

cc A. Duguid

Prime Minister

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To: MR LANKESTER
From: SIR KENNETH BERRILL

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BRITISH LEYLAND

1. The Secretary of State for Industry has written today to the Prime Minister setting out the present position on British Leyland as a background to the Prime Minister's meeting tomorrow morning. Sir Keith's conclusion is that the best strategy for the Government is to continue to back the Edwardes Plan until such time as the BL Board come to Ministers and say that the Company cannot carry on and, meanwhile, (and this is the important point) to back Sir Michael Edwardes in not initiating negotiations with other manufacturers on the possible sale of BL until that moment of truth had arrived.

2. It is only to be expected that Sir Michael, with characteristic determination, would wish to cling to the last to the hope that BL might 'make it' as an independent volume car producer, and that he would not wish to enter into negotiations which could prejudice that possibility. But the collapse of BL - together with the effect on component suppliers - would have such awful implications on public expenditure and on employment that Ministers need to consider whether the preservation of the British motor car industry long term would best be served by going along with the Edwardes strategy or by deciding that every effort should be made to try to sell BL despite the risks that such negotiations might leak.

3. As the Prime Minister is aware, the five years of study which the CPRS has given to the British motor car industry and to BL leaves it in no doubt that the moment of truth has to come. Car sales generally have been at a record level but BL's share of the market has fallen so badly that in January Ford sold more of one model (Cortina) than BL's total sales. Even dramatic improvements in sales would leave BL's total sales of volume cars impossibly far behind the volumes of its competitors to be able to earn enough profits on its own to replace its range of models.

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4. Be that as it may, there can be no denying that the future for an independent BL is bound to be highly precarious and that the most secure prospect for output and employment would be as part of a major world volume car producer (Ford, General Motors, Volkswagen). So the prime object of a Government strategy for BL should be to try to determine as soon as may be if this possibility exists. If it proves not to exist (the effort must be made with real determination) then a modified Edwardes Plan may indeed be preferable to immediate fragmentation, and the collapse of their volume car business, with all that would entail for the component industry and for the Exchequer.

5. The present prospects are that BL will be able to last out Sir Michael Edwardes's time as Chairman (November 1980). As Sir Keith's letter says, there is no cash crisis at the moment and the lay-offs will actually improve the position. The Government is committed to making available £150m. of new equity in April plus a further £150m. line of credit and £150m. loan conversion. Long drawn out industrial action can, of course, wreck any company fairly quickly, but there are signs that the BL labour force has at last begun to believe that their Company could collapse and they may well behave comparatively reasonably for the rest of this year.

6. If this happened, Sir Michael could see his time out with the Edwardes Plan in place and without any real attempt having been made to go out and see whether a buyer exists. The Government would then be bound to give his successor time to 'look around' and prepare his own proposals; so it might be a year from now before 'the moment of truth' arrived at which the BL Board came to the Government and said "there is no future for this Company except as a permanent pensioner of the State".

7. Ministers may prefer to continue to back the Edwardes Plan for another year and not, meanwhile, insist on active attempts to find a buyer (though this was not the view they took at the end of the last discussion). But if they do confirm their previous view - that the best prospect for saving jobs in the United Kingdom car assembly and component industries was to lose no time or effort looking for a buyer - they will have to give firm

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instructions to the Department of Industry and to Sir Michael Edwardes.

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

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19 February 1980