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Dear Tim

BL: BRIEF FOR THE PRIME MINISTER'S DINNER ON  
21 MAY

... As promised, I enclose a copy of the brief prepared for my Secretary of State for the Prime Minister's informal dinner with Sir Michael Edwardes tomorrow evening. You may wish to note that the general lines of the brief have been discussed with the Treasury.

You may also like to know that Sir Michael is calling on my Secretary of State at 3.00pm tomorrow, when he may take the opportunity to indicate the subjects which he will seek to raise at the dinner. These are expected to include the recent achievements of BL, the tasks ahead, the prospects for the business, unfair competition from imports and international collaboration.

I am copying this letter to Martin Hall, Robin Ibbs and David Wright.

Catherine Bell

CATHERINE BELL  
Private Secretary



## BL: BRIEF FOR PRIME MINISTER'S DINNER ON WEDNESDAY 21 MAY

### Introduction

The purpose of the dinner is to enable the Prime Minister to have a general talk with Sir Michael Edwardes about how BL's affairs are progressing and on the prospects for the future.

2 Other guests besides the Secretary of State are the Chancellor, Mr David Andrews (Executive Vice-Chairman of BL) and ~~Sir~~ Austin Bide (who has just replaced Mr MacGregor as Deputy Chairman of BL and who is also Chairman of Glaxo Ltd). Mr Robin Ibbs of the CPRS and Mr Tim Lankester (one of the Prime Minister's Private Secretaries) will also be present.

3 The Secretary of State's Private Office circulated to No 10 and to other Private Offices on 16 May a copy of Sir Michael Edwardes' reply of 15 May to the Secretary of State's letter of 15 April about BL's cash position (copies of these letters are at Annexes A to this brief). Sir Michael's letter could be used as a basis for discussion at the dinner.

### Background

4 It was noted at the Ministerial meeting held at No 10 on 17 April that the Prime Minister would consider meeting Sir Michael Edwardes, along with the Secretary of State, after the Secretary of State's meeting with him on 22 April and in the light of Sir Michael's reply to the letter of 15 April about BL's cash position. Sir Michael says that he will be in a position at the dinner to elaborate on his letter, as necessary.

5 Sir Michael has arranged to see the Secretary of State during the afternoon of 21 May in order to tell him about an important new collaborative venture which BL has decided to pursue and about which he intends to tell the Prime Minister over dinner. The nature of this proposal has not been disclosed to officials.

6 Two important occasions for BL at the end of last week were the company's Annual General Meeting on 15 May and the debate on the Secretary of State's statement of 20 December 1979 on BL's 1980 Corporate Plan, which took place on 16 May. Sir Michael Edwardes placed considerable emphasis in his speech at the AGM on adverse "external" factors in 1980 which would be outside BL's control; and there was some pressure from the Opposition during the debate for some kind of import controls on cars. Both subjects are covered later in this brief.

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### Talking Points

7 (i) BL's Cash Position: Sir Michael's letter of 15 May, which seems to have been carefully thought out, repeats his earlier assurance that BL do not envisage seeking extra cash from the Government above the agreed funding limits for 1980 (ie £300 million) although margins are very tight. He notes that BL are calling for funds during 1980 somewhat earlier than was originally envisaged. This is a reference to a request made by BL to the Department on 15 May for a drawing of £75 million of equity capital from the NEB before the end of May, in accordance with the agreed arrangements for drawings from credit facility referred to in the Secretary of State's statement of 20 December 1980. BL had earlier envisaged that this money would not be needed until June. However, the financial margins in BL's medium-term loan agreement with the Citibank consortium would be breached if payment were delayed until then. Officials of the Department of Industry and the Treasury will agree to BL's request, but are considering whether there are ways of avoiding this sort of technical difficulty in future. Ministers may wish to enquire into the reasons for the statement in the second paragraph of Sir Michael's letter that the Board of BL is at this stage of 1980 quite unable to express a view as to whether it is possible to attain the objective of long-term viability. BL staff have had the discussions which they desired with Treasury and DoI staff on economic assumptions for the period of the Corporate Plan. There was not a great deal of difference between the assumptions proposed by BL and the Treasury forecast published at the time of the last Budget, and Treasury officials take the view that BL's assumptions combine prudence with realism. Why, therefore, does Sir Michael not feel able to express any sort of view in his letter? Is there anything he can say informally which he did not feel able to commit to paper?

(ii) BL Contingencies: Sir Michael says in his letter that BL are continuing to cooperate with the Government in contingency planning, to the extent possible without jeopardising the existing business.

Sir Michael and Mr Andrews have already met Mr Grenside of Peat, Marwick and Mitchell, who recently undertook an enquiry for the Government on contingency planning. Officials from the DoI have also had contacts with Mr Grenside and his colleague, Mr Dunckerley. Mr Grenside has been asked to submit at least an interim report by mid-July.

As this work is in hand, it would not appear to be necessary for Ministers to raise the question of contingency planning with Sir Michael.

(iii) External Factors: Although he does not refer to this in his letter, Sir Michael is likely to place some emphasis on the impact on BL of external economic factors - both the depressed world trading situation and the pressures arising from the Government's economic policy. He is likely to confirm his intention of living within the cash constraint in 1980/81, but may argue

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that the timing of recovery and achievement of full viability under his plan is made difficult to predict by those circumstances outside his control. He may draw attention to the impact on the rest of private manufacturing industry of the corporate liquidity pressures caused by the Government's monetary policy, and imply that while BL can fairly be judged by its response to internal problems, its chances of ultimate viability should be judged only after making fair allowance for external factors.

Ministers could acknowledge that there is some truth in what Sir Michael says; and could argue that factors such as the strong pound are a reflection of the UK's broad economic strategy, which is essential if the Government is to cut inflation and tackle the underlying problems of the British economy.

(iv) BL's Achievements: BL has scored some major achievements in recent months, the most notable of which is implementation of the pay and working practices package. The workforce has accepted a pay rise averaging only 7½% and new working practices are being introduced. Closures of works are going ahead as planned, and the Triumph plant at Canley is being closed earlier than planned. Two new trucks have been launched by the commercial vehicles division of BL, and the collaborative venture with Honda to produce the 'Bounty' car at Cowley in 1981 has gone ahead. Agreement in principle has also been reached with Aston Martin-Lagonda for the disposal of the MG business.

Ministers may wish to congratulate Sir Michael on these significant developments and to encourage him to maintain the momentum achieved.

(v) Prospects and Future Tasks: A lot still has to be done by BL to improve market share (19.8 per cent in the first four months of this year), productivity and profitability. A loss before interest and tax of about £100 million is forecast for 1980, despite which BL expect to stay within their cash limits. Sir Michael's letter refers to a review of proposed actions which BL will be making during the next few months; the LC10 (new medium-car project) is specifically mentioned. BL will be looking at the investment required for that programme with a view to improving the product and devising a programme which will cost less. There may be a role for some international collaboration.

Ministers may wish to ask Sir Michael to give his views on the different sides of BL's business, and to ask whether he was in mind any further disposals or new possibilities of international collaboration particularly in the medium car field.

(vi) Unfair Imports of Cars: Sir Michael has corresponded in recent months with the Secretary of State for Trade about what he sees as unfair competition from cars imported from Spain, Eastern Europe and Japan. BL have not, however, asked for import controls to be introduced. As major exporters of vehicles (about

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250,000 each year), they recognise the risk of retaliation against the UK not only in the vehicles field but in the components market, and also more widely, if such a course were followed. But they feel at a competitive disadvantage vis-a-vis imports as a result of the external economic factors mentioned earlier in this brief, and they are rather resentful about the way in which Ford managed to make a profit last year by making cars on the Continent and importing them into the UK.

Ministers could say that they are aware of Sir Michael's views on car imports; that they know that the UK motor industry (including BL) and the components industry do not favour import controls; and that firm Government action will be taken against imports from any source which enter the UK at dumped prices and cause material injury to our industry or a part of it. International collaboration is one of the best ways of dealing with foreign competition, and BL have shown their awareness of this. They could add that the motor industry is experiencing problems worldwide (except in Japan) particularly the big American companies (Chrysler, Ford and General Motors); BL is by no means alone in suffering from competitive pressures.

Department of Industry

22 May 1980