

Seen by J. Hoskyns
19/4/80 A. Dwyer

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10 DOWNING STREET

From the Private Secretary

3 April 1980

The Prime Minister held a meeting at 1545 hours yesterday to discuss British Leyland. The following were present in addition to your Secretary of State: Chancellor of the Exchequer, Secretary of State for Employment, Sir Robert Armstrong, Mr. Robin Ibbs, Mr. John Hoskyns and Mr. le Cheminant. They had before them your letter of 1 April with which you enclosed a copy of Sir Michael Edwardes' letter of 28 March and a note on possible regional measures, and Sir Robert Armstrong's minute of 28 March on the possibility of appointing an adviser on disposal options.

Sir Keith Joseph said that the BL Board, at their meeting on 26 March, had reviewed the company's performance thus far in 1980 and the outlook for the rest of the year. They had concluded that they should be able to stay within their existing cash provision for 1980/81. Their market share had recovered in March to 21% from the disastrous levels of January and February and they appeared so far to have been successful in sterilising union opposition to their pay and work practices proposals. There were unlikely to be any profits during the coming year, and the company were falling short of their objectives as set out in the 1980 Corporate Plan. But, with the launch of their new truck and the launch of the Metro in the autumn, and if they were able to make continuing progress on work practices and demanning, there was still a possibility that the management would turn the company around. It would be disastrous for the Government to withdraw its support at the present time, or to force the management into disposals: if the company continued on its present course, the disposal prospects should in any case improve.

In discussion, it was argued that Sir Michael Edwardes and his team had performed impressively: in particular, the progress they were making on work practices and demanning was as good as could have possibly been expected. On the other hand, they were clearly falling short of the Plan targets, and the sales recovery in March was attributable partly to the very low prices which the company were offering. There was a real worry that, while they might stay within their cash provision for the current financial year, the underlying position of the company would still be deteriorating, and that in 1981 they would ask the Government for a large new cash injection. Alternatively, if the Government were to refuse to provide extra money, the company might well be heading towards a disorderly breakup in 1981 - which would be the worst outcome possible. Sir Michael Edwardes (in his letter of 28 March) did not

/appear to be

appear to be altogether confident that BL would be able to stay within its 1980/81 cash provision: the relevant paragraph was not as positive as it might be, and his indication of the prospects for later years was heavily qualified by the reference to "economic assumptions". It would be desirable to question Sir Michael further on this aspect, and to put on record the Government's concern.

The Government had supported the 1980 Plan not so much because Ministers thought that the Plan would succeed, but because they wanted to keep the company going and thereby to improve the prospects of disposal. Yet Sir Michael seemed unwilling to consider the possibility of selling the company. It might well be necessary to put pressure on Sir Michael to consider the disposal options more seriously - though it would be important not to push him into resignation. Sir Michael seemed to be willing to consider selling off parts of the business; but there was a danger that if he pursued this course, the saleability of the business as a whole - including Cowley and Longbridge - would diminish.

Sir Keith Joseph then said that he could see no immediate prospect of selling BL as a whole. The approach of Mr. Lutz (Chairman of Ford - Europe) did not, according to his own information, seem to have any backing from Detroit. Mr. Ibbs, however, reported that Mr. Ensor (who was Mr. Lutz's adviser on Government affairs) had been to see him, and had said that the parent company in Detroit had been consulted and were prepared to allow Ford - Europe to continue to explore the possibility of purchasing BL as a whole. Mr. Ensor had gone on to say that Mr. Lutz was prepared to meet the Prime Minister or Sir Keith to indicate how seriously he was interested in pursuing an outright purchase. He (Mr. Ibbs) had no reason to believe that Ensor's approach to him was not sincere. Furthermore, there were good reasons why Ford should be looking seriously at BL. They wanted a new car plant in Europe, and while they were considering building a new plant in Portugal, the acquisition of Cowley might be a suitable alternative. Ford were also concerned that the demise of BL would jeopardise the UK components industry, and this would damage their own interests.

Sir Keith Joseph said that there were also strong reasons for believing that Ford - Europe were not in a position to pursue a total purchase: in particular, the cash position of the parent company was very weak, and it seemed unlikely that they would be interested in Longbridge. In short, he doubted the credibility of Ensor's assurances. However, the possibility of a Ford purchase should not be allowed to go by default, and he would be willing to meet Mr. Lutz to explore the matter further. But he would have to inform Sir Michael Edwardes that he was doing so.

Finally, there was a brief discussion about the proposal to appoint an adviser to the Government on the disposal options. It was argued that, while there was a clear need for outside advice, the type of person to be appointed would depend partly on whether there was a real prospect of an outright sale to Ford. A decision on who might be approached should therefore be deferred.

/ Summing up,

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Summing up, the Prime Minister said that Sir Keith Joseph should meet Mr. Lutz to explore the possibility of a sale to Ford. He should inform Sir Michael Edwardes, but it would be for him to decide whether to meet Mr. Lutz and Sir Michael jointly or separately. In addition, Sir Keith should write to Sir Michael and put on record the Government's concern about BL's prospects against the objectives set out in the 1980 plan, notwithstanding the management's efforts to improve the situation. It was agreed that an adviser on disposals was needed, but a decision on who might be approached should be deferred until after Sir Keith's meeting with Mr. Lutz. Ministers should meet again in about a month's time to take stock.

I am sending copies of this letter to Martin Hall (H.M. Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office), and also to Mr. Ibbs. Given the extreme sensitivity of the matters discussed, I must ask that no further copies be made of this letter.

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Mrs. Catherine Bell,
Department of Industry.