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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

Secretary of State for Industry

cc Mr Hosley

Mr White

26 October 1979

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

Prime Minister

*Sir Keith is proposing a the
written Answer at Flag A to
reassure creditors in case the
BL ballot goes against. John
Hosley has suggested (Flag B)
~~see~~ that the draft goes too far in
implying the Government might provide
the extra money
if BL
get a
"yes"
result.*

Dear Chancellor

BL

As you will know, BL are now balloting their workforce for a straight yes or no answer to the company's proposals which, they say, give the prospect of a viable and secure future for the majority, at the cost of complete or partial closure of 13 plants and at least 25,000 redundancies. Counting of votes by the Electoral Reform Society has already begun and BL will be announcing the result on 1 November.

The company's proposals are likely to call for not merely the remaining £225 million conditionally committed to BL by our predecessors (and provided for in PES forecasts), but also a further £200 million; but they will emphasise that the extra funds are primarily required to cover the costs of the redundancies and reorganisation needed to streamline BL to a size and shape appropriate to a realistic assessment of its market position and prospects. It is well understood by Sir Leslie Murphy and Sir Michael Edwardes that we are in no way committed to the provision of any further funds, whatever the result of the ballot.

*Subject to
limits,
content?*

*12
26/10*

It is not possible to prejudge the result of the ballot, but my guess is that Michael Edwardes will get strong endorsement for his plan. However, he may not; and if the BL Board judge the support shown by the ballot to be insufficient, they say they will not be seeking approval for their Plan or for further public funds. Michael Edwardes has already said this publicly; so that if, when the result of the ballot is announced, it shows anything less than overwhelming support for the company's proposals, there will be widespread speculation and concern about the company's future. Unless action is taken to reassure them, the large number of small and medium sized creditors, who may be unsure of their legal position, may demand immediate payment of bills; and the large loan stock holders may also add to the pressure on the company. We could easily find ourselves in a situation in which the company was forced precipitately into liquidation in circumstances which would make it impossible for sensible plans to be made for dealing with the company and which would involve a very considerable extra cost to the taxpayer.

/After consulting....



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After consulting Michael Edwardes and Leslie Murphy I have concluded that it would be best to anticipate this possibility, rather than react to it after it has arisen, by giving an appropriate reassurance, after the ballot has closed and before the result is announced, that BL will be able to meet its obligations. A draft of what I propose to say (in reply to an arranged PQ) is attached at Annex A.

The first paragraph is intended to provide the necessary reassurance by restating plainly what is in fact an existing commitment by the previous Government - see the extract from Hansard for 26 May 1977 at Annex B. I am advised that we have no choice but to honour this; any other course would not only precipitate the crisis I am seeking to avert, but might have wider implications by damaging Government credit. Thus there is already a 'de facto' guarantee of BL's obligations and my proposed statement adds nothing to what I am advised is the present commitment.

The purpose of the second paragraph of the answer is to make clear that in the event of a negative or ambiguous vote the Government is not placed in a position where it has to make a substantive statement before it has received recommendations from BL and the NEB on what action is proposed. In the event of an ambiguous result (ie a majority insufficient for Michael Edwardes to state immediately that the Plan will be sent to the NEB) the Board of BL will consider the matter at a meeting on 7 November.

The final paragraph is intended to make clear once again that, however large the 'yes' vote, the Government have no prior commitment to the Plan, which has not yet been put to them.

This Department in conjunction with other interested Departments has in hand contingency work to assess the effects of various possible courses of action. There are approximately 150,000 people employed by BL in the UK and perhaps an equal number of jobs dependent upon them in the direct or indirect supplying industries. The unlikely eventuality of a complete and permanent closure of BL could result in about 300,000 job losses, the majority in the Midlands and Oxford areas. A substantial number of smaller suppliers heavily dependent on BL would find themselves in considerable difficulty and a number would probably go out of business. It is estimated that complete closure would mean a net loss to the balance of trade of around £2,200 million a year. According to the NEB the total amount of potential liabilities to be met out of public funds could be of the order of £1,000 million and the figure could be a great deal more. This extreme outcome could result (apart from the possibility I discuss in the next paragraph) only if the workforce prevent the orderly

/rundown of the...



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rundown of the company and the dispersal of the viable parts of the business.

Provided we can keep the situation from getting out of control, this worst possible case should not arise; but things could go out of control if either we do not provide the necessary reassurance or we were to make a precipitate statement (in the event of an unsatisfactory outcome to the ballot) that no further public funds would in any circumstances be made available for BL. I hope that you and other colleagues agree that we should not take either step.

Our objective, in the event of an unsatisfactory result to the ballot leading to a decision by the BL Board not to seek further public funds, must be to minimize the resulting calls on public expenditure. On the advice at present available to me I think this can best be done by the BL Board and management continuing to run the company on a caretaker basis whilst arrangements are made to dispose of the viable parts of the business. This course of action would not involve Government in greater financial commitments than a liquidation and gives more freedom for manoeuvre than if a liquidator were appointed. I am advised that the option of appointing a Receiver presents technical problems and the potential advantages have not yet been established. I will inform you and colleagues immediately if there is any change in this provisional assessment.

Assuming that BL are in a position to put forward their Corporate Plan the first real test of the workforce's commitment to it will be provided by the BL Cars wage claim shortly to be negotiated. The company will soon be responding to the substantial claim tabled by the unions; they will insist not only on a modest settlement but also on an incentive scheme and conditions designed to secure greater industrial discipline and improved performance. These negotiations will thus have an important bearing on the timing and nature of our decision.

I should be grateful for reactions to my proposed statement in time for the inspired Question to be put down on Tuesday afternoon. I must stress that, whatever our eventual decisions, there is nothing to be gained by precipitate statements which commit us irrevocably before we have studied the options open to us.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Employment, Scotland and Trade, the Attorney General, Sir John Hunt, Sir Kenneth Berrill and John Hoskyns.

Yours sincerely
Ian Ellison

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



DRAFT INSPIRED PARLIAMENTARY QUESTION AND ANSWER

Q. To ask the Secretary of State for Industry whether he will make a statement on the current BL situation with particular reference to the operation of Para 10 of the Schedule to the National Enterprise Board (Guidelines) Direction 1976 in respect of BL

A My predecessor, the Rt Hon Member for Chesterfield, explained to the House on 26 May 1977 (Official Report Col598) the operation of this Paragraph in relation to BL. This amounted to an unqualified assurance that the NEB could not allow BL to be left in a position where it would not be able to meet its obligations.

I confirm that the present Government accepts this position. The present situation is that the BL Board are awaiting the result of a ballot of the workforce. It will be for the BL Board to decide whether the result justifies a request to the NEB for additional public funds. If it should decide not to seek further public funds, the Government would need to receive and consider the recommendations of the NEB (after the NEB have consulted the BL Board) about the future of the company before making any further Statement to the House.

If the BL Board do put forward a new Corporate Plan involving additional public funding and the NEB recommends approval, the Government will need to give it the most careful consideration before reaching decisions; we cannot give any advance commitment to a Plan that has not been put to us. The result of the ballot will clearly be a material - but by no means the only - consideration: in considering whether to commit further sums of taxpayers' money, we shall need, like the previous Government, to take full account of the company's performance and future prospects.



TEXT OF PARLIAMENTARY QUESTION AND ANSWER: 26 May 1977
(Official Report Col598)

Mr William Wilson: asked the Secretary of State for Industry if he will make a statement on the operation of paragraph 10 of the Schedule to the National Enterprise Board (Guidelines) Direction 1976 in respect of British Leyland.

Mr Varley: The first sentence of this paragraph, which has the force of law, says that in deciding on its practice in relation to the debts of its subsidiaries, the NEB shall have regard to the practice of companies in the private sector in relation to the debts of its subsidiaries. The NEB, with my approval, has informed British Leyland with regard to this provision that in its judgement a company in the private sector whose relationship with British Leyland was the same as that of the NEB by virtue both of the size of its shareholding and the closeness of its involvement in the affairs of British Leyland, could not allow British Leyland to be left in a position where it would be able to meet its obligations.

EXTRACT FROM THE NEB GUIDELINES

10. In deciding on their practice in relation to the debts of their subsidiaries, the NEB shall have regard to the practice of companies in the private sector in relation to the debts of their subsidiaries. There will be no Government guarantee to the creditors of a subsidiary of the NEB unless the Government have undertaken a specific commitment in relation to the company's debts.