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From the
Minister of State

PS/Norman Tebbit MP

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

We must make clear to the Commission that they MUST NOT make difficulties.

31 March 1981

Dear Tim

BL FUNDING: CLEARANCE WITH THE COMMISSION

Mr Tebbit thought that it might be useful for his colleagues to have a brief progress report on the discussions which he is having with Commissioner Andriessen about the Government's intention to invest £990 million in BL in 1981-82 and 1982-83.

The attached telegram from UKREP reporting on Mr Tebbit's meeting with Mr Andriessen on 27 March gives a good summary of the position which has been reached. As will be seen, Mr Andriessen agreed to consider urgently the suggestions put to him and to give Mr Tebbit a reaction early this week. In the light of this, my Minister does not consider that there is any immediate action for the Government to take before he sees Mr Andriessen again, but thought that his colleagues should be aware that there may soon be a serious problem with the Commission which will need to be faced. The Commission's deadline for considering this dossier is 13 April, which is also the day on which the first tranche of money has to be paid to BL. We will of course keep the Prime Minister and other colleagues informed of any developments.

I should add that the Cabinets of both British Commissioners have been kept informed of the position on this application and Mr Tebbit himself spoke to Mr Tugendhat about the best way to proceed; indeed, it was on Mr Tugendhat's advice that he sought the informal meeting which took place on 27 March.

I am copying this letter to the the private secretaries to all members of E Committee, David Hayhoe (CDL), James Nursaw (Law Officers' Department) and David Wright (Cabinet Office).

*Yours sincerely
Peter Mason*

PETER MASON
Private Secretary

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TO IMMEDIATE F C O
TELEGRAM NUMBER 1139 OF 27 MARCH.

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RECEIVED IN
30 MAR 1981
OFFICE OF THE
MINISTER OF STATE

BRITISH LEYLAND

1. MR TEBBIT CALLED ON ANDRIESEN TODAY ACCOMPANIED BY MASON (PS) AND EKINS-DAUKES. VAN VOORST (ANDRIESEN CABINET) WAS ALSO PRESENT.

2. MR TEBBIT OUTLINED THE CASE FOR SUPPORTING B L IN POLITICAL TERMS. HE COULD UNDERSTAND THAT THE CASE PRESENTED ANDRIESEN WITH PROBLEMS. EQUALLY, THE DECISION HAD NOT BEEN EASY FOR HMG, INVOLVING AN ADDITION OF POUNDS STERLING 1 BILLION TO THE GOVERNMENT'S POUNDS STERLING 10 BILLION DEFICIT, BUT THE COST OF CLOSURE WOULD HAVE BEEN GREATER THAN THE SUPPORT NEEDED TO ACHIEVE VIABILITY. POLITICALLY, WHILST A LIQUIDATION OF BL MIGHT HAVE BEEN CONCEIVABLE ONE OR TWO YEARS AGO, IT WAS NOW VERY DIFFERENT GIVEN METRO'S SUCCESS AND THE TRANSFORMATION OF ATTITUDES IN THE COMPANY. HMG COULD NOT EXPECT TO CARRY THE HOUSE OF COMMONS IN FACE OF A COMMISSION REFUSAL TO AUTHORIZE AID.

3. ANDRIESEN SAID HE WAS NOT CONVERSANT WITH ALL THE DETAILS. HIS FIRST IMPRESSION WAS THAT SOME PARTS OF BL PRESENTED NO DIFFICULTIES (UNIPART, LAND ROVER) AND INVESTMENT IN THEM DID NOT CONSTITUTE AID. THE OTHER DIVISIONS WERE THE PROBLEM AND MORE DISCUSSION AND INFORMATION ON VIABILITY WERE NEEDED. HE WAS SURPRISED THAT AN INCREASE IN PRODUCTION WAS ENVISAGED. MR TEBBIT DEMONSTRATED THAT THIS WAS NOT THE CASE AND UNDERTOOK TO SUPPLY ANY FURTHER INFORMATION REQUIRED. ON VIABILITY, HE STRESSED BL'S PROGRESS AND PERFORMANCE SO FAR - INTERNAL OBJECTIVES ATTAINED, DATES FOR NEW MODELS MET, GOOD QUALITY AND SALES PERFORMANCE, MAJOR FALL IN DISPUTES. THE 13 MODELS OF CARS WERE BEING REDUCED TO 3 MAIN FAMILIES. THE FIRM UNDERSTANDING WITH SIR MICHAEL EDWARDES THAT IF CONDITIONS DETERIORATE, HE WOULD INITIATE CLOSURES, AND THE REALISATION OF THIS BY THE WORKFORCE, WERE ALSO IMPORTANT. MOREOVER BL'S PROGRESS WAS BEING MONITORED MONTHLY BY MR TEBBIT PERSONALLY (EG HIS VISIT NEXT WEEK TO JAGUAR TO DECIDE THE FUTURE OF THE NEW MODEL).

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4. ON PROCEDURE, VAN VOORST SAID THAT ARTICLE 93 NEEDED TO BE INVOKED TO FACILITATE FURTHER DISCUSSION WITH HMG AND BRING IN OTHER MEMBER STATES WHO HAD TO BE INFORMED AND GIVEN THE CHANCE TO COMMENT. BL'S PLAN WAS BASED ON CERTAIN ASSUMPTIONS, BUT THERE WERE A RANGE OF POSSIBLE SCENARIOS WHICH NEEDED TO BE EXPLORED. IF, THROUGH THIS EXAMINATION, BL COULD BE SEEN TO BE PROFITABLE IN A FEW YEARS, SUPPORT COULD EASILY BE DEFENDED AS RESTRUCTURING AID. MR TEBBIT RESPONDED THAT HE WISHED TO AVOID THE ARTICLE 93 PROCEDURE. THIS COULD DAMAGE BL BY AFFECTING CONFIDENCE AND INFLUENCE OPINION IN THE UK AGAINST THE EEC. BL NEEDED SUBSTANTIAL SUMS URGENTLY AND DRIP-FEEDING IT DURING THIS PROCEDURE WAS NO SOLUTION. BUT HE UNDERSTOOD THE COMMISSION'S CONCERN AND WAS WILLING TO OFFER ASSURANCES

IN LIEU OF ARTICLE 93

PROCEDURE WHICH WOULD LEAVE THE COMMISSION'S POSITION UNAFFECTED. FOLLOWING EXCHANGES BETWEEN VAN VOORST AND EKINS-DAUKES OVER THE NATURE OF ARTICLE 93 PROCEDURE AND THE NEED FOR A MULTILATERAL MEETING, ANDRIESEN EXPRESSED RECOGNITION OF THE POLITICAL PROBLEM AND, WHILST STRESSING THE NEED TO AVOID DANGEROUS PRECEDENTS, WITHOUT COMMITMENT UNDERTOOK TO LOOK INTO THE QUESTION OF AVOIDING ARTICLE 93. HE ALSO FAVOURED A DISCUSSION OF DIFFERENT SCENARIOS TO TEST ASSUMPTIONS.

5. MR TEBBIT REFERRED TO BL'S URGENT NEED FOR FUNDS. PARTIAL FUNDING ON THE BASIS OF PROFITABLE DIVISIONS WAS NOT REALISTIC. ONE SOLUTION WOULD BE A LETTER FROM ANDRIESEN SAYING THAT PART OF HMG'S INVESTMENT IN BL COULD BE REGARDED AS A NORMAL COMMERCIAL PROPOSITION FOR WHICH THERE WAS NO REQUIREMENT FOR COMMISSION APPROVAL: PENDING FINAL EXAMINATION OF THE REMAINDER, A TRANSFER OF POUNDS STERLING 400-500 MILLION COULD BE AUTHORISED. ANDRIESEN COMMENTED THAT HE HAD OTHER URGENT CASES AND NEEDED TO BE CONSISTENT. HE WAS INCLINED TO QUERY THE AMOUNT OF THE TRANCHE AND WOULD HAVE TO LOOK CAREFULLY AT THE TERMS AND CONDITIONS. (VAN VOORST SUGGESTED AN EXPLICIT REFERENCE TO REFUNDING IF THE COMMISSION FOUND AGAINST BL.) ANDRIESEN UNDERTOOK TO CONSIDER VERY URGENTLY AND GIVE A REACTION EARLY NEXT WEEK.

6. ANDRIESEN INSISTED ON THE NEED TO CONTINUE WITH ARTICLE 93 PROCEDURES ON A PRECAUTIONARY BASIS. IT WAS AGREED THAT HE AND MR TEBBIT SHOULD MEET VERY SOON AND DISCUSS FURTHER BEFORE ANY DECISION WAS REACHED.

FCO ADVANCE TO:-

FCO - SPRECKLEY, JONES-PARRY
CAB - BROWN
DOI - PS/MR TEBBIT, MOUNTFIELD, BOWDER

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