

PREM 19/258

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PART 2

Confidential Filing

British Leyland

INDUSTRIAL POLICY

Part 1: Sept 79

Part 2: Dec 79

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PREM 19/258

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● PART 2 ends:-

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PART 3 begins:-

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Ind Pol.

10 DOWNING STREET

From the Principal Private Secretary

10 March 1980

Dear Stuart,

BL: TRADE BARRIERS

I have shown the Prime Minister your letter of 6 March 1980 about Sir Michael Edwardes' letter of 11 February to your Secretary of State.

As I told you on the telephone earlier today, the Prime Minister is content for Mr. Nott to reply to Sir Michael Edwardes on the lines of the draft attached to your letter.

I am sending copies of this letter to Ian Ellison (Industry), Richard Dykes (Employment) and Genie Flanagan (Transport).

Yours ever,

Heri Whittam.

S. Hampson, Esq.,
Department of Trade.

BK

file



10 DOWNING STREET

From the Private Secretary

10 March 1980

~~BK 17-3-80~~
Orestes

Because of a possible Cabinet meeting on Tuesday 18 March, I am having to change the meeting to discuss British Leyland to 1645 hours. The meeting will take place at 10 Downing Street.

I am copying this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment), Gerry Spence (Sir Kenneth Berrill's office), David Wright (Cabinet Office) and John Hoskyns. I hope that this new time will be convenient to everyone.

CAROLINE STEPHENS

Ian Ellison, Esq.,
Department of Industry

✓



Prime Minister.

Sir Michael Edwards sent you a copy of his letter of 11 February to Mr Nott in which he complained of the various handicaps which he believed had been imposed upon us in relation to that foreign competitors. This letter sets out Mr Nott's comments on Sir Michael Edwards' complaints. Are you content for Mr Nott to reply to Sir Michael 6 March 1980 as he proposes?

From the Secretary of State

Clive Whitmore Esq
10 Downing Street
Whitehall
SW1

Dear Clive

mb

Yes - we shall
reply
formally
7th

BL: TRADE BARRIERS

flag 'A' ...
In your letter of 14 February you said that the Prime Minister would like to have my Secretary of State's comments on Sir Michael Edwards' letter of 11 February. I attach a copy of the reply Mr Nott proposes to send, which reflects the outcome of interdepartmental discussions at official level.

The scope for helping BL within existing international and EC obligations is limited. At the same time, the discreet bending of rules in favour of BL can hardly be announced in a letter which is certain to become public. (You will be aware that Ray Horrocks of BL wrote in similar terms to the leaders of the trade unions representing the BL workforce, and Roy Grantham of APEX subsequently reproduced the text in a letter to the Prime Minister.) My Secretary of State recognises that Sir Michael is partly playing a political game in demonstrating to the workforce his determination to tackle on all fronts the barriers to BL's recovery. Nonetheless, Mr Nott intends to say to Sir Michael privately that publicity will not make it any easier for the UK to depart from the strict MCC rules.

The Prime Minister may find useful the following additional information.

Spain

There are two points at issue: access into Spain and the level of imports from Spain. So far as access into Spain is concerned, Spain has maintained very high tariffs and quantitative restrictions. The latter were removed last year and replaced by duty free quotas. But these duty free quotas were given only to those companies with manufacturing facilities in Spain. The UK considered this method contrary to the EC/Spain Trade Agreement and made representations to the Commission, who have now agreed to raise the matter with the Spaniards on 13 March.



From the Secretary of State

Imports of cars from Spain are Ford Fiestas, and action against them would, of course, meet opposition from the Ford motor industry in the UK.

Eastern Europe

The letter itself contains considerable detail on the East European situation. The SMMT have been looking at the possibility of an anti-dumping case for sometime, but they have not yet pursued this with any vigour. It is not clear whether this is because they are unable to get the necessary information or whether it is because they feel the investigation would be a waste of time. There is no doubt that the original pressure came from BL.

The main problem in relation to action against Eastern Europe is that the import numbers themselves are minimal and could not in themselves be regarded as causing damage to the British industry. We have no case to take to the Commission, and have no power in present circumstances to take unilateral action. But we will continue to monitor the situation, not only on the basis of actual imports but also on the basis of potential threat both in relation to production capacity and dealer networks.

Type Approval

The Department of Transport take the lead in this area. The system of individual vetting for foreign cars under the MAC system has been ruled discriminatory by the Commission and Ministers have agreed that EC manufacturers will be subject to the same system as domestic ones. If we were not to change the system we should find ourselves before the European Court - where we would certainly lose. It is worth noting that the MAC system has not in general had any effect on reducing imports.

What the French might do in relation to the BL/Honda agreement is another matter and not directly related to decisions on the MAC system. If there is evidence of malpractice on the part of the French we shall of course take it up with them.

On type approval for commercial vehicles, the Department of Transport are already working on the possibility of introducing some regulation, and proposals will be submitted to Ministers shortly.

Japan

The BL concern here seems to be rather for the future - either that the current undertaking will not hold throughout this year or that it will not be renewed for 1981. It is as yet too early to see whether

I get the
this when
came up
in your
conversation
yesterday,
evening with
Mr. Light.



From the Secretary of State

the current year's arrangement will hold, but the industry-to-industry arrangement is closely monitored and there would always be room for Governmental intervention later if necessary. So far as 1981 is concerned, the arrangement reached this year contains the normal provision for a meeting later in the year when the opportunity for renewal will present itself. We do have a bilateral treaty right to put formal quotas on the Japanese. But any substantial cut-back on Japan would most probably lead to more imports from Europe and the Japanese would almost certainly invoke their same rights to retaliate. The best course is therefore to uphold the inter-industry agreement.

I am sending copies of this letter to Ian Ellison (Industry), Richard Dykes (Employment) and Genie Flanagan (Transport).

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

DRAFT

Sir Michael Edwardes
British Leyland
35-38 Portman Square
London W1

Thank you for your letter of 11 February about various problems facing BL in the international trade field. As you have said, the points raised are not new to my officials, but it was helpful to see them presented together to give the overall impression of the barriers to trade, as seen by BL.

I have looked very carefully at each of your topics, and I can assure you that the Government's practice of "playing cricket" does not indicate, as you suggest, a lower priority to the health and prosperity of our industries than is shown by other European countries. On the contrary I can assure you that we are already doing everything in our power to ensure fair trading conditions for BL and for other British industries.

Your first point concerned Spain, and I can say without hesitation that BL has our complete support on this issue. It is intolerable that the Spanish import regime has enabled you to send only 300 cars to Spain while 50,000 Spanish-built cars were registered in the United Kingdom. The EC Commission shares our view that the duty free quotas on imports of motor vehicles could constitute a breach of the EC/Spain Agreement. A meeting has been arranged with the Spaniards on 13 March at which the Commission will be raising the general question of access for vehicle producers without assembly facilities in Spain. I will let you know how this matter proceeds.

As regards Eastern Europe, my officials have been in touch with the SMMT for some time about the possibility of mounting an anti-dumping case against these imports, but the necessary details have not so far been forthcoming from the SMMT. If BL wish to look at the possibility of supplying these themselves, my officials would be happy to discuss the matter with your staff. There are two routes which we can pursue if there is evidence of dumping. First the East Europeans have in the past sometimes shown themselves willing to restrain or adjust their prices when such evidence is shown to them. Secondly, we can ask the Commission to instigate anti-dumping action under the GATT. But you will be aware that the rules of GATT require evidence not only of dumped pricing but also of injury to the domestic industry. I frankly doubt whether the level of imports from these countries (with an import penetration of 2.28%) could be said under the GATT rules to constitute injury to the industry.

This leads to the more general question of the volume of imports from East European countries. A pre-condition for action would be a surge of imports causing or threatening serious injury to our industry. Action to impose quotas would require the agreement of the EEC Commission. Although some people seem unwilling to accept it, the fact of the matter is that we have no effective power to act unilaterally on the basis of present import levels and equally I am bound to say that there is no likelihood that EC agreement would be forthcoming either.

Surely it is questionable whether there is much scope for the East Europeans significantly to increase their market share. The Poles themselves have told us they doubt they could increase their exports to us because of production difficulties. The Czechs have the same problem and their imports have been static over the last couple of years. Russian cars are old-fashioned and limited to a certain sector of the market. I can understand that you want to see the dumping point resolved, but surely you do not see them as a major threat to your market.

On type approval I sympathise with what you say about the Minister's Approval Certificates (MAC), and I have spoken to Norman Fowler about it. But it became clear last year that, unless we gave manufacturers from the European Community access to the general type approval scheme, the Commission would refer the question to the European Court and that we would stand no chance of winning the case. We have promised the Commission to amend the regulations as soon as possible, and we cannot go back on that. But we do not intend to go further than we must. The MAC system procedure will however only be removed for Community imports once we have legislated to give Community manufacturers type approval on the same basis as our own. As they will then be required to submit type approval applications for our consideration, there is no question of their being given completely free access to our market.

We are of course examining our own arrangements for type approval of commercial vehicles. If you do have any specific problems with other countries' type approval schemes you will no doubt let Norman Fowler know at once so that we can endeavour to take effective action on behalf of the British industry.

On Japan, I am grateful for your remarks about the help my Department has been able to give over the years in support of the inter-industry understanding with Japan. I can assure you that I continue to attach great importance to the Japanese continuing to show restraint this year and my officials will be monitoring Japanese performance very closely in the months to come.

In conclusion therefore I should like to return to what I said at the beginning of this letter. It is my very strongly held view that we should not be thinking of finding new ways of bending rules but we should be pressing for a more vigorous application of the existing requirements governing international trade. What you are pressing me to do in respect of Spain and Eastern Europe is to ensure that other countries "play cricket" as well, and I can give you my commitment that that is the objective of the Government. Whenever we receive evidence of malpractice or unfair practices against British exports overseas we shall continue to pursue the position vigorously.

We are not prepared to remove the trade barriers that still exist faster than our main trading competitors. Indeed the MTNs were based on a measured and mutual reduction in the obstacles to open trade.

Thought I admire your determination to do everything possible to protect BL I have to bear in mind ~~the~~^{that} one-third of the GNP of the whole economy is generated by exports. Indeed BL exported last year over a quarter of a million vehicles, and any departure from the open-trading systems would be much more damaging to jobs in BL - than our present policy of accepting fairly traded imports from other countries.

I am quite sure in my own mind that no British government can contemplate the erection of trade barriers which spark off retaliation against our own exports, with enormous adverse consequences for employment throughout the United Kingdom.



RECEIVED



Mal Col

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON
SW1

Thompson

22 February 1980

Dear John,

Michael Edwards copied to me his letter to you of 11 February about British Leyland's trading difficulties. I have also seen a copy of the letter from the Prime Minister's office of 14 February asking you to let her have your comments on Sir Michael's letter.

Sir Michael raises two points in my field. The first one concerns type approval for cars. The suggestion Sir Michael makes for confining foreign cars to the Minister's Approval Certificates (MAC) system of individual vetting is I am afraid not a starter. As he says, the Commission took the view not entirely without reason, that this was a discriminatory arrangement because our manufacturers can get the equivalent approval for their entire production of a particular model. Even so it had patently been of little effect in reducing imports. OD(E) agreed last July that the position was untenable and I have therefore undertaken that EEC manufacturers will have access to the general type approval system as soon as necessary

regulations can be made. To go back on that undertaking would inevitably bring a reference to the European Court.

We cannot rule out the possibility that the French will try to manipulate type approval requirements to hamper the BL-Honda project. But that is something we can tackle with them and, if necessary, with the Commission only when we have facts to go on. Retaining the MAC requirement would not in practice help.

We may be able to be more helpful over Sir Michael's second point - type approval for commercial vehicles. Discussions between British Leyland, the Department of Industry, your Department and my own Department were already under way when Sir Michael wrote. There would be manpower implications of any such scheme - it might need as many as 50 civil servants depending on its extent and effectiveness. We shall therefore need to judge when we have the full facts whether a cost-effective scheme can be mounted.

I should say that I have a great deal of sympathy with British Leyland's problems and I think Sir Michael Edwardes has overcome some formidable difficulties. Clearly we must do everything we can to remove real obstacles and ensure that we do not create more. I hope we can do all we reasonably can to give home industry the right sort of help and protection.

/ I am enclosing a couple of paragraphs which you
may like to use for your reply to Michael Edwardes.

I am copying this letter to Peter Carrington,
Keith Joseph, Jim Prior and to the Prime Minister.

A handwritten signature in cursive script, appearing to read 'Norman Fowler', with a large loop at the end.

NORMAN FOWLER

DRAFT PARAGRAPHS FOR MR NOTT'S REPLY TO SIR MICHAEL EDWARDES

I am afraid your suggestion that we should continue to confine EEC manufacturers to the MAC system is not on. It became clear last year that unless we gave manufacturers from the European Community access to the general type approval scheme the Commission would refer the question to the European Court and that we would stand no chance of winning the case. We have promised the Commission to amend the regulations as soon as possible and we cannot go back on that. But we do not intend to go further than we must. The MAC procedures will remain necessary for non-EEC imports.

As you will know we are looking with your people at possible schemes for extending type approval to commercial vehicles. It is too soon to say what the outcome will be but I am sure Norman Fowler will want to be as helpful as resources permit. If you do have any specific problems with other countries' type approval schemes I do hope you will let Norman Fowler know at once so that we can see what can be done.



22 FEB 1988

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Prime Minister

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Qa 04441

To: MR LANCASTER

From: SIR KENNETH BERRILL

Ford and British Leyland

1. After yesterday's meeting of E Committee I told the Prime Minister that Robert Lutz (Head of Ford of Europe) had been given the green light from Detroit (Mr Petersen) to negotiate on a package purchase of BL. This note is to fill out a little that very welcome news.
2. First it is useful to get clear where Lutz stands in the Ford hierarchy and what is the significance of this 'green light'. As Head of Ford of Europe, Lutz is two levels up from Sir Terence Beckett in the Ford hierarchy. Ford of Britain is a profitable section of Ford of Europe and Ford of Europe is currently earning more profits than the whole of the rest of the Ford operations worldwide.
3. Detroit's attitude to Lutz is, therefore, "You are running the most profitable section of our business; if you say your best next step is to negotiate for BL, we trust your judgement. Go ahead."
4. Ford of Europe needs to build a new 500,000 car assembly plant somewhere in Europe. They are currently negotiating with the Portuguese Government for a greenfields site in Portugal, a decision on which must be taken this summer, but the Cowley site would be a very attractive alternative. If Lutz buys BL with Cowley, he won't want Portugal and vice versa. If to fill out his 1980-2000 volume car capacity in Europe he went ahead with Portugal, he might still be interested in Rover/Jaguar/Trimmph, Truck and Bus, etc. but the Cowley/Longbridge BL core problem would be left with the Government.
5. As we are all aware, the main problem will be Longbridge. For BL as it is today Cowley and Longbridge are knit together with Longbridge providing engines for Cowley (Princess, Marina and Maxi) and will be providing the new Metro, without which the BL volume car dealer network will disintegrate. Under Ford, Cowley need not depend on Longbridge for engines (they could provide Ford engines from elsewhere) and they are much less interested in the Metro. They might agree to continue Longbridge, but it would certainly

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be very much on sufferance, i.e. if the Longbridge workforce played up Ford would want to be free to shut it down.

6. But this is all for the future. At present Ford have gone off to prepare a package bid. They will get data from BL and have sufficient ex-BL executives working for Ford to be able to evaluate it without too much difficulty. They expect this process will take at least 5/6 weeks - say not before Easter. //

*Tracy and
Dol are
considering
possible
candidates.
R.*

7. This is the measure of the time the Government has to find the Mr Super-Salesman who is to advise them on any bids and for him to "read" himself into the subject.

8. All the above information has been given to the CPRS in the strictest confidence by a senior executive in Ford. (Please protect.)

9. I am sending a copy of this minute to Sir Robert Armstrong.

KB.

21 February 1980

21 FEB 1980



cc HMT
D/EMP
SIR KB
CO
John Hoskyns

hcl/col HS

21 February 1980

This is to confirm that the next meeting to discuss British Leyland will take place at 1000 a.m. on Tuesday 18 March.

I am copying this letter to John Wiggins (H.M. Treasury), Ian Fair (Department of Employment), Gerry Spence (Sir Kenneth Berrill's Office) and David Wright (Cabinet Office).

CAROLINE STEPHENS

Ian Ellison, Esq.,
Department of Industry.

9

CAROLINE

We will need another meeting on BL on
about 15 March. The Chancellor, Mr. Prior,
Sir Keith Joseph, Sir Robert Armstrong and
Sir Kenneth Berrill to attend, also John Hoskyns.

R

20 February 1980

16.30 ~~Peter J. ...~~ Monday 17 March
1a Elson: Indent
DL Bd on 12th
no officials.

1. Copy ^{hand} ~~now~~ 12
2. ~~manus~~ (in case)

SECRET



10 DOWNING STREET

From the Private Secretary

MR. DAVID WRIGHT

CABINET OFFICE

British Leyland

The Prime Minister has asked me not to circulate any note of this morning's meeting on BL. I have done the attached record for our own internal purposes. Could I suggest that you do not make any copies of the note, and retain it in your office?

I have told the Department of Industry about the one decision which was taken - namely that an outside adviser should be appointed. They are pursuing this with the Treasury.

THE CANKESTER

20 February 1980

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seen by A. B. G. — 2/12/60* 11

NOTE OF A MEETING TO DISCUSS BRITISH LEYLAND: 0830 HOURS
WEDNESDAY 20 ~~DECEMBER~~ FEBRUARY

Present:

The Prime Minister
Chancellor of the Exchequer
Secretary of State for Employment
Secretary of State for Industry
Sir Robert Armstrong
Sir Kenneth Berrill
Mr. John Hoskyns

* * * * *

Sir Keith Joseph first reported on the latest situation at British Leyland. The company were not yet at the "edge of the precipice", but the situation was very worrying. Their market share was falling, the outcome of the pay dispute was far from certain, and there was the Robinson affair. However, at least the BL board were showing a good sense of realism; and they were willing to stay in post to bring about a "soft landing" if the Plan had to be aborted. They would be meeting on 12 March to decide whether to proceed with the Plan. There were three possible outcomes of this meeting:

- (I) they might decide to stick to the plan - but this was unlikely;
- (II) they might dismiss the Plan altogether, and decide on the run-down of the company;
- (III) they might decide to modify the plan. This could involve earlier closures of some plants (e.g. Canley) and bringing forward redundancies, deferring capital expenditure of £50 to £100 million, and earlier disposals of some parts of the business.

/British Leyland

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British Leyland management had already prepared contingency plans on the basis of (III) above. If they were to decide on (II), it would probably take up to two years to run the company down. The Chancellor had agreed to provide the necessary financial guarantees on a contingency basis. As regards the options for disposal, he himself would much prefer it if the company could be sold as a whole, but it seemed unlikely that any potential purchaser would be willing to take on the whole business. Ford of Europe and Nissan had expressed an interest in purchasing all or parts of the company, but discussions were still at a purely exploratory stage. In his Department's view, Ford were unlikely to take on the whole of BL because of financial difficulties in the parent company - though the management of Ford of Europe were very keen to proceed. Nissan seemed interested in taking over the BL dealer network and building a new plant, possibly at Milton Keynes, but not in taking over BL's existing car plants.

Sir Keith said that he had told BL that the Government would not mind if the whole business were sold to the Japanese. In his view, this could well be the best outcome, though it would cause trouble with the Europeans. However, Sir Michael Edwardes seemed more interested in a sale to a European company - and, in particular, to Peugeot. It might be desirable to press the Japanese case with Sir Michael. Besides Ford, there was just a possibility that General Motors might be interested in buying BL; but again this seemed unlikely because GM were generally disenchanted with the UK as a manufacturing base.

The Prime Minister said that she understood that Sir Michael Edwardes was unwilling to take the initiative in trying to find a potential purchaser. Sir Kenneth Berrill added that, while it might well not be possible to sell BL

/as a whole,

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as a whole, it would still be a great pity if the opportunity were lost for lack of initiative by BL management. The prospects of a sale in a year's time, or even in a few month's time, were likely to be worse than they were now. The Chancellor said that it did not seem necessary to wait until the Board meeting on 12 March before actively looking for purchasers.

Sir Keith replied that Sir Michael Edwardes was not averse to looking for a purchaser either for BL as a whole or for parts of the business. But he was very worried that information on this might leak. If the Board did decide that the Plan was no longer tenable, it would not take them long to explore the disposal options. The most likely prospect, in his view, was that BL would gradually close down Longbridge and Cowley, and sell off their other plants. It should not be too difficult to find a purchaser for the truck and bus plants, and also the Seneffe plant in Belgium. Sir Michael Edwardes had warned that a foreign purchase must not be seen as a rescue. This meant that the Government must not provide the purchaser with a subsidy in order to persuade him to come in. If it were interpreted as a rescue, all of the realism which had recently been gained amongst the BL workforce would be lost. The Prime Minister asked whether the Government, as shareholder, had the necessary expertise to judge the disposal options. The Chancellor and Sir Keith said that the Government needed outside advice, especially since the NEB's capability had been run down (the Chancellor added that the Treasury were doing their own analysis of the implications of a BL collapse for the Budget and the economy as a whole). Rather than call in a merchant bank, it would be better to call on an individual such as Kenneth Cork, Rupert Nicholson or Ian Morrow.

Summing up, the Prime Minister said that the Chancellor and Sir Keith should urgently consider who might be approached to provide advice on the disposal options. Whoever was appointed

/could start work

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could start work in advance of the BL Board meeting on 12 March. It would be important to keep this work strictly confidential; but if it did become known, it could be defended on the grounds that the Government needed to take a view on the possible bids which were already being discussed for parts of the business. Ministers were agreed that it would be far better if the whole of BL could be sold, but they recognised that the possibility of this was unlikely. They should meet again soon after the Board meeting on 12 March.

7.

20 February 1980

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Ref. A01469

PRIME MINISTER

British Leyland

BACKGROUND

The meeting at 8.30 on 20th February to discuss BL is being held at your initiative. The Secretary of State for Industry's minute to you of 19th February provides the basis for discussion. The Secretary of State has separately written a letter of 14th February - to the Chancellor of the Exchequer - about financial guarantees to the public sector in the event of a BL collapse; but I doubt if you need pursue this at the meeting.

HANDLING

2. I think the main issue on which you will wish to concentrate is whether adequate contingency planning is going on in case the plan has to be withdrawn. The critical passage in Sir Keith Joseph's minute is at (e) and (f) on page 3. This reflects Sir Keith Joseph's meeting with Sir Michael Edwardes last Saturday, when Sir Michael said he was prepared to respond positively to approaches made to him by potential purchasers, but was not prepared to initiate action, mainly because of the risks of leaks. The trouble about this is that, if BL's decline (in its present form) is indeed irreversible, there is no reason why a potential purchaser should make an approach: the assets will be cheaper later. If the object of the exercise is for the sake of employment, to keep BL as a going concern within a larger international group, and get some sort of price for it, then the sooner the sale happens the better. Perhaps a decision whether to take the initiative can be postponed until after the meeting on 12th March, when the board of BL is to review the plan. Should it be left any longer than that?

3. Questions you may like to ask are:-

- (a) How does Sir Keith Joseph now rate the chances of last December's plan succeeding? The main problem is car sales. The December plan forecast 20 per cent United Kingdom domestic car market share in the year as a whole, but they were only 15 per cent in January, and - despite the sales campaign being at its height, complete with substantial discounts - only 18 per cent in the first fortnight of February. Is this an upward trend or



a new ceiling? Finance on the other hand is not an immediate problem. BL's lay-off plans save them money on materials and overtime pay (even though those laid off will get basic pay indefinitely, under a CSEU/EEF agreement); and a strike would save more money still in the short term.

- (b) How long are the BL board likely to be prepared to continue with the plan?
 At their meeting on 13th February, they agreed the plan could not be met in its present form, but indicated that only modifications were called for (as opposed to wholesale scrapping). Can this be reconciled with the board's statement of last December (attached) - especially the second paragraph? How likely is it that they will change their view at their next meeting on 12th March?
- (c) What contingency plans are being pursued? We know of the following:-
- (i) The Ford approach. This is highly confidential. You may not want to mention any names; but you might ask Sir Keith Joseph if he has anything which he wishes to report on possible acquisitions by other motor manufacturers.
 - (ii) Others. These are in a quite different category, because they imply BL remaining as a separate entity, with only piecemeal modifications to the existing plans. They include:-
 - (1) A BL/Honda working party is discussing additional collaborative possibilities beyond the Bounty project at Cowley.
 - (2) There have been tentative discussions with Nissan, reportedly interested in buying BL's Belgian assembly plant at Seneffe (peripheral to the main problem?).
 - (3) Aston Martin have discussed purchase of the MG plant at Abingdon.
 You might ask Sir Keith Joseph to report on these and any other known proposals.
- (d) Should other initiatives be taken? The main danger now appears to be not a sudden financial collapse or cash crisis, but a further steady erosion of market share. So BL's proposal of "no initiatives until after a collapse" presents two difficulties:-

SECRET

- (i) When will they (or the Government) decide that matters have gone beyond repair?
- (ii) Might it not be too late then to sell BL anyway (except at a knock-down price), since BL will have an even smaller market base to sell?
- (e) Are there any other suitors to encourage? The obvious one might be General Motors (GM). Are GM likely to approach BL or the Government?
- (f) Employment implications of contingency plans. Are there any plans likely to save Cowley and most of Longbridge - given that most prospective purchasers have a much stronger mid-car range than BL? How far does this mitigate against the "wholesale disposals" approach? Or could sale to another major manufacturer be combined with continuing (say) the Honda/Bounty project at Cowley?
- (g) Impact of the pay negotiations and Robinson. You will want to discuss prospects of strike action. Will a strike force BL to declare the plan "abandoned"; and if so who steps into the breach?
- (h) What steps can or should be taken to prepare BL for sale as separate units? At the end of the day break-up of the company may be necessary. How complicated is this likely to be? And are the BL board planning against this contingency?

CONCLUSIONS

4. Sir Keith Joseph is not seeking decisions now and you will probably want to do no more than ask him to keep you, and a few senior colleagues, closely in touch with developments; and to agree that it will be necessary to return to this subject soon after the BL board meeting on 12th March.

RA

ROBERT ARMSTRONG

19th February, 1980

SECRET

cc A. Duguid

Prime Minister

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19/2

Qa 04436

To: MR LANKESTER
From: SIR KENNETH BERRILL

ms

BRITISH LEYLAND

1. The Secretary of State for Industry has written today to the Prime Minister setting out the present position on British Leyland as a background to the Prime Minister's meeting tomorrow morning. Sir Keith's conclusion is that the best strategy for the Government is to continue to back the Edwardes Plan until such time as the BL Board come to Ministers and say that the Company cannot carry on and, meanwhile, (and this is the important point) to back Sir Michael Edwardes in not initiating negotiations with other manufacturers on the possible sale of BL until that moment of truth had arrived.

2. It is only to be expected that Sir Michael, with characteristic determination, would wish to cling to the last to the hope that BL might 'make it' as an independent volume car producer, and that he would not wish to enter into negotiations which could prejudice that possibility. But the collapse of BL - together with the effect on component suppliers - would have such awful implications on public expenditure and on employment that Ministers need to consider whether the preservation of the British motor car industry long term would best be served by going along with the Edwardes strategy or by deciding that every effort should be made to try to sell BL despite the risks that such negotiations might leak.

3. As the Prime Minister is aware, the five years of study which the CPRS has given to the British motor car industry and to BL leaves it in no doubt that the moment of truth has to come. Car sales generally have been at a record level but BL's share of the market has fallen so badly that in January Ford sold more of one model (Cortina) than BL's total sales. Even dramatic improvements in sales would leave BL's total sales of volume cars impossibly far behind the volumes of its competitors to be able to earn enough profits on its own to replace its range of models.

SECRET

4. Be that as it may, there can be no denying that the future for an independent BL is bound to be highly precarious and that the most secure prospect for output and employment would be as part of a major world volume car producer (Ford, General Motors, Volkswagen). So the prime object of a Government strategy for BL should be to try to determine as soon as may be if this possibility exists. If it proves not to exist (the effort must be made with real determination) then a modified Edwardes Plan may indeed be preferable to immediate fragmentation, and the collapse of their volume car business, with all that would entail for the component industry and for the Exchequer.

5. The present prospects are that BL will be able to last out Sir Michael Edwardes's time as Chairman (November 1980). As Sir Keith's letter says, there is no cash crisis at the moment and the lay-offs will actually improve the position. The Government is committed to making available £150m. of new equity in April plus a further £150m. line of credit and £150m. loan conversion. Long drawn out industrial action can, of course, wreck any company fairly quickly, but there are signs that the BL labour force has at last begun to believe that their Company could collapse and they may well behave comparatively reasonably for the rest of this year.

6. If this happened, Sir Michael could see his time out with the Edwardes Plan in place and without any real attempt having been made to go out and see whether a buyer exists. The Government would then be bound to give his successor time to 'look around' and prepare his own proposals; so it might be a year from now before 'the moment of truth' arrived at which the BL Board came to the Government and said "there is no future for this Company except as a permanent pensioner of the State".

7. Ministers may prefer to continue to back the Edwardes Plan for another year and not, meanwhile, insist on active attempts to find a buyer (though this was not the view they took at the end of the last discussion). But if they do confirm their previous view - that the best prospect for saving jobs in the United Kingdom car assembly and component industries was to lose no time or effort looking for a buyer - they will have to give firm

SECRET

instructions to the Department of Industry and to Sir Michael Edwardes.

8. I am sending a copy of this minute to Sir Robert Armstrong.

KB

19 February 1980



PRIME MINISTER

TOTAL COPIES 11

COPY No. 1

We are meeting to discuss the future of BL Ltd at 8.30 am on Wednesday 21 February. This minute reports on the current state of play at BL and takes account in particular of points covered at a meeting held with Sir Michael Edwardes on 16 February. I must stress the extreme delicacy of the situation; leakage of information about our contingency planning could precipitate trouble with the unions and might even precipitate the abandonment of the Corporate Plan with all the consequences that might entail. I must therefore ask recipients of this minute to limit its circulation on a strict need to know basis.

BL CARS WAGES AND CONDITIONS NEGOTIATIONS

I reported recent events to Cabinet on 14 February. In the BL Cars union ballot a 3:2 majority supported the union's rejection of the company's offer; on an 82% poll 49% of the eligible voters (the hourly rated employees) backed the union position. The company told the Joint Negotiating Committee meeting on 15 February that there would be no improvement in the pay offer (5% for most grades, 10% for the most skilled workers and a productivity element which provided the possibility of individual employees earning an additional £15 per week), and the negotiations have been adjourned for a fortnight. There is no desire on the unions' side to take industrial action in support of their original 26% across the board pay claim; and Michael Edwardes has made it clear that the management will not increase the offer or go back on any of the moves to improve working practices but there could be some room for negotiation on certain peripheral aspects.

BL CARS' LAY-OFFS

The Unions were informed on 11 February of the company's intention to announce on a plant-by-plant basis an extensive programme of lay-offs. No numbers were given at the time but about 30,000 people will be involved at the peak. The lay-offs, which will begin to take effect from 25 February, /necessary to reduce excessive stock levels following an excellent January production run (101% of the programme) but a disappointing sales performance (15% UK domestic market share). The company considered that in terms of relations with the Unions it had to make its intentions public before the ballot result was announced. There are of course extensive

/lay-offs ...

SECRET



lay-offs in the motor industry world wide, in particular in North America. BL expect to make some redundancies on the back of these lay-offs.

THE ROBINSON AFFAIR

BL expect the unions in Birmingham to call an official strike at Longbridge. This will not be popular on the factory floor and further action by the management will depend on the response from the workers and its duration. The management's aim is to keep the Robinson issue separate from the wage negotiations; if Ministers are tackled Michael Edwardes suggests we continue to say it is a matter entirely for the company.

CASH FLOW

Apart from laying off workers BL are taking other measures to conserve cash and are putting in hand a review of their Plan. They do not foresee problems arising over cash flow at least in February and March. The steel strike will affect BL increasingly from the end of the month but the lay-offs will help to conserve supplies though BL have been careful not to attribute them to steel.

CONTINGENCY PLANNING

Play A

As the Board undertook in their 14 December paper on "The Position of the BL Board" they have put in hand contingency planning on a highly confidential basis. Department of Industry and Treasury officials have been associated with this work but I attach great importance to it being carried through urgently by BL themselves. In my discussions with Michael Edwardes we saw the possibilities as follows:

- a) the best outcome would be for the Plan to succeed;
- b) however, work is in hand in BL to modify the Plan to keep within the present funding provisions. These modifications need to be compatible with moves to increase collaboration with other manufacturers and to take account of the need to minimise damage should the Plan fail;
- c) BL are developing further collaboration possibilities with Honda and with other manufacturers following signature of the agreement with the former at Christmas. These would help the business should the Plan be carried through and could provide a basis for disposals if it fails;
- d) should withdrawal of the Plan be necessary - and the BL Board are unanimous that a decision on this will not need to be taken before their 12 March meeting at the earliest - it will be essential to provide time for cool and deliberate action. The Board have previously undertaken to consult me before taking a final decision and they would be prepared



Flagg B
and
Chancellor's
reply
at Flagg C

CRS disagree
with this: they
think Edwardes
should be
looking for
a buyer

now

7.

to remain in control to achieve a "soft landing". The Board would, however, require the support of guarantees for their borrowing on the lines of my letter of the 14 February to the Chancellor. I am sending copies of that letter to those who have not yet received them. The guarantees would not increase HMG's financial exposure :

e) at that stage Michael Edwardes in consultation with me would rapidly approach the heads of a small number of other manufacturers world wide to see what prospects there were of selling the business as a whole. He attaches great importance to such action not being initiated now as news would certainly leak and do further damage to sales dealer confidence and Union relations (this does not rule out a positive response to approaches made to us); and I agree with him. His view is that in the present state of BL and of the world industry sale of the entire business is not likely to be a runner now or in the immediate future;

- f) if the business cannot be sold to a single purchaser, the BL Board themselves in close consultation with the Government would take firm action to fragment the business. This would involve maintaining and subsequently disposing of those parts which were likely to be saleable; and the closure and breaking up of the substantial part - particularly in volume cars - which did not have a future. The objective would be to minimise the costs falling on public funding and to save as much as possible of the assets and jobs with continuing viability. Contingency work in BL, with which officials are associated, will be directed to identifying the constituents of the business accordingly and setting up now an appropriate subordinate company structure. Michael Edwardes stressed to me again the grave consequences which would flow from this situation for the components and supplying industries and for the economy - as officials brought out for us in their report last November.)

CONCLUSION

BL faces some extremely difficult months ahead and public confidence in the company has undoubtedly taken a severe knock in the past 7 days. However, I endorse the BL Board's view that it would be premature to abandon the Plan now. We are fortunate in having a realistic Chairman and Board determined to look at all reasonable options. Clearly we cannot expect dramatic developments on the collaboration/ disposal front in the current atmosphere. I and officials are keeping in daily contact with the developing BL scene and I will keep you and colleagues informed of significant developments.

I have considered whether we should re-activate the interdepartmental group which prepared the report on the Plan for us. This does not seem necessary at this stage in view of officials' involvement in BL's contingency planning. It is also essential that the



numbers involved should be most severely limited to reduce the risk of damaging leaks.

I am copying it to the Chancellor of the Exchequer, and Secretary of State for Employment, Sir Kenneth Berrill and Sir Robert Armstrong.

KJ

K J

19 February 1980

Department of Industry
Ashdown House
123 Victoria Street

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19 FEB 1990

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POSITION OF THE BL BOARD

The 1980 Corporate Plan sets out the BL Board's proposals for the future. It contains the Board's plans to put the Company on a sound footing for the 1980's. However, the Board does have serious concerns about the Plan, in particular:

- the fact that the Plan falls short of the financial objectives which had been set for the Company;
- the need for a significant improvement in productivity;
- the need for a significant demonstration of commitment from employees for the Recovery Plan;
- the fact that the current world economic environment and outlook are unfavourable for the development of the Company's business;
- the recent serious erosion of the Company's current financial position through the CSEU dispute, the dispute following the dismissal of Derek Robinson, and the loss of market share (largely due to lack of confidence in BL's future).

On the other hand advances have been made during the year. Before the CSEU dispute production had settled down and productivity was rising at a number of important plants. There was an 87% "Yes" vote in favour of the Company's Plan in the secret ballot of all BL employees. The Board has successfully shown firmness in dealing with recent unconstitutional action. Wage negotiations in BL Cars are proceeding smoothly and the management has confidence in a satisfactory outcome.

In any decision the Board considers it will be necessary for the Government to base its judgement on the importance of BL to the economy as a whole, on the consequences of not going ahead with the Plan, and on the progress that the company is making in the industrial relations area. From a purely commercial point of view the risks outweigh the opportunities. But inspite of that the Board is of the view that it is possible for the Company to recover and achieve viability. In any case the Board considers the present time is the worst moment to abandon the attempt at recovery; several major investment programmes are in mid course and should be completed, notably the Heavy Truck, Mini Metro and Land Rover programmes.

In the light of all this the Board considers it right to seek from Government the funds necessary for the implementation of the Plan and stresses that the amounts specified are an irreducible minimum and provide a very slender margin. It states too that it is vital to the success of the Plan that BL now signs the deal that has been negotiated with Honda.

The Board emphasises the very considerable hazards from both within and without the company which face the Board and management in achieving the Plan. On the basis that the necessary funding is provided the Board will pursue the Plan with determination and will monitor closely the company's performance in a number of key aspects. If, in its judgement, it considers shortfalls in performance place the achievement of the Plan in jeopardy then the Board will have no hesitation

in recommending to the NEB and the Government that the Plan should be abandoned. Events which would be critical to such a conclusion are:

- major disruption of the Company's actions by strike action;
- significant shortfall on the Company's cash flow objectives;
- failure to deliver the Plan in any significant aspect; in particular, in regard to completion of programmes and launch of new products (including Honda), closure of plants and achievement of redundancies on time, and failure to deliver improved productivity and working practices called for in the ballot and provided for in the BL Cars' wage negotiating package.

On the basis that funding is provided now, the Board will arrange on a highly confidential basis to put in hand contingency planning against the possibility that the Plan has to be withdrawn. If subsequently the Board comes to the conclusion that withdrawal is necessary, it will consult with the NEB and the Government about what should be done; and will collaborate fully with the consequent necessary action.

BL Ltd
14 December 1979



14 DEC 1979

A Duguid

CONFIDENTIAL



C

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

19 February 1980

Duguid

BL GUARANTEES

Thank you for your letter of 14th February.

I agree that, for the reasons set out in your letter, we should be ready to authorise guarantees of BL's borrowings and existing overdraft facilities if they have to withdraw their Corporate Plan. I also agree that it should not be necessary to make any special provision for trade creditors beyond the general assurance that you would have to give in your Parliamentary statement if the guarantees were issued.

As you point out, if guarantees were given it would be essential to secure in return the removal from the loan agreements of the present conditions based on the observance of key financing ratios and the constraints on disposal of assets. It would also be important to ensure that the interest rates charged by the banks on short term borrowing were reduced to reflect the guarantees and brought into line with the rates paid by the nationalised industries. I understand that these various changes could take up to a fortnight to negotiate. It is, therefore, essential that if BL request guarantees they should give you sufficient notice to allow time for this.

Our officials are considering further whether it is necessary for the guarantees to extend to borrowings by BL's overseas subsidiaries. We shall need to consider this further when we have their advice.

I am sending a copy of this letter to the Prime Minister.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe'.

(GEOFFREY HOWE)

The Rt. Hon. Sir Keith Joseph, Bt. MP.



BF

Ind PA
cc HMT
DIM
CPRS
CO
JS
19/2/80

10 DOWNING STREET

From the Private Secretary

14 February 1980

Further to my conversations with your office today, I am writing to confirm that the meeting to discuss British Leyland will now take place at 0830 hours on Wednesday 20 February. Can you assume that an official will be welcome but we will be confirming this with your office during the afternoon of Tuesday 19 February.

I am sending copies of this letter to Martin Hall (HM Treasury), Ian Fair (Department of Employment), Gerry Spence (Sir Kenneth Berrill's Office), and David Wright (Cabinet Office).

CAROLINE STEPHENS

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

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

14 February 1980

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

MBM met
 P. H. H. H.

Dear Geoffrey,

BL GUARANTEES

As a necessary part of the contingency planning on BL, my officials and yours have discussed with the NEB and the company the immediate action that may be required if the Plan is withdrawn. In such an event it will be extremely important to maintain the confidence of the bankers, the various loan stockholders, and other creditors in order to avoid an immediate run on the company.

As you will recall, when the issue was considered last October we decided that the Government should be prepared if necessary to reiterate Eric Varley's assurance to the House in May 1977 that the NEB 'would not allow BL to be left in a position where it would be unable to meet its obligations'; subsequently Michael Marshall confirmed this position in an answer to a question in November. The effect of this statement and of the comfort letters issued to the banks with the previous administration's approval is that the Government, through the NEB, is in practice, but not in law, already guaranteeing BL's obligations.

The view which BL's financial advisers, Hill Samuel, the Bank of England and my officials take is that in the event of the Plan being abandoned, it will be necessary for two reasons for the NEB to issue guarantees on all BL private sector borrowings. The first is quite simply to prevent a financial collapse brought about by BL's bankers calling for the immediate payment of overdrafts and the withdrawal of facilities; and to enable BL to negotiate waivers from the stringent default clauses in their medium term loan agreements and the triggering of default clauses in their loan stock and foreign currency bonds agreements (details attached). The second is to allow time for the BL Board, which would require new operating instructions from the Government, to organise the restructuring of the company and disposal of viable parts of the business on an on-going concern basis. The Hill Samuel advice confirms that provided last autumn by Kleinwort Benson (the NEB's advisers) and the views of officials that the

/alternative ...



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alternative of a straight BL liquidation would not permit these objectives to be achieved; and I myself continue to attach high importance to the BL Board seeing through such an operation. (I am advised that the alternative of a receivership is not possible for technical reasons).

Since it is possible that we may need to react extremely quickly to a BL Board request for guarantees, I would be grateful for your agreement in principle now that I should ask the NEB to issue the guarantees if the need arises. The guarantees would cover all the company's borrowing and existing overdraft facilities. The condition on which guarantees to the loan stockholders and the syndicate led by Citibank responsible for the £85 million medium term loan would be that they should forgo permanently current rights to require the observance by BL of stringent financing ratios and to approve disposals of significant parts of the business. A waiver from these obligations would be critical to enable the later re-structuring/disposal programme to be implemented. I should add that holders of commercial loan stock and foreign bonds could make some capital gain as a result of the guarantees, but I regard this as a relatively minor matter compared with the importance of providing the BL Board with the necessary freedom to carry through its re-structuring programme.

given
would be

Finally, I do not see that it is necessary to make any special provision for trade creditors. The issue of the guarantees would be made public probably in the context of a Parliamentary Statement on BL and should be sufficient to reassure them that the company would be in a position to meet its obligations.

I will be sending a more general letter to all colleagues attending the Prime Minister's meeting on 18 February. I am confining circulation of this letter to the Prime Minister.

Evan
Kear

ANNEX

EXTENT OF BL PRIVATE SECTOR BORROWINGS AND COVERAGE OF GUARANTEES

BL's borrowings cover several types:

a)	Medium term bank loans	£115m
b)	Unsecured loan stock	£63m
c)	French and Swiss Franc bonds	£22m
d)	Miscellaneous small loans	-
e)	Overdraft and short term borrowing facilities (including overseas)	£400m - £500m
[f)	Government loans	£165m]
g)	Trade creditors	

14 FEB 1960





~~B/F 22-280.~~

10 DOWNING STREET

From the Principal Private Secretary

14 February 1980

Following your Secretary of State's meeting with Sir Michael Edwardes on the evening of 11 February, Sir Michael has sent the Prime Minister a copy of his letter of 11 February to Mr. Nott.

The Prime Minister would be grateful to have Mr. Nott's comments, cleared as necessary with other Departments, on the points made by Sir Michael Edwardes in his letter.

I am sending copies of this letter to Ian Ellison, Ian Fair and Genie Flanagan.

G. A. WHITMORE

Stuart Hampson, Esq.

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Original filed
Nat. Ind (Water Pay)
June '79

PRIME MINISTER

Cabinet: Industrial Affairs

BACKGROUND AND HANDLING

You may like to ask Ministers to report on the following:-

Water

2. Mr. Heseltine could report on the aftermath of the GMWU's rejection of the employers' 19.2 per cent offer. He could mention the outcome of the meeting between Mr. King and Sir Robert Marshall due to take place today (Wednesday). Questions you might want to cover are:-

- (a) What is the real likelihood of a strike (threatened from 25th February)? Are the supervisors likely to join in (crucial to the effectiveness of contingency plans)? How will the GMWU Executive treat the vote for strike action by their conference? What of the attitude of the other water unions?

You will also want Mr. Younger's view on the strike threat in Scotland (where the water workers are local authority employees).

- (b) Will the water employers increase their offer? If so, to what level? We understand that the unions' further demands may crystallise round the consolidation of a 5 per cent efficiency bonus. Will the management concede this? Does Mr. Howell think this could have repercussions on gas and electricity, where negotiations are still going on? The GMWU negotiators are recommending acceptance of a 14.2 per cent offer for gas, which presumably could be rejected by their delegate conference, as with water.
- (c) You might then seek views especially from Mr. Whitelaw and Mr. Pym on whether troops should be put on notice so as to be ready for use by 25th February. This mean alerting servicemen by the weekend: we understand that the water employes' view is that there is no need for troops to be put on notice yet; they are confident that they can provide adequate services - with the aid of the supervisors - for

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several days after a strike begins. Putting the troops on notice would probably leak and jeopardise the co-operation of the supervisors. You might check that Mr. Heseltine agrees with this. If you want further consideration of this issue, then you could ask Mr. Whitelaw to convene an urgent meeting of the Civil Contingencies Unit at Ministerial level, perhaps on Friday.

A final decision about whether to declare a state of emergency can be delayed until next week, but CCU might be asked to look at this too.

Steel

3. Sir Keith Joseph could report on:-

- (a) The ACAS talks with the ISTC and NUB, and -
- (b) Whether the other steel unions are likely to settle - they are meeting on Thursday to decide - following the rejection of BSC's offer by the TGWU delegate conference.

British Leyland

4. Sir Keith Joseph could report on management and union reaction to the results of the pay ballot (59 percent to 41 per cent against the offer, on an 82 per cent poll, i. e. 48½ per cent of all manual employees against); and on the market position and lay off plans. You are to discuss BL further with Ministers on Monday. The situation looks very gloomy.

British Shipbuilders

5. Sir Keith Joseph could report on the two days of pay negotiations ending today (Wednesday). Is there any chance of BS bridging the gap between the 20-30 per cent demanded by the Unions and the requirement of a virtually self-financing settlement dictated by their financial position?

Port of London Authority

6. Mr. Fowler could report on the effects of strike action over pay. This seems still sporadic and having only a limited effect. But there is no sign of an early settlement.

CONCLUSIONS

7. You may want to record conclusions on the discussion on water, in particular on whether any further meeting of CCU is needed.

ROBERT ARMSTRONG



10 DOWNING STREET

From the Principal Private Secretary

IN CONFIDENCE

13 February 1980

Thank you for your letter of 12 February.

I will, of course, put before the Prime Minister the copy of Sir Michael Edwardes' letter of 11 February to the Secretary of State for Trade which you kindly sent me with your letter.

.. E. A. WHITMORE

Michael O'Connor, Esq.

1. ~~Copy~~ to Mr Wolffson
Mr Hoskyns
Mr Lamberton.

2.

BL Limited
35-38 Portman Square,
London W1H 0BN.
Telephone: 01-486 6000. Telex: 263654.
Cables: Leymotors London NW1. Telex.

12th February 1980

Prime Minister.

C. Whitmore, Esq.,
Principal Private Secretary to
the Prime Minister,
10 Downing Street,
London SW1.

BL figuring for survival with
one hand tied behind its back -
and if Michael Edwards is right,
largely because of difficulties with
the Community.

I will ask Mr Nott for his
comments.

I have written to BL to request
them for sending you a copy of Michael
Edwards' letter.

AWB
Sean M. O'Connor

At a small, private meeting last night, Sir Michael gave
to Mr. John Nott the enclosed letter. All the issues
contained in the letter have been debated with the Department
of Trade and the Ministry of Transport over some years to
no apparent effect. Sir Michael elaborated the points in
the letter in some detail to the Secretary of State for Trade
who seemed receptive to the case he was making, and who found
it helpful to have the overall picture in one document.
He suggested it might be sensible if the Prime Minister were
to see a copy of the letter too.

Sir Michael has therefore asked me to send to you a copy of
this letter, with a request that you draw it to the attention
of the Prime Minister.

Yours sincerely,

Sean M. O'Connor

Michael O'Connor
Assistant to the Chairman

Enc:



11 FEB 1969



FROM SIR MICHAEL EDWARDES.

11th February, 1980.

The Rt. Hon. John Nott, M.P.,
Secretary of State for Trade,
1 Victoria Street,
London, S.W.1.

Dear Secretary of State,

I have decided to write to you personally to register my deep concern and seek your assistance on a number of trading matters which are exacerbating the competitive pressures BL faces in its home market. All the matters have been raised previously with senior officials in the Department of Trade and, although one item is primarily the concern of Transport, all have Trade implications.

In the 1980s BL faces a major battle for market share. Competitive pressures which have contributed to the decline in our share of the domestic U.K. market in 1979 will become even tougher in 1980 given an anticipated reduction in the size of the total market, for cars, for instance, from over 1.7m. in 1979 to around 1.4m. for 1980. Yet some of the competitive pressures we face do not seem to accord with what is reasonable and fair, while some of our EEC partners, as well as other countries with whom we trade, appear to give a higher priority to the health and prosperity of their industries. BL, however, is advised that the U.K. Government is heavily constrained in the action it can take in those areas where we have expressed concern with the implication that BL cannot expect similar assistance from the U.K. Government. We really do seem to continue to play cricket while other countries only apply those rules which are to their own advantage.

continued.../

11th February, 1980.

The Rt. Hon. John Nott, M.P.,
Secretary of State for Trade.

BL is in no position to overlook these matters, nor would I have thought is Government, given its substantial stake in the company. I suggest it makes little sense to back the company financially, yet be reluctant to back it as positively in other areas.

There are four issues to which I wish to draw attention.

1. Spain

As I am sure you know, the rapid growth of the Spanish motor vehicle industry has been based on a heavily protected domestic market and heavy inducements on manufacturers to export. With the expansion plans recently announced by GM and Fiat the industry is poised to overtake the U.K. in production in the early 1980s and cannot any longer be considered in the infant category.

It did appear last April that the Spanish Government were about to liberalise the car market, but although quotas were removed duties remained prohibitively high. More recently, the Spanish authorities announced a duty-free import quota for cars, but it seems that this is likely to be allocated only to those companies with established manufacturing plants in Spain. In short, to all intents and purposes, Spain remains a closely protected market. The worst aspect of the situation is that Spain is now the manufacturing base from which manufacturers established there are vigorously exporting cars to other EEC countries.

I understand that the Department of Trade is formally complaining to the EEC Commission that Spain's discriminatory action on duty-free quotas is, prima facie, in breach of the EEC/Spain Agreement. I hope this action is successful since it greatly concerns me to see market opportunities deliberately denied us while exports from Spain freely enter the U.K. market - in fact, some 50,000 Spanish built cars were registered in the U.K. last year while the U.K. exported only about 300 cars to Spain. I urge that you take a close personal interest in this matter.

continued.../

11th February, 1980.

The Rt. Hon. John Nott, M.P.,
Secretary of State for Trade.

2. Eastern Europe

Over a long period we have registered our concern about the pricing policies adopted by Eastern European manufacturers in the U.K. market. While it seems clear to us that, on any normal criteria these cars are dumped, it appears that to succeed in any action to rectify this situation we need to bring the rest of the Community along with us; if the SMMT puts forward an anti-dumping case, it needs the support of its counterpart European trade associations and, if we, BL, go forward, we need the support of other Common Market manufacturers. Given the involvement of Renault, Fiat and Citroen with East European manufacturing projects, I believe there is no realistic possibility in either case of obtaining such support.

In the meantime, the East European share of the U.K. market, although still relatively small, continues to grow steadily and reciprocal trade remains negligible. Thus sales of East European cars have grown from 2,000 in 1970 to 28,000 in 1978 and 39,000 last year. By comparison in 1978 the U.K. sold only 400 cars to Eastern Europe and 1979 sales are likely to be of a similar magnitude.

We are informed that the only alternative to Community action is for the Department of Trade to "take a close interest in" the level of vehicle imports from East European countries. Of course, we are grateful for any leverage that can be applied. But I believe the time has come to act: something must be done soon to stop the extensive dumping now prevalent from Eastern Europe.

3. Type Approval

It is common knowledge that type approval procedures can represent potent barriers to trade; the corollary of this is that the absence of type approval processes creates a market relatively open to import competition. While the following paragraphs refer to a subject matter which is directly the responsibility of the Department of Transport, it has trading and competitive implications for the U.K. and B.L.

continued.../

11th February, 1980.

The Rt. Hon. John Nott, M.P.,
Secretary of State for Trade.

- a) CARS. Unlike other vehicle manufacturing countries and our EEC partners, the U.K. lacks unique standards for vehicle type approval and bases its National Type Approval system on EEC Directives. Our EEC partners, however, all have national systems and standards which preceded the development of EEC Directives, and are able to retain the unique features of these. In consequence vehicle importers have to undertake the additional engineering work necessary to comply with these and go through time consuming national homologation procedures in order to secure type approval.

While our EEC partners are able to retain their unique National systems, the U.K. is under pressure from the EEC to abandon the one unique aspect of its own Type Approval process, namely the Minister's Approval Certificate (MAC) and the sub-MAC system. This is held to discriminate against imports from other EEC countries.

What particularly disturbs me is that we appear about to relinquish this without securing any benefit for the U.K. At the very least, the MAC procedure ought to be used as a bargaining counter to secure some form of reciprocal EEC arrangement for the granting of Whole Vehicle Type Approval on the basis of EEC Directives.

In pressing this view, I am conscious too of the publicly declared opposition of the French to the BL-Honda project; it would not surprise me in the least to see French National Type Approval regulations being invoked to obstruct BL's efforts to sell this car in France. Until we are confident this is not an obstacle it seems extremely foolish to abandon our only direct counter measure and bargaining counter in negotiations on European vehicle type approval.

continued.../

The Rt. Hon. John Nott, M.P.,
Secretary of State for Trade.

- b) **COMMERCIAL VEHICLES.** On commercial vehicles the U.K. has no National Type Approval system at all; any importer can bring any truck into the U.K. market and sell it without any check having been made that it complies with U.K. legislation. Only if subsequently it is identified as contravening "Construction and Use Regulations" is action possible. In practical commercial terms this means that importers can and do import trucks to meet individual customers' requirements and sell them without hindrance. By comparison, BL has to ensure that its trucks adhere to Construction and Use Regulations where they are for sale in the U.K. and also conform with the type approval regulations of other markets in which we wish to sell; in the latter case - and this applies to other EEC countries - this means that we have to be highly selective in the specifications we sell and cannot afford to offer customers the freedom of choice of our total product range. I find this situation quite incredible and, with the rapid growth of truck imports into the U.K. a real threat to the survival of our Commercial Vehicles business.

David Abell and other senior executives of Leyland Vehicles Limited have been in touch with the Department of Transport at Permanent Secretary level to suggest ways in which the U.K. could redress the balance by developing U.K. national type approval for commercial vehicles but so far there are no positive results. I really do urge that we address this question as a matter of urgency.

4. Japan

There is, finally, a further issue to which I wish to refer, namely the matter of the need for continuing restraint by Japanese manufacturers of their vehicle exports to the U.K. In this area I readily acknowledge that the U.K. motor industry, its many thousands of suppliers, and BL in particular, have been greatly helped by the considerable support which the Department of Trade has lent to the efforts of the SMMT.

continued.../

11th February, 1980.

The Rt. Hon. John Nott, M.P.,
Secretary of State for Trade.

A further round of SMMT/JAMA talks has just ended. Our impression is that the Japanese have accepted - reluctantly - a period of further restraint for 1980: but the understandings are opaque, if not ambiguous, and were only arrived at after some very blunt talking by the British side. Moreover, we are clear that it will be essential to obtain confirmation and reinforcement of the undertakings during the course of this year: as far as we are concerned, the Japanese are committed to not exceeding 10% of the total U.K. car market.

I hope your Department, with the assistance of FCO and the Embassy in Tokyo, can help to do this in no uncertain terms: as I have, I am sure, already demonstrated, we need this restraint now more than we ever did. In particular, we need to make it crystal clear to the Japanese that this policy of voluntary restraint must continue into the future: the suggestion I saw recently in the press that in 1981 the system could begin to be dismantled is totally out of the question, in my view.

I attach a copy of the jointly agreed minutes of the recent SMMT/JAMA meeting: these are not to be published but it was agreed they would form the basis of informal press briefing.

Thus with the exception of Japan, on all the other items I have mentioned above BL - and the U.K. - loses. I regret to note that in almost every instance the common thread linking these problems is the apparent inability of the U.K. Government to act because of some limitation imposed on us by the European Commission or the ramifications of Community membership. I quite understand that any club requires its members to observe rules but it does appear that there are more rules applying to the U.K. than to other EEC countries! Is this really the case, or are we simply reluctant to act, or have we simply failed to realise that in today's world economic climate charity begins at home? Historically, BL has been a staunch supporter of U.K. membership of the Community, but there are occasions when I really begin to wonder where our true national interests rest, if we are to play the game according to different rules to those followed by our "partners".

continued.../

11th February, 1980.

The Rt. Hon. John Nott, M.P.
Secretary of State for Trade.

In the next year or two we will need all the help we can get. I cannot believe that the Government is really as powerless to assist in these matters as it appears to be and I do earnestly seek your assistance to redress the unequal situation we face in these areas.

I propose to continue the dialogue on these broad matters with the unions.

I am sending a copy of this letter to Sir Keith Joseph, Mr. James Prior and Mr. Norman Fowler.

Yours sincerely,
Michael Snowe.



CF
 BL file
 12
 11/2

CHANCELLOR OF THE EXCHEQUER

cc Financial Secretary)
 Sir Douglas Wass) Without
 Mr Ryrrie) Attach-
 Mr F Jones) ment
 Mr Lovell)
 Mr Moore)
 Mr Ridley)

BL - MR BROCKLEBANK FOWLER MP - DISCUSSION WITH THE CHIEF SECRETARY

The Chief Secretary has seen the attached note by Mr Lovell and agrees with the comments made.

2. At his meeting with the Chief Secretary Mr Brocklebank Fowler said that he had discussed the Nissan ideas with Ian Gow, as well as with the Secretaries of State for Industry and Trade. So the Prime Minister may well have heard of them.

3. I understand from Sir Keith Joseph's office that Sir Keith will probably make some further report to the Prime Minister after his next meeting with Sir Michael Edwardes next week (13 February) and before the Prime Minister's meeting on 18 February. This report would be expected to cover the Brocklebank Fowler proposals as well as other BL developments.

APL

A C PIRIE
 8 January 1980
 Feb

1. Chief Secretary
2. Chancellor

cc Financial Secretary
Sir D Wass
Mr Ryrie
Mr F Jones
Mr Ridley
Mr Moore
IACS

BL- MR BROCKLEBANK FOWLER MP - DISCUSSION WITH THE CHIEF SECRETARY

Mr Brocklebank-Fowler is a consultant to Nissan who manufacture Datsun, and is a spokesman for Datsun dealers in the United Kingdom. He has recently returned from a visit from Japan and asked to meet the Chief Secretary to discuss a proposition to associate Nissan with BL. The meeting was held in the Chief Secretary's room at the House of Commons on February 7. I attended with Mr Pirie.

2. Mr Brocklebank-Fowler made it clear that the main purpose of his Japanese visit was to discuss Nissan general trading activities in this country. However, the opportunity arose to meet an Executive vice-president of Nissan on the international side of the business (Mr Okuma) to discuss the possibility of Nissan associating with BL. The long term aim would be to provide a minimum of 120,000 cars from UK sources, about half of which would be exported to EEC countries. Nissan envisage a three stage operation:

- (i) An initial build up of stocks of cars in this country to provide the base for market expansion. Mr Brocklebank-Fowler claims that this would not conflict with the SMMT's agreement on Japanese sales in this country. It would be sufficient to

build up stock levels to replace the 15,000 cars which were "lost" by the agreement. Sales would remain as under the agreement. The high stock levels are intended to support dealers who would be able to offer a wide range of cars far more promptly than is the case at the moment. Mr Brocklebank-Fowler did not believe that other Japanese manufacturers would press for comparable increases in their exports to this country.

(ii) In time - perhaps a year - Nissan would want to build an assembly plant in this country. Knock down cars would be imported from Japan, but there would be a modest UK added value. This is where the 120,000 target comes in. Preference would be for a green field site - certainly not existing BL plant given the state of labour relations. Milton Keynes was mentioned.

(iii) In the long run Nissan would aim for some kind of manufacturing tie up with BL. Nissan would provide the technical know how to build their latest models at existing BL plant.

Comments

3. The BL connection seems tenuous and barely relevant.

Mr Brocklebank-Fowler was not convincing on this point. A manufacturing relationship is clearly a long way off in this phased operation and while Mr Brocklebank-Fowler stressed the value to BL of Japanese participation (which needs little argument with us) it was not at all clear at this stage that this was anything more than a vague possibility to be explored some time in an unspecified future. Meanwhile, BL get nothing from the deal.

4. But if Nissan is seriously interested why did they not contact BL themselves? Again Mr Brocklebank-Fowler's replies were not convincing. He suggested that Nissan does not like Sir Michael Edwards because he went first to Honda; that the Japanese are cautious; that Nissan does not understand why BL did not themselves approach Nissan for help - it seems Wolsley helped Nissan in its early days.

5. If Nissan wants to assemble cars in this country they could apply for a green field site independently of a link with BL. The choice of Milton Keynes rather than a development area is perhaps politically difficult but not an insuperable obstacle given there is no public money involved. They would of course need an IDC and planning permission, but Milton Keynes is a new town. The implications of such a proposition for the UK and European car industry is a matter which would need to be examined.
6. In short, the Chief Secretary is sceptical that anything tangible is likely to come out of this approach. Throughout the discussion Mr Brocklebank-Fowler referred more than once to the prospect of a diminishing world demand for cars; the shrinking of the United States market; Nissan's dependence on a large and expanding market; the rigorous challenge in the UK market coming from Renaults; and perhaps (the real crunch) SMMT's forecast of a falling market demand in this country in the coming year - which means that the export arrangement will cover fewer cars. In spite of Mr Brocklebank-Fowler's denial, therefore, the objective seems to be no more than to secure acceptance for an increase in exports of Nissan cars to this country, ie the first phase and nothing more.
7. Mr Brocklebank-Fowler has seen Sir Keith Joseph and Mr Nott and the Chief Secretary agreed to bring the proposal to your attention. The Chief Secretary recommended that Mr Brocklebank-Fowler should speak to Sir Michael Edwards as soon as possible, and indeed, it seems that some kind of meeting has been arranged - although how far Sir Michael will be able to consider propositions like this in current circumstances must be open to doubt. Officials in the Treasury and in the Department of Industry share the Chief Secretary's scepticism.

AH
(A.H. LOVELL) - IA
8 February 1980



CC 01/I
1st Pd
Original in G/R
DS

CF to ABE

10 DOWNING STREET

THE PRIME MINISTER

8 February 1980

Dear Robert

Thank you for your letter of 21 January complaining about the way BL have conducted their negotiations with Aston Martin Lagonda (AML) on the possible sale of MG to AML. You have subsequently raised this issue during the Report Stage of the Industry Bill when you drew a distinction between BL's commercial interest and the UK national interest.

I do appreciate the feelings that have been aroused amongst many enthusiastic people who regard what has been made public about BL's plans as a threat to the MG name and tradition. I certainly sympathise with those who wish to see publicly owned commercial assets transferred back to private ownership. But Keith Joseph and I have considered this particular case very carefully and I have concluded, somewhat regretfully, that there is no justification for the Government seeking to intervene.

It is not for me to comment on BL's detailed plans for MG. As I understand the position BL plan to discontinue production of the MGB in about a year and to replace it by a new derivative of the present Triumph range. The MG name will be applied to the new model and to other BL cars in the future. So BL intend the MG marque to survive and they intend to exploit the MG tradition commercially in

/America and

KS

America and elsewhere. The Abingdon assembly plant will be turned over to other uses arising from the BL's new model programmes and, as I understand it, BL have made clear there are good prospects for employment at Abingdon. It is fair to say too that MG itself like other equally famous marques (Lagonda not excepted) has had to make the transition from one development line to another a number of times in the past.

Against this background BL have only recently received their first commercial offer from AML. Obviously I cannot comment on the substance or details of negotiations on what is a commercial matter between the two companies. Nor can I compel the BL Board to dispose of the MG marque and the Abingdon factory on commercially disadvantageous terms; these assets are owned indirectly by the taxpayer and our supporters would not I think applaud if we disposed of them on anything other than a commercial basis.

On the other hand the Government is not discouraging BL from disposing of MG and Abingdon. When announcing the Government's decision to fund the BL Corporate Plan last December Keith Joseph stated then that we should be looking to the Board to contribute to funding needs from its internal resources, including the disposal of assets where this made commercial sense. The Board of BL is a tough and resolute one and we must look to them to assess what does make commercial sense; but as Keith Joseph stressed they continue in a poor financial state and are facing strong competitive pressures and we must do nothing which would impose on them additional commercial or cost penalties.

Yours ever
Robert

Ind Pd



10 DOWNING STREET

From the Private Secretary

8 February, 1980.

Because of the visit of President Moi of Kenya to this country, the meeting to discuss British Leyland is now going to take place at 1530 on Monday, 18 February, at 10 Downing Street.

I am sending copies of this letter to Martin Hall (HM Treasury), Ian Fair (Department of Employment), Gerry Spence (Sir Kenneth Berrill's Office), and David Wright (Cabinet Office), and I hope this new time will be convenient.

CAROLINE STEPHENS

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

KRC

cc Mr. Lyman

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

2

From The Managing Director, Cars, BL

February 7th, 1980

T Duffy, Esq
President
Amalgamated Union of Engineering Workers
110 Peckham Road
LONDON
SE15 5EL

Tim
A very clear letter
and statement by BL
on Robinson. (A9)

Prin Amite

*One person at
- least has some
spine!*

A very good letter
and the statement
are most revealing.

Dear Terry

Prin

*R
2/2*

Since we received your report we have studied its contents with great care. The appendix to this letter sets out our detailed comments on a number of issues raised in the report. In this covering letter we will deal with what my colleagues and I regard as the fundamental issues.

We have reached two main conclusions on the Report:-

- 1 The enquiry has brought to light no new facts.
- 2 The report deals almost exclusively with the procedures that were applied in the disciplining of Mr Robinson. We have searched in vain for any views as to whether the Company was justified by the facts of the case in taking disciplinary action.

1...

I think it is common ground that if BL Cars is to survive (and we are determined it will) management and employees must work constructively together. It is our view that Mr Robinson's conduct over the past two years has proved convincingly that he is not prepared to work constructively either with the Company or, indeed, with your Union. As evidence of that statement I would remind you of the following -

- 1) he campaigned (and continues to campaign) against the Recovery Plan, this despite a 7 to 1 employee vote in its favour;
- 2) your own Enquiry Team reported on the way in which Mr Robinson has conducted himself as an AUEW convener. (Mr Robinson's statements yesterday to the media that the report "completely exonerated" him were typical of his tendency to mislead and misrepresent).
- 3) the miserable record of disputes and lost time at Longbridge since Mr Robinson became convener. This includes 523 internal disputes in some three years at a cost to production of 113,000 engines and 62,000 cars. These figures exclude the CSEU/EEF dispute and all other external issues.

Given the problems that BL Cars has to overcome and the responsibility we owe to hundreds of thousands of people who depend on the Company for their livelihood, we are not prepared to comply with the demand of your Union that Mr Robinson be reinstated. I have to admit to a feeling of surprise that given the whole series of public statements made by Mr Robinson over recent months he would wish to be employed by the Company.

Finally, I would like to comment on the suggestions made on television last night that Mr Robinson should be re-engaged as an employee on the basis that he would be de-barred from holding union office. Mr Robinson has apparently rejected that suggestion himself. I have to say to you that, based on his track record at this time, he is a person who is not suitable for re-employment by the Company.

Before Austin Morris dismissed Mr Robinson all the possible consequences were considered. No new fact has emerged that would justify a reconsideration of our decision. It is clear that not only our management but many Longbridge employees as well are convinced that the decision was right. We are not prepared to allow strike action to reverse a decision which, we are convinced, was fully justified.

/...

I urge upon you and your colleagues to consider once more the appalling consequences that could flow from your decision to back official strike action in support of Mr Robinson's reinstatement. In addition to the 20,000 employees at Longbridge upwards of 30,000 employees elsewhere in BL Cars would need to be laid off almost immediately.

If you are determined to go ahead, then we press you to do so only when you are certain that the majority of your members at Longbridge are prepared to back the strike. This can only be ascertained by a properly conducted ballot, as indeed is your practice in electing your own union officers.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Ray Horrocks', with a long horizontal flourish extending to the right.

RAY HORROCKS

REPORT OF AUEW COMMITTEE OF ENQUIRY INTO THE
DISMISSAL OF MR. DEREK ROBINSON: BL CARS RESPONSE

Mr. Terry Duffy, President of the AUEW advised the company, and subsequently announced publicly, that the Union supported the claim for the reinstatement of Mr. Robinson and was prepared to embark upon official strike action to achieve that objective.

The company has cooperated in providing information to the Enquiry Team, although it was made clear at the outset of the Enquiry that the company could not be bound by its findings, since it was essentially an AUEW internal investigation.

The company has now studied the Report and has concluded that it is not prepared to reinstate Mr. Robinson. His disruptive behaviour and damaging influence, as shown by the events in February and November 1979, make this impossible and a strike will not change that decision.

Official strike action by the AUEW can therefore do nothing but irreparable harm to BL and to the job security of tens and thousands of people, many of them members of the AUEW. The effect on the engineering industry and on the national economy will be disastrous, with foreign manufacturers and foreign employment being the only areas that gain from the dispute.

The company has been surprised and disappointed at some of the emphases which have emerged during press reporting of the AUEW decision. For example, Mr. Robinson claimed that the Report fully vindicates his opposition to the BL Plan (which had the support of the AUEW Executive Council and which received an 87% majority of all BL employees in a secret ballot): he also claimed that the Report exonerated him completely. Clearly this is nonsense. The Report is highly critical of Mr. Robinson's actions, in the following terms.

Page 9.

"Having said that, we must, as a Committee set up from the AUEW (Engineering Section) Executive Council, make some strong criticism of D. Robinson's performance as AUEW convenor. He should have made it perfectly clear to our stewards and membership in February that they must abide by the decision of the Trade Union Side of the LCJNC in relation to the giving of five days' notice of strike action. This decision was supported by the AUEW Executive Council and approved by the CSEU Executive."

"He failed to report to the District Secretary and District Committee that the Joint Stewards Body had made a contrary decision and he did not report to the District Committee that our members had withdrawn labour."

"Further, it is our view that he should have followed the example of J. Adams in relation to the 12th March meeting and reported that to District Committee through his District Secretary".

Page 12

"We feel, as an Enquiry Committee set up by the AUEW (Engineering Section) Executive Council, we must comment on D. Robinson's duties and responsibilities as our Convenor."

"He has no right as an AUEW convenor to put his name to this booklet without the prior approval of his District Committee and, thereafter, of the Executive Council."

"He has no right as our convenor to call for disruptive action within his District without the prior approval of his District Committee and, thereafter, the Executive Council."

"And he certainly has no right whatsoever to call for disruptive action in other Districts. This is interference in the constitutional rights of our District Committees."

Page 13

"We must, however, comment as a Committee on the serious failings and lack of responsibility shown by D. Robinson in relation to his duties as our AUEW convenor at Longbridge."

The management of BL Cars were even more concerned at his actions against the interests of the company and that is why the disciplinary decisions were taken in March and November. The company believes that it had a responsibility to take and implement those decisions: it was not prepared to abdicate that responsibility. The company notes with disappointment that the AUEW report is silent about Mr. Robinson's actions against the company. Indeed, it even fails to say anything specific about any disciplinary action the Union intends to take against Mr. Robinson for the shortcomings identified by the Enquiry Team.

Despite the reported view of the Enquiry Team that Mr. Robinson did not behave in a fit and proper manner as the Senior AUEW representative in Longbridge, and in particular that he exceeded and abused his constitutional authority in February and November, the enquiry concluded that he should not have been dismissed because in their view the March warning was not an official and formal warning. Yet, at a meeting on Tuesday evening, 5th February, between senior members of BL Ltd. and BL Cars and members of the AUEW Executive Committee, and subsequently, the AUEW agreed that had the company dismissed all four signatories of the 'Combine' booklet, the Executive Committee's conclusions would have been different. The only point of disagreement seems to be whether the March warning justified the more severe treatment. In the company's view it would have been unreasonable to dismiss all four signatories in November, since three of them had received no previous warnings. Mr. Robinson clearly had.

Senior management of the company spent the whole of yesterday examining the Report and questioning closely the Austin Morris management involved on the two occasions.

Following an exhaustive and frank investigation, the company is confident of the following facts:

1. There is no doubt that Mr. Robinson understood in March that he was being formally disciplined, and that any repetition of such irresponsible behaviour would result in his dismissal. Indeed he used the expression "I've got the message, but don't try to sack either me or Jack Adams because you will see what will happen".

This comment was contained in the written report of the meeting which was given to the Enquiry Team.

2. It is simply not true that the meeting lasted for only ten minutes, and indeed the subject matter described to the Enquiry Team by both management and Trade Union representatives was such that it could not possibly have been dealt with in that time. The meeting definitely lasted for at least 1½ hours, and its purpose was both explicit and clear.
3. Whilst arrangements were made by the company for a Full Time Union Official to be present at the November hearing, the company did not consider this to be necessary for the March incident, since it was a disciplinary warning and not dismissal at that time. Certainly if the facility had been requested by

Mr. Robinson, the company would have agreed. Both Mr. Robinson and Mr. Adams were senior and experienced union representatives, and the company therefore sees nothing wrong or improper with the procedure that was followed on that occasion.

4. The company was asked by the AUEW why it did not take steps subsequently to bring the matter to the attention of a Full Time Union Official. Yet Mr. Adams himself saw the need to report the incident to his own local Official. The fact that Mr. Robinson did not do so is not surprising in view of comments - already quoted - which are made in the Union Enquiry Report. In any case, the March Editorial of the AUEW Journal clearly shows that the company's problem with Mr. Robinson was known and understood at the highest levels of his Union.

The March warning was quite explicit and this sets Mr. Robinson's subsequent behaviour in November apart from that of the other three signatories. It is wrong to conclude that the March warning did not happen or that it was vague, or that Mr. Robinson did not understand its full consequences.

The other major point of criticism in the Report concerns whether the Manufacturing Director of Austin Morris was the correct person to hear the appeal in November in the light of his previous endorsement of the decision to dismiss. That appeal was, of course, presented by the AUEW District Secretary in the absence of Mr. Robinson, who had refused even to attend. The company wishes to state categorically that Mr. Gilroy was fully authorised to conduct the appeal and, if mitigating circumstances could be shown, to recommend that the decision be changed or reversed. The company believes that such a principle is widely understood and applied in industry, and considers that it does enable fair and logical procedures to be adopted.

The fact that the company has commented only on the above points of the Report does not, of course, indicate that it is in agreement with all of the other points made, but believes that these are the most significant items raised. The company is, of course, ready to discuss further with the AUEW any of the other points at any time.

The AUEW Executive Council had taken the decision to call an official strike at Longbridge before its meeting with the senior management of the company last Tuesday night. The AUEW Executive Council has not, so far, taken up the company's suggestion that, before embarking upon such a course, it should first ballot its members at Longbridge to see if it was their wish to support such action. In view of the consequences of such a damaging strike, the company would hope even at this stage that the AUEW might reconsider before calling a strike and assess the costs to itself as a Union, to its members and indeed to the whole economy of the country if it were to bring BL down.

Finally, the company believes it necessary to reiterate firmly that strike action will not succeed in changing its decision. Instead it will cause upwards of 30,000 people to be laid-off elsewhere in BL Cars in addition to around 20,000 at Longbridge, with presumably a knock-on effect upon supplier companies. The cash position of the company makes it impossible for it to cushion this effect in any way by building for stock, so the lay-offs will be virtually immediate. Austin Morris and other major parts of BL Cars will stop. All new investment will stop, with inevitable delays to new model programmes like the Mini Metro.

Should this action make it impossible for the company to achieve its 1980 Corporate Plan, BL Cars will have no option but to recommend to the BL Board the withdrawal of the BL Cars Plan. The consequences of disruption were clearly set out in the letter of 19th December last from Sir Michael Edwardes to the Secretary of State for Industry (copy attached) which formed the basis of the Government's approval of further funds. The company does not believe it can make any more clear how serious would be the results of the action now contemplated by the AUEW.

In all of these circumstances, the company asks the AUEW Executive Council to reconsider its position and not to call this damaging strike. At the very least, the company urges once again that the AUEW should ballot its members before calling them out on a strike which could cause such a massive loss of jobs and such long-term damaging effects on the British economy.

BL CARS LTD.
PORTMAN SQUARE,
LONDON W1.

7th February 1980

BL Limited
35-38 Portman Square,
London W1H 0BN.
Telephone: 01-486 6000. Telex: 263654.
Cables: Leymotors London NW1. Telex.

19th December 1979

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

I should like to make clear beyond any doubt the basis on which my Board have sought from the Government the funds needed for the 1980 Corporate Plan.

Considerable hazards face us from within and without. The Board will monitor progress very closely, and if shortfalls in performance place the achievement of the Plan in jeopardy, then the Board consider that they will have no option but to abandon the Plan.

In particular if there is a significant shortfall in cash flow whether due to major disruptions through internal or external strikes, or to delays in any of our programmes for investment and launch of new products, restructuring and redundancies or for improving productivity and working practices, or to any other cause internal or external, the Board will abandon the Plan.

If the Government decides to support the Plan and provide the funds, you can be assured that the Board and management will pursue it with the utmost determination and commitment. I have every reason to believe that this goes for our employees as well.

BF to FZ 13.2.80



had Pa

10 DOWNING STREET

British Loyalty File

Please let the
Private Offices of
those attending
know whether
officials are
expected or
not. Meeting
on 18 February.

E.S.

Mr Tim says do not
act on this.

FZ

Richard Sand
Dunstable. 13/2.

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

From The Managing Director, Cars, BL

February 7th, 1980

T Duffy, Esq
President
Amalgamated Union of Engineering Workers
110 Peckham Road
LONDON
SE15 5EL

Tim
A very clear letter
and statement by BL
on Robinson. (A)

Dear Terry

Since we received your report we have studied its contents with great care. The appendix to this letter sets out our detailed comments on a number of issues raised in the report. In this covering letter we will deal with what my colleagues and I regard as the fundamental issues.

We have reached two main conclusions on the Report:-

- 1 The enquiry has brought to light no new facts.
- 2 The report deals almost exclusively with the procedures that were applied in the disciplining of Mr Robinson. We have searched in vain for any views as to whether the Company was justified by the facts of the case in taking disciplinary action.

/...

I think it is common ground that if BL Cars is to survive (and we are determined it will) management and employees must work constructively together. It is our view that Mr Robinson's conduct over the past two years has proved convincingly that he is not prepared to work constructively either with the Company or, indeed, with your Union. As evidence of that statement I would remind you of the following -

- 1) he campaigned (and continues to campaign) against the Recovery Plan, this despite a 7 to 1 employee vote in its favour;
- 2) your own Enquiry Team reported on the way in which Mr Robinson has conducted himself as an AUEW convener. (Mr Robinson's statements yesterday to the media that the report "completely exonerated" him were typical of his tendency to mislead and misrepresent).
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Given the problems that BL Cars has to overcome and the responsibility we owe to hundreds of thousands of people who depend on the Company for their livelihood, we are not prepared to comply with the demand of your Union that Mr Robinson be reinstated. I have to admit to a feeling of surprise that given the whole series of public statements made by Mr Robinson over recent months he would wish to be employed by the Company.

Finally, I would like to comment on the suggestions made on television last night that Mr Robinson should be re-engaged as an employee on the basis that he would be de-barr'd from holding union office. Mr Robinson has apparently rejected that suggestion himself. I have to say to you that, based on his track record at this time, he is a person who is not suitable for re-employment by the Company.

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/...

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If you are determined to go ahead, then we press you to do so only when you are certain that the majority of your members at Longbridge are prepared to back the strike. This can only be ascertained by a properly conducted ballot, as indeed is your practice in electing your own union officers.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Ray Horrocks', written in dark ink.

RAY HORROCKS

REPORT OF AUEW COMMITTEE OF ENQUIRY INTO THE
DISMISSAL OF MR. DEREK ROBINSON: BL CARS RESPONSE

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The company has now studied the Report and has concluded that it is not prepared to reinstate Mr. Robinson. His disruptive behaviour and damaging influence, as shown by the events in February and November 1979, make this impossible and a strike will not change that decision.

Official strike action by the AUEW can therefore do nothing but irreparable harm to BL and to the job security of tens and thousands of people, many of them members of the AUEW. The effect on the engineering industry and on the national economy will be disastrous, with foreign manufacturers and foreign employment being the only areas that gain from the dispute.

The company has been surprised and disappointed at some of the emphases which have emerged during press reporting of the AUEW decision. For example, Mr. Robinson claimed that the Report fully vindicates his opposition to the BL Plan (which had the support of the AUEW Executive Council and which received an 87% majority of all BL employees in a secret ballot): he also claimed that the Report exonerated him completely. Clearly this is nonsense. The Report is highly critical of Mr. Robinson's actions, in the following terms.

Page 9.

"Having said that, we must, as a Committee set up from the AUEW (Engineering Section) Executive Council, make some strong criticism of D. Robinson's performance as AUEW convenor. He should have made it perfectly clear to our stewards and membership in February that they must abide by the decision of the Trade Union Side of the LCJNC in relation to the giving of five days' notice of strike action. This decision was supported by the AUEW Executive Council and approved by the CSEU Executive."

"He failed to report to the District Secretary and District Committee that the Joint Stewards Body had made a contrary decision and he did not report to the District Committee that our members had withdrawn labour."

"Further, it is our view that he should have followed the example of J. Adams in relation to the 12th March meeting and reported that to District Committee through his District Secretary".

Page 12

"We feel, as an Enquiry Committee set up by the AUEW (Engineering Section) Executive Council, we must comment on D. Robinson's duties and responsibilities as our Convenor."

"He has no right as an AUEW convenor to put his name to this booklet without the prior approval of his District Committee and, thereafter, of the Executive Council."

"He has no right as our convenor to call for disruptive action within his District without the prior approval of his District Committee and, thereafter, the Executive Council."

"And he certainly has no right whatsoever to call for disruptive action in other Districts. This is interference in the constitutional rights of our District Committees."

Page 13

"We must, however, comment as a Committee on the serious failings and lack of responsibility shown by D. Robinson in relation to his duties as our AUEW convenor at Longbridge."

The management of BL Cars were even more concerned at his actions against the interests of the company and that is why the disciplinary decisions were taken in March and November. The company believes that it had a responsibility to take and implement those decisions: it was not prepared to abdicate that responsibility. The company notes with disappointment that the AUEW report is silent about Mr. Robinson's actions against the company. Indeed, it even fails to say anything specific about any disciplinary action the Union intends to take against Mr. Robinson for the shortcomings identified by the Enquiry Team.

Despite the reported view of the Enquiry Team that Mr. Robinson did not behave in a fit and proper manner as the Senior AUEW representative in Longbridge, and in particular that he exceeded and abused his constitutional authority in February and November, the enquiry concluded that he should not have been dismissed because in their view the March warning was not an official and formal warning. Yet, at a meeting on Tuesday evening, 5th February, between senior members of BL Ltd. and BL Cars and members of the AUEW Executive Committee, and subsequently, the AUEW agreed that had the company dismissed all four signatories of the 'Combine' booklet, the Executive Committee's conclusions would have been different. The only point of disagreement seems to be whether the March warning justified the more severe treatment. In the company's view it would have been unreasonable to dismiss all four signatories in November, since three of them had received no previous warnings. Mr. Robinson clearly had.

Senior management of the company spent the whole of yesterday examining the Report and questioning closely the Austin Morris management involved on the two occasions.

Following an exhaustive and frank investigation , the company is confident of the following facts:

1. There is no doubt that Mr. Robinson understood in March that he was being formally disciplined, and that any repetition of such irresponsible behaviour would result in his dismissal. Indeed he used the expression "I've got the message, but don't try to sack either me or Jack Adams because you will see what will happen".

This comment was contained in the written report of the meeting which was given to the Enquiry Team.

2. It is simply not true that the meeting lasted for only ten minutes, and indeed the subject matter described to the Enquiry Team by both management and Trade Union representatives was such that it could not possibly have been dealt with in that time. The meeting definitely lasted for at least 1½ hours, and its purpose was both explicit and clear.
3. Whilst arrangements were made by the company for a Full Time Union Official to be present at the November hearing, the company did not consider this to be necessary for the March incident, since it was a disciplinary warning and not dismissal at that time. Certainly if the facility had been requested by

Mr. Robinson, the company would have agreed. Both Mr. Robinson and Mr. Adams were senior and experienced union representatives, and the company therefore sees nothing wrong or improper with the procedure that was followed on that occasion.

4. The company was asked by the AUEW why it did not take steps subsequently to bring the matter to the attention of a Full Time Union Official. Yet Mr. Adams himself saw the need to report the incident to his own local Official. The fact that Mr. Robinson did not do so is not surprising in view of comments - already quoted - which are made in the Union Enquiry Report. In any case, the March Editorial of the AUEW Journal clearly shows that the company's problem with Mr. Robinson was known and understood at the highest levels of his Union.

The March warning was quite explicit and this sets Mr. Robinson's subsequent behaviour in November apart from that of the other three signatories. It is wrong to conclude that the March warning did not happen or that it was vague, or that Mr. Robinson did not understand its full consequences.

The other major point of criticism in the Report concerns whether the Manufacturing Director of Austin Morris was the correct person to hear the appeal in November in the light of his previous endorsement of the decision to dismiss. That appeal was, of course, presented by the AUEW District Secretary in the absence of Mr. Robinson, who had refused even to attend. The company wishes to state categorically that Mr. Gilroy was fully authorised to conduct the appeal and, if mitigating circumstances could be shown, to recommend that the decision be changed or reversed. The company believes that such a principle is widely understood and applied in industry, and considers that it does enable fair and logical procedures to be adopted.

The fact that the company has commented only on the above points of the Report does not, of course, indicate that it is in agreement with all of the other points made, but believes that these are the most significant items raised. The company is, of course, ready to discuss further with the AUEW any of the other points at any time.

The AUEW Executive Council had taken the decision to call an official strike at Longbridge before its meeting with the senior management of the company last Tuesday night. The AUEW Executive Council has not, so far, taken up the company's suggestion that, before embarking upon such a course, it should first ballot its members at Longbridge to see if it was their wish to support such action. In view of the consequences of such a damaging strike, the company would hope even at this stage that the AUEW might reconsider before calling a strike and assess the costs to itself as a Union, to its members and indeed to the whole economy of the country if it were to bring BL down.

Finally, the company believes it necessary to reiterate firmly that strike action will not succeed in changing its decision. Instead it will cause upwards of 30,000 people to be laid-off elsewhere in BL Cars in addition to around 20,000 at Longbridge, with presumably a knock-on effect upon supplier companies. The cash position of the company makes it impossible for it to cushion this effect in any way by building for stock, so the lay-offs will be virtually immediate. Austin Morris and other major parts of BL Cars will stop. All new investment will stop, with inevitable delays to new model programmes like the Mini Metro.

Should this action make it impossible for the company to achieve its 1980 Corporate Plan, BL Cars will have no option but to recommend to the BL Board the withdrawal of the BL Cars Plan. The consequences of disruption were clearly set out in the letter of 19th December last from Sir Michael Edwardes to the Secretary of State for Industry (copy attached) which formed the basis of the Government's approval of further funds. The company does not believe it can make any more clear how serious would be the results of the action now contemplated by the AUEW.

In all of these circumstances, the company asks the AUEW Executive Council to reconsider its position and not to call this damaging strike. At the very least, the company urges once again that the AUEW should ballot its members before calling them out on a strike which could cause such a massive loss of jobs and such long-term damaging effects on the British economy.

BL CARS LTD.
PORTMAN SQUARE,
LONDON W1.

7th February 1980

BL Limited
35-38 Portman Square,
London W1H 0BN.
Telephone: 01-486 6000. Telex: 263654.
Cables: Leymotors London NW1. Telex.

19th December 1979

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

I should like to make clear beyond any doubt the basis on which my Board have sought from the Government the funds needed for the 1980 Corporate Plan.

Considerable hazards face us from within and without. The Board will monitor progress very closely, and if shortfalls in performance place the achievement of the Plan in jeopardy, then the Board consider that they will have no option but to abandon the Plan.

In particular if there is a significant shortfall in cash flow whether due to major disruptions through internal or external strikes, or to delays in any of our programmes for investment and launch of new products, restructuring and redundancies or for improving productivity and working practices, or to any other cause internal or external, the Board will abandon the Plan.

If the Government decides to support the Plan and provide the funds, you can be assured that the Board and management will pursue it with the utmost determination and commitment. I have every reason to believe that this goes for our employees as well.

CONFIDENTIAL



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

6 February 1980

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

*Para 3 in the
MAM*

2/2

Dear Tim

BL

Thank you for your letter of 4 February about the Prime Minister's wish to have a meeting to discuss the BL situation. This has been arranged for 18 February.

The Robinson Dispute

This morning the AUEW announced that their enquiry into the dismissal of Mr Derek Robinson had concluded that he had been unfairly dismissed and should be reinstated. They came to this decision on the basis that the warning he had been given in March last year was not so serious as to warrant giving him different treatment from the three others who signed the leaflet and were only reprimanded. The union were persuaded by Sir Michael Edwardes last night not to call for an immediate strike at Longbridge, but to await the company's public reaction. The company are now studying the report and we have no knowledge yet of what their reaction will be. The company will be writing to my Secretary of State later today.

Michael Edwardes has now rejected the AUEW demand

The Pay Ballot

The result of the union ballot in BL Cars will be known on 12 February. The outcome is far from certain but our best estimate is that it could well be inconclusive. The question itself "Do you support your Negotiating Committee's rejection of the company's wages and conditions offer" may be misunderstood by some workers (it requires a "No" vote to accept BL's proposals), there is some concern that improved offers to the steel workers may have encouraged BL employees to think that intransigence will produce an improved pay offer; and the ballot itself is confined to the hourly-paid, whereas the company's October ballot covered both staff and hourly-rated employees in the whole company including Leyland Vehicles. There are, however, some factors which should help the company; it has a much superior communications machine, acceptance of the company's offer will produce 3 months' back payment of the increase, and there is a

badly put ?

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fairly widespread appreciation of BL Cars' vulnerability. BL have given no hint that they have any intention of improving their wages offer or modifying their stand on demanding improved working practices if the ballot goes against them.

Once the ballot result is announced it will be for the unions in the first instance to interpret it. Unless there is overwhelming support for their stand they may well be chary about industrial action. The BL Board will consider the result of the ballot on 13 February and Sir Michael Edwardes is due to appear on television the following day.

Disposals and Contingency Planning

My Secretary of State has discussed with Sir Michael Edwardes the issue of disposals and collaboration with overseas manufacturers; he thinks that there can be no question of his acting behind Sir Michael's back on this issue. Sir Michael has his own views on the timing of any approaches to other companies. He has authorised a small number of his most senior staff to set in hand contingency planning as a matter of urgency. Officials from the Department of Industry and the Treasury will be involved in this work. I must stress that it of the greatest importance that knowledge of BL's contingency planning, and of officials' involvement, should be confined to as small a number of people as possible.

Performance

The present position on performance is that the January production figures are believed to be good but the sales performance was disappointing; BL captured only 14.98 per cent of a buoyant market. However, the UK sales campaign has only recently got under way and it is too early to form a view of its impact.

My Secretary of State proposes to send the Prime Minister a further note before the meeting on 18 February.

I am sending copies of this letter to Martin Hall (Treasury), David Wright (Cabinet Office) and Sir Kenneth Berrill.

Yours sincerely
I K C Ellison
I K C ELLISON
Private Secretary

B/F 15 . 2 . 80



Handwritten: mid. Fed

10 DOWNING STREET

PRIME MINISTER

On 18 February you are having a meeting of Ministers to take stock of the position of British Leyland. Those attending will be the Chancellor of the Exchequer, Sir Keith Joseph and Sir Kenneth Berrill. Would you also like Mr. Prior to attend?

Handwritten signature: K.J.

Handwritten: Yes
no

6 February 1980

Handwritten: Please file. Rang Mr Prior's
office to confirm.

Handwritten: R.P.

Handwritten: 2/2

P.A. Tape

6.2.80

Ind Bd

LEYLAND STRIKE THREAT OVER ROBINSON

BRITISH LEYLAND FACES ANOTHER STRIKE UNLESS THE MANAGEMENT REINSTATES SACKED CONVENOR DEREK ROBINSON.

THE EXECUTIVE OF HIS UNION, THE AMALGAMATED UNION OF ENGINEERING WORKERS, TODAY ANNOUNCED IN LONDON THAT, UNLESS THE COMPANY REINSTATES MR ROBINSON, ITS 3,000 MEMBERS AT THE AUSTIN-MORRIS LONGBRIDGE PLANT IN BIRMINGHAM WILL STRIKE.

LEYLAND CHAIRMAN SIR MICHAEL EDWARDES, WHO LAST NIGHT MET EXECUTIVE MEMBERS TO HEAR THEIR DECISION, HAS ASKED TO BE GIVEN UNTIL TOMORROW AFTERNOON TO CONSIDER THE DEMANDS.

"IF THE REPLY FROM SIR MICHAEL IS NEGATIVE WE SHALL IMPLEMENT OUR DECISION AND I WOULD EXPECT THE STRIKE TO START ON MONDAY" ENGINEERING UNION PRESIDENT TERRY DUFFY SAID.

PREVIOUSLY, SIR MICHAEL HAD SAID THAT IT WOULD REQUIRE "REMARKABLE EVIDENCE" TO LEAD THE COMPANY TO REINSTATE MR ROBINSON, WHO WAS SACKED FOR HIS PART IN A PROTEST AT THE EDWARDES' PLAN TO AXE 25,000 JOBS AND CLOSE OR PARTIALLY CLOSE 13 LEYLAND PLANTS.

LEYLAND WORKERS VOTED IN A BALLOT TO ACCEPT THE PLAN.

THE LARGEST LEYLAND UNION, THE TRANSPORT AND GENERAL WORKERS, HAD ALREADY SANCTIONED OFFICIAL ACTION IN SUPPORT OF MR ROBINSON, BUT ORDERED ITS MEMBERS TO CONTINUE WORKING AFTER THE ENGINEERING UNION SET UP ITS OWN INQUIRY INTO THE DISMISSAL.

1117

FILE
B/F 15.2.80

had RH
PST

5 February 1980

British Leyland

Further to Tim Lankester's letter of 4 February on the above, I am writing to confirm that the meeting to discuss this subject will take place at 11.15 am at 10 Downing Street on Monday, 18 February.

The Prime Minister wishes the Chancellor of the Exchequer and Sir Kenneth Berrill to be present so I am sending a copy of this letter to their Private Secretaries as well as to David Wright (Cabinet Office).

CAROLINE STEPHENS

Ian Ellison Esq
Department of Industry

CONFIDENTIAL

pd B



bc Caroline
John Hoskyns
Employed

10 DOWNING STREET

From the Private Secretary

4 February 1980

1) ~~BF 13-2-80~~
2) ~~BF 15-2-80~~
 to notify on 18/2

*Industrial
Policy*

British Leyland

The Prime Minister would like to hold a meeting with your Secretary of State and the Chancellor of the Exchequer to take stock of the position at British Leyland. Against the background of the decisions on further funding of BL which were taken in December, the Prime Minister would like to review the company's prospects in the light of the outcome of the ballot on pay (which I understand should be known on 12 February) and its latest production and sales figures; she would also like to review the latest prospects for possible disposals and collaborations. It would be helpful if Sir Keith could circulate a "state of play" note.

(1)

I am sending copies of this letter to Martin Hall (HM Treasury) and David Wright (Cabinet Office); and also to Sir Kenneth Berrill, whom the Prime Minister would like to attend the meeting. Caroline Stephens will be in touch with you to arrange a convenient time and date.

T. P. LANKESTER

180

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

BRITISH LEYLAND

The Prime Minister agreed with my suggestion, in my minute of 21 December 1979, that we should have a meeting to review our position on BL, with particular emphasis on what we would do if the BL pay negotiations broke down or the ballot result was a "yes" to the shop stewards' rejection of BL's proposals.

Although one could argue that, with so many uncertainties over the steel dispute etc, this isn't the right time to do such a review, I would argue the other way round, and say that the existence of the uncertainties means that we should stop and think about BL now before it gets too late. All the experience of the last eight months is that we tend not to do ~~our~~ ^{our} hard thinking while there is still time to translate the thinking into action.

I would therefore like to suggest that the Secretary of State for Industry prepares a short paper for discussion and that there is a meeting of the Prime Minister, Chancellor, Sir Keith, Sir Kenneth Berrill and myself. If this meeting took place in the next fortnight, it would be against a reasonably predictable background - either the steel strike would have been settled or it would be approaching the point where it might be starting to threaten BL's survival.

JK

Prime Minute

Agreed not.

JOHN HOSKYNs
31 January 1980

A review meeting would seem to be a good idea. The ballot papers are going today, and the results should be known on 12 Feb. Sir Keith also meets Lutz (the Ford Europe. chief) on 12 Feb. Peter Cory has already spoken to Michael Edmonds about disposals: he, perhaps understandably, is keen on concentrating on turning BL round rather than thinking about disposals/sale.

Th. 2/1/80

PRIME MINISTER

POSSIBLE SALE OF BRITISH LEYLAND

This looks a very promising initiative. Ken Berrill believes that if Ford were to purchase BL, this would probably mean a smaller Exchequer cost than our existing commitment to BL; and infinitely less than the cost to Government if BL collapses. There are two points for decision:

(1) Are you content for Ken Berrill to set in motion exploratory talks between Mr. Robert Lutz and Sir Keith Joseph? *Yes. out.*

(2) Are you content for the CPRS to "keep a watching brief" on your behalf? Ken Berrill would like to have your blessing to attend the Joseph/Lutz meeting.

- I can't see I have a word about this. There are reasons which make me doubtful about it.

There might be a case for you seeing Lutz to give him the green light. This would serve to emphasise how seriously we take the proposal. On the other hand, it would also emphasise our position as the demandeur and perhaps weaken our bargaining posture if and when negotiations begin. On the whole, I think it would be best to leave it to Keith Joseph at this stage.

12.

17 January 1980

COMMERCIAL - SECRET

Qa 04404

To: MR LANKESTER

From: SIR KENNETH BERRILL

Sale of British Leyland

1. On 19 December at the conclusion of the Ministerial discussion in E Committee on the BL Plan, it was agreed (i) for 1980/81 publicly to back the Edwardes Plan, with the very tough undertakings which the BL Board themselves insisted on giving; and (ii) that the chances of success were so remote and the cost of collapse so high that no time must be lost by the BL Board in making 'contingency plans', i.e. looking for possible purchasers of all or parts of the organisation. (Sir Keith Joseph thought a buyer for the whole was most unlikely; the CPRS was more sanguine.)

2. Yesterday I had an approach on this subject of some importance and I thought that the Prime Minister might like to know of it.

3. The approach was from an Englishman (Mr James Ensor) with whom the CPRS had had close contacts ever since we wrote our report on the British Motor Industry. At that time Ensor worked with Lord Ryder on his BL Report, subsequently in the NEB on the car industry, then for Renault. He has just joined Ford of Europe as Director of Government Affairs with the responsibility for liaison with Governments throughout Europe.

4. To put the point briefly: Ensor was conveying a formal message from the Chairman of Ford of Europe, Mr Robert Lutz, that he would like to have a very private word with the responsible Minister in the British Government (Sir Keith Joseph) on how the authorities here would regard Ford taking on part (or just conceivably all) of BL, i.e. would the British Government be worried at one company having such a large share of the UK market. (The combined Ford and BL share of the UK car market would be 45 per cent - similar to Peugeot's in France and Fiat's in Italy.) Also, Ford are constrained by US anti-trust legislation in their operations worldwide. They want the protection of an 'OK in Whitehall' clearance (also not to waste their time) before they go to BL to open any negotiations.

5. Clearly it is important that any talks in Whitehall (and indeed at least any early talks with BL) should be kept completely confidential. Mr Lutz has not yet cleared his lines with Detroit. He saw no point in doing so until he had at least a UK Government green light. But given the Ministerial discussions at E, I see no arguments against my talking very privately to Sir Peter Carey and urging an early meeting between Sir Keith Joseph and Mr Robert Lutz (with perhaps a couple of officials). After that I assume it will be 'over to BL'. Sir Michael Edwardes may initially be annoyed that Lutz came to the Government first but he will get the point that Ford needed a green light before putting such a large cat among the pigeons.

6. The negotiations would be complex and possibly long drawn out. I attach a note by the CPRS on how, at this stage, we see the cards from the Ford side. I am assuming that, given the costs of a BL collapse, the Prime Minister will continue to take a keen personal interest in all this. Would she also wish the CPRS to keep a watching brief on her behalf and on behalf of Ministers collectively? I am also assuming that the Prime Minister would not herself be opposed to Ford having a dominant position in the UK market.

7. I am sending a copy of this minute and attachment to Sir Robert Armstrong but I have not copied it outside the Cabinet Office.

K.B.

17 January 1980

Att

COMMERCIAL - SECRET

Note by the Central Policy Review Staff

British Leyland: A Ford Takeover?

1. Ford are one of the handful of companies that have both the resources to take over the entire BL operation and the quality of management to make a success of it. But what we believe to be more important is that Ford have the motivation. They will, however, expect to be courted and can be expected to drive a hard bargain.

2. Ford's Motivations. Their motivations are a mixture of positive and defensive ones:

(a) To enter the specialist car market. Ford of Europe have long wanted to be better represented at the top end of the car market (they have nothing more prestigious than the Granada to fight Mercedes and BMW). The Daimler, Jaguar, and Rover marques are prizes for which they will pay highly. The profitable four-wheel-drive business is also very attractive to Ford.

(b) To reinforce Ford's truck and bus operations. Ford are strong in light vans and light/medium trucks, but relatively weak in heavy trucks and buses. Their coverage in these sectors would be greatly enhanced by the addition of Leyland's Heavy Vehicle and Bus Divisions.

(c) To protect the UK component industry. Ford are more dependent on a healthy low-cost UK component industry than any of the five other major European motor manufacturers. (British components are used extensively at Ford's plants in Germany, Belgium and Spain.) Ford are anxious to prevent a collapse of BL because this would undoubtedly damage the UK component industry and lead to much higher costs to Ford.

(d) To protect Ford's UK market. The UK car market has been very profitable for Ford and they are also the market leader. Ford would not want BL's dealer network to fall en masse to any of their major competitors, particularly General Motors or Volkswagen.

3. Ford are clearly more interested in parts of BL than they would be in the whole. They will be particularly reluctant to take on the plants at Longbridge, Cowley, and Bathgate because of their poor productivity, need for new models, need for new investment and in particular because they produce models in direct competition with products where Ford are strongest. Nevertheless, we believe that Ford's motivations - positive and defensive - are such that they could be persuaded to take on the whole of BL. It would certainly involve the Government in a handsome dowry, but our present view is that the costs would be substantially less than the open-ended commitment if BL remain independent.

4. Further points to bear in mind in preliminary discussions with Ford are:

- (a) Ford's UK operations are immensely profitable. We understand (not confirmed) that Ford of UK made around £400m. in profits last year. Ford have also mastered many of the labour problems that still dog BL. Ford management is probably better equipped than any other to tackle BL's underlying problems.
- (b) Ford would prefer to have nothing at all to do with Longbridge and Cowley. However, the Mini-Metro to be produced at Longbridge could fit in quite well below Ford's smallest car, the Fiesta. We believe that Ford could be persuaded to keep Longbridge open long enough to see whether the Metro could be a profitable car. The question of Cowley is more difficult. The works require heavy investment in new plant as well as new models. However, at this moment, Ford are looking for a site for new assembly plant in Europe. We understand that they favour Portugal where Government incentives are high and labour costs low. A sufficiently attractive package would make Ford consider Cowley.
- (c) Ford would almost certainly not take over BL as it stands to-day. They would insist that all the plant rationalisation and demanning, etc. envisaged under the Edwardes Plan should be completed in the name of the British Government. They would not want to risk union disputes over these essential measures spreading to Ford plants in the UK. Ford's have spent five years trying to cure themselves of the 'British disease' and they won't want to be re-infected from Austin-Morris.

They might insist that, for a while at least, the Austin-Morris division remained nominally a separated company (though managed by Ford) so that the shop stewards at Longbridge-Cowley would not feel that Ford's UK profits were available to meet their demands.

Conclusions

5. Our main conclusion is that the Government is unlikely to frighten Ford away by insisting that BL is for sale as an entity only. The cost to HMG of a Ford take-over will be considerable. But Ford might well succeed in preserving the British motor manufacturing and motor components industries whereas we fear that the Edwardes Plan is bound to fail.

But
less than
our
current
commitment
to BL
P.

17 January 1980

Ind Policy

BRITISH LEYLAND - LESSONS LEARNED SO FAR

It is important that we document the present position on BL, so that we develop a "learning curve" and get the approach better next time - whether for BL or some other problem situation.

1. OUR ORIGINAL OBJECTIVES

I think we agreed that, if we had to give BL further finance, we would want to get the following political and economic "goods" for our money:

- (i) Demonstrate Government's support for moderate union behaviour, with the unions responsible if things go wrong.
- (ii) Set the scene for the ending of the BL saga, whenever and however it happens, so that it cannot do us further political damage.
- (iii) Use our handling of the BL problem to teach reality and demonstrate our refusal to fudge difficult issues.
- (iv) Minimise the long run economic impact of the BL problem.

2. HAVE WE ACHIEVED OUR OBJECTIVES?

2.1 Looking at these four objectives in turn:

- (i) The reinforcing of moderate union behaviour at the expense of the militants is still going well. This must be because Keith left Edwardes in no doubt, from early September onwards, that this Government was not afraid to pull the rug if that seemed the right thing to do.
- (ii) We have not set the scene for the next step of the BL story.
- (iii) We have not really used the BL situation to teach reality or demonstrate our own realism.
- (iv) We have faced, internally, the fact that the BL problem is almost insoluble. We have agreed that a search for buyers must start forthwith.

3. SETTING THE SCENE FOR THE NEXT STEP

- 3.1 Many hours were spent by the Bullock group studying the BL Plan. But very little time was devoted to the Government's political strategy, until the Honda deadline meant that there was really no time left. As a result, we have not yet established clearly enough, in our own minds, where we stand.
- 3.2 For example, what is the likely outcome at the end of year one, if we have not found a buyer, and the BL Board has not recommended abandonment of the Plan? There are really only two outcomes, in that case, one year from now:

(I) BL is either on Plan and we therefore give them tranche number two for the second year.

or (II) BL is not on Plan. Who would decide that that is the case? BL Board, NEB, or Government? How? When? Are we ready to face the full implications of break-up/run-down at that point if no buyer is in prospect? Have we ensured that there will not then be a dove-hawk split in Cabinet?

3.3 Are we all set to bite the bullet if BL Board does pull the plug in the next few months (eg as the result of a steel strike)? This question was never discussed explicitly at E.

3.4 Or are we really taking a different view, without spelling it out in so many words? This might be that the Net Present Value of *all* future subventions to keep BL ticking over is almost certainly likely to be less than the NPV of closure. That is, by implication, the DoI officials' view, and it would be a perfectly respectable position to take, except that we have never in fact asked ourselves that question.

3.5 We have never really answered these questions in a way that clears colleagues' minds. This was why we kept raising the question of the Honda decision; not because we were against the Honda deal (far from it) but because we felt that the Honda deal was being used to force us, quite unnecessarily, into a quick decision and a quick statement.

4. WHAT THE STATEMENT SHOULD HAVE SAID

4.1 If we had had more time, I suggest that the draft should have made the following points:

- (a) Draw special attention to the BL Board's acceptance (in its letter) that failure for any reasons would lead to the same result. Stress that the dreamworld of past years in which BL has been protected from the external hazards which every other business has to face, is ended. The latest letter from Edwardes to Keith and the message from him to the work force, is a great advance on what went before and helps us to establish the criteria by which future decisions will be made.
- (b) Make a more specific reference to the voice of the moderates in the work force, BL management's stand against the militants. The Government's readiness to back BL is in part a recognition that there are people there who deserve the chance.
- (c) Answer, before it is asked, the inevitable question "what happens in a year's time?" Make it clear that BL will continue to come under NEB, that NEB (under its new hard man, Knight, appointed as Keith's own choice) will judge whether BL is still on course. In other words, while the BL Board might well pull the plug of its own volition, the NEB could recommend pulling the plug to the Government, whatever the BL Board may feel. We were quite right to say that the Government should not pull the plug now, while Edwardes enjoys hero status, provided we set the scene, now, for doing so later if we have to. ("They did what they always said they'd do.")

(d) Make it absolutely clear that what will not happen next time is what has always happened in the past - that a new management team puts forward a new Plan with (surprise, surprise) larger funding requirements, and the Government explains that it must give the new management a chance with a Plan in which management believes.

4.2 The view put forward at E by the Home Secretary and backed by John Nott was, in our view, absolutely wrong. It was the stale political conventional wisdom of UK's post-war failure; say as little as possible in the statement, and leave all available funk holes open; ie "Yes, we really are tough, but next year, not this". We have in my view ended up doing exactly what the DoI officials wanted us to do from the outset - to give them the money, with minimum explanation and no strings and let tomorrow take care of itself.

5. ARE WE PREPARED TO FACE REALITY?

5.1 If we mean business, our statement should have proved it unambiguously. We should have broken all the codes of Westminster fudging conventions by giving hostages to fortune, by setting the criteria for our decision in a year's time as clearly and as publicly as possible so that the public knew (and not least the work force at BL) that we really would bite the bullet if there was nothing else left to do. I doubt if we have successfully done that. Our actions are identical to the actions of Labour right through the Ryder Plan with a rationale for each year's cave-in.

5.2 If, notwithstanding these comments, we are prepared for the worst (eg if BL Board pulled the plug quite soon) it's worth thinking early, just how we would handle the resulting costs which would be likely to break the new funding profile, unless we were extremely lucky with a quick sale. If the total cost was, for example, a further £500m in the first year, we have to explain that we cannot print or borrow the money and that there is not enough time to make further public spending cuts of that order; and that we must therefore raise the money by additional taxation specifically to deal with the BL problem - say, £30 from each of 17 million households. Both our actions, and our words, must make it clear that Britain's post-war dreamworld is over.

6. BE PREPARED

6.1 We are analysing the press cuttings on the BL statement, to see how it has been received. First indications are reasonable, but this has nothing to do with the problems which still lie ahead of us when things go wrong again.

6.2 I suggest that we have a review (a very small group of people so that we can really get our arms around the problem) at about the end of January in order to anticipate the way in which the BL story is likely to evolve, and to establish clearly, before it is too late, what the main decision points and lead-times are so that we do have enough time to think about the right things and prepare the right messages, so that we don't simply get caught short by another deadline like the Honda one.

Out of all this, it should be possible for us to prepare some general guidelines which may improve our chances of getting it right, on the next BL-type problem.

I am copying this to Geoffrey and Keith.



JOHN HOSKYNS
21 December 1979

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard
Columns 884-894

20/12/79
British Leyland

Signed AWayland Date 4 May 2010

PREM Records Team



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

*(CF) Returned SF.
20.12.79*

*Prime Minister seen
You will wish to see.*

Tim Lankester Esq
10 Downing Street
London SW1

*Hand
written
TL.*

19 December 1979

*Clatter
Duty Clerk
19.12*

Dear Tim

FUTURE OF BL LIMITED

Following the discussion in E Committee this afternoon I enclose the text of a revised draft statement which my Secretary of State wishes to make tomorrow afternoon. I also enclose the agreed text of a letter which Sir Michael Edwardes is in the process of sending to my Secretary of State but will not reach us until tomorrow morning.

I also enclose the text of the proposed agreement between BL and Honda together with a short note by officials dealing with the Prime Minister's questions about the extent to which the agreement commits BL, and the Government, to further expenditure. The text of the agreement is the only copy available to us and I should be grateful if it could be returned to us in due course.

I am sending copies of this letter and of the draft statement and BL letter to the Private Secretaries to all Members of the Cabinet, to the Minister of Transport and to Sir Robert Armstrong and Sir Kenneth Berrill.

*Yours sincerely
Ian Ellison*

I K C ELLISON
Private Secretary

COMMERCIAL IN CONFIDENCE

LONG-TERM OBLIGATIONS ON BL UNDER HONDA AGREEMENT

- 1 The Agreement is to last for 5 years from the date on which BL commence commercial production.
- 2 So long as the Agreement lasts, BL are committed to make minimum royalty payments of some £6M over 3 years irrespective of the level of sales.
- 3 BL are obliged to maintain for 10 years an adequate supply of spare parts in relation to Honda-supplied components.
- 4 BL are required to order Honda kits for assembly 6 months ahead and Honda spare parts 4 months ahead.
- 5 If there is a drastic reduction in sales of other Honda cars in Europe which is not matched outside Europe, Honda may require BL to produce on Honda's behalf additional quantities of the LC9 to be sold by Honda in Europe. The two companies would discuss the appropriate sharing of the costs.
- 6 Either party can terminate the Agreement in a variety of specified circumstances. These include liquidation of BL, cessation of majority share ownership in BL by HMG or its agency, major delays to the start of component supply from Japan and rejection by the EEC. BL are obliged to make minimum royalty payments in the event of termination from any cause.



CONFIDENTIAL

Attachment to
Ind to TL 19.12.79

DRAFT PARLIAMENTARY STATEMENT ON BL

With permission I should like to make a statement about the BL 1980 Corporate Plan.

In reviewing this Plan the Government has borne very much in mind its responsibilities to the taxpayer as well as to all those concerned with the future of BL. I am bound to say that the situation is not encouraging; the company continues to be in a poor financial state and faces strong competitive pressures in the 1980s. Only with very substantial improvements in BL's all round performance will the company survive; success cannot by any means be guaranteed.

Details of BL's recent performance and of the Plan are contained in a report by the staff of the National Enterprise Board which I have today placed in the Library of the House and in the Vote Office.

The Plan offers, in the BL Board's view, the only feasible strategy which could give BL the chance of being viable. The Chairman of BL has sent me a letter which states clearly that if there is a significant shortfall in cash flow whether due to major disruptions through internal or external strikes, or to delays in any of their programmes for investment and launch of new products, restructuring and redundancies or for improving productivity and working practices, or to any other cause internal or external, the Board will abandon the Plan.

The Plan envisages a requirement for £297 million of public funds in 1980, with a further £135 million between 1981 and 1985. These two sums together represent the £225 million balance of the original Ryder £1,000 million plus £205 million to meet the cost of redundancies and closures under the management's restructuring programme. [BL aims to make a 15% return on assets by 1985, but expect achievement of their financial duty of a 10% return by 1981 to be delayed by a year.]



CONFIDENTIAL

The company seek approval at this stage for only their 1980 requirements.

In the light of the Chairman's letter which I am publishing in the Official Report the Government has decided to fund the Plan up to the end of 1980/81 by the provision of £150 million in equity form, with an additional facility on which BL would be entitled to draw on evidence of need up to a maximum of a further £150 million. In addition, we accept the BL Board's request for conversion to equity of the £150 million loans provided in 1977. The Government will also be looking to BL to contribute to funding needs from its internal resources, including the disposal of assets where this makes commercial sense.

To the extent that the Plan calls for funds going beyond the Ryder £1,000 million clearance from the Common Market Commission will be necessary.

I am sure that Rt Hon and Hon Members on both sides will join with me in wishing the BL Board, management and workforce success in the task that lies ahead.

FROM SIR MICHAEL EDWARDS

19 December 1979

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

I should like to make clear beyond any doubt the basis on which my Board have sought from the Government the funds needed for the 1980 Corporate Plan.

Considerable hazards face us from within and without. The Board will monitor progress very closely, and if shortfalls in performance place the achievement of the Plan in jeopardy, then the Board consider that they will have no option but to abandon the Plan.

In particular if there is a significant shortfall in cash flow whether due to major disruptions through internal or external strikes, or to delays in any of our programmes for investment and launch of new products, restructuring and redundancies or for improving productivity and working practices, or to any other cause internal or external, the Board will abandon the Plan.

If the Government decides to support the Plan and provide the funds, you can be assured that the Board and management will pursue it with the utmost determination and commitment. I have every reason to believe that this goes for our employees as well.

Yours

LONG-TERM OBLIGATIONS ON BL UNDER HONDA AGREEMENT

- 1 The Agreement is to last for 5 years from the date on which BL commence commercial production.
2. So long as the Agreement lasts, BL are committed to make minimum royalty payments of some £6M over 3 years irrespective of the level of sales.
- 3 BL are obliged to maintain for 10 years an adequate supply of spare parts in relation to Honda-supplied components.
- 4 BL are required to order Honda kits for assembly 6 months ahead and Honda spare parts 4 months ahead.
5. If there is a drastic reduction in sales of other Honda cars in Europe which is not matched outside Europe, Honda may require BL to produce on Honda's behalf additional quantities of the LC9 to be sold by Honda in Europe. The two companies would discuss the appropriate sharing of the costs.
6. Either party can terminate the Agreement in a variety of specified circumstances. These include liquidation of BL, cessation of majority share ownership in BL by HMG or its agency, major delays to the start of component supply from Japan and rejection by the EEC. BL are obliged to make minimum royalty payments in the event of termination from any cause.

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COPY No.1

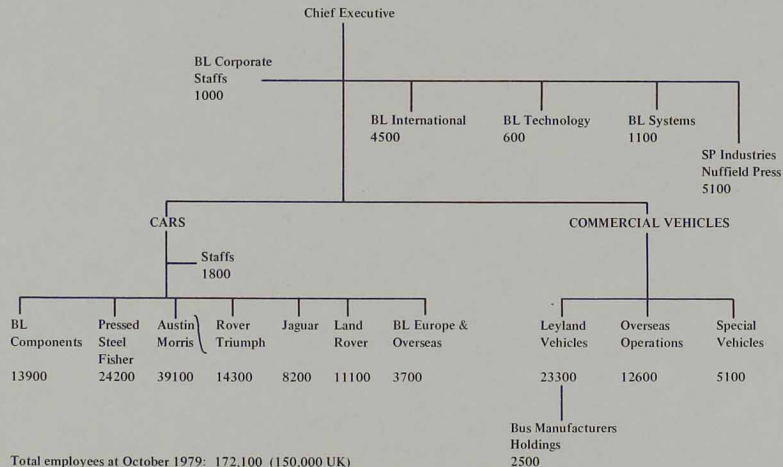


BL - PRESENTATION TO THE PRIME MINISTER

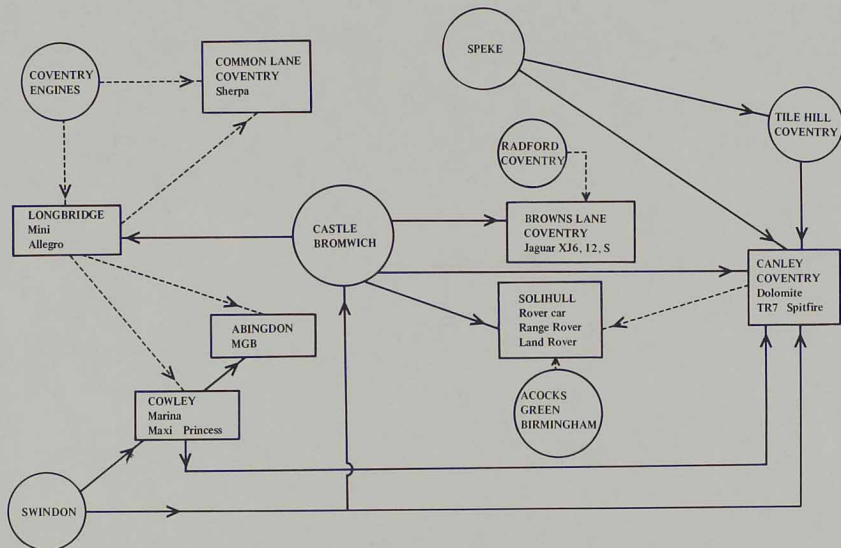
19 DECEMBER 1979

COMMERCIAL IN CONFIDENCE

BL : ORGANISATION CHART (1979)



BL CARS : MAIN PLANTS

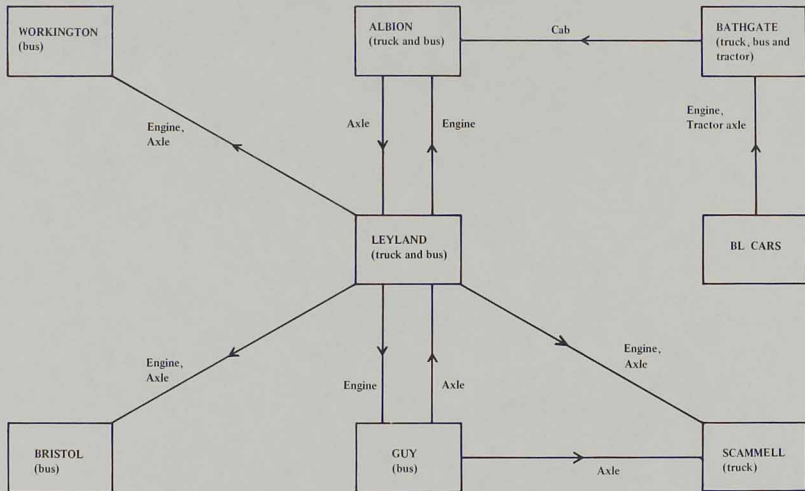


NB This chart shows only the movement of bodies and engines; it excludes all other major and minor components made in BL plants

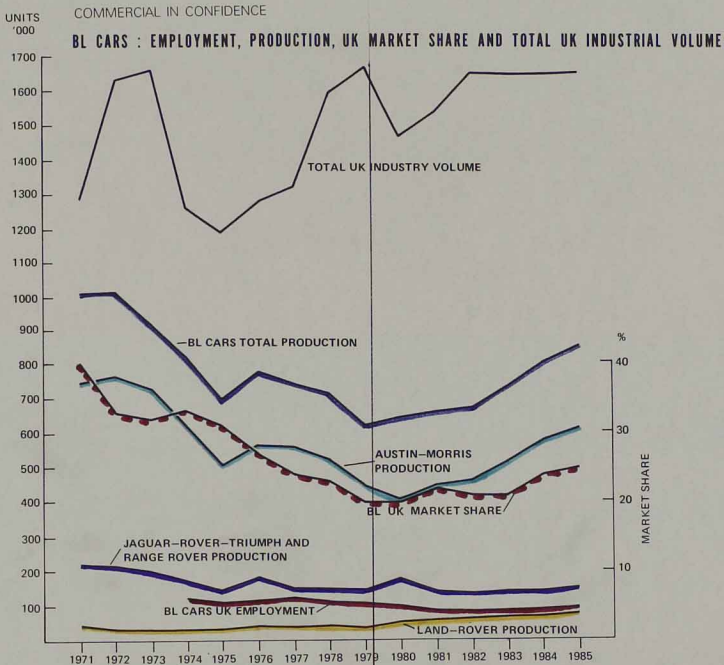
KEY

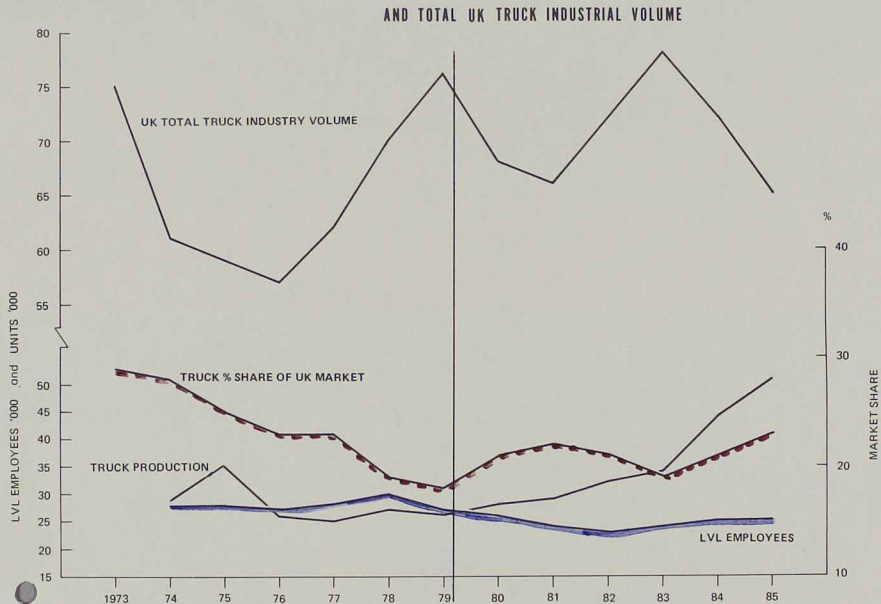
- Assembly Plant
- Component Plant
- Supply of pressings and bodies
- - - → Supply of engines

BL LEYLAND VEHICLES : MAIN PLANTS

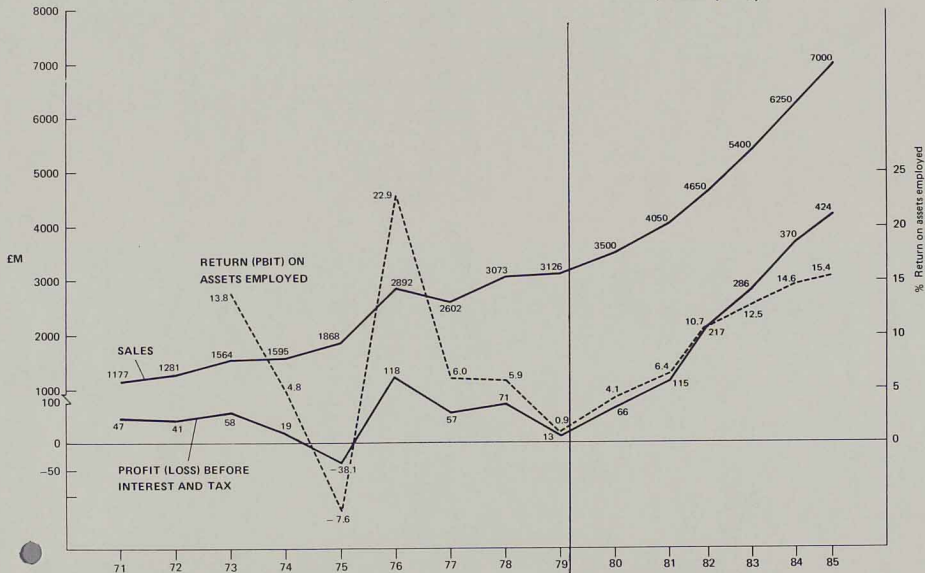


N.B. This chart shows only the movement of Engines Axles and Cabs. It excludes other major and minor components received from BL Cars plants and other LVL plants





BL : SALES, PROFIT (LOSS), AND RETURN ON ASSETS EMPLOYED (Current prices)



MAIN FEATURES OF 1980 PLAN

- REALISM
- REDUCTION OF FIXED COSTS
- REDUCTION OF MANPOWER
- ACCELERATED INTRODUCTION OF NEW MODELS
- RATIONALISATION OF MODELS, ENGINES, GEARBOXES
- EFFECTIVE AND CONTINUOUS WORKING BY INCENTIVES AND FIRM MANAGEMENT
- REDUCTION OF WORKING CAPITAL, ESP. INVENTORY

Objectives

Return to trading profit in 1980
 Return on assets passing 10% in 1982 (present financial duty 1981)
 -do- 4 15% in 1985 4
 Positive cash-flow in 1985

- ① Strong $\frac{1}{2}$
- ② New models
- ③ Disposal

CARS CURRENT AND FUTURE MODEL RANGE

																% of volume by range 1979	% of volume by range 1985			
Small	Mini (1959) Longbridge															27	28			
		Metro LC8 Longbridge																		
Medium	Maxi (1969) Cowley	Marina Cowley Dolomite Canley	Allegro Longbridge													33	22			
			LC9 Cowley LC10 Longbridge																	
Large	Jaguar XJ 6/12 (1968) Browns Lane Coventry	Princess Cowley														16	30			
		Rover SD1 Solihull XJS Browns Lane Coventry LCH/LCHX Cowley Rover SD3 Solihull XJ40 Browns Lane Coventry																		
		Pre 1970	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85		

COMMENTS ON 1980 PLAN

MORE RISKS THAN OPPORTUNITIES:

- A - INABILITY OF MANAGEMENT TO ACHIEVE PLAN PERFORMANCE
- B - LACK OF WORKFORCE CO-OPERATION (LINKED WITH A)
- C - INADEQUATE TECHNICAL RESOURCES
- D - ECONOMIC FACTORS
- E - FAILURE TO HOLD/ACHIEVE MARKET SHARE
- F - LOSS OF CONFIDENCE

SENSITIVITIES:

CARS UK MARKET SHARE	- 1%	=	PBIT	- £17M
ONE WEEK TOTAL STRIKE		=	PBIT	- £25M
UK CAR MARKET	- 5%	=	PBIT	- £17M
PRICING SHORTFALL	1%	=	PBIT	- £22M

OFFICIALS' ASSESSMENT : CHANCES OF SUCCESS <50%

1980 CRITICAL YEAR

COMMERCIAL IN CONFIDENCE

BL FUNDING REQUEST

- A Remaining £225M of 'Ryder' £1000M as equity in 1980
 B Govt to bear special reconstruction and redundancy costs totalling £205M 1980-84
 C Existing £150M of loans to be converted to equity in 1980 →

ANNUAL INCIDENCE OF FUNDING/PES PROVISION

	1	2	3	4	5	6	7
	Reconstruction	BL REQUEST Interest forgone on loans	Other	Total	PES Provision	Excess over PES Provision	Charge on Contingency Reserve *
1980-81	72	22	225	319	150	169	130
1981-82	93	22	—	115	75	40	28
1982-83	13	22	—	35	—	35	22
1983-84	27	22	—	49	—	49	30
TOTAL	205	88	225	518	225	293	210

Cash

* = Col 6 in
1979 Survey
Prices

→ 169

RESULTS OF REFUSAL OF SUPPORT (OPTION A)

- BL Board resign
- Crisis of confidence - customers, dealers, suppliers, collaborators, workforce, management, banks
- Liquidator sells off assets at knock-down prices
- Loss of net exports £250M (out of current £500M); extra imports of £1400M (BL's current sales £1700M)
- Loss of employment 100,000 (out of 150,000) in BL and further 100,000 (out of 150,000) in suppliers :
concentrated in Oxford and W Midlands

ESTIMATE OF PES COST £500M - £1400M : TOTAL PSBR EFFECT £700M - £2100M IN FIRST YEAR

Make-up of central estimates as follows:

- Excess of BL liabilities and closure costs over proceeds of disposals	£400M
- HMG Rebate of BL and supplier redundancies	£100M
- Cost of SDA status for hard-hit regions	£100M in Year 1
- Additional benefit payments resulting from increased unemployment	<u>£300M in Year 1</u>
TOTAL PES cost	£900M
- Other Exchequer costs (principally tax and NI contributions forgone)	<u>£500M in Year 1</u>
TOTAL PSBR effect	<u>£1400M in Year 1</u>

ALL ABOVE ASSUMES PART OF BL'S OPERATIONS SOLD AS GOING CONCERNS, PART OF BL'S MARKET SHARE TAKEN BY OTHER UK FIRMS, SUPPLIERS FIND NEW OUTLETS FOR PART OF OUTPUT

WORST POSSIBLE CASE : PES COST UP TO £2000M, PSBR EFFECT UP TO £3000M

POSSIBLE VARIATIONS ON PLAN

N.B. BL BOARD CONSIDER PLAN OFFERS ONLY HOPE OF VIABILITY (Board attitude crucial)

WITHDRAWAL FROM VOLUME CARS (AUSTIN MORRIS)

- JRT not necessarily better prospect than AM
- AM accounts for 26% of total BL UK manpower (end 1979)
- closure of AM therefore costly and serious
- JRT might not be able to survive independently of AM
- if JRT fails, total effect not far short of Option A

ALTERNATIVE MID-CAR STRATEGY

- all possibilities impractical or would seriously reduce profits
- cost of new models largely cost of modernizing plants

DISPOSAL (1) LVL

- fructification of capital investment
- collaborative deals under negotiation
- effect on Group finances
- purchaser ??

(2) OTHER

- £50M from non-mainstream activities assumed
- Land Rover (part or whole) generates profits and cash

FURTHER COLLABORATION

- need accepted by BL
- Honda: LC 9 and beyond
- engines and components

OFFICIALS CANNOT SUGGEST LOWER COST ALTERNATIVE TO PLAN WITH EQUAL CHANCE OF VIABILITY

IF FUNDS PROVIDED, BUT PLAN FAILS.....

- Strong probability in view of downside risks
- BL Board will not hesitate to call a halt
- BL Board will collaborate in trying to achieve controlled rundown and break-up

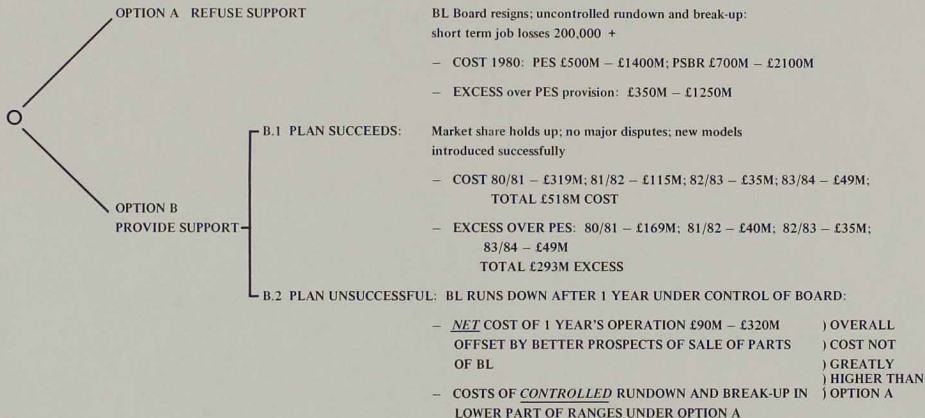
ADDITIONAL COST

if BL operated for a year more, trading at a loss:

- Value might have declined by £90M – £320M
 - BUT – prospects of sale of parts of BL (eg LVL, Land Rover) should have improved
 - rundown should be more controlled and orderly
 - therefore costs of rundown should be in *lower* part of
 - Option A ranges (PES: £500M – £1400M
PSBR: £700M – £2100M)

OVERALL COST TO HMG OF A YEAR'S FURTHER OPERATION FOLLOWED BY RUNDOWN PROBABLY NOT GREATLY HIGHER THAN OF OPTION A (REFUSAL OF FUNDING)

THE CHOICE AND THE CONSEQUENCES





✓ C. T. L.
Hockings.

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

19 December 1979

Martin Hall Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Whitewall
London SW1

Peter Mason

*Revised draft
Statement.*

Dear Martin

*(I am worried about talking
of giving them 'one last chance'
when in fact we will be trying
to find a
budget).*

BL

My Secretary of State has been thinking further about the draft Statement attached to E(79)86 and has come to the conclusion that it should acknowledge more directly the present situation at BL. Also some revision of the concluding paragraphs is necessary to take account of the outcome of discussions on funding over the last 24 hours between officials of the Treasury and of this Department. Accordingly I attach a re-draft which I am copying also to the the Private Secretaries to Members of 'E'.

*Yours sincerely,
Peter Mason*

PETER MASON
Private Secretary



CONFIDENTIAL

DRAFT PARLIAMENTARY STATEMENT ON BL

With permission I should like to make a statement about the BL 1980 Corporate Plan.

In reviewing this Plan the Government has borne very much in mind its responsibilities to the taxpayer as well as to all those concerned with the viability of BL. We have asked ourselves whether BL's performance has justified the investment of public funds in it; whether, if it has not, there are reasonable grounds for believing that performance can now be improved sufficiently to restore the company to viability; and by what means further public funding of BL could be avoided in whole or in part. I am bound to say that the situation that now faces us is not encouraging; the company continues to be in a poor financial state and faces strong competitive pressures in the 1980s. Only with very substantial improvements in BL's all round performance will the company survive.

We have to accept that by the key yardsticks of overall productivity, market share and profit BL's performance has been disappointing. But the present Board took over only 2 years ago. (After a sound financial start in 1978 BL has suffered major setbacks this year.) A combination of industrial disputes - mainly the externally inspired disputes involving the road hauliers and the engineering industry - the strengthening of sterling ~~and~~ a further fall in market share threaten to result in actual trading losses for the first time since the Ryder Report. BL's management responded energetically and with realism by putting forward a restructuring programme in September involving a reduction of at least 25,000 in the workforce and some plant closures.

Handwritten note:
 10/10/80
 L. Pugh

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and in a ballot of the workforce they received an 87% vote in favour of their programme. These measures to bring down costs in line with market prospects, together with the proposed pay and conditions package which is designed to improve productivity and introduce more flexible working practices in BL Cars, are central to the Plan which BL have now submitted. Details of BL's recent performance and of the Plan are contained in a report by the staff of the National Enterprise Board which I have today placed in the Library of the House. [The new NEB Board itself does not feel able in the limited time available to make recommendations to me about the Plan.]

Better
left
out ?
P.

The Plan offers, in the BL Board's view, the only feasible strategy which could enable BL to achieve longer-term viability as a substantial vehicle manufacturer. But in this highly competitive industry and with an uncertain international economic outlook, success cannot by any means be guaranteed.

However there are also grounds for hope - the quality and determination of the BL Board and management; the attitude indicated by the BL workforce in the ballot; the collaboration agreement with Honda which Sir Michael Edwardes proposes to sign shortly with my approval; the new investment now in progress; and the planned introduction over the next few years, starting in 1980, of several new ranges of cars and trucks.

The Plan envisages a requirement for £297 million of public funds in 1980, with a further £133 million between 1981 and 1983. These two sums together represent the £225 million balance of the original Ryder £1,000 million plus £205 million to meet the cost of redundancies and closures under the new management's restructuring programme. The company seek approval at this stage for only their 1980 requirements.



BL aims to make a 15% return on assets by 1985, but achievement of their financial duty of a 10% return by 1981 is expected to be delayed by a year.

After examination of the possibilities, my colleagues and I have concluded that the straight choice is between full support for the BL Board's Plan and refusal of further funding with most far-reaching consequences. The Government has concluded that it would be right to give one last chance for the BL Board, in whom we have the utmost confidence, and the workforce which has shown an increasing sense of realism about the situation which faces the company. This would mean, if the Plan is successful, providing the remaining £225 million committed by our predecessors, and in addition the £205 million required for the costs of redundancies and closures. This latter amount will be subject to clearance by the European Commission. The Board has sought a funding decision only for the coming year. Subject to the clear understanding that this is the last chance, we have approved the Corporate Plan.

The Government propose to fund the Plan up to the end of 1980/81 by the provision of £150 million in equity form, with an additional facility on which BL would be entitled to draw on evidence of need up to a maximum of a further £150 million. This combination of financing techniques provides both an enlarged equity base to help BL to attract the private sector finance they will need in addition to the public funds and also a flexible method of relating the total amount of funding to BL's actual need. If the need turns out to be less than expected, the public funding can be reduced accordingly. In addition, we propose to accept the BL Board's request for conversion to equity of the



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£150 million loans provided in 1977; this will also help to strengthen BL's chances of attracting private sector funds. The Government will also be looking to BL to contribute to future funding needs from its internal resources, including the disposal of assets where this makes commercial sense

Significance

No one in this House would dispute the ⁴importance of the British motor manufacturing industry; I am sure that Rt Hon and Hon Members on both sides will join with me in wishing BL success in the task that lies ahead.

SECRET

*Original returned
to John Haslegrave.*

PRIME MINISTER

BRITISH LEYLAND

This note suggests the main questions we have to address at the briefing session before E:

1. Are we agreed that the search for a buyer(s) for BL should start forthwith? Who should be involved, and who is to know about it?
2. Why cannot BL and Honda sign their Agreement without Government backing for the Plan? Is BL (or indeed DoI) using this to rush Government into a decision? Surely Honda would be happy enough to sign, with the penalty clause protection? (Note that Government authority has to be given to BL, before BL can sign the Honda Agreement; and this authority could be given before deciding on the Plan as a whole.)
3. If there is a valid reason why backing for the whole Plan is needed before the Honda deal can be signed, then there is no point in risking the collapse of the Honda deal, simply to call Edwardes' bluff. But the question would remain - can we afford to give BL and Honda even private (let alone public) assurance that the Plan will be backed, until we are crystal clear on 4 below?
4. What are the possible outcomes over the next year? For example:
 - (i) Successful sale of BL (following 1 above).
 - (ii) BL Board forced to abandon the Plan.
 - (iii) BL off course and Government therefore not prepared to give a further tranche of "Plan" money when it falls due.
 - (iv) BL on course and gets further tranche as per "Plan".Are the Ministers clear about these outcomes? In particular, are they clear about the Government's position in outcome (iii)?
5. In the light of 4(iii) above, is the draft statement credible? Will it stand up to the subsequent questioning? Does it reflect

SECRET

SECRET

- a clearly thought out position, especially on outcome (iii) or is it simply a case of "here we go again"?



JOHN HOSKYNS

18 December 1979

SECRET

SECRET

Prime Minister

Qa 04386

To: MR LANCASTER ✓
From: SIR KENNETH BERRILL

British Leyland

1. The Prime Minister will have received the Secretary of State for Industry's minute which gives his interpretation, agreed with the Secretary of State for Trade and the Chief Secretary, of their meetings last Thursday with members of the Board of British Leyland (BL). Three of their main conclusions are that:

- (a) there is only a slim chance of BL surviving as an independent company, even if the Government gives all the support for which BL is asking;
- (b) if the Government did give this support but then waited until the BL Board were forced to withdraw the Plan, only about one-third of BL might eventually prove saleable;
- (c) therefore "during the next few months, the Government should work out, with Sir Michael Edwardes, contingency plans to minimise the damage if the Plan fails, including the identification of potential buyers for as much of the business as possible - and ideally though improbably the whole".

2. The CPRS agrees with all of this except the cautious approach recommended in (c).

3. For reasons outlined in the Annex, we are far more optimistic than the Secretary of State for Industry that BL might still be sold as a single package to either Ford or General Motors. We see the outright sale of BL to one of these companies as perhaps the only realistic chance the nation has of preserving our motor assembly and motor components industries at anything like their present level. However, time is short: we see only danger in delaying an approach to Ford and General Motors. But if an approach is made it must be with a real determination to achieve a deal.

SECRET

4. As each month has passed BL has become a less saleable proposition. Steady loss of market share, industrial troubles, and the high levels of defection by managers, skilled workers, dealers and customers are largely to blame. Under these circumstances, if Ford or General Motors are to be approached to take the whole of BL it is imperative that:

- (a) BL stays out of imminent danger of collapse;
- (b) BL's United Kingdom dealer network remains largely intact;
- (c) BL's pay and productivity negotiations are successfully completed.

All three conditions depend on an early approval of the Plan. It is also important that BL should not lose the Honda deal, since the prospect of a new medium car in 1981 is essential to keep the loyalty of BL's large dealer group. Once the dealer network begins to disintegrate, BL's volume car business could become virtually unsaleable.

Conclusion

5. Ministers are agreed that BL has no prospect of becoming a viable independent British-owned company. The best we can aim for is healthy British-located motor assembly and motor components industries. To achieve this the sale of BL as a single package to one of the large international motor manufacturers needs to be pursued as a matter of urgency.

6. I am sending a copy of this minute to Sir Robert Armstrong.

KG
—

18 December 1979

OUTRIGHT SALE OF BRITISH LEYLAND

1. The motor industry in Europe contains too many companies competing for a market that is too small to support them all. It is instructive to compare the North American and the European car markets. They are roughly the same size, yet the North American market can support only two major companies profitably. In Europe there are eight large manufacturers, plus British Leyland (BL).

2. After two relatively active decades of take-overs, mergers, and closures in the European car industry, BL is now the one car manufacturer left that is quite certainly too small to survive as a volume producer, and too large and too diverse to be a specialist producer. Prospective purchasers for BL will have to come from the following league table:

	<u>Company</u>	<u>(Main Plants)</u>	<u>Production of European-style cars</u>
(i)	Peugeot Group	(France, UK, Belgium, Spain)	2.2 million
(ii)	Volkswagen Group	(Germany, Brazil)	2.2 million
(iii)	Toyota	(Japan)	2.0 million
(iv)	Fiat	(Italy, Spain, Yugoslavia)	1.8 million
(v)	Nissan	(Japan)	1.7 million
(vi)	Renault	(France, Spain)	1.6 million
(vii)	Ford of Europe	(Germany, UK, Belgium, Spain)	1.4 million
(viii)	General Motors Europe	(Germany, UK, Belgium)	1.1 million

By contrast, BL's car output is only 0.6 million.

3. The CPRS considers that Ford and General Motors are perhaps the only two companies with both the resources and the motivation to make an outright purchase of the whole of BL. Other companies in the table would definitely be interested in purchasing parts of BL. Alternatively, they might entertain wide-ranging collaborative deals; but at best such deals would not be particularly profitable for BL, and at worst would leave HMG to carry all the financial risks.

General Motors

4. General Motors is the world's largest motor manufacturer. Its business philosophy is to be market leader. However, because of motor industry mergers, it has slipped to the position of being only the eighth largest producer in European markets.

(i) General Motors has a particularly weak presence in the UK car market. Vauxhall has a market share of only $6\frac{1}{2}$ per cent; Opel has another $1\frac{1}{2}$ per cent. A take-over of BL would give General Motors around 25 per cent of the market, but would still leave them number two to Ford.

(ii) General Motors has a poor dealer network in the UK. They would benefit considerably by taking over BL's network.

(iii) General Motors' range of European cars is weak where BL is strong and strong where BL is weak. BL's main attractions in terms of products would be Jaguar, Rover, Land-Rover, Triumph sports cars, and the Mini (and its replacement). These would complement General Motors' strengths in the small and medium car markets, and would give General Motors a far stronger marketing position throughout Europe.

(iv) There is also a good fit in commercial vehicles. General Motors (Bedford) is very successful as a manufacturer of light/medium trucks and coaches. BL's range of heavy trucks and its bus business should be particularly attractive to General Motors.

A take-over of BL by General Motors seems to stand a good chance of securing a volume of output from BL's plants similar to that envisaged in the BL Plan.

Ford

5. Ford share many of General Motors interest in BL particularly in Jaguar, Rover, Land-Rover, Triumph sports cars, Leyland heavy trucks, and Leyland buses. But Ford's principal motivations in taking over BL could come from their already large commitment to this country:

(i) Ford's UK manufacturing plants depend on a healthy motor components industry. The collapse of BL would not be welcome to Ford, because of the damage it would cause many of Ford's main suppliers.

SECRET

(ii) As leaders in the UK car market, Ford would be anxious to prevent BL's large dealers from switching to other franchises. (If Ford were to take over BL, it might be thought that their resulting 45-50 per cent share of the car market would be unmanageable, but it would be no more than the Peugeot Group holds in France or the Fiat Group in Italy.)

(iii) Ford might also move defensively to prevent some of its competitors, notably the Japanese, from acquiring a larger foothold in Europe.

6. Both Ford and General Motors should be strongly motivated to take over the whole of BL. But at a price. The profitability of neither company is such that they could afford to take on the whole of BL's liabilities without some measure of financial support from the UK Government. The Government might have to be prepared to put down a large dowry. But in terms of employment, public expenditure, and balance of payments, this could be cheap at the price.

Prime Minister

2

SECRET

See also Ken Bennet's
brief (in his folder) which
suggests we should go
hard for an outright
sale to Ford or GM.

P.0176

PRIME MINISTER

FUTURE OF BL

12/15/12

(E(79) 86: a minute of 14 December from the Secretary of State for Industry to the Prime Minister and E(79) 74 are also relevant)

(There is also
a note from
Tom Hoskyns).

BACKGROUND

1. When E discussed EL last week, it was not prepared then to approve EL's plan. Instead it asked for further meetings with Sir Arthur Knight and the EL Board before further consideration by E. The main points on which E wanted their views were:-
 - a. How far the plan needed to be altered to allow for the deterioration in profits and market share since it was written.
 - b. Whether the plan was really viable.
 - c. How far Sir Michael Edwardes and the rest of the EL Board were personally committed to remaining with EL to implement the plan.
 - d. The possibility of establishing a clearer definition of what would constitute "failure" of the plan, which would lead Sir Michael Edwardes and his Board to recommend its abandonment.
2. E also agreed there was no objection to EL signing their deal with Honda, on the understanding that the Government was not at this stage committed to the plan.
3. Sir Keith Joseph's paper (supplemented by his minute of 14 December) reports subsequent discussions both with Sir Arthur Knight and with the EL Board. In effect:-
 - i. Sir Arthur Knight and the NEB have opted out - by saying they could not make any useful comment on the plan in under about two months.

SECRET

- ii. Sir Michael Edwardes has said he wishes to leave by the end of 1980.
- iii. BL's revised and up to date forecasts - to take account of the recent deterioration - represent the minimum level of additional cash needed to implement the plan.
- iv. The BL Board do not think it would be possible to give a much tighter definition of failure. However they have made two new moves. First they have eliminated the earlier statement that in the event of external causes resulting in the plan not being fulfilled (as opposed to internal causes), they would not necessarily wish to withdraw it. Second, they have included a statement that "on the basis that funding is provided now, the Board will arrange on a highly confidential basis to put in hand contingency planning against the possibility that the plan has to be withdrawn." (See last paragraph of statement attached to Sir Keith Joseph's paper at Annex A).

4. However, Sir Keith Joseph - and according to his minute, Mr Biffen and Mr Nott - all think the 1980 Corporate Plan should be supported. Broadly their argument is:-

- a. The plan is very risky.
- b. But to refuse to fund it now would be politically unacceptable, because of the sudden collapse that would result.
- c. Therefore the right course is publicly to fund the plan, while privately making contingency arrangements to run BL down in a controlled way, primarily by finding buyers for as much of BL as possible (bearing in mind that if BL survives for a time, parts of the business will be saleable at better prices than now and much of the Plan's funds should be recovered in a liquidation or rundown).

HANDLING

5. You might like to suggest that E should concentrate on what seem to be the two main alternative courses of action; these are as follows:-

SECRET

EITHER

A. To fund the plan as Sir Keith Joseph proposes, while confidentially taking action to prepare contingency plans against rundown and disposal.

OR

B. To refuse to fund the plan, while arranging if possible for the present Board to run the business down themselves. If the Board declined to do this, EL would have to go into liquidation. (But Sir Keith Joseph implies in paragraph 3g of his minute that the Board would stay on to run it down given the necessary funding and 'probably' guarantees going beyond the 'Varley' assurances which the present Government has confirmed).

6. There are a large number of uncertainties and imponderables about these two courses; and you may well want to take advantage of your preliminary briefing meeting with officials to probe some of them. Questions to ask include:-

a. How realistic is the first alternative? In particular would it really be possible to keep the arrangements for planning EL's rundown confidential while being publicly committed to supporting the plan?

b. What real chance is there of getting enough potential buyers? Sir Michael Edwardes seems to have spoken rather gloomily about only one third of EL really being saleable. How much should be read into the kind of speculation - eg in Tuesday's "Times" - that Renault might be interested in bidding for EL? How far would prospects be improved for buyers, depending on whether EL approached them while the existing plan was still being funded (ie under course A) or the Government simply waited for buyers to come along and pick up the pieces (ie under course B)?

c. We understand that Sir Keith Joseph envisages that, if the first course, of funding the plan, is followed, there would be a joint group of officials from the Department of Industry and EL who would give further consideration to arrangements for producing a "contingency plan", ie arrangements for disposals. You might ask Sir Keith Joseph to outline more fully what he has in mind. Are the respective roles of his Department and EL sufficiently clear?

SECRET

- d. What exactly are the intentions of the EL Board? Would they really be prepared to stay on and arrange for disposals of EL if the plan was not funded? And if the plan were funded, could Sir Michael Edwardes not be persuaded to stay on for more than one more year?
- e. What about the relative costs of the two options? Could the second course (of not funding the plan) be cheaper, since it avoids having to pay out the £300 million or so which EL wants in the next financial year? Or would this saving be more than offset by reduced value of the assets and the increased number of redundancies?
- f. What about the PESC implications for this year and next? Sir Keith Joseph says (paragraph 4 of his minute of 14 December) that officials are exploring with the Company whether it is possible to avoid a further charge on the Contingency Reserve in the current financial year. With what result? As to next year the Chancellor is apparently ready (penultimate paragraph of E(79) 86) to agree to an extra £147 million PESC allocation in 1980-81 if colleagues accept continued funding for that period. The timing and method of payment of the extra funds is being discussed with Treasury and EL. Again with what result?
- g. What about the political implications? The collective view of Sir Keith Joseph, Mr Nott and Mr Biffen is reported (in Sir Keith Joseph's minute of 14 December) to be that "liquidation now would not be understood and that politically and economically the Plan should be approved and funds provided". This is the central judgement on which E will need to concentrate.
- h. Timing. Sir Michael Edwardes thought it impossible to sign the Honda seal without Government approval of the plan. He has therefore extended his original 20 December deadline to 27 December. But he thinks it would be difficult to persuade Honda to hold out for a further extension. Does this mean the whole deal is off - and effectively a decision taken to 'pull the plug' on EL - unless the Government gives approval to the plan, this week?

SECRET

CONCLUSIONS

7. The effective choice is between:-

EITHER

A. Support for the plan, on the understanding that urgent contingency arrangements are worked out between the Department of Industry and BL for running BL down and maximum disposals:

OR

B. Refusal to support the plan.


8. If colleagues choose the first course, you will want to record conclusions on:-

i. The Parliamentary statement attached to Sir Keith Joseph's paper. Is it agreed that this should be made before the recess? You might ask for detailed comments in writing.

ii. The funding of the plan. You might suggest that this should be agreed bilaterally between Sir Keith Joseph and the Chancellor, on the lines indicated in E(79) 86.

iii. Permission for BL to sign the deal with Honda, as part of the immediate implementation of the plan.

9. If colleagues prefer course B (refusing to fund the plan), you will want to record conclusions on the handling of the decision both publicly and with BL-bearing in mind, in the latter case, the desirability, if possible, of retaining the co-operation of the BL Board in carrying through the rundown.



P Le CHEMINANT

Cabinet Office
18 December 1979



UNITED STATES POSTAL SERVICE

10 DEC 1979





327

BL LIMITED

PARK ROYAL CLOSURE

On Monday 10 September, as part of his statement on BL's Half Yearly Results, Sir Michael Edwardes announced the intention to close in June 1980 Park Royal Vehicles, a bus body building operation employing 600. This decision was not part of the overall exercise to streamline the company but was taken because of 'appalling lack of productivity and lack of co-operation over recruitment'.

After making a substantial investment in Park Royal, with production planned to reach 14 Titan double deck buses a week - the current target is six - average output is only two. The plant is losing £250,000 a month with an expected loss of £3M this year. The plant has full order books for the next three years to supply 250 units to London Transport Executive plus a further 23 for the Greater Manchester Council and the West Midlands Council.

The unions claim that low production is the direct result of a shortage of skilled men. There is a lack of metal workers in North West London and workers have been attracted away from BL by the higher earnings, said to be £125 per week, at a nearby Rolls Royce Motors plant. According to the company negotiations on pay and manning have been going on since last December. Current average earnings are £87 a week before bonuses; the men were offered and refused £105 a week and are demanding £121. As regards manning, agreement was reached with national union officials that 'dilutees', semi-skilled men, would be trained for skilled jobs. But Park Royal workers have consistently refused to accept dilutee labour despite efforts by national union officials to persuade the plant workforce representatives to adopt a more flexible approach.

The company is hoping to achieve an 'orderly' closure of Park Royal by 'tying a generous redundancy payments scheme to co-operation by the workforce.'

The Titan is an extremely good product which should be making substantial profits for BL. There is therefore every intention of re-locating production in due course and the options are being reviewed.

/including
bonuses,



SECRET

Copy No / of 21

PRIME MINISTER

*Aut.**One next Wednesday**our
re. Mr. Ingham*

1 On Thursday 13 December John Nott spent 1½ hours going over the BL accounts with EL's Finance Director. On the same day he, John Biffen and I, together with several officials from the Treasury and the Department of Industry, Sir Kenneth Berrill and Mr Hoskyns met Sir Michael Edwardes, Sir Robert Clark, Mr Bide and Mr Frost, together with Mr Lowry, Mr Horrocks and Mr Andrews, all of BL. NEB were invited to the meeting, but were not present.

- ... 2 The attached note sets out the BL Board's current position.
- 3 Afterwards on the same day my two Ministerial colleagues and I met to discuss our views. We found that we agreed that:-
- a) BL, because of the CSEU strike, the disruption over Robinson, strong sterling and eroded market share, had already virtually used what contingency provision there was originally in its Plan;
 - b) because of recent events market share is currently below the level assumed in the Plan, but there is a queue for some of BL's cars of which production has been but is not now disrupted; and BL gave reasons for believing that market share can be recovered;
 - c) the Board will pursue the Plan with determination if we allow them the funds which they request;

SECRET

/d) ...



- d) the Board will withdraw the Plan if it ceases to be viable for internal or external reasons and collaborate with us in working out the best course to follow. We believe that the Board is genuinely determined to do this if cash flow ceases to be what is required to maintain the Plan. We do not think that it is necessary to try to define the precise conditions because the Board convinced us of their business-like realism. For the same reason we do not think it is necessary to defer an announcement until BL's current wage negotiations are satisfactorily completed;
- e) there is small chance of BL surviving and failure of the plan followed by rundown or liquidation is probable;
- f) if BL only survives a few months, by no means all the money will have been spent and if BL survives many months then parts of the business will be saleable at better prices than now and much of the Plan's funds should be recovered in a liquidation or rundown;
- g) an orderly rundown of the whole business may be difficult if not impossible to achieve, although about a third of BL might eventually prove saleable. As an alternative to liquidation the present Board might stay to run down the business themselves, though they would need Government

/funding ...



funding, and probably guarantees going beyond the "Varley" assurance which we have confirmed; and

- h) during the next few months we should work out, with Sir Michael Edwardes, contingency plans to minimize the damage if the Plan fails, including the identification of potential buyers for as much of the business as possible - and ideally though improbably the whole.

4 It is our view that liquidation now would not be understood and that both politically and economically the Plan should be approved and funds provided by means agreed with Geoffrey Howe, the NEB and BL. In this context we see merit in the concept that a proportion of the funds should take the form of a line of credit. It would also need to be recognised that we at present see no room for a charge on the Contingency Reserve in the current financial year. Officials are exploring with the company whether it is possible to operate within these constraints. Sir Michael Edwardes should be encouraged to spell out the conditions - freedom from internal and external shock and an adequate market share and cash flow - on which alone the business can survive.

5 Sir Michael Edwardes will not stay on as Chairman and Chief Executive after the end of 1980 though he might stay on as Chairman to see his successor properly in.

6 We think speed in reaching a decision important to minimise the

/waiting ...



SECRET

4.

waiting period which is damaging confidence and to enable BL to sign the Honda agreement.

7 I recommend that we should consider this at 'E' on Wednesday on the basis of a paper I shall be circulating. It would be desirable to announce our decision next week.

8 I am copying this minute to our colleagues on E, George Younger and Nicholas Edwards, to Sir Robert Armstrong and Sir Kenneth Berrill and to Mr John Hoskyns.

l.s.

PK J
14 December 1979

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

Department of Industry
Ashdown House
125 Victoria Street
London SW1

SECRET

PART 1 ends:-

CC(79)25th Concs : Item 2 13.12.79

PART 2 begins:-



PREM 19/258

SECRET

549

MT

PART 2

Confidential Filing

British Leyland

INDUSTRIAL POLICY

Part 1: Sept 79

Part 2: Dec 79

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
19.12.79							
20.12.79							
21.12.79							
17.1.80							
4.2.80							
6.2.80							
7.2.80							
8.2.80							
14.2.80							
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22.2.80							
10.3.80							
10.3.80							

PREM 19/258

ENDS

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PART 2 ends:-

CRW to D Trade of 10/3/80

PART 3 begins:-

Tisy to TL of 12/3/80



Ind Pol.

10 DOWNING STREET

From the Principal Private Secretary

10 March 1980

Dear Stuart,

BL: TRADE BARRIERS

I have shown the Prime Minister your letter of 6 March 1980 about Sir Michael Edwardes' letter of 11 February to your Secretary of State.

As I told you on the telephone earlier today, the Prime Minister is content for Mr. Nott to reply to Sir Michael Edwardes on the lines of the draft attached to your letter.

I am sending copies of this letter to Ian Ellison (Industry), Richard Dykes (Employment) and Genie Flanagan (Transport).

Yours ever,

Oliver Whittington.

S. Hampson, Esq.,
Department of Trade.

BK

file



10 DOWNING STREET

From the Private Secretary

10 March 1980

~~BK 17-3-80~~
Orestes

Because of a possible Cabinet meeting on Tuesday 18 March, I am having to change the meeting to discuss British Leyland to 1645 hours. The meeting will take place at 10 Downing Street.

I am copying this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment), Gerry Spence (Sir Kenneth Berrill's office), David Wright (Cabinet Office) and John Hoskyns. I hope that this new time will be convenient to everyone.

CAROLINE STEPHENS

Ian Ellison, Esq.,
Department of Industry

✓



Prime Minister.

Sir Michael Edwards sent you a copy of his letter of 11 February to Mr Nott in which he complained of the various handicaps which he believed had been imposed upon us in relation to that foreign competitors. This letter sets out Mr Nott's comments on Sir Michael Edwards' complaints. Are you content for Mr Nott to reply to Sir Michael 6 March 1980 as he proposes?

From the Secretary of State

Clive Whitmore Esq
10 Downing Street
Whitehall
SW1

Dear Clive

mb

Yes - we shall
reply
formally
7th

BL: TRADE BARRIERS

flag 'A' ...
In your letter of 14 February you said that the Prime Minister would like to have my Secretary of State's comments on Sir Michael Edwards' letter of 11 February. I attach a copy of the reply Mr Nott proposes to send, which reflects the outcome of interdepartmental discussions at official level.

The scope for helping BL within existing international and EC obligations is limited. At the same time, the discreet bending of rules in favour of BL can hardly be announced in a letter which is certain to become public. (You will be aware that Ray Horrocks of BL wrote in similar terms to the leaders of the trade unions representing the BL workforce, and Roy Grantham of APEX subsequently reproduced the text in a letter to the Prime Minister.) My Secretary of State recognises that Sir Michael is partly playing a political game in demonstrating to the workforce his determination to tackle on all fronts the barriers to BL's recovery. Nonetheless, Mr Nott intends to say to Sir Michael privately that publicity will not make it any easier for the UK to depart from the strict MCC rules.

The Prime Minister may find useful the following additional information.

Spain

There are two points at issue: access into Spain and the level of imports from Spain. So far as access into Spain is concerned, Spain has maintained very high tariffs and quantitative restrictions. The latter were removed last year and replaced by duty free quotas. But these duty free quotas were given only to those companies with manufacturing facilities in Spain. The UK considered this method contrary to the EC/Spain Trade Agreement and made representations to the Commission, who have now agreed to raise the matter with the Spaniards on 13 March.



From the Secretary of State

Imports of cars from Spain are Ford Fiestas, and action against them would, of course, meet opposition from the Ford motor industry in the UK.

Eastern Europe

The letter itself contains considerable detail on the East European situation. The SMMT have been looking at the possibility of an anti-dumping case for sometime, but they have not yet pursued this with any vigour. It is not clear whether this is because they are unable to get the necessary information or whether it is because they feel the investigation would be a waste of time. There is no doubt that the original pressure came from BL.

The main problem in relation to action against Eastern Europe is that the import numbers themselves are minimal and could not in themselves be regarded as causing damage to the British industry. We have no case to take to the Commission, and have no power in present circumstances to take unilateral action. But we will continue to monitor the situation, not only on the basis of actual imports but also on the basis of potential threat both in relation to production capacity and dealer networks.

Type Approval

The Department of Transport take the lead in this area. The system of individual vetting for foreign cars under the MAC system has been ruled discriminatory by the Commission and Ministers have agreed that EC manufacturers will be subject to the same system as domestic ones. If we were not to change the system we should find ourselves before the European Court - where we would certainly lose. It is worth noting that the MAC system has not in general had any effect on reducing imports.

What the French might do in relation to the BL/Honda agreement is another matter and not directly related to decisions on the MAC system. If there is evidence of malpractice on the part of the French we shall of course take it up with them.

On type approval for commercial vehicles, the Department of Transport are already working on the possibility of introducing some regulation, and proposals will be submitted to Ministers shortly.

Japan

The BL concern here seems to be rather for the future - either that the current undertaking will not hold throughout this year or that it will not be renewed for 1981. It is as yet too early to see whether

I get the
this when
came up
in your
conversation
yesterday,
evening with
Mr. Light.



From the Secretary of State

the current year's arrangement will hold, but the industry-to-industry arrangement is closely monitored and there would always be room for Governmental intervention later if necessary. So far as 1981 is concerned, the arrangement reached this year contains the normal provision for a meeting later in the year when the opportunity for renewal will present itself. We do have a bilateral treaty right to put formal quotas on the Japanese. But any substantial cut-back on Japan would most probably lead to more imports from Europe and the Japanese would almost certainly invoke their same rights to retaliate. The best course is therefore to uphold the inter-industry agreement.

I am sending copies of this letter to Ian Ellison (Industry), Richard Dykes (Employment) and Genie Flanagan (Transport).

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

DRAFT

Sir Michael Edwardes
British Leyland
35-38 Portman Square
London W1

Thank you for your letter of 11 February about various problems facing BL in the international trade field. As you have said, the points raised are not new to my officials, but it was helpful to see them presented together to give the overall impression of the barriers to trade, as seen by BL.

I have looked very carefully at each of your topics, and I can assure you that the Government's practice of "playing cricket" does not indicate, as you suggest, a lower priority to the health and prosperity of our industries than is shown by other European countries. On the contrary I can assure you that we are already doing everything in our power to ensure fair trading conditions for BL and for other British industries.

Your first point concerned Spain, and I can say without hesitation that BL has our complete support on this issue. It is intolerable that the Spanish import regime has enabled you to send only 300 cars to Spain while 50,000 Spanish-built cars were registered in the United Kingdom. The EC Commission shares our view that the duty free quotas on imports of motor vehicles could constitute a breach of the EC/Spain Agreement. A meeting has been arranged with the Spaniards on 13 March at which the Commission will be raising the general question of access for vehicle producers without assembly facilities in Spain. I will let you know how this matter proceeds.

As regards Eastern Europe, my officials have been in touch with the SMMT for some time about the possibility of mounting an anti-dumping case against these imports, but the necessary details have not so far been forthcoming from the SMMT. If BL wish to look at the possibility of supplying these themselves, my officials would be happy to discuss the matter with your staff. There are two routes which we can pursue if there is evidence of dumping. First the East Europeans have in the past sometimes shown themselves willing to restrain or adjust their prices when such evidence is shown to them. Secondly, we can ask the Commission to instigate anti-dumping action under the GATT. But you will be aware that the rules of GATT require evidence not only of dumped pricing but also of injury to the domestic industry. I frankly doubt whether the level of imports from these countries (with an import penetration of 2.28%) could be said under the GATT rules to constitute injury to the industry.

This leads to the more general question of the volume of imports from East European countries. A pre-condition for action would be a surge of imports causing or threatening serious injury to our industry. Action to impose quotas would require the agreement of the EEC Commission. Although some people seem unwilling to accept it, the fact of the matter is that we have no effective power to act unilaterally on the basis of present import levels and equally I am bound to say that there is no likelihood that EC agreement would be forthcoming either.

Surely it is questionable whether there is much scope for the East Europeans significantly to increase their market share. The Poles themselves have told us they doubt they could increase their exports to us because of production difficulties. The Czechs have the same problem and their imports have been static over the last couple of years. Russian cars are old-fashioned and limited to a certain sector of the market. I can understand that you want to see the dumping point resolved, but surely you do not see them as a major threat to your market.

On type approval I sympathise with what you say about the Minister's Approval Certificates (MAC), and I have spoken to Norman Fowler about it. But it became clear last year that, unless we gave manufacturers from the European Community access to the general type approval scheme, the Commission would refer the question to the European Court and that we would stand no chance of winning the case. We have promised the Commission to amend the regulations as soon as possible, and we cannot go back on that. But we do not intend to go further than we must. The MAC system procedure will however only be removed for Community imports once we have legislated to give Community manufacturers type approval on the same basis as our own. As they will then be required to submit type approval applications for our consideration, there is no question of their being given completely free access to our market.

We are of course examining our own arrangements for type approval of commercial vehicles. If you do have any specific problems with other countries' type approval schemes you will no doubt let Norman Fowler know at once so that we can endeavour to take effective action on behalf of the British industry.

On Japan, I am grateful for your remarks about the help my Department has been able to give over the years in support of the inter-industry understanding with Japan. I can assure you that I continue to attach great importance to the Japanese continuing to show restraint this year and my officials will be monitoring Japanese performance very closely in the months to come.

In conclusion therefore I should like to return to what I said at the beginning of this letter. It is my very strongly held view that we should not be thinking of finding new ways of bending rules but we should be pressing for a more vigorous application of the existing requirements governing international trade. What you are pressing me to do in respect of Spain and Eastern Europe is to ensure that other countries "play cricket" as well, and I can give you my commitment that that is the objective of the Government. Whenever we receive evidence of malpractice or unfair practices against British exports overseas we shall continue to pursue the position vigorously.

We are not prepared to remove the trade barriers that still exist faster than our main trading competitors. Indeed the MTNs were based on a measured and mutual reduction in the obstacles to open trade.

Thought I admire your determination to do everything possible to protect BL I have to bear in mind ~~the~~^{that} one-third of the GNP of the whole economy is generated by exports. Indeed BL exported last year over a quarter of a million vehicles, and any departure from the open-trading systems would be much more damaging to jobs in BL - than our present policy of accepting fairly traded imports from other countries.

I am quite sure in my own mind that no British government can contemplate the erection of trade barriers which spark off retaliation against our own exports, with enormous adverse consequences for employment throughout the United Kingdom.



RECEIVED



Malcolm

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON
SW1

Thompson

22 February 1980

Dear John,

Michael Edwards copied to me his letter to you of 11 February about British Leyland's trading difficulties. I have also seen a copy of the letter from the Prime Minister's office of 14 February asking you to let her have your comments on Sir Michael's letter.

Sir Michael raises two points in my field. The first one concerns type approval for cars. The suggestion Sir Michael makes for confining foreign cars to the Minister's Approval Certificates (MAC) system of individual vetting is I am afraid not a starter. As he says, the Commission took the view not entirely without reason, that this was a discriminatory arrangement because our manufacturers can get the equivalent approval for their entire production of a particular model. Even so it had patently been of little effect in reducing imports. OD(E) agreed last July that the position was untenable and I have therefore undertaken that EEC manufacturers will have access to the general type approval system as soon as necessary

regulations can be made. To go back on that undertaking would inevitably bring a reference to the European Court.

We cannot rule out the possibility that the French will try to manipulate type approval requirements to hamper the BL-Honda project. But that is something we can tackle with them and, if necessary, with the Commission only when we have facts to go on. Retaining the MAC requirement would not in practice help.

We may be able to be more helpful over Sir Michael's second point - type approval for commercial vehicles. Discussions between British Leyland, the Department of Industry, your Department and my own Department were already under way when Sir Michael wrote. There would be manpower implications of any such scheme - it might need as many as 50 civil servants depending on its extent and effectiveness. We shall therefore need to judge when we have the full facts whether a cost-effective scheme can be mounted.

I should say that I have a great deal of sympathy with British Leyland's problems and I think Sir Michael Edwardes has overcome some formidable difficulties. Clearly we must do everything we can to remove real obstacles and ensure that we do not create more. I hope we can do all we reasonably can to give home industry the right sort of help and protection.

/ I am enclosing a couple of paragraphs which you
may like to use for your reply to Michael Edwardes.

I am copying this letter to Peter Carrington,
Keith Joseph, Jim Prior and to the Prime Minister.

A handwritten signature in cursive script, appearing to read 'Norman Fowler', written in dark ink. The signature is fluid and somewhat stylized, with a large loop at the beginning and a long, sweeping tail.

NORMAN FOWLER

DRAFT PARAGRAPHS FOR MR NOTT'S REPLY TO SIR MICHAEL EDWARDES

I am afraid your suggestion that we should continue to confine EEC manufacturers to the MAC system is not on. It became clear last year that unless we gave manufacturers from the European Community access to the general type approval scheme the Commission would refer the question to the European Court and that we would stand no chance of winning the case. We have promised the Commission to amend the regulations as soon as possible and we cannot go back on that. But we do not intend to go further than we must. The MAC procedures will remain necessary for non-EEC imports.

As you will know we are looking with your people at possible schemes for extending type approval to commercial vehicles. It is too soon to say what the outcome will be but I am sure Norman Fowler will want to be as helpful as resources permit. If you do have any specific problems with other countries' type approval schemes I do hope you will let Norman Fowler know at once so that we can see what can be done.



22 FEB 1988

820

Prime Minister

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PL
2/12

SECRET

Qa 04441

To: MR LANCASTER

From: SIR KENNETH BERRILL

Ford and British Leyland

1. After yesterday's meeting of E Committee I told the Prime Minister that Robert Lutz (Head of Ford of Europe) had been given the green light from Detroit (Mr Petersen) to negotiate on a package purchase of BL. This note is to fill out a little that very welcome news.
2. First it is useful to get clear where Lutz stands in the Ford hierarchy and what is the significance of this 'green light'. As Head of Ford of Europe, Lutz is two levels up from Sir Terence Beckett in the Ford hierarchy. Ford of Britain is a profitable section of Ford of Europe and Ford of Europe is currently earning more profits than the whole of the rest of the Ford operations worldwide.
3. Detroit's attitude to Lutz is, therefore, "You are running the most profitable section of our business; if you say your best next step is to negotiate for BL, we trust your judgement. Go ahead."
4. Ford of Europe needs to build a new 500,000 car assembly plant somewhere in Europe. They are currently negotiating with the Portuguese Government for a greenfields site in Portugal, a decision on which must be taken this summer, but the Cowley site would be a very attractive alternative. If Lutz buys BL with Cowley, he won't want Portugal and vice versa. If to fill out his 1980-2000 volume car capacity in Europe he went ahead with Portugal, he might still be interested in Rover/Jaguar/Trimmph, Truck and Bus, etc. but the Cowley/Longbridge BL core problem would be left with the Government.
5. As we are all aware, the main problem will be Longbridge. For BL as it is today Cowley and Longbridge are knit together with Longbridge providing engines for Cowley (Princess, Marina and Maxi) and will be providing the new Metro, without which the BL volume car dealer network will disintegrate. Under Ford, Cowley need not depend on Longbridge for engines (they could provide Ford engines from elsewhere) and they are much less interested in the Metro. They might agree to continue Longbridge, but it would certainly

SECRET

be very much on sufferance, i.e. if the Longbridge workforce played up Ford would want to be free to shut it down.

6. But this is all for the future. At present Ford have gone off to prepare a package bid. They will get data from BL and have sufficient ex-BL executives working for Ford to be able to evaluate it without too much difficulty. They expect this process will take at least 5/6 weeks - say not before Easter. //

*Tracy and
Dol are
considering
possible
candidates.
R.*

7. This is the measure of the time the Government has to find the Mr Super-Salesman who is to advise them on any bids and for him to "read" himself into the subject.

8. All the above information has been given to the CPRS in the strictest confidence by a senior executive in Ford. (Please protect.)

9. I am sending a copy of this minute to Sir Robert Armstrong.

KB.

21 February 1980

21 FEB 1980



cc HMT
D/EMP
SIR KB
CO
John Hoskyns

held HS

21 February 1980

This is to confirm that the next meeting to discuss British Leyland will take place at 1000 a.m. on Tuesday 18 March.

I am copying this letter to John Wiggins (H.M. Treasury), Ian Fair (Department of Employment), Gerry Spence (Sir Kenneth Berrill's Office) and David Wright (Cabinet Office).

CAROLINE STEPHENS

Ian Ellison, Esq.,
Department of Industry.

9

CAROLINE

We will need another meeting on BL on
about 15 March. The Chancellor, Mr. Prior,
Sir Keith Joseph, Sir Robert Armstrong and
Sir Kenneth Berrill to attend, also John Hoskyns.

R

20 February 1980

16.30 ~~on Monday~~ Monday 17 March
Peter J. [unclear]
1a Elbow: Indent
DL. Bd on 12th.
no officials.

1. Copy ^{had} ~~was~~ 12
2. ~~Number~~ (in case).

SECRET



10 DOWNING STREET

From the Private Secretary

MR. DAVID WRIGHT
CABINET OFFICE

British Leyland

The Prime Minister has asked me not to circulate any note of this morning's meeting on BL. I have done the attached record for our own internal purposes. Could I suggest that you do not make any copies of the note, and retain it in your office?

I have told the Department of Industry about the one decision which was taken - namely that an outside adviser should be appointed. They are pursuing this with the Treasury.

THE CANKESTER

20 February 1980

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*Not copied to Master Set
seen by A. B. G. — 2/12/60* 11

NOTE OF A MEETING TO DISCUSS BRITISH LEYLAND: 0830 HOURS
WEDNESDAY 20 ~~DECEMBER~~ FEBRUARY

Present:

The Prime Minister
Chancellor of the Exchequer
Secretary of State for Employment
Secretary of State for Industry
Sir Robert Armstrong
Sir Kenneth Berrill
Mr. John Hoskyns

* * * * *

Sir Keith Joseph first reported on the latest situation at British Leyland. The company were not yet at the "edge of the precipice", but the situation was very worrying. Their market share was falling, the outcome of the pay dispute was far from certain, and there was the Robinson affair. However, at least the BL board were showing a good sense of realism; and they were willing to stay in post to bring about a "soft landing" if the Plan had to be aborted. They would be meeting on 12 March to decide whether to proceed with the Plan. There were three possible outcomes of this meeting:

- (I) they might decide to stick to the plan - but this was unlikely;
- (II) they might dismiss the Plan altogether, and decide on the run-down of the company;
- (III) they might decide to modify the plan. This could involve earlier closures of some plants (e.g. Canley) and bringing forward redundancies, deferring capital expenditure of £50 to £100 million, and earlier disposals of some parts of the business.

/British Leyland

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- 2 -

British Leyland management had already prepared contingency plans on the basis of (III) above. If they were to decide on (II), it would probably take up to two years to run the company down. The Chancellor had agreed to provide the necessary financial guarantees on a contingency basis. As regards the options for disposal, he himself would much prefer it if the company could be sold as a whole, but it seemed unlikely that any potential purchaser would be willing to take on the whole business. Ford of Europe and Nissan had expressed an interest in purchasing all or parts of the company, but discussions were still at a purely exploratory stage. In his Department's view, Ford were unlikely to take on the whole of BL because of financial difficulties in the parent company - though the management of Ford of Europe were very keen to proceed. Nissan seemed interested in taking over the BL dealer network and building a new plant, possibly at Milton Keynes, but not in taking over BL's existing car plants.

Sir Keith said that he had told BL that the Government would not mind if the whole business were sold to the Japanese. In his view, this could well be the best outcome, though it would cause trouble with the Europeans. However, Sir Michael Edwardes seemed more interested in a sale to a European company - and, in particular, to Peugeot. It might be desirable to press the Japanese case with Sir Michael. Besides Ford, there was just a possibility that General Motors might be interested in buying BL; but again this seemed unlikely because GM were generally disenchanted with the UK as a manufacturing base.

The Prime Minister said that she understood that Sir Michael Edwardes was unwilling to take the initiative in trying to find a potential purchaser. Sir Kenneth Berrill added that, while it might well not be possible to sell BL

/as a whole,

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- 3 -

as a whole, it would still be a great pity if the opportunity were lost for lack of initiative by BL management. The prospects of a sale in a year's time, or even in a few month's time, were likely to be worse than they were now. The Chancellor said that it did not seem necessary to wait until the Board meeting on 12 March before actively looking for purchasers.

Sir Keith replied that Sir Michael Edwardes was not averse to looking for a purchaser either for BL as a whole or for parts of the business. But he was very worried that information on this might leak. If the Board did decide that the Plan was no longer tenable, it would not take them long to explore the disposal options. The most likely prospect, in his view, was that BL would gradually close down Longbridge and Cowley, and sell off their other plants. It should not be too difficult to find a purchaser for the truck and bus plants, and also the Seneffe plant in Belgium. Sir Michael Edwardes had warned that a foreign purchase must not be seen as a rescue. This meant that the Government must not provide the purchaser with a subsidy in order to persuade him to come in. If it were interpreted as a rescue, all of the realism which had recently been gained amongst the BL workforce would be lost. The Prime Minister asked whether the Government, as shareholder, had the necessary expertise to judge the disposal options. The Chancellor and Sir Keith said that the Government needed outside advice, especially since the NEB's capability had been run down (the Chancellor added that the Treasury were doing their own analysis of the implications of a BL collapse for the Budget and the economy as a whole). Rather than call in a merchant bank, it would be better to call on an individual such as Kenneth Cork, Rupert Nicholson or Ian Morrow.

Summing up, the Prime Minister said that the Chancellor and Sir Keith should urgently consider who might be approached to provide advice on the disposal options. Whoever was appointed

/could start work

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- 4 -

could start work in advance of the BL Board meeting on 12 March. It would be important to keep this work strictly confidential; but if it did become known, it could be defended on the grounds that the Government needed to take a view on the possible bids which were already being discussed for parts of the business. Ministers were agreed that it would be far better if the whole of BL could be sold, but they recognised that the possibility of this was unlikely. They should meet again soon after the Board meeting on 12 March.

7.

20 February 1980

SECRET

Ref. A01469

PRIME MINISTER

British Leyland

BACKGROUND

The meeting at 8.30 on 20th February to discuss BL is being held at your initiative. The Secretary of State for Industry's minute to you of 19th February provides the basis for discussion. The Secretary of State has separately written a letter of 14th February - to the Chancellor of the Exchequer - about financial guarantees to the public sector in the event of a BL collapse; but I doubt if you need pursue this at the meeting.

HANDLING

2. I think the main issue on which you will wish to concentrate is whether adequate contingency planning is going on in case the plan has to be withdrawn. The critical passage in Sir Keith Joseph's minute is at (e) and (f) on page 3. This reflects Sir Keith Joseph's meeting with Sir Michael Edwardes last Saturday, when Sir Michael said he was prepared to respond positively to approaches made to him by potential purchasers, but was not prepared to initiate action, mainly because of the risks of leaks. The trouble about this is that, if BL's decline (in its present form) is indeed irreversible, there is no reason why a potential purchaser should make an approach: the assets will be cheaper later. If the object of the exercise is for the sake of employment, to keep BL as a going concern within a larger international group, and get some sort of price for it, then the sooner the sale happens the better. Perhaps a decision whether to take the initiative can be postponed until after the meeting on 12th March, when the board of BL is to review the plan. Should it be left any longer than that?

3. Questions you may like to ask are:-

- (a) How does Sir Keith Joseph now rate the chances of last December's plan succeeding? The main problem is car sales. The December plan forecast 20 per cent United Kingdom domestic car market share in the year as a whole, but they were only 15 per cent in January, and - despite the sales campaign being at its height, complete with substantial discounts - only 18 per cent in the first fortnight of February. Is this an upward trend or



a new ceiling? Finance on the other hand is not an immediate problem. BL's lay-off plans save them money on materials and overtime pay (even though those laid off will get basic pay indefinitely, under a CSEU/EEF agreement); and a strike would save more money still in the short term.

- (b) How long are the BL board likely to be prepared to continue with the plan?
At their meeting on 13th February, they agreed the plan could not be met in its present form, but indicated that only modifications were called for (as opposed to wholesale scrapping). Can this be reconciled with the board's statement of last December (attached) - especially the second paragraph? How likely is it that they will change their view at their next meeting on 12th March?
- (c) What contingency plans are being pursued? We know of the following:-
- (i) The Ford approach. This is highly confidential. You may not want to mention any names; but you might ask Sir Keith Joseph if he has anything which he wishes to report on possible acquisitions by other motor manufacturers.
- (ii) Others. These are in a quite different category, because they imply BL remaining as a separate entity, with only piecemeal modifications to the existing plans. They include:-
- (1) A BL/Honda working party is discussing additional collaborative possibilities beyond the Bounty project at Cowley.
 - (2) There have been tentative discussions with Nissan, reportedly interested in buying BL's Belgian assembly plant at Seneffe (peripheral to the main problem?).
 - (3) Aston Martin have discussed purchase of the MG plant at Abingdon.
- You might ask Sir Keith Joseph to report on these and any other known proposals.
- (d) Should other initiatives be taken? The main danger now appears to be not a sudden financial collapse or cash crisis, but a further steady erosion of market share. So BL's proposal of "no initiatives until after a collapse" presents two difficulties:-

SECRET

- (i) When will they (or the Government) decide that matters have gone beyond repair?
- (ii) Might it not be too late then to sell BL anyway (except at a knock-down price), since BL will have an even smaller market base to sell?
- (e) Are there any other suitors to encourage? The obvious one might be General Motors (GM). Are GM likely to approach BL or the Government?
- (f) Employment implications of contingency plans. Are there any plans likely to save Cowley and most of Longbridge - given that most prospective purchasers have a much stronger mid-car range than BL? How far does this mitigate against the "wholesale disposals" approach? Or could sale to another major manufacturer be combined with continuing (say) the Honda/Bounty project at Cowley?
- (g) Impact of the pay negotiations and Robinson. You will want to discuss prospects of strike action. Will a strike force BL to declare the plan "abandoned"; and if so who steps into the breach?
- (h) What steps can or should be taken to prepare BL for sale as separate units? At the end of the day break-up of the company may be necessary. How complicated is this likely to be? And are the BL board planning against this contingency?

CONCLUSIONS

4. Sir Keith Joseph is not seeking decisions now and you will probably want to do no more than ask him to keep you, and a few senior colleagues, closely in touch with developments; and to agree that it will be necessary to return to this subject soon after the BL board meeting on 12th March.

RA

ROBERT ARMSTRONG

19th February, 1980

SECRET

cc A. Duguid

Prime Minister

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SECRET

R
19/2

Qa 04436

To: MR LANKESTER
From: SIR KENNETH BERRILL

ms

BRITISH LEYLAND

1. The Secretary of State for Industry has written today to the Prime Minister setting out the present position on British Leyland as a background to the Prime Minister's meeting tomorrow morning. Sir Keith's conclusion is that the best strategy for the Government is to continue to back the Edwardes Plan until such time as the BL Board come to Ministers and say that the Company cannot carry on and, meanwhile, (and this is the important point) to back Sir Michael Edwardes in not initiating negotiations with other manufacturers on the possible sale of BL until that moment of truth had arrived.

2. It is only to be expected that Sir Michael, with characteristic determination, would wish to cling to the last to the hope that BL might 'make it' as an independent volume car producer, and that he would not wish to enter into negotiations which could prejudice that possibility. But the collapse of BL - together with the effect on component suppliers - would have such awful implications on public expenditure and on employment that Ministers need to consider whether the preservation of the British motor car industry long term would best be served by going along with the Edwardes strategy or by deciding that every effort should be made to try to sell BL despite the risks that such negotiations might leak.

3. As the Prime Minister is aware, the five years of study which the CPRS has given to the British motor car industry and to BL leaves it in no doubt that the moment of truth has to come. Car sales generally have been at a record level but BL's share of the market has fallen so badly that in January Ford sold more of one model (Cortina) than BL's total sales. Even dramatic improvements in sales would leave BL's total sales of volume cars impossibly far behind the volumes of its competitors to be able to earn enough profits on its own to replace its range of models.

SECRET

4. Be that as it may, there can be no denying that the future for an independent BL is bound to be highly precarious and that the most secure prospect for output and employment would be as part of a major world volume car producer (Ford, General Motors, Volkswagen). So the prime object of a Government strategy for BL should be to try to determine as soon as may be if this possibility exists. If it proves not to exist (the effort must be made with real determination) then a modified Edwardes Plan may indeed be preferable to immediate fragmentation, and the collapse of their volume car business, with all that would entail for the component industry and for the Exchequer.

5. The present prospects are that BL will be able to last out Sir Michael Edwardes's time as Chairman (November 1980). As Sir Keith's letter says, there is no cash crisis at the moment and the lay-offs will actually improve the position. The Government is committed to making available £150m. of new equity in April plus a further £150m. line of credit and £150m. loan conversion. Long drawn out industrial action can, of course, wreck any company fairly quickly, but there are signs that the BL labour force has at last begun to believe that their Company could collapse and they may well behave comparatively reasonably for the rest of this year.

6. If this happened, Sir Michael could see his time out with the Edwardes Plan in place and without any real attempt having been made to go out and see whether a buyer exists. The Government would then be bound to give his successor time to 'look around' and prepare his own proposals; so it might be a year from now before 'the moment of truth' arrived at which the BL Board came to the Government and said "there is no future for this Company except as a permanent pensioner of the State".

7. Ministers may prefer to continue to back the Edwardes Plan for another year and not, meanwhile, insist on active attempts to find a buyer (though this was not the view they took at the end of the last discussion). But if they do confirm their previous view - that the best prospect for saving jobs in the United Kingdom car assembly and component industries was to lose no time or effort looking for a buyer - they will have to give firm

SECRET

instructions to the Department of Industry and to Sir Michael Edwardes.

8. I am sending a copy of this minute to Sir Robert Armstrong.

KB

19 February 1980

A Duguid



TOTAL COPIES 11

COPY No. 1

PRIME MINISTER

We are meeting to discuss the future of BL Ltd at 8.30 am on Wednesday 21 February. This minute reports on the current state of play at BL and takes account in particular of points covered at a meeting held with Sir Michael Edwardes on 16 February. I must stress the extreme delicacy of the situation; leakage of information about our contingency planning could precipitate trouble with the unions and might even precipitate the abandonment of the Corporate Plan with all the consequences that might entail. I must therefore ask recipients of this minute to limit its circulation on a strict need to know basis.

BL CARS WAGES AND CONDITIONS NEGOTIATIONS

I reported recent events to Cabinet on 14 February. In the BL Cars union ballot a 3:2 majority supported the union's rejection of the company's offer; on an 82% poll 49% of the eligible voters (the hourly rated employees) backed the union position. The company told the Joint Negotiating Committee meeting on 15 February that there would be no improvement in the pay offer (5% for most grades, 10% for the most skilled workers and a productivity element which provided the possibility of individual employees earning an additional £15 per week), and the negotiations have been adjourned for a fortnight. There is no desire on the unions' side to take industrial action in support of their original 26% across the board pay claim; and Michael Edwardes has made it clear that the management will not increase the offer or go back on any of the moves to improve working practices but there could be some room for negotiation on certain peripheral aspects.

BL CARS' LAY-OFFS

The Unions were informed on 11 February of the company's intention to announce on a plant-by-plant basis an extensive programme of lay-offs. No numbers were given at the time but about 30,000 people will be involved at the peak. The lay-offs, which will begin to take effect from 25 February, /necessary to reduce excessive stock levels following an excellent January production run (101% of the programme) but a disappointing sales performance (15% UK domestic market share). The company considered that in terms of relations with the Unions it had to make its intentions public before the ballot result was announced. There are of course extensive

/ are

/lay-offs ...

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lay-offs in the motor industry world wide, in particular in North America. BL expect to make some redundancies on the back of these lay-offs.

THE ROBINSON AFFAIR

BL expect the unions in Birmingham to call an official strike at Longbridge. This will not be popular on the factory floor and further action by the management will depend on the response from the workers and its duration. The management's aim is to keep the Robinson issue separate from the wage negotiations; if Ministers are tackled Michael Edwardes suggests we continue to say it is a matter entirely for the company.

CASH FLOW

Apart from laying off workers BL are taking other measures to conserve cash and are putting in hand a review of their Plan. They do not foresee problems arising over cash flow at least in February and March. The steel strike will affect BL increasingly from the end of the month but the lay-offs will help to conserve supplies though BL have been careful not to attribute them to steel.

CONTINGENCY PLANNING

Play A

As the Board undertook in their 14 December paper on "The Position of the BL Board" they have put in hand contingency planning on a highly confidential basis. Department of Industry and Treasury officials have been associated with this work but I attach great importance to it being carried through urgently by BL themselves. In my discussions with Michael Edwardes we saw the possibilities as follows:

- a) the best outcome would be for the Plan to succeed;
- b) however, work is in hand in BL to modify the Plan to keep within the present funding provisions. These modifications need to be compatible with moves to increase collaboration with other manufacturers and to take account of the need to minimise damage should the Plan fail;
- c) BL are developing further collaboration possibilities with Honda and with other manufacturers following signature of the agreement with the former at Christmas. These would help the business should the Plan be carried through and could provide a basis for disposals if it fails;
- d) should withdrawal of the Plan be necessary - and the BL Board are unanimous that a decision on this will not need to be taken before their 12 March meeting at the earliest - it will be essential to provide time for cool and deliberate action. The Board have previously undertaken to consult me before taking a final decision and they would be prepared



Flagg B
and
Chancellor's
reply
at Flagg C

CRS disagree
with this: they
think Edwardes
should be
looking for
a buyer

now

7.

to remain in control to achieve a "soft landing". The Board would, however, require the support of guarantees for their borrowing on the lines of my letter of the 14 February to the Chancellor. I am sending copies of that letter to those who have not yet received them. The guarantees would not increase HMG's financial exposure :

e) at that stage Michael Edwardes in consultation with me would rapidly approach the heads of a small number of other manufacturers world wide to see what prospects there were of selling the business as a whole. He attaches great importance to such action not being initiated now as news would certainly leak and do further damage to sales dealer confidence and Union relations (this does not rule out a positive response to approaches made to us); and I agree with him. His view is that in the present state of BL and of the world industry sale of the entire business is not likely to be a runner now or in the immediate future;

- f) if the business cannot be sold to a single purchaser, the BL Board themselves in close consultation with the Government would take firm action to fragment the business. This would involve maintaining and subsequently disposing of those parts which were likely to be saleable; and the closure and breaking up of the substantial part - particularly in volume cars - which did not have a future. The objective would be to minimise the costs falling on public funding and to save as much as possible of the assets and jobs with continuing viability. Contingency work in BL, with which officials are associated, will be directed to identifying the constituents of the business accordingly and setting up now an appropriate subordinate company structure. Michael Edwardes stressed to me again the grave consequences which would flow from this situation for the components and supplying industries and for the economy - as officials brought out for us in their report last November.)

CONCLUSION

BL faces some extremely difficult months ahead and public confidence in the company has undoubtedly taken a severe knock in the past 7 days. However, I endorse the BL Board's view that it would be premature to abandon the Plan now. We are fortunate in having a realistic Chairman and Board determined to look at all reasonable options. Clearly we cannot expect dramatic developments on the collaboration/ disposal front in the current atmosphere. I and officials are keeping in daily contact with the developing BL scene and I will keep you and colleagues informed of significant developments.

I have considered whether we should re-activate the interdepartmental group which prepared the report on the Plan for us. This does not seem necessary at this stage in view of officials' involvement in BL's contingency planning. It is also essential that the



numbers involved should be most severely limited to reduce the risk of damaging leaks.

I am copying it to the Chancellor of the Exchequer, and Secretary of State for Employment, Sir Kenneth Berrill and Sir Robert Armstrong.

KJ

K J

19 February 1980

Department of Industry
Ashdown House
123 Victoria Street

SECRET



19 FEB 1990

A

POSITION OF THE BL BOARD

The 1980 Corporate Plan sets out the BL Board's proposals for the future. It contains the Board's plans to put the Company on a sound footing for the 1980's. However, the Board does have serious concerns about the Plan, in particular:

- the fact that the Plan falls short of the financial objectives which had been set for the Company;
- the need for a significant improvement in productivity;
- the need for a significant demonstration of commitment from employees for the Recovery Plan;
- the fact that the current world economic environment and outlook are unfavourable for the development of the Company's business;
- the recent serious erosion of the Company's current financial position through the CSEU dispute, the dispute following the dismissal of Derek Robinson, and the loss of market share (largely due to lack of confidence in BL's future).

On the other hand advances have been made during the year. Before the CSEU dispute production had settled down and productivity was rising at a number of important plants. There was an 87% "Yes" vote in favour of the Company's Plan in the secret ballot of all BL employees. The Board has successfully shown firmness in dealing with recent unconstitutional action. Wage negotiations in BL Cars are proceeding smoothly and the management has confidence in a satisfactory outcome.

In any decision the Board considers it will be necessary for the Government to base its judgement on the importance of BL to the economy as a whole, on the consequences of not going ahead with the Plan, and on the progress that the company is making in the industrial relations area. From a purely commercial point of view the risks outweigh the opportunities. But inspite of that the Board is of the view that it is possible for the Company to recover and achieve viability. In any case the Board considers the present time is the worst moment to abandon the attempt at recovery; several major investment programmes are in mid course and should be completed, notably the Heavy Truck, Mini Metro and Land Rover programmes.

In the light of all this the Board considers it right to seek from Government the funds necessary for the implementation of the Plan and stresses that the amounts specified are an irreducible minimum and provide a very slender margin. It states too that it is vital to the success of the Plan that BL now signs the deal that has been negotiated with Honda.

The Board emphasises the very considerable hazards from both within and without the company which face the Board and management in achieving the Plan. On the basis that the necessary funding is provided the Board will pursue the Plan with determination and will monitor closely the company's performance in a number of key aspects. If, in its judgement, it considers shortfalls in performance place the achievement of the Plan in jeopardy then the Board will have no hesitation

in recommending to the NEB and the Government that the Plan should be abandoned. Events which would be critical to such a conclusion are:

- major disruption of the Company's actions by strike action;
- significant shortfall on the Company's cash flow objectives;
- failure to deliver the Plan in any significant aspect; in particular, in regard to completion of programmes and launch of new products (including Honda), closure of plants and achievement of redundancies on time, and failure to deliver improved productivity and working practices called for in the ballot and provided for in the BL Cars' wage negotiating package.

On the basis that funding is provided now, the Board will arrange on a highly confidential basis to put in hand contingency planning against the possibility that the Plan has to be withdrawn. If subsequently the Board comes to the conclusion that withdrawal is necessary, it will consult with the NEB and the Government about what should be done; and will collaborate fully with the consequent necessary action.

BL Ltd
14 December 1979



14 DEC 1979

A Duguid

CONFIDENTIAL



C

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

19 February 1980

Duguid

BL GUARANTEES

Thank you for your letter of 14th February.

I agree that, for the reasons set out in your letter, we should be ready to authorise guarantees of BL's borrowings and existing overdraft facilities if they have to withdraw their Corporate Plan. I also agree that it should not be necessary to make any special provision for trade creditors beyond the general assurance that you would have to give in your Parliamentary statement if the guarantees were issued.

As you point out, if guarantees were given it would be essential to secure in return the removal from the loan agreements of the present conditions based on the observance of key financing ratios and the constraints on disposal of assets. It would also be important to ensure that the interest rates charged by the banks on short term borrowing were reduced to reflect the guarantees and brought into line with the rates paid by the nationalised industries. I understand that these various changes could take up to a fortnight to negotiate. It is, therefore, essential that if BL request guarantees they should give you sufficient notice to allow time for this.

Our officials are considering further whether it is necessary for the guarantees to extend to borrowings by BL's overseas subsidiaries. We shall need to consider this further when we have their advice.

I am sending a copy of this letter to the Prime Minister.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe'.

(GEOFFREY HOWE)

The Rt. Hon. Sir Keith Joseph, Bt. MP.



BF

Ind PA
cc HMT
DIM
CPRS
CO
JS
19/2/80

10 DOWNING STREET

From the Private Secretary

14 February 1980

Further to my conversations with your office today, I am writing to confirm that the meeting to discuss British Leyland will now take place at 0830 hours on Wednesday 20 February. Can you assume that an official will be welcome but we will be confirming this with your office during the afternoon of Tuesday 19 February.

I am sending copies of this letter to Martin Hall (HM Treasury), Ian Fair (Department of Employment), Gerry Spence (Sir Kenneth Berrill's Office), and David Wright (Cabinet Office).

CAROLINE STEPHENS

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

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

14 February 1980

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

MBM met
 P. H. H.

Dear Geoffrey,

BL GUARANTEES

As a necessary part of the contingency planning on BL, my officials and yours have discussed with the NEB and the company the immediate action that may be required if the Plan is withdrawn. In such an event it will be extremely important to maintain the confidence of the bankers, the various loan stockholders, and other creditors in order to avoid an immediate run on the company.

As you will recall, when the issue was considered last October we decided that the Government should be prepared if necessary to reiterate Eric Varley's assurance to the House in May 1977 that the NEB 'would not allow BL to be left in a position where it would be unable to meet its obligations'; subsequently Michael Marshall confirmed this position in an answer to a question in November. The effect of this statement and of the comfort letters issued to the banks with the previous administration's approval is that the Government, through the NEB, is in practice, but not in law, already guaranteeing BL's obligations.

The view which BL's financial advisers, Hill Samuel, the Bank of England and my officials take is that in the event of the Plan being abandoned, it will be necessary for two reasons for the NEB to issue guarantees on all BL private sector borrowings. The first is quite simply to prevent a financial collapse brought about by BL's bankers calling for the immediate payment of overdrafts and the withdrawal of facilities; and to enable BL to negotiate waivers from the stringent default clauses in their medium term loan agreements and the triggering of default clauses in their loan stock and foreign currency bonds agreements (details attached). The second is to allow time for the BL Board, which would require new operating instructions from the Government, to organise the restructuring of the company and disposal of viable parts of the business on an on-going concern basis. The Hill Samuel advice confirms that provided last autumn by Kleinwort Benson (the NEB's advisers) and the views of officials that the

/alternative ...



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alternative of a straight BL liquidation would not permit these objectives to be achieved; and I myself continue to attach high importance to the BL Board seeing through such an operation. (I am advised that the alternative of a receivership is not possible for technical reasons).

Since it is possible that we may need to react extremely quickly to a BL Board request for guarantees, I would be grateful for your agreement in principle now that I should ask the NEB to issue the guarantees if the need arises. The guarantees would cover all the company's borrowing and existing overdraft facilities. The condition on which guarantees to the loan stockholders and the syndicate led by Citibank responsible for the £85 million medium term loan would be that they should forgo permanently current rights to require the observance by BL of stringent financing ratios and to approve disposals of significant parts of the business. A waiver from these obligations would be critical to enable the later re-structuring/disposal programme to be implemented. I should add that holders of commercial loan stock and foreign bonds could make some capital gain as a result of the guarantees, but I regard this as a relatively minor matter compared with the importance of providing the BL Board with the necessary freedom to carry through its re-structuring programme.

given
would be

Finally, I do not see that it is necessary to make any special provision for trade creditors. The issue of the guarantees would be made public probably in the context of a Parliamentary Statement on BL and should be sufficient to reassure them that the company would be in a position to meet its obligations.

I will be sending a more general letter to all colleagues attending the Prime Minister's meeting on 18 February. I am confining circulation of this letter to the Prime Minister.

Evan
Kear

ANNEX

EXTENT OF BL PRIVATE SECTOR BORROWINGS AND COVERAGE OF GUARANTEES

BL's borrowings cover several types:

a)	Medium term bank loans	£115m
b)	Unsecured loan stock	£63m
c)	French and Swiss Franc bonds	£22m
d)	Miscellaneous small loans	-
e)	Overdraft and short term borrowing facilities (including overseas)	£400m - £500m
[f)	Government loans	£165m]
g)	Trade creditors	

14 FEB 1960





~~B/F 22-280.~~

10 DOWNING STREET

From the Principal Private Secretary

14 February 1980

Following your Secretary of State's meeting with Sir Michael Edwardes on the evening of 11 February, Sir Michael has sent the Prime Minister a copy of his letter of 11 February to Mr. Nott.

The Prime Minister would be grateful to have Mr. Nott's comments, cleared as necessary with other Departments, on the points made by Sir Michael Edwardes in his letter.

I am sending copies of this letter to Ian Ellison, Ian Fair and Genie Flanagan.

G. A. WHITMORE

Stuart Hampson, Esq.

CONFIDENTIAL

Original filed
Nat. Ind (Water Pay)
June '79

PRIME MINISTER

Cabinet: Industrial Affairs

BACKGROUND AND HANDLING

You may like to ask Ministers to report on the following:-

Water

2. Mr. Heseltine could report on the aftermath of the GMWU's rejection of the employers' 19.2 per cent offer. He could mention the outcome of the meeting between Mr. King and Sir Robert Marshall due to take place today (Wednesday). Questions you might want to cover are:-

- (a) What is the real likelihood of a strike (threatened from 25th February)? Are the supervisors likely to join in (crucial to the effectiveness of contingency plans)? How will the GMWU Executive treat the vote for strike action by their conference? What of the attitude of the other water unions?

You will also want Mr. Younger's view on the strike threat in Scotland (where the water workers are local authority employees).

- (b) Will the water employers increase their offer? If so, to what level? We understand that the unions' further demands may crystallise round the consolidation of a 5 per cent efficiency bonus. Will the management concede this? Does Mr. Howell think this could have repercussions on gas and electricity, where negotiations are still going on? The GMWU negotiators are recommending acceptance of a 14.2 per cent offer for gas, which presumably could be rejected by their delegate conference, as with water.
- (c) You might then seek views especially from Mr. Whitelaw and Mr. Pym on whether troops should be put on notice so as to be ready for use by 25th February. This mean alerting servicemen by the weekend: we understand that the water employes' view is that there is no need for troops to be put on notice yet; they are confident that they can provide adequate services - with the aid of the supervisors - for

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several days after a strike begins. Putting the troops on notice would probably leak and jeopardise the co-operation of the supervisors. You might check that Mr. Heseltine agrees with this. If you want further consideration of this issue, then you could ask Mr. Whitelaw to convene an urgent meeting of the Civil Contingencies Unit at Ministerial level, perhaps on Friday.

A final decision about whether to declare a state of emergency can be delayed until next week, but CCU might be asked to look at this too.

Steel

3. Sir Keith Joseph could report on:-

- (a) The ACAS talks with the ISTC and NUB, and -
- (b) Whether the other steel unions are likely to settle - they are meeting on Thursday to decide - following the rejection of BSC's offer by the TGWU delegate conference.

British Leyland

4. Sir Keith Joseph could report on management and union reaction to the results of the pay ballot (59 percent to 41 per cent against the offer, on an 82 per cent poll, i. e. 48½ per cent of all manual employees against); and on the market position and lay off plans. You are to discuss BL further with Ministers on Monday. The situation looks very gloomy.

British Shipbuilders

5. Sir Keith Joseph could report on the two days of pay negotiations ending today (Wednesday). Is there any chance of BS bridging the gap between the 20-30 per cent demanded by the Unions and the requirement of a virtually self-financing settlement dictated by their financial position?

Port of London Authority

6. Mr. Fowler could report on the effects of strike action over pay. This seems still sporadic and having only a limited effect. But there is no sign of an early settlement.

CONCLUSIONS

7. You may want to record conclusions on the discussion on water, in particular on whether any further meeting of CCU is needed.

ROBERT ARMSTRONG



10 DOWNING STREET

From the Principal Private Secretary

IN CONFIDENCE

13 February 1980

Thank you for your letter of 12 February.

I will, of course, put before the Prime Minister the copy of Sir Michael Edwardes' letter of 11 February to the Secretary of State for Trade which you kindly sent me with your letter.

.. E. A. WHITMORE

Michael O'Connor, Esq.

1. ~~Copy~~ to Mr Wolffson
Mr Hoskyns
Mr Lambton.

2.

BL Limited
35-38 Portman Square,
London W1H 0BN.
Telephone: 01-486 6000. Telex: 263654.
Cables: Leymotors London NW1. Telex.

12th February 1980

Prime Minister.

C. Whitmore, Esq.,
Principal Private Secretary to
the Prime Minister,
10 Downing Street,
London SW1.

BL figuring for survival with
one hand tied behind its back -
and if Michael Edwards is right,
largely because of difficulties with
the Community.

I will ask Mr Nott for his
comments.

I have written to BL to request
them for sending you a copy of Michael
Edwards' letter.

AWB
Sean M. O'Connor

At a small, private meeting last night, Sir Michael gave
to Mr. John Nott the enclosed letter. All the issues
contained in the letter have been debated with the Department
of Trade and the Ministry of Transport over some years to
no apparent effect. Sir Michael elaborated the points in
the letter in some detail to the Secretary of State for Trade
who seemed receptive to the case he was making, and who found
it helpful to have the overall picture in one document.
He suggested it might be sensible if the Prime Minister were
to see a copy of the letter too.

Sir Michael has therefore asked me to send to you a copy of
this letter, with a request that you draw it to the attention
of the Prime Minister.

Yours sincerely,

Sean M. O'Connor

Michael O'Connor
Assistant to the Chairman

Enc:



11 FEB 1969



TELEPHONE
01-486 8000

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES.

11th February, 1980.

The Rt. Hon. John Nott, M.P.,
Secretary of State for Trade,
1 Victoria Street,
London, S.W.1.

Dear Secretary of State,

I have decided to write to you personally to register my deep concern and seek your assistance on a number of trading matters which are exacerbating the competitive pressures BL faces in its home market. All the matters have been raised previously with senior officials in the Department of Trade and, although one item is primarily the concern of Transport, all have Trade implications.

In the 1980s BL faces a major battle for market share. Competitive pressures which have contributed to the decline in our share of the domestic U.K. market in 1979 will become even tougher in 1980 given an anticipated reduction in the size of the total market, for cars, for instance, from over 1.7m. in 1979 to around 1.4m. for 1980. Yet some of the competitive pressures we face do not seem to accord with what is reasonable and fair, while some of our EEC partners, as well as other countries with whom we trade, appear to give a higher priority to the health and prosperity of their industries. BL, however, is advised that the U.K. Government is heavily constrained in the action it can take in those areas where we have expressed concern with the implication that BL cannot expect similar assistance from the U.K. Government. We really do seem to continue to play cricket while other countries only apply those rules which are to their own advantage.

continued.../

11th February, 1980.

The Rt. Hon. John Nott, M.P.,
Secretary of State for Trade.

BL is in no position to overlook these matters, nor would I have thought is Government, given its substantial stake in the company. I suggest it makes little sense to back the company financially, yet be reluctant to back it as positively in other areas.

There are four issues to which I wish to draw attention.

1. Spain

As I am sure you know, the rapid growth of the Spanish motor vehicle industry has been based on a heavily protected domestic market and heavy inducements on manufacturers to export. With the expansion plans recently announced by GM and Fiat the industry is poised to overtake the U.K. in production in the early 1980s and cannot any longer be considered in the infant category.

It did appear last April that the Spanish Government were about to liberalise the car market, but although quotas were removed duties remained prohibitively high. More recently, the Spanish authorities announced a duty-free import quota for cars, but it seems that this is likely to be allocated only to those companies with established manufacturing plants in Spain. In short, to all intents and purposes, Spain remains a closely protected market. The worst aspect of the situation is that Spain is now the manufacturing base from which manufacturers established there are vigorously exporting cars to other EEC countries.

I understand that the Department of Trade is formally complaining to the EEC Commission that Spain's discriminatory action on duty-free quotas is, prima facie, in breach of the EEC/Spain Agreement. I hope this action is successful since it greatly concerns me to see market opportunities deliberately denied us while exports from Spain freely enter the U.K. market - in fact, some 50,000 Spanish built cars were registered in the U.K. last year while the U.K. exported only about 300 cars to Spain. I urge that you take a close personal interest in this matter.

continued.../

11th February, 1980.

The Rt. Hon. John Nott, M.P.,
Secretary of State for Trade.

2. Eastern Europe

Over a long period we have registered our concern about the pricing policies adopted by Eastern European manufacturers in the U.K. market. While it seems clear to us that, on any normal criteria these cars are dumped, it appears that to succeed in any action to rectify this situation we need to bring the rest of the Community along with us; if the SMMT puts forward an anti-dumping case, it needs the support of its counterpart European trade associations and, if we, BL, go forward, we need the support of other Common Market manufacturers. Given the involvement of Renault, Fiat and Citroen with East European manufacturing projects, I believe there is no realistic possibility in either case of obtaining such support.

In the meantime, the East European share of the U.K. market, although still relatively small, continues to grow steadily and reciprocal trade remains negligible. Thus sales of East European cars have grown from 2,000 in 1970 to 28,000 in 1978 and 39,000 last year. By comparison in 1978 the U.K. sold only 400 cars to Eastern Europe and 1979 sales are likely to be of a similar magnitude.

We are informed that the only alternative to Community action is for the Department of Trade to "take a close interest in" the level of vehicle imports from East European countries. Of course, we are grateful for any leverage that can be applied. But I believe the time has come to act: something must be done soon to stop the extensive dumping now prevalent from Eastern Europe.

3. Type Approval

It is common knowledge that type approval procedures can represent potent barriers to trade; the corollary of this is that the absence of type approval processes creates a market relatively open to import competition. While the following paragraphs refer to a subject matter which is directly the responsibility of the Department of Transport, it has trading and competitive implications for the U.K. and B.L.

continued.../

11th February, 1980.

The Rt. Hon. John Nott, M.P.,
Secretary of State for Trade.

- a) CARS. Unlike other vehicle manufacturing countries and our EEC partners, the U.K. lacks unique standards for vehicle type approval and bases its National Type Approval system on EEC Directives. Our EEC partners, however, all have national systems and standards which preceded the development of EEC Directives, and are able to retain the unique features of these. In consequence vehicle importers have to undertake the additional engineering work necessary to comply with these and go through time consuming national homologation procedures in order to secure type approval.

While our EEC partners are able to retain their unique National systems, the U.K. is under pressure from the EEC to abandon the one unique aspect of its own Type Approval process, namely the Minister's Approval Certificate (MAC) and the sub-MAC system. This is held to discriminate against imports from other EEC countries.

What particularly disturbs me is that we appear about to relinquish this without securing any benefit for the U.K. At the very least, the MAC procedure ought to be used as a bargaining counter to secure some form of reciprocal EEC arrangement for the granting of Whole Vehicle Type Approval on the basis of EEC Directives.

In pressing this view, I am conscious too of the publicly declared opposition of the French to the BL-Honda project; it would not surprise me in the least to see French National Type Approval regulations being invoked to obstruct BL's efforts to sell this car in France. Until we are confident this is not an obstacle it seems extremely foolish to abandon our only direct counter measure and bargaining counter in negotiations on European vehicle type approval.

continued.../

The Rt. Hon. John Nott, M.P.,
Secretary of State for Trade.

- b) **COMMERCIAL VEHICLES.** On commercial vehicles the U.K. has no National Type Approval system at all; any importer can bring any truck into the U.K. market and sell it without any check having been made that it complies with U.K. legislation. Only if subsequently it is identified as contravening "Construction and Use Regulations" is action possible. In practical commercial terms this means that importers can and do import trucks to meet individual customers' requirements and sell them without hindrance. By comparison, BL has to ensure that its trucks adhere to Construction and Use Regulations where they are for sale in the U.K. and also conform with the type approval regulations of other markets in which we wish to sell; in the latter case - and this applies to other EEC countries - this means that we have to be highly selective in the specifications we sell and cannot afford to offer customers the freedom of choice of our total product range. I find this situation quite incredible and, with the rapid growth of truck imports into the U.K. a real threat to the survival of our Commercial Vehicles business.

David Abell and other senior executives of Leyland Vehicles Limited have been in touch with the Department of Transport at Permanent Secretary level to suggest ways in which the U.K. could redress the balance by developing U.K. national type approval for commercial vehicles but so far there are no positive results. I really do urge that we address this question as a matter of urgency.

4. Japan

There is, finally, a further issue to which I wish to refer, namely the matter of the need for continuing restraint by Japanese manufacturers of their vehicle exports to the U.K. In this area I readily acknowledge that the U.K. motor industry, its many thousands of suppliers, and BL in particular, have been greatly helped by the considerable support which the Department of Trade has lent to the efforts of the SMMT.

continued.../

11th February, 1980.

The Rt. Hon. John Nott, M.P.,
Secretary of State for Trade.

A further round of SMMT/JAMA talks has just ended. Our impression is that the Japanese have accepted - reluctantly - a period of further restraint for 1980: but the understandings are opaque, if not ambiguous, and were only arrived at after some very blunt talking by the British side. Moreover, we are clear that it will be essential to obtain confirmation and reinforcement of the undertakings during the course of this year: as far as we are concerned, the Japanese are committed to not exceeding 10% of the total U.K. car market.

I hope your Department, with the assistance of FCO and the Embassy in Tokyo, can help to do this in no uncertain terms: as I have, I am sure, already demonstrated, we need this restraint now more than we ever did. In particular, we need to make it crystal clear to the Japanese that this policy of voluntary restraint must continue into the future: the suggestion I saw recently in the press that in 1981 the system could begin to be dismantled is totally out of the question, in my view.

I attach a copy of the jointly agreed minutes of the recent SMMT/JAMA meeting: these are not to be published but it was agreed they would form the basis of informal press briefing.

Thus with the exception of Japan, on all the other items I have mentioned above BL - and the U.K. - loses. I regret to note that in almost every instance the common thread linking these problems is the apparent inability of the U.K. Government to act because of some limitation imposed on us by the European Commission or the ramifications of Community membership. I quite understand that any club requires its members to observe rules but it does appear that there are more rules applying to the U.K. than to other EEC countries! Is this really the case, or are we simply reluctant to act, or have we simply failed to realise that in today's world economic climate charity begins at home? Historically, BL has been a staunch supporter of U.K. membership of the Community, but there are occasions when I really begin to wonder where our true national interests rest, if we are to play the game according to different rules to those followed by our "partners".

continued.../

11th February, 1980.

The Rt. Hon. John Nott, M.P.
Secretary of State for Trade.

In the next year or two we will need all the help we can get. I cannot believe that the Government is really as powerless to assist in these matters as it appears to be and I do earnestly seek your assistance to redress the unequal situation we face in these areas.

I propose to continue the dialogue on these broad matters with the unions.

I am sending a copy of this letter to Sir Keith Joseph, Mr. James Prior and Mr. Norman Fowler.

Yours sincerely,
Michael Snowe.



CF
 BL file
 12
 11/2

CHANCELLOR OF THE EXCHEQUER

cc Financial Secretary)
 Sir Douglas Wass) Without
 Mr Ryrrie) Attach-
 Mr F Jones) ment
 Mr Lovell)
 Mr Moore)
 Mr Ridley)

BL - MR BROCKLEBANK FOWLER MP - DISCUSSION WITH THE CHIEF SECRETARY

The Chief Secretary has seen the attached note by Mr Lovell and agrees with the comments made.

2. At his meeting with the Chief Secretary Mr Brocklebank Fowler said that he had discussed the Nissan ideas with Ian Gow, as well as with the Secretaries of State for Industry and Trade. So the Prime Minister may well have heard of them.

3. I understand from Sir Keith Joseph's office that Sir Keith will probably make some further report to the Prime Minister after his next meeting with Sir Michael Edwardes next week (13 February) and before the Prime Minister's meeting on 18 February. This report would be expected to cover the Brocklebank Fowler proposals as well as other BL developments.

APL

A C PIRIE
 8 January 1980
 Feb

1. Chief Secretary
2. Chancellor

cc Financial Secretary
Sir D Wass
Mr Ryrie
Mr F Jones
Mr Ridley
Mr Moore
IACS

BL- MR BROCKLEBANK FOWLER MP - DISCUSSION WITH THE CHIEF SECRETARY

Mr Brocklebank-Fowler is a consultant to Nissan who manufacture Datsun, and is a spokesman for Datsun dealers in the United Kingdom. He has recently returned from a visit from Japan and asked to meet the Chief Secretary to discuss a proposition to associate Nissan with BL. The meeting was held in the Chief Secretary's room at the House of Commons on February 7. I attended with Mr Pirie.

2. Mr Brocklebank-Fowler made it clear that the main purpose of his Japanese visit was to discuss Nissan general trading activities in this country. However, the opportunity arose to meet an Executive vice-president of Nissan on the international side of the business (Mr Okuma) to discuss the possibility of Nissan associating with BL. The long term aim would be to provide a minimum of 120,000 cars from UK sources, about half of which would be exported to EEC countries. Nissan envisage a three stage operation:

- (i) An initial build up of stocks of cars in this country to provide the base for market expansion. Mr Brocklebank-Fowler claims that this would not conflict with the SMMT's agreement on Japanese sales in this country. It would be sufficient to

build up stock levels to replace the 15,000 cars which were "lost" by the agreement. Sales would remain as under the agreement. The high stock levels are intended to support dealers who would be able to offer a wide range of cars far more promptly than is the case at the moment. Mr Brocklebank-Fowler did not believe that other Japanese manufacturers would press for comparable increases in their exports to this country.

(ii) In time - perhaps a year - Nissan would want to build an assembly plant in this country. Knock down cars would be imported from Japan, but there would be a modest UK added value. This is where the 120,000 target comes in. Preference would be for a green field site - certainly not existing BL plant given the state of labour relations. Milton Keynes was mentioned.

(iii) In the long run Nissan would aim for some kind of manufacturing tie up with BL. Nissan would provide the technical know how to build their latest models at existing BL plant.

Comments

3. The BL connection seems tenuous and barely relevant.

Mr Brocklebank-Fowler was not convincing on this point. A manufacturing relationship is clearly a long way off in this phased operation and while Mr Brocklebank-Fowler stressed the value to BL of Japanese participation (which needs little argument with us) it was not at all clear at this stage that this was anything more than a vague possibility to be explored some time in an unspecified future. Meanwhile, BL get nothing from the deal.

4. But if Nissan is seriously interested why did they not contact BL themselves? Again Mr Brocklebank-Fowler's replies were not convincing. He suggested that Nissan does not like Sir Michael Edwards because he went first to Honda; that the Japanese are cautious; that Nissan does not understand why BL did not themselves approach Nissan for help - it seems Wolsley helped Nissan in its early days.

5. If Nissan wants to assemble cars in this country they could apply for a green field site independently of a link with BL.

The choice of Milton Keynes rather than a development area is perhaps politically difficult but not an insuperable obstacle given there is no public money involved. They would of course need an IDC and planning permission, but Milton Keynes is a new town. The implications of such a proposition for the UK and European car industry is a matter which would need to be examined.

6. In short, the Chief Secretary is sceptical that anything tangible is likely to come out of this approach. Throughout the discussion Mr Brocklebank-Fowler referred more than once to the prospect of a diminishing world demand for cars; the shrinking of the United States market; Nissan's dependence on a large and expanding market; the rigorous challenge in the UK market coming from Renaults; and perhaps (the real crunch) SMMT's forecast of a falling market demand in this country in the coming year - which means that the export arrangement will cover fewer cars. In spite of Mr Brocklebank-Fowler's denial, therefore, the objective seems to be no more than to secure acceptance for an increase in exports of Nissan cars to this country, ie the first phase and nothing more.

7. Mr Brocklebank-Fowler has seen Sir Keith Joseph and Mr Nott and the Chief Secretary agreed to bring the proposal to your attention. The Chief Secretary recommended that Mr Brocklebank-Fowler should speak to Sir Michael Edwards as soon as possible, and indeed, it seems that some kind of meeting has been arranged - although how far Sir Michael will be able to consider propositions like this in current circumstances must be open to doubt. Officials in the Treasury and in the Department of Industry share the Chief Secretary's scepticism.

AH
(A.H. LOVELL) - IA
8 February 1980



cc O/I
1st Pd
Original in G/R
DS

CF to ABE

10 DOWNING STREET

THE PRIME MINISTER

8 February 1980

Dear Robert

Thank you for your letter of 21 January complaining about the way BL have conducted their negotiations with Aston Martin Lagonda (AML) on the possible sale of MG to AML. You have subsequently raised this issue during the Report Stage of the Industry Bill when you drew a distinction between BL's commercial interest and the UK national interest.

I do appreciate the feelings that have been aroused amongst many enthusiastic people who regard what has been made public about BL's plans as a threat to the MG name and tradition. I certainly sympathise with those who wish to see publicly owned commercial assets transferred back to private ownership. But Keith Joseph and I have considered this particular case very carefully and I have concluded, somewhat regretfully, that there is no justification for the Government seeking to intervene.

It is not for me to comment on BL's detailed plans for MG. As I understand the position BL plan to discontinue production of the MGB in about a year and to replace it by a new derivative of the present Triumph range. The MG name will be applied to the new model and to other BL cars in the future. So BL intend the MG marque to survive and they intend to exploit the MG tradition commercially in

/America and

KS

America and elsewhere. The Abingdon assembly plant will be turned over to other uses arising from the BL's new model programmes and, as I understand it, BL have made clear there are good prospects for employment at Abingdon. It is fair to say too that MG itself like other equally famous marques (Lagonda not excepted) has had to make the transition from one development line to another a number of times in the past.

Against this background BL have only recently received their first commercial offer from AML. Obviously I cannot comment on the substance or details of negotiations on what is a commercial matter between the two companies. Nor can I compel the BL Board to dispose of the MG marque and the Abingdon factory on commercially disadvantageous terms; these assets are owned indirectly by the taxpayer and our supporters would not I think applaud if we disposed of them on anything other than a commercial basis.

On the other hand the Government is not discouraging BL from disposing of MG and Abingdon. When announcing the Government's decision to fund the BL Corporate Plan last December Keith Joseph stated then that we should be looking to the Board to contribute to funding needs from its internal resources, including the disposal of assets where this made commercial sense. The Board of BL is a tough and resolute one and we must look to them to assess what does make commercial sense; but as Keith Joseph stressed they continue in a poor financial state and are facing strong competitive pressures and we must do nothing which would impose on them additional commercial or cost penalties.

Yours ever
Robert

Ind Pd



10 DOWNING STREET

From the Private Secretary

8 February, 1980.

Because of the visit of President Moi of Kenya to this country, the meeting to discuss British Leyland is now going to take place at 1530 on Monday, 18 February, at 10 Downing Street.

I am sending copies of this letter to Martin Hall (HM Treasury), Ian Fair (Department of Employment), Gerry Spence (Sir Kenneth Berrill's Office), and David Wright (Cabinet Office), and I hope this new time will be convenient.

CAROLINE STEPHENS

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

KRC

cc Mr. Lyman

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Telex 263654.
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2

From The Managing Director, Cars, BL

February 7th, 1980

T Duffy, Esq
President
Amalgamated Union of Engineering Workers
110 Peckham Road
LONDON
SE15 5EL

Tim
A very clear letter
and statement by BL
on Robinson. (A9)

Prin Amite

*One person at
- least has some
spine!*

A very good letter
and the statement
are most revealing.

Dear Terry

Prin

*R
2/2*

Since we received your report we have studied its contents with great care. The appendix to this letter sets out our detailed comments on a number of issues raised in the report. In this covering letter we will deal with what my colleagues and I regard as the fundamental issues.

We have reached two main conclusions on the Report:-

- 1 The enquiry has brought to light no new facts.
- 2 The report deals almost exclusively with the procedures that were applied in the disciplining of Mr Robinson. We have searched in vain for any views as to whether the Company was justified by the facts of the case in taking disciplinary action.

1...

I think it is common ground that if BL Cars is to survive (and we are determined it will) management and employees must work constructively together. It is our view that Mr Robinson's conduct over the past two years has proved convincingly that he is not prepared to work constructively either with the Company or, indeed, with your Union. As evidence of that statement I would remind you of the following -

- 1) he campaigned (and continues to campaign) against the Recovery Plan, this despite a 7 to 1 employee vote in its favour;
- 2) your own Enquiry Team reported on the way in which Mr Robinson has conducted himself as an AUEW convener. (Mr Robinson's statements yesterday to the media that the report "completely exonerated" him were typical of his tendency to mislead and misrepresent).
- 3) the miserable record of disputes and lost time at Longbridge since Mr Robinson became convener. This includes 523 internal disputes in some three years at a cost to production of 113,000 engines and 62,000 cars. These figures exclude the CSEU/EEF dispute and all other external issues.

Given the problems that BL Cars has to overcome and the responsibility we owe to hundreds of thousands of people who depend on the Company for their livelihood, we are not prepared to comply with the demand of your Union that Mr Robinson be reinstated. I have to admit to a feeling of surprise that given the whole series of public statements made by Mr Robinson over recent months he would wish to be employed by the Company.

Finally, I would like to comment on the suggestions made on television last night that Mr Robinson should be re-engaged as an employee on the basis that he would be de-barred from holding union office. Mr Robinson has apparently rejected that suggestion himself. I have to say to you that, based on his track record at this time, he is a person who is not suitable for re-employment by the Company.

Before Austin Morris dismissed Mr Robinson all the possible consequences were considered. No new fact has emerged that would justify a reconsideration of our decision. It is clear that not only our management but many Longbridge employees as well are convinced that the decision was right. We are not prepared to allow strike action to reverse a decision which, we are convinced, was fully justified.

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I urge upon you and your colleagues to consider once more the appalling consequences that could flow from your decision to back official strike action in support of Mr Robinson's reinstatement. In addition to the 20,000 employees at Longbridge upwards of 30,000 employees elsewhere in BL Cars would need to be laid off almost immediately.

If you are determined to go ahead, then we press you to do so only when you are certain that the majority of your members at Longbridge are prepared to back the strike. This can only be ascertained by a properly conducted ballot, as indeed is your practice in electing your own union officers.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Ray Horrocks', with a long horizontal flourish extending to the right.

RAY HORROCKS

REPORT OF AUEW COMMITTEE OF ENQUIRY INTO THE
DISMISSAL OF MR. DEREK ROBINSON: BL CARS RESPONSE

Mr. Terry Duffy, President of the AUEW advised the company, and subsequently announced publicly, that the Union supported the claim for the reinstatement of Mr. Robinson and was prepared to embark upon official strike action to achieve that objective.

The company has cooperated in providing information to the Enquiry Team, although it was made clear at the outset of the Enquiry that the company could not be bound by its findings, since it was essentially an AUEW internal investigation.

The company has now studied the Report and has concluded that it is not prepared to reinstate Mr. Robinson. His disruptive behaviour and damaging influence, as shown by the events in February and November 1979, make this impossible and a strike will not change that decision.

Official strike action by the AUEW can therefore do nothing but irreparable harm to BL and to the job security of tens and thousands of people, many of them members of the AUEW. The effect on the engineering industry and on the national economy will be disastrous, with foreign manufacturers and foreign employment being the only areas that gain from the dispute.

The company has been surprised and disappointed at some of the emphases which have emerged during press reporting of the AUEW decision. For example, Mr. Robinson claimed that the Report fully vindicates his opposition to the BL Plan (which had the support of the AUEW Executive Council and which received an 87% majority of all BL employees in a secret ballot): he also claimed that the Report exonerated him completely. Clearly this is nonsense. The Report is highly critical of Mr. Robinson's actions, in the following terms.

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"Having said that, we must, as a Committee set up from the AUEW (Engineering Section) Executive Council, make some strong criticism of D. Robinson's performance as AUEW convenor. He should have made it perfectly clear to our stewards and membership in February that they must abide by the decision of the Trade Union Side of the LCJNC in relation to the giving of five days' notice of strike action. This decision was supported by the AUEW Executive Council and approved by the CSEU Executive."

"He failed to report to the District Secretary and District Committee that the Joint Stewards Body had made a contrary decision and he did not report to the District Committee that our members had withdrawn labour."

"Further, it is our view that he should have followed the example of J. Adams in relation to the 12th March meeting and reported that to District Committee through his District Secretary".

Page 12

"We feel, as an Enquiry Committee set up by the AUEW (Engineering Section) Executive Council, we must comment on D. Robinson's duties and responsibilities as our Convenor."

"He has no right as an AUEW convenor to put his name to this booklet without the prior approval of his District Committee and, thereafter, of the Executive Council."

"He has no right as our convenor to call for disruptive action within his District without the prior approval of his District Committee and, thereafter, the Executive Council."

"And he certainly has no right whatsoever to call for disruptive action in other Districts. This is interference in the constitutional rights of our District Committees."

Page 13

"We must, however, comment as a Committee on the serious failings and lack of responsibility shown by D. Robinson in relation to his duties as our AUEW convenor at Longbridge."

The management of BL Cars were even more concerned at his actions against the interests of the company and that is why the disciplinary decisions were taken in March and November. The company believes that it had a responsibility to take and implement those decisions: it was not prepared to abdicate that responsibility. The company notes with disappointment that the AUEW report is silent about Mr. Robinson's actions against the company. Indeed, it even fails to say anything specific about any disciplinary action the Union intends to take against Mr. Robinson for the shortcomings identified by the Enquiry Team.

Despite the reported view of the Enquiry Team that Mr. Robinson did not behave in a fit and proper manner as the Senior AUEW representative in Longbridge, and in particular that he exceeded and abused his constitutional authority in February and November, the enquiry concluded that he should not have been dismissed because in their view the March warning was not an official and formal warning. Yet, at a meeting on Tuesday evening, 5th February, between senior members of BL Ltd. and BL Cars and members of the AUEW Executive Committee, and subsequently, the AUEW agreed that had the company dismissed all four signatories of the 'Combine' booklet, the Executive Committee's conclusions would have been different. The only point of disagreement seems to be whether the March warning justified the more severe treatment. In the company's view it would have been unreasonable to dismiss all four signatories in November, since three of them had received no previous warnings. Mr. Robinson clearly had.

Senior management of the company spent the whole of yesterday examining the Report and questioning closely the Austin Morris management involved on the two occasions.

Following an exhaustive and frank investigation, the company is confident of the following facts:

1. There is no doubt that Mr. Robinson understood in March that he was being formally disciplined, and that any repetition of such irresponsible behaviour would result in his dismissal. Indeed he used the expression "I've got the message, but don't try to sack either me or Jack Adams because you will see what will happen".

This comment was contained in the written report of the meeting which was given to the Enquiry Team.

2. It is simply not true that the meeting lasted for only ten minutes, and indeed the subject matter described to the Enquiry Team by both management and Trade Union representatives was such that it could not possibly have been dealt with in that time. The meeting definitely lasted for at least 1½ hours, and its purpose was both explicit and clear.
3. Whilst arrangements were made by the company for a Full Time Union Official to be present at the November hearing, the company did not consider this to be necessary for the March incident, since it was a disciplinary warning and not dismissal at that time. Certainly if the facility had been requested by

Mr. Robinson, the company would have agreed. Both Mr. Robinson and Mr. Adams were senior and experienced union representatives, and the company therefore sees nothing wrong or improper with the procedure that was followed on that occasion.

4. The company was asked by the AUEW why it did not take steps subsequently to bring the matter to the attention of a Full Time Union Official. Yet Mr. Adams himself saw the need to report the incident to his own local Official. The fact that Mr. Robinson did not do so is not surprising in view of comments - already quoted - which are made in the Union Enquiry Report. In any case, the March Editorial of the AUEW Journal clearly shows that the company's problem with Mr. Robinson was known and understood at the highest levels of his Union.

The March warning was quite explicit and this sets Mr. Robinson's subsequent behaviour in November apart from that of the other three signatories. It is wrong to conclude that the March warning did not happen or that it was vague, or that Mr. Robinson did not understand its full consequences.

The other major point of criticism in the Report concerns whether the Manufacturing Director of Austin Morris was the correct person to hear the appeal in November in the light of his previous endorsement of the decision to dismiss. That appeal was, of course, presented by the AUEW District Secretary in the absence of Mr. Robinson, who had refused even to attend. The company wishes to state categorically that Mr. Gilroy was fully authorised to conduct the appeal and, if mitigating circumstances could be shown, to recommend that the decision be changed or reversed. The company believes that such a principle is widely understood and applied in industry, and considers that it does enable fair and logical procedures to be adopted.

The fact that the company has commented only on the above points of the Report does not, of course, indicate that it is in agreement with all of the other points made, but believes that these are the most significant items raised. The company is, of course, ready to discuss further with the AUEW any of the other points at any time.

The AUEW Executive Council had taken the decision to call an official strike at Longbridge before its meeting with the senior management of the company last Tuesday night. The AUEW Executive Council has not, so far, taken up the company's suggestion that, before embarking upon such a course, it should first ballot its members at Longbridge to see if it was their wish to support such action. In view of the consequences of such a damaging strike, the company would hope even at this stage that the AUEW might reconsider before calling a strike and assess the costs to itself as a Union, to its members and indeed to the whole economy of the country if it were to bring BL down.

Finally, the company believes it necessary to reiterate firmly that strike action will not succeed in changing its decision. Instead it will cause upwards of 30,000 people to be laid-off elsewhere in BL Cars in addition to around 20,000 at Longbridge, with presumably a knock-on effect upon supplier companies. The cash position of the company makes it impossible for it to cushion this effect in any way by building for stock, so the lay-offs will be virtually immediate. Austin Morris and other major parts of BL Cars will stop. All new investment will stop, with inevitable delays to new model programmes like the Mini Metro.

Should this action make it impossible for the company to achieve its 1980 Corporate Plan, BL Cars will have no option but to recommend to the BL Board the withdrawal of the BL Cars Plan. The consequences of disruption were clearly set out in the letter of 19th December last from Sir Michael Edwardes to the Secretary of State for Industry (copy attached) which formed the basis of the Government's approval of further funds. The company does not believe it can make any more clear how serious would be the results of the action now contemplated by the AUEW.

In all of these circumstances, the company asks the AUEW Executive Council to reconsider its position and not to call this damaging strike. At the very least, the company urges once again that the AUEW should ballot its members before calling them out on a strike which could cause such a massive loss of jobs and such long-term damaging effects on the British economy.

BL CARS LTD.
PORTMAN SQUARE,
LONDON W1.

7th February 1980

BL Limited
35-38 Portman Square,
London W1H 0BN.
Telephone: 01-486 6000. Telex: 263654.
Cables: Leymotors London NW1. Telex.

19th December 1979

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

I should like to make clear beyond any doubt the basis on which my Board have sought from the Government the funds needed for the 1980 Corporate Plan.

Considerable hazards face us from within and without. The Board will monitor progress very closely, and if shortfalls in performance place the achievement of the Plan in jeopardy, then the Board consider that they will have no option but to abandon the Plan.

In particular if there is a significant shortfall in cash flow whether due to major disruptions through internal or external strikes, or to delays in any of our programmes for investment and launch of new products, restructuring and redundancies or for improving productivity and working practices, or to any other cause internal or external, the Board will abandon the Plan.

If the Government decides to support the Plan and provide the funds, you can be assured that the Board and management will pursue it with the utmost determination and commitment. I have every reason to believe that this goes for our employees as well.

BF to FZ 13.2.80



had Pa

10 DOWNING STREET

British Loyalty File

Please let the
Private Offices of
those attending
know whether
officials are
expected or
not. Meeting
on 18 February.

E.S.

Mr Tim says do not
act on this.

FZ

Richard Sand
Dunstable. 13/2.

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

From The Managing Director, Cars, BL

February 7th, 1980

T Duffy, Esq
President
Amalgamated Union of Engineering Workers
110 Peckham Road
LONDON
SE15 5EL

Tim
A very clear letter
and statement by BL
on Robinson. (A)

Dear Terry

Since we received your report we have studied its contents with great care. The appendix to this letter sets out our detailed comments on a number of issues raised in the report. In this covering letter we will deal with what my colleagues and I regard as the fundamental issues.

We have reached two main conclusions on the Report:-

- 1 The enquiry has brought to light no new facts.
- 2 The report deals almost exclusively with the procedures that were applied in the disciplining of Mr Robinson. We have searched in vain for any views as to whether the Company was justified by the facts of the case in taking disciplinary action.

/...

I think it is common ground that if BL Cars is to survive (and we are determined it will) management and employees must work constructively together. It is our view that Mr Robinson's conduct over the past two years has proved convincingly that he is not prepared to work constructively either with the Company or, indeed, with your Union. As evidence of that statement I would remind you of the following -

- 1) he campaigned (and continues to campaign) against the Recovery Plan, this despite a 7 to 1 employee vote in its favour;
- 2) your own Enquiry Team reported on the way in which Mr Robinson has conducted himself as an AUEW convener. (Mr Robinson's statements yesterday to the media that the report "completely exonerated" him were typical of his tendency to mislead and misrepresent).
- 3) the miserable record of disputes and lost time at Longbridge since Mr Robinson became convener. This includes 523 internal disputes in some three years at a cost to production of 113,000 engines and 62,000 cars. These figures exclude the CSEU/EEF dispute and all other external issues.

Given the problems that BL Cars has to overcome and the responsibility we owe to hundreds of thousands of people who depend on the Company for their livelihood, we are not prepared to comply with the demand of your Union that Mr Robinson be reinstated. I have to admit to a feeling of surprise that given the whole series of public statements made by Mr Robinson over recent months he would wish to be employed by the Company.

Finally, I would like to comment on the suggestions made on television last night that Mr Robinson should be re-engaged as an employee on the basis that he would be de-barred from holding union office. Mr Robinson has apparently rejected that suggestion himself. I have to say to you that, based on his track record at this time, he is a person who is not suitable for re-employment by the Company.

Before Austin Morris dismissed Mr Robinson all the possible consequences were considered. No new fact has emerged that would justify a reconsideration of our decision. It is clear that not only our management but many Longbridge employees as well are convinced that the decision was right. We are not prepared to allow strike action to reverse a decision which, we are convinced, was fully justified.

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Yours sincerely

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RAY HORROCKS

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In all of these circumstances, the company asks the AUEW Executive Council to reconsider its position and not to call this damaging strike. At the very least, the company urges once again that the AUEW should ballot its members before calling them out on a strike which could cause such a massive loss of jobs and such long-term damaging effects on the British economy.

BL CARS LTD.
PORTMAN SQUARE,
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7th February 1980

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Cables: Leymotors London NW1. Telex.

19th December 1979

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

I should like to make clear beyond any doubt the basis on which my Board have sought from the Government the funds needed for the 1980 Corporate Plan.

Considerable hazards face us from within and without. The Board will monitor progress very closely, and if shortfalls in performance place the achievement of the Plan in jeopardy, then the Board consider that they will have no option but to abandon the Plan.

In particular if there is a significant shortfall in cash flow whether due to major disruptions through internal or external strikes, or to delays in any of our programmes for investment and launch of new products, restructuring and redundancies or for improving productivity and working practices, or to any other cause internal or external, the Board will abandon the Plan.

If the Government decides to support the Plan and provide the funds, you can be assured that the Board and management will pursue it with the utmost determination and commitment. I have every reason to believe that this goes for our employees as well.

CONFIDENTIAL



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

6 February 1980

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

*Pass this in to
 MARY*

7/2

Dear Tim

BL

Thank you for your letter of 4 February about the Prime Minister's wish to have a meeting to discuss the BL situation. This has been arranged for 18 February.

The Robinson Dispute

This morning the AUEW announced that their enquiry into the dismissal of Mr Derek Robinson had concluded that he had been unfairly dismissed and should be reinstated. They came to this decision on the basis that the warning he had been given in March last year was not so serious as to warrant giving him different treatment from the three others who signed the leaflet and were only reprimanded. The union were persuaded by Sir Michael Edwardes last night not to call for an immediate strike at Longbridge, but to await the company's public reaction. The company are now studying the report and we have no knowledge yet of what their reaction will be. The company will be writing to my Secretary of State later today.

Michael Edwardes has now rejected the AUEW demand

The Pay Ballot

The result of the union ballot in BL Cars will be known on 12 February. The outcome is far from certain but our best estimate is that it could well be inconclusive. The question itself "Do you support your Negotiating Committee's rejection of the company's wages and conditions offer" may be misunderstood by some workers (it requires a "No" vote to accept BL's proposals), there is some concern that improved offers to the steel workers may have encouraged BL employees to think that intransigence will produce an improved pay offer; and the ballot itself is confined to the hourly-paid, whereas the company's October ballot covered both staff and hourly-rated employees in the whole company including Leyland Vehicles. There are, however, some factors which should help the company; it has a much superior communications machine, acceptance of the company's offer will produce 3 months' back payment of the increase, and there is a

badly put 7.

/fairly ...

THE NATIONAL ARCHIVES
COLLEGE PARK, MARYLAND
20740



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fairly widespread appreciation of BL Cars' vulnerability. BL have given no hint that they have any intention of improving their wages offer or modifying their stand on demanding improved working practices if the ballot goes against them.

Once the ballot result is announced it will be for the unions in the first instance to interpret it. Unless there is overwhelming support for their stand they may well be chary about industrial action. The BL Board will consider the result of the ballot on 13 February and Sir Michael Edwardes is due to appear on television the following day.

Disposals and Contingency Planning

My Secretary of State has discussed with Sir Michael Edwardes the issue of disposals and collaboration with overseas manufacturers; he thinks that there can be no question of his acting behind Sir Michael's back on this issue. Sir Michael has his own views on the timing of any approaches to other companies. He has authorised a small number of his most senior staff to set in hand contingency planning as a matter of urgency. Officials from the Department of Industry and the Treasury will be involved in this work. I must stress that it of the greatest importance that knowledge of BL's contingency planning, and of officials' involvement, should be confined to as small a number of people as possible.

Performance

The present position on performance is that the January production figures are believed to be good but the sales performance was disappointing; BL captured only 14.98 per cent of a buoyant market. However, the UK sales campaign has only recently got under way and it is too early to form a view of its impact.

My Secretary of State proposes to send the Prime Minister a further note before the meeting on 18 February.

I am sending copies of this letter to Martin Hall (Treasury), David Wright (Cabinet Office) and Sir Kenneth Berrill.

Yours sincerely
I K C Ellison
I K C ELLISON
Private Secretary

B/F 15 . 2 . 80



Handwritten: mid. Fed

10 DOWNING STREET

PRIME MINISTER

On 18 February you are having a meeting of Ministers to take stock of the position of British Leyland. Those attending will be the Chancellor of the Exchequer, Sir Keith Joseph and Sir Kenneth Berrill. Would you also like Mr. Prior to attend?

Handwritten signature: K.J.

Handwritten: Yes
no

6 February 1980

Handwritten: please file. Rang Mr Prior's
office to confirm.

Handwritten: R.P.

Handwritten: 2/2

P.A. Tape

6.2.80

Ind Rd

LEYLAND STRIKE THREAT OVER ROBINSON

BRITISH LEYLAND FACES ANOTHER STRIKE UNLESS THE MANAGEMENT REINSTATES SACKED CONVENOR DEREK ROBINSON.

THE EXECUTIVE OF HIS UNION, THE AMALGAMATED UNION OF ENGINEERING WORKERS, TODAY ANNOUNCED IN LONDON THAT, UNLESS THE COMPANY REINSTATES MR ROBINSON, ITS 3,000 MEMBERS AT THE AUSTIN-MORRIS LONGBRIDGE PLANT IN BIRMINGHAM WILL STRIKE.

LEYLAND CHAIRMAN SIR MICHAEL EDWARDES, WHO LAST NIGHT MET EXECUTIVE MEMBERS TO HEAR THEIR DECISION, HAS ASKED TO BE GIVEN UNTIL TOMORROW AFTERNOON TO CONSIDER THE DEMANDS.

"IF THE REPLY FROM SIR MICHAEL IS NEGATIVE WE SHALL IMPLEMENT OUR DECISION AND I WOULD EXPECT THE STRIKE TO START ON MONDAY" ENGINEERING UNION PRESIDENT TERRY DUFFY SAID.

PREVIOUSLY, SIR MICHAEL HAD SAID THAT IT WOULD REQUIRE "REMARKABLE EVIDENCE" TO LEAD THE COMPANY TO REINSTATE MR ROBINSON, WHO WAS SACKED FOR HIS PART IN A PROTEST AT THE EDWARDES' PLAN TO AXE 25,000 JOBS AND CLOSE OR PARTIALLY CLOSE 13 LEYLAND PLANTS.

LEYLAND WORKERS VOTED IN A BALLOT TO ACCEPT THE PLAN.

THE LARGEST LEYLAND UNION, THE TRANSPORT AND GENERAL WORKERS, HAD ALREADY SANCTIONED OFFICIAL ACTION IN SUPPORT OF MR ROBINSON, BUT ORDERED ITS MEMBERS TO CONTINUE WORKING AFTER THE ENGINEERING UNION SET UP ITS OWN INQUIRY INTO THE DISMISSAL.

1117

FILE
B/F 15.2.80

had RH
PST

5 February 1980

British Leyland

Further to Tim Lankester's letter of 4 February on the above, I am writing to confirm that the meeting to discuss this subject will take place at 11.15 am at 10 Downing Street on Monday, 18 February.

The Prime Minister wishes the Chancellor of the Exchequer and Sir Kenneth Berrill to be present so I am sending a copy of this letter to their Private Secretaries as well as to David Wright (Cabinet Office).

CAROLINE STEPHENS

Ian Ellison Esq
Department of Industry

CONFIDENTIAL

pd B



bc Caroline
John Hoskyns
Employed

10 DOWNING STREET

From the Private Secretary

4 February 1980

1) ~~BP 13-2-80~~
2) ~~BP 15-2-80~~
 to notify on 18/2

*Industrial
Policy*

British Leyland

The Prime Minister would like to hold a meeting with your Secretary of State and the Chancellor of the Exchequer to take stock of the position at British Leyland. Against the background of the decisions on further funding of BL which were taken in December, the Prime Minister would like to review the company's prospects in the light of the outcome of the ballot on pay (which I understand should be known on 12 February) and its latest production and sales figures; she would also like to review the latest prospects for possible disposals and collaborations. It would be helpful if Sir Keith could circulate a "state of play" note.

(1)

I am sending copies of this letter to Martin Hall (HM Treasury) and David Wright (Cabinet Office); and also to Sir Kenneth Berrill, whom the Prime Minister would like to attend the meeting. Caroline Stephens will be in touch with you to arrange a convenient time and date.

T. P. LANKESTER

sp

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

BRITISH LEYLAND

The Prime Minister agreed with my suggestion, in my minute of 21 December 1979, that we should have a meeting to review our position on BL, with particular emphasis on what we would do if the BL pay negotiations broke down or the ballot result was a "yes" to the shop stewards' rejection of BL's proposals.

Although one could argue that, with so many uncertainties over the steel dispute etc, this isn't the right time to do such a review, I would argue the other way round, and say that the existence of the uncertainties means that we should stop and think about BL now before it gets too late. All the experience of the last eight months is that we tend not to do ~~our~~ ^{our} hard thinking while there is still time to translate the thinking into action.

I would therefore like to suggest that the Secretary of State for Industry prepares a short paper for discussion and that there is a meeting of the Prime Minister, Chancellor, Sir Keith, Sir Kenneth Berrill and myself. If this meeting took place in the next fortnight, it would be against a reasonably predictable background - either the steel strike would have been settled or it would be approaching the point where it might be starting to threaten BL's survival.

JK

Prime Minute

Agreed not.

JOHN HOSKYNs
31 January 1980

A review meeting would seem to be a good idea. The ballot papers are going today, and the results should be known on 12 Feb. Sir Keith also meets Lutz (the Ford Europe. chief) on 12 Feb. Peter Cory has already spoken to Michael Edmonds about disposals: he, perhaps understandably, is keen on concentrating on turning BL round rather than thinking about disposals/sale.

Th. 2/1/80

PRIME MINISTER

POSSIBLE SALE OF BRITISH LEYLAND

This looks a very promising initiative. Ken Berrill believes that if Ford were to purchase BL, this would probably mean a smaller Exchequer cost than our existing commitment to BL; and infinitely less than the cost to Government if BL collapses. There are two points for decision:

(1) Are you content for Ken Berrill to set in motion exploratory talks between Mr. Robert Lutz and Sir Keith Joseph? *Yes. out.*

(2) Are you content for the CPRS to "keep a watching brief" on your behalf? Ken Berrill would like to have your blessing to attend the Joseph/Lutz meeting.

- I can't see I have a word about this. There are reasons which make me doubtful about it.

There might be a case for you seeing Lutz to give him the green light. This would serve to emphasise how seriously we take the proposal. On the other hand, it would also emphasise our position as the demandeur and perhaps weaken our bargaining posture if and when negotiations begin. On the whole, I think it would be best to leave it to Keith Joseph at this stage.

12.

17 January 1980



COMMERCIAL - SECRET

Qa 04404

To: MR LANKESTER
From: SIR KENNETH BERRILL

Sale of British Leyland

1. On 19 December at the conclusion of the Ministerial discussion in E Committee on the BL Plan, it was agreed (i) for 1980/81 publicly to back the Edwardes Plan, with the very tough undertakings which the BL Board themselves insisted on giving; and (ii) that the chances of success were so remote and the cost of collapse so high that no time must be lost by the BL Board in making 'contingency plans', i.e. looking for possible purchasers of all or parts of the organisation. (Sir Keith Joseph thought a buyer for the whole was most unlikely; the CPRS was more sanguine.)
2. Yesterday I had an approach on this subject of some importance and I thought that the Prime Minister might like to know of it.
3. The approach was from an Englishman (Mr James Ensor) with whom the CPRS had had close contacts ever since we wrote our report on the British Motor Industry. At that time Ensor worked with Lord Ryder on his BL Report, subsequently in the NEB on the car industry, then for Renault. He has just joined Ford of Europe as Director of Government Affairs with the responsibility for liaison with Governments throughout Europe.
4. To put the point briefly: Ensor was conveying a formal message from the Chairman of Ford of Europe, Mr Robert Lutz, that he would like to have a very private word with the responsible Minister in the British Government (Sir Keith Joseph) on how the authorities here would regard Ford taking on part (or just conceivably all) of BL, i.e. would the British Government be worried at one company having such a large share of the UK market. (The combined Ford and BL share of the UK car market would be 45 per cent - similar to Peugeot's in France and Fiat's in Italy.) Also, Ford are constrained by US anti-trust legislation in their operations worldwide. They want the protection of an 'OK in Whitehall' clearance (also not to waste their time) before they go to BL to open any negotiations.

5. Clearly it is important that any talks in Whitehall (and indeed at least any early talks with BL) should be kept completely confidential. Mr Lutz has not yet cleared his lines with Detroit. He saw no point in doing so until he had at least a UK Government green light. But given the Ministerial discussions at E, I see no arguments against my talking very privately to Sir Peter Carey and urging an early meeting between Sir Keith Joseph and Mr Robert Lutz (with perhaps a couple of officials). After that I assume it will be 'over to BL'. Sir Michael Edwardes may initially be annoyed that Lutz came to the Government first but he will get the point that Ford needed a green light before putting such a large cat among the pigeons.

6. The negotiations would be complex and possibly long drawn out. I attach a note by the CPRS on how, at this stage, we see the cards from the Ford side. I am assuming that, given the costs of a BL collapse, the Prime Minister will continue to take a keen personal interest in all this. Would she also wish the CPRS to keep a watching brief on her behalf and on behalf of Ministers collectively? I am also assuming that the Prime Minister would not herself be opposed to Ford having a dominant position in the UK market.

7. I am sending a copy of this minute and attachment to Sir Robert Armstrong but I have not copied it outside the Cabinet Office.

K.B.

17 January 1980

Att

COMMERCIAL - SECRET

Note by the Central Policy Review Staff

British Leyland: A Ford Takeover?

1. Ford are one of the handful of companies that have both the resources to take over the entire BL operation and the quality of management to make a success of it. But what we believe to be more important is that Ford have the motivation. They will, however, expect to be courted and can be expected to drive a hard bargain.

2. Ford's Motivations. Their motivations are a mixture of positive and defensive ones:

(a) To enter the specialist car market. Ford of Europe have long wanted to be better represented at the top end of the car market (they have nothing more prestigious than the Granada to fight Mercedes and BMW). The Daimler, Jaguar, and Rover marques are prizes for which they will pay highly. The profitable four-wheel-drive business is also very attractive to Ford.

(b) To reinforce Ford's truck and bus operations. Ford are strong in light vans and light/medium trucks, but relatively weak in heavy trucks and buses. Their coverage in these sectors would be greatly enhanced by the addition of Leyland's Heavy Vehicle and Bus Divisions.

(c) To protect the UK component industry. Ford are more dependent on a healthy low-cost UK component industry than any of the five other major European motor manufacturers. (British components are used extensively at Ford's plants in Germany, Belgium and Spain.) Ford are anxious to prevent a collapse of BL because this would undoubtedly damage the UK component industry and lead to much higher costs to Ford.

(d) To protect Ford's UK market. The UK car market has been very profitable for Ford and they are also the market leader. Ford would not want BL's dealer network to fall en masse to any of their major competitors, particularly General Motors or Volkswagen.

3. Ford are clearly more interested in parts of BL than they would be in the whole. They will be particularly reluctant to take on the plants at Longbridge, Cowley, and Bathgate because of their poor productivity, need for new models, need for new investment and in particular because they produce models in direct competition with products where Ford are strongest. Nevertheless, we believe that Ford's motivations - positive and defensive - are such that they could be persuaded to take on the whole of BL. It would certainly involve the Government in a handsome dowry, but our present view is that the costs would be substantially less than the open-ended commitment if BL remain independent.

4. Further points to bear in mind in preliminary discussions with Ford are:

- (a) Ford's UK operations are immensely profitable. We understand (not confirmed) that Ford of UK made around £400m. in profits last year. Ford have also mastered many of the labour problems that still dog BL. Ford management is probably better equipped than any other to tackle BL's underlying problems.
- (b) Ford would prefer to have nothing at all to do with Longbridge and Cowley. However, the Mini-Metro to be produced at Longbridge could fit in quite well below Ford's smallest car, the Fiesta. We believe that Ford could be persuaded to keep Longbridge open long enough to see whether the Metro could be a profitable car. The question of Cowley is more difficult. The works require heavy investment in new plant as well as new models. However, at this moment, Ford are looking for a site for new assembly plant in Europe. We understand that they favour Portugal where Government incentives are high and labour costs low. A sufficiently attractive package would make Ford consider Cowley.
- (c) Ford would almost certainly not take over BL as it stands to-day. They would insist that all the plant rationalisation and demanning, etc. envisaged under the Edwardes Plan should be completed in the name of the British Government. They would not want to risk union disputes over these essential measures spreading to Ford plants in the UK. Ford's have spent five years trying to cure themselves of the 'British disease' and they won't want to be re-infected from Austin-Morris.

They might insist that, for a while at least, the Austin-Morris division remained nominally a separated company (though managed by Ford) so that the shop stewards at Longbridge-Cowley would not feel that Ford's UK profits were available to meet their demands.

Conclusions

5. Our main conclusion is that the Government is unlikely to frighten Ford away by insisting that BL is for sale as an entity only. The cost to HMG of a Ford take-over will be considerable. But Ford might well succeed in preserving the British motor manufacturing and motor components industries whereas we fear that the Edwardes Plan is bound to fail.

But
less than
our
current
commitment
to BL
P.

17 January 1980

Ind Policy

BRITISH LEYLAND - LESSONS LEARNED SO FAR

It is important that we document the present position on BL, so that we develop a "learning curve" and get the approach better next time - whether for BL or some other problem situation.

1. OUR ORIGINAL OBJECTIVES

I think we agreed that, if we had to give BL further finance, we would want to get the following political and economic "goods" for our money:

- (i) Demonstrate Government's support for moderate union behaviour, with the unions responsible if things go wrong.
- (ii) Set the scene for the ending of the BL saga, whenever and however it happens, so that it cannot do us further political damage.
- (iii) Use our handling of the BL problem to teach reality and demonstrate our refusal to fudge difficult issues.
- (iv) Minimise the long run economic impact of the BL problem.

2. HAVE WE ACHIEVED OUR OBJECTIVES?

2.1 Looking at these four objectives in turn:

- (i) The reinforcing of moderate union behaviour at the expense of the militants is still going well. This must be because Keith left Edwardes in no doubt, from early September onwards, that this Government was not afraid to pull the rug if that seemed the right thing to do.
- (ii) We have not set the scene for the next step of the BL story.
- (iii) We have not really used the BL situation to teach reality or demonstrate our own realism.
- (iv) We have faced, internally, the fact that the BL problem is almost insoluble. We have agreed that a search for buyers must start forthwith.

3. SETTING THE SCENE FOR THE NEXT STEP

- 3.1 Many hours were spent by the Bullock group studying the BL Plan. But very little time was devoted to the Government's political strategy, until the Honda deadline meant that there was really no time left. As a result, we have not yet established clearly enough, in our own minds, where we stand.
- 3.2 For example, what is the likely outcome at the end of year one, if we have not found a buyer, and the BL Board has not recommended abandonment of the Plan? There are really only two outcomes, in that case, one year from now:

(I) BL is either on Plan and we therefore give them tranche number two for the second year.

or (II) BL is not on Plan. Who would decide that that is the case? BL Board, NEB, or Government? How? When? Are we ready to face the full implications of break-up/run-down at that point if no buyer is in prospect? Have we ensured that there will not then be a dove-hawk split in Cabinet?

3.3 Are we all set to bite the bullet if BL Board does pull the plug in the next few months (eg as the result of a steel strike)? This question was never discussed explicitly at E.

3.4 Or are we really taking a different view, without spelling it out in so many words? This might be that the Net Present Value of *all* future subventions to keep BL ticking over is almost certainly likely to be less than the NPV of closure. That is, by implication, the DoI officials' view, and it would be a perfectly respectable position to take, except that we have never in fact asked ourselves that question.

3.5 We have never really answered these questions in a way that clears colleagues' minds. This was why we kept raising the question of the Honda decision; not because we were against the Honda deal (far from it) but because we felt that the Honda deal was being used to force us, quite unnecessarily, into a quick decision and a quick statement.

4. WHAT THE STATEMENT SHOULD HAVE SAID

4.1 If we had had more time, I suggest that the draft should have made the following points:

- (a) Draw special attention to the BL Board's acceptance (in its letter) that failure for any reasons would lead to the same result. Stress that the dreamworld of past years in which BL has been protected from the external hazards which every other business has to face, is ended. The latest letter from Edwardes to Keith and the message from him to the work force, is a great advance on what went before and helps us to establish the criteria by which future decisions will be made.
- (b) Make a more specific reference to the voice of the moderates in the work force, BL management's stand against the militants. The Government's readiness to back BL is in part a recognition that there are people there who deserve the chance.
- (c) Answer, before it is asked, the inevitable question "what happens in a year's time?" Make it clear that BL will continue to come under NEB, that NEB (under its new hard man, Knight, appointed as Keith's own choice) will judge whether BL is still on course. In other words, while the BL Board might well pull the plug of its own volition, the NEB could recommend pulling the plug to the Government, whatever the BL Board may feel. We were quite right to say that the Government should not pull the plug now, while Edwardes enjoys hero status, provided we set the scene, now, for doing so later if we have to. ("They did what they always said they'd do.")

(d) Make it absolutely clear that what will not happen next time is what has always happened in the past - that a new management team puts forward a new Plan with (surprise, surprise) larger funding requirements, and the Government explains that it must give the new management a chance with a Plan in which management believes.

4.2 The view put forward at E by the Home Secretary and backed by John Nott was, in our view, absolutely wrong. It was the stale political conventional wisdom of UK's post-war failure; say as little as possible in the statement, and leave all available funk holes open; ie "Yes, we really are tough, but next year, not this". We have in my view ended up doing exactly what the DoI officials wanted us to do from the outset - to give them the money, with minimum explanation and no strings and let tomorrow take care of itself.

5. ARE WE PREPARED TO FACE REALITY?

5.1 If we mean business, our statement should have proved it unambiguously. We should have broken all the codes of Westminster fudging conventions by giving hostages to fortune, by setting the criteria for our decision in a year's time as clearly and as publicly as possible so that the public knew (and not least the work force at BL) that we really would bite the bullet if there was nothing else left to do. I doubt if we have successfully done that. Our actions are identical to the actions of Labour right through the Ryder Plan with a rationale for each year's cave-in.

5.2 If, notwithstanding these comments, we are prepared for the worst (eg if BL Board pulled the plug quite soon) it's worth thinking early, just how we would handle the resulting costs which would be likely to break the new funding profile, unless we were extremely lucky with a quick sale. If the total cost was, for example, a further £500m in the first year, we have to explain that we cannot print or borrow the money and that there is not enough time to make further public spending cuts of that order; and that we must therefore raise the money by additional taxation specifically to deal with the BL problem - say, £30 from each of 17 million households. Both our actions, and our words, must make it clear that Britain's post-war dreamworld is over.

6. BE PREPARED

6.1 We are analysing the press cuttings on the BL statement, to see how it has been received. First indications are reasonable, but this has nothing to do with the problems which still lie ahead of us when things go wrong again.

6.2 I suggest that we have a review (a very small group of people so that we can really get our arms around the problem) at about the end of January in order to anticipate the way in which the BL story is likely to evolve, and to establish clearly, before it is too late, what the main decision points and lead-times are so that we do have enough time to think about the right things and prepare the right messages, so that we don't simply get caught short by another deadline like the Honda one.

Out of all this, it should be possible for us to prepare some general guidelines which may improve our chances of getting it right, on the next BL-type problem.

I am copying this to Geoffrey and Keith.



JOHN HOSKYNS
21 December 1979

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard
Columns 884-894

20/12/79
British Leyland

Signed AWayland Date 4 May 2010

PREM Records Team



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

*(CF) Returned to
20.12.79
Mr. [unclear]*

*Prime Minister seen
You will wish to see.*

Tim Lankester Esq
10 Downing Street
London SW1

*Hand
written
[unclear]*

19 December 1979

*[Signature: Carter]
Duty Clerk
19.12*

Dear Tim

FUTURE OF BL LIMITED

Following the discussion in E Committee this afternoon I enclose the text of a revised draft statement which my Secretary of State wishes to make tomorrow afternoon. I also enclose the agreed text of a letter which Sir Michael Edwardes is in the process of sending to my Secretary of State but will not reach us until tomorrow morning.

I also enclose the text of the proposed agreement between BL and Honda together with a short note by officials dealing with the Prime Minister's questions about the extent to which the agreement commits BL, and the Government, to further expenditure. The text of the agreement is the only copy available to us and I should be grateful if it could be returned to us in due course.

I am sending copies of this letter and of the draft statement and BL letter to the Private Secretaries to all Members of the Cabinet, to the Minister of Transport and to Sir Robert Armstrong and Sir Kenneth Berrill.

*Yours sincerely
Ian Ellison*

I K C ELLISON
Private Secretary

COMMERCIAL IN CONFIDENCE

LONG-TERM OBLIGATIONS ON BL UNDER HONDA AGREEMENT

- 1 The Agreement is to last for 5 years from the date on which BL commence commercial production.
- 2 So long as the Agreement lasts, BL are committed to make minimum royalty payments of some £6M over 3 years irrespective of the level of sales.
- 3 BL are obliged to maintain for 10 years an adequate supply of spare parts in relation to Honda-supplied components.
- 4 BL are required to order Honda kits for assembly 6 months ahead and Honda spare parts 4 months ahead.
- 5 If there is a drastic reduction in sales of other Honda cars in Europe which is not matched outside Europe, Honda may require BL to produce on Honda's behalf additional quantities of the LC9 to be sold by Honda in Europe. The two companies would discuss the appropriate sharing of the costs.
- 6 Either party can terminate the Agreement in a variety of specified circumstances. These include liquidation of BL, cessation of majority share ownership in BL by HMG or its agency, major delays to the start of component supply from Japan and rejection by the EEC. BL are obliged to make minimum royalty payments in the event of termination from any cause.



CONFIDENTIAL

Attachment to
Ind to TL 19.12.79

DRAFT PARLIAMENTARY STATEMENT ON BL

With permission I should like to make a statement about the BL 1980 Corporate Plan.

In reviewing this Plan the Government has borne very much in mind its responsibilities to the taxpayer as well as to all those concerned with the future of BL. I am bound to say that the situation is not encouraging; the company continues to be in a poor financial state and faces strong competitive pressures in the 1980s. Only with very substantial improvements in BL's all round performance will the company survive; success cannot by any means be guaranteed.

Details of BL's recent performance and of the Plan are contained in a report by the staff of the National Enterprise Board which I have today placed in the Library of the House and in the Vote Office.

The Plan offers, in the BL Board's view, the only feasible strategy which could give BL the chance of being viable. The Chairman of BL has sent me a letter which states clearly that if there is a significant shortfall in cash flow whether due to major disruptions through internal or external strikes, or to delays in any of their programmes for investment and launch of new products, restructuring and redundancies or for improving productivity and working practices, or to any other cause internal or external, the Board will abandon the Plan.

The Plan envisages a requirement for £297 million of public funds in 1980, with a further £135 million between 1981 and 1985. These two sums together represent the £225 million balance of the original Ryder £1,000 million plus £205 million to meet the cost of redundancies and closures under the management's restructuring programme. [BL aims to make a 15% return on assets by 1985, but expect achievement of their financial duty of a 10% return by 1981 to be delayed by a year.]



CONFIDENTIAL

The company seek approval at this stage for only their 1980 requirements.

In the light of the Chairman's letter which I am publishing in the Official Report the Government has decided to fund the Plan up to the end of 1980/81 by the provision of £150 million in equity form, with an additional facility on which BL would be entitled to draw on evidence of need up to a maximum of a further £150 million. In addition, we accept the BL Board's request for conversion to equity of the £150 million loans provided in 1977. The Government will also be looking to BL to contribute to funding needs from its internal resources, including the disposal of assets where this makes commercial sense.

To the extent that the Plan calls for funds going beyond the Ryder £1,000 million clearance from the Common Market Commission will be necessary.

I am sure that Rt Hon and Hon Members on both sides will join with me in wishing the BL Board, management and workforce success in the task that lies ahead.

FROM SIR MICHAEL EDWARDS

19 December 1979

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

I should like to make clear beyond any doubt the basis on which my Board have sought from the Government the funds needed for the 1980 Corporate Plan.

Considerable hazards face us from within and without. The Board will monitor progress very closely, and if shortfalls in performance place the achievement of the Plan in jeopardy, then the Board consider that they will have no option but to abandon the Plan.

In particular if there is a significant shortfall in cash flow whether due to major disruptions through internal or external strikes, or to delays in any of our programmes for investment and launch of new products, restructuring and redundancies or for improving productivity and working practices, or to any other cause internal or external, the Board will abandon the Plan.

If the Government decides to support the Plan and provide the funds, you can be assured that the Board and management will pursue it with the utmost determination and commitment. I have every reason to believe that this goes for our employees as well.

Yours

LONG-TERM OBLIGATIONS ON BL UNDER HONDA AGREEMENT

- 1 The Agreement is to last for 5 years from the date on which BL commence commercial production.
2. So long as the Agreement lasts, BL are committed to make minimum royalty payments of some £6M over 3 years irrespective of the level of sales.
- 3 BL are obliged to maintain for 10 years an adequate supply of spare parts in relation to Honda-supplied components.
- 4 BL are required to order Honda kits for assembly 6 months ahead and Honda spare parts 4 months ahead.
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COPY No.1

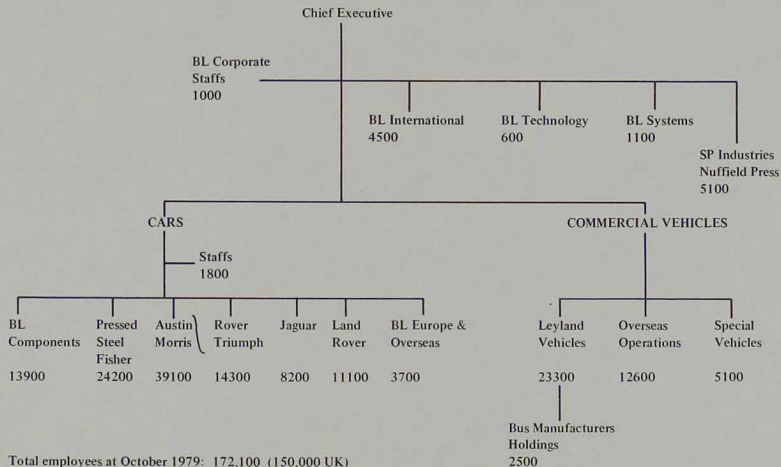


BL - PRESENTATION TO THE PRIME MINISTER

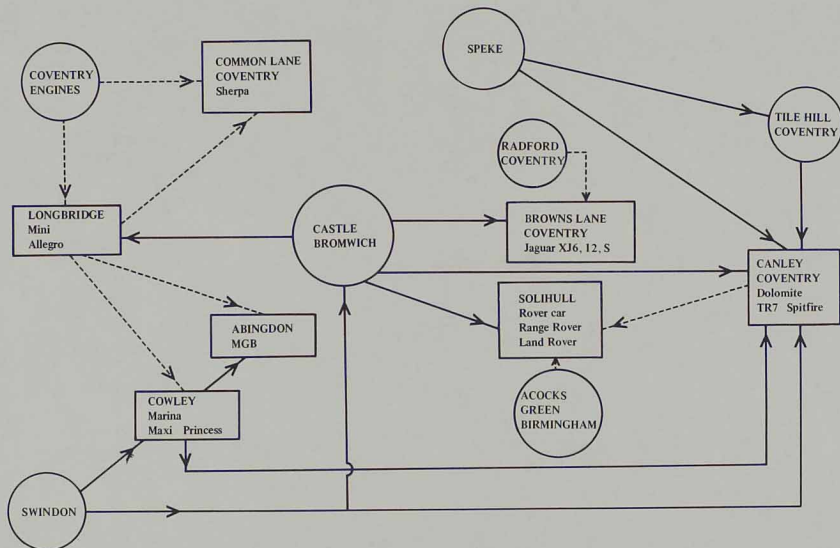
19 DECEMBER 1979

COMMERCIAL IN CONFIDENCE

BL : ORGANISATION CHART (1979)



BL CARS : MAIN PLANTS

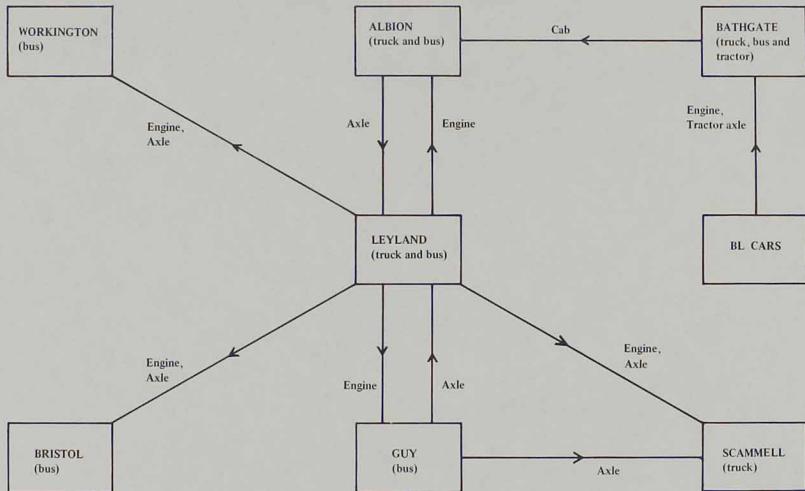


NB This chart shows only the movement of bodies and engines; it excludes all other major and minor components made in BL plants

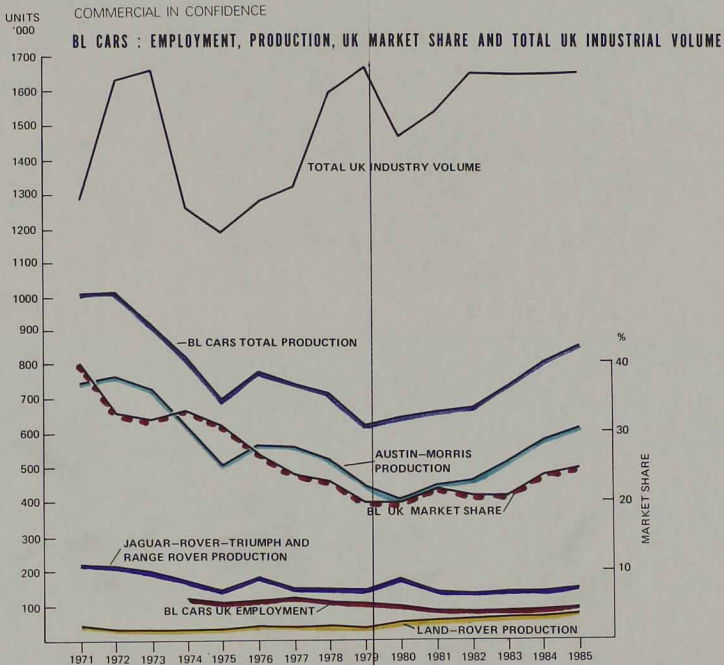
KEY

- Assembly Plant
- Component Plant
- Supply of pressings and bodies
- - - → Supply of engines

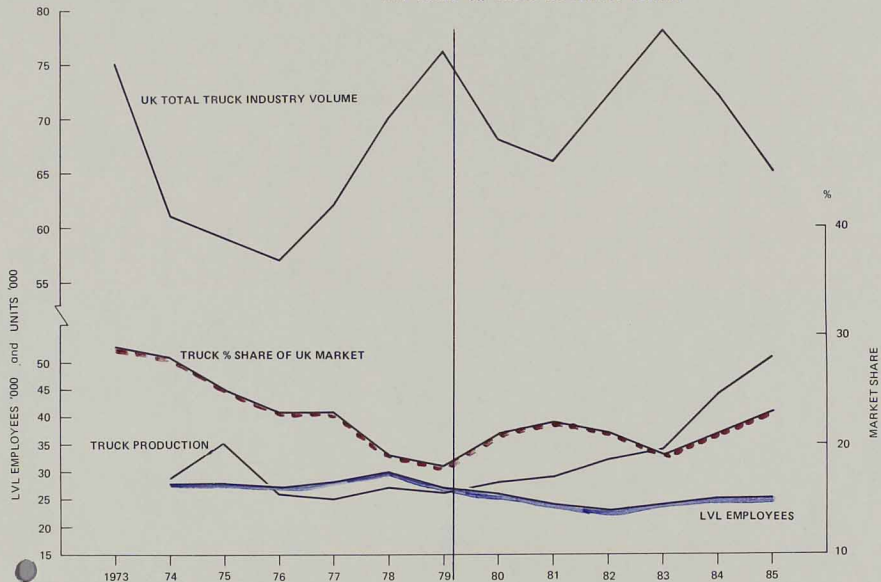
BL LEYLAND VEHICLES : MAIN PLANTS



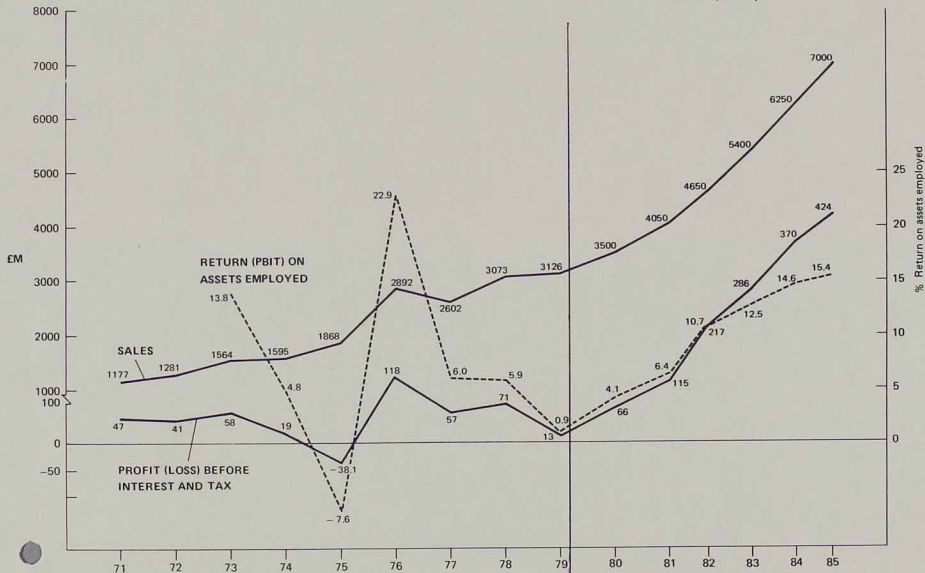
N.B. This chart shows only the movement of Engines Axles and Cabs. It excludes other major and minor components received from BL Cars plants and other LVL plants



AND TOTAL UK TRUCK INDUSTRIAL VOLUME



BL : SALES, PROFIT (LOSS), AND RETURN ON ASSETS EMPLOYED (Current prices)



MAIN FEATURES OF 1980 PLAN

- REALISM
- REDUCTION OF FIXED COSTS
- REDUCTION OF MANPOWER
- ACCELERATED INTRODUCTION OF NEW MODELS
- RATIONALISATION OF MODELS, ENGINES, GEARBOXES
- EFFECTIVE AND CONTINUOUS WORKING BY INCENTIVES AND FIRM MANAGEMENT
- REDUCTION OF WORKING CAPITAL, ESP. INVENTORY

Objectives

- Return to trading profit in 1980
- Return on assets passing 10% in 1982 (present financial duty 1981)
- do- 4 15% in 1985
- Positive cash-flow in 1985

- ① Strong $\frac{1}{2}$
- ② New models
- ③ Disposal

COMMENTS ON 1980 PLAN

MORE RISKS THAN OPPORTUNITIES:

- A - INABILITY OF MANAGEMENT TO ACHIEVE PLAN PERFORMANCE
- B - LACK OF WORKFORCE CO-OPERATION (LINKED WITH A)
- C - INADEQUATE TECHNICAL RESOURCES
- D - ECONOMIC FACTORS
- E - FAILURE TO HOLD/ACHIEVE MARKET SHARE
- F - LOSS OF CONFIDENCE

SENSITIVITIES:

CARS UK MARKET SHARE	- 1%	=	PBIT	- £17M
ONE WEEK TOTAL STRIKE		=	PBIT	- £25M
UK CAR MARKET	- 5%	=	PBIT	- £17M
PRICING SHORTFALL	1%	=	PBIT	- £22M

OFFICIALS' ASSESSMENT : CHANCES OF SUCCESS <50%

1980 CRITICAL YEAR

COMMERCIAL IN CONFIDENCE

BL FUNDING REQUEST

- A Remaining £225M of 'Ryder' £1000M as equity in 1980
 B Govt to bear special reconstruction and redundancy costs totalling £205M 1980-84
 C Existing £150M of loans to be converted to equity in 1980 →

ANNUAL INCIDENCE OF FUNDING/PES PROVISION

	1	2	3	4	5	6	7
	Reconstruction	BL REQUEST Interest forgone on loans	Other	Total	PES Provision	Excess over PES Provision	Charge on Contingency Reserve *
1980-81	72	22	225	319	150	169	130
1981-82	93	22	—	115	75	40	28
1982-83	13	22	—	35	—	35	22
1983-84	27	22	—	49	—	49	30
TOTAL	205	88	225	518	225	293	210

Cash

* = Col 6 in
1979 Survey
Prices

→ 169

RESULTS OF REFUSAL OF SUPPORT (OPTION A)

- BL Board resign
- Crisis of confidence - customers, dealers, suppliers, collaborators, workforce, management, banks
- Liquidator sells off assets at knock-down prices
- Loss of net exports £250M (out of current £500M); extra imports of £1400M (BL's current sales £1700M)
- Loss of employment 100,000 (out of 150,000) in BL and further 100,000 (out of 150,000) in suppliers :
concentrated in Oxford and W Midlands

ESTIMATE OF PES COST £500M - £1400M : TOTAL PSBR EFFECT £700M - £2100M IN FIRST YEAR

Make-up of central estimates as follows:

- Excess of BL liabilities and closure costs over proceeds of disposals	£400M
- HMG Rebate of BL and supplier redundancies	£100M
- Cost of SDA status for hard-hit regions	£100M in Year 1
- Additional benefit payments resulting from increased unemployment	<u>£300M in Year 1</u>
TOTAL PES cost	£900M
- Other Exchequer costs (principally tax and NI contributions forgone)	<u>£500M in Year 1</u>
TOTAL PSBR effect	<u>£1400M in Year 1</u>

ALL ABOVE ASSUMES PART OF BL'S OPERATIONS SOLD AS GOING CONCERNS, PART OF BL'S MARKET SHARE TAKEN BY OTHER UK FIRMS, SUPPLIERS FIND NEW OUTLETS FOR PART OF OUTPUT

WORST POSSIBLE CASE : PES COST UP TO £2000M, PSBR EFFECT UP TO £3000M

POSSIBLE VARIATIONS ON PLAN

N.B. BL BOARD CONSIDER PLAN OFFERS ONLY HOPE OF VIABILITY (Board attitude crucial)

WITHDRAWAL FROM VOLUME CARS (AUSTIN MORRIS)

- JRT not necessarily better prospect than AM
- AM accounts for 26% of total BL UK manpower (end 1979)
- closure of AM therefore costly and serious
- JRT might not be able to survive independently of AM
- if JRT fails, total effect not far short of Option A

ALTERNATIVE MID-CAR STRATEGY

- all possibilities impractical or would seriously reduce profits
- cost of new models largely cost of modernizing plants

DISPOSAL (1) LVL

- fructification of capital investment
- collaborative deals under negotiation
- effect on Group finances
- purchaser ??

(2) OTHER

- £50M from non-mainstream activities assumed
- Land Rover (part or whole) generates profits and cash

FURTHER COLLABORATION

- need accepted by BL
- Honda: LC 9 and beyond
- engines and components

OFFICIALS CANNOT SUGGEST LOWER COST ALTERNATIVE TO PLAN WITH EQUAL CHANCE OF VIABILITY

IF FUNDS PROVIDED, BUT PLAN FAILS.....

- Strong probability in view of downside risks
- BL Board will not hesitate to call a halt
- BL Board will collaborate in trying to achieve controlled rundown and break-up

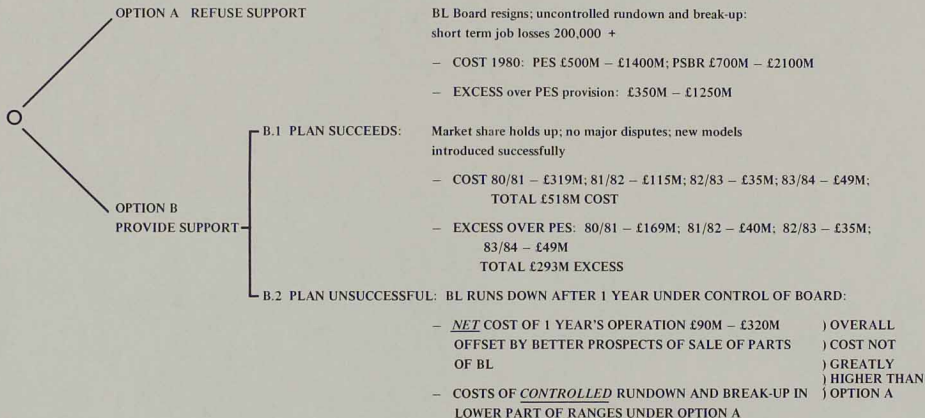
ADDITIONAL COST

if BL operated for a year more, trading at a loss:

- Value might have declined by £90M – £320M
 - BUT – prospects of sale of parts of BL (eg LVL, Land Rover) should have improved
 - rundown should be more controlled and orderly
 - therefore costs of rundown should be in *lower* part of
 - Option A ranges (PES: £500M – £1400M
PSBR: £700M – £2100M)

OVERALL COST TO HMG OF A YEAR'S FURTHER OPERATION FOLLOWED BY RUNDOWN PROBABLY NOT GREATLY HIGHER THAN OF OPTION A (REFUSAL OF FUNDING)

THE CHOICE AND THE CONSEQUENCES





✓ C. T. L.
Hockings.

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

19 December 1979

Martin Hall Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Whitewall
London SW1

Peter Mason

*Revised draft
Statement.*

Dear Martin

*(I am worried about talking
of giving them 'one last chance'
when in fact we will be trying
to find a
budget).*

BL

My Secretary of State has been thinking further about the draft Statement attached to E(79)86 and has come to the conclusion that it should acknowledge more directly the present situation at BL. Also some revision of the concluding paragraphs is necessary to take account of the outcome of discussions on funding over the last 24 hours between officials of the Treasury and of this Department. Accordingly I attach a re-draft which I am copying also to the the Private Secretaries to Members of 'E'. R.

*Yours sincerely,
Peter Mason*

PETER MASON
Private Secretary



CONFIDENTIAL

DRAFT PARLIAMENTARY STATEMENT ON BL

With permission I should like to make a statement about the BL 1980 Corporate Plan.

In reviewing this Plan the Government has borne very much in mind its responsibilities to the taxpayer as well as to all those concerned with the viability of BL. We have asked ourselves whether BL's performance has justified the investment of public funds in it; whether, if it has not, there are reasonable grounds for believing that performance can now be improved sufficiently to restore the company to viability; and by what means further public funding of BL could be avoided in whole or in part. I am bound to say that the situation that now faces us is not encouraging; the company continues to be in a poor financial state and faces strong competitive pressures in the 1980s. Only with very substantial improvements in BL's all round performance will the company survive.

We have to accept that by the key yardsticks of overall productivity, market share and profit BL's performance has been disappointing. But the present Board took over only 2 years ago. (After a sound financial start in 1978 BL has suffered major setbacks this year.) A combination of industrial disputes - mainly the externally inspired disputes involving the road hauliers and the engineering industry - the strengthening of sterling ~~and~~ a further fall in market share threaten to result in actual trading losses for the first time since the Ryder Report. BL's management responded energetically and with realism by putting forward a restructuring programme in September involving a reduction of at least 25,000 in the workforce and some plant closures.

Handwritten note:
 10/10/80
 L. Pugh
 10/10/80

CONFIDENTIAL



and in a ballot of the workforce they received an 87% vote in favour of their programme. These measures to bring down costs in line with market prospects, together with the proposed pay and conditions package which is designed to improve productivity and introduce more flexible working practices in BL Cars, are central to the Plan which BL have now submitted. Details of BL's recent performance and of the Plan are contained in a report by the staff of the National Enterprise Board which I have today placed in the Library of the House. [The new NEB Board itself does not feel able in the limited time available to make recommendations to me about the Plan.]

Better
left
out ?
P.

The Plan offers, in the BL Board's view, the only feasible strategy which could enable BL to achieve longer-term viability as a substantial vehicle manufacturer. But in this highly competitive industry and with an uncertain international economic outlook, success cannot by any means be guaranteed.

However there are also grounds for hope - the quality and determination of the BL Board and management; the attitude indicated by the BL workforce in the ballot; the collaboration agreement with Honda which Sir Michael Edwardes proposes to sign shortly with my approval; the new investment now in progress; and the planned introduction over the next few years, starting in 1980, of several new ranges of cars and trucks.

The Plan envisages a requirement for £297 million of public funds in 1980, with a further £133 million between 1981 and 1983. These two sums together represent the £225 million balance of the original Ryder £1,000 million plus £205 million to meet the cost of redundancies and closures under the new management's restructuring programme. The company seek approval at this stage for only their 1980 requirements.



BL aims to make a 15% return on assets by 1985, but achievement of their financial duty of a 10% return by 1981 is expected to be delayed by a year.

After examination of the possibilities, my colleagues and I have concluded that the straight choice is between full support for the BL Board's Plan and refusal of further funding with most far-reaching consequences. The Government has concluded that it would be right to give one last chance for the BL Board, in whom we have the utmost confidence, and the workforce which has shown an increasing sense of realism about the situation which faces the company. This would mean, if the Plan is successful, providing the remaining £225 million committed by our predecessors, and in addition the £205 million required for the costs of redundancies and closures. This latter amount will be subject to clearance by the European Commission. The Board has sought a funding decision only for the coming year. Subject to the clear understanding that this is the last chance, we have approved the Corporate Plan.

The Government propose to fund the Plan up to the end of 1980/81 by the provision of £150 million in equity form, with an additional facility on which BL would be entitled to draw on evidence of need up to a maximum of a further £150 million. This combination of financing techniques provides both an enlarged equity base to help BL to attract the private sector finance they will need in addition to the public funds and also a flexible method of relating the total amount of funding to BL's actual need. If the need turns out to be less than expected, the public funding can be reduced accordingly. In addition, we propose to accept the BL Board's request for conversion to equity of the



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£150 million loans provided in 1977; this will also help to strengthen BL's chances of attracting private sector funds. The Government will also be looking to BL to contribute to future funding needs from its internal resources, including the disposal of assets where this makes commercial sense

Significance

No one in this House would dispute the ⁴importance of the British motor manufacturing industry; I am sure that Rt Hon and Hon Members on both sides will join with me in wishing BL success in the task that lies ahead.

SECRET

*Original returned
to John Haslegrave.*

PRIME MINISTER

BRITISH LEYLAND

This note suggests the main questions we have to address at the briefing session before E:

1. Are we agreed that the search for a buyer(s) for BL should start forthwith? Who should be involved, and who is to know about it?
2. Why cannot BL and Honda sign their Agreement without Government backing for the Plan? Is BL (or indeed DoI) using this to rush Government into a decision? Surely Honda would be happy enough to sign, with the penalty clause protection? (Note that Government authority has to be given to BL, before BL can sign the Honda Agreement; and this authority could be given before deciding on the Plan as a whole.)
3. If there is a valid reason why backing for the whole Plan is needed before the Honda deal can be signed, then there is no point in risking the collapse of the Honda deal, simply to call Edwardes' bluff. But the question would remain - can we afford to give BL and Honda even private (let alone public) assurance that the Plan will be backed, until we are crystal clear on 4 below?
4. What are the possible outcomes over the next year? For example:
 - (i) Successful sale of BL (following 1 above).
 - (ii) BL Board forced to abandon the Plan.
 - (iii) BL off course and Government therefore not prepared to give a further tranche of "Plan" money when it falls due.
 - (iv) BL on course and gets further tranche as per "Plan".Are the Ministers clear about these outcomes? In particular, are they clear about the Government's position in outcome (iii)?
5. In the light of 4(iii) above, is the draft statement credible? Will it stand up to the subsequent questioning? Does it reflect

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- a clearly thought out position, especially on outcome (iii) or is it simply a case of "here we go again"?



JOHN HOSKYNS

18 December 1979

SECRET

SECRET

Prime Minister

Qa 04386

To: MR LANCASTER ✓
From: SIR KENNETH BERRILL

British Leyland

1. The Prime Minister will have received the Secretary of State for Industry's minute which gives his interpretation, agreed with the Secretary of State for Trade and the Chief Secretary, of their meetings last Thursday with members of the Board of British Leyland (BL). Three of their main conclusions are that:

- (a) there is only a slim chance of BL surviving as an independent company, even if the Government gives all the support for which BL is asking;
- (b) if the Government did give this support but then waited until the BL Board were forced to withdraw the Plan, only about one-third of BL might eventually prove saleable;
- (c) therefore "during the next few months, the Government should work out, with Sir Michael Edwardes, contingency plans to minimise the damage if the Plan fails, including the identification of potential buyers for as much of the business as possible - and ideally though improbably the whole".

2. The CPBS agrees with all of this except the cautious approach recommended in (c).

3. For reasons outlined in the Annex, we are far more optimistic than the Secretary of State for Industry that BL might still be sold as a single package to either Ford or General Motors. We see the outright sale of BL to one of these companies as perhaps the only realistic chance the nation has of preserving our motor assembly and motor components industries at anything like their present level. However, time is short: we see only danger in delaying an approach to Ford and General Motors. But if an approach is made it must be with a real determination to achieve a deal.

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4. As each month has passed BL has become a less saleable proposition. Steady loss of market share, industrial troubles, and the high levels of defection by managers, skilled workers, dealers and customers are largely to blame. Under these circumstances, if Ford or General Motors are to be approached to take the whole of BL it is imperative that:

- (a) BL stays out of imminent danger of collapse;
- (b) BL's United Kingdom dealer network remains largely intact;
- (c) BL's pay and productivity negotiations are successfully completed.

All three conditions depend on an early approval of the Plan. It is also important that BL should not lose the Honda deal, since the prospect of a new medium car in 1981 is essential to keep the loyalty of BL's large dealer group. Once the dealer network begins to disintegrate, BL's volume car business could become virtually unsaleable.

Conclusion

5. Ministers are agreed that BL has no prospect of becoming a viable independent British-owned company. The best we can aim for is healthy British-located motor assembly and motor components industries. To achieve this the sale of BL as a single package to one of the large international motor manufacturers needs to be pursued as a matter of urgency.

6. I am sending a copy of this minute to Sir Robert Armstrong.

KG
—

18 December 1979

OUTRIGHT SALE OF BRITISH LEYLAND

1. The motor industry in Europe contains too many companies competing for a market that is too small to support them all. It is instructive to compare the North American and the European car markets. They are roughly the same size, yet the North American market can support only two major companies profitably. In Europe there are eight large manufacturers, plus British Leyland (BL).

2. After two relatively active decades of take-overs, mergers, and closures in the European car industry, BL is now the one car manufacturer left that is quite certainly too small to survive as a volume producer, and too large and too diverse to be a specialist producer. Prospective purchasers for BL will have to come from the following league table:

	<u>Company</u>	<u>(Main Plants)</u>	<u>Production of European-style cars</u>
(i)	Peugeot Group	(France, UK, Belgium, Spain)	2.2 million
(ii)	Volkswagen Group	(Germany, Brazil)	2.2 million
(iii)	Toyota	(Japan)	2.0 million
(iv)	Fiat	(Italy, Spain, Yugoslavia)	1.8 million
(v)	Nissan	(Japan)	1.7 million
(vi)	Renault	(France, Spain)	1.6 million
(vii)	Ford of Europe	(Germany, UK, Belgium, Spain)	1.4 million
(viii)	General Motors Europe	(Germany, UK, Belgium)	1.1 million

By contrast, BL's car output is only 0.6 million.

3. The CPRS considers that Ford and General Motors are perhaps the only two companies with both the resources and the motivation to make an outright purchase of the whole of BL. Other companies in the table would definitely be interested in purchasing parts of BL. Alternatively, they might entertain wide-ranging collaborative deals; but at best such deals would not be particularly profitable for BL, and at worst would leave HMG to carry all the financial risks.

General Motors

4. General Motors is the world's largest motor manufacturer. Its business philosophy is to be market leader. However, because of motor industry mergers, it has slipped to the position of being only the eighth largest producer in European markets.

(i) General Motors has a particularly weak presence in the UK car market. Vauxhall has a market share of only $6\frac{1}{2}$ per cent; Opel has another $1\frac{1}{2}$ per cent. A take-over of BL would give General Motors around 25 per cent of the market, but would still leave them number two to Ford.

(ii) General Motors has a poor dealer network in the UK. They would benefit considerably by taking over BL's network.

(iii) General Motors' range of European cars is weak where BL is strong and strong where BL is weak. BL's main attractions in terms of products would be Jaguar, Rover, Land-Rover, Triumph sports cars, and the Mini (and its replacement). These would complement General Motors' strengths in the small and medium car markets, and would give General Motors a far stronger marketing position throughout Europe.

(iv) There is also a good fit in commercial vehicles. General Motors (Bedford) is very successful as a manufacturer of light/medium trucks and coaches. BL's range of heavy trucks and its bus business should be particularly attractive to General Motors.

A take-over of BL by General Motors seems to stand a good chance of securing a volume of output from BL's plants similar to that envisaged in the BL Plan.

Ford

5. Ford share many of General Motors interest in BL particularly in Jaguar, Rover, Land-Rover, Triumph sports cars, Leyland heavy trucks, and Leyland buses. But Ford's principal motivations in taking over BL could come from their already large commitment to this country:

(i) Ford's UK manufacturing plants depend on a healthy motor components industry. The collapse of BL would not be welcome to Ford, because of the damage it would cause many of Ford's main suppliers.

SECRET

(ii) As leaders in the UK car market, Ford would be anxious to prevent BL's large dealers from switching to other franchises. (If Ford were to take over BL, it might be thought that their resulting 45-50 per cent share of the car market would be unmanageable, but it would be no more than the Peugeot Group holds in France or the Fiat Group in Italy.)

(iii) Ford might also move defensively to prevent some of its competitors, notably the Japanese, from acquiring a larger foothold in Europe.

6. Both Ford and General Motors should be strongly motivated to take over the whole of BL. But at a price. The profitability of neither company is such that they could afford to take on the whole of BL's liabilities without some measure of financial support from the UK Government. The Government might have to be prepared to put down a large dowry. But in terms of employment, public expenditure, and balance of payments, this could be cheap at the price.

Prime Minister

2

SECRET

See also Ken Bennet's
brief (in this folder) which
suggests we should go
hard for an outright
sale to Ford or GM.

P.0176

PRIME MINISTER

FUTURE OF BL

12/15/12

(E(79) 86: a minute of 14 December from the Secretary of State for Industry to the Prime Minister and E(79) 74 are also relevant)

(There is also
a note from
Tom Hoskyns).

BACKGROUND

1. When E discussed EL last week, it was not prepared then to approve EL's plan. Instead it asked for further meetings with Sir Arthur Knight and the EL Board before further consideration by E. The main points on which E wanted their views were:-
 - a. How far the plan needed to be altered to allow for the deterioration in profits and market share since it was written.
 - b. Whether the plan was really viable.
 - c. How far Sir Michael Edwardes and the rest of the EL Board were personally committed to remaining with EL to implement the plan.
 - d. The possibility of establishing a clearer definition of what would constitute "failure" of the plan, which would lead Sir Michael Edwardes and his Board to recommend its abandonment.
2. E also agreed there was no objection to EL signing their deal with Honda, on the understanding that the Government was not at this stage committed to the plan.
3. Sir Keith Joseph's paper (supplemented by his minute of 14 December) reports subsequent discussions both with Sir Arthur Knight and with the EL Board. In effect:-
 - i. Sir Arthur Knight and the NEB have opted out - by saying they could not make any useful comment on the plan in under about two months.

SECRET

- ii. Sir Michael Edwardes has said he wishes to leave by the end of 1980.
- iii. BL's revised and up to date forecasts - to take account of the recent deterioration - represent the minimum level of additional cash needed to implement the plan.
- iv. The BL Board do not think it would be possible to give a much tighter definition of failure. However they have made two new moves. First they have eliminated the earlier statement that in the event of external causes resulting in the plan not being fulfilled (as opposed to internal causes), they would not necessarily wish to withdraw it. Second, they have included a statement that "on the basis that funding is provided now, the Board will arrange on a highly confidential basis to put in hand contingency planning against the possibility that the plan has to be withdrawn." (See last paragraph of statement attached to Sir Keith Joseph's paper at Annex A).

4. However, Sir Keith Joseph - and according to his minute, Mr Biffen and Mr Nott - all think the 1980 Corporate Plan should be supported. Broadly their argument is:-

- a. The plan is very risky.
- b. But to refuse to fund it now would be politically unacceptable, because of the sudden collapse that would result.
- c. Therefore the right course is publicly to fund the plan, while privately making contingency arrangements to run BL down in a controlled way, primarily by finding buyers for as much of BL as possible (bearing in mind that if BL survives for a time, parts of the business will be saleable at better prices than now and much of the Plan's funds should be recovered in a liquidation or rundown).

HANDLING

5. You might like to suggest that E should concentrate on what seem to be the two main alternative courses of action; these are as follows:-

SECRET

EITHER

A. To fund the plan as Sir Keith Joseph proposes, while confidentially taking action to prepare contingency plans against rundown and disposal.

OR

B. To refuse to fund the plan, while arranging if possible for the present Board to run the business down themselves. If the Board declined to do this, EL would have to go into liquidation. (But Sir Keith Joseph implies in paragraph 3g of his minute that the Board would stay on to run it down given the necessary funding and 'probably' guarantees going beyond the 'Varley' assurances which the present Government has confirmed).

6. There are a large number of uncertainties and imponderables about these two courses; and you may well want to take advantage of your preliminary briefing meeting with officials to probe some of them. Questions to ask include:-

a. How realistic is the first alternative? In particular would it really be possible to keep the arrangements for planning EL's rundown confidential while being publicly committed to supporting the plan?

b. What real chance is there of getting enough potential buyers? Sir Michael Edwardes seems to have spoken rather gloomily about only one third of EL really being saleable. How much should be read into the kind of speculation - eg in Tuesday's "Times" - that Renault might be interested in bidding for EL? How far would prospects be improved for buyers, depending on whether EL approached them while the existing plan was still being funded (ie under course A) or the Government simply waited for buyers to come along and pick up the pieces (ie under course B)?

c. We understand that Sir Keith Joseph envisages that, if the first course, of funding the plan, is followed, there would be a joint group of officials from the Department of Industry and EL who would give further consideration to arrangements for producing a "contingency plan", ie arrangements for disposals. You might ask Sir Keith Joseph to outline more fully what he has in mind. Are the respective roles of his Department and EL sufficiently clear?

SECRET

- d. What exactly are the intentions of the EL Board? Would they really be prepared to stay on and arrange for disposals of EL if the plan was not funded? And if the plan were funded, could Sir Michael Edwardes not be persuaded to stay on for more than one more year?
- e. What about the relative costs of the two options? Could the second course (of not funding the plan) be cheaper, since it avoids having to pay out the £300 million or so which EL wants in the next financial year? Or would this saving be more than offset by reduced value of the assets and the increased number of redundancies?
- f. What about the PESC implications for this year and next? Sir Keith Joseph says (paragraph 4 of his minute of 14 December) that officials are exploring with the Company whether it is possible to avoid a further charge on the Contingency Reserve in the current financial year. With what result? As to next year the Chancellor is apparently ready (penultimate paragraph of E(79) 86) to agree to an extra £147 million PESC allocation in 1980-81 if colleagues accept continued funding for that period. The timing and method of payment of the extra funds is being discussed with Treasury and EL. Again with what result?
- g. What about the political implications? The collective view of Sir Keith Joseph, Mr Nott and Mr Biffen is reported (in Sir Keith Joseph's minute of 14 December) to be that "liquidation now would not be understood and that politically and economically the Plan should be approved and funds provided". This is the central judgement on which E will need to concentrate.
- h. Timing. Sir Michael Edwardes thought it impossible to sign the Honda seal without Government approval of the plan. He has therefore extended his original 20 December deadline to 27 December. But he thinks it would be difficult to persuade Honda to hold out for a further extension. Does this mean the whole deal is off - and effectively a decision taken to 'pull the plug' on EL - unless the Government gives approval to the plan, this week?

SECRET

CONCLUSIONS

7. The effective choice is between:-

EITHER

A. Support for the plan, on the understanding that urgent contingency arrangements are worked out between the Department of Industry and BL for running BL down and maximum disposals:

OR

B. Refusal to support the plan.


8. If colleagues choose the first course, you will want to record conclusions on:-

i. The Parliamentary statement attached to Sir Keith Joseph's paper. Is it agreed that this should be made before the recess? You might ask for detailed comments in writing.

ii. The funding of the plan. You might suggest that this should be agreed bilaterally between Sir Keith Joseph and the Chancellor, on the lines indicated in E(79) 86.

iii. Permission for BL to sign the deal with Honda, as part of the immediate implementation of the plan.

9. If colleagues prefer course B (refusing to fund the plan), you will want to record conclusions on the handling of the decision both publicly and with BL-bearing in mind, in the latter case, the desirability, if possible, of retaining the co-operation of the BL Board in carrying through the rundown.



P Le CHEMINANT

Cabinet Office
18 December 1979



UNITED STATES POSTAL SERVICE

10 DEC 1979





327

BL LIMITED

PARK ROYAL CLOSURE

On Monday 10 September, as part of his statement on BL's Half Yearly Results, Sir Michael Edwardes announced the intention to close in June 1980 Park Royal Vehicles, a bus body building operation employing 600. This decision was not part of the overall exercise to streamline the company but was taken because of 'appalling lack of productivity and lack of co-operation over recruitment'.

After making a substantial investment in Park Royal, with production planned to reach 14 Titan double deck buses a week - the current target is six - average output is only two. The plant is losing £250,000 a month with an expected loss of £3M this year. The plant has full order books for the next three years to supply 250 units to London Transport Executive plus a further 23 for the Greater Manchester Council and the West Midlands Council.

/including
bonuses,

The unions claim that low production is the direct result of a shortage of skilled men. There is a lack of metal workers in North West London and workers have been attracted away from BL by the higher earnings, said to be £125 per week, at a nearby Rolls Royce Motors plant. According to the company negotiations on pay and manning have been going on since last December. Current average earnings are £87 a week before bonuses; the men were offered and refused £105 a week and are demanding £121. As regards manning, agreement was reached with national union officials that 'dilutees', semi-skilled men, would be trained for skilled jobs. But Park Royal workers have consistently refused to accept dilutee labour despite efforts by national union officials to persuade the plant workforce representatives to adopt a more flexible approach.

The company is hoping to achieve an 'orderly' closure of Park Royal by 'tying a generous redundancy payments scheme to co-operation by the workforce.'

The Titan is an extremely good product which should be making substantial profits for BL. There is therefore every intention of re-locating production in due course and the options are being reviewed.



SECRET

Copy No / of 21

PRIME MINISTER

*Aut.**One next Wednesday**our
re. Mr. Ingham*

1 On Thursday 13 December John Nott spent 1½ hours going over the BL accounts with EL's Finance Director. On the same day he, John Biffen and I, together with several officials from the Treasury and the Department of Industry, Sir Kenneth Berrill and Mr Hoskyns met Sir Michael Edwardes, Sir Robert Clark, Mr Bide and Mr Frost, together with Mr Lowry, Mr Horrocks and Mr Andrews, all of BL. NEB were invited to the meeting, but were not present.

- ... 2 The attached note sets out the BL Board's current position.
- 3 Afterwards on the same day my two Ministerial colleagues and I met to discuss our views. We found that we agreed that:-
- a) BL, because of the CSEU strike, the disruption over Robinson, strong sterling and eroded market share, had already virtually used what contingency provision there was originally in its Plan;
 - b) because of recent events market share is currently below the level assumed in the Plan, but there is a queue for some of BL's cars of which production has been but is not now disrupted; and BL gave reasons for believing that market share can be recovered;
 - c) the Board will pursue the Plan with determination if we allow them the funds which they request;

SECRET

/d) ...



- d) the Board will withdraw the Plan if it ceases to be viable for internal or external reasons and collaborate with us in working out the best course to follow. We believe that the Board is genuinely determined to do this if cash flow ceases to be what is required to maintain the Plan. We do not think that it is necessary to try to define the precise conditions because the Board convinced us of their business-like realism. For the same reason we do not think it is necessary to defer an announcement until BL's current wage negotiations are satisfactorily completed;
- e) there is small chance of BL surviving and failure of the plan followed by rundown or liquidation is probable;
- f) if BL only survives a few months, by no means all the money will have been spent and if BL survives many months then parts of the business will be saleable at better prices than now and much of the Plan's funds should be recovered in a liquidation or rundown;
- g) an orderly rundown of the whole business may be difficult if not impossible to achieve, although about a third of BL might eventually prove saleable. As an alternative to liquidation the present Board might stay to run down the business themselves, though they would need Government

/funding ...



funding, and probably guarantees going beyond the "Varley" assurance which we have confirmed; and

- h) during the next few months we should work out, with Sir Michael Edwardes, contingency plans to minimize the damage if the Plan fails, including the identification of potential buyers for as much of the business as possible - and ideally though improbably the whole.

4 It is our view that liquidation now would not be understood and that both politically and economically the Plan should be approved and funds provided by means agreed with Geoffrey Howe, the NEB and BL. In this context we see merit in the concept that a proportion of the funds should take the form of a line of credit. It would also need to be recognised that we at present see no room for a charge on the Contingency Reserve in the current financial year. Officials are exploring with the company whether it is possible to operate within these constraints. Sir Michael Edwardes should be encouraged to spell out the conditions - freedom from internal and external shock and an adequate market share and cash flow - on which alone the business can survive.

5 Sir Michael Edwardes will not stay on as Chairman and Chief Executive after the end of 1980 though he might stay on as Chairman to see his successor properly in.

6 We think speed in reaching a decision important to minimise the

/waiting ...



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4.

waiting period which is damaging confidence and to enable BL to sign the Honda agreement.

7 I recommend that we should consider this at 'E' on Wednesday on the basis of a paper I shall be circulating. It would be desirable to announce our decision next week.

8 I am copying this minute to our colleagues on E, George Younger and Nicholas Edwards, to Sir Robert Armstrong and Sir Kenneth Berrill and to Mr John Hoskyns.

l.s.

PK J
14 December 1979

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

Department of Industry
Ashdown House
125 Victoria Street
London SW1

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PART 1 ends:-

CC(79)25th Concs : Item 2 13.12.79

PART 2 begins:-

