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*16*PRIME MINISTERBRITISH LEYLAND - DINNER WITH SIR MICHAEL EDWARDES

This minute suggests the purpose of the dinner and a possible shape for the discussion.

1. BACKGROUND

- 1.1 In December, Ministers reluctantly agreed to fund BL's Corporate Plan on a "last chance" basis. Some Ministers thought that Edwardes should be looking for an opportunity to sell BL in the meantime, but Keith has never told Edwardes that this was a condition of further support, because no clear decision was made.
- 1.2 What is the Government's present position?
- 1.2.1 Edwardes was asked to state publicly that his Board would withdraw the Plan as soon as its achievement was jeopardised. Ministers were determined to respond by allowing BL to collapse if this happened. We were always sceptical about the Board taking the initiative and felt circumstances might arise in which the Government would need to do so.
- 1.2.2 Since then, the UK economic outlook, inflation prospects etc, have deteriorated further, while Edwardes has made some progress in his battle with the unions. We think Government should now be a little more prepared to let the BL Board shirk withdrawing the Plan. This may even mean further funds at some stage, provided they can be seen as a reward for better industrial relations. To achieve this, we must practise deliberate brinkmanship in keeping Edwardes, his Board and his employees convinced that we're prepared to pull the plug. - as Keith has done from the outset.
- 1.2.3 We shall have to continue walking along this tightrope, but must start now looking for firm ground on which to step off it. A buyer could offer this prospect. Against the present economic background, we would only be prepared to abandon the tightrope if union disruption was unambiguously seen to bring BL down.
- 1.2.4 There are three possible outcomes:
- (a) "Success". This is so unlikely that it is best described as a miracle. Of course this would be much the best outcome

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for Edwardes himself. For Government, it would be extremely welcome, but would make only a small contribution to solving the range of our problems.

- (b) "Failure". This must be the most likely outcome. It is very unattractive for Government, but it is crucial that Edwardes continues to believe we would be prepared to face up to it if necessary. Failure is not necessarily as unwelcome to Edwardes as it is to us. He can legitimately claim that he has fought a gallant fight. We would have to pick up the pieces.
- (c) "Sell or Merge". There is a range of possibilities here, from BL finding a roughly equal collaborative partner through to outright sale. We think Edwardes is likely to agree that collaboration will have to play a big part in BL's future if it is to compete. Its own resources are bound to be inadequate. One or two minor collaborative deals would not be sufficient to avoid failure. The essence of this outcome is that the main responsibility for BL should shift from HMG to another party. If this can be achieved, it is extremely attractive to Government, though Edwardes may see it as an admission of personal failure.

2. PURPOSE OF THE MEETING

2.1 We do not see any purpose in discussing BL's current performance. We all know that it is unsatisfactory, but that no-one could have done a better job. You could pay tribute to this - particularly to Sir Michael's success in out-manoeuving opponents to his wages and conditions package. By firm treatment of militants and skilful use of ballots, Edwardes has managed to push forward the frontier of industrial relations.

2.2 The real aim of the meeting is:

- (a) To look further into the future and get Edwardes to admit what a slim chance BL has of eventual viability.

- (b) Edwardes must understand that the values he places on the different outcomes for BL are inevitably quite different from the values we must place.
- (c) To increase, through Edwardes' understanding and co-operation, our chances of the third outcome, "Sell or Merge".

3. HOW THE DISCUSSION MIGHT GO

3.1 You might open the discussion by paying tribute to Edwardes' achievement (section 2.1 above) and then explain the main purpose of the meeting (2.2(a) above) and then go on to spell out the differing positions of Edwardes and his Board on one hand, and Government on the other (section 2.2(b) above). This will give Edwardes the opportunity to put forward his own views and arguments. Edwardes' own view on the chances of "Success" should be probed. Does he really believe that BL will ever be able to generate enough funds to stay in the league of car manufacturers, producing new models, without dependence on Government?


3.2 Edwardes is also likely to argue:

- (a) That it is not necessary for effective control of BL to pass to foreign hands. We think it probably is necessary because BL's own resources are so inadequate and because we are looking to reduce, and preferably eliminate, HMG's financial responsibilities.
- (b) That it would be better to pursue this option in two years' time, when BL has been more successful. We don't believe it will be more successful. It is likely to have lost further market share, dealers etc, and to be less attractive. And by then there will be less possible buyers around.
- (c) That simply to explore the possibility of sale will lead to leaks which will so undermine confidence in BL that failure is precipitated. We don't accept this analysis. If it were true, why would it be less true in two years' time? But we believe that dealers and managers - and eventually even the work force - might very well recognise

that their chances of survival and a better future would be improved if someone took over BL.

- 3.3 It is worth spending quite a lot of time discussing these arguments to see how well they stand up. There may be more to them than we have realised. Ideally, Edwardes should volunteer that he and his senior managers would not be prepared to see their desire to run their own ship stand in the way of a better outcome for BL employees and HMG. If any progress is made in this debate, it would be worthwhile turning to ways of exploring the chances of early sale or partnership.
- 3.4 We think that BL itself - already known to be exploring the scope for collaborative deals - is best placed to explore the chances of sale - under the cover of collaborative deals. If Edwardes is prepared to do this, he may think that Government can help.
- 3.5 Edwardes may say that no-one would want to buy BL. But the strongest motivation towards buying BL could be a desire to stop someone else getting it - since it does still have a very large UK dealer network and a number of products which could prove useful in overseas markets. Ford, who are doing well out of BL's gradual decline, would hate to see a Japanese company take it. They have effectively asked to have first option, which at present costs them nothing if they can get it. Ideally, we should stimulate interest on the part of more than one buyer.
- 3.6 Could a Japanese company be motivated by veiled (or overt) threats from Government about future import controls? Edwardes may have other ideas about how Government and BL could work to this end.
- 3.7 If Edwardes is totally unwilling to follow our general line of thinking, we will at least know that; and you will be able to assess the strength of his feelings, and perhaps discover what it would take to get him moving in our direction.

I have copied this minute to the Chancellor, Secretary of State for Industry, and to Robin Ibbs.


JOHN HOSKYNs