

Under AD 6

SECRET - COMMERCIAL IN CONFIDENCE

Ref. A01861

PRIME MINISTER

BL

BACKGROUND

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

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

HANDLING

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

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

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

B. Should the Government seek further advice on sales?

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

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

C. The talks with Mr. Lutz.

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

CONCLUSIONS

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

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

RA

(Robert Armstrong)

1st April, 1980



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