

SECRET

Pm Minister

Qa 04386

To: MR LANCASTER ✓  
From: SIR KENNETH BERRILL

British Leyland

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

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

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

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

SECRET

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

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

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

Conclusion

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

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

KR

18 December 1979

OUTRIGHT SALE OF BRITISH LEYLAND

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

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

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

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

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

SECRET

General Motors

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

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

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

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

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

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

Ford

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

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

SECRET

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

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

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