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From: J. R. Ibbs

Qa 05001

COMMERCIAL - IN CONFIDENCE

17 April 1981

*We will follow
the 11th advice.
Can I have
figures on a basis
for withdrawal
out.*

Dear Secretary of State,

British Leyland

1. Following this morning's meeting of Ministers it may be helpful if I set out my view of the tasks facing the Government. There appear to be two principal ones:

✓ (i) the need for the Government as owners to be able to assess the likelihood of the Company not being able to operate within the limits that have been agreed, and hence the likelihood of the Board having to request that the Plan be withdrawn. This assessment should provide an indication not only of how likely it is that such withdrawal may
✓ be necessary but also of its possible timing;

(ii) the need for the Government as owners, and indeed as trustees both for the public money involved and to a degree for the well-being of those parts of the country's economic fabric which depend on BL (notably some components and services), to make contingency plans so that as much as possible can be rescued from the situation if the Plan has to be withdrawn. Because of the difference in viewpoint, these plans are not necessarily identical with the contingency plans which the Company itself may make with the objective of optimising, if the worst happens, the situation as it sees it.

2. I believe these two tasks for the Government, although they inter-relate, are fundamentally separate ones. I also believe that Sir Michael Edwardes should if possible be involved in both.

3. On the first task he is obviously the man who should provide the information and also a management interpretation of it. It is entirely proper that he should be questioned about it, not only to test the soundness of the

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
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view he is putting forward but also to assist the Government to form an up-to-date view of the risk of failure and its possible timing.

4. On the second task it is obviously right that the Government should be actively seeking advice while doing nothing that would precipitate collapse of the Company. On many, although not all, aspects of this task, Sir Michael Edwardes is obviously the best source of the advice that is needed.

5. I believe it is important that in any meeting that takes place with Sir Michael Edwardes these two areas of discussion should be kept separate. In particular, any heat that may be generated during questioning on the first should not be allowed to obscure the great wish to secure his assistance on the second. This goes further than the desirability that he and his Board should manage the rundown if that proves necessary. The desire ought to be that he should contribute fully from now onwards to broad planning of how overall damage can be minimised in the event of rundown. This does put some additional burden on him over and above running the business but it is not an unusual or unreasonable one. A secondary merit of involving him in this second task is that it is a good way of reducing the risk of polarisation between the owners and the management. It should thus reduce the danger that every discussion with him about the business tends to be regarded as raising doubts about the owners' confidence in the management.

6. On the question of obtaining additional expert advice on how to minimise the damage and difficulties if rundown becomes necessary, I think it would be a mistake to 'appoint' at this stage but it might be wise to 'consult' somebody. My own view is that the right adviser would be a man with skill in rescuing companies that are no longer viable rather than somebody skilled in buying and selling them. This could well mean that the advice of a very experienced liquidator is needed. Because of the need to avoid unnecessary damage beyond BL itself, the task is a wider one than would arise in connection with a normal liquidation when the objective is simply to do the best for creditors and others with a claim on the assets. I suggest that the approach to such a man should not be "we have you in mind to act as liquidator", but rather "What would you as an experienced liquidator advise us to be doing now so that if the worst happens we have the best chance of being able to rescue as much as possible, not just of the Company but also of the surrounding economic fabric?" I envisage at this stage nothing more than confidential

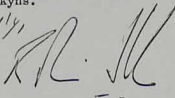
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discussion with such a man, after Sir Michael Edwardes has been brought into the picture. I feel he should not embark on any external enquiries that might give rise to speculation and rumour.

There is no new thought in the above but it seems right to let you have this overall statement of how I see the situation because it perhaps emerged only in fragments this morning.

I am sending a copy of this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Employment, and to Sir Robert Armstrong and Mr Hoskyns.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'J R Ibbs', written in a cursive style.

J R Ibbs

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