

CONFIDENTIAL

Prime Minister to see



PRIME MINISTER

BL: GUARANTEES

Agree provision of
necessary guarantees.

that if possible the remaining
£25m be found other than by an
equity issue, and that a small group
of Ministers be on stand-by - Self, Chancellor,
John Nott, Tim Paine & K. J.

N.P.C. Mitchell
Duty Clerk
6/11/80

... 1 I attach a copy of a letter of 5 November which I have
received from Sir Michael Edwardes in which he advises me that his
Board consider that a successful strike could cause manufacturing
activities in BL Cars to cease in whole or in part, and that in
such circumstances his Board will abandon the BL Cars Ltd
Corporate Plan. The letter also sets out the Board's view that,
in the above circumstances, guarantees would be necessary in
order to allow an orderly rundown to take place as foreseen
in the contingency planning which took place earlier this year.

2 You may remember our earlier correspondence of 14 and 19
February 1980 in which we discussed whether we could issue guarantees
to BL if they withdrew their Plan. My conclusion then, with which
you and the Chancellor concurred, was that the issue of guarantees
would be necessary to prevent a run on BL and to allow the Board
to remain in charge for the rundown of the business, and that a
compulsory creditors' liquidation was not an acceptable alternative.
I am still of this opinion now, and in particular still consider
that the alternative of not taking any action and of allowing a
compulsory creditors' liquidation would not only precipitate a

/completely ...

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completely uncontrolled reaction by creditors of BL but could also result in an even higher and earlier cost to the PSBR than if we or the BL Board were able to control events. I therefore regard the issue of guarantees as action to minimise the losses we shall be faced with rather than one that would increase the costs. The Government is already liable for the whole of BL's debts and obligations under the terms of the Varley-Marshall assurance, and these guarantees, so far from increasing our exposure, would be aimed at reducing the immediate calls under it.

3 Our correspondence of February and my eventual letter to ... Michael Edwardes of 22 April (of which a copy is attached) were all concerned with a situation in which the BL Board withdrew their 1980 Corporate Plan. The current letter from BL is couched in terms of the abandonment of the BL Cars Ltd Corporate Plan (ie for 1981); however I do not in practice consider that the circumstances differ materially from those we were envisaging earlier this year, and should be grateful for your confirmation of this.

4 As I said at the beginning of this letter, Michael Edwardes' letter gives us advance notice of a possible need for guarantees. I understand that, if the need arises, he will write to me again, at the time when his Board consider they are ready to determine their reaction to the strike. I shall then have to give him, at very short notice, a formal reply, but would

/like ...



like to send him a brief acknowledgement to his current letter now so that his planning can proceed. Meanwhile officials in this Department have already discussed this matter with Treasury officials and are maintaining close contact with them on the technical aspects of the procedure for issuing guarantees.

5 I propose to see Michael Edwardes early next week and to tell him that, once his Board reaches a decision to close the Cars business in whole or in part, we shall need 24 hours in which to consider that decision before it is put into operation. We shall clearly need to keep in close touch with the situation next week, since there are several ways in which it could develop. I expect the critical point to be reached towards the end of next week (if the strike starts). You might wish to consider whether a small group of Ministers should be on call to meet for this purpose and to consider any final decision during the 24 hours' notice I propose to require.

6 There is a concurrent problem over a request which BL have made for the issue of the last £25 million of Government equity which is due to them in 1980-81. Despite the presentational difficulties that would be involved in the Government taking a new equity stake at the start of a strike, BL are insisting that they need the money on 11 November and that they must have it, in equity form. I am intending to tell Michael Edwardes in

/the ...



the near future that we are urgently exploring the alternative of making a short-term NLF loan of £25 million available to BL through the NEB, and I hope that he will accept this.

7 I am copying this minute to the Chancellor, Jim Prior, John Nott, Robin Ibbs and to Sir Robert Armstrong.

12.

K J

6 November 1980

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

Department of Industry
Ashdown House
123 Victoria Street
London SW1

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35-38 PORTMAN SQUARE

TELEPHONE
01-480 8000
6 NOV 1980
FROM: SIR MICHAEL EDWARDS
SECRETARY FOR INDUSTRY'S OFFICE

LONDON W1H 0BN

Mr. Bowles	COPIES TO LT Secretary Mr Bullard Mr Mountfield Mr Snowha
PLEASE ADVISE (AND DRAFT REPLY IF APPROPRIATE)	
PLEASE BY:	
ASAP	

The Rt Hon Sir Keith Joseph, Bt, MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

5 November 1980

Dear Secretary of State,

GUARANTEES

Today the Board has considered the situation facing the Company in view of the decision reached by BL Cars Shop Stewards on Monday 3 November, to call a strike on Tuesday 11 November.

The Company's first line of action is to make every effort to persuade employees in BL Cars to reject the strike call and to work normally.

To the extent that we are unsuccessful in achieving this, we shall advise all employees who are on strike that they are in breach of their contracts of employment. At an early date following strike action they will be deemed to have terminated their employment.

It is not possible, at this time, to predict accurately the outcome of this sequence of events. Nevertheless, if the strike is successful, it will cause manufacturing and, subsequently, trading activities in BL Cars Limited to cease, in whole or in part, according to the degree of disruption which will have occurred.

...../

The Rt Hon Sir Keith Joseph, Bt, MP

5 November 1980

In such circumstances the Board today confirmed that it would seek no further Government funds to be invested in BL Cars Limited and that the BL Cars Limited Corporate Plan be abandoned.

As I indicated to you in my letter of 31 October, it would then be necessary for the BL Board to be in a position immediately to implement contingency plans. The first and vital step would be the provision of Government guarantees in accordance with your letter to me of 22 April and Mr Bell's letter to Mr Andrews dated 28 April. These letters provide that the BL Board should give you advance warning that it may require to withdraw the plan and request and receive in turn Government guarantees in the circumstances that the BL Board now face. This letter gives you such advance warning.

Our examination of the situation indicates that, if strike action is taken, the Board could formally advise you of its decision to abandon the BL Cars Plan as early as Tuesday 11 November. Alternatively, it may be necessary to defer judgement on this matter to Monday 17 November, but no later than that.

On the assumption that Government wishes the BL Board:-

- (a) to continue to manage the affairs of the Company, and
- (b) to avoid the risk of the appointment of a liquidator,

the Board needs your confirmation of the guarantees before formal notice of withdrawal of the Plan is conveyed to you. Such guarantees are necessary to protect the directors against any liabilities arising under Section 332 of the Companies Act 1948 and for any other liability in law.

*Yours sincerely,
Michael Owen.*



Secretary of State for Inc

PS/AB
PSIMM
Sec
Mr Manzie
M. Bullock
Mr Bell
Mr Leeming
Mr Bowden
(File)

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22 April 1980

Sir Michael Edwardes
BL Ltd
35-38 Portman Square
London W1H 0HQ

Dear Michael.

In your letter of 18 March you reported your Board's wish to formalise with the Government the procedure to be followed in the event that it is necessary or desirable to request guarantees to secure the company's borrowing facilities.

The position is that, in the event of the BL board deciding to withdraw the 1980 Corporate Plan in the circumstances set out in your present letter and that of 19 December 1979, I would be ready, subject to changes in present circumstances, to direct the NEB to issue guarantees. This would cover such loans and facilities which are authorised by the Department and the NEB. It would clearly be desirable that as much informal notice of any request for guarantees is given. I am not able to give you now a commitment that in other circumstances the Government will also be prepared to issue guarantees, but we shall of course be prepared to consider any case you put to us on its merits.

As you suggested, officials from this Department and the Treasury together with the NEB and your staff have been identifying the actions which would be required if it became necessary to issue guarantees, and I understand that Mr Graham Bell of this Department will now be writing to Mr David Andrews about this. While this is a useful piece of contingency planning I think we all recognise that we cannot foresee all the circumstances that may in practice arise.

I am copying this letter to Sir Arthur Knight.

Evan.

Kirk