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Qa 04441

To: MR LANCASTER

From: SIR KENNETH BERRILL

Ford and British Leyland

1. After yesterday's meeting of E Committee I told the Prime Minister that Robert Lutz (Head of Ford of Europe) had been given the green light from Detroit (Mr Petersen) to negotiate on a package purchase of BL. This note is to fill out a little that very welcome news.
2. First it is useful to get clear where Lutz stands in the Ford hierarchy and what is the significance of this 'green light'. As Head of Ford of Europe, Lutz is two levels up from Sir Terence Beckett in the Ford hierarchy. Ford of Britain is a profitable section of Ford of Europe and Ford of Europe is currently earning more profits than the whole of the rest of the Ford operations worldwide.
3. Detroit's attitude to Lutz is, therefore, "You are running the most profitable section of our business; if you say your best next step is to negotiate for BL, we trust your judgement. Go ahead."
4. Ford of Europe needs to build a new 500,000 car assembly plant somewhere in Europe. They are currently negotiating with the Portuguese Government for a greenfields site in Portugal, a decision on which must be taken this summer, but the Cowley site would be a very attractive alternative. If Lutz buys BL with Cowley, he won't want Portugal and vice versa. If to fill out his 1980-2000 volume car capacity in Europe he went ahead with Portugal, he might still be interested in Rover/Jaguar/Trimmph, Truck and Bus, etc. but the Cowley/Longbridge BL core problem would be left with the Government.
5. As we are all aware, the main problem will be Longbridge. For BL as it is today Cowley and Longbridge are knit together with Longbridge providing engines for Cowley (Princess, Marina and Maxi) and will be providing the new Metro, without which the BL volume car dealer network will disintegrate. Under Ford, Cowley need not depend on Longbridge for engines (they could provide Ford engines from elsewhere) and they are much less interested in the Metro. They might agree to continue Longbridge, but it would certainly

SECRET

be very much on sufferance, i.e. if the Longbridge workforce played up Ford would want to be free to shut it down.

6. But this is all for the future. At present Ford have gone off to prepare a package bid. They will get data from BL and have sufficient ex-BL executives working for Ford to be able to evaluate it without too much difficulty. They expect this process will take at least 5/6 weeks - say not before Easter. //

*Tracy and
Dol are
considering
possible
candidates.
R.*

7. This is the measure of the time the Government has to find the Mr Super-Salesman who is to advise them on any bids and for him to "read" himself into the subject.

8. All the above information has been given to the CPRS in the strictest confidence by a senior executive in Ford. (Please protect.)

9. I am sending a copy of this minute to Sir Robert Armstrong.

KB.

21 February 1980

21 FEB 1980

