



PRIME MINISTER

COPY NO. 1 OF 23

BL

We are discussing at E Committee on 22 January our decision on BL. For reasons of which you are aware, we cannot now postpone a decision, and we must aim to make a statement either on 22 January or, at the latest, on Monday 26 January.

2 In my paper before Christmas (E(80)145) I recommended in favour of supporting BL's Corporate Plan despite its heavy public expenditure cost. I said there would be some advantage if we decided to close BL Cars, but at a time when unemployment is so high, when the PSBR is so stretched and when the company is moving in the right direction, I could not recommend closure. In subsequent discussions with colleagues particularly concerned, we have sought to identify a middle course which, whilst avoiding the penalties of a Government-triggered closure, would hold out some prospect of our being able to extricate ourselves from the BL problem. In order to explore this possibility of a middle course, Geoffrey Howe and I met Michael Edwardes on 20 January and we received from him assurances, which are discussed below, which go a little way to help us if we decide to support the Plan.

3 I myself, however, have moved from the position of being marginally in favour of the Plan, on the grounds primarily of the higher PSBR cost of closure outlined later, to the view that we should grasp the nettle now and accept the dissolution of BL, in which at least

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most of the volume car operations would close, for the reasons which
will be clear later in this minute.

4: The case for backing the Plan is not based on any one consideration,
but on the cumulative effect of several:

(a) BL specifically say that the Plan is not a "normal commercial risk". But there is a chance - opinions differ on how good a chance - that it will achieve the objectives it has set itself. If it does, it will probably relieve the Government of primary responsibility for funding and conceivably enable BL to attract major collaboration or even external shareholding. But the competition will be intense and the economic environment hostile. Recognising the risk BL propose to send a letter undertaking to review the Plan fundamentally if there were any departure from the assumptions underlying the Plan which, in its opinion, appreciably reduced the chances of successful achievement of the Plan's major objectives - whether internal factors like a major strike or external economic ones.

(b) closure would carry a very heavy cost for the PSBR particularly in the first two years. This will compound the general budgetary problem of which we are all too well aware, in the years when it is most severe. We have examined the possibility that in the event the PSBR

/cost ...



cost of closure might prove less than the estimates made by the Treasury sub-group of officials - for example, if more of BL's facilities were taken over by other businesses and entrepreneurs. But there is little ground for believing that the official group's estimates are not central ones.

- (c) the employment consequences are severe and concentrated both in time and in location. They will inevitably attract much adverse publicity and appear to be inconsistent with the Government's stated concern about the employment situation. Moreover, we often emphasise that a higher PSBR can only be financed at the cost of jobs destroyed throughout the rest of the economy. Since the PSBR cost of closure is higher than that of backing the Plan, there may be other jobs lost by this secondary effect as well as those lost in BL and its suppliers.
- (d) rejection of the Plan would be seen as rejection of Edwardes and his style of management, which is widely identified with the very policies of tough management and economic reality which we ourselves advance; and it would suggest that workforces which co-operate with such managements (as BL's has done, on the whole) can expect no dividend for their co-operation.

/(e) ...



(e) the loss of BL's volume car production, combined with the partial or total withdrawal of both Talbot and Vauxhall, which are quite likely in the next year or two, would leave us producing little more than a quarter of the cars sold in our domestic car market. Such a home base would be insufficient to sustain the hitherto relatively successful component sector and important firms could well be put at risk.

(f) we face exceedingly difficult decisions on British Steel and British Shipbuilders as well as on BL. It is doubtful whether we can face the political consequences of closing more than one of these in the next year. It can well be argued that BL is the least unhelpful of these three and that it would be wrong to block off the possibility of drastic reductions in BSC by deciding now to close BL (which incidentally would itself worsen the position in steel).

5 As against this:

(a) the Plan is not a normal commercial risk - indeed Michael Edwardes himself draws our attention to this. And its objectives, even if achieved, would not leave us with a BL that is entirely independent of Government at the end of the period of the Plan. The company is too small to survive in the long term, and too unprofitable and ridden with problems to offer a realistic prospect

/of ...



of being taken over by another car producer at a time of world recession and over capacity in the car industry. What we invest in such a poor prospectus is invested at the cost of other potentially successful enterprises throughout the economy. On this ground alone, there is a case for facing up to the fact now, rather than throwing good money after bad and avoiding once and for all the prospect of years of similar dilemmas.

- (b) even within the terms of the Plan itself, their success depends heavily on the exchange rate, on the maintenance of the current improvement in their industrial relations and their success in dealing with the competition. The exchange rate BL have assumed is at the centre of current predictions but as we all know it is essentially unpredictable, and the improvement in their industrial relations is still fragile.
- (c) closure would be the clearest message we could send at this time that our policy is to withdraw from backing failures and subsidising union-dominated big business at the expense of successful private enterprise. Politically, there are grounds for believing it would be positively popular for us to deliver the coup de grace to a company for which most people's patience has been long exhausted. Moreover, the effect of such a decision on real wage expectations would be highly beneficial, and in time the

/effects ...



effects of that on employment could well more than offset the employment lost in BL and its suppliers.

- (d) I understand the Chancellor does not regard the PSBR cost as being on its own a sufficient reason for deferring a decision to close BL.
- (e) in retrospect, we should perhaps have faced up to the closure of BL last year. It will be hard this year, but harder still next and perhaps impossible by 1982.

For all these reasons, I now urge the case for deciding to accept the early closure of BL Cars. John Biffen, in a minute of 16 January to you (copied to other members of the E Committee) makes several of these points. John Nott has also argued strongly for grasping the nettle now. Michael Edwardes and the Board have undertaken that if we opt straightforwardly for immediate closure they will remain to supervise the operation (including the sale of any bits that can be sold.)

6 If colleagues decide against closure, the question arises how we can best limit our commitment. Geoffrey Howe and I have pressed Edwardes on his willingness to seek disposals whether as an outright sale of BL, or by sale of the more attractive parts leaving us to decide thereafter what to do with those parts which cannot be sold. Edwardes outlined his immediate plans to seek comprehensive relationships with named companies, on a basis which

/gave ...



gave one of them an equity stake and the prospect of control in three years or so, but with Government finance in the short run. Edwardes stressed the very limited number of potential partners. He dismissed altogether the possibility of an outright sale in present market circumstances, or of passing over control within less than three years, with both of which I am bound reluctantly to agree. Edwardes also explained why he and his Board could agree to act as liquidators now, or to implement the Plan and seek partners on the basis described, but could not accept an obligation to sell off the good bits now whilst trying to keep the bad bits going. This would destroy management confidence, weaken the dealer network, and destroy the prospect of securing partners for the volume cars business. On the other hand his objective of securing a partner who could take over control and financial responsibility in due course was essentially compatible with our own: it was only on the feasibility of securing this transfer within a fixed timescale that he differed from us.

7 Edwardes and his Board believe they cannot retain the confidence of dealers or of potential partners unless he has a commitment from the Government to fund the first two years of the Plan. This would be subject to continuous monitoring by the Board, to our own checks on progress (including next year's Plan) and to the Board's written commitment to fundamental review if the major objectives of the Plan become unachievable. I agree with Edwardes' view on partnership, disposal and funding: I do not think there is a realistic middle course between closure now and backing the Plan on the basis of seeking a partner as Edwardes proposes. If



colleagues do not agree with me that we should face up to closure now, I therefore recommend that we should approve the Plan with an undertaking from Edwardes to seek collaboration of a ... comprehensive kind. I attach the draft of a statement, which reflects the Board's position, which we could make tomorrow afternoon, 22 January, if we so decide. If we decide in favour of immediate closure, I think we should take a little more time to decide the presentation, and make a statement on Monday 26 January.

8 I am sending copies of this minute and attachment to members of E Committee, the Secretary of State for Scotland, Sir Robert Armstrong and Robin Ibbs.

Catherine Bell

PP KEITH JOSEPH
(approved by the Secretary
of State and signed in
his absence)

21 January 1981

Department of Industry
Ashdown House
123 Victoria Street



STATEMENT ON BL'S CORPORATE PLAN

With permission, Mr Speaker, I will make a statement on the BL 1981 Corporate Plan.

The Plan submitted to the Government foresees a need for some £620m of additional Government equity in 1981/82, £370m in 1982/83, and £150m over the two following years, in order to assist the continuing programme of restructuring and investment in new projects, including the new LC10 medium family car. The Plan was submitted in four business sections. The policy of the BL Board has been (and will continue to be) to decentralise decision-making to the operating units. The intention of the Board as stated in the Plan is to draw these operating units into four distinct businesses to enable management to concentrate on well-defined product groupings and to facilitate collaboration with other vehicle manufacturers and the introduction of private equity capital. These businesses are BL Cars, Land Rover, Unipart and the Leyland Group. The formation of the Leyland Group, which embraces trucks, tractors and buses, was announced on 16 January; a revised plan to reflect the new organisation of this Group will be submitted shortly. As the structure evolves, so the progress of each business will be separately monitored.

I shall shortly, in accordance with usual practice, make available in the Library of the House and in the Vote Office, a Report on BL's recent performance and details of the Corporate Plan. In the light of the declared position of the NEB vis-a-vis BL, to which I shall refer later, this Report has been prepared by BL.



agreed to fund the Plan for

The Government has approved the Plan because it supports BL's intention of creating strong and viable businesses and of involving private capital in them to an increasing extent, on a commercial basis, so that the company will in future lean less heavily on public finance.

The Government also endorses the Board's strategy - clearly stated in the Plan - of pursuing wide-ranging collaboration for each of the businesses.

The Board is exploring a variety of possible forms of collaboration, and has written to the Government in the following terms:

"The Board sees collaboration with other manufacturers as a central and integral part of its 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 - in whatever form would prove to be most commercially beneficial - which might well grow out of more limited collaboration."

In order to support these aspects of its strategy as well as to enable internally-generated recovery to be carried forward the Government has approved BL's request to fund the first two years of the Plan (including the first phase of the LC10 programme) up to the end of the financial year 1982-3, subject to regular monitoring by the BL Board of progress in substantially



achieving the Plan. Funding approval is also of course subject to any revision which might follow submission of the revised Plan for the Leyland Group.

The Chairman's letter to me of 21 January which I am publishing in full today in Hansard makes it clear how the Board will respond to any appreciable reduction in the chances of achieving the Plan's major objectives, if at any stage this becomes apparent. He says that:

"In Section 1 of the Corporate Plan, the Board has stated that it will review the Plan and the funding arrangements, in consultation with the Government, if the Plan is clearly not being achieved and it appears impossible to bring about recovery within the timetable envisaged. The Board confirms that any departure from the assumptions underlying the Plan (whether relating to internal or external factors) which, in the opinion of the Board, appreciably reduced the chances of successful achievement of the Plan's major objectives - for example, a major strike which damaged, or appeared certain to damage, any substantial sector of the business - would very quickly cause the Board to initiate such a review, with consequent implications for continued Government funding of the business."



I believe the Board and management will not hesitate to take harsh and fundamental decisions about the future of the company if circumstances, inside or outside BL, require it; and the Government will not stand in the way of such decisions.

As I have already told the House, there will be an opportunity for a full debate in the context of the amendment to the NEB's financial limit in respect of BL in the Industry Bill which I shall table for consideration at Report Stage. Clearance from the European Commission will be needed for the Government's funding.

Finally, it is the Government's intention that the shareholding in BL should be transferred from the National Enterprise Board to the Secretary of State. This transfer will not, however, take place until the Industry Bill now before Parliament receives Royal Assent. Meanwhile the Government will discuss with BL matters arising from a change of ownership, in order to ensure continuity of BL's present financial arrangements.

The Government wishes the BL Board and its workforce well in their difficult task.