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*A. Duguid
Marlow Set
S.W.D. Wass*



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10 DOWNING STREET

From the Private Secretary

25 March 1980

Dear Mr.

The Prime Minister held a meeting yesterday evening to discuss the situation at British Leyland. The following were present in addition to your Secretary of State: the Chancellor of the Exchequer, the Secretary of State for Employment, Sir Robert Armstrong, Sir Kenneth Berrill, Mr. John Hoskyns and Mr. David Wolfson. They had before them your letter of 21 March.

Sir Keith Joseph said that, after a bad start to the year, British Leyland's performance had improved in the last month or so. Sales had improved, and there had been no strike action. The British Leyland Board had indicated that they expected to keep within the existing Government funding provision for the coming year. At their next meeting on 26 March they were likely to decide to proceed with the British Leyland plan. British Leyland management were doing as well as could possibly be expected in the circumstances. The only point on which Sir Michael Edwardes was not providing full co-operation was on the suggestion that the Government should appoint someone to advise on the disposal options. Sir Michael was opposed to any such appointment because he was afraid that it would leak, and this could lead to the collapse of the Company. He was not averse to disposal as such, and was willing in principle to look for potential purchasers; but he did not believe that this could be vigorously pursued at the present time when the Company were trying to achieve a turn around in performance: he took the view that this must wait until it was clear that there was no prospect of survival in its present form. To move earlier would all too easily leak, and thus undermine the whole recovery strategy.

Sir Kenneth Berrill said that, while Sir Michael might be doing a good job as Chief Executive, he could never be expected to consider the disposal options with any real enthusiasm. It was of the nature of things that managers of companies were never keen sellers of companies. There could be no meaningful discussion on sale options except between potential purchasers and the Government as shareholder. Moreover, such discussions would have to be very detailed. The Government did not have sufficient expertise to be able to conduct discussions of this kind; and hence, it was most important that an adviser with adequate support should be appointed very soon. The Government ought to appoint someone,

/ if possible,

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if possible with auto industry experience, who would consider the disposal possibilities in detail, if necessary with the help of consultants, and advise the Government on the best course of action.

The Chancellor said that he was worried that no progress had been made in appointing an adviser. While it was necessary to rely on Sir Michael Edwardes and his team for the management of British Leyland, he agreed with Sir Kenneth Berrill that Ministers needed expert assistance on the question of disposals. It still seemed all too likely that the British Leyland plan would fail. The longer the delay in finding a purchaser, the less likely was it that it would be possible to find one - at least for the whole business including Longbridge and Cowley.

Sir Keith Joseph said that there was little prospect of finding a purchaser for the whole business, and the risk of the appointment of an adviser on disposals should not be under-rated. Nonetheless, he was prepared to pursue the idea of appointing someone. This would have to be on the understanding that Sir Michael Edwardes would have to be told - not least because an adviser would need British Leyland's co-operation in providing information. The Secretary of State for Employment suggested that one possibility would be to appoint someone to the British Leyland Board with the job of looking at the disposal options.

The Prime Minister, summing up, said that Ministers were agreed that the Government needed assistance on the disposal question, and that the appointment of an adviser with suitable back-up should be urgently pursued. In the first instance, it would be helpful if Sir Robert Armstrong could consult with Sir Douglas Wass and Sir Peter Carey (or, in his absence, Mr Bullock). Ministers should meet again before Easter to consider this question further, and also take stock of the outcome of the British Leyland Board meeting on 26 March.

I am sending copies of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

Im w.

Ti Laker.

I K C Ellison Esq
Department of Industry

Ref: A01771

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PRIME MINISTER

British Leyland

Ami Min 15th
No progress seems to have
been made on the disposal
option - either with appointment
of an adviser or in with Ford.
See Ken Bennie's transcript
brief at Flag B.

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BACKGROUND

Flag A

You are having a stocktaking meeting on 24th March. The Secretary of State for Industry's letter of 21st March and Sir Michael Edwardes' letter of 18th March provide the background. Sir Keith Joseph will also be able to report on his meeting with Sir Michael Edwardes on 21st March.

HANDLING

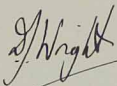
2. You will want Sir Keith Joseph to report on the latest state of play. Thereafter you might concentrate discussion on:-

- (a) The Company's current performance: How likely is it that the Company's recent sales performance - 21 per cent market share so far this month - can be maintained? The Budget may be a factor in this; but you may prefer not to mention that. Is the sales drive as expensive as it appears to the casual reader of BL's advertisements? Is the steel strike beginning to bite to BL's detriment?
- (b) The Wages Package: What is the latest assessment of the risk of strikes following the imposition of the wages package? How realistic is it to expect the Company to impose its planned productivity improvements?
- (c) Contingency Planning: Is there any more to report?
- (d) Collaborative Arrangements: Is there more to report?
- (e) Adviser on Disposal: Do the Committee accept BL's view that an adviser on disposal should not be appointed because of the doubts this would throw on the Company's future?
- (f) Implications of Collapse: Does the Chancellor want to add anything to his recent report to you on the wider implications of the BL collapse? Or indeed on BL's financing generally?

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CONCLUSIONS

3. You will want to record any specific conclusions which have emerged, e. g. on the appointment of an adviser on disposals. Otherwise, all that is necessary is for the Committee to invite the Secretary of State for Industry to report progress after the next BL Board meeting on 26th March with a view to a further meeting of the Group just before or just after, the Easter break.


pp (Robert Armstrong)

21st March 1980

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