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Secretary of State for Industry

21 March 1980

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Dear Tim

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You asked for a note on the current situation before the Prime Minister's meeting about the current situation at BL on 24 March. I enclose a copy of a letter from Sir Michael Edwardes which summarises the BL Board's assessment at their meeting last week. My Secretary of State discussed this with Sir Michael today.

BL published their unaudited 1979 end-year figures last week. These showed a trading loss of £46m and a net loss after taxation, interest, and extraordinary items of £145m. BL Cars' performance deteriorated by £108m compared with 1978. This year began disappointingly with BL Cars' domestic market share falling to 15% in January. The February figure was 16.7% and would probably have shown further improvement but for doubts among would-be customers about the outcome of the Robinson affair. The impact of BL Cars' vigorous sales campaign is expected to be felt most strongly this month and market share to date is 21%.

Despite these adverse developments, the Board expect to keep within existing Government funding provisions without jeopardising the agreed longer term objective of their Plan. They aim to confirm this after their further meeting on 26 March. Sir Michael told my Secretary of State this morning that BL's cash situation in future years would depend heavily on the Government's success in lowering inflation. Sir Michael will be discussing this further with this Department after the Budget. My Secretary of State is satisfied that any judgement on the Plan in the light of the 19 December letter must be left to the Board. Sir Michael also reported on developments in connection with BL's collaborative ventures. These include the Honda deal to produce the Bounty and discussions of a variety of projects with BMW, Renault, VW, Perkins, Nissan and International Harvester. These are all particularly confidential and must not be disclosed. BL has put detailed proposals to Aston Martin Lagonda about MG and is awaiting their reactions.

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The wage and conditions of employment negotiations finally broke down on 17 March and BL Cars have decided to implement the package unilaterally. BL Cars are writing to all their employees giving them notice that, when they first clock in after the Easter holiday break, they will be deemed (by the act of clocking in) to have accepted that the revised conditions of service are incorporated into their conditions of employment. Those not accepting the changes will be treated as giving four weeks' notice. Accumulated back pay will not be included in pay packets at once for administrative reasons but will be paid out in mid-May. There is the possibility of some industrial action at plant level.

My Secretary of State has discussed the handling of contingency planning with Sir Michael Edwardes. We are now in a better position than before Christmas because of Sir Michael's and his Board's commitment to stay with the company, should they decide it is necessary to withdraw the Plan, and to co-operate with the Government in action to minimise the resulting damage. My Secretary of State considers it most important that no action be taken by the Government to overrule the Board in any way which might put their co-operation at risk and he endorses Sir Michael's strongly held view that no precautionary moves should be taken by the Government which could prejudice their chances of pulling through. There is great public interest in BL's affairs and any news of Government attitudes and actions anticipating collapse would seriously damage the confidence of purchasers and dealers.

Officials have given further consideration to the suggestion that Ministers should appoint an adviser to the Government such as Sir Kenneth Cork. If such an appointment were made, the person in question would have difficulty operating simply on the information which was available in the Government machine; he would need to have contact with BL direct. Sir Michael Edwardes agrees that at the right moment - if it ever arises - the Board themselves should employ such an expert; but his Board do not consider they have reached that stage and they counsel strongly against taking any premature action. They point out that there is only a handful of people in the country capable of giving worthwhile advice and these are all well-known and their involvement would be interpreted as a sign that the end of the road had been reached. Accordingly the Board of BL would be strongly opposed to the involvement of such an individual until the end of the road was manifestly in sight. Nevertheless if Ministers still attach importance to having such advice, officials could explore whether such an expert would be willing and able to do a useful job without direct access to BL. There would, however, remain a serious risk that such an appointment could not be kept secret and leakage would be very damaging. My Secretary of State

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has warned Sir Michael that the Government might appoint someone against BL's wishes but he has promised to inform Sir Michael if an appointment is to be made.

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T* (Other contingency planning is also in hand and the Prime Minister will have seen the Treasury's updated estimates of the impact of a BL collapse on public expenditure. The Chancellor and my Secretary of State have already agreed the circumstances in which guarantees would be issued and officials of the two Departments are drafting an understanding on the coverage of guarantees and the procedure which would need to be adopted in those circumstances. Officials of this Department have also been examining with the Department of Employment and the Treasury measures which might be taken to alleviate the knock-on effects of a total or partial BL collapse. No measures, however, will be able to prevent major and widespread difficulties.

If the Board should eventually conclude that they could no longer deliver the Plan, they have undertaken to give us warning so that necessary consultations can take place to enable guarantees to be issued to the major lenders in return for their agreement to waive covenant restrictions inhibiting the re-structuring of the company and substantial disposals of assets. In this interim period before a public announcement, decisions would also need to be reached in consultation with the Board on the future of individual capital expenditure programmes. Because of the danger of leakage, it might not be possible during this period to make overt approaches to potential purchasers, but preparations would be made to initiate urgent discussions immediately after the public announcement. Officials consider a minimum period of two - three weeks should be allowed to complete the negotiations with the banks on the guarantee issue; to agree new operating instructions for the Board; and to secure Ministerial agreement on the supplementary measures directed to minimising the knock-on effects.

I am copying this letter to Martin Hall (Treasury), Richard Dykes (Employment), John Hoskyns and David Wright.

Yours ever

Ian Skelton