



PREM 19/259



Part 3.

MT

COMMERCIAL - SECRET.

Confidential File

The future of British heyland

Industrial
Policy

Part 1 Sept. 1979

Part 3 March 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
17.3.80							
19.3.80							
25.3.80							
28.3.80							
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13.5.80							
14.5.80							
22.5.80							
16.0.80							

ENDS.							

PREM 19/259

Material used by
Historian
DESTROY

PART 3 ends:-

A. Byzant to J. Herkyns 18/6

PART 4 begins:-

s/s Ind to PM 2/8



10 DOWNING STREET

Note for File (Top Document)

PM's folders for BL
in near future should
include both

M. Edwards letters of
28 March
18 March ~~and~~

MAP 17/4/80.

MR HOSKYNS

cc Mr Strauss ✓
Mr Lanhester ✓

BL - METRO PROJECT

R
Ind Policy

I saw BL's new Metro facilities at Longbridge on Friday. Although I tend to despair of real changes ever taking place at BL, there were some encouraging signs:

- (a) The manufacture of the body shell has been very highly automated. This has meant a massive investment in robot welding equipment, from Germany, France and elsewhere. No less than six competitive tenders were received for most of this equipment. Of course it greatly reduces manning levels per car, but at considerable cost. It also means that quality should be much more consistent.
- (b) The work force was involved in the decision to buy high technology from the outset, and have never been allowed to forget that. Maintenance workers for the robot equipment were sent to France and Germany to learn about it as it was made. They also saw it in use in continental plants. I was told that this had opened their eyes to new ways of doing things.
- (c) Management have insisted that the nature of maintenance work on the new robot lines must be re-defined. Instead of sitting around in stations from which they emerge when requested, maintenance workers are actually responsible for ensuring that the level of output and quality is maintained, hour by hour. So they are patrolling these lines looking for sources of trouble, before they break out.
- (d) Whenever a robot line is stopped, the name of the supervisor responsible for stopping it - and his reason - are recorded. This is all part of an exercise to make those running the production lines accountable for both quality and output level.

/(e)

- (e) I was told that the new working practises document (eventually imposed as part of the last pay round) had been designed around the need to make the new Longbridge facility work efficiently. (It provides for much greater flexibility in the deployment of manpower, and ends the "mutuality" principle - by which every change was by custom agreed with shop stewards.)
- (f) There is less scope for big reductions in manning when it comes to the final assembly stage - where all the bits and pieces are put on or in the body shell. This is labour intensive work. The main scope for productivity improvements lies in the design of the car and its components - which has been greatly improved from a manufacturing point of view.
- (g) Only about 10 per cent of the work force are able to work overtime at present.

The car itself seems a competitive entry to the small car market. Its strong points are compactness, an excellent ratio of interior space to exterior size, fuel economy and ease of maintenance. Obviously the price will be determined by present fairly fierce market conditions. I have not seen the financial information which would tell us the scope for making a profit - it must be strictly limited in the next year at least. Nor can we predict how much room the Metro will leave in the UK market place for the old mini.



18 June 1980

ANDREW DUGUID



CABINET OFFICE

Central Policy Review Staff

With the compliments of

J. R. Ibbs

70 Whitehall, London SW1A 2AS

Telephone 01-233 7765



ind p.p. 18

CABINET OFFICE
Central Policy Review Staff

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B
my

From: J. R. Ibbs

Qa 05033

22 May 1980

Dear Keith,

BL

From what Michael Edwardes told us at dinner last night I believe that the existing 'BL Plan', defined as a proposed set of actions to be carried out within a specified pattern of limited cash input, is now not possible. It also appears that Michael Edwardes believes that the best course of action in the new circumstances would be to pursue the collaborative deal about which he is currently negotiating and, in the rest of the business, to continue with restructuring and selective investment. It seems this would entail some additional as yet unspecified cash injection.

To me it seems important at this stage to make a fresh detached assessment of the situation, because the best course from BL's point of view is not necessarily the right one from the Government's viewpoint. It is important to do this before there is any element of commitment (even moral) to a potential collaborator.

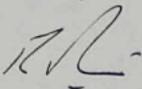
I am therefore arranging for some work to be done in the CPRS on defining the range of options that are now realistically open for consideration and on specifying the implications of each. Initially this will have to be done in qualitative terms but some quantitative comparisons, particularly in respect of cash requirements, will be needed as soon as information is available. Sources of such information will be the assessment by Mr Grenside of Peat Marwick Mitchell and also revised forecasts by BL.

The Rt Hon Sir Keith Joseph Bt MP
Department of Industry
ASHDOWN HOUSE
S W 1

SECRET

I feel I should let you know that I am putting this work in hand because it is obviously desirable that the CPRS should work closely with your Department on this.

I am sending a copy of this letter to the Prime Minister, the Chancellor of the Exchequer, and to Sir Robert Armstrong.

Yours truly,


J R Ibbs

22 MAY 1980





10 DOWNING STREET

From the Private Secretary

22 May 1980

Dear Sir,

British Leyland

As you know, the Prime Minister held an informal dinner last night for Sir Michael Edwardes. The following were also present in addition to your Secretary of State: the Chancellor of the Exchequer, Sir Austin Bide, Mr. David Andrews and Mr. Robin Ibbs. The following is a summary of the main points which came up in discussion.

Sir Michael Edwardes first outlined the progress which had been made at B.L. towards recovery. A strong Board and improved management team had been established. Since 1977, manpower had been reduced by some 30,000. The closure programme had been pushed ahead. Important changes in work practices were being implemented. At a time when other companies were settling for much more, B.L. Cars had achieved a pay deal averaging 7½ per cent. And an excellent new product, the Mini Metro, was to be launched in the autumn - with a manufacturing facility up to the best European standards. In addition, two important collaboration deals - one with Honda, the other with Z.F. - were already in place, and other major deals were on the horizon.

Sir Michael implied that, as far as those matters within the Company's control were concerned, B.L. was doing as well as could be expected. However, they faced a much worse trading environment than had been assumed when the 1980 Plan was prepared, and even more so than had been assumed back in 1977. In particular, the U.K.'s higher rate of inflation and sterling's appreciation had meant a drastic deterioration in competitiveness. (At this point, Mr. Andrews handed out some graphs, copies of which I enclose.) Exporting to some countries, such as the U.S.A., was now being done at a loss; and even the export profitability of the Land Rover was beginning to come under pressure. B.L. did not benefit much from lower import prices because nearly all of its bought-in materials came from U.K. suppliers. However, the Company were now looking very critically at the cost of U.K. components, taking into account in particular the fact that many suppliers had concluded pay settlements of 15 per cent and more, and were trying to pass the extra cost on to B.L.. B.L. were clearly not in a position to pay uncompetitive prices; and although they had an interest

/ in the survival

in the survival of the U.K. components industry, they were now telling their suppliers that they would have to take into account the latter's pay settlements in deciding whether or not to agree price increases. (Sir Michael handed over a list of settlements in the components industry - copy enclosed.) In parenthesis, Sir Michael said that he wished Ministers would do more to educate the public on the trade-off between high pay settlements and jobs. The Government's policies were having a slower effect than Ministers must have hoped: their early success was essential for BL's success.

Sir Michael went on to say that on the new economic assumptions which they were using (and which were, if anything, at the optimistic end of the range) BL's cash flow would fall several hundred million pounds short over the Plan period. This meant that there would not be funds for some of the new products which had been planned. But even eliminating this expenditure would still leave the company with a large cash shortfall. They would be able to live within the £300m cash limit for 1980, but the £130m provisionally set aside for 1981 and the assumption that no Government funding would be necessary thereafter were now unrealistic. The BL board were not yet in a position to express a view as to whether they could achieve long term viability; but they were clear that more Government funding would be needed.

The most critical element in the Plan was the success or failure of the Mini-Metro. If the Metro failed, the Plan would be finished. The other crucial aspect - and this would affect the amount of extra funding required - was whether BL could complete an important collaboration deal with a major German manufacturer. Sir Michael would not name the company, but said that B.L. were entering into urgent talks with a view to collaboration, including an element of equity funding, in the Rover/Triumph and Four-wheeled Drive product groups. It would offer the prospect of investment savings for both companies. They should know by about mid-June whether this was likely to come off; the prospects seemed quite good. If a deal was completed, this could substantially reduce the amount of extra funding required. Nonetheless, up to £500 million extra could still be required over a three to four year period.

Against this background, the Government would be faced with the political decision later in the year of whether to provide additional funds, or to withdraw support; or as a further alternative, though he realised this was largely hypothetical, to impose import controls. If the Government decided not to provide the extra funding needed, he doubted whether the Plan could be aborted with a "soft landing". The prospects for selling most parts of the business in the near future were not good, and the costs of run down would be very substantial.

Sir Michael said that he had been doing everything possible to explore the possibilities for collaboration and sale. As regards collaboration, the hoped-for deal with the German company seemed the best prospect available. As regards outright sale, there was no company in

/ the world

the world interested in purchasing the business as a whole. The Japanese were not interested because it was cheaper to manufacture vehicles in Japan and export to the UK and Europe; the US companies had enough difficulties at home; and none of the European companies were interested in either. It was possible that the Japanese might be more interested if there was a real threat of import controls.

As regards selling off parts of the business, only Land Rover could be sold off at a good price at the moment; but if it were sold, this would remove BL's best product and leave the rest of the business seriously weakened. The prospect of selling other parts of the business would be better in a year or two's time as the recovery programme moved ahead. Sir Michael mentioned that the Japanese were interested in purchasing BL's Belgian plant or alternatively, their plant at Solihull; there were attractions for BL in both of these possibilities, but they also had to take into account the effect that "letting the Japanese in" would have on their relations with European manufacturers. There was a considerable risk that - if BL helped the Japanese to set up a manufacturing base - this would spoil BL's prospects of collaboration in Europe.

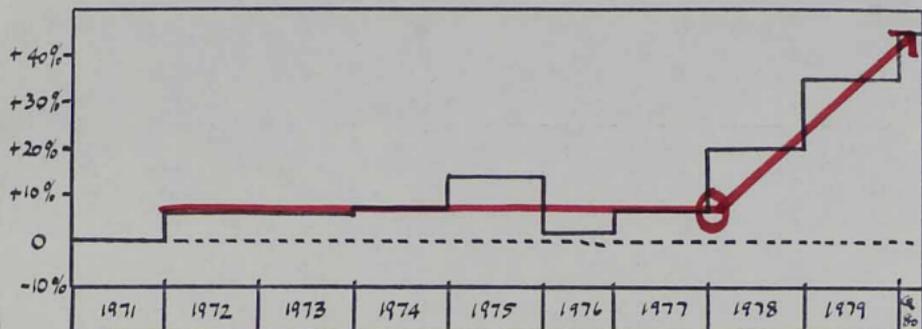
The Prime Minister said she had been very disturbed by Sir Michael's letter of 15 May insofar as it failed to confirm that long-term viability was attainable. Although Sir Michael and his team had achieved a great deal, she was now even more concerned in the light of Sir Michael's assertion that extra funding would be needed. Whatever the causes for the deterioration in cash-flow, BL was failing to meet their plan targets. She could not accept that factors external to BL should take all the blame; and to the extent that they were responsible, BL would have to make the necessary adjustments in performance and scale of operation. With heavy calls on the Contingency Reserve already in prospect there could be no presumption that additional funds would be provided. Sir Keith added that for the Government to provide additional funds would have immense significance for its whole approach to economic and industrial policy: it could only conceivably be defensible if further significant progress could be demonstrated.

The Prime Minister said that the Government would need to take stock in the light of BL's talks with the German company, the contingency work being undertaken by Mr. Grenside and the revised forecasts which the company would be preparing.

Following the dinner, the Prime Minister said that Ministers will need to meet to discuss BL again - certainly before the summer recess. In the meantime, the CPRS will be doing further work to refine the options for Government, as no doubt your Department will too.

I am sending copies of this letter and enclosures (including a short statement which Sir Michael left behind) to John Wiggins (HM Treasury), David Wright (Cabinet Office) and Robin Ibbs (CPRS). In view of the sensitive nature of the discussion, could you and they please ensure that copies have the most restricted circulation.

UK PRICE LEVELS VS USA PRICE LEVELS
(EFFECT OF CONSUMER PRICE RELATIVITIES + EXCHANGE RATES)
+½ = UK PRICES HIGHER CUMULATIVELY 1970-1979



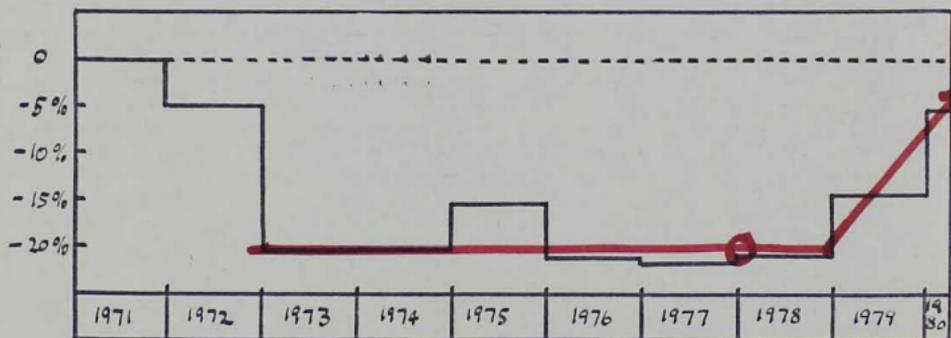
ACTUAL AVERAGE EXCHANGE RATES £/\$ G. £1

1971	2.434	2.502	2.433	2.355	2.212	1.805	1.745	1.921	2.122
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CONSUMER PRICE INDICES 1975=100

UK	60.0	64.1	69.4	80.5	100.0	115.8	134.3	146.4	165.9
USA	75.3	77.7	82.5	91.6	100.0	105.8	112.6	121.2	135.0

UK PRICE LEVELS VS GERMAN PRICE LEVELS
(EFFECT OF CONSUMER PRICE RELATIVITIES + EXCHANGE RATES)
-½ = UK PRICES LOWER CUMULATIVELY 1970-79



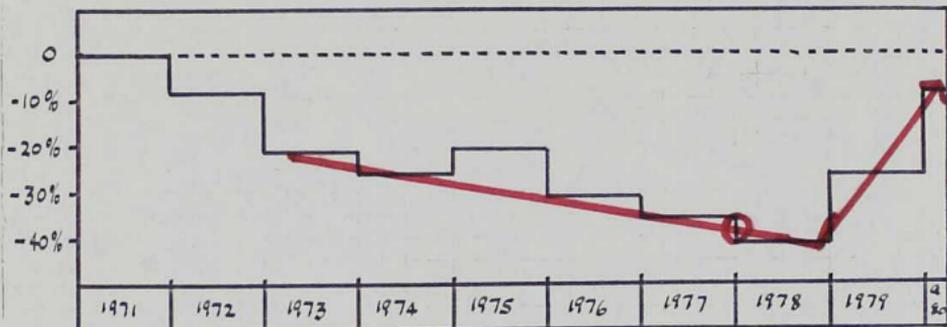
AVERAGE ACTUAL EXCHANGE RATES DM = £1

1971	8.498	7.979	6.429	6.028	5.498	4.562	4.051	3.852	3.887
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CONSUMER PRICE INDICES 1975 = 100

UK	60.0	64.1	69.4	80.5	100.0	115.8	134.3	146.4	165.9
Gy	78.2	82.5	88.2	94.4	100.0	104.5	108.4	111.3	115.9

UK PRICE LEVELS VS JAPANESE PRICE LEVELS
 (EFFECT OF CONSUMER PRICE RELATIVITIES + EXCHANGE RATES)
 -% = UK PRICES LOWER CUMULATIVELY 1970-79



AVERAGE ACTUAL EXCHANGE RATES YEN = £1

853.6	770.6	678.4	677.1	659.4	535.8	468.4	404.4	465.5	
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CONSUMER PRICE INDICES 1975 = 100

UK	60.0	64.1	69.4	80.5	100.0	115.8	134.3	146.4	165.9
Japan	62.0	65.1	72.6	89.5	100.0	109.4	118.3	123.3	127.9



BL Limited

~~Notfield House, Piccadilly~~

From The Chairman's Office

Helen

JPL would like MOE to get this before tonight's dinner.

JPL said that the information comes from the company Purchase Directors in Austin Morris and LVL - therefore he cannot vouch for its accuracy - and hopes this will give MOE some idea of the pay settlements by our suppliers.

P/22.5.

PAY SETTLEMENTS - MAJOR SUPPLIERS
AUSTIN MORRIS AND LEYLAND VEHICLES

- NOTES: 1) All supply Austin Morris
2) Those marked with asterisk also supply
Leyland Vehicles

Lucas Electrical (not yet settled)	17.4%
Automotive Products	16.5%*
Hardy Spicer	17.5%*
Lucas Girling	17.4%*
Smiths Industries - Instrumentation	17.4%*
- Heaters	13.5%
Triplex Safety Glass	16.6%*
Garringtons	12.0%
RHP Bearings	15.0%*
Hepworth and Grandage	15.0%
Dunlop (Wheel Division)	17.87%*
Cam Gears	16.84%*
Wilmot Broaden Bumpers	15.9%
Firth Furnishings	15.0%
Rists Limited	16.0%
Bromsgrove Castings	8.8%
Lay's Malleable Castings Co.	14.0%
Qualcast (Derby) Limited	19.0%
Wilmot Broaden Mechanisms	17.0%
ICI Limited	16/19%
Rubery Owen (Darlaston)	17.0%*
Pianoforte Supplies	16.0%
GKN Sankey	14.6%*
Gloucester Foundry	15.0%
Borg Warner Transmissions Division	18.0%
Vowles Foundries	10.0%
Concentric Pumps	20.0%
Dartmouth Auto Castings	15.0%
Kangol Magnet	19.2%

Kay Metzeler	18.0%
Britax (Wingard)	15.0%
Ripaults	6.0% on 1.10.79 18.0% on 1.5.80
Smethwick Drop Forging	17.3%
Jonas Woodhead	15.0%*
Jersey Kapwood	16.0%
BSA Sintered Components	20.0%
J. Burns (Glynwed Plastics)	17.5%
Britax (Vega)	19.0%
A.C. Delco	15.4%
Autocast (Bourne)	14.0%
Marley Foam	20.0%
Blackheath Stamping	15.0%
Holset Engineering	18.5%*
Low and Fletcher (Willenhall)	21.0%
Condura Fabrics	17.5%
Coopers Filters	7.5%*
Schlegel (U.K.)	26.5%
Miles Redfern	17.0%
RMI Limited	20.0%
Vandervell Products	16.0%
Glacier Metal	16.0%*
Ward and Goldstone	18.0%
Magnatex	17.0%
Sterling Metals	14.0%*
Glynwed Screws and Fastenings	12.5%
Carrington Co. Limited	16.0%*
Silent Channels	16.0%
Speciflex	15.0%
John Stokes and Sons Limited	15.0%
Smith Clayton Forge	11.0%
Rockwell Thompson	14.9%*
Bonnella Switches	18.5%
Scottish Stamping and Engineering Co.	15.2%*
Radio Mobile Limited	12.5%
George Taylor and Sons	15.0%

Duport Foundries	18.75%
Wolverhampton Die Castings	18.4%
Yarwood Ingram	17.5%
Metallifactory Limited	17.0%
Metal Castings (Worcester)	16.0%
Ball Plastics	12.5%
GKN Automotive Fasteners	17.0%*
Aluminium Bronze Co.	16.0%
Barratt Engineering	20.0%
Bloxswitch Lock and Stamping Co.	16.9%
Omers Faulkners	15.2%
T.I. Cox Limited	14.9%
Bescot Drop Forgings	15.0%
Bridgetown Industries Limited	16.0%
Perkins Engines	12.5%*
British Steel	11.0%* (plus 4.5% guaranteed bonus)

Public Utilities

Water	21.4%
Gas	19.5%
Electricity	19.0%

SUMMARY

BUILDING A VIABLE BL ON SHIFTING SANDS

After I was appointed in November 1977, and the Board and top management team were reconstituted, we took a long, hard look at the company's prospects before putting forward a Plan early in 1978 which provided for BL's recovery within the original Government funding limit of £1,000 million.

At that time, the pound stood at \$1.80 and was forecast to fall; UK inflation was forecast to stay at 10% per annum or a little lower; and GDP growth was forecast to continue at 2½% per annum.

Then, and in each subsequent Plan, we have consulted the Government about our economic assumptions; but on each occasion the assumptions have had to be revised downwards because the UK's own economic targets have not been met.

The assumptions we are now using to prepare our 1981 Plan are significantly more pessimistic than those accepted by the Government in our 1980 Plan only a few months ago. In contrast to our 1978 Plan, we are now talking about a \$2.20 pound for 1981; negative GDP growth; and 14½% inflation, in addition to the even more serious economic environment which we face for the rest of 1980.

Given the mess that BL was in by late 1977, it is remarkable that we have made such internal progress against the deteriorating economic and competitive background (see paper A2).

A new Chairman - or indeed a new owner - taking over BL at the present time would immediately seek additional external funding (perhaps of several hundred million pounds) to compensate for the economic environment in which he was expected to operate. But the present BL Board has, and will continue to look for all possible ways of saving cash and adapting to the UK's economic difficulties. The main planks of our strategy are:-

1. Seeking collaboration and any disposal opportunities.
2. Restructuring (even though this means more cash to fund redundancies and closures in the short term).
3. Economising on investment programmes (subject to keeping the minimum viable model range together).

But we need funds to back (2) and (3) and political stability and the confidence of our major shareholder to help us in (1).

TIM LANKESTER

MICHAEL EDWARDES DINNER

I realise that the Prime Minister may have little opportunity to study the papers put to her for tonight's dinner. This is just to make one or two brief comments which you may be able to pass on to her:

1. The DoI brief misses the whole point of the meeting. If the purpose of the dinner were simply to make conversation about BL, do an oral management audit and give a patronising pep talk, we should not waste the Prime Minister's time.
2. The CPRS paper is more useful. The detailed questions in section 2 are still "so what?" questions. There is little that the Prime Minister and others could do differently, as a result of Edwardes' answers. But they are useful questions to put if Edwardes tries to paint too rosy a picture of BL's prospects. They are not, however, relevant to the Prime Minister's real purpose, which is to explore, starting from the assumption that BL's prospects are very poor, how Government and BL management can work to reduce the downside risk to the economy as a whole.
3. Section 3 of the CPRS paper is more relevant to the purpose of the meeting, especially the last 7 lines. However, I don't think we can afford the rather oblique approach CPRS recommends. We should come fairly quickly to the point, as our paper suggests.

DoI seems to have slipped unconsciously back to its role as sponsoring Department, with the evening set up to give Edwardes an opportunity to hold forth to Government, rather than for Government to take one or two steps forward in its own decision-making and contingency planning.

It would make the evening much more fruitful if it is possible to get "our side" together for 10 or 15 minutes before Edwardes and co. arrive so that the Prime Minister can make quite clear to the others what the real purpose of the meeting is.



JOHN HOSKYNS

LIST OF GUESTS ATTENDING THE DINNER TO BE GIVEN BY THE PRIME MINISTER
ON WEDNESDAY, 21 MAY 1980 AT 8.00 PM FOR 8.30 PM
LOUNGE SUIT

The Prime Minister

→ The Rt. Hon. Sir Geoffrey Howe, MP

→ The Rt. Hon. Sir Keith Joseph, MP

Sir Michael Edwardes

Chairman, BL

Sir Austin Bide

Deputy Chairman

Mr. David Andrews

Executive Vice Chairman in
charge of Finance

→ Mr. Robin Ibbs

CPRS

Mr. Tim Lankester

DRAFT SEATING PLAN FOR DINNER ON WEDNESDAY, 21 MAY 1980

Mr. Tim Lankester

Mr. David Andrews

Sir Austin Bide

PRIME MINISTER

The Rt. Hon. Sir Geoffrey
Howe

Sir Michael Edwardes

The Rt. Hon. Sir Keith
Joseph

Mr. Robin Ibbs

ENTRANCE

Fin
*16*PRIME MINISTERBRITISH LEYLAND - DINNER WITH SIR MICHAEL EDWARDES

This minute suggests the purpose of the dinner and a possible shape for the discussion.

1. BACKGROUND

- 1.1 In December, Ministers reluctantly agreed to fund BL's Corporate Plan on a "last chance" basis. Some Ministers thought that Edwardes should be looking for an opportunity to sell BL in the meantime, but Keith has never told Edwardes that this was a condition of further support, because no clear decision was made.
- 1.2 What is the Government's present position?
- 1.2.1 Edwardes was asked to state publicly that his Board would withdraw the Plan as soon as its achievement was jeopardised. Ministers were determined to respond by allowing BL to collapse if this happened. We were always sceptical about the Board taking the initiative and felt circumstances might arise in which the Government would need to do so.
- 1.2.2 Since then, the UK economic outlook, inflation prospects etc, have deteriorated further, while Edwardes has made some progress in his battle with the unions. We think Government should now be a little more prepared to let the BL Board shirk withdrawing the Plan. This may even mean further funds at some stage, provided they can be seen as a reward for better industrial relations. To achieve this, we must practise deliberate brinkmanship in keeping Edwardes, his Board and his employees convinced that we're prepared to pull the plug. - as Keith has done from the outset.
- 1.2.3 We shall have to continue walking along this tightrope, but must start now looking for firm ground on which to step off it. A buyer could offer this prospect. Against the present economic background, we would only be prepared to abandon the tightrope if union disruption was unambiguously seen to bring BL down.
- 1.2.4 There are three possible outcomes:
- (a) "Success". This is so unlikely that it is best described as a miracle. Of course this would be much the best outcome

SECRET

for Edwardes himself. For Government, it would be extremely welcome, but would make only a small contribution to solving the range of our problems.

- (b) "Failure". This must be the most likely outcome. It is very unattractive for Government, but it is crucial that Edwardes continues to believe we would be prepared to face up to it if necessary. Failure is not necessarily as unwelcome to Edwardes as it is to us. He can legitimately claim that he has fought a gallant fight. We would have to pick up the pieces.
- (c) "Sell or Merge". There is a range of possibilities here, from BL finding a roughly equal collaborative partner through to outright sale. We think Edwardes is likely to agree that collaboration will have to play a big part in BL's future if it is to compete. Its own resources are bound to be inadequate. One or two minor collaborative deals would not be sufficient to avoid failure. The essence of this outcome is that the main responsibility for BL should shift from HMG to another party. If this can be achieved, it is extremely attractive to Government, though Edwardes may see it as an admission of personal failure.

2. PURPOSE OF THE MEETING

2.1 We do not see any purpose in discussing BL's current performance. We all know that it is unsatisfactory, but that no-one could have done a better job. You could pay tribute to this - particularly to Sir Michael's success in out-manoeuving opponents to his wages and conditions package. By firm treatment of militants and skilful use of ballots, Edwardes has managed to push forward the frontier of industrial relations.

2.2 The real aim of the meeting is:

- (a) To look further into the future and get Edwardes to admit what a slim chance BL has of eventual viability.

- (b) Edwardes must understand that the values he places on the different outcomes for BL are inevitably quite different from the values we must place.
- (c) To increase, through Edwardes' understanding and co-operation, our chances of the third outcome, "Sell or Merge".

3. HOW THE DISCUSSION MIGHT GO

3.1 You might open the discussion by paying tribute to Edwardes' achievement (section 2.1 above) and then explain the main purpose of the meeting (2.2(a) above) and then go on to spell out the differing positions of Edwardes and his Board on one hand, and Government on the other (section 2.2(b) above). This will give Edwardes the opportunity to put forward his own views and arguments. Edwardes' own view on the chances of "Success" should be probed. Does he really believe that BL will ever be able to generate enough funds to stay in the league of car manufacturers, producing new models, without dependence on Government?

3.2 Edwardes is also likely to argue:

- (a) That it is not necessary for effective control of BL to pass to foreign hands. We think it probably is necessary because BL's own resources are so inadequate and because we are looking to reduce, and preferably eliminate, HMG's financial responsibilities.
- (b) That it would be better to pursue this option in two years' time, when BL has been more successful. We don't believe it will be more successful. It is likely to have lost further market share, dealers etc, and to be less attractive. And by then there will be less possible buyers around.
- (c) That simply to explore the possibility of sale will lead to leaks which will so undermine confidence in BL that failure is precipitated. We don't accept this analysis. If it were true, why would it be less true in two years' time? But we believe that dealers and managers - and eventually even the work force - might very well recognise

that their chances of survival and a better future would be improved if someone took over BL.

- 3.3 It is worth spending quite a lot of time discussing these arguments to see how well they stand up. There may be more to them than we have realised. Ideally, Edwardes should volunteer that he and his senior managers would not be prepared to see their desire to run their own ship stand in the way of a better outcome for BL employees and HMG. If any progress is made in this debate, it would be worthwhile turning to ways of exploring the chances of early sale or partnership.
- 3.4 We think that BL itself - already known to be exploring the scope for collaborative deals - is best placed to explore the chances of sale - under the cover of collaborative deals. If Edwardes is prepared to do this, he may think that Government can help.
- 3.5 Edwardes may say that no-one would want to buy BL. But the strongest motivation towards buying BL could be a desire to stop someone else getting it - since it does still have a very large UK dealer network and a number of products which could prove useful in overseas markets. Ford, who are doing well out of BL's gradual decline, would hate to see a Japanese company take it. They have effectively asked to have first option, which at present costs them nothing if they can get it. Ideally, we should stimulate interest on the part of more than one buyer.
- 3.6 Could a Japanese company be motivated by veiled (or overt) threats from Government about future import controls? Edwardes may have other ideas about how Government and BL could work to this end.
- 3.7 If Edwardes is totally unwilling to follow our general line of thinking, we will at least know that; and you will be able to assess the strength of his feelings, and perhaps discover what it would take to get him moving in our direction.

I have copied this minute to the Chancellor, Secretary of State for Industry, and to Robin Ibbs.


JOHN HOSKYNs



Secretary of State for Industry

cc A Dignid
 DEPARTMENT OF INDUSTRY 15
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB

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

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

20 May 1980

TOTAL COPIES 5

COPY No. 1

Dear Tim

BL: BRIEF FOR THE PRIME MINISTER'S DINNER ON
 21 MAY

... As promised, I enclose a copy of the brief prepared for my Secretary of State for the Prime Minister's informal dinner with Sir Michael Edwardes tomorrow evening. You may wish to note that the general lines of the brief have been discussed with the Treasury.

You may also like to know that Sir Michael is calling on my Secretary of State at 3.00pm tomorrow, when he may take the opportunity to indicate the subjects which he will seek to raise at the dinner. These are expected to include the recent achievements of BL, the tasks ahead, the prospects for the business, unfair competition from imports and international collaboration.

I am copying this letter to Martin Hall, Robin Ibbs and David Wright.

Catherine Bell

CATHERINE BELL
 Private Secretary



BL: BRIEF FOR PRIME MINISTER'S DINNER ON WEDNESDAY 21 MAY

Introduction

The purpose of the dinner is to enable the Prime Minister to have a general talk with Sir Michael Edwardes about how BL's affairs are progressing and on the prospects for the future.

2 Other guests besides the Secretary of State are the Chancellor, Mr David Andrews (Executive Vice-Chairman of BL) and ~~Sir~~ Austin Bide (who has just replaced Mr MacGregor as Deputy Chairman of BL and who is also Chairman of Glaxo Ltd). Mr Robin Ibbs of the CPRS and Mr Tim Lankester (one of the Prime Minister's Private Secretaries) will also be present.

3 The Secretary of State's Private Office circulated to No 10 and to other Private Offices on 16 May a copy of Sir Michael Edwardes' reply of 15 May to the Secretary of State's letter of 15 April about BL's cash position (copies of these letters are at Annex A to this brief). Sir Michael's letter could be used as a basis for discussion at the dinner.

Background

4 It was noted at the Ministerial meeting held at No 10 on 17 April that the Prime Minister would consider meeting Sir Michael Edwardes, along with the Secretary of State, after the Secretary of State's meeting with him on 22 April and in the light of Sir Michael's reply to the letter of 15 April about BL's cash position. Sir Michael says that he will be in a position at the dinner to elaborate on his letter, as necessary.

5 Sir Michael has arranged to see the Secretary of State during the afternoon of 21 May in order to tell him about an important new collaborative venture which BL has decided to pursue and about which he intends to tell the Prime Minister over dinner. The nature of this proposal has not been disclosed to officials.

6 Two important occasions for BL at the end of last week were the company's Annual General Meeting on 15 May and the debate on the Secretary of State's statement of 20 December 1979 on BL's 1980 Corporate Plan, which took place on 16 May. Sir Michael Edwardes placed considerable emphasis in his speech at the AGM on adverse "external" factors in 1980 which would be outside BL's control; and there was some pressure from the Opposition during the debate for some kind of import controls on cars. Both subjects are covered later in this brief.

Contd...



Talking Points

7 (i) BL's Cash Position: Sir Michael's letter of 15 May, which seems to have been carefully thought out, repeats his earlier assurance that BL do not envisage seeking extra cash from the Government above the agreed funding limits for 1980 (ie £300 million) although margins are very tight. He notes that BL are calling for funds during 1980 somewhat earlier than was originally envisaged. This is a reference to a request made by BL to the Department on 15 May for a drawing of £75 million of equity capital from the NEB before the end of May, in accordance with the agreed arrangements for drawings from a credit facility referred to in the Secretary of State's statement of 20 December 1980. BL had earlier envisaged that this money would not be needed until June. However, the financial margins in BL's medium-term loan agreement with the Citibank consortium would be breached if payment were delayed until then. Officials of the Department of Industry and the Treasury will agree to BL's request, but are considering whether there are ways of avoiding this sort of technical difficulty in future. Ministers may wish to enquire into the reasons for the statement in the second paragraph of Sir Michael's letter that the Board of BL is at this stage of 1980 quite unable to express a view as to whether it is possible to attain the objective of long-term viability. BL staff have had the discussions which they desired with Treasury and DoI staff on economic assumptions for the period of the Corporate Plan. There was not a great deal of difference between the assumptions proposed by BL and the Treasury forecast published at the time of the last Budget, and Treasury officials take the view that BL's assumptions combine prudence with realism. Why, therefore, does Sir Michael not feel able to express any sort of view in his letter? Is there anything he can say informally which he did not feel able to commit to paper?

(ii) BL Contingencies: Sir Michael says in his letter that BL are continuing to cooperate with the Government in contingency planning, to the extent possible without jeopardising the existing business.

Sir Michael and Mr Andrews have already met Mr Grenside of Peat, Marwick and Mitchell, who recently undertook an enquiry for the Government on contingency planning. Officials from the DoI have also had contacts with Mr Grenside and his colleague, Mr Dunterley. Mr Grenside has been asked to submit at least an interim report by mid-July.

As this work is in hand, it would not appear to be necessary for Ministers to raise the question of contingency planning with Sir Michael.

(iii) External Factors: Although he does not refer to this in his letter, Sir Michael is likely to place some emphasis on the impact on BL of external economic factors - both the depressed world trading situation and the pressures arising from the Government's economic policy. He is likely to confirm his intention of living within the cash constraint in 1980/81, but may argue

Contd...



that the timing of recovery and achievement of full viability under his plan is made difficult to predict by those circumstances outside his control. He may draw attention to the impact on the rest of private manufacturing industry of the corporate liquidity pressures caused by the Government's monetary policy, and imply that while BL can fairly be judged by its response to internal problems, its chances of ultimate viability should be judged only after making fair allowance for external factors.

Ministers could acknowledge that there is some truth in what Sir Michael says; and could argue that factors such as the steel pound are a reflection of the UK's broad economic strategy, which is essential if the Government is to cut inflation and tackle the underlying problems of the British economy.

(iv) BL's Achievements: BL has scored some major achievements in recent months, the most notable of which is implementation of the pay and working practices package. The workforce has accepted a pay rise averaging only 7½% and new working practices are being introduced. Closures of works are going ahead as planned, and the Triumph plant at Canley is being closed earlier than planned. Two new trucks have been launched by the commercial vehicles division of BL, and the collaborative venture with Honda to produce the 'Bounty' car at Cowley in 1981 has gone ahead. Agreement in principle has also been reached with Aston Martin-Lagonda for the disposal of the MG business.

Ministers may wish to congratulate Sir Michael on these significant developments and to encourage him to maintain the momentum achieved.

(v) Prospects and Future Tasks: A lot still has to be done by BL to improve market share (13.8 per cent in the first four months of this year), productivity and profitability. A loss before interest and tax of about £100 million is forecast for 1980, despite which BL expect to stay within their cash limits. Sir Michael's letter refers to a review of proposed actions which BL will be making during the next few months; the LC10 (new medium-car project) is specifically mentioned. BL will be looking at the investment required for that programme with a view to improving the product and devising a programme which will cost less. There may be a role for some international collaboration.

Ministers may wish to ask Sir Michael to give his views on the different sides of BL's business, and to ask whether he has in mind any further disposals or new possibilities of international collaboration particularly in the medium car field.

(vi) Unfair Imports of Cars: Sir Michael has corresponded in recent months with the Secretary of State for Trade about what he sees as unfair competition from cars imported from Spain, Eastern Europe and Japan. BL have not, however, asked for import controls to be introduced. As major exporters of vehicles (about

Contd...



250,000 each year), they recognise the risk of retaliation against the UK not only in the vehicles field but in the components market, and also more widely, if such a course were followed. But they feel at a competitive disadvantage vis-a-vis imports as a result of the external economic factors mentioned earlier in this brief, and they are rather resentful about the way in which Ford managed to make a profit last year by making cars on the Continent and importing them into the UK.

Ministers could say that they are aware of Sir Michael's views on car imports; that they know that the UK motor industry (including BL) and the components industry do not favour import controls; and that firm Government action will be taken against imports from any source which enter the UK at dumped prices and cause material injury to our industry or a part of it. International collaboration is one of the best ways of dealing with foreign competition, and BL have shown their awareness of this. They could add that the motor industry is experiencing problems worldwide (except in Japan) particularly the big American companies (Chrysler, Ford and General Motors); BL is by no means alone in suffering from competitive pressures.

Department of Industry

22 May 1980

The Rt.Hon. Sir Keith Joseph, Bt,MP.
Secretary of State for Industry.

15th May 1980

Page 2.

2. Much depends on progress in 1980, not only on industrial relations, but in our new product launches - principally Roadtrain (already launched), the Morris Ital (facelifted Marina) in the summer and Metro in the autumn - and on collaboration with other manufacturers. We have had a complex situation to deal with, and we need to solve further major problems and seize the opportunities of 1980 before we can form a clearer view of the prospects for 1981 and beyond.
3. The 1980 Plan is composed of hundreds and even thousands of actions, many of which may be subject to considerable revision. Although the broad strategy remains intact, we have already revised the Plan in certain important respects, including bringing forward the closure of Canley at further cost to 1980. The complex process of preparing our 1981 Plan is just beginning.

During the next few months, we shall have the opportunity of reviewing our proposed actions in the light of our performance and particularly the forecast availability of cash; in particular we are now considering options on the LQ10 programme which might enable us to spread our cash needs without fundamentally changing the strategy.

It would therefore be a mistake, in our view, to try to make predictions now based on long-term forecasts which may have little or no validity by the time that we submit our 1981 Corporate Plan for your consideration.

I must, however, reiterate the following assurances which I have already given about our shorter-term position:-

- a. In the present circumstances we do not envisage seeking extra cash from the Government above the agreed funding limits for 1980, although our margins are very tight, especially in relation to the ratios in our medium-term loan agreement. As you know, we are calling for funds during 1980 somewhat earlier than was originally envisaged

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,
Secretary of State for Industry.

15th May 1980

Page 3.

- b. None of the actions which we are taking in 1980 is expected to damage our prospects of longer-term viability - indeed they are intended to make a positive contribution towards long-term as well as short-term objectives.
- c. Your Department will continue to be kept in close touch with our financial forecasts and with the preparation of our Corporate Plan, so that you would receive early warning of any unavoidable cash problems.
- d. The Board adheres to the assurances I have given you that, should we consider it necessary to abandon the Plan, we would initiate immediate discussions with the Government before taking any action.

Finally, we are, as you know, continuing to cooperate with the Government in contingency planning, subject to the recognition that there are limits to the actions which can be taken prior to the event without jeopardising the chances of saving the existing business.

I understand that we shall meet at an informal dinner next week, when I shall be in a position to elaborate on this letter as necessary.

Yours sincerely,
Michael Heseltine.



Secretary of State for Industry

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15. April 1980

Sir Michael Edwardes
Chairman
EL Limited
35-38 Portman Square
London W1H 0BN

Dear Michael.

Thank you for your letters of 18 March and 28 March. I have also seen the 1980 forecast prepared on 21 March and supplied to officials here.

I conclude that in your Board's view, having completed your review of capital expenditure and notwithstanding the disturbing loss now forecast for 1980 (which your second letter indicates should not be taken as evidence that any increase will be needed in the cash call on Government during 1980/81) it is still possible for EL to achieve the objective of long term viability; remaining within agreed funding limits is, of course, a constraint rather than an objective in itself.

As regards 1981 onwards, I realise the sensitivity of any longer term projections to various ranges of economic assumptions, particularly about inflation, the significance of which you stressed to me when we met on 21 March. Officials of this Department and the Treasury are ready to discuss these and their implications with your staff and to provide any help they can.

I hope this work can be carried forward speedily so that you can let me have your Board's conclusions as soon as possible.

I should mention that I have just returned from holiday, and that this letter was prepared on my instructions while I was away and does not take account of the latest situation of EL.

Lawson

11



10 DOWNING STREET

THE PRIME MINISTER

20 May 1980

Dear Sir Michael,

Thank you for your letter of 7 May about the extent of BL's business with Iran and the effect on it if trade sanctions are imposed on Iran.

I am keenly aware of the detrimental effect sanctions are likely to have on British firms such as BL which have trading interests in Iran. However, as I need hardly tell you, the hostage situation has become increasingly grave; and in conjunction with our European Community partners, we have felt obliged to embark on a range of measures, including trade sanctions, to bring pressure on the Iranian authorities to secure the hostages' release.

I sincerely wish we had been able to avoid going down this route. But despite the problems it will undoubtedly cause for BL and other UK companies, I am afraid Iran's continued intransigence over this issue and the need to support our American allies have left us with no alternative. We must now hope that these measures will help to secure the early release of the hostages, so that our trading relationships are only temporarily interrupted.

The Orders will not affect existing contracts.

Sir Michael Edwardes

Yours sincerely
Margaret Thatcher



10 DOWNING STREET

From the Private Secretary

BF 20-5-80

cc Mr Gpskyus.

MR IBBS

Prime Minister's Dinner with Sir Michael Edwardes
on 21 May

I have asked the Department of Industry for a brief for the Prime Minister's dinner with Sir Michael Edwardes on Wednesday. If you would like to put in something yourself, that would be very welcome.

I enclose a copy of Sir Michael Edwardes' latest letter to Sir Keith Joseph, which was sent to us but not - it seems - to other Ministers or to the Cabinet Office.

I am sending a copy of this note and enclosure to Sir Robert Armstrong.

J. P. LANKESTER

J.P.

19 May 1980



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PS/ *Secretary of State for Industry*

19 May 1980

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

Dear Tim

... As you requested in your letter of 8 May, I attach a draft reply for the Prime Minister to send to Sir Michael Edwardes about trade sanctions against Iran.

Copies of the draft go to Stuart Hampson (Trade) and Paul Lever (FCO).

Yours sincerely
Catherine Bell
CATHERINE BELL
Private Secretary



DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO

Sir Michael Edwardes
Chairman
BL Limited
35-38 Portman Square
London. W1H 0HQ

Thank you for your letter of 7 May about the extent of BL's business with Iran and the effect on it if trade sanctions are imposed on Iran.

As I need hardly tell you,

I am keenly aware of the seriousness of such steps and of the detrimental effect ~~they may~~ ^{Sanctions are likely to} have on British firms such as BL which have trading interests in Iran. However, ^{the situation is so grave; that the} ~~Government~~, in conjunction with our European Community ^{partners,} ~~colleagues~~, have felt obliged to ^{consider} ~~decide~~ on a range of measures, including ~~the~~ ^{threat} of trade sanctions, ~~in an attempt~~ ^{hostages'} to bring pressure on the Iranian authorities to secure the release of the American hostages. ~~Further discussions between European Foreign Ministers have taken place this weekend. The Iran (Temporary Powers) Act 1980, together with the Import, Export and Customs Powers (Defence) Act 1939 are enabling measures to give the Government powers to impose sanctions on Iran. The details will be settled in Orders in Council which have still to be drafted.~~

I sincerely wish we had been able to avoid going down this route. ^{But} despite the problems it will undoubtedly cause for BL and other UK companies, I am afraid Iran's continued intransigence over this issue and the need to support our

American allies have left us

with no alternative. We must now hope that these measures will help to secure the early release of the hostages, so that our trading relationships are only temporarily interrupted.



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PS/ *Secretary of State for Industry*

16 May 1980

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

Dear Tim

... I enclose a copy of Sir Michael Edwardes' reply of 15 May to my Secretary of State's letter of 15 April, which you may wish to draw to the attention of the Prime Minister.

Yours sincerely

Catherine Bell

CATHERINE BELL
Private Secretary



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
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15 May 1980

A J Wiggins Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
SW1

Dear John

12
495

You copied to Ian Ellison here your letter of 9 May to Tim Lankester in which you suggested one or two minor drafting points on the new terms of reference which might be given to the BL Board in the event of the Plan being withdrawn. This is to let you know that my Secretary of State is content with the changes to the terms of reference which you propose.

I am copying this letter to Tim Lankester, David Wright, Robin Ibbs and John Hoskyns.

Yours sincerely
Catherine Bell
CATHERINE BELL
Private Secretary



16 MAY 1990

BL ANNUAL GENERAL MEETING

MAY 15TH 1980

REMARKS BY THE CHAIRMAN, SIR MICHAEL EDWARDES

INTRODUCTION

- . KEEP REMARKS AS BRIEF AS POSSIBLE TO ALLOW AMPLE TIME FOR QUESTIONS.

- . DIVIDE STATEMENT INTO TWO PARTS:
 - 1) SPEAK OF EFFECT OF SEVERE EXTERNAL ECONOMIC SITUATION ON BL'S CURRENT AND PREDICTED PERFORMANCE.

 - 2) REVIEW THE PROGRESS WITHIN BL OVER THE PAST YEAR IN THE FACE OF WORSENING TRADING CONDITIONS.

BOARD CHANGES

BEFORE THAT, I SHOULD TELL YOU OF CHANGES TO THE BOARD, WHICH HAVE OCCURRED THIS YEAR.

IAN MACGREGOR (AS I'M SURE YOU ARE AWARE) HAS ACCEPTED THE JOB OF CHAIRMAN OF BRITISH STEEL AND AS A CONSEQUENCE IS LEAVING THE BOARD AT THE END OF THIS AGM.

THE BOARD WOULD LIKE TO PLACE ON RECORD ITS APPRECIATION FOR THE MAJOR CONTRIBUTION MADE BY IAN MACGREGOR DURING HIS 5 YEARS AS A DIRECTOR. IN THE LAST 2½ YEARS IN HIS ROLE AS NON-EXECUTIVE DEPUTY CHAIRMAN, HE HAS BEEN A STAUNCH SUPPORTER OF THE COMPANY'S EFFORTS TO BRING ABOUT THE RECOVERY OF THE BUSINESS. I AM SURE THAT SHAREHOLDERS WOULD WISH ME TO THANK HIM FOR HIS CONTRIBUTION TO BL'S AFFAIRS.

I AM PLEASED TO ANNOUNCE THAT SIR AUSTIN BIDE HAS BECOME NON-EXECUTIVE DEPUTY CHAIRMAN. HE HAS BEEN A MEMBER OF THE BOARD SINCE NOVEMBER 1977, AND IS CHAIRMAN AND CHIEF EXECUTIVE OF GLAXO HOLDINGS. HE SUCCEEDS IAN MACGREGOR WITH IMMEDIATE EFFECT.

THE BL BOARD (WHICH IS SMALL BY ANY STANDARDS) HAS RECENTLY BEEN STRENGTHENED BY THE APPOINTMENT OF SIR ROBERT HUNT (CHAIRMAN AND CHIEF EXECUTIVE OF THE DOWTY GROUP) AS A NON-EXECUTIVE DIRECTOR. HIS ENGINEERING KNOWLEDGE WILL BE PARTICULARLY VALUED.

WE ALSO INTEND TO APPOINT MR JOHN MAYHEW-SANDERS, CHAIRMAN AND CHIEF EXECUTIVE OF JOHN BROWN LTD, TO BECOME A NON-EXECUTIVE DIRECTOR.

EXTERNAL FACTORS

1979 WAS ONE YEAR IN BL'S TURBULENT HISTORY WHEN THE COMPANY COULD CLAIM WITH SOME JUSTIFICATION THAT IT WAS NOT THE SOLE AUTHOR OF ITS MISFORTUNES.

EXTERNAL STRIKES

BL'S INTERNAL DISPUTES RECORD IMPROVED DRAMATICALLY (IN 1979 A 52% REDUCTION IN THE NUMBER OF HOURS LOST). IT WAS TWO EXTERNAL, NATIONALLY INSPIRED STRIKES, THE ROAD HAULAGE AND ENGINEERING STRIKES, WHICH BETWEEN THEM COST:

- . OVER £60 MILLION IN LOST PROFIT
- . 10 MILLION LOST HOURS OF PRODUCTION
- . 70,000 LOST VEHICLES

THIS YEAR THE STEEL STRIKE DIVERTED MANAGEMENT TIME AND EFFORT FROM THE RUNNING OF THE BUSINESS AND THE RECOVERY PROGRAMME. THE MAIN PRIORITY SWITCHED TO ENSURING CONTINUITY OF SUPPLY AND MANUFACTURE.

THE FACT THAT BL DID NOT LOSE MANY SALES THROUGH LACK OF STEEL IS A MEASURE OF MANAGEMENT INGENUITY AND RESOURCEFULNESS, BOTH OF WHICH WOULD HAVE BEEN MORE USEFULLY EMPLOYED IN MANAGING THE RECOVERY PROGRAMME.

YESTERDAY'S SO-CALLED DAY OF ACTION WAS A FURTHER EXAMPLE OF EXTERNAL PRESSURE WHICH WE COULD WELL DO WITHOUT, BUT IT IS A TRIBUTE TO THE RESPONSIBLE ATTITUDE OF THE VAST MAJORITY OF OUR EMPLOYEES THAT, OF OUR 57 PLANTS IN THE UK ONLY ALBION AND LIVERPOOL COULD NOT START PRODUCTION YESTERDAY.

IT IS PARTICULARLY GALLING AND FRUSTRATING TO FIND THAT HAVING MOVED SUBSTANTIALLY TOWARDS PUTTING OUR OWN INDUSTRIAL RELATIONS AFFAIRS IN SOME ORDER AND HAVING THE COMMITMENT AND SUPPORT OF OUR WORKFORCE, OUR POSITION IS JEOPARDISED BY EXTERNAL OR NATIONAL DISPUTES.

INTERNAL OR EXTERNAL - THE RESULT IS THE SAME - A WEAKER NOT A STRONGER BL, AND STRIKES IN 1979 OUTSIDE OUR POWER TO RESOLVE HIT THE COMPANY EXTREMELY HARD.

COMPETITIVENESS

THE SECOND - AND TO SOME EXTENT MORE WORRYING FACTOR - IS THE QUITE DRAMATIC AND SEVERE DROP IN OUR ABILITY TO COMPETE PROFITABLY BOTH AT HOME AND ABROAD.

WE ARE NOT ALONE IN THIS - ANNUAL REPORTS INCLUDING OUR OWN ARE LITTERED WITH REFERENCES TO THE EFFECT THAT THE CONTINUING STRENGTH OF THE £ IS HAVING ON ALL SECTIONS OF BRITISH INDUSTRY.

BUT PEOPLE CANNOT AFFORD TO BE BORED BY THESE COMMENTS, BECAUSE EVERYONE IN THIS COUNTRY SHOULD HAVE A CLEAR PICTURE OF WHAT THE COMBINATION OF HIGH INTEREST RATES, A HIGH £ AND HIGH INTERNAL INFLATION DOES TO OUR ECONOMY. IN SHORT IT MEANS MORE IMPORTS.

UK MARKET GOOD FOR ALL EXCEPT THE BRITISH!

IT MEANS THAT AT THIS MOMENT THE UK IS PROBABLY THE MOST PROFITABLE MARKET IN THE WORLD IN WHICH TO SELL VEHICLES - THAT IS IF YOU ARE MAKING YOUR PRODUCTS ANYWHERE ELSE AND SHIPPING THEM OVER HERE! (ESPECIALLY IF YOUR HOME CURRENCY IS A HEAVILY DEVALUED YEN!)

FOR THE UK CAR AND TRUCK MANUFACTURER - (AND MAY I REMIND YOU BL IS THE LAST MAJOR INDIGENOUS ONE LEFT) - THE SITUATION IS EXTREMELY SERIOUS.

AN IMPORTER'S BONANZA

THE PROFIT MARGINS FOR IMPORTERS INTO THIS COUNTRY ARE EXTREMELY ATTRACTIVE. COUPLE THIS WITH A WORLD-WIDE MOTOR INDUSTRY RECESSION WITH THE UK MARKET BEING THE LAST TO REFLECT THE GENERAL DECLINE AND IT IS LITTLE WONDER NATIONAL NEWSPAPERS HAVE PAGE AFTER PAGE OF ADVERTS FOR FOREIGN VEHICLES!

IN THE PAST YEAR, TAKING INTO ACCOUNT EXCHANGE RATE MOVEMENTS AND RELATIVE INFLATION, WE CALCULATE THAT THE PROFIT MARGINS OF SELLING IN THE UK HAVE:

- . DOUBLED FOR FRENCH & GERMAN MANUFACTURERS

- . QUADRUPLED FOR THE JAPANESE

THE SIGNS ARE THAT LAST YEAR'S BOOM IN THE UK MARKET HAS DAMPENED DOWN AND MONTHLY SALES ARE LIKELY TO BE SEVERELY DEPRESSED FOR THE REST OF THE YEAR. (APRIL CAR MARKET ONLY 115,000 COMPARED WITH 162,000 IN APRIL LAST YEAR).

SO BL FACES A PERIOD OF INTENSE COMPETITION AT HOME.

EFFECT ON EXPORTS

ABROAD THE SITUATION IS AS EVERY BIT AS SERIOUS. TO REMAIN COMPETITIVE WE MUST ABSORB THE PENALTIES OF THE STRONG UK INFLATION AND RISING COSTS AND OVERHEADS TO PRICE OUR VEHICLES IN LINE WITH OUR COMPETITORS.

THIS MEANS THAT IN SOME MARKETS OUR MARGINS HAVE NOW BEEN REDUCED TO THE POINT WHERE THERE IS NO PROFIT AND WE ARE BARELY COVERING OVERHEADS. AND IT IS NOT AN EASY MATTER TO DECIDE WHETHER WE SHOULD VIEW THE CURRENT TERMS OF TRADE AS A TEMPORARY PHENOMENON AND JUST SOLDIER ON IN UNPROFITABLE MARKETS OR WITH UNPROFITABLE PRODUCTS UNTIL THE SITUATION CHANGES. WE CANNOT IGNORE THE FACT THAT WE ARE ONE OF BRITAIN'S LARGEST EXPORTERS.

THE STRENGTH OF THE £ WAS A MAJOR CONTRIBUTING FACTOR TO THE £122 MILLION LOSS WE INCURRED LAST YEAR AND WHICHEVER ECONOMIC FORECAST YOU TURN TO PAINTS A BLEAK PICTURE FOR THE NEXT TWO YEARS.

INTERNAL PROGRESS

DESPITE THIS SOMBRE EXTERNAL PICTURE THERE HAS BEEN ENCOURAGING AND POSITIVE PROGRESS WITHIN BL DURING 1979.

WE HAVE MUCH TO DO AND IN MANY AREAS WE HAVE HAD LESS SUCCESS THAN WE WOULD LIKE. NEVERTHELESS, BL HAS MADE PROGRESS IN PUTTING ITSELF IN ORDER.

LET ME TOUCH ON SIX AREAS WHERE SOME SUCCESS HAS BEEN ACHIEVED:

1. INDUSTRIAL RELATIONS

- RECOVERY PLAN BALLOT - 87% EMPLOYEE SUPPORT
- 5% WAGE DEAL & WORKING PRACTICES REFORMS FINALLY AGREED LAST MONTH AFTER 6 MONTHS NEGOTIATION FOR MOST BL CARS EMPLOYEES-WITH 10% FOR SKILLED PEOPLE.
- MAN HOURS LOST DUE TO INTERNAL DISPUTES DROPPED BY 52% FOR 1979 AGAINST 1978. IN THE FIRST QUARTER OF 1980 MAN HOURS LOST THROUGH INTERNAL DISPUTES WERE DOWN BY AROUND 30% ON THE FIRST QUARTER OF 1979.

2. RESTRUCTURING

- DEMANNED BY 18,500 JOBS.
- CLOSURES - DURING THE YEAR THE SOUTHALL AND PARK ROYAL PLANTS WERE CLOSED. STREAMLINING OF CAR OPERATIONS ACCELERATED CANLEY AND CASTLE BROMWICH RUN-DOWNS ON SCHEDULE. (WE ARE HOPEFUL THAT THE BROAD AGREEMENT REACHED ON MG WILL BE IMPLEMENTED.)
- RATIONALISATION OF MANUFACTURE - ROVER BODY MANUFACTURER TRANSFERRED TO COWLEY IN 15 WORKING DAYS.

TRIUMPH TR7 PRODUCTION TRANSFER TO SOLIHULL 3 MONTHS AHEAD OF TARGET.

(EXAMPLES LIKE THESE SHOW THAT BL'S MANAGEMENT TEAM CAN BE VERY EFFECTIVE WHEN IT HAS THE OPPORTUNITY OF GETTING ON WITH THE JOB OF MANAGING THE BUSINESS.)

- . NEW FACILITIES - METRO AT LONGBRIDGE, TRUCK ASSEMBLY HALL, LEYLAND, PROVING GROUND FOR BL TECHNOLOGY ALL COMMISSIONED. THE TECHNOLOGY NOW EVIDENT IN NEW BL FACILITIES IS UP TO BEST WORLD STANDARDS.

3. NEW MODEL INTRODUCTIONS

- . NEW ROADTRAIN, LANDTRAIN TRUCKS LAUNCHED.
- . REVISED MODELS OF JAGUAR/DAIMLER RANGE, MINI, ALLEGRO, ROVER, CONVERTIBLE TRZ, AND LAND ROVER V-8 INTRODUCED.
- . NEW MORRIS TO BE LAUNCHED IN JULY TO REPLACE MARINA.
- . MINI METRO ON SCHEDULE FOR OCTOBER LAUNCH.

THESE NEW MODELS ARE THE RESULT OF THE REVISED PRODUCT AND FACILITIES PROGRAMMES THAT WERE AGREED IN JANUARY 1978 - JUST OVER 2 YEARS OF WORK WHICH BY MOTOR INDUSTRY TIME SCALES IS VERY FAST WORK INDEED! (THE MINI METRO AND LEYLAND ASSEMBLY PROJECTS HAVE BEEN COMPLETED IN RECORD TIME.)

4. COLLABORATION

- . THE HONDA PROJECT WAS SIGNED AT CHRISTMAS AND WORK IS ALREADY ADVANCED TO INSTALL NEW BODY MANUFACTURING AND ASSEMBLY FACILITIES AT COWLEY.
- . BL HAS SIGNED THE JOINT RESEARCH COUNCIL AGREEMENT WITH OTHER MAJOR EUROPEAN MANUFACTURERS TO COLLABORATE ON ADVANCED TECHNOLOGY AND TO POOL RESEARCH RESOURCES ON A NUMBER OF COMMON PROJECTS.
- . LEYLAND VEHICLES COMPLETED A LICENSING AGREEMENT WITH ZF THE WEST GERMAN TRANSMISSION MANUFACTURERS TO PRODUCE A GEARBOX FOR OUR LIGHT/MEDIUM TRUCKS.

OTHER COLLABORATIVE VENTURES ARE BEING ACTIVELY PURSUED. IT IS THE COMPANY'S FIRM BELIEF THAT CO-OPERATION AND COLLABORATION WITH OTHER MANUFACTURERS WILL BE AN ESSENTIAL ELEMENT IN BL'S RECOVERY, PARTICULARLY BECAUSE OF BL'S SIZE IN RELATION TO OUR MAJOR COMPETITORS.

5. HOLDING MARKET SHARE

WITH CONFIDENCE IMPROVING STEADILY PLUS OUR BUY BRITISH CAMPAIGN, WE ARE HOLDING MARKET SHARE, AFTER A SERIOUS DECLINE OVER TWO YEARS. IN MARCH AND APRIL WE AVERAGED 21% FOR CARS, AND WE WILL CONTINUE TO TRADE AGGRESSIVELY THROUGHOUT THIS YEAR (MAXI AND MARINA PRICE REDUCTIONS WERE A MAJOR MARKETING SUCCESS) TO HOLD OUR SHARE FOR THE MORRIS AND METRO LAUNCHES.

ON THE SUBJECT OF MARKETING

WE WERE ASKED AT LAST YEAR'S AGM WHETHER SHAREHOLDERS COULD RECEIVE A DISCOUNT ON THE METRO. I SAID AT THE TIME THAT THIS QUESTION WAS BEING RE-OPENED AND THAT WE WOULD BE LOOKING AT THE GENERAL QUESTION OF HOW SHAREHOLDERS COULD BE ENCOURAGED TO PURCHASE BL'S PRODUCTS.

NOW I KNOW THAT MANY OF OUR SHAREHOLDERS DO, WITHOUT ANY FURTHER INCENTIVE, SUPPORT THEIR COMPANY BY PURCHASING OUR PRODUCTS. INDEED, THE SAME COULD BE SAID OF PEOPLE THROUGHOUT BRITAIN.

BUT THIS IS NOT UNIVERSALLY TRUE. FOR THIS REASON WE LAUNCHED OUR "BUY BRITISH" PROGRAMME AND AS PART OF THE DEVELOPMENT OF THIS MARKETING PROGRAMME WE ARE NOW ACTIVELY EXPLORING POSSIBLE WAYS OF MEETING THE REQUEST FROM SHAREHOLDERS. I MAKE NO PROMISES BUT I CAN ASSURE YOU THAT WE WILL EXAMINE THE POSSIBILITIES FULLY BEFORE METRO IS LAUNCHED.

6. GOVERNMENT FUNDING

THE CONSERVATIVE GOVERNMENT HAS CONTINUED THE ALL-PARTY SUPPORT AND ENCOURAGEMENT TOWARDS BL WHICH HAS MADE RECOVERY OF THE COMPANY POSSIBLE. (OUR RELATIONSHIP WITH BOTH GOVERNMENTS AND WITH THE NEB HAS BEEN EXTREMELY GOOD. WHETHER THERE WILL BE A CHANGE IN OUR REPORTING RELATIONSHIP IS CLEARLY A MATTER FOR THE GOVERNMENT TO DECIDE, THEY ARE UNDER NO PRESSURE FROM US EITHER WAY.)

IN DECEMBER THE SECRETARY OF STATE ANNOUNCED THAT UP TO £300 MILLION WOULD BE MADE AVAILABLE TO BL DURING 1980/81 WITH FURTHER FUNDS REQUIRED BY THE 1980 CORPORATE PLAN TO BE CONSIDERED IN THE LIGHT OF BL'S PROGRESS THIS YEAR. THE DECISION HAS BEEN MADE BUT WILL BE DEBATED IN THE HOUSE OF COMMONS TOMORROW.

CASH FLOW CONSTRAINT

HOWEVER, THESE FUNDS ARE SUBJECT TO A STRINGENT CONDITION THAT THE COMPANY'S PROGRESS TOWARDS RECOVERY MUST NOT BE HINDERED BY ANY DISPUTE, INTERNAL AND EXTERNAL OR ANY FACTOR WHICH CAUSES A SIGNIFICANT SHORTFALL IN CASH FLOW.

THIS CONDITION WAS SET OUT BY YOUR BOARD IN A LETTER TO THE SECRETARY OF STATE ON 19TH DECEMBER LAST, AND IT IS THE CORNERSTONE OF OUR RECOVERY STRATEGY.

SO FAR THE REALISTIC ATTITUDE THAT HAS PREVAILED AMONG THE VAST MAJORITY OF OUR EMPLOYEES HAS AVERTED THE DANGER THAT THE RECOVERY PROGRAMME WOULD BE ABANDONED.

THE PROGRESS IN THE SIX AREAS I HAVE OUTLINED TO YOU IS VERY ENCOURAGING.

THERE HAS BEEN A SIGNIFICANT TURN-AROUND INSIDE BL IN TERMS OF ATTITUDES AND ACHIEVEMENTS.

UNFORTUNATELY WE CANNOT CONTROL THE EXTERNAL FACTORS WHICH BY AND LARGE ARE ALL UNFAVOURABLE.

IN THESE CIRCUMSTANCES WE SHALL NOT BE ABLE TO JUDGE SUCCESS IN 1980 BY PROFITABILITY. THE CRUCIAL TEST WILL BE WHETHER WE CAN MAKE PROGRESS WITH THE PHYSICAL ACTIONS IN THE PLAN AND AT THE SAME TIME ACHIEVE OUR CASH FLOW TARGETS.

WHAT ARE WE DOING?

BRIEFLY: THE MANAGEMENT TEAM HAS ALREADY TAKEN ACTION TO MINIMISE THESE ADVERSE EFFECTS AND FURTHER ACTION WILL BE TAKEN DURING THE REST OF THE YEAR.

SPECIFIC ACTIONS ARE AS FOLLOWS:

LAY OFFS

IN FEBRUARY AND MARCH WE CUT BACK PRODUCTION OF SOME MODELS TO REDUCE STOCKS. (SOME EUROPEAN COMPANIES HAVE NOW FOLLOWED OUR EXAMPLE. ALL THE USA MANUFACTURERS HAVE DONE SO TOO.) THERE ARE 240,000 AUTO WORKERS LAID OFF IN THE USA TODAY.

RESTRUCTURING

FACILITY CLOSURES AND DEMANNING ARE BEING BROUGHT FORWARD, ALBEIT AT COST TO THE PRESENT.

. CONTAINING COSTS

WAGE SETTLEMENTS BELOW THE UK NORM IN BL COMMERCIAL VEHICLES AND BL CARS WILL HELP TO CONTAIN COSTS/

NEW WORKING METHODS WILL LEAD TO IMPROVEMENTS IN EFFICIENCY AND PRODUCTIVITY.

RATIONALISATION OF FACILITIES WILL GIVE MORE COST EFFECTIVE MANUFACTURE AND REDUCE OVERHEADS.

MUCH TIGHTER INVENTORY CONTROL AND PURGE ON UNEMPLOYED ASSETS.

. AGGRESSIVE MARKETING

- WE WILL CONTINUE TO SELL OUR PRODUCTS AGGRESSIVELY (AS WITH MAXI AND MARINA).

. NEW MODELS

THE NEW MODEL PROGRAMME WILL OBVIOUSLY PUT NEW LIFE INTO THE BUSINESS, CONTINUING IN A COUPLE OF MONTHS WITH THE NEW MORRIS AND THEN METRO IN OCTOBER, FOLLOWING THE HIGHLY SUCCESSFUL LAUNCH OF LANDTRAIN, ROADTRAIN AND TR7 CONVERTIBLE EARLIER THIS YEAR.

COLLABORATION

WE CONTINUE TO MOVE TOWARDS GREATER COLLABORATION AND CO-OPERATION WITH OTHER MANUFACTURERS AS AN ESSENTIAL PART OF THE RECOVERY PROGRAMME.

UNION CO-OPERATION

WE SHALL ALSO CONSOLIDATE AND STRENGTHEN OUR RELATIONSHIP WITH OUR EMPLOYEES AND UNIONS.

IT IS CERTAINLY NOT THE POLICY OF THE COMPANY TO CONFRONT UNIONS OR EMPLOYEES BUT TO USE EVERY METHOD TO PERSUADE AND REACH AGREEMENT TO REBUILD BL.

I HAVE BEEN SAYING FOR SOME TIME - THE MAIN ISSUE OF THE 1980'S IS JOBS. PROFITABLE JOBS

HOW WE MAINTAIN EMPLOYMENT, HOW WE RECREATE A SELF-RESPECTING MOTOR INDUSTRY AND HOW WE MEASURE UP TO INTERNATIONAL COMPETITION ARE MATTERS THAT MUST UNITE, NOT DIVIDE, MANAGEMENT, EMPLOYEES AND UNIONS.

WE MUST SPEND LESS TIME ON POST MORTEMES OF WHETHER 14 MAY WAS A DAY OF ACTION OR INACTION AND MORE TIME BUILDING BRIDGES.

YOU CAN BUILD BRIDGES WITHOUT SACRIFICING PRINCIPLES!
RIGID MILITANT MANAGERS ARE AS MUCH OF A PROBLEM AS
INFLEXIBLE MILITANT SHOP STEWARDS.

BL'S MAIN HOPE FOR 1980 IS THAT WE CAN BROADEN THE
RECENT AGREEMENTS AND UNDERSTANDINGS BETWEEN MANAGEMENT
AND UNIONS INTO A POSITIVE STRATEGY FOR CO-OPERATION
AND UNITED EFFORT AND FINISH WITH CONFRONTATION
ONCE AND FOR ALL.

SUPPLIERS COMPETITIVENESS

TURNING NOW TO OUTSIDE BL WE SHALL BE LOOKING FOR WAYS
OF IMPROVING COMPETITIVENESS.

WE SHALL EXPECT OUR SUPPLIERS, FOR INSTANCE, NOT TO
PASS ON INFLATIONARY PRICE RISES THAT RESULT FROM HIGH
WAGE SETTLEMENTS. WE WILL PREFER BRITISH PRODUCTS,
BUT WE WILL NOT BUY THEM WHEN THEY ARE CLEARLY
UNCOMPETITIVE. TO DO SO WOULD BE GROSSLY UNFAIR TO ALL
OUR OWN EMPLOYEES WHO HAVE HAD THE REALISM TO SETTLE
MODESTLY. THEY WOULD BE ENTITLED TO FEEL AGGRIEVED
IF THEIR OWN COMPANY PAID THE PRICE OF THE INFLATIONARY
TENDENCIES OF OTHERS.

WORLD-WIDE RECESSION

THE STEPS WE ARE TAKING ARE INTENDED TO COPE WITH THE
PECULIAR DIFFICULTIES OF OPERATING IN AND OUT OF BRITAIN -
IN A WORLD RECESSION. AT THIS MOMENT WE ESTIMATE THAT
AROUND A THIRD OF A MILLION CAR WORKERS AROUND THE WORLD
ARE EITHER ON SHORT-TIME OR LAID OFF.

IN THE MAJOR INDIGENOUS EUROPEAN INDUSTRIES THERE ARE PRODUCTION CUT-BACKS, SUBSTANTIALLY REDUCED PROFITS AND IN SOME CASES LOSSES.

THE ONLY EXCEPTION TO THIS PATTERN IS JAPAN WHERE 1979 EXPORTS ROSE BY 7% AND THIS YEAR THE JAPANESE WILL PROBABLY PRODUCE MORE VEHICLES THAN THE UNITED STATES.

JAPAN IS EXPORTING ITS PROBLEMS AND UNEMPLOYMENT ALONG WITH ITS CARS, AND IT IS A MOOT POINT HOW LONG THE WEST WILL ACCEPT THE RESULTING IMBALANCE OF TRADE.

ALL THIS ADDS UP TO A CONTEST OF SURVIVAL ON A WORLD-WIDE SCALE. FOR BL TO COME THROUGH WILL REQUIRE EVERY OUNCE OF SUPPORT AND CO-OPERATION THAT GOVERNMENT, UNIONS, EMPLOYEES, SUPPLIERS, DEALERS AND THE BRITISH PUBLIC CAN GIVE.

GIVEN THAT SUPPORT AND THE MEASURES THE COMPANY IS TAKING, I BELIEVE BL WILL HAVE THE RIGHT STRUCTURE, THE RIGHT ATTITUDE AND, ABOVE ALL, THE RIGHT MODELS TO CARRY THROUGH ITS RECOVERY PROGRAMME.

MANY OF OUR PROBLEMS HAVE BEEN OF OUR OWN MAKING.
WE ARE BEAVERING AWAY AT THESE - LET US HOPE THE
ECONOMIC ENVIRONMENT DOESN'T UNDO ALL THE EFFORTS BEING
PUT IN TO SAVE BL.

FURTHER LOSSES IN 1980

I MUST TELL YOU THAT EXTERNAL FACTORS ALONE WILL MEAN THAT BL
WILL SUSTAIN FURTHER LOSSES THIS YEAR. THE EXTENT TO WHICH
WE WILL BE ABLE TO OFFSET THEM WILL BE DETERMINED BY HOW
SUCCESSFUL WE ARE IN MAINTAINING THE MOMENTUM OF PROGRESS
WITHIN BL.

RIGHT NOW OUR TOP PRIORITY IS TO CONTROL OUR CASH TO ENSURE WE
GET TO THE METRO LAUNCH IN OCTOBER IN ONE PIECE! I MUST
EMPHASISE AGAIN - CASH FLOW WILL BE THE CRUCIAL TEST OF
PERFORMANCE IN 1980.

THANK YOU FOR COMING TODAY.

14

SECRET



CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

2
1975

Qa 05021

13 May 1980

Dear John,

British Leyland

Mr Ibbs has seen a copy of your letter of 9 May to Tim Lankester and has asked me to say he believes the minor drafting points to widen the terms of reference, proposed by the Chancellor, are desirable.

I am sending a copy of this letter to Tim Lankester, Ian Ellison, David Wright and John Hoskyns.

Yours.

G B Spence

A J Wiggins Esq
PS/Chancellor of the Exchequer
HM TREASURY
S W 1

SECRET

Am Michael - to see
p.a
R.



10 DOWNING STREET

PRIME MINISTER

This is a letter from Michael Edwardes asking you to take into account BL's position in reaching a decision on trade sanctions with Iran. Although they have some continuing business which will not be affected by the legislation, it does appear that BL will lose some substantial business as a result of sanctions - for example a £40 million contract for buses. You will want to reply, and I will get a draft.

Harley-
M.

R.

8 May 1980



UFO
B/F 16-5-80

10 DOWNING STREET

From the Private Secretary

8 May 1980

I would be grateful for a draft reply to the enclosed letter which the Prime Minister has received from Sir Michael Edwardes about trade sanctions against Iran. Please could I have the draft by Friday 16 May at the latest?

I am sending a copy of this letter and its enclosure to Stuart Hampson (Department of Trade) and to Paul Lever (Foreign and Commonwealth Office).

T. P. LANKESTER

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

PH.



WFO

10 DOWNING STREET

From the Private Secretary

8 May 1980

In the absence of the Prime Minister, who is at present in Belgrade, I am writing to thank you for your letter of 7 May. I will lay your letter before the Prime Minister on her return and she will write to you as soon as possible.

J. P. LANKESTER

Sir Michael Edwardes.

EW

SECRET



13

Final Book

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

9th May 1980

T.P. Lankester Esq.
10 Downing Street
LONDON
SW1

MBOM

18/5

Dear Tim,

The Chancellor was encouraged to learn from Ian Ellison's letter to you of 7 May that Sir Michael Edwardes had agreed to co-operate with a special Government consultant, and that Mr John Grenside of Peat, Marwick, Mitchell and Co had been appointed to take on this work. I believe Martin Hall has let you know that the Chancellor was content with the proposed terms of reference for this appointment, but expressed the hope that Mr Grenside might be asked to report by mid-July.

The Secretary of State for Industry's minute of 30 April to the Prime Minister referred to new terms of reference which might be given to the BL Board in the event of the Plan being withdrawn. We have no quarrel with these in any substantive way, but there are one or two minor drafting points we would prefer to see incorporated. These are designed to widen the context of the terms of reference, and they also have the advantage that they avoid naming individual departments.

There would be no need then to define roles for the Department of Industry and the Treasury in the exercise. Our preferred version is attached to this letter.

Regarding the Corporate Plan and its future, the Prime Minister may be interested to know that BL economists have now discussed background assumptions with Treasury and Department of Industry officials. It seems that the meeting was quite useful and that there was not a great

/deal of

SECRET

S E C R E T



deal of difference between the assumptions proposed by BL and the Treasury forecast published at the time of the Budget. BL's major concern is the future course of the exchange rate. Generally, Treasury officials take the view that BL assumptions on this matter combine prudence with realism.

I am copying this to Ian Ellison, David Wright, Robin Ibbs and John Hoskyns.

Yours

John

A.J. WIGGINS
Private Secretary

S E C R E T

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1712 MAY 1980

In the light of the decision to withdraw the 1980 Corporate Plan:

direct BL's affairs in such a way as to minimise: the public expenditure costs (whether borne through BL or directly by the Government); and the wider economic effects including the effect on other UK industrial activities.

To this end the Board will maintain close liaison with the Government over the formulation and implementation of their plans for the closure and/or disposal of BL business.

please attach to

John Wiggins

letter to Tim

Lanweston dated

5th May 1980 concerning

British Leyland

12 MAY 1980



TELEPHONE
01-486 6000

35-38 PORTMAN SQUARE

LONDON W1H 0BN

cc [unclear]

FROM SIR MICHAEL EDWARDES

7 May 1980

The Rt Hon Mrs Margaret Thatcher, MP
10 Downing Street
London SW1

Dear Prime Minister,

IRAN - POSSIBLE TRADE SANCTIONS

Although BL's major involvement in Iran has already been registered with the Departments of Industry and Trade, I am taking the liberty of writing to you direct to emphasise our concern about the impact of possible sanctions, since the ultimate decision is bound to involve striking a balance between foreign policy and domestic policy considerations.

Our continuing business with Iran - involving the supply of Land Rover kits and truck and bus chassis to two local assembly plants, plus substantial sales of spare parts - will be worth some £2 million per month this year. In addition, there are substantial bus orders in prospect, including one for 1000 single-deck buses worth £40 million, and we need to build up Land Rover business in Iran as our expansion programme begins to take full effect from 1981 onwards.

You will realise that, as we struggle to overcome the impact of a strong pound and high domestic inflation on our competitiveness, BL cannot afford to pass up any opportunities of profitable business. As one of the UK's leading worldwide exporters, we are also concerned about the impact on our standing in other markets if we are seen to break contractual or long-established supply commitments. With so much taxpayers' money invested in BL, we would hope that Government policies in related fields will not conflict with the objective of that investment, which is presumably to give us the best possible chance to succeed.

The Rt Hon Mrs Margaret Thatcher, MP

7 May 1980

Past experience of sanctions and of other types of international agreement has shown that the UK adheres to such arrangements more rigidly than do our main overseas competitors. In the case of Iran, enforcement would be particularly difficult, and we know that certain competitors are already well placed to evade sanctions, for example through their operations in Turkey.

Even if sanctions were enforced with equal strictness by all industrialised countries, I doubt whether any of them would enter into this arrangement with such a vulnerable industrial base as that of the UK. If there is any question of our helping our allies with North Sea oil to overcome the effect of sanctions, I wonder whether they in turn would support our motor industry or other UK manufacturing industries which were hard hit by loss of exports. Or would they simply rejoice that sanctions against Iran had helped to tip another competitor over the edge?

I am sure that you already have all these points on board, and I recognise the need to show support for our American allies in their difficulties. But I am equally sure that I am not alone in British industry in hoping that we can make progress with Iran by building on the excellent outcome of the London siege, rather than entering into a trade sanctions operation which seems most unlikely to succeed and where failure will be felt most keenly in the area where we can least afford it - in the jobs at present provided by UK exporters such as BL.

I am sending copies of this letter to Keith Joseph and John Nott.

Yours sincerely,
Michael Swann

7 May 1980

MR LANKESTER

Ind PR

TERMS OF REFERENCE FOR GOVERNMENT ADVISER ON BL

1. Sir Keith's minute to the Prime Minister of 15 April said:

"I am attracted by the suggestion in Sir Robert Armstrong's minute of 28 March that the Government should approach someone like Sir Henry Benson for advice on whether there was any additional precautionary action which could and should be taken. I should still consider it essential to tell Sir Michael that we were going to do this, but if expressed in this way, and not related specifically to disposal (partial or complete) I think he might be persuaded to accept it."

2. Sir Keith's ideas have obviously moved on a little since he wrote this. But the essential purpose of getting Mr Grenside as an adviser still seems to be to see whether there is any "precautionary planning or action to be undertaken at this stage".

3. If we are asking such an open-ended question, it seems important to me that the terms of reference should not restrict the thinking process in any way. I am a little concerned that the last paragraph of the proposed terms of reference might do this. It is perfectly reasonable to stipulate that the impression must not be given that the Government has abandoned hope of the Plan succeeding.

4. What is less reasonable is that nothing should be done which would lessen the prospects of successful implementation of the present Plan. It seems quite possible that the adviser might come up with an idea which could involve a trade-off between the likelihood of the present Plan succeeding and taking out insurance against the possibility of it not doing so. In a sense, any action will do this by diverting either financial resources or scarce management time to even considering what might happen. Of course, if there was a major conflict between making the present Plan succeed and taking precautionary action now, this would require very serious consideration - by the BL Board and Ministers. But we would be wrong to tell the advisers in advance that they must not even think along these lines.

5. I therefore suggest that we could delete the phrase "lessen the prospects of successful implementation of the Corporate Plan, or . . ."

6. However, I have no doubt this last paragraph has been put there to keep BL happy. If the advisers do not themselves feel constrained by this sentence, then it may not matter. At the very least we should ask whether they are happy with it. Ideally it should be deleted. A second best would be to express it slightly less categorically.



ANDREW DUGUID

SECRET

128



TOTAL COPIES 3
COPY No. 1

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

7 May 1980

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

MSM

accepted

*delete it
some brackets
please*

Dear Tim

additional

As foreshadowed in his minute to the Prime Minister of 30 April, my Secretary of State has invited John Grenside of Peat, Marwick & Mitchell to advise the Government in strict confidence about whether there is any/contingency action which should be taken against the possible withdrawal of the BL plan.

*12
7/5*

Mr Grenside has accepted the invitation. He proposes to involve one of his senior partners, Mr George Dunkerley, partly because he himself has to be abroad a certain amount in the coming weeks, and also because he thinks that "two heads are better than one". Mr Dunkerley is not associated with the liquidation side of Peat's business. Apart from Mr Grenside and Mr Dunkerley, no one at Peat's will be involved. Sir Michael Edwardes has no objection to Mr Dunkerley being associated with the task and my Secretary of State has therefore agreed.

Mr Grenside has asked to be given written terms of reference and I attach a note which my Secretary of State proposes to give him. He is to have a first discussion tomorrow, 8 May, with BL and the terms of reference will need to be handed over before close of play today. I should therefore be grateful if you and the other recipients would let me know by 4 pm whether they have any comments on the terms of reference.

Copies of this letter go to Martin Hall (Treasury), Robin Ibbs (CPRS) and John Hoskyns.

Yours are

Ian Ellison

I K C ELLISON
Private Secretary

SECRET



SECRET

SECRET

PROPOSED TERMS OF REFERENCE FOR GOVERNMENT ADVISER ON BL

To consider and advise the Government (as holder of more than 99% of the BL equity) whether further precautionary planning or action could usefully, or should, be undertaken at this stage, in order:-

- (i) to put the Government in a better position to respond rapidly if the BL Board should decide that a situation had been reached, when, in the context of the Chairman's letter of 19th December 1979 (copy attached), it would be necessary shortly to withdraw the 1980 Corporate Plan;
- (ii) that in this event, the resulting rundown of the company could be managed in such a way as to minimize the consequences for public expenditure and for the UK economy generally.

} It is essential that nothing should be done which would lessen the prospects of successful implementation of the Corporate Plan or give the impression within BL or elsewhere that the Government had abandoned hope of the Plan succeeding.

SECRET

1-7 MAY 1980



MR LANKESTER

BL

1. Sir Keith's minute of 30 April seems to be suggesting that the question of a meeting between the Prime Minister and Sir Michael Edwardes need not be further considered until the BL Board provides an "interim view" of BL's prospects - after their meeting of 14 May.

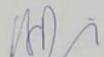
2. Just before the Prime Minister's last meeting on BL, John Hoskyns suggested that the Prime Minister should meet Edwardes as soon as possible - though not, of course, until the immediate crisis brought about by strike action was resolved. One of the main purposes of this meeting would be to explore with Edwardes his attitude to the option of seeking to sell BL before things deteriorated so much that withdrawal of the Plan became inevitable. As matters stands, this option seems only to be considered by DoI and BL as a response to withdrawal of the Plan. Of course it would be very difficult to take any initiative if Sir Michael opposed it, but a proper discussion of the option with him would be worthwhile.

3. If the Prime Minister still sees value in a discussion of this kind, it would be best for this to take place before the next crisis intervenes to prevent it.

Prime Minute

Sir Keith's meeting with Michael Edwardes seems to have gone quite well. But I agree with Andrew that it would still be worthwhile to meet him soon, as was provisionally agreed at ~~the~~ last Ministerial meeting.

Shall we set this up (to include to Chamukha, Mr Price as well as Sir Keith)? JL 1/5



ANDREW DUGUID

Just

G.H. K.S.

over
note

Duguid 2/15



*4/ Mr Douglas
Mr Wapson*

TOTAL COPIES ... 12

COPY No. ...

PRIME MINISTER

BL MEETING: MEETING WITH SIR MICHAEL EDWARDES

At our meeting on BL on 17 April, it was agreed that when I met Sir Michael Edwardes I would discuss with him BL's ability to fulfil their planned objectives, in the light of his letters of 18 and 28 March. It was also agreed that I should discuss with him the possibility of the Government consulting a leading expert about whether there was anything more we should be doing now by way of contingency planning against a possible withdrawal of the BL Plan. I am now writing to report the outcome.

Sir Michael Edwardes stressed the substantial achievement with the BL workforce over the acceptance of the wages package, which I fully acknowledged. He told me that his letters had been mainly concerned to state BL's position as far as cash requirements for the current year were concerned. BL had still to re-assess longer term prospects and could make no categorical statements about longer term viability until the 1981 Corporate Plan was drawn up later this year. Whilst the cash situation would be very tight in 1980/81 BL's assessment remained that they could stay within the limits without prejudicing the essentials of the plan. Sir Michael added that the company were taking energetic steps to reduce costs, and in one case (the accelerated closure of the Triumph works at Canley) had brought forward expenditure into the current year which would save money in future years at a higher cost in the present one. He assured me that they would take similar action whenever opportunity offered. He also pointed out that as a matter of normal business practice the Corporate Plan was subject to modification in the light of changing



circumstances (though without prejudice to the main strategy).

He told me again that BL's assessment of their ability to achieve the objective of long term viability within funding provisions foreseen in the 1980 Corporate Plan depended heavily on the Government's success with its economic strategy particularly as regards inflation. The BL Board will be considering this further at their meeting on 14 May and Sir Michael will then let me know their interim view of the prospects. In the meantime arrangements have been made for BL to discuss with the Treasury the economic assumptions to be used in the review of the Corporate Plan. When I have received his letter we shall be able to consider whether any further initiative is called for on the lines we discussed on 17 April.

I explored with Sir Michael the question of bringing in a special Government adviser on a confidential basis; and in doing so I was guided by Robin Ibbs helpful minute of 17 April. I told him that we had it in mind to consult such an adviser on the precautions which the Government, as owners, ought to be taking now to minimise the damage, if the worst happened, so that we should have the best chance of being able to rescue as much as possible of BL and of the surrounding economic fabric. I stressed that the adviser would act in strict confidence and his appointment would be kept secret; the adviser would make contact with BL only through the Chairman himself. I mentioned the names of John Grenside, senior partner in Peat, Marwick, Mitchell & Co., Peter Godfrey, deputy senior partner in Ernst and Whinney, and Ian Hay Davison, managing partner in Arthur Andersen & Co., as possible candidates whom the Chancellor and I had considered. He reacted positively to my suggestion, and after consulting members of his Board informally, has now told me that they have no special



preference amongst these three. So I propose to approach John Grenside about the possibility of his taking this assignment.

I stressed to Sir Michael Edwardes the importance of continuing to press on with contingency planning against the possibility that the Plan might have to be withdrawn. I said that if the Plan were withdrawn I envisaged giving to the Board new terms of reference (which I of course said I had yet to discuss with other colleagues concerned) on the lines of:

"In the light of their decision to withdraw the 1980 Corporate Plan:

to direct BL's affairs in such a way as to minimise the consequential adverse effects on public funding (whether through BL or directly by Government Departments) and on other UK industrial activities;

to maintain close liaison with the Department of Industry (and the Treasury) over the formulation of plans for disposal of the BL business and of their implementation."

Sir Michael's immediate response was to welcome this approach.

I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Employment, Robin Ibbs, John Hoskyns and to

/Sir...

SECRET



4

Sir Robert Armstrong.

KJ

Department of Industry
Ashdown House
123 Victoria Street

K J
30 April 1980

SECRET

30 APR 1980





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*

23 April 1980

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

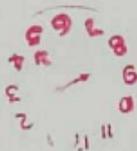
Dear Nick

BL

I wrote to you on 17 April attaching reports and accounts for BL over the past five years.

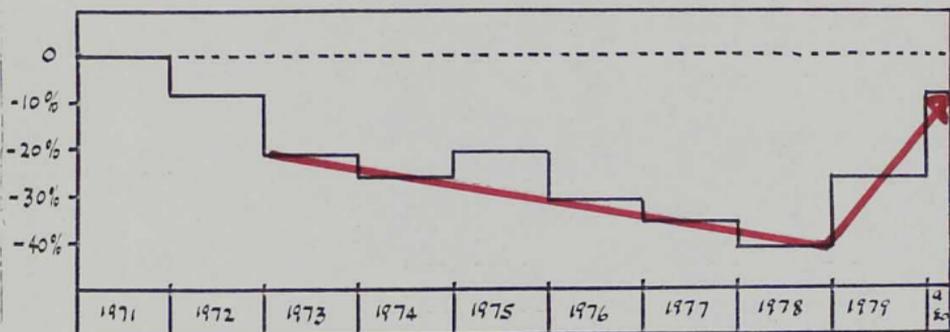
... I now enclose BL's report and accounts for 1979 published on 22 April.

Yours sincerely
Catherine Bell
CATHERINE BELL
Private Secretary



24 APR 1980

UK PRICE LEVELS VS JAPANESE PRICE LEVELS
 (EFFECT OF CONSUMER PRICE RELATIVITIES + EXCHANGE RATES)
 - % = UK PRICES LOWER CUMULATIVELY 1970-79



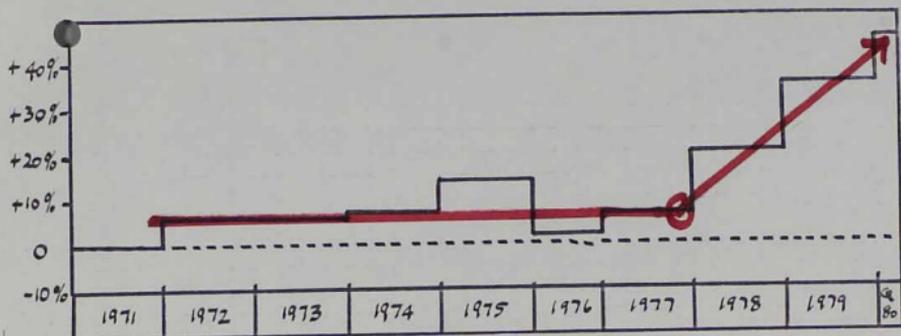
AVERAGE ACTUAL EXCHANGE RATES YEN = £1

853.6	770.6	678.4	677.1	659.4	535.8	468.4	404.4	465.5
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CONSUMER PRICE INDICES 1975 = 100

UK	60.0	64.1	69.4	80.5	100.0	115.8	134.3	146.4	165.9
Japan	62.0	65.1	72.6	89.5	100.0	109.4	118.3	123.3	127.9

UK PRICE LEVELS VS USA PRICE LEVELS
(EFFECT OF CONSUMER PRICE RELATIVITIES + EXCHANGE RATES)
+% = UK PRICES HIGHER CUMULATIVELY 1970-1979



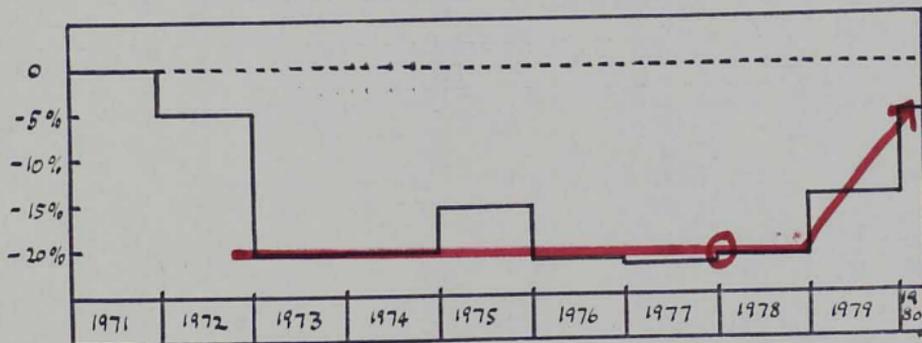
ACTUAL AVERAGE EXCHANGE RATES £/\$ & £/DM

1971	1972	1973	1974	1975	1976	1977	1978	1979	
2.434	2.502	2.433	2.355	2.212	1.805	1.745	1.921	2.122	

CONSUMER PRICE INDICES 1975=100

UK	60.0	64.1	69.4	80.5	100.0	115.8	134.3	146.4	165.9	
USA	75.3	77.7	82.5	91.6	100.0	105.8	112.6	121.2	135.0	

UK PRICE LEVELS VS GERMAN PRICE LEVELS
(EFFECT OF CONSUMER PRICE RELATIVITIES + EXCHANGE RATES)
-% = UK PRICES LOWER CUMULATIVELY 1970-79



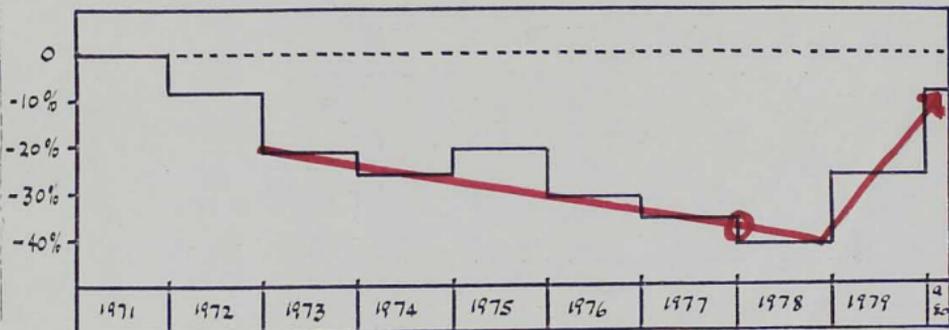
AVERAGE ACTUAL EXCHANGE RATES DM = £1

1971	1972	1973	1974	1975	1976	1977	1978	1979	
8.498	7.979	6.429	6.028	5.498	4.562	4.051	3.852	3.887	

CONSUMER PRICE INDICES 1975 = 100

UK	60.0	64.1	69.4	80.5	100.0	115.8	134.3	146.4	165.9	
Gy	78.2	82.5	88.2	94.4	100.0	104.5	108.4	111.3	115.9	

UK PRICE LEVELS VS JAPANESE PRICE LEVELS
 (EFFECT OF CONSUMER PRICE RELATIVITIES + EXCHANGE RATES)
 -0% = UK PRICES LOWER UNMULATIVELY 1970-79



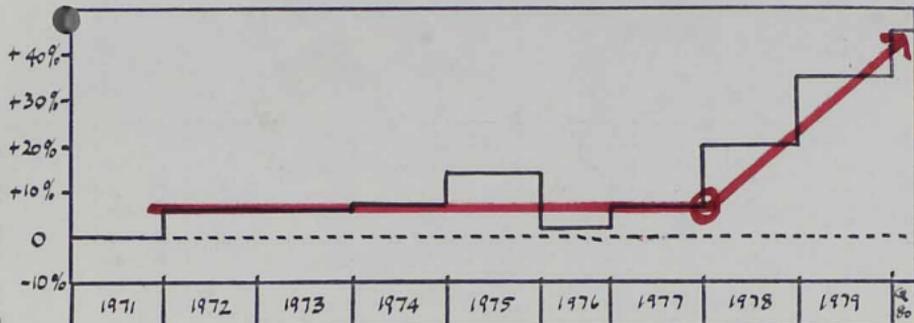
AVERAGE ACTUAL EXCHANGE RATES YEN = £1

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UK PRICE LEVELS VS USA PRICE LEVELS
 (EFFECT OF CONSUMER PRICE RELATIVITIES + EXCHANGE RATES)
 +9% = UK PRICES HIGHER CUMULATIVELY 1970-1979



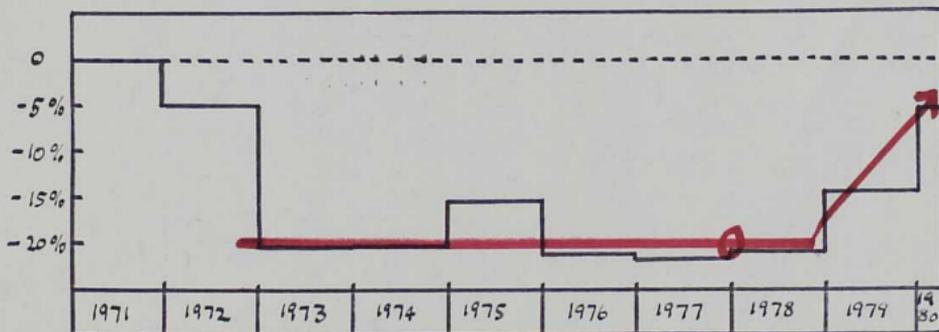
ACTUAL AVERAGE EXCHANGE RATES 05 \$ £ 1

1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
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CONSUMER PRICE INDICES 1975 = 100

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USA	75.3	77.7	82.5	91.6	100.0	105.8	112.6	121.2	135.0

UK PRICE LEVELS VS GERMAN PRICE LEVELS
 (EFFECT OF CONSUMER PRICE RELATIVITIES + EXCHANGE RATES)
 -9% = UK PRICES LOWER CUMULATIVELY 1970-79



AVERAGE ACTUAL EXCHANGE RATES DM = £1

1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
8.498	7.979	6.429	6.028	5.498	4.562	4.051	3.852	3.887	

CONSUMER PRICE INDICES 1975 = 100

UK	60.0	64.1	69.4	80.5	100.0	115.8	134.3	146.4	165.9
Gry	78.2	82.5	88.2	94.4	100.0	104.5	108.4	111.3	115.9

A1: ORGANIC SUB-DIVISIONS OF BL'S BUSINESS

- Group 1
(Austin Morris Ltd.) Front-wheel drive cars, with 2/3 engines covering 1-2 litre range - primarily Metro and LC10 model families.
- Group 2
(Rover Triumph Cars) Rear-wheel drive cars and sports cars towards upper end of market, with engine sizes ranging from 2-3.5 litres - primarily Rover SD1 and TR7 at present.
- Group 3
(Land Rover Ltd.) Four-wheel drive vehicles - Range Rover and Land Rover.
- Group 4
(Jaguar Daimler) Prestige cars above 3.5 litres - Jaguar/Daimler saloons, XJS, Daimler Limousine.
- Group 5
(Leyland Vehicles Ltd.) Trucks and buses - rationalised LVL range of trucks based on C40 cab used in T45, with bus range based on Leyland National and Titan.
- Group 6
Miscellaneous businesses - some like Unipart and Self-Changing Gears are closely related to mainstream business, but others, such as Coventry Climax, Prestcold and Aveling Barford, are looking for new owners.

A2: AREAS OF PROGRESS TOWARDS RECOVERY

- 1.0 A strong, predominantly non-executive Board has been established.
- 2.0 A strong, united management team is in the saddle and is still being strengthened. 32 out of top 200 senior executives recruited in last 2 years.
- 3.0 The groundwork has now been laid for a significant improvement in productivity from 1981 onwards -
 - 3.1 Industrial relations policies are clear-cut and much more disciplined in application than pre-November 1977. Internal disputes cost 52% less man-hours in 1979 than in 1978, with further 30% fall in first quarter of 1980.
 - 3.2 We have reduced manpower by some 30,000 since end-1977, without major strikes resulting. Demanning will reach 42,000 by the end of 1980.
 - 3.3 We have started the closure programme with some success - Speke 1978, Southall and Park Royal 1979, agreements signed on Canley and Castle Bromwich 1980. In November 1979 ballot on recovery Plan gave 7-1 employee support for this programme.
 - 3.4 We have achieved a pay deal in BL Cars averaging 7½% at a time of nearly 20% inflation, and at the same time cleared the way for implementation of new working practices, which, together with the new incentive scheme and the new manufacturing facilities, are the pre-requisites for competitive levels of productivity.
 - 3.5 In pushing through the new package and in the dismissal of D. Robinson, we have made a significant dent in the power and credibility of militant shop stewards. This will help responsible national union officials as well as management.
 - 3.6 We are ready to launch an impressive Mini Metro in the autumn with body-building facilities that are up to the best European standards.
 - 3.7 T45 (& T43) trucks already launched with best truck manufacturing facilities in Europe.

- 4.0 Commercial, business and product strategies are more clearly defined than ever before. The overall product and facility plans hammered out in January 1978, as revised by the closures agreed upon in August 1979 (after exchange rates had moved adversely) are all on target.

- 5.0 Collaboration -
 - 5.1 BL Cars' deal with Honda and Leyland Vehicles' deal with ZF completed and in operation.
 - 5.2 Two other major deals - one for BL Cars and one for LVL - still to be consummated.

20.5.1980

A3: AREAS OF INADEQUATE ACHIEVEMENT

1. Products are in many cases not competitive in style and quality. Some of our older car products have been more rapidly outpaced by competitors than was hoped and have failed to hold market share. Some of our larger products, such as Rover (though new) have been hit by the energy crisis. Only from 1981 onwards will BL have the opportunity to test its new smaller cars against the competition - Metro, Bounty, Morris Ital.

2. Products are becoming uncompetitive in cost. Inflation and currency differentials have made us much less competitive than average European and Japanese manufacturers at current exchange rates. UK price levels for cars are now 14% higher than Europe on average; importers' margins have doubled in the last year from France and Germany, and quadrupled from Japan; and the combination of relative inflation and exchange rate movements since 1977 has reduced the UK's competitiveness against Japan by 50%, against the US by 40% and against EEC countries by well over 20%.

These factors are common to UK manufacturing industry generally. Ford, etc. have compensated by importing 50% of UK sales, and BL's share of UK car production has stayed broadly constant at over 40% during the last 10 years. (For profile of Ford of Britain's 1979 profits, see paper A.4.)

3. We have difficulty in funding the business. Despite cooperation of workforce, speed of restructuring cannot immediately offset decline in profit and cash flow arising from rapid fall in sales volumes. Immense cost of restructuring (the need for which was not anticipated by Ryder, or indeed by anyone fully until 1979) cannot be financed from BL's own cash flow.

A4: FORD OF BRITAIN'S 1979 PROFIT PERFORMANCE

Ford of Britain produced a spectacular profit performance in 1979. Sales totalled £3193 million, profit after taxes £347 million (10.9% of sales).

This memorandum attempts three tasks:

- (1) to estimate the source of those profits by UK produced and imported vehicles
- (2) to compare Ford of Britain's results with those of the rest of Ford's European operations (as published in the parent company's report and accounts)
- (3) to examine why it would be in the Ford corporate interest to optimise profits earned in Britain - to see if there were any special factors operating in 1979 to encourage Ford of Europe to optimise profits earned in Britain, consistent with its obligations to the other European countries in which it operates.

Source of Profits

Ford produce no data of their source of profits. It is therefore necessary to estimate. This is complicated by the fact that revenues generated by car imports, totalled as much as £650 to £700 million in 1979 - for little investment or operating cost to Ford of Britain, except that required to market them. This was over half the car revenues generated on the UK domestic market and about 20% of all revenues. As UK price levels are higher in the UK than in Continental Europe (reinforced by a strong £) these sales were a very significant source of profits (and substantially tax free). The estimated composition of Ford of Britain's profits is:

Sales of own production	£100 million
Sales of imported vehicles	100
Sales of exported components	29
Sales of parts	100
Interest income	57
Tax	(39)
Net Income	£347 Million

This estimate reflects two benefits, in particular, from Ford of Britain's participation in the larger Ford of Europe.

The first is the benefit to the British company of large economies of scale shared across a European market. The second is the benefit obtained from

Continued

Source of Profits (cont.)

importing an increasingly large number of built up cars from the Continent for sale in the UK. This is a rapidly developing trend as is evidenced in the following table

Year	Total Ford		Imported		Imported
	Registrations (000)	Market Share (Percent)	Registrations (000)	Market Share (Percent)	Content (Percent)
1976	324.4	25.2%	28.6	2.2%	8.8%
1977	340.1	25.7%	86.5	6.5%	25.4%
1978	392.2	24.7%	138.4	8.7%	35.3%
1979	485.6	28.3%	236.8	13.8%	48.8%

Comparison With The Rest of Ford's European Operations

In the parent company's report and accounts, a consolidated statement of Ford of Europe's results is given. The effect of the consolidation is to eliminate intra company sales in Europe, so that they are not directly comparable with Ford of Britain's published sales, which include sales to European affiliates. In order to compare the two it is necessary to deduct from Ford of Britain's sales the estimated value of such intra company sales to permit comparison of profit margins. For the purposes of this study, two levels of intra company sales have been estimated, £500 million and £750 million. This covers the likely range. Taking these estimates into account the following results emerge for 1979

	Sales Revenue	Net Income	Net Income As % Of Sales
<u>Ford of Europe - Total</u>	£5839 million	£572 million	9.8%
<u>Ford of Britain</u>			
(a) As published	£3193 million	£347 million	10.9%
(b) Less £500 m sales	£2693 million	£347 million	12.9%
(c) Less £750 m sales	£2443 million	£347 million	14.2%
<u>Rest of Europe</u>			
Per alternative (b) above	£3146 million	£207 million	6.6%
Per alternative (c) above	£3396 million	£207 million	6.1%

This analysis confirms that in 1979 Ford of Britain earned far more absolute net income than the rest of all of Ford's European operations put together. It is also possible that Ford of Britain's net income margin on sales revenue

Continued

Comparison With The Rest of Ford's European Operations (cont.)

could have been as much as double or more the margin in the rest of Europe. This evidence strongly suggests that the results of the British company were abnormally high in 1979 and were reinforced by the substantial volume of continental imports. Although it is not possible to compare directly the published Ford of Britain and consolidated Ford of Europe results, for the reasons discussed above, it is of interest to compare trends over the past five years which are available.

Year	Total Ford of Europe			Ford of Britain			FOB Share of FOE Net Income
	Sales Revenue (millions)	Net Income (millions)	Net Income As % of Sales	Sales Revenue (millions)	Net Income (millions)	Net Income As % of Sales	
1975	£2202	£38	1.7%	£1146	£ 7	0.6%	18.4%
1976	3570	169	4.7%	1628	59	3.6	34.9
1977	4910	348	7.1%	2253	116	5.1	33.3
1978	4957	303	6.1%	2363	144	6.1	47.5
1979	5839	572	9.8%	3193	347	10.9	60.7

The significant change which occurred in the UK in 1979 does not appear to have been mirrored elsewhere in Ford of Europe's operating results. As the earlier analysis indicates, the rest of Europe appeared to earn around 6.1 to 6.6% on sales, not very dissimilar from the past two years. Ford of Britain, by contrast, made a substantial gain from 6.1 to 10.9% on sales (and to around 13 to 14% margin on a consolidated European basis). The consequence is that Ford of Britain's share of total net income earned in Europe by Ford has gone up from around a third in 1976/77 to 60% in 1979.

The Ford Corporate Interest In Making Profits In the UK

There were several reasons why Ford's financial planning should favour the UK in 1979 as a country to make substantial profits.

- (1) Tax rates are less in the UK, because substantial allowances were available in the capital expenditure programme (up by over 100% to £334 million) and on the stock appreciation (stocks up by 35% to £617 million). The effective tax rate was 10% on profits before tax (and just over 1% of sales revenue). This is almost certainly the lowest tax charge available to Ford throughout Europe, so it made sense to take advantage of it.

Continued

The Ford Corporate Interest In Making Profits In the UK (cont.)

- (2) The UK consistently offered higher interest rates on surplus cash than Germany or the USA, if Ford of Europe had surplus cash. It therefore paid to ensure it turned up in Britain to obtain the benefit of enhanced UK interest rates. This could readily be achieved through the transfer price mechanism because
 - (a) there was a substantial volume of transactions between Britain and the rest of Europe on which substantial margins could be earned
 - (b) price levels in the UK tended to be higher than in Germany and this was reinforced by the strengthening of sterling. If the German company billed in DM then the British company earned effortless exchange gains.

- (3) During 1979 the £ strengthened significantly against the US\$. This meant that when the US parent consolidated the results of its UK operations and translated the result from sterling to dollars it probably recorded a substantial gain in the parent company books.

In summary to a US multinational in 1979 the UK was a hard currency tax haven offering low tax rates and high interest rates on surplus cash. It would be surprising if these benefits escaped the attention of Ford management or that they failed to take full advantage of the opportunities open to them.

20.5.1980

A6: MOTOR INDUSTRY SITUATION REPORTUSA

GENERAL MOTORS

- . 1979 earnings fell by 17% to \$2.89bn with Q4 income at \$426m compared to \$1 bn in Q4 1978.
- . Earnings in Q1 1980 were down to \$155m from \$1260m Q1 1979 and a quarterly loss is forecast for Q2 1980.
- . Q1 1980 dividend has been reduced to 60 cents per share from \$1.15 from Q2 1979 and from \$1 for the previous six quarters.
- . Further lay-offs of 10,000 have just been announced taking the total to 136,000.
- . Unit sales down 27% in April 1980 from April 1979.

FORD

- . US automotive operations probably lost over \$1 bn in 1979.
- . US parent borrowed £229m from profitable UK operation in 1979 and also received £135m in dividend payments.
- . Ford US lost \$473m in Q1 1980 and analysts suggest full year US losses of \$2.2 - \$2.5 bn.
- . Lay-offs were announced in February at Fords' Bordeaux Transmission Plant, primarily because of fall in demand for automatic transmissions from US.
- . Ford has announced a cut of \$2.5 bn from forecast capital spending of \$16 bn by 1984.
- . Ford offering cash rebates of between \$100 and \$500 per model.
- . Unit sales down 41% April 1980 c.f. April 1979.

CHRYSLER

- . US Government has authorised \$1.5 bn loan guarantees to Chrysler and expect the Company to lose \$1.05 bn in 1980 compared to loss of \$1.1 bn in 1979.
- . A loss of \$449m was declared for Q1 1980 (\$600 per vehicle sold).
- . Unit sales down 41% in April 1980 compared to April 1979.

Continued

AMERICAN MOTORS

Earnings fell to \$1.3m in Q1 1980 compared to \$32m in Q4 1979, despite impact of marketing agreement with Renault.

IMPORTS

Maintained a market share of 27% in April but Toyota and Honda sales down 10% and 17% respectively compared to April 1980 as TIV falls.

EUROPE

FIAT

Plans to lay off 78,000 of 114,000 work force for 4 to 7 days in June - July because of declining export demand. But Italian car sales increased to 462 thousand units in Q1 1980 compared to 428 thousand in Q1 1979. Fiat's market share increased from 50% to 52%.

CITROEN

Announced plant closures for five days in May following two day closure in February.

Profits fell by 21% (on comparable basis) in 1979 to 1978 with all the deterioration occurring in second half.

TALBOT

Losses for 1979 (European) in the region of FF 580m.

French registrations dropped 7.5% in 1979 with decline in market share from 10.7% to 9%.

Working hours reduced in first four months of 1980 in addition to full plant closure of 6 days. Plants were also closed for 12 days in December/January, over Xmas period.

Talbot UK losses for 1979 thought to be about £40 million c.f. to £20 million in 1978.

PSA Peugeot-Citroen injected \$167m into Talbot in January to cover losses.

Continued

Successful year in 1979 in terms of sales revenue, unit sales and French market share - profits not known but expected to be a break-even.

FORD

Successful 1979 for Ford UK but intermittent short time working at a number of factories has been declared in Q1 1980, e.g. Halewood transmission, Enfield, Belfast and Dagenham KD. (see paper A4). Granada production stopped for 6 weeks (in January) towards end of 1979.

DAIMLER-BENZ

Increased profit in 1979 - vehicle output up by 7%. However, order books have been reported to have reduced very substantially.

VOLKSWAGEN (+AUDI NSU), BMW, VOLVO, SAAB

All reported successful years in 1979. VW have forecast a more difficult year in 1980.

JAPAN

TOYOTA

At beginning of year, Toyota Motor Sales forecast increase in exports in 1980 of 11% compared to 3% growth in 1979. This reflects particularly the declining value of Yen, down to 232 per dollar from a 175 per dollar peak in 1978.

£344m per year to be spent on production facilities, including expansion, over next three years.

HONDA

Successful year in 1979 with 69% of sales generated by exports. Plans announced for an assembly plant in the US.



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To see

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KW

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10 DOWNING STREET

From the Principal Private Secretary

18 April 1980

Dear Jan,

British Leyland

I attach the record of the meeting which the Prime Minister held yesterday to discuss British Leyland. In view of the great sensitivity of the matters discussed, I should be grateful if no further copies were made of the record.

Since yesterday's meeting the Prime Minister has seen a copy of Robin Ibbs' letter of 17 April to your Secretary of State in which he elaborated on some of the points he had made at the meeting, and she has commented that she thinks that we should be guided by Robin Ibbs' advice.

The Prime Minister has also seen John Anderson's letter of 17 April providing the information which Mr. Prior undertook at the meeting to let her and his other colleagues have.

I am sending copies of this letter and of the record to John Wiggins (HM Treasury), John Anderson (Department of Employment), David Wright (Cabinet Office) and Robin Ibbs (CPRS). May I reiterate to them my request that no further copies should be made of the record.

Yours ever,

Alvie Whittaker.

Ian Ellison, Esq.,
Department of Industry.

copy to Mr. Haskins.



From the Secretary of State

1. MR W. H. MOREHOUSE
2. PRIME MINISTER

MJS

Mike Pattison Esq
Private Secretary
10 Downing Street
London, SW1

17 April 1980

Dear Mike.

FORD EXPORTS

My Secretary of State mentioned in Cabinet this morning the information which BL had given him on the net exports of Ford (UK) Limited.

BL say that of Ford unit sales in the UK last year the following proportions are imported:-

Fiesta	-	81%	-
Escort	-	9%	
Cortina	-	36%	
Capri	-	100%	-
Granada	-	100%	-

In total over half the Ford cars sold in the UK last year were assembled abroad (although they would of course include UK components).

BL estimate that Ford's imports last year totalled £840 million, which should be set against their £1,000 million exports. This figure tallies with a recent statement by Sir Terence Beckett that Ford's net contribution to the balance of payments was about £200 million. This compared with BL's net exports in excess of £700 million.

I am copying this letter of Ian Ellison (Industry), Richard Dykes (Employment) and David Wright (Cabinet Office).

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

Not copied

BRITISH LEYLAND: NOTE OF A MEETING HELD AT 10 DOWNING STREET AT 10.15 AM ON THURSDAY 17 APRIL 1980

Present:

Prime Minister
Chancellor of the Exchequer
Secretary of State for Industry
Secretary of State for Employment
Mr. R. Ibbs
Mr. J. Hoskyns
Mr. P. Le Cheminant)
Mr. D.J.L. Moore) Secretariat
Mr. D.R. Instone)

* * * * *

The meeting had before it a minute dated 15 April from the Secretary of State for Industry to the Prime Minister describing recent developments at British Leyland (BL).

The Secretary of State for Industry said that as a result of the industrial action supported by the Transport and General Workers Union (TGWU) the BL management had informed its workforce that unless those on strike returned to work by Wednesday, 23 April, they would be dismissed. This course had been approved by the BL Board at its meeting the previous day. If the workforce failed to respond, BL could face an immediate crisis, although it was equally possible that a confused situation would develop with a patchy response to the management's line. He had not had a full report of the Board's meeting the previous day; but his understanding was that they held to the view that it was not yet necessary to withdraw their 1980 Corporate Plan.

In discussion the following main points were made:-

a. It was important for the Government not to be drawn into public controversy at this stage about the dispute. Ministers should take the line that it was a matter for management to settle; and in particular, they should not comment on inter-union rivalry. But there would be no objection to responding to questions by indicating the Government's concern over the present situation. The

/ Secretary

Secretary of State for Industry would circulate a speaking note.

b. It would be helpful if the Secretary of State for Employment would inform Ministers for background purposes of the legal position on the dismissal of strikers, the consequences which flowed from dismissal and any problems which would arise should individual strikers wish to return to work while the strike was still in progress.

c. The Secretary of State for Industry had already reported, in his minute of 3 April to the Prime Minister, Ford's apparent lack of interest in taking over BL. But Ford's formal statement to the Government might be designed as a tactical measure, and it should not necessarily be taken at its face value. They had already indicated their interest in acquiring certain parts of BL; and at some stage it might be possible to use their interest in those parts as a negotiating weapon in persuading them to take over other parts in which they had not indicated any interest so far. For the moment, however, it did not look as though further direct contact with Ford's would be useful.

d. The possibility of appointing an adviser on the lines suggested in the Secretary of State's minute of 15 April should be further pursued. It was essential, however, that the proposal should be fully discussed with Sir Michael Edwardes before any decisions were taken and that he should be involved in further work on this front. Such an adviser should be in a position to give advice to the Government as owners on whether any additional precautionary action should be taken, and should not be limited in his terms of reference specifically to the question of disposals. At the same time he needed to be someone experienced in company rescues and sales. Sir Kenneth Cork and Sir Henry Benson were probably unsuitable, the former because of his close identification with receivership and liquidation, the latter on grounds of age. Two other possibilities were Mr. E.R. Nicholson

/ and

and Mr. Ian Davison. The appointment of an adviser need not be made public at this stage but could be helpful in showing after the event that the Government had taken all possible reasonable precautionary action.

e. It was argued that the Secretary of State for Industry's letter of 15 April to Sir Michael Edwardes did not convey clearly enough the fact that the Government wanted a more forthcoming explanation of the reservations which Sir Michael Edwardes had earlier expressed in his letters of 18 and 28 March about BL's ability to fulfil the objectives of the 1980 Corporate Plan. It might therefore be necessary for a further letter to be sent once the planned discussions had taken place between BL and officials over the economic assumptions underlying BL's plan. These discussions should, therefore, be completed urgently. The Secretary of State for Industry would clear the draft of any further letter with colleagues before despatch. It might also be desirable to clear the text in advance with Sir Michael Edwardes.

The Prime Minister, summing up the discussion, said the Secretary of State for Industry should use the opportunity of his planned meeting with Sir Michael Edwardes on 22 April to question the latter about BL's ability to fulfil their planned objectives, in the light of his comments in his letters of 18 and 28 March. The Secretary of State for Industry should also raise with Sir Michael Edwardes the possibility of the appointment of an adviser on the lines set out in his minute of 15 April. The Secretary of State, in consultation with the Chancellor of the Exchequer, should give further urgent thought to possible candidates. She herself would consider meeting Sir Michael Edwardes together with the Secretary of State for Industry after 23 April in the light of the industrial relations situation as it would by then have developed and of Sir Michael's reply to the Secretary of State's letter of 15 April. In preparation for that meeting the Secretary of State should send her financial information on BL for the last 5 years and also their current forecasts.

The meeting -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.
2. Invited the Secretary of State for Industry to consider further with the Chancellor of the Exchequer possible advisers; to raise with Sir Michael Edwardes both the question of an adviser and BL's ability to deliver the objectives of the plan in the lines indicated in the Prime Minister's summing up; and to report the outcome.
3. Invited the Secretary of State for Industry to provide the Prime Minister by 18 April with background information about BL's financial performance over the last 5 years and current financial targets.
4. Invited the Secretary of State for Industry to provide members of the Cabinet, including the Paymaster-General, urgently with speaking material in response to questions about British Leyland.
5. Invited the Secretary of State for Employment to provide urgently a note on the legal position governing BL's ability to dismiss and subsequently reinstate members of their workforce.

17 April 1980



COVERING SECRET - COMMERCIAL IN CONFIDENCE

P.0244

MR WHITMORE

*MW
18.4*

cc: Mr Ibbs
Mr Wright
Mr Moore

EL

- I attach a draft record of the meeting on EL which the Prime Minister held before Cabinet yesterday. Given that it refers to the Ford position you will no doubt wish as before, in circulating it, to ask that it should not be further copied.

2. I have omitted from the list of those present No 10 staff other than Mr Hoskyns.

P Le CHEMINANT

18 April 1980



2.

10 DOWNING STREET

Prime Minister.

B.L.

There are two pieces of paper
on B.L. here:

- (i) a letter from Mr Stds
elaborating the main
points he made at his
morning's meeting;
- (ii) a letter from Mr Prior's
Office providing the
information he understood to
let you have about the
strike at B.L.

Stds

17.4.50.



CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

Qa 05001

COMMERCIAL - IN CONFIDENCE

17 April 1981

*We will follow
the 11th advice.
Can I have
figures on a basis
for withdrawal
out.*

Dear Secretary of State,

British Leyland

1. Following this morning's meeting of Ministers it may be helpful if I set out my view of the tasks facing the Government. There appear to be two principal ones:

✓ (i) the need for the Government as owners to be able to assess the likelihood of the Company not being able to operate within the limits that have been agreed, and hence the likelihood of the Board having to request that the Plan be withdrawn. This assessment should provide an indication not only of how likely it is that such withdrawal may
✓ be necessary but also of its possible timing;

(ii) the need for the Government as owners, and indeed as trustees both for the public money involved and to a degree for the well-being of those parts of the country's economic fabric which depend on BL (notably some components and services), to make contingency plans so that as much as possible can be rescued from the situation if the Plan has to be withdrawn. Because of the difference in viewpoint, these plans are not necessarily identical with the contingency plans which the Company itself may make with the objective of optimising, if the worst happens, the situation as it sees it.

2. I believe these two tasks for the Government, although they inter-relate, are fundamentally separate ones. I also believe that Sir Michael Edwardes should if possible be involved in both.

3. On the first task he is obviously the man who should provide the information and also a management interpretation of it. It is entirely proper that he should be questioned about it, not only to test the soundness of the

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
ASHDOWN HOUSE
S W 1

CONFIDENTIAL
COMMERCIAL - IN CONFIDENCE

view he is putting forward but also to assist the Government to form an up-to-date view of the risk of failure and its possible timing.

4. On the second task it is obviously right that the Government should be actively seeking advice while doing nothing that would precipitate collapse of the Company. On many, although not all, aspects of this task, Sir Michael Edwardes is obviously the best source of the advice that is needed.

5. I believe it is important that in any meeting that takes place with Sir Michael Edwardes these two areas of discussion should be kept separate. In particular, any heat that may be generated during questioning on the first should not be allowed to obscure the great wish to secure his assistance on the second. This goes further than the desirability that he and his Board should manage the rundown if that proves necessary. The desire ought to be that he should contribute fully from now onwards to broad planning of how overall damage can be minimised in the event of rundown. This does put some additional burden on him over and above running the business but it is not an unusual or unreasonable one. A secondary merit of involving him in this second task is that it is a good way of reducing the risk of polarisation between the owners and the management. It should thus reduce the danger that every discussion with him about the business tends to be regarded as raising doubts about the owners' confidence in the management.

6. On the question of obtaining additional expert advice on how to minimise the damage and difficulties if rundown becomes necessary, I think it would be a mistake to 'appoint' at this stage but it might be wise to 'consult' somebody. My own view is that the right adviser would be a man with skill in rescuing companies that are no longer viable rather than somebody skilled in buying and selling them. This could well mean that the advice of a very experienced liquidator is needed. Because of the need to avoid unnecessary damage beyond BL itself, the task is a wider one than would arise in connection with a normal liquidation when the objective is simply to do the best for creditors and others with a claim on the assets. I suggest that the approach to such a man should not be "we have you in mind to act as liquidator", but rather "What would you as an experienced liquidator advise us to be doing now so that if the worst happens we have the best chance of being able to rescue as much as possible, not just of the Company but also of the surrounding economic fabric?" I envisage at this stage nothing more than confidential

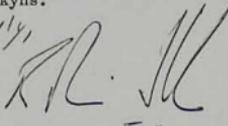
CONFIDENTIAL
COMMERCIAL - IN CONFIDENCE

discussion with such a man, after Sir Michael Edwardes has been brought into the picture. I feel he should not embark on any external enquiries that might give rise to speculation and rumour.

There is no new thought in the above but it seems right to let you have this overall statement of how I see the situation because it perhaps emerged only in fragments this morning.

I am sending a copy of this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Employment, and to Sir Robert Armstrong and Mr Hoskyns.

Yours sincerely,



J R Ibbs

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Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

Nick Sanders Esq
Private Secretary
10 Downing Street
LONDON SW1

17 April 1980

See Nick

BRITISH LEYLAND

My Secretary of State undertook at this morning's meeting to let the Prime Minister have answers to the following three questions:-

1 What has British Leyland threatened to do?

The statement issued yesterday by the Managing Director (Mr Horrocks) to all employees of BL Cars Ltd states

"We therefore have to say that unless those hourly paid employees on strike return to work by Wednesday, April 23, their employment will be regarded as terminated.

This would mean they will not get back pay or bonus and will not qualify for termination or redundancy payments of any kind".

Legally BL can dismiss the strikers with this restricted notice - they have repudiated their contracts of employment by striking and it is open to BL as employer to accept this repudiation. (It seems unlikely also that an individual striker could counter-claim that it was the employer who first repudiated the contract by seeking to vary it unilaterally, though this is a complex area of law.)

If not subsequently re-engaged the dismissed strikers would be entitled only to any arrears of pay up to the time of going on strike, but not, it is thought, to the pay increase (of 5% or 10%) backdated to 1 November nor to the productivity bonus under the offer made by the company but not accepted by the strikers. Nor would they be entitled to any statutory redundancy payments nor (though this would depend on the terms of the collective agreement) a termination payment from the company.

2 Who will be dismissed on the basis of the threat?

The BL statement refers specifically to "those hourly paid employees on strike." The company doubtless deliberately says nothing about its intentions in regard to other categories (eg those laid off).



3 What happens to those who are dismissed next Wednesday but subsequently want to come back again?

The company could decide whether or not to re-engage them and on what terms. Certainly they would not need to give the pay increase or productivity bonus backdated to 1 November to those re-engaged and the question of the employees' continuity of service could also be a matter for negotiation. But in situations of this kind it is virtually universal practice either for employers not to carry out their threat to dismiss or for continuity of service to be preserved for those re-engaged.

The company will of course have taken legal advice before issuing the statement, but under the unfair dismissal legislation (Employment Protection Consolidation Act 1978) if some of those now on strike have returned before next Wednesday, the situation regarding the permanent dismissal of those still on strike, if that was desired by the company, would be uncertain. Certainly the company could not pick some and exclude others without laying itself open to a claim for unfair dismissal.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, Secretary of State for Industry, Sir Robert Armstrong, and Mr J R Ibbs.

Yours sincerely

John Anderson.

J ANDERSON
Private Secretary

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17 April 1980

PRIME MINISTER

BRITISH LEYLAND

Ind. P.O.

Some comments on this morning's discussion;

1. The need for an outside adviser. I remain doubtful about this. If he is a financial man (accountants or merchant bankers) he must be kept completely under wraps, since his involvement can only mean one thing. But he can't do anything unless he can get around BL and collect information. At most, he could be consulted; but appointment to the Board or appointment as an adviser would have different connotations. If instead we think of someone with broader commercial experience, then we are simply giving a vote of no confidence in Edwardes. The one person we have never taken advice from, as owners of the business, is the man we have hired to run it - Edwardes himself.
2. I am sure you are right to go for a meeting with Edwardes as soon as the present crisis is over. That meeting should be very small indeed so that Edwardes is not faced with too many people, or officials he has not met before. I would suggest you and Keith and perhaps Robin Ibbs. It is not strictly necessary for Geoffrey or Jim to be there.*
3. I am surprised at the letter Keith eventually sent to Edwardes. I attach what we originally proposed to Keith before Easter. Keith does not seem to realise that the whole purpose of the letter, for the record, is to show a little scepticism about Edwardes' comments. If that upsets Edwardes, that is too bad.

* I suggest no officials.
He must feel he can
talk very frankly.

JOHN HOSKYNs

3 April 1980

DRAFT LETTER FOR SECRETARY OF STATE FOR INDUSTRY TO SEND TO

SIR MICHAEL EDWARDES

Thank you for your letters of 18 March and 28 March. I have also seen the 1980 forecast prepared on 21 March and supplied to my officials.

The forecast loss for 1980 is very disturbing. I take it from what you say about the lack of evidence to the contrary, that the Board ^{is} still ~~confident~~ ^{confident} there will be no increase in the cash requirements from Government during the 1980/81 financial year? Is this right?

Your letter of 18 March said that the Board did not expect changes in capital expenditure to jeopardise the agreed longer-term objectives of the business. I note that your review of capital expenditure was not then complete, but am not sure whether you are now able to confirm that the longer-term objectives remain intact. Is this in fact the case?

As regards 1981 onwards, of course I realise the sensitivity of any longer-term projections ^{against a range of} economic assumptions. Officials of my Department and the Treasury will be very willing to discuss these with your staff and provide any help that they can. I hope this can be arranged soon, as I am anxious to receive confirmation that your Board still holds to the judgment that, despite the deterioration in performance and the economic outlook, the Plan remains achievable. Achievement of the Plan is, after all, the objective. Remaining within the agreed funding limits is only a precondition for survival.



102 80.
PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

17 April 1980

TO: ALL MINISTERS

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ms

BL: PUBLICITY DURING THE STRIKES

The Secretary of State for Industry has asked me to inform Ministers that our policy is that the Government should distance itself as far as possible from the BL strikes, and that it should take the line that resolution of the dispute is a matter for the management of BL and the trade unions.

Overleaf is a short defensive message which all Ministers could use if they are questioned about the dispute.

Angus Maude

ANGUS MAUDE

Please turn over

BL: DEFENSIVE BRIEFING ON THE CURRENT INDUSTRIAL ACTION

RESPONSIBILITY FOR RESOLVING DISPUTES RESTS SQUARELY WITH BL'S MANAGEMENT AND THE UNIONS CONCERNED. THE GOVERNMENT IS IN NO WAY INVOLVED IN THE PRESENT DISPUTE.

THE GOVERNMENT HAS EVERY CONFIDENCE IN SIR MICHAEL EDWARDES AND HIS BOARD. DECISIONS HAVE TO BE TAKEN, AND THESE SHOULD BE TAKEN BY THE COMPANY AND NOT BY THE GOVERNMENT.

CONFIDENTIAL



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

TELEPHONE DIRECT LINE 01-2123301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

17 April 1980

R E S Prescott Esq
Private Secretary to the
Rt Hon Angus Maude MP
Paymaster General
Privy Council Office
Whitehall SW1

Dear Richard

BL: PUBLICITY DURING THE STRIKES

Following a meeting of Ministers, chaired by the Prime Minister, which took place this morning to consider the affairs of BL, I am letting you know the decision which was taken about public Ministerial statements while the present industrial action continues.

This was that the Government should distance itself as far as possible from the strikes, and that it should take the line that resolution of the dispute is a matter for the management of BL and the trades unions.

... I attach some defensive briefing which all Ministers could use if they are questioned about the dispute. I should be grateful if you would arrange for this to be circulated. I am copying this letter to Nick Sanders at No 10.

Yours sincerely
Catherine Bell
CATHERINE BELL
Private Secretary



BL: DEFENSIVE BRIEFING ON THE CURRENT INDUSTRIAL ACTION

Responsibility for resolving disputes rests squarely with BL's management and the unions concerned. The Government is in no way involved in the present dispute.

The Government has every confidence in Sir Michael Edwardes and his Board. Decisions have to be taken, and these should be taken by the company and not by the Government.

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SECRET

P.0242

PRIME MINISTER

BRITISH LEYLAND

BACKGROUND

You are holding a further stop-taking meeting on BL tomorrow. Sir Keith Joseph's minute of 15 April provides the text.

2. At your last meeting before Easter it was agreed that:-

(a) Sir Keith Joseph would arrange to sound out Mr Lutz of Ford to check their intentions. Accordingly Sir Peter Carey spoke to Mr Lutz just before Easter and Sir Keith Joseph reported the outcome in his minute to you of 3 April. In essence Ford's attitude to BL is a good deal more distant than we had previously thought.

(b) Sir Keith Joseph would reply to Sir Michael Edwardes' letter of 28 March putting on record the Government's concern about BL's prospects. A copy of Sir Keith Joseph's resulting letter to Sir Michael Edwardes is attached to his minute of 15 April. This will not have been received by BL in time to be formally considered by the Board at its meeting today (Wednesday).

(c) A decision on the appointment of an adviser should be deferred until Ford's intentions were clarified. The Group noted however that the type of adviser required would depend on whether he would be needed to negotiate a sale or simply to give more general financial advice to the Government.

HANDLING

3. You might first ask Sir Keith Joseph to report on Wednesday's BL Board meeting. After that you might like to focus discussion on the following issues:

SECRET

SECRET

(a) Industrial Relations

What assessment can be made about the effects of the current TGWU strike action on BL? What are the prospects of an early settlement? We understand that when Mr Lowry of BL saw Mr Prior on Monday he was fairly depressed about the situation. What is the latest information? And is there anything the Government should be doing to assist - eg by involving Mr Len Murray?

(b) Ford's intentions

Sir Keith Joseph's minute of 3 April implies that Ford will not take any initiative for the purchase of BL. How far is their coldness tactical? Are they still interesting in acquiring parts of BL? Is their acquisition of the Cowley site (for their new model as an alternative to Portugal) entirely ruled out?

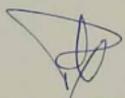
(c) An adviser

Should the proposal be pursued of an adviser to give general financial advice (as opposed to specifically on disposals), as Sir Keith Joseph suggests? If so should he be seen by Ministers under the Chancellor? And should Sir Michael Edwardes be warned? Even if Sir Michael accepts the position, would such an appointment seriously damage BL Management's morale?

CONCLUSIONS

4. You may want to record conclusions on:-

- (i) Any moves on the industrial relations position;
- (ii) any further approaches to Sir Michael Edwardes and/or Ford;
- (iii) what to do about an adviser.


P Le CHEMINANT

Cabinet Office
16 April 1980

SECRET



16 APR 1980



PRIME MINISTER

BRITISH LEYLAND

This minute comments on Keith's note of 15 April; briefly reviews the present situation; suggests the main purpose of tomorrow's meeting.

1. BL's PROSPECTS

1.1 Keith's minute presents a picture which seems to me quite unreal:

- (a) He apparently still feels that there is a good chance of BL pulling through.
- (b) He repeats the Catch-22 thesis - that the moment you make overt moves to sell BL, the whole thing collapses. This amounts to saying that selling a large company is, by definition, impossible.
- (c) He presents withdrawal of the Plan as a simple black and white situation. If the Board withdraws it they will stay; if we insist on its withdrawal they will resign. There seems to be no recognition that it is already a finely-balanced and marginal judgment as to whether the Plan should be withdrawn or not. He makes no allowance for our persuading the Board to support us and to withdraw the Plan. He seems to think that the whole thing can be handled at arm's length. We have to get round a table with the BL Board if we are to get anywhere. I don't think it is impossible for Edwardes to do his best to make the Plan work and consider the best way of proceeding if it fails. He is quite capable of riding both horses.
- (d) He also seems to think that no buyer will be interested until the company is falling apart and the assets can be bought cheaply. But there is a risk to a potential buyer in taking that route - for example, a competitive buyer may move in first, and so on.
- (e) Finally, he insists that the Board would not allow BL to drift away from the Plan. But they are already doing so.

1.2 Our view is unchanged. BL cannot recover in any real sense of the word. The question is whether it fails after the trade unions have co-operated manfully to try and make it succeed (a not very satisfactory outcome as we warned last September); or we manage to sell it whole with a reasonable industrial relations situation; or - as seems increasingly likely - there is a less orderly break-up provoked by trade union behaviour.

2. THE PRESENT SITUATION MAY BE AN OPPORTUNITY

- 2.1 If the present TGWU action precipitates the end, then the odium for BL's downfall will be firmly on that union - no bad thing. Meanwhile, the risk of this happening is at least forcing DoI to face up to the reality which it has been so reluctant to face so far, which is something.
- 2.2 It may therefore be that we will soon be forced to make an overt decision to look for buyers and orderly run-down of any unsaleable pieces.
- 2.3 We can't make further progress unless we answer a number of questions. For example, will the pay deal ever stick in practice, even if the present T&G resistance fades? Will the Board help us in disposal/run-down or will it resign en bloc? Will the dealerships hold up? Is secrecy vital for a sale in this industry? Would that secrecy ever be possible? What are the latest views on the Mini Metro and collaborative deals?
- 2.4 We can't answer any of these questions or make any further progress until we can talk with Edwardes and perhaps some of his Board members. We should have done this before. Keith has had plenty of contact with Edwardes but seems to have accepted Edwardes' own objectives and strategy as if they were identical to ours. I have talked to Robin Ibbs and he too is convinced that this should be the next step (presumably after the Horrocks ultimatum has expired). This meeting is much more important than talking to independent outsiders. Edwardes is the best-equipped adviser at this stage. We may need financial experts later.

3. THE PURPOSE OF TOMORROW'S MEETING

- 3.1 Are we clear that if Moss Evans and his people do not back down totally, we expect the BL Board to withdraw the Plan? Could there be any justification for their not doing so if the TGWU don't retreat? (I don't think there can be.)
- 3.2 We must explode the Catch-22 myth that, if we asked the Board (who are, after all, simply our hired general managers, because the Government are the owners) to sell/run down BL, the result would be instant Board resignation and overnight collapse.
- 3.3 We should agree to set up a meeting with Edwardes, and other BL Board members, as soon as possible. That is the only way to make any progress with our own thinking and planning. The agenda, venue, secrecy, or otherwise, of that meeting would depend on our reassessment of the situation following the outcome of the Evans-Edwardes talks tomorrow and the Horrocks ultimatum. It can't happen during the present strike.
- 3.4 Although we feel that the present TGWU action may prove to be an opportunity rather than a problem (given our view that BL cannot in the end recover) I don't think it should be talked of in those terms at the meeting. That could easily give the impression (which might also be leaked) of a desire by the Government for BL to fail, for a "showdown with the unions" etc.



JOHN HOSKYNs

cc Mr Hoskyns ✓

PRIME MINISTER



SECRET

This is the paper
for Thursday's meeting.

PRIME MINISTER

TOTAL COPIES 14

COPY NO. 1

10

MS
15/4

We are to discuss BL on Thursday and I shall tell you and colleagues then how the Board now view the prospects of getting the Plan through. They are meeting in Birmingham on Wednesday afternoon, and Sir Michael Edwardes has been out of the country till Tuesday. I was not able to write to him before the Easter break but have now done so on the lines proposed at our last meeting and I attach a copy of my letter. ... Also since we last met there have been further discussions with Ford and I let you know the outcome in my minute of 3 April.

Just to clear one further point. There is no question of the Board deciding on Wednesday to withdraw the Plan. First they have the very clear commitment to give me advance warning before they do so; and Sir Michael has very carefully kept me informed of developments. But in any case they always expected there would be problems in getting the wages and conditions package implemented; intensive discussions are proceeding with union leaders and there is a good deal of understanding about the predicament of the company; so it would be wrong at this stage to write off the possibilities of their being able to pull it through. Incidentally Sir Michael recently asked me to confirm that in making the funding available to BL for 1980/81 we had taken implementation of the wages and conditions package as being essential to the Plan; I of course

/said ...

SECRET



said that this was the case and that I would be prepared to say so in public if this would be helpful.

Reflecting further on the problem that confronts us, I think the fundamental issue is whether we still agree that BL should be given every chance to succeed - always subject to the agreed financial limits; or whether we now take the view that the chances are so slight that policy should be based on the assumption that it will fail.

If we take the latter view, I shall have to tell the BL Board that the Government, without waiting for the Board to reach the conclusion that the Plan must be withdrawn, had taken the view that it could not succeed, and that priority was now to be given to running down and breaking up BL. This would lead to the resignation of the Board; the Government's abandonment of hope for BL would become apparent; there would be an immediate crisis of confidence; rapid and disorderly rundown would follow, with major consequences for the economy and public expenditure. Even if we regard failure as almost inevitable, the only hope of keeping the situation under some degree of control will be if the Board remain with the company to manage the rundown, as they have undertaken to do if they conclude that the Plan must be withdrawn.

Fears that the Board will allow the situation to drift downwards without implementing the terms of Sir Michael's letter to me

/of ...



of 19 December and withdrawing the Corporate Plan are, I consider, misplaced; the non-executive members of the Board would certainly not allow this to happen. Realistically, the Government has no option but to rely on their integrity - or itself to precipitate the crisis by indicating that it is no longer prepared to rely on the Board.

Of course, we must not miss any opportunity that may present itself of getting another company to take over BL as a whole; but it must be unlikely that any prospective purchaser would make a serious move until it was apparent that the Plan was failing and therefore that BL was likely to be for sale cheaply. (As explained in my minute of 3 April, Ford are not seriously interested, and would only examine the possibility if pressed by the Government). If we either press the BL Board now to seek purchasers, or try to do so ourselves, this would certainly precipitate a crisis.

On the matter of the Government appointing an adviser Sir Michael Edwardes told Sir Peter Carey on 8 April that the appointment of an expert on disposals would be very likely to leak with fatal consequences; and it would be taken by the BL Board to mean that the Government did not have confidence in them - a resigning issue.

However I am attracted by the suggestion in Sir Robert Armstrong's minute of 28 March that the Government should approach someone like Sir Henry Benson for advice on whether

/there ...



there was any additional precautionary action which could and should be taken. I should still consider it essential to tell Sir Michael that we were going to do this, but if expressed in this way, and not related specifically to disposal (partial or complete) I think he might be persuaded to accept it.

I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Employment, Mr Robin Ibbs, Mr John Hoskyns and to Sir Robert Armstrong.

KJ

K J

15 April 1980

Department of Industry
Ashdown House
123 Victoria Street



Secretary of State for Industry

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

15. April 1980

Sir Michael Edwardes
 Chairman
 BL Limited
 35-38 Portman Square
 London W1H 0BN

Dear Michael,

Thank you for your letters of 18 March and 28 March. I have also seen the 1980 forecast prepared on 21 March and supplied to officials here.

I conclude that in your Board's view, having completed your review of capital expenditure and notwithstanding the disturbing loss now forecast for 1980 (which your second letter indicates should not be taken as evidence that any increase will be needed in the cash call on Government during 1980/81) it is still possible for BL to achieve the objective of long term viability; remaining within agreed funding limits is, of course, a constraint rather than an objective in itself.

As regards 1981 onwards, I realise the sensitivity of any longer term projections to various ranges of economic assumptions, particularly about inflation, the significance of which you stressed to me when we met on 21 March. Officials of this Department and the Treasury are ready to discuss these and their implications with your staff and to provide any help they can.

I hope this work can be carried forward speedily so that you can let me have your Board's conclusions as soon as possible.

I should mention that I have just returned from holiday, and that this letter was prepared on my instructions while I was away and does not take account of the latest situation of BL.

Yours sincerely

Kear

(SECRET)

cc Mr. Whitmore

lead list 92

PRIME MINISTER

ms.

British Leyland

Jim Prior's private secretary telephoned this evening to say that Pat Lowry had seen Mr. Prior about the industrial relations position at BL. Mr. Lowry said that the TGWU were getting more and more difficult; Moss Evans was now unwilling even to negotiate on the basis of the current "settlement" and wanted to re-open the whole question of working practices. Mr. Lowry's view was that when the BL Board met on Wednesday it was highly likely that they would consider withdrawing the plan.

*
see
below

Jim Prior has had a word on the telephone with Len Murray about all of this, with a view to trying to persuade Mr. Murray to lean on Moss Evans. Len Murray is seeing Moss Evans tomorrow anyway, and will do his best. There is not a great deal of optimism from the Department of Employment that this approach will lead to much.

I have asked Keith Joseph's office to let us have a report tomorrow evening, in advance of the BL Board meeting and your Ministerial meeting on Thursday morning, so that we can see where we all stand tomorrow night.

* Dept of Industry advice is that ^{MS} Pat Lowry is being too gloomy - and that he does not know everything which is going on. They think it "inconceivable" in

14 April 1980

all the circumstances that the BL Board will withdraw the

(SECRET)

plan at this stage - but they are not optimistic about the TGWU. ms

COMMERCIAL IN CONFIDENCE



File K/S
and BT
cc. Asbelow
+ M. Haskyns

10 DOWNING STREET

From the Private Secretary

8 April 1980

The Prime Minister was grateful for your Secretary of State's minute of 3 April about British Leyland. She agrees that Ministers most closely concerned will need to meet again to consider the BL situation after the Easter break.

I am sending copies of this letter to Martin Hall (H.M. Treasury), Richard Dykes (Department of Employment), Gerry Spence (CPRS), and to David Wright (Cabinet Office).

T. P. LANKESTER

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

COMMERCIAL IN CONFIDENCE

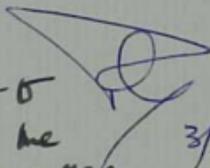
Sir Robert Armstrong

B.C.

This is Tim Lamberton's note of yesterday's B.C. meeting. It seems fine but, given the references to Ford, it might be as well to add an additional warning e.g. "not to be copied". This would be equivalent to treating it as an L.C.A.

Mr Lamberton

I agree. Could you add a sentence at the end of the letter to the effect: "Given the extreme sensitivity of the matter discussed, I must state that no copies further copies be made of this letter". Then include Mr L's in the list of recipients. BHA 3 iv



3/4

Seen by J. Hoskyns
19/4/80 A. Dwyer

FILE

8 vu

cc HHT
D/M
CO

M 1665

10 DOWNING STREET

From the Private Secretary

3 April 1980

The Prime Minister held a meeting at 1545 hours yesterday to discuss British Leyland. The following were present in addition to your Secretary of State: Chancellor of the Exchequer, Secretary of State for Employment, Sir Robert Armstrong, Mr. Robin Ibbs, Mr. John Hoskyns and Mr. le Cheminant. They had before them your letter of 1 April with which you enclosed a copy of Sir Michael Edwardes' letter of 28 March and a note on possible regional measures, and Sir Robert Armstrong's minute of 28 March on the possibility of appointing an adviser on disposal options.

Sir Keith Joseph said that the BL Board, at their meeting on 26 March, had reviewed the company's performance thus far in 1980 and the outlook for the rest of the year. They had concluded that they should be able to stay within their existing cash provision for 1980/81. Their market share had recovered in March to 21% from the disastrous levels of January and February and they appeared so far to have been successful in sterilising union opposition to their pay and work practices proposals. There were unlikely to be any profits during the coming year, and the company were falling short of their objectives as set out in the 1980 Corporate Plan. But, with the launch of their new truck and the launch of the Metro in the autumn, and if they were able to make continuing progress on work practices and demanning, there was still a possibility that the management would turn the company around. It would be disastrous for the Government to withdraw its support at the present time, or to force the management into disposals: if the company continued on its present course, the disposal prospects should in any case improve.

In discussion, it was argued that Sir Michael Edwardes and his team had performed impressively: in particular, the progress they were making on work practices and demanning was as good as could have possibly been expected. On the other hand, they were clearly falling short of the Plan targets, and the sales recovery in March was attributable partly to the very low prices which the company were offering. There was a real worry that, while they might stay within their cash provision for the current financial year, the underlying position of the company would still be deteriorating, and that in 1981 they would ask the Government for a large new cash injection. Alternatively, if the Government were to refuse to provide extra money, the company might well be heading towards a disorderly breakup in 1981 - which would be the worst outcome possible. Sir Michael Edwardes (in his letter of 28 March) did not

/appear to be

appear to be altogether confident that BL would be able to stay within its 1980/81 cash provision: the relevant paragraph was not as positive as it might be, and his indication of the prospects for later years was heavily qualified by the reference to "economic assumptions". It would be desirable to question Sir Michael further on this aspect, and to put on record the Government's concern.

The Government had supported the 1980 Plan not so much because Ministers thought that the Plan would succeed, but because they wanted to keep the company going and thereby to improve the prospects of disposal. Yet Sir Michael seemed unwilling to consider the possibility of selling the company. It might well be necessary to put pressure on Sir Michael to consider the disposal options more seriously - though it would be important not to push him into resignation. Sir Michael seemed to be willing to consider selling off parts of the business; but there was a danger that if he pursued this course, the saleability of the business as a whole - including Cowley and Longbridge - would diminish.

Sir Keith Joseph then said that he could see no immediate prospect of selling BL as a whole. The approach of Mr. Lutz (Chairman of Ford - Europe) did not, according to his own information, seem to have any backing from Detroit. Mr. Ibbs, however, reported that Mr. Ensor (who was Mr. Lutz's adviser on Government affairs) had been to see him, and had said that the parent company in Detroit had been consulted and were prepared to allow Ford - Europe to continue to explore the possibility of purchasing BL as a whole. Mr. Ensor had gone on to say that Mr. Lutz was prepared to meet the Prime Minister or Sir Keith to indicate how seriously he was interested in pursuing an outright purchase. He (Mr. Ibbs) had no reason to believe that Ensor's approach to him was not sincere. Furthermore, there were good reasons why Ford should be looking seriously at BL. They wanted a new car plant in Europe, and while they were considering building a new plant in Portugal, the acquisition of Cowley might be a suitable alternative. Ford were also concerned that the demise of BL would jeopardise the UK components industry, and this would damage their own interests.

Sir Keith Joseph said that there were also strong reasons for believing that Ford - Europe were not in a position to pursue a total purchase: in particular, the cash position of the parent company was very weak, and it seemed unlikely that they would be interested in Longbridge. In short, he doubted the credibility of Ensor's assurances. However, the possibility of a Ford purchase should not be allowed to go by default, and he would be willing to meet Mr. Lutz to explore the matter further. But he would have to inform Sir Michael Edwardes that he was doing so.

Finally, there was a brief discussion about the proposal to appoint an adviser to the Government on the disposal options. It was argued that, while there was a clear need for outside advice, the type of person to be appointed would depend partly on whether there was a real prospect of an outright sale to Ford. A decision on who might be approached should therefore be deferred.

/ Summing up,

- 3 -

Summing up, the Prime Minister said that Sir Keith Joseph should meet Mr. Lutz to explore the possibility of a sale to Ford. He should inform Sir Michael Edwardes, but it would be for him to decide whether to meet Mr. Lutz and Sir Michael jointly or separately. In addition, Sir Keith should write to Sir Michael and put on record the Government's concern about BL's prospects against the objectives set out in the 1980 plan, notwithstanding the management's efforts to improve the situation. It was agreed that an adviser on disposals was needed, but a decision on who might be approached should be deferred until after Sir Keith's meeting with Mr. Lutz. Ministers should meet again in about a month's time to take stock.

I am sending copies of this letter to Martin Hall (H.M. Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office), and also to Mr. Ibbs. Given the extreme sensitivity of the matters discussed, I must ask that no further copies be made of this letter.

TL

Mrs. Catherine Bell,
Department of Industry.



PRIME MINISTER

Thankyou
MB

Prime Minister.

This puts matters in a very different light and strongly reduces the chances of this proposal of work of BL on relatively favourable terms. Agree with it? Add Sir

Yes.

I think I should let you and colleagues know straight away that it seems clear that Mr Ensor has been seriously misleading the CPRS about the possible interest of Ford in BL.

Sir Peter Carey has spoken to Mr Lutz in order to clarify the situation. Mr Lutz made it clear that Ford have no positive interest in BL. It is not the case that they would like to consider acquiring BL's capacity as an alternative to creating additional capacity in Europe. Indeed at the present time they probably have surplus capacity in Europe and in view of the serious difficulties which they are themselves facing in the United States they have no desire at all to take on in addition the problems of British Leyland.

If, however, the British Government specifically presses Ford to consider the idea of taking over BL, then in an effort to be helpful, they are certainly prepared to examine it. But they would prefer not to be asked to do so.

This is quite a different situation from that which we were considering yesterday, and I think we need to consider it again after the Easter break. Meanwhile I thought it important that there should be no misunderstanding about Ford's real position.

I am copying this minute to Geoffrey Howe, Jim Prior, Robin Ibbs, John Hoskyns and to David Wright.

K J

3 APRIL 1980



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CONFIDENTIAL



10 DOWNING STREET

3 April 1980

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry

Dear Keith,

I enclose a draft letter for you to send to Michael Edwardes. After a good deal of thought, we have concluded that a quite short and simple letter, which does not contain a whole string of accounting questions, is sufficient.

The second paragraph of the letter is designed to interpret Edwardes' slightly equivocal comments about there being "no evidence to date which would suggest" an inability to live within the cash limits, in a more definite way.

The last paragraph invites him to confirm that he still believes that the Plan is achievable. The reference to the ability to stay within cash limits as a constraint, not as an objective, is also deliberate. In Edwardes' letter of 18 March (end of the first paragraph), he says that he agreed with you that the "overriding criterion for judging the company's position was its ability to stay within the approved Government funding limits". He should not be allowed to elevate the cash constraint to the status of "overriding criterion". He could be a long way off Plan and still manage to juggle his way through the current year. The position remains that if he runs out of cash, we pull the plug. And if he decides he can't meet the Plan, he pulls the plug.

I am copying this letter to Robin Ibbs and Richard Bullock.

Yours ever

JOHN HOSKYNs

3 April 1980

DRAFT LETTER FOR SECRETARY OF STATE FOR INDUSTRY TO SEND TO
SIR MICHAEL EDWARDES

Thank you for your letters of 18 March and 28 March. I have also seen the 1980 forecast prepared on 21 March and supplied to my officials.

The forecast loss for 1980 is very disturbing. I take it from what you say about the lack of evidence to the contrary, that the Board still believes there will be no increase in the cash requirements from Government during the 1980/81 financial year? Is this right?

Your letter of 18 March said that the Board did not expect changes in capital expenditure to jeopardise the agreed longer-term objectives of the business. I note that your review of capital expenditure was not then complete, but am not sure whether you are now able to confirm that the longer-term objectives remain intact. Is this in fact the case?

As regards 1981 onwards, of course I realise the sensitivity of any longer-term projections to economic assumptions. Officials of my Department and the Treasury will be very willing to discuss these with your staff and provide any help that they can. I hope this can be arranged soon, as I am anxious to receive confirmation that your Board still holds to the judgment that, despite the deterioration in performance and the economic outlook, the Plan remains achievable. Achievement of the Plan is, after all, the objective. Remaining within the agreed funding limits is only a precondition for survival.

Under AD 6

SECRET - COMMERCIAL IN CONFIDENCE

Ref. A01861

PRIME MINISTER

BL

BACKGROUND

The main purpose of the meeting on 2nd April is to follow up the points left outstanding from your meeting on 24th March. There have been three developments since then:

- (a) the Board meeting on 26th March, recorded in Sir Michael Edwardes's letter of 28th March (circulated by the Department of Industry with their Private Secretary letter of 1st April);
- (b) my discussions with Sir Douglas Wass, Mr. Hoskyns and Mr. Bullock about 'expert assistance', recorded in my minute of 28th March;
- (c) further discussions between Mr. Lutz and Sir Michael Edwardes.

HANDLING

2. You could break up the discussion into three parts:

A. Does Government need to do anything following the Board meeting?

Sir Michael Edwardes's letter of 28th March reports that the Board think that they can still scrape through 1980: 'the Company forecasts a cash flow outcome for 1980 which is within the total agreed cash call on Government'. They conclude that 'there is no evidence to date which would suggest that we cannot reach our objective'. On that basis no emergency action is called for at present. Do Ministers agree? Even if they do, this is not the whole story. The situation could deteriorate rapidly; or the longer-term prospects, yet to be re-examined, could prove weaker than expected. Some further action may be needed to avoid drift. Part of this is in hand already (the work on "Measures which might be taken in response to a partial collapse" - the annex to the DOI letter of 28th March). Does anything else need to be done?

B. Should the Government seek further advice on sales?

The idea canvassed at your last meeting was that the Government should supplement the 'Management' advice from Sir Michael Edwardes by taking the normal 'Merchant Bank' advice which any owner would normally take if he was

SECRET - COMMERCIAL IN CONFIDENCE

considering disposal of a major concern. My note of 28th March records that, having examined a number of possible alternatives, we think that it is premature to decide now on a 'Merchant Banker' adviser; but that Ministers might like to talk to a 'wise man' like Henry Benson in the first instance, to help them decide whether and when to seek such further detailed advice. Sir Michael Edwardes would be told privately in advance. This two-stage approach involves no publicity, and would allow Ministers the benefit of some City 'wisdom' without a detailed examination of the sales prospect. I hope Ministers will accept it: it costs nothing, and buys time. This will be particularly important if there is anything to report under the next heading.

C. The talks with Mr. Lutz.

The CPRS has learnt privately that Mr. Lutz had a further talk with Sir Michael Edwardes this week. The prospect of outright sale was not discussed (but Sir Michael Edwardes said that he and his whole Board would resign if they discovered that the Government was negotiating behind his back). There was, however, a useful new development. Ford and BL are apparently prepared to talk about co-operation in two areas: sale of BL trucks and Jaguar cars through Ford's continental outlets; and provision of Ford engines for BL's big-car ranges. Ford would no doubt see such developments as a useful way of getting a foot in the door in case BL collapses. Mr. Ibbs may be able to report further on these talks. I do not yet know whether Sir Keith Joseph has heard about them. If he has, and can confirm this account, do Ministers wish to encourage BL along this path? Do they agree that it does not rule out a possible complete sale, and that action at B. above should continue?

CONCLUSIONS

3. The conclusions of this meeting might therefore be:
 - (i) To agree that no action is needed for the time being vis-a-vis the BL Management itself.
 - (ii) To note the contingency work which is in hand in Departments, including the assessment of the regional effects of a complete collapse.

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- (iii) To agree to invite Sir Henry Benson to discuss the problems in strict confidence with Ministers on the basis suggested in my minute of 28th March.
- (iv) To agree that Sir Michael Edwardes should be told in confidence what is proposed.
- (v) To take note of the position reached in talks with Mr. Lutz.
- (vi) To agree that the Secretary of State for Industry should encourage BL to continue the talks on possible collaboration with Ford.

RA

(Robert Armstrong)

1st April, 1980



1 - APR 1980





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PS/ *Secretary of State for Industry*

| April 1980

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

Dear Tim

BL

As background for the Prime Minister's meeting on Wednesday my Secretary of State has asked me to let you have the attached letter of the 28 March from Sir Michael Edwardes following last week's meeting of the BL Board; and a note by Department of Industry following discussions with Treasury and the Department of Employment on possible regional measures.

I am copying these also to Martin Hall (Treasury), Richard Dykes (Department of Employment), Gerry Spence (CPRS), David Wright (Cabinet Office) as well as John Hoskyns.

Yours sincerely
Catherine Bell

CATHERINE BELL
Private Secretary

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20 MAR 1980
RECEIVED
SECRETARY OF STATE
INDUSTRY

FROM SIR MICHAEL EDWARDS

28 March 1980

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

Sec Secretary of State,

Mr Hagestad FOR ADVICE (AND DEPARTMENT IF APPROVING) FROM BY: 1.4.80	COMES TO RMB MSIMM See Mcuffitt M. Bell Mr Lenn
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As envisaged in my letter to you of 18 March, I am writing to confirm our assessment of our cash position following our Board meeting on 26 March. The Board reviewed the Company's performance thus far in 1980 and the outlook for the rest of the year. I am pleased to advise you that the sales campaign which we launched in January has started to show results in March. With market share running well over 20% so far this month, we expect cash to be on budget for the first quarter.

Our objectives for the year remain the same - to protect the programmes which are fundamental to the future viability of the business, and to ensure that we do not exceed the agreed cash call on Government during its 1980/81 financial year. You will recall that our 1980 budget took account of an anticipated £50m deterioration against the starting point assumed for the 1980 Corporate Plan. In the event, the engineering strike made an even deeper impact on our cash flow for 1979 and we started the year some £70m worse than the Corporate Plan base.

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The Rt Hon Sir Keith Joseph, Bt, MP

28 March 1980

Nevertheless the Company forecasts a cash flow outcome for 1980 which is within the total agreed cash call on Government. This forecast reflects the review of capital expenditure, the acceleration of the restructuring and redundancy elements of the recovery programme and the vigorous marketing and other actions. We have provided your officials with the details of this forecast, which as I indicated to you in my letter of 18 March, assumes an early end to the Steel Strike,* and that the unilateral implementation of our pay and working practice proposals for Cars is accomplished without major disruption.

The Board reconsidered this forecast at yesterday's meeting and concluded that, while the Company remains susceptible to unforeseen problems eroding the narrow margins we have, there is no evidence to date which would suggest that we cannot meet our objective of staying within the agreed cash call on Government during its 1980/81 financial year.

So far as 1981 onwards is concerned, the Board will review the outcome when, as we discussed in our recent meeting, we have agreed with your officials the economic assumptions which we should use for the post 1980 years. The cash outlook over the remaining years of the Plan will be heavily dependent on the base economic assumptions which are used.

I am copying this letter to Sir Arthur Knight.

Yours sincerely,
Michael Newman.

* i.e. over Easter weekend.



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MEASURES WHICH MIGHT BE TAKEN IN RESPONSE TO A
PARTIAL COLLAPSE OF BL

I. Background and assumptions

1.1 At the end of 1979 British Leyland employed about 144,000 people of whom some 50% were located in the West Midlands, 16% in the North and North West of England and Scotland (Leyland Vehicles - LVL) and 14% in Oxford and Swindon. Best estimates suggest a one to one relationship between BL employment and dependent employment giving a total of some 290,000 jobs at risk; but the total could be greater if, as is possible, the loss of BL business has a disproportionate effect on the viability of suppliers. Some 45% - 50% of BL supplier employment is also located in the West Midlands.

1.2 It is by no means clear what will happen to BL. Although a total collapse remains possible, it is perhaps more likely that parts of BL could be saved and for the purposes of this paper we have taken the optimistic assumption namely that Leyland Vehicles, Land Rover, Jaguar and some ancillary activities could remain to give a total BL job loss of 79,000 and an "all-up" job loss of some 160,000. More than half the BL job losses would occur in the West Midlands and 20% in the Oxford area.

1.3 These assumptions and this paper only deal with the first stage effects of a BL collapse. The ripples are bound to spread more widely both as a direct consequence of the disturbance of the market and, equally importantly, as a result of the effect on confidence in industry generally and engineering activities in particular. These effects cannot be quantified but seem likely to be such as to have a significant impact on the effectiveness of Government industrial policy as a whole.



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II. Regional Implications and a Regional Response

2.1 The assumptions in paragraph 1.2 above do not have any immediate effect on the North and North West regions of England or on Scotland, although subsequent rationalisation of an independent LVL could lead to job losses in these regions at a later stage. The problems of South Wales would be exacerbated by BL job losses at Llanelli and Cardiff and supplier redundancies but it is clear that the main impact would be on the West Midlands conurbation and Oxford. Even the most optimistic assumptions about this effect lead to the conclusion that the levels of unemployment in many West Midlands travel-to-work areas and in the Oxford area would rise rapidly to more than double figure percentages.

2.2 The traditional response to this level of unemployment has been to grant assisted area status to the region concerned as was done recently in the case of Corby. Were this response to be adopted, the levels of unemployment would suggest at least Development Area status with all that that implies by way of quasi-automatic eligibility for all qualifying manufacturing firms for regional development grants at 15%, selective financial assistance under Section 7 of the Industry Act and a Government Factory programme.

2.3 Such a response would be extremely costly; it is however the response which will be most pressed for since it offers the greatest scope for providing assistance. Regional Development Grant expenditure would be of the order of £155-£170 million a year, about £20 million a year would be required at peak (some 2-3 years after designation) for selective financial assistance (SFA); and, about £25 million for a government factory programme. It would also be necessary to create a new regional development grants' office with a staff of 150-170 or, more probably, to expand the capacity of existing RDGOs to the same extent while some 35 extra staff



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would be required in the West Midlands (30) and South Eastern (5) regional offices. In addition 20 extra staff would be required at Headquarters whatever remedial action was to be taken.

2.4 The areas concerned do however have considerable geographical advantages over the traditional assisted areas; well established industrial infrastructures; a wide range of labour skills; a proven history of entrepreneurship; and, outside the motor industry, a reasonable industrial relations record. In these circumstances, although it would be regarded as a derisory response locally, designation as an Intermediate Area could be considered as an alternative to DA status. Costs would be much lower (£35-£45 million per annum, at peak(SFA),and £25 million for factories) and only some 35 regional staff would be needed (and the 20 at Headquarters). SFA could be used to attract BL takers for the abandoned BL facilities.

2.5 A major increase in the size of the Assisted Areas, especially of areas close to the South East, would be bound to reduce the effectiveness of regional policy, involving as it would an extension of the AA coverage to about 50% of the working population of Great Britain. There would be a high probability of the diversion of investment from Scotland, Wales and the North East and some less harmful diversion from the South East and East Anglia (including Milton Keynes and, possibly, dockland). The diversionary effect would be reduced substantially if the areas were only given IA status. The regional response could not, of course, be expected to achieve quick results.

III Industrial Consequences and possible Responses

3.1 Although this paper does not consider the consequences of the loss of BL's production for the balance of payments, it is relevant to note that the other major British based assemblers are unlikely to be able to take up more than a small proportion

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of the lost BL market share from their UK production nor are they likely to absorb much of the labour which BL releases or of the capacity which is made available in the supplier industries. The only other significant assembler in the West Midlands is Talbot, which is shedding labour and its future is only marginally more secure than that of BL.

3.2 In these circumstances the loss of BL business can be seen as an absolute loss of that part which it represents of the home market for the component supply and other supporting industries. Taking account of in-house production in the multinationals and their policy of dual sourcing, BL as a whole represents some 50% of the UK market for British component suppliers and the greatest proportion of this is related to those elements of the company's activities which paragraph 1.2 above implies will be lost.

3.3 Although major firms in the supply industry such as Lucas, GKN, Associated Engineering and Automotive Products could be expected to survive this blow as a result of their diversified activities and overseas involvement, many of their individual operations would be put at total risk and in such circumstances they would be likely to respond by closing down a number of their British operations and meeting the greatly reduced demand in this country from their Continental and other facilities. British Steel would be seriously affected (but this paper does not seek to consider these effects) and a number of industries already facing difficulties as a result of fierce overseas competition might be disproportionately damaged eg, industrial fastenings and bearings.

3.4 The overall effect would be to undermine the UK motor vehicle component industry and it would be necessary to consider whether steps ought to be taken to support activities which could be regarded as essential in the long term interests of the economy. Parts of Lucas would come into this category and perhaps in



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particular the company's efforts to move into the field of micro-electronic car management. To the extent that a high proportion of the component industry is located in the West Midlands, a regional solution of the sort outlined in Section 2 above would provide scope for some assistance but both within and outwith these areas consideration could be given to the use of Section 8 of the Industry Act with some relaxation of the present criteria to provide flexibility. If the West Midlands conurbation and Oxford were designated as DAs some £20 million would be needed over a 4-5 year period; if they become IAs this figure is likely to rise to £35 million, and of the order of £50 million is likely to be required if they are not given AA status. Some extra expenditure is also likely to a rise in support of new product and process development.

IV. Short Term Measures

4.1 A wide range of firms in the component supply and associated industries would be faced with a period of re-assessment and re-appraisal, many, particularly smaller sub-contracting companies which are substantially dependent on BL's volume car production, would have no alternative but to cease trading; others would need time either to adjust their manning levels and facilities to a lower level of business or to seek alternative business. At the smaller end of the scale the latter would be in the minority. In these circumstances limited short term financial support would provide the essential breathing space for adjustments to be made.

4.2 A number of possibilities exist; guarantees of bank lending might be one avenue but this carries with it open-ended commitments and substantial administrative difficulty both in identifying deserving cases and in monitoring performance. Special schemes could be considered under Section 8 of the



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Industry Act for particular sectors of industry but the wide diversity of suppliers would make it difficult to identify appropriate groups and to administer such schemes and they would not offer quick help. On balance, it seems best to rely on the Department of Employment's temporary short time working compensation scheme which appears to be ideally suited to a situation in which many companies would be faced with a choice between immediate redundancies and a period of re-adjustment. A reliance on this scheme (which provides assistance for a maximum of 6 months) with some streamlining of administrative procedures but without any changes in its basic guidelines would not call for any new legislative measures and all that would be needed would be to draw attention to it. On the basis of the assumptions in paragraph 1.2 above, costs might be in the order of £50 million. Department of Employment could probably cope with the increased volume of business provided Department of Industry gave specialist support. This position could change however if the inevitable increases in unemployment placed an undue strain on Department of Employment's other services.

4.3 Most firms with a prospect of survival will of course rely heavily on their banks to carry them through the difficult period after a BL collapse. In these circumstances it would seem desirable for the Government, through the Bank of England, to ask the Clearing Banks to respond sympathetically within the limits of commercial prudence to the short term financing needs of BL suppliers. The banks would almost certainly seek in return an indication that, to the extent that they did help out, the Government would be sympathetic to any resultant difficulties arising under monetary policy constraints.



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V. Protective Measures

5.1 The loss of BL's volume car production and the likelihood that other UK assemblers would be unable to make up for this to any appreciable extent will undoubtedly increase pressure for import controls. Such pressure is likely to be exerted both by the current advocates of protectionism and by certain elements of the component industry. It is difficult, however, to see what such a course of action would achieve in these circumstances, even if it were permissible under the Treaty of Rome or the GATT. The multinational assemblers could not respond quickly by increasing their UK production and would be most unlikely to be prepared to break from well established patterns of European integration. Although the Japanese might be encouraged by such measures to contemplate investment in this country in order to protect their market share, such a response would have no short term effect at all. In short the import controls argument seems relevant only in the context of BL staying in business, possibly as a means of keeping up its market share; in the absence of BL it is difficult to perceive any value at all in going down such a route.

VI. Summary and Conclusions

6.1 The effect of a partial collapse of BL from which Leyland Vehicles, Jaguar and Land Rover survived with some limited supporting activities would be to put a total of some 160,000 jobs at risk of which the largest proportion would be in the West Midlands and at Oxford. It would represent an absolute loss of a substantial proportion of the home market for British component suppliers many of whom at the smaller end of the scale would inevitably go out of business while others, including some of our largest companies, would be placed in serious difficulty in respect of some of their discrete activities. Other car assemblers could not be expected to fill more than a small part of the gap in UK car availability and substantial further imports would therefore arise.



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6.2 We have been unable to identify any measures which would be likely to make much impact on the resulting industrial and regional consequences; but some contribution could be made under support schemes and policies which already exist. It is suggested that consideration could be given to:

- a) A traditional regional response whereby assisted area status would be accorded to the West Midlands conurbation and Oxford. Likely levels of unemployment suggest Development Area status which would however be extremely expensive and would certainly detract even further from the limited attractions of the peripheral areas of the UK for which the policy is mainly designed;
- b) Alternatively and having regard to the geographical and other advantages of the areas a preferable approach would be to give Intermediate Area status. This would substantially reduce the diversionary effects and the potential costs;
- c) More flexible use of Section 8 of the Industry Act. To enable support to be given to key component suppliers capable of making a significant contribution to the economy whose activities would be put at risk by the loss of BL business and to seek to attract new capital intensive industry to the affected areas; and
- d) Positive use of the short-time working compensation scheme within the established criteria but adopting more streamlined administrative procedures to prevent delays coupled with pressure on the clearing banks to adopt a sympathetic attitude to the demands of firms affected by the loss of BL business.



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The regional response would require EEC clearance as would any significant changes in the guidelines for the administration of Sections 7 and 8 of the Industry Act. Additional support could also be sought from the Community; greater use of EIB funds would however require an increase in the £200 million limit set for 1980-81.

6.3 Cost estimates can only be approximate. A DA solution would cost about £135-£190 million in a peak full year plus £20 million under Section 8 and £25 million for a Government factory programme each over 4-5 years. IA status would reduce the peak annual spend to £35-£45 million but would increase the Section 8 figure to some £35 million with the factory programme remaining at £25 million. Reliance on Section 8 alone would be likely to cost about £50 million over 4-5 years. The Department of Employment expenditure of c £50 million would all arise within a year of the closure of BL facilities under any of these options. None of these sums could be met from current estimate or PESC provisions.

6.4 Apart from the regional staffing implications (185-200 extra staff for the DA option and 35 for an IA solution) there would also be a requirement for about 20 extra staff in DOI Headquarters. Even the lower figures would be difficult to accommodate within reduced manpower estimates and the higher figures certainly could not. New trained staff could not be provided quickly and in the short and medium term a considerable extra burden would be imposed on existing staff which could not be sustained for long.

6.5 As indicated in paragraph 1.3, this paper has only sought to consider the first line effects of a partial BL collapse and has not attempted to examine the wider implications for the



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economy as a whole or for industrial policy. This is clearly an area of great uncertainty but there cannot be any doubt that an industrial disaster of this magnitude would have a significant and damaging effect far beyond the company itself and its dependent suppliers.

DEPARTMENT OF INDUSTRY

31 March 1980



10 DOWNING STREET

From the Private Secretary

MR. WRIGHT

The Prime Minister was grateful for Sir Robert Armstrong's minute (AO1832) of 28 March about British Leyland, and she would like to discuss it at the meeting which has been arranged for Wednesday.

She has commented on paragraph 2 of the minute that partial disposals are surely a matter for the shareholders - bearing in mind that they would be likely to affect the value of the shares and the liabilities of the shareholders. The position might be different in her view if British Leyland were self-supporting.

I am sending copies of this minute to Martin Hall (HM Treasury), Ian Ellison (Department of Industry) and Richard Dykes (Department of Employment).

J. P. LANKESTER

31 March 1980

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cc HWT
D/I
D/M
Mr. Hoskyns

TR

28 March 1980

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PRIME MINISTER

SECRET

BRITISH LEYLAND

I enclose a paper in preparation for your meeting on BL next week.

| If you think it is helpful, we could circulate it to the people attending that meeting.



JOHN HOSKYNS

SECRETPRIME MINISTERBRITISH LEYLAND

This note follows up some of the points raised at Sir Robert Armstrong's meeting yesterday, which I attended, and suggests some lines of thought for your meeting on 2 April.

1. WHAT ARE THE POSSIBLE OUTCOMES FOR BL?

1.1 There is a conflict as regards objectives and the respective views of BL's prospects, between Michael Edwardes and his Board, on one hand, and the Government on the other.

1.2 The Government View

1.2.1 Colleagues seem fairly certain that BL will not recover to a point where it ceases to be a continuing worry to Government. The fear is that the next crunch point cannot be very far away and that, if we take no action, the Plan will be withdrawn when there is little time and money left to decide what to do.

1.3 Edwardes' View

1.3.1 Understandably, Edwardes still maintains that BL can recover and prosper. Although we have assumed that the BL Board would withdraw the Plan as soon as it appeared unattainable, Edwardes has in fact admitted, in his letter of 18 March, that the Plan will not be attained in full this year, but the Board has not proposed its withdrawal. Since any "drift" away from the Plan is likely to happen bit by bit, it is in practice very difficult for non-executive directors to choose a particular point at which to stop accepting Edwardes' assurance that they should continue.

1.0.2 The Edwardes view boils down to this: "Government must not start looking for buyers because that would leak in the closed motor industry world. This would precipitate collapse and undermine the recovery programme. Therefore, Government cannot do anything about selling BL until the Plan is withdrawn - ie BL is approaching collapse. But in any case, I believe that BL will recover, so Government will have a better opportunity to sell BL as a whole, if it wants to, in a year or two." The difficulty is that Edwardes is reaching for a better outcome for BL and for himself, at the risk of heavier penalties, for Government, if he fails. His objectives are not wholly aligned with ours and his view of the likely outcome is also different.

?

1.3.3 Edwardes believes that extensive collaboration may be the key to BL's future. We have some doubts about this, as it is difficult for a large company to control its own future if it is simply acting as the peripheral agent of a number of large autonomous collaborators. But this needs further thought. I am not sure how large a part it plays in his recovery strategy. (His public references to collaboration do, however, provide a good cover for talking to potential buyers.)

1.3.4 We cannot say that judgment about the likely outcome, or about the point at which the Plan should be withdrawn, "is a matter for the BL Board, not Government". Government is the owner and foots the bill and cannot leave that judgment entirely to the people it has hired to run it.

2. HOW DO WE VALUE THE OUTCOMES?

2.1 | Recognising that Edwardes' assessment of the different outcomes is different from ours, we have to look at each outcome to be clear what we are going for.

2.2 There are four possible outcomes:

- (1) Sale of BL, complete.
- (2) Orderly break-up and disposal (perhaps following failure to do (1) above).
- (3) Disorderly break-up and disposal (following withdrawal of the Plan).
- (4) BL recovers.

2.3 Which is the best outcome? And which is the worst acceptable outcome? We doubt whether outcome (4) - BL recovery - is in fact the best possible outcome, unless it was so spectacular and so firmly-based that BL moved, in the space of a couple of years, to being fully comparable with its major international competitors. This seems inconceivable to us. We think the best outcome would be sale of BL as a whole. The worst outcome, to be avoided at all costs, would be a disorderly break-up, followed by a "fire sale". This is likely following belated withdrawal of the Plan, with time, money and market confidence rapidly running out. The worst acceptable outcome would be orderly break-up and disposal, with time and money in hand.

3. CHOICE OF STRATEGY

- 3.1 Our real concern is to minimise the downside. We therefore want a strategy which minimises the chance of outcome (3) - disorderly break-up and sale.
- 3.2 At present, we have only two options. We can either take no action (apart from the possible use of an expert to prepare the ground internally, which is not essential and could be dangerous) and simply wait for BL to turn-around or for the Plan to be withdrawn; or we can decide now to look actively for a buyer for the whole of BL, recognising that this could leak and force us towards an early break-up and disposal. It may help to display these two strategies against the different outcomes, as follows:

Note. I am not suggesting for a moment that such difficult decisions can be made "by members." However, this sort of approach can help to structure the problem in one's mind. J

OUTCOMES STRATEGIES	(1) BL sold entire	(2) Orderly break up and sale	(3) Disorderly break-up and sale
A. No Immediate Action	Unlikely	Unlikely	Probable
B. Try to Sell BL Now	Possible	Likely	Possible

Strategy B gives the highest chance of (1) and the lowest chance of (3)

I have left outcome (4) - BL recovers - off this chart.

3.3 Strategy A - no immediate action - implies the following:

- It effectively rules out the chance of a sale of BL as a whole (though this would be possible if our view proves wrong, and BL does get better, instead of worse).
- It increases the chance that eventual sale will be a fire sale, following the withdrawal of the Plan.
- By delaying, it makes it likely that there will be fewer possible buyers who have not already made other plans.
- It does not prevent BL's turning around under its own steam if it can.

3.4 Strategy B implies the following:

- It effectively rules out the chance of BL recovering under its own steam, under Government ownership.
- It increases the chances of an orderly break-up and disposal rather than a fire sale.
- It offers the best chance of selling BL as a whole.

3. Which should we choose? The answer is that you choose strategy A if you're an optimist, about BL, strategy B if you're a pessimist.

4. QUESTIONS WE NEED TO ASK

- 4.1 We need to ask a number of questions before we can decide which route to take. For example:

- (1) Is it necessary, or even possible, to attempt to sell BL secretly? Have there been many - or any - cases of large companies changing hands without anybody knowing? Are we clear in our minds about what a "collapse of confidence" really means if such plans leaked?
- (2) What is the evidence for the view that the Board would resign if we decided to sell the company before the Plan had been withdrawn? They must presumably be on the brink of withdrawing it themselves.
- (3) What would the union reaction be to the sale of BL, whenever and in whatever form it happens? Would we be able to explain that our objective in selling BL is to avoid closure and high unemployment, not to precipitate it?
- (4) If we take no action now (strategy A) and the Plan was later withdrawn, could we find ourselves having to prop up BL with Government money while we look for buyers, and thus appear to be doing the very U-turn we said we would not do?
- (5) Is Edwardes' idea of multiple collaboration likely to succeed? Are we underestimating the possibilities there?
- (6) Could BL insure itself against the risk of a dealer network collapse during sale negotiations? Could it make the dealers an offer they couldn't refuse to keep the network in being over that period?

5. HOW TO PROCEED

- 5.1 Whatever the conclusions of the 2 April meeting, it would be very helpful for colleagues to discuss this whole problem with Michael Edwardes and also with someone like Sir Henry Benson (as Sir Robert Armstrong has suggested). I agree with Sir Robert's view that hiring an expert to do preparatory work for a sale is not the right next step.

5. Such a discussion would itself be part of the process of coming to a conclusion about whether we want to start seriously looking for a buyer now or whether we want to wait until the Plan is withdrawn. If our preference is for the former, then the sooner those discussions with Edwardes and Benson take place the better; if it is for the latter, there is less urgency, but such discussions would certainly be helpful.

6. CONCLUSION

- 6.1 I do not think that there is a middle course between deciding to sell BL outright and setting that process in motion immediately, on the one hand; and simply waiting until BL either succeeds or fails, on the other. If we still believe that BL is quite likely to succeed, then it is too early to act. If we do not, then it will soon be too late. There is no way of proving in advance which view is right, and the temptation to do nothing is therefore strong. As I understand it from the meetings we have had, you, Geoffrey and Jim (but perhaps not yet Keith?) are virtually convinced that BL will in the end fail and are therefore anxious to act early to prevent the worst outcome.



JOHN HOSKYNs

cc Mr Dwyer

3
Pm Minutes - This can be
discussed at your meeting
See also
next Wednesday.

SECRET COMMERCIAL - IN CONFIDENCE

See also at Flag A

Ref. A01832

John Hoskyns' paper.

PRIME MINISTER

No - it would be
best not to

would you like me
to circulate it?

circulate it to
everyone - it is very useful
to me

At your meeting on 24th March 1980 I was asked to consider how the

Government might provide itself with expert assistance on the question of
disposing of some or all of BL's assets. I have done this in consultation with
Sir Douglas Wass, Mr. Hoskyns, and (in the absence of Sir Peter Carey)
Mr. Bullock of the Department of Industry.

2. The Board of BL - of which the non-executive directors in particular
are acutely conscious of their duties as the guardians of the Government's
interest - is itself undertaking contingency planning with merchant banking advice
on possible partial disposals - e.g. of the truck division, or the Land Rover
division. Where partial disposals are concerned, that is a matter on which the

7 Swales &
Hoskyns are
discussing
assets - this
is a matter for
the
shareholders
being in mind of
the
shareholders
of the
BL

Government as the owner of the company has to look to the existing management -
unless and until it loses confidence in the management and changes it. Officials
of the Department of Industry are, however, closely involved in this contingency
planning, knowledge of which is for obvious reasons being confined to a small
number of senior people in BL.

3. The sale of the whole company would be a matter for the shareholder
(i.e. the Government) rather than the management, and the management would be
concerned only when the Government had decided to sell (either following or in
advance of a decision by the Board of BL to withdraw the plan) and needed the
management's assistance in the valuation of the various assets. The management
could not be expected to provide this assistance while it was still committed to the
Plan and had the Government's backing for it. If, in advance of this, approaches
were initiated to possible purchasers, this would (in the view both of
Sir Michael Edwardes and of the Department of Industry) almost inevitably look
and be taken to mean that hope had been abandoned, and would be likely to
precipitate a crisis and the withdrawal of the Plan. In any case the Government
could not make such approaches behind the back of the BL Board, who might well
take the view that, if the Government wanted such approaches made, this was

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tantamount to a vote of no confidence in them. Nevertheless (as we know) Sir Michael Edwardes is in private contact with the representative of one potential purchaser who is also in contact with the Department of Industry. If there were any other approaches, these could be handled similarly.

4. The Government would almost certainly get a couple of weeks' advance notice of a decision by the Board of BL to withdraw the plan. In that situation the Board would be willing to manage on behalf of the Government the process of dealing with the Company's assets; continuity of direction would be important in order to achieve as far as possible orderly disposal and rundown. The BL Board would want to strengthen their top management team by the appointment of one or more experts in dealing with this sort of operation. The Government might need to employ its own independent advice in that situation, and the Department of Industry has contingency plans for retaining the services of a merchant bank for this purpose (a different merchant bank from that which the Board of BL is already using).

5. The Department of Industry's team of officials on BL includes a partner from Touche Ross on secondment to the Industrial Development Unit who can at short notice divert as much time and effort on to the problems of BL as may be necessary.

6. The Board is still pressing on with the plan approved by Ministers last December, since they believe that they can still stay within the agreed funding limits. It is for them to decide whether and when to withdraw it. It is of course possible that the Board's natural reluctance to abandon the plan may lead them to drift, without coming to a positive decision, well beyond the point where there is any hope of the plan being viable. That is a danger of which both the non-executive directors and the Department of Industry are acutely conscious. For the Government, the dilemma is a choice between two evils: the danger of the Board drifting and a tide being missed; and the danger of precipitating a collapse which it is still the primary hope and objective of policy to avoid. For the reasons given in paragraph 3, we think that the Government should not initiate negotiations for a sale of the company in advance of a decision by the

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Board to withdraw the plan, unless the Government has concluded that the drift has reached a point where the plan cannot succeed. We judge that the Government has not yet reached that conclusion. But that view could change, if the Government thought that opportunities to sell BL as a going concern were available but could diminish with the passage of time.

7. We have considered whether it would be possible or worth while to engage a high-level professional adviser - an accountant or a merchant banker - in advance of a decision to initiate a sale. The purpose of this would be to put the Government in a position to bring a sale to a speedy conclusion and shorten the inevitable period of uncertainty which the negotiations would create. The following considerations are relevant:

- (a) While the Government, as owner, would need for the purposes of a sale more information relevant to the valuation of the assets than it has now, this could only be collected by detailed discussion with operating units within BL. To initiate such discussions now would have a disastrous effect within the company and precipitate a crisis. In any case, if and when it came to the point of a sale, that information would be required by the prospective purchaser as well as by the seller, and the process of negotiation would inevitably take some weeks. There is little or nothing an adviser could do with it now, if he got it.
- (b) We can see no way in which the information could be obtained from the company without the nature and purpose of the inquiry becoming known, or at least evident, to the company; and the moment that was known or guessed, it would at once be assumed that the Government had taken a secret decision to sell the company, in advance of the Board's decision to withdraw the plan. We do not believe that it would be practicable to appoint the person concerned as a non-executive director, a kind of Trojan horse: the cover would not stand up, because he would be asking for information for which an ordinary non-executive director would not need to ask.

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8. We conclude that the Government should not engage a full-time high-level professional adviser in advance of a decision to initiate a sale or a definite approach from a potential purchaser - a contingency which we fear would be remote unless and until the company was seen to have reached the end of the road, and therefore likely to be available cheaply.

9. We nevertheless share the view of Ministers that we are dealing with problems and possibilities which, both by their nature and by the sheer size of their potential consequences, are unfamiliar to Government. In that situation Ministers might well feel that it would be helpful to reinforce the assessments available to them from within Government and the judgments they may have to make, by discussing them with somebody who has the right combination of qualities of wise judgment and long experience in dealing with industrial problems of this kind. If this idea commends itself to Ministers, we suggest that a possible course might be to invite somebody - say, Sir Henry Benson, who we think might be the best man for the purpose - to come and see the Chancellor of the Exchequer and the Secretary of State for Industry - and you, if you want to be involved at this first stage; they could explain in outline the problem Ministers faced and the advice and help for which they were looking; he could then be briefed by officials of the Department of Industry; and he could then be invited to come to a meeting with a slightly larger group of Ministers - you, the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Employment. Amongst other things, you would be able to test with such a man our judgment that the time has not yet come to engage a full-time professional adviser.

10. We think that Sir Michael Edwardes would need to be told what Ministers were proposing to do and to be given an opportunity of letting Ministers know his reactions.

11. I am sending copies of this minute to the Chancellor of the Exchequer, and to the Secretaries of State for Industry and Employment.

REA

(Robert Armstrong)

28th March, 1980

file.

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B/f 1-4-80

28 March 1980

British Leyland

This is to confirm that there is to be a further meeting to discuss British Leyland on Wednesday, 2 April at 1545 hrs at No.10.

I am sending copies of this letter to Martin Hall (HM Treasury), Richard Dykes (Department of Employment), Gerry Spence, (CPRS) and David Wright (Cabinet Office) as well as John Hoskyns.

C Stephens

KRB

I K C Ellison, Esq
Department of Industry

RESTRICTED



Secretary of State for Industry

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

 TELEPHONE DIRECT LINE 01-212 3301
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27 March 1980

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

Prime Minister MB

To note

Sean Guinness,
R 18/3

Our approval of the BL plan envisaged the conversion of £150m loan to equity, the injection of £150m of new equity and a further line of credit of £150m during the financial year 1980/1. When I announced this last December I made it clear that the new NEB Board which was only appointed towards the end of November had not been able to take part in the consideration of the plan - though officials of the NEB had been involved.

I am advised that this means the NEB will require a direction from me to proceed with the funding I announced since they cannot legally take responsibility for a decision in which they took no part. I am therefore issuing the necessary direction so that the funding can take place: the loan conversion on 31 March, the first £150m of equity on 1 April, and drawings from the line of credit as they become necessary.

While this is largely a technicality I thought colleagues ought to know what is happening since the issuing of a direction may give rise to speculation about the long term relationship between NEB and BL on which we have yet to take a decision - we do not have power to change the relationship until the passage of the current Industry Bill (end May/early June). We do not need to publish the direction until 23 days after it is issued and I propose to take advantage of this. During that period I expect to put proposals to colleagues about the long term relationship of NEB and BL on which we might then make an announcement at the time the direction is published.

/In...

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In the meantime the issue of the direction does not pre-empt a decision on the longer term relationship since the requirement for the direction simply relates to the happenings of last November/December. However I would be misleading colleagues if I did not say that I am likely to be recommending the severance of this relationship between NEE and BL in the paper which I shall be putting round shortly after I have completed my consultations with the NEE and with BL.

I am copying this letter to the Prime Minister, other Members of E, Secretaries of State for Scotland and Wales, and Sir Robert Armstrong.

Yours,

Keir

28 MAR 1960





CF
For file
on W.P. 6

Addressed to P7

R27/3

BL Limited

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Telex 263654.
Cables: Leymotors London W1 Telex.

From The Managing Director, Cars, BL

25th March 1980

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27/3

TO ALL HOURLY-GRADED EMPLOYEES IN BL CARS

1979/1980 NEGOTIATIONS ON PAY AND PRODUCTIVITY

The Trade Union side of the JNC has rejected the Company's pay offer and proposals for raising productivity. They have taken the decision to call strike action when we get back to normal working from the present position of layoffs and short-time working.

At this critical stage of our recovery programme such action would be suicidal, and would put jobs at risk.

This is the situation. The Trade Unions have not accepted our offer. We cannot afford to pay more. BL lost £122 million in 1979. The Company does not have the money to pay out wage increases we have not earned - and nobody is going to give us money for pay rises higher than we have offered. The only way to earn more is by changing working practices and operating the incentive scheme.

We need the changes in working practices to raise our efficiency to competitive levels. Without them there can be no further investment in new models and new facilities. We are not asking for anything revolutionary. The working practices we want already operate in other more successful parts of BL. They are common practice among our competitors.

What is wrong with reasonable mobility and flexibility? Why do we need to hold on to out-dated restrictive practices? Why can't BL Cars' employees make their contribution to efficiency without being held back by unreasonable powers of veto? Why can't we operate an incentive scheme in each plant based on factual measures of efficiency, measures which can be checked constantly by union representatives for accuracy?

Throughout the negotiations the Company has stated its case plainly and honestly. It has offered clauses in the Agreement to prevent unreasonable application and to provide full opportunity for employees and their representatives to be involved in all aspects of productivity development. What it has not been prepared to agree is that essential change can be vetoed.

The continuing inconclusive negotiations - and in particular the threat of a future strike when we start to recover - are having a disastrous effect on market share, despite intensive efforts by BL Cars and the Dealers to increase sales. We cannot afford more delay. In a final effort to secure Trade Union support, meetings were held on 14th and 17th March to which General Secretaries/National Officers of all Trade Unions representing hourly-graded employees were invited. Regrettably, at those meetings we were not able to come to an agreement, despite the Company's efforts to overcome any outstanding Union reservations and even though further improvements to the package were offered.

Since the Trade Union ballot, we have made a number of significant concessions to try to reach agreement. We have offered:-

- * to reduce the threshold for bonus earnings, giving more people the opportunity to earn bonus more quickly (14 plants have already earned some bonus since November under this arrangement);
- * to set up a Joint Working Party on productivity and incentives to study competitive practice and come up with joint recommendations for negotiations as part of the November 1980 Agreement;
- * to limit the proposals on skilled trades flexibility;
- * to limit the extension of 3-shift and double dayshift working, and to increase the payments for such working;
- * to remove concern about frequent re-measurement;
- * not to use cine photography for purposes of setting standards and manning levels;
- * to conclude jointly with the Trade Unions a definitive list of occupations (in addition to those proposed) eligible for dress-up/clean-up allowances;

* not to invoke the Plant Audit clauses except by agreement of the management and Unions in a plant;

* subject to the Agreement being accepted, to pay bonus earned in the period 1st March 1979 onwards, even though there was no agreed incentive scheme operating at that time.

Even with these further concessions, we have not been able to come to an agreement.

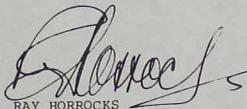
In all of these circumstances, and after very careful consideration, the Company has decided to go ahead with implementing its proposals. Due notice of this decision has been given to the Trade Unions.

On 8th or 9th April 1980 (depending upon Plant holiday timing) your existing terms and conditions of employment will be varied by incorporating the terms and conditions set out in the attached document in substitution for those of your existing terms and conditions which are inconsistent with them. All your other terms and conditions are not affected by this change. By clocking in for work at any time on or after 8th April 1980 you will automatically be accepting these new terms and conditions.

We believe that most employees appreciate the urgent need for the Company to become more efficient and will endeavour to co-operate. Without full co-operation the task of implementation will be more difficult. It must therefore be clearly understood that any employee who takes part in any form of disruptive action to prevent implementation of the terms and conditions applied will be subject to disciplinary action.

The Company regrets having to act without the agreement of the Trade Unions but has no alternative in all of the circumstances. The consequences of no action would be far more severe and would lead to the loss of many hundreds of thousands of jobs both in BL Cars and throughout the United Kingdom.

We hope that all of our employees will understand the Company's position, accept the decision, and co-operate fully. Only in that way do we have a chance of surviving and of developing as an efficient and healthy company. And that can only be good for all of us who work for BL Cars.


RAY HORROCKS



FINAL DRAFT OF PROPOSED AGREEMENT ON BARGAINING, PAY, EMPLOYEE BENEFITS & PRODUCTIVITY

Covering Hourly Rated Employees in BL Cars

Rates of Pay. The full details of the pay structures are given in section 6. But this table shows the grade rates.

GRADE	HOURLY RATE	DAY-SHIFT		NIGHT-SHIFT Including shift premium payments	
		40 Hours Grade Rate	Including Maximum Bonus	40 Hours Grade Rate	Including Maximum Bonus
1	£2.45	£98.00	£113.00	£122.33	£137.33
2	£2.245	£89.80	£104.80	£114.13	£129.13
3	£2.20	£88.00	£103.00	£112.33	£127.33
4	£2.02125	£80.85	£95.85	£101.41	£116.41
5	£1.8375	£73.50	£88.50	£91.00	£106.00

Rates for other shift patterns, and pay structures for other categories of Employee, are included in Appendix C.

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SECTION 2: DEFINITIONS

- 2.1 The *Company* means BL Cars Limited.
- 2.2 *JNC* means the BL Cars Hourly Paid Joint Negotiating Committee.
- 2.3 The *Unions* means all or any of the signatory trades unions listed in Section 1 of this Agreement.
- 2.4 The *Plants* means all those locations listed in Appendix A.
- 2.5 Unless stated otherwise *Employees* means hourly paid employees of the Company, including hourly paid yard operator trainees and apprentices, and any other employees of the Company covered by the grade structures which are included in this Agreement.
- 2.6 *Apprentices* means all those youths serving an indentured craft apprenticeship.
- 2.7 *YOTs* means all those youths being trained on the Company's Youth Operator Trainee programme.
- 2.8 *He/His* also means she/her, as appropriate.
- 2.9 *Current work standards* means the measured or estimated direct labour work content expressed in hours, hours and minutes for a unit of production as applied in the Plant at any point of time.
- 2.10 *Standard hours produced* means the value in standard hours of the total production of the Plant during a bonus period.
- 2.11 *Basic hours* means the hours that make up the normal working week, i.e. without overtime.

SECTION 3: INTRODUCTION

- 3.1 This Agreement defines, for the understanding and observance of all concerned, the principles of bargaining, determination of pay, conditions of employment, and the measures to improve productivity which will apply from 1 November 1979.
- 3.2 The Agreement is in full and final settlement of all outstanding claims. It supersedes all other agreements, plans and practices relating to the subjects contained within it, except those resulting from relevant agreements between the Confederation of Shipbuilding and Engineering Unions and the Engineering Employers Federation.

SECTION 4: OBJECTIVES

- 4.1 The Company's ability to meet the aspirations of its employees depends substantially upon its productive efficiency, and this, in turn, depends significantly upon the facility with which necessary change can be introduced in a harmonious manner. The general principles on working practices outlined in this Agreement are vitally necessary to the survival of the business. They are also of considerable importance to the achievement of bonus and thus the prosperity of employees. The application of these principles will, where required, be discussed at the appropriate level; such discussion will not impede the implementation of necessary change.
- 4.2 The principal objectives of this Agreement are to establish and maintain:

- a framework of constructive employee relations in which to improve continuously the efficiency of the Company and the pay and security of its employees;
- a comprehensive agreement on pay, conditions and productivity based upon—
 - common bargaining through a single BL Cars bargaining unit;
 - a common review date of 1 November of each year;

- establishment of parity rates of pay by means of a commonly applied five-grade structure;
- a working environment within which substantial improvements in respect of shift working practices (iv) an equitable system for the determination of pay by adherence to the principles of parity of pay, and by the establishment of consistency in work standards;
- an incentive scheme in all plants through which improvements in productivity will result in bonus payments to Employees;
- continuous working;
- full co-operation from Employees in the introduction and efficient operation of new working methods—justifying continuing investment in models, facilities and equipment which improve productivity and competitiveness.

- 4.3 Furthermore it is the intention of the Parties that a revised BL Cars Procedure Agreement will be concluded as quickly as possible which will secure authoritative bargaining and representation arrangements, and define the functions of the JNC, in order to provide a clear procedure for handling issues and avoiding constitutional industrial action.

SECTION 5: PRODUCTIVITY

- 5.1 It is agreed that the level of productivity must be raised substantially throughout BL Cars, both on existing and new facilities, plant and equipment. This can be achieved by—

- the implementation of the Company's investment programmes; and
- the incorporation as an integral part of this Agreement of, and full Employee commitment to, the following areas of productivity—
 - the introduction of sound working practices and elimination of restrictive demarcations which are not justified by the needs of the job, of restrictive practices and of all other constraints upon effective operating;
 - the maintenance of efficient work organisation and consistent work standards through the establishment of Industrial Engineering Techniques;
 - the implementation of an incentive scheme which will provide bonus payments for plants which maintain and/or improve above the threshold levels of productivity.

WORKING PRACTICES

- 5.2 It is agreed that there will be full co-operation in the movement of labour to ensure the efficient continuity of production. In consequence, any Employee may be called upon to work in any part of his employing plant and/or to carry out any grade or category of work within the limits of his abilities and experience, with training if necessary. It may in certain circumstances be necessary to have domestic consultations on the detailed application of these principles, but it is agreed that where this occurs such consultations will not cause undue delay where speedy action is necessary to ensure the continuation of production. To assist this flexibility, which will enable the Company to transfer employees between jobs in order to ensure both the maintenance of production and the continuity of employment, the agreed principles to apply to transfers, trainees and rehabilitation are outlined in Appendix I.

- 5.3 There will be full co-operation with the commissioning and efficient operation (including team working by hourly graded

employees where deemed to be the most efficient method) of new or existing facilities. Where appropriate, the job evaluation principles based on the Benchmark list attached as Appendix B will apply.

- 5.4 The agreed standard arrangements in respect of shift working practices outlined in Appendix J apply with immediate effect. It is agreed, in the interests of achieving full use of facilities, that Employees will co-operate in working to the shift patterns established. No special shift payments will be claimed or introduced other than those included in the appropriate Appendices. In the case of three-shift working and double-day shift working, if the Trade Unions object to the introduction of these shift patterns where they have not been worked before, agreement will be reached or Procedure will be exhausted and due notice given before introduction.

5.5 The maintenance of a high quality of work is recognised as being essential. Accordingly, it is agreed that all Employees will co-operate with existing and revised arrangements for the maintenance and improvement of quality, for example, the introduction of 0521, and in particular the use of equipment and facilities including the calibration of gauges and tools to meet the Engineering specifications in current and future models. In addition, Employees will co-operate fully with measures and procedures which the Company employs to improve and maintain the quality of services it provides to customers.

- 5.6 Full co-operation will be given to the establishment and efficient operation of scheduled maintenance practices and procedures; and to the introduction of more efficient methods of using available maintenance resources, including with training where appropriate, the identification of overlap areas between trades which can efficiently be covered by tradesmen of any of the trades involved; this is not intended to undermine the essential skills of any trade. In such circumstances domestic discussions will take place and, where any individual Trade Union considers that its craft interests are affected by the proposed change, it will have the right to raise the matter at a specially convened Extended Plant Conference.

- 5.7 It is agreed by the Parties that the reduction of overtime working is an important priority, both with regard to improving the efficiency of operation of the business, and to increasing the bonus earning potential of Employees. The Unions undertake to ensure that no restrictive practices will be applied to overtime, e.g. 'one in, all in', guarantees of overtime, etc. Management, in the light of operational needs, will arrange and allocate overtime on a fair and efficient basis. This would not preclude the efficient operation of domestically agreed overtime rotas.

5.8 Full co-operation will be given to ensure the maintenance of work records, including the regular booking of work.

- 5.9 Employees will continue to record their attendance by means of clocking or other appropriate procedures as established in each plant. Employees will operate with measures to improve the efficient utilisation of the full working shift.

- 5.10 Employees will co-operate fully in the elimination of the wasteful use of resources, e.g. scrap, unnecessary operations, energy including heating and lighting, tools, consumable materials, etc.

INDUSTRIAL ENGINEERING TECHNIQUES

- 5.11 The Unions recognise the Company's right to establish and maintain work standards and assignments in accordance with the mutually agreed procedures outlined in this Agreement. The Company recognises the right of employ-

ees and their representatives to be notified prior to commencement of a study, to be kept fully informed and involved in that process. Both parties recognise the importance of fairness in the establishment of effort rating, and accordingly it is accepted that all work standards should reflect normal working conditions and the effort and quality of work expected from an experienced employee.

5.12 In detail, the Unions accept the Company's right of access at all times to all recognised industrial engineering techniques in any direct and indirect areas in order to—

- Develop and implement estimated provisional work standards for the introduction of new/changed facilities and for new or facelifted models/components;
- Develop temporary work standards to cover those operations which, for a limited period, do not conform to the most economical plan;
- Investigate the sequence and method of performing operations, and subsequently establish work standards based on the most economical and practical method;
- Develop and implement work assignments to ensure the most effective balance at planned volumes, using standards derived from the methods and techniques in this Agreement;
- Review, audit and revise work standards and work assignments where it is possible to improve them or where changes have occurred in operating conditions, e.g. to methods, facilities, tooling, product, design, layout, materials, etc. (N.B. This clause is intended to provide the means of keeping standards up-to-date with developing circumstances; it is not the intention that jobs should be subject to frequent re-measurement.)
- Investigate and, if necessary, revise work standards and work assignments where an error or omission has been made;
- Measure the capacity/capability of new or refurbished plant and equipment during its commissioning and at any time during its production, in order to ensure that it can achieve and maintain its designed production capability.

- Achieve maximum utilisation of plant and equipment—
 - Operate relief procedures, where applicable, to cover all or part of relaxation allowances;
 - Where necessary, use relief operators to cover for latecomers at the start-up of each half shift;
 - Establish absentee cover to offset the effects of non-attendance.

- Identify production problems and suggest an implement method changes in the interest of improving and maintaining the efficient use of all resources.

5.13 The Company accepts its responsibility to—

- Ensure that as work standards are established they will be based on specified operating conditions using an appropriate recognised industrial engineering technique;
- Ensure that work standards, as established in each plant, are established on the basis of an achievable work pace denoted by a rating of 100 on the British Standards Institute scale of rating;
- Ensure that relaxation allowances covering personal needs, fatigue recovery and working conditions are incorporated in the work standards or work assignments, where appropriate;
- Ensure that variable relaxation allowances will apply to those elements where exceptional conditions apply.

- Apply common allowance policies across BL Cars, as defined by the Industrial Engineering Policies and Procedures Manual;

- Ensure that no work methods specified infringe the requirements of the "Health & Safety at Work Act";
- Provide mutually agreed facilities for training a specified number of shop stewards in basic industrial engineering techniques;
- Give prior notification to the employee to be studied and his shop steward of the intention to carry out an industrial engineering study of the work and the purpose of that study and where appropriate discuss the job with them to take into account their experience and job knowledge.

- 5.14 The Company and the Unions accept that the techniques to be used to establish work standards are based on those recommended by the Institute of Management Services, or the MTM Association, or the British Standards Institute. The most common techniques used are, as follows—

- Time study (including performance rating);
- Pre-determined motion time systems (including MTM);
- Analytical estimating;
- Activity sampling/rated activity sampling;
- Production studies (including performance rating);
- Category estimating;
- Synthetic;
- Method study.

It is agreed that cinematography will not be used for the purpose of setting work standards and manning levels.

- 5.15 Appendix G contains further agreed notes for guidance on the application of industrial engineering techniques, together with agreed procedures for the resolution of problems arising from the application of work standards.

INCENTIVE PAYMENT SCHEME

5.16 The measures to improve labour productivity referred to in paragraph 5.1 are supported by the operation of the Productivity and Incentive Payment Scheme detailed in Appendix F. The Scheme links bonus earnings to improvements in performance over the Bonus Threshold Target efficiency level set for each establishment.

5.17 A separate Bonus Threshold Target will be established for each Manufacturing Plant, Service Centre and for Parts Division.

5.18 Measurements will be made over periods of four consecutive weeks in each establishment.

5.19 The Company previously proposed a Bonus Threshold Target established at the level of efficiency which was required to fund Parity plus 3%. It has now been agreed that for the period until 1 November 1980 when the original Bonus Threshold Target will be re-established a new Bonus Threshold Target will be set at the level of efficiency which was required to fund Stage II Parity. In the period 1 November 1979 to 31 October 1980 therefore, the maximum potential bonus will remain at £15 per 40 hours but the number of bonus points will be increased to 25 from the new lower threshold and will have the following values:

1-5 points	25p per point
6-10 points	50p per point
11-25 points	75p per point

5.20 Bonus will be paid 15 times a year as a supplement to earnings.

5.21 Where the productivity measures contained in this Agreement fail to generate the required improvements in efficiency the Bonus Threshold Target may be reviewed by the Company at the time of the annual wage review.

5.22 Management will continue to be responsible for the Company's production plans, schedules, programmes, and for the

control of all categories of inventory. Opportunity will be given for the Trade Unions to contribute their views.

SECTION 6: PAY AND BENEFITS

GENERAL PRINCIPLES

- 6.1 The Company and the Unions have a joint interest in making the Company successful and in improving both the level of remuneration and the security of all Employees. It is jointly recognised that the Company's ability to pay for such improvements depends upon its overall financial performance and profitability.
- 6.2 The Company for its part undertakes to improve levels of remuneration and Employee security, provided always that its financial position so allows.
- 6.3 The Parties to this Agreement understand and accept that a major impact upon financial performance is made by continuity of production.
- 6.4 The Unions for their part will do everything within their power to achieve continuous production by means of reducing unauthorised absence, unauthorised industrial action and other potential causes of dislocation. The Company will do everything in its power to achieve effective continuity of production.

PARITY

6.5 The Parties to this Agreement undertake to uphold the principles now established for equitable pay determination. It is accepted that "parity of pay" is defined as the same grade rate of pay for the same occupation, given a consistent standard of performance.

6.6 It is agreed that parity of pay can be established only when linked to a grade structure which is based upon and maintained by sound mutually agreed job evaluation principles. Five grade structures, based upon the agreed BL Cars Benchmark structure, included as Appendix B, have now been established in each plant. In these circumstances, the Company, as part of this comprehensive Agreement, and upon its full implementation, is prepared to establish the parity rates of pay defined in this Agreement in all PBR plants which have introduced their approved five grade structure.

RATES OF PAY

6.7 Pay structures for the categories of employee covered by this Agreement are included in Appendix C and subject to the conditions, timings and other qualifications included in that Appendix.

6.8 The rates of pay that will apply to adult Employees on normal dayshift in the 5-grade structure appear in table A below.

Rates for other shift patterns, and pay structures for other categories of Employee, are included in Appendix C.

BENEFITS

6.8 The provisions of the Security of Earnings Agreement will continue to apply as part of this Agreement with the following two changes—

- Layoff Guarantee: This Guarantee will not apply where the layoff has been caused by industrial action within BL Cars (including BL Technology Ltd), Industrial action

means any form of collective action which restricts and/or prevents normal working.

- Sick Pay Fund: For the period ending 31 October 1980 the per capita amount to be used for calculating plant funds will be £14.66 per quarter.

6.9 Pre-Retirement Courses: To help prepare employees for retirement, the Company is prepared to agree to extend to all plants the practice of providing for pre-retirement courses to employees in their last year of employment. While attending an authorised pre-retirement course the employee's normal grade rate of pay, plus any bonus earned in accordance with paragraph 12 of Appendix F, will be maintained.

6.10 Special Working Conditions Payments. There are certain special intermittent job requirements, not attached to a degree of skill or job grade, which is agreed should when required by the Company be recognised by an additional payment or guarantee. In consequence, Appendix D lists the agreed standard arrangements in respect of those specified occasional payments which will be in future apply. The principles of qualification contained in Appendix D outline the only circumstances in which payments additional to the grade rates will apply.

BENEFITS AND CONDITIONS OF EMPLOYMENT FOR CRAFT APPRENTICES

6.11 Craft Apprentices will, additionally, have applied to them the agreed common conditions of employment included in Appendix E.

SECTION 7: COMPREHENSIVENESS

7.1 This comprehensive Agreement on pay and conditions replaces and supercedes all other provisions of previous agreements (including customs and practices relating to them) the subject matters of which are contained within this Agreement.

7.2 This Agreement will settle all outstanding claims for the equalisation of pay and associated conditions of employment. No new payment arrangements or pay levels will be introduced outside the terms of this Agreement except those resulting from relevant agreements between the CSEU and the EEF.

7.3 No action will be taken by any of the Parties to this Agreement in furtherance of any modification or suspension of the provisions or principles contained herein prior to 1 November 1980, nor, prior to that date, will there be any form of sure upon the Company to make concessions which will result in increased costs or reduced efficiency.

SECTION 8: ADMINISTRATION

8.1 No modifications or amendments can be made to any of the provisions outlined within this Agreement, except by the agreement of the JNC. Any problem encountered in the interpretation of this Agreement, or any question of its application,

at plant level, may be referred by either Party, through its channels, to the JNC for resolution.

8.2 Certain provisions of this Agreement, in particular the rates of pay in Appendix C, are subject to annual review on 1 November each year, joint discussions on which should begin at the August meeting of the JNC each year. The provisions of this Agreement shall continue to operate until negotiations on the review have been concluded.

APPENDIX A THE PLANTS

1 INTRODUCTION

Except where it is expressly stated otherwise, the provisions of this Agreement apply to all hourly graded employees who fall within the scope of the organisational entities known as BL Cars Ltd. and BL Technology Ltd. All such employees will be based at or associated with one of the following designated plants, which in general reflect previous plant negotiating boundaries. This list is not an exhaustive site list, as a number of locations will frequently fall within the one designation.

- Abingdon Assembly
- Alford & Alder
- Beans Engineering
- Beans Foundries
- Bordeley Green
- Butley Electrics
- Canley Assembly and Engines & Transmissions Plants
- Castle Bromwich Body
- Common Lane
- Covey's Engines
- Cowley Assembly
- 12 Cowley Body
- 13 Drevs Lane
- 14 Dunstable Tool & Die
- 15 Jaguar Plants (including Kingfield Road)
- 16 KD Operations (Cowley)
- 17 Liverpool
- 18 Llanelli Pressings
- 19 Llanelli Radiators
- 20 London Service Centre
- 21 Longbridge Operations
- 22 Oxford Exhaust Systems
- 23 Parts Supply Operations - Austin Morris
- 24 Parts Supply Operations - Jaguar, Rover, Triumph (excluding Cardiff)
- 25 Rearsby Components
- 26 Cardiff
- 27 Rover Triumph Cars Solihull
- 28 Land Rover Ltd Solihull (including Garrison Street and Clay Lane)
- 29 Land Rover Ltd Acocks Green
- 30 SU Fuel Systems
- 31 Swindon
- 32 Vanden Plas
- 33 Wellington Foundries
- 34 West Yorkshire Foundries

2 LANDLORD/TENANT PRINCIPLE

Normal landlord/tenant principles will apply to non-plant employees based on plants. This means that hourly paid employees based on a particular plant will henceforth be employed on conditions of that particular plant irrespective of the part of the organisation which is their employing authority.

3 SATELLITE LOCATIONS

Employees not based on plants will follow the plant to which the site is historically attached.

APPENDIX B

BENCHMARK LIST AGREED BY THE CENTRAL JOINT JOB EVALUATION COMMITTEE AND ENDORSED BY THE JNC

GRADE 1		
01 BUILDING TRADESMAN (Bricklayer)	Longbridge	
05 COACH TRIMMER	Castle Bromwich	
56 DIE TOOLMAKER	Swindon	
57 GARAGE MECHANIC	Canley	
27 MAINTENANCE FITTER	Liverpool	
35 PATTERMAKER	Cowley Body	
37 PIPEFITTER	Swindon	
48 SHEET METAL WORKER	Bordesley Green	
60 WOOD MACHINIST	Jaguar - Browns Lane	
GRADE 2		
01 ARTIC DRIVER (HGV 1)	Longbridge	
03 BODYMAKER	Castle Bromwich	
36 BODY SPRAYER (Final Colour)	Jaguar - Browns Lane	
11 ENGINE TESTER	Coventry Engines	
14 FINISHER	Jaguar - Browns Lane	
16 FLOATER (Assembly)	Solihull	
19 FURNACEMAN	Coventry Engines Foundry	
21 HEAT TREATMENT OPERATOR	Tyseley	
25 MACHINE TOOL SETTER	Coventry Engines	
40 PRESS SETTER	Liverpool	
22 PRODUCTION LAYOUT INSPECTOR	Tyseley	
46 SETTER OPERATOR	Cardiff	
51 SKILLED GRINDER (Production)	Cardiff	
59 WELDING OPERATOR	Tyseley	
GRADE 3		
02 ASSEMBLER/ELECTRONICS	Butec Electric	
05 COREMAKER	West Yorkshire Foundry	
05 CO2 WELDER	Llanelli Radiators	
09 CRANE DRIVER/SLINGER	Cowley Body	
24 DECOLLER OPERATOR	Weston	
13 FETTLER	Beans Foundry	
15 FITTER ASSEMBLER (Track Assembler)	Solihull	
20 GENERAL MACHINIST	Cardiff	
31 KD OPERATOR	KD Cowley Beans Foundry	
30 MOULDING MACHINE OPERATOR		
(Plastics Department)	Llanelli Pressings	
33 PAINT OPERATOR	Vanden Plas	
34 PARTS SERVICING OPERATOR	Parts SO(AM)	
38 PLASTIC OPERATOR (Fabricator)	Vanden Plas	
39 PRESS OPERATOR	Vanden Plas	
42 PRODUCTION INSPECTOR	Cowley Assembly	
45 SCALER	Castle Bromwich	
47 SEWING MACHINIST	Vanden Plas	
49 SHOT BLASTER	Acocoks Green	
52 STOKER FIRST CLASS	Drews Lane	
50 WHEELABRATOR	Beans Foundry	
GRADE 4		
06 COMPRESSOR HOUSE ATTENDANT	Coventry Engines	
10 ELECTRICAL WSO	Solihull	
12 FERRY DRIVER	Canley	
17 FORKLIFT TRUCK DRIVER	Abingdon	
18 FOUNDRY PRODUCTION LABOURER	West Yorkshire Foundry	
26 MACHINE OILER	Drews Lane	
28 MATERIAL HANDLER	Perry Barr	
32 PAINT MIX	Common Lane	
41 PROCESS WORKER/DEGREASING	Jaguar - Browns Lane	
43 PRODUCTION LABOURER	Llanelli Radiators	
44 REFUSE COLLECTOR DRIVER	Solihull	
57 SENIOR PROGRESSMAN	Longbridge	
55 STOREKEEPER	Longbridge	
GRADE 5		
23 LIFT ATTENDANT	Garrison Street	
54 SWEEPER/OFFICE CLEANER	Perry Road	
55 TOILET CLEANER	Cowley Assembly	

APPENDIX C RATES OF PAY

The appropriate rates of pay and premium rates outlined in the tables 1, 2 and 3 will apply to all employees covered by this Agreement. The rates will be payable from 1st November 1979 with one exception; employees still on PBR systems of payment. It had previously been agreed that all remaining PBR employees should convert to measured daywork by November 1979. Accordingly, where this has not occurred the appropriate grade rates outlined will apply from the date of actual conversion, but without retrospective.

Compensatory Payment

2 It is agreed that all individuals

whose standard pre-parity rate of pay was above the appropriate originally agreed parity target rate will move to their appropriate grade rate or rate for age from 1st November 1979. Concurrent with this movement a payment in compensation will be paid which will be equivalent to 52 times the weekly difference between their standard pre-parity rate of pay (including incomes policy supplements and standardised plus payments) and their pre-November 1979 Final Parity Target rate.

National Minimum Rates

3 Where the Company, for certain groups, has previously maintained a differential over national minimum rates for NMR purposes, either as a consequence of the terms of the National Agreement or as a consequence of the terms of

TABLE 1 RATES OF PAY - INDUSTRIAL GRADE STRUCTURE

GRADE	Standard Hourly Rate		Standard Shift Working 40 Hour Rate		3 Shift Working 1st & 2nd Shift Nightshift*		Overtime Premium Base Rate	
	£	£	£	£	£	£	£	£
1	2.45	98.00	122.33	112.70	122.50	1.825	73.00	
2	2.245	89.80	114.13	103.27	112.25	1.825	73.00	
3	2.20	88.00	112.33	101.20	110.00	1.825	73.00	
4	2.02125	80.85	101.41	92.98	101.06	1.54225	61.69	
5	1.8375	73.50	91.00	84.53	91.88	1.3125	52.50	

* Rates include shift premium payments.

† Rates include shift payments.

TABLE 2 RATES OF PAY - CANTEEN DIRECT EMPLOYEES

GRADE	Standard Hourly Rate		Standard Shift Working 40 Hour Rate		Overtime Premium Base Rate	
	£	£	£	£	£	£
1	1.9295	77.18	94.68	1.3125	52.50	
2	1.8835	75.34	92.84	1.3125	52.50	
3	1.8375	73.50	91.00	1.3125	52.50	
4	1.7915	71.66	89.16	1.3125	52.50	

* Rates include shift premium payment.

TABLE 3 RATES OF PAY - APPRENTICES/YOTS

AGE	Standard Hourly Rate		Overtime Premium Base Rate	
	£	£	£	£
16	37.50	0.9375	0.82125	32.88
17	43.80	1.095	1.095	43.80
18	54.75	1.36875	1.36875	54.75
19	65.70	1.6425	1.6425	65.70
20	72.25	1.80625	1.80625	72.25

district agreements reached with an Engineering Employers' Association, then such obligations will continue to be honoured. This represents the only exception to the application of the premium rates outlined overleaf. Should the Company cease to be covered by National or District Agreements, only the standard rates will be applied. Before the Company ceases to be so covered, discussions will first take place with the Trade Unions, which are expressly required to be honoured by the National Agreement between the EEF and the CSEU.

4 The national minimum rates will be used, from 1st November 1979, in the calculation of premium payments and the monetary guarantee of the National Guarantee of Employment Agreement.

APPENDIX D STANDARD ADDITIONAL PAYMENTS, TOGETHER WITH THE PRINCIPLES APPLYING TO THEIR APPLICATION

Introduction

1 The Parties have agreed to a system of job evaluation which takes account of disparities in working conditions. Additionally, the relaxation allowances built in to job times will reflect a recognition of special working requirements and/or extreme conditions. In consequence, it has been agreed that all conditions, payments and/or guarantees in existence prior to the signing of this Agreement will lapse with the implementation of the First Stage of Parity, and no new payments will be introduced.

- Paint Sprayers
- Wax Sprayers
- Undersealers
- Leadbottom operators

A period of two calendar months from the date of signing of this Agreement will be allowed during which, by joint agreement of the JNC, this guarantee may be extended to cover other special occupations where it can be demonstrated that, within the spirit and intention of this provision, an equal justification for so doing exists. Thereafter, this guarantee will apply without further addition or change.

Contractual Clothing

4 A maximum of one hour at overtime rates per shift will apply on the following basis:-

- 15 minutes prior to start of shift,
- 15 minutes at beginning of main break,
- 15 minutes prior to end of main break,
- 15 minutes after the end of shift.

5 The above overtime will be contractual, and must be clocked to be paid. Since it is contractual, the Company has a contractual obligation to make this payment, and the employee has a contractual obligation to attend at the time stated, equivalent to the standard obligation to attend during the normal 40 hours. Repeated lateness where this guarantee applies will, in consequence, be subject to the usual disciplines.

Conditions

6 This guarantee will only apply where excessive protective clothing is necessary in circumstances where this payment does not reflect the need for tugging and/or cleaning and where production requirements are such that the employees concerned are required to begin production work at the beginning of the shift/half shift and/or are required to work on production to the end of the shift/half shift. Thus, in circumstances where an individual is required to be ready for work at the start of the shift but where cleaning up time is built in to the end of the shift/half shift, eligibility for the above guarantee will be limited to 30 minutes per shift; it is 15 minutes at start of shift in circumstances where the normal mealbreak. In addition, where a shift is commenced but only half a shift worked a maximum of 30 minutes overtime guarantee will apply. If work ceases during a shift and cannot be recommenced, and at least 15 minutes down time is available prior to the normal end of shift/half shift, then the guarantee at end of shift/half shift will not apply, although if appropriate, an extra 15 minutes at grade rate will be paid prior to shut out.

7 The above principle will equally apply when the full shift guarantee under the Security of Earnings Agreement has been brought into effect.

8 In circumstances where less than a full shift is worked, any additional dress up/clean up time will, in accordance with the National Agreement, be paid at Normal grade rate.

9 It is further agreed that, in circumstances where lateness occurs, there will be co-operation to ensure that the normal production start-time is maintained.

● CHRISTMAS DAY, BOXING DAY AND NEW YEAR'S DAY WORKING

10 It is recognised that being required to work on Christmas Day, Boxing Day and New Year's Day, is particularly unusual. All employees therefore who are required by the Company to attend for work during the 48 hours commencing at midnight on Christmas Eve and ending at midnight on Boxing Day, and during the 24 hours commencing at midnight on New Year's Eve and ending at midnight on New Year's Day, are eligible for the levels of payment outlined below.

Level of Payment

11 Payment for each clocked hour of attendance will be on the basis grade hourly rate plus time at premium rate plus a Special supplement of grade hourly rate.

12 Payment will be for three hours or the clocked hours of attendance, whichever is greater.

13 Thus, for example, a Grade 1 employee would receive an hourly rate made up as follows:

£2.45 + £1.125 + £2.45 = £6.725 with a minimum level of payment equivalent to—

3 x £6.725 = £20.175

14 In addition, any attendance on Christmas Day, Boxing Day or New Year's

Day will earn an entitlement to a consequential day of holiday for which normal holiday pay will apply unless previously paid.

B. Special Payments reflecting the needs of certain plants for a voluntary fire brigade or first aid cover

● PART-TIME FIRE BRIGADES

15 All trained part-time firemen required by those plants which operate voluntary fire brigades will receive an allowance on the following basis:

- Chief Fireman £78 per annum
 - Fireman £52 per annum
- 16 This allowance may be paid weekly or quarterly in advance as agreed locally.
- 17 In addition, hours of attendance at necessary fire drills conducted outside working hours will be paid for at the appropriate overtime rate.
- 18 No payment will be made for attendance at competitions or demonstrations.

● FIRST AID ALLOWANCES

19 In circumstances where a full time medical service cannot be provided and the Company, in consequence, has required designated qualified First Aiders to so act on a part-time basis additional to their normal duties, an allowance will be paid at the rate of £52 per annum. This allowance may be paid weekly or quarterly in advance as agreed locally.

C. The refund of HGV driving licence fees

20 The Company will refund fees for the issue and renewal of HGV driving licences where drivers are required, as a part of their job, to hold such licences.

APPENDIX E CRAFT APPRENTICE CONDITIONS OF EMPLOYMENT

1 It has been agreed that craft apprentice conditions of employment should be standardised. This requires that all apprentices to be classified as hourly paid employees and, to achieve this, it is agreed:-

- (a) that the common hourly paid conditions outlined in this Agreement should apply to all new entry craft apprentices from 1st November 1979, and
- (b) that existing staff conditions of employment will be maintained on a personal basis until they disappear once current apprentices have completed their apprenticeships.

2 The following common conditions will apply to all craft apprentices from 1st November 1979:-

- (a) The cost of Company approved course and examination fees for apprentices will be borne by the Company, except where met by the Local Education Authority. Course fees will be paid for one retake and relevant examination fees will be reimbursed on proof of passing.
- (b) For text books approved by the Company a reimbursement of 50% up to a maximum of £10 for first year's books and £5 for subsequent years' books, may be claimed on proof of purchase.
- (c) Public transport costs will be reimbursed, and also second class rail fares, if they are not already reimbursed by the appropriate Local Education Authority, for travel between plants/colleges for training purposes.
- (d) Where an apprentice has to rent temporary accommodation in order to attend a college for a period of block release, the Company will refund the cost of Company approved lodgings/accommodation agreed receipts.
- (e) Both the Company and the Unions should be aware of industrial

health and safety from the outset of their career in the industry, and to encourage this it has been agreed that the Company will, during the period of training, provide three free pairs of overalls initially, and one replacement pair annually. All overalls will be cleaned and maintained free of cost. The Company will also provide, when first recruited, a free pair of approved safety shoes and subsequently 50% of the cost of one pair of safety shoes per year.

(f) Tool allowances will be confined to those required as a consequence of the Company's membership of the Engineering Employers' Federation, i.e. patternmaker apprentices.

(g) Four week bonus periods will subsequently be established and published.

APPENDIX F PRODUCTIVITY AND INCENTIVE PAYMENT SCHEME

INTRODUCTION

Purpose

1 This Appendix records understandings reached upon:-

- (i) the establishment and operation of incentive arrangements which provide a link between employee earnings and improvements in labour productivity,
- (ii) other measures to improve productivity.

This Appendix is of fundamental importance to the future well-being of the Company and its employees. Its implementation will provide employees with a real and immediate opportunity to share in the benefits of increased labour productivity and at the same time contribute to raising the competitiveness of BL Cars.

2 The Parties agree that changes in Current Work Standards from remeasurement, method improvements and non-product related capital investment will be implemented at the point of change. This change will not be reflected in the 'Standard Hours Produced' taken into the calculation of the Current Efficiency until three complete bonus periods following the Current Work Standards change.

Carry Forward

7 Standard Hours which are 'surplus' when a bonus calculation is made in that they lift the Efficiency Index above the 1.25 ceiling, may be carried over to the next bonus period.

Standard Hours Produced carried forward will be added into the following bonus period's efficiency calculation before any bad week adjustment being made.

Parts Division

8 The following arrangements will apply to the Parts Division:

- (a) The Efficiency Scheme will be based upon Parts Division as a whole.
- (b) A Parts Efficiency Index will be calculated for the Division as a whole in accordance with formula A below.
- (c) A bonus payment will be generated when the Parts Efficiency Index exceeds 1.00. Table 1 shows the bonus payments potentially available. Allowable hours which are 'surplus' when a bonus calculation is made in that they lift the Parts Efficiency Index above the 1.25 ceiling may be carried over to the next bonus period.
- (d) Before bonus is paid in respect of any bonus period a minimum sales total must be achieved for the Division. The minimum is 95% of the total obtained by multiplying the Net Sales Value per employee hour at the Bonus Threshold Target level by the total basic hours potentially available.
- (e) Allowance will be made for the seasonal nature of the Parts Division business when calculating the Parts Efficiency Index. Bonus points will be the weekly average over the 16 week period which ends on the last day of the bonus period. The purposes of calculating bonus payments will be the Accounting Periods which apply in Parts Division. These are of four or five weeks duration.

9 The following bonus arrangements to be called Efficiency Scheme will be set up for each of the establishments identified in Attachment 1, with the exception of the Parts Division and Service Operations (see below).

- (a) Changes in labour productivity within a plant will be measured by comparing labour efficiency in the bonus period (the current efficiency) with that set by the Bonus Threshold Target.

Current Efficiency = Actual Hours (Direct and Indirect) in the Bonus Period

Standard Hours Produced in the Bonus Period

Efficiency Index = Bonus Threshold Target

10 The Parties agree that changes in Current Work Standards from remeasurement, method improvements and non-product related capital investment will be implemented at the point of change. This change will not be reflected in the 'Standard Hours Produced' taken into the calculation of the Current Efficiency until three complete bonus periods following the Current Work Standards change.

(b) The Efficiency Index and Bonus Payments. An Efficiency Index will be calculated for each establishment each bonus period from the formula:

Efficiency Index = Bonus Threshold Target / Current Efficiency

11 Bonus payment will commence when the Efficiency Index exceeds 1.00 and increase to a maximum when the Efficiency Index equals 1.25. Hereafter, for convenience each 0.01 increase in the Efficiency Index is described as a bonus point. See Table 2 for the relationships between the Efficiency Index, bonus points and bonus payments.

(c) Four week bonus periods will subsequently be established and published.

'Bad Week' Adjustment

5 Should an Efficiency Index be drawn below 1.00 because of the impact of one poor performance week in that bonus period where the poor performance of that week resulted from problems external to BL Cars, an adjustment will be made to enable a bonus payment to be generated. The standard hours in the week having the lowest labour efficiency will be increased to give an Efficiency Index of 1.00. The Efficiency Index will then be recalculated for the whole of bonus period. For the purpose of this adjustment the week will commence and finish with the end of the Sunday dayshift.

Productivity Commitment

6 The Parties agree that changes in Current Work Standards from remeasurement, method improvements and non-product related capital investment will be implemented at the point of change. This change will not be reflected in the 'Standard Hours Produced' taken into the calculation of the Current Efficiency until three complete bonus periods following the Current Work Standards change.

7 Standard Hours which are 'surplus' when a bonus calculation is made in that they lift the Efficiency Index above the 1.25 ceiling, may be carried over to the next bonus period.

Standard Hours Produced carried forward will be added into the following bonus period's efficiency calculation before any bad week adjustment being made.

Parts Division

8 The following arrangements will apply to the Parts Division:

- (a) The Efficiency Scheme will be based upon Parts Division as a whole.
- (b) A Parts Efficiency Index will be calculated for the Division as a whole in accordance with formula A below.
- (c) A bonus payment will be generated when the Parts Efficiency Index exceeds 1.00. Table 1 shows the bonus payments potentially available. Allowable hours which are 'surplus' when a bonus calculation is made in that they lift the Parts Efficiency Index above the 1.25 ceiling may be carried over to the next bonus period.
- (d) Before bonus is paid in respect of any bonus period a minimum sales total must be achieved for the Division. The minimum is 95% of the total obtained by multiplying the Net Sales Value per employee hour at the Bonus Threshold Target level by the total basic hours potentially available.
- (e) Allowance will be made for the seasonal nature of the Parts Division business when calculating the Parts Efficiency Index. Bonus points will be the weekly average over the 16 week period which ends on the last day of the bonus period. The purposes of calculating bonus payments will be the Accounting Periods which apply in Parts Division. These are of four or five weeks duration.

FORMULA A	
Parts Efficiency Index =	$\frac{\text{Allowable Hours}}{\text{Actual Hours}}$
The Allowable Hours total is determined by the following formula:	
Allowable Hours =	$\frac{\text{Net Sales Value}}{\text{Net Sales Value per employee hour at the Bonus Threshold Target level}} + \frac{\text{Stockcounted Value}}{\text{Value of stock counted per employee hour at the Bonus Threshold Target level}}$
Note: All values will be calculated at constant, i.e. January 1979 prices.	

(e) The Productivity Commitment provisions described in paragraph 6 will apply within Parts Division.

(f) The following adjustments will be made when calculating the Parts Efficiency Index:

● **Direct Shipments from Plants/Autoprim UK**

Net Sales Value will be adjusted so as to exclude direct shipments from plants and Autoprim (UK).

● **Adjustments to Actual Hours**

The following actual hours will be excluded from efficiency calculations:

(i) Hours expended on authorised capital or capital related work orders.

(ii) Hours worked by Craft Apprentices/ Youth Operator Trainees.

● **Surplus Manpower Concession**

The arrangements described in paragraph 26 will apply within Parts Division.

● **Change Situation**

The arrangements described in paragraph 25 will apply to the Parts Division Efficiency Scheme when appropriate.

● **The Midland and London Service Centres**

The following arrangements will apply to the Midland and London Service Centres:

(a) A Service Centre's efficiency will be measured by comparing:

(i) Actual Achievement, i.e. the proportion of the total actual hours sold during the bonus period with;

(ii) The Achievement set as the Bonus Threshold Target level.

(b) An Efficiency Index will be calculated in accordance with the following formula:

$\text{Efficiency Index} = \frac{\text{Actual Achievement}}{\text{Bonus Threshold Target Achievement}}$

(c) Table 1 shows the maximum bonus payments potentially available to Service Centre employees.

(d) The provisions of paragraph 5 equally apply to the Service Centres.

(e) The following adjustments will be made when calculating a Service Centre Efficiency Index:

● **Change Situations**

The arrangements described in paragraph 25 will apply to the Service Centres Efficiency Schemes when appropriate.

● **Surplus Manpower Concessions**

The arrangements described in paragraph 26 apply to the Service Centres Efficiency Schemes.

● **Adjustments to Actual Hours**

The provisions described in paragraph 27 apply within the Service Centres.

(f) The provisions of paragraph 6 apply to the London Service Centre.

BONUS PAYMENT ADMINISTRATION

Frequency

10 Bonus payments will be paid to eligible employees thirteen times a year in accordance with the Efficiency Index achieved for the period in question as out-

lined in Tables 1, 2 and 3. Payments will be made as soon as possible; this will not normally be more than four weeks after the end of a bonus period. Where a Verification Committee, see Paragraph 21, is set up within a Plant, payments will not be actioned until the Committee has confirmed that bonus calculations have been made accurately and in accordance with the provisions of this Agreement.

● **Bonus Supplement**

11 Bonus will be paid as an hourly supplement upon all basic hours worked in a bonus period. Apart from the exceptions in paragraph 12 below, no supplement will be paid on any hour an employee is absent from work. Bonus payments will not be paid unless they are earned. Compensation will not be given for the loss of opportunity to earn bonus.

● **Absence without reduction in bonus supplements**

12 A bonus supplement will be paid on each basic hour an employee is released from his normal work under the terms of this Agreement or the appropriate Company policies to:

● attend a course of studies in circumstances where the Company maintains payment.

● carry out public and community duties.

● undertake trade union duties in circumstances where the Company has agreed to maintain earnings.

● **Retirement**

13 Employees who retire during a bonus period will benefit from the bonus payment made during that period.

● **Death in Service**

14 The estate of an employee who dies will benefit from the bonus payment generated in the bonus period in which the death occurs. The payment to the estate will be a full four weeks bonus as generated by the scheme that applied to the employee.

● **Termination**

15 Employees who complete a full bonus period but terminate prior to the normal payment date for bonus will have their entitlement calculated on an emergency basis. The bonus entitlement will be calculated from the best data available at the time and included in the termination pay packet.

● **Transfers**

16 Employees who transfer between employing authorities during a bonus period will be able to benefit from either the receiving or the releasing authority's bonus arrangement whichever is the better. Bonus entitlement will be calculated from the sum of the basic hours worked in the releasing and receiving authorities' areas during the bonus period.

● **New Entrants**

17 Employees who join the Company after the start of a bonus period will be eligible to benefit from bonus arrangements immediately.

● **Craft Apprentices and Youth Operator Trainees**

18 Employees on non-adult scales will be eligible for incentive payments except when they are completing periods of training outside of the Company and are not being paid by BL Cars. Their entitlement which is a proportion of the appropriate adult bonus scale is shown in Table 3.

TABLE 1

ADULT HOURLY RATED EMPLOYEES EFFICIENCY BONUS

Establishment Efficiency Index*	Bonus Points	Bonus Payment Potentially Available to Each Adult Employee		
		Each** Basic Hour	Each 4 Week Bonus Period	Each 5 Week*** Bonus Period
		(Pence)	(£)	(£)
1.25 Maximum	25	37.5	60	75.00
1.24	24	36.625	57	71.25
1.23	23	33.75	54	67.50
1.22	22	31.875	51	63.75
1.21	21	30.0	48	60.00
1.20	20	28.125	45	56.25
1.19	19	26.25	42	52.50
1.18	18	24.375	39	48.75
1.17	17	22.5	36	45.00
1.16	16	20.625	33	41.25
1.15	15	18.75	30	37.50
1.14	14	16.875	27	33.75
1.13	13	15.0	24	30.00
1.12	12	13.125	21	26.25
1.11	11	11.25	18	22.50
1.10	10	9.375	15	18.75
1.09	9	8.125	13	16.25
1.08	8	6.875	11	13.75
1.07	7	5.625	9	11.25
1.06	6	4.375	7	8.75
1.05	5	3.125	5	6.25
1.04	4	2.5	4	5.00
1.03	3	1.875	3	3.75
1.02	2	1.25	2	2.50
1.01	1	0.625	1	1.25
1.001 Threshold	0.1	0.0625	0.1	0.125

* The Efficiency Index will be rounded to give the nearest decimal part of a bonus point.

** Amounts shown to be multiplied by 40/37½ to give bonus per hour for 37½ hour 3 shift workers.

*** This only applies in Parts Division.

TABLE 2

VALUE OF PART OF A BONUS POINT

BONUS POINTS	BONUS PAYMENT PER HOUR (pence)		
	0-5 (25p value per point)	6-10 (50p value per point)	11-25 (75p value per point)
0.9	0.5625	1.125	1.6875
0.8	0.5	1.00	1.5
0.7	0.4375	0.875	1.3125
0.6	0.375	0.75	1.125
0.5	0.3125	0.625	0.9375
0.4	0.25	0.5	0.75
0.3	0.1875	0.375	0.5625
0.2	0.125	0.25	0.375
0.1	0.0625	0.125	0.1875

TABLE 3

CRAFT APPRENTICES AND YOUTH OPERATOR TRAINEES EFFICIENCY BONUS

Age	Percentage of Appropriate Adult Bonus Payment
20	95%
19	90%
18	75%
17	60%
16	45%

Payments and Status of Bonus points nor will supplements arising from the requirements of public pay policy.

● **Administrative Procedures and Count Points**

20 The Company will determine the administrative procedures (including count points) necessary to operate the bonus arrangements. The Plant Works Committee or the equivalent negotiating body will be given the opportunity to fully discuss these administrative procedures when first established. The Joint Verification Committee will subsequently have

full access to these procedures and will be entitled to scrutinise their operation in accordance with paragraph 21 below.

● **Joint Verification Committees**

21 Joint Verification Committees may be set up in an establishment. Such Committees will be given the opportunity to:

(a) Scrutinise the data which has determined:

● Standard Hours Produced.

● Adjustments to Standard Hours Produced.

● Actual Hours.

● Adjustments to Actual Hours.

● Bonus entitlements.

● The Current Efficiency Index.

(b) Satisfy themselves that calculations have been performed accurately and in accordance with the provisions of this Agreement. (Bonus entitlements will not be paid until the Verification Committee is satisfied in this respect.)

(c) Act as a channel for satisfying employees questions and queries upon the operation of the scheme.

(d) Discuss unresolved queries and difficulties with the appropriate specialists from payroll or other activities. Such meetings will be arranged through the Personnel Manager.

22 The number of shop stewards upon the Committee shall be determined domestically. The method of selection of shop stewards shall be determined by the Unions.

● **Review Arrangements**

23 The Company and the Unions will regularly monitor the effectiveness, accuracy and operation of the procedures and records underlying bonus arrangements. Employees will assist and co-operate with the monitoring exercise as necessary.

● **ADJUSTMENTS TO HOURS**

● **Change Situations**

24 In order to provide an opportunity for bonus earnings to be maintained, the arrangements described in paragraph 25, 26 and 27 will apply when one of the following significant changes occurs - a new product launch, or facility action (facilit) or line speed change which is likely to affect the Efficiency Index by more than 0.02 in any bonus period.

● **Launch, Facelifts and Facility Changes**

25 These changes will be treated in the same way.

(i) A programme will be established setting out the required rate of climb of production to meet the planned completion date. This will be discussed with the Plant Works Committee or equivalent. It will set out:

(a) Timing for the completion of the change.

(b) The manpower allocation, including any temporary excess labour at each stage of the programme.

(c) The production volume to be reached upon completion (the target volume).

(d) The planned rate of climb of production over the change period.

(ii) Each bonus period, the contribution of the change area to the maintenance of bonus earnings will be calculated in the following manner:

(a) The actual standard hours produced per man hour clocked.

(b) The target standard hours produced per man hour clocked as scheduled in the change programme.

(c) The proportion that (i) (a) forms of (i) (b). The proportion may exceed 1.00.

(d) The proportion that the direct actual manpower forms of the direct manpower allocation at the final target volume.

(e) The 'standard hour produced' taken into the plant bonus calculation from the change area will be the product of multiplying the 'standard hours produced' value of the target volume by the proportions calculated in (i) (c) and (i) (d).

(iii) All hours clocked in the change area, including temporary excess labour, will be taken into the plant bonus calculation.

● **Surplus Manpower Concession**

26 In circumstances where surplus manpower has been generated within the Plant by changes to programme requirements, necessitating revised operating strategies/patterns or man assignments, the Company will:

(i) Permit those employees nominated as surplus to continue to benefit from bonus arrangements.

(ii) Exclude for an 8 week period the hours of those declared surplus when calculating plant efficiency indices.

These concessions will not be introduced or continued should there not be co-operation with those measures which seek to reduce the manpower surpluses and maximise the effective utilisation of labour.

● **Adjustments to Actual Hours**

27 The following actual hours will be excluded from Efficiency calculations:

(i) Hours expended on authorised capital related Works Orders including the manufacture of new Body Tooling.

(ii) Hours clocked by employees on non-adult scales.

(iii) Hours allocated to stocktaking where stocktaking is not part of the normal duties of the employee concerned.

(iv) Rectification hours which are authorised as rechargeable to suppliers outside of BL Cars Limited.

● **New and Adjusted Standard Hours**

28 Standard hours will be adjusted to reflect all Engineering Changes, including new models, facelifts, major new components and sub assemblies, every 4 weeks at the commencement of a Bonus Period.

Standard hours will be adjusted to reflect sourcing changes and transfers as they occur.

● **Quality**

29 Actual hours worked correcting quality defects will be included in the Efficiency calculations. If the defective unit has been counted once for bonus calculation purposes it will not be counted again when the defects have been corrected.

● **Plant Audit**

30 Attachment 3 describes an Audit procedure which is to be brought into operation in the Company from January 1990. This procedure cannot be actioned unless both Management and Unions agree that it is appropriate to invite the audit team into the plant.

It is designed to allow plants which are (a) maintaining high levels of efficiency, and,

(b) working in accord with the Industrial Engineering provisions of this Agreement, to be evaluated and considered for the introduction of the alternative incentive arrangements outlined in Attachment 3.

● **Establishments with PBR elements in their payment systems**

31 Beans Engineering, Hurst Lane, will not be covered by the Productivity and Incentive Payments Scheme until it has converted to a flat rate system of payment aligned with the remainder of the Company. Similarly, the PBR Sections at Cowley Body Plant will not be covered by the terms of this scheme until their wages system is revised to a flat rate system. The timing and nature of that process is not affected by the principles outlined in this Appendix.

ATTACHMENT 1 (Appendix F)

EMPLOYING AUTHORITIES - EFFICIENCY SCHEMES

Employees whose employing authority is listed below will benefit from the Efficiency Scheme associated with that authority, regardless of their work location.

Employing Authority	Efficiency Scheme
AUSTIN MORRIS LIMITED Plant Director, Cowley Engine Plant Plant Director, Cowley Assembly Plant Operations Director, Lonbridge	Cowentry Engine Plant Cowley Assembly Plant Lonbridge Operations Note: Includes Kings Norton, Bargoed, Wythall Common Lane Plant Note: Includes Adderly Park, Smiths and Brickfields KD Operations Western Avenue Service Centre Drews Lane Plant Abingdon Assembly Plant
Plant Director, Common Lane Plant	Note: Includes Adderly Park, Smiths and Brickfields KD Operations Western Avenue Service Centre Drews Lane Plant Abingdon Assembly Plant
JAGUAR LTD. Manufacturing Director	Jaguar Ltd. Note: Includes Browns Lane, Radford, Kingfield Road
ROVER TRIUMPH LTD. Plant Director, Cardiff Plant Plant Director, Solihull Cars Plant	Cardiff Plant Solihull Cars Plant Note: Includes Garrets Green Midlands Service Centre Canley Plant Note: Includes Tile Hill and Radford Triumph
LAND ROVER LTD. General Manager, Bordesley Green Plant	Bordesley Green Note: Includes Cherry Wood Road, Humpage Road, Saltley
Plant Director, Solihull 4 x 4 Plant	Solihull 4 x 4 Plant Note: Includes Land Rover, Range Rover, Garrison Street and Clay Lane Acoks Green Plant Note: Includes Tysley 1 and 2, Acoks Green, Perry Road, Tyburn Road, Perry Barr, Solihull North Works (Axle Assembly)
PSF Plant Director, Cowley Body Plant	Cowley Body Plant Note: Includes Milton Castle Bromwich Body Plant Note: Includes Witton Liverpool Plant Swindon Plant Llanelli Pressings Plant
Plant Director, Liverpool Plant Plant Director, Swindon Plant Plant Director, Llanelli Pressings Plant	Swindon Plant Llanelli Pressings Plant
BL COMPONENTS LIMITED SU BUTEC General Manager, Alford and Alder General Manager, Oxford Exhaust Systems Plant General Manager, Llanelli Radiators Plant	Alford and Alder Oxford Exhaust Systems Plant Llanelli Radiators Plant
General Manager, Butec Electronics General Manager, SU Fuel Systems General Manager, Rearsby Components	Butec Electronics SU Fuel Systems Rearsby Components
PARTS DIVISION Managing Director, Parts Division	Parts Division Note: Includes Eynsham, Chalgrove, Slanton Harcourt, Horsham, Burinton, Pengam and St. Mellons Cowley and Fletchamstead Depots
BL FOUNDRIES General Manager, Wellingborough Foundry General Manager, West Yorkshire Foundry	Wellingborough Foundry West Yorkshire Foundry Note: Includes Kothley Beans Foundries
General Manager, Beans Foundries	Beans Foundries

Incentive Working Party

32 It is agreed that an incentive working party of the JNC will be established immediately following signature of the Agreement, its terms of reference to examine the whole question of productivity and related incentives with a view to coming to joint recommendations which could be put to the JNC for negotiation at the time of the November 1980 annual review.

Termination

33 The Productivity and Incentive Payment Scheme may be terminated by one month's notice if its operation is judged by the Company to be counter-productive. Before terminating the Incentive Payment Scheme the Company would raise the matter for discussion within the JNC. The Company will judge the scheme counter-productive should its operation—

- increase industrial action;
- be found to lead to the manipulation of records and data or other industrial misconduct;
- undermine or constrain the achievement of improvements in the quality of products and services supplied to customers, or of production necessary to meet volume or customer demand;
- impede the implementation of changes to work standards or work assignments and manning allocations or otherwise prevent the Industrial Engineering clauses in this Agreement from being operated;
- otherwise threaten the efficiency and economic viability of the Company.

TABLE 1 – BONUS BASED ON PLANT

LOCATION	FUNCTION	LINKED PLANT SCHEME
Abingdon	Special Tuning (Rover/Triumph)	Abingdon
Acocks Green	Quality (Cars Staffs)	Acocks Green
Browns Lane	Product Engineering (Jaguar)	Jaguar Limited
	Product Engineering (Cars Staffs)	Jaguar Limited
	Sales & Marketing (Austin Morris)	Jaguar Limited
	Quality (Austin Morris)	Jaguar Limited
Canley	Product Engineering (Rover/Triumph)	Canley
	Sales & Marketing (Austin Morris)	Canley
	Quality (Cars Staffs)	Canley
	Quality (Cars Staffs)	Canley
Cowley Body	Body Engineering (PS)	Cowley Body
Cowley Parts	Sales & Marketing (Austin Morris)	Parts Division
Dunstable	(Warranty & Service) Tool & Die Plant	Swindon
Drayton Road	Product Engineering (Rover/Triumph)	Canley
Longbridge	Product Engineering (Austin Morris)	Longbridge
	Systems (Cars Staffs)	Longbridge
Radford	Product Engineering (Jaguar)	Jaguar Limited
Redditch	Product Engineering (Austin Morris)	Longbridge
Solihull	Product Engineering (Rover/Triumph)	These activities will be linked to the Solihull Cars Plant or Solihull
	Product Engineering (Cars Staffs)	Plant or Solihull
	Sales & Marketing (Austin Morris)	Quality (Austin Morris)
	Quality (Rover/Triumph)	in line with the services they provide to these plants
Springfield Road	Product Engineering (Rover/Triumph)	Canley
Studley	Sales & Marketing (Austin Morris)	Longbridge
Templar Avenue	Product Engineering (Rover/Triumph)	Canley
Thame	SU Butec (Warehouse)	Oxford Exhausts
Webb Lane	Quality (Cars Staffs)	Acocks Green

34 Should the Unions wish to give one month's notice of termination of the Incentive Payment Scheme they would first raise the matter for discussion within the JNC.

ATTACHMENT 2 (Appendix F)

EMPLOYEES NOT DIRECTLY COVERED BY ESTABLISHMENT EFFICIENCY SCHEMES

Employees whose work location and function are listed below are not directly associated with the employing authorities shown in Attachment 1.

However, wherever links exist between such groups of employees and a Plant, for example, common site or similar location, common bargaining unit, employment mobility etc they will, for bonus purposes, be associated with a Plant, i.e. they will have the same bonus entitlement as employees in the linked Plant. The actual hours worked by employees linked in this way will not be taken into account when calculating the Plant's Efficiency Index.

The links that have been established in this manner, are described in Table 1 below. Where such links have not been identified (see Table 2) employees will receive a bonus based on the weighted average of the efficiency indices generated by each of the establishments listed in Attachment 1.

TABLE 2 – BONUS BASED ON BL CARS WEIGHTED AVERAGE EFFICIENCY INDEX

LOCATION	FUNCTION
Gaydon	Advanced Technology
Haseley Manor	Training (Cars Staffs)

ATTACHMENT 3 (Appendix F)

AUDITED PLANT STATUS

An Audited Plant is one that is operating with Work Standards in accord with the BL Cars Industrial Engineering Agreement and with defined manning levels on both Direct and Indirect Labour.

1 Audited Plant Status is necessary to—

- Ensure that the bonus earning potential of a Plant operating at high levels of efficiency is protected.
- Assist the progressive introduction of a common efficiency base across all Plants.
- Direct relationships resulting from changes to model mix, facilities, and operating patterns to be recognised.

2 An Audited Plant will be able to earn bonus on a scheme based upon audited work standards and manning levels for Direct and Indirect Labour, and not Best Period 1977. The 'Audited Plant'

will be subject only to normal Current Work Standard (CWS) and Current Manning Table (CMT) changes.

3 The following procedure will be adopted—

- Management will request that a Plant be audited by the BL Cars Central Audit Team.
- The audit will establish (through an examination of a representative sample)—

- A Standard Base for Direct Labour.
- An Off Standard for the particular Plant under review, based on the age, size, facility and manufacturing process of the Plant.
- An Indirect Manning Level at a specific volume and mix required to support the Direct Labour including Off Standard, showing variable and semi-variable manpower.
- A Non-production overtime requirement.

4 (i) Having established the criteria, an 'Audited Base Efficiency' can be obtained, at a specified volume and mix from the following formula—

FORMULA	Audited Work Standard Hours Generated + Audited Off Standard Hours + Audited Indirect Variable Labour Hours + Audited Non-production Overtime Hours
Audited Base Efficiency =	Audited Work Standard Hours Generated
Audited Base Efficiency =	20 Bonus Points
Therefore, the Audited Plant threshold =	1.2 x Audited Base Efficiency

The value of bonus points in an Audited Plant will be in accordance with the Company's original proposals i.e. 75p per point up to a maximum of 20 points (£15).

EXAMPLES

(ii) Audited Work Standard Hours/Unit	= 5
Audited Off-Standard	= 25%
Audited Indirect Manning	= 90-40 Hour Men (60 Variable & 30 Semi-Variable)
Audited Non-Production Overtime Volume	= 250 Hours/Week = 1000 Units/Week
Thus:	
Work Standard Hours Generated	= 5 x 1000 = 5000 Hours
Off Standard Hours Generated	= 25% x 5000 = 1250 Hours
Variable Indirect Hours Generated	= 60 x 40 = 2400 Hours
Non-Production Overtime Hours Generated	= 250 Hours
Therefore, Audited Base Efficiency =	5000 + 1250 + 2400 + 250 = 8900
and the Audited Plant Threshold =	1.78 x 1.2 = 2.136

(iii) Using the example in order to calculate Authorised Hours at the Audited Plant

IF Volume = 900 Units/Week	Actual Hours = 10,330 then 10,330 - (30 x 40)	Semi-Variable Indirects = 4500 Hours = 9130 = 2,028
EXAMPLE: Volume 900/Week		
Work Standard	= 900 x 5 = 4500 Hours	
Hours Generated		
At Threshold	= (4500 x 2.136) + (30 x 40)	
Authorised Hours	= 9612 + 1200 = 10,812 Hours	
At Threshold		

(iv) BONUS POINTS CALCULATION	Efficiency Index
If Volume = 900 Units/Week	= 4500
Actual Hours = 10,330 then 10,330 - (30 x 40)	= 2,136 = 1.05
Standard Hours Generated	= 2,028
Therefore Current Efficiency	= 5
Bonus Points Earned	

APPENDIX G THE APPLICATION OF INDUSTRIAL ENGINEERING

1 To confirm the spirit and intention expressed by the parties to this Agreement the following notes have been included for clarification and guidance.

2 Operating Conditions

Work standards will be established on the basis of specified operating conditions. Changes to operating conditions may arise from the following—

- Re-arrangement of facilities/equipment.
- Change of work flow pattern.
- Installation of new and/or temporary facilities/equipment.
- Change in feeds and speeds affecting cycle times on machine tools.
- Change in assembly track speeds.
- Re-distribution or change in operators' work content.
- Integration of production process or component manufacturing.
- Changes to method.
- Changes to allowances.
- Changes in material specification.
- Integration of engineering will confirm work standards as and when necessary to ensure that correct operating conditions exist.

3 Basic Understanding

Experience has shown that certain aspects of industrial engineering practice can generate misunderstanding at the work-place being studied. The arrangements for 'Trade Union involvement in paragraph 5.11 of this Agreement should be summarised. To further reduce the possibility of misunderstanding the following points of clarification are agreed—

- No attempt will be made to constrain the industrial engineer's right to—
 - Have access to work situations.
 - Develop improved methods.
 - Use any recognised industrial engineering techniques including performance rating to evaluate work content.
- Develop work assignments based on estimated work standards pending a full work study.
- Study as many cycles as are required to establish an equitable work standard.
- Standard times are not a matter for negotiation.
- Work standards established on individual shifts will be applied to any other shift performing the same operation/task.
- Establishing work standards, it is accepted that the Unions and their members will co-operate to the full by—
 - Working normally while under observation by industrial engineering personnel.
 - Discussing the content of their job with supervision, management, industrial engineering or other personnel and demonstrating the whole or part of the job as required.
 - Informing their superior of any conditions which may prevent achievement of the work standard.
 - Trying out and assisting with revised and/or new production methods, equipment and materials.
 - Using such production aids for monitoring working procedures and systems as are required by the management to ensure the smooth running of the opera-

tions, e.g. operator counts, 0521 procedures, recording procedures etc.

(vi) Operating under the conditions of provisional/temporary work standards, in the event of conditions not allowing a permanent work standard to be set.

4 Procedure for dealing with Problems with Work Standards and Assignments

4.1 When problems with work standards and assignments are encountered the following procedure will apply:

- Where an employee experiences difficulty in working to any work standard or work assignments and wishes to query its application, he shall discuss the problem with his foreman, who will implement the investigatory and problem resolution procedure described below. The employee will continue to work to the prescribed method and the work standard or work assignment whilst the resolution procedure is in operation.
- The foreman will check that the working conditions, method, equipment, materials and tooling are those upon which the work standard or work assignment was established and that the employee understands and is sufficiently experienced/trained to be able to undertake the task. If for any reason, any of these factors are not as specified the foreman will arrange for the necessary corrective action to be taken. The foreman's investigation will normally be completed within two working days of the employee raising the matter.
- Should the foreman's investigation fail to identify an omission or mistake, or establish that some other form of corrective action can be taken he may, if circumstances warrant, and the employee wishes, conduct a further investigation with an industrial engineer and, if the employee so requests, a shop steward.

(d) The investigation will be completed normally within two weeks and may involve industrial engineers conducting further studies and investigations (e.g. method or production study). The shop steward directly concerned may be present at any such studies or re-studies.

(e) The company will give access on request to all information arising from any studies concerned to the Union involved.

(f) If the above procedure fails to eradicate the problem, the matter will be referred to the appropriate member of management and the appropriate Union representatives for resolution.

4.2 Should the performance of an employee consistently fail to meet requirements, the following procedure will apply:

- The appropriate shop steward will be consulted in order to try to resolve the problem before recourse to the formal procedure outlined below.
- If still necessary, the foreman will discuss the problem with the employee in the presence of his shop steward and if appropriate will arrange for the employee to receive further training.
- If the performance is still inadequate the foreman will notify the employee verbally in the presence of his shop steward at a reasonable period for improvement will be arranged. This period will not exceed four weeks.

(d) If the performance is still inadequate, the foreman will notify and issue written confirmation to the employee in the presence of the shop steward, and a further period for improvement will be allowed—this period not to extend beyond four weeks. At this time the senior manager for the department and the plant personnel manager will be informed.

(e) If after the second period set for improvement has elapsed, the employee's performance is still inadequate the foreman will notify his senior manager.

(f) The senior manager will arrange to transfer the employee to more suitable employment in his own area. Where this is not practicable the personnel manager will be informed.

(g) The plant personnel manager will seek to redeploy the employee to more suitable employment within the plant. Where this is not possible the personnel manager will discuss the matter with the appropriate senior manager and senior shop steward concerned to decide the action to be taken.

APPENDIX H STANDARD SHIFT ARRANGEMENTS AND MULTIPLIERS

Introduction

1 All hours of shift working, with the exception of double day and three shift working, will be paid in accordance with the multipliers established by the CSEU-EEF National Agreement. Thus, hours of standard night shift working will be paid for at grade rate plus one-half premium, and all hours of weekend working will be paid for on the basis, grade rate plus one-half premium for Saturdays, and grade rate plus premium for Sundays.

2 The Parties recognise that an important contribution to the efficiency of the Company could be generated by the greater utilisation of both existing and new facilities and equipment. Accordingly, the Company will shortly be tabling within the JNC proposals for the extension, and payment, of shift working outside normal standard shift patterns. The principles established in this Appendix therefore are agreed without prejudice to the outcome of these discussions.

3 It is agreed that there will be no restrictions placed upon the allocation of employees to particular shifts such that they prevent the most efficient utilisation of resources. Where appropriate, domestic discussions will take place on how this will operate in practice. The Company has made a specific commitment in relation to introduction of double day and three shift working and this is outlined in paragraph 5.4 of the Agreement.

Double Day and Three Shift Working

4 In relation to double day and three shift working, where the CSEU-EEF National Agreement establishes hours of payment, a different arrangement has been agreed. In return for acceptance by the Unions that double day and three shift working are the sole exceptions to the principles outlined in paragraph 1 above, and that such working will not deviate from the hours indicated below, the Company has agreed that all such hours will be paid for at the appropriate grade rate. In consequence, the following payments will apply for a normal double day or three shift week of 37.5 hours: 6.00 pm to 2.00 pm 2.00 pm to 10.00 pm 10.00 pm to 6.00 am 46 hours at grade rate 50 hours at grade rate

5 In some plants there has been a practice of payment for meal reliefs to three shift workers. It is intended to standardise such arrangements in a way which will ensure consistency. In consequence, such a payment will only be made in future where there is a genuine need for standby duties. It has, however, also been agreed that where a genuine need can be established, the payment for the half hour meal break will be at grade rate plus the appropriate overtime premium.

Paid Absence Guarantees

6 In respect of entitlement to paid absence for reasons covered by this Agreement, the principle is accepted that the period for which payment is made will not exceed the basic hours of the appropriate shift. The Company is, however, prepared to accept that in respect of three-shift workers who work a standard 7½ hour shift (37½ hour basic week) the Agreement will apply as though they worked a normal basic 8 hour shift.

APPENDIX I TEMPORARY TRANSFERS, TRAINEES AND REHABILITATION

Introduction

1 The jointly agreed principles outlined below have been developed in order to ensure that flexibility with equity which will assist the Company to maintain production and the continuity of employment.

Temporary Transfers

2 The type of pay which will apply to employees temporarily transferred will be determined by reference to the following criteria—

- When an individual is required to perform work of a higher grade level than normal, the higher grade rate and if appropriate the higher premium rate will be paid for the hours worked provided the work does not form part of required on the job training, and the time spent on the higher graded activity is not less than one-half of a working shift.
- When an individual is required to perform work of a lower grade level than normal, he will retain the appropriate higher grade rate and higher premium rate except where the change has been made at the individual's own request, or the change has been made because of the individual's inability to perform the higher graded work.

(c) The same principles as those above apply to moves required during overtime hours with the one exception that the condition that the time spent on the higher graded activity is not less than one-half of a working shift is dropped, and payment will be made for the overtime hours worked.

(d) Temporary changes falling within the scope of these arrangements will normally apply only for periods of time up to a maximum of two working weeks, and the above principles would not apply where a permanent grade change occurs.

Stocktaking

3 It is agreed that there will be full co-operation to ensure that all necessary stocktaking requirements are satisfied. Accordingly, stocktaking performance principles (as part of a plant's physical inventory, and performed either during the standard 40 hours, or during overtime, as required by the Company) will be paid for at Grade 4 rate (including, if appropriate, the Grade 4 premium rate) or the employee's normal rate, whichever is the greater.

Adults in Training

4 In principle, it is agreed that all adult employees will receive the rate for the job, including new recruits and existing employees transferring into a higher graded occupation. This does not preclude local discussions and domestic agreement on a training rate of pay which is below the grade rate where this is agreed to be appropriate to local circumstances. The acceptance in principle, by the Company of the rate for the job in all circumstances in no way changes the practice of probationary

periods. Employees who do not reach an acceptable standard of performance after four working weeks in the new job would be subject to joint domestic discussions in accordance with plant practices and procedures. New employees who, after joint domestic discussions, continue to fail to meet the required standard of performance after a further four weeks on the training rate, may be transferred to a lower grade if work is available, within their capability, or be dismissed after consultation.

Incapacitated and Long Service Employees

5 It is recognised by the Company that, in certain medically approved cases, employees may not be capable of achieving standard performance. In consequence, the Company and Unions have agreed that, where possible without prejudicing production requirements, such employees who are experiencing temporary or permanent incapacity which, while limiting their abilities, would not totally prevent them working, should be permitted to

return to, or be retained at, work on their normal rate of pay. This arrangement, once established, will be kept under review, and from time to time it may be necessary for such employees to submit themselves for a medical inspection by a Company doctor. It is part of the spirit and intention of this Agreement that employees will be prepared to transfer to suitable alternative work in order to make available vacancies for such incapacitated employees.

Lithographed in England by The Nuffield Press Limited, Cowley, Oxford.

1. The first part of the document is a letter from the author to the editor of the journal. The letter discusses the author's interest in the topic and the reasons for writing the paper. It also mentions the author's previous work in the field and expresses a hope that the paper will contribute to the understanding of the subject.

2. The second part of the document is the abstract of the paper. It provides a brief summary of the main findings and conclusions of the study. The abstract is followed by the introduction, which sets the context for the research and outlines the objectives of the study.

3. The third part of the document is the main body of the paper, which is divided into several sections. The first section is the literature review, which discusses the work of other researchers in the field. The second section is the methodology, which describes the methods used in the study. The third section is the results, which presents the findings of the study. The fourth section is the discussion, which interprets the results and discusses their implications.

4. The final part of the document is the conclusion, which summarizes the main findings and conclusions of the study. It also includes a list of references and a list of figures and tables. The paper ends with a short note from the author, thanking the editor and the reviewers for their comments and suggestions.

SECRET

*A. Duguid
Marlow Sec
S.W.D. Wass*



Ind Ppts 2

file

10 DOWNING STREET

From the Private Secretary

25 March 1980

Dear Mr.

The Prime Minister held a meeting yesterday evening to discuss the situation at British Leyland. The following were present in addition to your Secretary of State: the Chancellor of the Exchequer, the Secretary of State for Employment, Sir Robert Armstrong, Sir Kenneth Berrill, Mr. John Hoskyns and Mr. David Wolfson. They had before them your letter of 21 March.

Sir Keith Joseph said that, after a bad start to the year, British Leyland's performance had improved in the last month or so. Sales had improved, and there had been no strike action. The British Leyland Board had indicated that they expected to keep within the existing Government funding provision for the coming year. At their next meeting on 26 March they were likely to decide to proceed with the British Leyland plan. British Leyland management were doing as well as could possibly be expected in the circumstances. The only point on which Sir Michael Edwardes was not providing full co-operation was on the suggestion that the Government should appoint someone to advise on the disposal options. Sir Michael was opposed to any such appointment because he was afraid that it would leak, and this could lead to the collapse of the Company. He was not averse to disposal as such, and was willing in principle to look for potential purchasers; but he did not believe that this could be vigorously pursued at the present time when the Company were trying to achieve a turn around in performance: he took the view that this must wait until it was clear that there was no prospect of survival in its present form. To move earlier would all too easily leak, and thus undermine the whole recovery strategy.

Sir Kenneth Berrill said that, while Sir Michael might be doing a good job as Chief Executive, he could never be expected to consider the disposal options with any real enthusiasm. It was of the nature of things that managers of companies were never keen sellers of companies. There could be no meaningful discussion on sale options except between potential purchasers and the Government as shareholder. Moreover, such discussions would have to be very detailed. The Government did not have sufficient expertise to be able to conduct discussions of this kind; and hence, it was most important that an adviser with adequate support should be appointed very soon. The Government ought to appoint someone,

/ if possible,

SECRET

ABY

if possible with auto industry experience, who would consider the disposal possibilities in detail, if necessary with the help of consultants, and advise the Government on the best course of action.

The Chancellor said that he was worried that no progress had been made in appointing an adviser. While it was necessary to rely on Sir Michael Edwardes and his team for the management of British Leyland, he agreed with Sir Kenneth Berrill that Ministers needed expert assistance on the question of disposals. It still seemed all too likely that the British Leyland plan would fail. The longer the delay in finding a purchaser, the less likely was it that it would be possible to find one - at least for the whole business including Longbridge and Cowley.

Sir Keith Joseph said that there was little prospect of finding a purchaser for the whole business, and the risk of the appointment of an adviser on disposals should not be under-rated. Nonetheless, he was prepared to pursue the idea of appointing someone. This would have to be on the understanding that Sir Michael Edwardes would have to be told - not least because an adviser would need British Leyland's co-operation in providing information. The Secretary of State for Employment suggested that one possibility would be to appoint someone to the British Leyland Board with the job of looking at the disposal options.

The Prime Minister, summing up, said that Ministers were agreed that the Government needed assistance on the disposal question, and that the appointment of an adviser with suitable back-up should be urgently pursued. In the first instance, it would be helpful if Sir Robert Armstrong could consult with Sir Douglas Wass and Sir Peter Carey (or, in his absence, Mr Bullock). Ministers should meet again before Easter to consider this question further, and also take stock of the outcome of the British Leyland Board meeting on 26 March.

I am sending copies of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

Wm. W.

T. Laker.

I K C Ellison Esq
Department of Industry

Ref: A01771

CONFIDENTIAL

PRIME MINISTER

British Leyland

Ami Min 15th
No progress seems to have
been made on the disposal
option - either with appointment
of an adviser or in with Ford.
See Ken Bennet's transcript
brief at Flag B.

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BACKGROUND

Flag A

You are having a stocktaking meeting on 24th March. The Secretary of State for Industry's letter of 21st March and Sir Michael Edwardes' letter of 18th March provide the background. Sir Keith Joseph will also be able to report on his meeting with Sir Michael Edwardes on 21st March.

HANDLING

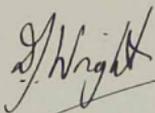
2. You will want Sir Keith Joseph to report on the latest state of play. Thereafter you might concentrate discussion on:-

- (a) The Company's current performance: How likely is it that the Company's recent sales performance - 21 per cent market share so far this month - can be maintained? The Budget may be a factor in this; but you may prefer not to mention that. Is the sales drive as expensive as it appears to the casual reader of BL's advertisements? Is the steel strike beginning to bite to BL's detriment?
- (b) The Wages Package: What is the latest assessment of the risk of strikes following the imposition of the wages package? How realistic is it to expect the Company to impose its planned productivity improvements?
- (c) Contingency Planning: Is there any more to report?
- (d) Collaborative Arrangements: Is there more to report?
- (e) Adviser on Disposal: Do the Committee accept BL's view that an adviser on disposal should not be appointed because of the doubts this would throw on the Company's future?
- (f) Implications of Collapse: Does the Chancellor want to add anything to his recent report to you on the wider implications of the BL collapse? Or indeed on BL's financing generally?

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CONCLUSIONS

3. You will want to record any specific conclusions which have emerged, e. g. on the appointment of an adviser on disposals. Otherwise, all that is necessary is for the Committee to invite the Secretary of State for Industry to report progress after the next BL Board meeting on 26th March with a view to a further meeting of the Group just before or just after, the Easter break.


pp (Robert Armstrong)

21st March 1980

CONFIDENTIAL

B 1

COMMERCIAL - SECRET

Qa 04979

To: MR LANKESTER
From: SIR KENNETH BERRILL

Possible sale of British Leyland

1. The group of Ministers under the Prime Minister is due to discuss on Monday afternoon the current position on British Leyland. The Prime Minister might like to have this note on how the possible purchase of British Leyland by Ford has progressed since I reported that the head of Ford of Europe (Mr Lutz) had received the 'green light' from Detroit to negotiate for the purchase of BL if he considered that this was the best way of making the planned expansion of Ford of Europe's capacity.

2. Unfortunately, I have to report that things are not going well. Ford of Europe are still proceeding with staff analysis on the pros and cons of a possible purchase but Mr Lutz is increasingly unwilling to take any further initiatives himself.

3. Mr Lutz happened to run into Sir Michael Edwardes and was subjected to a fairly brusque attack along the now familiar lines that Ford are competing unfairly with BL in the British market by bringing in cheap imports - particularly from Spain. There is the reverse of a rapport between the two men. Lutz feels that Edwardes is fighting a hopeless cause of trying to save BL rather than to sell it. If Lutz is going to negotiate to buy the company he will negotiate with the owners (the Government) not the managers (the BL Board).

4. There is an additional small complication in that Mr Lutz's one meeting with the Secretary of State for Industry did not seem to him particularly constructive. Understandably, perhaps, Sir Keith Joseph did not display any keenness on the part of HMG to sell BL; he also indicated that there might be other buyers in the market than Ford; but in any case the person for Mr Lutz to deal with was Sir Michael Edwardes - which Lutz now thinks would be pointless.

COMMERCIAL - SECRET

5. A further setback is the growing belief amongst senior executives of Ford of Europe that there is no need for Ford to hurry to try to do a deal. As time goes by the position of BL gets consistently worse. They have had two successes (the vote on the Edwardes Plan and the vote on Mr Robinson) but apart from these the story is one of continuous slippage.

6. BL have still not agreed with the work force a wage settlement, productivity deals, or details of closure programmes. The expensive 'Buy British' campaign (in the short run at least) was not a success.

7. There are those in Ford who believe it will pay to wait. The BL position will get so bad that the BL Board will no longer be able to recommend that the company be continued and in this position Ford might be able to buy the bits of BL it really wanted and not be forced to take Longbridge, Cowley and Bathgate.

8. The interests of the Government are to sell BL as a complete package under the best conditions and at the best terms. If Ford are right, and time is on their side, it cannot be on the side of the Government. If the Government had chosen and appointed a "Mr Super Salesman" it might then be possible for him to deal with Lutz direct as the Government's agent. But at the moment all that is happening is that Michael Edwardes is going ahead on his course of striving to save BL, and the most likely purchaser is sitting back waiting for this effort to fail in the belief that he can then pick up the best pieces and not have to take Longbridge, Cowley and Bathgate which are the heart of the problem.

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

K2

21 March 1980

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE



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

21 March 1980

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

Dear Tim

21/3

You asked for a note on the current situation before the Prime Minister's meeting about the current situation at BL on 24 March. I enclose a copy of a letter from Sir Michael Edwardes which summarises the BL Board's assessment at their meeting last week. My Secretary of State discussed this with Sir Michael today.

BL published their unaudited 1979 end-year figures last week. These showed a trading loss of £46m and a net loss after taxation, interest, and extraordinary items of £145m. BL Cars' performance deteriorated by £108m compared with 1978. This year began disappointingly with BL Cars' domestic market share falling to 15% in January. The February figure was 16.7% and would probably have shown further improvement but for doubts among would-be customers about the outcome of the Robinson affair. The impact of BL Cars' vigorous sales campaign is expected to be felt most strongly this month and market share to date is 21%.

Despite these adverse developments, the Board expect to keep within existing Government funding provisions without jeopardising the agreed longer term objective of their Plan. They aim to confirm this after their further meeting on 26 March. Sir Michael told my Secretary of State this morning that BL's cash situation in future years would depend heavily on the Government's success in lowering inflation. Sir Michael will be discussing this further with this Department after the Budget. My Secretary of State is satisfied that any judgement on the Plan in the light of the 19 December letter must be left to the Board. Sir Michael also reported on developments in connection with BL's collaborative ventures. These include the Honda deal to produce the Bounty and discussions of a variety of projects with BMW, Renault, VW, Perkins, Nissan and International Harvester. These are all particularly confidential and must not be disclosed. BL has put detailed proposals to Aston Martin Lagonda about MG and is awaiting their reactions.

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CONFIDENTIAL



The wage and conditions of employment negotiations finally broke down on 17 March and BL Cars have decided to implement the package unilaterally. BL Cars are writing to all their employees giving them notice that, when they first clock in after the Easter holiday break, they will be deemed (by the act of clocking in) to have accepted that the revised conditions of service are incorporated into their conditions of employment. Those not accepting the changes will be treated as giving four weeks' notice. Accumulated back pay will not be included in pay packets at once for administrative reasons but will be paid out in mid-May. There is the possibility of some industrial action at plant level.

My Secretary of State has discussed the handling of contingency planning with Sir Michael Edwardes. We are now in a better position than before Christmas because of Sir Michael's and his Board's commitment to stay with the company, should they decide it is necessary to withdraw the Plan, and to co-operate with the Government in action to minimise the resulting damage. My Secretary of State considers it most important that no action be taken by the Government to overrule the Board in any way which might put their co-operation at risk and he endorses Sir Michael's strongly held view that no precautionary moves should be taken by the Government which could prejudice their chances of pulling through. There is great public interest in BL's affairs and any news of Government attitudes and actions anticipating collapse would seriously damage the confidence of purchasers and dealers.

Officials have given further consideration to the suggestion that Ministers should appoint an adviser to the Government such as Sir Kenneth Cork. If such an appointment were made, the person in question would have difficulty operating simply on the information which was available in the Government machine; he would need to have contact with BL direct. Sir Michael Edwardes agrees that at the right moment - if it ever arises - the Board themselves should employ such an expert; but his Board do not consider they have reached that stage and they counsel strongly against taking any premature action. They point out that there is only a handful of people in the country capable of giving worthwhile advice and these are all well-known and their involvement would be interpreted as a sign that the end of the road had been reached. Accordingly the Board of BL would be strongly opposed to the involvement of such an individual until the end of the road was manifestly in sight. Nevertheless if Ministers still attach importance to having such advice, officials could explore whether such an expert would be willing and able to do a useful job without direct access to BL. There would, however, remain a serious risk that such an appointment could not be kept secret and leakage would be very damaging. My Secretary of State

/has ...

has warned Sir Michael that the Government might appoint someone against BL's wishes but he has promised to inform Sir Michael if an appointment is to be made.

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K
T
Other contingency planning is also in hand and the Prime Minister will have seen the Treasury's updated estimates of the impact of a BL collapse on public expenditure. The Chancellor and my Secretary of State have already agreed the circumstances in which guarantees would be issued and officials of the two Departments are drafting an understanding on the coverage of guarantees and the procedure which would need to be adopted in those circumstances. Officials of this Department have also been examining with the Department of Employment and the Treasury measures which might be taken to alleviate the knock-on effects of a total or partial BL collapse. No measures, however, will be able to prevent major and widespread difficulties.

If the Board should eventually conclude that they could no longer deliver the Plan, they have undertaken to give us warning so that necessary consultations can take place to enable guarantees to be issued to the major lenders in return for their agreement to waive covenant restrictions inhibiting the re-structuring of the company and substantial disposals of assets. In this interim period before a public announcement, decisions would also need to be reached in consultation with the Board on the future of individual capital expenditure programmes. Because of the danger of leakage, it might not be possible during this period to make overt approaches to potential purchasers, but preparations would be made to initiate urgent discussions immediately after the public announcement. Officials consider a minimum period of two - three weeks should be allowed to complete the negotiations with the banks on the guarantee issue; to agree new operating instructions for the Board; and to secure Ministerial agreement on the supplementary measures directed to minimising the knock-on effects.

I am copying this letter to Martin Hall (Treasury), Richard Dykes (Employment), John Hoskyns and David Wright.

Yours ever

Ian Skelton

TELEPHONE
01-486 600-7

SECRETARY OF STATE
FOR INDUSTRY

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDS

18th March 1980

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

TO Mr Hagestad	COPIES TO
FOR ADVICE (AND DRAFT REPLY IF CORPORATE)	PS/AB PS/MM See M. Lufft
PLEASE BY:	Mr Butler Mr Bell Mr Lufft
A 544	

New Secretary of State

On 12th March the Board considered the company's current position and has asked me to provide you with its conclusions. In making this review the Board has considered the Corporate Plan, my letter to you of 19th December last year and our discussion of priorities on 16th February in which it was agreed that the overriding criterion for judging the company's position was its ability to stay within the approved Government funding limits.

First it seems clear that, while BL should meet the Plan on Commercial Vehicles, it will not be able to attain the profit objectives set for the Cars business in 1980. The bad start experienced in the first two months of the year in terms of market share, coupled with tougher economic conditions than originally assumed, is primarily responsible for this. We are, of course, taking vigorous action to remedy, to the fullest extent possible, the cash and other consequences. For example, we are running very aggressive marketing programmes to restore and maintain our UK market share in the run up to new Marina and Metro product launches and to reduce working capital. Furthermore, we have indicated to employee representatives that we intend to accelerate, to a significant degree, the restructuring and redundancy elements in the recovery programme announced in September 1979. This cannot be easy for them to accept, but they have not in fact balked at it.

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,
Secretary of State for Industry.

18th March 1980

Page 2.

In addition to these actions, which are intended to produce a more efficient operating base for the company, we are examining very carefully the content and timing of our capital expenditure programmes. In this respect our objectives are twofold:

- (1) to protect the programmes which are fundamental to the future viability of the business, though this cannot preclude detailed changes to the content or timing of such programmes;
- (2) to ensure that, taken in conjunction with the other actions referred to above, we do not exceed the agreed cash call on Government during its 1980/81 financial year. We hope to confirm this after our March 26th Board.

We have not completed the review of capital expenditure at this stage but the Board does not expect the outcome to involve jeopardising the agreed longer-term objectives of the business.

On the basis of the information available to us at this time, we have made a revised assessment of the likely timing of the calls on the credit line facility of £150 million announced in your statement on 20th December 1979.

We anticipate that the Board will, in April or May, be requesting that some £75 million of equity be made available from the facility during June. At this stage it looks as though we will need the £75 million, not because of a cash shortage per se, but rather to avoid a forecast breach of two of the key ratios in the Medium Term Loan agreements.

Continued

The Rt.Hon. Sir Keith Joseph, Bt, MP,
Secretary of State for Industry.

18th March 1980

Page 3

Your officials will be provided with details of the revised forecast which has led us to this conclusion. It does, by the way, assume minimal impact from the steel strike. It also assumes that we succeed in implementing the substance of our pay and working practices proposals for BL Cars. As you will know, our discussions with the trade union General Secretaries and JNC broke down yesterday. After 16 meetings and with 5 months of the new pay year already gone, we have reached the end of the road on negotiations and intend to put our proposals into effect unilaterally. This decision will not be announced until towards the end of this week.

The Board has considered very carefully its position in relation to my letter to you of 19th December 1979. Its conclusion is that, although, as described above, the trading circumstances will make it impossible to meet the Plan in full this year, the management of BL should press ahead with all possible vigour and determination both to launch the new products planned for 1980 and to implement the other changes required to secure a sound foundation for the business in the future - for so long as we can stay within the agreed funding limits. The Board is most emphatic in this view, particularly as the Mini Metro programme is on time and is going well. I am sure you will welcome the fact that the Board has been able to reach this conclusion and that, as seen at present, we expect that we will be able to keep within existing funding limits.

With respect to the question of contingency planning, we would like to formalise with Government the procedure to be followed in the event that it is necessary or desirable to request a guarantee to secure the company's borrowing facilities.

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,
Secretary of State for Industry.

18th March 1980

Page 4.

We suggest, therefore, that a procedure and action statement be agreed between us - perhaps at official level - so that we are all clear about the necessary steps and timing that would need to be taken in the event that we need an umbrella under which to put contingency plans into effect.

I am copying this letter to Sir Arthur Knight.

Yours Sincerely,
Michael Lawrence.



21 MAR 1960



File and Pol ^{SK}

10 DOWNING STREET

From the Private Secretary

19 March 1980

As E has been postponed by half an hour and is due to start at 1530 hours on Monday 24th, the Britian Leyland meeting will now start at 1700 hours.

I am sending copies of this letter to Martin Hall (HM Treasury), Richard Dykes (Department of Employment), David Wright (Cabinet Office) and John Hoskyns.

CAROLINE STEPHENS

Ian Ellison, Esq.,
Department of Industry

93

FILE
CONFIDENTIAL

Handwritten initials
RH

17 March 1980

The Prime Minister has read your letter of 14 March bringing her up-to-date on the BL situation. Although she notes that the next BL board meeting is not until 26 March, she would still like to have another stocktaking meeting on 24 March as we had provisionally planned. It will be helpful if your Secretary of State could circulate a further note before the weekend.

I am sending copies of this letter to Martin Hall (HM Treasury), Richard Dykes (Employment) and David Wright (Cabinet Office).

J. P. LANKESTER

KKB

I K C Ellison Esq
Department of Industry

CONFIDENTIAL

14 March 1980

PRIME MINISTER

BRITISH LEYLAND

I understand that Keith has queried whether it is necessary to have our next meeting on BL, since there have been no fresh developments.

I believe there are a number of questions - I attach a list - on which we may not yet be as clear in our minds as we should be. With so much at stake with BL, I feel that it might be a mistake to await the next development at BL (which is likely to be some sort of bad news) and then simply react to that development, especially if our position on the sorts of questions I have suggested - and there may be others - is not really clear. I would prefer an early meeting, though it may only be a short one, so that we can as far as possible anticipate the next events at BL rather than be taken by surprise.

I am copying this to Geoffrey and Keith.

JOHN HOSKYNs

A small meeting yes - but
some of these things are
too sensitive to be discussed
widely.

M.S.
C. J.
K.S.
G.P.

- who else?

no one else
necessary.

12.

Ans.

QUESTIONS WE NEED TO ADDRESS

1. Do we privately agree that BL has already been blown off course so far that it cannot fulfil its last Plan?
2. Is Edwardes likely to come back to Government for more money soon? If so, when?
3. Do we agree that the best available option (or, more accurately, the least damaging one) is the early sale of BL in one piece - before it deteriorates further?
4. We know of one initiative which the CPRS believe to be very serious.. Should Government be taking any further action on this, eg to convince the company that we are serious, or to force their hand by encouraging competitive bids? If there is any action for Government here, who should undertake it?
5. If early sale proves impossible, what steps should we take in the next few months to prepare for run-down and piecemeal sale?
6. How far can we take Edwardes into our confidence about our objectives for BL?
7. What would be the role of an independent adviser to HMG, as discussed at the last meeting? Has any progress been made in finding one? Have BL been told about this?
8. What would we do if the unions refuse to sign up on the pay and conditions deal, then react to BL's plan to impose it unilaterally by striking?
9. Are we willing to contemplate an overt run-down?
10. What would we do if BL say that under the terms of their letter, they now have to abandon the Plan?
11. Is there a point in BL's deterioration where Government says that the terms of the December letter require BL to abandon the Plan?



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PS/ Secretary of State for Industry

14 March 1980

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

Prime Minister

Dear Tim,

1 copy - a
small meeting
ref.

On X, we took over should
by a stock-taking meeting
on 24 March. Otherwise, we'll
have no meeting before Easter.
(You are stays are being
blocked after
26 March.)

BL

I am writing to bring you up-to-date on the BL situation
following the Board meeting on 12 March.

1979 Results

At a press conference at 3.30 pm this afternoon, Sir Michael Edwardes will announce his company's preliminary unaudited accounts for the year ended 31 December 1979 (resumé attached, with some comments). They will show a £46.2m loss before interest and tax; Ministers were warned in December that a loss of the order of £50m was likely to be sustained. The figure for losses after extraordinary items is £144.5m.

12
14/3

Sir Michael Edwardes' Future

Sir Michael will announce his intention to remain as Chairman of BL during the course of the press conference. This should provide a major boost to management and dealer morale and help to offset some of the unhelpful and untrue rumour-mongering in the media and elsewhere that BL has a cash flow crisis on its hands.

BL Cars Wages and Conditions Negotiations

These remain blocked. BL management have written to the members of the Joint Negotiating Committee saying that, in the management's view, after 14 meetings, there is no future in continuing discussions. The purpose of this move was to transfer the negotiations to the level of the General Secretaries of the relevant unions. A meeting will take place this morning, but it is by no means certain that the TGWU will agree to be represented even by a substitute for Mr Moss Evans. The management will

/decide ...



decide in the light of progress made at this meeting how to proceed with the wages and conditions package. They may decide to announce that it is being imposed unilaterally and make this public during the afternoon press conference. If such a decision is made, management will then implement the new working conditions at plant level with the possibility that such action will lead to local industrial action. BL Cars do not appear to think there is much danger of a company-wide strike in pursuit of the claim.

Contingency Planning

This subject was discussed by the BL Board on 12 March. My Secretary of State expects to receive a letter from Sir Michael Edwardes in the next few days formally asking that guarantees should be issued in the period prior to any formal decision to withdraw the Plan. The BL Board are not asking for guarantees in other circumstances. The Chancellor has already agreed in principle to this action being taken.

The BL Board will consider at their next meeting on 26 March whether any modification of the 1980 Corporate Plan is called for at this stage. There is at the present time no question of the BL Board asking the Government for additional finance during 1980 and the CSEU have already been told that the model and facility renewal programme in the Plan should remain intact provided there are no further setbacks. Fortunately there has been some recovery in market share in the wake of the BL Cars sales campaign: BL Cars sales in the first 10 days of March were 21% of the UK market as against 16.7% in February.

As you know, Treasury officials have updated the estimates in the Official Group Report on the BL Corporate Plan of the impact of a BL collapse on public expenditure and the PSBR in 1980/81. This was primarily a budget planning exercise but this Department will be ready to participate in further work on the need for supplementary measures to help the supplies industry and the regions affected in the event of a BL collapse.

Conclusion

My Secretary of State thinks it will be premature to have a further meeting of the Prime Minister's Group on 24 March. There is clearly no immediate danger of the BL Board withdrawing the Plan. It will also be useful before any further meeting to see the March market share results and the outcome of BL Cars next moves on the wages and conditions front. He would suggest therefore that a further meeting should be considered in the light of the decisions made by the BL Board on 26 March. In the meantime, however, there will continue to be unhelpful

/speculation ...



speculation in the press that BL face a cash crisis. He would be grateful therefore if colleagues would refute any such suggestions put to them by journalists by pointing out that Government has received no request for additional funds from BL or any suggestion that it is about to withdraw the Plan.

I am copying this letter to Martin Hall (Treasury), Richard Dykes (Employment) and to David Wright.

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

THIS DOCUMENT IS IMPORTANT. If you are in any doubt about the course you should follow, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

BL LIMITED

(Registered in England No. 1213133)

Directors:

Sir Michael Edwardes (Chairman)
Ian MacGregor (Deputy Chairman)
D. R. G. Andrews
Sir Austin Bide
Sir Robert Clark
Albert E. Frost
Sir Robert Hunt

Registered Office:

35-38 Portman Square,
London W1H 0HQ.

14th March, 1980.

To the Ordinary shareholders of the Company and, for information only, to the holders of the 7½ per cent. Convertible Unsecured Loan Stock 1982/87 of BLMC Limited.

Dear Sir or Madam,

I am writing to give you the preliminary unaudited results for the year ended 31st December, 1979 and to give notice of an Extraordinary General Meeting to be held on 31st March, 1980 to consider proposals for the issue of further equity capital at par to the National Enterprise Board ("NEB"). The preliminary results, which reflect a marked deterioration in the second half of the year, and my comments on them are set out in Appendix 1 on page 3.

The BL Bulletin sent to you in September, 1979 contained details of the unaudited results for the six months ended 30th June, 1979 and of the plans for streamlining the business of BL and accelerating the new model programmes. Subsequently, we initiated discussions with employee representatives and national union officials on proposals for the restructuring and slimming of the Company which your Board insists is essential to the survival of BL. These plans, which were overwhelmingly supported by employees in a secret ballot held in November, 1979, form the basis of the Company's Corporate Plan for 1980 and underline the Board's objectives of building on the profitable parts of the business and turning round or discontinuing those parts which are unprofitable.

The Corporate Plan

Under the 1980 Corporate Plan, the Company will concentrate its operations at fewer locations while retaining enough capacity to meet demand when market prospects improve. This concentration, together with the considerable reductions in manpower planned over the next two years, has enabled the Company to set higher targets for improvements in productivity than were possible previously. In 1980 Leyland Vehicles has launched the Roadtrain, the first of a new range of trucks, and Austin Morris is launching the Mini Metro. In order to accelerate the necessary further revitalisation of the product range the Company is also seeking collaborative deals with other manufacturers. To this end, on 27th December, 1979, I signed an agreement with Honda Motor Co., Limited, one of the leading Japanese automotive manufacturers, under which BL will produce and sell in the European community, under a BL marque name, a new car currently being developed by Honda Motor Co., Limited. BL will start assembly in the summer of 1981 with a large and increasing content of the car originating in the UK. Your Board regards this agreement as being of major importance to BL.

The Plan envisages that £297 million of public funds will be required in 1980 with a further £133 million between 1981 and 1983. These two sums together represent the £225 million balance of the original £1,000 million recommended in the Ryder Report, with an additional £205 million to meet the cost of redundancies and closures under the Company's restructuring programme. Clearance has been sought from the EEC Commission for the additional funding.

In spite of the vigorous action being taken BL is unlikely to achieve anything approaching a commercial rate of return on assets for some time. Indeed, the severity of the engineering industry strike in the autumn of last year and the decline in market share which the Company experienced has already put in jeopardy some aspects of the Plan. The extensive programme of rationalisation and development contained in the 1980 Plan is vulnerable to continuing industrial unrest, both internal and external. Further national disputes like those which did your Company such immense harm in 1979 and undermined the improvement in our own industrial relations would put the Plan beyond us.

Accordingly, in seeking Government approval to the Plan, I wrote to the Secretary of State for Industry on 19th December, 1979 as follows:—

"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."

On 20th December, 1979 the Secretary of State announced that, following receipt by the Government of a report by the staff of the NEB on the Company's performance in 1979 and its 1980 Corporate Plan and Budget, and in the light of my letter set out above, the Government had decided to fund the Plan up to the end of its 1980/81 financial year by the provision of £150 million in equity form, with an additional facility on which the Company would be entitled to draw, on giving evidence of its need, up to a maximum of a further £150 million in equity. In addition, the Government accepted your Board's request for conversion to equity of the £150 million NEB subordinated loans provided in 1977.

Issues to the NEB

In 1978 and 1979 the Company raised £598.4 million of equity capital by means of rights issues underwritten, free of charge, by the NEB. With very few exceptions shareholders followed the advice of the Board and did not take up their rights entitlement. The middle market quotation for the existing Ordinary shares on 10th March, 1980 (the latest practicable dealing date before printing this document) was 20½p per share and did not exceed 25½p per share in the preceding twelve months. Accordingly, shareholders wishing to acquire further Ordinary shares are likely to be able to acquire them in the market at materially less than their par value of 50p which by law is the minimum price at which they can be issued. The Directors do not see the likelihood of dividends being paid on the Ordinary shares of the Company for some years to come. In these circumstances your Board has decided that a rights issue (for which the Board would again recommend that shareholders, other than the NEB, should not subscribe) would not be an appropriate or efficient way of arranging the further provision of equity capital and it has therefore decided to recommend the alternative method of issuing shares direct to the NEB.

You will find on page 6 Notice of an Extraordinary General Meeting at which a resolution will be proposed to increase the authorised share capital of the Company by £400 million and to authorise the Board to issue a maximum of 900 million additional shares to the NEB. It is not intended to seek a listing on The Stock Exchange for the new shares and the relative share certificates will be marked accordingly; otherwise the new shares will rank *pari passu* in all other respects with the existing issued shares. The authority for the issue of shares to the NEB is expressed to expire at the conclusion of the 1981 Annual General Meeting unless then renewed.

Ordinary shareholders will find enclosed a proxy card for use at the Extraordinary General Meeting. Whether or not they intend to be present at the Meeting they should please complete and return the proxy card as soon as possible and in any event so as to arrive not later than 48 hours before the time appointed for the Meeting. The completion and return of a proxy card will not preclude them from attending the Meeting and voting in person should they wish to do so.

Your Board believes the proposals to be in the best interests of the Company, its shareholders and stockholders and strongly recommends that you vote in favour of the resolution set out on page 6 of this Circular.

Additional information is set out in Appendix 2 on pages 4 and 5.

Yours faithfully,

MICHAEL EDWARDES,
Chairman

APPENDIX 1

PRELIMINARY UNAUDITED RESULTS FOR THE YEAR ENDED 31st DECEMBER, 1979

	1979 £ million	1978 £ million
Sales		
UK	1,759	1,715
Overseas	1,231	1,358
Total	2,990	3,073
of which direct exports from UK	865	910
(Loss)/1978 Profit before Interest and Taxation (before exceptional manpower reductions)	(46.2)	71.3
Exceptional Manpower Reductions*	10.0	13.6
Interest payable less receivable	66.0	56.0
(Loss)/1978 Profit before Taxation	(122.2)	1.7
Taxation charge	6.3	12.6
Loss after Taxation	128.5	10.9
Minority interests	3.0	2.1
Loss before Extraordinary Items	131.5	13.0
Extraordinary Items**	13.0	24.7
Loss after Extraordinary Items	144.5	37.7
Vehicle Unit Production ('000)	658	771
Vehicle Unit Sales ('000)	693	797
Weekly average number of employees ('000)***	177	192

(Loss)/1978 Profit is after charging depreciation and amortisation of £83.6 million £75.7 million

*"Exceptional Manpower Reductions" refers to costs incurred in those plants which continue in operation.

**"Extraordinary Items" are mainly the costs of closure of plants or companies where operations are being discontinued.

***At 31st December, 1979 there were 168,600 employees.

Chairman's comments:

Overall sales revenue at £3 billion was slightly down on 1978. In the UK the Company, although it maintained its sales revenues, was unable to take full advantage of the highest ever vehicle sales because of the effect of externally generated disputes. BL was the only major motor vehicle producer directly affected by the national engineering dispute, which occurred in the second half of the year.

The trading results, before interest, tax and the cost of exceptional manpower reductions, were hit heavily by the national engineering dispute which was the biggest single contributor to the overall trading loss of £46 million.

The other unhelpful factor was the strength of sterling which gave a competitive advantage to the importers in the UK and led to lower exports by BL, one of Britain's leading exporters.

The loss before tax was £122 million compared with a profit of £2 million in 1978. Interest costs of £66 million were incurred (1978—£56 million).

The main component in the change from profit to loss was the severe setback suffered by BL Cars which showed a deterioration of £108 million compared with last year. BL Commercial Vehicle's profit before interest and taxation was virtually unchanged from 1978.

The Company has taken determined action to reduce its manpower as a prerequisite to improving productivity of both cars and commercial vehicles. Reductions in manpower levels of on-going operations in 1979 cost the Company £10 million. In addition the £13 million of extraordinary costs include the cost of discontinuance of certain operations to reduce excess production capacity, where decisions have already been taken.

In the autumn employees approved the Company's recovery plan by a 7 to 1 majority; this plan provides for the acceleration of model programmes, closure of plants and the loss of at least 25,000 jobs. The backing by the workforce of the Company's recovery plan encouraged the Board to seek further funds from the Government in December. £300 million is to be made available to the Company by the Government during its 1980/81 financial year for capital investment and for meeting the cost of redundancies and closures under the restructuring programme.

BL's capital expenditure continued at a high level in 1979, the three main projects being the new Mini Metro facilities at Longbridge, Phase 2 of the Land Rover programme and the new truck assembly hall at Leyland. An agreement was signed with Honda at the end of the year; this major collaborative venture will provide the Company with a new car.

1980 will see the first major results of the public investment in BL—in the shape of new commercial vehicles and new cars.

Nevertheless, 1980 will be a very difficult year for BL. Improved production performance to date has been offset by our lack of success so far in restoring our market share to a satisfactory level. Action is being taken to increase sales; in the meantime we are trimming vehicle inventories by adjustments to production schedules.

APPENDIX 2
ADDITIONAL INFORMATION

Share Capital

1. The following table shows the authorised and issued share capital of the Company before and after the proposed increase in authorised share capital and the issue of the maximum number of Ordinary shares to the NEB:—

<i>Authorised</i>			<i>Issued and Fully Paid</i>	
<i>Before</i>	<i>After</i>		<i>Before</i>	<i>After</i>
£'000	£'000		£'000	£'000
850,000	1,250,000	Ordinary shares of 50p each	728,096	1,178,096

Note: It is not intended to seek a listing on The Stock Exchange for the new shares to be issued to the NEB.

2. The NEB holds 1,443,404,996 Ordinary shares representing 99.12 per cent. of the issued share capital. Upon conversion into equity of the £150 million of NEB subordinated loans and the maximum subscription of a further £300 million of equity by the NEB, the NEB would hold 2,343,404,996 Ordinary shares representing 99.46 per cent. of the enlarged issued share capital of the Company.

3. Since 31st December, 1978, the date to which the latest audited accounts were made up, the Company has issued 298,852,088 Ordinary shares at par by way of rights (of which all but 1,118 Ordinary shares were allotted to the NEB) and a subsidiary has issued 4.96 million Ordinary shares of Indian Rupees 5 each. In addition two subsidiaries with external shareholders are proposing to capitalise reserves of Zaires 6 million and Zambian Kwacha 0.4 million respectively. Otherwise no share of loan capital of the Company or any of its subsidiaries (except for share capital issued within the Group) has been issued for cash or other consideration and no discounts, commissions, brokerages or other special terms have been granted by the Company or any of its subsidiaries in connection with the issue or sale of any part of the capital of the Company or its subsidiaries. Save as disclosed herein, no unissued share or loan capital of the Company or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option or is proposed to be issued.

4. The holders of the outstanding £26,748,480 nominal of 7½ per cent. Convertible Unsecured Loan Stock 1982/87 of BLMC Limited have the right to convert their Stock for a period of one month, normally the month of June, in each of the years up to and including 1987 (subject to the provisions for early redemption contained in the Trust Deeds constituting the Convertible Stock) into fully paid Ordinary shares of 50p each of the Company at the rate of one fully paid Ordinary share for every £5.50 nominal of Convertible Stock converted. Full conversion on this basis would involve the issue of 4,863,360 Ordinary shares.

Group Indebtedness

At 31st December, 1979 the Company and its subsidiaries had outstanding the following loan capital and term loans:—

	<i>£ million</i>
Loans from NEB	
Parent — Subordinated Loans 1982/97	150.0
Subsidiary — 7½ per cent. Subordinated Loan 1982	10.0
	160.0
7½ per cent. Convertible Unsecured Loan Stock 1982/87	26.7

	<i>Short Term</i>	<i>Long Term</i>	
	<i>£ million</i>	<i>£ million</i>	
Other Loan Capital and Term Loans			
<i>Secured</i>	3.8	16.8	20.6
<i>Unsecured</i>			
6 per cent. Unsecured Loan Stock 1998/2003	—	12.4	12.4
6.1 per cent. Unsecured Loan Stock 1977/82	—	3.4	3.4
7½ per cent. Unsecured Loan Stock 1987/92	—	9.9	9.9
8 per cent. Unsecured Loan Stock 1998/2003	—	10.9	10.9
8 per cent. Industry Act Loan 1977/83 repayable in instalments	0.4	1.3	1.7
10 per cent. Industry Act Loan 1978/85 repayable in instalments	0.4	2.0	2.4
5½ per cent. Unsecured Loan of 50m Swiss Francs 1979/84 repayable in instalments	2.8	11.3	14.1
7½ per cent. French Franc Bonds 1977/87 repayable in instalments	0.7	8.5	9.2
Long Term Bank Loans 1982/86	—	115.0	115.0
Other	9.5	3.9	13.4
	13.8	176.6	192.4
	17.6	195.4	213.0

Notes: 1. The NEB Subordinated Loans with the Parent Company totalling £150 million are at various rates of interest between 13½ and 15½ per cent. and, under the proposals set out in this Circular, are to be converted into equity.

2. Short term loans are loans repayable within one year.

The majority of the above loan capital and term loans are constituted by trust deeds or loan agreements which, *inter alia*, contain various covenants as to the Group's financial condition.

At the same date the Company and its subsidiaries had, in addition, outstanding bank indebtedness, other short term borrowings and liabilities under acceptance credits which amounted to £253 million (of which £15 million was secured) and there were contingent liabilities in respect of bills discounted and guarantees amounting to £39 million in respect of which no material loss was expected to arise.

For the above purposes, amounts in foreign currencies have been translated into sterling at rates of exchange ruling on 31st December, 1979.

Save as disclosed herein and excluding intra-group liabilities, neither the Company nor any of its subsidiaries had outstanding at such date any borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, hire purchase commitments, or guarantees (except for normal trading guarantees) or other material contingent liabilities.

At 29th February, 1980 (the latest practicable date before the printing of this document) Head Office records indicated no material change in overall Group borrowings since 31st December, 1979.

General

A claim has been made against the Company and certain of its subsidiaries arising from the proposed termination of a distributor franchise in North America. This claim is being vigorously resisted and no material loss is expected to arise. Save as disclosed, so far as the Directors of the Company are aware, there is no material litigation or claim of material importance pending or threatened against the Company or any of its subsidiaries.

Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Linklaters & Paines, Barrington House, 59-67 Gresham Street, London EC2V 7JA during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 31st March, 1980:—

- (i) the Memorandum and Articles of Association of the Company;
- (ii) the published accounts of the Company for the financial years ended 31st December, 1977 and 31st December, 1978;
- (iii) the Report for Parliament by the staff of the NEB on the 1980 Corporate Plan of BL Limited together with the text of the Parliamentary statement made by the Secretary of State for Industry on 20th December, 1979; and
- (iv) the Principal Trust Deed and Supplemental Trust Deeds constituting the Unsecured Loan Stocks of BLMC Limited.

BL LIMITED

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of the Company will be held at Café Royal, 68 Regent Street, London W1 at 12 noon on Monday, 31st March, 1980 for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an ORDINARY RESOLUTION:—

RESOLUTION

THAT:—

- A. The authorised share capital of the Company be increased from £850 million to £1,250 million by the creation of an additional 800 million Ordinary Shares of 50p each, and
- B. The Directors be authorised hereby from time to time to issue at par for cash and/or by way of conversion of loan to the National Enterprise Board additional Ordinary Shares of 50p each to a maximum aggregate nominal value not exceeding £450 million subject to the following restrictions and conditions:—
- (i) the authorisation hereby conferred shall cease to have effect at the conclusion of the Annual General Meeting in the year 1981 unless then renewed or extended; and
 - (ii) the authorisation hereby conferred shall forthwith cease and determine if the middle market quotation for the fully paid Ordinary Shares of the Company on The Stock Exchange (determined on the basis of The Stock Exchange Daily Official List) shall not be less than par on five consecutive dealing days.

By Order of the Board,

A. R. W. LARGE,

Secretary.

Dated 14th March, 1980.

Registered Office:—

35-38 Portman Square,
London W1H 0HQ.

Notes:—

1. A member of the Company who is entitled to attend and vote at the Meeting may appoint a proxy or proxies to attend and, on a poll, to vote in his stead. A proxy need not be a member.
2. Forms of proxy must be lodged at the transfer office of the Company, 35-38 Portman Square, London, W.1 not later than 48 hours before the time appointed for the holding of the Meeting.
3. Holders of the Convertible Stock are not as such entitled to attend or vote at the Meeting.

14 MAR 1980



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JS



10 DOWNING STREET

From the Private Secretary

14 March 1980

Dear Ian,

I am writing to confirm that the British Leyland meeting will now take place at 1630 hours on Monday 24 March, at No 10.

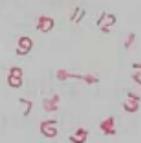
I am copying this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment), Gerry Spence (Sir Kenneth Berrill's office), David Wright (Cabinet Office) and John Hoskyns.

Yours sincerely,

Caroline Pepler

Ian Ellison, Esq.,
Department of Industry.

13 MAR 1980



CONFIDENTIAL

MBom yet

Mr Wright (Clerk)
Mr Robinson



R
12/3

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

12th March, 1980

Dear Tim,

BL CONTINGENCY PLANNING: GENERAL
IMPACT IN FIRST TWELVE MONTHS

...
The Chancellor thought the Prime Minister would be interested to see the enclosed report, produced by a group comprising officials of the Treasury and the Departments of Industry and Employment, under Arnold Lovell's chairmanship. You will appreciate that knowledge of the work has been confined to a very small number of people.

I am copying this letter to Richard Dykes and Ian Ellison.

Y. evr,

MA

(M.A. HALL)
Private Secretary

T. Lankester, Esq.,

CONFIDENTIAL



13 MAR 1950

1. MR RYRIE

2. CHANCELLOR

Copies for: Chief Secretary
Financial Secretary
Sir D Wass
Sir A Rawlinson

cc Mr F Jones
Mr Christie
Mr Unwin
Mr Bridgeman
Mr Shepherd
Mr Dixon
Mr Ridley
Mr Moore
Mr Patterson
Mr G Smith
Mr Welsh
IACS

BL CONTINGENCY PLANNING: GENERAL IMPACT IN FIRST TWELVE MONTHS

The attached report by officials, which met under my chairmanship, assesses the effects of BL partial closures if the corporate plan is abandoned. I understand that the report will be shown to Sir K Joseph and Mr Prior. The purpose of the exercise was to assess the size of the potential additions to the estimates of the PSBR and changes in other main economic variables on which the Chancellor will base his coming Budget judgement. For this reason the report does not look beyond the first twelve months. In fact it now seems unlikely that anything dramatic will happen, if at all, before the autumn. By that time we shall probably have agreed to the NEB providing further tranches of £225m towards the corporate plan. The estimates can be adjusted to reflect the effect in 1980-81 if the plan is abandoned (say) in October.

2. The report assumes that a proportion of BL will survive - the main shut-down being at Longbridge and Cowley. This assessment reflects discussions with BL. The loss of BL jobs would be 79,000. Firms supplying the closing parts of BL will either themselves close down or shed labour, and the assumption is that they would add a further 79,000 to the loss of jobs. Oxford, the West Midlands and South Wales would be particularly hard hit. As an offset against this loss of 158,000 jobs 11,000 new jobs might result from a partial transfer of BL's market share to other UK manufacturers.

3. Increases in unemployment of this size, and heavily concentrated in areas which hitherto have enjoyed a measure of prosperity, are not easy to contemplate either politically or socially. It is likely to be some time before firms which go out of business are replaced by new manufacturing enterprises, although our analysis does not suggest that a shut-down of the order contemplated will produce conditions of economic catastrophe;

- In time the unemployed labour should be re-absorbed into new jobs, although there is likely to be little recovery in net employment in the first twelve months following the shut-down;
- and the effect on BL supplying firms should be manageable so long as the banks are prepared to increase their lending to those firms who will face immediate cash flow difficulties, but who have reasonable prospect of surviving after a period of adjustment. Some of this increase in bank lending will be matched by reductions in lending to those parts of BL which will be closed and to supplier firms which go out of business.

4. The estimates in paragraph 29 of the report show the effect of BL closures. In paragraph 8 of this cover note the figures are adjusted to allow for the point that closures on the scale of BL can be claimed to be already at least partially reflected in the short-term forecasts. Before making any adjustment for this kind of anticipation by the forecasters the increase in total public spending in the first year following the closures is put at £825m and the addition to the PSBR £1,275m.

5. A particularly worrying and incalculable aspect of the situation envisaged in the report is the uncertain impact on business and market confidence and trade union sentiment. The figures are large and beyond our experience, and pressure for a public statement of the effect of the closures on the post-Budget arithmetic can be expected. A major task for the Government will be to try to find some balance between:

- trying to reassure the public and the markets that the situation, while serious, should be kept in perspective. At the same time the Government must not appear insensitive to the hardship that will fall on large numbers of businessmen and employees;
- avoiding over-reacting through announcing remedial measures which could be costly without necessarily improving the situation;
- achieving maximum political value from the event by emphasising that it demonstrates how a work force which ignores the market for its products can put itself out of a job.

Relationship to the NIF Forecast

6. Since this was an interdepartmental exercise we were not able to discuss the extent to which the current NIF already implies a worse prospect for BL than that envisaged in the corporate plan. As noted above, insofar as this contingency can be claimed to be implicitly incorporated within the NIF the estimates produced in the report cannot simply be added to the forecasts.

7. The problem is that the NIF is not built up from a detailed analysis of the prospects for individual firms, and so there is no explicit forecast of BL output, employment and so on incorporated within it. However, the industrial implications of the forecasts are examined in some detail and are reflected in the Industrial Assessment System (IAS) report circulated at the end of February. The NIF assumes that output reductions and the adverse effect of overseas competition will be particularly marked in the manufacturing sector. The IAS forecast for the motor car industry within the sector is that demand will continue to decline in 1980 with imports taking a larger share of the domestic market than in 1979.

Reduced domestic demand and loss of competitiveness in overseas markets leads to a forecast of a fall in motor vehicle production of 10 per cent in 1980. Car output, which was 1.1 million in 1979 is expected to fall to about 800,000, a level which the report says "is unlikely to be compatible with all four majors remaining in volume production". But it nevertheless seems that closures on the scale envisaged in the report cannot be assumed to be fully reflected in the NIF.

8. The NIF implies that BL's contribution to GDP, including the impact on suppliers, is perhaps a quarter below that implied by the corporate plan. As a broad and crude approximation, therefore, it would seem reasonable to reduce the range of assumptions in the attached report by 25 per cent. On this basis the current NIF forecast would need to be changed as follows:

Estimated changes to February 1980 NIF Forecasts for 1980/81
(assuming April shut-down)

	<u>£m</u>
Exports reduced by	300
Imports increased by	<u>750</u>
Balance of payments loss	<u>1,050</u>
Employment lower by	110,000
GDP lower by	0.5 per cent
Public expenditure higher by	650
Revenue lower by	350
PSBR higher by	1,000

9. This increase in the PSBR should have little effect on interest rates because the lower GDP implies a reduced demand for money. But paragraph 5 above draws attention to the uncertainties of these developments on market sentiment.

10. These are full year figures. Apart from the direct financing of BL and the payments under the Redundancy Payments Act the remaining major public expenditure and revenue items can be pro-rated.

Thus, as a broad approximation, if the plan was abandoned in October the PSBR would be £350m less than shown above.

Further Action

11. There are bound to be wide error margins involved in an analysis of this kind and the results can be taken as no more than a rough approximation of the likely immediate impact. The estimates could be further refined, but it is doubtful whether this would result in significantly different figures. The report in paragraph 31 does however suggest two further stages in contingency planning which we believe would be worth pursuing. The first is a more detailed assessment of the likely regional impact, and the effect on supplier firms and industries. The objective would be to provide the basis for a further step in contingency planning - an examination of possible action by the Government. The Whitehall responsibility for these issues lies with the Department of Industry, and if you feel that the work is worth pursuing the Department might be invited to set up the studies. However, we have a great deal of information in the Treasury, and we are putting in hand some preliminary studies which are relevant also to the wider contingency planning for industry recently commissioned. You might wish to wait for these before initiating further interdepartmental work.

ahj
A.H. LOVELL - IA
11 March 1980

BL: CONTINGENCY PLANNING - THE FIRST TWELVE MONTHS

This report assesses the likely consequences in the first twelve months if BL's Corporate Plan is abandoned and the company closes down a major proportion of its operations. It was prepared under Treasury Chairmanship and officials of the Departments of Industry and of Employment took part. It is restricted to the effects on the main economic and financial aggregates and the discussion was not extended, at this stage, to an examination of the feasibility and costs of possible offsetting measures by way of regional, employment and other forms of assistance.

2. Ministers approved the Plan in December. It envisages that BL will close down a number of plants and reduce their UK workforce substantially in 1980 and 1981. They will undertake a major investment programme and launch a number of new models: notably the Metro (the Mini replacement) which starts production at Longbridge later this year; the collaborative venture with Honda on the Bounty which will be launched from Cowley at the end of 1981; and the new medium cars, the LC10 and LC11, which will be launched respectively from Longbridge in late 1982 and from Cowley in 1984. The Government has agreed to put in up to £300m in 1980-81; and there is public expenditure provision for a further £75m in 1981-82, although BL have not asked Ministers to approve their Plan beyond 1980-81.

3. Sir Michael Edwardes has said, in a letter published with Sir Keith Joseph's statement on 20 December, that his Board would abandon the Plan if it considered that shortfalls in performance, particularly in cash flow, placed its achievement in jeopardy. Even with the successful dismissal of Mr Derek Robinson, there is no doubt that the Plan is already under serious threat. BL have yet to settle the crucial wages and productivity deal for BL Cars. Their UK market share fell to 15% in January and, although it is now recovering, it is still short of the 20% for which they were aiming. Because of the current high level of stocks the steel strike has not yet damaged BL, but it would do so if it went on beyond the end of March. In these circumstances there remains a serious risk that BL will have to abandon the Plan at some time in 1980-81, although it now seems unlikely that this will arise in the next few weeks. Broadly, in respect of 1980-81 the estimates made in this report can be prorated.

ASSUMPTIONS

4. We have assumed that if BL totally withdrew their Plan - as distinct from modifying it - they would not go into receivership or liquidation. Instead the present Board would continue and take on the task of selling operations where possible and closing down the rest.

5. For the purposes of this exercise we have taken as a realistic but cautious assumption that the following businesses could be sold and continue to operate:-

Land Rover
 Jaguar
 Alvis
 Coventry Climax
 Prestcold
 Unipart
 Leyland Vehicles (Trucks and Buses)

Some parts of BL Components and of Pressed Steel Fisher, which supplies body panels, would also have to be kept in operation to service these activities.

6. It is also possible that the MG works at Abingdon will be sold and that Honda could be persuaded to go ahead with the production of their car by acquiring part of the Cowley site. If this were to happen it would be of great importance for the Oxford area and could lay the foundations for building up Cowley again over a period of years. But in 1980-81 only about 5,000 jobs would be saved and since those numbers, and the consequent redundancy costs, are well within the margins of error we have not included them in the figures in the rest of this paper which are based on the assumption that the operations listed in the preceding paragraph will continue. A note as Annex A gives more details of the sales prospects of these operations.

7. There is no experience of closures on this scale. The estimates in this report need to be interpreted therefore with caution, and wide error margins should be attached to them. It is possible, for example, that the BL shut-down and the knock-on effect on suppliers could generate a crisis of confidence in manufacturing industry and in financial markets, domestic and overseas. We assume that this will happen and that the effects will be confined to BL and companies closely associated with them, while other UK car manufacturers and, of course, overseas suppliers benefit from BL's misfortunes. So long as the effects are contained within this kind of scenario the implications, although serious, appear to be manageable. Apart from this major uncertainty much of the estimating cannot be claimed to be more than informed guessing. There are doubts for example over which operations in BL will survive and also over how much BL may get in sales or from break-up values. There are doubts whether customer confidence even in the saleable parts can be held. It is possible that the company could be faced with highly costly disruptive action from workers defending their jobs. This would make orderly rundown much more difficult. To alleviate the situation and re-establish control,

BL could be forced to make higher redundancy payments than are required by law and than are assumed in these estimates.

EMPLOYMENT

BL

8. At the end of 1979 there were about 144,000 BL employees in the UK. The Plan assumed that employment would have fallen to 140,000 by the end of 1980 (and by 5,000 more if Special Products Industries, mainly Prestcold, can be sold by the end of the year). If the Plan were withdrawn, and only those operations listed in paragraph 5 above survived, of this 140,000:-

61,000 BL jobs would be preserved
79,000 would be lost.

9. The distribution of the 79,000 redundancies would be

Birmingham	39,000
Oxford	15,200
Coventry	8,700
Swindon	3,800
Cardiff	700
Llanelli	3,400
Liverpool	1,000
Other	7,200
	<hr/>
	79,000
	<hr/>

Birmingham and Oxford would be particularly affected because of the closure of the Austin-Morris works at Longbridge and Cowley and of Rover and Triumph at Solihull. The 7,200 "other" redundancies include company staffs and would be spread widely (including Abingdon, Dunstable, Hemel Hempstead, Leicester, West Yorkshire and London) but none would be more than 1,000. There would be no redundancies in Scotland, assuming that the Bathgate plant near Glasgow were sold with the rest of Leyland Vehicles.

10. It is to be expected that some of this employment loss would be taken up by other UK indigenous car manufacturers. The take-up of market share is extremely difficult to predict, but in order to arrive at our estimate we have made the following assumptions:

- i. BL's exports of the non-viable activities are lost to the UK;
- ii. replacements for Rover/Triumph will all be imported since there are no domestically produced competitor models;
- iii. the Austin/Morris market will be replaced by UK manufacture in proportion to the 1979 share of the non-BL market ie 31%;
- iv. the total demand for cars in the UK will be unchanged by the collapse of BL.

11. On these assumptions 5,700 jobs would be created in the remaining UK car manufacturers (if it is further assumed that the additional output is produced by additional labour rather than through overtime). This estimate must be extremely tentative and may be optimistic: BL's lost market share over recent years has been almost entirely taken up by imports; Ford continue to have difficulties in recruiting labour at Dagenham; the multi-nationals are generally reluctant to increase capacity in the UK especially when their more efficient Continental plants are on short time working.

Suppliers

12. It is difficult to assess what would be the effect on employment in firms supplying BL. But, using the broad assumption that for every one BL employee there is one other person indirectly dependent on BL elsewhere in the economy, there would be a further 79,000 redundancies outside of BL. Using the same 1:1 relationship, if 5,700 jobs are created by other UK car manufacturers (see preceding paragraph) a corresponding 5,700 might be saved in the supplying firms. Thus, the total redundancies in BL and the suppliers would be in the order of 158,000, offset by about 11,000 new jobs, to give a net total of 147,000.

13. There is considerable uncertainty about the number of jobs likely to be lost in the suppliers, since the initial job losses could be either magnified or reduced depending on the situations of the companies concerned. Two broad types of outcome can be identified. Some firms heavily dependent on BL will collapse quickly, thus magnifying the initial job loss, and some more could collapse later though perhaps not in the first year. Other firms, while initially dependent on BL for a significant share of their business, may be able to contract successfully and in time diversify. In these latter cases the initial job losses may in time be reduced. In the case of all supplier firms the initial effect of the closures will be to create a cash flow problem and in each case survival may depend on a solution being found to this immediate difficulty.

14. The possibility of survival in the long run will depend on the extent to which these companies are dependent on those parts of BL due for closure. In some cases closure of the source of demand will not necessarily mean an immediate drying up of demand. Suppliers will still need to provide replacement parts such as tyres and batteries for the existing stock of BL cars. This, and the continuing production of vehicles by the BL companies which we have assumed continue in operation, may help to tide the suppliers over the initial period following closure. In considering the effect of a partial BL collapse it is worth bearing in mind that the weaknesses of BL have not been missed by their main suppliers and that a number of the larger firms have been taking defensive action by trying to diversify.

15. Our best guess at the present time is that most of the bigger firms will probably survive, assuming that they are reasonably credit-worthy and can increase their short-term borrowing when the closures take place. But this may not be true of a number of smaller specialist firms, some of which may be completely tied to BL output. For example in the West Midlands there are some 850 firms identified as suppliers to BL, but most of the business is accounted for by 50 major firms. A significant proportion of the smaller, highly dependent firms are likely to go out of business altogether. Indeed the regional problem seems to be essentially centred in the West Midlands as well as Oxford and, to a lesser extent, South Wales. Unemployment ratios would more than double in these areas. The likelihood of closures may also raise wider issues of national interest, if the rundown of certain sectors leaves the UK with less capacity than is needed to serve other firms and industries.

BALANCE OF PAYMENTS

16. The balance of payments consequences are much more difficult to estimate than the consequences for unemployment because we do not have data on BL's exports broken down by product to correspond to the operations listed in paragraph 5, nor do we have direct and indirect import content on this basis. The assumptions we have had to make are therefore more sweeping than for the employment effects. In many cases we have apportioned exports and both direct and indirect import content in proportion to output, although we have used hard figures where they exist. We have also had to assume that relationships between direct and indirect imports and sales for 1978 will apply for 1980 and that exports and hence sales for 1980 will be as given in the BL Corporate Plan. This latter assumption may not be realistic. The assumptions underlying BL's market share take-up by other

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UK car manufacturers are as given in paragraph 10 for the employment estimates.

17. The balance of payments effects in the first twelve months following a partial BL collapse would be:

	£ million 1980 prices	%
Direct exports lost	413	= 1.2 of exports of manufactures
<u>Minus total imports avoided</u>	<u>-288</u>	= 2.0 of imports of semi manufactures
Net exports lost	125	
Replacement of home sales	1225	= 3.7 of imports of manufactures
	<u>1350</u>	= 0.67 of GDP

GDP

18. The net worsening of the overseas trade account is assumed to provide for the whole of the GDP loss caused by the closures and its effect on suppliers, ie 0.67% of GDP. No provision is made in the estimate for losses of income leading to reduced domestic demand and therefore to further losses of output and jobs - in effect we have assumed that the income multiplier effect of the closures and their repercussions will be zero. In fact there will be such effects but we believe they will be small and to some extent offset by other measures. The multiplier is likely to be small because the loss of personal disposable income for the unemployed in the first twelve months will be contained by redundancy payments, use of savings and reduced savings. (PDI of the additional unemployed is assumed to fall by no more than a fifth.) There may also be some offsetting rise in net output because of the availability of additional skilled labour.

PUBLIC EXPENDITURE AND PSER IMPLICATIONS

19. If BL were to collapse the public expenditure and PSER costs would fall into three broad groups:-

- i) the net deficit remaining after the break up of BL;
- ii) those consequent on the redundancies in BL and elsewhere;
- iii) any offsetting measures.

This report discusses (i) and (ii). We propose further work on (iii) at the end of the report.

BL Closure Costs

20. We estimate that the public expenditure and PSER costs of meeting the net deficit after sales and closures could be in the range of £175-£650m over a three year period:

		£m 1980 prices	
	Annex	High	Low
Proceeds of sales as going concerns B1		450	285
Realisation of other assets less liabilities B2	B2	278	58
Closure costs B2	B2	(371)	(449)
Repayment of borrowings		(534)	(534)
		<hr/>	<hr/>
Net deficit		(177)	(640)
		<hr/>	<hr/>
Rounded		(175)	(650)
		<hr/>	<hr/>

21. However, as the three year cash flow figures in Annex B5 bring out, the net deficit over the period is made up of a very large outflow in the first year partly offset in the later years by inflows from disposals. In assessing the public expenditure costs in the first year two difficult judgements are necessary.

22. First, the Chancellor and the Secretary of State for Industry have already agreed in principle that the outstanding private sector borrowings by BL and their overdraft facilities could be guaranteed if necessary and where possible. If this were done only some of the £534m borrowings shown in Annex 3 would be repaid immediately. In advance of negotiations with the lenders, it is difficult to estimate what would happen. But if we assume that £250m could be guaranteed

(mainly the overdraft borrowing) the net outflow in the first year would be reduced to the order of £550m-£775m. The £250m guaranteed borrowings would be repaid out of disposals receipts in the later years.

23. Secondly, there is already provision for public expenditure on BL of £300m in 1980-81 (and £75m in 1981-82) and some of it is earmarked by BL for meeting closure costs. If the Plan were withdrawn now it would be reasonable to assume that all of this £300m was available towards the net costs in the first year. If it were withdrawn in, say, 6 months time the position would be complicated by the further capital expenditure which would have been committed in the period. Much of this would be wasted, in so far as it was in operations which then had to close. But the value of operations which could be sold as going concerns could be increased.

24. If the full £300m were available to offset the total of £550m-£775m the net additional public expenditure in the first year would be £250m-£475m. Since in practice some of the £300m will have been spent, and assuming an outturn towards the top end of the range, a working assumption for the net requirement is £500m in the first year (but there are obviously very wide margins of error here).

25. It would also be necessary to consider at the time how best to cope with the peak outflow in the first quarter. Some of it could probably be met from additional bank borrowing under guarantee. But this could lead to difficulties with constraints on bank lending and it might be necessary for the Government to inject some short term loans. If this were to happen, and if they were repaid within the same financial year, there would be no net additional public expenditure on this account.

Redundancy costs

26. The jobs lost by the partial closure of BL would eventually be replaced, leaving no permanent increase after a number of years in the general level of unemployment. But job replacement would take time. The initial job loss might be amplified in the short run by income multiplier effects, although as explained in paragraph 18 no provision is made for this in the estimates. Such scanty information as is available about job replacement time paths in areas of high unemployment suggests that some part of any initial job loss would be likely to have been made good by the end of 12 months. In the circumstances envisaged the job losses would be concentrated in a few towns and they would take place at a time when the unemployment figures were likely to be particularly high and the economy generally is depressed. The extent of net job replacement during the first 12 months might therefore be unusually modest. As an average for the 12

months as a whole the assumption made here is that, apart from the 11,000 or so jobs in other UK manufacturers referred to earlier, the whole of the initial job loss applies.

27. We assume that 41% of redundancy payments, both for BL and for suppliers which remained solvent, would be refunded from the Redundancy Fund (though initially the Fund would bear the full cost of these and certain other payments to workers at firms which became insolvent); that 90% of the workers made redundant would qualify for redundancy pay; that the average redundancy pay received by each of the 90% who qualified for it would be £1280. We also assume that the subsequent net Exchequer costs per man in the first year are £4,500, of which £1,500 is unemployment and supplementary benefit and £3,000 a reduction in receipts from taxation and national insurance.

28. There could be additional public expenditure and PSBR costs if suppliers, or BL themselves, made use of the Temporary Short Time Working Compensation Scheme which has been recently extended to the end of March 1981. This scheme provides for compensation to be paid (of, broadly speaking, 75% of the normal pay of the workers covered, for each day they are without work, plus National Insurance contributions) to employers who are prepared, in agreement with any appropriate trade unions, to adopt short time working as an alternative to implementing redundancies affecting 10 or more workers. Payments are made for a maximum of six months. The effect is to enable a firm to reduce its wages bill temporarily to the full extent of any shortfall in demand, without bearing the costs and dislocation of redundancies which in the end may not be necessary. If firms did use the scheme to avert more redundancies than those discussed above, the public expenditure cost of it could be in the order of £60m. But the net cost would be only about £25m because of the further redundancies avoided.

29. Total (BL's net deficit plus redundancy costs)

On this basis the first year costs would be in £ million at 1980 prices:

(i) Extra direct funding of BL	500	(paragraph 24)
(ii) Under Redundancy Payments Act	80	
(iii) Unemployment and supplementary benefits	220	
(iv) Short Time Working Scheme (net)	25	
(v) Total public expenditure	825	
(vi) Tax and NI contributions lost	450	
(vii) Total PSBR	1275	

SUMMARY

30. If the BL Board were to withdraw their 1980 Corporate Plan and only those operations listed in paragraph 5 above survived the main effects in the first year might be:

- (i) 147,000 net redundancies (half in BL itself);
- (ii) £1350m total balance of payments loss;
- (iii) 0.67% loss of GDP;
- (iv) additional public expenditure of £825m;
- (v) addition to the PSBR of £1275m.

The public expenditure and PSBR costs, which are tabulated in paragraph 29, will increase in so far as offsetting measures are introduced. But, as has been stressed throughout this report, they are subject to wide margins of error and to uncertainties over phasing.

31. If Treasury Ministers feel that the contingencies envisaged by this report need further examination we recommend:

- i. Further work on the specific consequences of closures, and identification as far as practicable of the firms and sectors most at risk and their regional distribution; and
- ii. a detailed study of possible offsetting measures, of the case for them, and of the likely public expenditure and PSBR implications.

IA Group
Treasury
10 March 1980

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SALEABILITY OF THE BL GROUP CONSTITUENT COMPANIES

A. GOOD SALES PROSPECTS

1 Land Rover

This is a substantially self-contained operation, although certain facilities are on sites shared with Rover and Triumph at Solihull. A few stampings and components would have to be resourced if other parts of the BL Group did not continue, but the majority of components are unique to the Land Rover vehicle range. The company is profitable and generates a positive cash flow after interest and tax. This trend is forecast to continue during the £160 million expansion programme currently under way. Land Rover has a successful model range, and a strong position in developed and Third World markets: the latter strength is thought to be an incentive for any potential purchaser seeking access to the more difficult markets, for example, in Africa. The company has its own engineering and sales staff but no component purchasing or financial organisation.

2 Jaguar

The major selling point is the reputation of the marque for top quality engineering and the success of the current saloon and sports models. Jaguar has good potential for profitability but despite high contributions per vehicle is currently a user of cash because of low volumes and the cost of developing a new engine and body. The operation is self-contained in terms of assembly, engines, gearboxes and certain other components but some stampings could pose difficulties and the paint shop would require investment. Most important Jaguar has no self-contained body-building operation: this would have to be found. Staffing is nearly complete, including engineers who are regarded as vital to the company's future. There is no separate sales team. Potential buyers are generally limited to the small number of motor companies which have no prestige cars or whose own product is relatively weak.

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3 Parts

This is self-contained and would need to be continued in some form or other to supply the still large BL car pool. Long term potential is provided by the possibility of shifting from BL parts production as demand falls away to an "all makes" parts philosophy. But this will be a difficult operation to plan and administrate. Currently Unipart is profitable and generates a positive cash flow.

B. SELF CONTAINED SUBSIDIARIES

1 Alvis, Coventry Climax, Prestcold

These are all self-contained subsidiaries currently operating with a fair degree of success and are not consumers of cash. It is thought that they could continue in existence until such time as buyers are found.

C. OVERSEAS OPERATIONS

1 Seneffe, Belgium

This would be an expensive plant to close because of Belgian labour laws. The preferred option would be to identify a manufacturer lacking capacity in Europe and able to take on this unit as a whole.

2 Ashok, India

This operation is self-contained and is only 51% BL-owned. It could give a buyer wide access to the Indian and Far East markets and, subject to Indian Government approval, should not be difficult to sell.

D. OTHER BL COMPANIES

1 Leyland Vehicles Limited (LVL)

This should be saleable in some form, but the desirability of the company's elements is variable. The heavy trucks are concentrated in Leyland, Lancs. The operation is virtually self-contained, a new model is just coming on stream and there is also a new assembly hall and test facility. Medium and light trucks are a less attractive proposition, thanks to the ageing model range and over-capacity at the Bathgate factory, but operations could continue while a purchaser is found for LVL as a whole. Bus production is divided into "sophisticated" models for

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the UK market and truck-based models for developing country markets: the former could be continued profitably but the latter's future would depend on whether medium and light truck production continued at Bathgate. As a company LVL has a record of low profits and substantial cash absorption: this sharply limits the potential sale price of the company.

2 Cowley

This plant currently assembles the Princess, Marina and Maxi models, all of which are due to be phased out in the fairly near future. But the plant has also been designated as the base for BL production of the Honda car: in the event of a calamity befalling BL it is thought possible that Honda may consider going ahead with production of their car by acquiring a part of the Cowley site. The latter includes self-contained body, paint, assembly and (with some investment) stamping facilities. Engines and gearboxes are already planned to be sourced from Japan. However heavy investment would be needed for mechanical unit production facilities and for a new paint shop. Such investment could be profitable but Honda's eventual decision will depend upon their judgment as to whether the time is opportune to set up manufacturing within the EEC and whether the risk of investment in the UK is worth taking.

3 Abingdon/MG Marque

BL are currently negotiating with a consortium led by Aston Martin the possible sale of the Abingdon plant and MG model. Details of the initial Aston Martin bid and the present position of negotiations have not been disclosed. It is not yet clear whether BL are prepared to include the Abingdon plant in any finally agreed package.

E. THE REMAINING BL GROUP COMPANIES

Certain other small parts of the BL Group have been identified where sales might be expected at nominal values to offset closure costs. But it is thought that generally Austin Morris, Rover, Triumph and sports cars would not prove attractive propositions for potential buyers. Small parts of the Foundries and the Pressed Steel Fisher operations would need to be retained as a central service if a number of units as outlined above were kept in operation with a view to sale.

SALES AS GOING CONCERNS

	<u>HIGH</u> <u>£M</u>	<u>LOW</u> <u>£M</u>
<u>Sales proceeds:</u>		
LAND ROVER	200	150
JAGUAR	22	14
PARTS	106	77
ALVIS	12	9
COVENTRY CLIMAX	4	3
PRESTCOLD	6	4
SENEFFE	10	20
INDIA	10	8
IVL	50	-
COWLEY	-	-
	<u>450</u>	<u>285</u>

BREAK-UP VALUESUNITS NOT TO BE SOLD AS GOING CONCERNS

	Net book	Realisable in liquidation	
	value @ <u>30/11/79</u>	<u>HIGH</u>	<u>LOW</u>
	£M	£M	£M
<u>FIXED ASSETS:</u>			
Land and buildings	127	86	57
Plant and equipment	238	56	22
Special tools	39	2	1
Investments	<u>11</u>	<u>10</u>	<u>5</u>
	415	154	85
	—	—	—
<u>INVENTORIES:</u>			
Vehicles	380	287	219
Distributors deposits	(96)	(96)	(95)
Parts	60	70	60
WIP/Other	<u>181</u>	<u>59</u>	<u>22</u>
	525	320	205
	—	—	—
DEBTORS	194	162	126
CREDITORS	(358)	(358)	(358)
NET TOTAL	<u>776</u>	<u>278</u>	<u>58</u>
	—	—	—
<u>CLOSURE COSTS:</u>			
Run-down costs		(30)	(60)
Cancellation of contracts		(145)	(195)
*Redundancy costs	(240)		(240)
Less: HM3 rebate of 41%	<u>44</u>	(195)	<u>44</u>
		<u>(371)</u>	<u>(449)</u>

*Assuming BL will not go into receivership or liquidation they will bear 59% of payments to employees under the Redundancy Payments Act and 41% will be paid to them from the Redundancies Fund. The redundancy costs shown here also assume that EL workers made redundant would receive 10 weeks pay in lieu of notice.

THREE YEAR CASH FLOW

(OUTFLOW)/INFLOW IN £M

	<u>TOTAL</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<u>A. HIGH</u>								
Assets less closure costs	(93)	(443)	50	86	40	(267)	134	40
Borrowings	(534)	(534)	-	-	-	(534)	-	-
Sales proceeds	450	-	-	-	-	-	200	250
	(177)	(977)	50	86	40	(801)	334	290
<u>B. LOW</u>								
Assets less closure costs	(391)	(505)	(18)	20	11	(490)	73	26
Borrowings	(534)	(534)	-	-	-	(534)	-	-
Sales proceeds	285	-	-	-	-	-	150	135
	(640)	(1037)	(18)	20	11	(1024)	223	161

*In so far as these borrowings can be guaranteed their repayment could be deferred to years 1 and 2. It is assumed in the main report (paragraph 22) that £250m might be guaranteed and so deferred.

PART 2 ends:-

CRAW to Trade 10/3/80

PART 3 begins:-

Trsy to TL of 12/3/80

