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PRIME MINISTER

*Aut.**One next Wednesday**our
re. Mr. Ingham*

1 On Thursday 13 December John Nott spent 1½ hours going over the BL accounts with EL's Finance Director. On the same day he, John Biffen and I, together with several officials from the Treasury and the Department of Industry, Sir Kenneth Berrill and Mr Hoskyns met Sir Michael Edwardes, Sir Robert Clark, Mr Bide and Mr Frost, together with Mr Lowry, Mr Horrocks and Mr Andrews, all of BL. NEB were invited to the meeting, but were not present.

- ... 2 The attached note sets out the BL Board's current position.
- 3 Afterwards on the same day my two Ministerial colleagues and I met to discuss our views. We found that we agreed that:-
- a) BL, because of the CSEU strike, the disruption over Robinson, strong sterling and eroded market share, had already virtually used what contingency provision there was originally in its Plan;
 - b) because of recent events market share is currently below the level assumed in the Plan, but there is a queue for some of BL's cars of which production has been but is not now disrupted; and BL gave reasons for believing that market share can be recovered;
 - c) the Board will pursue the Plan with determination if we allow them the funds which they request;

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/d) ...



- d) the Board will withdraw the Plan if it ceases to be viable for internal or external reasons and collaborate with us in working out the best course to follow. We believe that the Board is genuinely determined to do this if cash flow ceases to be what is required to maintain the Plan. We do not think that it is necessary to try to define the precise conditions because the Board convinced us of their business-like realism. For the same reason we do not think it is necessary to defer an announcement until BL's current wage negotiations are satisfactorily completed;
- e) there is small chance of BL surviving and failure of the plan followed by rundown or liquidation is probable;
- f) if BL only survives a few months, by no means all the money will have been spent and if BL survives many months then parts of the business will be saleable at better prices than now and much of the Plan's funds should be recovered in a liquidation or rundown;
- g) an orderly rundown of the whole business may be difficult if not impossible to achieve, although about a third of BL might eventually prove saleable. As an alternative to liquidation the present Board might stay to run down the business themselves, though they would need Government

/funding ...



funding, and probably guarantees going beyond the "Varley" assurance which we have confirmed; and

- h) during the next few months we should work out, with Sir Michael Edwardes, contingency plans to minimize the damage if the Plan fails, including the identification of potential buyers for as much of the business as possible - and ideally though improbably the whole.

4 It is our view that liquidation now would not be understood and that both politically and economically the Plan should be approved and funds provided by means agreed with Geoffrey Howe, the NEB and BL. In this context we see merit in the concept that a proportion of the funds should take the form of a line of credit. It would also need to be recognised that we at present see no room for a charge on the Contingency Reserve in the current financial year. Officials are exploring with the company whether it is possible to operate within these constraints. Sir Michael Edwardes should be encouraged to spell out the conditions - freedom from internal and external shock and an adequate market share and cash flow - on which alone the business can survive.

5 Sir Michael Edwardes will not stay on as Chairman and Chief Executive after the end of 1980 though he might stay on as Chairman to see his successor properly in.

6 We think speed in reaching a decision important to minimise the

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4.

waiting period which is damaging confidence and to enable BL to sign the Honda agreement.

7 I recommend that we should consider this at 'E' on Wednesday on the basis of a paper I shall be circulating. It would be desirable to announce our decision next week.

8 I am copying this minute to our colleagues on E, George Younger and Nicholas Edwards, to Sir Robert Armstrong and Sir Kenneth Berrill and to Mr John Hoskyns.

l.s.

PK J
14 December 1979

(approved by the Secretary of State and signed in his absence)

Department of Industry
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