

81

COMMERCIAL - SECRET

Qa 04979

To: MR LANKESTER
From: SIR KENNETH BERRILL

Possible sale of British Leyland

1. The group of Ministers under the Prime Minister is due to discuss on Monday afternoon the current position on British Leyland. The Prime Minister might like to have this note on how the possible purchase of British Leyland by Ford has progressed since I reported that the head of Ford of Europe (Mr Lutz) had received the 'green light' from Detroit to negotiate for the purchase of BL if he considered that this was the best way of making the planned expansion of Ford of Europe's capacity.

2. Unfortunately, I have to report that things are not going well. Ford of Europe are still proceeding with staff analysis on the pros and cons of a possible purchase but Mr Lutz is increasingly unwilling to take any further initiatives himself.

3. Mr Lutz happened to run into Sir Michael Edwardes and was subjected to a fairly brusque attack along the now familiar lines that Ford are competing unfairly with BL in the British market by bringing in cheap imports - particularly from Spain. There is the reverse of a rapport between the two men. Lutz feels that Edwardes is fighting a hopeless cause of trying to save BL rather than to sell it. If Lutz is going to negotiate to buy the company he will negotiate with the owners (the Government) not the managers (the BL Board).

4. There is an additional small complication in that Mr Lutz's one meeting with the Secretary of State for Industry did not seem to him particularly constructive. Understandably, perhaps, Sir Keith Joseph did not display any keenness on the part of HMG to sell BL; he also indicated that there might be other buyers in the market than Ford; but in any case the person for Mr Lutz to deal with was Sir Michael Edwardes - which Lutz now thinks would be pointless.

COMMERCIAL - SECRET

5. A further setback is the growing belief amongst senior executives of Ford of Europe that there is no need for Ford to hurry to try to do a deal. As time goes by the position of BL gets consistently worse. They have had two successes (the vote on the Edwardes Plan and the vote on Mr Robinson) but apart from these the story is one of continuous slippage.

6. BL have still not agreed with the work force a wage settlement, productivity deals, or details of closure programmes. The expensive 'Buy British' campaign (in the short run at least) was not a success.

7. There are those in Ford who believe it will pay to wait. The BL position will get so bad that the BL Board will no longer be able to recommend that the company be continued and in this position Ford might be able to buy the bits of BL it really wanted and not be forced to take Longbridge, Cowley and Bathgate.

8. The interests of the Government are to sell BL as a complete package under the best conditions and at the best terms. If Ford are right, and time is on their side, it cannot be on the side of the Government. If the Government had chosen and appointed a "Mr Super Salesman" it might then be possible for him to deal with Lutz direct as the Government's agent. But at the moment all that is happening is that Michael Edwardes is going ahead on his course of striving to save BL, and the most likely purchaser is sitting back waiting for this effort to fail in the belief that he can then pick up the best pieces and not have to take Longbridge, Cowley and Bathgate which are the heart of the problem.

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

K2

21 March 1980