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PS/ Secretary of State for Industry

31 October 1980

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Prin. Smith

u/h Hargreaves
Dear Tim, *u/h Vickers*
u/h HLF
BL: THREATENED STRIKE

*Mr Prior has endorsed
this line especially the
point in para 6 (x) - with
standing all the risks.*

*Are you content? (we
need
a
decision
over-
night)*

1 We spoke about the attached letter which Sir Michael Edwardes has sent to my Secretary of State. Sir Michael has asked that, if the Government has any misgivings about his proposed course of action, he should be told before the BL Board meeting at his home at 11 am on Saturday 1 November.

2 Following yesterday's mass meetings which produced an inconclusive result, a meeting of national union officials and senior shop stewards on Monday 3 November will decide whether or not to call for a strike. Sir Michael thinks that, unless BL takes "more than conventional" action before then, that meeting may well call for a strike. He therefore proposes two major steps:

- a) to tell national union officials over the weekend of the key features of the BL Corporate Plan just submitted, and the funding requirements, at least for BL Cars, for 1981 and 1982, which involve a request for just short of £1BN of new Government equity up to March 1983 for BL as a whole, much the greater part being for BL Cars (including for this purpose Land Rover and Jaguar); and
- b) to tell union officials on Sunday 2 November and to announce to shop stewards on Monday 3 November (before their meeting) that, if they call a strike and a significant part of the workforce obey, the BL Board will "seek no further funds from the Government for BL Cars by withdrawing the Plan". Sir Michael considers that, if the strike took place after such a statement, there would almost certainly be a loss of confidence by banks, trade creditors etc. to such an extent that the Cars' business, and perhaps BL as a whole, would rapidly be forced to cease trading. This would result in "the massive closure costs of a liquidation scenario".

/3 ...



3 It is possible that the disclosure of the Corporate Plan funding figures might cause embarrassment for the Government, but this is far outweighed by the importance of trying to avoid the strike. Disclosure of the figures might (if the strike were then avoided) increase the pressure on Ministers to approve the Plan in full but this could be met by Ministers using a suitable opportunity later on to emphasise that they retained full discretion as to whether, and to what extent, to approve the Plan.

4 The form of words which Sir Michael proposes to use in (b) is slightly ambiguous and may therefore be less effective than it should be. Officials have therefore discussed with BL top management an alternative formulation on the lines that "the Board would withdraw the Plan and would therefore seek no further funds from the Government for BL Cars to implement the Plan". If, despite this statement, the strike went ahead and the predicted consequences followed, the potential calls on the Government to honour its undertakings to creditors under the so called Varley-Marshall assurances could well run to many hundreds of millions of pounds. On the other hand, the damage to the Government's broader policies from conceding any further increase at this stage would be even more serious.

5 As you know, my Secretary of State is out of the country but before he left he made it clear that, in his view, the handling of the strike threat is a matter for Sir Michael Edwardes in which the Government should not attempt to intervene. If Sir Michael considers it necessary to withdraw the Corporate Plan, the Government can be confident that there is no other course but to accept his advice. The public expenditure consequences of closure or liquidation would be severe, as would the industrial and unemployment consequences. But the alternative, of intervening to persuade Sir Michael to increase his pay offer, would have an ever more serious impact on the credibility of the Government's policies; it would mean increasing public expenditure (and possibly taxation) to raise the pay of a group of workers who have already received disproportionate public money at a time when many, more worthy, groups of workers are facing large scale redundancies.

6 Provided the Prime Minister sees no objection, officials here propose to tell Sir Michael that the Government supports the line he intends to take. They will, however, remind him of the need to avoid (so far as is possible without compromising the effectiveness of the threat) any statement which would preclude some recovery of the situation should the strike go ahead but collapse within a short period. They also propose to suggest that

/Sir Michael ...

CONFIDENTIAL



3

Sir Michael should emphasise that the funding requirements are BL's recommendations to the Government which Ministers have not yet considered.

7 I am sending copies of this letter to John Wiggins (Treasury), Andrew Hardman (Employment), Robin Ibbs and David Wright (Cabinet Office).

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

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RECEIVED IN
31 OCT 1980
SECRETARY OF STATE
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FROM SIR MICHAEL EDWARDS

CONFIDENTIAL - COMMERCIAL IN CONFIDENCE

The Rt Hon Sir Keith Joseph, Bt, MP,
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1

<i>W Mountfield</i>	COPIES TO A8 LT
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)	Secretary Mr Bullock Mr Bowler Mr Smolha Mr J Patterson (H.M. Tsy)
PLEASE BY: Urgent Advice please	
31 October 1980	

Dear Secretary of State,

Following the mass meetings of BL Cars' hourly-paid workforce on Thursday, national union officials and senior shop stewards meet on Monday, 3 November, to consider their response to our final 6.8% pay offer and may well be inclined to decide - justifiably or not - that they have a sufficient mandate for strike action across the whole of BL Cars.

The Board is meeting on Saturday to consider whether in the event of a significant strike it could continue to say that there was a chance of recovering the BL Cars business to viability. However, in my judgement, if there were a widespread walk-out across BL Cars and no response to the setting of a very early deadline for a return to work, the twin effects of a strike on market share and cash flow would be such as to make it impossible to deliver the 1981 Plan, submitted to you only a week ago.

It is therefore vital that we pull out all the stops to persuade the stewards on Monday to refrain from calling a strike, and failing that to persuade our employees not to obey a strike call (5 days' notice of a strike being required, under agreed procedures). Although the stewards are entitled, by

Recognising the embarrassment that this could cause for the Government, I trust that you would accept such embarrassment as the lesser evil as compared with the likely consequences of abstaining from this tact. /...

The Rt Hon Sir Keith Joseph, Bt, MP
Secretary of State for Industry

31 October 1980

Page 3

- 2 I shall ask the Board to authorise me to announce on Monday that, in the event of the stewards deciding to call for strike action and a significant part of the Cars workforce taking such action, the Board will seek no further funds from Government for BL Cars by withdrawing the Plan recently submitted to Government. The impact of such a statement depends of course on the preceding explanation of the Plan, which will demonstrate our dependence on Government funds. I intend to supplement this statement by commenting that, in my judgement, in the event of a strike it is unlikely we could put together a Plan offering a prospect of viability for BL Cars and that in the short term the lack of an approved and funded Plan would be likely to leave us without the cash to pay our wage bill beyond December. These statements do not in themselves trigger our Loan Stock Trust Deed, under which an authoritative statement of intent to close a substantial part of the business would precipitate immediate repayment of loans totalling £250m. But you should be aware that, if a strike did take place after these statements had been made, there would almost certainly be such a loss of confidence by banks, trade creditors, dealers and BL Cars management that the Cars business, and perhaps BL as a whole, would be rapidly forced to cease trading. Indeed, a financial crisis would rapidly develop affecting the whole of BL, since even under our forecasts for normal trading conditions we need additional facilities from the banks to sustain the business from November until the first tranche of Government funding is available under an approved 1981 Plan. This would result in the massive closure costs of a liquidation scenario, even though we would of course do our best to save those parts of the business which could be insulated from the areas affected by strike action.

/...

The Rt Hon Sir Keith Joseph, Bt, MP
Secretary of State for Industry

31 October 1980

Page 4

My Board colleagues appreciate the grave consequences of such an outcome. But our priority must be to take all possible steps to prevent a strike, and in my judgement the above tactics are necessary to offer a real prospect of achieving this. Moreover, we would in any case see no purpose in trying to soldier on with the business in the event of a major strike. Although in theory an alternative strategy would be to avoid cataclysmic statements and simply seek Government funds (or specific guarantees) sufficient to see us through a long strike, the effect of such a strike on our dealer network and on customer confidence generally would be to destroy any commercial basis for the business, even if the Government were prepared to provide this support. Consequently, I consider that to bring the crisis to a head immediately is our only hope.

I am afraid that the pressure of events requires me to ask that, if the Government has any misgivings about our approach, you should let me know within the next 24 hours.

Yours sincerely,
Richard [unclear]