

Ref. A04059

PRIME MINISTER

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British Leyland

I am afraid that I think that we are still faced with a straight either/or choice, though the "either" option is now different, because we know what the Board of BL is prepared to do.

2. The "either" option is to offer BL firm financial support for two years ahead, including the money required for the development of the LM 10, with arrangements for regular periodical reviews of progress, on the understanding that the Board will commit itself to the active pursuit of co-operative arrangements, including share exchanges, with overseas manufacturers, which would cover the volume car business as well as the specialist units.

3. The "or" option is to ask the Board to dispose of the business; which almost certainly means the early collapse and virtual extinction of BL's volume car business in Longbridge and Cowley (though someone would probably buy the Metro assembly plant, which is very up-to-date), and the disposal of the other units for what they would fetch - probably not much, in the present state of the world economy.

4. The alternative (which we preferred at the end of last week) of giving the Board two years, by the end of which they would be required to have disposed of Land Rover, Jaguar Leyland Vehicles (and presumably Unipart), remains theoretically attractive, because of the possibility of attracting venture management and capital into these still potentially profitable businesses; but the present board of BL (not just Sir Michael Edwardes) will not undertake that, and it seems unlikely that any other group of directors could be persuaded to do so once this board had said that it would not.

5. I have no doubt that you are right in saying that, if we now agree to continue to finance BL for another two years, we could hardly close it at the end of 1982, both because of the imminence of an election and because by that time the LM 10 would be on the point of coming on sale, and closure at that point would mean that the development finance was a total write-off. But:



- (a) If discussions with overseas manufacturers were on terms acceptable to Her Majesty's Government (the approval of whom, as the shareholder, any agreement would require) - in other words, if the discussions did not commit Her Majesty's Government to the overseas manufacturers for indefinite public support, and they led to a successful conclusion, they might lead to rationalisation of manufacture and extension of markets which could provide a healthy basis for a larger volume car business in the United Kingdom than would be left as a result of the closure of BL.
- (b) If the eventual commercial prospect on the basis of co-operative arrangements was better than it is for BL on its own, there would be the prospect of viability and an end to public support, and there would be a greater possibility of finding some of the money required otherwise than from Her Majesty's Government in the meantime.
- (c) A decision to dispose should be possible again in 1984 or 1985, the Board of BL's efforts to nurse both the volume car business and the specialist divisions into better shape might then have made the assets more attractive to potential buyers, and the recovery of the economy should have reached a point where the closure of the volume car business would have less catastrophic effects in the West Midlands than they would have now.

6. There are big "ifs" in all this. But those I have indicated are not the only ones. It is probably unrealistic to suppose that new and at present unforeseen developments will not force a reappraisal of BL's prospects earlier than the end of 1982, even if we now offer firm financial support for the next two years.

7. Finally, one point on the handling. It looks as if the Secretary of State for Industry, and perhaps also the Secretary of State for Defence, will argue for immediate disposal, and (if necessary) closure of the volume car business. I thought this morning that you were perhaps inclining to that point of view more than you have done until now. Other Ministers, including the Chancellor of the Exchequer and no doubt the Secretary of State for Employment, will certainly argue the other way. Your own assessment earlier was that the Committee was

SECRET PERSONAL

more likely to come down in favour of combined support than of immediate disposal. I think it very important that you should not show your own hand in the discussion. I believe that serious consequences could ensue if the decision was to continue financial support for two years on the basis now proposed by Sir Michael Edwardes and it then came out (as I fear it might) that that decision had been taken against your advice and you had been arguing for immediate disposal and closure.

REA

ROBERT ARMSTRONG

21st January, 1981

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