

Subject

Final PR

Record of a meeting between the Prime Minister and the Board of the Ford Motor Company at 1730 hours on Monday 11 June

Present

Prime Minister
Secretary of State for
Industry
Mr. David Wolfson
Mr. T.P. Lankester

Mr. Henry Ford
Sir Terence Beckett
Other members of the Board
of Directors of the Ford
Motor Company and of Ford
of Europe Incorporated
(see list attached)

Mr. Ford congratulated the Prime Minister on her Election victory and said that Ford were looking forward to working in the new business environment which they were sure would emerge in Britain under the new Government.

Welcoming the Ford Board, the Prime Minister said that Ford of Britain had been through a very difficult period last Autumn; but in her view, Sir Terence Beckett had handled the situation very well. The previous Government had imposed sanctions against Ford in a totally arbitrary manner without any supporting legislation and without any possibility of appeal to the courts. The Government would certainly try to create a better business environment so that individuals could work more effectively and companies invest more.

Sir Terence Beckett said that the Government had both the majority in the House and the majority in the country to see its policies implemented. Ford were convinced that with the changes which the Government were proposing, Ford could make real progress in Britain. He did not underestimate the current economic problems which the Government faced - notably the oil situation and the likely down turn in world trade; but the economic prospect under a Conservative Administration was brighter. Ford were embarked on an investment programme of over £1 billion in the next four years, and would continue to make a significant contribution to the balance of payments. The Company had indeed suffered in 1978 because of the strike and poor productivity but over the last six months performance had been good.

/Sir Terence then

Sir Terence then asked the Prime Minister what she saw as the Government's strategy for industry. The Prime Minister replied there were three main elements in the Government's approach to improving the UK's economic performance. First, it was necessary to alter the emphasis of policy from wealth distribution to wealth creation. It was significant that manufacturing output was still lower than it had been in 1973. It was essential to create more incentives for risk-taking and for efficient work, and this meant reducing taxes across the board. Such reductions would have to be financed partly by increases in indirect taxes, but there would also need to be a reduction in the size of the "non-productive" public sector. Only in this way would the necessary resources be switched into manufacturing and the rest of the "market" sector. Associated with these measures, the Government intended to get rid of many of the bureaucratic controls which were holding industry back. For example, it had already announced the ending of price controls and there was no intention to continue any kind of rigid incomes policy. It was a basic tenet of the Government that companies should be allowed to make their own decisions rather than the Government making them on their behalf; the private sector must take responsibility for the consequences of their own actions.

Second, it was necessary to redress the balance of power between the trade unions and management. The UK appeared to have problems on the trade union front which other countries did not have. Our trade unions were too powerful and carried too little responsibility for their actions. The laws governing trade union activity would need to be changed, but it would be necessary to move slowly to avoid unnecessary confrontation. The Government intended initially to legislate on the issues of secondary picketing, the closed shop and secret ballots.

Third, it had to be made clear that the Government on its own could not improve the country's economic performance, nor

/could it

could it take over responsibility for dealing with all and every problem that industry and the community faced. People appeared to be beginning to understand this, but there were still far too many who believed that the Government could and should step in to deal with every problem. The Prime Minister cited the current oil situation where politicians and newspapers were demanding that the Government should intervene and allocate the existing oil supplies - whereas, in practice, this would only mean inefficiency and bureaucracy. Only if the oil shortage became very much greater would Government intervention be justified. Another example was the demands of industry for subsidies when they got into trouble. This tendency must be reversed. Job creation over anything but the short term would only come if industry made profits; and in her view, small businesses would have to play a major part. There was so much over-manning in many larger companies that they would have to concentrate on improved productivity rather than providing extra jobs.

Sir Terence Beckett agreed that over-manning was a major problem at Ford. He attributed difficulties in eliminating it partly to high rates of income tax which made employees unwilling to work overtime, and partly to union intransigence. However, some of the Ford plants had an excellent track record - for example their truck plant at Langley. But there had also been a marked improvement in recent months at Halewood. Sir Terence went on to say that Ford had plans for improving efficiency. Investment in robots for paint-spray operations and spot welding would provide substantial manpower savings. The company were also trying to improve continuity of production. This was difficult, but it was critical to getting British productivity on to a par with Ford's operations in Europe. The company had introduced a system of docking £5.40 off employees' wages if there was unjustified disruption; and this was having some effect. The inefficient practices of maintenance men also had to be tackled.

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In the United Kingdom, there was a tradition that maintenance engineers waited until machines broke down; by contrast, in Germany maintenance engineers worked so as to prevent breakdowns, and then if breakdowns occurred they were willing to work through the night to put the machines right. In addition, there was a reluctance amongst British maintenance engineers to keep records.

The Prime Minister asked what was the secret of the success of Ford's operation in Germany. Mr. Lutz replied that there were a number of factors. The Germans had an innate dedication to excellence and showed a discipline which was unusual. Their system of "elected workers' councils" appeared to have made a significant contribution. The participation thus achieved by the unions had worked well. Furthermore, the balance between union and management power was far better compared with Britain. This was helped by the legal framework in which the unions operated: they were subject to binding contracts, some strike action was illegal and industry could lock the unions out in certain circumstances. Moreover, employees showed a loyalty to the company which was lacking in Britain. This was partly because they did not automatically assume that, if the company got into difficulty, the Government would step in with help. The structure of the German trade unions also provided a far better basis for negotiating wages. In Britain, it was quite possible to negotiate a deal with union leaders, and then for the convenors and shop stewards to call their members out. This did not happen in Germany.

/Mr. MacDougall

Mr. MacDougall added that, having spent six years in Britain, he saw the continuity of production as the key problem although there had been improvements in recent years. But unions had been able to create disruption because their members did not have sufficient incentives to stay on the production line. He thought that with the strategy which the Prime Minister had outlined the prospects for improved performance were encouraging.

The Prime Minister pointed out that the level of vehicle imports was appallingly high. She understood that Ford themselves were having to import on a substantial scale. Sir Terence Beckett said that poor productivity and quality were the reasons why imports into Britain had increased so rapidly in recent years. Ford's strategy was based on the concept that Britain was relatively bad as an assembler of vehicles and relatively good as a manufacturer of engines and components. Hence, the company had no plans for a new assembly plant, but it was building the new engine plant at Bridgend. The latter would mean substantial imports of capital equipment, but in due course the company's contribution to the Balance of Payments should level out and improve.

Finally, there was a brief discussion of Britain's role in the EEC. The Prime Minister pointed out that the Community had a major economic and political role to play, and Britain could contribute to this. On the political front, the Community could well be of assistance in bringing about a resolution of the Rhodesian problem. The Prime Minister explained that it was most unlikely that the Government would be able to get a new sanctions order through Parliament in November. But in any case, on the basis of the recent elections in Rhodesia, there was a good case for lifting sanctions and recognising the new Government. However, in order for the UK to do this, we would need the support of other countries - including of course the United States. Mr. Caldwell said that, having been in Salisbury when the Muzorewa Government was formed, he agreed with the Prime Minister's analysis. On returning to the United States he had tried to persuade the

/Administration

Administration to take a more sympathetic position; but unfortunately, the black lobby had ensured that the Administration were continuing to take an unhelpful line.

The meeting ended at 1830.

12 June 1979

TR.

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