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Ref. A03819

PRIME MINISTER

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British Leyland's Corporate Plan

(E(80) 141, 145, 150 and 151)

BACKGROUND

The Secretary of State for Industry's recommendations for dealing with BL's corporate plan are in E(80) 145 which includes an Annex summarising the figures for the proposals and the options. E(80) 141 covers a detailed report by Department of Industry officials following interdepartmental discussion and, at Annex A, a report by a group under the Treasury on the consequences for the economy of the closure of BL cars. In E(80) 150 the CPRS broadly endorse the proposals by the Secretary of State for Industry, subject to the important reservation that the BL Board should be pressed to sell Jaguar. Their note, E(80) 151, summarises the record as BL's escalating requests for Government equity.

2. The argument centres on the future of the volume car business. In paragraph 2 of E(80) 145 the Secretary of State for Industry summarises three options:-

- (a) To approve the plan on the grounds that there is a chance that it will work and that the alternatives of closure are far worse.
- (b) To approve the plan now but to tell BL to prepare for early dissolution if the prospects do not improve substantially during 1981.
- (c) To pull out now.

3. The Secretary of State dismisses (b) as impracticable. He recommends (a) despite the risks (NB in particular the claim in paragraph 4 that an exchange rate of 10 per cent higher or lower than assumed would make a difference of £1 billion in the sums required over the period of the plan). He is persuaded against (c) by the PSBR costs and the social and employment consequences of withdrawal now. He points to the political difficulties of withdrawing support from Sir Michael Edwardes at this stage. Approval of the corporate plan in principle now, together with the LM10 mid-car programme, means a firm funding commitment in 1981-82 of £620 million followed by £370 million in 1982-83 and possibly £100 million in 1983-84.

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4. In his paragraph 7 the Secretary of State for Industry makes three important subsidiary recommendations:-

- (i) Against pressing for the sale of Landrover before 1982.
- (ii) Against the disposal of Jaguar - contrary to the CPRS's view.
- (iii) For making approval of the plan subject to a letter which

Sir Michael Edwardes would send expressing the Board's intention to review the plan if there were a major strike or any other change in circumstances which made its major objectives unachievable - for a draft of this see Annex B of the paper by officials, E(80) 141.

5. His other main recommendations are:-

- (i) To welcome BL's proposals to split their operations into four separate businesses - BL cars, Leyland Group (commercial vehicles), Landrover and Unipart.
- (ii) To transfer from the NEB to himself the shares of BL.

6. The Secretary of State is silent on the timing of the decisions. He will be looking for a relatively early announcement in the interests of allaying fears about the future of the business. If this were before Christmas it would be welcome to him, but I understand that he is assuming that the Committee will wish to have a further discussion at an early meeting in the New Year. (The timing of the Nissan announcement may be relevant here - see paragraph 8 below.)

7. The CPRS in E(80) 150 support the Secretary of State's line in general: not in any mood of optimism but in recognition of the difficulties of the alternative of withdrawal. They point however to the need to avoid being locked into the company for many years and they make the specific suggestion that BL should be asked to find a purchaser for Jaguar, and to do so before they come to Ministers for approval in the spring for £75 million on their new model, the XJ40. The Secretary of State for Industry's counter-argument, in paragraph 7ii) of his paper, is that failure to sell Jaguar could precipitate a collapse of confidence in the company and would be contrary to the firmly held view of Sir Michael Edwardes.

HANDLING

8. When the Secretary of State for Industry introduces his paper he will also wish to inform the Committee of the possibilities for investment by Nissan which he discussed with you last week, and to invite E's approval (Mr. Lankester's

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letter of 11th December to the Department of Industry). As you will recall the conclusion of your meeting on this was that the Nissan decision should be announced as soon as possible but not before the announcement of the Government's decision on BL. Given the sensitivity of the subject you will wish us to record any discussion on Nissan in a separate uncirculated Annex - and you will also want to stress to colleagues the imperative need to avoid leaks.

9. You might then invite Mr. Ibbs to introduce the CPRS notes and the Chancellor of the Exchequer to comment on the financial implications of the alternatives, with particular reference to the Treasury's report on the PSBR and other economic consequences of closure of BL cars. He may also wish to comment on the implications for the Contingency Reserve of allocating from it the large sums now proposed for BL. Of the other members of the Committee the Secretaries of State for Employment and Trade and Mr. Fletcher, who is representing the Secretary of State for Scotland, who will be in the House, will particularly wish to comment.

10. The first general question is whether the Committee accepts the Secretary of State for Industry's judgment that of the three options summarised in paragraph 2 of his paper E(80) 145 the right course is to accept the plan, and to rule out withdrawal either now or later on in 1981.

11. If the Committee is not persuaded of this then it may well be necessary to look further at the practical consequences of the alternatives.

12. If they are persuaded that broad acceptance of the plan is necessary you will then want to go through the main points which are summarised in paragraph 14 of E(80) 145:

- (a) The conditions on acceptance and, in particular, the proposed letter from Edwardes.
- (b) Against early disposal of the Leyland Group, Landrover and Jaguar. In looking at Jaguar you will wish to pick up the CPRS's arguments for its disposal and consider whether the Committee wants further discussions on this with the BL Board, rather than accepting that it should be ruled out because Edwardes is against it.

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- (c) The transfer of the shareholding from the NEB to the Secretary of State - non-controversial since it only recognises the realities of the present relationship and system of control.
- (d) Approving BL's proposed reorganisation into four separate businesses - sensible since it facilitates later sales.
- (e) Leaving detailed questions on private financing to be settled between the Secretary of State and the Chancellor of the Exchequer.

13. In the light of the discussion you will first wish to record whether the Committee supports the approach in paragraph 2a) of E(80) 145 - that is, approving the plan - or the alternatives for withdrawal in 2b) and c) - conditional approval or pull-out.

14. If 2b) and c) are not ruled out you will probably want to commission further work on their detailed implications ready for discussion in early January.

15. If 2a) is endorsed you will then wish to record conclusions with reference to the five points listed in paragraph 14 of E(80) 145, and in paragraph 12 above.

16. In the event of total agreement you could authorise a statement as soon as possible. Since the draft would have to be cleared, this in practice would probably mean as soon as Parliament reassembles after Christmas. If, as is more likely, the Committee wished to reflect further on these proposals you will wish to call a meeting early in January, with the exact timing depending on whether the Secretary of State for Industry is asked to bring forward any further papers for discussion.

17. You will also wish to record separately any conclusions on the Nissan proposal.

ROBERT ARMSTRONG

16th December, 1980

(Approved by Sir R.

-4- Armstrong and signed on his behalf)

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