

cc Mr Hoskyns ✓

PRIME MINISTER



SECRET

This is the paper
for Thursday's meeting.

PRIME MINISTER

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We are to discuss BL on Thursday and I shall tell you and colleagues then how the Board now view the prospects of getting the Plan through. They are meeting in Birmingham on Wednesday afternoon, and Sir Michael Edwardes has been out of the country till Tuesday. I was not able to write to him before the Easter break but have now done so on the lines proposed at our last meeting and I attach a copy of my letter. ... Also since we last met there have been further discussions with Ford and I let you know the outcome in my minute of 3 April.

Just to clear one further point. There is no question of the Board deciding on Wednesday to withdraw the Plan. First they have the very clear commitment to give me advance warning before they do so; and Sir Michael has very carefully kept me informed of developments. But in any case they always expected there would be problems in getting the wages and conditions package implemented; intensive discussions are proceeding with union leaders and there is a good deal of understanding about the predicament of the company; so it would be wrong at this stage to write off the possibilities of their being able to pull it through. Incidentally Sir Michael recently asked me to confirm that in making the funding available to BL for 1980/81 we had taken implementation of the wages and conditions package as being essential to the Plan; I of course

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said that this was the case and that I would be prepared to say so in public if this would be helpful.

Reflecting further on the problem that confronts us, I think the fundamental issue is whether we still agree that BL should be given every chance to succeed - always subject to the agreed financial limits; or whether we now take the view that the chances are so slight that policy should be based on the assumption that it will fail.

If we take the latter view, I shall have to tell the BL Board that the Government, without waiting for the Board to reach the conclusion that the Plan must be withdrawn, had taken the view that it could not succeed, and that priority was now to be given to running down and breaking up BL. This would lead to the resignation of the Board; the Government's abandonment of hope for BL would become apparent; there would be an immediate crisis of confidence; rapid and disorderly rundown would follow, with major consequences for the economy and public expenditure. Even if we regard failure as almost inevitable, the only hope of keeping the situation under some degree of control will be if the Board remain with the company to manage the rundown, as they have undertaken to do if they conclude that the Plan must be withdrawn.

Fears that the Board will allow the situation to drift downwards without implementing the terms of Sir Michael's letter to me

/of ...



of 19 December and withdrawing the Corporate Plan are, I consider, misplaced; the non-executive members of the Board would certainly not allow this to happen. Realistically, the Government has no option but to rely on their integrity - or itself to precipitate the crisis by indicating that it is no longer prepared to rely on the Board.

Of course, we must not miss any opportunity that may present itself of getting another company to take over BL as a whole; but it must be unlikely that any prospective purchaser would make a serious move until it was apparent that the Plan was failing and therefore that BL was likely to be for sale cheaply. (As explained in my minute of 3 April, Ford are not seriously interested, and would only examine the possibility if pressed by the Government). If we either press the BL Board now to seek purchasers, or try to do so ourselves, this would certainly precipitate a crisis.

On the matter of the Government appointing an adviser Sir Michael Edwardes told Sir Peter Carey on 8 April that the appointment of an expert on disposals would be very likely to leak with fatal consequences; and it would be taken by the BL Board to mean that the Government did not have confidence in them - a resigning issue.

However I am attracted by the suggestion in Sir Robert Armstrong's minute of 28 March that the Government should approach someone like Sir Henry Benson for advice on whether

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there was any additional precautionary action which could and should be taken. I should still consider it essential to tell Sir Michael that we were going to do this, but if expressed in this way, and not related specifically to disposal (partial or complete) I think he might be persuaded to accept it.

I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Employment, Mr Robin Ibbs, Mr John Hoskyns and to Sir Robert Armstrong.

KJ

K J

15 April 1980

Department of Industry
Ashdown House
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Secretary of State for Industry

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15. April 1980

Sir Michael Edwardes
 Chairman
 BL Limited
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Dear Michael,

Thank you for your letters of 18 March and 28 March. I have also seen the 1980 forecast prepared on 21 March and supplied to officials here.

I conclude that in your Board's view, having completed your review of capital expenditure and notwithstanding the disturbing loss now forecast for 1980 (which your second letter indicates should not be taken as evidence that any increase will be needed in the cash call on Government during 1980/81) it is still possible for BL to achieve the objective of long term viability; remaining within agreed funding limits is, of course, a constraint rather than an objective in itself.

As regards 1981 onwards, I realise the sensitivity of any longer term projections to various ranges of economic assumptions, particularly about inflation, the significance of which you stressed to me when we met on 21 March. Officials of this Department and the Treasury are ready to discuss these and their implications with your staff and to provide any help they can.

I hope this work can be carried forward speedily so that you can let me have your Board's conclusions as soon as possible.

I should mention that I have just returned from holiday, and that this letter was prepared on my instructions while I was away and does not take account of the latest situation of BL.

Yours sincerely

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