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Qa 05224

To: PRIME MINISTER

From: J R IBBS

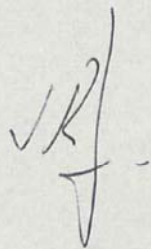
BL: Speaking Notes

1. Attached are speaking notes for your meeting with Sir Michael Edwardes on Tuesday.
2. The notes have been compiled on the assumption that the Government's objectives for BL will be:
 - (1) By early-1983, to have none of the BL Group of companies left in Government ownership;
 - (2) By mid-1982, to have disposed of as much as possible as going concerns (with injections of additional finance where necessary), and to be prepared then to plan for closure of any parts of the Group that seem unlikely to be sold in this way;
 - (3) By end-1981, to know which bits are likely to be saleable, to whom, and under what terms.
3. It is most important that Michael Edwardes should not gain the impression that the Government regards BL's prospects as hopeless, and that it is merely deferring closure as a matter of political convenience. This would give him grounds for a spectacular resignation.
4. Since this policy of systematic disposal seems more likely to succeed with Michael Edwardes than without him, the main purpose of the meeting will be to secure his co-operation. However, he should not be given the impression that he is indispensable.
5. He will expect, and I think he should receive, a frank description of the Government's new objectives for BL. I consider it most important, however, that he does not come to interpret the new policy as one of deferred closure. I doubt whether he would willingly co-operate in such a policy.

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6. As regards the possibility of his resignation, the concern is that, if he were to resign on the grounds that he considered that the Government had rejected his plan, this could damage the Government's position and could perhaps set in train events that would lead to the uncontrolled rundown of the Volume Cars business.
7. I suggest the order of the meeting might be:
- (1) To inform Michael Edwardes of the Government's new policy on BL;
 - (2) To invite Michael Edwardes (and his Board) to preside over the systematic disposal of BL;
 - (3) To explain how the Government would assist them in this task;
 - (4) If he looks like accepting, to listen to his reservations and suggestions;
 - (5) If he looks like refusing, to find out precisely why and give him time to reconsider. (He should be manoeuvred away from resigning at this meeting);
 - (6) If he asks for time, perhaps to carry his Board, to say that we must know their views by Wednesday evening.
8. Handling notes are also attached.
9. I am sending a copy of these papers to the Chancellor of the Exchequer, the Secretary of State for Industry, Sir Robert Armstrong, John Hoskyns, David Wolfson, and Alan Walters.



19 January 1981

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Objections - viability & private ownership,
costs & timing have increased burden on public

Disposal within timescale.

- Lower in plan
- reorganisation with
timescale.

SPEAKING NOTES (Prime Minister in the first person)

The Government's New Policy for the BL Group.

a) 1. Until now, the Government's policy has been for the BL Board to nurse the whole group back to viability, with the objective that the businesses would be returned to private ownership once they were again trading profitably. We always recognised that this would take several years.

b) We are indeed indebted to you for all the progress you have made so far, most particularly in labour relations and in launching the Metro so successfully. But, on the Board's own assessment, the costs have mounted and the timing of viability has receded. Because of the increased burden this places on public expenditure, the Government has been forced to think again.

c) 2. I have consulted my colleagues and we now believe that we must plan for the disposal of BL, either as a whole or in parts, on a timescale that will not allow for the problem areas in the Group such as Volume Cars to become profitable again before they are sold. We realise, of course, that, for this policy to be successful, the Government may have to make substantial initial payments to the new owners of some of the businesses. But that way, we will limit our future financial commitments without, we believe, taking away from these businesses their chance of a healthy future.

3. Our intentions, therefore, are for the BL Board:

(1) To use the coming year primarily to find out under what terms and to whom each of the BL businesses might be saleable, individually or in groups. Prior to sale we would expect the Board to keep all the businesses on the road to viability, by following closely the course charted in their Plan, including the proposals on reorganisation into separate trading companies;

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(2) Then during 1982, to complete the return of as much of the Group as possible to private ownership, offering the new owners financial support on a scale perhaps similar to that required by your Plan.

4. We would want you to handle this task as you think best. You may, if you wish, hold the Group intact for the rest of this year if you judge that that will help you pull off a more comprehensive deal in 1982. Ultimately, some closures may be unavoidable. But our aim must be to keep closures to a minimum. Your proposition to Michael Edwardes.

5. In asking you to follow this policy, we want to do all we can to assist you in the complicated task of managing the businesses in the Group at the same time as you are negotiating for their disposal.

6. First, because our policy is not one of deferred closure, we realise we must sustain confidence in BL, particularly among managers, dealers and customers. Therefore, we would:

(a) Accept your 1981 Corporate Plans for BL Cars, Land Rover, and Unipart, and most probably for the Leyland Group when we have seen it in its revised form;

(b) Approve the LM10 project;

(c) Give a firm public commitment to the finance requested for the next two years, subject to a review at the end of this year. We would, of course, still expect the Board to alert us at any time if there were a significant deterioration in the prospects of any of the Group's businesses.

7. Second, there is the question of public presentation of the new policy. Since negotiations for sale are bound to leak, we might all feel it best to forestall rumours by issuing a carefully worded statement (see Annex) at the same time as we announce approval for the Corporate Plan.

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8. Finally, I want to repeat that we will give you complete freedom to handle the task in whatever way you think best to attain our new objectives over the next two years. Obviously, you will keep Keith Joseph informed of any major developments, but we have no intention of chasing you for early results. We shall need to take stock by the end of the year of what looks achievable and what remains to be done to return BL's businesses to private ownership. In particular, we shall need to know by then what terms would make the businesses saleable and to whom.

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HANDLING NOTES

Handling Michael Edwardes' Response.

1. It is most unlikely that he will give an immediate firm response. He may well want to consult his Board. Board members have been asked to stand by for a meeting on Wednesday. He must understand that you need to know his own views, and also those of his Board, by Wednesday evening at the latest.
2. If he looks like accepting, let him express any reservations or suggestions he may have, but it is probably best to leave discussions on details to Keith Joseph and officials. You should encourage him to carry his entire Board with him.
3. Once he has accepted, we envisage a private exchange of letters confirming the new policy. As to public presentation, a letter from Edwardes consistent with the Annex should be sufficient.
4. If he accepts the principle, but says that it will take more than two years, explain that the Cabinet needs to have a firm target date, though a specific proposal from him, which he believed could be delivered given flexibility on timing, would certainly be looked at on its merits.
5. If he looks like refusing, establish as clearly as possible his reasons. Avoid accepting a refusal at this stage by giving him time to reconsider. If necessary, invite him to return on Wednesday evening, by when all parties will have been able to reassess their position.
6. If he proposes to resign, again establish the precise grounds which bring him to this view. Tell him that such a reaction is premature, and emphasise the exploratory nature of the meeting.
7. If he gives no indication but asks for time, explain that the Cabinet needs to take a view on the BL Plan this Thursday. For this timetable to hold, you must have his final decision by Wednesday evening.

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The Government has received the 1981 Corporate Plan from the company's Board. Because it is our main objective to return the BL businesses to private ownership, the Government has asked the Board to give particular attention to exploring ways in which this can be achieved.

For BL Cars, the Board is exploring a wide range of possible forms of collaboration, and has written to the Government in the following terms:

"In the case of BL Cars, the Board sees collaboration with other manufacturers as a central and integral part of their strategy for recovery and for removing or reducing dependence on Government support. This might take the form of complementary collaborations on major components or particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind - not excluding a merger - which might well grow out of more limited collaboration."

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