

PART 4

Confidential Filing

The future of British Leyland.
Possible transfer of BL from the NEB's
Responsibilities.

INDUSTRIAL POLICY

Part 1: September 1979

Part 4: July 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
8.7.80		22.1.81					
14.7.80		— Plans —					
2.4.7.80							
7.8.80							
11.8.80							
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22.12.80							
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PART 4 ends:-

E (81) 3rd Mtg LCA

PART 5 begins:-

S/S Ind to PM 22/1/81



CABINET OFFICE
Central Policy Review Staff

With the compliments of
J. R. Ibbs

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

From: J. R. Ibbs

Qa 05229

22 January 1981

Dear Ian,

BL

After this morning's meeting of E Committee the Prime Minister asked me to give any help I could to the Secretary of State on the conditions that should be attached to approval of the BL Plan.

I am due to visit Manchester this afternoon and evening but will be back in London at mid-day tomorrow. While I am in Manchester my office will be able to get in touch with me by telephone if necessary.

During my absence Peter Kind of the CFRS, who is well versed in BL's affairs and knows my own views, will be available to assist DoI officials in any way he can.

I am sending a copy of this letter to Sir Robert Armstrong and to Mr Lankester.

yours ever,

J R Ibbs

Ian Ellison Esq
Department of Industry
Ashdown House
S W 1

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Ref. A04059

PRIME MINISTER

British Leyland

I am afraid that I think that we are still faced with a straight either/or choice, though the "either" option is now different, because we know what the Board of BL is prepared to do.

2. The "either" option is to offer BL firm financial support for two years ahead, including the money required for the development of the LM 10, with arrangements for regular periodical reviews of progress, on the understanding that the Board will commit itself to the active pursuit of co-operative arrangements, including share exchanges, with overseas manufacturers, which would cover the volume car business as well as the specialist units.

3. The "or" option is to ask the Board to dispose of the business; which almost certainly means the early collapse and virtual extinction of BL's volume car business in Longbridge and Cowley (though someone would probably buy the Metro assembly plant, which is very up-to-date), and the disposal of the other units for what they would fetch - probably not much, in the present state of the world economy.

4. The alternative (which we preferred at the end of last week) of giving the Board two years, by the end of which they would be required to have disposed of Land Rover, Jaguar Leyland Vehicles (and presumably Unipart), remains theoretically attractive, because of the possibility of attracting venture management and capital into these still potentially profitable businesses; but the present board of BL (not just Sir Michael Edwardes) will not undertake that, and it seems unlikely that any other group of directors could be persuaded to do so once this board had said that it would not.

5. I have no doubt that you are right in saying that, if we now agree to continue to finance BL for another two years, we could hardly close it at the end of 1982, both because of the imminence of an election and because by that time the LM 10 would be on the point of coming on sale, and closure at that point would mean that the development finance was a total write-off. But:



- (a) If discussions with overseas manufacturers were on terms acceptable to Her Majesty's Government (the approval of whom, as the shareholder, any agreement would require) - in other words, if the discussions did not commit Her Majesty's Government to the overseas manufacturers for indefinite public support, and they led to a successful conclusion, they might lead to rationalisation of manufacture and extension of markets which could provide a healthy basis for a larger volume car business in the United Kingdom than would be left as a result of the closure of BL.
- (b) If the eventual commercial prospect on the basis of co-operative arrangements was better than it is for BL on its own, there would be the prospect of viability and an end to public support, and there would be a greater possibility of finding some of the money required otherwise than from Her Majesty's Government in the meantime.
- (c) A decision to dispose should be possible again in 1984 or 1985, the Board of BL's efforts to nurse both the volume car business and the specialist divisions into better shape might then have made the assets more attractive to potential buyers, and the recovery of the economy should have reached a point where the closure of the volume car business would have less catastrophic effects in the West Midlands than they would have now.

6. There are big "ifs" in all this. But those I have indicated are not the only ones. It is probably unrealistic to suppose that new and at present unforeseen developments will not force a reappraisal of BL's prospects earlier than the end of 1982, even if we now offer firm financial support for the next two years.

7. Finally, one point on the handling. It looks as if the Secretary of State for Industry, and perhaps also the Secretary of State for Defence, will argue for immediate disposal, and (if necessary) closure of the volume car business. I thought this morning that you were perhaps inclining to that point of view more than you have done until now. Other Ministers, including the Chancellor of the Exchequer and no doubt the Secretary of State for Employment, will certainly argue the other way. Your own assessment earlier was that the Committee was

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more likely to come down in favour of combined support than of immediate disposal. I think it very important that you should not show your own hand in the discussion. I believe that serious consequences could ensue if the decision was to continue financial support for two years on the basis now proposed by Sir Michael Edwardes and it then came out (as I fear it might) that that decision had been taken against your advice and you had been arguing for immediate disposal and closure.

REA

ROBERT ARMSTRONG

21st January, 1981

SECRET PERSONAL



PRIME MINISTER

COPY NO. 1 OF 23

BL

We are discussing at E Committee on 22 January our decision on BL. For reasons of which you are aware, we cannot now postpone a decision, and we must aim to make a statement either on 22 January or, at the latest, on Monday 26 January.

2 In my paper before Christmas (E(80)145) I recommended in favour of supporting BL's Corporate Plan despite its heavy public expenditure cost. I said there would be some advantage if we decided to close BL Cars, but at a time when unemployment is so high, when the PSBR is so stretched and when the company is moving in the right direction, I could not recommend closure. In subsequent discussions with colleagues particularly concerned, we have sought to identify a middle course which, whilst avoiding the penalties of a Government-triggered closure, would hold out some prospect of our being able to extricate ourselves from the BL problem. In order to explore this possibility of a middle course, Geoffrey Howe and I met Michael Edwardes on 20 January and we received from him assurances, which are discussed below, which go a little way to help us if we decide to support the Plan.

3 I myself, however, have moved from the position of being marginally in favour of the Plan, on the grounds primarily of the higher PSBR cost of closure outlined later, to the view that we should grasp the nettle now and accept the dissolution of BL, in which at least

/most ...



most of the volume car operations would close, for the reasons which
will be clear later in this minute.

4: The case for backing the Plan is not based on any one consideration,
but on the cumulative effect of several:

(a) BL specifically say that the Plan is not a "normal
commercial risk". But there is a chance - opinions
differ on how good a chance - that it will achieve the
objectives it has set itself. If it does, it will
probably relieve the Government of primary responsibility
for funding and conceivably enable BL to attract major
collaboration or even external shareholding. But the
competition will be intense and the economic environment
hostile. Recognising the risk BL propose to send a
letter undertaking to review the Plan fundamentally if
there were any departure from the assumptions underlying
the Plan which, in its opinion, appreciably reduced
the chances of successful achievement of the Plan's
major objectives - whether internal factors like a
major strike or external economic ones.

(b) closure would carry a very heavy cost for the PSBR
particularly in the first two years. This will compound
the general budgetary problem of which we are all too well
aware, in the years when it is most severe. We have
examined the possibility that in the event the PSBR

/cost ...



cost of closure might prove less than the estimates made by the Treasury sub-group of officials - for example, if more of BL's facilities were taken over by other businesses and entrepreneurs. But there is little ground for believing that the official group's estimates are not central ones.

- (c) the employment consequences are severe and concentrated both in time and in location. They will inevitably attract much adverse publicity and appear to be inconsistent with the Government's stated concern about the employment situation. Moreover, we often emphasise that a higher PSBR can only be financed at the cost of jobs destroyed throughout the rest of the economy. Since the PSBR cost of closure is higher than that of backing the Plan, there may be other jobs lost by this secondary effect as well as those lost in BL and its suppliers.
- (d) rejection of the Plan would be seen as rejection of Edwardes and his style of management, which is widely identified with the very policies of tough management and economic reality which we ourselves advance; and it would suggest that workforces which co-operate with such managements (as BL's has done, on the whole) can expect no dividend for their co-operation.

/(e) ...



- (e) the loss of BL's volume car production, combined with the partial or total withdrawal of both Talbot and Vauxhall, which are quite likely in the next year or two, would leave us producing little more than a quarter of the cars sold in our domestic car market. Such a home base would be insufficient to sustain the hitherto relatively successful component sector and important firms could well be put at risk.
- (f) we face exceedingly difficult decisions on British Steel and British Shipbuilders as well as on BL. It is doubtful whether we can face the political consequences of closing more than one of these in the next year. It can well be argued that BL is the least unhelpful of these three and that it would be wrong to block off the possibility of drastic reductions in BSC by deciding now to close BL (which incidentally would itself worsen the position in steel).

5 As against this:

- (a) the Plan is not a normal commercial risk - indeed Michael Edwardes himself draws our attention to this. And its objectives, even if achieved, would not leave us with a BL that is entirely independent of Government at the end of the period of the Plan. The company is too small to survive in the long term, and too unprofitable and ridden with problems to offer a realistic prospect

/of ...



of being taken over by another car producer at a time of world recession and over capacity in the car industry. What we invest in such a poor prospectus is invested at the cost of other potentially successful enterprises throughout the economy. On this ground alone, there is a case for facing up to the fact now, rather than throwing good money after bad and avoiding once and for all the prospect of years of similar dilemmas.

- (b) even within the terms of the Plan itself, their success depends heavily on the exchange rate, on the maintenance of the current improvement in their industrial relations and their success in dealing with the competition. The exchange rate BL have assumed is at the centre of current predictions but as we all know it is essentially unpredictable, and the improvement in their industrial relations is still fragile.
- (c) closure would be the clearest message we could send at this time that our policy is to withdraw from backing failures and subsidising union-dominated big business at the expense of successful private enterprise. Politically, there are grounds for believing it would be positively popular for us to deliver the coup de grace to a company for which most people's patience has been long exhausted. Moreover, the effect of such a decision on real wage expectations would be highly beneficial, and in time the

/effects ...



effects of that on employment could well more than offset the employment lost in BL and its suppliers.

- (d) I understand the Chancellor does not regard the PSBR cost as being on its own a sufficient reason for deferring a decision to close BL.
- (e) in retrospect, we should perhaps have faced up to the closure of BL last year. It will be hard this year, but harder still next and perhaps impossible by 1982.

For all these reasons, I now urge the case for deciding to accept the early closure of BL Cars. John Biffen, in a minute of 16 January to you (copied to other members of the E Committee) makes several of these points. John Nott has also argued strongly for grasping the nettle now. Michael Edwardes and the Board have undertaken that if we opt straightforwardly for immediate closure they will remain to supervise the operation (including the sale of any bits that can be sold.)

6 If colleagues decide against closure, the question arises how we can best limit our commitment. Geoffrey Howe and I have pressed Edwardes on his willingness to seek disposals whether as an outright sale of BL, or by sale of the more attractive parts leaving us to decide thereafter what to do with those parts which cannot be sold. Edwardes outlined his immediate plans to seek comprehensive relationships with named companies, on a basis which

/gave ...



gave one of them an equity stake and the prospect of control in three years or so, but with Government finance in the short run. Edwardes stressed the very limited number of potential partners. He dismissed altogether the possibility of an outright sale in present market circumstances, or of passing over control within less than three years, with both of which I am bound reluctantly to agree. Edwardes also explained why he and his Board could agree to act as liquidators now, or to implement the Plan and seek partners on the basis described, but could not accept an obligation to sell off the good bits now whilst trying to keep the bad bits going. This would destroy management confidence, weaken the dealer network, and destroy the prospect of securing partners for the volume cars business. On the other hand his objective of securing a partner who could take over control and financial responsibility in due course was essentially compatible with our own: it was only on the feasibility of securing this transfer within a fixed timescale that he differed from us.

7 Edwardes and his Board believe they cannot retain the confidence of dealers or of potential partners unless he has a commitment from the Government to fund the first two years of the Plan. This would be subject to continuous monitoring by the Board, to our own checks on progress (including next year's Plan) and to the Board's written commitment to fundamental review if the major objectives of the Plan become unachievable. I agree with Edwardes' view on partnership, disposal and funding: I do not think there is a realistic middle course between closure now and backing the Plan on the basis of seeking a partner as Edwardes proposes. If



colleagues do not agree with me that we should face up to closure now, I therefore recommend that we should approve the Plan with an undertaking from Edwardes to seek collaboration of a ... comprehensive kind. I attach the draft of a statement, which reflects the Board's position, which we could make tomorrow afternoon, 22 January, if we so decide. If we decide in favour of immediate closure, I think we should take a little more time to decide the presentation, and make a statement on Monday 26 January.

8 I am sending copies of this minute and attachment to members of E Committee, the Secretary of State for Scotland, Sir Robert Armstrong and Robin Ibbs.

Catherine Bell

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

21 January 1981

Department of Industry
Ashdown House
123 Victoria Street



STATEMENT ON BL'S CORPORATE PLAN

With permission, Mr Speaker, I will make a statement on the BL 1981 Corporate Plan.

The Plan submitted to the Government foresees a need for some £620m of additional Government equity in 1981/82, £370m in 1982/83, and £150m over the two following years, in order to assist the continuing programme of restructuring and investment in new projects, including the new LC10 medium family car. The Plan was submitted in four business sections. The policy of the BL Board has been (and will continue to be) to decentralise decision-making to the operating units. The intention of the Board as stated in the Plan is to draw these operating units into four distinct businesses to enable management to concentrate on well-defined product groupings and to facilitate collaboration with other vehicle manufacturers and the introduction of private equity capital. These businesses are BL Cars, Land Rover, Unipart and the Leyland Group. The formation of the Leyland Group, which embraces trucks, tractors and buses, was announced on 16 January; a revised plan to reflect the new organisation of this Group will be submitted shortly. As the structure evolves, so the progress of each business will be separately monitored.

I shall shortly, in accordance with usual practice, make available in the Library of the House and in the Vote Office, a Report on BL's recent performance and details of the Corporate Plan. In the light of the declared position of the NEB vis-a-vis BL, to which I shall refer later, this Report has been prepared by BL.



agreed to fund the Plan for

The Government has approved the Plan because it supports BL's intention of creating strong and viable businesses and of involving private capital in them to an increasing extent, on a commercial basis, so that the company will in future lean less heavily on public finance.

The Government also endorses the Board's strategy - clearly stated in the Plan - of pursuing wide-ranging collaboration for each of the businesses.

The Board is exploring a variety of possible forms of collaboration, and has written to the Government in the following terms:

"The Board sees collaboration with other manufacturers as a central and integral part of its strategy for recovery and for removing or reducing dependence on Government support. This might take the form of complementary collaborations on major components or particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind - in whatever form would prove to be most commercially beneficial - which might well grow out of more limited collaboration."

In order to support these aspects of its strategy as well as to enable internally-generated recovery to be carried forward the Government has approved BL's request to fund the first two years of the Plan (including the first phase of the LC10 programme) up to the end of the financial year 1982-3, subject to regular monitoring by the BL Board of progress in substantially



achieving the Plan. Funding approval is also of course subject to any revision which might follow submission of the revised Plan for the Leyland Group.

The Chairman's letter to me of 21 January which I am publishing in full today in Hansard makes it clear how the Board will respond to any appreciable reduction in the chances of achieving the Plan's major objectives, if at any stage this becomes apparent. He says that:

"In Section 1 of the Corporate Plan, the Board has stated that it will review the Plan and the funding arrangements, in consultation with the Government, if the Plan is clearly not being achieved and it appears impossible to bring about recovery within the timetable envisaged. The Board confirms that any departure from the assumptions underlying the Plan (whether relating to internal or external factors) which, in the opinion of the Board, appreciably reduced the chances of successful achievement of the Plan's major objectives - for example, a major strike which damaged, or appeared certain to damage, any substantial sector of the business - would very quickly cause the Board to initiate such a review, with consequent implications for continued Government funding of the business."



I believe the Board and management will not hesitate to take harsh and fundamental decisions about the future of the company if circumstances, inside or outside BL, require it; and the Government will not stand in the way of such decisions.

As I have already told the House, there will be an opportunity for a full debate in the context of the amendment to the NEB's financial limit in respect of BL in the Industry Bill which I shall table for consideration at Report Stage. Clearance from the European Commission will be needed for the Government's funding.

Finally, it is the Government's intention that the shareholding in BL should be transferred from the National Enterprise Board to the Secretary of State. This transfer will not, however, take place until the Industry Bill now before Parliament receives Royal Assent. Meanwhile the Government will discuss with BL matters arising from a change of ownership, in order to ensure continuity of BL's present financial arrangements.

The Government wishes the BL Board and its workforce well in their difficult task.

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Qa 05227

To: MR LANKESTER

From: J R IBBS

BL

1. BL is to be raised orally at E tomorrow. I have read the note of the meeting of January 20 with Michael Edwardes.
2. I find it extremely difficult to provide a helpful view on this subject because each new development seems to reduce further the Government's freedom to manoeuvre.
3. I regard the Government as now being hemmed in by the following constraints:
 - (a) not willing to commence "unprecipitated" closure now;
 - (b) envisage even greater difficulty in commencing "unprecipitated" closure in future, at least until after the next General Election;
 - (c) not willing to risk causing Michael Edwardes to resign. He is standing firm for -
 - (i) a plan to continue operations indefinitely if closure is not decided on now, but subject to the possibility of future closure if there are serious labour relations problems or substantial financial deviation from the plan;
 - (ii) finance to be promised for two years but subject to the provisos on possible closure in (i);
 - (iii) attempts to sell to be based on seeking to dispose of minority shareholdings in different parts of BL and not on outright sale of the Company or even of parts of the Company. This is because his primary

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objective is to use such sales as a means of securing collaborative deals that would assist profitability rather than as a means of securing return of the Company (in whole or part) to the private sector as soon as possible. Indeed, there is a clear implication that for volume cars (and perhaps other parts of BL) such collaboration is essential if the business is to survive (see paragraph 5 below). In practice, deals of the kind he envisages could have the effect of making outright sale impossible because potential purchasers other than the collaborator would cease to be interested and it seems that the collaborator would not be committed to moving to a hundred per cent ownership.

(iv) Attempts to sell on the basis envisaged in (iii) would require time and could not be accomplished within a set limit, nor if the objective were thought to be transfer of control.

4. The straightforward conclusion in the light of the above might be to approve the BL Plan subject to regular monitoring of performance and to there being no serious breakdown in labour relations. It should be possible to obtain a private undertaking from Michael Edwardes that he would exert his best endeavours to achieve collaborative deals that involved private participation, but without a firm deadline. It appears that he will not agree to have outright sale of such parts as Land Rover or Jaguar as an objective. Indeed, except on an extremely long (and optimistic) view it is hard to see his objective of 'return to viability' and the Government's 'return to the private sector' coinciding.

5. One factor that is brought out by the notes of the meeting on January 20 and which is perhaps new is the statement in paragraph 5 (at the foot of page 3 and top of page 4) "some

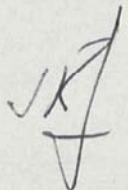
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kind of collaboration with a stronger foreign manufacturer would be essential for the longer term survival of the business, since without it BL would be unable to fund a new generation of engines". It might be possible for the Government to argue to Edwardes that it could not continue for more than a specified period to commit public funds to an enterprise that had such a basic condition affecting its longer term survival unsatisfied. On these grounds he could reasonably be asked despite the difficulties he mentions to endeavour to conclude a suitable deal (including also progressive transfer of ownership?) within, say, a year. Failure to do so might then precipitate closure on the basis of an agreed statement by the Government and the Board that survival was judged impossible after great efforts had been made, and this should soften the political implications. In the meantime, so far as the public was concerned, the five year Plan would be approved.

6. I do not know whether the suggestion in 5. above is a way of sufficiently easing the constraint in 3(b) (future closure), nor whether it could be negotiated successfully with Edwardes. It may be worth attempting. If it is ruled out then I see no practical alternative to approving the Plan on broadly the lines set out in 4. above. There is, of course, the possibility of breaking constraint 3(a) and facing immediate commencement of closure of volume cars. However, although this appeals to me commercially and John Hoskyns has set out some strong arguments for it, my own opinion is that in all the circumstances, including the Nissan announcement, it has probably to be ruled out.

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



21 January 1981

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Mr Lancaster

R

10 DOWNING STREET

20 January 1981

Ian Ellison Esq
Private Secretary to Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

Dear Ian,

PUBLIC ATTITUDES TO BL

At the Prime Minister's meeting this morning, your Secretary of State said that the general public view of BL was that during the last year the work force had shown a new sense of responsibility. In our note of 8 January on BL, we suggested that those who believed there had been a big change for the better in attitudes at BL were probably outnumbered by those who continued to regard it almost as a byword for bloody-mindedness. We suggested that some market research data on attitudes would be useful.

Unfortunately, in the time available we have not been able to calibrate public opinion. However, I attach one fragment of evidence that is available - a copy of which Sir Keith asked for this morning. You will see that the interviews were done before the Metro launch, but I doubt whether that would have altered public confidence in BL as an organisation dramatically. At any event, the prolonged drama over the Longbridge dispute over the Christmas period is likely to have returned public attitudes towards BL to somewhere near the pre-Metro position.

I am copying this letter to John Wiggins (Chancellor's office), Robin Ibbs, David Wright and Robin Mountfield.

Yours sincerely

A.D.

ANDREW DUGUID

Conservative Research Department

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Inc
Director.

KB/sgc

Mr Andrew Duguid
Policy Unit
10 Downing Street
London SW1

19th January 1981

CONFIDENTIAL

Dear Andrew,

ATTITUDES TO BRITISH LEYLAND

We discussed briefly on Wednesday the question of public attitudes to British Leyland and I promised to extract what information we had available. The material has been extracted from an Opinion Research & Communication 'Business Attitudes Guide' survey entitled 'Image of the Public and Private Sectors of Industry'. We receive this material on the understanding that we do not publish any of the findings or quote from them in speeches - we are, however, free to use the results for background briefing. This particular survey was conducted between 25th and 30th July 1980 and involved interviews with over 1,000 electors.

In order to put public attitudes towards British Leyland in the context of attitudes towards other nationalised or quasi-nationalised industries the table below shows comparative figures.

Confidence in Management of Nationalised Industries

Q. I am going to read out a list of the main nationalised industries. Can you tell me, according to what is on this card, how much confidence you have in the people running each one.

(Scale used: A great deal of confidence, Quite a lot of confidence, Not much confidence, No confidence at all).

/...

	<u>Confidence Rating*</u>
	%
British Airways	+47
B.N.O.C.	+47
Gas Boards	+29
Post Office	+17
Electricity Boards	+9
N.C.B.	+2
British Rail	-25
National Bus Company	-29
British Leyland	-49
B.S.C.	-54

*compiled by subtracting those say 'a great deal of confidence and quite a lot of confidence' from those saying 'not much confidence and no confidence at all'.

Unfortunately in the other questions ORAC asked about nationalised industries they did not include British Leyland - I found this so strange that I needed to check with them on Friday - I hoped they had further information which was not in their report - they do not. For background a photo-copy of the appropriate section of the ORAC report is enclosed.

As we discussed with Norman Strauss we will include questions on unemployment and the nationalised industries in our forthcoming major survey. Unfortunately the results of this will not be available for at least six weeks.

Y

Kerr

D. K. Britto

Enc.

Table 8 : Confidence in management of nationalised industries.

Question : I am going to read out a list of the main nationalised industries. Can you tell me, according to what is on this card, how much confidence you have in the people running each one. (Card shown).

	A great deal of confidence %	Quite a lot of confidence %	Not much confidence %	No confidence at all %	Don't know %
The Post Office					
1980	11	46	31	9	2
1979	9	49	26	9	7
1978	8	46	30	11	4
1977	6	40	36	12	5
1976	5	24	40	29	3
British Airways					
1980	14	54	17	4	11
1979	7	46	17	5	25
1978	10	49	17	4	19
1977	8	46	19	4	23
1976	15	43	15	4	22
Gas Boards					
1980	10	52	27	8	4
1979	6	47	28	8	11
1978	6	48	30	9	7
1977	4	50	29	7	10
1976	4	38	32	16	10
Electricity Boards					
1980	5	48	33	11	3
1979	4	41	34	13	8
1978	3	38	39	15	4
1977	4	47	34	10	5
1976	3	33	42	18	4
National Coal Board					
1980	5	43	35	11	6
1979	4	37	31	11	17
1978	3	29	41	17	10
1977	3	34	39	11	12
1976	3	26	41	19	11

Table 8 : Confidence in management of nationalised industries. Cont'd

	A great deal of confidence %	Quite a lot of confidence %	Not much confidence %	No confidence at all %	Don't know %
British Rail					
1980	4	31	48	12	4
1979	3	35	37	14	11
1978	4	35	42	13	6
1977	3	31	46	14	7
1976	3	18	50	25	4
B.N.O.C.					
1980	17	49	15	4	16
1979	4	31	21	9	35
1978	10	39	18	6	26
1977	8	37	12	4	39
1976	—	—	—	—	—
National Bus Company					
1980	3	28	44	16	10
1979	2	28	36	14	20
1978	1	25	39	17	17
1977	2	31	34	12	22
1976	3	26	32	16	23
British Steel Corporation					
1980	2	17	47	26	8
1979	2	19	35	20	24
1978	1	12	37	38	12
1977	3	34	30	8	25
1976	3	23	40	16	19
British Leyland					
1980	3	20	39	31	6
1979	2	14	29	43	12
1978	1	8	32	50	8
1977	1	12	37	35	15

Table 9 : Confidence in management of Nationalised Industries : Demographics

	Post Office				British Airways				Gas Boards				Electricity Boards				N.C.B.				British Rail			
	Great deal/ quite a lot %	Not much/ none %	Great deal/ quite a lot %	Not much/ none %	Great deal/ quite a lot %	Not much/ none %	Great deal/ quite a lot %	Not much/ none %	Great deal/ quite a lot %	Not much/ none %	Great deal/ quite a lot %	Not much/ none %	Great deal/ quite a lot %	Not much/ none %	Great deal/ quite a lot %	Not much/ none %	Great deal/ quite a lot %	Not much/ none %	Great deal/ quite a lot %	Not much/ none %				
ALL	57	40	68	21	62	35	53	44	48	46	35	60												
SEX																								
Male	60	40	78	26	66	32	55	43	52	43	34	64												
Female	55	42	67	18	57	37	54	45	43	49	32	58												
AGE																								
18-24	70	27	77	15	77	21	70	28	58	35	39	56												
25-44	63	36	71	20	67	30	55	42	50	45	36	61												
45-64	53	47	68	23	58	38	48	48	47	48	34	64												
65+	46	50	57	26	47	48	44	52	40	52	32	59												
CLASS																								
AB	48	52	68	25	65	33	58	38	50	46	34	61												
C1	56	42	71	23	63	34	57	41	47	48	36	61												
C2	63	35	71	19	62	33	52	45	51	43	32	64												
DE	56	40	62	22	57	38	49	47	45	48	37	57												
PARTY																								
Conservative	49	51	67	22	62	36	54	44	44	51	31	66												
Labour	67	30	69	19	64	33	56	41	57	37	42	52												
Liberal	59	39	70	23	63	33	47	51	47	48	29	70												
UNION MEMBERSHIP																								
Trade union member	61	37	70	21	66	31	57	41	56	39	33	63												
Non union member	61	37	72	22	71	26	61	35	50	46	35	62												
EMPLOYMENT																								
Private sector	64	34	73	18	69	27	57	40	52	46	34	61												
Public sector	57	41	70	21	66	31	58	40	53	42	37	59												
Not working	54	45	63	23	55	40	49	47	44	49	34	60												

Table 9 : Confidence in management of Nationalised Industries : Demographics Cont'd

	B.N.O.C.		Nat. Bus.Co.		B.S.C.		British Leyland	
	Great deal/ quite a lot %	Not much/ none %	Great deal/ quite a lot %	Not much/ none %	Great deal/ quite a lot %	Not much/ none %	Great deal/ quite a lot %	Not much/ none %
ALL	66	19	31	60	19	75	23	70
SEX								
Male	72	19	31	60	17	79	29	68
Female	59	19	30	60	21	68	18	73
AGE								
18-24	73	14	37	57	22	70	16	76
25-44	68	19	31	60	20	75	26	70
45-64	65	20	28	61	17	74	26	69
65+	56	19	27	50	20	69	20	68
CLASS								
AB	69	15	30	58	20	73	33	64
C1	67	22	30	58	23	71	30	68
C2	69	17	30	60	15	78	19	74
DE	60	20	30	62	21	68	19	71
PARTY								
Conservative	71	18	29	62	18	76	31	66
Labour	66	18	35	56	24	67	20	71
Liberal	68	17	28	67	18	78	22	77
UNION MEMBERSHIP								
Trade union member	69	19	30	61	16	73	26	69
Non-union member	71	18	34	58	16	77	29	68
EMPLOYMENT								
Private sector	69	19	30	60	13	79	26	69
Public sector	66	18	35	58	21	72	25	70
Not working	66	19	29	60	22	69	21	70

Table 10 : Confidence in management of nationalised industries. *

	%
British Airways	+47
B.N.O.C.	+47
Gas Boards	+29
Post Office	+17
Electricity Boards	+ 9
N.C.B.	+ 2
British Rail	-25
National Bus Co.	-29
British Leyland	-49
B.S.C.	-54

* Compiled by subtracting those saying "a great deal and quite a lot of confidence" from those saying "not much no confidence in" people running each organisation.



bc Mr. Hoskyns
Mr. Walters
Mr. Wolfson
Mr. Ingham

14

10 DOWNING STREET

From the Private Secretary

20 January, 1981.

Dear Ian,

As you know, the Prime Minister held a further meeting this morning to discuss the Government's response to the BL corporate plan. In addition to your Secretary of State, the following were present: the Chancellor of the Exchequer, Sir Robert Armstrong, Mr. Ibbs, Mr. Mountfield, Mr. Wolfson, Mr. Hoskyns, Mr. Walters, and Mr. Duguid. They had before them Robin Ibbs' minute of 19 January, and Sir Michael Edwardes' letter of that date to Sir Keith Joseph.

Mr. Ibbs first commented on his minute and the speaking notes attached to it which were intended for a possible meeting between the Prime Minister and Sir Michael. The group had decided provisionally at their previous meeting on 16 January on a strategy of supporting BL's plan, but on the explicit condition that they disposed of as many of their assets as possible by mid-1982. They had ruled out the early closure of the volume car business as politically unacceptable; equally, they had ruled out giving carte blanche approval for the plan. The strategy proposed, which was intended to remove BL from Government ownership as early as possible - and if disposal of volume cars did not come off, to the latter's closure - seemed to be the best compromise available. The main object of the meeting with Sir Michael was to persuade him to accept this strategy. Although he was not absolutely indispensable, it was extremely important to get him to agree to it. For if he refused, and resigned, there was a significant risk that confidence in BL would disintegrate; moreover, the Department of Industry did not seem to have an alternative candidate for the chairmanship.

In discussion, the following points were made:

- i) The difference between the proposed strategy and Sir Michael's was not perhaps quite as great as had appeared at first sight. Both sides agreed that volume cars should be kept going for at least two years, and both sides were looking for disposals. Their differences were about timing of disposals. Sir Michael was reluctant to sell off the profitable parts of the business immediately because he felt this would undermine the prospects of selling off, or finding a collaborator for, the business as a whole. By contrast, the group felt that any such disadvantages would be more than balanced by the likelihood that, once sold off, the more profitable entities would be more successful and would cease to be dependent on government funding.

/ ii)

- ii) Sir Michael's latest letter offered a basis for negotiation. In return for agreeing to fund the Plan for 2 years, albeit subject to review at the end of the first year, Ministers might be able to extract a commitment from him to the disposals strategy.
- iii) It was most unlikely that a buyer would be found for volume cars within two years. Yet closing volume cars in two years - when unemployment would be higher, when the LM10 project would be coming on stream and when the election would be that much closer - would be even more difficult. Ministers could not be asked to take a decision now which would tie them to closure in two years time.
- iv) On the other hand, the possibility of finding a buyer should not be ruled out. For example, it was possible that Ford might be interested in purchasing BL volume cars when their own cash flow problems became easier. Furthermore, from a political standpoint, closure in 1982 might not be as difficult as had been suggested. The strategy of putting the business on the market, and it being seen to fail, might make closure more defensible; and so would the implementation of Quicksilver, assuming it came off. And although there would certainly be a major row if the business was closed, it would also be welcomed by many people and by the vast majority of small businessmen.

Summing up, the Prime Minister said that the group were broadly agreed on the approach suggested by Mr. Ibbs. But since it had yet to be endorsed by Cabinet colleagues, the meeting with Edwardes later today should be exploratory; and as such, it should be conducted by Sir Keith and the Chancellor. The objective should be to spell out the Government's reservations about the Plan, persuade him of the necessity of early disposals, and test his willingness to accept this as a condition of support for the Plan. He should be asked to consult his Board tomorrow, after which it might be necessary for Ministers to see him again before taking the issue to E Committee and Cabinet on Thursday morning.

I am sending copies of this letter to John Wiggins (HM Treasury), David Wright (Cabinet Office) and Gerry Spence (CPRS).

Ian Ellison, Esq.,
Department of Industry.

Tim Laker

KRB



cc Walter,
Duguid
Hodgins
Holfer

Prime Minister 13
Revised at last night's
meeting.

MS

T

→ NOTE OF A MEETING HELD AT NO.11 DOWNING STREET AT 7.30 P.M.
ON TUESDAY, JANUARY 20TH 1981 2/11

Present:

Chancellor of the Exchequer
Secretary of State for Industry
Sir Michael Edwardes
Mr. R. Holmes

BRITISH LEYLAND

The Secretary of State for Industry said that despite Sir Michael Edwardes' stalwart performance, and the progress he had made, BL was still not viable; their plan was not a commercial plan and would not get commercial money. The Government faced two clear possible courses of action:-

- (i) To back the BL plan, at horrific financial and heavy political cost; and
- (ii) To close the major part of the business - but this had very substantial costs also.

He therefore wanted to explore the possibility of any way between these two alternatives, and would like the advice of the BL's Board. The Government and the Board had a common purpose, to get BL viable and back into the private sector; would the Board agree to seek to merge or sell the business within a specified timescale? He suggested a public commitment to this course, and emphasised that it would not be a commitment to eventual closure, although that could not be ruled out. He



contemplated that some part of the cost of the BL plan might perhaps be paid as a dowry to the eventual purchaser; his objective was to get BL off the taxpayers' back, even at some cost.

2. Sir Michael Edwardes began by describing the steps BL would take if the Government agreed the two-year funding they had requested. The delay on the part of the Government was already delaying the action BL wished to take. As soon as the funding had been agreed, Sir Michael Edwardes would approach VW and Honda in that order. His idea was to persuade VW to take a stake in the BL cars problem area; he would offer a 30 per cent equity share as a gift, and would undertake not to ask VW for cash for three years - thus any cash provided by the Government during this period would not dilute the VW equity. The intention was to make the eventual profitability of the business more certain by bringing in a much more powerful manufacturer. If after three years there was a clear trend towards profitability, then VW would have an option to take over control; but if little progress had been made despite the best efforts of VW and BL together, then VW would have an option to withdraw. But if they stayed in, they would thereafter have to provide funding in proportion to their stake. BL would also allow VW initially to take a 40 to 50 per cent stake in Land Rover,^(LR) although they would not concede control at this stage. This would have the attraction for VW that they would be able to act as distributors of LR in various parts of the world. Leyland Vehicles and Unipart would not be part of the arrangements for the time being.

3. Whatever the response of VW, Sir Michael Edwardes would then go on to open up the possibilities with Honda. He thought there was perhaps a better chance with the latter, who already wanted BL to assemble their cars. If one or both were willing to accept the propositions, then BL would prepare a detailed plan. This "general solution" was Sir Michael Edwardes' preferred approach; but on the whole the BL management would prefer a more limited approach under which VW would be brought in on LR



and Jaguar, while Honda were brought in on BL cars (building on the arrangements already made for the Bounty). If, however, the Government were unwilling to grant the two year funding, overseas manufacturers would not be willing to listen. There would be no prospect of a deal if BL were to be seen to be going back into the melting pot in eight months time.

4. The Secretary of State for Industry asked why, if BL contemplated control passing in three years to a foreign manufacturer, they could not find a foreign manufacturer willing to take control now. Sir Michael Edwardes said that no US manufacturer would be willing or able to do so; Ford would be in very severe financial difficulty unless Chrysler were to cease to trade, / Japanese companies had so far shown themselves readier to talk than act; and their general preference was for shipping cars from Japan for as long as possible. (The proposed Nissan green field operation (about which BL had learnt in great confidence) would just about offset the impact of the Linwood closure, which would be inevitable soon - and Sir Michael Edwardes feared that Nissan might use the prospect of their deal as a smokescreen for continuing vehicle exports from Japan.) There was no prospect of Nissan directly helping BL, although the prospect of their operation might help to persuade VW or Honda to collaborate with BL. How were European manufacturers better placed at present: Peugeot were expected to lose £140 million this year, while VW profits had fallen by 60 per cent.

5. The Secretary of State thought Sir Michael Edwardes' "general solution" much less attractive than outright sale of the business. Sir Michael Edwardes thought outright sale absolutely impossible in present market circumstances; they had talked to practically all major car manufacturers throughout the world over the last three years. If the Government wanted to close BL, then the present Board would be willing to undertake this task, but they would not be able to continue to run the business if the Government in effect advertised it for sale. Some kind of collaboration with a stronger foreign manufacturer would

/ while Chrysler's experience in the UK would strongly discourage any foreign manufacturer from accepting the inheritance of the UK motor industry's industrial relations problems.



be essential for the longer term survival of the business, since without it BL would be unable to fund a new generation of engines. But a statement now by the Government looking to a merger or sale of the business rather than collaboration with a foreign manufacturer would make his negotiating position extremely difficult. If collaboration on acceptable terms were to be achieved, the deals would need to be arranged privately, and time would have to be allowed for them to mature. It would be important not to announce in so many words at the outset that the ultimate objective was the transfer of control.

6. The Chancellor asked why - if Sir Michael Edwardes' approach was correct - more headway had not already been made. Sir Michael Edwardes said he had spent eight months in negotiation with BMW, and had only very narrowly failed to achieve a deal with them on the lines of those he now had in mind with BW and Honda - the Chairman of BMW had been in favour of the arrangement, but had been unable to carry his Board. Now that the Metro was clearly seen to be successful (although restriction of sales to the UK market meant that it was not yet making sufficient profit) the prospects of negotiating a successful collaboration arrangement had greatly improved, and collaboration would also improve the prospects of selling the Metro in overseas markets. Sir Michael had found VW and Honda reliable firms with which to deal, and he would make clear to each that he was talking simultaneously to the other.

7. The Secretary of State for Industry said that under Sir Michael Edwardes' preferred solution the UK taxpayer remained BL's only paymaster; could not BL make more of the assets they had - a strong dealer network, a substantial market and the advantage a defensive alliance with them would afford in meeting Japanese competition? Sir Michael Edwardes said BL's objective was to make the best use of the assets they had; they wished to avoid doing anything which would get in the way of an "organic recovery" of the business, while at the same time exploring all



possible avenues for collaboration and merger.

8. The Chancellor asked whether, in view of the fact that collaboration might well fail, making total closure of the volume car business unavoidable, it would not be better to sell off now any parts of the operation for which bidders could be attracted. Sir Michael Edwardes said that if anyone had been willing to take over certain parts of BL over the last two years, they would have agreed. Thus they had failed to get any company to take Seneffe off their hands - even Japanese manufacturers preferred to ship cars rather than assemble them in Europe. Now they were about to announce the closure of this plant. But they saw no advantage in selling LR now for, say, £100 million, since this would merely make it much more difficult to do anything except close most of the rest of the business. The prospects of selling Jaguar in present circumstances were less good, although it was possible that an overseas manufacturer might buy it despite its losses and need for new investment. However, the sale of LR and Jaguar would be likely to lead to some erosion of the dealer network, and would greatly worsen the prospects for collaboration. The BL Board would be willing to sell LR and such other parts of the business as they could, and close down the volume car business; but they were not willing to sell LR if they were still required to go on trying to salvage the volume cars business, / The separation of the present business into the four parts would enable the management to concentrate more on the problems of BL cars; but if LR and Unipart were no longer available to supply products for the dealer network and as elements in collaboration arrangements, then the management would conclude that the rest of the enterprise was doomed. On the other hand, if the plan went ahead but it nonetheless proved necessary in due course to close BL cars, then Sir Michael Edwardes expected LR and Jaguar to fetch much more in better economic circumstances than they would do at present. The division of the business into the four parts had already begun with the splitting off of Leyland Vehicles last week; BL had always intended to undertake

and their
position
would be
quite
impossible if
a public
deadline
had been set
for its
sale.



this reorganisation in the course of 1981, and they now expected that LR and Unipart would be separated out by June. The process would certainly help towards eventual disposal, although because three of the four parts had hitherto been one bargaining unit, there was still likely to be trouble with the trade unions.

9. The Chancellor asked about the prospects for industrial relations in BL; BL had on a number of occasions been pushed to the brink before the management got their way - could they not achieve their objectives in a more civilised way? Sir Michael Edwardes thought this should be possible, although it would take longer than people now hoped. The difficulties he had were illustrated by a recent conversation with Moss Evans; Evans had said about the recent difficulties at Longbridge that the authority of the TGWU had been so far eroded that he had to support his members. Sir Michael Edwardes had pointed out that either the plant would close, or the union would get another bloody nose. But Moss Evans, although friendly, had been unwilling to change his position. Sir Michael Edwardes saw BL as currently acting as a lightning conductor, so sparing other businesses major difficulties on pay. He thought Ford would have found it impossible to stick at 9½ per cent had it not been for the example of BL. Nor was the position in BL as bad as the media sometimes implied; the workforce were not sullen, and they had last week produced 6,000 cars at Longbridge for the first time in seven years. Moreover he had made clear to the 30 most senior shop stewards that equity shares would be sold in substantial parts of the business, and they had accepted this.

10. The Secretary of State for Industry asked about arrangements for reviewing and monitoring BL's performance if the Government were to agree to their demand for two-year funding. Would BL be willing to accept a review after, say, a year? Sir Michael Edwardes offered the text of an understanding with the Government on this point, which made it clear that continuing injections of



.... funds under the plan would depend on the regular measurement of progress over the period (a copy is attached to this record of the meeting); there was no question of the Government being asked to go on providing money without any review, even if the plan could not be achieved as the result of a further deepening of the recession or a further adverse movement in the exchange rate.

... 11. The Secretary of State for Industry asked how far BL and the Government could get in drafting an agreed statement of the objectives of collaboration and merger arrangements. He showed Sir Michael Edwardes the draft statement attached to the speaking notes provided by Mr. Ibbs for the Prime Minister on 19 January (copy attached). Sir Michael Edwardes offered a draft public statement on collaboration which had been prepared following full discussion by the BL Board. He thought there was already a substantial common ground between BL's approach and that of the Government. He would be ready to accept most of the draft offered by the Secretary of State, although he would prefer to talk about encouraging the participation of private capital rather than "returning the BL businesses to private ownership", and he would wish to avoid any explicit mention of a possible merger, since this would result in the media constantly asking about progress towards it and criticising BL for not having already achieved it. He proposed therefore to conflate the two documents prepared by BL with that offered by the Secretary of State in a way which would come as close as possible to the Government's objectives as he understood them. Following a Board meeting on 21 January, BL would report back to Department of Industry officials before noon that day. He was anxious for an announcement of the Government's decision on funding the BL plan as soon as possible; if news of the proposed Nissan operation broke first, observers round the world would assume that future funding of BL had been put in question by this development.

JW

A.J. WIGGINS
21 January 1981

SECRET

Draft Statement

The Government has received the 1981 Corporate Plan from the company's Board. Because it is our main objective to return the BL businesses to private ownership, the Government has asked the Board to give particular attention to exploring ways in which this can be achieved.

For BL Cars, the Board is exploring a wide range of possible forms of collaboration, and has written to the Government in the following terms:

"In the case of BL Cars, the Board sees collaboration with other manufacturers as a central and integral part of their strategy for recovery and for removing or reducing dependence on Government support. This might take the form of complementary collaborations on major components or particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind - not excluding a merger - which might well grow out of more limited collaboration."

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CRITERIA - PUBLIC STATEMENT ON COLLABORATION

1. It should endorse the Board's clearly stated strategy of pursuing wide ranging collaboration as an important and integral part of the Plan. There could be involvement of private equity capital in appropriate sectors of the business.
2. It should make it clear that the Government will support this approach.
3. While it will welcome advantageous collaborations of an extensive/comprehensive nature (where commercially desirable) it must not set specific targets or raise expectations; it is by no means certain that such deals can be struck within specific time periods, or indeed at all.
4. While it may emphasise the desirability of such deals it should not suggest that in their absence BL Cars is necessarily doomed.
5. Any public indication that BL Cars needs a merger to survive, or that Government is determined to detach itself from BL Cars, will be counter-productive - it will frighten off potential collaborators and reduce the price that could be achieved in any such arrangement.

20.1.81.

POSSIBLE FORMULA ON 2-YEAR FUNDING

The Government has approved the Corporate Plan and BL's request for £990m to cover the first two years of the Plan up to the end of the 1982/83 financial year. There will be regular monitoring of progress under the Plan, and injection of funds will depend on substantial achievement of the Plan over the two year period, as stated in the Chairman's letter of 17th December.

(This approach has the full support of the BL Board.)

20.1.81.



cc:

Chief Secretary
Financial Secretary
Mr. J. Patterson
Mr. T.P. Lankester (No.10)
PS/Secretary of State for
Industry
Sir Robert Armstrong (Cabinet
Office)
Mr. J.R. Ibbs (CPRS)
Mr. Ryrie
Mr. Lovell
Mr. J.R. Steele) Department
Mr. R. Mountfield) of
Industry

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20 January 1981

Policy Unit

12

PRIME MINISTER

BL

MS

1. We have discussed this morning's meeting with Alan Walters. It became clearer than ever today that our best opportunity for starting the closure of BL is now. There are eight reasons for this:
 - (a) Last year we gave them a fair chance; now they say they need eight times as much public money, on assumptions that look optimistic already.
 - (b) The Board admit that further support would not be commercially justifiable. This can be published. They have offered to preside over closure. No resignations are needed.
 - (c) The Longbridge fiasco has shaken public confidence. We think most voters would say that BL workers deserved no further support.
 - (d) The prospect of Nissan will damage confidence in BL; it could/also offset the gloom (but it's only a prospect so far).
 - (e) BL's demise cannot worsen, and might improve, the prospects for Vauxhall's and Talbot's more marginal operations - as well as Ford's.
 - (f) If there are buyers for parts of BL, they will come forward now; resuscitation can begin.
 - (g) BL's cost to the taxpayer is bound to mount further, but closure in two years' time will be politically more difficult.
 - (h) Closure would demonstrate the price of failure and show the country that we really do mean business, and won't be deflected. We would demonstrate that Conservative policy is not to tax the small man and struggling private businesses to support the giant unions and big business.

2. We think that colleagues could be persuaded by these arguments given a firm lead from Keith, with your support. John Nott has circulated a powerful case; John Biffen's minute helps. Although

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the Opposition would howl, we could quote remorselessly their own repeated statements that there would be no further funds once the £1,000m recommended by Ryder was exhausted.

3. On the present course, closure could be initiated by the Board at any moment. Colleagues live with this risk each day, so they should not regard closure as unthinkable. We think Keith should be invited to put the case for closure that he made this morning, to E. At the very least, you might be able to extract from them a stated willingness to face up to closure in one year's time if the cost mounts further.
4. If E could be persuaded to face up to closure, we still think the best course might be to use this to negotiate from strength with Edwardes, asking him to have a really serious attempt at sale or merger, first, during the next six months. If he was unwilling, he could be asked to proceed with closure. But the attractions of achieving a sale are so great that it must be worth attempting before the axe falls.
5. Do you not think that Keith should put the case for closure to E? We would, of course, be ready to help with drafting if required.
6. I am copying this minute to Geoffrey Howe, Keith Joseph and Robin Ibbs.



JOHN HOSKYNS

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9

NOTE OF A MEETING HELD AT No. 10 AT 1100 HOURS ON FRIDAY,
16 JANUARY

cc master

PRESENT

Prime Minister
Chancellor of the Exchequer
Secretary of State for Industry
Sir Robert Armstrong
Mr. Ibbs
Mr. Hoskyns
Mr. Wolfson
Mr. R. Mountfield, Department of Industry
Mr. Duguid
Mr. Whitmore
Mr. Lankester
Mr. Walters

* * * * *

The purpose of the meeting was to consider further the Government's options in responding to BL's request for funding of their corporate plan. The meeting had before it John Hoskyn's note of 15 January and Robin Ibbs' note of 15 January. The Prime Minister also referred in the course of the discussion to the Secretary of State for Trade's minute of 16 January.

The Prime Minister began by repeating the view she had expressed at the previous meeting that there must be a "middle way". She could not accept that there was no alternative to fully funding the plan other than closure of the business. There had been an alternative a year ago - namely, that the Government should get out of BL as soon as possible and that at least some parts of the business should prosper on their own; but even though this had been Ministers' aim at that time, nothing in this direction had been achieved. She did not believe that closure of the volume car business would be acceptable to Cabinet at least in the short run: but she believed that conditions should be attached to whatever further financing the Government provided so that closure became ^{the} eventual destination. The Government's aim should be to get rid of the financial liability of the volume car business in a way which was humane and politically acceptable. At the same time, the possibility of finding a buyer for BL volume cars should not altogether be discounted: as the world economy came out of recession, the prospects

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/should

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- 2 -

should improve. It would be worth paying a "dowry" rather than have BL volume cars as a continuing liability on the Government. If the more profitable parts of the business could be sold off, she was sure that they would be more successful.

The Chancellor said that in reality there was no "middle way". The approach suggested by the Prime Minister would almost certainly mean the demise of BL volume cars. An instruction to BL to dispose of both the profitable and unprofitable parts of the business (or to achieve mergers) would be simply another route to closure of BL volume cars. However, it was possible that this might be a cheaper method of bringing about closure than simply withdrawing support. If, on the other hand, it was decided to support the plan in full, the only hope of success would be to introduce some measure of protection; but this was incompatible with our EEC membership.

The Chancellor then quoted the conditions on which the Chrysler funding package in the United States had been put together - in particular, the condition that they should go all out to dispose of assets and achieve mergers, or else liquidation would in due course follow. It would be possible to offer BL money on this basis. But Ministers would have to be quite clear that, in doing this, they were contemplating closure of BL volume cars.

Mr. Ibbs said that, in his view, the prospects for BL taken as a whole, were hopeless. The Government should tell Sir Michael Edwardes to dispose of BL's assets as fast as possible. It should be possible to find buyers for parts of the business other than volume cars. The strategy for the latter should be to look for a buyer; as it became increasingly clear that none was likely, the prospects for that part of the business would look increasingly bleak; and then it would have to be closed. The Government should support the plan, including providing finance for the new intermediate car - but with a view to a quite different outcome from that envisaged by BL.

/ Mr. Hoskyns

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- 3 -

Mr. Hoskyns said that the choice of alternatives was not quite as stark as had been suggested. Closure of BL volume cars would not happen overnight, and the possibility of a controlled run down should not be altogether ruled out. Nonetheless there was a downside risk that the decline of volume cars would "run away" as the dealer network lost confidence. If the Government decided on the "middle way" suggested by the Prime Minister, it should be made quite clear to Sir Michael Edwardes that if he did not achieve sales or mergers within, say, a year, support for those parts of the business would be withdrawn. To make disposals and/or mergers possible, the business would first have to be restructured into separate companies: the current reorganisation of BL was one step in this direction.

Sir Keith Joseph said that Sir Michael Edwardes was very opposed to the idea of a "dowry" being paid to a potential purchaser of volume cars: this would, in his view, undermine all the discipline that he had built up. Mr. Walters pointed out that this assumed that the purchaser would take on the existing labour force, though to avoid this would no doubt require receivership first. In response to a question about the impact of the higher short run PSBR which might result from closure, Mr. Walters said that the interest rate effect would be adverse; but closure would have a positive effect on activity insofar as it reduced real wages.

The question was then raised as to whether the Nissan project could be expected to compensate for the closure of BL volume cars. Mr. Mountfield said that, if implemented, the project would involve 200,000 units by 1986; but in his view, it was still very much in doubt. He thought there was a slightly better than even chance that they would - in the light of their planned feasibility study - decide to go ahead with the project.

The question of whether Sir Michael Edwardes would be prepared to stay on as Chairman if conditions on the lines proposed were imposed was also raised. It was pointed out that, once the Nissan proposal became public and also the hiving off of Prestcold, the situation would have changed somewhat; and in these circumstances, he might be willing to stay.

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/ Sir Keith Joseph

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- 4 -

Sir Keith Joseph said that perhaps the option of demanding a cut in money wages should be considered further as a condition of funding. It was generally agreed that this was not worth pursuing.

In conclusion, the Prime Minister said that the option of supporting the plan but on condition that BL disposed of their assets rapidly and/or arranged mergers seemed to her the best available. But more work needed to be done on what precisely should be said to Sir Michael Edwardes, and what specific decisions - and when - had to be taken. The whole issue would have to be brought before colleagues - and they would have to be told that the implication of the proposed strategy was the likely closure in due course of BL volume cars; but before doing this, she and Sir Keith Joseph would see Sir Michael Edwardes. The CPRS, in consultation with the Department of Industry and the No. 10 Policy Unit, should prepare a speaking note for such a meeting and a note setting out the various decisions that would have to be taken, taking into account various contingencies such as Sir Michael's possible refusal to go along with the strategy. These notes would have to be considered at a further meeting of the group the following Tuesday, and a meeting with Sir Michael Edwardes would be set up after that meeting, probably for the Wednesday.

7.

Distribution: Sir Robert Armstrong
Mr. Ibbs
Mr. Hoskyns
Mr. Walters
Mr. Wolfson

16 January 1981

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CONFIDENTIAL

*Secretary of State for Industry*

DEPARTMENT OF INDUSTRY
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20 January 1981

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

Dear Tim

BL

...
Before her meeting later today with Sir Michael Edwardes
the Prime Minister may wish to be aware of the enclosed
letter of yesterday's date which my Secretary of State
has received from Sir Michael.

Yours ever
Catherine
CATHERINE BELL
Private Secretary

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10 DOWNING STREET

1. ~~Cadman~~ C.F. 1/11

2. ~~Angus~~ ~~Dorman~~ - to see

3. C.F.

① ~~Cadman~~ ~~Office~~ an arriving
E for Thursday at 9.30 am.

② Ellison is warning
Edwards but he will be
called in next 2 days

③ Ms. pencil in PM/
Edwards meeting for 7.45 pm
Tuesday (if not done
already).

R.

④ DoI would prefer announcement
on Thursday - this can be discussed
tomorrow.

PRIME MINISTER

BL

We have been thinking about the timetable leading up to an announcement on BL following this morning's meeting.

The latest day for our announcement on BL would seem to be Monday 26 January - which is just before the Nissan team arrive. Working back from this, we ought to have an E meeting prior to Cabinet on Thursday, and the conclusions would be reported orally to Cabinet.

We have arranged a meeting for 1100 on Tuesday morning to discuss what precisely you and Sir Keith should say to Michael Edwardes. There will be a paper in your box on this on Monday night. It so happens that BL have a Board meeting on Tuesday afternoon, and we think it highly desirable that Michael Edwards should know in general terms before that meeting - so that he can tell his Board he is seeing Ministers shortly - that he is to be called in. In that way the Board meeting can be a "holding operation". We suggest your and Sir Keith's meeting with Edwardes should be on Tuesday evening - at 7.45 p.m. - rather than on Wednesday - so that Edwardes can consult his Board on Wednesday before the matter is taken to E. We think we should ask Sir Keith's office to tell ^{Edwardes} him on Monday that he will be invited to see Ministers in the next day or two - they need not specify the time until after the Tuesday morning meeting nor the fact that you will see him.

Are you content that we should proceed on this basis?

Yes not.

R.

16 January 1981

LETTER FROM SIR MICHAEL EDWARDES TO SIR KEITH JOSEPH, DATED 19.1.81

Dear Keith

~~Printed~~

Typed version of manuscript
letter which came in last
night.

DL

When I meet you and your colleagues on the funding issue I would like to enlarge on why we feel it important that funding be agreed for at least two years ahead*. That case will have the unanimous support of the BL board.

20/1

On a more personal note may I say how difficult it is to manage BL when the decision on our funding drags on for three solid months.

Can you imagine trying to maintain morale and seeking simple-minded commitment to difficult (and often unpleasant) decisions, while the funding of the business - beyond a few weeks ahead - is left in the balance. We have been in that position for a quarter of a year!

If your wish is to continue to run the business, but funding is to be restricted to one year, then in only eight months time we will be back in the same unworkable hiatus.

I admire the thoroughness with which you and your colleagues have examined our Plan, but we cannot run a commercial enterprise when the Board, the dealers, the customers, the collaborators, and the employees do not know whether we will be in business two weeks hence. I avoid my banker friends, and competitors draw great comfort from our predicament.

In all the circumstances I hope that you and your colleagues will be ready to consider ways and means of avoiding this unacceptable

situation recurring in the future: unless of course you were to ask us to close the business, in which case this plea becomes academic.

Yours

Michael

* The Board will not abdicate to the unions.

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Qa 05224

To: PRIME MINISTER

From: J R IBBS

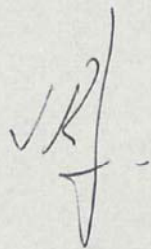
BL: Speaking Notes

1. Attached are speaking notes for your meeting with Sir Michael Edwardes on Tuesday.
2. The notes have been compiled on the assumption that the Government's objectives for BL will be:
 - (1) By early-1983, to have none of the BL Group of companies left in Government ownership;
 - (2) By mid-1982, to have disposed of as much as possible as going concerns (with injections of additional finance where necessary), and to be prepared then to plan for closure of any parts of the Group that seem unlikely to be sold in this way;
 - (3) By end-1981, to know which bits are likely to be saleable, to whom, and under what terms.
3. It is most important that Michael Edwardes should not gain the impression that the Government regards BL's prospects as hopeless, and that it is merely deferring closure as a matter of political convenience. This would give him grounds for a spectacular resignation.
4. Since this policy of systematic disposal seems more likely to succeed with Michael Edwardes than without him, the main purpose of the meeting will be to secure his co-operation. However, he should not be given the impression that he is indispensable.
5. He will expect, and I think he should receive, a frank description of the Government's new objectives for BL. I consider it most important, however, that he does not come to interpret the new policy as one of deferred closure. I doubt whether he would willingly co-operate in such a policy.

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6. As regards the possibility of his resignation, the concern is that, if he were to resign on the grounds that he considered that the Government had rejected his plan, this could damage the Government's position and could perhaps set in train events that would lead to the uncontrolled rundown of the Volume Cars business.
7. I suggest the order of the meeting might be:
- (1) To inform Michael Edwardes of the Government's new policy on BL;
 - (2) To invite Michael Edwardes (and his Board) to preside over the systematic disposal of BL;
 - (3) To explain how the Government would assist them in this task;
 - (4) If he looks like accepting, to listen to his reservations and suggestions;
 - (5) If he looks like refusing, to find out precisely why and give him time to reconsider. (He should be manoeuvred away from resigning at this meeting);
 - (6) If he asks for time, perhaps to carry his Board, to say that we must know their views by Wednesday evening.
8. Handling notes are also attached.
9. I am sending a copy of these papers to the Chancellor of the Exchequer, the Secretary of State for Industry, Sir Robert Armstrong, John Hoskyns, David Wolfson, and Alan Walters.



19 January 1981

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Objections - viability & private ownership,
costs & timing have increased burden on public

Disposal within timescale.

- Lower in plan
reorganisation with
timescale.

SPEAKING NOTES (Prime Minister in the first person)

The Government's New Policy for the BL Group.

a) 1. Until now, the Government's policy has been for the BL Board to nurse the whole group back to viability, with the objective that the businesses would be returned to private ownership once they were again trading profitably. We always recognised that this would take several years.

b) We are indeed indebted to you for all the progress you have made so far, most particularly in labour relations and in launching the Metro so successfully. But, on the Board's own assessment, the costs have mounted and the timing of viability has receded. Because of the increased burden this places on public expenditure, the Government has been forced to think again.

c) 2. I have consulted my colleagues and we now believe that we must plan for the disposal of BL, either as a whole or in parts, on a timescale that will not allow for the problem areas in the Group such as Volume Cars to become profitable again before they are sold. We realise, of course, that, for this policy to be successful, the Government may have to make substantial initial payments to the new owners of some of the businesses. But that way, we will limit our future financial commitments without, we believe, taking away from these businesses their chance of a healthy future.

3. Our intentions, therefore, are for the BL Board:

(1) To use the coming year primarily to find out under what terms and to whom each of the BL businesses might be saleable, individually or in groups. Prior to sale we would expect the Board to keep all the businesses on the road to viability, by following closely the course charted in their Plan, including the proposals on reorganisation into separate trading companies;

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(2) Then during 1982, to complete the return of as much of the Group as possible to private ownership, offering the new owners financial support on a scale perhaps similar to that required by your Plan.

4. We would want you to handle this task as you think best. You may, if you wish, hold the Group intact for the rest of this year if you judge that that will help you pull off a more comprehensive deal in 1982. Ultimately, some closures may be unavoidable. But our aim must be to keep closures to a minimum. Your proposition to Michael Edwardes.

5. In asking you to follow this policy, we want to do all we can to assist you in the complicated task of managing the businesses in the Group at the same time as you are negotiating for their disposal.

6. First, because our policy is not one of deferred closure, we realise we must sustain confidence in BL, particularly among managers, dealers and customers. Therefore, we would:

(a) Accept your 1981 Corporate Plans for BL Cars, Land Rover, and Unipart, and most probably for the Leyland Group when we have seen it in its revised form;

(b) Approve the LM10 project;

(c) Give a firm public commitment to the finance requested for the next two years, subject to a review at the end of this year. We would, of course, still expect the Board to alert us at any time if there were a significant deterioration in the prospects of any of the Group's businesses.

7. Second, there is the question of public presentation of the new policy. Since negotiations for sale are bound to leak, we might all feel it best to forestall rumours by issuing a carefully worded statement (see Annex) at the same time as we announce approval for the Corporate Plan.

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8. Finally, I want to repeat that we will give you complete freedom to handle the task in whatever way you think best to attain our new objectives over the next two years. Obviously, you will keep Keith Joseph informed of any major developments, but we have no intention of chasing you for early results. We shall need to take stock by the end of the year of what looks achievable and what remains to be done to return BL's businesses to private ownership. In particular, we shall need to know by then what terms would make the businesses saleable and to whom.


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HANDLING NOTES

Handling Michael Edwardes' Response.

1. It is most unlikely that he will give an immediate firm response. He may well want to consult his Board. Board members have been asked to stand by for a meeting on Wednesday. He must understand that you need to know his own views, and also those of his Board, by Wednesday evening at the latest.
2. If he looks like accepting, let him express any reservations or suggestions he may have, but it is probably best to leave discussions on details to Keith Joseph and officials. You should encourage him to carry his entire Board with him.
3. Once he has accepted, we envisage a private exchange of letters confirming the new policy. As to public presentation, a letter from Edwardes consistent with the Annex should be sufficient.
4. If he accepts the principle, but says that it will take more than two years, explain that the Cabinet needs to have a firm target date, though a specific proposal from him, which he believed could be delivered given flexibility on timing, would certainly be looked at on its merits.
5. If he looks like refusing, establish as clearly as possible his reasons. Avoid accepting a refusal at this stage by giving him time to reconsider. If necessary, invite him to return on Wednesday evening, by when all parties will have been able to reassess their position.
6. If he proposes to resign, again establish the precise grounds which bring him to this view. Tell him that such a reaction is premature, and emphasise the exploratory nature of the meeting.
7. If he gives no indication but asks for time, explain that the Cabinet needs to take a view on the BL Plan this Thursday. For this timetable to hold, you must have his final decision by Wednesday evening.

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SECRETDraft Statement

The Government has received the 1981 Corporate Plan from the company's Board. Because it is our main objective to return the BL businesses to private ownership, the Government has asked the Board to give particular attention to exploring ways in which this can be achieved.

For BL Cars, the Board is exploring a wide range of possible forms of collaboration, and has written to the Government in the following terms:

"In the case of BL Cars, the Board sees collaboration with other manufacturers as a central and integral part of their strategy for recovery and for removing or reducing dependence on Government support. This might take the form of complementary collaborations on major components or particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind - not excluding a merger - which might well grow out of more limited collaboration."

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1. ROBIN IBBS

JR 19/1

JAN. 19.

2. PRIME MINISTER

OBJECTIVE OF MEETING WITH B.L.

There are two diametrically opposed alternatives :

1. To get Edwardes to withdraw his plan, i.e. to state publicly that B.L. is not viable. (If so, work should be done to prepare colleagues and to prepare our media approach to the announcement. Bearing in mind that in the public eye, as the regional editors confirm, Michael Edwardes is presently seen to have done a good job in partially turning B.L. around). Politically this alternative is not on at present, but care must be taken that it does not become the outcome by accident ! If you tell Edwardes that you have no hope for the plan, and are giving him the money as a welfare organisation, he might go.

2. A. To get Edwardes to :
 1. Stay on.
 2. Take firm action to divide B.L. into saleable parts and
 3. Sell off Land Rover, Jaguar, etc., within 1 - 2 years, with dowries if necessary, and
 4. Find a partner for the volume car business if outright sale is not possible.

- B. How will this be achieved ?
 1. I would suggest by a meeting of Edwardes, The Prime Minister, Sir Keith Joseph and Robin Ibbs. (Plus John Hoskyns).

 2. Prime Minister to say that CPRS and Policy Unit have been studying the plan with Department of Industry officials and have advised the Government on it. The Prime Minister and Sir Keith would like Edwardes

to hear the Government's view and hope that this discussion will lead to a programme upon which they can agree. Prime Minister to ask Robin Ibbs, who is probably best prepared on detail, to explain the Government's view.

3. Robin Ibbs to endeavour on commercial and political grounds to get Michael Edwardes to agree to 2.A. programme above. Must point out that the benefits to the U.K. economy of B.L.'s "realism" are immense. Sale of parts in itself one of the benefits and Government is prepared to accept lower price now in return for the example of privatisation, which might be encouraged thereby in British Steel, Shipbuilders, etc.

David Welford

Prime Minister:

Although I am quite prepared to state the Government's view as David suggests, my own opinion is that it would be best if you did this first, at least in outline, as suggested in the meeting notes prepared by the C.P.R.S. I would be ready to fill out some aspects if necessary, and to take a lead in fielding points made by Edwardes in response, particularly if we need to clarify any commercial arguments he raises. *RR:MG 19/1/81*



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AM Sam

TL

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THE PRIME MINISTER

FUTURE OF BL

I shall be in India when discussion is resumed in E Committee on the future of BL. There are some points which I should like to have made.

First, I am struck by the optimism implicit in the arithmetic of the Corporate plan on the public finance necessary to secure an enterprise which, on Sir Michael Edwardes' own figures, will barely begin to show a positive cash flow after five years' support.

I recognise that officials do not challenge any of BL's assumptions as unreasonable. But any of these could go wrong and arithmetic depends on them all being about right. Thus, the exchange rate has to stay roughly the same, even declining a little; reasonable pay settlements are needed, continuing well forward even after two satisfactory years of unprecedented modesty already; labour disputes must be rare enough to justify output assumptions; inflation has to be adequately reflected in investment costs; and the investment programme itself has to be adequate.

Is it realistic to suppose all these assumptions will be realised? I doubt it. In fact, have BL asked for enough money to go forward, let alone to be attractive to potential partners? And have we thought enough about support which we might also

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need to offer - for instance to the components industry - if the economy more generally is to reap significant benefit from keeping BL going?

Second, we have decided (I am sure rightly) to welcome Nissan with its plans for the fleet market. But the central plank of BL's planning is the LM10 family. I am not convinced that we have faced up adequately to the adverse impact on this from Nissan's rivalry.

I see that we are asking Nissan to think about two models instead of one: but if Nissan are ready to consider this, the second model will presumably still be chosen to fit their basic strategy - the fleet market. I am aware that Edwardes' oral reaction has been cautiously constructive. But BL's written warning in their plan is that their calculations rest on no further Japanese penetration of the European market.

If mandatory import controls were proposed (either as part of the basic strategy or more particularly to dilute the impact of Nissan's investment) we should, of course, need Community approval - as we shall need their understanding on funding for BL and the realisation of Nissan's inward investment plans. It would be a tall order to ask for all three - even if we are prepared to contemplate that controls could have far-reaching and unpalatable consequences for British industry generally.

Third. The options are essentially two - to reject BL's request (with grim consequences for unemployment and immediate public expenditure flowing from liquidation) or to find a sum which would fund a corporate plan anchored on a new medium car range.

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But if we go for the latter, I believe we should do so only after first deciding what are our real expectations and intentions for BL's future; and, in that context, after discovering what co-operation we can get from Edwardes and his team.

Given the arithmetic and bearing in mind BL's very modest position in the world manufacturing league, I do not think it is satisfactory simply to debate the cost of liquidation compared with the suggested cost of the corporate plan. Edwardes categorically admits that the latter is not a commercial proposition and he implicitly recognises BL is not viable on its own.

If we are to justify this order of expenditure then it must surely be for a more decisive objective, namely to groom BL for sale - either corporately and quickly (whether to a consortium or to a single buyer) or after the proposed break up into its component parts as soon as possible thereafter to suitable partners. Successful sale clearly depends on avoiding a public split with Edwardes and preferably securing his active co-operation: so we should disclose our objective to him and invite him to discuss the alternate strategies for getting there.

Finally, as I have already suggested, such an objective also depends on adequate funding. If we are to avoid the costs of rescue plus those of subsequent closure, we may have to be ready to face higher initial costs.

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I am copying this minute to other members of E Committee,
Robin Ibbs and Sir Robert Armstrong.

W. J. B.

J. B.

Department of Trade
1 Victoria Street
London SW1H 0ET

16 January 1981

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15 January 1981
Policy Unit

PRIME MINISTER

BL

ant

1. BACKGROUND

1.1 At your meeting on Monday, 12 January, you ruled out a refusal to support the Plan which would lead to the early closure of BL. However, you were reluctant to accept the Plan as it is, and asked us and officials to look for a "third way".

1.2 We have discussed this with CPRS, Department of Industry and Treasury officials. We have considered whether a third way exists along any of the following lines:

(a) Trimming BL's capital expenditure programme.

(b) Increasing pressure on Edwardes to pursue the "sell or merge" option.

1.3 Our note of 8 January considered whether there should be any special conditions placed upon Edwardes (eg a nominal wage cut) and the scope for committing funds for a more limited period. We have nothing further to say on these points.

2. CUTTING BL'S INVESTMENT PROGRAMME

2.1 Cancelling LM10/11/12 family

2.1.1 The largest single item in BL's capital investment programme is the LM10 family, due to cost £366m over the next 5 years (£37m in 1981). This new medium car is so central to BL's present Plan that to drop it would amount to rejecting that Plan. The Policy Unit thinks it is just conceivable that the Board could find another cheaper way of filling the medium car slot in their range - eg importing and "badging" someone else's car - but this would herald a large-scale contraction in BL's activities, quite probably producing work force resistance. DoI believe the confidence of dealers will also be affected, but we doubt whether they would mind where the medium car came from - provided they knew one was coming. But the present Board do not think this is a feasible course of action.

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- 2.1.2 We do not think the Government can say to the Board "We don't like your Plan, but we want you to do this Plan instead", because Governments have no competence to draw up corporate plans. However, the Board have said the Plan is not a normal commercial risk, and that only Government can decide whether the investment is worthwhile from the national point of view. It is entirely open to Government to ask the Board to manage a "slow closure" as slowly as possible - disposing of as much as possible.
- 2.1.3 , We understand the Board would be willing to preside over closure if asked to do so. Closure would not happen overnight. The process might be extended over a year - perhaps even longer - with the bulk of the redundancies occurring as the next upturn begins. It would become clear that some mix of closure and disposal was the outcome and there would be a risk that the process got out of control due to work force opposition. But once it was clear that the "slow-close" decision had been taken, such resistance would soon be seen as pointless - merely making things worse. Dealer desertions would increase, but would be gradual for a number of reasons: they have invested in stocks and servicing BL cars; many would have no-one else to go to; when some deserted, this would leave more business for others. Similarly, BL cars would not become instantly unsaleable, just as Chrysler cars have not become unsaleable in USA. With a huge stock of BL cars on the road, component manufacturers would continue to supply spare parts. But, while the process of decline might be slowed down, it would not be reversible.
- 2.1.4 Closure apart, the only scenario on which cancellation of the LM10 family makes sense would be if cancellation followed a merger with another company - who would supply the medium car for the combined range. The Policy Unit believes this could still be the outcome, but only if the right collaborative partner is found quickly before the bulk of the LM10 investment takes place. Even then, there would need to be a battle with the unions to push it through.
- 2.2 Deferring the LM10 family
- 2.2.1 We have also considered whether there is any point in deferring, rather than cancelling, the LM10 programme. This could save a

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maximum of £37m of BL's planned expenditure in 1981. But BL's need for a replacement medium car to replace their most uncompetitive models is universally recognised as overdue. News that this pressing need was being delayed after so much management effort to speed it up could only be interpreted by management, work force and dealers as a clear signal that it was to be cancelled later. The effect on confidence and lost market share would almost certainly add at least £37m to BL's negative cash flow in 1981. We see no merit in this idea at all.

3. EXTRA PRESSURE ON EDWARDES TO SELL OR MERGE

3.1 Our note of 9 January concluded that the best alternative to closure lay in giving Edwardes new terms of reference. We proposed that Edwardes should send a private letter to Keith indicating the priority that the BL Board now attaches to finding a partner, and explicitly not ruling out outright sale. We have suggested that this change in his terms of reference should be put very clearly by you to Edwardes when you meet him.

3.2 We now think that this pressure could be strengthened a little further by making part of the proposed letter public. The published version would read like this:

"In the case of BL Cars, the Board sees collaboration with other manufacturers as a central and integral part of their strategy for recovery and for removing or reducing dependence on Government support. This might take the form of complementary collaborations on major components or particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind - not excluding a merger - which might well grow out of more limited collaboration."

3.3 We are not suggesting that the public letter should refer to outright sale, because the Board will feel that it would undermine confidence. But we still attach importance to a clear understanding that the Board will look for an outright sale (to be recorded in a private letter).

3.4 We see three advantages in a public letter which refers to a merger:

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- (a) It would strengthen the pressure on Edwardes to pursue this with vigour.
- (b) It would make it easier for Edwardes to talk to several companies at the same time, with less secrecy and reticence than hitherto. This could speed up the process.
- (c) It might introduce an element of competition among those potentially interested in BL - or parts of it. Part of the motivation for controlling BL's dealership network could be to prevent a competitor from doing so.

3.5 We are not suggesting that finding an early buyer for BL will be easy. Nor are we suggesting that it could save any of the £1.1bn now being sought. We expect that a Government commitment to that amount of money would be a necessary condition of any sale or merger. But a merger might make it possible to limit Government funding to this amount, whereas we believe the chances are that BL will end up costing much more if it is not sold - or if it is supported and then has to be closed. The cost of supporting a merger proposition would have to be considered by Government once negotiations had started.

3.6 We do not know whether Edwardes would be willing to see a commitment like this made public. You would need to explore this with him. He might feel that the reference to a merger would undermine confidence and management morale. If so, DoI and Treasury officials do not feel that the gains from making it public would be crucial.

3.7 The Policy Unit, on the other hand, thinks that Edwardes' willingness to make this public could be a touchstone of his seriousness about it. As we argued in our earlier note, we see no case for continued support for BL unless Edwardes is willing to make our ownership strategy his number one priority.

4. NEXT STEPS

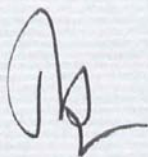
4.1 Once you, Geoffrey and Keith have considered the issues raised in this note, we think you should see Edwardes, preferably privately without other members of the Board. You could assess his commitment

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to a serious attempt at eventually ending the Government's ownership of the business. We see advantages in seeing him on Sunday or Monday before E Committee: your negotiating position with him will be strongest if no decision in principle has been taken; and his responses may affect the choice you put to E Committee on Tuesday.

I am copying this minute to those who received the previous note of 8 January.



JOHN HOSKYNS

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8

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Qa 05220

To: MR LANKESTER

From: J R IBBS

BL: A Middle Way

1. The Prime Minister has asked whether there is a middle way. She has also asked for a second look at John Nott's suggestion that much of BL could be salvaged if the Government pulled out.

BL's Volume Car Business

*We said
this last
year.*

2. The CPRS view is that the Government's objective should be to get out of BL as soon as it can. The difficulty is the Volume Cars business. At best, this would be extremely hard to dispose of but it should be possible to sell most of the rest of BL.

3. For reasons that have been clearly established, it is not feasible to envisage closing down the Volume Cars business within the next few years unless closure is brought about by labour relations difficulties or a collapse of sales. Furthermore, if Volume Cars is to be kept going it will be necessary to approve the LM 10 family, even though finance should not be committed irrevocably more than a year ahead.

4. The alternatives therefore for Volume Cars are either to continue to run this business on the basis of the Plan, at least for the time being or to find some way of making it sufficiently attractive to entice another motor manufacturer to take it on. It is just possible that this could be brought about if the new owner were given financial assistance similar to, but no greater than, the Government's commitments under the Plan. The chances of being able to dispose of Volume Cars in this way might be much enhanced if the business could be offered as part of a larger package containing some of the more desirable parts of the Group.

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BL's Other Business

5. BL's businesses other than Volume Cars form more than half the total BL Group (see Annex). Their disposal or closure is much more straightforward. It should be possible to find a buyer for most of the businesses, indeed, some are highly saleable:

Land Rover is certainly saleable;

Jaguar should be saleable, though some element of dowry may be required. It may be possible to avoid paying a dowry if Jaguar could be sold as part of a wider package with say Land Rover;

Unipart is almost certainly saleable;


Leyland's Heavy Truck and Bus Divisions should be saleable;

Leyland's Light and Medium Truck Division may be unsaleable but it is quite possible to envisage its closure;

Alvis, Coventry Climax, Aveling Barford, Prestcold and other peripheral businesses are either saleable or closeable.

6. The attractions of selling off all or as much as possible of BL are that:

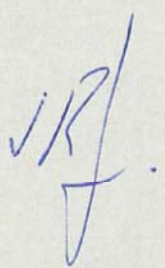
- the residual problem would be much smaller and more manageable;
- the Government's exposure to financial risk would be reduced, since many parts of the business could become additional cash absorbers, particularly if sterling remains strong (however, there would probably be some increase in expenditure in the first year, for example from the early repayment of loans);
- potentially viable parts of BL, such as Land Rover, Jaguar, and Leyland Heavy Trucks are more likely to thrive and to receive the management and other resources they require if they become part of an already healthy international motor group;
- it would be consistent with the Government's disposal programme for other state-owned industries.


SECRET

7. If a policy of systematic disposal were adopted, Sir Michael Edwardes would have to be told that the Government was not prepared to continue to support the BL Group as it stands. It should be possible to persuade him to take on the task of a such disposal, on the grounds that this would give the best chance of viability for the various parts, including the possibility of continued existence for Volume Cars. He could be told the Government appreciates that such a programme would require time, that certain safeguards would have to be negotiated (for example, for dealers holding Jaguar and Land Rover franchises), and that the Government would demonstrate sufficient support prior to the various disposals to prevent desertion by managers customers and dealers.

8. The above suggestion embraces a considerable part of what John Nott envisaged. The main difference is a belief that, the only way to dispose of Volume Cars would be to offer the new owner a degree of financial support similar in scale to that required under the Plan. This would, however, then be the end of the Government's commitment. If, even on these terms, Volume Cars cannot be sold, disposal of the rest of BL will at least have simplified the residual problem. The eventual outcome would probably be the closure of Volume Cars when employment, industrial and political considerations permit .

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



15 January 1981

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BL Group

By taking data from the 1981 Corporate Plan, the BL Group can be divided up as follows:

Division	Manpower Jan 1981	Sales Revenue 1981 (£ million)	Cash Outflow 1981 (£ million)	Assets Employed Jan 1981 (£ million)
Volume Cars	63,000	n/a	n/a	n/a
Jaguar Cars	9,500	n/a	n/a	n/a
BL Cars	72,500	1,645	467	602
Land Rover	17,000	435	35	220
Leyland Group	39,000	1,010	65	504
Unipart Group	5,500	450	6	160
Other Businesses	10,000	n/a	n/a	n/a
Total BL	144,000	3,395	644	1,540
Volume Cars as a proportion of Total BL (estimated)	44%	43%	65%	35%

ow

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

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

cf the Dupont

Secretary of State for Industry

*→ CF - pm out out
and flag up
the papers in
para 5 and 6.*

14 January 1981

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

the papers in

para 5 and 6.

Plan for Friday

mtg.

D.

Dear Tim

Thank you for your letter of 13 January.

2 I understand that there was some discussion at the meeting on BL chaired by the Prime Minister on 12 January on whether Sir Michael Edwardes had given the Government an opportunity last summer to decide to run down the company. My Secretary of State has asked me to write to you about this.

3 Clive Whitmore has told me that the Prime Minister was quoting from a letter from Sir Michael Edwardes to the Secretary of State dated 15 May to show that Sir Michael had only given his views about whether BL could still achieve the objective of long-term viability in response to a letter from the Secretary of State. The Prime Minister was, of course, absolutely correct in saying this. However, it is also true (and this is the point which my Secretary of State was making at the meeting on 12 January) that later in the summer the BL Board volunteered two letters on this subject, as I hope will be shown by what follows.

FLAG
...
A + B

4 I attach two copies of letters sent to Sir Keith by the BL Chairman on 10 and 15 July 1980. The letter of 15 July says: "I am sure you will wish to view my letter of 10 July in the context of the BL Board's attitude to the 1980 Plan as set out in my letter of 19 December 1979 ... The BL Board must therefore draw your attention to the fact that, even if we do not call on you for further funds in 1980, some of the key objectives of our 1980 5-year Plan cannot now be achieved." However, Sir Michael expressed the view later on in the letter that the only practical course of action would be to continue to fund the business while BL prepared the 1981 Plan for consideration by the Board and then by the Government.

C | 5 My Secretary of State sent copies of Sir Michael's letters to the Prime Minister and other colleagues on 23 July under cover of a minute in which he said he was confident that the right

/course ...



course of action was to await BL's 1981 Corporate Plan due in the autumn, and to consider that together with the funding implications and the options for alternative courses of action on which the CPRS had some work in hand.

D 6 The Chancellor supported this line in a minute to the Prime
E Minister dated 31 July, and Mr Robin Ibbs concurred in his minute to you of 1 August.

7 I hope that this provides the explanation of the sequence of events which the Prime Minister is seeking.

Yours ever
Catherine
CATHERINE BELL
Private Secretary

Annex D

35-38 PORTMAN SQUARE

LONDON W1H 0LN

RECEIVED IN
TELETYPE
OFFICE
15 JUL 1980
SECRETARY OF STATE
FOR INDUSTRY
FROM SIR MICHAEL EDWARDS

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

15 July 1980

Dear Secretary of State,

I am sure that you will wish to view my letter of 10th July in the context of the BL Board's attitude to the 1980 Plan as set out in my letter of 19th December 1979. Although we believe that we can fund BL at least until December 1980, without seeking Government funding beyond the figure agreed for this year, the fact is that there will be a significant shortfall in cashflow against the Plan, for the reasons given in my letter of 10th July. This shortfall, funded from whatever source, will inevitably impact on future years.

The BL Board must therefore draw to your attention the fact that, even if we do not call on you for further funds in 1980, some of the key objectives of our 1980 5-year Plan cannot now be achieved.

Notwithstanding this, we have had some success in meeting a number of our Plan objectives, notably the 1979/80 pay deals, reductions in manpower, which are ahead of schedule, and the successful product launches of the T45 truck and the Morris Ital, together with the Metro which is on programme, and should be launched on time in mid-October.

The BL Board considers that the only practical course of action would be to continue to fund the business while we prepare the 1981 Plan for consideration by the BL Board and then by you and your colleagues.

...../

CR-

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

15th July 1980

Page 2.

If the 1981 Plan cannot demonstrate the prospect of commercial viability, then we believe that specific contingency action should be taken - but not until then.

In the meanwhile, we are doing everything possible to remain within the agreed Government funding for the current year, and we value the co-operation of your officials who have worked closely with us on the financing problem.

Yours sincerely,
Michael Lawson

I have copied this to
Sir Arthur Knight.

ANNEX B

TELEPHONE
01-416 6000

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

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

10 July 1980

Dear Secretary of State,

The BL Board has requested through the appropriate channels that the NEB take up a further £50m of equity in BL before the end of July 1980 as provided for in the Memorandum of Understanding covering the operation of the Credit Line Facility. In doing so, the Board feels it is necessary for you to be aware of our assessment of BL's present cash position and immediate outlook.

Attached is a paper containing schedules which show BL's current and forecast financing position, together with an explanation as to the basis upon which the forecast has been prepared. I would particularly draw your attention to the comparison of this forecast with that made at the time of our request for funds on 15 May 1980. This comparison shows the deterioration we have experienced in May and June which leads to a poorer profit expectation for the year. In summary, this deterioration arises largely from the deepening recession in the UK and overseas, and from the worsening in our competitive position. Furthermore, our existing product range has not proved strong enough to hold market share. This is reducing both sales and margins in the home market and in export markets.

...../

: 2 :

The Rt Hon Sir Keith Joseph, MP

10 July 1980

The economic assumptions agreed with Government in late 1979 as the basis for the 1980 Plan have proved to be incorrect. The changes in economic circumstances have had a traumatic effect on our business. The rate of inflation within the UK, coupled with the strength of sterling, have had a significant adverse impact on our profit and cash position. These effects include not only reduced margin and volumes of business outside the UK but loss of UK sales to importers whose competitive position is greatly strengthened by sterling, together with a reduced margin as a result of aggressive marketing actions to achieve our UK sales.

The attached schedules show that BL requires this further £50m of equity in July in order to satisfy the covenanted ratios on our Medium Term Loan. Given this additional funding, our present forecast indicates a safety margin of £84m at the end of July and £80m at the end of August. These levels are below the £100m margin recommended in the Memorandum of Understanding, but the Board does not feel justified in requesting a further £25m as this would take the safety margin well in excess of £100m. I should emphasise that additional equity has a highly geared effect upon this margin. For example, a £25m funding in July - a level considered and rejected by the BL Board - would reduce the £84m margin to only £16m. The forecast shows that BL will need to call down the remaining £25m funding provided for under the Credit Line Facility in September. Even then, the margin in September is forecast to be only £64m and it is virtually certain that the ratios will be breached during the fourth quarter (October - December 1980).

...../

: 4 :

The Rt Hon Sir Keith Joseph, MP

10 July 1980

that we should try to avoid a crisis or any major loss of confidence in the coming months, so that we have time to complete the fundamental review which the 1981 Plan requires.

I hope this letter gives a fair current view of the problems that are with us now and lie immediately ahead in advance of our submitting our 1981 Plan document. In the meanwhile I would confirm that we are taking every possible action to conserve cash, while endeavouring to avoid actions which might damage our prospects of longer term viability.

*Your sincerely
Nicholas Leveson*

14 JAN 1981



SUBJECT

SECRET



re B7

bc Mr Walters
u Hoskyns
u Wolfson
made

10 DOWNING STREET

From the Private Secretary

13 January 1981

As you know, the Prime Minister held a meeting yesterday afternoon to discuss the Government's approach to BL's request for funding of their corporate plan. The following were present in addition to your Secretary of State: The Chancellor of the Exchequer, Mr. Tebbit, Sir Robert Armstrong, Mr. Ibbs, Mr. Hoskyns and Mr. Wolfson. They had before them John Hoskyns' note of 8 January, as well as the various papers which had earlier been circulated to E Committee.

Sir Keith said that, in commercial terms, it would be right to refuse any further funding of BL. At best, their prospective rate of return on a CCA basis was 1% by the late 1980s - which might just be enough to finance new models at that stage. The much more likely outcome was that BL would have to continue to depend on Government financing and guarantees for their investment in new models. It was true that BL's forecasts were now more conservatively based than they had been in the past and Sir Michael Edwardes had done a great deal to improve the internal performance of the company; but the chances of success were still very slim. On the other hand, Ministers had to consider the wider implications of withdrawing support. The component industry would be badly hit in the short term, and there would be massive PSBR costs (though he understood that the Chancellor no longer felt that these constituted a decisive argument against early closure). There was also the political aspect. If the Government refused to provide further support, this might be good for its overall credibility and in many quarters would be popular; on the other hand, it might also be deeply resented insofar as, to many people, it appeared that BL's management and workforce had begun to perform better. From a political standpoint, he was marginally in favour of withdrawing support. But if Ministers collectively took the opposite view, there seemed no real alternative to supporting the plan in full. Annual funding would still be subject to performance checks, but he did not feel it would be possible to "drip feed" the company, or for example to omit the financing of the LC10: either of these courses would immediately undermine the confidence of the dealer network and BL's volume sales would collapse.

The Chancellor said that his preliminary view was that, taking into account the wider aspects, the Government should continue to support BL. He did not think that the economy would adjust rapidly enough to take up the slack caused by early closure to make the latter a viable option. Nor did he think it would be acceptable for only about a quarter of UK car sales to be provided from domestic sources. Also, in the short run, financing the plan would involve no greater cost to the PSBR than closure. But further work needed to be done on the size and type of car industry that the UK needed. And if it was decided to fund BL's plan, the essential aim should be to put the Company into a better position for a merger with another company and/or to enable it to dispose of some of its operations.

In discussion, it was suggested that the prospect of BL returning to profitability was virtually zero. Although Sir Michael Edwardes and his management team had brought about some improvements, the Company had nonetheless signally failed to meet its targets. Moreover, whereas Sir Michael had indicated a year ago that he would withdraw the plan if the Company failed to meet its targets, he had done no such thing. It was unlikely that he would do so in the future. If the Government was going to fund the plan, it would be as if the Government were providing finance for political reasons to a welfare organisation. At the very least, the Government should insist on BL disposing of the more profitable parts of its business such as BL vehicles and landrover. Sir Michael Edwardes had been asked to pursue this course last year, but had failed to deliver. This must not be allowed to happen again. Moreover, it was essential to avoid anything like a full commitment to the plan. It was too easy simply to accept Sir Michael's view that there either had to be a commitment of over £1 billion or else BL would collapse. The possibility of a "middle way" should be explored, including the possibility of not funding the LC10.

Against this, it was argued that a partial commitment would involve even greater expense than supporting the plan in full. In that case, BL would without any doubt whatever collapse before long and in the meantime more money would have been spent. Moreover, the criticisms of BL management were not fully justified. They had not withdrawn the previous year's plan because BL had been thrown off course largely by external, rather than internal, factors. If the new plan were invalidated by failure to meet internal performance criteria, there were reasonable grounds for believing that the plan would be withdrawn. Despite all the problems at BL there was an economic case for continuing to support them: the immediate unemployment consequences and the ripple effect on other industries of not doing so would be too great. Even if there were a case in principle for withdrawing support, closures in the steel and shipbuilding industries should have higher priority; and it was not politically possible to achieve all at once.

In conclusion, the Prime Minister said that more work needed to be done on refining the options. In particular, the possibility of a "middle way" - including not funding the LC10 - should be urgently examined. This further work should be done by the No. 10 Policy Unit, the CPRS, your Department and the Treasury and a report brought back to Ministers as soon as possible. If it was eventually decided to provide further support to BL in some form or other, she would wish to see Sir Michael Edwardes to impress upon him the Government's objectives.

/ I am sending

SECRET

- 3 -

I am sending a copy of this letter to John Wiggins (HM Treasury), Gerry Spence (CPRS) and David Wright (Cabinet Office).

TPL

Ian Ellison, Esq.,
Department of Industry.

SECRET

2

Ref. A03819

PRIME MINISTER

British Leyland's Corporate Plan

(E(80) 141, 145, 150 and 151)

BACKGROUND

The Secretary of State for Industry's recommendations for dealing with BL's corporate plan are in E(80) 145 which includes an Annex summarising the figures for the proposals and the options. E(80) 141 covers a detailed report by Department of Industry officials following interdepartmental discussion and, at Annex A, a report by a group under the Treasury on the consequences for the economy of the closure of BL cars. In E(80) 150 the CPRS broadly endorse the proposals by the Secretary of State for Industry, subject to the important reservation that the BL Board should be pressed to sell Jaguar. Their note, E(80) 151, summarises the record as BL's escalating requests for Government equity.

2. The argument centres on the future of the volume car business. In paragraph 2 of E(80) 145 the Secretary of State for Industry summarises three options:-

- (a) To approve the plan on the grounds that there is a chance that it will work and that the alternatives of closure are far worse.
- (b) To approve the plan now but to tell BL to prepare for early dissolution if the prospects do not improve substantially during 1981.
- (c) To pull out now.

3. The Secretary of State dismisses (b) as impracticable. He recommends (a) despite the risks (NB in particular the claim in paragraph 4 that an exchange rate of 10 per cent higher or lower than assumed would make a difference of £1 billion in the sums required over the period of the plan. He is persuaded against (c) by the PSBR costs and the social and employment consequences of withdrawal now. He points to the political difficulties of withdrawing support from Sir Michael Edwardes at this stage. Approval of the corporate plan in principle now, together with the LM10 mid-car programme, means a firm funding commitment in 1981-82 of £620 million followed by £370 million in 1982-83 and possibly £100 million in 1983-84.

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4. In his paragraph 7 the Secretary of State for Industry makes three important subsidiary recommendations:-

- (i) Against pressing for the sale of Landrover before 1982.
- (ii) Against the disposal of Jaguar - contrary to the CPRS's view.
- (iii) For making approval of the plan subject to a letter which

Sir Michael Edwardes would send expressing the Board's intention to review the plan if there were a major strike or any other change in circumstances which made its major objectives unachievable - for a draft of this see Annex B of the paper by officials, E(80) 141.

5. His other main recommendations are:-

- (i) To welcome BL's proposals to split their operations into four separate businesses - BL cars, Leyland Group (commercial vehicles), Landrover and Unipart.
- (ii) To transfer from the NEB to himself the shares of BL.

6. The Secretary of State is silent on the timing of the decisions. He will be looking for a relatively early announcement in the interests of allaying fears about the future of the business. If this were before Christmas it would be welcome to him, but I understand that he is assuming that the Committee will wish to have a further discussion at an early meeting in the New Year. (The timing of the Nissan announcement may be relevant here - see paragraph 8 below.)

7. The CPRS in E(80) 150 support the Secretary of State's line in general: not in any mood of optimism but in recognition of the difficulties of the alternative of withdrawal. They point however to the need to avoid being locked into the company for many years and they make the specific suggestion that BL should be asked to find a purchaser for Jaguar, and to do so before they come to Ministers for approval in the spring for £75 million on their new model, the XJ40. The Secretary of State for Industry's counter-argument, in paragraph 7ii) of his paper, is that failure to sell Jaguar could precipitate a collapse of confidence in the company and would be contrary to the firmly held view of Sir Michael Edwardes.

HANDLING

8. When the Secretary of State for Industry introduces his paper he will also wish to inform the Committee of the possibilities for investment by Nissan which he discussed with you last week, and to invite E's approval (Mr. Lankester's

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letter of 11th December to the Department of Industry). As you will recall the conclusion of your meeting on this was that the Nissan decision should be announced as soon as possible but not before the announcement of the Government's decision on BL. Given the sensitivity of the subject you will wish us to record any discussion on Nissan in a separate uncirculated Annex - and you will also want to stress to colleagues the imperative need to avoid leaks.

9. You might then invite Mr. Ibbs to introduce the CPRS notes and the Chancellor of the Exchequer to comment on the financial implications of the alternatives, with particular reference to the Treasury's report on the PSBR and other economic consequences of closure of BL cars. He may also wish to comment on the implications for the Contingency Reserve of allocating from it the large sums now proposed for BL. Of the other members of the Committee the Secretaries of State for Employment and Trade and Mr. Fletcher, who is representing the Secretary of State for Scotland, who will be in the House, will particularly wish to comment.

10. The first general question is whether the Committee accepts the Secretary of State for Industry's judgment that of the three options summarised in paragraph 2 of his paper E(80) 145 the right course is to accept the plan, and to rule out withdrawal either now or later on in 1981.

11. If the Committee is not persuaded of this then it may well be necessary to look further at the practical consequences of the alternatives.

12. If they are persuaded that broad acceptance of the plan is necessary you will then want to go through the main points which are summarised in paragraph 14 of E(80) 145:

- (a) The conditions on acceptance and, in particular, the proposed letter from Edwardes.
- (b) Against early disposal of the Leyland Group, Landrover and Jaguar. In looking at Jaguar you will wish to pick up the CPRS's arguments for its disposal and consider whether the Committee wants further discussions on this with the BL Board, rather than accepting that it should be ruled out because Edwardes is against it.

Full. L.R. / Jaguar / Vehicles ||
Revised Cash. / Mr.
Vol. |

SECRET

SECRET



- (c) The transfer of the shareholding from the NEB to the Secretary of State - non-controversial since it only recognises the realities of the present relationship and system of control.
- (d) Approving BL's proposed reorganisation into four separate businesses - sensible since it facilitates later sales.
- (e) Leaving detailed questions on private financing to be settled between the Secretary of State and the Chancellor of the Exchequer.

13. In the light of the discussion you will first wish to record whether the Committee supports the approach in paragraph 2a) of E(80) 145 - that is, approving the plan - or the alternatives for withdrawal in 2b) and c) - conditional approval or pull-out.

14. If 2b) and c) are not ruled out you will probably want to commission further work on their detailed implications ready for discussion in early January.

15. If 2a) is endorsed you will then wish to record conclusions with reference to the five points listed in paragraph 14 of E(80) 145, and in paragraph 12 above.

16. In the event of total agreement you could authorise a statement as soon as possible. Since the draft would have to be cleared, this in practice would probably mean as soon as Parliament reassembles after Christmas. If, as is more likely, the Committee wished to reflect further on these proposals you will wish to call a meeting early in January, with the exact timing depending on whether the Secretary of State for Industry is asked to bring forward any further papers for discussion.

17. You will also wish to record separately any conclusions on the Nissan proposal.

ROBERT ARMSTRONG

16th December, 1980

(Approved by Sir R. Armstrong and signed on his behalf)

SECRET



10 DOWNING STREET

Am. Sh. 10/10

Michael Edwards did
say the Board would
abandon the Plan if
there was a "significant
shortfall in cash-flow".
(See Flag A).

TZ
..

15/12

CONFIDENTIAL

Qa 05025

To: MR LANKESTER ✓

From: J R IBBS

BL Corporate Plan

1. The Prime Minister may find it helpful to see the attached note which sets out some of the factors which influence BL's requirement for Government funding. On some key figures the note gives comparisons drawn from successive BL Corporate Plans and it also provides some observations on what is needed if the latest Plan is in the event to be fulfilled.

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

J.R.I.

12 December 1980

Att

CONFIDENTIAL

BL's ESCALATING REQUESTS FOR GOVERNMENT EQUITY.

1. Last year's Corporate Plan foresaw a need for about £130 million of new Government equity in the period 1981 and beyond. In this year's Plan, that sum has grown by £1 billion. This paper looks at some of the reasons why.

New Government Equity £million	1981	1982	1983	1984	1985	Aggregate
1979 Corporate Plan	75	-	-	-	-	75
1980 Corporate Plan	93	13	27	-	-	133
1981 Corporate Plan	520	420	150	50	-	1140

2. The escalating requests for Government funding are predominantly due to the poorer outlook for profits.

PBIT £million	1981	1982	1983	1984	1985	Aggregate
1979 Corporate Plan	215	269	328	386	478	1676
1980 Corporate Plan	115	217	286	370	424	1412
1981 Corporate Plan	(157)	(19)	134	217	330	505

3. The key question is has BL gone far enough in reducing their profit forecasts? The main risks to profitability are a continuation of the high exchange rate, failure to achieve UK market share, failure to export in sufficient volume for total production to reach economic levels, inability to price vehicles at profitable levels given that BL is a high cost producer, and failure to reduce production costs.

4. The Exchange Rate. The Plan assumes an effective exchange rate of 74 next year, falling steadily to 65 by 1985. Recently the rate has been around 77 - 78, and was over 80 earlier in November. BL have themselves now suggested a higher sterling profile as an alternative. They calculate that the higher profile would add $\frac{1}{2}$ billion to their request for Government funding over the Plan period.

5. Failure to Hold UK Market Share. BL's share of the UK car market has been in long-term decline. As recently as the mid-1970's, it was well above 30%. This year it will be well below 20%. Successive plans have taken gloomier views of BL's ability to recover this lost ground.

UK Car Market Shares %	1980	1981	1982	1983	1984	1985
1979 Corporate Plan	25.3	26.3	24.5	24.6	n/a	n/a
1980 Corporate Plan	20.5	21.8	20.8	21.1	23.9	24.6
1981 Corporate Plan	18.3	18.5	19.2	20.0	20.7	21.0

6. Until the Metro, BL's share of the market was being rapidly eroded through a combination of uncompetitive models, low levels of customer satisfaction (mainly because of poor quality and reliability), a declining dealer network, and action by BL's competitors.

- Uncompetitive models. The Metro and the Bounty will help, though neither spells much in the way of profits for either BL or their dealers. The new mid cars are a long way away - over two years to the hatchback (LM 10) and over three years to the saloon (LM 11).
- Quality and Reliability. This is probably BL's main weakness. Every Corporate Plan has said so. But relative to the rest of the industry, there has been little, if any, improvement.
- Dealer network. BL lost over 200 dealers in 1978 and another 200 in 1979. They now have under 1800. The decline has been halted by a combination of the Metro's success and the fact that few other franchises are recruiting.

7. Each one percentage point shortfall against Plan in their UK market share would according to BL add about £100 million to BL Cars' funding needs over the Plan period.

8. Failure to Export. BL Cars cannot achieve economic levels of production unless they export in sufficient volume. Europe is their main market.

European Car Sales (Austin Morris) '000s	1980	1981	1982	1983	1984	1985
1980 Corporate Plan	94	140	120	168	184	201
1981 Corporate Plan	56	70	104	109	132	148

9. BL Cars now have half the sales they had in Europe five years ago. They are losing dealers. They also have one of the worst reputations in Europe for quality and reliability. Earlier this year, for example, the West German Technical Examination (their MOT) ranked the bottom five cars (after examining 7 million cars for faults) as:

79	BL Allegro
80	Chrysler Simca
81	Autobianchi A 112
82	Skoda
83	BL Mini
84	Alfa Romeo Giulia GT 1300

10. The West German ADAC (their AA) published statistics on breakdowns per 1000 registrations, the final part of which read:

Alfa Romeo	57 per 1000
Lada	63 per 1000
BL	68 per 1000

11. Against this background, BL are planning to double their sales in Europe over the next three to four years.

12. Inability to Price at an Economic Level. BL Cars are a high cost producer of volume cars. This year their average loss (PBIT) per car produced will be nearly £600. For comparison, Japanese importers are thought to be enjoying profit margins well in excess of £600 a vehicle. →

13. BL's competitors are reacting to the Metro launch with a price war, which they can afford but BL cannot. Both Fiat and Ford have recently chopped around £300 off the price of their Metro-equivalent. More worrying in the long-term would be aggressive marketing by the Japanese. At present, Japanese car sales are up against their VRA limits so there is no need for discounting. Local Japanese assembly plants or a collapse of the VRA would change that and undermine any prospect of high-cost producers being able to sell at a profit.

14. Each £100 shortfall (almost 2½% of average ex-works price) in estimating future levels of market price would add about £250 million to BL's funding requirement over the Plan period.

15. Economic Levels of Production. It is a rule of thumb in the motor industry that volume cars such as the Metro need annual production runs of at least 200,000 - 250,000 to be cost competitive. Much larger manufacturers such as Volkswagen, Renault, Ford, General Motors, Nissan and Toyota have little difficulty in exceeding this level across their entire range of volume cars.

16. For Metro, the BL Plan forecasts annual production runs of around 180,000 units at peak. To achieve sales of that level, the Plan assumes that 40 - 45 per cent of Metro's output can be exported, largely to Europe.

17. There are perhaps better prospects that the new mid-car family will achieve economic production levels. The Plan forecasts joint production (ie LM 10/11/12) of around 300,000 units a year. About one-quarter of the output is assumed to be exported, again mainly to Europe.

18. Financing Risks. The 1981 Plan assumes that BL can raise £400 million in term loans from the private sector. Hill Samuel believe this should be possible provided that the Government are prepared to give assurances stronger than exist under the Varley/Marshall statements. If either (a) the assurances are not strengthened, or (b) BL's trading position deteriorates, or (c) Hill Samuel have overestimated the ceiling of lending capacity for BL, the requirement for new Government equity would increase correspondingly.

ACTION

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(80)141

COPY NO

2

10 December 1980

Amc Muntz

CABINET

This part to

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

E. o. language

BRITISH LEYLAND'S CORPORATE PLAN

Do my work to

and use to

Memorandum by the Secretary of State for Industry

understand - v.

depending.

12

12/12

1 I attach a copy of the report by the Chairman of the Interdepartmental Group on the British Leyland Corporate Plan for the consideration of the Committee. Although it is a bulky document you will find the essence of the issues to be decided in the first twenty two paragraphs.

2 I will shortly be circulating a separate paper setting out my recommendations.

Tim: ① - May I have copies of previous letters between this job & Richard Richards. I then to remember he told me he would come to job if he could not carry out the previous corporate plan. He never came. In the proposed letter we had

K J

letter about the whole record

Department of Industry
Ashdown House
123 Victoria Street

② I will speak with Mr. Utson

10 December 1980

Monday. This note tells us more than the whole document.

CONFIDENTIAL

mb.

CONFIDENTIAL

IND POL
8 January 1981

Policy Unit

PRIME MINISTER

BL

1. BACKGROUND

1.1 On 30 December you accepted Keith's proposal that the Policy Unit - and perhaps outsiders - should talk to officials about BL's future, to try to obtain a fresh view of our options.

1.2 We held a meeting with Robin Ibbs and officials from the Department of Industry and Treasury on 7 January. This note endeavours to represent their views fairly, but we take full responsibility for its contents. The whole of our discussion was confined to BL Cars.

1.3 We asked ourselves the following questions:

- (a) What are BL's prospects?
- (b) Have the costs of closure been realistically assessed? Would a further exercise involving outsiders be worthwhile?
- (c) Is there any special condition we could place upon BL (through their management) like a nominal wage cut, which would help them to succeed?
- (d) If BL receives further support, what is the best future ownership strategy? What pressures should be put on Michael Edwardes to achieve it?
- (e) If BL receives further support, for what period should there be a commitment?

2. BL's PROSPECTS

2.1 The BL Board admits there there is no commercial case for supporting the cars plan. We all agreed that, at the very best, BL is likely to be still dependent on Government guarantees in five years' time. We and the CPRS are confident that BL will also need cash during the second half of the 1980s for new model development, for which it will be unable to find risk-takers. We think the only

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source for these funds will be further cash support from Government throughout the rest of the decade. In other words, CPRS and ourselves are convinced that BL are and will remain permanent state pensioners. Treasury and DoI think there is a chance - less than 50% - that this will not be so.

3. THE CLOSURE OPTION

3.1 Against this background, should the Plan be supported? On commercial grounds, there is a unanimous view that it should not. But there are several wider considerations, none of which is overwhelming, which add up to a strong case against closure now:

- (a) BL's contribution to maintaining the component industry infrastructure that could support future Japanese investments and the expansion of Ford UK (this factor will diminish as the new investments arrive and if BL declines further).
- (b) The massive PSBR costs of closure. (These will not diminish much if we withdrew support at a later stage. We understand Geoffrey Howe does not think these costs constitute a sufficient reason for supporting the Plan.)
- (c) The political unpopularity of withdrawing support. (It seems likely that this will be a growing obstacle as the next Election approaches. We elaborate on it at Section 3.2 below. The arguments are not all one way.)
- (d) The addition to unemployment. (The cost of this is subsumed in (b) above; the politics are subsumed in (c). It is not really a separate point.)

3.2 The Political Judgment

3.2.1 The proposition that refusing to support BL further would be politically unpopular deserves more critical examination. Edwardes stands for improved industrial discipline and is able to show some results for his efforts to achieve it. The Metro is widely seen as a new and successful UK product. Withdrawing support for both would no doubt be heavily criticised by some sections of the population for these reasons. On the other hand, how many

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people resent paying taxes to continue support for BL? Do most people feel that Edwardes has succeeded on the industrial relations front, or do they still regard BL as synonymous with bad industrial relations, petty attitudes and economic unrealism? Some quick opinion research on this could be helpful. It could easily be that for every voter who would criticise us for refusing further support, there are at least two or three who would applaud it. Even in the West Midlands, where there are a number of marginal seats, many taxpayers must resent the subsidy they have paid over the last five years to BL workers.

- 3.2.2 Although the news of a further closure has an obvious negative aspect, there is also a positive one: refusing further support for BL would send a shock wave through British industry. It would reinforce -- far more than speeches ever can -- our commitment to economic realism and to companies and individuals paying their way. It would signal the end of the message for which BL acts as a beacon: that if it is big enough -- and politically embarrassing enough -- a company can count on support from Government regardless of its performance. That message is wholly damaging to our efforts to instil a sense of economic realism.
- 3.2.3 Of course the political judgment also depends on many other factors, including our intentions towards the possible liquidation of BSC -- to whose strategy the early closure of BL would deliver a severe blow.

4. COSTS OF LIQUIDATION

- 4.1 The estimates of closure costs are imperfect. But even if they could be refined -- and there is no avoiding a large measure of uncertainty -- they would not provide the answer to the closure question. In very broad terms, the cost of maintaining BL if it does badly is likely to be in the same league as the cost of closure. But the judgment rests on the wider political and economic factors.
- 4.2 DoI officials think that the balance of argument for closure could change over the next few years. For example, if the pound stayed high, Government might decide on closure in 12 months' time. CPRS thinks that once the Japanese are safely committed to the UK, the component industry will feel less

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dependent on BL. The Policy Unit feels that the political anxiety about closure will probably increase as the Election gets nearer; if we are unwilling to close now, we are unlikely to close before the next Election.

4.3 Of course a further massive deterioration would in theory oblige the BL Board to close the business. But the Policy Unit is sceptical. We note that the deterioration in BL's prospects which took place last year - leading to the eight-fold increase in the request for Government finance (a twelve-fold increase on the high pound assumption) - did not cause the BL Board to abandon hope. Already the pound is higher than the top end of BL's contingency allowance; the BMW prospect, on which much hope was pinned, has gone; and next year's financial target looks unachievable to us. Nevertheless, we all agreed that it was important for Edwardes to write an improved version of last year's public letter about the Board's intention to withdraw the Plan if things go badly.

4.4 Neither we nor Departments felt there was the case for further outside guesses about the cost of closure. The currently available estimates are summarised at Annex A. The most expensive outcome would be to support the Plan and then find that - either on the Board's or the Government's initiative - it had to be closed in a year's time.

5. FRESH CONDITIONS

5.1 We discussed the idea that a fresh condition like a nominal wage cut should be required. We found this had nothing to commend it if it was applied to BL alone, even if the management could be persuaded to impose the condition themselves. BL have been able to bring off some of the lowest increases in basic wage rates in the public sector during the last two rounds - in both cases involving substantial real cuts. Attempts at further cuts are likely to be counter-productive; they would make a very small contribution to solving BL's real problems. If the workers agreed to them, it would make it more difficult to close BL later. If they refused, it would appear that we have provoked the closure.

5.2 Productivity is much more important than reducing wages. But improving productivity is already a central feature of the BL Plan. We see no way in which a condition could reinforce the Board's existing commitment to it.

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5 3

It is for consideration whether some broader approach to limiting or even eliminating basic wage increases in loss-making nationalised industries or Government-supported funds would be possible. We suggest the CPRS are asked to think about this further, but see no case for singling out BL.

6. FUTURE OWNERSHIP

6.1 If Ministers decide to support the Plan, the best chance of success lies in getting as much foreign involvement as possible in BL's activities. Ideally, BL would enter a comprehensive relationship with another company leading eventually to a take-over. The advantages of this happening quickly are so great that we should be prepared to support Edwardes in almost any way if he sees a chance of achieving it (eg threatening import controls, offering firm commitments to the support of collaborative projects, etc). More realistically, we should strongly encourage Edwardes to seek collaborative arrangements with other companies that have the potential to develop into a more comprehensive relationship. We understand that he himself now recognises the importance of this. This is welcome news, but should be incorporated in agreed, revised terms of reference. Edwardes is apparently willing to send us a letter (privately) stressing the priority he now attaches to finding a partner. A draft of the kind of letter we have in mind is at Annex B.

6.2 We have discussed whether it would be better to oblige Edwardes to dispose of Landrover or Jaguar at an early stage. On Landrover, there is a unanimous view - endorsed by Hill Samuel - that it would be premature to attempt disposal now. A much better price could probably be obtained in a year or two. On Jaguar, the case for early disposal is that Jaguar's performance could start improving once free from BL. This view is strongly contested by DoI and BL itself, because it could weaken the prospects for collaboration and damage BL management morale. On balance, we agreed that the Jaguar issue is marginal to the main issue of the future of BL's volume cars. It is therefore probably not worth a confrontation with the BL Board over the early disposal of Jaguar when its benefits are questionable, no buyer is in prospect, and there are much more important issues

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at stake. Nevertheless, Edwardes could be told that we would need proof of the benefits of keeping Jaguar in 12 months' time.

7. COMMITMENT OF FURTHER FUNDS

7.1 If Ministers do decide to fund BL, we agreed with officials that a drip feed approach would weaken BL's attractiveness for collaborative projects. What is needed is a proviso which allows us to withdraw in extremis - preferably through the management taking the initiative - but gives fairly strong commitment for one year. The commitment to year two should be subject to review after 12 months.

8. NEXT STEPS

8.1 We think the next step is for Ministers to decide whether they are willing in principle to support BL further or whether they would prefer to face the consequences of withdrawal of support now. In the Policy Unit's view, an equally clear opportunity for ending support is unlikely to recur until after the next Election, though others disagree about this. A defensible public case could be made for this now based on: statements last year that they were being given one more chance; the massive increase in their public funding requirements; the limited progress in industrial relations; and the Board's own admission that there is not a commercial case for further support. We therefore think it should be given very serious consideration now, before massive further injections of money are made.

8.2 If Ministers are willing to face these consequences, they could decide to proceed with a refusal now. Alternatively, they could decide to negotiate with Edwardes from a position of considerable strength, asking him to have one more chance at finding a partner for the business over the next 6 months (or 12 months). Since this outcome would save a great deal of money and give at least part of BL a chance in the future, we think it is worth trying. But if Edwardes is unwilling to pursue it wholeheartedly, then we think Government should refuse further support and take the consequences.

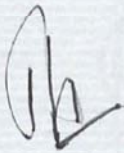
8.3 If, on the other hand, Ministers are unwilling to face closure now, our negotiating position with Edwardes is obviously far

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weaker. We still think it worth getting the best commitment we can from him to finding a partner - because this course offers the best prospect of limiting BL's further call on Government resources and maximising the chance that some of it might succeed.

8.4 The next step is for Ministers to decide whether they are willing to face the possibility of withdrawing support or not. Then we recommend that you should see Edwardes on his own and explore his willingness to accept new terms of reference. His objectives need to be brought closer into line with ours - which are to minimise the future call on public funds.

8.5 I am copying this note to Geoffrey Howe, Keith Joseph, Robin Ibbs, Sir Robert Armstrong, and those officials who attended our meeting.



JOHN HOSKYNS

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PSBR COSTS OF ALTERNATIVES FOR BL

	<u>£M CURRENT PRICES</u>					TOTAL 1981-6
	1981/2	1982/3	1983/4	1984/5	1985/6	
1. <u>SUPPORT PLAN</u>						
(a) <u>As proposed by BL</u>	620	370	100	50	---	1,140
(b) <u>Possible Variances</u>						
i. Optimistic ¹	570	175	---	---	---	745
ii. Pessimistic ²	710	445	215	180	90	1,640

The Policy Unit and CPRS believe the cost of continued support could be very substantially higher over this period and continue into the late 1980s.

2. LIQUIDATION OF BL CARS

(a) <u>Central estimates, as in Treasury sub-group report</u> ³	1,190	885	730	---	---	2,805
(b) <u>Possible variances</u>						
i. Optimistic ⁴	900	535	440	160	160	2,195
ii. Pessimistic ⁵	1,600	1,045	440	---	---	3,085

This table pulls together the estimated PSBR costs of alternative courses on a comparable basis. Line 1(a) is what BL seeks approval for. Line 2(a) is the Treasury sub-group estimate of the cost of closing BL Cars (including Jaguar) in early 1981, together with keeping Leyland Group going until a buyer is found and selling Land Rover. The other figures are illustrations of possible ranges around these central estimates, and as regards liquidation, summarise work done on the detailed effects of alternative assumptions. The variances on the cost of supporting the Plan are the arithmetical effects of alternative exchange rate assumptions, as proxy for changes of various kinds: but if things went significantly worse than BL's figures, they could in fact be expected to withdraw the Plan. The Policy Unit is sceptical, believing the Board might ask for more if they needed it.

NOTES

- Assuming effective exchange rate in 1981 7% lower than Plan as proxy for "favourable" effects.
- Assuming effective exchange rate in 1981 5% higher than Plan as proxy for "unfavourable" effects.
- Assuming buyer for Leyland Vehicles can be found during 1982.
- Assuming LVL, LR, Jaguar and parts of volume cars disposed of, and debt repayment spread over 5 years (ie to maturity of debt). No allowance made for keeping LVL going until sale.
- Assuming LR disposed of for £75m, part of LVL fails to find a buyer and has to be closed, and BL debt has to be repaid in 2 years (assuming Bank of England could use influence to prevent immediate settlement of all debts).

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DRAFT SECTION OF A LETTER FROM BL TO THE GOVERNMENT ON
COLLABORATION AND DISPOSAL

We appreciate the time you and your colleagues gave to us on 18 December, and we welcomed the frank and constructive nature of your questions. I trust that the discussion will have helped you to indentify the realistic options and to be reassured about the Board's objectivity in viewing these options.

The Board's strategy in the 1981 Corporate Plan is designed to restore the main businesses within BL to a sufficient degree of viability to enable their dependence on Government support to be removed progressively. This can be achieved more quickly and with greater certainty in the case of the profitable Land Rover and Unipart businesses than for BL Cars and the Leyland Group.

In the case of BL Cars, the Board sees collaboration with other manufacturers as a central and integral part of their strategy for recovery and for removing or reducing dependence on Government support. This might take the form of complementary collaborations on major components or particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind which might well grow out of more limited collaboration of the kind referred to. The Board would by no means exclude outright sale of the whole BL Cars business if a commercially sensible opportunity arose, though they think that most unlikely in the near future. The achievement of a wider relationship could involve the sale of equity stakes in the Land Rover and Unipart groups if appropriate, as part of an arrangement

/covering



covering also the volume cars business of BL Cars. The search for such comprehensive relationships, or major collaboration which holds out a reasonable prospect of going into a comprehensive relationship, will be a principal priority for BL over the next 12 months.

Similar considerations apply in the case of the Leyland Group. As for Land Rover, the Board regards the introduction of private equity into the business in the next two or three years as a distinct possibility; but the first priority is to see whether Land Rover can be used as part of a wider arrangement holding out prospect of eventual reduction of the Government involvement on the volume cars side.

There would obviously be constraints on how much of this could prudently be said publicly in conjunction with any approval of the Plan. But we would certainly be prepared to say that we would seek to inject private capital into appropriate sectors of the business as part of our total strategy, and we would accelerate announcement of some aspects of our reorganisation into four main businesses if this were helpful.

Department of Industry
9 January 1981

Mr Duguid

No. 1 of 6 copies ²



Prime Minister

Mr Nott's written contribution
to the forthcoming E
discussion on B.L. He is
firmly against further
funding.

6

SECRET

From the Secretary of State

PRIME MINISTER

I shall be abroad when E Committee resumes its discussion on the BL Plan; I should like therefore to elaborate on the views which I expressed when we discussed the matter before Christmas.

Whatever decision we take, we are in trouble.

If we refuse to fund the plan there will be a deluge of praise for Michael Edwardes and his achievement. It will be said that in spite of his splendid efforts the Government has pulled out the plug at the most inappropriate political and economic moment. We will be charged with the grossest insensitivity to jobs and activity.

If we agree to fund the plan, any lingering belief in the determination of this Government to support the wealth-creating private sector - and in particular the growth industries of tomorrow - will be hopelessly undermined. The financial and popular press will, I suspect, come to know at least the broad outline of the BL plan and they will tear it to pieces. Even at the end of the five year period, and on the heroic assumptions made within it, the group will only be showing a positive cash flow of £28 million following a further investment of over £1 billion. It therefore involves tying up £1 billion and more than 100,000 skilled and semi-skilled men in an enterprise which we know has no longer term future. In my view we would be ridiculed, and rightly so, since such an investment will be seen to be wholly contrary to the industrial and economic philosophy which we have been promoting for the past five years.

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SECRET

From the Secretary of State

So, is there a compromise arrangement? Something which saves us from the worst features of either course. According to Michael Edwardes, there is no sensible compromise. He was absolutely clear about it when he talked to us. He told us that the choice was either a full funding or a liquidation. If the better parts of the group are sold off, leaving purely the rump of BL cars, the management, he said, will disintegrate and the dealer network will collapse.

It is true that towards the end of the meeting he began to retreat from the stark choice of liquidation or full funding. He once again suggested that if we agreed to the plan he would, of course, make it his priority to go for collaborative projects as soon as possible. This is what he said a year ago. And where has it got us? We know of offers made to BL (for several of its parts) but almost without exception they have been rejected as being inadequate. Yet over the past year the situation of the group has continued to deteriorate and not a single one of BL's plants have been sold off to alleviate the cash drain. And central to the plan is the funding of the LC10. This is what the government will be agreeing to. Look at the figures; they don't begin to make sense.

At some point in time the Government is going to have to grasp the nettle of BL and take a gamble. Are we not better to take it three years before an election rather than be landed with the problem in say two years' time? And what are the grounds for believing that the maximum degree of profitable employment will be preserved in a situation where BL remains as one group under Michael Edwardes, rather than a collection of some

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From the Secretary of State

separate plants in different ownership? And what is likely to bring about the optimum result, effective receivership or a centrally directed break up under ultimate political and DoI direction?

Is the reality of a liquidation quite as bleak as suggested?

If there was a clear decision by the Government not to fund the plan, but it was equally clear that the Government had accepted the responsibility to meet all the liabilities of BL, I think it is highly probable, contrary to what Michael Edwardes said, that there would be entrepreneurs - perhaps not yet in the motor car industry - seeking to pick up the pieces. Why should they not do so? They would acquire large assets for a nominal sum, and, apart from the investment of new working capital, they would be on a gamble with a limited downside risk, without responsibility for the accumulated debts. Is it really suggested that some businessmen will not come forward to run the newest and most modern assembly line in the world at Longbridge in which more than £200 million has been invested? Is it suggested that someone will not invest some working capital in Leyland Vehicles, whose fixed assets must be worth a considerable sum, taking the risk of whether they can turn it around? We know that John Brown has already made such an offer. We know that there have been several offers for Coventry Climax. We heard last week that Abell, the Managing Director of Leyland Vehicles, will himself take over Prestcold. We know that BMW is a possible for Landrover. We know that Ford are interested in selling Jaguar through their distributorships. We know that Honda is already involved in Cowley. With a moderate expenditure of working capital, and release from accumulated

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From the Secretary of State

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debt, their downside risk would be limited.

Michael Edwardes agreed that it would be possible to negotiate what he called "management contracts" but in practice they would be much different to that, so far as the Government was concerned. The "managers" would have the power of closure; they would subscribe working capital; they would have to decide for themselves whether to invest capital in new models or not; it might be hoped that they would acquire responsibility for liquidating outstanding creditors and debtors.

What of the liquidation costs?

In effect whether we fund the plan or allow the group to go into liquidation we are left holding the bills. If a strike or a rise in the pound forces liquidation in two years time we would be subject to two sets of costs instead of one. I understand that of the total liquidation costs approximately £400 million relate to net trade creditors. It seems to me that a proportion of these debts might reasonably be passed to those who would pick up the separate pieces in receivership. If not these debts are a cost to the Government. Another part of the liquidation cost (£930 million over three years) is said to be the impact on the PSBR of lower revenue as a result of closures but, as I have said above, I believe that much of this lost revenue might be avoided - as indeed might be the social costs - through people coming in to acquire the separate plants. Another major cost is the balance of present debt outstanding (about £900 million). In practice this debt would not necessarily need to be repaid but might be rolled over in the form of

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From the Secretary of State

government stock in return. This would be a PSBR cost and might add marginally to interest rates; but the impact on the gilt market of a "no" to the BL plan might be far more favourable than any adverse consequences from an extra £900 million of gilts.

Much of the £3 billion estimated cost therefore is not a public expenditure cost but a PSBR cost and if many parts were picked up in receivership, a substantial proportion of this so-called "cost" would be saved. In the last resort everything depends on the preservation of the maximum amount of profitable employment. Nowhere is it clear that an agreement to fund the plan will preserve a single extra job in the medium term that liquidation may not itself preserve.

Finally, there is the question of the attitude of the Board. If we say "no money" and that immediately leads to the resignation of the Board, we are of course in deep trouble, but Michael Edwardes came close to saying that this would not be the position of the Board. I believe that he hinted that the Board would see it as their duty to remain and start the process of an orderly liquidation.

So the question is this. Will we preserve more political credibility and save more jobs by funding the BL plan, or by letting events run their course. Obviously the correct commercial decision is to say "no". There is no future for BL as presently constituted; the Board do not pretend it. The funding of the LC10 is a damage limitation exercise, not a commercial project. The claim that it is less "expensive" to keep it going than to liquidate, seems to me to be based on a whole series of questionable assertions. Much of the estimated

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From the Secretary of State

PSBR cost is lost revenue from less activity - but this is a rather new way of assessing economic costs. It is a reason for keeping every downbeat business in being, and who is to say that the redundant will not find jobs? Who is to say that they will not lose their jobs, even if we fund the plan? Who is to say that the "cost" of committing all these resources in men and money in a wholly uncommercial activity is not greater than freeing £1 billion for more profitable activity elsewhere. It is a classic "crowding out" scenario. So it comes down to the simple problem, can the government take the political risk of saying "no"? I think we can. Until someone shows that BL, as presently constituted, can survive and prosper (and the Board is suggesting no such thing in the BL Plan) we would be better to let events take their natural course - and save as much profitable employment as possible in receivership.

SW
J. N.

Department of Trade
4 January 1981

SECRET

cc: MR. HOSKYNS
CONFIDENTIAL

30 December, 1980

The Prime Minister has seen your Secretary of State's minute of 23 December about BL. She agrees, if he wishes, that your officials should get together with John Hoskyns to discuss the consequences of not funding the BL plan.

The Prime Minister has also agreed to meet Sir Keith to discuss the outcome of this further work, and we have arranged this for 12 January.

T. P. LANKESTER

I Ellison, Esq
Department of Industry

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98

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to Mr Hoskyns

A Duguid

Prime Minister

*If Sri Kaita
wishes on such
a meeting, I don't
think any harm will
be done.*

PRIME MINISTER

Agreed

BL

I still think that, in order to enable us to consider fully
the options in connection with BL, civil servants here would
be helped by the cooperation of John Hoskyns - and any people
he wished to bring in - in assessing some of the difficult
intangibles that should be taken into account if we do not
provide the funds requested.

*DL
23/12*

If you agree, perhaps your office would let my office know
so that the officials here could get in touch with John
Hoskyns.

KJ

K J
23 December 1980

Department of Industry
Ashdown House
123 Victoria Street
London SW1

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SECRET



10 DOWNING STREET

From the Private Secretary

22 December 1980

Ind Pcl
cc HMT JS
CO 5
HW
cc. A. Duguid.

Dear Ian.

At the meeting on nationalised industries this afternoon, Sir Keith raised briefly the question of British Leyland. He suggested that his officials should get together with Robin Ibbs and John Hoskyns to look in detail at the employment and PSBR implications of the liquidation option proposed by the Secretary of State for Trade. The Prime Minister said that she did not see this option as a starter, and therefore she did not believe such a meeting would be worth while. She was, however, most concerned to ensure that Sir Michael Edwardes carried out the Government's chosen strategy for BL including, in particular, the need to look for potential purchasers of different parts of the business as vigorously as possible; she might well wish to see Sir Michael personally to bring home this point.

I am sending copies of this letter to John Wiggins (HM Treasury) and David Wright (Cabinet Office).

~ ~

T. L. L.

Ian Ellison, Esq.,
Department of Industry.

SECRET

JS

JU

*Corporate Plan
in Separate Folder.*

CONFIDENTIAL



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

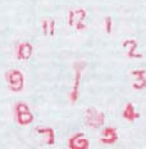
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ *Secretary of State for Industry*

22 December 1980

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

22 DEC 1980



Dear Tim

BL CORPORATE PLAN

... I enclose as requested a copy of the BL Corporate Plan
(copy No 16), including the summary and the six
individual volumes.

Yours ever
Catherine Bell
CATHERINE BELL
Private Secretary

JFF

CONFIDENTIAL.

OF PC

Ind 857



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

16 December 1980

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

~~Diana Walker~~

Useless!

Dear Tim

... I attach a note on the projected profit-ability of BL's two model ranges in the period covered by the Corporate Plan.

Yours ever

Richard Riley

RICHARD RILEY
Private Secretary

ENCL

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COMMERCIAL IN CONFIDENCE



BL CARS' PROFITABILITY

1. During the period covered by the new BL Plan, BL intend to reduce the number of their car models to two - a small car family (Mini and Metro) and a medium car family (the LC10 range due to be introduced in Spring 1983). Other models will be phased out.

2. Mini and Metro combined are expected to generate profits of £70m (at 1980 prices) over the period 1981-88.

3. The LC10 hatchback (first model in the LC10 range) is expected to generate profits of £90m (at 1980 prices) over the period 1983-91.

Vehicle Division
Department of Industry
16 December 1980

SECRET

16 December 1980

Policy Unit

3

PRIME MINISTER

5-52

~~no contact~~

Original returned.

BL

1. We do not believe the BL Plan is at all likely to succeed without an eventual merger with a stronger company. BL is too small to achieve the necessary economies of scale in production; engineering and design; and marketing and distribution. It is too weak to do it by piecemeal collaboration with different partners. On 7 December 1979, Sir Kenneth Berrill minuted you as follows:

"It is our view that BL is already well into a vicious circle of decline and will not become viable as an independent volume car producer. Any solution to relieve Governments from large and open-ended financial commitments will have to be far more radical than the proposals in the Edwardes Plan. Longer term, BL will either have to be broken up and sold piecemeal, or sold complete as a package if a buyer can be found. Sale complete is much the better alternative, but as time goes on, the number of possible purchasers will diminish."

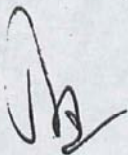
2. If BL was in private hands it would, of course, have been liquidated long ago. Some parts would probably have survived and by now become more profitable. This is still the only commercial solution. But we do not think it is politically feasible to liquidate BL now.
3. If you accept this analysis, it must follow that the sooner BL can find a strong partner, the better. We do not think it is at all feasible to plan, as paragraph 2(a) of Keith's paper suggests, on the basis that BL will be restored to sufficient health for this to happen in the mid-1980s. By then, the few remaining manufacturers will have found other partners and better means of entry to the UK market. And if BL has declined even further, it will be a still less attractive partner. There is a high probability that the Plan's cost will escalate.
4. Everything points to funding the Plan but telling Edwardes privately that as owners, we want him to give top priority to finding a strong partner - with at least the potential to become a substantial shareholder in BL - during the next twelve months. There are signs that Edwardes himself has now recognised the importance of this. (He has

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just turned down limited collaboration with one company because they would not help sell Metro in Europe.) But he has not been consistent about it. What amounts to a change in his terms of reference should be recorded through an exchange of letters or a meeting with him, leaving him plenty of discretion about how to achieve a merger. It may need to be step-by-step. It should be made explicit that he should not rule out an outright sale if that could be achieved. (At various times during the past twelve months, Ministers have appeared to recognise this as the right solution. But although Keith himself said at your meeting on 20 February that an outright sale would be the best outcome, this never seems to have been made explicit to Edwardes.) The exchange of letters should also make it clear that we are willing to help achieve this - including threatening import controls if Edwardes thinks this would help to land a Japanese partner. Acceptance of those terms of reference should be a condition of further support. His standing and personality make him uniquely suited to this task, provided he accepts it.

5. Ideally, this new partner would be found in time to modify the plan for a largely go-it-alone medium car. This may be only a remote possibility. In any event, a strong partner is unlikely to mean that supporting BL will cost less than the latest Plan. But it would improve the chances that BL's cost to the taxpayer will not continue to escalate - and that at least something viable emerges at the end.
6. If we are really serious about pursuing the merger option, then we think it would be premature to force disposal of Landrover or Jaguar on BL now. Either could be useful "bait" in finding a partner. But Edwardes should be warned that we shall favour partial disposal if he has not succeeded in finding a partner within twelve months.
7. I am copying this minute to Geoffrey Howe, Keith Joseph, Jim Prior, John Nott, Robin Ibbs and Sir Robert Armstrong.



JOHN HOSKYNs

~~SECRET~~
2

Pamin Minitoh

Don't want to mention LM10 at summit

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Qa 05138

Min. in by up to board us. Otherwise - yes. no

① I think you can accept Sir Keith's proposals, subject to the Chairman's views. Agree?

To: MR LANKESTER

From: J R IBBS

② See also Jim Hoxley's comment at Flay B:

Yes - but I doubt - would you like me to write it - could write BL Corporate Development a deal with the Japanese on the lines suggested?

Flay A

1. I support the Secretary of State for Industry's proposal in his minute of 22 September asking the Prime Minister to agree to two points:

(i) that he should tell Michael Edwardes that it is acceptable for BL to prepare suitable Corporate Plans for the four businesses: Cars, Land Rover, Commercial Vehicles, and Parts; and in addition that he should provide a covering paper drawing these Plans together;

(ii) that no decision on the LM10 programme should be taken until the four Corporate Plans and overview paper have been considered and not within the next three weeks as proposed by Michael Edwardes.

2. I also support the Secretary of State's suggestion that, in her speech to the SMMT Dinner, the Prime Minister should avoid giving any commitment whatsoever in relation to the LM10 programme.

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

JRI

26 September 1980

CONFIDENTIAL

Mr Lancaster

26 September 1980

Policy Unit

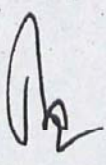
Ind. P.A.

PRIME MINISTER

BL

We agree with Keith's proposals to accept the next BL Plan in four parts, and not to approve the new medium car programme until they arrive. We have only two comments:

- (a) As we have always expected, the Plan will present us with a difficult choice between the massive cost of further funding and the even more massive cost of break-up. We are concerned that BL - and the DoI - will be reluctant to explore ways out of this box which would submerge them within a larger foreign-owned group. We know that it would be very difficult to find a partner at the moment. We think that the key may be to threaten the Japanese companies with import controls unless they were prepared to establish themselves in the UK on a much bigger scale. It might even be necessary to impose the import controls first. This would require very determined action by Government, but it might avert pouring another £1bn, £2bn or even £3bn down the throat of a doomed company in the pursuit of "viability", and getting very little in return. We think DoI should be told to seriously consider whether there is any prospect of striking a deal with the Japanese.
- (b) The demands of BSC and BS losses threaten to absorb far too much of the funds available for profitable investment in the Nationalised Industries. If we are to avoid this, we are going to have to take very tough decisions on BSC and BS in the next few months - involving large closures. Our attitude to BL will have to be seen against that background. This only strengthens the case for showing that we are prepared to take bold steps to give BL a real future - in partnership with others.


JOHN HOSKYNS

Ind RDEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RBTELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676PS/ *Secretary of State for Industry*

23 September 1980

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

BL CORPORATE DEVELOPMENT

My Secretary of State minuted the Prime Minister on the above subject on 22 September 1980.

2. I regret that one line of type was omitted from the first page of my Secretary of State's minute and accordingly I attach a corrected version. I should be grateful if you could substitute this for the first page of the original. *Done TCR 24.9.80*

3. I am copying this to the Private Secretary to the Chancellor of the Exchequer, the Secretary of State for Employment and Sir Robert Armstrong and to John Hoskins and Robin Ibbs.

*Yours ever,
Pete.*PETER STREDDER
Private Secretary

ENCL

*bit in square penit brackets
was omitted.*



cc Hoskyns

PRIME MINISTER

BL CORPORATE DEVELOPMENT

... In my minute to you of 6 August about BL, I said that I would write to you again when BL had been able to provide me with further details, including costings, of their proposal to divide their present business into four major companies. I attach a letter sent to me by Michael Edwardes on 11 September. This raises major issues of Government funding, and has implications for the whole future of BL volume car production over the coming years. I do not think that Michael Edwardes would expect me to comment substantively on these issues before he has presented the BL Corporate Plan for 1981 in October.

2. You will see that the figures involved in supporting BL Cars and BL Commercial Vehicles beyond the current financial year are potentially very large - a total of £800 million over the next four years. Michael Edwardes foresees new Government equity of £300 million for Cars and £50 million for Commercial Vehicles in 1981, £200 million for Cars and £50 million for Commercial Vehicles in 1982, and £100 million in each of the next two years for Cars. We must consider the options very carefully before we decide whether we are prepared to fund BL Cars next year and beyond. If we decide to support the Corporate Plan we shall face funding next year of at least an additional £275 million (this is the BL figure of £350 million less the £75 million which was included

/in.....



in our public expenditure White Paper (Cmnd 7841) - say £250 million at 1980 Survey prices). But, as the work of officials demonstrated, in the short term at least a more drastic rundown at BL Cars could well add still larger sums to public expenditure and the PSBR. Clearly, before we come to a decision on these very complex issues we need to clarify the options and their financial and other consequences so that we can act speedily when we get the Corporate Plan. I am arranging for the Interdepartmental Group of Officials which has previously examined BL's affairs to look into the options as a matter of urgency.

3 There are, however, two points on which we must form at least an initial view in advance of the Corporate Plan. The first is the proposition that BL should submit four separate Corporate Plans instead of one, in recognition of the fact that BL Cars, BL Commercial Vehicles, Land Rover and Unipart, although reporting to the BL Board, would have a separate managerial and financial identity. In my view this would in no way prejudice our decisions on the future of BL, and would have a desirable effect on the prospects for privatising the more saleable parts of BL (Land Rover and Unipart). If you and Geoffrey Howe agree, I propose to tell Michael Edwardes of my provisional agreement that his Board should plan on the basis of four businesses, but that we shall not take a final decision until we have seen the Corporate Plans and can assess the consequences, and in particular the potential effect on Government funding, of separating BL in this way. I also propose to tell him that it would be helpful if BL were to submit with the Plans a covering paper pulling them



all together, so that the implications for the BL Group as a whole were plain. I think it would be best, particularly in view of the likely impact of any publicity on BL's forthcoming pay round and on their collaboration prospects, if both we and BL were to maintain confidentiality about this, as Michael Edwardes suggests.

4 The main development in BL's thinking, which has been influenced by their financial advisers, since my talk with Michael Edwardes before the recess, is that a majority of shares in Land Rover and Unipart would probably be floated in 1982 instead of 1981. As you will recall, Michael Edwardes' earlier view was that some £200 million might be generated from the floating of Land Rover and Unipart. However, it now seems that it would involve disposing of shares at a discount and the repayment of loan stocks at par, with consequent refinancing of debt at higher interest rates. We must obviously ask BL for their latest estimate of the proceeds of a flotation. However, I think that this idea has great intrinsic merit, although it seems likely that it would make a smaller net contribution to the easing of public sector financing problems than I had hoped.

5 The other point on which we need to form an initial view in advance of the Corporate Plan concerns the LC10 (BL's project for a new medium-sized car). Funds to keep this project going pending a firm decision to proceed were authorized last July. As foreshadowed in his letter, Michael Edwardes has now written to me pressing for an early Government decision on Phase 1 of the LC10 programme

/ now ...



...
No
- now redesignated LM10 - (costing £108 million) which BL have just submitted to this Department. A copy of his letter of 12 September is attached. He suggests that you might announce Government approval of the project during your speech at the SMMT Dinner in Birmingham on 16 October. The LM10 programme is, of course, the cornerstone of BL's recovery plans for the Cars Division, and substantial further investment in the LM10 family of cars would be required in due course. I do not see how we could consider it in isolation from and in advance of BL's 1981 Corporate Plan which we shall not receive until next month. I therefore propose to tell Michael Edwardes that I shall not be able to agree to the timing he proposes. However, I take his point that it could be positively damaging to BL's dealership network if you did not say something in your speech about the LM10. This could be on the lines that the Government had received the LM10 programme which had recently been approved by the BL Board. The Government fully understood how critical this was to BL's recovery plans. Funds had been provided to keep the project going, so that no time was being lost while the Government examined the funding implications. A decision would be reached as soon as possible in the context of the Government's consideration of BL's 1981 Corporate Plan, of which LM10 was a part.

6 I should welcome your comments and those of Geoffrey Howe at this stage on this and on the four Corporate Plans issue.

/7 ...



7 I am copying this minute to Geoffrey Howe, Jim Prior,
John Hoskyns, Robin Ibbs and to Sir Robert Armstrong.

KJ

K J

22 September 1980

Department of Industry
Ashdown House
123 Victoria Street

TELEPHONE
01-486 6400

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDS

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

12 Sep 1980

Dear Secretary of State,

LC10 PROGRAMME

As you know, the Board approved Phase 1 of the LC10 Programme at its 9 September meeting, and the Programme is being forwarded to your Department and the NEB through the usual channels for approval. I am taking the additional step of sending you a copy of the full Programme and writing to you direct because the Board is determined that you should be fully aware of the value of early Government approval for this Programme.

The LC10 family will provide considerably higher profit margins for BL Cars than will Metro; this is inevitable when the market as a whole traditionally permits higher margins to be earned on medium cars than on small cars. In addition, we have felt the effect of an out-dated product range more severely in the medium car sector than on small cars because the Mini has held on to its market base more effectively than have the Allegro and Marina. Consequently, there is no doubt that, if we were starting again at the time of the Ryder Report, we would have decided to proceed with LC10 before Metro. It follows that we must await the impact of LC10 launch before we can really judge the fundamental viability of BL Cars; and we cannot afford any avoidable delay in proceeding towards that launch.

/...

The Rt Hon Sir Keith Joseph, Bt

12 Sep 1980

For the same reasons LC10 is vitally important to our dealers. The squeeze on volumes and margins this year is almost certainly causing most of our dealers to operate at a substantial trading loss. Announcement of our half-year results today will certainly cause nervousness throughout the whole dealer network and may cause many of them to consider whether loyalty to BL Cars is now too great a commercial risk. Fortunately, the launch of Metro will tend to offset this, by giving their morale a major boost, but it will not solve their margin problem. It will also prompt the raising of further questions about whether LC10 is really going to happen.

As a company, we are doing all we can to prevent further erosion of our dealer network. In addition, therefore, to announcing today that the Board has approved the first phase of the Programme and is submitting it to the Government, we see an overriding need to make a positive statement about LC10 in mid-October, when the launch of the Metro and the Motor Show will combine to focus the spotlight on our product development plans. If we were compelled to duck questions about LC10 at that time, the Metro launch could be undermined in a way which would be irreparable even by the strongest statements of support a month later.

An additional complication is the Prime Minister's visit to the Motor Show and her major speech at the SMMT Dinner on 16 October. In our view, this presents both a great risk and a great opportunity. It would be an enormous boost to confidence, and thus market share and cash flow, not only amongst our dealers but in our key suppliers, our managers, our bankers and our potential collaborators, if she were able to announce Government approval of LC10 on that occasion. But if the PM declines to answer the major question as to whether LC10 is to go ahead, this would be especially damaging to us. Frankly, if the latter

/...

The Rt Hon Sir Keith Joseph, Bt

12 Sep 1980

|| approach were inevitable, we would advise strongly that she should reconsider her visit. There is a great deal at stake and especially so for the Midlands which is to be the venue for the SMMT Dinner.

X | It will, of course, be argued that approval of the LC10 Programme implies approval of the BL Cars Plan as a whole, or at least of the principle that further funding for BL Cars will be provided. In submitting the LC10 Programme for approval in advance of the Corporate Plans, the BL Board itself has not subscribed to this view, for the following main reasons. First, the investment of £108m required for LC10 accounts for only a small proportion of the total funds requested. Secondly, it is the norm rather than the exception to approve investment programmes between the annual Corporate Plans rather than simultaneously. Thirdly, an immediate start must be made on the major product and facility developments required to keep LC10 launch on schedule, and it would be less than honest to continue solely on the basis of long-lead funds when we are moving into the main part of the Programme.

For all these reasons the Board urges you to press ahead with early consideration of the LC10 Programme, in the hope that you will announce the Government's decision in the first week of the Motor Show - indeed, if the Prime Minister were prepared to do so at the SMMT Dinner, this would do more to secure the future of the motor industry than anything else I can think of in the short term.

Yours sincerely,
Michael Swain.

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35-38 PORTMAN SQUARE

TELETYPE
01-400000
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FROM SIR MICHAEL EDWARDES

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

11 September 1980

Dear Secretary of State,

BL CORPORATE DEVELOPMENT

At our meeting on the 31st July, I outlined a proposal to divide our present business into four major companies which, although reporting to the BL Board, would have separate managerial and financial identities. Subject to your agreement we would then submit four separate Corporate Plans in place of one. I explained that, although the proposal would provide the option to release funds by enabling two of the four companies (Land Rover and Unipart) to be floated, it would also have the effect of highlighting the heavy funding requirements of the remainder of BL Cars. You therefore asked me for a broad indication of what these requirements were likely to be to help you to understand fully the implications of our approach.

We agreed that we would provide this broad indication in the context of financial and manpower profiles of the four new companies which would approximate as closely as possible (at this early stage in our Plan development) to the four Plans which we expect to submit to you in October. These profiles have been considered by the BL Board which believes that they indicate the likely general shape of the four businesses, and I therefore enclose the profiles, together with summary sheets drawing out the implications for funding and manpower. These tables largely speak for themselves, but the Board wishes to draw the following points to the Government's attention -

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1. Status of Profiles

The Board is not yet due to consider, let alone approve, the detailed Corporate Plans for the four companies. Although the profiles represent our best estimate of the overall shape of these plans at the present time, the Board could well make substantial changes following their review of the Corporate Plans. In particular, the Board would want to review the whole future of BL Cars if (contrary to our firm expectations) the Metro launch were a failure or if there were a major disruption of production in the course of BL Cars' forthcoming round of pay negotiations. The Board also has reservations about the profile for Leyland Commercial Vehicles, particularly with regard to the adequacy of the rate of return envisaged for the medium term, but will have resolved these issues before the plan is submitted.

2. Timing of Decisions

Nevertheless the profiles will provide useful background to enable the Government to prepare for the taking of early decisions on the four Corporate Plans when they are formally submitted, thus avoiding too long a period of confidence-sapping uncertainty. I am writing to you separately about the particular need for an early decision on Phase 1 of the LC10 Programme which has now been approved by the Board.

3. Economic Assumptions

The profiles assume a major task for the Government - to provide a climate in which the rapid deterioration in the UK's economic competitiveness (which has been so damaging to our manufacturing industry over the last year) can be arrested. In our discussions with your officials, there has been no substantial disagreement with our economic assumptions. But if in the event these are not borne out, or if there is no effective restraint of foreign competition exploiting unfair trading advantages, the Board will see little prospect of success in holding the UK motor industry together.

CONFIDENTIAL

- 3 -

COMMERCIAL IN CONFIDENCE

4. Internal Objectives

The external climate is one matter; what we have to achieve internally is another. Our internal task is formidable, particularly for BL Cars. We need to attain a cost structure fully competitive with our European rivals within the next five years despite our relatively smaller scale of production. This requires ruthless switches of component sourcing where suppliers will not keep their costs (particularly wage costs) down; a further 40% reduction in BL Cars fixed costs (at constant prices) made up principally of severe staff reductions; further reductions in manpower bringing BL Cars manpower, by the end of 1984, to only 50% of its level when the present Board took over at the end of 1977; holding pay increases to single figures for the third successive year (we have decided to limit wage increases in both BL Cars and Leyland Vehicles to a figure of the order of 7% in the next round); and further rationalisation of product programmes and facilities, including for example, examination of such possibilities as the ultimate disposal (or use for contract assembly) of the Rover plant at Solihull and the closure of major facilities in Leyland Vehicles.

There are two major risks that we shall not achieve our internal objectives. Firstly, the business may not be able to stand the required degree of further "surgery"; and secondly, Metro, LCI0, Bounty and other products may not be successful. But the Board's view is that we have no alternative but to take these risks; to attempt less would mean perpetuating a cash drain which would make the even greater upheaval of total closure inevitable.

5. Contingency Planning

We have deliberately not waited for Government decisions on the 1981 Plans before taking many of the actions envisaged in the profiles, such as the staff cuts in BL Cars, the further work on product and facility rationalisation and the preparatory work for the division into four companies. This is not because the Board seeks to pre-empt any Government decisions; nor is it to avoid cash calls on Government beyond the £300 million agreed this year, though we still hope to do so, despite the fact that these measures will increase our cash outflow in the short term because of redundancy and closure costs.

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Rather it is that these actions are consistent with the contingency planning envisaged in the Grenside Report and will be beneficial whatever the ultimate fate of BL Cars. They are essential to give the business a prospect, however uncertain, of ultimate viability. Equally, they will contribute to alleviating the pain of any subsequent decision to close the business. For example, redundancies and plant closures would have to happen anyway if BL Cars were to disappear; continuing investment programmes give a chance of setting up some parts of the business, such as Metro, for sale; and the four-company division helps to insulate the other three businesses from the fate of BL Cars. We considered the additional possibility of extracting Jaguar as a separate company from BL Cars, already having separated it organisationally as far as is practicable. But this would have endangered the survival of our dealer network, and Jaguar is in any case a loss-maker at present, with a largely new management team. Given time, the managerial separation of Jaguar which we have now effected should provide the basis for a return to viability, thus making it possible for Jaguar ultimately to stand alone if circumstances require this.

6. Flotation of Land Rover and Unipart

You will see from the profiles that these two businesses can be free-standing financially (with Land Rover being able to meet its modest initial cash needs through external borrowings on commercial terms). Our initial feasibility studies indicate that flotation of shares in the two companies should be feasible, provided that a number of technical problems can be overcome. 1982 appears to be a more practical objective for flotation than 1981, because this would provide the time to solve these technical problems. In particular, it is necessary to ensure that no needless tax liabilities are incurred and that financial data suitable for Stock Exchange purposes can be prepared. The Board must make it clear that flotation has serious commercial disadvantages. It would involve disposing of shares at a substantial discount off asset values (compared with selling control to a single bidder), and conversely it would almost certainly require the repayment of BL's existing loan stocks at par (because of the conditions attached to the relevant Trust Deeds) compared with the substantial discount at which they stand in the market today.

CONFIDENTIAL

- 5 -

COMMERCIAL IN CONFIDENCE

We would need to be sure that we could re-finance our long-term debt from the private sector, and the re-financing would in all probability be at higher interest rates than are presently paid on the loans which would fall to be redeemed. But on this basis, flotation of 60% of Land Rover and 60% of Unipart is a major option, if the priority is to reduce our cash requirements.

We have of course considered whether we could float the entirety of Land Rover and Unipart. As regards Unipart, its close and complex relationship with the Cars business requires continuation of management control for the foreseeable future, and a 40% BL shareholding is the minimum needed to ensure this. For Land Rover, retention of management control for the time being would be desirable for similar reasons, but even more important is the need for more time to strengthen Land Rover organisation and complete its expansion programme before leaving the company to stand entirely on its own feet. Moreover it features importantly in our collaborative discussions with our German partners. However, the possibility of floating the remainder of Land Rover would be reviewed regularly in the light of progress on these matters.

7. Leyland Commercial Vehicles

The attached profile of this business is included as background information at this stage, recognising that we still have major decisions to take on our Commercial Vehicle strategy before we submit the Plan for this business to you in October. The Board considers that we must either find a partner for Leyland Vehicles in a major collaborative agreement or reduce the business to a size at which it can stand alone on a commercially viable basis. The 1981 Plan will reflect the conclusions which we expect to reach at our October Board on this strategic choice. However, irrespective of this decision, it is clear that Alvis and Coventry Climax are not essential elements of the business and should in any event be sold. The current profile assumes that we are successful in finding buyers over the next two to three years.

8. BL Cars

Despite the drastic actions we are already taking, the combination of recession, inflation and the high pound means that we cannot bring this business back into trading profit

CONFIDENTIAL

- 6 -

COMMERCIAL IN CONFIDENCE

before 1983. Given the performance of most other car manufacturers around the world outside Japan and the financial assistance being made available by Governments in the United States and Europe, the Board believes these results are the best that can reasonably be expected. On the basis of a competitive cost structure, BL Cars will then have the prospect of earning a modest profit and securing a positive cash flow in the longer term. In the Board's view, there will inevitably be a substantial risk of not achieving these objectives. An unsuccessful launch of Metro would in particular undermine the dealer network which is already under severe strain. In that event there would be no point in investing further funds. The funding implications of supporting BL Cars are substantial - £300m in 1981, £200m in 1982 and £100m in each of 1983 and 1984.

Clearly, as the Board said to you when you were considering the 1980 Plan, BL Cars is not a commercial proposition, and the Board would not recommend an ordinary shareholder to invest in it. But the Board believes that the Government will wish to view this issue in a broader context; and the Board wishes to draw the Government's attention to the fact that the profile for BL Cars indicates the possibility of a viable business in five years' time and thus the chance of saving employment within BL and its suppliers. At this particular time we have the opportunity to build on such possible developments as the improvement in our industrial relations, the reforms of working practices in BL, the new facilities at Longbridge and, above all, the launch of the Metro. Moreover, to close BL Cars now would jeopardise the chances of successfully detaching the other three businesses as we now propose. We recognise nevertheless that this is essentially a decision for the Government to take.

9. Longer-term Assurances for BL Cars

If the Government decides to support BL Cars, that support must be clear and unambiguous. To limit agreement to short-term funding could be counter-productive because it would simply fuel speculation about BL Cars' future and drive away dealers and customers as well as key senior managers within the company. This has been the pattern of recent years. The division into four companies will make it all the more necessary to ensure that there is no doubt about our intention

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to see BL Cars through the recession, by which time further big investment programmes, such as LC10 and the lightweight Jaguar, will be coming to fruition. The Board consider it essential that funding for BL Cars should be accompanied by an assurance that the Government intend to fund the first three years of the Plan, provided that the Metro is a success and that cash flow targets are met each year. In addition, BL Cars will need sufficient assurance of the Government's willingness to stand behind its obligations in order to raise substantial further borrowings from the private sector; this will of course contribute to limiting the direct call on Government funding.

I should emphasise that the advantage of our proposed division into four companies is that the three-year funding assurance, and perhaps also any specific guarantees, can be confined to BL Cars; but a three-year funding assurance cannot be avoided if we are to give BL Cars a fair chance of long-term survival by bolstering confidence amongst its managers and employees, dealers, customers, bankers, components' suppliers and potential collaborators. It may be argued that a three-year funding commitment will, by the same token, appear to guarantee the jobs of the workforce and thus release the discipline we have successfully applied in that quarter. We do not believe this to be so. We can meet this problem by pointing to the proviso that we must achieve our Plan, which assumes a 50% increase in productivity and reasonable continuity of production. Moreover, the essential difference between our present position and that prevailing in the years immediately following the Ryder Report is that our credibility with trade unions and workforce is high - they are in no doubt that we are prepared to go through with major closures and redundancies and if necessary with the total closure of the Cars business.

10. Collaboration

The profiles prudently refrain from making specific assumptions about collaborative deals. However, collaboration will be necessary in certain cases to achieve sales volumes or provide engineering resources which we would have difficulty in achieving or providing on our own. Beyond this, collaboration provides an opportunity to perform better than our current projections. But it would be misleading to suggest that it can necessarily offer major investment savings.

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I shall of course be ready to discuss with you the present status of our various negotiations with other manufacturers either before or after the formal submission of our Corporate Plans. In particular our talks with our German partners are going well.

11. Net Overall Funding Requirements

The Board recognises that the requirement for further funds will be unwelcome but trusts that the Government will consider BL's problems in the wider context both of the motor industry recession throughout the Western world and of the financial assistance which is being, or has been, developed by several Governments to see their motor manufacturers through similar difficulties.

The development of four separate Corporate Plans will of course involve many staff within the Company, and the risk of leaks will increase as we proceed. We hope that we can maintain confidentiality until you are ready to make an announcement in Parliament, particularly as a premature release could damage our collaboration prospects. But for this reason it is important that we should not be caught out, and it would be helpful if we could agree at staff level on our response to any leaks.

We shall of course be ready to elaborate on the issues raised in this letter, both in our Corporate Plan documents and in the ensuing discussions.

Yours sincerely,
Richard S. ...

BL CAISS "PROFILE" 1980 - 1987

Attachment 1

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
	£ Mil's	£ Mil's	£ Mil's	£ Mil's	£ Mil's	£ Mil's	£ Mil's	£ Mil's
PBIT	(233)	(145)	(60)	30	30	100	110	120
Working Capital	90	(30)	(40)	(45)	(15)	(40)	(25)	(25)
Operating Cashflow	(143)	(175)	(100)	(15)	15	60	85	95
Net Capital Cashflow	(90)	(95)	(95)	(70)	(40)	(75)	(25)	-
Total Trading Cashflow	(233)	(270)	(195)	(85)	(25)	(15)	60	95
Interest	(48)	(65)	(65)	(70)	(70)	(75)	(85)	(85)
Extraordinary and Exceptional Items	(78)	(75)	(50)	(10)	(10)	(20)	-	-
Tax etc.	(1)	(2)	(2)	(2)	(5)	(5)	(5)	(5)
Total Cashflow	(360)	(412)	(312)	(167)	(110)	(115)	(30)	5
Assets Employed	610	710	840	950	1000	1105	1155	1180
Equity Existing	180	180	180	180	180	180	180	180
- New	-	300	500	600	700	700	700	700
- Movement in Reserves	-	(312)	(494)	(551)	(611)	(621)	(601)	(571)
Total Equity	180	168	186	229	269	259	279	309
Debt	430	542	654	721	731	846	876	871
Total Funding	610	710	840	950	1000	1105	1155	1180
Debt:Equity	70:30	76:24	78:22	76:24	73:27	76:24	76:24	74:2
Revenue	1450	1650	2000	2490	2600	2800	3100	3400
Volume (000)	450	440	480	540	530	560	560	560
Manpower (000)	77	68	65	62	60	58	58	59
Return on Sales Revenue - %	(16)	(9)	(3)	1	1	3	3	4
Return on Assets Employed - %	(38)	(22)	(8)	3	3	9	10	10
PBIT - £Mils	(281)	(210)	(125)	(40)	(40)	25	25	35
Asset Turn (times)	2.3	2.3	2.4	2.6	2.6	2.6	2.8	2.9
Fixed Costs (at 1980 prices) - £Mils	640	490	430	415	400	385	395	400
- % of revenue	(42)	(31)	(26)	(22)	(21)	(20)	(20)	(20)

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BLCV "PROFILE" 1980-1987

Attachment 2

	1980 £ Mils	1981 £ Mils	1982 £ Mils	1983 £ Mils	1984 £ Mils	1985 £ Mils	1986 £ Mils	1987 £ Mils
PBIT	12	5	15	30	45	55	75	90
Working Capital	(3)	(15)	(25)	(15)	(15)	(25)	(20)	(20)
Operating Cashflow	9	(10)	(10)	15	30	30	55	70
Net Capital Cashflow	(45)	(25)	(25)	(25)	(20)	(15)	(15)	(15)
Total Trading Cashflow	(36)	(35)	(35)	(10)	10	15	40	55
Extraordinary and Exceptional Items	(5)	(10)	(10)	25	-	-	-	-
Interest	(20)	(21)	(20)	(20)	(23)	(23)	(24)	(23)
Tax and Minorities	(2)	(2)	(2)	(5)	(5)	(5)	(5)	(5)
Total Cashflow	(63)	(68)	(67)	(10)	(18)	(13)	11	27
Assets Employed	486	526	576	555	590	630	665	700
Equity - Existing	305	305	305	305	305	305	305	305
- New		50	100	100	100	100	100	100
- Movement in Reserves		(28)	(45)	(76)	(59)	(32)	14	76
Total Equity	305	327	360	329	346	373	419	481
Debt	181	199	216	226	244	257	246	219
Total Funding	486	526	576	555	590	630	665	700
Debt:Equity	37:63	38:62	37:63	40:60	41:59	41:59	37:63	31:69
Revenue	800	900	990	960	1130	1240	1350	1510
Volume (000)	52	53	57	61	69	74	85	95
Manpower (000)	38	37	37	32	33	34	37	40
Return on Sales Revenue - %	1	1	2	3	4	4	6	6
Return on Assets Employed - %	3	1	3	5	8	9	12	13
Asset Turn (Times)	1.7	1.7	1.7	1.7	1.9	2.0	2.0	2.2
PBT (£ Mils)	(8)	(16)	(5)	10	22	32	51	67

Note:

The funding effects of the Ashok Phase III Expansion have not been fully reflected in the above. Actual cash requirements will tend to be higher than those shown in the early years but these will be funded by interest free loans in India.

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LAND ROVER HOLDINGS "PROFILE" 1980-1987

	1980	1981	1982	1983	1984	1985	1986	1987
	£ Mils	£ Mils	£ Mils	£ Mils	£ Mils	£ Mils	£ Mils	£ Mils
PBIT	33	35	45	50	60	80	85	95
Working Capital	(15)	(20)	(25)	(30)	(25)	(30)	(25)	(40)
Operating Cashflow	18	15	20	20	35	50	60	55
Net Capital Cashflow	(25)	(25)	(25)	(15)	(15)	(5)	-	5
Total Trading Cashflow	(7)	(10)	(5)	5	20	45	60	60
Interest :	(6)	(8)	(8)	(9)	(11)	(11)	(10)	(7)
Tax and Dividend Payments	(2)	(5)	(5)	(11)	(13)	(16)	(25)	(43)
Total Cashflow	(15)	(23)	(18)	(15)	(4)	18	25	10
Assets Employed	220	270	319	367	409	440	452	487
Equity - Existing	160	160	160	160	160	160	160	160
- Reserve Changes		27	58	91	129	178	215	258
Total - Equity	160	187	218	251	289	338	375	418
Debt	60	83	101	116	120	102	77	69
Total Funding	220	270	319	367	409	440	452	487
Debt:Equity	27:73	31:69	32:68	32:68	29:71	23:77	17:83	14:86
PBT	27	27	37	41	49	69	75	88
Tax	(2)	(5)	(5)	(5)	(7)	(13)	(28)	(30)
Associate Companies' increase in net worth	5	5	5	5	5	5	5	5
Net Earnings	30	27	37	41	47	61	52	63
Dividend	-	-	(6)	(8)	(9)	(12)	(15)	(20)
Transfer to Reserves	30	27	31	33	38	49	37	43
Revenue	370	420	530	620	750	950	1050	1150
Volume (000)	81	88	93	98	110	123	128	133
Manpower (000)	15	15	15	16	17	19	20	21
Return on Sales Revenue ÷ %	9	8	8	8	8	8	9	9
Return on Assets Employed - %	17	14	15	15	16	18	19	20
Asset Turn (Times)	1.8	1.7	1.7	1.8	1.9	2.0	2.1	2.3

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UNIPART "PROFILE" 1980-1987

	1980	1981	1982	1983	1984	1985	1986	1987
	£ Mils	£ Mils	£ Mils	£ Mils	£ Mils	£ Mils	£ Mils	£ Mils
PBIT	17	20	25	35	40	45	50	55
Working Capital	(9)	(15)	(20)	(20)	(25)	(25)	(30)	(30)
Operating Cashflow	8	5	5	15	15	20	20	-25
Net Capital Cashflow	(5)	-	-	-	(2)	(3)	-	-
Total Trading Cashflow	3	5	5	15	13	17	20	25
Interest	(4)	(4)	(4)	(3)	(3)	(3)	(2)	(2)
Tax and Dividend Payments	-	-	-	(3)	(6)	(14)	(17)	(20)
Total Cashflow	(1)	1	1	9	4	-	1	3
Assets Employed	165	180	197	214	233	258	285	312
Equity - Existing	125	125	125	125	125	125	125	125
- New	-	-	-	-	-	-	-	-
- Reserve Charges	-	16	34	60	83	108	136	166
Total Equity	125	141	159	185	208	233	261	291
Debt	40	39	38	29	25	25	24	21
Total Funding	165	180	197	214	233	258	285	312
Debt:Equity	24:76	22:78	19:81	14:86	11:89	10:90	8:92	7:93
PBT	13	16	21	32	37	42	48	53
Tax	-	-	-	(1)	(8)	(11)	(13)	(16)
PAT	13	16	21	31	29	31	35	37
Dividend	-	-	(3)	(5)	(6)	(6)	(7)	(7)
Transfer to Reserves	13	16	18	26	23	25	28	30
Revenue	425	450	500	600	650	700	750	800
Manpower (000)	5	5	5	5	5	5	5	5
Return on Sales Revenue - %	4	5	5	6	6	6	7	7
Return on Assets Employed - %	11	11	13	17	18	18	19	19
Asset Turn (Times)	2.3	2.5	2.6	2.7	2.7	2.7	2.7	2.7

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FUNDING ASSUMPTIONS

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
<u>Cash (Outflow)/Inflow</u>							
BL Cars	(412)	(312)	(167)	(110)	(115)	(30)	5
BLCV	(68)	(67)	(10)	(18)	(13)	11	27
Land Rover	(23)	(18)	(15)	(4)	18	25	10
Unipart	1	1	9	4	-	1	3
Other Companies	(2)	(1)	(1)	-	-	-	-
Consolidation/ Head Office	(1)	(1)	(1)	(1)	(1)	(1)	(1)
	<u>(505)</u>	<u>(398)</u>	<u>(185)</u>	<u>(129)</u>	<u>(111)</u>	<u>6</u>	<u>44</u>

Funded by:

Borrowings	155	148	85	29	111	(6)	(44)
Equity	350	250	100	100	-	-	-
	<u>505</u>	<u>398</u>	<u>185</u>	<u>129</u>	<u>111</u>	<u>(6)</u>	<u>(44)</u>

Memo:

Cumulative Cash Requirement	(505)	(903)	(1088)	(1217)	(1328)	(1322)	(1278)
Cumulative Borrowings Change	155	303	388	417	528	522	478
Cumulative Equity Requirement	350	600	700	800	800	800	800

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CONFIDENTIAL

RH



Industrial Policy

10 DOWNING STREET

From the Private Secretary

3 November, 1980

British Leyland: Threatened Strike

This is just to confirm that the Prime Minister was content with the line your officials proposed to take with Sir Michael Edwardes - as set out in your letter of 31 October. But she did comment, as I think you know, that you should make it clear that the Government is not committed in any way to finding the funds for the new Corporate Plan.

I am sending copies of this letter to John Wiggins (HM Treasury), Andrew Hardman (Department of Employment), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

I. P. LANKESTER

Ian Ellison, Esq
Department of Industry

IEL



10 DOWNING STREET

PRIME MINISTER

British Leyland

Two points in Treasury letter:

1. The Department of Industry don't like it: they say the important thing from the point of view of the BL's negotiating tactics is government funding rather than government funding plus bank funds. I suggest we tell DOI to ignore Treasury on this point.

2. DOI accept.

TL.

31 October 1980

I accept Richard
Lindwender's approach.
I understand that DOJ
will make it clear that
HMA is not committed
in any way to financing
the funds for the new
corporate plan. The matter
has yet to be considered.

MB.

Relayed to Ian Ellison,
Industry, at home 1/11/80 (a.m.)

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COMMERCIAL IN CONFIDENCE



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

31 October 1980

I. Ellison, Esq.,
Private Secretary,
Department of Industry

Dear Ian

~~B~~ FINAL PAY OFFER

The Chancellor has seen the letter which Sir Michael Edwardes sent to your Secretary of State earlier today.

The Chancellor takes the view that we must leave Sir Michael Edwardes to deal in his own way with the strike threat, and to ensure that it is called off or fails quickly for lack of support. But since we have been given the opportunity to express any misgivings the Chancellor has asked me to put two points to you which concern Government funding.

The first is about Sir Michael Edwardes' judgement that he must be quite specific about the funds required for BL cars during 1981 and 1982. The Chancellor hopes that Sir Michael Edwardes will concentrate on the total requirement from private as well as public sources of funds, rather than emphasising any particular Government component assumed within it. This would of course be put forward as BL's assessment, not the Government's, and there is no Government commitment to any figure.

The second point comes up on the assertion that 'the Board will seek no further funds from Government for BL cars ...' I note that you are taking steps to clarify this, since even if the Plan for BL cars is withdrawn there will be an unavoidable requirement to fund the rundown.

The Chancellor hopes that in spelling out the implications of withdrawing the Plan for BL cars Sir Michael Edwardes will stress the consequences for the funding of new models like the LC10 contained in the Plan.

I am sending copies of this letter to Tim Lankester and the other recipients of your letter.

*Yours
Peter*

P.S. JENKINS

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COMMERCIAL IN CONFIDENCE



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

PS/ Secretary of State for Industry

31 October 1980

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

Princ. Smith

*Mr Prior has endorsed
this line especially the
point in para 6 (x) - with
standing all the risks.*

*u/h Hodgson
Dear Tim, u/h
BL: THREATENED STRIKE u/h
u/h*

*Are you content? (we
need
a
decision
over-
night)*

... 1 We spoke about the attached letter which Sir Michael Edwardes has sent to my Secretary of State. Sir Michael has asked that, if the Government has any misgivings about his proposed course of action, he should be told before the BL Board meeting at his home at 11 am on Saturday 1 November.

2 Following yesterday's mass meetings which produced an inconclusive result, a meeting of national union officials and senior shop stewards on Monday 3 November will decide whether or not to call for a strike. Sir Michael thinks that, unless BL takes "more than conventional" action before then, that meeting may well call for a strike. He therefore proposes two major steps:

- a) to tell national union officials over the weekend of the key features of the BL Corporate Plan just submitted, and the funding requirements, at least for BL Cars, for 1981 and 1982, which involve a request for just short of £1BN of new Government equity up to March 1983 for BL as a whole, much the greater part being for BL Cars (including for this purpose Land Rover and Jaguar); and
- b) to tell union officials on Sunday 2 November and to announce to shop stewards on Monday 3 November (before their meeting) that, if they call a strike and a significant part of the workforce obey, the BL Board will "seek no further funds from the Government for BL Cars by withdrawing the Plan". Sir Michael considers that, if the strike took place after such a statement, there would almost certainly be a loss of confidence by banks, trade creditors etc. to such an extent that the Cars' business, and perhaps BL as a whole, would rapidly be forced to cease trading. This would result in "the massive closure costs of a liquidation scenario".

*B...
3/1/81*



3 It is possible that the disclosure of the Corporate Plan funding figures might cause embarrassment for the Government, but this is far outweighed by the importance of trying to avoid the strike. Disclosure of the figures might (if the strike were then avoided) increase the pressure on Ministers to approve the Plan in full but this could be met by Ministers using a suitable opportunity later on to emphasise that they retained full discretion as to whether, and to what extent, to approve the Plan.

4 The form of words which Sir Michael proposes to use in (b) is slightly ambiguous and may therefore be less effective than it should be. Officials have therefore discussed with BL top management an alternative formulation on the lines that "the Board would withdraw the Plan and would therefore seek no further funds from the Government for BL Cars to implement the Plan". If, despite this statement, the strike went ahead and the predicted consequences followed, the potential calls on the Government to honour its undertakings to creditors under the so called Varley-Marshall assurances could well run to many hundreds of millions of pounds. On the other hand, the damage to the Government's broader policies from conceding any further increase at this stage would be even more serious.

5 As you know, my Secretary of State is out of the country but before he left he made it clear that, in his view, the handling of the strike threat is a matter for Sir Michael Edwardes in which the Government should not attempt to intervene. If Sir Michael considers it necessary to withdraw the Corporate Plan, the Government can be confident that there is no other course but to accept his advice. The public expenditure consequences of closure or liquidation would be severe, as would the industrial and unemployment consequences. But the alternative, of intervening to persuade Sir Michael to increase his pay offer, would have an ever more serious impact on the credibility of the Government's policies; it would mean increasing public expenditure (and possibly taxation) to raise the pay of a group of workers who have already received disproportionate public money at a time when many, more worthy, groups of workers are facing large scale redundancies.

6 Provided the Prime Minister sees no objection, officials here propose to tell Sir Michael that the Government supports the line he intends to take. They will, however, remind him of the need to avoid (so far as is possible without compromising the effectiveness of the threat) any statement which would preclude some recovery of the situation should the strike go ahead but collapse within a short period. They also propose to suggest that

/Sir Michael ...

CONFIDENTIAL



3

Sir Michael should emphasise that the funding requirements are BL's recommendations to the Government which Ministers have not yet considered.

7 I am sending copies of this letter to John Wiggins (Treasury), Andrew Hardman (Employment), Robin Ibbs and David Wright (Cabinet Office).

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

CONFIDENTIAL

TELEPHONE
01-486 6000

RECEIVED IN
31 OCT 1980
SECRETARY OF STATE
FOR INDUSTRY'S OFFICE

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

CONFIDENTIAL - COMMERCIAL IN CONFIDENCE

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

W Mountfield	COPIES TO
FOR ADVICE (AND	A8
DRAFT REPLY IF	LT
APPROPRIATE)	Secretary
PLEASE BY:	Mr Bullock
Urgent	Mr Bowler
Advice	Mr Smolha
please	Mr J Patterson
	(H.M. Tsy)
31 October 1980	

Dear Secretary of State,

Following the mass meetings of BL Cars' hourly-paid workforce on Thursday, national union officials and senior shop stewards meet on Monday, 3 November, to consider their response to our final 6.8% pay offer and may well be inclined to decide - justifiably or not - that they have a sufficient mandate for strike action across the whole of BL Cars.

The Board is meeting on Saturday to consider whether in the event of a significant strike it could continue to say that there was a chance of recovering the BL Cars business to viability. However, in my judgement, if there were a widespread walk-out across BL Cars and no response to the setting of a very early deadline for a return to work, the twin effects of a strike on market share and cash flow would be such as to make it impossible to deliver the 1981 Plan, submitted to you only a week ago.

It is therefore vital that we pull out all the stops to persuade the stewards on Monday to refrain from calling a strike, and failing that to persuade our employees not to obey a strike call (5 days' notice of a strike being required, under agreed procedures). Although the stewards are entitled, by

Recognising the embarrassment that this could cause for the Government, I trust that you would accept such embarrassment as the lesser evil as compared with the likely consequences of abstaining from this tact. /...

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

31 October 1980

Page 3

2 I shall ask the Board to authorise me to announce on Monday that, in the event of the stewards deciding to call for strike action and a significant part of the Cars workforce taking such action, the Board will seek no further funds from Government for BL Cars by withdrawing the Plan recently submitted to Government. The impact of such a statement depends of course on the preceding explanation of the Plan, which will demonstrate our dependence on Government funds. I intend to supplement this statement by commenting that, in my judgement, in the event of a strike it is unlikely we could put together a Plan offering a prospect of viability for BL Cars and that in the short term the lack of an approved and funded Plan would be likely to leave us without the cash to pay our wage bill beyond December. These statements do not in themselves trigger our Loan Stock Trust Deed, under which an authoritative statement of intent to close a substantial part of the business would precipitate immediate repayment of loans totalling £250m. But you should be aware that, if a strike did take place after these statements had been made, there would almost certainly be such a loss of confidence by banks, trade creditors, dealers and BL Cars management that the Cars business, and perhaps BL as a whole, would be rapidly forced to cease trading. Indeed, a financial crisis would rapidly develop affecting the whole of BL, since even under our forecasts for normal trading conditions we need additional facilities from the banks to sustain the business from November until the first tranche of Government funding is available under an approved 1981 Plan. This would result in the massive closure costs of a liquidation scenario, even though we would of course do our best to save those parts of the business which could be insulated from the areas affected by strike action.

/...

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

31 October 1980

Page 4

My Board colleagues appreciate the grave consequences of such an outcome. But our priority must be to take all possible steps to prevent a strike, and in my judgement the above tactics are necessary to offer a real prospect of achieving this. Moreover, we would in any case see no purpose in trying to soldier on with the business in the event of a major strike. Although in theory an alternative strategy would be to avoid cataclysmic statements and simply seek Government funds (or specific guarantees) sufficient to see us through a long strike, the effect of such a strike on our dealer network and on customer confidence generally would be to destroy any commercial basis for the business, even if the Government were prepared to provide this support. Consequently, I consider that to bring the crisis to a head immediately is our only hope.

I am afraid that the pressure of events requires me to ask that, if the Government has any misgivings about our approach, you should let me know within the next 24 hours.

Yours sincerely,
Richard [unclear]



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

29 October 1980

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

Dear Tim

Mr Lykan
Mr Hodgson
Mr Beecher

Prime Minister
[Signature]

DL
29/10

BL CARS' DISPUTE

As promised in my letter of 27 October, I am writing to give you further news on this dispute.

2 Up to the time of the mass meetings which are being called at all BL Cars plants in the course of 30 October, the management will be appealing directly to each of the 73,000 workers involved not to take industrial action at a time when the Metro has just been successfully launched, and when BL's market share, in response to this, has risen to 23 per cent.

3 If, as BL think is not unlikely, a sufficient number of plants give support to strike action, they will put every possible pressure on the unions to draw back from the brink, up to and including the time of the union meeting on 3 November which will assess the response made at the mass meetings. Sir Michael Edwardes is currently seeking his Board's approval of a statement by him on or before 3 November to the effect that if a substantial part of the workforce takes strike action, the Board will withdraw the recently submitted Corporate Plan and will seek no further funds from the Government for BL Cars.

4 I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer and the Secretary of State for Employment.

Yours ever
Catherine Bell
CATHERINE BELL
Private Secretary

Ind P27



DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

123 VICTORIA STREET

LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301

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Secretary
R

PS/ Secretary of State for Industry

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

27 October 1980

Pamela Minster

J.P.H.
27.10.80.

M.

Dear Tim

BL LABOUR TROUBLES

There has been an important development today in BL's dispute with its manual workers over pay which my Secretary of State has asked me to bring to your attention.

2 This morning the trade unions involved decided overwhelmingly to reject BL's offer of a pay increase of 6.8% and to recommend at mass meetings which are to take place on 30 October that industrial action should take place at all BL's car plants.

3 The company will decide tomorrow how best to respond to this; one possibility, if time allows, is direct communication with each individual worker at his home.

4 Sir Michael Edwardes asked earlier this evening whether he could make public straightaway the fact that the Government had received the 1981 Corporate Plan (he sent a summary of it to my Secretary of State late on 24 October) and that was asking for "hundreds of millions" of additional funding from the Government. He thought that this might influence events in the BL management's favour. My Secretary of State has agreed that Sir Michael should be told that there would be no objection to this.

5 BL have promised to keep the Department in close touch with events, and I shall let you know of any important developments.

6 I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer and the Secretary of State for Employment.

Yours ever

Catherine Bell

CATHERINE BELL
Private Secretary

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COMMERCIAL IN CONFIDENCE



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PS/
Secretary of State for Industry

13 October 1980

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

cc Mr Hoskyns

Prime Minister

Dear Tim

BL

*TL
13/10*

Ans A Thank you for your letter of 29 September conveying the Prime Minister's views on my Secretary of State's minute of 22 September about BL.

2 The possibility of establishing a greater Japanese involvement in the company was considered during the Bullock Group's review of BL's 1980 Corporate Plan, and my Secretary of State has asked that this aspect should be fully covered in the Group's work on the 1981 Plans. In the present depressed state of the world motor industry we cannot be certain that another company would be prepared to take a financial stake in BL. However, it is undoubtedly the fear of import controls which has aroused Japanese companies' interest in the idea of investing in Europe, and this is a factor which we can use when appropriate in negotiating with them.

3 I am sending copies of this letter to John Wiggins (Treasury), Richard Dykes (Department of Employment), Gerry Spence (Central Policy Review Staff) and David Wright (Cabinet Office).

Yours ever

Catherine Bell

CATHERINE BELL
Private Secretary

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COMMERCIAL IN CONFIDENCE



Incl P/O

Prime Minister 2

To note - the
Chancellor also
goes along with
Sir Keith's
proposals.

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

PRIME MINISTER

BL CORPORATE DEVELOPMENT

R
30/9

Keith Joseph in his minute of 22 September to you asked for my comments on the BL ideas for restructuring into four separate companies and for the LM10 medium car project.

2. I entirely agree with Keith Joseph that we should take no final decisions on any aspect of the BL problem until we have been able to study carefully the 1981 Corporate Plan and the implications for Government support.

3. Meanwhile I am convinced that the division into four separate companies is a desirable development on any view of the future of BL. I think that it is particularly desirable to make it easier to privatise Land Rover and Unipart as soon as the market is right.

4. On the LM10 medium car I recognise Michael Edwardes' dilemma, particularly in relation to his dealer network. But we must avoid piecemeal commitments in advance of our decisions on the next Corporate Plan. So I strongly support the non-committal line Keith Joseph suggests that you should take at your your SMMT Dinner.

5. I am copying this minute to Keith Joseph, Jim Prior, John Hoskyns, Robin Ibbs and Sir Robert Armstrong.

P.S. Jenkins.

PP (G.H.)
29th September 1980
Approved by the Chancellor and signed
in his absence.



Incl. Parl. & Juv
cc: Mr. Wolfson
Mr. Hookings

10 DOWNING STREET

From the Private Secretary

29 September 1980

The Prime Minister has considered your Secretary of State's minute of 22 September about British Leyland. Subject to the Chancellor of the Exchequer's views, she agrees with his two main proposals: first, that BL should prepare corporate plans for the four separate parts of the business, and second, that no decision on the LM10 programme should be taken until the four corporate plans have been considered.

Against the probability that BL will be asking for very substantial additional funds from the Government, the Prime Minister has asked if your Department would seriously consider the possibility of establishing a greater Japanese involvement in the Company. She wonders whether one possible approach might be to threaten the Japanese companies with import controls unless they were prepared to establish themselves in the UK on a much bigger scale.

The Prime Minister would be grateful if your Secretary of State could report back on this point when your officials and he have had time to consider it.

I am sending copies of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment), Gerry Spence (Central Policy Review Staff) and David Wright (Cabinet Office).

T. P. LANKESTER

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

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

MS

JH

Ind PA



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

20 November 1980

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

✓
of Press Office MS

Dear Nick

We spoke and I promised to send you a copy
of the proposed arranged PQ on BL which I
now enclose.

...

Yours ever

Catherine Bell

CATHERINE BELL
Private Secretary



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

TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

19 November 1980

Robin Birch Esq
Private Secretary to the
Chancellor of the Duchy
of Lancaster
Privy Council Office
Whitehall
London SW1

Dear Robin

PROPOSED ARRANGED PQ ON BL

Further to Catherine Bell's letter of today's date I attach a revised version of the Question to be put down for reply in the terms indicated on 21 November.

I am sending copies of this letter to Murdo Maclean and to Michael Pownall.

yours sincerely
Michael Kenny

MIKE KENNY
Private Secretary

Copies to
Ps/Minis
Ps/Secretary
Mr Manzie
Mr Keenig
Mr Mountfield
Mr Bowden
Mr McEthern
Mr Hardbottle
Mr Brown



DRAFT

ARRANGED QUESTION

Question

To ask the Secretary of State whether the proposed legislation to amend the NEB's financial arrangements will include provision to increase the Board's financial limit in respect of BL, and by what amount.

Answer

Clause 1(1) of the Industry Bill which received its First Reading today provides for an increase in the NEB's statutory financial limit to cover the external financing requirements of BL Ltd. Whatever decisions are taken on BL's Corporate Plan an increase in the financial limit of the NEB in respect of BL will be necessary. However, until the Government has taken decisions on the Corporate Plan no firm estimate of this can be made. The increase for which the Bill provides is, therefore, a token one of £1 million. A firm figure for the new financial limit will be announced as soon as possible and an appropriate amendment will then be tabled. The House will then have a full opportunity to debate the matter.

CONFIDENTIAL

hd Pof 2



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

20 November 1980

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

Am Smith

ms

R
20/11
19/11

Dear Tim

BL: ENDING OF PAY DISPUTE

As you will know, representatives of BL Cars' manual workers finally decided on 18 November to accept the company's 1980/81 pay offer of 6.8 per cent.

My Secretary of State has received a letter from Sir Michael Edwardes informing him that, following the settlement of the dispute, BL no longer requires the Government guarantees of its current borrowings requested in his letter of 5 November. In these circumstances, Sir Keith has decided, with the agreement of the Treasury, that the last £25 million of Government funding due to BL in 1980-81 should be paid in the form of equity capital on 19 November. BL had earlier requested this payment on 11 November, but an improved cash flow in the first half of the month (resulting partly from a better than expected market share) has meant that the company could afford to wait until 19 November before receiving the money.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Employment and Trade, Robin Ibbs and to Sir Robert Armstrong.

Yours ever
 Catherine Bell
 CATHERINE BELL
 Private Secretary

CONFIDENTIAL

CONFIDENTIAL

IND. POL

VLS



10 DOWNING STREET

CC	LOD	HO	MAFF
	LPSO	FCO	D/T
	SO	HMT	D/N
	WO	D/I	CST
	CDL	LPO	CO
	CWO	D/M	

From the Private Secretary

14 November 1980

Industry Bill: Financial Limit for British Leyland

The Prime Minister has seen the Lord Chancellor's minute of 11 November and the minute from the Secretary of State for Industry of 12 November, together with the minutes of the meeting of Legislation Committee held on 11 November.

She has concluded that the right course to follow would be that proposed by the Secretary of State for Industry, namely to include a nominal figure in the Industry Bill and to revise it at a later date. In her view, it would be wrong to pre-empt the eventual decision in the legislation at this stage. She hopes that arrangements can now proceed for the early introduction of the Bill.

I am copying this letter to the Private Secretaries to the Members of E and L Committees and to David Wright (Cabinet Office).

N. J. SANDERS

M. H. Collon, Esq.,
Lord Chancellor's Office.

CONFIDENTIAL

VLS

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

14 November 1980

INDUSTRY BILL:
FINANCIAL LIMIT FOR BRITISH LEYLAND

The Prime Minister has seen the Lord Chancellor's minute of 11 November and the minute from the Secretary of State for Industry of 12 November, together with the minutes of the meeting of Legislation Committee held on 11 November.

She has concluded that the right course to follow would be that proposed by the Secretary of State for Industry, namely to include a nominal figure in the Industry Bill and to revise it at a later date. In her view, it would be wrong to pre-empt the eventual decision in the legislation ^{at this stage} ~~x~~ *She hopes that arrangements can now proceed for the early introduction of the Bill.*

I am copying this letter to the Private Secretaries to the Members of E and L Committees and to David Wright (Cabinet Office).

M.H. Collon, Esq.,
Lord Chancellor's Office.

CONFIDENTIAL

PRIME MINISTER

INDUSTRY BILL:
FINANCIAL LIMIT FOR BRITISH LEYLAND

I reported to you some time ago that Legislation Committee had run into difficulties over the handling of the Industry Bill, which is to increase the NEB's financial limits to cater for BL among other things.

Since I last mentioned this difficulty to you, there has been another meeting - and a very bad tempered meeting it was - of Legislation Committee. The result is the minute to you from the Lord Chancellor at Flag A, which sets out the facts very clearly. The minutes of the L meeting are at Flag B. Keith Joseph has also commented (Flag C).

I have consulted the Departments principally involved in all of this, and would strongly recommend that you need not call a meeting of colleagues, since it would only go over the same ground again. The choice is quite simply between the views of the policy Ministers (the Secretary of State for Industry and the Chancellor) on the one hand and the business managers on the other. My own view, which I think would be accepted by the business managers without too much fuss, is that you should say that you have looked at the arguments on both sides and have concluded the Bill should be in the form suggested by the Secretary of State for Industry, on the clear understanding that he recognises problems may arise in the House.

Are you content to rule in this way?

Agree with Sec of State for Industry - Include a remark of mine
13 November 1980
to be revised later. We cannot pre-empt the decision. MS.

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PRIME MINISTER

INDUSTRY BILL: FINANCIAL LIMIT FOR BRITISH LEYLAND

with MS

I have seen a copy of the Lord Chancellor's minute to you of 11 November about the disagreement at yesterday's Legislation Committee over the provision for BL in the Industry Bill. I welcome his proposal for a meeting to resolve this. Since the Bill will need to go to print by the end of this week, if it is to be introduced at the beginning of the new session, you may feel it would be best if we met immediately after Cabinet tomorrow.

2 The Lord Chancellor's minute sets out the opposing views very clearly. I recognise the force of the Business Managers' objection to the inclusion of a purely notional figure of £1 million in the Bill. However it is public knowledge that the BL Corporate Plan has only just been received by the Government and that the level of funding which its implementation would require is very substantial. I do not believe that we could justify attempting a realistic guess of an increased financial limit for BL at this stage without encouraging the belief that the Government had no serious intention of exercising effective control over the company's future. This would suggest to the Unions that further funding could be taken for granted. All this would be dangerous in the present uncertain climate of industrial relations.

3 I therefore remain of the opinion that the only sensible course is to include the notional provision of £1 million for BL

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/in ...



in the draft Bill for subsequent amendment and to be quite open with the House about our reasons for doing so and about our intention of giving the House a full opportunity for a debate on BL at Report Stage. In my letter to the Lord Chancellor of 30 October which I copied to you I proposed doing this in an arranged Parliamentary Question on the day the Bill was published.

4 However I recognise the arguments of the business managers and if their view were to prevail I think we should include a round figure which would relate to the BL Corporate Plan as it stands and which would enable us to deal with BL's requirements over the next 5 years. Such a figure would be £2000 million. This would take the financial limit for the NEB to £4250 million (which could of course be reached by stages) and would take the aggregate limit for the NEB and the Secretary of State from £3000 million to £6250 million. You will recognise that these huge figures include not only Government investment in the company but private sector borrowing.

5 The Lord Chancellor's minute also refers to Adam Butler's agreement yesterday to amend some of the provisions of clause 6 of the Bill in order for it to be certified as a Money Bill. I had not recommended that course of action in my Memorandum to Legislation Committee since I did not feel the time constraints, though severe, justified treating the Lords in this way. However, in view of the strong feelings of the Lord Chancellor and the Lord President I can confirm that I am prepared to modify the Bill so that it can be certified as a Money Bill. I would however

/draw ...



draw your attention to the fact that this could arouse criticism from the Public Accounts Committee, as the Lord Chancellor has indicated in this minute.

6 I am sending copies of this minute to the Members of E and L Committees and to Sir Robert Armstrong.

Catherine Bell

K J

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

12 November 1980

Department of Industry
Ashdown House
123 Victoria Street

Prime Minister

11th November 1980

Industry Bill:
Financial Limit for British Leyland

1. I am sorry to report a disagreement between the Commons Managers on one side and the Department of Industry and the Treasury on the other at this morning's session of the Legislation Committee in their discussion of the Industry Bill. The disagreement related to those provisions in section 1 of the Bill which are designed to increase the statutory financial limit for the National Enterprise Board. In reality the increase relates solely to the provisions for British Leyland.

2. The arguments for the two respective viewpoints are nicely balanced, and do not permit of compromise. It is necessary to introduce the Bill into the House of Commons at the start of the new session if its provisions are to become law before the present financial limit is exceeded. In practice this means next March. The trouble arises from the fact that the Government is not yet in a position to decide on a final figure, and will not be able to do so until Ministers have taken a view on BL's corporate plan. This means about the turn of the year. In the meantime, some figure has to be included in clause 1(1) on introduction. In the nature of things any figure must be unreal, and will have to be altered at earliest in Committee more probably at Report. The disagreement is whether the figure to be inserted on introduction is a token (e.g. £1 million), or a genuine estimate but at the lower end of the range of possibility.

3. The Minister of State, Department of Industry, and the Financial Secretary, Treasury, argued for the proposal in the memorandum by the Secretary of State for Industry (L(80)63). This was to include in the Bill only a token figure of £1 million. If this suggestion were adopted the House of Commons would be told that the Government would seek to amend the Bill by substituting a higher figure probably during the Report Stage. In their view to insert anything other than a nominal figure at the onset would prejudice the Government's eventual decision about the finance and future of BL and might make the task of dealing with the present industrial relations there more difficult.

4. The business managers did not think this course would be acceptable to the House. It would be particularly strongly criticised by those who have been pressing the House to exercise a more effective financial control and asking for the establishment of the proposed new Procedure Committee on Supply. At the minimum, the Government would have to find time for a separate debate on the floor of the House about the finance of BL, and the passage of the Industry Bill might well be delayed. In their view the right

the Managers'



course was for the Government to decide on, and include in the Bill, a figure that would appear to the House to be realistic, even though it might have to be amended later. It would be for the Ministers concerned to suggest what the figure might be, but to have a manifestly unreal figure would not only highlight the Government's uncertainty, but give rise to the criticism that the House was being asked to give a second reading to something they knew to be completely undecided.

5. Since this division of opinion concerns the principle of the most important provision in the Bill, it was not possible to find a compromise. In the circumstances, rather than bring the matter to the full Cabinet, you might think it best to discuss the matter with colleagues most directly concerned: the Chancellor of the Exchequer, the Secretary of State for Industry and the Commons business managers. The various Ministers who attended Legislation Committee held briefs which did not admit of compromise. The majority of members were unable to express a worthwhile opinion in the face of views so manifestly divergent which did not affect their departments.

6. I should add that the Minister of State, Department of Industry, expressed his willingness to drop from the draft Bill certain provisions in clause 6 giving statutory cover for the payment of grants for such matters as the improvement of links between Education and Industry, following up the Finniston Report. He warned the Committee that there might be criticism from the Public Accounts Committee if these grants continued to be paid through the Appropriation Acts. The omission will, however, make it likely that the Bill will be certified as a Money Bill, thus shortening its passage through the House of Lords. This is important, not only because of the deadline for obtaining Royal Assent for this Bill, but also because of the general pressures on next session's legislative programme that are becoming increasingly apparent to the business managers in both Houses. The change will save according to the Lord President of the Council two weeks of Parliamentary time in the Lords, and I was extremely grateful to the Minister of State for making this concession.

I am sending copies of this minute to the Members of E and L Committees and to Sir Robert Armstrong.

H: of S: M.

Lord Chancellor's Department,
House of Lords.



Ind PDR MS

cc HMT
DM
DOT
Robin Ibbs
CO

10 DOWNING STREET

7 November 1980

From the Private Secretary

Dear Sir.

BL Guarantees

The Prime Minister has read your Secretary of State's minute of 6 November. She agrees that the necessary guarantees should be issued to British Leyland if they withdraw the 1981 Corporate Plan for BL Cars Limited. As regards the £25m. of Government equity which BL have requested and which is due to them this financial year, the Prime Minister very much hopes that this additional money can be issued in a non-equity form - which is indeed what Sir Keith is trying to ensure.

The Prime Minister has noted that Sir Keith proposes to tell Sir Michael Edwardes that Ministers will need 24 hours in which to consider a decision to close BL Cars before it is put into operation: she agrees that such a delay is necessary and she would like Sir Keith, the Chancellor of the Exchequer, the Secretary of State for Trade and the Secretary of State for Employment to be ready to meet with her if this situation arises.

I am sending a copy of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Employment and Trade, Robin Ibbs and to Sir Robert Armstrong.

~ ~

P. Laker.

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

CONFIDENTIAL

NRam

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Prime Minister to see



PRIME MINISTER

BL: GUARANTEES

Agree provision of
necessary guarantees.

N.P.C. Mitchell
Duty Clerk
6/11/80

that if possible the remaining
£25m be found other than by an
equity issue, and that a small group
of Ministers be on stand-by - Self, Chancellor,
John Nott, Tim Paine & K. J.

... 1 I attach a copy of a letter of 5 November which I have
received from Sir Michael Edwardes in which he advises me that his
Board consider that a successful strike could cause manufacturing
activities in BL Cars to cease in whole or in part, and that in
such circumstances his Board will abandon the BL Cars Ltd
Corporate Plan. The letter also sets out the Board's view that,
in the above circumstances, guarantees would be necessary in
order to allow an orderly rundown to take place as foreseen
in the contingency planning which took place earlier this year.

2 You may remember our earlier correspondence of 14 and 19
February 1980 in which we discussed whether we could issue guarantees
to BL if they withdrew their Plan. My conclusion then, with which
you and the Chancellor concurred, was that the issue of guarantees
would be necessary to prevent a run on BL and to allow the Board
to remain in charge for the rundown of the business, and that a
compulsory creditors' liquidation was not an acceptable alternative.
I am still of this opinion now, and in particular still consider
that the alternative of not taking any action and of allowing a
compulsory creditors' liquidation would not only precipitate a

/completely ...

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completely uncontrolled reaction by creditors of BL but could also result in an even higher and earlier cost to the PSBR than if we or the BL Board were able to control events. I therefore regard the issue of guarantees as action to minimise the losses we shall be faced with rather than one that would increase the costs. The Government is already liable for the whole of BL's debts and obligations under the terms of the Varley-Marshall assurance, and these guarantees, so far from increasing our exposure, would be aimed at reducing the immediate calls under it.

3 Our correspondence of February and my eventual letter to ... Michael Edwardes of 22 April (of which a copy is attached) were all concerned with a situation in which the BL Board withdrew their 1980 Corporate Plan. The current letter from BL is couched in terms of the abandonment of the BL Cars Ltd Corporate Plan (ie for 1981); however I do not in practice consider that the circumstances differ materially from those we were envisaging earlier this year, and should be grateful for your confirmation of this.

4 As I said at the beginning of this letter, Michael Edwardes' letter gives us advance notice of a possible need for guarantees. I understand that, if the need arises, he will write to me again, at the time when his Board consider they are ready to determine their reaction to the strike. I shall then have to give him, at very short notice, a formal reply, but would

/like ...



like to send him a brief acknowledgement to his current letter now so that his planning can proceed. Meanwhile officials in this Department have already discussed this matter with Treasury officials and are maintaining close contact with them on the technical aspects of the procedure for issuing guarantees.

5 I propose to see Michael Edwardes early next week and to tell him that, once his Board reaches a decision to close the Cars business in whole or in part, we shall need 24 hours in which to consider that decision before it is put into operation. We shall clearly need to keep in close touch with the situation next week, since there are several ways in which it could develop. I expect the critical point to be reached towards the end of next week (if the strike starts). You might wish to consider whether a small group of Ministers should be on call to meet for this purpose and to consider any final decision during the 24 hours' notice I propose to require.

6 There is a concurrent problem over a request which BL have made for the issue of the last £25 million of Government equity which is due to them in 1980-81. Despite the presentational difficulties that would be involved in the Government taking a new equity stake at the start of a strike, BL are insisting that they need the money on 11 November and that they must have it, in equity form. I am intending to tell Michael Edwardes in

/the ...



the near future that we are urgently exploring the alternative of making a short-term NLF loan of £25 million available to BL through the NEB, and I hope that he will accept this.

7 I am copying this minute to the Chancellor, Jim Prior, John Nott, Robin Ibbs and to Sir Robert Armstrong.

12.

K J

6 November 1980

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

Department of Industry
Ashdown House
123 Victoria Street
London SW1

35-38 PORTMAN SQUARE

8

TELEPHONE
01-480 8000
TELEX IN

6 NOV 1980

FROM: SIR MICHAEL EDWARDS
SECRETARY FOR INDUSTRY'S OFFICE

LONDON W1H 0BN

Mr. Bowles	COPIES TO LT Secretary Mr Bullard Mr Mountfield Mr Snowha
PLEASE ADVISE (AND DRAFT REPLY IF APPROPRIATE)	
PLEASE BY:	
ASAP	

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

5 November 1980

Dear Secretary of State,

GUARANTEES

Today the Board has considered the situation facing the Company in view of the decision reached by BL Cars Shop Stewards on Monday 3 November, to call a strike on Tuesday 11 November.

The Company's first line of action is to make every effort to persuade employees in BL Cars to reject the strike call and to work normally.

To the extent that we are unsuccessful in achieving this, we shall advise all employees who are on strike that they are in breach of their contracts of employment. At an early date following strike action they will be deemed to have terminated their employment.

It is not possible, at this time, to predict accurately the outcome of this sequence of events. Nevertheless, if the strike is successful, it will cause manufacturing and, subsequently, trading activities in BL Cars Limited to cease, in whole or in part, according to the degree of disruption which will have occurred.

...../

The Rt Hon Sir Keith Joseph, Bt, MP

5 November 1980

In such circumstances the Board today confirmed that it would seek no further Government funds to be invested in BL Cars Limited and that the BL Cars Limited Corporate Plan be abandoned.

As I indicated to you in my letter of 31 October, it would then be necessary for the BL Board to be in a position immediately to implement contingency plans. The first and vital step would be the provision of Government guarantees in accordance with your letter to me of 22 April and Mr Bell's letter to Mr Andrews dated 28 April. These letters provide that the BL Board should give you advance warning that it may require to withdraw the plan and request and receive in turn Government guarantees in the circumstances that the BL Board now face. This letter gives you such advance warning.

Our examination of the situation indicates that, if strike action is taken, the Board could formally advise you of its decision to abandon the BL Cars Plan as early as Tuesday 11 November. Alternatively, it may be necessary to defer judgement on this matter to Monday 17 November, but no later than that.

On the assumption that Government wishes the BL Board:-

- (a) to continue to manage the affairs of the Company, and
- (b) to avoid the risk of the appointment of a liquidator,

the Board needs your confirmation of the guarantees before formal notice of withdrawal of the Plan is conveyed to you. Such guarantees are necessary to protect the directors against any liabilities arising under Section 332 of the Companies Act 1948 and for any other liability in law.

Yours sincerely,
Michael Owen.



Secretary of State for Inc

PS/AB
PSIMM
Sec
Mr Manzie
M. Bullock
Mr Bell
Mr Leeming
Mr Bowden
(File)

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

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

7

CONFIDENTIAL

22 April 1980

Sir Michael Edwardes
BL Ltd
35-38 Portman Square
London W1H 0HQ

Dear Michael.

In your letter of 18 March you reported your Board's wish to formalise with the Government the procedure to be followed in the event that it is necessary or desirable to request guarantees to secure the company's borrowing facilities.

The position is that, in the event of the BL board deciding to withdraw the 1980 Corporate Plan in the circumstances set out in your present letter and that of 19 December 1979, I would be ready, subject to changes in present circumstances, to direct the NEB to issue guarantees. This would cover such loans and facilities which are authorised by the Department and the NEB. It would clearly be desirable that as much informal notice of any request for guarantees is given. I am not able to give you now a commitment that in other circumstances the Government will also be prepared to issue guarantees, but we shall of course be prepared to consider any case you put to us on its merits.

As you suggested, officials from this Department and the Treasury together with the NEB and your staff have been identifying the actions which would be required if it became necessary to issue guarantees, and I understand that Mr Graham Bell of this Department will now be writing to Mr David Andrews about this. While this is a useful piece of contingency planning I think we all recognise that we cannot foresee all the circumstances that may in practice arise.

I am copying this letter to Sir Arthur Knight.

Evan.

Kirk

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~~PRIME MINISTER~~

PM decided not to raise the issue at this meeting

MS
slu

Parliamentary Affairs

There is nothing special about next week's business, but we thought that this might be an appropriate moment to invite the Secretary of State for Industry to report to his colleagues on the situation at BL. If things should go very badly, there is the complication that decisions would probably be taken between the date of prorogation and the date of the state opening. The likely timetable, as far as we understand it at the moment, would lead to some sort of announcement on the day before the state opening (Wednesday 19 November) or later that week. This is because the BL Board would meet on Friday 14 November or Saturday 15 November and there would then have to be negotiations with the NEB and the Government before any announcement could be made. Given the delicacy of the timing of all this against the Parliamentary timetable, it would seem sensible to alert colleagues to the possibilities at this meeting of the Cabinet.

MS

5 November 1980

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cc Press Office



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

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

de B...
W...
clerk.

PS/ Secretary of State for Industry

3 November 1980

ind Pd

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

copy to
Mr Hoskyns

mb.

Dear Tim

You will have heard by now that the BL shop stewards and Joint Negotiating Committee, meeting together, this afternoon voted by a majority for an all-out strike starting early next week. The reasons for this decision are as yet unclear.

2. The events leading up to this decision have been as follows. Following the letter from Sir Michael Edwardes of 31 October circulated that evening, the Prime Minister's response was telephoned to BL in time for the Board meeting on 1 November. The Board determined that they would tell the General Secretaries of the unions representing BL's hourly paid employees of the total funding requirement of BL and within that of the funding required from Government - specifically that £800m was required from Government for BL Cars for the years 1981 and 1982. The Board also determined that if, in their opinion, any strike were proving damaging, then they would tell the Government that they sought no further funds for investment in BL Cars. The form in which these two statements were approved met broadly the points we made to BL on presentation, and I understand that reference was made to the fact that there was no Government commitment to the funding requested.

3. These two statements were made by BL senior management to both the General Secretaries (on Sunday 2 November) and to the Joint Negotiating Committee (this morning). The JNC were given permission to repeat the statements when they subsequently met the shop stewards. The meeting between the JNC and the shop stewards lasted over six hours, with the result noted above.

4. BL are at present thinking about their immediate response to this situation, and will consider sending a letter to all BL Cars employees later in the week; I shall of course keep you fully informed. However, of far more importance is the decision taken by the BL Board on 1 November which was not communicated to the unions, namely that they would, if any strike did not

/collapse...



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2.

collapse within a few days, decide to cease trading at BL Cars. I understand that if the strike does continue, the Board are likely to meet to take this decision on 14 or 15 November.

5. The situation will of course be very serious if the strike call is fully supported by the employees - though BL will be exerting every effort during the intervening five working days to prevent this happening. Moreover, since the reorganisation outlined in the new Corporate Plan has not yet taken place, those involved include not only Austin Morris employees but also Land Rover and the Parts Operation people, and the decision to cease trading would, on the face of it, apply to these companies also. Officials here, in consultation with other Departments, will be studying over the next few days what contingency work might be possible to allow minimisation of the effects on Land Rover and the Parts business, and consequently on PES and PSBR, if the strike takes place.

6. I am sending copies of this letter to John Wiggins (Treasury), Andrew Hardman (Employment), Robin Ibbs and David Wright (Cabinet Office).

Yours ever

Catherine Bell

CATHERINE BELL
Private Secretary

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MANPOWER ASSUMPTIONS

	<u>BL Cars</u> (000)	<u>BLCV</u> (000)	<u>Land Rover</u> (000)	<u>Unipart</u> (000)	<u>Others</u> (000)	<u>Total</u> (000)
December 1977	119	44	15	5	11	194
December 1979	97	40	15	5	10	167
Mid 1980	86	39	15	5	10	155
December 1980	77	38	15	5	10	145
December 1981	68	37	15	5	9	134
December 1982	65	37	15	5	5	127
December 1983	62	32	16	5	3	118
December 1984	60	33	17	5	2	117
December 1985	58	34	19	5	2	118
December 1986	58	37	20	5	2	122
December 1987	59	40	21	5	2	127

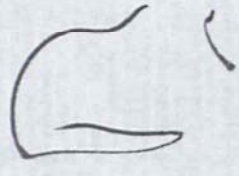
Note

The figures shown above are based on assessments of what both the historical and actual breakdown of manpower would have been between the Companies. The future projections (beyond 1981) are based on very preliminary forecasts and will be subject to revision following completion of detailed Corporate Plans. In addition, the timing of the assumed disposal of those Companies which will not be included in the four main ones, is also subject to review.

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COMMERCIAL IN CONFIDENCE

Ind (PS)

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



Sheila W. Lees
12-9-80

with compliments ;





BL Briefing

Corporate Communications

12th September 1980

Speaking at the announcement of BL's preliminary half-year results to 28th June 1980, the Chairman, Sir Michael Edwardes, made the following comments :

In reporting a half year trading loss of £94m and a pre-tax loss of £155m I would like to make some observations.

1. At the trading level BL Commercial Vehicles, Land Rover and Unipart recorded profits, so that the whole of the trading loss has occurred in the rest of the Car business.

2. I will therefore concentrate the following comments on Austin Morris, Jaguar and Rover Triumph, all of which have been unprofitable at the half year. The idea that Jaguar, Rover and Triumph are profitable is a well established myth.

3. It is true that the Western World's car business is in some disarray, that following the recent energy crisis which has affected sales of larger cars, we have entered a sharp and deepening recession, and that competition from Japan affected car sales and profit margins not only in Europe and North America, but worldwide. While monetary value of exports has held up well (£450 million first half 1980 versus £435 million first half 1979) one should be aware that volume fell and margins were reduced. Some of the leading international motor manufacturers have also recorded very substantial losses. This is not surprising, as demand for vehicles has dropped dramatically.

4. Nevertheless I must make the point that the recession, the energy situation and Japan have affected only the quantum of loss in our Cars business - even without these factors our Cars business is not currently viable, and without the major product and streamlining programme started under the last Government and continued under this Government, our Cars business could not possibly survive. It is of interest to note that other Governments in Europe and North America are now giving overt help to their motor industries. It is difficult to calculate the amount of financial support being given indirectly in other countries, but it is certain that overt national assistance given or promised in the United States and Italy in recent months amounts to some 3 billion dollars. This is more in one year than BL has received in five. Re-structuring and streamlining industries which have not kept pace with international competition is a very expensive business! Metro, for example, is not only a new product but is being manufactured in a totally new factory with new technology. To build factories and develop products takes time and money. Also, de-manning and factory closures cost money and will contribute heavily to our losses this year. Abnormal product development costs will continue until 1983,

when the first stage of the updating of the model range will have been completed.

5. Those who support what BL is trying to accomplish have suggested that the recession could not have come at a worse time; that in two years time with Metro well launched and other new products coming through, we would have been better placed to stand the trauma of a serious drop in Europe and the USA demand. There is much validity in this, but what if the recession had come three years earlier!

5.1 Three years ago we were carrying 30,000 people more in BL as a whole, we were carrying more surplus production capacity than now, we were three years from the launch of Metro (and two from the launch of the first of the T45 truck range).

5.2 We were suffering from alarming disruptions in production due to industrial action, and inflation. Our wage bargaining arrangements were chaotic. In all these respects we are better off now.

5.3 In fact disputes in our overall business have dropped by 40% compared with the same period of last year, so that despite short time working and reduced volumes output per man has been maintained by a workforce 20,000 lower in July than it was when we announced the Recovery Plan last September.

5.4 No one can say that our employees have not made a major contribution to BL's survival this year. And although they have accepted very low wage increases for two years running, most plants have been earning productivity incentives. This is in no small part due to the removal of long-standing restrictive practices with resultant flexibility of working.

5.5 In the month of July our car factories achieved the highest level of productivity they have achieved for many years. This is encouraging and necessary because both we and the components makers must contain and reduce unit costs if we are to stay in business. Our wage settlements will need to reflect this fact of life.

6. Clearly had the recession and the strong £ hit us three years ago we would have had little chance of survival. Nevertheless on top of an artificially strong pound, and tough interest rates, the recession has hit us in the very middle of the Recovery Plan. Vehicle sales at the half-year are down by 30%. How will we cope with the next recession?

With lower ~~running~~^{manning} levels, higher output per man, fewer production facilities and the lower fixed expense structure, all of which are being implemented as part of the Recovery Plan, we will be much better able to cope. Even now BL Cars would be at a break-even at the trading profit level had sales held. Add to that the Metro family, the LC10 family (and of course in LVL the T45 family) and BL will be able to meet the next downturn with confidence.

7. We cannot possibly run the business at a profit in the short term, and our priority this year has been to manage cash as tightly as possible even where this has prejudiced our profit and loss account. We have paid even greater attention to working capital since the year started. At the half-year this policy contributed to the funding of the business and while it remains our objective to avoid extra calls on Government, pressures on cash which major industries are suffering throughout the Western World show no signs of lessening.

We will therefore continue to treat cash as the top priority except that the de-manning and factory closures programme and the product development work must not be allowed to suffer; for without a slimmer operation with more up to date products, neither our Cars nor our Commercial Vehicles business will ever become self-sufficient. The fact that the streamlining exercise has gone so smoothly is a tribute to all concerned.

8. Metro: Despite internal restructuring and external pressures the Metro programme - the biggest of its kind in the UK motor industry - is right on target.

Metro will be launched in a month's time - October 14 - at the Motor Show.

It points to the way ahead for BL, for a product-led recovery.

The success of the project in terms of the revolution it has caused in changed attitudes; in new technology in an all-round commitment by shopfloor and management alike is unprecedented in BL, if not in British industry.

The car itself is truly remarkable. I can think of no major criterion on which it does not have an edge on competitors. This applies not least to petrol consumption - as the Daily Mirror's cartoonist said yesterday, "to go on holiday you had better stick a whole gallon in".

9. LC-10: The Metro programme demonstrates that with the proper investment in technology and facilities, the UK car worker can compete on equal terms with any foreign car worker.

This fact has largely influenced the BL Board to go ahead with LC-10, the first stage of the LC-10 family: our own designed developed and engineered mid-range car. The Board decision was made on Tuesday, and the LC-10 programme is being forwarded to Government in the usual way.

10. Non-EEC Competitors: We recognise the very real efforts made by the Society of Motor Manufacturers and Traders (SMMT) delegation to reduce Japanese inroads in the UK market. We note the outcome of the Tokyo talks. However, we do not only

sell in Britain - we sell throughout Europe. Every Ford and Renault and Fiat sale the Japanese replace in Germany means that these companies need to look for new outlets. Competition in all European countries intensifies as the Japanese increase their market share in any one. It follows that the Japanese can do major damage to British Motor Manufacturers by doubling their market share in Germany, as they have done in the past year, or by taking 28% of the Dutch market, as they now do.

Therefore our comment on the Tokyo talks is - we note the outcome, and we will closely monitor Japanese sales in the UK over the next months. So far as the EEC is concerned, we will work through the Committee of Common Market Automobile Constructors (CCMC) to bring about an orderly relationship between the Japanese and the EEC motor industry.

There is therefore a need to arrive at a broad approach at EEC level with the Japanese Government.

I believe that the Spanish situation is different. Here we have an absolutely blatant trading situation where we in the UK are virtually prohibited from exporting to Spain, while cars made in Spain flood into the British market. No less than 67,000 Spanish built cars in the Metro category were sold in Britain in the last 12 months and we have brought this to the attention of the Department of Trade again and again. To make the point once more, we are prepared to play our part to make the British car industry more competitive but we do expect the Government to provide a climate in which we can operate.

We should not have to pay crippling duties to sell our products in Spain while Spanish cars enter Britain at highly favourable rates.

Please Mr Nott let us have action rather than words and let us have it now. You owe it to thousands of employees in this industry - who have been playing a most responsible role for many months now - to act against Spanish imports.

11. Outlook: It would be foolish to forecast the out turn for 1980, but with Metro on sale for less than a quarter of 1980 and with the recession likely to continue well into 1981, we see no hope of an early improvement in trading results.

had BL

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

Prime Minister

To glance - and
particularly at

mt

cc Mr Holmes

BL's very bad 12th September, 1980
Half-yearly results (Flag A)

Dear Mr. Lankester,

RWJ

In Roger Holmes' absence on holiday I am sending you a copy of the statement the Chairman will make this afternoon following the outcome of the SMMT/JAMA talks. This will form part of the speech he will make at the press conference on our half year statement. He will read out only those passages marked in the left hand margin, but we thought you might care to have sight of the whole document. It is of course embargoed until 3.00 p.m. today.

Also enclosed is an advance copy of our half year statement. This is also embargoed until 3.00 p.m. today.

Yours sincerely,

Sheila Witts

Sheila Witts
Assistant to the Chairman

NON-EEC COMPETITORS

Japan has gone from 10 million vehicles in 1979 to a likely 11.5 million in this 1980 recession year. I therefore make no apology for concentrating in some detail on the Japanese situation. Look at their success in the USA market where one in four cars sold in the USA is now imported from Japan. What the USA propose to do about it is up to them. For our part, as members of the CCMC we are playing an active part in working with the EEC Commission to review the whole trading relationship with Japan for the motor industry.

deleted.

So far as the UK is concerned: the Japanese contend that their prudence in the UK has merely led to increased imports from other EEC countries. Can we get the facts of life onto the table - the EEC is one trading bloc. The Japanese state that we should limit trading within the EEC when it is one market. The Japanese contention is like arguing that their 40% of the Californian market isn't so bad when 50% of cars are being imported from Detroit. We must look at the Common Market as a whole for we interchange vehicle and component sales through Europe. For example, cars made in Britain have German components and cars made in Germany have British components.

Selected

The issue at the end of the day is the EEC's relationship with external trading partners. The plain fact is that the French, the Germans and the Italians are all members of the EEC in one market, and the Japanese are not.

We recognise the very real efforts made by the SMMT delegation to reduce Japanese inroads in the UK market. We note the outcome of the Tokyo talks. However, we do not only sell in Britain - we sell throughout Europe. Every Ford and Renault and Fiat sale the Japanese replace in Germany means that these companies need to look for new outlets. Competition in all European countries intensifies as the Japanese increase their market share in any one. It follows that the Japanese can do major damage to British Motor Manufacturers by doubling their market share in Germany, as they have done in the past year, or by taking 28% of the Dutch market, as they now do.

Therefore our comments on the Tokyo talks is - we note the outcome, and we will closely monitor Japanese sales in the UK over the next months. So far as the EEC is concerned, we will work through the CCMC to bring about an orderly relationship between

the Japanese and the EEC motor industry.

Competition from Japan is not normal competition from individual motor manufacturers. It concerns interest rates, the value of the yen, the investment policies of banks - in short it is Japan Inc. versus Detroit in the USA and Japan Ltd versus BL, Ford, GM, Fiat, Renault, Peugeot, VW et al in Europe. I fully endorse the anxieties recently expressed by Ford of Europe and Fiat directors as well as the submission to Brussels made by CCMC members in June.

There is therefore a need to arrive at a broad approach at EEC level with the Japanese Government.

I believe that the Spanish situation is different. Here we have an absolutely blatant trading situation where we in the UK are virtually prohibited from exporting to Spain, while cars made in Spain flood into the British market. No less than 67,000 Spanish built cars in the Metro category were sold in Britain in the last 12 months and we have brought this to the attention of the Department of Trade again and again. To make the point once more, we are prepared to play our part to make the British car industry more competitive but we do expect the Government to provide a climate in which we can operate.

deleted

We should not have to pay crippling duties to sell our products in Spain while Spanish cars enter Britain at highly favourable rates.

Please Mr Nott let us have action rather than words and let us have it now. You owe it to thousands of employees in this industry - who have been playing a most responsible role for many months now - to act against Spanish imports.



BL Limited

Preliminary Half-Year Results

Issued by BL Corporate Communications, September 12, 1980

PRELIMINARY RESULTS

BL LIMITED—HALF YEAR RESULTS TO 28 JUNE 1980

The Board of BL Limited has announced unaudited results for the six months ended on 28 June, 1980.

	Six months to 28 June, 1980 £ million	Six months to 30 June, 1979 £ million
SALES		
—U.K.	841	1,021
—Overseas	580	639
—Total	1,421	1,660
of which direct exports from U.K.	450	435
<hr/>		
LOSS (profit in 1979) BEFORE INTEREST AND TAXATION (before exceptional manpower reductions)	(93.4)	47.7
*Exceptional manpower reductions	16.8	—
Interest payable less receivable	44.7	27.6
LOSS (profit in 1979) BEFORE TAXATION	(154.9)	20.1
Taxation charge	1.0	3.8
LOSS (profit in 1979) AFTER TAXATION	(155.9)	16.3
Minority Interests	2.7	2.2
LOSS (profit in 1979) BEFORE EXTRAORDINARY ITEMS	(158.6)	14.1
**Extraordinary items	22.9	4.9
LOSS (profit in 1979) AFTER EXTRAORDINARY ITEMS	(181.5)	9.2
<hr/>		
The loss (profit in 1979) is after charging depreciation and amortisation of	51.1	43.7
<hr/>		
Vehicle Unit Production '000	304	391
Vehicle Unit Sales '000	290	414

* '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.

The following statement from the Company was issued on the London Stock Exchange at 3 p.m. today.

The financial results show that BL made a £93.4 million trading loss (i.e. before interest and before taxation) for the half-year, compared with a profit of £47.7 million for the same period last year.

While losses were expected, due to the fundamental restructuring of the business under the Recovery Plan, announced last September, the scale of these losses has been exacerbated by external factors. These include the world-wide recession which has particularly affected the motor industry; the energy situation; continuing high UK inflation and difficulties in trading at home and overseas caused by the strength of the pound.

While Cars show an overall trading loss of £102 million, within Cars Land Rover and Unipart continue to trade profitably. BL Commercial Vehicles recorded a modest trading profit of £9 million.

Sales were lower at £1,421 million (1979 £1,660 million). While the value of exports from the UK increased to £450 million (1979 £435 million) volume fell and margins were much reduced.

Significant progress has been made in improving industrial relations and the number of internal disputes dropped by 40% against the corresponding period last year. Major changes to working practices in the car operations were accepted by unions and employees, which have resulted in increased productivity, despite short-time working and selective lay-offs.

In line with the Recovery Plan, overall manpower has been reduced by 20,000 from 177,000 in August 1979 to 157,000 in June 1980. This has resulted in an additional cost of £39 million for exceptional manpower reductions and extraordinary items covering the cost of plant closures.

The Plan, which envisaged the loss of at least 25,000 jobs and 13 factory closures or cut-backs over a two-year period, has been accelerated in view of deteriorating market conditions.

The high level of Japanese exports to our traditional markets, taking advantage of the extremely favourable currency situation, continues to be of great concern.

Leyland Vehicles has introduced two new trucks, Roadtrain and Landtrain, and next month the Metro will be launched by BL Cars. The new light/medium car (code name Bounty) will be launched towards the end of next year.

With Metro on sale for less than a quarter of 1980 and with the recession in the European and North American motor industry likely to continue well into 1981, we see no hope of early improvement in trading.

The following information was obtained from the records of the
Department of the Interior, Bureau of Land Management, on
the subject of the land in question, to-wit:

The land in question is situated in the County of
[County Name], State of [State Name], and is
more or less bounded by the following parties, to-wit:

On the north by [Party Name], on the south by [Party Name],
on the east by [Party Name], and on the west by [Party Name].

The land in question is of the size of [Size] acres,
more or less, and is more or less bounded by the following
parties, to-wit:

On the north by [Party Name], on the south by [Party Name],
on the east by [Party Name], and on the west by [Party Name].

The land in question is of the size of [Size] acres,
more or less, and is more or less bounded by the following
parties, to-wit:

On the north by [Party Name], on the south by [Party Name],
on the east by [Party Name], and on the west by [Party Name].

The land in question is of the size of [Size] acres,
more or less, and is more or less bounded by the following
parties, to-wit:

On the north by [Party Name], on the south by [Party Name],
on the east by [Party Name], and on the west by [Party Name].

The land in question is of the size of [Size] acres,
more or less, and is more or less bounded by the following
parties, to-wit:



of 8/9.

*With the Compliments
of
ADAM RIDLEY
Special Adviser*

Treasury Chambers,
Parliament Street,
S.W.1.

*to (OR)
MU*



CHANCELLOR

E2

cc Mr Lovell

Mr Dixon

~~Mr Lankester~~ (or) No.10

B.L.

You may remember my arguing shortly before the end of last year that BL would be capable of very substantial productivity improvements, and that every pressure needed to be put on them to achieve such advances. The attached FT extract of 15.8.80 shows how productivity improvements have, indeed, proved to be feasible, at least at Land Rover. No doubt further dramatic improvements would reasonably be looked for before long both in BL and elsewhere if this is anything to go by.

A handwritten signature in dark ink, appearing to be 'M' or 'AM'.

ADAM RIDLEY
18 August 1980

Land-Rover recovery expected

By Lorne Barling

LAND-ROVER sales figures for the first half of this year are expected to show that it has regained lost ground in the home market as one of the benefits of its £200m investment programme, Mr. Mike Hodgkinson, the managing director, said yesterday.

The programme is part of the overall BL recovery plan.

Land-Rover is likely to achieve 60 per cent of total sales in the second quarter, compared with only 52 per cent in the second half of last year.

It is estimated that about 6,000 Land-Rovers and Range Rovers were sold in Britain between January and June.

Mr. Hodgkinson, speaking at Eastnor, Worcs. on the occasion of the launch in the UK of a V8 version of the Land-Rover, said the company had achieved a 30 per cent improvement in productivity since the recent BL pay and working practices deal.

"As a result we have been able to absorb some of the effects of inflation without affecting profitability," he said.

Imports of Japanese four-wheel-drive vehicles had fallen in the first half of the year, and Land-Rover intended to regain at least 65 per cent of the market by the end of the year, a senior executive said.

FT. 15/8/80

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file

cc: JIM T BK
DEM.
CO
CPRS
hcc: John Hockley
Ind Pol

10 DOWNING STREET

From the Private Secretary

11 August 1980

BL

The Prime Minister has seen and noted your Secretary of State's minute of 6 August. No doubt we shall want to arrange a discussion on this topic in September, when further information is available.

I am copying this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment) and David Wright and Gerry Spence (Cabinet Office).

N. J. SANDERS

Ian Ellison, Esq.,
Department of Industry

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R.

✓ Mr Hoskyns

Prin. Director

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Qa 05102

To: MR LANKESTER
From: J R IBBS

ms

No action needed on his at present. But you will want to hold a meeting in September when further costings are available. JL

BL

Flay A

1. I have seen the minute dated 6 August from the Secretary of State for Industry. 8/8
2. The proposed restructuring appears to be on the right lines and I agree that further work on the costs and implications of carrying this out and on the potential benefits it might bring should be encouraged, but without commitment at this stage.
3. I would suggest that while consideration is being given to the pattern of restructuring shown in the Annex to the Secretary of State's minute, the possible need for any new legal entities within BL Cars Limited that might assist future rationalisation moves should also be reviewed. I do not know whether any are in fact likely to be necessary but any restructuring when announced is bound to cause some consternation amongst the workforce and it is arguable that it might be better to announce all desirable changes at one time rather than having to come back for a second bite. I realise that previous undertakings that have been given make this a highly sensitive area.
4. I was pleased to see in paragraph 3 of the Secretary of State's minute that total flotation of certain subsidiaries would be considered as well as the possibility of retaining a 40 per cent share. It is important to keep this possibility in mind since it may well be that a better price may be obtainable for a total sale than for a sale in stages. Obviously any final judgement on such alternatives would also have to take account of the effect on the remainder of BL.
5. As with any sale of business the timing of any moves resulting from the proposed restructuring will be important. Even with an obvious and urgent need for cash inflow it would be regrettable if a potentially very



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valuable part of the business had to be sold in near distress conditions at the bottom of the market.

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

SR

8 August 1980

BL

File

ds



cc D/Ind

10 DOWNING STREET

From the Private Secretary

7 August 1980

This is further to my letter of 24 July.

The Prime Minister has made a general rule that she cannot lend her name in any way to individual products. I am afraid that she has decided that, even in the exceptional case of the Metro, she cannot depart from this rule.

I. E. LANKESTER

David Lowe, Esq.

GB



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PRIME MINISTER

BL

You will recall that one of the proposals in the report on BL prepared for me by Mr Grenside of Peat, Marwick, Mitchell was that BL should seriously consider the possibilities of corporate restructuring.

2. Michael Edwardes came to see me at the end of last week to outline his Board's preliminary proposals on this subject. In this minute I set out for colleagues' information what he told me.

3. Michael said that his Board considered that the time was now ripe - as it had not been earlier because of the risk of a decline in company morale affecting the Metro - to consider both contingency planning and disposals. These two aspects had been merged into one plan for the future of BL, which involved the division of BL Ltd into four separate businesses which would only be under the overall control of BL Ltd if desired. Of these four businesses (set out at Annex A), Michael said the Land Rover Group and Unipart Group, as cash generators, could and would be floated during 1981 so that BL Ltd or some successor to it would retain only a 40% holding. In response to my questioning, however, Michael agreed that his Board would be prepared to consider total disposal by flotation. As an

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aside/...



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aside, he also pointed out that the remaining 90,000 private shareholders in BL Ltd could probably be bought out with the offer of shares in either of these groups, which would remove them from BL Ltd as a whole. According to Michael, Leyland Commercial Vehicles, the third group, ought to be in a position to be floated off at a later stage. This would enable BL Cars to be isolated in the remaining group and would make any decisions on it easier to take in the knowledge that the profitable parts of the company would not be affected.

4. Michael assured me that, although BMW do not yet know about these proposals, they should not affect the progress of negotiations with them, or with any other company; collaboration would simply proceed with whichever individual group was concerned. Michael added that the negotiations with BMW were still very much alive. This accords with the assessment officials in this Department have been able to make from other contacts, and decisions may be reached in mid-September.

5. Michael was not prepared to be drawn very far on the costs associated with his proposals, since detailed work has still to be done on this aspect. However, he did indicate that some £200m might be generated from the floating of Land Rover and Unipart, that Leyland Commercial Vehicles might need some minor financing for a short period, and that BL Cars, deprived of the cash generation from the other parts of the business,

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would/...

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3.

would require substantial further funding over the medium term. He admitted that the funds generated by the disposals would not cover this requirement.

6. Michael wished to know now whether he had a yellow light from us at this stage, on the basis of which he would develop the proposals further and discuss them again with me in September; at that stage he would request a green light so that his proposals could be included in, probably, separate corporate plans for each group for presentation to me in the autumn.

7. I told Michael that the ideas which he had put forward in outline were attractive, and that the disposals proposed would seem to ease public sector financing problems; he therefore had the yellow light he requested. However, I stressed to him that more detailed consideration needed to be given to his proposals, particularly in the frame of the further work on costs which still remained to be done, before I could give him a green light.

8. I have reported these proposals in some detail at this relatively early stage because they seem to me to demonstrate the wide-ranging nature of Michael's consideration of the future for BL, and the extent to which he has taken our concerns on board. I think it is now almost inevitable - as Michael indicated during the dinner you hosted in May - that substantial

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further funding will be sought for BL Cars. These proposals, apart from their other attractions, will have the effect of helping to minimise the overall call on public funds, especially in 1981-82. I shall minute you again later this month or early in September when BL have been able to provide us with the required costings.

9. I am copying this minute to Geoffrey Howe, Jim Prior, John Hoskyns, Robin Ibbs and to Sir Robert Armstrong.

KJ

K J

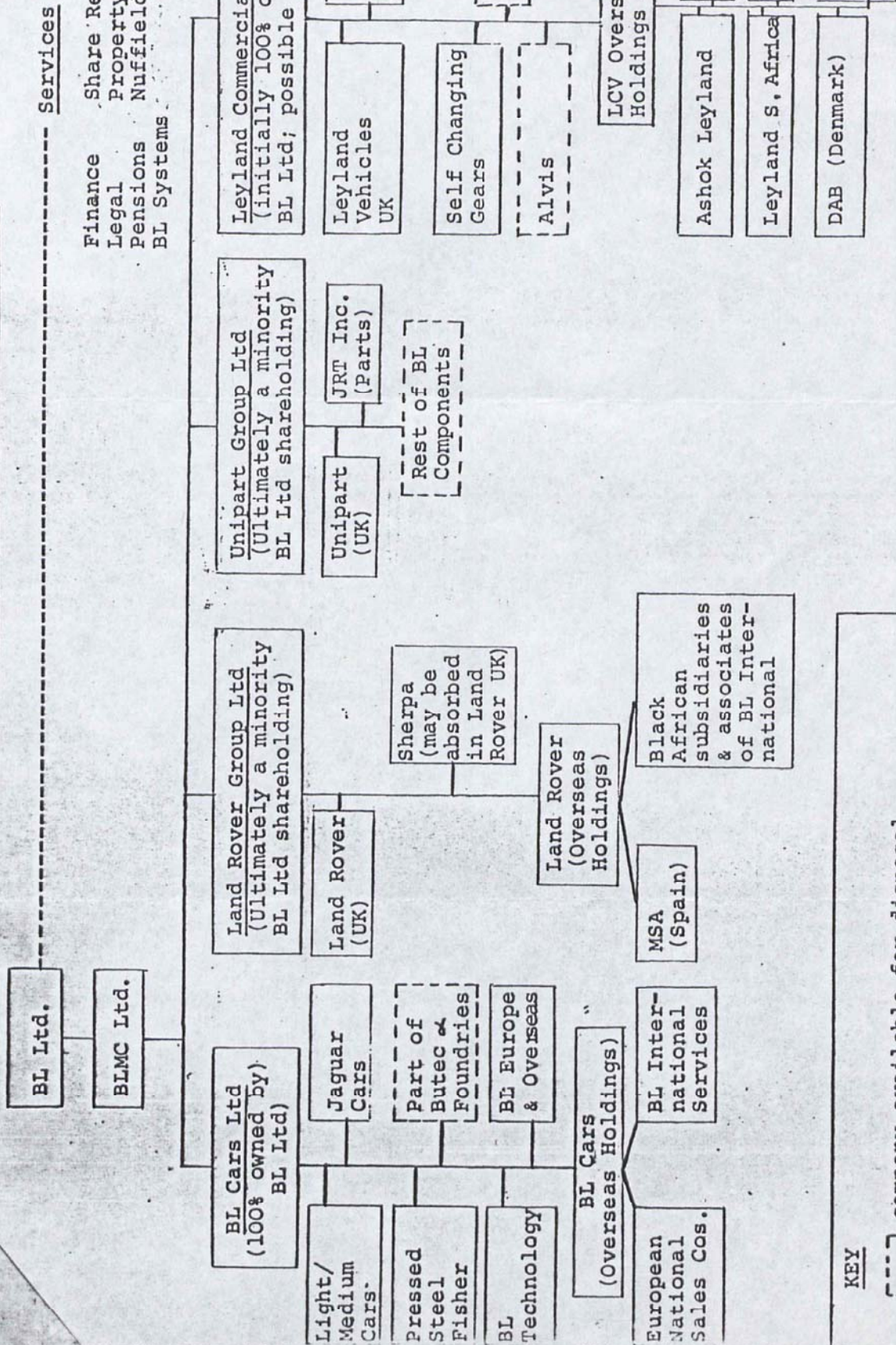
6 August 1980

Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

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PROVISIONAL OUTLINE OF REVISED STRUCTURE FOR BL LTD.

ANNEX A



KEY
 [] company available for disposal
 [] Other companies for early disposal
 (not included in chart)
 Aveling Barford/Prestcold/Leyland Australia

SR/CF ? 1
Mr Mr .

PRIME MINISTER

A company by the name of Caribiner, who will be making a presentation to BL dealers of the new Metro, have written to you at Flag A asking if you will send a message of greetings and good wishes. The Department of Industry and BL have advised that it would not be appropriate for you to do so, and Sir Keith has himself declined. Agree that I should turn them down?

Handwritten signature

Handwritten mark

5 August 1980

caribiner

caribiner, inc. ● world trade centre st katharine by the tower london E1 9AA (01) 488 2400 telex 884671
● 16 west 61 street new york city ny 10023 usa (212) 541 5300 telex 126616

22nd July 1980

cash

Rt Hon Mrs M Thatcher
10 Downing Street
LONDON
SW1

Thurs 22

Dear Mrs Thatcher

PA

You may know that B.L. Cars are about to launch the new Austin Metro Motor Car. The success of this model is not only vital to the Company, but to the Economic well-being of the Nation.

For too long we believe the British have given the impression of a fragmented society. Even the superb achievements of Concorde and QE 2 failed to focus sufficiently our Country's pride and self belief. This must not happen to Metro.

On 6th September the men and women who have made this new car will be showing it for the first time to the Salesmen who will be going out to convince the world that Britain can still deliver the goods.

I am writing to ask if you are prepared to send a simple message of greeting and good wishes which could be shown to this private meeting.

I need not say how important such a gesture from someone of your eminence in public life would be. This greeting could take the form of either a telegram or letter from you, which we will reproduce in the audio visual programme.

It is proposed to put together a short montage of these greetings with which to open this crucial event.

I am enclosing a list of the men and women to whom I am writing in this connection.

Yours sincerely

David Lowe

David Lowe
EXECUTIVE PRODUCER

Enclosure

Prince Philip
Prince Charles
Mrs Thatcher
James Callaghan
Speaker Thompson
Edward Heath
Lord Shinwell
Sir Keith Joseph
Lord Beeching
Lord Cousins
Lord Hailsham
Lord Home
Sir Harold Macmillan
Joe Gormley
Terry Duffy
Moss Evans
Sid Weighell
Editors - Times
 Guardian
 Financial Times
 Sunday Telegraph
 Telegraph
 Mail
 Observer
 Sun
 Mirror
 Daily Express
 Sunday Express
 Sunday Times
 Daily Star
Lord Mayor - London
 Birmingham
 Coventry
Sir Fred Hoyle
David Hockney
Sebastian Coe
Alan Minter
Kevin Keegan
Billy Beaumont
Tony Jacklin
Ian Botham

Dame Vera Lynn
Lord Olivier
Andre Previn
Yehudi Mehuin
Tommy Steele
Peter Sellars
Danny La Rue
Patrick Moore
Richard Burton
Sir John Betjeman
Daphne Du Maurier
Sean Connery
Archbishop of Canterbury
Archbishop of Westminster
Robin Day
Lord Snowdon
Barbara Cartland
Lord Sieff
Sir A Weinstock
Lord Bernstein
Sir Charles Forte
Sir James Goldsmith
Glenda Jackson
James Galway
Sir Freddie Laker
Norman Fowler
Paul McCartney
Eric Morecombe
Ernie Wise
Terry Wogan
Alan Wicker
Peter Ustinov
Ron Greenwood
Jimmy Saville
Sir Lew Grade
Dave Allan
Michael Parkinson
Dame Naomi James
Clare Francis
Geoff Boycott
Sir Roger Bannister

SM



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

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

5 August 1980

DL

8/8

Jim Geoffrey

Michael Edwardes sent me a copy of his letter to you of 25 July. I enclose a copy of my acknowledgment.

We all try to keep the balance right in what we say.

I am sending copies of this letter to the Prime Minister, Jim Prior and Angus Maude.

Can,
/Can

copies:
Prime Minister
Jim Prior
PS/Ministers
PS/Secretary
Mr Manzie
Mr Bullock
Mr Leeming
Mr Mountfield
Mr Bowder - V
Mr Cochlin(on file)

JU



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

4 August 1980

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

Prime Minister

Dear Tim

In your letter of 24 July, you asked for advice on the response the Prime Minister should give to the request from Caribiner for a message of goodwill for the Metro launch.

BL have told us that Caribiner are preparing a presentation for use during the private introduction of the Metro to BL dealers and sales staff, and that the sort of message requested by Caribiner is not appropriate in this context. We do not therefore advise that any exception need be made to the Prime Minister's normal practice in such cases. I have taken the same line on the request to my Secretary of State, and I attach for your information a copy of my reply to Mr Lowe of Caribiner.

Yours sincerely

Catherine Bell

CATHERINE BELL
Private Secretary



Secretary of State for Industry

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

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

4 August 1980

David Lowe Esq
Executive Producer
Caribiner Inc
World Trade Centre
St Katherine by the Tower
London E1 9AA

Dear Mr Lowe

Thank you for your letter of 23 July asking the Secretary of State whether he could send a message to BL's sales staff as part of a presentation on the new Metro car.

I regret that it is not possible for the Secretary of State to be seen to be involved so closely in publicity for any one product, even for private purposes, and that I am therefore unable to send you the sort of message you request.

*Yours sincerely
Catherine Bell*

CATHERINE BELL
Private Secretary

CONFIDENTIAL

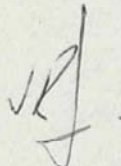
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To: MR LANKESTER

From: J R IBBS

BL

- Play A
1. I have seen the minute dated 23 July from the Secretary of State for Industry to which he attached Mr Grenside's report.
 2. The serious current situation at BL revealed by Mr Grenside and confirmed in the two letters dated 10 and 15 July from Sir Michael Edwardes is not unexpected in the light of what emerged at the dinner on 21 May and general trading conditions since then.
 3. The work which the CPRS is doing on possible options would support the proposal that a decision on the Company's future should await the 1981 Corporate Plan due in the Autumn as there is no immediate action that could be taken that appears financially or otherwise attractive.
 4. At this stage I should like to emphasise the desirability of some restructuring of BL Cars Limited on the lines proposed in paragraph 6.5 of Mr Grenside's report since this appears to have organisational merit and would prove very worthwhile if action involving break-up or partial closure of the present Company has to be taken.
 5. I am sending a copy of this minute to Sir Robert Armstrong, to John Hoskyns, and to the Private Secretaries to the Chancellor of the Exchequer and the Secretaries of State for Industry and for Employment.


1 August 1980

CONFIDENTIAL

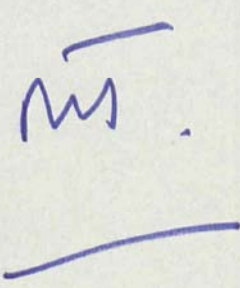
Amor Minute

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See also note
from the Chancellor
below.

TL

12/8



CONFIDENTIAL



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

PRIME MINISTER

I have read with interest the Secretary of State for Industry's note to you of 23 July and the report by John Grenside of Peat, Marwick, Mitchell and Co. which covers it.

2. The picture painted is disappointing, but not I think unexpected. It is clear enough now that the objectives set by Sir M. Edwardes in the 1980 Corporate Plan will not be met and that the company will incur higher losses than envisaged as well as an increase in its net cash outflow. On the other hand I am glad to note that Sir Michael is taking steps to adjust to the changed circumstances by expediting reductions in manpower and scaling down his investment programme.

3. The Grenside Report offers useful background and suggestions for the 1981 Corporate Plan. It is some comfort that Sir Michael Edwardes has accepted the report, and that his planning will cover the possibilities of restructuring as suggested by Grenside. It is also clear that developments over the past 12 months call for a realistic re-assessment of the prospects including further slimming down of the company so that it can offer a better prospect of long term viability. Whatever the course followed there are grave implications for public

/expenditure

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expenditure and we shall have to try to find means of minimising these demands. At the same time the wider implications for the BL supplier industries which would follow large scale BL closures need to be recognised. I understand that a second interdepartmental report by officials on these aspects has been prepared, following the first Report on the public expenditure consequences in the first twelve months, and we shall need to bear these reports in mind when we come to consider the 1981 Corporate Plan in the autumn. In the meantime, I am inclined to go along with Keith's view, that a discussion between us at this stage would be premature. We should wait I think and see how far Sir Michael is able to reflect the message of the Grenside report in his plan for the coming year.

4. I am copying this to the Secretaries of State for Industry and for Employment, Robin Ibbs, John Hoskyns and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

G.H.

31 July 1980

CONFIDENTIAL

caribiner

caribiner, inc. ● world trade centre st katharine by the tower london E1 9AA (01) 488 2400 telex 884671
● 16 west 61 street new york city ny 10023 usa (212) 541 5300 telex 126616

29th July 1980

The Private Secretary
10 Downing Street
LONDON
SW1

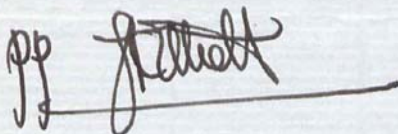
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R30
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Dear Sir

Thank you for your letter of 24th July 1980, regarding my application to the Prime Minister for a greeting to the Salesmen of the new Austin Metro Motorcar.

I look forward to receiving Mrs Thatcher's reply at her earliest convenience.

Yours faithfully



David Lowe
EXECUTIVE PRODUCER

BL Limited

35-38 Portman Square,
London W1H 0HQ.

Telephone: 01-486 6000. Telex: 263654.

Cables: Leymotors London W1. Telex.

28th July 1980

T. Lankester, Esq.,
10 Downing Street,
London SW1.

Dear Tim,

In view of tomorrow's Censure debate, you may wish to draw to the Prime Minister's attention the attached copy of Sir Michael's letter of 25th July to the Chancellor.

Sir Michael's letter has also been copied to the Secretaries of State for Industry and Employment.

Yours ever,

Roger

Roger Holmes
Assistant to the Chairman



Enc:

TELEPHONE
01-488 8000

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

The Rt Hon Sir Geoffrey Howe, MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

25 July 1980

Dear Sir,

You may tell me that this is none of my business.

I am disturbed by recent statements by Members of the Cabinet which are anti-union in character. To have a go at union leaders in monopoly public sector operations is one thing; to have a go at unions in the private sector and in industry generally, who have undergone a major change in attitude in the past six months, seems to me to be counter-productive. In either case, it is sheer weak management which causes settlements to be high, and unless the union leader is in a uniquely powerful position and therefore able to blackmail management, I would have thought that the management should take more of the blame for irresponsible wage settlements than should the union.

I raise this because it seems to me that we are turning the knife in the wound, just when we are obtaining optimum co-operation from people like Moss Evans and Terry Duffy et al. The major battle on attitudes has largely been won - frankly, we stand the risk of having to fight it all over again if our posture places them in a corner from which graceful retreat is not possible. Why take this line when their attitudes have moderated to the point where sweet reasonableness is likely to prevail.

...../

The Rt Hon Sir Geoffrey Howe, MP

25 July 1980

By the same token, to put all the blame for our lack of competitiveness on the unions lacks credibility in the country as a whole. Even if we stopped paying direct wages entirely, currency relationships now enable the Japanese to compete with us! Our inability to compete with Japan Inc. is not unique to Britain, as a visit to Detroit earlier this week confirmed.

Even the Germans now recognise that the concerted effort of the Japanese including their tactical devaluation of the yen (against all major industrial currencies) has put them in an unassailable price position in world markets. Perhaps their costs will catch up with them due to the weakness of the yen, but in the meanwhile their dramatic increase in market share (in many industries) will take some dislodging.

With the unions now fully recognising this in, for example USA, Germany and Britain - and perhaps being somewhat ahead of the politicians in this recognition - union bashing will look increasingly hollow and inappropriate.

Yours,
Michael.

+ including Ministers!



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10 DOWNING STREET

From the Private Secretary

24 July 1980

I would be grateful for advice on the enclosed letter about the Metro launch. The Prime Minister, as I am sure you know, would not normally consider lending her name to the launch of a commercial product; but in view of the fact that this is a BL product, and the crucial importance of the Metro to BL's success, I suppose we might make an exception.

T. P. LANKESTER

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

GR



file K10

10 DOWNING STREET

From the Private Secretary

24 July 1980

I am writing on behalf of the Prime Minister to thank you for your letter of 22 July.

This is receiving attention and you will be sent a reply as soon as possible.

T. P. LANKESTER

David Lowe, Esq.

cc A. Duguid

Annex A



PRIME MINISTER

SECRET

These papers confirm how serious the BL situation is. But there are no decisions to take at this stage - until we have the 1981 corporate plan in the autumn. I don't think there is much point in having a meeting until then.

BL

1 This minute is to bring colleagues up to date on the situation on BL.

THE GRENSIDE REPORT

2 You will recall that, following discussions at your meeting on BL on 17 April, we decided to ask Mr John Grenside, senior partner in Peat, Marwick, Mitchell & Co, to advise the Government on whether any further precautionary planning or action could usefully, or should, be undertaken to ensure that, if it became necessary to run down the company, such action could be handled in a way which minimised the consequences for public expenditure and for the UK economy generally.

12
27)

... 3 I have now received Mr Grenside's report, which I attach at Annex A to this minute. The conclusions are summarised at paragraphs 7.3 - 7.7. In essence, these are that immediate steps should be taken to deal with the risk of a breach of the liquidity ratios in BL's medium term loan agreement; that BL should be encouraged to produce a 1981 Corporate Plan which deals realistically with the future of the company, including such preparatory steps by way of corporate restructuring or otherwise as may be necessary, supplemented by contingency planning for foreseeable eventualities; and that the Government should be prepared to go on funding BL at least in the short term.

4 I have discussed this report with Sir Michael Edwardes, who has also consulted his non-executive Board members. They do not

/disagree ...

SECRET



disagree with anything Mr Grenside has written, and they are urgently looking into the suggestion in paragraphs 6.5 and 6.6 of the report on corporate restructuring.

BL'S FINANCIAL POSITION

5 Sir Michael Edwardes has also reported to me on the company's deteriorating profit and cash forecast for 1980, and the impact this might have on the medium and longer term. I attach at Annexes B and C his letters of 10 and 15 July, which should be read in conjunction.

6 BL's profit forecast for the year has deteriorated further since the letters which he wrote to me on 18 and 28 March. The deterioration in the cash flow forecast is less marked, as BL have made vigorous efforts to reduce working capital requirements particularly by sharp reductions in stocks. Colleagues may recall from the copy of the brief which my office circulated for our dinner with Michael Edwardes on 21 May that BL were at that time forecasting a 1980 loss before interest and tax of about £100 million. The forecast out-flow of cash, at £309 million for the year, was £13 million better than in the 1980 Corporate Plan. BL's more recent monthly figures reveal a forecast loss before interest and tax of £188 million and a cash outflow of £409 million. This situation is without question serious. It reflects three distinct factors:

- a) A much deeper recession in the vehicle market than had been generally expected, both here and abroad. Major vehicle manufacturers in nearly every country except Japan are turning in losses this year - not

/only ...



only in the US (where Ford as well as Chrysler are in considerable difficulties, and where even General Motors are expected to record a loss) but also in Europe.

- b) Failure of BL to achieve its target market share in the UK. In the case of cars, BL share has been 17.9% in the first 6 months against the Corporate Plan target of 20.5%, with only the well publicised 13.2% in June. Although there were special factors which may partially explain the June figure (and July so far has been well up), this is very worrying: it confirms that in a reduced, and thus increasingly competitive market, BL's outdated model range fails to meet the competition. Much therefore depends on the success of the Ital (face-lifted Marina) just launched and, most crucially, the Metro due to be launched in October.
- c) The strength of the pound and its effects on BL's ability to compete for volume and to realise profits both at home and abroad. In the medium term BL recognises that it must live with this new situation, and trim its operations and improve its performance accordingly: but the adjustments needed to recoup a substantial loss of competitiveness compared with the Corporate Plan's assumptions could hardly be achieved in a single year.

/7 ...



7 I have discussed with Michael Edwardes how he is responding to this situation. Although he has a long way to go, it would be wrong to minimise his achievements this year. This is most obvious in the field of industrial relations where there is no doubt that a new spirit, and a new management vigour, are at work. In addition to the 1979/80 pay deals, agreement has been reached with all the unions on the implementation (which has already taken place) of new work practices for which the company has struggled for years. The manpower reduction is well in excess of budget, and the forecast for December 1980 is now 147,000 compared with 161,800 forecast in the budget and 175,200 in August last year; the level so far this year is already down to 156,000. 1980 capital investment has been trimmed, and is now forecast to be £290 million compared with £330 million in the Corporate Plan. This is still roughly equivalent to total Government funding for the year.

8 However, in the light of the new situation, Michael Edwardes has two major steps in hand:

- i The Corporate Plan on which the company is now working will not only cover the possibilities of restructuring as suggested by the Grenside report, but will also have to go further than anything considered appropriate so far, both in rationalising the product range and cutting back on manpower and facilities.
- ii Even ahead of the Corporate Plan, the company has action in hand to cut its costs. A major reduction in staff for BL Cars has been decided on, and further lay offs and closures are in prospect without waiting for the Plan.



9 Meanwhile discussions are progressing on collaboration, including the German collaboration we have already discussed. The latter is somewhat less ambitious than originally envisaged, but would still make an important contribution to the company's recovery in various directions. The Honda collaboration is also proceeding well, and there is a possibility of it being extended.

10 As Treasury Ministers have agreed in recent correspondence, we are advancing to BL on 31 July a further £50 million from the £300 million facility we agreed last December. This will leave only £25 million in hand, but the timing of the drawing has been not to meet an immediate cash deficiency but in connection with the ratios problem on the medium term loan agreements. I have impressed clearly on Michael Edwardes the absolute need to contain drawings from the Government within the £300 million, and he is confident that this can be achieved certainly up to December, and he hopes until March, though with somewhat greater drawings on short term overdraft facilities from the banks than originally intended (adequate facilities have already been agreed with the banks to May 1981). There is, however, no doubt that when we come to take decisions on the 1981 Corporate Plan we shall have to decide on whether to concede a further increase in Government funding for BL beyond the current year or to look at more radical solutions.

11 This is a serious situation, but it is not wholly unexpected or without prospect of improvement. I am confident that the right course is to await the company's 1981 Corporate Plan due in the autumn, and to consider that together with the funding implications and the options for alternative courses of action on which the

SECRET



CPRS have some work in hand.

12 Meanwhile, I am satisfied that Michael Edwardes has further remedial steps in hand which he is pursuing vigorously; and these will not have the effect of closing any options which we may want to consider later in the year.

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

K
K J

mt
23 July 1980

Department of Industry
Ashdown House
123 Victoria Street

SECRET



Peat, Marwick, Mitchell & Co.

1 Puddle Dock
 Blackfriars, London, EC4V 3PD
 Telephone: 01 - 236 8000
 Telex: 888018
 Telegrams: VERITATEM LONDON ECA

Our Ref.

Your Ref.

SECRET

8th July, 1980

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

Dear Secretary of State,

BRITISH LEYLAND

You asked me at our meeting on 6th May to consider and advise as to whether in the light of the financial problems presently facing BL any further precautionary planning or action could usefully or should be undertaken at this stage.

The scope and depth of my enquiries into the position have inevitably been constrained by the need to preserve secrecy, but I have been supplied with BL's 1980 Corporate Plan, reports by Hill Samuel and Kleinworts on the BL Group's borrowings, a number of papers prepared by officials of your Department, with whom I have had several meetings, and certain other background information. In addition I have had the benefit of frank and open discussions with BL's executive vice-chairman, Mr. David Andrews, and I have discussed this report with both him and the Chairman, Sir Michael Edwardes.

1. THE PRESENT POSITION

1.1. BL is concentrating on the 1980 Plan - with some curtailment of capital expenditure and with some acceleration of redundancies - and is trying to keep a low profile in order not to prejudice the benefits anticipated from the new commercial vehicles introduced earlier this year, the Morris Ital, the launch of the Metro in the Autumn, the new Honda car in the latter part of 1981 and negotiations for further co-operative ventures with other manufacturers.

1.2. In these circumstances and because of the impracticality of

J. P. Grenside, C.B.E.
 H. Peat, C.V.O.
 D. G. E. Benzie
 W. B. S. Walker
 G. C. Peat
 A. W. Howitt
 J. K. Mather
 G. W. Dunkerley
 O. H. Thompson

P. J. Butler
 K. Exley
 A. J. Hardestle
 T. W. Allen
 C. N. Smith, C.B.E.
 G. T. E. Parsons
 R. J. P. Weaver
 J. B. Barton
 M. Reanshall, O.B.E.

G. A. Milnes
 I. D. Watson
 N. C. England
 J. White
 D. W. J. Young
 R. V. J. Chadder
 D. B. Vaughan
 D. F. Mead
 D. E. A. Morris
 T. F. L. Webber

R. J. G. White
 W. D. A. Carter
 W. F. Ratford
 W. M. T. Fowle
 R. W. Whewell
 R. B. Allan
 E. Brinham
 R. D. Agutter
 C. T. E. Hayward
 J. M. Ross

B. J. Clow
 S. H. Ingall
 R. L. Spalding
 C. M. Thompson
 P. W. Triggs
 G. M. C. Carter
 J. R. Dean
 M. E. S. Gibbins
 G. Acher
 A. Comber

G. D. H. Dewar
 P. G. Corbett
 J. R. Adcock
 G. D. Bowie
 R. Leng-Smith
 C. G. Sneath
 P. C. Westwood
 A. J. Kerevan
 B. C. Pike



effective detailed planning without involving a large number of senior executives and personnel - and because of the potential damage to customer loyalty and employee morale (to name but two sensitive areas) that would flow from any implication that BL had lost confidence in its continuing viability - contingency planning is largely restricted to a breach of loan agreement ratios and certain outline proposals confined to the executive vice-chairman and two or three of his close colleagues.

1.3. The projected profit and cash out-turn for 1980 has, however, slipped badly in BL Cars with the prospect of a lower than budgeted share of a smaller than anticipated home market. The main reasons for this are the strengthening of the pound and the economic downturn which are also affecting commercial vehicle sales. Abroad the recession in the USA has affected sales of sports cars.

1.4. Although cash flow will be worse than budget there are some £100m of confirmed bank facilities not being used in the forecast up to December 1980. Having regard to this and excluding the problem of the ratios it is not thought likely that BL will "run out of cash" this year and the cash drain as a result of losses is being restricted by reduction in inventory and some selective cutbacks in capital expenditure.

1.5. Forecast and budget balance sheets at 31st December, 1980 take in the whole of the Government's equity injection for the year 1980/81.

1.6. The ratio margins shown in the latest balance sheet forecast to 31st December, 1980 are already alarmingly and unacceptably slim and BL expects that its next forecast will indicate a breach in the fourth quarter of 1980.

1.7. Faced with this deteriorating position a number of matters arise:

MATTERS ARISING

2. Government - NEB - BL Status

2.1. Now that the Industry Bill has been enacted it will be possible for the Government to take a direct interest in the investment in BL and to issue guarantees or other forms of assurance to creditors itself rather than through the NEB. The timing of such a change needs careful consideration particularly since the present commitments to creditors are based on NEB comfort letters and on the Varley statement which deals with the NEB Guidelines; something in place of these would be needed if the Government assumed direct responsibility.

3. Breach of Ratios

3.1. If the ratios are breached, there will be a rectification period of

60 days during which BL expects to call a Board Meeting which would request the Government - through the NEB - to provide guarantees, after which negotiations would take place with the banks on this basis. Primarily these negotiations will be with the Citibank syndicate and with the Clearing Banks but may spill over to some of the Continental banks. The provision of these guarantees will have to be made public in due course, but the wider the negotiations with the banks the greater danger of early leakage.

3.2. BL is not at this stage in favour of removing the ratios through the provision of Government guarantees as the ratios impose financial discipline on management. The provision of guarantees is also likely to cause employees to infer that they are secure against failure, particularly perhaps bearing in mind that the next annual wage review is due in November and the 1981 Plan will undoubtedly entail new negotiations relating to closures and redundancies.

3.3. In order to avoid forced negotiations during the 60 day rectification period confidential negotiations in regard to the ratios have been started with the major banks. This may be important if it is hoped to obtain finer terms with a Government guarantee; alternatively some present lenders may want to be repaid, in which case the sooner it is realised that a new Government backed loan will be necessary, the better. On the other hand if the discussions to relax operation of the ratios are successful, more time will be available to complete the process of refinancing and changing of ownership.

4. Provision of Further Equity Capital

4.1. Full credit has been taken by BL at 31st December, 1980 for the Government's equity injection for 1980-81. Existing borrowing facilities may be sufficient to tide the Group over the first quarter of 1981 but they will need to be renewed. Consideration will therefore have to be given in the light of the 1981 Plan and before the end of 1980 to the Government's attitude to future funding.

5. AVAILABLE ALTERNATIVES TO THE 1980 PLAN

5.1. In contemplating the possibility that the whole concept of the 1980 Plan had to be abandoned as distinct from some pruning of the present basic Plan as it merges into the 1981 Plan, the following alternatives present themselves:

- (1) Take-over by one party.
- (2) Piecemeal sales.



In either case there would almost certainly be an unsaleable rump which BL would have to liquidate, particularly since purchasers would not wish to get involved with redundancies.

5.2. The prospect of a take-over by one party is probably illusory in present market conditions in which all manufacturers, except perhaps the Japanese and some German ones, are occupied with their own difficulties and when excess capacity exists in so many parts of the world with workforces offering fewer problems and greater productivity.

5.3. Even with the Japanese there seems little reason for becoming involved in car manufacture in the UK unless they see no other way of entry into the European market. The sophisticated and possibly unique character of the Metro assembly line may, however, offer some special attractions.

5.4. Piecemeal sales can be contemplated of certain parts of the Group - Land Rover, Jaguar, Commercial Vehicles, Parts, but there are major difficulties:

(a) Whereas Leyland Vehicles Limited encompasses the commercial vehicle operations, all the car operations fall within BL Cars Limited with no separate corporate entities although there is separate management structure, use of facilities and assets; all the employees of the separate car manufacturing units are employed by BL Cars Limited.

(b) Individual units are dependent on group supply of materials and services.

(c) There is substantial transfer of goods and services between the individual units at group rather than market prices.

(d) Because of successive organisational changes the past accounts for the separate units in BL Cars Limited are not available in a form which is capable of independent verification as to assets and profitability.

(e) Substantial tax losses will certainly be lost unless appropriate allocation to separate corporate entities can be negotiated with the Inland Revenue.

(f) BL recognises that following union pressure the Chairman stated in 1978 that nothing would be done to undermine the corporate solidarity of the BL Cars workforce, but it does not believe this undertaking would constitute an insuperable barrier if the position were persuasively explained.

5.5. The proposed but now seemingly abortive sale of MG Abingdon was



negotiated against this background; this unit is, however, relatively insignificant and it would be optimistic to expect the same to apply to all the other units. Moreover, the absence of a 'clean' sale cannot but prejudice the price.

5. 6. If forced back to the second alternative of piecemeal sales BL believes that a controlled rundown which would give time for negotiations and necessary action would need a one or two year period and indeed has doubts as to its practicality. No estimate is available of the funding which might be required as working capital during this period. Although circumstances might well make such a controlled rundown impracticable, no contingency planning has been done to meet such circumstances.

5. 7. It is understood that BL's lawyers, the NEB's advisers and the Department have concluded that receivership is not an available alternative. The consequences of liquidation have been assessed internally by the Department and are set out in the Bullock Report prepared last year and in a subsequent report prepared under Treasury chairmanship. Whilst necessarily containing a number of subjective estimates these reports illustrate with considerable cogency the gravity of the impact of liquidation of BL on the British economy, unemployment and most particularly the Public Sector Borrowing requirement. The political implications of action likely to precipitate liquidation would seem to merit debate at the highest level.

LOOKING TO THE 1981 CORPORATE PLAN

6. 1. BL has already begun steps to avoid the immediate threat of a ratio breach by opening negotiations for a moratorium with the banks for six months to give it time to produce its 1981 Corporate Plan and is anxious that the transfer from the NEB to the Government should be similarly delayed.

6. 2. There is much to commend this approach since it would enable everything to be done at one and the same time, avoid the necessity of an early Government statement to replace the Varley/Marshall statements and avoid possible strengthening of the Unions' attitude prior to the negotiations on wages and the accelerated closures and redundancies which seem bound to stem from the new Plan.

6. 3. It seems inevitable that the 1981 Plan, whilst concentrating on the new products - commercial vehicles, Metro and Honda - must take a much more critical view of the future of the group so as to cut out losses and concentrate capital expenditure where a return can be expected either as part of a going concern or on sale of a unit.

6. 4. Should it prove impossible to bring about the recovery of BL as a whole, then clearly attempts will have to be made to bring about the



recovery of separate businesses within BL. There is a case for continuing the process of focusing on separate businesses - for example, Leyland Vehicles is more or less a separate entity with its own assets, Land Rover is fast-moving in this direction and other parts of BLCV and BL Cars are at various stages of decentralisation.

6.5. From discussions with the Chairman I know that he has considered the possibility of separating BLCV from BL Cars, but that this proposal has not been developed to the stage when it could be formally submitted for consideration by the BL Board. I believe that the 1981 Plan could well address itself to a restructuring on these lines leading in turn to the possibility of separating out Land Rover and other sectors within BL Cars. From a contingency point of view, planning along these lines would be helpful because it would insulate viable or potentially viable entities from those which are likely to be residual problems in the Car division.

6.6. Initially, at least, ownership of the separate units would remain with the NEB (or the Government), but a solution would need to be found to the problem of the minority shareholders. The present loan agreement restrictions would involve negotiation with loan stockholders and other parties and the timing of any transfer of ownership of BL from the NEB to the Government should preferably be considered in the light of any restructuring of this sort.

6.7. The 1981 Plan should also cover contingency planning in the event of failure to hold market share or to achieve sensible collaborative deals - failure of the Metro would in itself precipitate a crisis. The 1981 Plan should therefore make provision, whether by way of corporate restructuring or otherwise, to facilitate and expedite orderly disposals and 'liquidation' should they be necessary. It may be possible to present this as a move to more effective management and accounting control. To leave this contingency planning until the time when it becomes necessary to implement a so-called "controlled rundown" would be too late; indeed the practicality and possible hazards of such an operation require the most careful consideration.

6.8. The new Plan should also contain some indication of the additional funding which may be required in the various alternatives.

6.9. Present indications are that BL will be faced in 1981 with continuing grave difficulties as a result of widespread recession coupled with tight money supply in this country and the strength of the pound abroad.

6.10. To the extent that these factors are outside their own control - and in BL's and perhaps the public's perception could arguably be attributed

at least in part to the Government's financial policy, however much that might be applauded as designed to bring inflation under control - it would seem politically expedient, notwithstanding reluctance to come to the aid of 'lame ducks', to support BL through what are hopefully transient external difficulties.

6, 11. In any event it seems most desirable that BL should be assured of sufficient funds to carry it at least to the middle of 1981 so that the progress of the 1981 Plan towards a viable future can be assessed and debated without destroying confidence.

CONCLUSION

7. 1. My formal terms of reference were 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, 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.

7. 2. My advice in short at this stage is that:

7. 3. Steps should be taken to deal with the ratio threat. A six months moratorium, if it can be negotiated, would be advantageous in that it would enable the overall position to be assessed in the light of the 1981 Corporate Plan.

7. 4. If such a moratorium can be arranged, there would seem to be several advantages in deferring the formal take-over from the NEB. This is particularly relevant in relation to the restructuring possibilities discussed in paragraph 6. 5 which I believe merit serious consideration.

7. 5. It is increasingly clear that the 1980 Plan is not achievable and BL should be encouraged to produce a 1981 Plan which deals realistically with the future of the group, including such preparatory steps by way of corporate restructuring or otherwise as may be necessary, supplemented, although for security reasons not in the main Plan itself, by contingency planning for foreseeable eventualities.

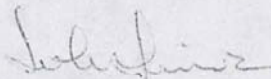
7. 6. An estimate of further required Government funding should be

made on the basis of the 1981 Plan and contingency planning.

7.7. The Government should be prepared to support BL at least in the short term if, as seems not unlikely, it is unable to make progress because of circumstances reasonably outside its control.

I should be happy to discuss any matters arising out of this report if that would be helpful.

Yours sincerely,



John Grenside

Annex B

TELEPHONE
01-486 6090

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

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

10 July 1980

Dear Secretary of State,

The BL Board has requested through the appropriate channels that the NEB take up a further £50m of equity in BL before the end of July 1980 as provided for in the Memorandum of Understanding covering the operation of the Credit Line Facility. In doing so, the Board feels it is necessary for you to be aware of our assessment of BL's present cash position and immediate outlook.

Attached is a paper containing schedules which show BL's current and forecast financing position, together with an explanation as to the basis upon which the forecast has been prepared. I would particularly draw your attention to the comparison of this forecast with that made at the time of our request for funds on 15 May 1980. This comparison shows the deterioration we have experienced in May and June which leads to a poorer profit expectation for the year. In summary, this deterioration arises largely from the deepening recession in the UK and overseas, and from the worsening in our competitive position. Furthermore, our existing product range has not proved strong enough to hold market share. This is reducing both sales and margins in the home market and in export markets.

...../

: 2 :

The Rt Hon Sir Keith Joseph, MP

10 July 1980

The economic assumptions agreed with Government in late 1979 as the basis for the 1980 Plan have proved to be incorrect. The changes in economic circumstances have had a traumatic effect on our business. The rate of inflation within the UK, coupled with the strength of sterling, have had a significant adverse impact on our profit and cash position. These effects include not only reduced margin and volumes of business outside the UK but loss of UK sales to importers whose competitive position is greatly strengthened by sterling, together with a reduced margin as a result of aggressive marketing actions to achieve our UK sales.

The attached schedules show that BL requires this further £50m of equity in July in order to satisfy the covenanted ratios on our Medium Term Loan. Given this additional funding, our present forecast indicates a safety margin of £84m at the end of July and £80m at the end of August. These levels are below the £100m margin recommended in the Memorandum of Understanding, but the Board does not feel justified in requesting a further £25m as this would take the safety margin well in excess of £100m. I should emphasise that additional equity has a highly geared effect upon this margin. For example, a £25m funding in July - a level considered and rejected by the BL Board - would reduce the £84m margin to only £16m. The forecast shows that BL will need to call down the remaining £25m funding provided for under the Credit Line Facility in September. Even then, the margin in September is forecast to be only £64m and it is virtually certain that the ratios will be breached during the fourth quarter (October - December 1980).

...../

: 3 :

The Rt Hon Sir Keith Joseph, MP

10 July 1980

In view of this situation, we have opened discussions with the Medium Term Loan syndicate with a view to temporarily relaxing these ratios. If these discussions are successful, then BL would be able to make greater use of its existing private sector borrowing facilities. We forecast that after the injection of the remaining £75m equity (£50m now and £25m in September), we will have about £100m confirmed and unused borrowing facilities as at 31 December 1980.

We wish to make it clear that the ratios are reasonable commercial requirements and were considered to be attainable when the agreement was signed. The seeking of a relaxation of the ratios is purely a temporary measure to provide time to develop plans to restore the Company's commercial position as part of the 1981 Plan. Assuming the Medium Term lenders agree to relax the covenanted ratios, they are unlikely to do so past the start of the Government's next financial year. Negotiations will probably only be complete by the end of September and the life of this arrangement will probably be of the order of 6 months. This means that they will look to Government to inject equity funding before the ratios are re-instated during April 1981 - if this is not possible, then of course the £85m Medium Term Loan will need to be guaranteed or re-paid.

We do not of course know as yet whether we shall be able to produce a viable 1981 Plan. In the light of the current economic outlook and the further deterioration in the Company's position, the Plan will need to address the case for a further substantial reduction in the size of the Company if we are to have any prospect of eventually becoming profitable. As you know, we have not shrunk from tough action to rationalise our operations and reduce our fixed cost base; but the rate of decline in our sales volume has exceeded the rate at which we have been able to cut back the structure that supports it. This means that the 1981 Plan will have to go further, both in rationalising our product range and cutting back on manpower and facilities than anything we have considered appropriate thus far. It is therefore all the more important

...../

: 3 :

The Rt Hon Sir Keith Joseph, MP

10 July 1980

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...../

: 4 :

The Rt Hon Sir Keith Joseph, MP

10 July 1980

that we should try to avoid a crisis or any major loss of confidence in the coming months, so that we have time to complete the fundamental review which the 1981 Plan requires.

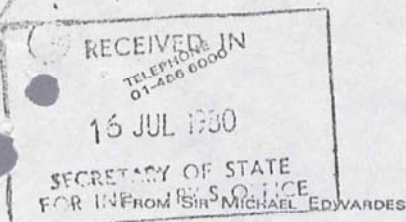
I hope this letter gives a fair current view of the problems that are with us now and lie immediately ahead in advance of our submitting our 1981 Plan document. In the meanwhile I would confirm that we are taking every possible action to conserve cash, while endeavouring to avoid actions which might damage our prospects of longer term viability.

Yours sincerely,
Richard Lawson.

Annex C.

35-38 PORTMAN SQUARE

LONDON W1H 0BN



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

15 July 1980

Dear Secretary of State,

I am sure that you will wish to view my letter of 10th July in the context of the BL Board's attitude to the 1980 Plan as set out in my letter of 19th December 1979. Although we believe that we can fund BL at least until December 1980 without seeking Government funding beyond the figure agreed for this year, the fact is that there will be a significant shortfall in cashflow against the Plan, for the reasons given in my letter of 10th July. This shortfall, funded from whatever source, will inevitably impact on future years.

The BL Board must therefore draw to your attention the fact that, even if we do not call on you for further funds in 1980, some of the key objectives of our 1980 5-year Plan cannot now be achieved.

Notwithstanding this, we have had some success in meeting a number of our Plan objectives, notably the 1979/80 pay deals, reductions in manpower, which are ahead of schedule, and the successful product launches of the T45 truck and the Morris Ital, together with the Metro which is on programme, and should be launched on time in mid-October.

The BL Board considers that the only practical course of action would be to continue to fund the business while we prepare the 1981 Plan for consideration by the BL Board and then by you and your colleagues.

...../

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

15th July 1980

Page 2.

If the 1981 Plan cannot demonstrate the prospect of commercial viability, then we believe that specific contingency action should be taken - but not until then.

In the meanwhile, we are doing everything possible to remain within the agreed Government funding for the current year, and we value the co-operation of your officials who have worked closely with us on the financing problem.

Yours sincerely,
Michael Dawson

I have copied this to
Sir Arthur Knight. 4



DS
Industrial Policy
Part 4

10 DOWNING STREET

From the Private Secretary

14 July 1980

Mr Cameron.

The Prime Minister has read your letter of 11 July about the possible transfer of BL from the NEB, and is now content with the draft letter which Sir Keith Joseph proposed to send to Sir Arthur Knight.

I am sending copies of this letter to Private Secretaries to members of E Committee and David Wright (Cabinet Office).

~ ~

Tim L...

Miss Catherine Bell,
Department of Industry.

DS



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

11 July 1980

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

Dear Tim

Yes ref.

*The revised draft
attached meets*

Dear Tim

*Your points about
the risk of a leak*

POSSIBLE TRANSFER OF BL FROM THE NEB'S RESPONSIBILITY *but it is Sir Keith's
provisional*

Flug A

Thank you for your letter of 7 July conveying the Prime Minister's
views on his minute of 2 July on the above subject and on the *intention*
draft letter to Sir Arthur Knight which was attached. *to transfer*

...

2 Sir Keith was proposing that the Government should postpone
the decision on transfer, and not simply the announcement of it. *BL from*
In the light of the comments received, he intends to write to *the NEB.*
Sir Arthur Knight using a draft amended in the way suggested by *Content?*
the Prime Minister. A copy of this is attached. With the
removal of the reference in the earlier draft to his provisional
intention in respect of transfer of the BL shareholding, the
last paragraph of that draft becomes unnecessary. Its deletion
also meets the point made by Mr Prior.

3 I am sending copies of this letter to the Private Secretaries
to other members of E Committee, and also to David Wright (Cabinet
Office). If any of them have further comments, I should be
glad to have these by Monday 14 July.

*PL
11/7*

*Yours Sincerely
Catherine Bell*

CATHERINE BELL
Private Secretary



CONFIDENTIAL

DRAFT LETTER FOR THE SECRETARY OF STATE FOR INDUSTRY TO SEND TO:

Sir Arthur Knight
Chairman
National Enterprise Board
12-18 Grosvenor Gardens
London SW1

BL

Since our correspondence at the end of December last year on the relationship between your Board and BL, my officials have been considering the implications of the transfer of the shareholding of BL from your Board. I have noted in particular the views you have expressed on this aspect in your 1979 Report and Accounts.

The Industry Bill received Royal Assent on 30 June and this of course provides the statutory framework for such action. By October we shall expect to be considering BL's next Corporate Plan, and I am of the view that any decision on a transfer could most sensibly be made at the same time as the Government announces its decisions on the Corporate Plan. In the meantime, I should be grateful if the NEB could continue to manage the shareholding, and continue to rely on the advice of officials in my Department in this, recognising that NEB staff are now increasingly involved in other duties. My officials will discuss with yours before the summer recess any necessary arrangements.

Incl P.S.



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

MSA 2/11
12 8/17

PRIME MINISTER

POSSIBLE TRANSFER OF BL FROM THE NEB'S RESPONSIBILITIES

The Secretary of State for Industry copied to me his minute of 2 July to you. I strongly support his view that any transfer should be delayed.

2. We must clearly put great weight on the decision of the BL Board to seek a postponement. The last thing we should do at this time is to imply to the workforce that BL is becoming more dependent on the Government. A transfer would also raise difficult questions about Government guarantees for BL's medium-term borrowings from the private sector. It is much better to leave these decisions in suspense for the next few months.

3. The essential point is that a decision on the transfer can only be made when we have taken our decision on the BL Corporate Plan for 1981.

4. I am content with the terms of the proposed letter to the Chairman.

5. I am sending copies of this minute to the other members of E Committee.

G.H.

(G.H.)

8 July 1980

CONFIDENTIAL

VLS



File

10 DOWNING STREET

From the Private Secretary

E
 HO
 FCO
 HMU
 D/IND
 LD Pres
 D/EMP
 MAFF
 7 July 1980
 D/TRADE
 D/ENERGY
 CHIEF SEC, HMU
 + C.O.

Dear Sir,

Possible Transfer of B.L. from the N.E.B.'s Responsibilities


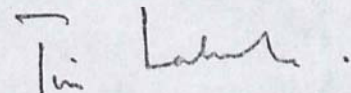
The Prime Minister has read your Secretary of State's minute of 2 July on the above subject and the draft letter attached thereto in which he proposes to inform Sir Arthur Knight of the Government's proposals.

The Prime Minister is worried that, if the draft goes out in its present form, it may leak; and she wonders therefore whether it is necessary to indicate at this stage at all that the Government intend at some point to transfer the B.L. shareholding from the N.E.B. to your Department. Accordingly, she has suggested that the second paragraph of the draft might be amended to read:

"The Industry Bill received Royal Assent on 30 June and this of course provides the statutory framework for such action. By October we shall expect to be considering B.L.'s next Corporate Plan, and I am of the view that any decision on a transfer could most sensibly be made at the same time as the Government announces its decisions on the Corporate Plan. In the meantime ..."

I should point out that the Prime Minister is not entirely clear from the minute whether Sir Keith is trying to delay the decision on transfer or simply the announcement.

I am sending copies of this letter to the Private Secretaries to members of E Committee, and also to David Wright (Cabinet Office) with a copy of your Secretary of State's minute.

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

CONFIDENTIAL

859



Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

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

7 July 1980

Dear Sir:

BL AND THE NEB

You copied to me your minute to the Prime Minister of 2 July about the transfer of BL.

I have no objection to the formal transfer being postponed to the end of the year or thereabouts, or to the terms of your draft letter to the Chairman of the NEB, if this is to remain confidential. If there is any risk of the letter becoming public property, however, you may like to consider whether the last paragraph is liable to misconstruction. Fertile imaginations might well read into its talk of "the events of the next few months [creating] a different situation" a suggestion of an impending (and terminal) crisis at BL. I know this is not what you intend to convey.

I am copying this to all members of E Committee.

Yours faithfully
John Major

010

CONFIDENTIAL

Don't think



I am rather worried about the letter. It must bear in mind that it may back. Have tried to change the drafting accordingly. Are we going to delay decision or announce?

Are you content with what Sir Keating proposes (which seems ok)?

PRIME MINISTER

POSSIBLE TRANSFER OF BL FROM THE NEB'S RESPONSIBILITIES

I thought that I should let you know of a recent development concerning the possible transfer to me of the NEB's shareholding in BL.

Until recently, I had been intending to put to E Committee a paper proposing that the NEB should be relieved of their responsibility for BL at the same time as they lose the responsibility for Rolls Royce, namely before the summer recess of Parliament. However, the Board of BL decided at their last meeting to ask me to postpone a decision on the transfer until later in the year. Their main reason for this was that the transfer, which would seemingly bring BL into greater dependence on Government, could, if carried out now, seriously harden their workforce's attitude to pay negotiations in the forthcoming pay round, which is likely to reach a crucial stage in November. There are also technical reasons concerning some of BL's medium-term borrowings, on which I have corresponded with the Chief Secretary, which lead me to conclude that any transfer could not take place before the recess.

As you know, Sir Arthur Knight has been pressing (most recently



2.

in his statement in the NEB's 1979 Report and Accounts) to be relieved of responsibility for BL. NEB staff have indicated to officials in this Department that it would help to reconcile Sir Arthur to a postponement of the Government's decision on this matter if I were to write to him. This I propose to do, on the lines of the attached draft, without committing the Government to the eventual decision which Sir Arthur wants.

If questioned in the House at the time of the Rolls Royce transfer about the Government's intentions in respect of BL, I would say that the matter was still under consideration. If questioned when Parliament reassembles in October (when BL's next Corporate Plan should be available) I would be able to take the line that the Government statement on a transfer could most sensibly be made at the same time as the Government announced its decisions on the Corporate Plan.

I should be glad to know whether you and other colleagues on E Committee, to whom I am copying this minute, are content with my proposed letter to Sir Arthur Knight.

14

K J

2 July 1980

Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

CONFIDENTIAL



DRAFT LETTER FOR THE SECRETARY OF STATE FOR INDUSTRY TO
SEND TO:-

Sir Arthur Knight
Chairman
National Enterprise Board
12-18 Grosvenor Gardens
LONDON
SW1

BL

Since our correspondence at the end of December last year on the relationship between your Board and BL, my officials have been considering the implications of the transfer of the shareholding of BL from your Board. I have noted in particular the views you have expressed on this aspect in your 1979 Report and Accounts.

The Industry Bill received Royal Assent on 30 June and this of course provides the statutory framework for such action.

Although it is my provisional intention that the shareholding in BL should be transferred to me there are technical reasons, concerning the details of some of BL's borrowings, which lead me to conclude that the actual transfer cannot take place before the recess. By the time ^{October} Parliament reassembles we shall

expect to be considering BL's next Corporate Plan, and I am of the view that any ^{decision} ~~statement~~ on a transfer could most sensibly

be made at the same time as the Government announces its ~~findings~~ ^{findings} ~~decisions~~ on the Corporate Plan. (You will appreciate that I am therefore talking about the end of this year.) In the

.../2

*Sorry -
delayed
in part
over time*



2.

meantime, I should be grateful if the NEB could continue to manage the shareholding, and continue to rely on the advice of officials in my Department in this, recognising that NEB staff are now increasingly involved in other duties. My officials will discuss with yours before the summer recess any necessary arrangements.

I am sure you will also appreciate that the events of the next few months, and the content of BL's next Corporate Plan, may create a different situation with regard to the transfer. I wish to assure you that, if this were the case, I would consult you as a matter of priority.

PART 3 ends:-

A. Duguid to J. Hoskyns 18/6

PART 4 begins:-

s/s Ind to PM 2/7