

BRITISH LEYLAND

E Committee discusses BL on Monday. This note summarises our latest thoughts. Together with CPRS, we have ourselves had to take a strong "negotiating line" at all the BL Group meetings at Keith's Department, in order to make them face the reality of BL's prospects. This new realism is reflected in their report (Annex B to Keith's paper). We also had a private meeting with Michael Edwardes last night.

1. Has BL a Chance?

1.1 DoI officials do now recognise that BL's chances are less than even. We regard them as nearly zero. For BL to compete as an independent entity with the much larger American, Japanese and Continental volume car producers, demands a complete reversal of everything which has gone before. Even if they are able to regain some of the lost market share in the UK, their plan is critically dependent on doubling their present meagre sales in Europe.

1.2 While the new Mini and the Honda models will appear in late 1980 and late 1981 respectively, their new home-grown medium car (LC10 and 11) will not enter the field until 1983 and not achieve full planned volumes until 1986. Even then, the volumes planned (nearly 300,000) are much less than those of their major competitors.

1.3 Even if BL succeeds in raising productivity by the planned 65% and transforming its labour relations, it is difficult to see how they can generate the R&D funds necessary to stay in the race to produce the next generation of cars.

1.4 In management terms, the whole project is fragile. Would we back BL if Edwardes went under a bus? He is due to finish at BL in November 1980, and, in our talk last night, I got the clear impression that he would not stay on.

2. Should we Back the BL Corporate Plan or not?

2.1 Our original view was that BL would not survive and that we should refuse to back the plan. Our view of its chances is unchanged, but we now agree with Keith and his Department that public support for Edwardes and what he is trying to do would make it extremely difficult for Government to refuse to back him at this point. The difference between us (paragraph 5 of Keith's memorandum) is that he is arguing for supporting BL because there is a chance of success; we argue for supporting BL even though there is virtually no chance of success.

2.2 Further delay in grasping the nettle costs not only the additional funds for support, as the memorandum notes, but also the opportunity costs of all the skilled manpower and management effort locked up in BL. But we still feel that support is right.

- 2.3 If we do back the Plan, there are really only two possible outcomes. Either the unions are as unco-operative as in the past, in which case the BL Board will recommend liquidation (this undertaking should be referred to by Keith publicly); or - and this is more difficult to handle - the unions do co-operate and BL still eventually fails. We have to set the stage for this eventuality, now.

3. Can the Government Achieve its own Objectives at BL?

- 3.1 Our objective is unchanged - to turn an economic problem into a political stepping stone. First, we want to establish the criteria by which the electorate can judge our handling of the BL problem both now and when (or if) it finally collapses. Second, we must ensure that the unions either behave responsibly and thus improve BL's chances, or behave irresponsibly and take the blame for BL's collapse. Third, we must minimise the economic and PES consequences of break-up.
- 3.2 So far, things have gone rather well, partly because Edwardes knows that the Government is not bluffing, and he is not bluffing himself; and partly because he is a skilled negotiator and a respected manager.
- 3.3 Edwardes does not believe it is possible to get meaningful undertakings from the unions to make their members deliver on the pay and conditions package (assuming it is successfully negotiated). The union leaders lack the will and the authority. But Edwardes made it clear that he would dismiss anyone who disrupts, and he expects the unions to accept this.
- 3.4 Setting the political stage for eventual break-up of BL must be done very carefully as part and parcel of the Government's approval of BL's Corporate Plan. It is also important that Cabinet doves should agree, unambiguously, that this is BL's last chance as a complete and independent company. You will want to minimise the risks of a major split in Cabinet if BL has to be closed down or broken up for sale in a year or two.

4. Other Comments on the Keith Joseph Paper

- 4.1 We don't think that the economic consequences of break-up would be quite as dramatic as the DoI suggest. It should be possible to use 1980 in preparing for a more gradual run-down, with maximum disposal to overseas buyers. It may be worth discussion, at E, on how this might be put in hand.
- 4.2 Edwardes told us, in confidence, that he might be prepared to act as an industrial adviser, looking for partners/buyers, after he has left BL. He mentioned that he had already had some tentative discussions with BMW about the possibility of BL producing a (new?) BMW model at Solihull. He said that BL management were thinking much more realistically about such options now, which they would never have done two years ago. He also said that the Honda deal could lead the way to a take-over of Cowley, by Honda, if there was increasing pressure

on them to start manufacture in Europe. My own view is that Edwardes has come to the conclusion that BL cannot be saved. Provided he personally is not expected to take orders from a foreign boss (which is now unlikely since he has less than a year to run) he is readier than he was to help us find a buyer or buyers.

- 4.3 On the face of it, Keith's suggestion that the Government should approve the BL Corporate Plan before the pay and conditions negotiations are complete, looks wrong. Certainly, we should not respond too fast or it looks as if we are a soft touch. However, in view of Edwardes' uncompromising position as regards the unions, and provided we can refer openly to his letter to Murphy (he is thinking about this) or make other statements about BL Board's readiness to recommend putting the company into liquidation if things go wrong, it may make sense to give the Plan public backing quite soon. The point is that, if we do decide to back the Plan, we should do so in a way which gives maximum confidence to everyone concerned, and demonstrates our trust and high regard for Edwardes and his team. All this gives them a flying start and, as Keith argues, creates the best possible background for our refusing to bail them out again next time.
- 4.4 I find it hard to accept Edwardes' argument, however, that they must have the backing so that they can sign the Honda deal on 20 December. That could perfectly well go ahead without our backing, since Honda is protected by a £5½ million penalty clause. We think it is reasonable to back the Plan before the pay and conditions negotiations are complete (on the basis that we have absolute confidence that Edwardes would call it off if he was not satisfied with the outcome of those negotiations). But to approve the Plan in a rush to meet the Honda deadline might look pretty feeble.
- 4.5 From talking to Edwardes, it is clear that there will be some concessions by BL during the pay and conditions negotiations. However, he assures us that they will only concede expendable bits and pieces, put into the package for negotiating purposes. (BL had assured DoI that the package was 100% take-it-or-leave-it.) If the negotiations, which have barely started, bogged down, he might go out to ballot again. From our point of view, if we agree that we should give BL one more year, preparing the ground for break up thereafter, we would prefer there to be no further ballot. We can handle the whole thing better (Section 5 below) if Edwardes is able to refer back to the overwhelming result of the earlier ballot. A faltering majority in a new ballot would make our game plan harder to follow. It would not be enough to let us pull the plug; but at the same time, Edwardes' authority would be weakened.

## 5. Using BL as a Stepping Stone

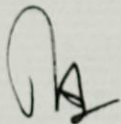
- 5.1 It would be difficult to abandon BL now without losing the public's support for Edwardes and his stand against the unions. We would be simultaneously abandoning firm management and moderate union members. The question, therefore, is whether the expenditure can buy us a step forward on the union issue, rather than simply prevent us taking a step back.

5.2 We believe it can do this, provided we establish clearly and comprehensively why we are backing BL. Our line should be as follows:

- The workers have given the BL Plan a chance, and so must we.
- We are backing moderate union members as well as management.
- We must display the Government's total commitment to supporting moderates and developing a new and healthy trade union role.
- We are outside the BL situation, we take no credit for what is happening there. All credit is due to Edwardes on one side and shop floor workers on the other.

This gives us a golden opportunity to show the positive side of the Government's policy. So far, it is the "hard financial men" who have been most visible, for good reason. We must shine the spotlight on management and work force pulling together, with positive encouragement from Government. This is a foretaste of where we are trying to get to over the next 10 years.

5.3 At the same time, since we know that BL is likely to fail in the long run, we must set the stage for that as well. We must set the record straight, reminding the public of the size of the job facing BL management and workers - itself largely the result of years of appalling labour relations, in which union militants have all but destroyed the company. We have to establish in people's minds that, if and when the company folds, the damage they have done was so great that even the efforts of Edwardes and the union moderates was not enough to put it right. We must also make it crystal clear that BL as a whole will not be bailed out again, so that the Communists cannot argue, a year from now, that we "conned the work force, let them down etc".



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