings with their findings reported back to you, if possible before BL need to sign the Honda deal;

c. It should be made clear to BL that the Government's support [could] [will] be withdrawn in the event of BL's wage package not being satisfactorily agreed;

d. Sir Michael Edwardes to be given a very firm - but confidential - instruction to examine urgently the scope for alternative strategies - including major disposals of both cars and trucks - ready to be considered for implementation by the Government if the plan is seen to be clearly failing;

e. BL to be authorised to sign the Honda deal - but only after successful negotiation on funding, as under b.

M.A.V.
PP

ROBERT ARMSTRONG

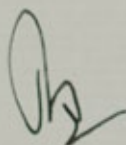
7 December 1979

PRIME MINISTER

BRITISH LEYLAND

I enclose a note on BL, summarising our thoughts and including also some points raised in a private meeting with Michael Edwardes last night.

We have tried to keep the note as brief as possible. I am around all Monday if you require me to sit in at E or to talk about BL before E.



JOHN HOSKYNS

7 December 1979

BRITISH LEYLAND

E Committee discusses BL on Monday. This note summarises our latest thoughts. Together with CPRS, we have ourselves had to take a strong "negotiating line" at all the BL Group meetings at Keith's Department, in order to make them face the reality of BL's prospects. This new realism is reflected in their report (Annex B to Keith's paper). We also had a private meeting with Michael Edwardes last night.

1. Has BL a Chance?

1.1 DoI officials do now recognise that BL's chances are less than even. We regard them as nearly zero. For BL to compete as an independent entity with the much larger American, Japanese and Continental volume car producers, demands a complete reversal of everything which has gone before. Even if they are able to regain some of the lost market share in the UK, their plan is critically dependent on doubling their present meagre sales in Europe.

1.2 While the new Mini and the Honda models will appear in late 1980 and late 1981 respectively, their new home-grown medium car (LC10 and 11) will not enter the field until 1983 and not achieve full planned volumes until 1986. Even then, the volumes planned (nearly 300,000) are much less than those of their major competitors.

1.3 Even if BL succeeds in raising productivity by the planned 65% and transforming its labour relations, it is difficult to see how they can generate the R&D funds necessary to stay in the race to produce the next generation of cars.

1.4 In management terms, the whole project is fragile. Would we back BL if Edwardes went under a bus? He is due to finish at BL in November 1980, and, in our talk last night, I got the clear impression that he would not stay on.

2. Should we Back the BL Corporate Plan or not?

2.1 Our original view was that BL would not survive and that we should refuse to back the plan. Our view of its chances is unchanged, but we now agree with Keith and his Department that public support for Edwardes and what he is trying to do would make it extremely difficult for Government to refuse to back him at this point. The difference between us (paragraph 5 of Keith's memorandum) is that he is arguing for supporting BL because there is a chance of success; we argue for supporting BL even though there is virtually no chance of success.

2.2 Further delay in grasping the nettle costs not only the additional funds for support, as the memorandum notes, but also the opportunity costs of all the skilled manpower and management effort locked up in BL. But we still feel that support is right.

- 2.3 If we do back the Plan, there are really only two possible outcomes. Either the unions are as unco-operative as in the past, in which case the BL Board will recommend liquidation (this undertaking should be referred to by Keith publicly); or - and this is more difficult to handle - the unions do co-operate and BL still eventually fails. We have to set the stage for this eventuality, now.

3. Can the Government Achieve its own Objectives at BL?

- 3.1 Our objective is unchanged - to turn an economic problem into a political stepping stone. First, we want to establish the criteria by which the electorate can judge our handling of the BL problem both now and when (or if) it finally collapses. Second, we must ensure that the unions either behave responsibly and thus improve BL's chances, or behave irresponsibly and take the blame for BL's collapse. Third, we must minimise the economic and PES consequences of break-up.
- 3.2 So far, things have gone rather well, partly because Edwardes knows that the Government is not bluffing, and he is not bluffing himself; and partly because he is a skilled negotiator and a respected manager.
- 3.3 Edwardes does not believe it is possible to get meaningful undertakings from the unions to make their members deliver on the pay and conditions package (assuming it is successfully negotiated). The union leaders lack the will and the authority. But Edwardes made it clear that he would dismiss anyone who disrupts, and he expects the unions to accept this.
- 3.4 Setting the political stage for eventual break-up of BL must be done very carefully as part and parcel of the Government's approval of BL's Corporate Plan. It is also important that Cabinet doves should agree, unambiguously, that this is BL's last chance as a complete and independent company. You will want to minimise the risks of a major split in Cabinet if BL has to be closed down or broken up for sale in a year or two.

4. Other Comments on the Keith Joseph Paper

- 4.1 We don't think that the economic consequences of break-up would be quite as dramatic as the DoI suggest. It should be possible to use 1980 in preparing for a more gradual run-down, with maximum disposal to overseas buyers. It may be worth discussion, at E, on how this might be put in hand.
- 4.2 Edwardes told us, in confidence, that he might be prepared to act as an industrial adviser, looking for partners/buyers, after he has left BL. He mentioned that he had already had some tentative discussions with BMW about the possibility of BL producing a (new?) BMW model at Solihull. He said that BL management were thinking much more realistically about such options now, which they would never have done two years ago. He also said that the Honda deal could lead the way to a take-over of Cowley, by Honda, if there was increasing pressure

on them to start manufacture in Europe. My own view is that Edwardes has come to the conclusion that BL cannot be saved. Provided he personally is not expected to take orders from a foreign boss (which is now unlikely since he has less than a year to run) he is readier than he was to help us find a buyer or buyers.

- 4.3 On the face of it, Keith's suggestion that the Government should approve the BL Corporate Plan before the pay and conditions negotiations are complete, looks wrong. Certainly, we should not respond too fast or it looks as if we are a soft touch. However, in view of Edwardes' uncompromising position as regards the unions, and provided we can refer openly to his letter to Murphy (he is thinking about this) or make other statements about BL Board's readiness to recommend putting the company into liquidation if things go wrong, it may make sense to give the Plan public backing quite soon. The point is that, if we do decide to back the Plan, we should do so in a way which gives maximum confidence to everyone concerned, and demonstrates our trust and high regard for Edwardes and his team. All this gives them a flying start and, as Keith argues, creates the best possible background for our refusing to bail them out again next time.
- 4.4 I find it hard to accept Edwardes' argument, however, that they must have the backing so that they can sign the Honda deal on 20 December. That could perfectly well go ahead without our backing, since Honda is protected by a £5½ million penalty clause. We think it is reasonable to back the Plan before the pay and conditions negotiations are complete (on the basis that we have absolute confidence that Edwardes would call it off if he was not satisfied with the outcome of those negotiations). But to approve the Plan in a rush to meet the Honda deadline might look pretty feeble.
- 4.5 From talking to Edwardes, it is clear that there will be some concessions by BL during the pay and conditions negotiations. However, he assures us that they will only concede expendable bits and pieces, put into the package for negotiating purposes. (BL had assured DoI that the package was 100% take-it-or-leave-it.) If the negotiations, which have barely started, bogged down, he might go out to ballot again. From our point of view, if we agree that we should give BL one more year, preparing the ground for break up thereafter, we would prefer there to be no further ballot. We can handle the whole thing better (Section 5 below) if Edwardes is able to refer back to the overwhelming result of the earlier ballot. A faltering majority in a new ballot would make our game plan harder to follow. It would not be enough to let us pull the plug; but at the same time, Edwardes' authority would be weakened.

5. Using BL as a Stepping Stone

- 5.1 It would be difficult to abandon BL now without losing the public's support for Edwardes and his stand against the unions. We would be simultaneously abandoning firm management and moderate union members. The question, therefore, is whether the expenditure can buy us a step forward on the union issue, rather than simply prevent us taking a step back.

5.2 We believe it can do this, provided we establish clearly and comprehensively why we are backing BL. Our line should be as follows:

- The workers have given the BL Plan a chance, and so must we.
- We are backing moderate union members as well as management.
- We must display the Government's total commitment to supporting moderates and developing a new and healthy trade union role.
- We are outside the BL situation, we take no credit for what is happening there. All credit is due to Edwardes on one side and shop floor workers on the other.

This gives us a golden opportunity to show the positive side of the Government's policy. So far, it is the "hard financial men" who have been most visible, for good reason. We must shine the spotlight on management and work force pulling together, with positive encouragement from Government. This is a foretaste of where we are trying to get to over the next 10 years.

5.3 At the same time, since we know that BL is likely to fail in the long run, we must set the stage for that as well. We must set the record straight, reminding the public of the size of the job facing BL management and workers - itself largely the result of years of appalling labour relations, in which union militants have all but destroyed the company. We have to establish in people's minds that, if and when the company folds, the damage they have done was so great that even the efforts of Edwardes and the union moderates was not enough to put it right. We must also make it crystal clear that BL as a whole will not be bailed out again, so that the Communists cannot argue, a year from now, that we "conned the work force, let them down etc".



JOHN HOSKYNS
7 December 1979

COMMERCIAL - IN CONFIDENCE

Prime Minister

A very good brief.

TW
7/12

Qa 04373

To: MR LANKESTER ✓
From: SIR KENNETH BERRILL ←

CPRS

British Leyland

1. On Monday, E Committee will be discussing Sir Keith Joseph's important paper on the future of British Leyland. I attach a CPRS brief on this which the Prime Minister might find useful for her weekend box.

2. I am sending a copy of this minute and the attachment to Sir Robert Armstrong, and to Mr John Hoskyns who has been a member of the interdepartmental working group.

KB

7 December 1979

Atts

COMMERCIAL - IN CONFIDENCE

BRITISH LEYLAND: THE STRATEGIC DECISIONS

1. The Prime Minister will have received Sir Keith Joseph's memorandum and recommendations on British Leyland (E(79)74). The CPRS has worked on the problems of the United Kingdom motor industry for a number of years and has taken an active part in the most recent interdepartmental studies on British Leyland (BL). The Prime Minister may like to have our views on the BL problem. In summary, these are:

(i) Whatever views Ministers might have about the long-term future of BL, the wisest course at this moment is for the Government to be seen to be giving full support to Sir Michael Edwardes and to be going along with the key aspects of his Plan, particularly on new model development, collaborative ventures, and plant rationalisation.

(ii) Nevertheless, it is our view that BL is already well into a vicious circle of decline and will not become viable as an independent volume car producer. Any solution to relieve Governments from large and open-ended financial commitments will have to be far more radical than the proposals in the Edwardes' Plan.

(iii) Longer term, BL will either have to be broken up and sold piecemeal, or sold complete as a package if a buyer can be found. Sale complete is much the better alternative but as time goes on the number of possible purchasers will diminish.

(iv) Ministers might put it to Sir Michael Edwardes that, while they back his Plan, would he in the coming year increase his talks with other major companies (General Motors, Ford, and the Japanese) partly on 'collaboration' but also to see if there is a possible buyer.

The immediate decision: to accept or to reject the Edwardes' Plan

2. If the BL negotiations over pay and productivity reach a satisfactory outcome, the Government will probably find itself with no practicable option but to go along with the Edwardes' Plan for the time being (except on details of funding, where we believe there may be some room for manoeuvre, though

COMMERCIAL - IN CONFIDENCE

less than originally supposed because of BL's rapidly deteriorating financial state). The main reasons for giving immediate support to the Plan are:

(i) To take advantage of the Plan itself. The first year of the Edwardes' Plan is, we suspect, very similar to the first year of a plan designed specifically to bring about either a controlled rundown or a controlled disposal of the company. Acceptance, therefore, gives Ministers maximum flexibility.

Why?

(ii) To retain control of events. Rejection of the Plan will most probably lead to an uncontrollable decline in the company's operations, even if the Board could be persuaded not to resign. Acceptance would leave the Government and the Board in control of events.

(iii) To contain the erosion of confidence. What little confidence remained in BL has been badly shaken by its poor performance in recent months. Even a non-committal reply by the Government would accelerate the worrying rate of defections by middle management, by skilled workers, by dealers, and by customers, both private and fleet.

(iv) To take advantage of the new spirit of co-operation in the Company.

For the first time the Board may have a grip on the workforce and the management. Also the Board are now able to take actions (for example over Robinson) that they could not have contemplated before the change of Government. The BL workforce has demonstrated their goodwill over their acceptance of the rationalisation plans and may do so again over the negotiations on pay and conditions. The future existence of the two largest BL plants (Longbridge and Cowley) depends critically on this spirit of co-operation being maintained, whether under the Edwardes' Plan or any radical alternative.

COMMERCIAL - IN CONFIDENCE

(v) To minimise costs. We are in little doubt that an uncontrolled rundown would be the most expensive outcome, and the bulk of the extra costs would fall in 1980/81. By comparison, the financial risks in going along with the Edwardes' Plan for the time being are quite small.

3. Early approval of the Plan is we believe the least expensive way for the Government to proceed. Ministers may wish to discuss, however, whether formal approval should be withheld until the negotiations over pay and conditions are concluded. In this, the issue of maintaining confidence in the company will be an important consideration. Prolonged uncertainty over the Government's intentions would be damaging.

See Thom
Haskyns'
brief on
his point
(page 3)

12.

The second decision: to leave the initiatives with BL or not

4. Ministers may wish then to discuss whether, if they accept the Plan, they should leave all the initiatives with Sir Michael Edwardes and the BL Board. Ministers could choose between:

- 3/3
- (i) Accepting the plan without conditions (apart perhaps from modifications to the financing package). This would leave BL with the single-minded objective of making the Plan work. The Government would then be in a position of waiting for BL either (a) to deliver their next Corporate Plan in a year's time, or (b) to approach the Government during the year to say that all is not well.

and more money

- (ii) Accepting the plan with a condition that the BL Board take serious initiatives to assess radical alternatives to the Plan that would involve sale of the company either as a whole or in parts.

5. The short-term prospects for BL. The CPRS sees a high risk of BL foundering in the next year or so, if BL are restricted to the sums of money requested under Plan. In the short-term, all the financial risks are down-side and BL's position is deteriorating month by month. The

COMMERCIAL - IN CONFIDENCE

company is in a vicious circle of decline and many of the assumptions underlying the Plan for the next year already look decidedly optimistic:

(i) Market share. The Plan assumes that the Company's slide in UK car market share can be halted at around the 20 per cent level:

1974	1975	<u>Actual</u> 1976	1977	1978	First Half 1979	<u>Plan forecasts</u> 1979 1980	
33%	30%	27%	24%	23%	20½%	20½%	20½%

There is no basis for the assumed stable market share of 20½ per cent. In recent months it has continued to fall and in November was moving towards 16 per cent. Next year, BL's model range becomes a year older and competitors will continue to introduce new models. There is no "natural" floor to BL's market share.

(ii) Dealer defections. BL are finding it increasingly difficult to cope with dealer unrest, particularly among the large dealer groups, as throughput/dealer falls below economic levels. Dealer defection is particularly serious in Europe. Loss of dealers leads inevitably to loss of sales, particularly as some customers are more loyal to their dealer/service agent than they are to the marque of car they own.

(iii) Customer defection. In recent year, BL have been more successful in holding on to fleet customers than to private customers. However, now that the larger importers are well-established with nationwide service networks, BL are beginning to lose many of their fleet customers as well.

(iv) New models. BL desperately require new models, particularly in the vital mid-car market. The only mid-car action in 1980 will be a face-lift to the Marina. BL's competitiveness will continue to fall and this will limit BL's ability to raise prices in line with its main competitors.

(v) BL's financial position. BL will enter 1980 in a far worse financial state than was envisaged when the Edwardes' Plan was put together. Losses at the 1979 year-end will be perhaps £60 million

COMMERCIAL - IN CONFIDENCE

higher than forecast. BL are now bidding for an additional £100 million of Government funds before next April i.e. in the present 1979/80 financial year. The prospects of declining market share coupled with the need to price competitively gives little comfort for next year where even if the Plan's target could have been met there would be a cash outflow of over £250 million. BL have now pointed out that, because of the worsening outlook, their own contingency provision of £138 million that was built into the Plan for the whole year could be fully used up in the early part of 1980.

The odds seem to be that the Plan's financial targets for 1980/81 will be missed by a wide margin. If this were to happen, the BL Board have implied that they would abandon the Plan and would make proposals to the Government on handling the resulting situation with the minimum of damage.

6. The long-term prospects for the company. If the Edwardes' Plan were a 100 per cent success, could BL survive in the long-term without being a permanent burden on the Government? In our view BL would be nowhere near large enough, particularly in the volume car business, to compete at sustained levels of profitability. There would no doubt be profitable years in which there could be no call on Government funds. But we do not see how a volume car producer of that size could generate year in year out the cash to develop new models to keep it abreast of its major competitors - all several times its size.

7. Collaborative deals of the Honda type, however necessary in the short-term, are not the long-term answer. The Honda deal, if it goes through, would give BL a new model earlier and should help to stop the dealer network from collapsing. But it will not provide BL with the profits to develop new models of their own.

8. Selling off the easily disposable bits of BL is equally not the answer. BL would then be left with the core of their problem unsolved - the volume plants at Longbridge and Cowley.

COMMERCIAL - IN CONFIDENCE

9. BL will remain a drain on public funds as long as it remains independent. We question the wisdom of putting much more Government money into BL (either directly or indirectly by assuring its private-sector borrowings) without making every effort to dispose of the company, preferably in toto, to one or more of the large motor manufacturers. Only under the umbrella of a healthy international motor manufacturer could the decline in BL be arrested.

10. If Ministers share our view, when should the effort be made to dispose of the company, by whom, and to whom? It is here that the attitude of the Board is crucial. The CPRS understands that Sir Michael Edwardes would accept the logic of much of the above and be willing to undertake further discrete talks (under cover of discussions on collaboration) to try to find a buyer.

11. Ministers would need to consider if there would be any buyers they would not accept. (The French will not be happy with a Japanese buyer as they have demonstrated over the modest Honda deal.)

Conclusions

12. The CPRS concludes that BL's contribution to the United Kingdom economy will continue to decline year by year if it remains independent of the international motor manufacturers. Ministers may decide that they will go along with the BL Board and their Plan for the time being. However, we believe that at some stage Ministers will wish to pursue radical alternatives to the Plan. These alternatives could include -

(i) Total sale. Using the relatively attractive parts of BL (Jaguar, Rover, Land Rover, Triumph, Trucks and Buses) as a sweetener to persuade a large motor manufacturer to take over the whole of BL and to preserve output in the volume car assembly plants at Longbridge and Cowley. Perhaps only Ford and General Motors would entertain such a proposition.

COMMERCIAL - IN CONFIDENCE

(ii) Total disposal in parts. There should be no lack of purchasers interested in the Specialist Cars Division and in the Trucks and Buses Division. The front runners for Specialist Cars might be Ford, Volkswagen, General Motors, and Daimler-Benz; for Trucks and Buses, International Harvester and Iveco (Fiat) might be the front runners. The difficulty lies in disposing of the Volume Cars Division, and in particular of the plants at Longbridge and Cowley. One possibility that should be examined is to attract Japanese manufacturers to take over these plants by persuading them of the need to begin local assembly operations in Europe, and to increase the local content of the cars they sell here.



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E 7 DEC 1979

General
Room

Ind R 2



10 DOWNING STREET

27 November 1979

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

Denis Austin
"sacked
Robinson has been ~~compensated~~
on full pay" pending
outcome of ACWU inquiry.
ACWU have told their
members to return to work.
But TSWU have declared the
strike official!
R
27/11

Dear Sir Keith,

BRITISH LEYLAND

This note contains one or two thoughts we have had about the disruption following Robinson's dismissal.

1. It is too early to tell whether Edwardes will win.
2. Edwardes may have misjudged the situation, attaching too much significance to the ballot result. The unions may succeed in branding as "irresponsible", a management which dismisses a shop steward whose behaviour is itself, to most people, irresponsible. Edwardes may have less chance of winning the pay and conditions negotiations, or face greater latent animosity after doing so.

If the unions

3. make the strike official, and the strike holds Edwardes could soon find himself in an impossible position in which he is seen to be ready to bring the whole of British Leyland down on what will start to look like a personal vendetta. If the unions recognise that and dig in, the pressure on Edwardes to reinstate Robinson could be almost insuperable. For Edwardes to resign at that stage and Government to close BL might give fleeting satisfaction to those losing patience with BL, but it would be an unsatisfactory outcome for us. But for Edwardes to take Robinson back would be a huge blow to his management authority. It thus appears that Edwardes may - though it is still early days - have painted himself into a corner.

4. If the situation begins to look like deadlock, we might suggest to Edwardes that he offers to take Robinson back, provided the unions give undertakings to enforce discipline on unconstitutional strikes.
5. Such a way out of deadlock has several advantages. It gets Edwardes off the hook and puts the onus for the next move on the unions. Management is seen to break the deadlock with a magnanimous and adult gesture. It gives Edwardes the chance to educate both workforce and public about the damage Robinson and the other militant shop stewards have done over the years. It sets the stage for the final ballot on the whole package and in particular the acceptance of discipline on unconstitutional stoppages, with AUEW and BL management together preparing the ballot form, perhaps.
6. We are then back to a position of "indifference". If the unions cannot undertake to deliver, then the present disruptions are only a foretaste of the familiar pattern repeating itself in the future. If they can do so, BL may have a chance, and the public will see a major union shouldering its responsibilities at last.

In our view, it would have been better if Edwardes had bargained for an undertaking by the unions to end the damage the militant shop stewards can do (as per 5.1.3(b) in my original note of 18 September) instead of launching his attack ad hominem as he has done with the Longbridge Four. However, he may of course have worked it all out and be all set to get an outcome which suits him, even if it doesn't suit us.

I am copying this letter to the Prime Minister and the Chancellor of the Exchequer.

Yours sincerely,

JH
PP JOHN HOSKYNs

(Dictated but signed in his absence)

cc Tim Bayh
~~Ind 10~~
R



10 DOWNING STREET

22 November 1979

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1

Dear Keith,

BRITISH LEYLAND

Thank you for your letter of 21 November. Here are some further thoughts.

1. Even if there is a chance of long-term viability for BL, failure by the unions to deliver their half of the package would destroy that chance.
2. Unconstitutional stoppages must be the most likely way that militant shop stewards would seek to sabotage the package.
3. There is an important issue of principle at stake here, which goes far beyond BL: the consistent failure of unions to discipline their own members, while refusing to allow management to do so. BL could be a stepping-stone on the way to responsible union practice.
4. At first sight, it may appear difficult for Edwardes to "go back for more" this way. However, there may in fact be quite an easy way open to him, provided he thinks about it early enough in his own negotiations with the unions. What he might do is to ballot the whole work force, once again, as he has already suggested that he might. The purpose of this ballot, (which will only be made if the outcome of the negotiations is successful) is to present as starkly as possible to the work force the toughest and most important items in BL's management package, and to ask each member whether or not he accepts it.

5. In particular, the ballot form would ask each man whether he understood that he was "deemed" to have signed acceptance of the management package as part of his contract of employment; whether he accepted the redeployment rules and the unions'/management's sanction of suspension/dismissal if he took part in unconstitutional strikes; whether he accepted the new rules about time and motion men, etc. The form would explain to him that the unions had undertaken to exercise discipline in the event of unconstitutional strikes. The ballot form could be reprinted as an advertisement in the national press.
6. Edwardes explicit position would be: "I don't want anyone - especially the shop stewards - saying that management has disguised its intentions or that the work force had not really understood the position. We all - management & work force - want to be 110% certain about what we are doing. If we're not, then the sooner we pack it in, the better." He has everything to gain and nothing to lose by deliberate over-kill. The post-Robinson stoppages give him the perfect pretext.
7. It may be that we should start by posing the problem of unconstitutional stoppages to Edwardes, rather than suggesting the solution. Then we can ask him to think about how to get workable undertakings (steering him towards the ballot idea, if he doesn't come up with something better). If we have already successfully convinced Edwardes that this Government would not shrink from closing BL, he should not take much persuading.
8. If we decide that this approach makes sense, the sooner we talk to Edwardes about it the better. He has to have time to think out how he wants to play it in his negotiations with the unions.
9. Edwardes may refuse. If he convinces us that this whole idea is half-baked (which it may be - we would presumably need specialist advice from the Department of Employment before we proposed it to him) then we would have to think again. If he refused simply out of impatience or pessimism about the outcome, we should have to make it clear that we were not prepared to back BL without such undertakings and that we would have to give a full public account of our reasons: our concern over BL's appalling unconstitutional strike record in the past; the existence of left wing shop stewards who would certainly sabotage the BL plan if they had the power to do so; our carefully thought out proposals for strengthening BL management's hand; and Edwardes' refusal to play ball. It would be clear to Edwardes that his reputation would be affected by all this.

I agree that the BL Management package is tough. The question is whether it is tough enough to outflank those who will be working to sabotage it. If BL is fighting for its life, we can no more afford to be gentlemanly with Edwardes than he can afford to be gentlemanly with Robinson. If we press for more, we will probably get it. If we don't, what are the prospects of real change at BL?

PERSONAL &

CONFIDENTIAL

- 3 -

I certainly agree that the firm action by BL management over the "Longbridge four" is encouraging. On the other hand, the subsequent stoppages:

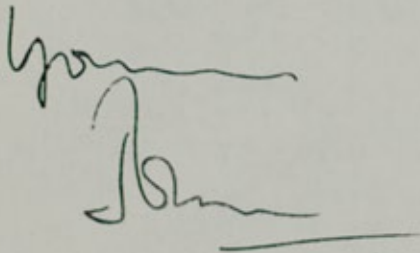
- over the dismissal of a militant Communist shop steward
- with the company's survival in the balance
- only a month before Christmas
- so soon after the secret ballot

shows how little the underlying realities have changed.

If Edwardes' gamble over Robinson succeeds, (i.e. the strike peters out) then he has already taken a bold step forward in grappling with shop steward (and thus the unconstitutional stoppage) problem. The ballot we propose, far from being "provocative", would then be conciliatory, as well as being a peace treaty for future co-operation.

If the gamble fails (and the strike solidifies) then it only reinforces the case for the finest obtainable union undertakings before we commit any more money to BL.

I am sending copies of this letter to the Prime Minister and the Chancellor of the Exchequer.



JOHN HOSKYNS



BL Limited

35-38 Portman Square,
London W1H 0HQ.
Telephone: 01-486 6000. Telex: 263654.
Cables: Leymotors London W1. Telex.

ABM.

TZ

4/12

22 November 1979

The General Secretary,
Amalgamated Union of Engineering Workers,
110 Peckham Road,
LONDON SE15 5EL.

Dear Sir,

I am writing this letter to advise you of the circumstances in which a member of the AUEW, Mr Derek Robinson, who worked at our Longbridge plant has been dismissed by the Company. Mr Robinson was the convener of stewards at the plant and he was also the Chairman of the so-called "Leyland Combine Trade Union Committee." It was because of his activities in the latter capacity that he was dismissed.

The background, much of which will be known to you already, is as follows.

BL is fighting for its very survival. A recovery plan has been developed which, while it will not guarantee success, provides the only practical and reasonable chance we have of pulling through. The plan has been prepared with the two objectives of accelerating the new model programme (not a controversial issue) and adjusting the size and fixed costs of the business to the commercial realities that lie ahead.

The second objective, involving as it will a substantial reduction in facilities and manpower, was clearly much more controversial. BL therefore decided that before the additional funds that were necessary to finance the recovery plan were requested of NEB and Government, the plan should be exposed and fully discussed with trade unions and employee representatives.

Those discussions commenced at the formal level on 10 September and culminated at a meeting held on 17 October at which the Executive Council of the CSEU advised us that they endorsed the plan and that in respect of a secret ballot of employees which the Company proposed to hold, they would recommend a vote in favour of the plan.

To our/

To our knowledge only two unions, TGWU and AUEW(TASS), dissented from the CSEU decision. We understand that the Executive Council of Mr Robinson's Union, the AUEW, endorsed the plan as the only practical course available to BL.

Between 10 September and 17 October there was active campaigning both in support of and in opposition to the plan. Open debate was encouraged. We therefore knew that at a meeting held in Birmingham on 13 October, over 99% of some 250 senior shop stewards in attendance voted against the plan.

After 17 October, there was a completely different situation. A plan, now approved by the BL Board and senior management and overwhelmingly accepted by employees in secret ballot, had gone forward to the NEB with a request for the additional funds to support it.

By this time no BL employee could have been under any illusion about the seriousness of the situation. Now was the time when past differences over the plan should have been buried and a fresh and united effort made to ensure the future success of the Company. Now was the time when the Leyland Combine Trade Union Committee, knowing the result of a democratic secret ballot, should have ended their long opposition to management policies and thrown their weight behind the plan.

The Combine Committee thought otherwise and chose this moment to publish a document called "The Edwardes Plan and Your Job." In this booklet the Committee called upon employees to take disruptive action of a kind which would not only prevent the implementation of the plan but also, because of the very nature of that action, would further undermine public confidence in our future with all that that implies for our market share.

BL decided that it could not allow this situation to go unchallenged. After careful thought it was decided that disciplinary action must be taken against the four employees whose names appear in the booklet as endorsing it and therefore calling for the actions it contains.

Three employees were formally warned that any repetition of this type of action would result in their dismissal. The fourth, Mr Robinson, who had been warned explicitly in March 1979 over similar acts of misconduct, was dismissed. The background events to that affair were referred to in an editorial in the AUEW Journal in March.

The allegation of "victimisation" which almost invariably follows disciplinary action against a shop steward is now being made. This is rubbish. Mr Robinson was not disciplined in his capacity as the Longbridge convener but as the Chairman of the Leyland Combine Trade Union Committee. This is apparently a self-appointed body. It is certainly not an official body as it has never been recognised by the Unions. In the past we have been advised by the Unions not to consider recognising it ourselves. There are, however, some 5000 shop stewards in BL who have been constitutionally appointed by trade union members. They are recognised by BL and accorded the facilities that are necessary for them to fulfil their functions. Constitutional and responsible trade unionism has nothing to fear in BL.

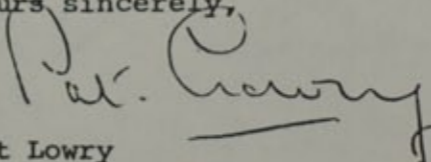
Questions are also being asked as to why Mr Robinson was dismissed when the three other employees were only given a formal warning. We understand that Mr Robinson is himself saying that he did not receive a warning earlier this year.

The fact is that Mr Robinson was warned by the Operations Director and Personnel Manager of Longbridge on 12 March 1979 as to his past and future conduct. This followed the unofficial strike at Longbridge when Mr Robinson deliberately used lies and factual distortions to mislead the workforce into strike action, with a consequent disastrous effect on market share and the Company's performance. Mr Robinson was left in no doubt at that meeting as to what the consequence of any repetition would be.

Another question which is being asked is why we did not consult the trade unions before we took the action we did. Your Union has certainly been made aware of our concern but the reason why we did not consult the unions on this matter (indeed we consulted nobody - trade unions, NEB or Government) was that to have done so and then dismissed Mr Robinson would have been a source of embarrassment to the unions when the news of that consultation, as it inevitably would, became public.

As to the future, those of BL's employees who are now on strike must make up their minds - and quickly - where they stand. They return to work (leaving the AUEW, if it so desires, to pursue the case of Mr Robinson through normal procedural channels): alternatively, they put at risk the Company and their own future in it.

Yours sincerely,



Pat Lowry
Director, Personnel and External Affairs.

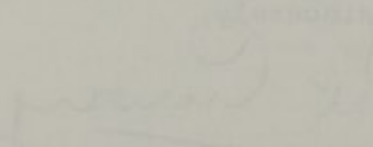
JPL/VO

PS: Because of the widespread interest in this matter we are sending a copy of this letter to other trade unions and releasing it publicly.

The first thing I noticed when I stepped
 out of the plane was the cool, crisp air.
 It was a relief after the hot, stuffy
 cabin. I looked around and saw
 other passengers, some looking tired
 and some looking happy. The ground
 below was a patchwork of green fields
 and brown roads. The plane started
 to move slowly, then more quickly.
 I felt a slight lurch as it took
 off. The pilot's voice came over
 the intercom, announcing our
 departure. I looked out the window
 again, watching the landscape change
 as we rose into the sky. The clouds
 were white and fluffy, and the sun
 was shining brightly. I felt a sense
 of adventure and excitement. The
 journey was about to begin.

As the plane climbed higher, the
 view became more expansive. The
 horizon line was visible, and the
 clouds seemed to stretch out in
 every direction. The pilot announced
 that we were now at a cruising
 altitude. The cabin lights dimmed,
 and the stewardess came forward
 to offer drinks. I took a sip of
 water. The flight was smooth and
 comfortable. I looked out the
 window and saw the vastness of the
 sky. The clouds were like a sea
 of white, and the sun was a bright
 disc in the distance. I felt a
 sense of peace and tranquility. The
 journey was truly a wonderful
 experience.

The flight continued for several
 hours. The pilot made an announcement
 that we were approaching our
 destination. The cabin lights brightened,
 and the stewardess began to serve
 meals. I ate my dinner and felt
 satisfied. The plane started to
 descend, and I could see the ground
 getting closer. The pilot announced
 that we were about to land. The
 cabin lights dimmed, and the
 stewardess came forward to assist
 passengers. I looked out the window
 and saw the runway ahead. The plane
 touched down smoothly, and we rolled
 to a stop. The pilot announced
 that we had safely reached our
 destination. I looked out the window
 and saw the airport buildings. The
 journey was over, but I felt a
 sense of accomplishment. The flight
 was a truly memorable experience.

Yours sincerely,

 Director, International and Cultural Affairs.
 The Secretary of the Department interested in this matter
 will be pleased to supply you with further information
 if you wish.

Five

Incl P51 259

MR. VILE

CABINET OFFICE

BRITISH LEYLAND: HANDLING

The Prime Minister has considered Sir Robert Armstrong's note of 21 November, and has decided that the BL funding issue should be taken by E Committee.

T. P. LANKESTER

SP

22 November 1979

Ref. A0717

PRIME MINISTER

Why don't we
we do.
=

put.

Prime Minister

I think it would be best
for you to take the chair.
Perhaps a Misc Group as
suggested at X plus the
Home Secretary?

RL

4/11

British Leyland: Handling

As you know, decisions will shortly be needed on the funding of BL, on the basis of their 1980 Corporate Plan. Although the plan has not been delivered formally to the Government, officials in the Departments mainly concerned are already considering the options, using draft versions of the plan supplied in confidence by BL.

2. Present indications are that the issues could be ready for Ministers to consider in the week beginning 3rd December. This assumes that BL have made adequate progress in their wage negotiations; it also assumes that the resignation of the members of the National Enterprise Board does not delay matters. These are formidable assumptions. Nevertheless, it is not too soon to consider how Ministerial consideration of the issues should be handled.

3. Your office have advised that you could well wish to take the chair of the Ministerial discussion yourself. On this basis the effective choice is between using E or setting up a separate MISC Group on the lines of that for Rolls-Royce. If you prefer the latter, then the members might be the Chancellor of the Exchequer and the Secretaries of State for Industry, Trade, Employment and Scotland, all of whom have a Departmental interest, as well as Sir Kenneth Berrill. If you prefer to stand back from the issues at this stage, the best course might be to constitute the same Ministers into a MISC Group under the chairmanship of the Chancellor of the Exchequer.

REA

(Robert Armstrong)

21st November, 1979



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

21 November 1979

John Hoskyns Esq
10 Downing Street
London SW1

London,

London

BRITISH LEYLAND

Thank you for your letter of 15 November.

I understand that the assessment of the BL Corporate Plan is by no means complete, and the document which was circulated to Richard Bullock's Official Group last week was only a first draft, on which a good deal of work needs to be done. Until this is complete, I think it is premature to form a judgement of BL's chances of viability.

As you know I am attracted by the idea that as much as possible should be extracted from the workforce in the way of commitment to observe procedure and work properly; it seems to me that the management have already gone a long way in this direction in the pay and conditions package which they are negotiating in BL cars, and following my meeting with the whole Board last week, I do not think you should too readily assume that the management will make any significant concessions. The recent action over the four shop stewards at Longbridge reinforces me in this view.

However we will certainly consider the suggestions in Para 7 of your letter and discuss with the company whether it would be feasible to superimpose these additional requirements on the extremely tough package which they have already tabled.

I am sending copies of this letter to the Prime Minister and the Chancellor of the Exchequer.

Eric. Keir

21 NOV 1979





MG ABINGDON

BL propose to close the Abingdon MG assembly lines and cease production of the two MG models, the MGB and the Midget.

BL say that MG production is unprofitable. Over 70% of production is sold in North America where the strength of sterling against the dollar has meant reduced return on sales. Despite a 21% US price increase this year BL are losing around £900 per vehicle at present, representing an estimated loss this year of £20 million. Unit costs have risen as items, such as the 'B' series engine, which were used for other cars have become unique to MGB.

The company's intention is to concentrate its sports car efforts on the Triumph TR range into which nearly all of the investment in sports cars has been put recently. The TR range, which directly competes with the MGB, is more modern, has better performance, its manufacture is more efficient and there are a number of derivatives available. BL need to continue concentration of engineering effort on this range. To maintain the MG in North America much beyond 1980 would require major diversion of engineering effort to meet US legislation.

BL intend to retain the MG badge and apply it to later cars, (but there is no truth in press reports that it will be applied to the new BL/Honda saloon) the Abingdon plant will be turned over, with far fewer employees, to export packing of Austin-Morris kits or, according to an alternative version, unpacking of Honda kits. Abingdon will be an outpost of the Cowley complex.

The only significant development from the BL side, since their original announcement is their decision to extend production of the MGB until late 1980 and create a stockpile of cars to serve the American market into 1981.

[CONFIDENTIAL: BL have plans laid for a new car to replace the MGB in the North American markets in 1981] The extension does not cover Midget which will run out at the end of 1979. So far as we are aware that model will not be replaced.

Since the announcement of the decision to cease MGB and Midget production there has been much protest and a number of proposals for rescue and continuation of the models and of Abingdon as an assembly plant. Most of them do not appear to have recognised that Abingdon is only a final assembly plant and that manufacture of the parts, estimated at about 85% of the work content, is carried out at other plants (principally Swindon for body pressings, Cowley for body, paint and trim, Longbridge for engines and gearboxes and Drews Lane for axles. These resources are needed for new model programmes).

The only approach of substance is that made by a consortium, headed by Aston Martin Lagonda, which were reported to have offered £24M for the MG marque, the Abingdon plant, and the MGB (but not the Midget). A meeting was held on 12 November between BL and Aston Martin Lagonda. No offer was made.



to BL at the meeting. BL said that it was open minded about considering any commercially viable proposition although use of Abingdon and retention of the MG marque were part of BL's plans. BL agreed to supply certain confidential information to Aston Martin Lagonda to enable it to decide whether or not it wished to make a proposal to BL.

[CONFIDENTIAL

MG SALES IN NORTH AMERICA

In the first 9 months of 1979 BL sales of sports cars in North America were:

MGB	15747
MG Midget	8328
Triumph Spitfire	8150

Comparable figures for the Triumph TR series are not available as the model was relaunched in North America only in June. BL say however that sales of the TR are rising rapidly/

V Division

November 1979

CONFIDENTIAL



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

PSAR 20 November 1979

Mike Pattison Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Type draft, re.

Dear Mike,

*MAD
21/11*

Thank you for your letter of 7 November asking for a draft reply to a letter from the MG Owners' Club.

... I attach a draft reply and background note.

*Yours sincerely,
Pete.*

PETER STREDDER
Private Secretary

*Original in
G/K/Room.
filing*



DRAFT REPLY FOR THE PS/PRIME MINISTER TO SEND TO

Roche Bentley Esq
Secretary
MG Owners Club
13 Church End
Over
Cambridgeshire CB4 5NG

Thank you for your letter of 2 November about the future of MG.

I understand that BL have expressed willingness to consider any commercially viable proposals for the future of MG and, indeed, exploratory discussions have already been held with one of the parties you mention - Aston Martin Lagonda - though their offer has yet to be put to BL.

The Government believe that commercial discussions of this nature are best left to the parties concerned. BL will certainly be expected to act commercially in its decision on the future of MG.

TELEPHONE
01-486 6000

Ind. P.O.

35-38 PORTMAN SQUARE

Box

LONDON W1H 0BN

20th Nov. '79.

FROM SIR MICHAEL EDWARDES

Dear Prime Minister,

and
Thank you

for the delightful evening
which gave me an excellent
opportunity of explaining our
policy to the French
Cabinet Ministers. They were
remarkably well informed on
our ballot & on the
desirability of Robinson.

I hope you feel that the

risk we have taken is
worthwhile. We feel we
had no option but to
put the ballot to the
test at the earliest possible
opportunity.

Yours sincerely,

Michael Swann.



10 DOWNING STREET

15 November 1979

The Rt Hon Sir Keith Joseph Bt MP
 Secretary of State for Industry
 Ashdown House
 123 Victoria Street
 LONDON SW1

Dear Keith,

BRITISH LEYLAND

Since you and I spoke on Monday evening, we have studied the BL management package and also the review of BL's Corporate Plan, prepared by your Department. Andrew Duguid and I will be attending the meeting of Richard Bullock's Official Group on BL to discuss the Plan tomorrow morning. This note summarises our current thinking.

1. Your Department's assessment of the BL Corporate Plan confirms our view that the chances of BL achieving viability following a final tranche of finance must be so small as to be virtually non-existent. We start from the assumption, therefore, that the choice, for practical purposes, is between ending it now and ending it later. (There may be a chance, in the future, of merging all or part of BL with a foreign car manufacturer.)

2. Although I have great respect for Edwardes, I think we have to take what he says with a large pinch of salt in the present negotiations.

- It is absurd for him to suggest that we should treat pay and conditions package as quite separate from our general appraisal of BL. I am sure you were right to make it clear that the outcomes of those negotiations would be an important factor in our appraisal.
- It seems that there will be pressure for early commitment on the grounds that the Honda deal will go down the drain if we don't hit an early or mid-December deadline. It's possible, but unlikely.
- Although Armstrong, BL Cars' Employee Relations Director, has been told to go for broke in the negotiations, we must assume that Edwardes will be ready when the crunch comes to make some concessions. It is again quite unrealistic of him to think that we ought to accept whatever he judges is a favourable outcome to those negotiations.

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Tim Hankester
 R
 15/11
 Ind B

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- Edwardes assures us that his Board is no pushover, that there ^{are} hard men who took a lot of persuading before they agreed to ask NEB for more funds. But supposing the hard men were right and Edwardes was wrong?!

 - Finally, Edwardes warns that if Government insists on further concessions from the unions, rather than negotiating through BL, the unions will be united against "political intervention" and the whole thing will go sour. We should not accept that too readily. With skilful handling, such demands by Government could be seen as eminently reasonable (another fbn. of taxpayers' money after everything that has happened since BL went into public ownership). And if there was such a politically orchestrated response, that might not necessarily be an unmitigated disaster, given that we are virtually certain to face all the closure costs, political and economic, within a very few years, and maybe within 12 months, if we decide not to face them now.
3. I cannot believe that closing BL later will somehow turn out to be cheaper or politically more convenient than doing so now. Subject to any new data or official advice, and subject also to solving the problem in paragraph 4 below, I would advise no further finance.
4. The main difficulty about closing BL now is a psychological one and related really to Edwardes' own personality and image. I assume (though I have no opinion research data) that he is better known to the public than many Cabinet Ministers and very highly regarded. In a sense he symbolises the possible renaissance of British management - straight, tough, determined, competent etc. The BL ballot was seen as the workers putting their faith in good managers instead of politically motivated union activists. To reward Edwardes' efforts and his work force backing with closure would seem to be a deliberate blow against everything the Government is trying to encourage. The shop stewards would say: "There you are - you voted yes at the ballot and walked straight into the trap. So much for moderation."
5. Our negotiating position is therefore still not comfortable. We can be virtually certain that BL won't fly; yet it would be politically and psychologically extremely difficult to close it now in a way which reinforced moderation against militancy and thus made any sense to the public. We're still, therefore, in a "no-win" position.
6. We have considered whether it is possible, therefore, as suggested in Geoffrey Howe's letter of 5 November (and my original note to you of 18 September) to demand further concessions which:
- (i) if granted and honoured, would significantly improve BL's prospects;
 - (ii) if refused, would put the onus for breakdown more firmly on the union negotiators;
 - (iii) if granted, and not then honoured, would set the stage for later closure, with the onus again on the unions.

In other words, can we achieve a "position of indifference"?

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7. The Chancellor's letter asks about guarantees from management, unions, work force and suppliers etc. I don't think it would be practicable to get guarantees in the strict sense of the word (since a premium would have to be paid for them in some way or another). And there must also be some merit in Edwardes' argument that for Government to demand additional concessions when the main pay negotiations are over, would weaken BL management's position in its efforts to assert its right to manage. There is, however, one area in which BL management could reasonably demand something of substance. They could ask for explicit undertakings by the trade unions to take firm action on unconstitutional strikes. For example:

- (i) redeployment of manpower must be allowed;
- (ii) management may send home/dismiss those who refuse to be redeployed (with full union backing); and/or
- (iii) the union will suspend/dismiss those who refuse to be redeployed.

8. There are many advantages in trying to work something out in this area.

First, Edwardes himself has always said that the unconstitutional strike is what has made BL management's task almost impossible. The point was made explicitly in the Edwardes/Beckett letter to Varley and at our Fentiman day.

Second, these proposals exist implicitly in the package now being negotiated which commits the unions to "full co-operation in the movement of labour to ensure the efficient continuity of production" - without actually referring to the delivery of such co-operation during strikes. Since redeployment would be part of the contract of employment, refusal to be redeployed would constitute a breach of contract. So it is simply a matter of making explicit the sanctions open to unions and management where the contract was breached, and the undertaking to use those sanctions.

Third, this is an issue which can be easily understood by union members and by the public; Edwardes can spell out the crippling effect of the hundreds of past disruptions; and the fact that it is a refusal to honour agreements can be hammered home.

Fourth, it is not unreasonable for Edwardes to demand further explicit undertakings in this area. It need not appear to come from Government. (Edwardes should have demanded it already.)

Finally, if things broke down on this issue the reasons would be very clear: the unions' reluctance to accept responsibility and discipline their members, with Edwardes insisting that if the unions could not undertake to deliver in this crucial area, he was not prepared to seek further finance from Government.

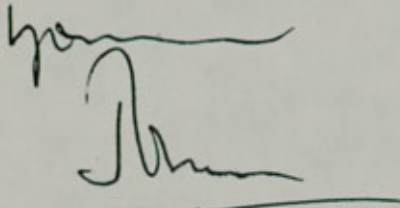
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The above suggestions do not, unfortunately, apply to TASS, whose members are not hourly paid, and which can do a lot of harm. (Horrocks/Gill letter of 1 November 1979 attached.)

10. If, in the event, Government does make further finance available, I think you should, in announcing it, highlight, as dramatically as possible, the commitment by every member of the work force to the new agreement (new employees will actually sign a piece of paper regarding it, and it will be deemed to apply to all existing contracts of employment) and also the unions' undertakings to eliminate the scourge of the unconstitutional strike. It then remains to set the stage so that, if and when BL finally goes under, it is Edwardes who pulls the plug, as he proposes in his letter of 7 November to Leslie Murphy (thus preserving his hero status, acting responsibly on behalf of the taxpayer) rather than Government sinking Edwardes.

I hope we will be able to put forward the specific suggestions in paragraphs 7 and 8 above at Richard Bullock's meeting to see if they have any merit.

I am sending copies of this letter to the Prime Minister and the Chancellor of the Exchequer.



JOHN HOSKYNS

BL Limited

Nuffield House,
41-46 Piccadilly,
London W1V 0BD, England.
Telephone: 01-734 6080.
Telex: 261246.
Cables: Brimoped London W1.

From The Managing Director, Cars, BL

1st November 1979

K. Gill, Esq.,
General Secretary,
AUEW/Technical and Supervisory
Section,
Onslow Hall,
Little Green,
Richmond,
Surrey TW9 1QN.

I am enclosing, for your information, a copy of a telex message posted today in BL plants and offices giving the result of the employee ballot on the company's recovery plan. You will note that the BL Board will now seek broad approval from the NEB and Government for this recovery plan and will make a firm request to them for the funds needed in 1980.

Despite this decision, BL cannot proceed with any confidence in the implementation of the plan unless it can be assured of substantial and practical support from your Union and its members. If the attitudes we have experienced over the past two years continue we might as well pack up now.

I realise that one of the underlying reasons for the obstruction we have experienced lies in the salary problem. We are doing what we can to try and deal with the matter and I believe progress is being made. There may be other reasons for this obstruction as well but you know and we know that the early introduction of new models is vital and that, whatever the cause, BL does not have the technical resources to meet the accelerated programme without substantial help from third parties.

As of today, we are still apparently under the threat that, regardless of the outcome of the ballot, your Union will black the LC10 and Honda programmes? Why? What purpose can such a position serve except to undermine the future of this company and with it the livelihoods of your members and many many others.

Continued.

Registered Office:
Nuffield House, 41-46 Piccadilly, London W1V 0BD.
Registered in England No. 1213133.

1st November 1979

Page 2.

Your Union has queried whether the ballot would give a fair view of people's feelings. I would answer that by asking you to look at the voting figures. I would also point out that we balloted almost 152,000 people in BL - a number roughly equivalent to two average-sized parliamentary constituencies. Just as there are errors in an electoral role, so will there be errors in a company register. But the size of the "Yes" vote in the BL ballot has completely submerged any conceivable errors.

The result of the ballot gives all of us the opportunity of putting the past behind us. We do not deny that there are imperfections in the corporate plan we have developed. But nobody has suggested a better plan that has a reasonable chance of securing a profitable future, without which there would be no hope of obtaining further Government funds.

We wish to be reasonable. But if BL is to survive we cannot afford to spend hours, days and weeks in interminable argument and discussion with TASS as we have been obliged to do these past two years, with all the consequent delays and disruptions to key parts of our model timetable.

We are chasing the rest of the world motor industry who are moving even faster. We simply cannot afford to have any slippage whatsoever in our new model programme timetables. You have our categorical assurance that BL has every intention of retaining a capability in the design, engineering and manufacture of motor vehicles. Is TASS prepared to cooperate with us in implementing the plan?

RAY HORROCKS

Footnote: Because your cooperation or otherwise will have a bearing on the future employment prospects within BL and indirectly within supplier companies, we are sending a copy of this letter to Alex Ferry for the CSEU Executive.

c.c. Mr. A. Ferry

Enc:

15 NOV 1979



CF

For Bh papers ?

file

ds

Ind B1

7 November 1979

I am writing on behalf of the Prime Minister to thank you for sending her a copy of the Electoral Reform Society's letter to British Leyland of 31 October setting out the results of the secret ballot on the company's proposals for the recovery of BL.

MAP

J. McKay, Esq.

L6



BL Limited

Nuffield House,
41-46 Piccadilly,
London W1V 0BD, England.
Telephone: 01-734 6080.

ES/11

with compliments

J. McKay

Director Corporate Communications

The ELECTORAL REFORM SOCIETY

of Great Britain and Ireland

(Ballot Services Department)

6 Chancel Street

London SE1 0UX

Your ref:

Our ref:

Telephones: 01 928 9407
01 928 4366

The Chairman,
BL Limited,
41 - 46 Piccadilly,
London SW1.

31st October 1979

Dear Sir,

Secret Ballot on the Company's proposals for the recovery
of BL

Your Corporate Communications Director has informed me that the
number of ballot papers issued was:-

151,557.

As the total number posted back to me here was:-

121,679

I have to report a participation of almost exactly 80%.

Of the 121,679 papers received, 76 could not be assessed as 'YES'
or 'NO', and were therefore invalid.

The 121,603 valid papers were divided:-

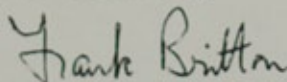
'YES'	.....	106,062 (87.22%)
'NO'	.....	15,541 (12.78%)

The 76 invalid papers may be classified:-

Completely blank	.....	20
Spoilt	.....	17
Word "abstain" written	.....	6
'X' against <u>both</u> questions	.....	33
		<hr/>
	TOTAL	76

The 'NO' vote amounts to very slightly over 10% of those entitled
to vote.

Yours faithfully,



F.S. Britton,
Controller of Ballot Services.

Limited by Guarantee

Registered in England No. 958404 Registered office 6 Chancel Street, London SE1 0UX

VISITORS CHANCEL STREET is approached from NICHOLSON STREET which will be found towards the north end of BLACKFRIARS ROAD.

It's
important
you read this

To BL Employees from the
Chairman, Michael Edwardes

2 November 1979

THE BALLOT RESULT — WHAT HAPPENS NOW?

YES	106,062
------------	----------------

NO	15,541
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Majority in favour of BL's recovery plan 87.2%

(FULL DETAILS IN THE ENCLOSED LETTER FROM THE ELECTORAL REFORM SOCIETY)

The result of the ballot was announced yesterday and posted in plants throughout the company.

In writing to you all now, I would like first of all to thank those who voted in support of the recovery plan. Those who voted against the plan **MUST** now accept the clear and decisive view of the majority.

We must now forget our differences and together work to put BL firmly on a recovery path.

Of itself the ballot solves no problems. None of the problems which was spelt out in the letters with the ballot form has changed — and neither have the actions the company must take to overcome those problems.

But the ballot result is a very encouraging first step forward.

Where We Go From Here

The BL Board is encouraged by the overwhelming employee support for the recovery plan and will now seek from the Government the further funds that are needed to speed up the model programme, to press on with the modernisation of plants, and to pay for the restructuring programme.

In doing so, the Board will need to stress to Government that the company is still in a recovery phase. Progress towards that recovery has been seriously hindered this year by a number of events particularly the national Road Haulage strike and the recent national engineering strike. Because of these disputes and other factors, the Board is conscious that BL is not yet in a position to show positive evidence to the Government that we can deliver the plan.

The Company must demonstrate from now on that it can reach the required level of performance.

We Must Work Together

The positive attitude expressed by employees voting privately at home has to be quickly translated into a new sense of collective responsibility at work otherwise the ballot and what it means will have been a waste of time and effort.

To agree individually that productivity must be improved and then to resist it collectively, or to vote for continuous production and then to become involved in wildcat strikes would mean that we can never achieve the plan. The company would not deserve to survive.

Now that a big majority of employees has voted to support the recovery plan it is up to each and every one of us to work for the survival of BL and by our actions show there is no further interest in obstruction, disruption or inefficiency.

When the Executive Council of the Confederation of Shipbuilding and Engineering Unions recommended a 'YES' vote, they told us that there were certain points in the plan which they would wish to discuss with us. This we understand. There are a number of matters which we in turn wish to raise with the CSEU, not least of which is how we can ensure in future that we receive the genuine views and reactions of employees on matters which concern them personally.

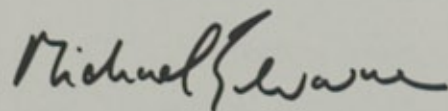
I am glad to say that a suggestion to the CSEU that a working group of national union officials and BL senior management should be set up to deal with these matters, has met with a favourable initial response from CSEU officers.

Show We Mean Business

Finally, I must stress that unless the total funds we need are made available when we need them, BL cannot achieve the recovery plan and long-term viability.

If the Government is to give broad approval to the 1980-84 Corporate Plan and provide the funds needed for 1980, they will only do so if they can be convinced that our future performance will be far better than anything we have achieved so far.

It is by the behaviour and performance of each and every one of us in the coming weeks and months that BL will be judged. We have voted 'YES': we have given our word. But, it will be our actions that will count.



Michael Edwardes
Chairman

2 November 1979

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Inv Pol 2

Mr. H. ...

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

5 November 1979

Prime Minister

Dear Sir

me

To note. This seems a good "stiffness" to our negotiating stance.

BL

Although it was decided that you would not make a statement there are some points which I would like to make on your letter to me of 26 October. These are relevant to the further work on BL which will lead to our decisions on the proposals which BL and NEB will be putting to us.

R 6/7

If at any stage it is necessary for you to make a statement confirming that we still accept the 1977 undertaking I think you should say that BL would be enabled to meet its financial obligations. This makes the position clearer and in substance does not restrict the assurance given by the last Government.

On the second page of your letter you said that there could be about 300,000 job losses in the unlikely event of a complete and permanent closure of BL and a net loss to the balance of trade of around £2,200m a year. This strikes me as a highly unrealistic hypothesis.

My scepticism is based on the following considerations. Parts of BL are profitable and there is no reason why they should not continue in business. Other parts could be run down over a period, if necessary, rather than closed immediately. To the extent that BL lose their present market share it must be the case that other UK motor manufacturers will pick up at least some of their business. To the extent that they shed skilled engineering employees and other firms hire them, as they certainly will, these will be further important offsets to redundancies and loss of output and exports. Well before we come to consider the options I would like to see a realistic assessment of the employment and economic consequences of the various possibilities. This is essential if we are to have a basis for rational decision making.

/I think it is

The Rt. Hon. Sir Keith Joseph MP.

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I think it is also vital that we should have some other basic information to hand on the following topics well before we receive BL's proposals:

- i. number of strikes and days lost, year by year (and in 1979, quarter by quarter) since 1970;
- ii. number of vehicles and value of production lost attributable to (a) internal disputes, (b) industrial disruption elsewhere, over the same period;
- iii. trends in productivity, not only in vehicles per man year, but also in terms of value added per man - again over the same period.

The data in (iii) should be set against the targets laid down by Ryder and in subsequent corporate plans. Finally I think it would be interesting if your people could chance their arms at an estimate of how much of the money supplied to BL since the Ryder Report has, in effect, gone to subsidise industrial disputes.

As you say, we are in no way committed to the provision of any further funds even though the ballot has been successful, and I fully agree this needs to be made clear to the public. We shall need to consider any proposals from BL and the NEB with the greatest care and in the light of the information I've detailed above. Furthermore, even if we were willing to enter into any further commitments I would not wish to do so until at the very least we knew that BL had reached a responsible pay settlement and a satisfactory agreement with their unions following the negotiations which have just started on a wage/performance package for BL Cars. I understand that this covers incentive bonuses, with provision for non-payment if production falls following disputes at particular plants; no lay-off money where lay-offs result from disputes anywhere within BL Cars; the introduction of work measurement techniques; and the removal of various restrictive practices. The leader in Friday's Sun makes powerful points along these lines; the recent experience at "Talbot" underlines the importance of this point. When we come to take our decisions it would be helpful if we could have full details of BL's latest package and also know what are BL's objectives for the re-negotiation of their procedure agreements.

/I should also

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I should also welcome advice on the possibilities for BL negotiating further agreements with their unions and with their suppliers which will go even further towards ensuring continuity of production. We clearly need the tightest obtainable guarantees from the company's management, unions, workforce and suppliers that industrial indiscipline and restrictive practices will be unequivocally abandoned henceforward, before there can be a case for further help to BL. It is in no way clear that the management's proposals go far enough in that direction at present, tough as they are.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Employment, Scotland and Trade, the Attorney General, Sir Robert Armstrong, Sir Kenneth Berrill and John Hoskyns.

*already seen
John*

A handwritten signature in dark ink, appearing to be 'G. Howe', with a horizontal line underneath.

GEOFFREY HOWE

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CC-NIS

27



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

1 November 1979

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

Dear Tim

BL BALLOT RESULT

The result of the ballot is that 87.2% have voted in favour of the Leyland reorganisation plan in a ballot of 80%. The announcement is at 11.30 this morning.

If he is asked about the result, my Secretary of State proposes to make a short statement on the following lines:-

"I naturally welcome the ballot result as a first step towards recognition of the company's situation; what matters now is performance. I have still to receive the BL Corporate Plan from the National Enterprise Board; when I do I shall give it the most serious consideration."

You may wish to have this text available in time for Prime Minister's Questions this afternoon.

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

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10 DOWNING STREET

31 October 1979

W R G Bell Esq
HD/V Division
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

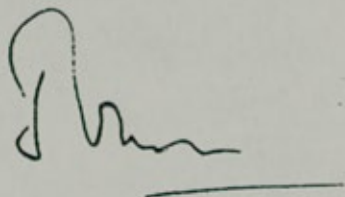
Dear Graham,

Thank you for your letter of 31 October and the copy of the minute to your Secretary of State, which summarises the results of our discussion with Carver and Armstrong very clearly. Four brief comments:

1. I take it from your minute that the Department is satisfied that the package proposed by BL management is as tough as Carver and Armstrong maintained that it was. I suppose the test of whether it is tough enough is whether it tackles the problem described in the Beckett/Edwardes letter to Varley head on. The weak link in such cases is usually the productivity deal in which production remains static while pay goes up. You will know better than I, but I think past experience suggests that Edwardes' productivity deals are real, not phoney. But that is presumably the Achilles heel of the 80-page package, if there is one.
2. If the BL management package is okay, then it must be right for us to stand well back and let BL management assert its right to manage. The danger that Edwardes might not agree with us on a tough negotiating strategy has not materialised.
3. I happened to meet Edwardes on the evening of 29 October and he mentioned that he was perfectly ready to ballot the work force all over again if he had trouble in the pay negotiations. So he seems readier to use this weapon than any of us, including Carver and Armstrong, may have realised.
4. Such a ballot would come quite close to the idea we discussed of every member of the work force positively signing to say that he accepts the new package. Leaving aside the pros and cons of such a symbolic gesture from each member of the work force, I did find some ambiguity on Armstrong's part. On one hand he seemed to be saying that such a signature would have little meaning given everything else that would by then have happened; on the other hand, he seemed to think that the demand for such signatures would be an act of "negotiating brutality", rubbing the union's nose in our negotiating victory etc. I still think that we should not reject

that idea too hastily, but should decide whether to raise it with BL management, later, once we have seen how the pay negotiations go.

Yours etc.

A handwritten signature in dark ink, appearing to read 'John Hoskyns', with a horizontal line underneath the name.

JOHN HOSKYNS



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 6093
Switchboard 01-212 7676

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J Hoskyns Esq
No. 10
Downing Street
London SW1

31 October 1979

Dear John,

BL

As I have called you in aid in the
attached minute to the Secretary of State,
I feel I should send you a copy.

*Yours sincerely
William Bell*

(W R G BELL)



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SECRETARY OF STATE

cc Secretary
Mr Bullock Dep Sec
Mr Hagestadt V3

CONDITIONS FOR BL FUNDING

BL officials (Mike Carver - Corporate Planner, and Geoff Armstrong - BL Cars Industrial Relations Director) have now come back again to talk to us about the possible conditions for funding which we had worked out with Mr Hoskyns (and which were attached to my minute of 12 October); and Mr Hoskyns who was present was very well satisfied by their approach.

They argued strongly that if Ministers were to appear to be overtly imposing conditions this would be likely to provoke the unions and the workforce into a united opposition on political grounds. They are responding to the unions in a lengthy document to be presented this Wednesday which will cover all the major points we put to them with the exception of that concerning the establishment of a single union - which they do not regard as a runner at present (though there are moves for amalgamation which they continue to encourage). Also they do not think there is any possibility of securing agreement to a requirement for balloting for all shop steward appointments; but intend to handle the problem of militants and irresponsibles achieving powerful positions within the established machinery by means of changes in BL Cars' procedural arrangements which they intend to re-negotiate as soon as possible.

The workforce claim was in effect a list of shopping options which the management say amounted in total to something around 60% increase on their wages costs; in response they are going to take a very hard line about the levels of increases - with only about 5% for the manuals, though larger increases for skilled men and aim to require agreement to the introduction of their plant-based incentive scheme to give further increases in earnings. Under the incentive scheme bonus payments would be made on the basis of performance over a four-week period and no allowance



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would be made for short-fall in production caused by internal BL disputes within the individual plant or a defined group of related plants. Other key elements in the package include acceptance without prior consultation of movement in labour within the plant to ensure continuity of production; use of modern industrial engineering techniques; a recognition of the need for continuous working an end of restrictive working practices; introduction of multi-skilled craftsmen; and the non-application of lay-off guarantees when lay-offs were caused by a dispute anywhere in BL Cars.

This is certainly going to be a very hard package for BL to sell and we must await what follows from the first response when the management puts it to the workforce representatives tomorrow. BL are hoping that if they secure a large majority this will provide them with the means to carry this package through with shop floor support; and BL have a meeting laid on for Wednesday evening with the managements of all their plants to enlist them in the task of selling the package to the workforce over the heads of the shop stewards in particular if necessary. Throughout BL have emphasised repeatedly that they are going out to manage the business; that managers will be given the opportunities and the responsibilities; and will be held to account for how they discharge them.

At the end of the negotiations BL will see that copies of the agreement are given to every member of their workforce - and that this is done in circumstances directed to encouraging them to co-operate with the re-building of the business. The agreement becomes explicitly - once it is made - part of the terms and conditions of employment which every employee accepts when he is engaged. There was some discussion with Mr Hoskyns whether, at the end of the day, there would be a point in securing written agreement from each member of the staff to adhere to the agreement; I think the view of the BL Cars' Industrial Relations man was that they would have achieved as much as they could through the procedure they were now proposing.

WRB

W R G BELL
HD/V DIVISION
Room 275 Ext 6093
Ashdown House
30 October 1979

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

30 October, 1979.

Ind. Pol. =
✓ Mr Hoskyns
Mr Wolfson
Mr Ingham.

The Prime Minister has considered your letter of 30 October, and the revised draft Question and Answer on British Leyland. I am writing to confirm that she does not wish an answer on the lines of this draft to be made tomorrow. Based on the evidence so far available about the ballot, she does not believe the first part of the answer concerning the 1977 assurance is necessary; and she is still unhappy with the drafting of paragraphs 2 and 3 on the question of future funding of British Leyland. In particular, she does not like the second sentence of paragraph 2 which she feels might be misconstrued to imply that the Government is already pulling back from the prospect of tough decisions on British Leyland.

The Prime Minister would, however, be content for the first paragraph of the answer to be made on Thursday if the British Leyland vote turns out to be negative or ambiguous. But she would like any further statement on funding to wait for the time being - probably until questions are raised about the British Leyland pay claim.

I am sending copies of this letter to Martin Hall (HM Treasury), Ian Fair (Department of Employment), Godfrey Robson (Scottish Office), Stuart Hampson (Department of Trade), Bill Beckett (Law Officers' Department), and Martin Vile (Cabinet Office).

I. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

GB

PRIME MINISTER

British Leyland

Yesterday you told Sir Keith Joseph that you were opposed to any statement confirming the 1977 assurance, but told him that you would go along with something on future funding so as to stop people from getting too euphoric if there is a "yes" vote. But you said that the latter piece should be redrafted.

Sir Keith has now come back proposing a draft answer on both aspects. He repeats that, if there is an ambiguous result, there is a real risk of a creditors run.

John Hoskyns and David Wolfson both think that a statement on the 1977 assurance point is unnecessary - particularly since Michael Edwardes is confident that there will be a "yes" majority. Their view is that, if the vote turns out to be "no", a statement could be put out after the ballot is announced. However, this - in Sir Keith's view - would look like panicking. (We, on the other hand, have argued to put out anything now looks like panicking.)

The result will be known tomorrow morning. If the answer were "no", the question could be put down tomorrow and answered at 2.30 on Thursday - with the announcement of the ballot at 3.30. (If there is a overwhelming "yes" result, BL will announce at 11.30 on Thursday morning.)

The second part of the answer (paras. 2 and 3) is now much better - in particular, there is now no reference to the ballot.

I suggest that we say that Sir Keith can go ahead with paras. 2 and 3 but not with para. 1 (except if he waits until the result is known tomorrow). If the answer is confined to paras. 2 and 3, the question will of course need to be redrafted.

Do you agree?

30 October 1979

R.

CONFIDENTIAL



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ *Secretary of State for Industry*

30 October 1979

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Dear Tim

... My Secretary of State is engaged with the Conservative Backbench Industry Committee and has asked me to explain his view that a Written Answer on the lines of the enclosed draft should be made on Wednesday.

My Secretary of State has seen John Hoskyns' minute of today's date, but thinks that, if there is an ambiguous result, there is a real risk of a possible creditors' run. Sir Michael Edwardes says that the clearing banks have questioned with him the future prospects of BL within the last couple of days. Sir Michael has also drawn our attention to the risk that if we do not make a statement about the assurances to creditors before the ballot result is announced, we might be forced to make a very similar statement some time in November or December when conditions would be much more adverse. He thinks this risk may even arise if there is a strongly favourable vote because of uncertainty about the Government's attitude.

We also see advantage in a prepared Statement on the lines proposed because it would place the Government's position firmly on the record and would provide a reference point for answering future Parliamentary Questions etc. There is always a risk that, if we have no statement on the record, the press or other commentators may misinterpret any ad hoc remark which Ministers might make.

I am copying this letter to Martin Hall (HM Treasury), Ian Fair (Employment), Godfrey Robson (Scottish Office), Stuart Hampson, (Trade), Bill Beckett (Law Officers' Department) and Martin Vile (Cabinet Office).

Yours sincerely

Ian Ellison

IAN ELLISON
Private Secretary



REVISED DRAFT INSPIRED QUESTION AND ANSWER

Question

To ask the Secretary of State for Industry whether he will make a statement on the current BL situation with particular reference to the operation of Para 10 of the Schedule to the National Enterprise Board (Guidelines) Direction 1976 in respect of BL

Answer

My predecessor, the Rt Hon Member for Chesterfield, explained to the House on 26 May 1977 (Official Report Col 598) the operation of this Paragraph in relation to BL. This amounted to an unqualified assurance that the NEB could not allow BL to be left in a position where it would not be able to meet its obligations. I confirm that the present Government accepts this inherited commitment.

It is for the BL Board to decide whether or not to submit to the NEB a new Corporate Plan involving additional public funding.

If they should decide not to seek further public funds, the Government would need to receive and consider the recommendations of the NEB (after the NEB have consulted the BL Board) about the future of the company before making any further statement to the House.

If the BL Board put forward a new Corporate Plan and the NEB recommends approval, the Government will need to give it the most careful consideration before making any decision upon it. In doing so the Government will take full account of the company's performance and prospects.

BRITISH LEYLAND

1. Michael Edwardes told me last night that the poll was extremely heavy. A substantial "yes" majority therefore seems extremely likely.
2. From this it follows that a reassurance on BL's ability to meet its obligations will not be necessary. In any case, that can be done quickly enough after a "no" result. I have never understood DoI's anxiety about a "run on BL". It seems unlikely that a reassurance will be needed at all, let alone before the result of the poll.
3. I do favour, however, a pre-emptive statement or reply to a PQ, designed to put the significance of a "yes" result into perspective, as per paragraph 2 of my letter to you of 26 October. Such a pre-emptive statement must, at the same time, strengthen BL management's position for the forthcoming pay negotiations and for the "right to manage" if BL is, in the end, given one more chance. Thus, "of course, we all hope that the result of the ballot will show the voice of shop floor moderation, the readiness of the work force to give management its full support in tackling its very difficult task. But we have to recognise that ^{it} will then be for the BL Board to decide whether to put forward a new Corporate Plan for NEB's approval. The Government cannot give any advance commitment to a Plan which has not been put to it, and indeed has not yet even been put to the NEB."
4. Your Department will know, by now, whether the BL management's package of counter-proposals on union practice really is a tough and substantial demand or not. If it is, then we do not have to worry about the contingency for which my original note of 18 September catered (ie the possibility that Edwardes might refuse to go along with our negotiating strategy and might even leak, if things started getting rough, that we were forcing him to take a line which he did not really support). If, ^{as} he maintains, and the package purports to show, BL management really is going for broke in tackling the union roadblock, then there is no difficulty in the Government following its preferred line of standing right back from the negotiations so that BL management's authority and credibility are strengthened to the maximum - so that their chances of negotiating the package are enhanced, and their "right to manage" thereafter is reaffirmed. This must be the right approach, whatever our final decision on whether to back BL's Corporate Plan with extra finance.

this would be no more than a first step.

5. When I talked to Edwardes last night, I asked him how he expected the pay negotiations to go, whether there might be a strike etc. He didn't expect one. But he said that, if there was any difficulty, he would not hesitate to go over the heads of the shop stewards and union officials, once again, to the whole work force with a ballot. They know, and he knows that they know he would do this, and this helps to set the stage for the negotiations. I mention this because, in discussions with Bullock and Bell, (a) it was stressed that strike ballots would not be enforceable at BL because they contravened union rule books, but Edwardes seems all set to outflank that problem by balloting on the proposals from the outset; and (b) it was assumed by them that Edwardes would not want to overwork the ballot weapon and would therefore be reluctant to use it again after the present exercise. This does not appear to be the case and he seems ready to use it again almost within days.



JOHN HOSKYNS
30 October 1979

010

✓ de luttien
de Harkyns

MBM (too late)

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30/10

PRIME MINISTER

BL

I have seen the two letters which your Private Secretary wrote to Keith Joseph's yesterday. As time is so short I am writing now to put forward my views, though I have not yet seen Keith's re-draft of his statement.

I entirely agree that it is important not to give the impression that the Government is already planning to make extra funds available in the event of a "yes" vote. But I imagine that we would all agree that the last thing we want is a sudden unplanned collapse of BL, and that therefore we should equally avoid giving the impression that the Government has already made up its mind to deny the company any more funds. I think it follows that a statement of some kind is needed to make it clear that no immediate decision will be taken in the matter.

I therefore strongly support Keith's proposal that a statement should be issued making it plain that the Government has not yet taken a view on this matter, and that no early announcement of its decision can be expected, as well as re-affirming the 1977 assurance to BL's creditors. I have no strong feelings on timing, though I am inclined to favour the statement's being issued before the result of the ballot is known, so that we do not seem to be responding to it.

I am sending a copy of this letter to the Chancellor of the Exchequer, the Secretaries of State for Industry, Scotland and Trade, the Attorney General and Sir Robert Armstrong.

J P

30 October 1979

(Faint, illegible handwriting)

(Faint, illegible handwriting)

1300 OCT 1989
11 12 1
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Subject.

JS

cc hask para
+ D. Wolfson
J Hoskyns

10 DOWNING STREET

From the Private Secretary

29 October 1979

BRITISH LEYLAND

When Sir Keith Joseph called on the Prime Minister this afternoon, they discussed the draft answer on British Leyland which he had sent under cover of his letter to the Chancellor of 26 October. The Prime Minister repeated her comments on the draft, which were recorded in my earlier letter of today's date. Sir Keith, in reply, said that he would accept that there should be no statement on the question of the 1977 assurance at least until after the announcement of the ballot, and then only if the vote went against and there was pressure from BL suppliers and creditors in general for such a statement. But he would still like to put out a statement on the question of Government funding in the event of the ballot going in favour of the Edwardes' plan. It was most important, in his view, that the Government should make clear that a "yes" vote would not automatically lead to the extra funding which BL were likely to ask for. The final paragraph of the draft was intended to convey that thought, although he accepted that it might be improved. Sir Keith said that he hoped that the Prime Minister would agree to a much shorter answer spelling out this point; he would put a new draft to the Prime Minister shortly.

I am sending copies of this letter to Ian Fair (Department of Employment), Godfrey Robson (Scottish Office), Stuart Hampson (Department of Trade), Bill Beckett (Law Officers' Department), Martin Hall (HM Treasury) and Martin Vile (Cabinet Office).

L.P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

TJR

PRIME MINISTER

Top Copy on Ind Pd,

July 79,
Rolls Royce

Meeting with Sir Keith Joseph

Sir Keith wants to bring you up-to-date with his proposals for Rolls Royce. I understand that he has had discussions with Frank McFadzean, who, as you know, is on the Rolls Royce board. The possibility of moving Sir Kenneth Keith out altogether - and, for example, taking up the STC chairmanship - seems to be a runner now.

Sir Keith will also want to discuss his proposed statement on British Leyland. I have passed your comments on the draft to the Department; but I understand Sir Keith still wishes to go ahead. He thinks that to confirm the previous administration's 1977 assurance, after the ballot is announced, will look like panicking - and certainly more than giving it before the announcement. This seems questionable. But in any case, Sir Keith's guess is that the vote will go in favour of the Edwardes plan. In view of that, and since any statement reiterating the 1977 assurance is likely to be misrepresented, it would seem best to say nothing.

R.

29 October 1979



cc Hoskyns
file KB
u Tranz

10 DOWNING STREET

From the Private Secretary

29 October 1979

BL

As I told you on the telephone, the Prime Minister has serious doubts about the draft Answer on British Leyland attached to Sir Keith Joseph's letter of 26 October. In its present form, she thinks the draft gives too many hostages to fortune and that it is likely to result in a great deal of misunderstanding - and at worst, that the Government will be accused of doing a "U turn". For her part, the Prime Minister is not persuaded that it is necessary to make any statement before the result of the ballot is announced; but if there is to be some kind of statement, she thinks it essential that the statement should be confined to reiterating the 1977 assurance. It would be most unwise, in her view, for Sir Keith to comment on what the BL Board may or may not do. Moreover, the present draft too easily gives the impression that with a "yes" vote, the Government will provide BL with the extra funds which they are likely to ask for.

I suggest that, if Sir Keith wishes to go ahead with some kind of statement, before the result of the ballot is announced, he should raise the matter with the Prime Minister when he comes to see her this afternoon.

I am sending copies of this letter to Ian Fair (Department of Employment), Godfrey Robson (Scottish Office), Stuart Hampson (Department of Trade), ~~Ian Maxwell~~ (Law Officers' Department) and to Martin Vile (Cabinet Office).

J. P. LANKESTER

I. K. C. Ellison, Esq.,
Department of Industry.

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GB



10 DOWNING STREET

THE PRIME MINISTER

I am most concerned about the proposed question and answer. The draft reply does not give the impression which the S of S intends it to convey. I agree with John Hodge on that point. If it goes out as it is, we shall be all set for another press misinterpretation just like the Nat. Ind. letter incident. This time we could be accused of doing a U-turn on B.L.

As I understand the situation the Government is already committed in the terms of the 15th reply. - though that reply is hardly a model of clarity - "could not allow B.L. to be left in a position where it would be able to meet its objections"? There must be a double regret somewhere which I have missed! However, if we are committed, what is the point of saying so before the ballot is known. To repeat it, looks like panic. If the ballot goes "wrong" - whatever that may mean, have the

statement on the full point ready to put out
within the hour of the result.

But do not go on to comment
on anything further that the B.L. Board may
may not do. Please - no hostages to fortune. The

present draft reply is full of them. If it is
thought advisable still to go ahead with the
Commitment point before the ballot please see me
as a matter of urgency.

M.S.



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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

cc Mr Hoskyns

Mr W. H. B. O.

26 October 1979

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall
London SW1

Prime Minister

*Sir Keith is proposing a the
written Answer at Flag A to
reassure creditors in case the
BL ballot goes against. John
Hoskyns has suggested (Flag B)
that the draft goes too far in
implying the Government might provide
the extra money
if BL
get a
"yes"
result.*

Dear Chancellor

BL

As you will know, BL are now balloting their workforce for a straight yes or no answer to the company's proposals which, they say, give the prospect of a viable and secure future for the majority, at the cost of complete or partial closure of 13 plants and at least 25,000 redundancies. Counting of votes by the Electoral Reform Society has already begun and BL will be announcing the result on 1 November.

The company's proposals are likely to call for not merely the remaining £225 million conditionally committed to BL by our predecessors (and provided for in PES forecasts), but also a further £200 million; but they will emphasise that the extra funds are primarily required to cover the costs of the redundancies and reorganisation needed to streamline BL to a size and shape appropriate to a realistic assessment of its market position and prospects. It is well understood by Sir Leslie Murphy and Sir Michael Edwardes that we are in no way committed to the provision of any further funds, whatever the result of the ballot.

*Subject to
limits,
content?
R
26/10*

It is not possible to prejudge the result of the ballot, but my guess is that Michael Edwardes will get strong endorsement for his plan. However, he may not; and if the BL Board judge the support shown by the ballot to be insufficient, they say they will not be seeking approval for their Plan or for further public funds. Michael Edwardes has already said this publicly; so that if, when the result of the ballot is announced, it shows anything less than overwhelming support for the company's proposals, there will be widespread speculation and concern about the company's future. Unless action is taken to reassure them, the large number of small and medium sized creditors, who may be unsure of their legal position, may demand immediate payment of bills; and the large loan stock holders may also add to the pressure on the company. We could easily find ourselves in a situation in which the company was forced precipitately into liquidation in circumstances which would make it impossible for sensible plans to be made for dealing with the company and which would involve a very considerable extra cost to the taxpayer.

/After consulting....



CONFIDENTIAL

2.

After consulting Michael Edwardes and Leslie Murphy I have concluded that it would be best to anticipate this possibility, rather than react to it after it has arisen, by giving an appropriate reassurance, after the ballot has closed and before the result is announced, that BL will be able to meet its obligations. A draft of what I propose to say (in reply to an arranged PQ) is attached at Annex A.

The first paragraph is intended to provide the necessary reassurance by restating plainly what is in fact an existing commitment by the previous Government - see the extract from Hansard for 26 May 1977 at Annex B. I am advised that we have no choice but to honour this; any other course would not only precipitate the crisis I am seeking to avert, but might have wider implications by damaging Government credit. Thus there is already a 'de facto' guarantee of BL's obligations and my proposed statement adds nothing to what I am advised is the present commitment.

The purpose of the second paragraph of the answer is to make clear that in the event of a negative or ambiguous vote the Government is not placed in a position where it has to make a substantive statement before it has received recommendations from BL and the NEB on what action is proposed. In the event of an ambiguous result (ie a majority insufficient for Michael Edwardes to state immediately that the Plan will be sent to the NEB) the Board of BL will consider the matter at a meeting on 7 November.

The final paragraph is intended to make clear once again that, however large the 'yes' vote, the Government have no prior commitment to the Plan, which has not yet been put to them.

This Department in conjunction with other interested Departments has in hand contingency work to assess the effects of various possible courses of action. There are approximately 150,000 people employed by BL in the UK and perhaps an equal number of jobs dependent upon them in the direct or indirect supplying industries. The unlikely eventuality of a complete and permanent closure of BL could result in about 300,000 job losses, the majority in the Midlands and Oxford areas. A substantial number of smaller suppliers heavily dependent on BL would find themselves in considerable difficulty and a number would probably go out of business. It is estimated that complete closure would mean a net loss to the balance of trade of around £2,200 million a year. According to the NEB the total amount of potential liabilities to be met out of public funds could be of the order of £1,000 million and the figure could be a great deal more. This extreme outcome could result (apart from the possibility I discuss in the next paragraph) only if the workforce prevent the orderly

/rundown of the...



CONFIDENTIAL

3.

rundown of the company and the dispersal of the viable parts of the business.

Provided we can keep the situation from getting out of control, this worst possible case should not arise; but things could go out of control if either we do not provide the necessary reassurance or we were to make a precipitate statement (in the event of an unsatisfactory outcome to the ballot) that no further public funds would in any circumstances be made available for BL. I hope that you and other colleagues agree that we should not take either step.

Our objective, in the event of an unsatisfactory result to the ballot leading to a decision by the BL Board not to seek further public funds, must be to minimize the resulting calls on public expenditure. On the advice at present available to me I think this can best be done by the BL Board and management continuing to run the company on a caretaker basis whilst arrangements are made to dispose of the viable parts of the business. This course of action would not involve Government in greater financial commitments than a liquidation and gives more freedom for manoeuvre than if a liquidator were appointed. I am advised that the option of appointing a Receiver presents technical problems and the potential advantages have not yet been established. I will inform you and colleagues immediately if there is any change in this provisional assessment.

Assuming that BL are in a position to put forward their Corporate Plan the first real test of the workforce's commitment to it will be provided by the BL Cars wage claim shortly to be negotiated. The company will soon be responding to the substantial claim tabled by the unions; they will insist not only on a modest settlement but also on an incentive scheme and conditions designed to secure greater industrial discipline and improved performance. These negotiations will thus have an important bearing on the timing and nature of our decision.

I should be grateful for reactions to my proposed statement in time for the inspired Question to be put down on Tuesday afternoon. I must stress that, whatever our eventual decisions, there is nothing to be gained by precipitate statements which commit us irrevocably before we have studied the options open to us.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Employment, Scotland and Trade, the Attorney General, Sir John Hunt, Sir Kenneth Berrill and John Hoskyns.

Yours sincerely
Ian Ellison

PP KEITH JOSEPH
(approved by the Secretary of
State and signed in his absence)



DRAFT INSPIRED PARLIAMENTARY QUESTION AND ANSWER

Q. To ask the Secretary of State for Industry whether he will make a statement on the current BL situation with particular reference to the operation of Para 10 of the Schedule to the National Enterprise Board (Guidelines) Direction 1976 in respect of BL

A My predecessor, the Rt Hon Member for Chesterfield, explained to the House on 26 May 1977 (Official Report Col598) the operation of this Paragraph in relation to BL. This amounted to an unqualified assurance that the NEB could not allow BL to be left in a position where it would not be able to meet its obligations.

I confirm that the present Government accepts this position. The present situation is that the BL Board are awaiting the result of a ballot of the workforce. It will be for the BL Board to decide whether the result justifies a request to the NEB for additional public funds. If it should decide not to seek further public funds, the Government would need to receive and consider the recommendations of the NEB (after the NEB have consulted the BL Board) about the future of the company before making any further Statement to the House.

If the BL Board do put forward a new Corporate Plan involving additional public funding and the NEB recommends approval, the Government will need to give it the most careful consideration before reaching decisions; we cannot give any advance commitment to a Plan that has not been put to us. The result of the ballot will clearly be a material - but by no means the only - consideration: in considering whether to commit further sums of taxpayers' money, we shall need, like the previous Government, to take full account of the company's performance and future prospects.



TEXT OF PARLIAMENTARY QUESTION AND ANSWER: 26 May 1977
(Official Report Col598)

Mr William Wilson: asked the Secretary of State for Industry if he will make a statement on the operation of paragraph 10 of the Schedule to the National Enterprise Board (Guidelines) Direction 1976 in respect of British Leyland.

Mr Varley: The first sentence of this paragraph, which has the force of law, says that in deciding on its practice in relation to the debts of its subsidiaries, the NEB shall have regard to the practice of companies in the private sector in relation to the debts of its subsidiaries. The NEB, with my approval, has informed British Leyland with regard to this provision that in its judgement a company in the private sector whose relationship with British Leyland was the same as that of the NEB by virtue both of the size of its shareholding and the closeness of its involvement in the affairs of British Leyland, could not allow British Leyland to be left in a position where it would be able to meet its obligations.

EXTRACT FROM THE NEB GUIDELINES

10. In deciding on their practice in relation to the debts of their subsidiaries, the NEB shall have regard to the practice of companies in the private sector in relation to the debts of their subsidiaries. There will be no Government guarantee to the creditors of a subsidiary of the NEB unless the Government have undertaken a specific commitment in relation to the company's debts.



10 DOWNING STREET

26 October 1979

The Rt Hon Sir Keith Joseph Bt. MP
63 Limerston Street
LONDON SW10

Dear Ken,

I am writing a quick line on British Leyland, directly to you, to avoid fouling up my communication channels with Richard Bullock etc in the Department.

1. As you know, BL management will be responding to the union pay claim with a very substantial package of changes in union practices. A draft of the package is still being analysed at your Department but, judging from my meeting today with Armstrong and Carver of BL, it looks like a substantial bill of "negotiable goods". BL management appear all set to take a very strong negotiating line. What they are doing therefore fits our own negotiating strategy pretty well.
2. I have just seen the suggested answer for you to make to the PQ next week. I think the lines at the bottom of the first page of the draft are rather weak: "The result of the ballot will clearly be a material - but by no means the only - consideration, in considering whether to commit further sums of taxpayers' money". Although the preceding lines refer to the Government's need to await BL's corporate plan etc, the significance of a "yes" result to the ballot needs to be put into perspective much more clearly.

We must assume that an overwhelming "yes" will be taken by public opinion to mean that the Government should be ready to produce whatever additional funds the corporate plan calls for. I have no doubt that Edwardes himself hopes that the emotional impact of a "yes" result would work in this way - in other words, it would make it extremely difficult for the Government to refuse to back his corporate plan, assuming that his own Board approves it.

It is therefore essential that you spell out, in two or three different ways, as clearly as possible, both before and after the results of the ballot are public knowledge, that a "yes" result, while naturally welcome, is no more than the agreement of the work force to let management do what it has to do in order to save the company. In fact, all companies with healthy industrial relations work every day on the basis of an implicit "yes" from the work force.

The point is not just that, as the draft answer states, the Government will have to consider the new corporate plan before reaching any decisions. It is that, while a "no" result would be material (it would be the signal to pack it in) a "yes" result is no more than a

decision to postpone suicide. The work force is not being balloted to find out whether they would like BL to receive another £500m or so. If raising money was that easy, no-one would have any problems!

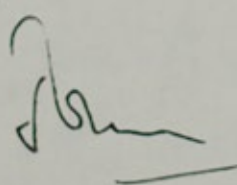
Once the result of the ballot is known (assuming "yes") you should of course take the first opportunity to say that the Government is delighted that the work force has shown such commonsense and realism, the shop floor moderates making themselves heard at last etc; and then repeat the above points.

I rang Richard Bullock this afternoon to suggest changes on these lines but we were only able to talk briefly and I don't think he took the point. There is so much at stake here, with the unions all set to mount a massive campaign to persuade public opinion that, if Government doesn't immediately greet the ballot result with virtual assurance of continued financial support, then they have shown themselves as bent on destroying BL without a fair trial.

On the other side of the coin, many people who hope that we will not chicken out if faced with a hard decision at BL, would interpret anything less explicit than the line I am suggesting as signs that the Government would be relieved with a "yes" result, because it would be let off the hook. That in turn would weaken Edwardes' position in the very hard negotiating over the new package of union changes, which will shortly start, and are much more significant than the ballot.

- I suggested to Graham Bell in your Department that the Edwardes/Beckett letter to Eric Varley, of September 1978, might accompany your note to colleagues. It's probably too late for that now, but you might consider sending it around, after the result of the ballot. It cogently summarises the union road block at BL (and Ford) in all its horror. In it, Edwardes himself says that, if we can't remove that road block, we might as well abandon BL, at least as far as volume cars are concerned. It therefore justifies, completely, the tough negotiating strategy I advocated in my original note to you. And it does so, in Edwardes' own words, not ours. It is very important that Jim Prior, in particular, sees that letter, if he has not already done so.

I am copying this letter and the Edwardes/Beckett letter to the Prime Minister.

John Hoskyns


JOHN HOSKYNs

September 6 1978

FOR ADVISOR (AND
DRAFT REPLY IF
APPROPRIATE)
PLEASE BY:
ASAP
Muns
See
Mr Bull, ck
Mr Bell
Mr Connell

39

The Rt Hon Eric Varley, MP
Secretary of State for Industry
Department of Industry
1 Victoria Street
London SW1H 0ET

Dear Secretary of State:

At the last meeting of the Tripartite Group on the Motor Industry held under your Chairmanship on June 29th, you asked for an explanation of why the performance of the Motor Industry in Britain is so unsatisfactory.

The signatories of this letter have met and prepared a joint analysis of what we consider to be the principal cause of this unacceptable performance.

Could we suggest that this letter and its attachments are circulated to all the members of the Tripartite Group for discussion at the meeting on September 25th, and that we allow at least two and preferably three hours for a thorough discussion with an opportunity to reach some productive conclusions.

We believe also it is important, for this meeting only, that the Industrial Relations Directors of the four companies should be invited to attend so that their specialist knowledge can be brought to bear on the matters under discussion.

To make our position clear, we are convinced that the survival of the metal stamping, body and vehicle assembly sectors of the industry in this country depend on the elimination of the unofficial strike. Continuation of strikes at their present level will destroy these parts of the

continued.....2

industry with consequential fundamental declines in the chassis assembly and component ends of the industry.

The effects on jobs, the balance of payments and the level of prosperity of the whole economy should be assessed by Government, because this is the conclusion we are inevitably moving to unless the unofficial strike is eliminated.

Obviously we must make every effort to avoid this conclusion, but to do so will mean we have to change practices and the role of the trade unions is crucial in effecting this change.

In the post-war years the strike has been transformed from an effective weapon to be used by trade unions to advance their members' legitimate cause when the negotiation process has been exhausted, to a response used indiscriminately by any worker with a perceived grievance who as often as not hurts other workers as much as his employer.

Many of the reasons advanced for this situation, such as the boredom of the assembly line, the size of plants involved, etc. are clearly unsupportable, as the technology of vehicle production is virtually the same throughout the world.

Other reasons and those most frequently put forward by the trade unions for the continuing problem of frequent unofficial and unconstitutional stoppages of work have been addressed by the Government and the employers and it is useful to list these and the responsive actions that have been taken by employers.

1. In response to arguments that procedures were too lengthy and time consuming, they have been shortened and time limits introduced.

continued 3

2. In response to arguments that union representatives could not control men who were free to leave the union, closed shops were introduced.
3. In response to arguments that members' membership lapsed and they were not always in the union, check-off buttressed the closed shop.
4. In response to arguments that procedures imposed one-sided limits on action, status quo clauses were introduced.
5. In response to arguments that insecurity of income bred militant attitudes, lay-off pay was introduced.
6. In response to arguments that discipline created disputes, improved disciplinary procedures have been introduced.
7. In response to arguments that bad communications caused disputes, vastly improved communications have been introduced.
8. In response to arguments that lack of union involvement was the problem, means of involving unions more than ever previously have been introduced.

In addition to these steps taken by employers, the Government has:

9. Improved security of employment and the rights of unions with the Trade Union and Labour Relations Act and the Employment Protection Act.
10. Provided guaranteed pay for short-time working.
11. Improved redundancy protection.
12. Introduced maternity pay.
13. Given the right to written terms of employment and extended notice.

continued 4

14. Improved standards of workplace safety.
15. Strengthened the role of unions in health and safety matters.

Despite these actions the problem of continuing unofficial strikes remains and the logical conclusion is that the real answer is for the trade unions to adopt the same approach as unions in the USA and continental motor industries and accept their responsibility for ensuring that their members adhere to the provisions of agreements signed on their behalf. Specifically the unions should:

1. Make their representatives responsible for seeing that members adhere to all the provisions of procedure agreements, in the same way as they are responsible for the observance of pay agreements.
2. Give full support to representatives and branches to discipline members who ignore or violate agreements.
3. Co-operate with employers in steps necessary to safeguard production and thereby the earnings of other members when people ignore or violate the agreed procedure for settling disputes.
4. Accept and propagate the belief that the "right to strike" is one which should only be exercised with the authority of full-time union officers after all "constitutional" processes have been exhausted.

The strike problem is so fundamental to the health and future of the British vehicle assembly industry that discussion of the industry's other problems is pointless until it is addressed and resolved. Any objective analysis of the problem highlights the lack of effective union control as the factor typifying the difference between British companies and their overseas competitors and the inescapable conclusion that this must be remedied if British companies are to survive in what is an internationally competitive business.

continued 5

Unfortunately, to date, despite endless discussions within our separate companies and all the management and Government action referred to above, the problem has not been addressed, and indeed, is getting worse. British Leyland, for example, have suffered 346 unofficial strikes already this year, and Ford 335. The adverse effect on each company and the country in terms of lost production and exports is enormous. The adverse effect on employees' earnings due to lay-offs is just as serious. They are thoroughly fed up with the situation and expect, quite reasonably, that Management and Trade Unions will so order their affairs to eliminate this problem.

Each of our companies feel that the time has come for the nation at large to be made aware of the extent of the problem and of the severe adverse consequences for the national economy, but it appeared to us that we should have one final attempt to make progress at the Tripartite Group.

Not attached to Prime Minister's copy

In order to save time there is outlined in the attachments the comments we would expect to receive from the trade unions, based on our separate company experience, together with our respective responses. We would have no objection to this letter and the attachments being circulated to the Group members before the meeting as we are convinced that the seriousness of the position warrants total frankness.

Yours sincerely

T. Beckett
Sir Terence Beckett
Chairman and Managing Director
Ford Motor Company Limited

M. Edwardes
Michael Edwardes
Chairman and Chief Executive
B L Limited

Encl.



CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

15 October 1979

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Handwritten notes:
m.
at the meeting
by the Minister

Handwritten: Prime Minister

Handwritten: A further report
on developments at
BL.

Handwritten: Dear Tim

BL

In my letter of 8 October, I said I would let you have a further report on developments in connection with BL. Since my last report the BL Board have met (on 10 October), the CSEU Executive have considered a further communication from BL (11 October), and the CSEU held a meeting with senior shop stewards (13 October).

Handwritten: BL 16/10

At its meeting on 10 October the BL Board made no decision on the issue of seeking further funds to finance ~~the~~ Edwardes' Plan or on whether to go for a ballot to establish the degree of workforce support for it. Instead the Board authorised a further communication to the CSEU Executive emphasising the need for certain conditions to be satisfied before further public funds were sought. These conditions included evidence of workforce commitment to the Plan itself, to the need for improved productivity, acceptance of the need for new (ie scientific) techniques of work measurement, and an undertaking by the CSEU Executive that they would deal with inter-union differences.

The CSEU Executive at their meeting the next day did not endorse the Edwardes' Plan but instead decided that they would recommend to the shop stewards that further talks should take place with the company on the basis of the 5 October statement (attached to my letter of that date). The TGWU executive had earlier voted to oppose the Plan and the Transport Union's representatives therefore had their hands effectively tied before the CSEU meeting.

The meeting between the CSEU executive and the BL senior shop stewards on 13 October resulted in an overwhelming rejection of the Edwardes' Plan. The meeting also rejected overwhelmingly the Executive's recommendation that talks should be continued with the company on the basis of the 5 October statement despite strong speeches by the CSEU Executive members from the platform. However only 247 stewards, instead of an expected 400-500, attended the meeting. Since the militants are strongly represented at senior steward level the outcome did not come as a great surprise and the hope is that the

/CSEU.....



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2.

CSEU will at the least not oppose the issue being put to a ballot. The CSEU Executive will meet again on the evening of 16 October in preparation for a further meeting with the BL management on 17 October before the BL Board meets later in the day.

The BL Board is expected to agree to put the issue to the ballot. But if on Wednesday it concludes that even with a ballot sufficient workforce cooperation cannot be secured to justify a request for further funds, Sir Michael Edwardes will consult my Secretary of State and Sir Leslie Murphy before any further action is taken.

I will continue to keep you informed of developments and am copying this letter to recipients of my letter of 8 October.

Yours sincerely

Ian Ellison

IAN ELLISON
Private Secretary



16 OCT 1979

RECEIVED
OCT 16 1979



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
 Switchboard 01-212 7676

Secretary of State for Industry

8 October 1979

Tim Lankester Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 London SW1

*cc Mr Hoskyns
 Mr James
 Mr Welford*

*NBAW
 R
 8/10*

Dear Tim

In my letter of 5 October I promised to keep you informed of developments in connection with BL. You will have gathered from the press that the meeting on Friday afternoon between BL management and the CSEU representatives came to a more constructive conclusion than the discussions earlier in the week. I enclose a copy of the agreed statement which shows that the CSEU accepted that restructuring was to some extent unavoidable if BL were to remain viable. BL are reasonably satisfied with the progress made; Sir Michael Edwardes described it to the press as "an amber light" enabling further progress to be made.

Further CSEU meetings are to be held on 11 October (CSEU Executive) and 13 October (CSEU and all employee representatives), and the BL Board will decide finally on 17 October on how to proceed in the light of the outcome of these meetings. It would be premature to judge whether these meetings will provide evidence that the Plan will command sufficient support from the workforce to enable the BL Board to put it forward to the NEB and Government. Even then my Secretary of State has repeatedly made it clear that he (and of course his colleagues) might not be satisfied that the company could meet its targets. The contingency work mentioned in the third paragraph of my previous letter is therefore continuing. I expect to provide a further report on 15 October.

Copies of this letter go to recipients of my previous letter.

*Yours ever
 Ian Ellison*

IAN ELLISON
 Private Secretary

A further meeting between BL management and the Executive Committee of the CSEU took place in London today to discuss management's proposals for securing the future of the company.

The CSEU said that they backed the need to establish BL as the major commercially competitive indigenous motor manufacturer, and they fully supported the acceleration of the model programme and the modernisation of plant facilities. They stated that in their view the model programme was excellent. The CSEU, however, consider that the funds must be sufficient to ensure that Britain retains BL as a major designer and producer of motor vehicles.

Certain aspects of the plan cause the unions and the workforce grave concern, in particular the proposed redundancies and plant closures. The company agreed that there would be no enforced redundancy until the agreed procedures have been exhausted.

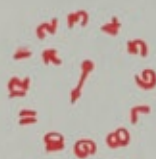
Another major matter of concern is the effect the plan will have on BL's foundry operations. The CSEU have secured assurances that in the event of outsourcing of castings being necessary these would wherever possible be made in the UK.

The CSEU pressed the BL management to obtain the full backing of the BL Board and to press the NEB and Government to finance the programme.

As a result of today's discussions

/The CSEU will be consulting employee representatives from all BL plants following which a further meeting will be arranged with the company.

- 9 OCT 1979



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Tim Lankester



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

PS/Secretary of State for Industry

u
Mr Tanner
Mr Hoskyns
Mr Walker

5 October 1979

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

Mr Sen

Dear Tim

As foreshadowed in my letter of 2 October, my Secretary of State today met representatives of the Confederation of Shipbuilding and Engineering Unions (CSEU) at their request. Before the meeting, Sir Michael Edwardes and Sir Leslie Murphy reported to Sir Keith on the current state of the discussions with the unions on the company's proposals.

TL
SL

On 4 October, the CSEU Executive had confirmed ^{their} opposition to the BL management's proposals to reduce the workforce by at least 25,000 and to carry out substantial restructuring. Sir Michael clearly felt that further prolonged discussion would be unfruitful and was determined to bring matters to a head. He has told the CSEU representatives that, unless the unions broadly support his Plan, the BL management would recommend to the BL Board not to seek further public funds.

If BL did not ask for additional funds, Sir Michael made it clear that the implication would be for them to go into liquidation, which Sir Leslie emphasises would be extremely costly to the taxpayer. It would be premature to assume that this is how matters will go; but it is obviously necessary to consider the implications of this possibility, and as soon as we have from NEB the information, which my Secretary of State has asked Sir Leslie to provide, about the likely cost of public funds of BL going into liquidation, officials of this Department will bring in those of other interested Departments to prepare an urgent assessment for Ministers. This will also cover a "least cost" option, involving a more gradual run down of the business if this is judged to be feasible.

If BL succeed in bringing the unions into line, then we can expect about the end of the month to receive via NEB, their new Corporate Plan. As soon as this is available, officials will start consultations on it with other interested Departments.

My Secretary of State's meeting with the CSEU representatives led by Mr Ken Baker of the GMWU was relaxed and relatively low key. The main burden of the CSEU's case was to seek (unspecified) bridging finance (over and above the £225m in FESC) to enable BL to accelerate the introduction of new models in a period of rapidly

/changing ...



changing technology. There was some acknowledgement of the need for the company to slim down.

My Secretary of State emphasised that he did not manage the company and that his job was to represent the taxpayer. He reminded the CSEU that his predecessor had told the House on 2 April that future funds would only be committed on the basis of "performance and future prospects"; this approach had not altered. At present BL had not even submitted its proposals to the NEB, which in turn would reach a view on them before they were forwarded to the Government. It was by no means certain that BL and the NEB would recommend further injections of public money, but even if they did, he personally would have to be convinced that the company would meet its targets.

My Secretary of State did not rule out all possibility of further Government funding, but he would need to be satisfied that the company could count on workforce co-operation in implementing its Plan. He mentioned the problems of 17 separate unions, of the 1% of BL workers who seemed to want to destroy the company, and of the management being free to explain the facts of life directly to the workforce. He made it clear that he expected any plan put forward by BL through NEB to be directed towards the attainment of commercial viability. In passing he specifically ruled out the use of import controls.

We are waiting to hear whether the CSEU representatives have drawn back from the brink and given BL management the hope that their Plan is saleable to the CSEU Executive. If the CSEU Executive are in the event prepared to accept the Plan, then the company is thinking in terms of asking the workforce to approve it in a secret ballot. BL are reluctant to proceed with a secret ballot on a proposal which the CSEU had not endorsed, because they consider that without such support employees would be unduly influenced by shop steward opposition in the plants.

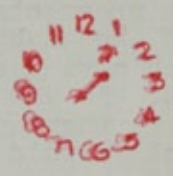
My Secretary of State will naturally keep the Prime Minister and other colleagues informed of developments over the next few days. Copies of this letter (together with copies of my earlier letter) go to Tony Battishill (Treasury), Ian Fair (Employment), Tom Harris (Trade), Godfrey Robson (Scottish Office) and Martin Vile (Cabinet Office).

Yours sincerely
Ian

IAN ELLISON
Private Secretary



- 8 OCT 1979



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Ind Policy 2



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

PS/ Secretary of State for Industry

cc/ Mr James Moskyns
Mr
Mr
[Signature]

2 October 1979

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

Prime Minister

You asked about today's newspaper reports. This is reassuring.

Dear Tim

You asked for a note on BL following today's press reports of the discussion between BL management and CSEU representatives on future plans. IL 2/6

You will recall that Sir Michael Edwardes' statement on 10 September copied to you involved at least 25,000 redundancies, shutting or partly closing 13 plants, and accelerating the introduction of the mid-car range. Following the statement, a so-called Emergency Committee, consisting of CSEU and employee representatives, was set up to consider the company's proposals. They were asked to report back to BL on 1 October to enable their reaction to be taken into account by the BL Board.

It was a meeting between the Emergency Committee and BL management which prompted the CSEU request for a meeting with my Secretary of State later this week. The full CSEU Executive will meet on 4 October and may well take the view that BL's proposals are quite unacceptable and that the solution is to provide vast additional sums of public money and to introduce import controls.

The company's management has insisted that it cannot put forward to the BL Board any plan which is not commercially viable and that it is only prepared to consider alternatives which meet this criterion. In order to reinforce this point, Sir Michael Edwardes and the NEB have asked my Secretary of State to receive a small delegation on 5 October from the CSEU to explain the Government's approach to the question of future funding. Sir Keith has agreed to this request.

At this meeting and in briefing the press afterwards, it will be made clear that the Government has received no proposals from BL and given no instructions to the NEB or the company on the framing of the Corporate Plan. He will explain that it is for BL management and not for the Government to form proposals and these must be strictly commercial. He will not be drawn into discussion of any individual parts of the company's 10 September statement and will make it clear that he is not committed to accept any proposal that BL may put forward.

/The ...



U The present intention is that the BL Board will make final decisions on the 1980 Corporate Plan on 17 October and the NEB Board will determine its recommendations to the Secretary of State at its meeting on 26 October. The Secretary of State will then be submitting his own recommendations to colleagues at the end of November with the intention of making a statement to the House before the Christmas Recess. The Corporate Plan approved by the previous administration envisaged that £225m more public funding would be required - £150m is provided for in PES next year and £75m in the following year. Of course my Secretary of State's own position on these funding questions remains completely reserved.

Yours sincerely

Ian

IAN ELLISON
Private Secretary



6161 130 2 - 2 OCT 1979

0 1 2 3 4 5 6 7 8 9

Top Copy on: Belgium, 12.9.79

Visit of PM of Belgium,
June 79.

Extract from the Prime Minister's talk
with the PM of Belgium, M. W. Martens.

British Leyland

M. Martens said there was concern in Belgium about the threat to the British Leyland plant at Seneffe. His Government considered that the plant was operating effectively. Belgium had a strong interest in keeping it open. The Prime Minister undertook to ensure that Sir Michael Edwardes was informed of M. Martens' concerns.



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
 Switchboard 01-212 7676

PS/ Secretary of State for Industry

12 September 1979

Tim Lankester Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 London SW1

cc Mr Wilson
 Mr Hoskyns

Prime Minister

You asked for this
 material. The bus
 plant story is
 appalling - a
 good query.

Dear Tim,

[Handwritten signature]

BL CLOSURES

When we spoke yesterday you asked for a factual note on BL's
 proposal to close the Bus plant at Park Royal. This is attached.
 I am also enclosing a copy of the full statement made by Sir
 Michael Edwardes on Monday.

12
 12/9

[Handwritten signature]

[Handwritten signature]

ANDREW DUGUID
 Private Secretary



It's important
you read this

10 September 1979

Statement to all BL employees from the Chairman, Michael Edwardes

Today management is putting forward proposals to streamline BL to employee representatives and national union officials.

This document sets out the reasons why we are taking this step. The company has been looking at all of its operations in the light of the general trading outlook which has worsened in the past six months.

The Road Hauliers strike in January and the Longbridge dispute in February were very damaging in lost production, sales and profit, but consistent production has been achieved generally since then. In Commercial Vehicles 92% of the production target was achieved against 74% for 1978 as a whole.

Because disputes and production interruptions have been sharply down since February, management has been able to give more time to running the business. We have made some progress from an organisational point of view. Decentralising the Car operations has re-established identity and therefore pride at the various manufacturing sites. Nevertheless, much remains to be done to improve efficiency.

We are helped at this point in time by a strong balance sheet. There have been suggestions in the Press that we have a current cash crisis. **This is quite wrong—we have no immediate cash problem.** Indeed, we have several hundred million pounds of unused private sector borrowing facility. Our main problem is to do with future financing—to fund the next stage of streamlining the Company and accelerating the model programme in 1980, 1981 and 1982.

Although major restructuring lies ahead it should not be overlooked that with considerable co-operation from employees, we have already reduced our manning levels by nearly 18,000 since January of last year, having closed the loss making Speke (No. 2) and Southall factories. Output per man, although still unsatisfactory, has shown an upturn in recent months for the first time in many years. Since the half year, however, we have been plagued by the overtime ban and the one day and now two day engineering strikes common to the whole engineering industry in Britain; this will delay the new model programme and will frustrate our efforts to improve output per man in the second half. This disruptive action is costing the company tens of millions of pounds in profit, cash flow, and therefore investment, and will prejudice future employment. If the strike continues for much longer it will have a major bearing on the Board's investment policy.

Economic Situation

Quite apart from the immediate effect of these one and two day stoppages, the overall outlook has deteriorated in a number of important aspects. This will necessitate streamlining the business and accelerating model programmes. We are therefore providing all those with a stake in BL with an unusually detailed half year statement. The main problems we face are as follows:

- 1.0 We are helped by having some uniquely economical models, including the Mini and the Allegro. The high demand for these augurs well for the Mini Metro to be launched next year and for economy-oriented trucks shortly being launched. Nevertheless, the energy crisis and the down turn in world trade means that overall demand for vehicles will be lower than earlier forecasts.

2.0 Our market share in the UK has been under great pressure from importers who have been helped by the sudden strengthening of the pound.

Leyland Vehicles face formidable competition in advance of the introduction of new models soon to be launched. Their market share in the UK has dropped to 18%.

The position in Cars is equally unsatisfactory. We have known (and well publicised) weaknesses in certain segments of our model line-up, but even allowing for this we have been disappointed that our UK market share has dropped to 20% in advance of the model introductions which start in 1980.

3.0 As against our level of market share, we have facilities and fixed expenses designed to cope with higher volumes. Our efforts to solve the volume problem by increasing exports are being frustrated by the recent sudden exchange rate changes which make our goods less competitive overseas. No less than 45% of our output is being exported or sold overseas — for 1978 we were the largest exporter of manufactured goods in Britain. As only 5% of our materials are imported, the sudden rise in the value of the pound hits us particularly hard. The cost in profit terms for 1979 and 1980 is estimated at £80m a year.

4.0 *It would be tempting to apportion all the blame on the strength of the pound. This would be wrong. We have fundamental problems that are well known and recognised and are being dealt with methodically and steadily. What the sudden shift in currency rates does (and no one could have anticipated that sterling would strengthen so rapidly) is to add a new dimension. This taken together with high UK inflation rates, high interest rates, and the energy crisis sharpens the issue and points to the need for quicker and more positive action to get back on target. If we do not respond quickly we will be blown off the recovery course.*

We cannot afford to spread cash and other resources too thinly over too many plants and models.

In short we must streamline facilities and model programmes and slim down the Company, while bringing forward the model programme in the mid-car sector.

Streamlining of BL

The proposals to meet the new situation, which are being tabled with employee representatives today, embrace three general propositions:

- 1.0 Over the next two years the Company will need to be streamlined in terms of plants and slimmed down in terms of people.
- 2.0 Our new model programme would be accelerated, while modernising specified plants on which we will now concentrate resources on backing winners.
- 3.0 Funds would be needed over and above the original Plan to cope with the costs of streamlining the business. These funds would come from various sources.

First, the streamlining programme. We just do not have the resources to back losers. Some plants have already been modernised; in others like Leyland in Lancashire, Land-Rover at Solihull and Austin at Longbridge, modernisation is already in progress. Where plant loading or performance does not justify modernisation, the plants will generally be phased out.

On Cars, the proposition is that we should concentrate car assembly on Austin at Longbridge, Morris at Cowley, Sherpa at Common Lane, Rover Triumph and Land-Rover at Solihull, and Jaguar at Browns Lane. Pressed Steel Fisher would concentrate investment on Swindon and Cowley Body.

The effect would be to cease car assembly at Canley in Coventry and Abingdon. Abingdon would be converted to become an extension of Cowley to enable the Cowley modernisation programme and therefore model introductions to be accelerated. We would retain the MG marque. We are reviewing the scope of our activities in a number of other locations including Seneffe in Belgium.

Some body building would cease at Speke but the Press Shop would be retained. Because of the excellent co-operation of the workforce and improved productivity over the last 12 months since our other plant at Speke was closed last year, we will seek to maintain employment levels by transferring other work to that plant. Major parts of Castle Bromwich would be closed, together with Tile Hill and a substantial part of West Yorkshire Foundries. No. 2 foundry at Tipton would be closed and the Coseley Engineering operation which has consistently failed to achieve adequate productivity would be reviewed.

The aluminium foundry project in Yorkshire would be cancelled. The future of others of our 36 car plants will be considered.

On the Commercial Vehicle side, the AEC plant at Southall has now closed, and Charles H. Roe at Leeds has been transferred to Bus Manufacturers Holdings (BMH), in which we have a 50% interest. Today Leyland Vehicles has announced the intention of closing Park Royal Vehicles, not as part of the current exercise, but simply because of the appalling lack of productivity. The plant has a three year order book for the new Titan double deck bus, but is running at a loss because of lack of co-operation by the workforce in respect of both productivity and recruitment.

South Works at Leyland is to be closed in 1981. Other Leyland Vehicles manufacturing operations will be reviewed with the general intention of focusing investment on Leyland, Bathgate and Glasgow and the BMH sites.

We are currently discussing the disposal of Aveling Barford and Prestcold, which are not part of our mainstream business. The Hillington (Scotland) plant of Prestcold closed last week and the Aveling Marshall plant at Gainsborough will close at the end of October.

The effect of our proposals will be to reduce manning levels in the UK by not less than 25,000 with emphasis on reducing fixed expenses and therefore staff, over a period of two years.

The model programme

Development of Range Rover and Land-Rover (and the expansion of output) would go ahead as planned. Jaguar having launched the Series III will now concentrate on an engine programme to achieve greater economy.

The TR7 and TR8 sports cars would be built on the unused third line at Solihull.

In Austin Morris, the mid-car programme would be accelerated—the plan to introduce one new model in 1983 does not meet the case. Major product actions are now planned for 1980, 1981, 1982 and 1984 which provide five new models from 1980 through 1984. We are extending the Honda collaborative deal and its scope. The new Honda car will now be built at Cowley.

The model programme on Commercial Vehicles is well advanced, and competitive new models—both lighter and more economical to operate—are being launched at frequent intervals starting shortly.

In both Cars and Commercial Vehicles, we are continuing to explore opportunities for collaboration.

Funds

The impact of a stronger pound, its effect on cash flow, the acceleration of the model programme and the cost of streamlining the business, will all add to our cash needs in the period 1980-82. Following discussion with employees, the BL Board would consider funding proposals to be put to the NEB and the Government. Apart from the need for equity funds, other sources would be explored including the raising of funds from the disposal of assets and businesses.

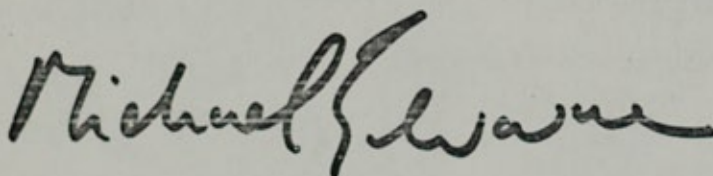
Outlook

In the past few months the outlook has changed significantly. Given that the programme to streamline the business between now and 1982 is done with determination and co-operation, we will have taken the fundamental action needed to survive and prosper. It is accepted that this Plan is far reaching and ambitious. In our view nothing less will meet the case, even though it comes on top of plant closures and de-manning already undertaken in the past 18 months. It envisages re-building the business to 950,000 cars and commercial vehicles per annum during the 1980s on the back of competitive products. To put this in perspective, we would have a capacity of 100,000 vehicles per annum more than the combined production of all our UK car and commercial vehicle competitors last year.

Certainly, our dealer network at home and abroad look forward both to the spate of new commercial vehicles being launched shortly, and to the car models which start with Mini Metro next Autumn. If we disappoint them then there won't be a business at all.

The action outlined is the course management believes must be taken to protect the majority of BL employees and the business.

The BL Board will take a final decision on the plan for 1980 onwards in October and will then have before it the views of employees. Time is short and urgent decisions have to be made about the future.



Michael Edwardes
Chairman and Chief Executive
10 September 1979

BL Bulletin



Sir Michael Edwardes outlines plans for streamlining the business and accelerating model programmes

10 September 1979

Performance

Profit before interest and tax increased to £47.7m for the half year. Profit before tax increased from £17m to £20.1m. This level of profit is clearly inadequate to generate enough surplus to fund the investment programmes which are so vitally necessary.

The main contribution was made by Car operations at £19m before tax, compared with £14m for last half year, with Commercial Vehicles recording an improvement at £5m against a break-even in the same period of last year.

The Road Hauliers strike in January and the Longbridge dispute in February were very damaging in lost production, sales and profit, but consistent production has been achieved generally since then. In Commercial Vehicles 92% of the production target was achieved against 74% for 1978 as a whole.

Because disputes and production interruptions have been sharply down since February, management has been able to give more time to running the business. We have made some progress from an organisational point of view. Decentralising the Car operations has re-established identity and therefore pride at the various manufacturing sites. Nevertheless, much remains to be done to improve efficiency.

We are helped at this point in time by a strong balance sheet. There have been suggestions in the Press that we have a current cash crisis. **This is quite wrong—we have no immediate cash problem.** Indeed, we have several hundred million pounds of unused private sector borrowing facility. Our main problem is to do with future financing—to fund the next stage of streamlining the Company and accelerating the model programme in 1980, 1981 and 1982.

Although major restructuring lies ahead it should not be overlooked that with considerable co-operation from employees, we have already reduced our manning levels by nearly 18,000 since January of last year, having closed the loss making Speke (No. 2) and Southall factories. Output per man, although still unsatisfactory, has shown an upturn in recent months for the first time in many years. Since the half year, however, we have been plagued by the overtime ban and the one day and now two day engineering strikes common to the whole engineering industry in Britain; this will delay the new model programme and will

The Board of BL Limited has announced unaudited results for the six months ended on 30th June 1979.

	Six months to 30th June 1979	Six months to 1st July 1978
	£ million	£ million
SALES		
— UK	1,021	836
— Overseas	639	727
	<u>1,660</u>	<u>1,563</u>
of which direct exports from UK	435	484
PROFIT BEFORE INTEREST AND TAXATION	47.7	47.4
Interest payable less receivables	(27.6)	(30.4)
PROFIT BEFORE TAXATION	20.1	17.0
Taxation charge	(3.8)	(7.2)
PROFIT AFTER TAXATION	16.3	9.8
Minority Interests	(2.2)	(1.8)
PROFIT BEFORE EXTRAORDINARY ITEMS	14.1	8.0
Extraordinary items	(4.9)	(0.1)
PROFIT AFTER EXTRAORDINARY ITEMS	9.2	7.9
VEHICLE UNITS SALES	414,000	420,000

The trading profit of £47.7 million is after charging £43.7 million for depreciation and amortisation, compared with the charge of £36.3 million for the six months to 1st July 1978.

frustrate our efforts to improve output per man in the second half. This disruptive action is costing the company tens of millions of pounds in profit, cash flow, and therefore investment, and will prejudice future employment. If the strike continues for much longer it will have a major bearing on the Board's investment policy.

Economic Situation

Quite apart from the immediate effect of these one and two day stoppages, the overall outlook has deteriorated in a number of important aspects. This will necessitate streamlining the business and accelerating model programmes. We are therefore providing all those with a stake in BL with an unusually detailed half year statement. The main problems we face are as follows:

1.0 We are helped by having some uniquely economical models, including the Mini and the Allegro. The high demand for these augurs well for the Mini Metro to be launched next year and for econ-

omy-oriented trucks shortly being launched. Nevertheless, the energy crisis and the down turn in world trade means that overall demand for vehicles will be lower than earlier forecasts.

2.0 Our market share in the UK has been under great pressure from importers who have been helped by the sudden strengthening of the pound.

Leyland Vehicles face formidable competition in advance of the introduction of new models soon to be launched. Their market share in the UK has dropped to 18%.

The position in Cars is equally unsatisfactory. We have known (and well publicised) weaknesses in certain segments of our model line-up, but even allowing for this we have been disappointed that our UK market share has dropped to 20% in advance of the model introductions which start in 1980.

BL Bulletin

3.0 As against our level of market share, we have facilities and fixed expenses designed to cope with higher volumes. Our efforts to solve the volume problem by increasing exports are being frustrated by the recent sudden exchange rate changes which make our goods less competitive overseas. No less than 45% of our output is being exported or sold overseas — for 1978 we were the largest exporter of manufactured goods in Britain. As only 5% of our materials are imported, the sudden rise in the value of the pound hits us particularly hard. The cost in profit terms for 1979 and 1980 is estimated at £80m a year.

4.0 *It would be tempting to apportion all the blame on the strength of the pound. This would be wrong. We have fundamental problems that are well known and recognised and are being dealt with methodically and steadily. What the sudden shift in currency rates does (and no one could have anticipated that sterling would strengthen so rapidly) is to add a new dimension. This taken together with high UK inflation rates, high interest rates, and the energy crisis sharpens the issue and points to the need for quicker and more positive action to get back on target. If we do not respond quickly we will be blown off the recovery course.*

We cannot afford to spread cash and other resources too thinly over too many plants and models.

In short we must streamline facilities and model programmes and slim down the Company, while bringing forward the model programme in the mid-car sector.

Streamlining of BL

The proposals to meet the new situation, which are being tabled with employee representatives today, embrace three general propositions:

- 1.0 Over the next two years the Company will need to be streamlined in terms of plants and slimmed down in terms of people.
- 2.0 Our new model programme would be accelerated, while modernising specified plants on which we will now concentrate resources on back-gate winners.
- 3.0 Funds would be needed over and above the original Plan to cope with the costs of streamlining the business. These funds would come from various sources.

First, the streamlining programme. We just do not have the resources to back losers. Some plants have already been modernised; in others like Leyland in Lancashire, Land-Rover at Solihull and Austin at Longbridge, modernisation is already in progress. Where plant loading or performance does not justify modern-

isation, the plants will generally be phased out.

On Cars, the proposition is that we should concentrate car assembly on Austin at Longbridge, Morris at Cowley, Sherpa at Common Lane, Rover Triumph and Land-Rover at Solihull, and Jaguar at Browns Lane. Pressed Steel Fisher would concentrate investment on Swindon and Cowley Body.

The effect would be to cease car assembly at Canley in Coventry and Abingdon. Abingdon would be converted to become an extension of Cowley to enable the Cowley modernisation programme and therefore model introductions to be accelerated. We would retain the MG marque. We are reviewing the scope of our activities in a number of other locations including Seneffe in Belgium.

Some body building would cease at Speke but the Press Shop would be retained. Because of the excellent co-operation of the workforce and improved productivity over the last 12 months since our other plant at Speke was closed last year, we will seek to maintain employment levels by transferring other work to that plant. Major parts of Castle Bromwich would be closed, together with Tile Hill and a substantial part of West Yorkshire Foundries. No. 2 foundry at Tipton would be closed and the Coseley Engineering operation which has consistently failed to achieve adequate productivity would be reviewed.

The aluminium foundry project in Yorkshire would be cancelled. The future of others of our 36 car plants will be considered.

On the Commercial Vehicle side, the AEC plant at Southall has now closed, and Charles H. Roe at Leeds has been transferred to Bus Manufacturers Holdings (BMH), in which we have a 50% interest. Today Leyland Vehicles has announced the intention of closing Park Royal Vehicles, not as part of the current exercise, but simply because of the appalling lack of productivity. The plant has a three year order book for the new Titan double deck bus, but is running at a loss because of lack of co-operation by the workforce in respect of both productivity and recruitment.

South Works at Leyland is to be closed in 1981. Other Leyland Vehicles manufacturing operations will be reviewed with the general intention of focusing investment on Leyland, Bathgate and Glasgow and the BMH sites.

We are currently discussing the disposal of Aveling Barford and Prestcold, which are not part of our mainstream business. The Hillington (Scotland) plant of Prestcold closed last week and the Aveling Marshall plant at Gainsborough will close at the end of October.

The effect of our proposals will be to reduce manning levels in the UK by not less than 25,000 with emphasis on reducing fixed expenses and therefore staff, over a period of two years.

The model programme

Development of Range Rover and Land-Rover (and the expansion of output) would go ahead as planned. Jaguar having launched the Series III will now concentrate on an engine programme to achieve greater economy.

The TR7 and TR8 sports cars would be built on the unused third line at Solihull.

In Austin Morris, the mid-car programme would be accelerated—the plan to introduce one new model in 1983 does not meet the case. Major product actions are now planned for 1980, 1981, 1982 and 1984 which provide five new models from 1980 through 1984. We are extending the Honda collaborative deal and its scope. The new Honda car will now be built at Cowley.

The model programme on Commercial Vehicles is well advanced, and competitive new models—both lighter and more economical to operate—are being launched at frequent intervals starting shortly. In both Cars and Commercial Vehicles, we are continuing to explore opportunities for collaboration.

Funds

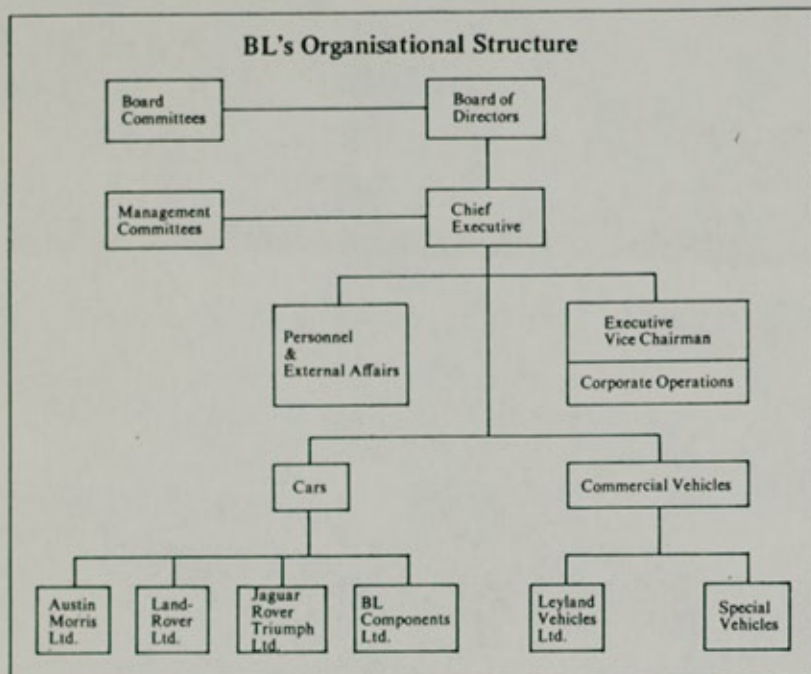
The impact of a stronger pound, its effect on cash flow, the acceleration of the model programme and the cost of streamlining the business, will all add to our cash needs in the period 1980–82. Following discussion with employees, the BL Board will consider funding proposals to be put to the NEB and the Government. Apart from the need for equity funds, other sources would be explored including the raising of funds from the disposal of assets and businesses.

Outlook

Since my report to shareholders in April the outlook has changed significantly. Given that the programme to streamline the business between now and 1982 is done with determination and co-operation, we will have taken the fundamental action needed to survive and prosper. It is accepted that this Plan is far reaching and ambitious. In our view nothing less will meet the case, even though it comes on top of plant closures and de-manning already undertaken in the past 18 months. It envisages re-building the business to 950,000 cars and commercial vehicles per annum during the 1980s on the back of competitive products. To put this in perspective, we would have a capacity of 100,000 vehicles per annum more than the combined production of all our UK car and commercial vehicle competitors last year.

Certainly, our dealer network at home and abroad look forward both to the spate of new commercial vehicles being launched shortly, and to the car models which start with Mini Metro next Autumn. If we disappoint them then there won't be a business at all.

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Major Corporate Appointments

To strengthen the corporate management team of BL and to assist further the development of the decentralised car operations, a new position of managing director, cars, has been created. **Mr Ray Horrocks**, formerly chairman and managing director of Austin Morris Limited, has been appointed to the position.

Ray Horrocks will be based at corporate headquarters in London and will report to Sir Michael Edwardes. He will be responsible for the car companies—Jaguar Rover Triumph, BL Components and Austin Morris. Land-Rover, until now part of Jaguar Rover Triumph, will also report separately to Ray Horrocks. The major £280 million expansion planned for the Land-Rover business and its very special marketing needs make it important to give it separate management attention.

Mr Pratt Thompson, formerly chairman and managing director of Jaguar Rover Triumph, is to take on new responsibilities as chairman of BL International. BL International has responsibility for managing BL's international operations and for collaboration. Pratt Thompson has extensive worldwide commercial experience and in particular has knowledge of the Japanese and US markets. He will continue to chair the board of Jaguar Rover Triumph Inc. in the USA—BL's largest overseas operation.

Mr Percy Plant, currently a director of JRT, becomes chairman. Apart from being responsible for the day to day

operations of JRT, Mr Plant will be reviewing the structure of the business in the light of the greatly changed trading outlook.

Mr Horrocks will continue as chairman of Austin Morris and is succeeded as managing director by **Mr Harold Musgrove**, currently AM's manufacturing director.

Mr Tony Ball, who runs the trading operations of BL International, joins AM as deputy managing director, commercial. He will have special responsibility for all AM's sales and marketing activities worldwide.

Certain BL Cars executives, including **Mr John Hirsch**, director of product and marketing strategy, and **Mr Geoff Armstrong**, employee relations and services director, will report direct to Ray Horrocks who will also chair the board of BL Cars Ltd.

Mr Peter McGrath, chairman and managing director of BL Components, continues in that role.

Announcing the new appointments, Sir Michael Edwardes, chairman, said 'Very considerable progress has been made by BL in the last eighteen months. Land-Rover in particular has won its spurs and that has been recognised in this further stage of the development of decentralisation.

'The sharp rise in the value of the pound, however, is creating new problems for exports which makes us even more determined that the attention of the new companies should be firmly centred on the tasks of introducing new

products and improving productivity. The appointment of Ray Horrocks to the new corporate position of managing director, cars, and Pratt Thompson as chairman of BL International, will enable us to strengthen the top management team of BL at Corporate level while the companies concentrate on the job of managing their operations.'

BL forms a new Technology Company

BL has formed a new, wholly-owned subsidiary called BL Technology Limited, to develop and introduce technical advances both in new products and manufacturing operations.

BL Technology Limited will be responsible for the efficient management of advanced engineering resources and will be recruiting specialist engineers to maintain BL's position as a leader in applying new technology within the motor industry.

The Board of Directors is drawn from distinguished and experienced engineers and scientists from within British industry, research and academic institutions, and BL itself.

The Chairman is David Andrews, BL's executive vice-chairman. The management team is headed by two of the best known automotive engineers in the UK and European motor industries, Spen King who is deputy chairman and Harry Sheron, the managing director, who joins BL from the former Chrysler, Europe Organisation.

... and a systems company too

A new computer systems company has also been created which will provide a comprehensive systems service within BL, and will sell services outside the company.

The Managing Director is John Leighfield, who was formerly Director, Systems, for BL Cars.

BL Systems Ltd. will initially have its headquarters at the Cars Data Centre, Redditch, Worcestershire—which houses one of Europe's most advanced and powerful computer centres. Its five inter-linked computers are connected through a microwave communications network to a large number of terminals, mini-computers and micro-computers in BL factories and offices across the UK.

By organising the systems function as a separate unit, BL will be better able to use and direct scarce technical skills in an area of rapidly changing and expanding technology.

BL Bulletin



Mini 850 City

Four of the best from Austin Morris

Austin Morris have launched four new versions of their popular models which give fuel economy and excellent value for money.

The Mini City is a budget version of the Mini 850 which has a higher trim level than the previous model, but costs £123 less.

Leyland wins World's Biggest Bus order

Leyland Vehicles has won a £43 million order from Britain's National Bus Company to supply over 1,300 buses and coaches for 1980—the biggest single annual order placed by any bus operator in the world.

The order—negotiated by LVL's Passenger Vehicle Division—is shared between plants at Leyland, Bristol, Workington, Lowestoft and Leeds. Specialist luxury coachbuilders in Britain will also benefit from the contract. The 1,307 buses and coaches will eventually go into operation in villages, towns and cities throughout England and Wales.

... and a large postal order

Leyland Vehicles has also won a major order for the familiar red postal vans which deliver millions of letters and parcels every day in Britain. Leyland will supply more than 800 postal delivery vans this year and during 1980 worth more than £5 million. They will join an estimated 11,200 Leyland vans in service with the postal business.

U.S. Race and Rally Triumphs

Triumph TR7 and racing TR8 models are making a big impact on North American sports car enthusiasts.

The re-introduced TR7 and the stylish convertible version have won praise from U.S. motor magazines since they appeared on the market earlier this year.

The convertible is the first volume produced soft top to be launched in the U.S. for more than 10 years.

TR8 models—which use the Rover V8 engine—have notched up impressive rally and race-track victories. On its first outing the Group 44 TR8 set a

new lap record at Watkins Glen and won Category 1, in the 6-hour race.

Rally driver John Buffum is continuing last year's successes with his TR7 and TR8. He has won four major rallies so far—two with each car.

A 'World' First Boosts Productivity
Engineers at an Oxford Exhausts, part of SU/Butec, have developed the world's first automatic machine for making car exhaust silencers, boosting productivity by 300%.

The invention gives BL a technological lead in one of the most competitive markets in the industry and opens up new sales opportunities.



Leyland B21 bus

Fourteen Leyland B21 Buses in Australia

Leyland Australia are to supply 14 Leyland B21 buses to the Northern Territory's Transport and Works Department, fitted with bodies built by Pressed Metal Corporation of Sydney, a Leyland subsidiary company. This order follows on from a contract for ten B21 buses from the Metropolitan Transport Trust in Perth.

The B21 is an advanced passenger chassis offered by Leyland in markets throughout the world, and it can be tailor-made to particular operating requirements.

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SU/Butec launch Automatic Starting Unit

A new type of automatic choke which takes the hazard out of cold starts and saves fuel in town driving has been invented by SU/Butec, a division of BL Components Ltd.

In fact, it is not a choke in the conventional sense, but a device which automatically supplies the additional fuel required during cold starting. It is being tested by SU on a number of European models, in addition to extensive trials on Austin Morris and Jaguar Rover Triumph vehicles.

The Automatic Starting Unit eliminates the need, prior to starting, to pump the accelerator to force extra fuel into the carburettor and—more importantly—it eliminates the hazardous possibility of stalling after a cold-weather start.



Rover V8S

Now a new Rover leads the range

The Rover saloon range has been extended from three to four models with the introduction of a new model, the Rover V8S.

Refinements such as air-conditioning, sunroof and headlamp wash-wipe are standard on the V8S and place the new car firmly at the top of a range which also includes the Rover 3500, 2300 and 2600.

Gold painted alloy wheels, black bumpers and double coach-lines immediately identify the V8S and a metallic paint finish is being applied to all launch stock models. Further distinction is provided by a zone tinted windscreen, and chromium plated door handles and exhaust tail pipe. A small air intake under the bonnet line allows extra cooling with air-conditioning.

Rover V8S badging includes stylised 'Euroscript' lettering at the rear and 'V8' motifs on the front wings. The traditional Rover viking ship symbol, last used on the former Rover 3500 four years ago, reappears as a bonnet badge on the V8S.

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PRIME MINISTER

BRITISH LEYLAND

CONFIDENTIAL

PRIME MINISTER I 2
Sir K Joseph reports
on BL. He asks that
colleagues avoid public
comment at this stage,
given the risk of
making BL's bankers &
creditors nervous

MAD 7/11

This minute is to warn you and colleagues of important developments which will occur next week.

Recent press reports though inaccurate in detail are generally well-founded. Michael Edwardes has told me that on Monday 10th September, to coincide with publication of BL's Half Yearly Results, he will be telling the workforce that the company's chances of survival are slim without the boldest action on productivity, product development and the rationalisation of production facilities.

He will announce in particular that the BL Board propose that car assembly should be concentrated at Cowley and at 4 principal sites in the West Midlands, Longbridge, Browns Lane, Common Lane and Solihull. Canley (Coventry) will be closed and Abingdon will carry out non-assembly activities for the Cowley plant. The major component plants affected are Castle Bromwich, which will cease many of its current activities, and there will be a significant reduction in foundry activity at West Yorkshire and Tipton. The remaining Speke plant will not be closed although there will be some reduction in existing activities with consequential redundancies. The future of a number of other plants is being reviewed, including the assembly plant at Seneffe (Belgium). Commercial vehicle activities will be concentrated at Leyland, Glasgow and Bathgate. The closure of the bus plant at Park Royal

/in North London...



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in North London will be announced on 10th September. The total BL workforce will be cut by at least 25,000 as a result of these plans over the next two years.

The introduction will be accelerated of the new medium car range to combat the decline in market share. The Mini Metro (LC8) will be launched as planned in 1980; the new Honda car (LC9) will be manufactured at Cowley and introduced in 1981; the LC10 which will replace the existing Marina and Maxi, will be produced at Longbridge for launching in 1982 and a larger version will be made at Cowley for introduction in 1984. Apart from the LC8 all these proposals are subject to NEB and Government approval.

The Board will only be submitting these proposals to the NEB and me if they are convinced that workforce cooperation can be secured. The results of discussions with the workforce will be formally assessed by the BL Board in mid-October.

I expect that Sir Michael will indicate his Board's view that notwithstanding these actions (indeed to some extent because of the cost of them) the company will require additional funds beyond the £225m still remaining of the £1000m which our predecessors had in principle committed to BL. I have made it clear to Leslie Murphy and Michael Edwardes that proposals for public funding of up to £225m will have to be fully justified in the Plan and that any proposal for the provision of public funds beyond that amount would present me and colleagues with great difficulty.

I have asked that the scope for raising money from BL resources

/should be....



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should be thoroughly considered.

At my request the company and the NEB are examining the implications of several options (including no more public money) to enable us to form the clearest possible picture of the realistic alternatives open to Government. This separate exercise should not become public knowledge.

There is no immediate cash crisis at BL and decisions about funding do not have to be taken until we have received their new Corporate Plan from the NEB in November. I want to keep an open mind until then and not give the impression of having already taken decisions on the question of further funding. I would ask colleagues to bear particularly in mind that any public statements capable of being interpreted as meaning that no further funds may be forthcoming could produce a crisis of confidence amongst BL's bankers, other creditors and dealers with potentially very serious consequences for the company.

There is clearly going to be a big storm next week. I think we should remain as aloof as possible from this and say that we are not in a position to approach any decision until BL's final proposals have been considered by the NEB and, amended or not by the NEB, put to us. I shall point out that even under the previous Administration the release of further funds was to be conditional on the assessment of performance and future prospects and there is no question of the Government being diverted from its intention

/of taking such.....



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of taking such time as is necessary this Autumn to carry out a thorough and dispassionate review of the company's needs in the new circumstances in which it finds itself.

I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Employment, Trade and Scotland and Sir John Hunt.

A.A. Dignid.
P.K.J.

7 September 1979

(approved by the Secretary of State and signed in his absence)

Department of Industry
Ashdown House
123 Victoria Street
London SW1

17 SEP 1979

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Filmed at the National
Archives (TNA) in London

February 2010