



COMMERCIAL - SECRET

Qa 04404

To: MR LANKESTER
From: SIR KENNETH BERRILL

Sale of British Leyland

1. On 19 December at the conclusion of the Ministerial discussion in E Committee on the BL Plan, it was agreed (i) for 1980/81 publicly to back the Edwardes Plan, with the very tough undertakings which the BL Board themselves insisted on giving; and (ii) that the chances of success were so remote and the cost of collapse so high that no time must be lost by the BL Board in making 'contingency plans', i.e. looking for possible purchasers of all or parts of the organisation. (Sir Keith Joseph thought a buyer for the whole was most unlikely; the CPRS was more sanguine.)
2. Yesterday I had an approach on this subject of some importance and I thought that the Prime Minister might like to know of it.
3. The approach was from an Englishman (Mr James Ensor) with whom the CPRS had had close contacts ever since we wrote our report on the British Motor Industry. At that time Ensor worked with Lord Ryder on his BL Report, subsequently in the NEB on the car industry, then for Renault. He has just joined Ford of Europe as Director of Government Affairs with the responsibility for liaison with Governments throughout Europe.
4. To put the point briefly: Ensor was conveying a formal message from the Chairman of Ford of Europe, Mr Robert Lutz, that he would like to have a very private word with the responsible Minister in the British Government (Sir Keith Joseph) on how the authorities here would regard Ford taking on part (or just conceivably all) of BL, i.e. would the British Government be worried at one company having such a large share of the UK market. (The combined Ford and BL share of the UK car market would be 45 per cent - similar to Peugeot's in France and Fiat's in Italy.) Also, Ford are constrained by US anti-trust legislation in their operations worldwide. They want the protection of an 'OK in Whitehall' clearance (also not to waste their time) before they go to BL to open any negotiations.

5. Clearly it is important that any talks in Whitehall (and indeed at least any early talks with BL) should be kept completely confidential. Mr Lutz has not yet cleared his lines with Detroit. He saw no point in doing so until he had at least a UK Government green light. But given the Ministerial discussions at E, I see no arguments against my talking very privately to Sir Peter Carey and urging an early meeting between Sir Keith Joseph and Mr Robert Lutz (with perhaps a couple of officials). After that I assume it will be 'over to BL'. Sir Michael Edwardes may initially be annoyed that Lutz came to the Government first but he will get the point that Ford needed a green light before putting such a large cat among the pigeons.

6. The negotiations would be complex and possibly long drawn out. I attach a note by the CPRS on how, at this stage, we see the cards from the Ford side. I am assuming that, given the costs of a BL collapse, the Prime Minister will continue to take a keen personal interest in all this. Would she also wish the CPRS to keep a watching brief on her behalf and on behalf of Ministers collectively? I am also assuming that the Prime Minister would not herself be opposed to Ford having a dominant position in the UK market.

7. I am sending a copy of this minute and attachment to Sir Robert Armstrong but I have not copied it outside the Cabinet Office.

K.B.

17 January 1980

Att

COMMERCIAL - SECRET

Note by the Central Policy Review Staff

British Leyland: A Ford Takeover?

1. Ford are one of the handful of companies that have both the resources to take over the entire BL operation and the quality of management to make a success of it. But what we believe to be more important is that Ford have the motivation. They will, however, expect to be courted and can be expected to drive a hard bargain.

2. Ford's Motivations. Their motivations are a mixture of positive and defensive ones:

(a) To enter the specialist car market. Ford of Europe have long wanted to be better represented at the top end of the car market (they have nothing more prestigious than the Granada to fight Mercedes and BMW). The Daimler, Jaguar, and Rover marques are prizes for which they will pay highly. The profitable four-wheel-drive business is also very attractive to Ford.

(b) To reinforce Ford's truck and bus operations. Ford are strong in light vans and light/medium trucks, but relatively weak in heavy trucks and buses. Their coverage in these sectors would be greatly enhanced by the addition of Leyland's Heavy Vehicle and Bus Divisions.

(c) To protect the UK component industry. Ford are more dependent on a healthy low-cost UK component industry than any of the five other major European motor manufacturers. (British components are used extensively at Ford's plants in Germany, Belgium and Spain.) Ford are anxious to prevent a collapse of BL because this would undoubtedly damage the UK component industry and lead to much higher costs to Ford.

(d) To protect Ford's UK market. The UK car market has been very profitable for Ford and they are also the market leader. Ford would not want BL's dealer network to fall en masse to any of their major competitors, particularly General Motors or Volkswagen.

3. Ford are clearly more interested in parts of BL than they would be in the whole. They will be particularly reluctant to take on the plants at Longbridge, Cowley, and Bathgate because of their poor productivity, need for new models, need for new investment and in particular because they produce models in direct competition with products where Ford are strongest. Nevertheless, we believe that Ford's motivations - positive and defensive - are such that they could be persuaded to take on the whole of BL. It would certainly involve the Government in a handsome dowry, but our present view is that the costs would be substantially less than the open-ended commitment if BL remain independent.

4. Further points to bear in mind in preliminary discussions with Ford are:

- (a) Ford's UK operations are immensely profitable. We understand (not confirmed) that Ford of UK made around £400m. in profits last year. Ford have also mastered many of the labour problems that still dog BL. Ford management is probably better equipped than any other to tackle BL's underlying problems.
- (b) Ford would prefer to have nothing at all to do with Longbridge and Cowley. However, the Mini-Metro to be produced at Longbridge could fit in quite well below Ford's smallest car, the Fiesta. We believe that Ford could be persuaded to keep Longbridge open long enough to see whether the Metro could be a profitable car. The question of Cowley is more difficult. The works require heavy investment in new plant as well as new models. However, at this moment, Ford are looking for a site for new assembly plant in Europe. We understand that they favour Portugal where Government incentives are high and labour costs low. A sufficiently attractive package would make Ford consider Cowley.
- (c) Ford would almost certainly not take over BL as it stands to-day. They would insist that all the plant rationalisation and demanning, etc. envisaged under the Edwardes Plan should be completed in the name of the British Government. They would not want to risk union disputes over these essential measures spreading to Ford plants in the UK. Ford's have spent five years trying to cure themselves of the 'British disease' and they won't want to be re-infected from Austin-Morris.

They might insist that, for a while at least, the Austin-Morris division remained nominally a separated company (though managed by Ford) so that the shop stewards at Longbridge-Cowley would not feel that Ford's UK profits were available to meet their demands.

Conclusions

5. Our main conclusion is that the Government is unlikely to frighten Ford away by insisting that BL is for sale as an entity only. The cost to HMG of a Ford take-over will be considerable. But Ford might well succeed in preserving the British motor manufacturing and motor components industries whereas we fear that the Edwardes Plan is bound to fail.

But
less than
our
current
commitment
to BL
P.

17 January 1980